



TAXATION OF THE RICH: THE ISSUE REVISITED WITH THE LAST PANDEMIC

ZENGİNLERİN VERGİLENDİRİLMESİ: SON SALGINLA TEKRAR GÜNDEME GELEN KONU

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ABSTRACT

The pandemic, which has been experienced by the world since last year, has caused a serious global economic slowdown. As this slowdown accelerated the search for new public resources to eliminate the economic problems, it reminded the taxation of the rich again. The study attempts to analyze this taxation, which is one of the most debated issues attracting public attention nowadays. Although main principles are set by the governments to maintain efficient tax implementation on the rich, various legal and technical problems are experienced. To eliminate these problems, many studies have been carried out by scholars, meanwhile, various legal arrangements have been prepared by governments as reform endeavors. These intense practices about the topic show that problems experienced by tax authorities are nearly the same both in the developing and developed countries. Considering these common problems, overall, the findings of this study are fourfold. First, the taxation of the rich is a global phenomenon. Second, the progressive tax, which is a frequently proposed tool of rich taxation, can be a problem in terms of saving and investment rates. Thirdly, the elimination of tax evasion and tax avoidance can be more effective than the high rate of taxation to increase public revenue. Finally, digital transactions, which have gained increased importance with the pandemic, should be taken into consideration instead of levying heavy taxation of the rich.

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ÖZ

Dünyanın geçtiğimiz yıldan bu yana deneyimlediği salgın, ciddi boyutta küresel ekonomik yavaşlamaya neden oldu. Bu yavaşlama, ekonomik sorunları ortadan kaldıracak yeni kamu kaynaklarının aranmasını hızlandırdığı için zenginlerin vergilendirilmesini tekrar hatırlattı. Çalışma, günümüzde kamuoyunun dikkatini çeken, çok tartışılan konularından biri olan bu vergilendirmeyi analiz etmeye çalışmaktadır. Zenginlerin vergilendirilmesinde etkin vergi uygulamalarını sürdürmek için temel ilkeler devlet tarafından belirlense de konu hakkında yasal ve teknik anlamda farklı sorunlarla karşılaşmaktadır. Bu sorunları ortadan kaldırmak için akademisyenler tarafından yapılan birçok çalışmanın yanı sıra hükümetlerce de yasal düzenlemelerle ilgili çeşitli reform girişimlerinde bulunulmuştur. Yapılan bu yoğun çalışmalar gösteriyor ki, vergi otoriteleri tarafından yaşanan sorunlar hem gelişmiş hem de gelişmekte olan ülkelerde neredeyse aynıdır. Söz konusu ortak problemler göz önüne alındığında, genel olarak, bu çalışmadan dört farklı sonuç çıkmaktadır. Birincisi, zenginlerin vergilendirilmesi küresel bir olgudur. İkincisi, zenginlerin vergilendirmesinde sıkça önerilen uygulama olan artan oranlı vergi, tasarruf ve yatırım oranları üzerinde sorun oluşturabilir. Üçüncüsü, kamu gelirini artırmak için vergi kaçakçılığının ve vergiden kaçınmanın mümkün olduğunca ortadan kaldırılması, yüksek oranda vergilendirilmeden daha etkili olabilir. Son olarak, zenginlerin yoğun vergilendirilmesinden daha ziyade, salgınla birlikte önemini artıran dijital işlemler, vergilendirmede daha çok dikkate alınabilir.

Keywords: Richness, Taxation of the Rich, Measurement of Wealth, Well-being.

Anahtar Kelimeler: Zenginlik, Zenginlerin Vergilendirmesi, Varlığın Ölçümü, Refah

INTRODUCTION

Tax payment is a legal obligation but everyone wants to refrain from this duty, particularly the wealthy as their payments are in significantly higher amounts. This causes erosion in the revenues, namely, the collection of fewer tax revenues than the actual amount to be gathered, additionally, ineffective, and unjust tax administration. To eliminate these problems, many policymakers propose to raise taxes on the rich via extensive audits on their revenues and wealth items. They claim that these implementations lead to income equality. However, opponents argue that this increased tax can harm investment and saving rates. This downward trend in the investment level paves the way for slower economic growth. Additionally, more creative methods of tax avoidance can be found by the taxpayers (Wessel, 2019). In this case, while an increase in revenue is expected, similar tax erosion can be experienced again.

Put forward as the main argument in the taxation of the rich, justice is a subjective concept; it varies from person to person or from society to society. Since the judgment of the term is determined by religion, ideology, tradition, and custom, its evaluation will

be shaped by these sources and the term may create confusion. Additionally, justice and equity in taxation is the other source of this confusion. While equality in taxation means the equal treatment of taxpayers, justice is a broader concept and includes equality as well. These ambiguities cause different interpretations. For instance, according to Wagner, the taxpayers should pay tax in direct proportion to their incomes to create tax equity and this principle can be achieved by a flat-rate tax. Other scholars claim that since the increase in payment ability is faster than the increase in income, the progressive tax rates should be adopted to arise equity (Güran, 2004: 243-246).

