

## INCENTIVES FOR INVESTORS IN NORTHERN CYPRUS

Source: YAGA <http://www.investinnorthcyprus.org/>

### The Primary Sectors in Northern Cyprus

- Tourism (specialized, non-seasonal or off-seasonal)
- Higher and Continuing Education
- Specialized, Niche Investment, High Value Added Agriculture and Food Processing (Agri-Industry)
- ICT– Software Development, Telecommunications

### WHAT ARE THE INCENTIVES FOR INVESTORS?

There are incentives applied in various forms for tourism and industrial investments. These are **Investment Incentives Applied Under the incentive law** and **Incentives Applied Under the Tax Legislation**,

#### Investment Incentives Applied Under the Incentive Law 47/2000

- **Investment Allowance**

Investment allowance is 200% on the initial fixed capital investment expenditure for the

Investments in Priority Development Regions and in sectors with special importance.

Investment allowance is 100% on the initial fixed capital investment expenditure for the

Investments in other sectors and regions. Güzelyurt and Karpaz were determined as Priority Development Regions by the Council of Ministers. Investors are exempted from corporate tax and income tax until the above-mentioned allowance percentages are met.

- **Exemption From Custom Duties and Funds**

Import of machinery and equipments concerning the project are exempt from every kind of custom duties and funds in accordance with Incentive Certificate. For industries to be engaged in exporting activities, regulations on importation of raw materials and semi-finished goods are determined by the Prime Ministry and are subject to the approval of the Council of Ministers.

- **Zero Rate VAT**

Zero rate VAT is applied for both the imported and locally purchased machinery and equipment in accordance with the Incentive Certificate.

- **State Owned Land and Building Lease**

State owned land and building lease is possible for the investments that are eligible to apply for Incentive Certificate in accordance with the regulations in force.

- **Fund Credits**

Long term and low rate investment credits are available from the Investment and Export

Incentive Fund.

- **Exemption From Construction License Fee**

Investments that are granted Incentive Certificates are exempt from all kinds of taxes and fees related with construction license.

- **Reduction of Stamp Duty for Capital Increase**

Reduction of stamp duty concerning capital increase is provided for the investments that are granted Incentive Certificate.

- **Reduction of Fee on Mortgage Procedures**

Reduction of stamp and registration fees is applied on mortgage procedures necessary when using bank credit for the investments that are granted Incentive Certificate.

### **Incentives Applied Under the Tax Legislation**

Allowances are given for capital expenditure incurred on the acquisition of plant and machinery, fixtures and fittings owned and used by a person or corporate body in trade or business or scientific research.

#### **These capital allowances are:**

- Initial (Investment) Allowances
- Annual (Wear and Tear) Allowances

Allowances are also given on existing buildings or on the construction, extension or adaptation of buildings owned and used by a person or corporate body. In total, tax allowance is given equal to the cost of an asset plus the investment allowance.

- **Initial (Investment) Allowance rate is 50%.**

Investment allowance rate can be increased up to 100% or a new rate, which is not less than legal rate, determined by the Council of Ministers with the recommendation of Ministry of Finance for the investments in Priority Development Regions and in sectors with special importance specified under the Incentive Law and the Tourism Industry Incentive Law. If there are regulations concerning investment allowances under special Incentive Laws, the rates and principles are applied in accordance with Incentive Law concerned instead of applying the allowance rates in accordance with Income Tax Law.

- **Annual (Wear and Tear) Allowances:**

- Machinery and Equipment: 10%
- Saloon type motor vehicles and motorcycles: 15%
- Motor vehicle with "T" licence: 25%
- Other motor vehicles (trucks, buses, vans etc.): 20%
- Industrial Buildings and Hotels: 4%
- Shops and Residences: 3%
- Furniture and Fixtures: 10%

Initial allowances and annual depreciation allowances are deducted before setting net chargeable incomes.

- **Other Allowances:**

- Expenditures on company formation are amortized in five years.
- In addition to the incentives provided in regard to manufacturing, under the Technology Development Areas Incentive Scheme, the firms deemed eligible have the chance to be exempted from
  - expenditures on patent and patent rights,
  - all the income tax resulting from the patent right revenues for 5 years.
  - Corporation tax related with the revenues resulted from the sale of software development and research and development activities of the firms.
  - The purchased tools and fixtures which have the values not exceeding the monthly gross minimum wage at the beginning of the year, may not be subject to depreciation and the payments for these tools and fixtures may be immediately recorded as expense.
- Twenty percent of earnings of corporate bodies from exports of goods and services are exempt from corporation tax. But the exempted amount cannot exceed the amount equal to 80% of net income obtained from exports.
- The exports of all goods and services are exempt from VAT. According to the legislation the exporters can claim credits or refunds for the VAT paid on their inputs.
- Air, land and sea transportation services, from the TRNC to foreign countries, from foreign countries to the TRNC or from foreign country to foreign country via the TRNC are exempt from VAT. According to the legislation carrier can claim credits or refunds for the VAT paid on their inputs.
- Services provided in ports or airports for the sea or air transportation vehicles used in the production of income are exempt from VAT.

