

Minimum Wage & Tax Burdens

Minimum Wage

What is minimum wage?

Minimum wage is paid to workers for one working day and aimed to workers can afford buying daily needs.



In Turkey minimum wage is determined by Minimum Wage Found Commission.

This comission consist of 15 people,

- 5 employer
- 5 employee
- 5 representative of government



Determination of Minimum Wage

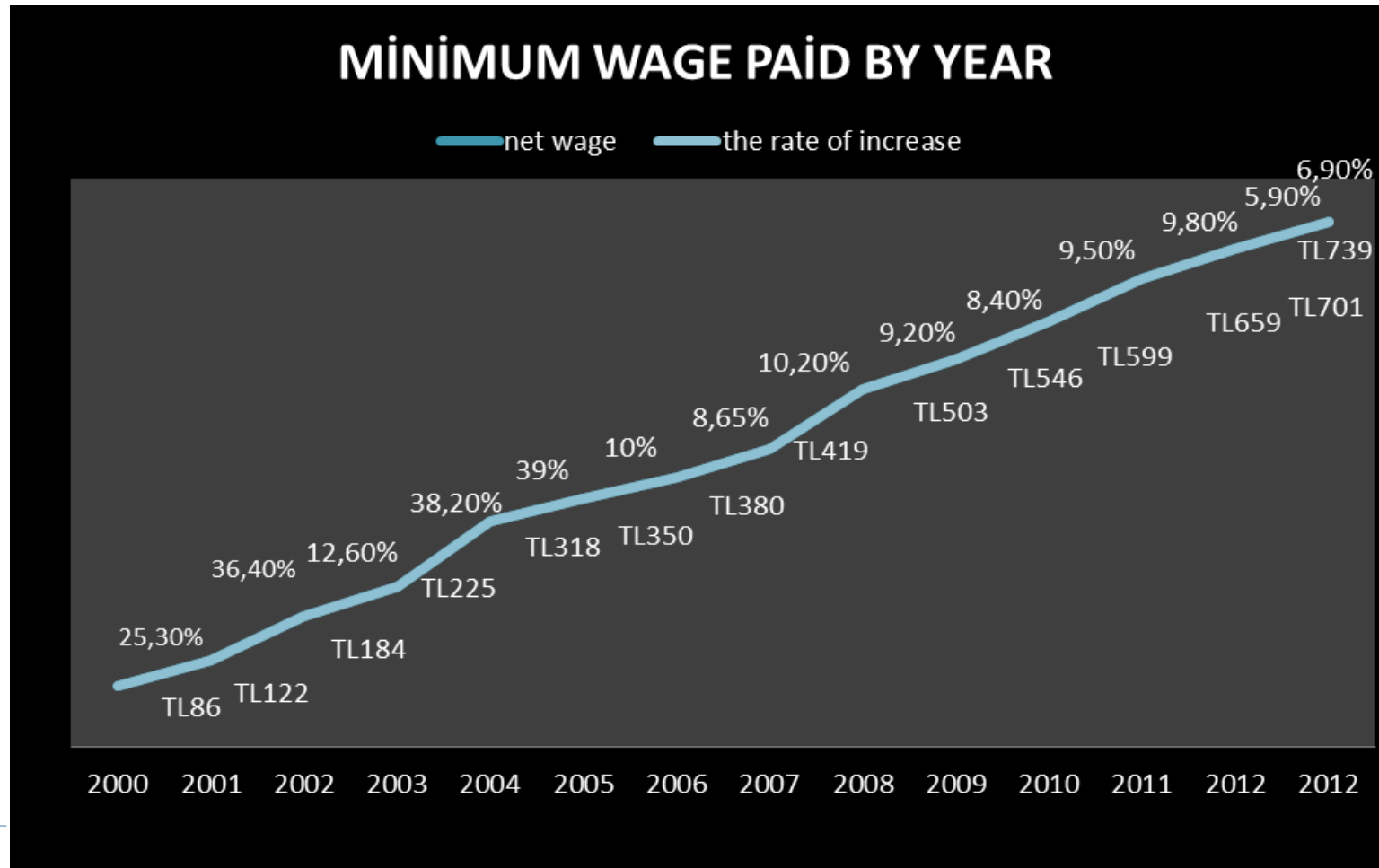
Determination of minimum wage, 3 factors are important:

- Social and economical situation in Turkey
- General wages in Turkey
- Living conditions in Turkey

In our country the minimum wage -after tax deduction- is about 500 USD.



