

An Evaluation of Tax and Social Security Premium Incentives for Employers in Working Life from the Standpoint of Turkish Laws

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Abstract

A social state of welfare that procures a variety of economic and social policies for all to grasp some minimal standards of living, needs to inaugurate winning recruitment strategies for effectively tackling the obstacles of employment that thwart steady economic growth. Certain incentives are currently offered by the government for employers to pick, involving some tax exclusions and relief in workers' social security obligations, in an effort to help creation of new job opportunities, lowering the risk of unemployment and an increase in tendency among youngsters and women toward joining the workforce. These incentives also serve some greater goals such as channelling investments, boosting throughput, forging business owners to achieve better in competition and thereby augmenting the overall competitive power of the country on the international arena, and perseverance of R&D efforts for technological advancement. The incentives pursued in both industrial states and developing countries on employment for economic and social purposes have been transposed to the government practice in Turkey, as well, as part of the ongoing struggle against problems of employment. This study puts the magnifying glass on the current range of tax and insurance incentives for private employers as secured by the Turkish Laws in effect, in the hope of helping a rise in employment rates. It is expected to contribute to the international scholarly literature, in that it encapsulates the legal grounds, scope, durations and conditions of availability of the legislated incentives.

Keywords: Working Life; Employment; Tax; Employer; Insurant; Social Security Contribution; Incentives.

1. Introduction

A social state of welfare that is committed to provide community-wide wealth brings up policies aiming at tackling the constraints that obliterate steady economic growth. To eliminate concerns attached to employment, it is imperative that an employment strategy should be elaborated that covers economic policies drawing active support for recruitment practices, as well as macro-economic policies on employment. Such strategy should be built in such a construct that effectively addresses the support to be provided for active and passive employment policies of the labour markets.

Clandestine employment is the trailblazer of all the menace bewitching employment. Honed by the fast-paced growth in population and migration, this beast coerces casual, unqualified workforce growing day by day in overwhelming numbers, to concur with extremely unfavourable conditions of labour in an indecent work setting that lacks any appreciation of concerns for social security, for a bit of coins managed at the lowest of competition, in total despair. Entities incurring immense trouble in sustaining competitive power owing much to the pounding pressure of the ever-increasing burden of tax and social security obligations usually end up in downsizing their activities of research and development, with spontaneous cuts in investment budgets, rated from mild to extreme.

With the intent to solve employment problems, the employers are bequeathed with a rich range of tax and workers' social security premium (employer's share) incentives. In the meantime, entities are supported with incentives such as stamp-duty exemptions or exclusions, with consideration of regional and socio-economic levels of development, with a view to expedite technological efforts, by encouraging investments in technological fields and to further improve global competitive power. In the core of all the above incentives lies the covenant to lift the overall level of wealth and welfare up across the country, eliminate interregional imbalances and render certain categories of merchandise and industrial engagement more capable of tolerating the odds of international competition.

Another secondary, yet, equally important problem of employment as notable among others that obliterate economic growth is unemployment, spread over a long term. Creating employment is a must for abating unemployment. The onus seems to mostly rest with the state to clear the path for the private sector toward constant expansion and growth, by devising appropriate means for investment, to help the latter deliver the supply. Strategies focusing on employment in developing states invariably define their objectives as encouraging workers by creating suitable working environments, helping out creation of more descent jobs with higher quality and charms and facilitating transfers to labour market. For the attainment of these objectives, entrepreneurs should be supported with charming incentives in favour of aggrandized investments and policies

invented that especially address active labour market and help easier transfers to the workforce, along with measures enforced to attenuate the risk of unemployment for workers. Such policies would comprise, for instance, services like out/placement and professional coaching, youngster-oriented instructional practices, profession teaching classes for the unemployed, courses that aim to improve professional qualities in workers and practices specifically addressing the disabled.

Turkey has a fast ageing population. Unregistered employment plays a significant role in stimulating efforts for the setting of employment policies, along with the notion of reducing the rates of unemployment among young generations. Meanwhile, weight is placed upon applications of incentives in the areas of taxation and social security obligations in support of private sector employers, to help a boost in investments to trigger growth in employment rates. In addition, the government has been busy with imposing sanctions as appropriate to prevent conduct of work unregistered and at low income generating jobs, by chronic idlers, who rarely join the workforce and only for limited periods of time, as well as youngsters, ladies and people with disabilities. Attempts are currently in progress for alleviating the risk of unemployment, by way of support provided for professional education, aimed at further improving and enhancing qualifications of the workforce. Such policies intend to minimise unregistered employment and provide some stabilisation in returns of tax collection efforts, as well.

State's incentives for employment inflicting considerable burden on the budget are justified with greater benefits that can potentially be obtained for the part of the society, as an outcome of the conception of social state.

This study will follow a conceptual approach for conducting an inquest into the very definition of how incentive is perceived, first beforehand, within the sphere of relief brought in terms of tax and social security obligations. Then, it shall delve into further detail with the current tax and workers' social security incentives extended to employers, accompanied by an in-depth review of their legal grounds, extents, durations and conditions of availability, in light of the Turkish laws. Moreover, an assessment shall be made, as well, of such incentives and support as are extended to private employers with a view to redirect investments, close the gaps in interregional levels of development, and assure continuation of research and development activities.

2. The Concept of Incentives

The concept of incentive is often manifested in scholarly articles with such notions as “subventions”, “financial support for economic purposes”, “transfer payments made to manufacturers”, “premiums”, “cheap loans”, or, “aids in-kind”. (Ulusal, 2008).

The term incentive is defined as a range of financial and non-financial support, aids and encouragements granted by the state, for the purpose of enabling certain economic activities to grow vaster and faster than others. The inherent goal of incentives is to push the country towards a higher level of welfare, eliminate interregional imbalances and make certain groups of commodities and industries more tolerant against international rivals. (Sonmez, 2005) Provision of incentives allows for relaying sources on more fruitful areas for the national economy. (Çiloglu, 1997). Incentive policies are also regarded as a fiscal policy tool on the supply side, that is implemented by the state to attain a variety of economic and social goals. (Aykin, 2006).