Horizontal and vertical justice are other sides of the issue. Horizontal equity means that the taxpayers having the same income should pay the same amount (Cordes, 2005: 183), and vertical equity means that the taxpayers having greater ability to pay should burden the larger amount of tax. Thus, vertical equity requires richer taxpayers should pay more than poorer taxpayers (Mankiw, 1998: 250). As for today's market realities, in addition to paying taxes, the riches have important functions in an economy like creating employment or contributing to the growth of a country. Therefore, the determination of taxes without damaging these functions is another debate.

The subject especially comes up with economic crises since combatting crises requires enduring extraordinary expenditures and collecting additional revenues. Although the sources of these additional revenues are changeable from country to country, the rich are determined as the first one in nearly all countries. As known, the policies implemented during a crisis focus on pragmatic and short-run solutions to economic matters. Therefore, the long-run adverse effects of these policies are generally underestimated. The crises have demonstrated that these short-run solutions can be highly detrimental for the future economic composition; increasing tax on the rich can lead to rapid capital outflow and deterioration of the macroeconomic variables.

Despite these well-known conclusions of crises, the pandemic has different characteristics. Although nearly all sectors are affected by this pandemic, some sectors (especially ones related to the digital arena) have increased their revenues. However, the lack of comprehensive and sufficient international legal regulations regarding digital platforms has caused governments to apply the most known tax sources such as taxation of the rich, so the debates on the issue are likely to continue in the coming days.

Considering these current debates, this study will discuss the issue in terms of its definition, characteristics, optimal rate, and applicability. Motivated by these attributes, the remainder of the study is organized as follows: Section 1 provides a background about the origin, meaning, and determinants of richness. Section 2 lays out the economic importance of being rich. Section 3 focuses on the fair and efficient tax implementation on the rich. Sections 4 and 5 explain the tax enforcement on the rich in the European Union (EU) and Turkey respectively. Finally, Section 6 clarifies the general evaluation of the pandemic and justifications about the taxation of rich; the final section concludes.

1. ORIGIN, MEANING, AND DETERMINANTS OF RICHNESS

Richness is generated by an excess of income over expenditures. This means that earned income is used firstly to cover consumption needs and so the remaining part of it is saved or invested in wealth-creating items like buying a house. Yet, according to some writers, richness cannot be generated by the earned income; it can be formed over a long-time period thanks to the transmission of wealth from one generation to another via inheritance. (Semyonov and Lewin-Epstein, 2013: 1135). Therefore, if some people attract attention with their financial advantages over the others, these people are called rich.

The definition of richness can be possible but the determination of the rich is a multidirectional issue and identified by a selected measure. According to the theoretical consideration, annual income, annual consumption, lifetime income, lifetime consumption, or wealth are appropriate indicators to this measure. However, every indicator has different problems. For example, only a determined period like a decade of consumption or income can be a clue for richness because of the lack of data about peoples' lifetime income or consumption figures. Otherwise, annual income can be the appropriate data for the identification, but it can be misleading because of two reasons. The first reason is that any person can earn an unusually high income in a selected year. Additionally, if capital gains' realization is included in this income, the conclusion about richness can be wrong. The second reason is that the income of a person can increase with this individual's age. Examination of richness on every year of the person's income can overstate the lifetime income of this person again.

According to studies, the highest average revenue has obtained the ages between 45 and 64 (Slemrod, 1998: 4) so the relationship between age and richness is not linear. Although obtained income can increase with the age, the pick of it is around the time of retirement, after this time, it can decline frequently (Semyonov and Lewin-Epstein, 2013: 1135).

Wealth can be a useful indicator because it does not fluctuate. However, it can misclassify high-income families as non-affluent. As for annual consumption, it can be less related to fluctuating income as the consumption can be smoothed during the high or low-income periods. If consumption depends on permanent income, it can be an ideal indicator (Slemrod, 1998: 5-6). Because of these various deficiencies of the measures, many researchers focus on the topic and the complexity of the matter pushes governments to find new determinants. As seen as a more practical measurement, the arbitrary cut-off values are discovered. According to this approach, income is divided into some thresholds like the ones having \$1 million and more called high-wealth individuals or \$30 million earning called ultra-high-wealth individuals (Buchanan and McLaughlin, 2017: 5).

2. ECONOMIC VALUE OF BEING RICH WHEN DESIGNING TAX POLICY

Tax policy is an important driver for sustainable development and addresses the most stringent challenges of the modern era (OECD, 2019: 8). Considering encouragement of investment and job creation, correction of the inequalities, protection of the environment, the achievement of social mobility, and maximum compliance, and the effective management of the policy requires assessing the key points of the fair system (European Commission, 2018: 19-22). Therefore, the duty of a government is to make the tax rates more acceptable in order to realize these objectives. Especially, voluntary compliance is highly effective to collect expected revenue. However, many people do not pay taxes and try to escape from this obligation. At this point, the investigation of the taxpayers is important, especially the specification of rich ones is critical as a significant part of the revenues come from them. Thus, being rich is an indicator to increase tax revenues because it reveals where the money stands. However, the taxation of the rich is a robust debate because it is related to tricky legal and technical matters (Bernstein, 2019).

