Global Transformation in Taxation: Wealth Taxes in the World and Turkey

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Abstract

Taxes are the most critical income item at the point of public finance. Indirect and direct tax discrimination is a classification of taxpayers who are exposed to taxation. Furthermore, in terms of determining the payment power of the taxes; income, consumption, and wealth. The theme of the study is the taxation of wealth and wealth, which is a static concept. In essence, all taxes are collected by the taxpayer's income. Because the individual accumulates wealth by saving their income and, on the other hand, individuals spend with their incomes. In this respect, wealth tax differs from other tax types in structure. Besides, the purpose of putting wealth taxes is social, not financial. For this reason, wealth taxation is also being discussed and discussed at a point of social justice. As it is known, wealth taxes are taken in our country as Motor Vehicles Tax, Property Tax, and Inheritance and Gift Tax. First of all, the concept of wealth and wealth tax will be explained, and the situation in Turkey will be explained. In the second part, examples of wealth taxes in the world will be examined, and positive and negative opinions and applicability will be tried to be analyzed about the "global wealth tax". As a result, today, taxation focuses on wealth.

Keywords : Wealth, Wealth Taxes, Turkey, France, Inheritance, and Gift Tax.

JEL Classification Codes : D31, H20, H71, K34.

Introduction

The state has the authority to tax under legal algebra for the financing of public needs. The basis of this authority lies in the power of sovereignty (Nadaroğlu, 2000: 230). In other words, on the basis of the sovereign power, the state collects tax by force and unrequitedly (Erginay, 1990: 30; Öncel et al., 2012: 33; Uluatam, 2009: 257). As it is known, taxes are considered as the most important of modern state revenues. In general it is possible to define the tax as follows: Is a compulsory financial obligation -taken as mandatory and had not a direct promise of provision-, which is taken directly by the state or by some other public legal entity based on delegated authority, from individuals or legal entities, or even from some institutions that do not even have a legal entity.

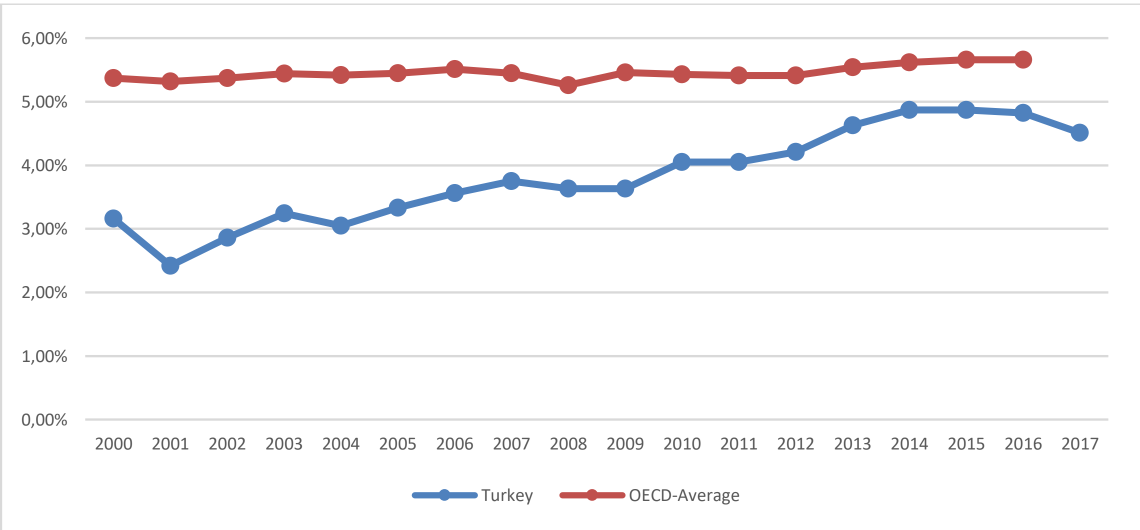
In the study, firstly wealth taxes are described in general, and its applications in Turkey is examined. Inheritance and Gift Tax, which is widely debated in our country and is continuously on the agenda with abolition, will form the core of this section. In the second part, the practical examples of the wealth taxes, which are seen as a result of the transformation between taxes in recent years and whose weight is felt, is discussed with the help of statistical data and projections. Then, the global wealth tax, which came up with Thomas Piketty's Capital (2013), is discussed specifically in France and supportive and critical views about global wealth tax are tried to be put forward. Finally, due to the justice criteria in taxation, the situation analysis is made by considering the positive and negative aspects of wealth taxes.