This table shows us minimum wage paid by year in Turkey.



Unregistered Economy

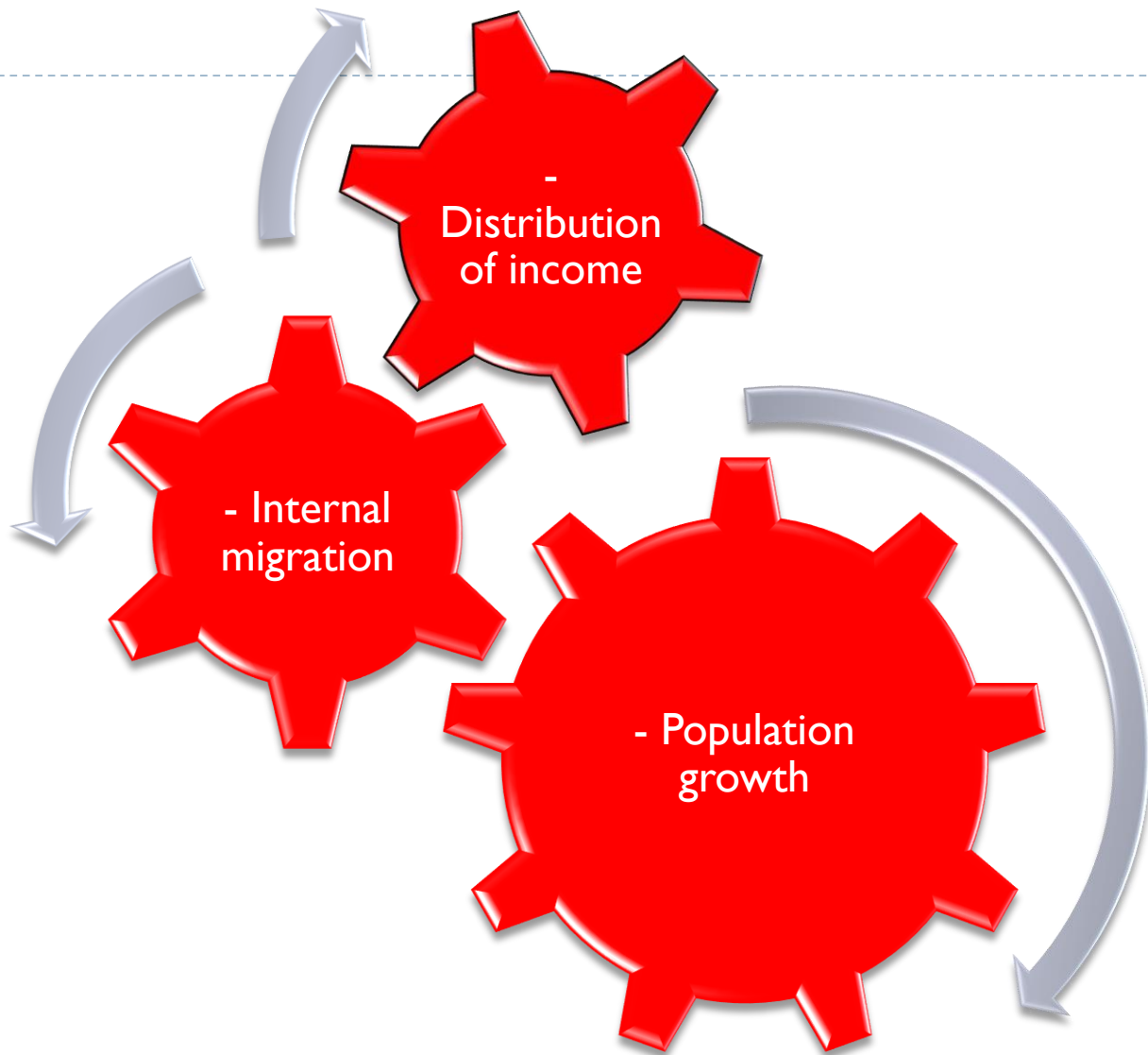
Income tax and other deductions, which are done in the name of the employer, are making minimum wages lower than they are, and many employers are forced by the system into operating in the unregistered economy.