As the taxation of the rich is a topic coming before the public frequently, the opinion that the rich should burden more taxes than they pay seems to gain importance recently. The reasons for this opinion are the necessity of fiscal consolidation rooting from the 2008 crisis, increasing income inequality, and the downward trend of top marginal tax rates, especially the notion that effective tax rates become excessively regressive (Landier and Plantin, 2016: 1186). Besides these reasons, the last pandemic has revived this issue because of the need for additional revenue. Therefore, many governments attempt to determine the rich people. One of these countries is the United States of America (USA). According to the tax policy center in the country, nearly 9% of the households earn an income greater than \$200.000, and they also get approximately 45% pre-tax income. Additionally, the top 0.4% of households, nearly 700.000, have income above \$1 million in a year and get 13% of all pre-tax income (Wessel, 2019). These people' financial situation seems to be suitable for a tax increase in the USA.

Despite this plan on the tax increase, the updated tax cannot create the expected revenue. Surprisingly, the ascending tax rate can decrease tax revenue. This revenue loss is justified by tax avoidance and evasion. When there is an increase in the tax, while the poor evade taxation, the rich avoid it. Namely, while the rich ones can decrease the tax payment by legally implemented actions like aggressive tax planning, which can change the timing, amount, and nature of taxable income (Landier and Plantin, 2016: 1187) the poor ones do not prefer to work as their gains probably go to taxes. They directly reject these payments, although they have jobs.

Progressive tax can be chosen as a tool to collect additional revenues from the rich. This means that if a person earns more, he/she should pay a higher percentage relative to one earning less. Through this application, the tax increase is burdened by the rich, but the conclusion will be the same in terms of public revenue because these people find new methods to decrease their tax bases. Besides this revenue loss, the rise of the tax can also lead to capital outflows with the increasing attraction of so-called tax haven countries. The employment levels of the tax-increasing countries will decrease because of this capital escape. Thus, when a government decides a tax increase on the rich, its profound consequences on the future economic variables should be considered (Scheve and Stasavage, 2016: 3), and the issue should be handled according to its multidirectional consequences.

3. FAIR AND EFFICIENT TAX RATE IMPLEMENTATION ON THE RICH

While discussing the best policy for taxation, everybody talks about fairness. However, the definition of fairness is highly complicated. There are no standards to attain it because the understanding of the term is very different both across the world. (Scheve and Stasavage, 2016). Having a fair tax is not enough to achieve a properly functioning tax system. The main necessity is citizen compliance to obtain maximum efficiency from the system. This compliance requires convincing them of the justice. This belief is acquired when citizens trust their governments in terms of receiving enough taxes from the rich.

Generally, when fairness is mentioned, the equal treatment comes to our minds. This means that everybody should pay the same rate of tax. However, as for the rich, equal treatment means the high rate of tax levied on them because this tax will be payable by them easily. Fundamentally, in addition to equal treatment, there are two arguments for fairness by justifying the topic. These are the ability to pay and the compensatory principle. The support to taxing the rich firstly comes from the compensatory argument. The tax is known as the compensation of the inequality in government action. Otherwise, historically, the compensatory argument comes in two forms as offsetting other taxes in the nineteenth century and war sacrifice in the twentieth century. The meaning of sacrifice is that, during wartime, the poor people go to war while rich people pay the tax for this sacrifice. Secondly, "the ability to pay" is accepted by the majority and it was put forward in the sixteenth century as another argument. Progressive taxation comes from this argument (Scheve and Stasavage, 2016).

There is an argument advocating the indirect relationship between the high tax and investment. According to this argument, if the rates are decreased, the investment and employment level can be increased, and government can collect more revenue because of the ascending income of employed people. Although the public frequently sees this proposal as an excuse for the tax cut for the rich, this relationship was proved in the USA in the 1920s. Firstly, there were 209 people having tax payments for at least one million dollars in 1916. Yet, with the increased tax rate, the number of these people fell dramatically to 21 by 1921. After step-by-step tax cuts, the number of rich again rose to 207 by 1925. Additionally, the unemployment rate was reported to decrease from 4.2% to 1.8% between 1925 and 1928 because of tax reduction (Sowell, 2012: 1-5).

