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Class Character of Tax Expenditures Under Pandemic Conditions

Pandemi Şartlarında Vergi Harcamalarının Sınıf Karakteri

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Abstract

The coronavirus disease 2019 pandemic has brought countries' economies worldwide to a standstill, resulting in widespread gross domestic product declines and job losses. During this period, governments have implemented various public finance measures to keep their economies afloat. Tax expenditures, including tax deferrals, discounts, and exemptions, were among the solutions adopted by countries. This study aims to analyze the trajectory of tax expenditures under the influence of the coronavirus disease 2019 pandemic, with a particular focus on examining the allocation of tax expenditures across various sectors and classes in Turkey during the pandemic.

This study employs a qualitative methodology based on collected and scrutinized data to elucidate this phenomenon. The primary data sources for understanding tax expenditures' scale and distribution are the tax expenditure cost estimates presented in the Central Government Budget Law of Turkey, issued annually by the Presidency of Strategy and Budget, and the tax expenditure reports prepared by the Turkey Revenue Administration.

Keywords: COVID-19, tax expenditures, tax relief

Öz

Koronavirüs hastalığı 2019 pandemisi dünya genelinde ülke ekonomilerini durma noktasına getirmiş, yaygın gayrisafi yurtiçi hasıla düşüşlerine ve iş kayıplarına yol açmıştır. Bu dönemde hükümetler ekonomilerini ayakta tutmak için çeşitli kamu maliyesi önlemlerini uygulamaya koydu. Vergi ertelemeleri, indirimleri ve muafiyetlerini de içeren vergi harcamaları, ülkeler tarafından benimsenen çözümler arasında yer almıştır. Bu çalışma, koronavirüs hastalığı 2019 pandemisinin etkisi altında vergi harcamalarının seyrini analiz etmeyi amaçlamakta ve özellikle salgın sırasında Türkiye'de vergi harcamalarının çeşitli sektörler ve sınıflar arasında dağılımını incelemeye odaklanmaktadır. Bu çalışma, bu olguyu aydınlatmak için toplanan ve incelenen verilere dayanan nitel bir metodoloji kullanmaktadır. Vergi harcamalarının ölçeğini ve dağılımını anlamak için birincil veri kaynakları, Strateji ve Bütçe Başkanlığı tarafından her yıl yayınlanan Türkiye'nin Merkezi Yönetim Bütçe Kanunu'nda sunulan vergi harcaması tahminleri ve Türkiye Gelir İdaresi Başkanlığı tarafından hazırlanan vergi harcaması raporlarıdır.

Anahtar Kelimeler: Kovid-19, vergi harcamaları, vergi indirimi

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Introduction

The term "tax expenditure" is used to refer to situations in which governments forgo the collection of taxes, which constitute a significant share of their revenues. These may take the form of tax deferrals, tax deductions, tax exclusions, tax exemptions, and exceptions. Surrey, one of the leading proponents of reporting tax expenditures, demonstrated that tax expenditures are inequitable and ineffective (Surrey, 1970a, p. 360) and, therefore, he proposed to track tax expenditures to control or limit their use (Surrey & McDaniel, 1985). In addition, initial proponents of reporting tax expenditures believed that reporting tax expenditures may lead to greater public and governmental discussion about them, and ultimately, less public money would be spent through the tax expenditures (Metcalf, 2012, p. 28).

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It can be inferred that a compelling rationale underlies this adoption, given that a significant number of developed nations, including numerous members of the Organisation for Economic Co-operation and Development, began integrating the practice of tax expenditure reporting into their budgetary procedures during the 1960s and 1970s. Moreover, it is stated by the implementing governments that tax expenditure reporting is prepared to allocate resources more efficiently and to see the impact of tax expenditures on the budget (Polackova Brixi et al., 2004, p. 8). On the other hand, Metcalf (2012) examines the adoption and diffusion of tax expenditure reporting between 1967 and 2008 US state levels and finds that fiscally stressed states are more likely to adopt tax expenditure reporting. Over time, an increasing number of countries have integrated tax expenditure reporting into their budgeting processes. In the 1990s, no more than 12 administrations issued such reports; in 2017, that number reached 85 (von Haldenwang et al., 2021, p. 8). Besides, regional associations have even adapted codes of conduct for member countries. For instance, starting from 2014, EU member states, under the Budgetary Framework Directive, are mandated to disclose information on the effects of tax expenditures on government tax revenues (Barrios et al., 2016, p. 2).