Wealth Taxes: Conceptual Framework and Situation in Turkey

Wealth is a broader concept than capital because the conditions such as participation in production and income generation in the capital are not sought in the element of wealth. For example, although a precious painting or fur is an element of wealth, it is not capital because it is not an economic element. In essence, wealth consists of accumulated income (Nadaroğlu, 2000: 337).

The notion of wealth began to gain importance with the existence of private property. When Robert Jacques Turgot (1727-1781) was elected as finance minister in France, his first attempt was to reform the tax system by taxing wealthy landowners (Kishtainy, 2012). After this reform initiative in 1776, the aristocrats reacted to Turgot's idea, and he was removed from power (Kishtainy, 2012). As it is seen, wealth is a sensitive phenomenon on individuals due to its structure.

Graphic: 1 - Share of Wealth Taxes in Total Tax Revenues (%)



Resource: OECD Data 2018, <https://data.oecd.org/tax/tax-on-property.htm>, 27.08.2019.

In Graphic 1, which takes place in Turkey and the OECD average, it is seen that the ratio of wealth tax in total tax revenues. In Turkey, the share of tax on wealth in total tax revenues as of 2000-2017 years was below the OECD average. The share of wealth taxes has continuously increased since 2004. In Turkey, while taxes on the wealth created 4.63% of total tax revenue in 2013, the OECD average was realized as 5.54%. While in Turkey this rate was 4.87% next year, while the OECD average remained at 5.62% level. The share of taxes on wealth in total tax revenue in the OECD did not change much over the years examined and was generally around 5.5%.

Wealth, although a static concept, refers to the stock status of assets (Öncel et al, 2012: 355). Wealth taxes are imposed to ensure tax justice. Also, taxes on wealth are nowadays used as a control mechanism (Tuncer, 1963: 157-158).

There are two types of taxes in wealth tax that have been of great importance in the past and applied in almost every country. These are Real Estate Tax and Inheritance and Gift Tax (Nadaroğlu, 2000: 354). "*Servet vergisi*" is used in Turkish, is "property tax" in English, and is "Imôt sur la fortune" in French. Although the exact words are not wealth, they mean real estate (Tuncer, 1963: 158-159). Therefore, the Motor Vehicles Tax is not included in the scope of the study, and it is evaluated in a briefly only within tax revenue. The subject of the study is Real Estate Tax and Inheritance and Gift Tax.

Real Estate Tax

The real estate tax has been discussed synchronously with the transition to established life in history and the emergence of private property. In the process of people moving from nomadic life to settled life, the taxation of land has also come to the agenda, as their primary business is farming and therefore land. The existence of real estate tax, which is known as one of the oldest taxes in history going back to Rome (Nadaroglu, 2000: 354), continued from the past to the present. The tax, which was previously taken based on ability to pay theory, is charged now because of its income generation and customary tax.

Real Estate Tax Law No. 1319 in Turkey consists of two main parts. The first part is organized under Building Tax, and the other is under Land Tax. Buildings located within the borders of Turkey, creating the subject of building tax (Real Estate Tax Law, Article 1), while land and parcels according to the Property Tax Law is subject to land tax. The land parceled by the municipality within the municipal boundaries is considered as land. However, it is determined by the President's decision whether the unpolluted land within or outside the municipal boundaries shall be counted as land according to this Law (Real Estate Tax Law, Article 12).

At the point of real estate taxpayers; the owner of the building, if there is the owner of usufruct right, if there is no both, those who can use the building as the owner is building taxpayer. Land taxpayers are the owner of the land, if there is the owner of usufruct right if there is no both, those who can use the land as the owner.