Despite this concrete data, the taxation of the rich with the progressive tax has been on the agenda in the USA. Until World War II, personal and corporate income tax, estate, and gift tax had been highly progressive in the USA. Additionally, the property tax was the highest in the world. Income tax fundamentally focused on profit and interest gain rather than income. Until the 1960s, the government had believed that progressive tax could stimulate investment and growth. However, the enhancement of the progressive tax had to be abandoned as there is no relationship between the two (Brownlee, 2002: 71-72). In 1996, \$11 trillion are paid by all kinds of Americans, and 27.2% of it comes from the household. This means, on average, 1/3 of worked day in a year is paid for taxes (Fled et al., 2000: 2). Because this rate was very high, people blamed the government to deduct the tax on the rich, and they demanded a new tax amendment for the rich.

Besides progressive taxation, another issue discussed is direct and indirect tax distinction. While direct tax is paid by the people like wealth tax, indirect tax is collected via an intermediary like the consumption tax. It is important to decrease indirect tax like consumption tax that can hurt mostly poor people to decrease any inequality in the system, because everybody needs the same items to live like soap or bread. The tax paid for these items is less felt by the rich. Therefore, the tax imposed on luxury items like precious stones or yacht can be increased to compensate for revenue loss. However, governments do not consider the injustice of indirect tax because they earn easier and faster income from this tax.

The governments rely on the voluntary compliance of taxpayers, and tax ethics are the driving force behind it to increase revenue (Çelikkaya, 2020: 66). Tax amnesties should be canceled, which are believed to be benefited by the rich to escape their obligations to raise this voluntary compliance. However, tax amnesties are on the agenda because of the governments' need for ready income during the last pandemic. Although governments aim to raise tax revenues readily, this execution will be the fundamental factor disrupting tax ethics in the future.

4. TAX ENFORCEMENT ON THE RICH IN THE EU MEMBER COUNTRIES AND ITS IMPLEMENTATION DURING THE LAST PANDEMIC

The EU implements mutual tax designs to reach an identical tax system and obtain more economic power. Despite these endeavors, the member countries have faced new problems that lead to a decrease in tax collection recently. These problems are summarized as increasing social spending with the aging population, collection of fewer revenues from labor gains due to the decreasing number of the young population employed, increasing mobility of capital with the technological advancement, social mobility of high-skilled staffs, and tax avoidance thanks to technological opportunities of the globalization. All the problems have forced the member countries to find new solutions to increase their revenues (Carone et al., 2007: 1).

Taxing the rich in the EU and demanding more tax from them have become more vocal lately to eliminate these problems. The tax has been supported by politicians due to different concerns like the increasing trend of governments' debt. In 2013, IMF announced that if the net wealth taxation increases by 10%, the debt can be reduced to the levels of 2007 in 15 Euro-area countries. Despite this proposed and executed policy by the IMF, limited success was obtained because of the implementation delay. As the topic has attracted public attention, different practices have been organized. Some of them implemented during the last decades can be summarized as (Iara, 2015: 2):

1. Economists and social scientists in Austria launched a calling in 2013 to re-organize a tax on gifts and inheritance, which was annihilated in 2008.
2. As wealth taxation has been put on hold in 2007 in Germany, this issue is frequently debated.
3. In 2008, the net wealth tax was abolished in Spain, yet it was re-arranged in 2011. The debate continues with analytical instruments made by the statistical institutions and the leading think tanks.
4. In France, the solidarity tax on wealth has been levied on the rich since 1982. Despite a decrease in 2012, its ratio on assets has been increased by 1.5% on assets.

5. The possibility of reducing the labor tax by increasing the wealth tax has recently been discussed in Belgium.
6. Wealth taxes, especially for residential properties, has been on the agenda in Italy.

As seen from the dates of these tax regulations, the discussions on the topic overlap with the 2008 crisis and the European debt crisis. The reason for this convergence is the dominant idea that if there are any financial difficulties, the rich should pay more tax because this tax has a fewer impact on them. However, when the ratio of property tax collected over the years to GDP is examined, no remarkable difference is seen in the proportional change of the property tax in the EU member countries.

Table 1: Property Tax Rates of European Union Member-Countries (2007-2019) Percentage of GDP

