

Tax Exemptions Concerning Foreign Direct Investments in Turkey

Introduction

Turkey offers an extensive incentive program including investment incentives, employment incentives, research and development incentives, regional management center incentives and export incentives. Local and foreign investors can equally benefit from the convenience of these incentives since 2012.

The investment incentives program which is regulated under the Council of Ministers' Decision (No. 2012/3305) ("Decision") allows investors to lower their investment costs. The Decision has been amended twenty-three times to date and the latest amendment was made with the Presidential Decree (No. 1402) on August 7, 2019. Investors can benefit from a wide range of exemptions and incentives depending on the region under the Decision and the Free Zones Law (Law No. 3218).

This article briefly explains tax exemptions as part of the investment incentives which are applicable to foreign direct investments as well.

Types of Investment Incentives

Investment incentives ecosystem consists of four different schemes and all of them include several tax exemptions with different rates. The incentives provide value-added tax ("VAT"), income tax, corporate tax and customs duty exemptions to investors.

General Incentives

Tax exemptions on the supply of machinery and equipment are offered regardless of the investment region. VAT does not apply to machinery and equipment purchased and customs duty is not levied on the machinery and equipment to be imported by investors.

Regional and Sector-Based Incentives

Based on the development level of the cities in Turkey, the entire country is divided into six categories. Cities in a particular category have approximately same economic and industrial conditions. The first three zones are composed of more developed regions and the last three represent less developed regions in Turkey. The rates of the incentives are inversely proportional to the growth rate of the region. In other words, if the potential investment is made in less developed regions, higher incentives are provided by the government.

The discount rates imposed on income and corporate tax vary from 50% to 60% for the investments made in the first three categories whilst ranging from 70% to 90% for the other three categories.

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Large Scale Investment Incentives

Investments above TRY 50 million are deemed large-scale investments. However, the investment threshold can be raised depending on the concerning industry. The industries include twelve investment topics such as production of refined petroleum, production of chemical products, railway and tram locomotives, medical equipment, pharmaceuticals, machinery including electrical machinery and equipment and integrated metal production. Exemption of VAT and customs duty are the main investment incentives for large scale investments.

Similar to regional investment incentives, six regional categories are used as a base for large scale investment incentives. Depending on the investment region, the rate of contribution to investment which is a result of tax reductions varies from 25% to 60% outside of Organized Industrial Zones ("OIZ") and ranges from 30% to 65% inside of the OIZ.

Strategic Investment Incentives

Investments with certain qualifications are categorized as strategic investment. The criteria provided for such type of investments are as follows:

- (i) The investment amount should be at least TRY 50 million,
- (ii) Total imports of the product must be at least USD 50 million in the preceding year,
- (iii) The investment should create added value of at least 40%,
and
- (iv) Current local production capacity in Turkey must be less than the import volume of the product.

Tax exemption for strategic investments are almost identical with those for regional and sector-based investments.

Investment Incentive Certificate

Assessment for the qualification of the investment is conducted by the General Directorate of Incentive Implementation and Foreign Investment of the Ministry of Industry and Technology. If the criteria are met an "Investment Incentive Certificate (ICC)" is issued by the Ministry.

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Tax Exemptions in Free Zones

Investors making investment in free zones enjoy certain tax exemptions under the Free Zones Law (Law No. 3218). The manufacturing companies in the free zones are exempted from the corporate tax, provided that they are export-oriented. Furthermore, logistic services are exempted from corporate tax.

The revenues and earnings arising from the operations conducted in free zones are not subject to income tax. Moreover, exported goods and services are exempted from VAT. Free zones are outside of customs line; therefore, the goods entering the zone are not subject to the customs duty. The operations in the free zones cannot be subject to any kind of duty, fee, fund or bank handling charges.

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