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Home > Turkey Increases R&D Incentives

Turkey Increases R&D Incentives

The Turkish government has introduced a new incentive scheme to attract foreign investors in hope that Turkey becomes a key center for pharmaceutical R&D.

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Turkey's pharmaceutical industry ranks as the sixth largest in Europe, and the 16th largest globally (1). Last year, the Turkish Government unveiled plans to position the country in the top 10 most-preferred locations for R&D investment in the pharmaceutical sector by 2023.

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Since the creation of the modern Republic of Turkey in 1922, the Turkish governments have published regular Development Plans. These plans determine the road map of the country's development policies for the subsequent five-year span. The government's most recent Development Plan (published on 6 July 2013 and numbered 28699) introduced a new program that aims to position Turkey as global R&D centre in the pharmaceutical sector. The Plan states that "it is vital that Turkey becomes a global R&D and production center for pharmaceuticals in the long term, and holds a competitive position in pharmaceuticals and medical-devices industries." The 10th Development Plan further establishes two tangible goals–to meet 60% of national need for pharmaceuticals from local production, and to meet 20% of national need for medical devices from local production. To achieve these aims, Turkey will have to attract international R&D investment by introducing incentives for investors, researchers and developers.

In Turkey, R&D activities are primarily regulated under and supported by the Technology Development Zones Act (i.e., the Technopolis Law) and the Support of Research and Development Activities Act. In addition, there are other forms of assistance offered by the Ministry and institutions such as The Scientific and Technological Research Council of Turkey (TUBITAK) and Technology Development Foundation of Turkey (TTGV). This article provides an overview of the incentives and aids introduced by these laws and institutions.

The Technopolis Law

The Technopolis Law aims to create job opportunities for researchers and qualified persons and investment opportunities in technology-related sectors to support technology transfer; provide technological infrastructure to encourage foreign companies using high-end technology to invest in Turkey; support technological knowledge production and innovation in product and manufacturing processes; promote cooperation between universities, research institutions and manufacturing sectors; and increase exportation (2). To achieve these goals, technology-development zones (known as "technopoli") must be established.

Technopoli are defined in Article 3 of the Technopolis Law as follows: "Technology-development zones are sites, or technology parks, in which companies use high technology or deal with new technologies, produce/develop technology or software, work to transform technological invention into a trade-related product, method or service through benefitting the facilities of specific university or high technology institution or R&D centre/institution. Technopoli shall be established in or near universities, high-technology institutions or R&D centres, and the companies located in them contribute to the overall development of the area this way."

The Technopolis Law provides aid for the establishment of technopoli. According to Article 8, when technopoli are established, the Ministry may provide financial support to the company establishing them if the costs cannot be directly met by an establishing party. This financial support is, however, limited to the allowances earmarked within the Ministry's budget. Additionally, pursuant to Article 8(3), an establishing company is exempted from stamp duty and other documentary duties for all the transactions made in the scope of the application of the Technopolis Law. Furthermore, technopoli are not subject to wasted water fees, unlike all other businesses in the Turkish private sector (3).

Other support available to companies conducting R&D activities in technopoli include:

- Exemption from income and corporation taxes on any proceeds gained as a result of R&D activities in a technopoli until 31 Dec 2023
- Exemption from direct taxation for the wages of researchers, software developers and R&D staff until 31 Dec 2023; however, the number of the

support staff subject to this exemption must not be higher than 10% of the number of the R&D staff.

Activities falling within the scope of the Technopolis Law are not subject to the provisions of the Public Finance Management and Control Law no. 5018, the Law on the Court of Accounts no. 6085, Public Procurement Law no. 4734 and the State Procurement Law no. 2886.