In order for a practice to be recognised as an incentive, it should be pursued either directly or indirectly by the state. In most cases, incentives, which are provided for the exclusive use of private sector entities and which usually lay financial burden on state budgets may take the form of cash, tax or social security incentives.

The fundamental purpose of incentive practices is to support a certain community group against others. The very reason why such support is granted can simply be associated with economic, social or political preferences. An incentive practice is possible only when sources of societal nature are transferred to a predetermined segment of industrial sectors and community groups by the state, in line with its anticipated investment targets. It becomes possible, by virtue of incentives, to magnify the total volume of investment, redirect invested funds toward profitable areas, elevate the share of equities in overall investments, and improve differences in levels of development and intensify competitive power. (Sonmez, 2005).

Industrial states of the world appear to have recourse to incentive practices with such intents as preserving competitive power, ensuring continuity of technological advancements, minimising interregional differences in levels of development, hindering capital outflows, boosting productivity and intensifying employment. The developing countries, on the other hand, mostly appeal to incentive practices for reasons such as achieving economic growth, intensifying employment, reducing interregional differences in levels of development, improving international competitive power, facilitating technological know-hows, exports, industrialisation and direct foreign investment. (Duran, 2003).

Regardless of what underlying purpose incentives are meant to serve, due consideration should be given to the economic structure of a country, when determining the means of stimulus, insofar as the benefits expected from the incentive systems are to be obtained. The main intentions with an incentive should clearly be put forth, when determining the nature and means of incentives. Incentives should be canalised toward a given sector or region in dire need of support, and scientific facts should be put in good use, when identifying such sector or region. Incentives should bear a character that assures balance and competitive perfection and the tools identified should be capable of responding the needs. Especially sector-specific incentive practices are

implemented to discourage business entities intending to downsize their operations, or do the worst and discontinue their existence. (Sariso and Idris, 2008).

Incentives may vary depending on their goals, tools, extent and resources. (Duran, 2003).

- **Incentives by objectives** include those availed for the attainment of such objectives as boosting production and investment, enhancing competitive power, increasing direct foreign investment through exports, securing economic growth by minimising interregional differences in levels of development, or helping an increase in numbers of qualified workforce, research and development activities and technological advancements.
- **Incentives by time of implementation** include pre-investment, investment and operating period incentives.
- **Incentives by tools employed** include capital grants, tax incentives, in-kind incentives, revenue guarantee and loan guarantee incentives.
- **Incentives by sources** include physical capital and technology investment, profit-loss, effort, added value, sales, imports and exports incentives.
- **Incentives by scope and extent** include general- and special-purpose incentives. While general-purpose incentives apply to all economic segments, special-purpose incentives cover sectors, regions or segments with ascertained characteristics.

2.1. Tax Incentives

Taxes load a burden of cost on taxpayers, while raising funds for the state. Therefore, the state seeks for increasing tax revenue, in the meantime business entities probe on ways to lower operating costs by paying less, in terms of taxes. Very high levels of applicable tax rates drive business undertakings to lay weight on economic activities off-the-books, in order to avoid costs of taxation. Albeit it is possible to dissuade the tendency towards unrecorded business practices through a strong system of audits, obtaining a balance between the tax revenue of the public and the tax costs of business undertakings remains obligatory. Obtaining such balance is also necessary for attainment of economic stability and sustenance of competitive power.

Taxes may be raised to achieve economic growth, and be able to fund such goods and services as are necessary for everyone to take advantage of economic opportunities. However, the extra costs caused by an increase in tax rates may have adverse effects on economic growth and labour market. It would therefore be appropriate to adopt an effective, fair and simple tax policy when setting the applicable tax rates, for overcoming these adverse effects. (Duanjie et al., 2002).

Tax bills imposing a heavy tax burden may have detrimental effects on economic activities. In such case, some tax relief through refunds or immunities can be offered to certain sectors. As a matter of fact, this the general trend among national economies of the present day. (OECD, 2002).

The practical use of income tax in stimulating investments is rather common in advanced economies. In developing countries, governments effectively exploit some, if not all, other taxes as well as the income tax, in their attempts of encouraging investments. Tax incentives are generally practised for a certain period of time, upon expiration of which, they may either be repealed or sustained, depending on the actual developments and changes attained. Use of taxes as incentive tools may be grounded on a variety of distinct reasons. These are, as presented herein below. (Sarisooy and Idris, 2008).

- **To intensify employment:** Increased rates of unemployment slackens the rate of increase in employment figures. The need for labour tends to decline, in the pace of globalisation and advancements in technology. Business entities prefer countries that offer cheaper manpower, in an attempt to reduce their costs of labour. State offerings of tax incentives proves to be effective in intensifying incidents of employment, especially for small enterprises where labour-intensive technologies are predominant.
- **To Ensure Economic Growth:** An increase in number of new business undertakings, concomitant with an increase in productivity of existing entities poses grave importance for economic growth. Factors leading to an increase in productivity of an entity are improved throughput of the resident workforce and technological developments, which inspire the latter. (Bassanini et al., 2001). Putting economic growth in a stable, consistent stance is only possible through capital investments. It may be argued that the underlying reason of states having recourse to tax incentives is the positive influence of tax incentives on decision-making processes concerning investment.
- **To reduce unregistered economic activity:** All such activities as are not included in official records are counted and treated as unregistered economic activity. Such activities are not exposed on official records in order to avoid such legal obligations as are related with occupational safety and health, minimum wage or corporate governance in business undertakings. (Luttikhuizen and Kazamier, 2005). The rudimentary rationale giving rise to unregistered economic activities is mostly associated with an ill distribution of income in a country, a trend towards ignoring tax applications, pressures imposed by minimum requirements introduced by regulatory arrangements on management overheads, and inefficient, incapable tax audits. Given the positive impacts of tax incentives on downgrading unregistered economic activities, states usually fabricate their incentive systems to this end.