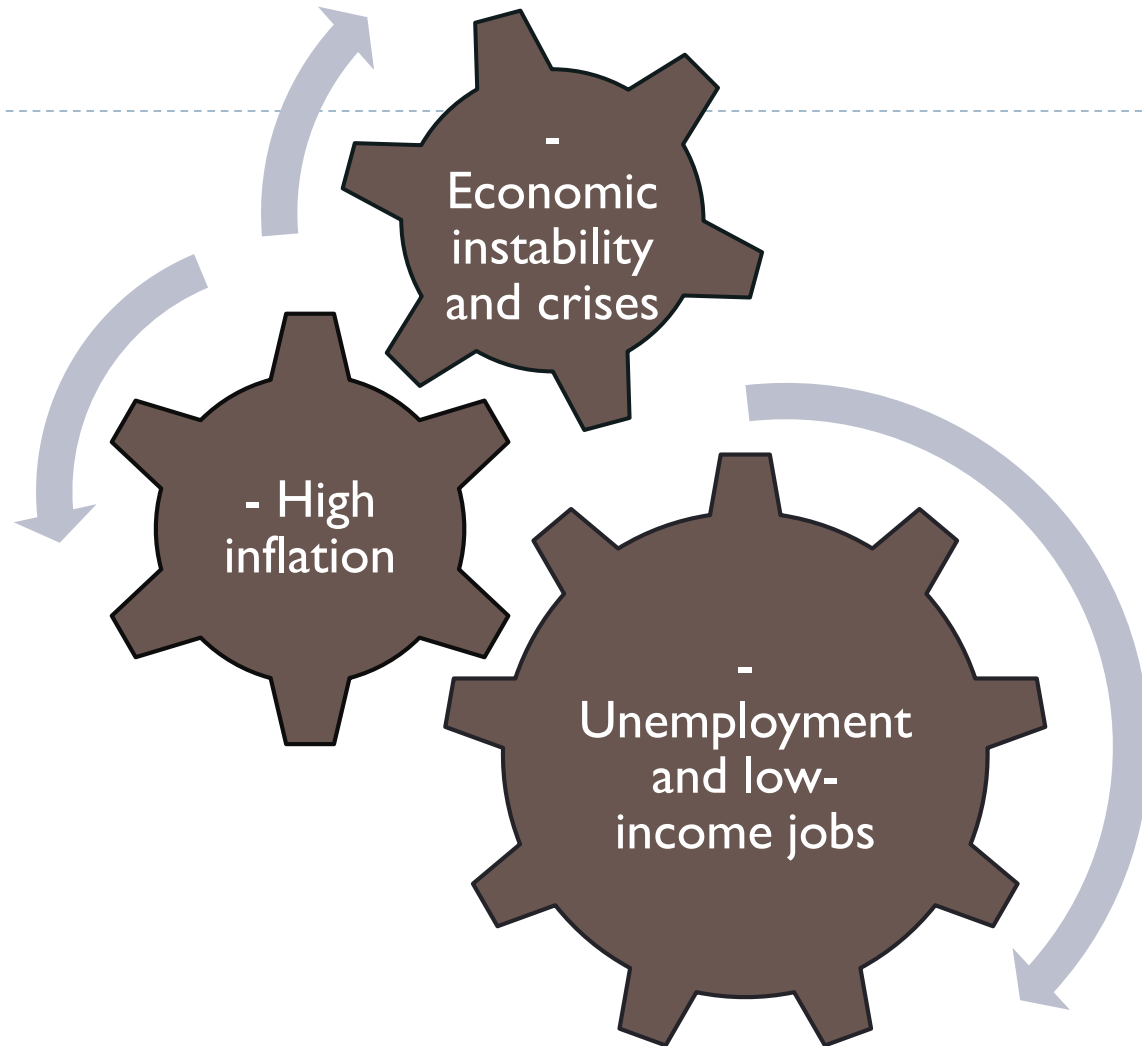
Unregistered economy can be defined as, employment activity which is outside the field of state sovereignty.