The existing body of scholarly work in public finance literature has extensively explored various facets of tax expenditures. Scholars such as Swift (2006) and Minarik (2010) have delved into tax expenditures' quantitative and monetary evolution over time. Additionally, investigations by Brown (2004) and Hungerford (2006) have shed light on the allocation of tax expenditures concerning their functional, target area, and tax type categories. Furthermore, the motivations driving governmental entities to implement tax expenditure reporting have been examined, as observed in the study conducted by Metcalf (2012).

An analysis of the evolution of tax expenditures reveals that the number of tax expenditure estimates has been on an upward trend from year to year (McBride, 2013, p. 4). In response to the issue of how this rise is allocated among various tax kinds, which groups benefit most, and the effectiveness of tax expenditures vis-à-vis direct expenditures, it is reasonable to anticipate variations among countries with respect to economic structure and the current economic climate. For instance, Brown (2004, p. 59), in his analysis of Australia, classifies tax expenditures by function and compares aggregate tax expenditures with the corresponding direct expenditures and finds out that the benefit from a tax expenditure tends to be greater than that from a direct expenditure of the same size. In addition, tax expenditure literature also acknowledges that tax expenditure programs may exhibit heightened efficacy compared to direct disbursements in incentivizing specific activities. A pertinent illustration of this phenomenon is discernible in the case of itemized deductions for charitable contributions. While such deductions might reduce government tax revenues, this diminution is effectively counterbalanced by a commensurate augmentation in funding directed toward philanthropic endeavors (Cavalcanti & Swift, 2004, p. 206). On the contrary, Surrey (1970b), in his analysis of the 1968 US budget, endeavored to assess whether tax incentives are as efficient an implement of social policy as direct government expenditures, such as grants, loans, interest subsidies, and guarantees of loans, found that to achieve social goals direct expenditures are always superior to tax expenditures. In addition, Hungerford (2006), studying the US tax expenditures between 1974 and 2005, states that, despite having commendable economic and social intentions, certain tax expenditures have failed to provide the desired results. However, direct expenditures could be a better option for achieving the objectives.

In addition to these studies, other scholarly investigations have focused on the assessment of tax expenditures from the standpoint of social justice (Brennen, 2001), equity impact (Barrios, 2016; Cavalcanti & Swift, 2004), as well as social welfare and fairness (Hungerford, 2006). Cavalcanti and Swift (2004, p. 207) illustrated that lower-income taxpayers benefit less from tax expenditure programs in Poland. Notably, Sugin (2011, p. 42) posited that tax expenditures are pivotal in promoting distributive justice, emphasizing the necessity for policymakers to acknowledge the influence of tax expenditures in achieving equitable outcomes. Meanwhile, Barrios et al. (2016, p. 33) comprehensively analyzed the fiscal and equity implications of pension, housing, education, and health-related tax expenditures across European Union member states, revealing the absence of statistically significant cross-national patterns. Their study further demonstrated considerable variations in tax expenditures' fiscal and fairness effects concerning distinct social tax expenditures and diverse countries. Accordingly, the effect of tax expenditures, particularly concerning pensions, exhibits distinctiveness with notable variations. The impact of pension-related tax expenditures ranges from negative values, such as −21% of the baseline tax revenue in the Czech Republic, to positive values, reaching +26% in Portugal. Concerning housing-related tax expenditures, the revenue impact surpasses 1% in most countries, with Denmark and the Netherlands experiencing significant impacts exceeding 10%. Conversely, tax expenditures associated with education and health are less prevalent and demonstrate more limited budgetary consequences across the examined countries.

During the coronavirus disease 2019 (COVID-19) pandemic, tax expenditures have emerged as a significant instrument to support sectors severely impacted by the crisis, stimulate critical industries, and aid vulnerable segments of society grappling with severe repercussions. This research endeavors to scrutinize the trajectory of tax expenditures in Turkey amid the unprecedented backdrop of the COVID-19 pandemic. First, the tax expenditure measures implemented between the years 2019 and 2022 period will be explored with this objective in mind. Subsequently, a comprehensive examination of the allocation of tax expenditures across various sectors and the identification of the social classes that derive benefits will be presented.

