

Tax clamp on inflation recovery for employees

Does inflation increase tax revenues?

“Bracket creep” is a tax term generated due to inflation. Bracket creep can be defined as climbing of income to higher tax tariffs due to inflation. Tax burden of individuals gets higher as a result of bracket creep due to non-compliance of tax tariffs with purchasing power of consumers and resulting taxation of fixed income of individuals at a higher rate. Thus, inflation is named as “secret (hidden) tax”.

How often should tax tariffs be updated?

It is of high significance to update “tax tariff, tax rates, exceptions and exemptions” before each financial year in countries having higher rates of inflations and cost of living. Otherwise, “bracket creep impact” may be higher.

Such update is made through “revaluation rate” in Tax Procedure Law (average price increase arising in consumer prices general index compared to same period of previous period in October of the year in which revaluation shall be made). In 2022, amounts included in different articles of Income Tax Law has been increase at a rate of 36,2%, which is revaluation rate.

Certain limits regarding employees and their Income Tax Law tariffs in 2022 are as follows:

Payment Type	Amount (TRY)
Meal ticket	34,00
Transportation support (Transportation card)	17,00
Daily domestic allowance (E.g. for those having a gross monthly wage between 4.702,30-5.361,54 TRY in 1.1.2022-30.6.2022 period)	71,00

Income bracket	Tax rate
Up to TRY 32,000	15%
For TRY 70,000; for the first TRY 32,000, TRY 4,800, for above	20%
For TRY 250,000; for the first TRY 70,000, TRY 12,400, for above	27%
For TRY 880,000; for the first TRY 250,000, TRY 61,000, for above	35%
For more than TRY 880,000, for TRY 880,000, TRY 281,500, for above	40%

Based on the above table, it is observed that income bracket of income tax tariff of our country is quite narrow. We are of the opinion that such brackets should be wider against bracket creep. As a result, application of principle of equity and fairness of our Constitution can be ensured.

Why is tax support compulsory for wage hike based on inflation?

CPI has increased at a rate of 35,64% compared to December 2021 and at a rate of 73,50% compared to May 2021 while D-PPI has increased at rates of 51,43% and 132,16% compared to December 2021 and May 2021 respectively according to May 2022

statistics of Turkish Statistical Institute. Therefore, exceptions and exemptions applied to certain payments made to employees in 2022 have fallen behind the inflation increase rate and lost their advantage. Such situation negatively affects both the employers and also the employees (especially).

Employers have commenced to provide improvements and additional benefits to wages of their employees in order to protect their income against the inflation (to protect real wage levels). However, such improvements/increase do not have impact on income of employee or increases cost of employer due to “bracket creep” mentioned above.

As it is seen in the table below, bracket creep affects the parties depending upon the employment agreement between employer and employee.

	Net wage agreement (+ /-)	Gross wage agreement (+ /-)
Employer	<ul style="list-style-type: none"> - Increase in expense and cash outflow due to increase in income tax withholding (-) - Severance pay increase (-) - SSI gross income increase (those below the cap) (-) 	- Neutral
Employee	<ul style="list-style-type: none"> - Exceeding annual declaration threshold due to increase in gross wage (-) - Severance pay increase (+) - SSI gross income increase (those below the cap) (+) 	- Decrease in net wage due to income tax withholding in gross wage (-)

+ Positive, - Negative

Therefore, “exception, exemption and tariff” in tax legislation is more frequently updated in order to protect additional improvements made to employees and not to generate additional costs on employers. Otherwise, improvement attempts will not provide intended impact on purchasing powers of employees.

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