- **To increase tax revenue:** Demoting applicable rates through tax incentives forges the hands of business entities in paying for their tax obligations, which, in turn, yields more tax revenue. The effectiveness of such aspect of incentives that secures an increase in tax revenue is contingent upon the tendency among taxpayers for fulfilling their obligations, lessened occurrences of unregistered economic activities and tight controls put in place and running.
- **To Support R&D Efforts:** In current practice, business expenditures on research and development for innovations and technological advancements, which are considered key to productivity and growth performance are written off the companies' reported taxable income and earnings, as a tax incentive extended to such business entities. Tax incentives offered for this purpose are generally implemented without discrimination of industrial sectors. The scope and extent of these incentives are determined according to the basis, applicability or design or development aspects of innovative technologies. (OECD, Tax Incentives., 2002)
- **To Achieve Competitive Equality and Improve Competitive Power:** The competition policy incorporates measures aiming at increasing consumers' levels of welfare by eliminating the barriers ahead market conditions. Cost is one of the paramount factors that affect competitive power among business enterprises. Those entities who produce at lower cost gain relatively more competitive power than the rest. Therefore, tax incentives offered to business entities facilitate for achieving an equilibrium between competitive powers of businesses, adding on to their power to compete on global scale.
- **To Reduce Environmental Pollution;** It seems that states make more and becomingly better use of tax incentives in raising community-wide awareness on environmental cleanliness, in line with the ever-growing trend for attaching more importance to policies on environment. Incentives that provide allowance through pro rata deductions of costs resulting from acquisitions of new, environment-friendly technologies can be regarded in this category.

The effectiveness of tax incentives depends on the applicable rates, duration and extent of taxes, which are used as the primary tool of encouragement, and the magnitude of tax losses and evasions. (Sarisoy and Idris, 2008). Tax incentives are introduced either through direct inclusion in existing laws of the country on taxation, or by a brand-new regulatory arrangement.

Tax incentives may be practised in such forms, in any bundle or combination, as allowances, refunds and/or exemptions on revenue directly collected from business entities and raw or semi-finished inputs directly used

in production for exports and as indirect incentives, comprising taxes applicable over sales of capital assets, customs and excise duties. (Tekin, 2015, Zee et.al, 2002)

2.2. Social Security Premium Incentives

Unemployment is one of the most prominent issues that is known to affect the labour market, with its economic and social implications. At regions where unemployment rates retain dramatic levels, promotion of investments is crucial for creating newer job opportunities. Provision of support for investments aimed at intensifying employment, on the other hand, is assured through tax and social security premium incentives. Encouraging investments in certain areas of professional engagement, employment promotions aimed at accomplishing better improvement of certain economic activities in relation to others, activation of loan guarantee incentives, creation of new jobs and adoption of different operating models are among viable measures to help intensify employment. (Yazici, 2015). Besides, policies anticipating a drop in overall costs of labour have been proven to work well in service of the notion of intensifying employment. Recruitment incentives intend to lower the employer's wage and non-wage costs. Cash bonuses, rewards and tax credits extended to employers in remuneration for their practices of recruiting disadvantageous groups or jobless individuals also help intensify rates and instances of employment.

The fast-paced growth of the world population combined with concurrent developments in economic and technological fields mandates development of new policies from scratch, in the ongoing struggle with unemployment. States come up with new policies on employment, with the objective of creating new jobs. At this end, efforts are already underway for popularising a number of differing approaches to practical conduct of work, such as support for new business inceptions, flexible work arrangements, part-time jobs, telecommuting and etc. (Cengizçetin et.al, 2014-2015). Here, what gains notable importance is the provision of support for in-service or on-the-job training classes that are mainly intended to enhance and improve the qualifications, as well as professional experience possessed by the existing workforce.

It is of common observation that unemployment, as an ongoing issue, has grabbed an incredible spin, deepening its presence and effects on the society, in a communal setting that is forced to shift from labour-intensive production to capital-intensive production, by industrialisation. This fact entails to shrinking employment opportunities, and evinces the eminent need on the part of the government to support the employer.

The SSP incentives are practical applications introduced either on a transitory or permanent basis, in an attempt to lift, although in part, the burden of the global financial crisis that has a special influence in working life, on the employers and to lower the costs of employment incurred by the same down to a tolerable range. The ultimate objective of these practices is to intensify employment.

The common purpose of SSP incentives may be considered to be a fiscal transfer directly to the employer, since they are primarily and principally meant for preventing dismissals due to involuntary business downsizing attempts, or encouraging more recruitments. (Biçer, 2007).

3. Employer's Tax & SSP Incentives Already In Effect Across Turkey

Turkey is currently entangled with such structural problems as growing rates of unemployment attributable to lack of economic growth and globally persistent financial crises, unfair distribution of income, and interregional differences at levels of development. Accordingly, she has put up in practice and is presently offering incentives that guarantee some release and relief from such burdens as created by taxes and social security premiums (employer's share), with a view to encourage investments by business venturers and entrepreneurs. Article 49 of her Constitution provides that "The State shall take the necessary measures to raise the standard of living of workers, and to protect workers and the unemployed in order to improve the general conditions of labour, to promote labour, to create suitable economic conditions for prevention of unemployment and to secure labour peace". In this context, the State introduces tax and social security premium incentives in support of intensifying employment and improving the general conditions of labour, through a set of statutory arrangements.

The employer's tax & SSP incentives already in effect across Turkey, include the following:

- A five-point discount in the employer's share in disability, old age and survivor's insurance premiums, per paragraph (1), Article 81 of the Social Insurances and Universal Health Insurance Act Numbered 5510 (to be shortly referred to as "Act 5510" hereinafter),
- A five-point discount in the employer's share in general health insurance premiums of expatriates, per Art. 81, par (i), Act 5510,
- An extra six-point discount in the share of employers of ten or more registered workers in applicable social security premiums, per Art. 81, second paragraph of Act 5510,
- SSP incentive for employers of insurants receiving regular payments under any unemployment benefit scheme authorised by Act 5921 amending the Unemployment Insurance Act and the Social Insurance and General Health Insurance Act, offered per Art. 50, par. 5 of Act 4447 on Unemployment Insurance;
- Social Security Premium incentive extended to employers for recruitment of young and female labour, per prov. Art. 7 of Act 4447 on Unemployment,

