

# AN EVALUATION OF SUBSIDIES GRANTED TO THE PRIVATE EDUCATIONAL INSTITUTIONS WITHIN THE FRAMEWORK OF TURKISH TAXATION SYSTEM

Aslihan ÖZEL ÖZER<sup>1</sup>

Buğra ÖZER<sup>2</sup>

Sercan AKIN<sup>3</sup>

## Abstract

One of the most essential concerns that governments have to deal with has been the theme of Economic growth and development. In order to be able to sustain the aforementioned objectives, states and governments instrumentalize fiscal policies in which subsidies occupy a substantial place. The basic rationale behind these fiscal policies including subsidies has been the allocation of resources to those fields with better and more efficient prospects within the general good of the economy. Despite convergences seen in terms of types and implementation of subsidies, the basic objective is to accomplish higher rates of economic growth and investment.

By means of the Decision of the Council of Ministers of Turkish Republic dated June 19<sup>th</sup>, 2012 investments to be handled for primary, secondary and high school educational institutions investments were evaluated within the framework of fifth region with the labeling of priority investment contend for the related educational investments. Along with the closure of private-mentoring facilities, the related facilities investors were foreseen to utilize the subsidies to convert these facilities to schools, thereby minimizing the costs of investments coupled with rises in investments. The effort of the study, given the given scope and framework, is to elucidate and to analyze arrangements and recent developments in regard to grants of space and location for investments and exceptions regarding the insurance and tax exceptions and exemption within a general framework of aforementioned subsidy program in Turkey for educational institutions.

**Keywords:** Incentives, Education, Tax Exemption

**JEL Code:** H71, H52, H26, I22

## 1. Introduction

Governments' grants and subsidies provide the private sector and related actors in the name of economic development and growth. As the concerned grants may vary from location to another, these grant schemes may differ on the basis of sectoral basis as well.

Education as a field has a quintessential role to play from the point view of contributing to the making of qualified labor force as a component of the making of human capital. While public sector is predominantly involved in the private sector, private sector is also actively indulged in the related field. The subsidies and grants program oriented at the private sector actors in the education field strengthen the private sector partner, thereby contributing to a more effective and quality provision of services along with the realization of higher rates economic

<sup>1</sup> Ph.D., Asst. Prof., Manisa Celal Bayar University, Ahmetli Vocational College, Tax and Accounting Applications Program, aslihanozel@yahoo.com

<sup>2</sup> Ph.D., Assoc. Prof., Manisa Celal Bayar University, Faculty of Economics and Administrative Sciences, Department of Political Science and International Relations, bugraozel@gmail.com

<sup>3</sup> Manager for Mavişehir Science Private Educational Courses, akinsercan1@gmail.com

growth and development. A review of implementations and applications in the education field characterized with positive externalities in particular with emphasis on regulations directing at reinforcement of private investments and analysis of the aforementioned schemes shall contribute the development of the private sector in education.

This work has the objective to present a literature review on the implementation of private education sector within a context of Turkish taxation system along with elaboration on different aspects of the scheme

The effort shall be to provide information on the fundamental regulations in regard to the subsidies granted to the private sector in Turkey whilst putting elaborations in the education fields with emphasis on private partners' interactions and their future investments.

## **2. Concepts in regard to Subsidies and Education System and Evaluations**

The concept "subsidies" refer to "material and/or non-material assistance and encouragements with the aim of a faster and a more abundant provision of certain economic activities compared to other provision frameworks" (Incekara, 1995: 9).

Subsidies do not only develop provision of economic activities but also contribute to coping with regional economic inequalities, henceforth contributing to the national economic development on an economic basis. Given the default perspective, subsidies may be defined to be "a summation of supports given by governments with the objective of creation of new employment opportunities in certain sectors and on specific regions and increasing the life quality" (Karabıçak, 2013: 265).

The final objective of the related schemes has been to back the economic growth. There exists a direct relation between subsidies and economic growth. By means of economic growth governments seek to achieve a higher rate of employment, create a wider basis of taxation and to increase the welfare level (Eser, 2011: 12).

The term subsidies may be able to be explained in terms of their objectives. The term may be defined as economic-aided, producer-based subsidies, transfer payments, premiums, credit with favorable conditions (Küçüktürkman, 2007: 61). Succinctly speaking, to be able to realize economic growth and to increase employment sources, to maintain economic stability, all measures taken by governments in economic, social, legal and financial terms may be summarized as subsidies (Tuncer, 2008: 191).

