THE IMPACT OF THE GLOBAL PANDEMIC ON TAX REVENUES

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Abstract:

Governments are required to generate revenue to cover public expenditures. In countries that are not very rich in terms of underground resources, the biggest and healthiest financing source of these expenditures is tax. On the one hand, taxes can be used as a fiscal policy tool to maintain balance in the recession and expansion period of the economy, on the other hand, it can be a source of income that needs to be compensated for losses due to being a factor affected by the imbalances in the economy. From this point of view, the Covid-19 pandemic, which has affected the whole world for about 10 months and whose effects on the economy were compared with The Great Depression of 1929, had a double impact on public expenditure items as well as on income items. While the first impact is the decrease in tax revenues due to the inactivity and stagnation in the economy because of quarantine policies, the second impact is the government's giving up some income items or deferring their tax receivables in order to prevent this recession in the economy. In this study, we have tried to analyze how the government's tax revenues are affected because of these developments in Turkey. In addition, some policy suggestions will be discussed in order to make the financial structure deteriorated as a result of the measures taken in this epidemic.

Keywords: Global Outbreak, Fiscal Policy, Tax Policy, Tax Revenue, Covid-19

JEL Codes: E58, E62, F02, H21

INTRODUCTION

While thinking that the breakdown of humanity with epidemic diseases had been in times when the world did not develop very much and that is buried in the old pages of the history, this global epidemic caused a shock effect all over the world, and we can say that all countries in the world are caught unprepared for this issue. Due to the Covid-19 pandemic that emerged in Wuhan, China in 2019, production and trade, especially international trade, slowed down in the world and came to a standstill from time to time. As of March 2021, approximately 120 million people were diagnosed with the disease and nearly 2.7 million people died because of this disease. In Turkey, the first case is declared in March 2020, and now 2.9 million people are infected and about 30 thousand of our citizens have died because of this disease. Due to successful vaccination studies from three different firms, countries are making plans to eliminate the sociological and economic effects of this disease as soon as possible, but still there is no guarantee that a new epidemic will not be encountered in this age of science, therefore permanent changes in economic policies have become inevitable. Now, it is visible that cryptocurrencies have become more popular, gold and precious metals have taken the place of the US dollar as an international exchange unit and a wealth storage tool.

Unpredictable even by international health organizations, the pandemic spread so quickly that governments had to take drastic measures on social and economic activities to prevent it. These measures had three main objectives: [1] The first was to prevent the spread of the disease, the second was to eliminate this disease, the third was to establish economic policies to overcome the negative effects on individuals and the country's economies with minimum damage. In order to achieve this, while the Central Banks were implementing an expansionary monetary policy, the Finance Ministries started to implement expansionary fiscal policies. Against this sudden shock, the policies which had to be determined accurately through international coordination and long consultations, were determined and directed in a very short time, sometimes daily and sometimes weekly. Despite the fact that a year have passed since the pandemic’s outbreak and there are three different reliable vaccines, there is still no clear schedule for the transition to normal life.

These costs can be summarized as; supply and demand shock caused by the impeded economic activity, the cash shortage and bankruptcy of the firms, a serious and sudden increase in the unemployment, the additional increase in social expenditures, moreover, the unemployed households, financial crisis likely to spread to banks due to the failure of the bankrupted commercial enterprises to fulfill their loan payments, the huge burden those will create on the budget. In addition to these, the costs of financial support to businesses after the shock, increased health expenditures, food and cash assistance to be made to people who cannot leave their homes stand out as other expense increasing factors.

