UK (Mirrlees Review) – TURKEY COMPARISON

Ali Şanver, Taşman & Şanver
(TUSIAD Working Group on Tax)

Taxes on earnings

A good tax system Source: Tax By Design, ESRC pp. 478-9	The current UK tax system	The current TR tax system
A progressive income tax with a transparent and coherent tax structure	An opaque jumble of different effective rates as a result of tapered allowances and a separate National Insurance system	An opaque jumble of different effective rates as a result of tapered allowances (and other incentive structures) and a separate National Insurance (SGK) system
A single integrated benefit for those with low income and/or high needs	A highly complex array of benefits	Very little or no benefits after eliminating the Minimum Standard Living Allowance
A schedule of effective tax rates that reflects evidence of behavioral responses	A rate structure that reduces employment and earnings more than necessary	A rate structure that reduces employment and earnings more than necessary or leads to undeclared (off record) employment

Indirect taxes

A good tax system Source: Tax By Design, ESRC pp. 478-9	The current UK tax system	The current TR tax system
A largely uniform VAT -with a small number of targeted exceptions on economic efficiency grounds -and with equivalent taxes on financial services and housing	A VAT with extensive zero-rating, reduced-rating, and exemption -financial services exempt; housing generally not subject to VAT but subject to a council tax not proportional to current property values	A VAT with extensive zero-rating, reduced-rating, and exemption -financial services subject to a banking and insurance transactions tax (BITT); small to medium size housing (under 150 square meters) subject to reduced (1%) VAT. Restatement of VAT base is in progress reflecting current property values -Draft bill to determine VAT rates progressively based on property value (replacing square meter) base
No transaction taxes	Stamp duties on transactions of property and of securities	Transactions in securities (capital markets) usually exempt; 0.825% stamp tax on execution of all other documents including contracts
Additional taxes on alcohol and tobacco	Additional taxes on alcohol and tobacco	Additional taxes (excise) not only on alcohol and tobacco but also on automotive, fuel and telecom (Special Consumption Tax) at extreme rates (20% to 65%)

Environmental taxes

A good tax system Source: Tax By Design, ESRC pp. 478-9	The current UK tax system	The current TR tax system
Consistent price on carbon emissions	Arbitrary and inconsistent prices on emissions from different sources, set at zero for some	A regime (based on Kyoto Protocol) for curbing carbon emissions is yet to be introduced
Well-targeted tax on road congestion	Ill-targeted tax on fuel consumption	Ill-targeted tax not only on fuel consumption but also non-systematic and unequal taxation of industrial waste

Taxation of savings and wealth

A good tax system **Source: Tax By Design, ESRC pp. 478-9**	**The current UK tax system**	**The current TR tax system**
No tax on the normal return to savings -with some additional incentive for retirement saving	Normal return taxed on many, but not all, forms of savings -additional but poorly designed incentives for retirement saving	Nominal return taxed on bank deposits (at 15%), zero-rate available on T-bills -premiums for private retirement savings are not allowed to be deducted from mandatory SGK (National Insurance) contributions -only limited (15%) tax allowance -draft bill to replace the tax allowance by a 25% State contribution
Standard income tax schedule applied to income from all sources after an allowance for the normal rate of return on savings -with lower personal tax rates on income from company shares to reflect corporation tax already paid	Income Tax, National Insurance contributions, and capital gains tax together imply different rates of tax on different types of income- wages, profits, capital gains, etc. -some recognition of corporation tax in dividend taxation but not in capital gains tax	Income Tax, National Insurance contributions (SGK), and capital gains tax together imply different rates of tax on different types of income- wages, profits, capital gains, etc. - some recognition of corporation tax in dividend taxation but not in capital gains tax -discussions to reduce withholding tax on bank deposits regressively on level of maturity
A lifetime wealth transfer tax	An ineffective inheritance tax capturing only some assets transferred at or near death	A lifetime wealth transfer tax of 1% to 10% versus an inheritance tax of 10% to 30% 2008 pardoning of off-shore assets on a repatriation tax of 2% (allow permanently in light of recent tax treaty / exchange of information trends?)

Business tax

A good tax system Source: Tax By Design, ESRC pp. 478-9	The current UK tax system	The current TR tax system
Single rate of corporation tax with no tax on the normal return on investment	Corporation tax differentiated by company profits and with no allowance for equity financing costs	Single rate corporation tax of 20%. However, dividends are subject to progressive brackets of personal income tax. -Dividends received by corporate shareholders taxed at single and reduced tax treaty rates.
Equal treatment of income derived from employment, self-employment and running a small company	Preferrential treatment of self-employment and distributed profits	Preferential treatment of corporate income by periodically State-issued investment incentive plans
No tax on intermediate inputs but land value tax at least for business and agricultural land	An input tax on buildings (business rates) no land value taxes	Intermediate inputs are taxed (mainly capital gains tax) but specific exemptions are available subject to one to five years holding periods, capitalization, incentive plans, etc. - land value and property value taxes based on arbitrary and uneven valuations (tax base) by local municipalities - transaction taxes (especially stamp tax) negatively affecting documentation of transactions