Subsidies in form of in kind, cash and tax-related have served for different purposes throughout the history with different usages. Many governments have aimed to encourage investments by means of subsidies, tax-rebate and direct guarantees programs (Thomas, 2007: 1). By the second mid 980s subsidies have tremendously increased along with the fact that both developing and developed countries have taken advantage of the related schemes (OECD, 2002: 169).

### **2.1. Education as a concept and Educational expenditures**

Many definitions and explanations have been put forth by different scholars throughout the history. One of the related definitions in regard to the term is to create a process of change in the human behavior along with the desired direction with a given objective (Ertürk, 1982: 2).

The enlightenment Age witnesses the usage of the term derived from the Latin Word “educere” for the cultivation of animals and plants. The term has come to be applied for the humans due to the cognitive traits inherent in the concept. While the intelligentsias have come to be identified with the term, the term has come to denote a mature level of moral, physical and character development. Accordingly, education as a concept has a connotation of intellectual physical and moral excellence and its very full formation (Tozlu, 1997:93).

The term education in Turkey has come to mean different sets of meaning corresponding to terms *maarif*, *tedrisat* and *terbiye* as corresponding to Ottoman Turkish (Başaran, 1984:14). The term education as under the term *eğitim* is inclusive of the aforementioned terms gaining manners, nurturing, fostering, science, discipline,

### **2.1.1. Types of Education**

By the legislation No:1739 having come to affect in the Official Newspaper of Turkey No: 14574 dated June 24th, 1973, education came to be defined on two basic categories formal education and common education both being complementary and cooperated. The former one is inclusive of primary, secondary, high school and higher education as processes while the latter type come to include the kind of education for the people that could not have Access to educational opportunities, for those that dropped out of formal educational and schooling opportunities, for the people that would like to take advantage whilst being involved in the formal educational process and for those groups that would like contribute to contribute to their occupational competencies.

### **2.1.2. Investment Expenditures**

Educational services have positive social, economic and political positive externalities in a society. Along with the increase of these positive externalities, the quality of education has come to be Assoc.d with the related term. The educational services add up to increases in productivity, political stability, social and cultural development and efforts of industrialization efforts to yield (Şener, 2001: 356-357). Due to these traits education come to be classified as a semi-public good and since marginal benefit of these services is lower than their marginal social benefit. Provided that these services are solely left to the market, there will be under-production phenomenon which requires a bail out by government through general budget (Madanoğlu, 1992: 59).

While there is a direct financing of education, there are other financing types namely partial and indirect financing in the partial financing schemes, beneficiaries are asked to pay for tuitions that are the payments by students for the financing of certain items in services. The indirect financing in the meanwhile refers to the introduction of private partners with granted certain initiatives in the educational sector while government carries out the public provision of these services (Devrim, Tosuner, 1987: 86-87). The voucher called system is the transfer of a voucher to the beneficiary which gives the chance the students to make use of private educational services (Stiglitz, trans.: Batırel 1988: 463-464). On the other hand, educational expenditures facilitate the redistribution of income, realization of the economic growth, sustaining economic growth which all sum up to the making of investment expenditures (Mutlu, 1997: 249-250).

### **3. Subsidies in the Education System.**

The provision of educational services may be realized by both public and the private sector. Whilst private sector may face different challenges in the provision of these services, public sector may provide remedies to overcome the related problems by means of subsidies schemes. According to the decision of the Council of Ministers dated June 19th, 2012 Number 350, the private sector has come to be supported with different subsidies and exceptions, which the study shall address in the following sections.

#### **3.1. Revenue Exemption for the Private Education and Teaching**

Along with the regulations of Income Taxation Law No: 193 Article No:20 and Corporation Taxation Law Number 5520 Article No: 8193 as amended by Corporation Taxation Law Number 5528 revenue exemption for the private educational education companies have been defined as follows “ revenues gained from preschool, private primary school and private secondary school corporations, pending upon the consent of the related ministries, shall be subject five-term-exemption within the framework of regulation and rules to be determined by the Ministry of Finance and exemptions shall commence in the aftermath of the very date of educational services’ beginning and the exemptions to be valid for the subsequent five intervals of taxation (GTL Art. 20; VATL Art.5/1-ı; GTGL 254) (5228 provisional Law Article. 1).