Material and Methods

The approach adopted in this study is qualitative, and the primary resources employed for this study are the budget documents of the central government and the reports pertaining to tax expenditures. The Central Government Budget Law of Turkey, annually released by the Presidency of Strategy and Budget, constitutes a pivotal document offering insights into the estimated tax expenditure outlays. Within each budget, a breakdown of the envisaged costs for tax expenditures over the present year and the subsequent 2 years, along with the legal justifications for each expenditure, is provided. It is crucial to emphasize that since this study does not use firsthand collected data procured through surveys, interviews, focus groups, or experimental methods, there was no requirement for approval from an ethics committee.

Tax Expenditures: What Has Changed During the Coronavirus Disease 2019 Period?

The investigations conducted thus far have delved into diverse aspects of tax expenditures. Nevertheless, it is undeniable that unforeseen global occurrences, such as the COVID-19 pandemic, inevitably leave their mark on tax expenditures as well. Recent studies have undertaken the task of scrutinizing the effects of the pandemic on tax expenditures and its prior outcomes.

During the initial stages of the pandemic, Pomerleau (2020) diligently examined the tax provisions introduced by the CARES Act in the United States, aimed at providing economic aid to individuals and offering liquidity to businesses amid the economic downturn. His study, published in June 2020, revealed that the foremost beneficiaries of these tax provisions within the first three months of the COVID-19 pandemic were households, as well as businesses availing net operating loss deductions and net interest deductions.

Moreover, preliminary data brought to light by Calame and Toder (2021) indicated that the COVID-19 pandemic was anticipated to reduce the absolute value of tax expenditures in the United States while simultaneously increasing their proportion relative to the gross domestic product (GDP), thereby showcasing the significant fiscal impact of the pandemic on tax measures.

Furthermore, Zulkarnean et al. (2021), in their comprehensive assessment during the pandemic's inaugural year, explored the tax measures implemented by 10[1] Asian economies in response to the crisis. Their findings elucidated that most of the tax relief measures enacted by these Asian nations were predominantly aimed at supporting employee taxpayers, bolstering small and medium-sized enterprises, revitalizing the tourism industry, and fostering growth in the industrial sector. In conclusion, these studies have underscored the critical interplay between unforeseen global events like the COVID-19 pandemic and the dynamics of tax expenditures, necessitating a thorough understanding of their ramifications on fiscal policies and economic recovery efforts.

Moreover, the impacts of tax expenditures need to be assessed with a differentiation between their short and long-term effects. Loupatty (2021), in her study on the effectiveness of tax expenditures in Indonesia during the COVID-19 period, illustrates that tax incentives positively affect taxpayers in the short term. Nevertheless, in the long term, there will be a reduction in the national tax revenue objective and an increase in the national debt. In addition, tax incentives are ineffective over the long term because this fiscal policy does not reflect cost efficiency, and tax incentives have not been distributed equitably across all affected industries.

More recently, based on their analysis of the tax and fee policies in response to COVID-19 between 2020 and 2021 of the three largest economies (China, the United States, and Japan), Yujuan et al. (2022) stated that tax and fee policies vary according to each country's national conditions to support economic growth and stable employment. Accordingly, the United States has prioritized corporate and personal income tax cuts. Thus, by reducing the tax burden of businesses and increasing people's disposable income, it has pursued a tax policy that encourages consumption and thus supports economic growth. On the other hand, Japan opted for income tax, consumption tax, and business tax reduction policies. They found that the objective was to reduce the cost of consumption, increase corporate profits and cash flows, restore economic growth, and stabilize employment. However, China has offered chiefly value-added tax (VAT), corporate income tax, and social security fund tax reductions. Indirectly, these measures were meant to bring down retail prices, cut down on operational costs for companies, encourage spending with a rise in disposable income, boost corporate performance, and slow inflation. In addition, the Global Tax Expenditures Database (GTED)[2] compiles information on tax expenditures granted for disaster relief. During the pandemic, governments could implement additional tax expenditure measures for disaster relief. According to the GTED available data between 1990 and 2020, only 44 of the 20 814 provisions in the GTED pertain to disaster relief, and 788 support subgroups of the population (von Haldenwang et al., 2021).