The Organization for Economic Co-operation and Development (OECD) stated that, despite the persistence of many uncertainties, a 33% reduction in consumer spending caused by the Great Lockdown measures will reduce economic activities by 25% and the measurements that will be

[1] OECD, Tax and Fiscal Policy in Response to the Coronavirus Crisis: Strengthening Confidence and Resilience, OECD Centre for Tax Policy and Administration, 2020.

applied will result as the gross domestic product (GDP) with a monthly decrease of 2%[2]. The IMF, on the other hand, predicts that the global economic recession will turn into a recovery by 2021, that the world economy will regain growth, and that the pandemic effect will be largely eliminated by 2022.[3]

While many sectors, especially tourism, accomadation, entertainment, commercial transportation and organization-oriented sectors, came to the point of sinking during the pandemic process, there were explosions in technological products, remote working models and online sales. As in every economic shock, shining stars appeared alongside the sinking stars. It is not even controversial that it has devastating economic and social effects in the short term, although it cannot be predicted exactly whether the net effect will be so negative in the end. In order to keep these negative effects to the minimum level, governments have to implement policies under the names such as unemployment payments, short-time working payments, direct income transfers, rent subsidies, etc. that will increase public expenditures. The main purposes of these policies are to prevent hunger, poverty, unemployment, bankruptcy of economic units, protect the social fabric, and ensure the survival of economic units until the end of the pandemic. With these income supports, the primary purpose was to protect the target units with direct income, but they also had goals such as ensuring the continuation of economic trade by providing expansionary fiscal policies in this period when the economy was stagnating at the second phase of the pandemic. In other words, while the economic units that were provided with direct income support spent these revenues for consumption, they would also ensure the operation of other production units of the economy, to generate income and to provide continuity of production and consumption. While providing the expected response from these units, which receive income support, it would have a positive effect on the economy, but the shift of this income support should turn into expenditure/investment not into savings since it would would have a negative effect. What the total impact will be, which alternative policies can eliminate this negative effect or whether the criticisms made against existing policies are justified or not, are all beyond the scope of this study. With this study, we have dealt with how the measures to increase public expenditures and the implemented tax policies affect tax revenues. For example, it is inevitable that the part of quarantine policies, whose first effect in the economy was shrinkage, turned into expenditure and investment as a result of direct income and credit support, will also have a positive effect on tax revenues. In terms of tax revenues, it is a known fact that the incentives to be made for sectors with high added value and most affected by shocks will reduce the possible tax loss in that area and even create an opposite indirect effect that increases tax revenues as seen in the construction sector. Therefore, it is possible to talk about two effects at this point. While economic life, which slows down due to the measures taken, will negatively affect tax revenues, public expenditures (with direct income support, direct public expenditures and loans granted) will have an increase in tax revenues with multiplier effect. The net effect on the budget revenues will be as much as the difference between the effects that will occur because of the reactions of economic agents affected by these policies.

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[2] OECD, Tax and Fiscal Policy in Response to the Coronavirus Crisis: Strengthening Confidence and Resilience, OECD Centre for Tax Policy and Administration, 2020, p. 8.
[3] International Monetary Fund. 2020. World Economic Outlook: A Long and Difficult Ascent. Washington, DC, October.

After ignoration of positive effects for a long time, it is possible to say that Keynesian policies telling that the state should intervene in the deteriorating economy with fiscal policy tools will revive together with such economic crises.[4]

EVALUATION

Governments need revenues for public expenditures, especially for the provision of basic public goods and services. Although its influence and position has been replaced by monetary policy so far, after the period that started with the 2008 global crisis, it has once again emerged that fiscal policy instruments should take an active role in the economic crises encountered with the global economic crisis caused by the 2020 pandemic. Governments need to actively intervene in economic problems such as market failures, inflation, deflation, recession, and now all countries are aware of this. In this sense, the healthiest financial source required for these interventions is tax revenues. While tax revenues serve as a source for public expenditures on one hand, they are also a tool of intervention in the economy on the other.

There is a global economic contraction because of the measures taken against the Covid-19 epidemic, the seriousness of which was accepted only in March 2020 and affected the whole world socially and economically. The force majeure case defined in the Tax Procedure Law has occurred in many sectors and as a result, many facilitating practices have been put into use in favor of taxpayers, especially in terms of taxpayer obligations. As a result of such tax practices that relieve economic units, there has been periodic contractions in the tax collection capacity of governments.