- Social Security Premium incentive extended to employers for recruitment and professional in-service education of young and female labour, per prov. Art. 10 of Act 4447 on Unemployment,
- Social Security Premium incentive extended to employers for recruitment of individuals with disabilities, per par. 6, Art. 30, of the Labour Act 4857,
- Social Security Premium (employer's share), tax incentives and wage allowances granted to private employers hiring additional labour from among female, disabled or young populations, per prov. Art. 19, 20 & 21 of Act 4447 on Unemployment Insurance, included by virtue and requirement of Act 7103 Amending Tax Laws and Other Certain Acts and Decree-Laws,

In order of chronology of appearance. Furthermore, another incentive is provided under Provisional Article 75 of Act 5510, granting basic wage allowance to employers. Moreover, included among the current incentives are various supports such as tax and energy support and work space allocation, in addition to social security premium incentives, mainly intended to assist regional and sectoral developments and growth. Incentives offered in this category are arranged under the Turkish laws, as follows:

- Act 5746 on Supporting Research and Development Activities envisages an income tax withholding incentive, under 2nd paragraph of its Article 3. In this context, the wages received by workers of technology centres and research and development facilities with certain qualifications excluding public contractors and/or servants are exempted from application of income tax, by up to a rate of ninety-five percent, if a bachelor's degree is held, or of ninety percent, if a post-graduate degree is held, or, of eighty percent, if neither of the foregoing credentials are held or can be proven by concrete evidence. In pursuance of article 3, paragraph 3 of the referenced law, the employer's share in social security premiums calculated based on wages actually received by activities conducted by institutions of research and development shall be compensated from a fund to be established within the framework of this incentive, by half. (Saracoglu and Gumus, 2017).
- The income tax withholding incentive provided under Article 3 of the "Encouragement of Investments and Employment Law" Numbered 5084, has expired as of December 31st, 2009, for investments realised on or before December 31st, 2004. This law arranges for an incentive concerning the employer's share in social security premium under its Article 4. According to this provision of law, natural and corporate payers of income and corporate tax obligations will be rewarded with partial or total immunity from the employer's share in social security premiums as calculated for new recruits they choose to hire at their business premises located in provinces specified by this Law, based on taxable income and earnings reported by the same.

- Law 5225 for the Promotion of Cultural Investments and Initiatives arranges for a special discount over income tax withholdings in paragraph (b) of its Article 5. Investors and entrepreneurs holding a valid license issued under this law will enjoy a discount in their income tax obligations to be calculated based on wages paid to insurants set to work at their premises, by fifty percent for a period of three years and twenty-five percent for a period of seven years from the date of investment made for the latter's recruitment. Furthermore, paragraph (c), Article 5 of the referenced law provides that the employer's share in social security premiums of insured workers assuming positions at workplaces covered by the Law will be compensated by the State Treasury by fifty percent for three years and by twenty-five percent for another seven years following the investment. (Saracoglu and Gumus, 2017).

The incentives and allowances are not limited to those having been enumerated above until this point, but, include some exclusions in taxation of wages earned by workers hired and employed under Act 4691 on Technology Development Areas and Act 3218 on Free Trade Zones. In addition to all these incentives and encouragement, a Parliamentary Decree No. 2009/15199 on State Grants in Investments has been enacted, along with its enforcing regulations, to extend support for employer's share in workers' social security premiums, as collated and compiled under Supplementary Section Two of the Act 5510. Below is a detailed description of this and other incentives mentioned herein before.

3.1. A five-point discount in the employer's share in disability, old age and survivor's insurance premiums

Paragraph (1) of Article 81 of Act 5510, appended to the latter on 15th of May, 2008 by virtue and requirement of article 24 of the Law 5763 Amending the Labour Act and Certain Other Laws provides that "*The shares of private employers in disability, old age and survivor's insurance premiums of the insured workers employed by the same under a service or employment contract that falls within the enforceability coverage of paragraph (a) Article 4 of Act 5510 shall be covered by the State Treasury by up to amounts corresponding to five points of the employer's share in such obligations*". The main intention with this arrangement has been to extend some support to private employers for lowering their already high costs of labour, while improving their competitive power.

The guidelines for implementation of incentives have been published by the Social Security Administration through the Public Ordinance of 19.11.2009 with Enactment Number 2009/139. The incentives gained full force and effect as of October 1st, 2008, to remain as such for an indefinite period of time. According to the aforementioned public instrument, it is possible to benefit from the incentives until such time when the insurant leaves or resigns work under the Employer.

In order to qualify for and earn title to social security premium incentives, the interested employers should deliver monthly premium and service records of the insureds employed by the same, effectuate payments of such portions of their share in social security premiums that are not covered by the State Treasury under the incentives in full, within such statutory time limits as specified by the Law, and should have no pending debts with respect to the foregoing, including, without limitation, any administrative fines, delay penalties and late fees, as the case may be, imposed upon them, or, alternatively, move in petitions for their deferment or restructuring for fulfilment at fixed instalments under Law 6183 on Collection of Public Debts, or, in any other form affordable, per the Law Amending Law 4958 on the Restructuring of Social Security Premium Debts and Certain Other Law Texts. Only those enterprises which are owned by private sector companies by at least fifty percent or more are eligible for the incentives. What is more, the professional engagement pursued by such enterprises that benefit from the incentives should not involve or entail to, or otherwise support any activity pursued under contract as per the State Procurements Act.

The application of incentives require that the insureds registered to work under the beneficiaries to perform work under a valid and effective service or employment contract. Such application covers only beneficiaries of any available long-term insurance schemes. (Guzel et al. 2014).

The amounts of premium obligations covered by the State Treasury under an incentive plan are not recognised as an item of cost or expense, for the assessment of income and corporate tax obligations. Employers, who are found to have failed in taking the timely and prompt steps for making a full disclosure of the insureds employed at their own premises are deprived of the right to obtain and use this incentive, for a period of one year, following such finding.