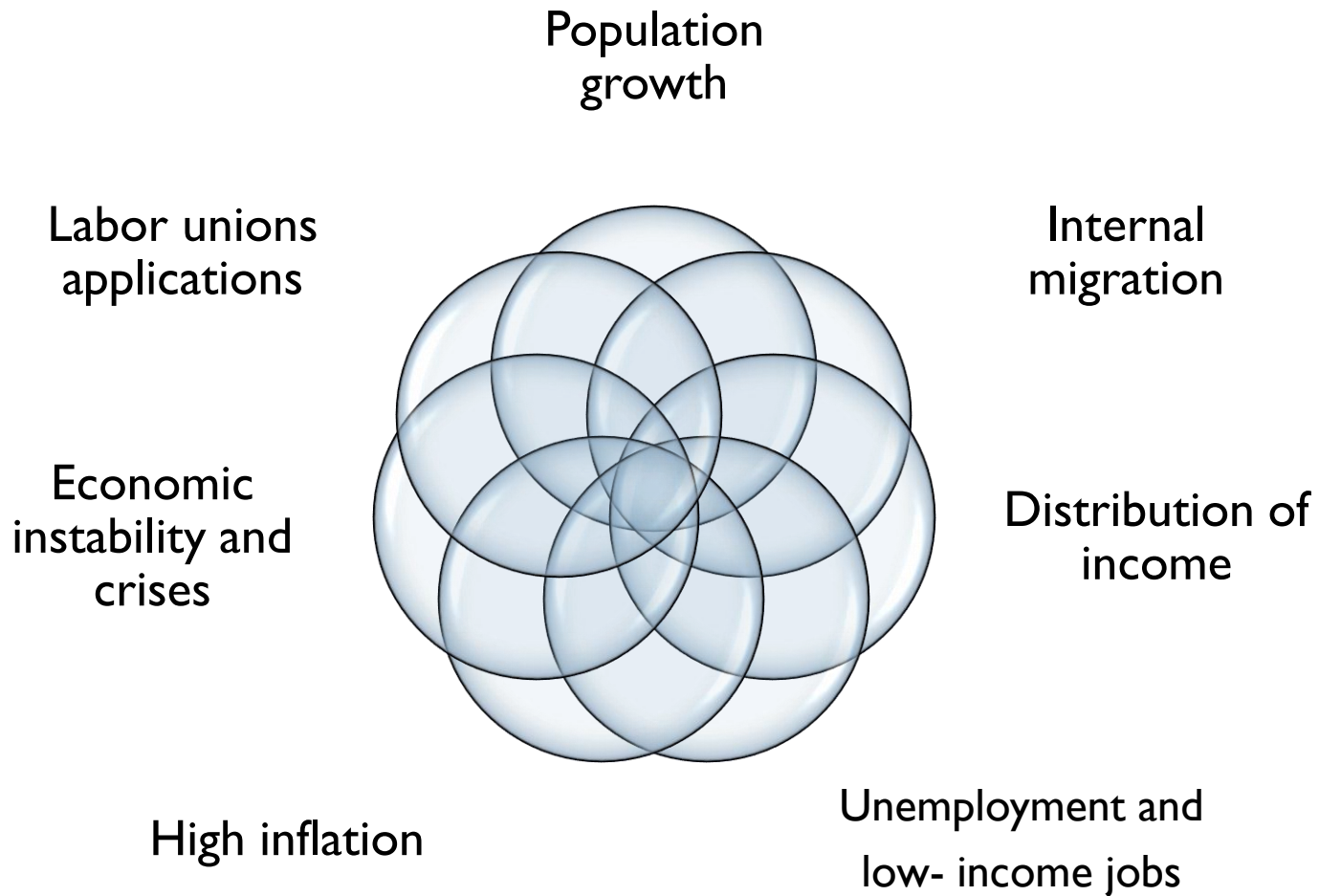
Unregistered economy is structural problem in developing countries. The following reasons cause this problem:







Unregistered Economy



Reasons for High Unemployment

In Turkey employers forced by the system to avoid paying higher taxes. Currently, it seems the unregistered economy issue is a structural problem in Turkey.