When the packages offered against the global economic crisis in general are examined in terms of content, it is seen that the fiscal policy is generally used predominantly, and the tax policy, which is one of the basic tools of this policy, plays an important role.

In our research on tax revenues, it was observed that 23% of the tax revenues could not be collected. This is one of the highest figures in recent history. However, because of the enactment of Law No. 7256 in November and the extension of the application period until the end of January 2021, it has been concluded that this deficiency in collection is partially eliminated in the short term. However, it is necessary to acknowledge that because of the frequent repetitions of such practices for our country, it reduces the ability of governments to collect taxes in the medium and long term. Because of the global economic crisis, such a restructuring is necessary for both the taxpayers and the state in this crisis period, but it is inevitable that tax amnesty and restructuring may harm our country in the medium and long term when the past historical course is followed. In this respect, instead of a general restructuring law, it is thought that a narrower structuring towards the damaged sectors and economic units will contribute more to our country's medium and long-term goals.

In terms of tax type, the lowest collection rate was realized below 40% in Income Tax based on declaration and Simple Method Declarations. However, interestingly, the number of taxpayers of

[4] Şen, H. & Kaya, A. (2015), Ekonomik Krizlerin Değişmeyen İmdatçısı: Maliye Politikası, Sosyoekonomi, Sayı: 23, ss. 55-86.

these two taxpayer groups has increased with the crisis compared to the previous periods, and we find it useful to investigate this situation by the relevant public administrations since it is likely to occur with the aim of exploiting the incentives. It has been observed that the increase in fees is in line with the real estate sales figures, and it has been concluded that it is due to the sharp decrease in morgage interest rates. Again, with the increase in the rate of BITT and the administrative ruling of virtual precious metals within the scope of BITT, a parallel increase in physical gold imports has been observed. Due to the lack of data regarding the sectoral distribution of tax revenues, this study could not be carried out, but it was seen that other economic units compensated the tax loss caused by the negative contraction in the service sector.

On the other hand, although there were periodic fluctuations and delays in terms of tax, especially between February and May, among the policies implemented as of June, especially direct income transfers, increasing tradesman loans, radical interest cuts in morgage loans, lowering VAT rates on some goods and services, etc. there has been a revival in the market. Due to these reasons, tax revenues have exceeded the target of 784 Billion TL by approximately 50 Billion TL (6%) as of December. It has been observed that the main source of the savings of 65 billion TL provided according to the budget deficit projections was the increase in tax revenues, more spesifically indirect taxes were the source of this increase. In this respect, it is concluded that the pandemic-induced global economic crisis, which was not foreseen during the last year's budget studies, was evaluated together with the measures taken and economic developments, and it was concluded that there was no negative impact on the budget in terms of tax revenues. Contrariwise, because of expansionary fiscal and monetary policies, tax revenue exceeded the budget targets. However, there is a significant effect of shift from cash economy to bankcard transactions on the tax revenue due to reduced underground economy as a result of online-shopping.

However, the negative effect of the inflation rate that was realized above the expectations on tax revenues (Olivera-Tanzi Effect) should be taken into consideration. In addition, it should not be forgotten that the increase in tax collection figures in favor of indirect taxes due to the economic crisis has a detrimental effect on income distribution and on fair taxation.

In that respect, in our opinion, after the situation is revealed in this way, what needs to be done is to take the necessary measures in order not to have a long-term permanent impact on the general economy. Since this effect is more likely to occur in the next period, the consequences of the second phase should be closely followed up; the monetary and fiscal policy instruments should be fine-tuned and implemented in a coordinated manner, and in terms of our topic, the effect of tax revenues as well as the effect of taxes on the market should be closely monitored.

In addition, it is considered that it would be beneficial to investigate the efficiency usage of the increase in budget expenditures and the effectiveness of economic intervention tools, as well as the efficiency of taxes in resource distribution.

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