3.2. A five-point discount in the employer's share in general health insurance premiums of expatriates

Paragraph (i) recently appended to Article 81 of Act 5510 on May 21st, 2013, by virtue and requirement of Section 5 of the Law 6486 Amending the Social Insurances and General Health Insurance Act and Certain Other Law Texts provides that *“The State Treasury is hereby authorised and obligated to pay for, to sufficiently cover, any sums that correspond to five-points of the employer's share in the social security premiums applicable to the latter's workers taken or sent to work at premises owned by that private employer on abroad either for a definite period of time or indefinitely for and upon instructions of that Employer within the meaning and reference frames of sub-paragraph (a), paragraph one of Article 4”*.

In order to qualify and become eligible for the incentive covered by this arrangement, the private sector employers of concern should fulfil the requirements specified by paragraph (i) within such periods as permitted or required under the law as well. In order to qualify for and earn title to this incentive, the employer of interest

should have either taken or sent its insured workers to work at work locations situated on abroad and on behalf of the same. What is more, the professional engagement pursued by such enterprises that benefit from the incentives should not involve or entail to, or otherwise support any activity pursued under contract as per the State Procurements Act. The SSP incentive of concern gained full force and effect as of 2013, to remain as such for an indefinite period of time.

3.3. An extra six-point discount in the share of employers of ten or more registered workers in applicable social security premiums

The recently inserted paragraph two of Article 81 of Act 5510 by virtue and requirement of Article 5 of the Law 6486 provides that *“H.E. President of the Republic is hereby authorised and shall henceforth reserve the right to make increments on such points of the private employer’s share in workers’ social security premiums payable in respect of workers employed subject to a valid and effective insurance and post-retirement scheme under subparagraph (i) of the first paragraph of Section 4, by the State Treasury by up to a total of six points above the lower income threshold, on which computations of premium charges are calculated, and determine the cities and durations for which this incentive will be available.*

In pursuance of this law provision, those employers who have operations at locations as are determined in either of three separate regions, having due regard to the socio-economic development index values thereof, as per the Cabinet Decree 2013/4966 of May 30th, 2013, and who employ workers under a valid and effective insurance and post-retirement scheme, shall be considered eligible for an incentive covering their share as the employer in social security premiums of the prescribed workers to be implemented by up to a total of six points in addition to the original five points. The duration for which such incentive will continue to be available has been set until December 31st, 2018, with such date inclusive. In order to benefit from this incentive, the intended employers should have an active work location in one of the places specified, and fulfil all the requirements sought for the incentive of five-point discount as provided under paragraph (i), Article 81 of Act 5510.

Additionally, those employers found to have failed to make a full disclosure of the insured statuses of their employees, or, if that disclosure has already been made, then any disclosed employee found to have never existed or no longer exists in his/her post, shall be deprived of the right to benefit from discounts provided by the incentive for a period of one month, following such discovery. In the event that a malpractice or misconduct becomes evident wherein, the benefits provided by the incentive are exploited unjustifiably, then the employer to whom such felony is imputable, shall be charged with payment of a default interest and late fee, in addition

to the whole balance of sums covered theretofore by the State at or below five plus six points percentile as authorised by the incentive scheme.

3.4. Social Security Premium Incentives Facilitated to Employers of Insurants Receiving Unemployment Benefits

According to paragraph 5, Article 50 of Act 4447 on Unemployment Insurance, as amended on August 11th, 2009, by section 1 of the Law 5921 Amending the Unemployment Insurance Act and Social Insurances and General Health Insurance, both the workers' and employer's share in social security and general health insurance premiums of those insured workers performing work under a service or employment contract, as beneficiaries of any of the currently active government insurance schemes, at a rate not exceeding one percent of the total amount of sums calculated to represent short-term insurance premiums based on the lower income threshold limit that provides the basis for computation of the premiums in question, shall be covered by the unemployment fund, provided that such workers have started their employment upon recruitment and initiation by the respective employer, in addition to and excess of the average number of employees reported by that employer in premium and service documents for the last six months, starting from the month that precedes the recruitment and initiation, for the entire period of time, during which unemployment benefits will continue to be paid. (Guzel et al. 2014).

In order for the aforesaid premiums to become eligible for being covered by sums supplied from the Unemployment Insurance Fund, the related employers should have an office, work location or other premise in place and running in private sector ownership, have prepared and submitted the monthly premium and service documents in respect of its insured workers employed therein, and have paid the surplus balance of social security premiums as per the applicable schemes and of the originally reported wage or earnings for computation of the amounts of contribution, to the Social Security Administration, within such times as permitted under the effective Laws.

The period of availability of the incentive shall be equal to the amount of time during which each insured worker covered by the incentive plan will continue to receive benefits, provided that, his/her service or employment contract remains in full force and effect, after the date of his/her recruitment by the employer. (Korkusuz and Ugur, 2013).

3.5. Social Security Premium incentive extended to employers for recruitment of young and female labour

Provisional article 7 inserted to Act 4447 on Unemployment by virtue and requirement of Section 20 of Act 5763 amending the Labour Act and other Acts provides an incentive with an applicability period of one to five

years, that implements a discount in employer's share in social security premiums payable in respect of male insured workers falling within an age grouping of 18 to 24 years and new recruits above legal age (which is 18 years). This incentive legitimises compensation of the employer's share in social security premiums by the unemployment fund, at one hundred percent for the initial year of employment, and then at declining rates from the initial year's original rate less twenty percentile points to twenty percent on the fifth year of employment.

Employers wishing or willing to take up this initiative will be required to have permanent operations in Turkey, not to engage in works performed under contracts within the meaning of Public Procurements Act or State Tenders Law, and to have recruited and employed extra labour for the biannual envelope following July 1st, 2008, when the Law was re-enacted, under an authorised social security scheme, in addition to the average numbers of regular, resident labour recruited and employed within the year preceding May 15th, 2018, when the Law was for the first time, enacted.

Other requisites that employers will be expected to fulfil include monthly premium and service documents prepared and submitted for all insurants assuming office or duty at the latter's workplaces to the Social Security Administration, with timely and prompt payments in full, of their share in social security premiums applicable to the workers less such amounts that are covered by the incentive plan through sums drawn from the Unemployment Insurance Fund. The sums of social security premiums that are covered from the Unemployment Insurance Fund are not regarded as a component or item of expense or cost for calculation and appraisal of income and corporate tax obligations.