Nevertheless, the existing studies, which delve into the aspects of tax expenditures during the COVID-19 pandemic, focusing on their targets, distribution, budgetary implications, and overall economic impact, seem to overlook a crucial aspect—the equitable sharing of tax expenditures among various capital fractions and social classes. Hence, there arises a compelling need for these investigations to emphasize the allocation of tax expenditures across diverse economic segments. Driven by this imperative, the present study investigates the trajectory of

1 Indonesia, Malaysia, Singapore, Thailand, Philippines, Brunei Darussalam, Cambodia, Laos, Vietnam, Myanmar.
2 GTED is a database that documents governments' tax expenditure reporting worldwide and covers 218 countries.

tax expenditures in the wake of the COVID-19 pandemic. More specifically, it analyzes how tax expenditures are apportioned among different sectors and classes within the Turkish economy during this crisis. By doing so, this research aspires to introduce an additional dimension to the discourse surrounding tax expenditures, further enriching the ongoing debate on fiscal policies and their implications in times of extraordinary challenges.

Who Benefits From the Tax Expenditures in Turkey?

In Turkey, the tax expenditure concept was first introduced in the legislation in Article 15 of the Public Financial Management and Control Law No. 5018 dated December 10, 2003. In the following period, a study was conducted to estimate the tax expenditures caused by the exceptions, exemptions, and discounts included in the income tax, corporate tax, VAT, and special consumption tax laws for the 2006 budget. Similarly, in the 2007 budget, this study was further developed in line with the increase in data availability (Ministry of Finance, 2007, p. 4). A tax expenditure, according to Turkish Revenue Administration (2021, p. 1), refers to the loss of tax revenue resulting from a legislative provision deviating from the standard tax structure, intentionally designed to pursue specific economic, social, and environmental objectives. According to the law, the total amount of tax exemptions, exceptions, and reductions in income, corporate, value-added, special consumption, banking and insurance transactions, private communication, and motor vehicles taxes, which have the characteristics of tax expenditures, are calculated and announced to the public in the annex of the budget law every year. In addition, starting from 2008, it is disclosed following Schedule (B) of the budget law.

Amidst the COVID-19 pandemic, the convergence of natural processes associated with the pandemic has reverberated across political, economic, and cultural dimensions. Following the identification of the first COVID-19 case in Turkey on March 11, 2020, the government promptly responded by implementing social distancing protocols, workplace and school closures, travel restrictions, and quarantine practices in concerted efforts to combat the pandemic. As a consequence of these actions, the country experienced a substantial 10.3% decline in its GDP during the second quarter of 2020 (TSI, 2021), leading to a profound economic recession. Consequently, various social strata turned to the state for support, prompting the government to announce a series of public finance measures to address the mounting demands arising from the crisis.

The Ministry of Treasury and Finance announced the first financial support package in March 2020. This package included loan guarantees to firms and households, credit deferrals to state-owned banks, tax deferrals for businesses, equity injections to public banks, VAT reductions on certain goods such as food and accommodation services. In addition, the government implemented a ban on nationwide layoffs and applied short time working allowance support.[3] The ensuing measures encompassed income tax exemptions tailored to benefit minimum wage earners and other tax relief provisions in specific sectors. An array of incentive instruments, including credit and liquidity support, direct income assistance, tax reductions, and targeted tax incentives, were judiciously deployed (Koç & Yardımcıoğlu, 2021). Furthermore, incentives were extended to bolster the healthcare system, alongside prudent measures such as tax payment deferrals. All these measures are expected to have an impact on tax revenues in Turkey. While the pandemic has caused an increasing effect on tax expenditures (Ercan, 2021), tax reductions and extensions of tax declaration and payment periods, which were implemented to cope with the negative effects of the pandemic, caused a decrease in tax revenues (Özcan, 2020), especially in the second quarter of 2020 (Cengiz & Sürücü, 2021).

At this point, it is noteworthy to look at the year-on-year increase in the monetary value of tax expenditures provided in 2020 under the impact of the COVID-19 pandemic.

Results

Table 1 presents the monetary value change in tax expenditures categorized by tax type during the influence of the COVID-19 pandemic. The data highlights the percentage increase in tax expenditures for each tax type in the year 2020 compared to the previous period. According to the findings from the Tax Expenditure Report published by the Turkish Revenue Administration (Gelir İdaresi Başkanlığı) for the year 2020, the income tax category witnessed a notable increase of 19.9%. More remarkably, the corporate tax segment experienced a substantial rise of 45.8% in tax expenditures, indicating significant fiscal support provided to corporations amid the pandemic. Furthermore, the VAT type exhibited a substantial upswing of 46.1% in tax expenditures, reflecting measures taken to stimulate economic activity and consumer spending during the challenging economic climate. Conversely, the

Table 1.
Change in Tax Expenditures by Tax Type Based on the Impact of COVID-19 Pandemic

Tax Law	Increase in 2020 (%)
Income tax	19.9
Corporate tax	45.8
Value-added tax	46.1
Special con. tax	4.5
Total	33.7

Note: Turkish Revenue Administration (*Gelir İdaresi Başkanlığı*), Tax Expenditure Report, 2020.