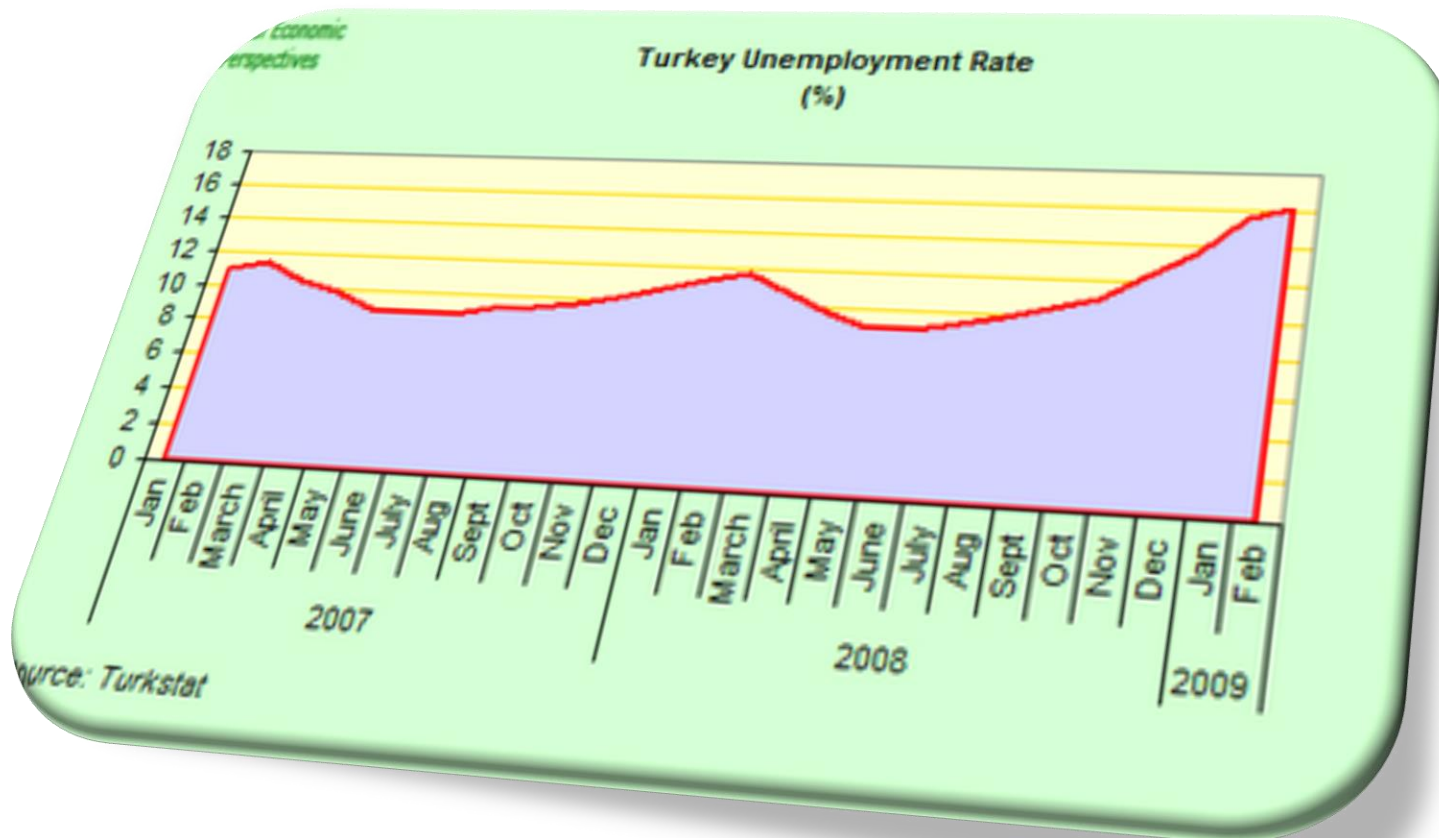


Some claims that tax burdens are also one of the reasons for high unemployment, top reasons for worldwide unemployment are:

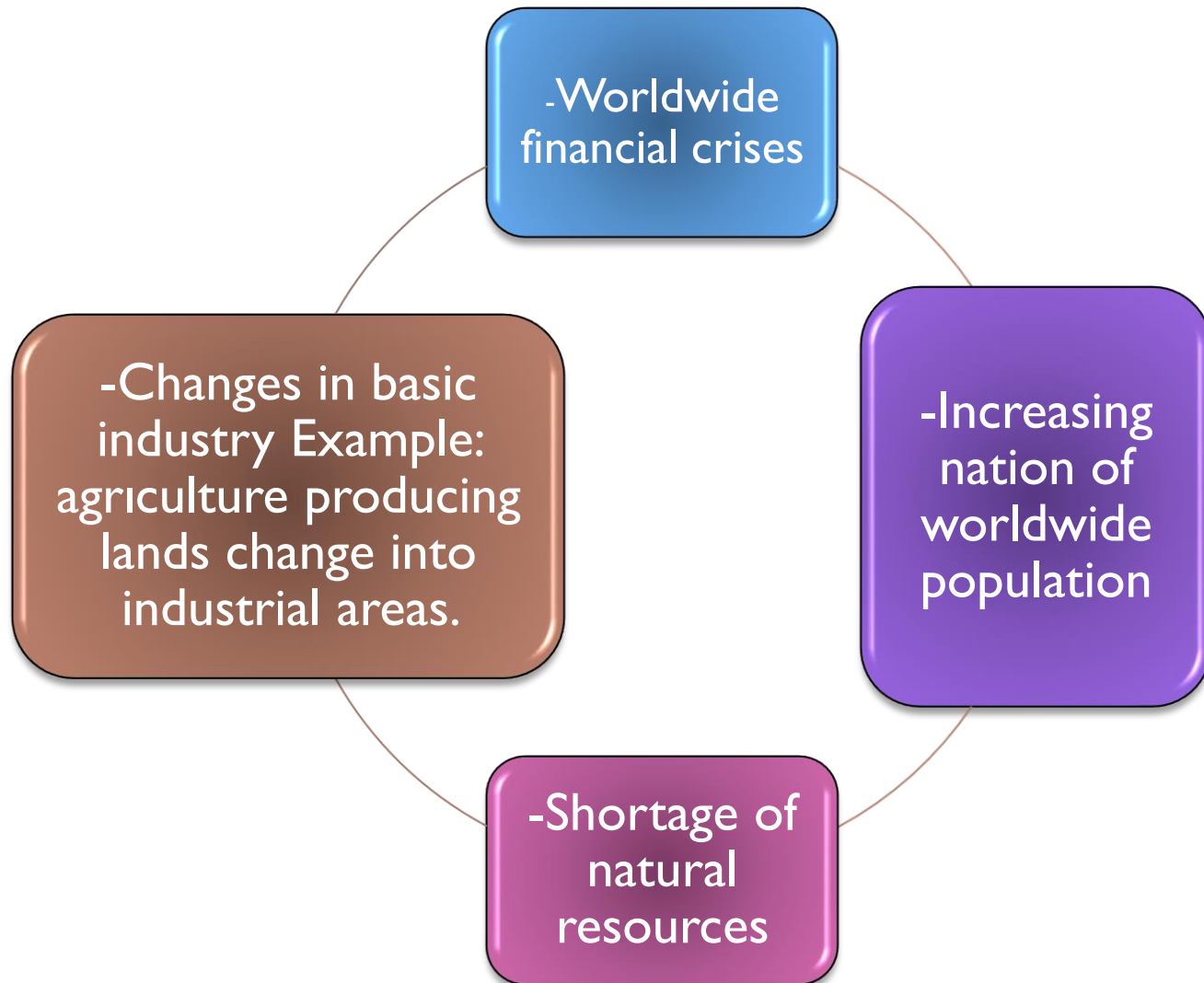
- Worldwide financial crises
- Increasing nation of worldwide population
- Shortage of natural resources
- Changes in basic industry (Example: agriculture producing lands change into industrial areas).



Turkey Unemployment Rate



Unemployment



Basis on Bussiness

Actually there are two basic reasons for unemployment-on the basis of business external factors and internal factors.

- External Factors
- Internal Factors



Basic Reasons For Unemployment

External factors for unemployment have to do with the issues that they are beyond the worker's control. They include national financial problems and financial problems within the company or company reorganization.

Internal factors for unemployment, are normally the result of something that is happening to the individual employee that they can control (like poor job performance).



Tax System

Tax system will generally act to deter employment. Tax burdens can influence level of employment in an economy. Taxes may also result in some individual working in the unregistered sector rather than taking formal employment(register employment sector). But if there tax exemptions for minimum wage salaries incomes in general will be increase and will not create burden for the budget.



