

## **Taxes Made Me Fat: How Can Removing Consumption Taxes Collected from Food Consumption Help Improving Consumption Inequality? Case for Turkish Consumers**

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### **Abstract:**

Food consumption accounts for almost 30 percent for an average Turkish household's budget by holding the largest share. It is suggested by Turkmen- Ceylan (2019) it is a necessity -so subject to Engel law- with rigid income and own-price elasticities. Turkish households pay 8 percent VAT for the majority of the foods consumed and most of staples are subject to 1 percent VAT. This taxation practice is contrary to the some of other country examples such as the UK which collects zero food consumption tax for fresh foods. Along with these lines, this study investigates how consumption inequality among the households would be affected if tax collected from food consumption was set to zero. The study also analyses how the impact of setting food taxes to zero would differ in terms of household welfare effects following a demand or income shock. To do so, the study adopts dynamic inverse almost ideal demand system by using pooled household consumption data as proposed in Deaton (1997) from 2003 to 2018. Overall, the study represents first of its kind analysis for Turkish economy by using real quantities of food consumption on household basis.

**JEL Codes:** D12, D63, H3