

Tax Incentives In Turkey

Exclusion Of Investment Deduction

Being valid from 01.01.2006, with the Law numbered 5479, Article 19 of the Income Tax Law headed “Exclusion of Investment Deduction on business and agricultural earnings” has been abolished, and Temporary Article 69, attached to this Law, has arranged transition period applications. According to this;

- Exclusions which are not deductible before the date of 01.01.2006, by reason of insufficient earnings in previous years,
- Exclusions which will be calculated on account of investment expenditures which will be begun from 01.01.2006 within the context of incentive certificates based on applications submitted before the date of 24.04.2003, in investments which begun within the framework of Additional Articles 1-6 of the ITC abolished previously,
- Exclusions which will be calculated on account of investment expenditures following this date, given that providing economic and technical integrity with investments began before the date of 01.01.2006 within the scope of Article 19 of ITC,

can be deducted as exclusion of investment deduction.

(ITC a.19; ITC Temporary Article 61; ITC Temporary Article 65; ITC Temporary Article 69; IT Circular/1; IT Circular/22; IT Circular/23; IT Circular/32)

Deduction Of Research And Development

Being valid from 31.07.2004, %40 of research and development expenditures realized in the structure of enterprise and those which are oriented to new technology and searching of knowledge can be deducted from the income declared by annual tax return.

(ITC a.89/1-9; CTL a.14/6; Law numbered 5228 Temporary a.5, CTGC 86)

Gain Exclusion On Education And Instruction Businesses

Gains derived from operating private schools which began to function from 01.01.2004 is excluded from income tax for the five taxation period. The exclusion shall be applied to the gains derived from pre-school education, primary education, private education and secondary education private schools operated by the business income taxpayers within the scope of Law numbered 625.

Those who want to benefit from exclusion have to apply to our Ministry in written following beginning to function.

(ITL a.20; CTC a.8/8; ITGC 254; Law numbered 5228 Temporary a.1)

Free education and instruction services given in condition that not to pass over %10 of capacities of relevant period by the private schools subjected to the provisions of Law numbered 625, are excluded from value added tax.(VATL a. 17/2-b)

Also, gains derived from operating rehabilitation centers which are affiliated with trusts to which The Council of Ministers gave tax exemption or associations beneficial to public interest are excluded from corporate tax for five taxation period.(CTL a.8/8)

Incentive Of Value Added Tax In Vehicles, Oil Searching And Incentive Certificated Investments

Delivery of sea, air and railway vehicles,

-Delivery of floating system and vehicles,

-Delivery and services done concerning the manufacture and construction of these vehicles.

-Modification, maintenance and repair services of these vehicles

done to the taxpayers whose businesses are leasing or operating sea, air and railway vehicles, floating system and vehicles in various forms are excluded from value added tax.

(VATL a. 13/1-a, VATLGC 48; VAT Circular/31)

Exploration, operating, enrichment and refining activities concerning gold, silver and platinum and within scope of Oil Exploration Law provisions services and delivery of goods done to those who are busy with oil exploration activities are excluded from value added tax.

(VATL a.13/1-c, VATLGC 16,19,93,95)

Delivery of machines and equipment to the taxpayers, owner of the investment incentive certificate, under this certificate is excluded from value added tax.

(VATL a.13/1-d, VATLGC 69,72,74,87,92) (MCD numbered 2004/8127)

Delivery of goods and rendering of services concerning businesses mentioned hereafter to the taxpayers who deal with construction, restoration and widening businesses of ports and airports by themselves or make others deal with these businesses are excluded from value added tax. (VATL a. 13/1-e, VATLGC 93,96)

Tax Incentives In Industrial Zones

Incentives oriented to income and corporate taxpayers doing business in industrial zones take place in Incentive of Investments and Employment Law numbered 5084.

To those who function in these regions should be supported in income tax withholding, support in employer shares of insurance premium, free investment space and energy support.

Income Tax Withholding Incentive:

(Law numbered 5084 a.3, a.7/h and General Communiqué of support for investment and employment serial number 1 and number 2)

Employer's Contribution Incentive:

(Law numbered 5084, a.4, a.7/h)

Free Investment Place Assignment:

(Law numbered 5084, a.5)

Energy Support:

(Law numbered 5084, a.6, a.7/h)

Tax Incentives In Technology Developing Zones

- Gains derived from software and research& development activities in technology developing zones by the taxpayers who do business in mentioned zones are excluded from income and corporate tax till 31.12.2013.