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Austria	0.554	0.522	0.525	0.525	0.508	0.554	0.723	0.597	0.571	0.548	0.525	0.545	0.539
Belgium	3.061	3.040	2.938	3.082	3.149	3.263	3.519	3.563	3.504	3.499	3.505	3.513	3.456
Czech Rep.	0.401	0.376	0.356	0.410	0.503	0.503	0.464	0.450	0.474	0.488	0.467	0.445	0.428
Denmark	1.812	1.905	1.825	1.849	1.887	1.779	1.803	1.820	1.908	1.829	1.799	1.828	1.892
Estonia	0.215	0.290	0.340	0.345	0.306	0.325	0.301	0.292	0.279	0.269	0.241	0.223	0.206
Finland	1.076	1.054	1.047	1.109	1.080	1.174	1.272	1.314	1.427	1.410	1.531	1.443	1.445
France	3.475	3.358	3.445	3.658	3.767	3.899	3.970	4.033	4.191	4.254	4.387	4.116	4.027
Germany	0.875	0.836	0.832	0.819	0.855	0.895	0.929	0.962	1.027	1.067	1.031	1.058	1.090
Greece	2.109	2.158	1.989	1.655	2.477	2.705	3.154	2.873	3.057	3.112	3.086	3.007	3.126
Hungary	0.789	0.848	0.813	1.144	1.118	1.217	1.284	1.277	1.257	1.092	1.053	0.979	0.954
Ireland	2.429	1.775	1.447	1.425	1.666	1.756	2.021	2.177	1.491	1.414	1.296	1.320	1.264
Italy	2.022	1.786	2.599	2.013	2.189	2.687	2.721	2.880	2.795	2.775	2.547	2.544	2.449
Latvia	0.864	0.634	0.706	0.874	0.972	0.963	0.968	1.042	1.006	1.071	1.039	0.948	0.928
Lithuania	0.287	0.272	0.351	0.367	0.310	0.285	0.277	0.297	0.339	0.327	0.305	0.302	0.300
Luxembourg	3.481	2.713	2.532	2.644	2.573	2.700	2.787	2.921	3.293	3.416	3.635	3.854	3.809
Netherlands	1.674	1.529	1.387	1.372	1.216	1.081	1.224	1.431	1.416	1.520	1.556	1.569	1.470
Poland	1.441	1.425	1.343	1.319	1.282	1.334	1.395	1.394	1.369	1.376	1.362	1.313	1.275
Portugal	1.302	1.191	1.086	1.077	1.105	1.051	1.118	1.230	1.284	1.282	1.356	1.401	1.381
Slovak Rep.	0.388	0.366	0.417	0.407	0.402	0.430	0.440	0.434	0.420	0.429	0.427	0.412	0.401
Slovenia	0.588	0.564	0.578	0.610	0.592	0.625	0.636	0.619	0.620	0.630	0.643	0.604	0.622
Spain	2.988	2.308	2.031	2.067	1.957	2.123	2.377	2.517	2.585	2.570	2.525	2.517	2.431
Sweden	1.091	1.015	1.026	1.022	0.980	1.003	1.077	1.050	1.029	1.048	0.983	0.949	0.940

Source: OECD (2021), for further info: <https://data.oecd.org/tax/tax-on-property.htm>

As for the taxes of the EU countries, current tax forms are substantially different according to their direct and indirect tax structure. For example, Denmark implements the highest share of direct tax and this tax composes 65.4% of total revenue. The country is followed by Ireland, Malta, Sweden, Norway, and Iceland. However, several member states implement a lower level of direct tax and many of them focus on a flat rate that triggers a stronger reduction in this tax. These low levels of direct taxes are balanced by the high rate of indirect tax (European Commission, 2019: 18).

Besides their different tax composition, the proportion of the rich taxes to the revenue are limited in the EU-member countries. This reality is seen from the statistical data. For example, among the taxes on wealth, the ones levied on real estate and land are known as the most important items that can create revenue. Although the taxes applied such as real estate transfers and possession taxes have increased approximately by 3% of total state revenue in the EU countries, this figure nearly equals 0.85% of GDP in 2012. Moreover, inheritance and gift taxes compose about 0.27% of GDP and 0.6% of total revenue. This limited revenue shows that low taxes are obtained when assets pass over to close relatives. Therefore, taxes on wealth compose about 0.5% of total revenue, namely, 0.17% of GDP on average. This relatively low figure represents the relatively narrow base of the wealth taxation (Iara, 2015: 8) although executed studies explain that highly reliance on wealth tax like inheritance and gift tax is more growth-friendly than the labor tax and other forms of capital taxes (European Commission, 2018: 69).

Because of this low level of rich taxation, there is growing inequality and a sense of injustice in the EU borders. A social deterioration has emerged as the public services have been realized by the taxes obtained from less powerful individuals in recent decades. The main reason for this deterioration is the rising tax avoidance executed by the rich. There are three dimensions of this tax avoidance implemented as cross-border and they can be listed as (Sawulski, 2020: 7-21):

1. According to the fundamental principle, the tax is paid in the country where the profits are produced. However, not all countries comply with this rule. Artificial profit shifting via multinational companies between countries is widespread and this disrupts corporate income tax (CIT) revenue in the EU. On average, the members lose 13% of their CIT

revenue, nearly €60 billion in a year. Some of the members benefit from this implementation, and they are called the EU tax havens like Netherlands, Ireland, Belgium, Luxemburg, Malta, and Cyprus.

2. Due to the opportunities that come with globalization, it is much easier for taxpayers to make and transfer their investments abroad. According to the 2016 data, the estimated value of this wealth is €1.5 trillion, and this equals nearly 10% of the EU-area GDP. Germany, France, and Italy are the countries known as having offshore wealth citizens.
3. The member states lose significant revenue because of VAT frauds and insufficient VAT collection. This loss is calculated as the VAT gap that is the difference between the collected VAT and the theoretical amount of VAT revenues. On average, the VAT gap equals 12% of the theoretical VAT revenue in 2017, and this amount equals a loss of €137 billion. This gap is over 20% in Romania, Greece, Lithuania, Italy, and Slovakia.