While the period of availability of this incentive has recently expired, support is still extended to employers under the incentive scheme provided by provisional article 10 recently appended to the context of Act 4447.

3.6. Social Security Premium incentive extended to employers for recruitment and professional in-service education of young and female labour

This incentive was adopted by adaptation to the context of Act 4447 on Unemployment Insurance, through insertion of a new paragraph as provisional article 10, in pursuance of the Law Numbered 6111 of February 13th, 2011, Amending Legislative Arrangements Concerning the Recomposition of Public Collectibles, the Social Securities Act and General Health Insurance Act as well as Certain Other Laws and Decree-Laws. This incentive imposes a set of certain conditions upon both insurants and employers benefiting from it, with a view to encourage and intensify participation of female and young individuals in the workforce and their employment, create and foster new job opportunities and thereby prevent unemployment and inspire professional-technical education.

Those insurants that fall within the applicability coverage of this incentive should have started work under a service or employment contract between March 1st, 2011 and December 31st, 2020, as active subscribers of any effective government social security scheme, be of or above legal age, which is 18 years, and represent extra labour recruited and set to work by their employers in addition to the regular, resident staff of the latter, and have never benefited from this incentive before. Female insured workers must be older than 18 years, while male insured workers should be in the age group of 18 to 29 years. The incentive is also made available for male insured workers who are older than 29 years of age for semi-annual periods, provided that these insurants submit, in time of their recruitment for the first time by the employer, satisfactory proof of the fact that they have been unemployed and had their names listed on official records of the employment agency (ISKUR).

For being considered as eligible for taking advantage of this incentive, employers should not be engaged in a goods supply or works contract executed and delivered in due course of procedure under the State Tenders Act Numbered 2886 and Public Procurement Law Numbered 4734, have delivered monthly premium and service records of the insurants employed by the same, and effectuated payments of such portions of their share in social security premiums that are not covered by the State Treasury under the incentives in full, within such statutory time limits as specified by the Law, and should have no pending debts with respect to the foregoing, including, without limitation, any administrative fines, delay penalties and late fees, as the case may be, imposed upon them, or, alternatively, move in petitions for their deferment or restructuring for fulfilment at fixed instalments

The duration for which the offer shall stand with respect to this incentive plan has been set in a number of options that vary depending on the actual age of each insurant and the types and nature of documents he or she has submitted. Accordingly, incentives will be available for those in possession of valid professional competence certificates, for a period of forty-eight months, or, for graduates of vocational and technical high schools or of an associate degree programme of a college or university or participants of a successfully completed training course, which is designed and implemented for raising adept workforce by the Employment Agency of Turkey, for a period of thirty-six months, subject, in each case, to demonstration of satisfactory proof of qualifications in time of application, in addition to those lacking any of the foregoing qualifications or credentials, for twenty-four months, or, jobless registrants of the Employment Agency of Turkey, for twenty-four plus six months, or, those having received a valid professional competence certificate while working for an employer, out of insurants performing under a service or employment contract, for twelve months, and finally, other jobless crowd above legal age of 18 years, from among male individuals in the age group of 18 - 29 years and female individuals older than the legal threshold (that is, 18 years).

3.7. Social Security Premium incentive extended to employers for recruitment of individuals with disabilities

People with disabilities face enormous hardships in sustaining life as an individual and member of the society, or attending personal care or activities for self-subsistence, as a result of physical, mental, emotional and social abilities lost to a birth defect or natal or subsequent disease or a near-miss accident, or, due to disintegration of vital functions and interception of working capacities by a chronic illness. (Seyyar, 2001). Therefore, there must be some exclusive arrangements in place and running that efficiently address the peculiar needs of these people. In an effort to bring a cure for this long-lived shame, the new paragraph 6 was introduced into the context of Article 30 of Labour Act Numbered 4857, by virtue and mandate of Article 2 of Law Numbered 5763, on May 26th, 2008. (Subaşı, 2011). The incentive brought about by this paragraph has initially been introduced as of July 1st, 2008, to survive for eternity.

This incentive bestows full authority upon the State Treasury to satisfactorily cover any and all debts associated with employer's share in social security premium payable for those fitting in the description of people with disabilities, as employed by those enterprises which are legally bound to recruit and employ people with disabilities by a share of three percent in their total staff count, as calculated from time to time, or at any time, over the lower income threshold based upon which the premium contributions are computed. (Çelik, et al. 2014). Likewise, the State Treasury covers fifty percent of the share of employers who have already an active workforce of 50 or more individuals, yet, choose, in professional courtesy, to recruit and assign people with disabilities and not for ensuring compliance with any statutory requirement, in social security premiums paid by the latter in respect of said workers, as calculated over the lower income threshold based on which the premium contributions are computed.

In order for the employer to become eligible for this aid, its insured staff should include people with disabilities working under a duly executed service or employment contract as beneficiaries of a public social security or insurance scheme, entitling for post-retirement benefits including pensions. As a rule of practice, those enterprises, which are not private sector establishments or are engaged with work or assignments involving performance in the subsurface or under water.

3.8. Social Security Premium (employer's share), tax incentives and wage allowances granted to private employers hiring additional labour from among female, disabled or young populations

A group of Social Security Premium (employer's share), tax incentives and wage allowances have been adopted for use in supporting private employers who hire and employ additional labour from among female, disabled or young populations per prov. Art. 19, 20 & 21 of Act 4447 on Unemployment Insurance, included by virtue and requirement of Act 7103 Amending Tax Laws and Other Certain Acts and Decree-Laws.

-Those insurants who are eligible for the incentive provided under Provisional Article 19 should be either female workers older than 18 years of age, or male workers falling in the age group of 18 to 25 years, certified as jobless on the records of IS-KUR, and should have been recruited and initiated to work for their private employer between 01.01.2018 and 31.12.2020 based on terms and conditions of a validly executed service or employment contract, with no previous records of employment for more than a total of ten days as an insurant of a formally recognised public insurance/social security scheme for the three years left behind since their latest employment, and should demonstrate that they have been hired by their current employer in addition to the average number of insured workers as shown on the monthly premium and service documents reported by their workplace, for the year preceding the date of their recruitment on the calendar.