The building tax rate in Turkey is 1 per thousand for residences and is 2 per thousand for other buildings. This ratio is determined as 2 per thousand for residences and 4 per thousand for other buildings, within the boundaries of the metropolitan municipality. The rate of land tax is 1 per thousand. This ratio is determined as 3 per thousand for the plots. As with building taxes, this rate is 2 per thousand for land and 6 per thousand for a plot within the metropolitan municipality boundaries.

Low levels of real estate tax rates are also a problem in terms of revenue generated. Tax revenues from property tax are evaluated within the scope of Local Governments Consolidated Budget Revenues.

Table: 1 - Real Estate Tax Revenues (2014-2018)

	2014	2015	2016	2017	2018
Building Tax	3.563.560	4.232.363	4.893.059	5.050.759	6.475.820
Land Tax	1.367.201	1.584.322	1.759.226	1.682.413	2.134.820
Plot Tax	62.269	65.145	76.967	75.718	92.747

Source: Local Governments Consolidated Budget Revenues, <https://www.muhasebat.hmb.gov.tr/>, 27.08.2019.

It is observed that the real estate taxes collected by the municipalities have increased continuously in the last three years. It can be said that the tax rates have not changed but that the taxable residence and land have increased over the years. In 2014, the total amount collected within the scope of the real estate tax was TL 4.993.030, and this figure increased by 74.3% in 2018 and reached TL 8.703.387.

Inheritance and Gift Tax

Inheritance and gift tax, which constitute the focus of the study, are essentially two separate taxes. Inheritance tax is known as the tax that is taken from the deceased's assets by dividing into heirs or as a whole. The gift tax is applied to the transfers of assets acquired during the life of a person (Joulfaian, 1998: 4). From a historical perspective, inheritance and gift tax, a system dating back to the 7th century BC, fundamentally taxes the elements of wealth obtained unrequited.

If a person possesses some elements of wealth through inheritance, there is inheritance tax, but if a person acquires wealth through donation or some other means, there is a gift tax. Turkey in inheritance and gift taxes, a progressive tariff is applied.

All kinds of unconditional acquisitions are included in the scope of inheritance and gift tax. Accordingly, with the acquisition through inheritance, for example; other forms of acquisition such as donations, bonuses, lotteries are subject to tax.

As can be seen, the inheritance tax was introduced in order to prevent all kinds of unrequited transfers of wealth from being subject to tax (Yereli & Uçar, 2014: 63-64). With this tax, it is aimed to prevent tax evasion and to tax all kinds of unrequited transfers outside the inheritance (Karakoç, 1990: 6). However, the position of inheritance and gift tax within the budget is at extremely low levels, contrary to its attributed importance.

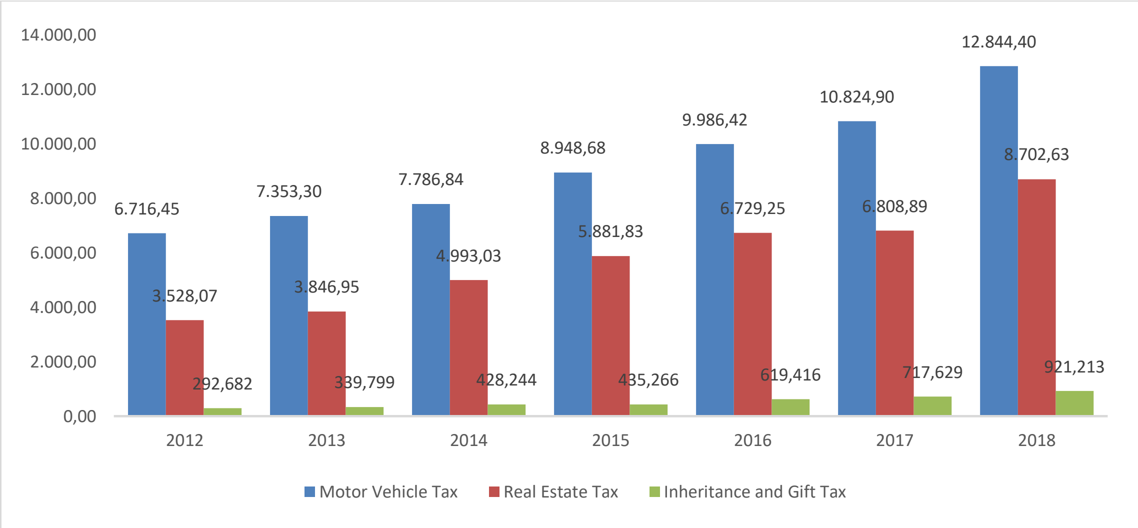
Table 2: Inheritance and Gift Tax Revenues (2014-2017)