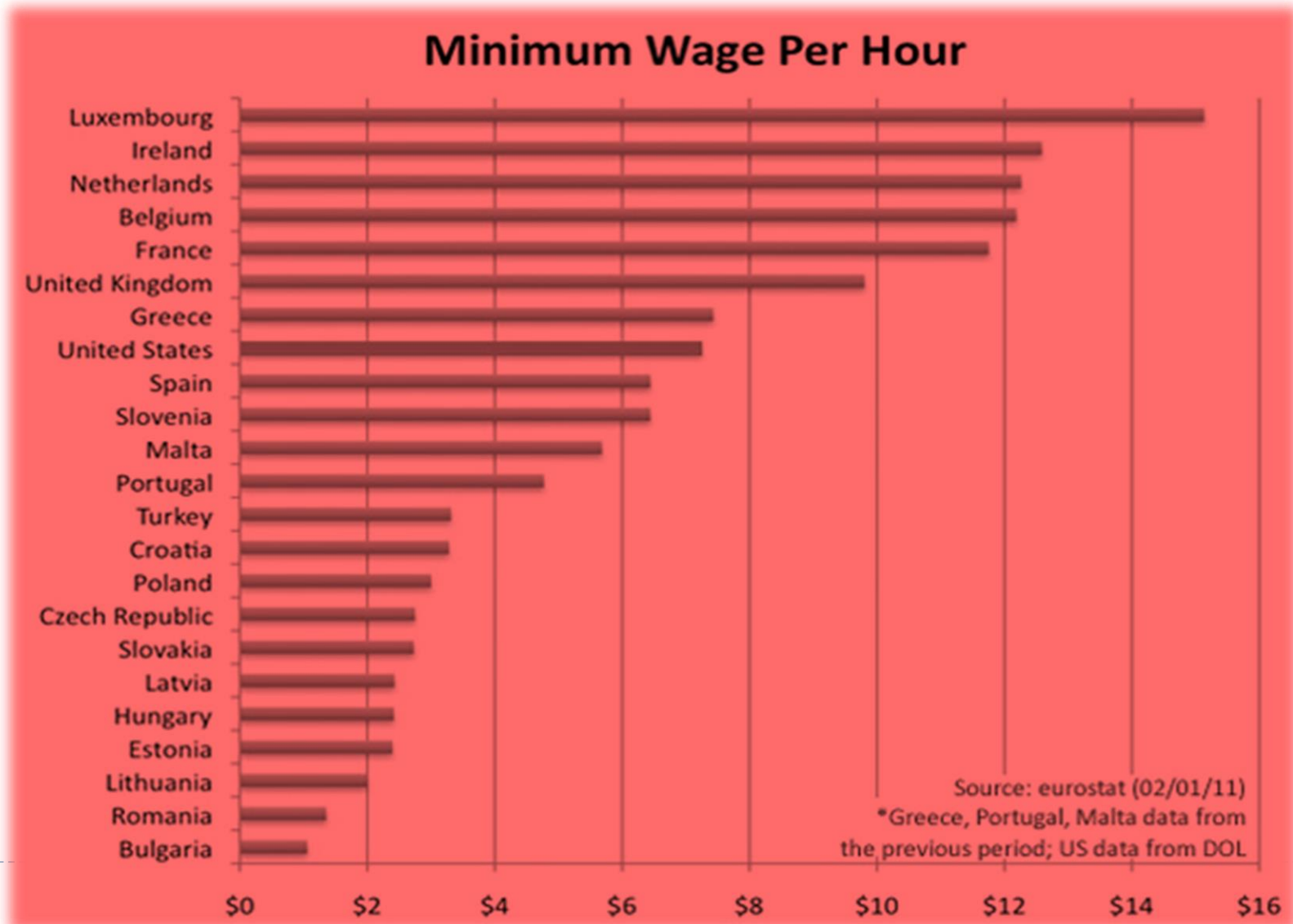
Some points out that tax exemptions might not be enough to solve problem since it is also a structural issue, adding the minimum wage implementations should be considered. The minimum wage is very important in Turkey because **60 percent** of workforce is **unskilled**.



In developed countries minimum wage is not a big issue because workers over there have skills and are working more than minimum wage. But in our country we are facing the problem of a skilled workers.



In Turkey;



Poverty Line

Others argued that the minimum wage should be determined in accordance with the poverty line. For example he said, in a family of four, even if all the members are working for minimum wage, it is impossible for them to earn enough to live at the level of the poverty line. There are around 4 million workers in Turkey who earn the minimum wage and on average each of them is responsible for caring for 2.7 persons, apart from themselves.