- Wages of researcher, software programmer and research & development personnel related to these jobs in these zones are excluded from income tax till 31.12.2013.

- Gains acquired within the scope of application of Technology Developing Zones Law numbered 4691 by executive companies of technology developing zone are also excluded from income or corporate tax till 31.12.2013.

- These exclusions shall be also applied to the executive company of Scientific and Technological Research Council of Turkey (TÜBİTAK)- Technology Free Zone of Marmara Research Center, to the income and corporate taxpayers doing business in this zone and to the wages of researcher, software programmer and research & development personnel working in this zone.

(TDZL Temporary Article 2, CT Circular 6)

Within the period in which the gains of entrepreneurs doing business in technology developing zones are excluded from income or corporate tax, delivery and services which are manufactured only in these zones and in the form of system management, data management, business applications, sectoral, internet, mobile and military command control application software are also excluded from value added tax.(VATL Temporary Article 20)

Tax Incentive Applied In Free Zones

Free zones considered as out of customs areas, Taxpayers who has license to function in free zones which founded due to law numbered 3218 are excluded from:

Income and corporation tax limited to the time in their license for the income they derived in these zones.

Income tax of the personnel wages until the date of 31.12.2008

Every kind of tax and fees about the functions in these zones until 31.12.2008.

Separately incomes of the taxpayers derived in these zones are excluded from income and corporation tax until the annual taxation period of full membership date to European Union (SBK temporary article 3) (CT circular 13) (CTGC 85)

Goods and services in free zones are excluded from VAT also (VAT a.16/1-c, VAT17/4-1 , VATGC 39,93)

Tax Incentive Applied In Emergency Zone And Priority Development Areas

By the law numbered 4325 it is aimed to increase investment and employment by applying tax incentives and providing free government lands for the investors in emergency zones and priority development areas.

Income and Corporation Tax Exclusion:

Gains of taxpayers in emergency zones who began work between 1.1.1998 – 31.12.2000 are excluded from income and corporation tax for 5 taxation years including investment period as long as they employ 10 or more workers actually and continuously. (L 4325,a.3) (4325/ General Communiqué serial number 1)

Income and Corporation Tax Deduction:

Beginning from the end of exclusion time and ending at 31.12.2007 if 10 or more workers actually and continuously employed in workplaces of the province, a deduction in income and corporation tax will be made at the rate of worker count determined (L4325,a.3) (4325/ General communiqué serial number 1)

Free Investment Place :

In the priority development areas, lands belonging to the treasury can be assigned to real or legal persons for free in case of investments consisting at least 10 persons of employment and have incentive certificate. (L 4325, a.8) (4325/ General Communiqué serial number 1)

Tax Incentive Applied In Organized Industrial Zones

Incentives directed to the income and corporation taxpayers located in organized industrial zones are in Incentive of Investment and Employment Law numbered 5084. Taxpayers functioning in these regions covering the provinces in scope of the law numbered 5084 were given income tax withholding incentive, employer contribution incentive, free investment land allocation and energy support.

1. Income Tax Withholding Incentive:

(Law numbered 5084 a.3, a.7/h and General Communiqué of support for investment and employment serial number 1 and number 2)

2. Employer's Contribution Incentive:

(Law numbered 5084, a.4, a.7/h)

3. Free Investment Place Assignment:

(Law numbered 5084, a.5)

4. Energy Support:

(Law numbered 5084, a.6, a.7/h)

Separately body of organized industrial zones is exempt from all types of tax and fees about the operation of Organized Industrial Zones Law.

Wastewater fee is not taken from the zones operating a water treatment plant.

