

# Efficiency and Equity Aspects of the Turkish Tax System: A Brief Overview

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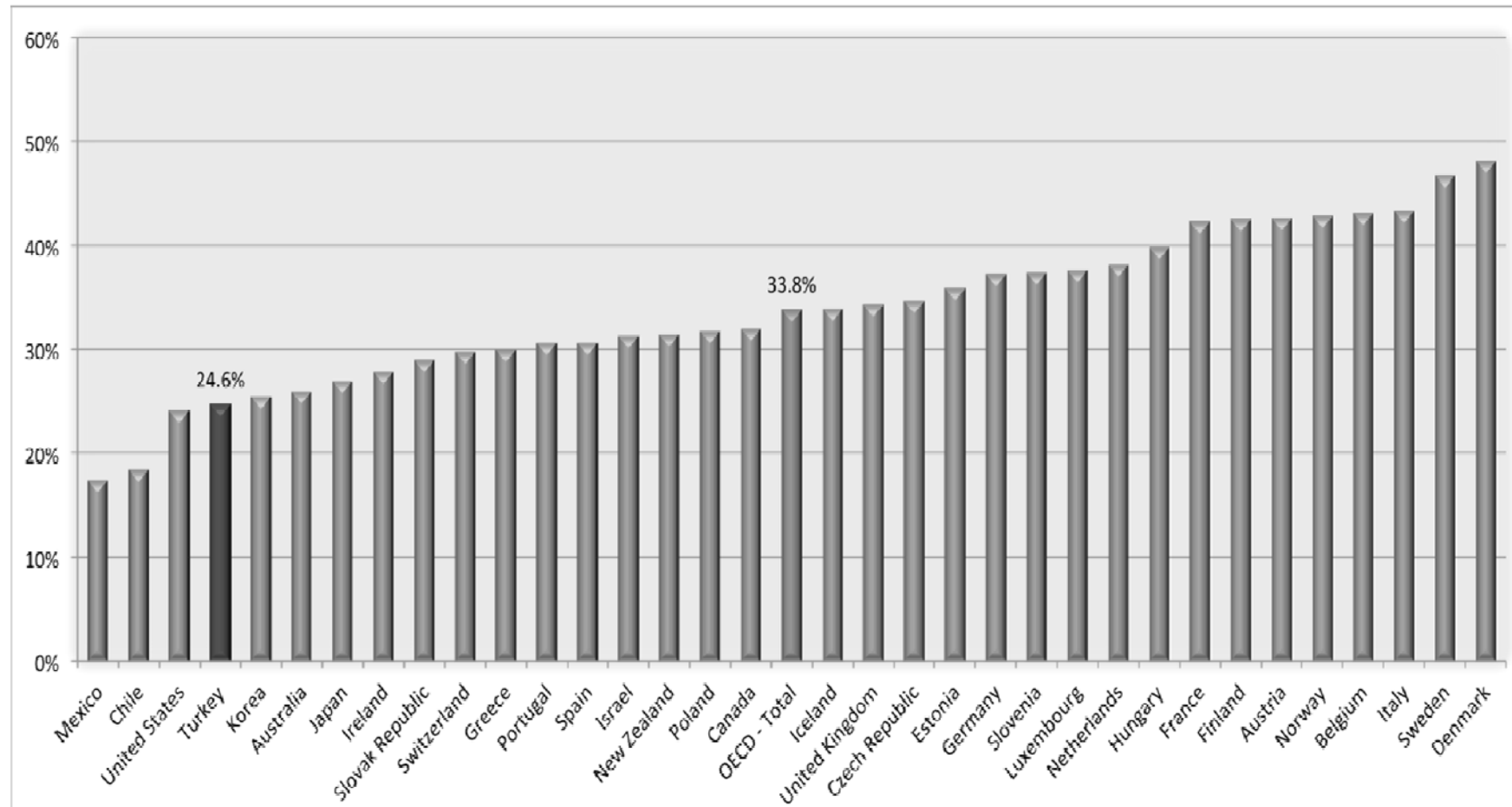
Panel presentation at the  
Koç-TÜSİAD ERF Conference: “The Mirrlees Review:  
Tax Reform for a Modern Economy”

