

Real Estate Tax in Turkey: Lost in Politics

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Motivation I

- ▶ The value of land, zoned or not, in Turkey had reached spectacular levels.
- ▶ Tax evasion is widespread.
- ▶ Indirect taxes distort the economy and lead to further income and wealth inequalities
- ▶ There exists a huge gap between the tax-basis values and real market prices, both for vacant land and dwellings

How Big is the Real Estate Wealth



Motivation II

- ▶ Choice is political rather than economic
- ▶ Greek case
- ▶ Ghost-house busters in Italy
- ▶ The mechanism design of local politics in Turkey

Introduction

- ▶ There are all sorts of tax amnesties and tax breaks for the firm or asset owners.
- ▶ Tax evasion (do not declare)
- ▶ Tax avoidance (do not pay in full)
- ▶ In the real estate case, thanks to dramatically underestimation of land values by the (government) officials, landowners pay real estate taxes at almost one-tenth of the real values

Toooo Little Real Estate Tax Revenue

Yıllar	Bina vergisi (Bin TL)	Toplam Emlak Vergisi (Bin TL)	Merkezi Yönetim vergi hasılatı (Bin TL)	Toplam emlak vergisinin toplam vergi hasılatı içindeki payı (%)
2022 ⁵	8.821.453,00	12.242.144,00	2.353.286.000,00	0,52%
2021	10.018.345,00	13.647.386,00	1.164.988.000,00	1,17%
2020	8.263.883,00	11.204.220,00	833.062.000,00	1,34%
2019	7.094.918,00	9.680.560,00	673.314.567,00	1,43%
2018	6.240.698,00	8.702.634,00	621.310.598,00	1,40%

Source : <https://t24.com.tr/yazarlar/murat-bati/bos-ev-vergisi-bizde-uygulanabilir-mi,40058>

2022 covers the first 9 months

Related Studies

- ▶ According to Kaldor Report, the agricultural land value had increased by 50 times between 1936 and 1960 but the tax revenue derived from agricultural land merely increased by 2.7 times
- ▶ The tax value that will be subject to the real estate tax determined by the Appraisal Commissions is well below the real value (10-100 times variation.) (Ural, 1997).
- ▶ In a study conducted for the Pelitli Municipality of Trabzon in 2002; It was determined that 32% of the taxpayers did not give any notification by matching the title information in the computer with the real estate notifications (Yeter, 1999).
- ▶ Bostan and Karakus (2022): In a neighbourhood of Büyük Çekmece district, the authors find that there existed 11000 real estate registaries in the Land Registry Office, but only 1700 taxpayers declared for real estate tax. In other words, around 80% taxpayers were missing.

Historical and Institutional Background I

- ▶ In 1931, the Land Tax Law No. 1833 and the Building Tax Law No. 1837 were put into effect, and the land and buildings were subject to independent taxes.
- ▶ All buildings within the borders of Turkey are included in the subject of the building tax.
- ▶ In 1961, the Government of National Unity had to increase the tax-basis values of the land tenfold with the law numbered 206. However, after a while, the numbers were reduced from ten to three and the year 1942 was accepted as the starting year and the tax-basis values were recalculated.
- ▶ In 1971 real estate tax was reformed once more. In this year, building and land taxes were abolished, and Real Estate Tax was introduced with the Law No. 1319.
- ▶ Declaration System, which will be applied until 2002, with the law amendment made in 1972 became the norm

Historical and Institutional Background II

- ▶ The practice of submitting a declaration every 4 years for the payment of tax was also abolished as of 2002. The tax calculated every year is paid in 2 equal installments until the end of May and November.
- ▶ Local political bodies (municipalities) are given the responsibility of collection
- ▶ Residential tax rate is 0.1%
Non-residential tax rate in buildings is 0.2%
Tax rate in fields is 0.1%
Tax rate in urban land is 0.3%
These rates are doubled in big municipalities.