If the business entities that are willing to benefit from this incentive pursue active engagement *in the manufacturing or IT industry*, then they will be entitled to a support in payments of employer's share in social security premium obligations in respect of their workers, to be applied in the total sum of workers' and employer's share in social security premiums calculated so as not to exceed the product of daily gross minimum salary applicable to the term of relevance multiplied by the total number of days subject to payment of premiums of the insured workers, through proportionate monthly set-offs from all premium obligations payable by the employers to the Social Security Administration. The amount immunised by the incentive shall be drawn from the Unemployment Fund. If the business entities that are willing to benefit from this incentive pursue active engagement *in any other industry or sector*, then they will be entitled to a support in payments of workers' and employer's share in social security premium obligations in respect of the workers employed, to be applied in the total sum of workers' and employer's share in social security premiums through proportionate monthly set-offs from all premium obligations payable by the employers to the Social Security Administration. The amount immunised by the incentive shall be drawn from the Unemployment Fund. What is more, the professional engagement pursued by such enterprises that benefit from the incentives should not involve or entail to, or otherwise support any activity or work performed under a contract signed and delivered as per the Public Procurement Act or State Tenders Law.

The employers shall be expected to have prepared and delivered the monthly premium and service documents for the insured workers employed by them in a timely and complete manner, and paid portion of their obligations that are not covered by the incentive within legally permitted time frames. Those employers who have outstanding debts with the Agency and yet, never applied for any restructuring through fixing instalments, or are found to employ workers off the book will not qualify for this incentive. The duration of availability for this incentive shall cover a period of twelve months until December, 2020. Such duration will be eighteen

months for female workers older than 18 years of age and male and disabled insured workforce aged between 18 and 25 years.

-The special account made under provisional article 20 to the so called “*Bir senden bir benden*” (which may be transliterated as “State-Private Employer Collaborative Participation Programme”) incentive, requires, as its name suggests, that the wages, premium and tax obligations of insured workers be covered by the State Treasury during one month, and the Private Business Owner during another, in successive alternation, for micro to small sized business undertakings, depending on employment of one to three young insured workforce in the age group of 18-25 years.

Those insurants covered by this incentive are merely young workforce within the age group of 18 to 25 years. In order to qualify for this incentive, the employers should have primary engagement in the manufacturing industry, as well as a valid certificate of proficiency and one to three workers, and be owned and operated by a private proprietor or group of private individuals, in addition to fulfilling the other requirements sought under article 19. The duration of availability of this incentive has been set to the time frame between January 1st and December 31st, 2018. This incentive can be benefited by authorised employers for up to two insurants, at a time.

-According to provisional Article 21, “*the balance remaining after application of minimum living allowance discount on monthly gross salaries that correspond to the number of days counted for premium payments out of wages applicable to wagers hired per provisional articles 19 and 20 shall be written off from the accrued amount of tax as shown on the relevant withholding tax return to be then submitted.*” This provides a tax aid for employers. While the duration of availability and conditions of eligibility for this incentive are to be determined according to the provisional articles 19 and 20, beneficiaries of this plan are not allowed to facilitate from income tax withholding incentives provided under other laws.

3.9. Social Security Premium Incentive Facilitated to Employers In Line With Decisions Regarding State Aid in Investments

This incentive was adopted by adaptation to the context of Act 5510 on Unemployment Insurance, through insertion of a new paragraph as supplementary article two, in pursuance of Article 3 of the Law Numbered 5921 Amending the Social Securities Act and General Health Insurance Act, on August 18th, 2009. This paragraph contemplates that the workers’ and employer’s shares in social security premiums payable in respect of insured workforce hired and employed by private employers holding a valid incentive certificate issued under the Cabinet Decree 2009/15199 shall be covered by the State Treasury, up to the full amount. The sums

to be immunised under the incentive scheme are assessed according to regions specified by the law, having due regard to their level of socio-economic development.

The objectives with this incentive are enumerated as closing interregional gaps in levels of development, improving competitive power and foster and channel more investments on research and development. Incentives shall be applicable to a total of four regions each comprising Turkish provinces. The areas of investment to qualify for the range of support and allowances offered by this incentive scheme have been set and specified by the Cabinet in their Decree 2009/15199, having due regard to the investment potential and competitive power of each geographical grouping. (Yildiz, 2010).

The Cabinet Decree has further been supplemented with the Public Ordinance No. 2009/1 “Regarding Enforcement of the Decree on State Aids in Investments” as published and enacted on July 28th, 2009, laying down the guidelines for the aforesaid incentive scheme. The incentive shall be available to all natural persons, unincorporated companies, capital companies, cooperatives, business ventures, public agencies and organisations (including general and special budget entities and organisations, special provincial administrations, municipal administrations, state economic enterprises and establishments and organisations holding an interest of not less than 50% in the registered capitals of the foregoing) and professional organisations bearing the character of a public organisation, associations and charitable foundations, as well as branches and representations of international corporations having legal seat within the territorial borders of Turkey. The incentive shall become formally utilisable by beneficiaries of the respective scheme, from start of the month that follows the date of notification of corporate information of the company named on a valid incentive certificate, having accomplished organisational setting up and operational start-up forthwith upon issuance of the completion visa, which shall be deemed as the effective date of operational start-up, by the Undersecretary of State Treasury to the Social Security Administration, in pursuance of sections 12 and 20 of the referenced ordinance.

The insurants covered by the incentive scheme are identified in paragraph 1, Section 20 of the ordinance. According to the provisions of this paragraph, the total number of insured workers that form the subject of the incentive scheme may not, and, should not exceed the maximum number of allowable insured workers communicated in writing by the Undersecretary of State Treasury in case of brand-new business start-ups treated as an investment, or the actual number of insured workers communicated in writing by the Undersecretary of State Treasury, in addition to the average number of workers in a business establishment, in case of other investments. Furthermore, the employers shall be expected to have prepared and delivered the monthly premium and service documents for the insured workers employed by them in a timely and complete

manner, and paid up their share in premium obligations within legally permitted time frames, and should have no pending debts with the Agency.

