Lessons for Turkey (Mirrlees Review)

by
Ali Sanver
(Tasman & Sanver)
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Mirrlees perspective on indirect taxation

- direct v. indirect taxation in Turkey
- Total tax revenues as % of GDP:

  Before VAT (1985) = 15.4%

  After VAT (in 1999) = 31.3%

  in 2011 = 32.2% (OECD median = 30.7%)

  (ca. USD 200 billion)

  "Shadow economy" decreased from 32.2% of GDP in 2003 to 27.2% of GDP in 2012 (Schneider Report)

Who bears the tax burden in Turkey?

Allocation of taxes as % of total tax take (2011):

- Special Consumption Taxes (inc. excise) = 25.3%
- Income taxes (predominantly payroll tax) = 19% (4.7% in 1999)
- Value Added Tax = 11.8% (4% in 1999)
- Corporation Tax = 10% (1.5% in 1999)

Allocation as % of GDP (2011):

Corporation tax = 1.9% (OECD median=2.9%)

Individual income tax = 3.7% (OECD median=2.6%)

Improved accruals or tighter collection by Turkish Revenue?

Increase in % from 2012 to 2013:

- Taxes accrued (declared) = 7%
- Taxes collected (including by enforcement) = 11%

Drastic increase in Revenue's spending for tax audit and enforcement (number of tax inspectors will go up from 5'000 to 12'000 until 2015) – However, while numbers of *ex officio* tax assessments go up, their quality suffers: In 2012, 95% of all tax assessments were settled pre-litigation. In tax courts, more than 70% were eliminated in favor of the taxpayer.

Outlook for tax design by Mirrlees Review

1) Uniform (single rate) VAT with fewer exemptions
2) Targeted excise duties only (e.g. on fuel, congestion, carbon emissions)

   In 2009, the SCT rate on use of communication services has been reduced from 15% to 5%.
3) In the long run, *flat rate* income tax no longer exceeding the 20% *flat rate* corporation tax

By way of evidence-based policy & law making ? (Further collaboration with IFS)

- Place for *comparative legal analysis* ?
- Do not read much into *high-level descriptive statistics (ex post)*
- Country-specific scoping study (determine the research parameters, e.g. sensitivity of household income or the Gini Coefficient to VAT rate differentiation)
- Scenario and sensitivity analysis, micro-simulation models (*ex ante*)