May 4, 2012

# Turkey: Overall Taxes

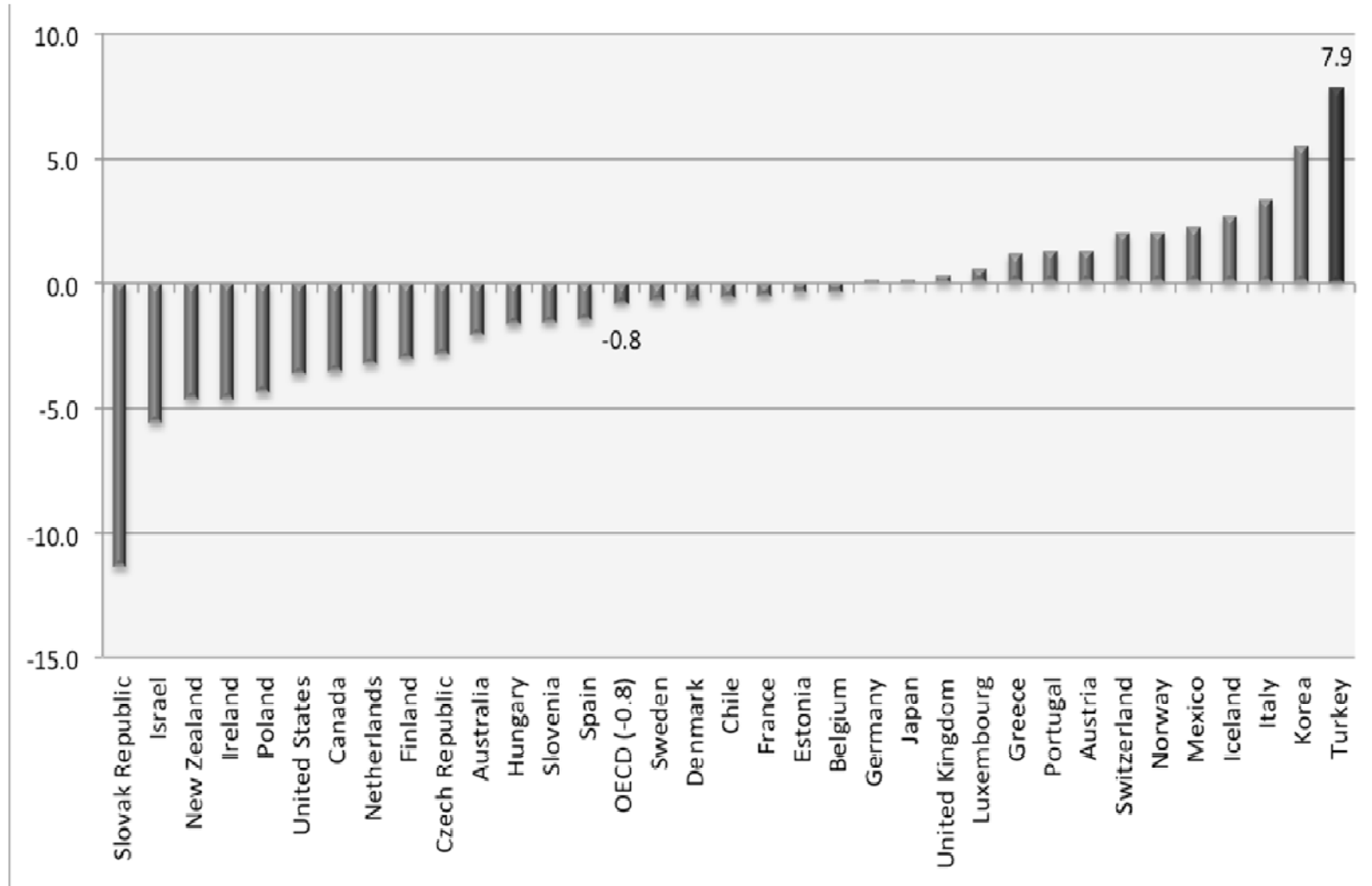
- *Total tax burden not very high:*
  - Total taxes collected (as % of GDP): 24.6%
  - OECD Average: 33.8%
- *But increased rapidly: 16.8% in 1995*

# Total Tax Revenue as Percentage of GDP (2009)



Source: OECD Revenue Statistics 1965-2010, 2011

# Changes in Tax to GDP Ratio (%): 1995-2009



Source: OECD Revenue Statistics 1965-2010, 2011

# Tax Structure in Turkey

- Too much reliance on consumption taxes: VAT & SCT (Special Consumption Taxes)
  - Now: around 60-65% of total tax revenue
  - In 1995: around 40%; in 2000: around 50%
  - OECD average: About 40%
- Consumption tax as % of GDP: similar to OECD countries (2009 figures):
  - Consumption taxes collected: 11.2% of GDP
  - OECD average: 10.7% of GDP
- However, cannot collect income tax at adequate levels:
  - Income taxes collected: 5.9% of GDP
  - OECD average: 11.4%
- Over 1995-2010:
  - share of income taxes and general consumption taxes (domestic VAT) decreased
  - share of SCT and Social Security Contributions increased