The duration of availability of this incentive has been set as a maximum of two, three, five and seven years respectively for the predefined geographical regions, for investments initiated before January 1st 2012, or a maximum of three years for the third region only and five years for the fourth region solely. It has also been made clear that the amount of allowance authorised for employer's share in social security premiums under the incentive scheme in implementation may not exceed 6% for Region I, or, 8% for Region II, or, 10% for Region III, or, 14% for Region IV, of the fixed amount of investment realised in business supported under regional schemes, or, alternatively, 2% for Region I, or, 3% for Region II, or, 5% for Region III, or, 7% for Region IV in case of large-scale investments, and, that all regions shall receive an increment of 5 points to these applicable rates for SMEs that fall within the category of investments supported by this incentive.

4. Conclusion

Any policy to be elaborated on the subject of economy, for assuring a stable economic growth in Turkey or in the World, needs to be in mutual interaction with social policies. The most significant outcome of an increase in the investments needed for economic growth is intensified employment, attributable solely to newer job opportunities created. States make use of tax policies for the attainment of these targets. The State acts as the provider of incentives in such forms as application of more affordable taxes for private sector employers, aids on social security premiums, or withholding tax abatements, to relieve the pressures exerted on employers by constantly growing costs due to legal arrangements that regulate tax loads and working life. Provision of incentives is considered essential for assuring social welfare and removing the barriers beyond economic growth, although this means loss of revenue, on the part of the state.

There are several encounters of incidents of recourse to incentives by state governments in both industrial and developing countries of the modern world, attempted for ensuring sustainability of competitive power, reducing unfair distributions of income, preventing informal or clandestine employment, attenuating the risk of unemployment, encouraging foreign direct investments, boosting technological advancements, improving productivity and throughput, creating new job opportunities and rendering the labour market qualified. Incentives provided through positive discrimination in favour of especially the disabled, young and female working population, whose access to or participation in the labour market remains limited gain increasing importance.

While support given through tax incentives to investments constitute the choice of preference in advanced economies, the developing countries choose to take the other options. Tax incentives are generally provided

by means of a legal arrangement, on a temporary basis. The rules applicable to the incentive and conditions of availability are carefully determined, having due regard to the economic and social level of development attained by the host country. Tax incentives are also accompanied by social security premium incentives for employers. SSP incentives are incentives of temporary or permanent nature, expected to cut down fiscal burden on employers with primary engagement in the private sector.

A review of the Turkish legislative arrangements reveals that an abundant number of laws, in assistance of ancillary regulations, have historically introduced umpteen tax and social security premium incentives for exclusive use of employers, with examples led particularly by the Social Securities and General Health Insurance Act 5510 and Unemployment Act 4447. A closer look to the incentives currently extended to private employers shows that in fact, they serve the following goals in common:

- Increased participation by young, female and disabled individuals in the workforce,
- Encouraging professional and technical education,
- Fostering recruitment of jobless individuals that receive unemployment benefits,
- Improving activities pursued by centres of research and development and technological facilities,
- Lending support for entrepreneurs for an increased number of business inceptions,

While not any definitive time frame has been spelt for certain incentives, others are left indefinite. A whole bunch of new responsibilities have been introduced for fulfilment by employers to qualify for existing incentive schemes. The complicated nature of conditions of availability and huge number of bureaucratic procedures defined for the incentives magnify the potential of employers to make mistakes, which, in turn, diminish the benefits expected from the incentives.

Turkey is at the edge of a long-lived struggle with informal, unregistered employment. We believe that adopting and implementing practices in support of the private sector industries, for restructuring of the workers' social security system of the country in a viable and sustainable manner through incentives under active labour market policies are both necessary and appropriate. The burden of costs created by incentives and support in the public budget as well as the gaps left in the social security system should essentially be accounted for when drafting such policies.

Removing the obstacles to labour market through reduction of the cost burden on employers not related to wages is a must. The current multi-layered loads of taxes on wages and on social security premiums give rise to an unavoidable increase in costs of labour, which situation, in turn, disfavour formal, registered employment.

We are of the opinion that sector-specific supports should be accompanied and assisted by further support and grants to be held at regional levels, along with the support formalised for the private sector industries, insofar as manpower migrations to urban settings from localities with scarce employment opportunities are to be prevented. In the meantime, there appears the need for assuring effective implementation of policies that foster and support professional education for self-improvement of individuals with prospects to join the labour market as qualified workforce. By doing so, it will be possible to create a market of qualified labour, populated by individuals devised with appropriate technical skills as well as the quality and aptitude of an entrepreneur.

With focus laid upon the incentives in effect, our humble suggestions and considerations regarding matters that need to be duly addressed when organising new incentive schemes, would be, as follows:

- The conditions of availability defined for incentives can be unintelligibly complicated, due to absurdly overwhelming legal obligations and stupidly complex bureaucratic procedures. Therefore, the conditions of availability for the incentives should be rendered simpler for a better comprehension and fulfilment, and employers should be released from the already heavy bunch of legal obligations as well as complex and time consuming bureaucratic procedures.
- Incentives for professional education should be amplified and set firmly on an indefinite course.
- The outcomes obtained through experience with incentives should be used as feedback for future assessments of newer incentives to be established and implemented, with proper reference made to the very rationale underlying the incentives and a thorough analysis of applied rates versus effects.
- Both the extent and amount of support provided by incentives should be augmented, if meant for charming newer investments.
- Incentives should be provided for an increased output in production as well as a modest elevation in numbers of entrepreneurs.
- Incentives should be assessed together with other incentives in order to prevent an attenuation in terms of effects and outcomes within a given scope and implementation time frame.

Should all of the above points are properly taken into consideration in time of efforts dedicated to arrangement of newer incentives and schemes, it should be possible to secure the benefits expected from active labour market policies set for effectively addressing and eliminating the employment problems that hinder economic growth.

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