#### **3.2. Exemptions for Research and Development Activities.**

According to the Corporation Taxation Law Number 5521 Article Number 1 Clause Number 1 Paragraph ,those corporations under the condition of not being an exclusively defined research and development corporations along with other activities carried out shall have the chance of expenditures of research and development activities realized for the objective of creation of new Technologies within the R&D departments within the company exclusively by a 40 % amount (by the Legislation Number February 2nd 2008 Article Number 5 the rate was determined by 100 %) from the revenue earnings under the item of R&D deductions. Yet this provision was annulled from the legislation Number 6728 Article Number 58 dated July 15th, 2016.

#### **3.3. Value Added Tax in Educational Service**

In the Value Added Tax (VAT) Law, the subject of VAT has been defined in the very first article of the related legislation as those activities:

- Services contracts realized within the framework of commercial, industrial and agricultural services
- Import of goods and services of any kind.
- Contracts and services arising from other activities

The causal factor the formation of VAT comes to emerge in different according to its types. In terms of interactions subject to be taxation, the causal events leading to the formation of VAT have been juxtaposed in the VAT Law (Article 10). As a rule, the main causal event in the formation of private educational services is the completion of the service. The education in the private educational sector is carried out over a period of time namely the school year.

Henceforth, the main causal factor for the formation of VAT is realized at the end of each schooling year (Yilmazcan, 1997: 82). Meanwhile, private education sector subject to the Law Number 625 has also been given the right for tax exemption for the free educational and teaching services given bona fide with the condition that they do not exceed over 10% of their capacity. (KDVK md.17/2-b)

### **3.4. VAT Rates in Private Education Sector**

Several definitions have been forth for educational corporations that are regulated by the Law Number 5580 Private Education Corporation Laws Article Number 2. By means of different amendments, Amendment Number 26742 dated December 30th 2007, by means of list Number II mentioned in the decision of the Council of Ministers” universities and higher education facilities” and education and teaching services given by the private education corporations mentioned in the Law 5580 Private Education Corporations, Law Number 2282 Social and Children Services Law and governmental decree Number 576 for the Private Education Corporations and transportation and transfer services given for the students as indicates by the “Bylaw for School Transpiration Services and the accommodation and dormitory services mentioned in the “Private School Accommodation Bylaw”, the VAT rate has been determined as 8%.

### **3.5. Investment Subsidies for the Investments to be realized by Private Educational Corporations**

#### **3.5.1. Investment Subsidies realized by Private Sector in Education**

2012/3305 Decision of the Council of Ministers with the date of June 6th 2012 Number 28328 stipulates whist regulating the “Government Assistance in Investments” that those investments realized by kindergarten, preschool, primary, secondary, high school schoolings shall be deemed as education investments. (Supplementary Table 2/a. Irrespective of the provinces where these investments would be carried out the investments would take advantage of the 5th Zone and they shall be subject to 6th zone investments should they carry out the concerning investments in the 6th Zone”

In those provinces where the investors would be investing educational investments, within the framework of regional subsidies implementations, investors shall also be granted land and/or provide the location themselves the necessary location, whereby components of subsidies were juxtaposed in the fourth article third paragraph of the legal decision with

These are:

- Tariff exemption
- VAT Exemption
- Tax Rebates
- Share of Employer Support for Insurance Premiums
- Location Grants
- Interest Support
- Income Tax Support (For the 6th Zone Premiums)
- Insurance Premium Support (For the 6th Zone Premiums)

Table One indicates minimum investment levels to make use of these components for the First and second zone an investment of 1 million Turkish liras is required whereby a minimum of TL 500,000 is required for the third, fourth, fifth and sixth zone.

### **3.5.2. Tariff Exemption**

Most of the equipment required in the Investment Subsidy License can be purchased domestically while they can be supplied from abroad. Most imported machinery and equipment list that can be seen in the license mentioned will be provided without any tariff levied according to the provision stated in the decision stipulating all machinery and shall not be subject to any tariff whatsoever clause

### **3.5.3. VAT Exemption**

According to the VAT Law in Turkey dated October 10th, 1984 Number 305 states that those investors with subsidies license to purchase machinery and equipment shall also be granted VAT exemption during the purchases of these item. On the other hand, all transfers of machinery and equipment within the content of subsidies license content shall also be subject to the exemption while the exemption is also valid for the subsets of equipment and machinery listed in the license

Fixed investment limits over 500 million TL shall also be considered as strategic investment with exemptions granted for expenditures of construction for the infrastructure (28328 sayılı 2012/3305 K.S., Md. 10).