Despite this broad dimension of tax collection problems of the rich, the authorities continue to work, to eliminate obstacles and to ensure free trade in Europe. The member states cannot implement their tax systems in isolation from each other because goods, capital, services, and companies can move freely from one country to another easily in European borders like the people's movement. Consequently, problems arising from the taxation of the rich on the EU border could be significantly reduced through actions to be taken together.

The need for joint action has been on the agenda of today's governments with the last pandemic because a significant increase in public expenditures reminded them to tax the rich. The collection of this tax is determined by tax authorities, academics, and policymakers to be fairer than income or consumption taxes. The rising income inequality with the pandemic strengthens this argument. One-off tax for the rich is a solution according to them. This tax is expected not to cause any discouragement in economic activity. Tax is planned to include some items including homes, businesses, and financial wealth (BBC, 2020), and recommended by IMF to decrease government burden and the risk of the debt crisis (IMF, 2020: 22). Despite the availability and implementation of the vaccine against the virus nowadays, the quarantine practices are executed in many countries, and this execution extends the economic slowdown. The EU member countries are planning stimulus packages including tax discounts

to eliminate this slowdown. With the abolition of these practices, the economy will recover day by day and the total cost of the pandemic will appear in their budgets. This cost will probably be covered by taxing the rich in the EU.

5. TAX ENFORCEMENT ON THE RICH IN TURKEY AND ITS IMPLEMENTATION DURING THE LAST PANDEMIC

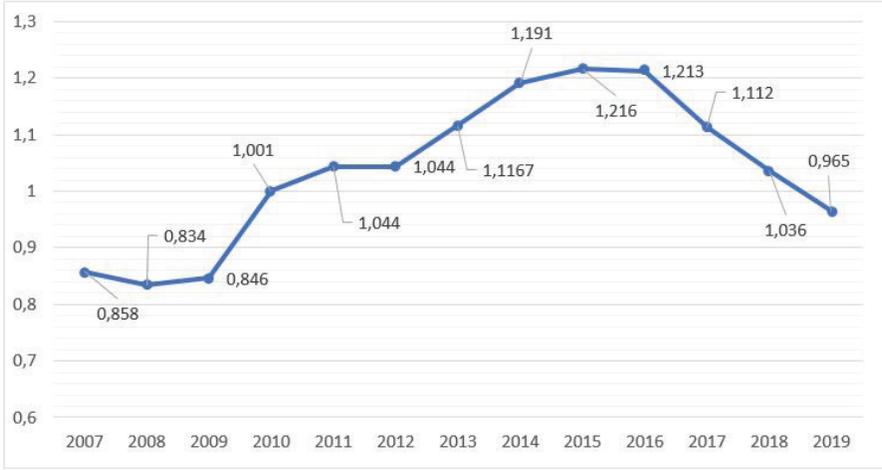
As one of the developing countries of the world, Turkey has many objectives like strengthening the formal economy, reducing the unemployment level, reinforcement of the labor force, eliminating poverty and income inequality (Aytaç, 2015: 146), as well as fulfilling the necessities of social state. Of course, the achievement of these aims requires adequate public revenue depending on a properly working tax system. However, Turkey has gone through some economic problems over the years. Especially, from 1985 to 2002 the dead-end cycle that is among public deficit, public borrowing, and the high-interest rate was witnessed in the economy (Yılcı et al., 2020:123). The country had to resort to tax to eliminate the negative consequences of these problems. As the tax obtained from the rich is mostly remembered as a rescuer of crisis, taxation of the rich has been a fundamental topic. However, as the tax is known to be temporarily collected as a one-off tax, its solution has been tentative. The implementation is not enough for the elimination of the problems, eventually, a constant tax update for the rich has become a discussion. Moreover, progressive taxation, tax avoidance, and evasion, low rate of tax levied on the rich (Karayılmazlar and Güran, 2015: 141), the inefficiency of audit, injustice in taxation, insufficient tax morality, and awareness are other issues discussed along with taxation of rich (Savaşan and Odabaş, 2005: 1).

As any increase in the tax is known to cause more tax avoidance, the intense implementation of tax avoidance by the rich is discussed in Turkey. The government has strengthened tax audit to eliminate this problem. However, the image of the lower rate of rich taxation has been a phenomenon in the eyes of the public because one of the frequently used methods for economic growth and development is tax deduction in Turkey. Although this method accelerates the capital inflow from foreign markets to the national economy and positively directs domestic investments, the idea that this method is aimed at reducing the tax on the rich is widespread among the public. This idea is supported by

the decrease in the top rate in income. The rate was decreased from 55% to 35% in the 2000s and corporate tax decrease from 46% (1993) to 20% (2007) (Armağan, 2007: 229-233).