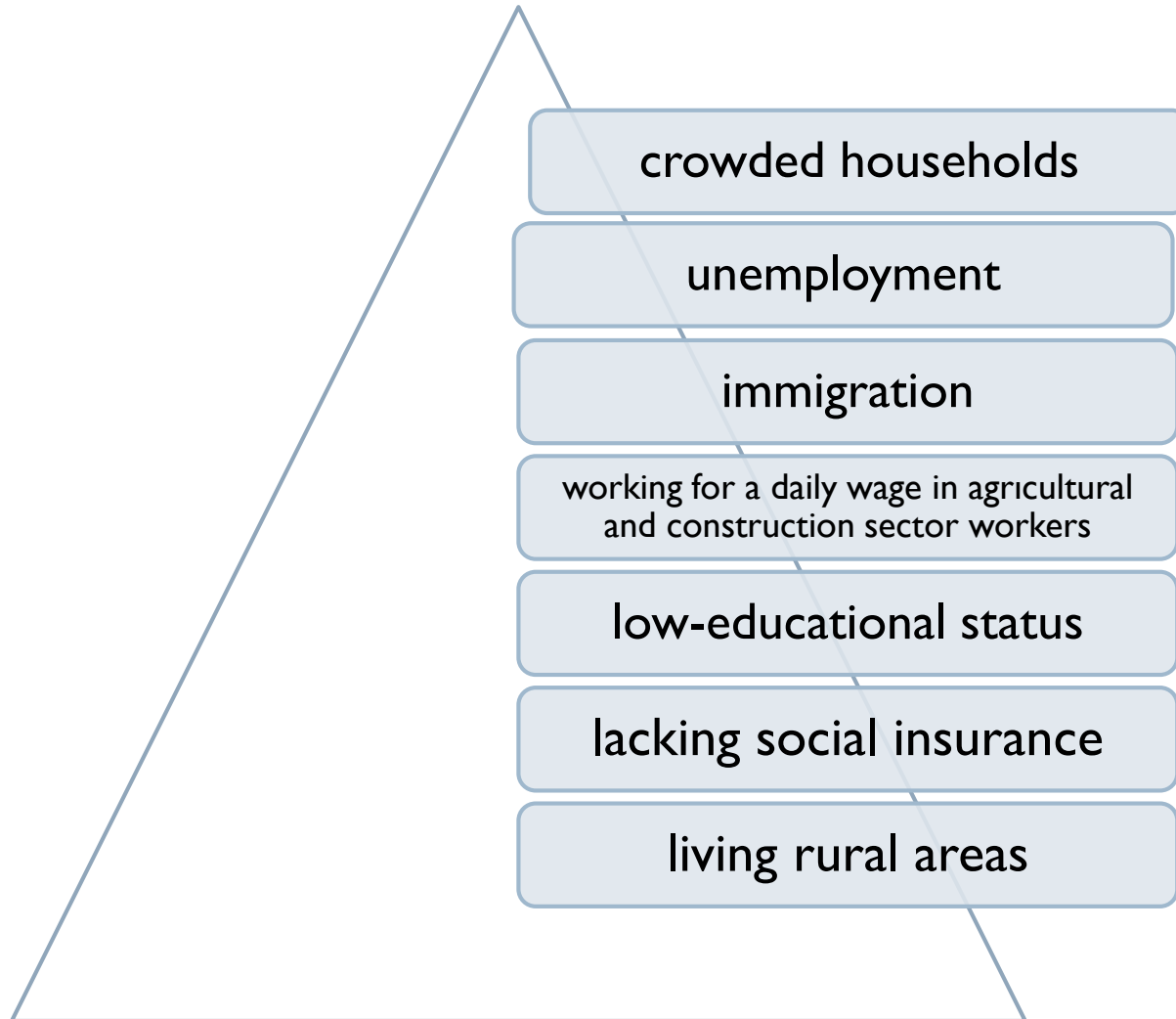


What is Poverty?

Poverty, a complex, multidimensional, and universal problem, has been conceptualized as income and material deprivation. Factors related to poverty were crowded households, unemployment, immigration, working for a daily wage. In agricultural and construction sector workers have low-educational status, lacking social insurance and living rural areas.



Poverty



Which factors effect the poverty line?

In Turkey, poverty seems to be directly related to low educational status. In general population, 26.9 % of people of poor people were illiterate, 42.4% were primary school graduates.



On the other hand, being in under poverty line is separate with live in rural or urban area. Since 1980's Turkey has lost the characteristic of an agricultural country. But unemployment and work at seasonal works and low wages have caused poverty in rural areas. Rural poverty is also related with geographic and socio-economic conditions (the geographic conditions are: such as rough climate, unfruitful soil etc..).



Another issue is revealing details of the current labor market in turkey, employers are ready to accept a tax exemptions for minimum wages, but than this would **mean more scrutiny and monitoring** when it came to other tax payments, which was something they were not prepared to accept.

Though there are around 4 million workers earning the minimum wage, many workers are actually earning more. **Employers simply register them as minimum wage earners on the payrolls and pay extra cash under the table to avoid taxes.**



Solutions

In Turkey, **occupational code** application will be brought by Social Security Institution. For instance, in same workplace a dishwasher and cooker cannot be shown as working for same salary. The system will not accept this.



Our finding is, **Turkey needs a radical changes.** The minimum wage should be exempt from income taxes. The minimum wage should be arranged according to the poverty line.





Thank You for Your Listening
Prof. Dr. Murat ŞEN