- Products bearing minimum 30% of local value addition and/or containing minimum of 40% of local raw material are eligible for freight charge refund. (Products such as potatoes, dairy, citrus are excluded from this incentive, since these products are already incentivized under other regulations) Freight cost refund for industrial products is 15% over the Fob when the freight is between TRNC and Turkey; while it is 20% when the freight is being done with another country.
- There are also generous incentives for locally established companies, who would like to participate in the exhibitions, open a branch, conduct market research, advertise on abroad and for obtaining standard certifications.

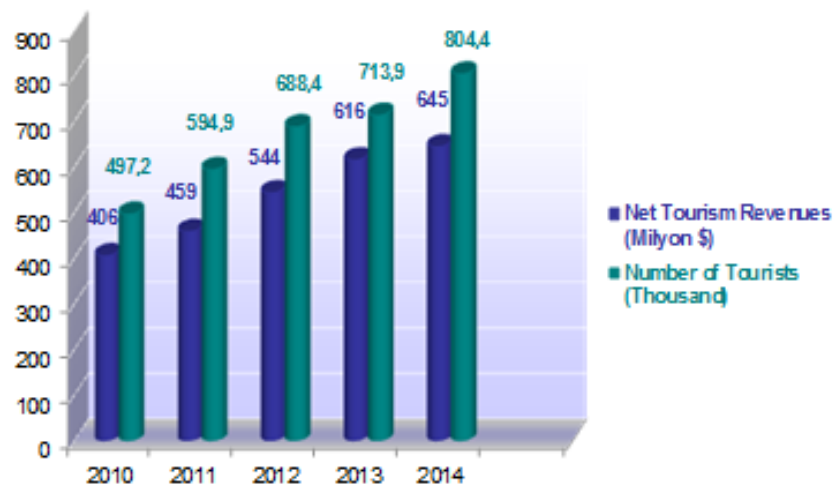
International Business Companies are subject to 2.5% and International Banking Units are subject to 2% income taxes

In Northern Cyprus, Tourism and Education sectors are two primary sectors which majority of the investments are made.

## TOURISM

In the global context, since the needs of the tourists are becoming more diverse, the tourism industry is becoming more and more challenging and competitive. YAGA (Cyprus Turkish Investment Development Agency) is well aware of the changing needs and the importance of satisfying these needs. Taking these into account, the sustainability of the tourism sector has been found out to be lying on the grounds of developing diversified investment opportunities with the concept called “special interest tourism”. With its multicultural history and heritage, Northern Cyprus is foreseen to be one of the main special interest tourism destinations in the region.

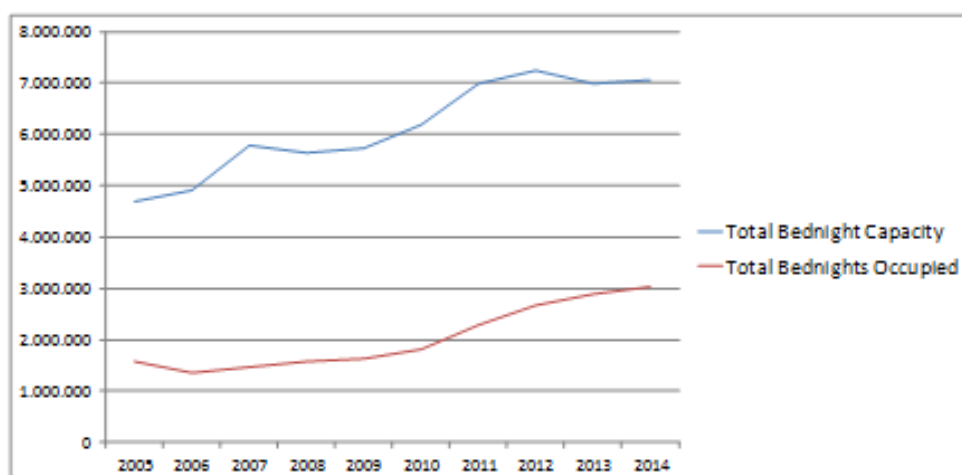
### Number of Tourists & Net Tourism Revenues