Years	2014	2015	2016	2017	2018
Revenues (Thousand TL)	428.244	435.266	619.416	717.629	921.213

Source: Collection of General Budget Revenues, <https://www.muhasebat.hmb.gov.tr/>, 27.08.2019.

The share of inheritance and gift tax is meager among other wealth taxes in the Turkish tax system. Table 2 shows the collection figures of inheritance and gift tax for the last four years. Accordingly, although there has been a continuous increase in the mentioned years, the total tax revenue is quite low. However, especially after 2016, tax revenues related to inheritance and inheritance tax increased considerably. In this context, Graphic 2, which includes the collection of amounts of wealth taxes, better summarize the situation.

Graphic: 2 - Wealth Taxes Revenues by Years (2012-2018)



Inheritance tax on inheritance is actually a property tax. It is for this reason that the implementation of the tax is widely discussed throughout the world. Inheritance and gift tax in Turkey has been applied since 1926, and in this process, only sweeping changes were made with the new Law enacted in 1959. In today's conditions, it seems inevitable to go to a new regulation in order to eliminate the problems arising in the implementation of the Law and to make it useful. In this way, it can be expected that improvements will be reflected in the collection revenue over time. (Kılıçaslan, 2011: 344).

Wealth Taxes in the World

Wealth inequality is one of the most apparent problems in Europe and global politics. At this point, the fair distribution of income and wealth has been among the controversial areas since the first time the economy emerged. At this point, the size or measure of taxes on wealth is essential.

The wealth element in the world is gradually shifting and accumulating in financial markets. Financial assets must be recorded and coordinated the work of a global tax on capital. At present, most governments do not tax the stockpiles of taxpayers. Taxes are only the returns of these riches (Zucman, 2015).

People around the world try a number of ways in order to ensure that their wealth is not taxed. One of them is to bring their current wealth to countries where tax is not levied on wealth. Known as tax havens in the literature, these places have been widely spoken and attracted attention in recent years. In a study conducted in 2013, it was found that 8% of the world's total wealth is in tax havens (Zucman, 2015).

Table: 3 - The Number of Millionaires by Country (2017-2018)

Main gains	Adults (thousand) with wealth above USD 1 m				Main losses	Adults (thousand) with wealth above USD 1 m		
Country	*2017*	*2018*	*Change*		**Country**	*2017*	*2018*	*Change*
United State	16,472	17,350	878		Brazil	190	154	-36
France	1,888	2,147	259		Australia	1,320	1,288	-32
Germany	1,929	2,183	254		Sweden	368	348	-20
United Kingdom	2,189	2,433	244		Turkey	96	79	-17
Italy	1,161	1,362	201		Argentina	29	21	-8
China	3,294	3,480	186		Mexico	115	109	-6
World	**39,845**	**42,155**	**2,310**		**World**	**39,845**	**42,155**	**2,310**

Source: Credit Suisse Global Wealth Databook, 2018.

It is shown that movements of millionaires in countries as a result of cyclical situations. According to the 2016 Global Wealth Report data, Japan and America became the most preferred country of millionaires from 2015 to 2016. The reason for this can be considered as the stability of the financial markets in these countries. In 2016, however, the country most abandoned by millionaires was the United Kingdom, known as "the never sunset country". Under the influence of the Brexit incident, the owners of wealth did not want to stay in the country, which turned into a fragile structure and preferred safer countries. Under the influence of the Brexit incident, the owners of wealth did not want to stay in the country, which turned into a fragile structure and preferred safer countries. In addition, Brazil, Australia, Sweden, Turkey, Argentina, and Mexico were the countries that left millionaires the most in 2018.