3 April 2020, the Law No. 7244 on Mitigating the Effects of the Novel Coronavirus (COVID-19) Pandemic on Economic and Social Life and the Law on Amendments to Certain Laws.

Table 2.
Beneficiaries of Tax Expenditures

	2019		2020		2021		2022	
	Number of TEs*	Monetary Magnitude** (%)	Number of TEs*	Monetary Magnitude** (%)	Number of TEs*	Monetary Magnitude** (%)	Number of TEs*	Monetary Magnitude** (%)
Income tax	61	43.3	59	53.1	61	60.7	62	86.8
Corporate tax	34	48.0	34	52.5	36	82.0	37	61.0
VAT	41	24.8	44	28.3	46	24.5	48	15.7
Special cons. tax	18	10.8	18	8.0	19	9.5	20	7.9
Fees and other taxes	452	8.4	434	12.1	445	17.4	452	14.2
General total	606	26.4·	589	28.5·	607	36.4·	619	31.7·

Note: Turkish Revenue Administration, Tax Expenditure Reports, 2019, 2020, 2021, 2022.
TE = Tax expenditure; VAT = Value-added tax.
*Number of Tax Expenditure Provisions. **Tax expenditure-to-revenue ratio within the same tax category. ***Total tax expenditures as a -percentage of total tax revenue collected. •The ratio of total tax expenditures to total tax revenues.

special consumption tax recorded a modest increase of 4.5%. Cumulatively, considering all tax types, the total tax expenditures observed a significant overall growth of 33.7% in 2020. This data underscores the considerable fiscal measures taken by the government to address the adverse economic impact of the COVID-19 pandemic, with a particular focus on providing tax incentives and relief to various sectors of the economy.

On the other hand, the beneficiaries of tax expenditures may vary according to the subject matter of the tax and the taxable event. The substance of the issue resides in the distinction between the beneficiaries legally impacted by tax expenditures and those who experience the actual economic consequences, which may include distinct groups. At this juncture, Brown (2004) introduces the demarcation between “legal” and “economic” incidence of tax expenditures. Legal incidence refers to the taxpayer on whom the tax is officially imposed. On the other hand, economic incidence relates to the taxpayer who ultimately bears the cost or gains from a tax expenditure. Economic incidence can differ from legal incidence if the burden or benefit of the tax is shifted to others, affecting prices, wages, or returns on capital. For example, a tax expenditure's legal incidence may be on the product manufacturer, but the economic incidence may fall on consumers due to price adjustments (Brown, 2004, p. 59).

Distribution of Tax Expenditures Among classes

So far, the course of tax expenditures in recent years and especially during the pandemic has been discussed. In this section, for the purpose of this study, it will be analyzed how tax expenditures are distributed among different sectors and classes. At this juncture, Table 2 sheds light on the place of tax expenditures in Turkey both numerically and economically. The data shown in Table 2 illustrates the numerical distribution of tax expenditures according to different tax types (income tax, corporate tax, VAT, special consumption tax, and fees and other taxes) and monetary distribution as a ratio to tax revenue collected within the same tax category.

Table 2 sheds light on the beneficiaries of tax expenditures in Turkey, including the year 2020, during which the COVID-19 pandemic had an impact, both before and after. In 2019, before the COVID-19 pandemic, tax expenditures provided benefits primarily to income taxpayers in quantity (61 TEs). However, they have positively affected corporate taxpayers when evaluated from an economic perspective. Accordingly, in 2019, tax expenditures (forgone corporate income tax revenues) in the corporate tax category accounted for 48% of the total tax revenues of the same type. Clearly, in the years 2020 and 2021, which bore the brunt of the COVID-19 pandemic, tax expenditures predominantly favored income tax payers, demonstrating significant benefits both in terms of quantity and value. During these years, income tax expenditures constituted the highest number of tax expenditures and held the largest share within the same category of tax revenues, accounting for 53.1% and 60.7%, respectively.

