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Covid-19 and tax reforms

"Tax Policy Reforms – 2020" Report of OECD has been published on August 3, 2020. Tax reforms in jurisdictions are comparatively discussed in the report and trends are as follows:

Are wealth taxes reviving?

According to OECD Report, changes have arisen in terms of taxation of "net wealth" and "wealth transfers" in recent years:

- Net wealth tax implementation is extended until the end of 2020 in Spain,
- Tax rates applicable for individuals have been increased through making significant amendments in Argentine in terms of wealth tax. As a final step, levying a tax between 2% and 3.5% based on wealth of persons whose wealth exceeds 200 million Argentine Peso (approximately USD 2,5 million) has been legalized.
- Norway has repealed decreasing of taxable assets of unlisted companies with simple amendments in company structures by expanding net wealth tax basis through repealing special valuation provisions in terms of shares of newly established companies,
- Denmark has abolished succession tax reduction granted to company owners in terms of succession and inheritance tax practices.

In addition, Wealth Tax Commission of United Kingdom has been established in 2020 and published 9 reports until December 2020.

It is explained in the Report that a tax amounting to £260 billion can be collected with the application of a threshold amounting to £500 thousand while a tax amounting to £80 billion can be collected with the application of a threshold amounting to £2 million through applying 1% single time wealth tax annually for five years from the individual wealth. It is mentioned that this one-time tax is "fair, effective and difficult to avoid" tax. It is also discussed in the Report that £250 billion tax can be collected through alternatives such as income tax, corporate tax and VAT rate hike other than "wealth tax".

New wealth tax for Turkey?

There are people suggesting immediate legalization of additional wealth taxes in Turkey and wealth tax is deemed as obligatory in order to eliminate the income inequality and financial burden of Covid-19. A concrete proposal has already been made in terms of one-time taxation of deposits exceeding a certain threshold.

If a wealth tax suggestion shall be made, it should be taken into account with wealth tax and other tax policy alternatives such as in UK. Otherwise, a taxation based on gross product such as "net asset tax" implementation can be cancelled through being considered in contradiction with the Constitution (Decision dated 13/7/1995 and numbered E.:94/85, K.:95/32).

Moreover, problem of Turkey is not taxation of wealth but income tax due to tax expenditures.

Why and for which purposes are taxes spent?

Tax expenditure is privileges or exceptions and exemptions in standard tax system decreasing the tax income of a jurisdiction. Tax expenditures of Turkey has reached 25% of net tax income in 2021. Therefore, ineffective exception, exemption and reductions should be reviewed and abolished and converted to tax income. 10% saving in terms of tax expenditures means a tax income of TL 77,3 billion during the following three years period.

In our view, application of wealth tax based on wealth of individuals living in high inflation environment, compared to other developed and developing countries, shall be nowhere near fair.

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