The tax burden should be calculated mathematically as the proportion of tax revenues to GDP to understand the tax features and effects on the people in Turkey. The studies scrutinizing this tax burden reveal that Turkey is an economy having a low tax burden, and this tax burden is mainly based on the indirect tax (Eğilmez, 2012). This tax deteriorates the income distribution. The research carried out by the Government Statistical Institution in 1994 that includes 26.256 households (18.264 urban and 7.992 rural households) shows that the share from the total usable income for the richest of 20% was 49.94% in 1987, and this rate increased to 54.8% in 1994. However, the share for 20% of the lowest income group decreased to 4.86% from 5.24%. 60% of lower and middle incomes decreased from 28.91% to 26.1%. Accordingly, considering the 60% household group at the lower- and middle-income levels, the dimensions of the distortion in the income distribution are seen more clearly on these dates. Therefore, the impoverishment process in the lower- and middle-income groups was seen to be accelerated. This means that while the rich get richer, the poor get poorer as the income shares of the richest 20% were above the total income of remain 80%. Gini coefficient, which is the most important indicator of income inequality, increased from 0.43 in 1987 to 0.49 in 1994. These figures find out income distribution was worsened from 1987 to 1994 (Yüce, 2002: 9-10).

Nowadays, the government tries to realize income transfer from rich social segments to poor layers through different tools that are direct or indirect to eliminate the problems arising from the rich taxation and to collect additional revenues for the financing of the pandemic. In addition, the government enforces many taxes to regulate revenue collection for this purpose. One of them is the tax levied on valuable housing. The tax is planned to levy on the people having the buildings that have a tax value of qualified residential immovable property located within the borders. The specified value of the property is determined 5 million and over for the collection of this tax. With this application, the government takes a new step regarding rich taxation. When the ratio of property tax to GDP over the years is examined, the proportional change of the property tax in Turkey is evaluated from Chart 1.

Chart 1: Property Tax Rates of Turkey (2007-2019) Percentage of GDP

Source: OECD (2021), for further info: <https://data.oecd.org/tax/tax-on-property.htm>

Despite the fluctuation between 0.83% and 1.22%, the implementation of the rich taxation in Turkey seems to focus on wealth taxation or valuable housing tax. The main problems of the country's taxation are tax amnesties, which are generally enjoyed by the rich, and tax avoidance. Especially, constant implementation of these amnesties decreases tax justice in the country and encourages rich people not to pay their taxes on time. On the other hand, middle- and low-income families, who pay their taxes timely, lose their trust in tax administration and look for a way to evade their payments.

After the financial volatility experienced in 2018, when the highest level was reached by the global slowdown, the country's economy entered the process of stabilization, but the pandemic has deteriorated the balanced economy (Eriçok, 2020: 35). Because of the necessity of lockdown, the economic outlook has been in danger. The government has implemented stimulus to ease the economic burden of the businesses. However, this stimulus has increased the budget burden. Depending on the duration of the pandemic, this burden can increase, and the budget will be covered with the tax increases in the future. Thus, different legal arrangements of the taxation of the rich are being expected to be on the agenda during the next months.

6. GENERAL EVALUATION OF THE LAST PANDEMIC AND THE DISCUSSIONS ON THE TAXATION OF THE RICH

At the beginning of 2020, nobody could have predicted that an unprecedented pandemic would occur. However, it has caught the world socially and financially unprepared. The governments have had to take severe measures that included strong restrictions on social and economic activities via lockdown. While the governments have had to implement these measures quickly, they have known very well that keeping people at home would prevent economic activity (Çoban, 2020: 106). They have also known that with the decreasing trend of the pandemic, the market will revive but there will be a need for serious tax increases to compensate for diminishing revenue. This is a precursor for the discussion on the taxation of the rich.

According to the OECD (2020), the financial measures to be implemented can be divided into four periods to eliminate and manage the negative circumstances resulting from the pandemic. Thanks to this periodic separation, the governments can evaluate their performance during each period individually and redesign their measures according to the current period and new conditions. These separated periods are:

- the measures for the onset of the crisis;
- the measures for the transmission;
- the measures for the recovery from the disease; and
- the measures for the correction of the deteriorated financial structure.

While the first and second periods require an absolute and significant tax deduction, the third period calls for austerity policies to be implemented with a slight tax increase. However, serious austerity measures are expected to be executed to compensate for revenue loss during the last period. This requires formalizing the economy, bringing more people into the tax system, extra performance for the elimination of tax avoidance and tax evasion, increasing the property tax, and improving the personal income tax of the rich (OECD, 2020: 44).

Many countries are discussing one-off tax, including property, saving, investments, private pensions, and vehicles nowadays. Meanwhile, the opponents are declaring their concerns about this tax because of capital

outflows. According to them, probably, investors can seek shelter to their assets and relocate their wealth, to avoid their tax payments. There are also many controversies about whether this tax is ethical or not. It cannot be considered logical to levy new taxes on the rich as there is always a need for investments to stimulate the economy (O'Donovan, 2020).

