

The Effect of Tax Incentives on Regional Economic Development

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Abstract: *Tax incentives are exceptional applications which are used to encourage in a specified activity for a certain period. Today most of the countries have created tax incentive programs for many reasons but especially to attract regional economic development. Tax incentives can be used as a tax exemption or as a financial incentive. One of the significant outcomes of the tax incentives is that they reduce firm's costs. Tax incentive programs are focused on the expectations of welfare gains such as the region's level of employment and income. Another point of these expectations in terms of the state tax incentive programs can result from the loss of tax revenue and inefficient allocation of public goods. Although tax incentives have been used over the world since the 1980s, its utility in practice is a controversial issue in the academic literature. While some studies find an impact on economic development, some studies especially focusing on long term, find the opposite.*

The aim of this paper is to investigate the effects of tax incentives as a device for providing regional economic development. Tax incentives have been undertaken as an economic development strategy in developing and developed countries over the past years. Based upon countries' regional economic development experiences, particularly Turkey's strategy about regional economic development has been evaluated. Although in the 1980s several attempts have been made about tax incentives, from the 1990s strategies which consist of using it as a tool of regional economic development, come into prominence. In 1 January 1999 Turkey has provided investment allowances which depend on location and type of investment, but its application results have not been as expected. To eliminate these failures and set up regional economic development through tax incentives, a new tax incentive program has been introduced in 4 June 2009. This paper particularly takes into account the effects of new investment incentive plan which effectuated in 1 January 2012 in Turkey. One of the main results of the study is that the use of tax incentives could be limited to the reinforcing of regional economic development.

Keywords: *Regional development, Fiscal Instruments, Tax incentives, Incentives, Turkey.*