According to the wealth calculations published by institutions such as Insee in France and FED in the USA, in the light of the above estimate (8%) about 5 trillion 800 billion euros of the world total household financial wealth, which was 73 trillion euros as of the end of 2013, in the tax havens. In recognition of the size of the amount, Greece's foreign debt, which is one of the most indebted countries in the European Debt Crisis, was only 230 billion euros that year (Zucman, 2015). For this reason, wealth taxes, in some countries, is tried to be under controlled by coming back on the agenda.

In the study, France is of particular importance, as the most tax evasion and loss occur in France. It is known that the tax loss in question has reached the level of 17 billion euros as of 2013 (Zucman, 2015). For this reason, the focus of the tax reforms, which were widely spoken in the world public opinion and were carried out at the request of François Hollande, who won the Presidency in 2012, was the taxes on wealth. A 75% wealth tax, which was first considered applicable to all individuals in the reform, which closely concerns the wealthy owners of the country, especially the highest income groups, was amended and enacted as a result of the French Constitutional Court's finding it unconstitutional (BBC, 2013). With the amendment, the wealth tax for two years covered the salaries paid in 2013 and 2014 and was applied to those who received salaries of more than 1 million euros.

Hollande's insistence on wealth tax, in light of the wealth escaping from the country and together with France's public debt is more accurate to evaluate. Because if there had been no tax loss of those as mentioned above 17 billion euros, France's public debt in 2013-2014 would have been only 70%, not 94% of GDP (Zucman, 2015). However, this situation did not change the collection of expected revenue in French finances. As a result of intense public pressures and the renowned actors and wealthy leaving the country and passing their wealth to different countries, the expected results could not be achieved. For example, the famous French actor Gerard Depardieu left the country in protest against the tax (BBC, 2013) and settled in Belgium where there was no wealth tax.

The situation in France has begun to converge with the practice in other European countries. Emmanuel Macron, who won the presidency, revised it by lowering the rate of wealth tax and set a fixed rate on capital gains (Financial Times, 2017). French economist Thomas Piketty describes Macron's move as a historical mistake. Because, as known, Piketty in "21. Century Capital," published in 2013, argues that the inequality in income and wealth is continually increasing and that the way to prevent it is possible with a globally increasing ratio tax on individuals' wealth.

Piketty explains this view as follows: "The ideal solution can be an increasing ratio wealth tax to be applied globally. Beginners pay less, while those who make billions should pay more. While this can help to control inequality, steps can be easier to climb. It can also put the dynamics of wealth at the global level under public scrutiny. Financial transparency and lack of secure wealth statistics are among the major problems of modern democracies" (Piketty, 2013).

However, Piketty also offers alternatives to a global wealth tax. For example, the rich oligarchy can be fought by its methods, such as capital control and criminal sanctions in China and Russia. It is clear that Piketty's global wealth tax also has some difficulties. For example, an increasing ratio wealth tax to be imposed globally requires international coordination. It is unclear which structure will control this tax. Piketty sets the path for each country within its own country, but a control mechanism is required. Alternatively, co-operation with tax haven countries where wealth owners have escaped and sanctions may be imposed on countries refusing to do so.

Concluding Remarks

Due to wealth elements in the hands of certain sides through inheritance, these sides have both higher saving power and higher consumption power compared to other segments. In order to ensure social justice, the state should not neglect to receive tax on gifts through inheritance.

With the taxation of wealth, the tax revenue collected by the state is not lost and is redistributed to community members. The state prunes inefficient wealth by taking taxes on wealth and increases the welfare of society through its national wealth by using its tax revenue in productive works. In countries where capitalism and free competition prevail, capital-based earnings are more likely than non-capital-based earnings. In these countries, the vast wealth of individuals through inheritance creates a situation against those who are deprived of these opportunities. Transfer of wealth should be taxed to eliminate this adverse situation. Nevertheless, wealth taxes play an important role in the fight against the informal economy. Because all the elements of wealth are included in the declaration of wealth, there are no unrecorded elements of wealth.

On the other hand, wealth taxes cause double taxation. That is, individuals pay taxes on these incomes while earning their income. If wealth is expressed as the accumulation of income, the re-taxation of the accumulated income results in double taxation.

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