(Law n.4562, a.21)

Land and work-place deliveries of economic entities formed for the foundation of organized industrial zones are exempt from Value Added Tax (VAT a.17/4-k)

Economic entities founded by public body or professional institution with real and legal entities, using all of its income to meet the requirements of these places, to prepare the infrastructure of organized industrial zones with small industrial sites and to ensure the common requirements such as: land, electricity, gas, steam and water are exempt from corporation tax. (CT a.7/25)

Buildings in organized Industrial regions benefit from real estate tax exclusion following the 5 years of their completion. (RET a.5/f)

Tax And Fees Exclusion In Providing Credits

Papers constructed for acquiring or payback of credits, which will be used by the hand of Banks, credit enterprises abroad and international associations, and the signs over these papers (Except usage of credits) are exempt from stamp duty. (SA Table number / 23)

Transactions caused by establishment, merging, assignation, capital raise, splitting off and type alteration of joint stock, shared commandite and limited companies and transactions related to providing, re-payment and bonds of credits which are given by banks, overseas credit organizations and international institutions shall not be subjected to charges. (CLa.123)

Tax Incentives For Rising Of Investment And Employment

In law numbered 5084 which directed to rise of investment and employment, Income tax withholding incentive will be applied following the completion of the investment in provinces until 31.12.2007 for beginner investors or creating employment opportunities.

No income tax withholding from the wages of new personnel.

Payment of employer contribution by the treasury.

Energy support.

Investment place free of charge.

When the law was put into force there was 36 provinces enclosed but as a result of the changes made in the law; tax, insurance premium incentives and energy support subjects were taken in scope of law and 13 more provinces added whose social – economical development value determined negative by State Planning Organization so the number of provinces benefiting from the incentives risen to 49.

1. Income Tax Withholding Incentive:

(Law numbered 5084 a.2, a.3, a.7/h and General Communiqué of support for investment and employment serial number 1 and number 2)

2 Employer's Contribution in . Insurance Premium Incentive:

(Law numbered 5084, a.4)

3. Free Investment Place Allocation:

(Law numbered 5084, a.5)

4. Energy Support:

Be changed as (Law numbered 5084, a.6)

Tax Incentives For Cultural Investments And Enterprises

The purpose of the law numbered 5225 is to provide meeting of individual and society requirements; preserving of cultural assets and abstract cultural heritage and becoming it an item of sustainable culture ,activating the environment of cultural communication and interaction, producing of cultural and artistic values, creating and developing possibility of society's attention of these values; keeping our country's cultural assets alive and utilize and use it as contribute element to country economy, promoting cultural investment and enterprises to build and running of cultural centers.

Incentives that will be applied for cultural investments and enterprises in the scope of this law are as follows:

- **Income Tax Withholding Deduction:**

Corporation Tax Payer Investor or entrepreneur who has license in scope of this law can deduct %50 of the income tax in the phase of investment not longer than 3 years and %25 of the income tax in the enterprise phase not longer than 7 years from the tax accrued in their withholding tax return based on their monthly insurance payroll given to the administration

only for the worker wages that will be worked in the licensed investment or enterprise. (L 5225, a.5/b)

- **Allocation of Immovable Property:**

Ministry of Culture and Tourism has the authority of making immovable property assignment for the cultural investment and entrepreneurs in scope of this law. (L5225,a./5a)

- **Abatement in Employer Contributions:**

Corporation Tax Payer Investor or entrepreneur who has license in scope of this law can deduct %50 of the employer contribution in the phase of investment not longer than 3 years and %25 of the employer contribution in the enterprise phase not longer than 7 years will be paid by treasury based on their monthly insurance payroll given to the administration only for the worker wages that will be worked in the licensed investment or enterprise. In accordance with article 72 and 73 of Social Insurance Law (L 5225, a.5/c)

- **Water Cost Discount and Energy Support:**

Cultural investment and enterprises pays the water prices at the lowest tariff of the region. %20 of the electricity and natural gas costs of this investment or enterprise are paid by the treasury for 5 years. (L5225, a.5/d)

- **Ability to Employ Foreign Personnel or Artists:**

Foreign specialist personnel or artists can be employed in licensed investment or enterprises not more than %10 of the personnel by the view of the Ministry of Culture and Tourism and permission of the Ministry of Labour and Social Security. (L5225, a.5/e)

- **Ability to Function in Weekends or Official Holidays:**

Licensed enterprises and other units in scope of license can carry on their functions in weekends or official holidays in work hours identified as in license.

Assignees of a licensed investment or enterprise by the permission of the ministry are also benefit from the incentive and deduction provisions of this law (L 5225, a.5/f)