### **3.5.4. Tax Rebate**

Along with the VAT Law in Turkey dated October 10th, 1984 Number 305 Article 32/A stipulates for the content of regional subsidies implementations, revenue and corporation taxes shall be subject to 70 % deduction until the amount reaches to the foreseen subsidies contribution rate. According to the subsidies documents required by the subsidies decision until the very date December 31<sup>st</sup> 2014 (inclusive of this very exact date) and provided that investment process has commenced the subsidies support will vary from 80 percent to 40 percent (28328 sayılı 2012/3305 K.S., Md. 15).

### **3.5.5. Insurance Premium Employers' Share Support**

In the regional support programs, upon the completion approval realized subsidies license under the condition that required employment is not exceeded

- For the completely new investments realized with investment subsidies licenses
- In the other types of investment in the aftermath of completion of investment, or in the period six months before the completion of the investment (for the seasonal investment the very recent year's averages are taken under consideration) for the premiums and service documents passed to the Social Security Institution depending on the average number of workers

Premiums support shall also be granted in support employers based on the minimum wage levels from the budgetary allocations granted to the Ministry. The concerning support program shall be given for the projects that have started since December 31st, 2012 for years and 5 years for those that have started after January 1st, 2015. The benefitted insurance premium support levels shall not surpass 25% of the investment. (28328 sayılı 2012/3305 K.S., Md. 12).

### **3.5.6. Investment Location Support**

In the related decision document dated June 29<sup>th</sup> 2001 Number 4706 supplementary third article corporations may be supported with investment land and location grants for those investment project licenses (28328 sayılı 2012/3305 K.S., Md. 16).

### **3.5.7. Interest Support**

In the case of demands for investments realized through regional support programs and strategic aids along with the content of R&D and environmental projects the credits to be utilized from banks with one-year period interests shall be supported with 70 percent of fixed investment rates for the interests incurred. For the Turkish lira based interests within the 5th Zone Investment region up till 5 points shall be bailed by the government while for foreign currency based credit 2 points shall be supported within the same region. Yet the support limits will not exceed over TL700000 for the interest support. For the 6th Zone of Investments, the Turkish lira based support will be around 7 percent while the foreign currency based credit support shall not be over 2 points with limits not to exceed over TL 900000 (28328 sayılı 2012/3305 K.S., Md. 11).

### **3.5.8. Income Tax Support (For Investments in the 6th Zone)**

For the 6th Zone of Investments as indicated in the Investment Subsidies Decision, for the extra employment provided that the amount shall not exceed over the recorded employment level income tax for the workers calculated over the minimum wage amounts shall be not to taxation over the declaration to be given in the aftermath of 10 years of completion of the investment Project fully or partially (28328 sayılı 2012/3305 K.S., Md. 14).

### **3.5.9. Insurance Premium Support (For Investments in the 6th Zone).**

For the 6th Zone of Investments as indicated in the Investment Subsidies Decision, for the extra employment provided that the amount shall not exceed over the recorded employment level insurance premiums paid to the Social Security Institution shall be paid by the Ministry in the aftermath of 10 years of completion of the investment Project fully or partially (28328 sayılı 2012/3305 K.S., Md. 13).

## **4. Concluding Remarks**

Education is a sector that plays a quintessential role in the lives of individuals with its semi-public good characteristic. The private sector plays within the game in appendix to the public sector's involvement. The increase in competitiveness and quality increases in education have come to

be two championing claims of the private face of education sector. Yet a commodification of the education system shall be hazardous to the equality of opportunity. In the name of supports given to the private sector, the government should be regulating the subsidies given the impact of social and economic equilibrium to the fifth zone of investment within the regional support programs under the title of “Government Subsidies in Investments” June 9<sup>th</sup> 2012, 23138 Number3305, with an elaboration of VAT exemptions, tariff reductions and exemptions, tax rebates insurance premium supports, employers supports, interest supports along with Zone & implementations. The effort has also dealt with matters including earnings exemption research and development exemptions and other VAT exemptions.

It is without any doubt that the education sectors need to be supported for quality increases in content and quality. It will be of utmost importance that related support and subsidies programs be regulated and monitored closely which constitutes a subject for a new study.

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