

## Governmental Measures of Encouragement for Small and Medium sized Enterprises

**To promote business development the Turkish government provides support for investment projects under certain conditions. The goal of the government aid policy for small and medium sized enterprises is - beside the advancement of the production quality, the competitive position and the standard of the products - the development of new products and above all the job creation.**

### **Measures of encouragement**

Under certain conditions the Turkish government grants subsidies for investment projects. These measures of encouragement are:

- The tax deductibility of certain investment expenditure;
- The exemption from taxes, fees and duties on export;
- The grant of credits at reduced rates of interest in different sectors e.g. technology

parks

especially for investments in research, development and environmental protection,

for investments in the regional development;

- Exemption from stamp duty and other fees.

### **Conditions for granting of credit**

The conditions for the granting of a credit for small and medium sized enterprises are defined by the Association of the Turkish Stock Exchanges and Chambers.

Support is given by the Governmental Institution for the Encouragement of small and medium sized Enterprises (KOSGEB). The different kinds of support can be divided in two main areas: Support credits and support programs.

- The **support credit** has investment and business credit character. It can be applied by enterprises working in production and giving employment to not more than 150 employees. Not more than 25 % of the enterprise's capital may belong to a large company. The credit is intended for:
  - the purchase of machines,
  - the procurement of raw materials,
  - in-house needs,
  - investment projects,
  - employment creation,
  - the financing of other projects related to production.

The maximum limit of the credit is 100.000,00 USD. Repayment starts after 6 months with a maximum rate of installments of 24 months. The interest rate is inflation plus 5%.

A further credit is given by the KOSGEB for the support of export business. The conditions for the applicant are identical to the above mentioned conditions. The interest payments of the credit are taken over by KOSGEB and do not have to be paid back by the company. The debtor has to refund the whole amount of the credit after 6 months in the form of a single payment.

- The **support programs** of KOSGEB are allocated in the frame of a specific project.

Some examples:

Support by consulting;

Technological research;

Machinery;

Promotion of vocational training;

Support for fairs and comparable events;

Installation of new software, new websites etc.

## Legislation

In this context the Law for the Subsidy on Investments No. 5084 from January 29<sup>th</sup>, 2004 (last changed by the law No.5538 from July 1<sup>st</sup>, 2006) has to be mentioned. This law contains 4 different kinds of subsidies on investments:

- Subsidy on income tax;
- Subsidy on social security contribution;
- Subsidy on energy costs;
- Free granting of real estate.

The first three subsidies are intended for investments in those areas in which the gross domestic product (GDP) in the year 2001 was 1.500,-USD and less per person. The investment in the form of **free granting of real estate** is also given in the more developed areas.

The first three mentioned subsidies may be awarded until December 31<sup>st</sup>, 2008.

- The entire **income taxes** for employees employed after October 1<sup>st</sup>, 2003 in the organized industrial areas are taken over by the government under the following conditions:

**For new enterprise foundations as from April 1<sup>st</sup>, 2005**, if at least 30 employees are employed;

**For enterprises existing before April 1<sup>st</sup>, 2005:** The whole income tax of newly engaged employees and the number of employees that results from the double amount of the difference between the old and the new number of employees is not levied if the number of employees was increased by a minimum of 20% and the whole number of employees is not less than 30. The

calculation is made on the basis of the number of employees engaged on January 1<sup>st</sup>, 2005. (Example: There were 10 employees at January 1<sup>st</sup>, 2005 engaged in a company. On June 1<sup>st</sup>, 2005 the company engages 30 additional employees. In this case the company pays no income tax for the newly engaged employees and also no income tax for the double number of the difference between the former and actual number of employees, which means for further 60 employees. The number may not exceed the total number of employees. In other words: This enterprise would not pay any income tax for their employees, because the income tax would be restored for 90 employees. For companies outside organized industrial zones and industrial areas, the reduction rate for the income tax is 80%.

- The same prevails for the **social security contributions** of the newly engaged employees.
- The **energy support** is available for enterprises working since October 1<sup>st</sup>, 2003 in the areas of production, mining industry, animal husbandry, greenhouses, cold storage plants, tourism, training and health and giving employment to at least 10 employees. The government carries 20% of the energy costs of these companies. For every further employee the percentage rate will be increased about 0.5 %. The highest percentage rate of the support is 50 % or 40 % of the enterprises' whole energy costs depending on their location in or outside an organized industrial zone.

#### **APPENDIX:**

According to the Federal Statistic Office, the following provinces fall within the scope of the support program:

PROVINCE	GROSS DOMESTIC PRODUCT (GDP) USD	PROVINCE	GROSS DOMESTIC PRODUCT (GDP) USD	PROVINCE	GROSS DOMESTIC PRODUCT (GDP) USD
Kırşehir	1488	Osmaniye	1157	Adıyaman	918
Sinop	1459	Düzce	1142	Kars	886
Giresun	1443	Çankırı	1136	Van	859
Amasya	1439	Siirt	1111	İğdır	855
Uşak	1436	Gümüşhane	1075	Yozgat	852
Malatya	1417	Ordu	1064	Ardahan	842
Sivas	1399	Erzurum	1061	Hakkari	836
Tokat	1370	Bartın	1061	Bingöl	795
Diyarbakır	1313	Bayburt	1017	Bitlis	646
Afyon	1263	Mardin	983	Şırnak	638
Batman	1216	Mardin	983	Muş	578
Erzincan	1158	Aksaray	966	Ağrı	568

## DEVELOPMENT AREAS FOR INVESTMENT PROJECTS

Provinces in developed areas	Provinces in normal areas	Provinces in preferred development areas
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ADANA (Inside the municipal administration)	ADANA (Outside the municipal administration)	ADİYAMAN	MARDİN
ANKARA (Inside the municipal administration)	ANKARA (Outside the municipal administration)	AĞRI	MUŞ

BURSA (Inside the municipal administration)	BOLU, BURDUR, ESKİŞEHİR, GAZİANTEP, İÇEL	AMASYA	NİĞDE
İSTANBUL (Inside the province borders)	BURSA (Outside the municipal administration)	ARDAHAN	ORDU
KOCAELİ (Inside the municipal administration)	ÇANAKKALE (except the islands Bozcaada and Gökçeada), İZMİR (Outside the municipal administration), AFYON, DENİZLİ, AYDIN, BALIKESİR, HATAY, BİLECİK, DÜZCE, EDİRNE	ARTVİN, BATMAN, BARTIN, BAYBURT, BİNGÖL, BİTLİS, ÇANKIRI, ÇORUM, DİYARBAKIR, ELAZIĞ, ERZİNCAN, ERZURUM, GİRESUN, GÜMÜŞHANE, HAKKARİ, IĞDIR, K.MARAŞ, KARABÜK, KARAMAN, KARS, KASTAMONU, KİLİS, KIRIKKALE, KIRŞEHİR, MALATYA	OSMANIYE, TOKAT, TRABZON, TUNCELİ, VAN, YOZGAT, ZONGULDA G
İZMİR (Inside the province borders)	İSPARTA, KAYSERİ, KIRKLARELİ, KONYA, KÜTAHYA,	ÇANAKKALE (Islands Bozcaada and Gökçeada)	RİZE, SAMSUN, SİİRT,
	MANİSA, MUĞLA, SAKARYA, TEKİRDAĞ, UŞAK, YALOVA		SİNOP, SİVAS, ŞANLIURFA, ŞIRNAK