# Tax Wedge on Wages

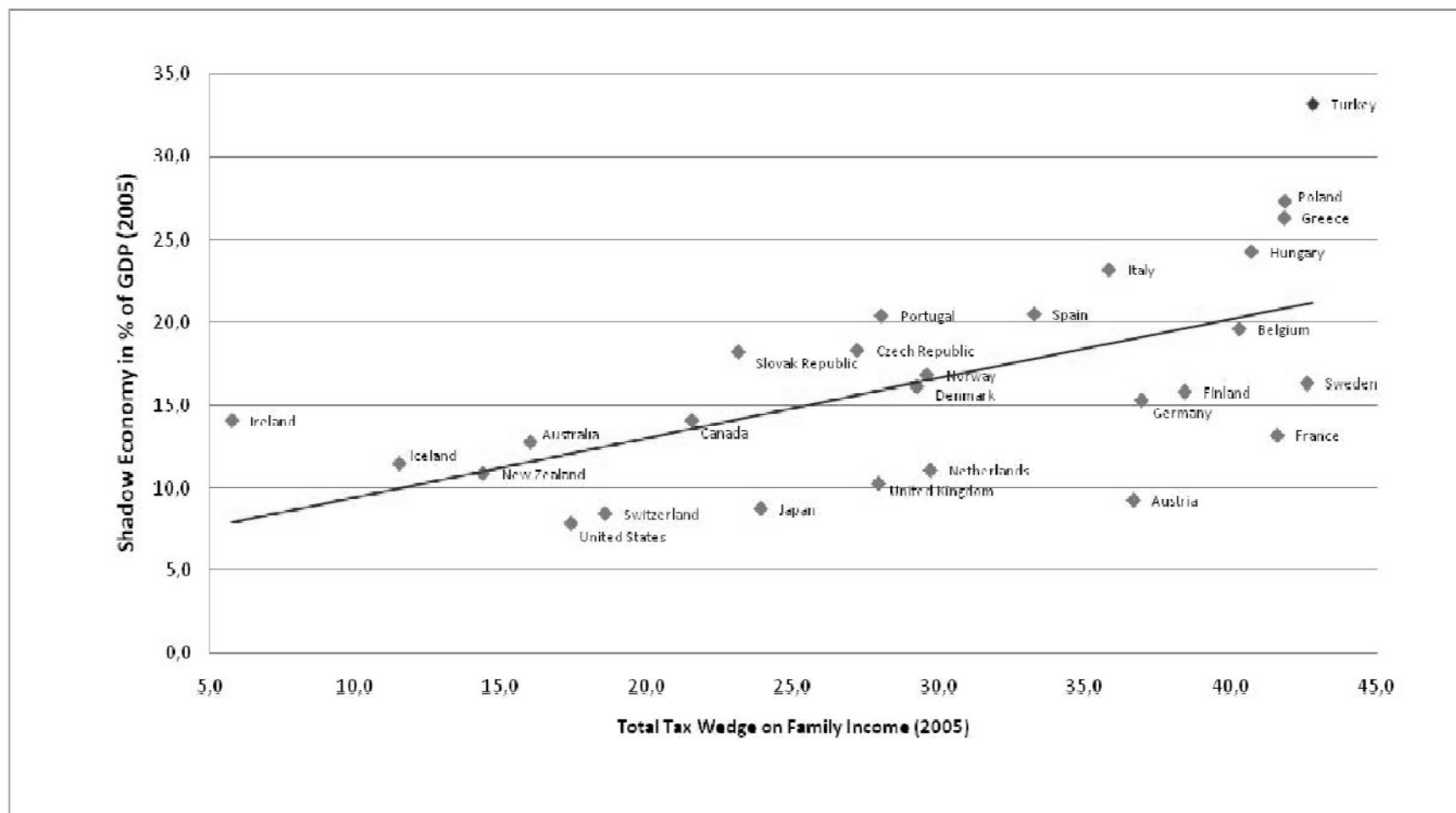
- Tax wedge: the difference between the gross and net wage
- Turkey: Decreasing slightly over the years, but considerably above OECD averages
- Over 2000-2010: tax wedge at
  - average earnings of a single wage-earner family with two children:  
Turkey: from 40.4% to 36.3%      OECD: from 27.5% to 25.4%
  - 167% of average earnings of a two wage-earner family with two children:  
Turkey: from 39.9% to 37.9%      OECD: from 32.0% to 30.4%
- creates incentive to move to the shadow economy

# Taxes and the Unregistered Economy

- *Close relationship between high taxes and the size of the unregistered economy*

# Tax Wedge and the Unregistered Economy

(correlation coefficient = 0.6)



Sources: (i) OECD, Taxing Wages 2010; (ii) Schneider (2007)



# Regressivity of Consumption Taxes

- Consumption taxes hit the poor harder
  - VAT worsens the income distribution
  - SCT protects middle income groups
  - burden on the poorest 20% 1.3 to 1.4 times higher than the average
  - burden on the poorest 5% more than twice that on the richest 5%
- Inability to collect income taxes: prevents potential correcting effect on income distribution
  - consumption taxes worsens the income distribution
  - the mildly progressive Turkish income tax system: would ameliorate the income distribution if implemented fully without evasion

# Citizen Perceptions on Taxation in Turkey

- High consumption taxes raised awareness about the tax system and its problems
- The state cannot collect taxes because:
  - the tax system is unfair
  - the unregistered economy is large
  - taxes don't return to people as public services
  - the tax system is not transparent
- *Low satisfaction with public services reduces compliance*
- *People want taxes that reflect ability to pay: no tax on minimum wage (83%)*
- *They prefer a mildly progressive income tax (85%) over a flat rate income tax (15%)*