The proponents argue that the virus has equalized all the people in the world because it has not separated the social status and affected people in every class. Therefore, rich people and poor people have died. However, the social and economic impact of the crises on the citizens is miscellaneous. The rich ones have spent their time in comfortable homes with special gardens, even second private homes, and done their jobs. These jobs have allowed for remote working and provided social security for them. On the other hand, poor ones with daily financial necessities have remained in their small apartments by waiting for support from the government (Markovits, 2020). For the rich, the maintenance of their comfort requires getting rid of these financial troubles shared by the poor. Thus, the rich should cover the cost of these troubles, and their taxation is fair.

Despite these debates, it is still a mystery when the pandemic will stop or what it will cost. The pandemic is expected to trigger three different crises: the pandemic itself; the global recession that is supposed to be greater than the great recession in 1929; and new geopolitical tensions. However, the certain thing is that all countries will struggle with the soaring public debt, so there will be more austerity measures in the future (Mason, 2020). These measures will require more public revenue. Despite opposing views, it is an inevitable obligation to increase any tax that can be levied on the rich. Furthermore, this obligation is valid for both developed and developing countries. To clarify the issue, it is essential to analyze the economic conditions of the last crisis that was experienced by the world.

The countries that faced the crisis between 2008 and 2009 had to raise their expenditures to eliminate the negative circumstances. These additional expenditures led to an extra debt burden on the budgets and triggered a new crisis arising from the European countries. The answer to the question of why not every country encounters this debt crisis is the fiscal space. The countries having fiscal space before the crisis appear to be affected by the crisis at a minimum level. Therefore, we cannot expect every country to be affected to the

same extent by the pandemic. Although the issue of taxation of the rich comes to the agenda in every country, their planned tax share in the general tax rates will be different. Although this tax seems to solve some problems in the short term, it will also lead to serious tax frauds. Since invisible ties interconnect the economies of the country, the damage of one country's economy will spread to the economies of other countries. Necessary precautions should be taken at an international level to prevent this conclusion. Namely, although it is not possible to expect that all countries will develop a common tax policy on the taxation of the rich, it can be possible that these countries will unite around a common framework to prevent tax frauds.

Countries without fiscal space will apply a mandatory tax increase. However, the countries accepting the supply-side economics approach, which adopts economic growth with less tax on investment and enterprises, will not approve this increase. Despite this mentioned approach, the importance of short-term financing of the budget will not prevent the taxation of investments and enterprises. The focus will not be on economic growth, but on sustainable public financial management in the short run. With this management, it can be more rational to reduce the growth targets.

CONCLUSIONS

The payment capacity of people should be considered, and tax should be proportional to the financial situation of individuals to implement a fair tax system. That reminds us that the rich should pay more taxes than the poor should. However, the high proportion of tax levied on the rich is not applicable because of the different legal and technical problems. With globalization, progressive taxation, or a high level of tax on the rich lead to many problems in the economy from the increasing unemployment rate to the decreasing investment. Several actions and law enforcement have been proposed in the last years to eliminate these problems but their impacts are questionable. For example, the EU created a blacklist of tax havens to raise tax revenue collected from the rich, and they imposed sanctions on them. However, these tax haven countries still exist today.

The taxation of the rich has always been one of the main issues discussed in the evaluation of the wealth criterion. As it is discussed in every crisis, the issue is on the agenda with the last pandemic. Governments are discussing the implementation of new taxes for the rich to reduce the negative consequences of the pandemic. While some people advocate the tax as fair, others refuse it because of its possible unfavorable effects on economies. Therefore, this tax should be investigated and re-arranged thoroughly. Its possible consequences should be considered at an international level because of capital outflow, and the execution of the rules determined by the inter-governmental level should be applied properly.

The countries should review their growth targets for the next few years and downsize these targets. Since a pandemic experienced by such a large mass has not been seen in the modern age, the reduction in the growth figures should not be perceived as a failure.

In addition to its devastating consequences, the pandemic also offers new opportunities to review the tax system. Digital transactions can be investigated because of the noticeable increase in online shopping. If people meet their daily needs by reducing them to a single area like supermarkets or online shopping, income growth and wealth would arise in this new field. Therefore, the segments that increase their wealth due to any innovation brought by the pandemic can also be taxed. Additionally, a new interaction method, which shifts from face-to-face to online, has been invented. The firms or/and ones creating and serving this technology can be taxed. Fiscal space should not be underestimated. Considering the contagious economic crises, fiscal space should be created during the welfare periods.

The policy recommendations of the study are that governments should simplify their tax legislation, provide special assisting services to the taxpayer, reward the taxpayers, who pay their tax on time, and avoid tax amnesty in order to increase tax compliance. As the pandemic reveals that international problems require international measures, a need for the establishment of a common platform is a reality. This is especially important for the taxation of digital goods and services, taxation of the rich, and the prevention of tax fraud.

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