R&D Tax Incentives: Turkey, 2019

Design features

Turkey provides R&D tax relief through an incremental R&D tax allowance and partial exemption of employer's social security contributions (SSC).

- The headline rate of the incremental R&D tax allowance is 50%. Unused tax benefits can be carried-forward for an indefinite period in the case of the R&D tax allowance.
- Under the SSC exemption, tax benefits are administered through the social security contributions system, and are thus disconnected from the corporate tax liability of the firm.
- A ceiling applies to the full-time equivalent support personnel who benefit from the SSC exemption.

<table>
<thead>
<tr>
<th>Table 1. Main design features of R&amp;D tax incentives in Turkey, 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>R&amp;D tax allowance</strong></td>
</tr>
<tr>
<td><strong>Tax incentive</strong></td>
</tr>
<tr>
<td><strong>Type of instrument</strong></td>
</tr>
<tr>
<td><strong>Eligible expenditures</strong></td>
</tr>
<tr>
<td><strong>Headline rates (%)</strong></td>
</tr>
<tr>
<td><strong>Refund and Carry-over (years)</strong></td>
</tr>
<tr>
<td><strong>Thresholds</strong></td>
</tr>
</tbody>
</table>

Turkey also offers an accelerated depreciation of machinery and equipment used in the process of R&D (immediate write-off).


Recent developments and trends

Differences in the design of R&D tax incentives drive a significant variation in the expected generosity of tax relief per additional unit of R&D investment. Turkey offers one of the most generous R&D tax incentives among OECD and partner economies. In 2019, the marginal tax subsidy rate for profit-making (loss-making) SMEs in Turkey is estimated at 0.06 (0.05), significantly below the OECD median of 0.19 (0.17). The tax subsidy rate for large enterprises is equal to 0.06 (0.05) in the profit (loss)-making scenario, well below the OECD median of 0.14 (0.10). These estimates focus on modelling the provisions for the tax allowance, SSC exemption and accelerated depreciation of R&D capital.

Since the introduction of R&D tax support in 2008, the generosity of R&D tax incentives has remained fairly stable in Turkey. With no change in the rate of accelerated depreciation, R&D tax allowance and corporate income tax between 2008 and 2019, the implied R&D tax subsidy rates estimated for profitable SMEs and large enterprises exhibit little variation throughout this period, ranging from 0.05 to 0.06. Tax subsidy rates dropped in 2009 when the SSC rate was lowered from 20.3% to 16.5%. The value of the 50% SSC exemption is directly linked to the magnitude of the SSC rate. With an indefinite carry-over option in place between 2008 and 2019, the R&D tax subsidy rates for loss-making firms are positive but slightly smaller than those for profitable firms.

Figure 1. Implied tax subsidy rates on R&D expenditures: Turkey, 2000-19

1-B-Index, by firm size and profit scenario


Note: Implied marginal tax subsidy rates, presented for different firm size and profitability scenarios, are calculated (see methodology and country-specific notes) based on headline tax credit/allowance rates. Headline tax credit/allowance rates provide an upper bound value of the generosity of R&D tax incentives, not reflecting the effect of thresholds and ceilings that may limit the amount of qualifying R&D expenditure or value of R&D tax relief.

Disclaimer: http://oe.cd/disclaimer
Public support for business R&D: the policy mix

In 2017, Turkey is below the OECD median in terms of total government support to business R&D as a percentage of GDP, at a rate equivalent to 0.11% of GDP.

Figure 2. Direct government funding of business R&D and tax incentives for R&D, 2017 (nearest year)
As a percentage of GDP

- From 2006 to 2017, government support for BERD as a percentage of GDP increased in Turkey by 0.10 pp, while the OECD median increased by 0.015 pp.
- During this period, business R&D intensity in Turkey increased from 0.21% to 0.55%.
- In 2017, R&D tax incentives accounted for 57% of total government support for BERD in Turkey.

Trends in government support for business R&D

Since the introduction of R&D tax support in Turkey in 2008, the importance of R&D tax incentives has increased significantly, both in absolute and relative terms.

Figure 3. Direct government funding of business R&D and tax incentives for R&D, Turkey, 2000-17
As a percentage of GDP, 2010 prices (right-hand scale)

- The cost estimate of tax incentive support for Turkey covers the R&D tax allowance and the SSC exemption.


© OECD 2019