## Hotel Occupancy Rates

| Month     | 2014 | 2015 |
|-----------|------|------|
| January   | 23,8 | 28,7 |
| February  | 22,3 | 28,2 |
| March     | 34,4 | 40,4 |
| April     | 42,5 | 45,5 |
| May       | 49,6 | 51,4 |
| June      | 59,4 | 56,5 |
| July      | 61,7 | 63,0 |
| August    | 74,5 |      |
| September | 64,2 |      |
| October   | 57,4 |      |
| November  | 43,5 |      |
| December  | 30,9 |      |

## Total Overnight Bed Capacity



## Hotel Accomodation Rates

| NATIONALITY        | 2014           | %  | 2015           | %  | Difference % |
|--------------------|----------------|----|----------------|----|--------------|
| Turkey             | 287,739        | 68 | 337,252        | 69 | 17,2         |
| Other Foreign      | 108,364        | 26 | 124,528        | 26 | 14,9         |
| Total              | 396,103        | 94 | 461,780        | 95 | 16,6         |
| Turkish Cypriot    | 26,770         | 6  | 24,472         | 5  | -8,6         |
| <b>Grand Total</b> | <b>422,873</b> |    | <b>486,252</b> |    | <b>15,0</b>  |

**39** Investment Incentives have been granted to tourism sector between 2009-2014.

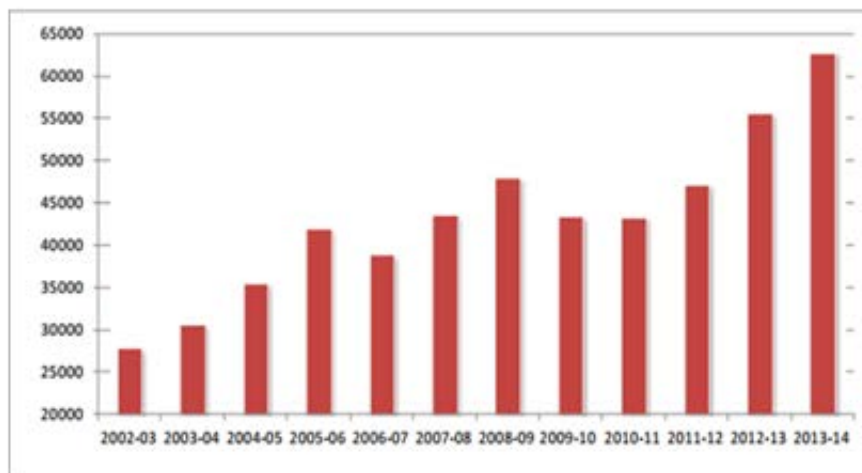
## EDUCATION

Northern Cyprus places a strong emphasize on raising quality of education, since the sector is perceived to be the most crucial factor in the economy enabling the sectors recruit qualified labour tailored to their needs. Due to its competitive and innovative nature, it is highly essential for the sector to raise and maintain quality of education and promote research and development through further investments in this sector. In line with this, the research and development activities of universities together with the technological infrastructures and affinity they have been developing possess a potential prerequisites for the development of ICT sector. Just like other sectors, foreign investments are perceived to be important in attracting new technologies, which help stimulate the quality and diversity of the existing academic programs. The presence of international stakeholders and the inflow of FDI in higher education sector will help Northern Cyprus become a centre of excellence in higher education and research and development areas.

## Universities and Student Numbers (2013-2014 Spring Term)

| UNIVERSITY  | TRNC  | TURKEY | FOREIGN | TOTAL |
|-------------|-------|--------|---------|-------|
| EMU         | 2701  | 7069   | 6084    | 15854 |
| EUL         | 372   | 2934   | 488     | 3794  |
| CIU         | 810   | 4148   | 2605    | 7563  |
| GAU         | 1448  | 6763   | 2580    | 10791 |
| NEU         | 6775  | 10838  | 4554    | 22167 |
| UMK         | 190   | 96     | 407     | 693   |
| METU NCC    | 144   | 1753   | 202     | 2099  |
| İTÜ NC      | 4     | 105    | 2       | 111   |
| UK          | 44    | 421    | 77      | 542   |
| GRAND TOTAL | 12488 | 34127  | 16999   | 63614 |

## Growth in Student Numbers



5 Investment Incentives have been granted to education sector between 2009-2014.