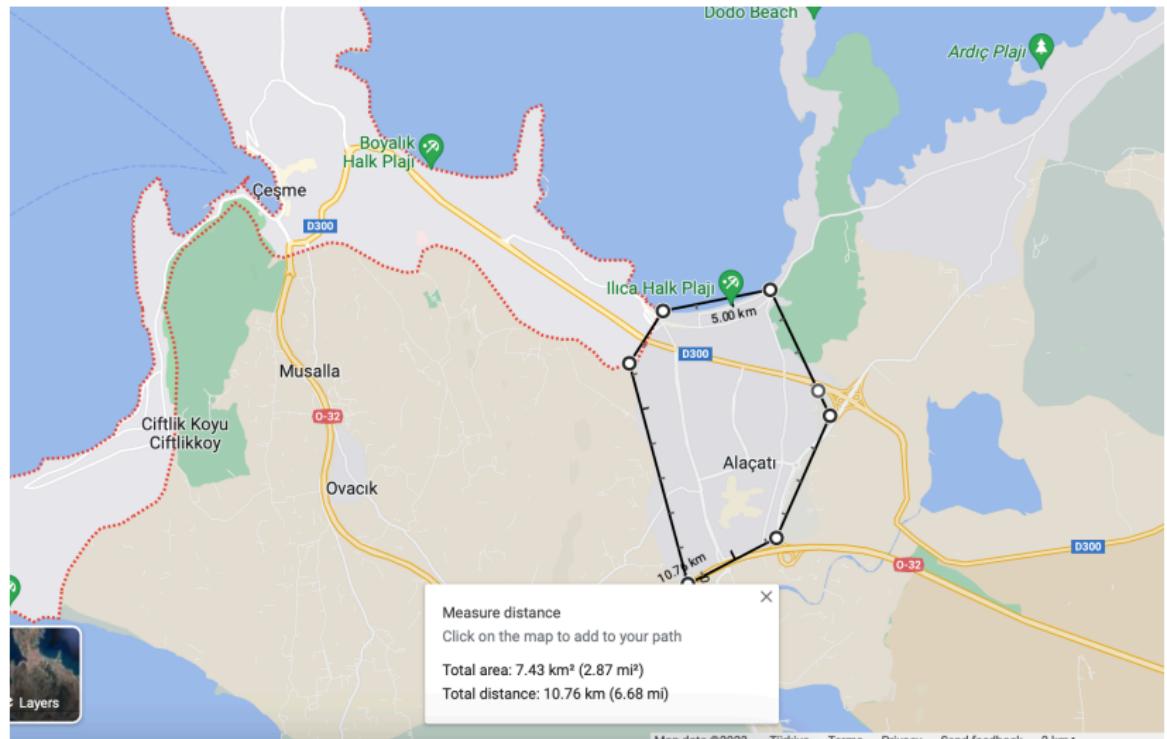
Method

- ▶ We web scrape data from municipalities for tax-basis values : Çeşme and Urla in 2021
- ▶ We use market prices scraped from the biggest commercial website
- ▶ Clustering in neighborhoods in each town we compare the market prices and tax-basis values
- ▶ We use google earth engine to uncover the potential of the scale of tax avoidance by focusing the vacant lots.

Çeşme I

- ▶ Mean Tax Basis Value: 408 TL per meters square
- ▶ Market price : 3070 TL
- ▶ Total land on sale: 3.9 million meters square

Çeşme II



Çeşme III

Table 1: Çeşme Neighbourhoods

	Market Price	Tax-Basis Value
Alaçatı	5210	230
Musallah	2117	413
Germiyan	754	842
Ovacık	1158	119
Dalyan	4133	361
16 Eylül	3227	312
Cumhuriyet	3109	555
Çiftlik	3250	278
Reisdere	1969	177
Şifne	3686	356

Çeşme IV

- ▶ The total area of Çeşme town is 260 million square meters.
- ▶ Generally, one tenth of the total area in a given town would be either developed or developable land (zoned or not).
- ▶ Total taxable real estate wealth (land and dwellings) would be 79.8 billion TL and the expected real estate tax would be 249 million TL (assuming 0.3% tax rate).
- ▶ Çeşme municipality reports that in 2021 the total tax revenue was only 67.5 million TL

Urla I

- ▶ Mean Tax-Basis Value: 263 TL
- ▶ Market price: 1313 TL
- ▶ Total land on sale: 6.6 million meters square

Urla II



Urla III

	Market Price	Tax-Basis Value
Kuşçular	783	66
İçmeler	1058	190
Çeşmealtı Denizli	2821	481
İskele	2175	485
Kalabak	2309	354
Gülbahçe	1434	203
Güvendik	3554	508
Torasan	1473	179
Fevzi Çakmak	5394	345
Bademler	967	131

Generalization and Extrapolation I

- ▶ Back of the Envelope:
- ▶ Assume 10% of total area in Turkey is habitable by private sector
- ▶ 78 billion meters square
- ▶ The mean market price of land is 1000 TL
- ▶ Total taxable land wealth = 78 trillion TL
- ▶ Given the tax rate of 0.3%, the expected real estate tax (land) should be 234 billion TL
- ▶ That estimation excludes the dwellings: Adding the same amount we easily get close to 500 billion TL
- ▶ That would replace the value added tax

Generalization and Extrapolation II

- ▶ The database have info on the size of salable land at town (even at neighborhood) level.
- ▶ Make an assumption on the ratio of salable land to habitable land and get the total size at town level
- ▶ Using the real market prices estimate the real estate wealth at the town level
- ▶ Aggregate to Turkey
- ▶ Estimate the expected tax revenue

Generalization and Extrapolation III

- ▶ Use geemap (python package) or other software to estimate the habitable land in each town
- ▶ Scrape all the tax-basis data and estimate the gap
- ▶ Estimate the total expected tax revenue increase with real market prices
- ▶ Make a model and calculate the welfare gains of removing the value added tax
- ▶ This is definitely a grant worth of project :)

Political Economy Suggestion

- ▶ Tax the richest 10% (in terms of real estate wealth)
- ▶ Increase the real estate tax rate to 1%
- ▶ Use a mechanism-design in which first you assign the tax based on the real market value and if the owner declines make a take-it-or-leave-it offer 20% above the owner's estimation of her real estate value.
- ▶ Use public means to enforce (as in the case of motor vehicles tax)

Discussion and Conclusion

- ▶ As always all the interesting problems in economics are political in nature
- ▶ There should be a society level discussion on taxation system
- ▶ The structure of local commissions on real estate should be radically altered.
- ▶ A general equilibrium model is necessary for the study on the impact of reducing value added taxes and replacing it with real estate taxes.