In 2022, as the impact of the pandemic gradually weakened and the economy began a slow recovery, it was observed that only tax expenditures related to VAT, SCT, and fees, along with other taxes, returned to prepandemic trends. Tax expenditures in the form of corporate income tax started to rise with the pandemic, reaching a peak in 2021, accounting for 82% of the total tax revenue collected in the same category. Although it decreased in 2022, it still represented 61% of the total corporate income tax revenue collected.

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Table 3.
Distribution of Tax Expenditures by Purpose

Functions	2018 (%)	2019 (%)	2020 (%)	2021 (%)
Developing the business environment and increasing investments	20.7	22.4	28.1	31.0
Increasing domestic savings and deepening financial markets	14.7	17.2	23.2	20.5
Development of labor market, wages, and employment	24.5	27.7	20.1	19.9
Infrastructure, energy, and transportation	18.5	13.7	10.5	10.5
For health and social purposes	9.0	6.8	7.4	7.4
Tax incentives for agriculture	9.9	7.0	5.7	5.7
R&D, innovation, and design activities	2.4	3.7	3.9	3.9
Education, culture, sports, and art	0.4	1.5	1.2	1.2
Total	100.0	100.0	100.0	100.0

Note: Prepared by the author using the tables in Annex II of the Revenue Administration, Tax Expenditure Reports. 2018 data are based on 2018; 2019 data are based on 2020; 2020 and 2021 data are based on 2021 Tax Expenditure Reports.
R&D = Research and development.

Tax expenditures in the form of income tax have steadily increased since the beginning of the COVID-19 pandemic in 2020. In 2022, tax expenditures in the income tax category amounted to 86.8% of the total tax revenue. Notably, a significant portion of tax expenditures in the income tax category resulted from applying the minimum living allowance to income tax levied on the salaries of minimum wage earners.[4]

Income tax is a tax imposed on the income of individual taxpayers. Wage income corresponds to income earned by the labor force, and the tax is calculated based on a progressive rate schedule on a cumulative basis throughout the year. The income tax amount calculated on the wage income of employees is withheld at the source and paid by the employer responsible for tax collection. It is well-known that taxes imposed on wages indirectly increase labor costs due to the tax wedge effect and reduce profitability for employers (Yılmaz et al., 2021, p. 78). Since income tax withheld from wages is paid indirectly from the amount the capital owner would pay for labor, it is a tax ultimately borne by the capital, and this tax expenditure in this area has the effect of reducing labor costs for the capitalist class. In summary, applying the minimum living allowance, which constitutes the most significant portion of tax expenditures in the income tax category, ultimately benefits the capital class.

With the specific aim of investigating potential tax discrimination during the pandemic era, an analysis is conducted, primarily based on the 2018 tax expenditure report[5]—an essential prepandemic reference—and the subsequent 2021 tax expenditure report, representing the postpandemic period. These reports offer a comprehensive overview of tax expenditures categorized under eight functional headings, each pertaining to distinct objectives: “developing the business world and increasing investments,” “developing the labor market, wages, and employment,” “education, culture, sports, and arts,” “health and social purposes,” “R&D, innovation, and design activities,” “increasing domestic savings and deepening financial markets,” “infrastructure, energy, and transportation,” and “tax facilities for agriculture.” This functional classification reveals significant variations in the allocation of tax expenditures. This detailed examination of tax expenditures across functional areas serves as a valuable resource for probing the potential implications of fiscal policies during the pandemic period, providing an understanding of the prioritization and reallocation of resources in response to the prevailing economic challenges. Table 3 provides a comprehensive depiction of the allocation of tax expenditures by purpose from 2018 to 2021.

According to the 2018 data, the highest amount of tax expenditure before the pandemic was channeled into “developing the labor market, wages, and home employment,” accounting for 24.5% of the total. Following closely was “developing the business world and increasing investments,” with a share of 20.7%, while the third highest tax expenditure focused on “infrastructure, energy, and transportation,” amounting to 18.5%. However, the postpandemic scenario witnessed notable shifts in tax expenditures. Both in 2020 and 2021, the categories of “developing business and increasing investments” and “increasing domestic savings and deepening financial markets” experienced substantial growth of 8–10% compared to the prepandemic period (Table 2). This accentuates

4 The proportion of tax expenditures related to minimum living allowances in total income tax-type expenditures was 63.5% in 2020 and 61.05% in 2021.

