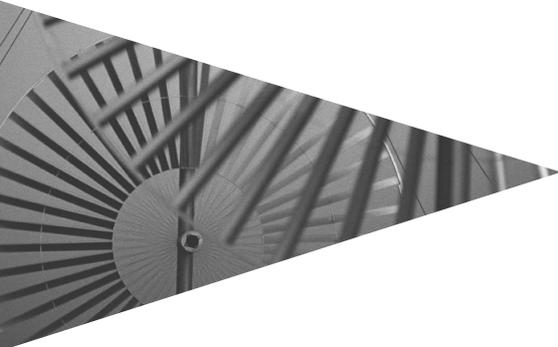


ITS in the News

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Turkish Prime Minister announces new incentive package

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The Turkish government on June 4 announced a new incentive package designed to promote new investments and reduce the disparity between the economic development levels of different regions of Turkey.

The package, announced by Prime Minister Recep Tayyip Erdogan, mainly consists of measures necessary to implement the incentives introduced by recently enacted legislation. Law 5,838, dated February 28, states that reduced corporate tax rates will apply to new investments made with investment certificates and to textile companies that move their production facilities to undeveloped regions of Turkey by specific dates. The rates to be applied to these activities are to be determined by the Council of Ministers. Therefore, Council of Ministers decrees must be issued for the reduced rates to apply.

Law 5,838 includes three essential incentive applications:

- ▶ application of a reduced corporate tax rate for new eligible investments with investment certificates;
- ▶ granting of free land plots for the eligible new investments made with investment certificates; and
- ▶ reduction of the corporate tax rates on textile companies, provided they comply with some conditions.

The announcement makes clear the government's intentions to implement these incentives and provides details of the tax rate reductions to be applied for these activities. The Council of Ministers decrees are expected to be published soon.

Big-Project investments

The minimum investment amounts have been determined for sectors for new investments that are considered "big-project investments." Some of the sectors and the minimum investment amounts are:

- ▶ production of chemical products -- investments of at least TRY 1 billion for production of main chemical products; TRY 300 million for production of other chemical products;
- ▶ production of refined oil products -- investments of at least TRY 1 billion;
- ▶ production of land vehicles -- investments of at least TRY 250 million;

- ▶ electronic industry investments -- investments for production of LCD/plasma products of at least TRY 1 million; and
- ▶ production of pharmaceutical products -- investments of at least TRY 50 million.

Division into regions by economic development levels

The provinces of Turkey have been divided into four different regions according to their levels of economic development. Different industrial activities will be promoted in each region.

The first region comprises the most developed provinces of Turkey. In this region, investments that require high technology, such as manufacturing of automobiles and their parts, electronic devices, pharmaceutical products, medical products, "sensitive devices," and optic devices will be promoted.

According to Erdogan's announcement, "comparatively technology-incentive sectors" would be supported for the second region.

The main activities to be promoted would be machinery manufacturing; smart multifunctional textile production; production of nonmetallic mineral goods (such as glass, ceramics, floor tiles, and isolation materials); and sectors such as paper, food, and beverage production.

The third and fourth regions comprise the poorest provinces of Turkey. The activities to be promoted in these regions are labor-incentive industries, such as agricultural manufacturing activities and textile production (especially ready-to-wear production), and other sectors, including tourism, health, and education.

Application of incentives

Law 5,838 delegated to the Council of Ministers the authority to determine the reduced corporate tax rates for new eligible investments. According to the June 4 announcement, the rates will be applied as follows depending on different regions and types of investments:

Regional and sector-specific			Big-project investments	
Regions	Investment and contribution ratio	Corporate tax rate	Investment contribution ratio	Corporate tax rate
1	20%	10%	30%	10%
2	30%	8%	40%	8%
3	40%	4%	50%	4%
4	60%	2%	70%	2%



Law 5,838 also provides for reduced corporate tax rates for textile manufacturing, granting the Council of Ministers the right to reduce the corporate tax rate on the profits of textile manufacturing companies up to 75 percent of the normal corporate tax rate (levied at 20 percent), provided they meet some conditions.

The announcement clarifies the conditions for application of the reduced rate. To benefit from the reduced corporate tax rate, which would be 5 percent for a five-year period, textile manufacturing companies must move their

employees. The government has also announced that the Turkish Treasury will pay the transportation expenses for moving the facilities if those conditions are met.

Other incentives

The Turkish Treasury will also pay the employer portion of the social security contributions on the salaries of personnel related to the eligible new investments described above for varying periods depending on the regions and type of investment. The periods for benefiting from this social security incentive are as follows:

Regions	Regional and sector-specific	Big-project investments
1	2 years	2 years
2	3 years	3 years
3	5 years	5 years
4	7 years	7 years

production facilities from the first and second regions to the third and fourth regions by December 31, 2010. Also, as stated in Law 5,838, they must employ at least 50

This incentive also requires regulatory amendments to be made in the relevant legislation.

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