The R&D Act
The purpose of the R&D Act is same as that of Technopolis Law. The term R&D activities is defined in Article 2(1)(a) of the R&D Law and in Article 5 of the Regulation on Implementation and Audit of the Supports of R&D Activities. While these definitions are to be applied in general, Article 6 of the Act lists the activities that are not considered as R&D activity. This limitation is significant as it is not possible to benefit from R&D aids provided by the R&D Act for the following activities (4):

- Promotional activities, market surveys and sales promotions
- Quality control
- Researches in social sciences
- Clinical researches conducted before the manufacturing permit of a pharmaceutical if at least two phases of them are not conducted in Turkey or clinical researches conducted after manufacturing permits obtained
- Usage of processes that are not invented in the course of any R&D project
- Ordinary software activities that do not serve scientific or technology development
- Research expenses regarding establishment and organisation for an establishment stage
- Works made to obtain intellectual property rights over a product or process developed through R&D activities
- Duplication of prototypes and distribution
- Investment activities made for production and production infrastructure, trade production planning, expenses made for mass production
- Technology transfer, which is not in scope of a R&D project and does not result in new process, system or product.

A business that has obtained an R&D Centre Certificate benefits from supports and incentives provided by the R&D Act. The supports and incentives provided by the R&D Law and their advantages
are listed as follows:

R&D discount.
For R&D centres hiring more than 500 full-time R&D staff, if in the current year, there is an increase in R&D expenses in comparison to previous year, then half of that accrual shall be subject to discount in calculation of business income. Moreover these expenses shall be amortised pursuant to Tax Procedural Law No. 213, and if there is no financial value as a result of that, then it is directly recorded as expense.

Tax incentives.
The wages of R&D and support staff working in R&D centres are exempted from income tax; this tax exemption applies to 90% of the wages of staff with a doctoral degree and 80% of those without. For a business to qualify for this incentive, the number of full-time support staff cannot exceed 10% of the overall number of R&D staff.

Insurance premium support.
Except for civil servants, half an employer's share of an insurance premium, as well as the staff whose wages are exempted from income tax pursuant to Article 2 of the R&D Law, shall be paid from the Ministry's earmarked allowance for five years for each staff member. This insurance premium is calculated according to the individual wages of the workforce. Similarly, for a business to qualify for this incentive, the number of full time support staff cannot exceed 10% of the overall number of R&D staff.

Documentary and stamp duty indemnity.
Documentary and stamp duties shall not be charged for documents regarding R&D activities.

San-Tez
San-Tez is a program based on the Regulation Regarding the Support of Thesis Related to Industry and funded by the Ministry. The purpose of this program is to cultivate collaboration and cooperation between universities and companies to promote new products and/or manufacturing processes as well as to endorse the development of current products and/or manufacturing processes. In accordance with industry requirements, master or doctoral theses might be supported by the Ministry. San-Tez projects are financially supported by the company that is in corporation with the academic and the Ministry. Accordingly, 25% of the project cost is covered by the company while 75% of it is covered by the Ministry. The expenses covered by the San-Tez are:

- Expenses made for machines/equipment
- Expenses made to purchase consumable materials
- Staff expenses
- Travel expenses
- Expenses for receiving service
- Wages may be paid to the academicians during the project.

San-Tez projects are typically supported for a maximum of three years; however, extensions of up to six months can be requested.

TUBITAK and TTGV
TUBITAK aid increases the percentage of R&D expenses within the gross national product, and is focused on the improvement of a company's ability to carry out R&D activities, the increased production of qualified products and the development of manufacturing process. Development of a new product/service, improvement of current products/services and manufacturing/service processes are covered by the aids provided by TUBITAK and TTGV.

The Ministry of Science, Industry and Technology is aware that there is a strong need for an increase in the volume of R&D activity and is, therefore, keen to reach its stated objectives by 2023. The Ministry recognises the importance of cooperation between stakeholders (such as investors, academics, researchers and developers), and has demonstrated both a desire and a willingness to make further improvements to current legislation and regulation to help fully realise the Turkish pharmaceutical and pharmaceutical technology market.

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