5 Since the Revenue Administration did not publish a tax expenditure report in 2019, the 2018 tax expenditure report was utilized.

a discernible emphasis on stimulating economic recovery and fostering financial resilience in the aftermath of the pandemic. As observed in Table 3, the aforementioned functions are trailed by labor market development, wages, and employment. Nonetheless, tax expenditures pertaining to this function experienced a decline, dwindling from 24.5% in 2018 to 20.1% in 2020 and 19.9% in 2021 during the prepandemic period.

Within the domain of health and social purposes, tax expenditures are characterized as allocations provided to marginalized groups, including the disabled, elderly, retired, martyrs, widows, and orphans. These tax incentives are strategically directed toward the disadvantaged segments of society with lower incomes. Over the course of 2019–2021, the share of such tax expenditures in the total tax expenditure witnessed a modest increase, rising by a mere 0.6 percentage points, from 6.8% in 2019 to 7.4% in both 2020 and 2021. On the other hand, tax incentives aimed at bolstering food security through agricultural support, an area of critical importance during the pandemic, experienced a decrease from 7% to 5.7% compared to the prepandemic period.

This analysis suggests that the primary focus of tax expenditures during the pandemic was predominantly economic rather than social in nature. The key objective seemed to be the preservation of domestic capital accumulation, ensuring the continuity of investments, financial stability, and the reduction of labor costs, thereby underscoring the government's endeavor to bolster economic resilience during these challenging times.

In addition, the sectoral breakdown of tax expenditures before, during, and after the pandemic shows that the sectors that benefited the most from tax expenditures in the areas of corporate, income, and VATs were "manufacturing," "financial and insurance activities," "wholesale and retail trade," "transportation and storage," and "construction." In other words, the capital fractions indirectly supported by tax expenditures were industrial capital, financial capital, and commercial capital respectively.

Table 4 illustrates the top five sectors benefiting from tax expenditures for the period 2019–2021 (prepandemic, during the pandemic, and postpandemic). Accordingly, before the pandemic, in the year 2019, the manufacturing sector (20.1%) was the most benefited from tax expenditures, and with the impact of the pandemic, it almost doubled its share of tax expenditures (38.3%), maintaining this superiority. In 2021, when the pandemic's effect persisted, the manufacturing sector again benefited the most from tax expenditures, with a share of 34.1%. The types of tax expenditures benefiting the manufacturing sector for all 3 years were corporate income tax and income tax (minimum living allowance).

Table 4.
Proportion of Top Five Sectors in Total Tax Expenditures

Sectors	2019 (%)	2020 (%)	2021 (%)
Manufacturing	20.1	38.3	34.1
Finance and insurance	17.7	19.7	24.7
Wholesale, retail, and trade	16.6	18.2	14.7
Transportation and storage	10.4	8.1	5.9
Construction	11.0	6.3	3.3
Total share	75.8	90.6	82.7

Note: Prepared by the author using the tables in Annex IV of the Revenue Administration, Tax Expenditure Reports. 2019 data are based on 2020; 2020 data are based on 2021; and 2021 data are based on 2022 Tax Expenditure Reports.

Discussion and Conclusion

Since the 1960s, increasing governments have been reporting tax expenditures to understand their impact on the budget and tax revenues. Based on tax expenditure reports, studies in this field have discussed the concentration of tax expenditures in various categories, their numerical and monetary development, functions, and objectives. In this context, the impact of tax expenditures on social justice and equality has been a researched topic. However, the distribution of tax expenditures among different classes has not been adequately discussed. This study aims to understand the class-based distribution of tax expenditures under the influence of the COVID-19 pandemic, using tax expenditure lists and reports from Turkey.

According to the findings obtained from the analysis, tax expenditures increased across all types of taxes during the pandemic period. However, the most notable increase was observed in tax expenditures related to income tax and corporate income tax. Furthermore, a significant portion of tax expenditures in the income tax category stemmed from deductions applied to wage incomes. Since the capital sector ultimately bears income tax withheld from wages, this deduction benefits the capital sector.

Having established that tax expenditures generally benefit the capitalist class, the functional and sectoral distribution of tax expenditures guided us when we sought to identify which fractions benefited the most. In this regard, tax expenditures aimed to develop the labor market, improve the business environment and investment climate, increase domestic savings, and deepen financial markets. These tax expenditures are concentrated in the manufacturing, finance, insurance, and wholesale and retail trade sectors, respectively. In conclusion, it has been determined that during the COVID-19 pandemic period in Turkey, tax reductions, exemptions, and deductions predominantly favored industrial capital, financial capital, and commercial capital, in descending order of significance.

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