

Overlapping Generations Model of Tax Reform With Informality in Turkey

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Abstract

We study a general equilibrium model to examine the impact of a tax reform based on consumption on macroeconomic variables and welfare for the Turkish case. The model which is constructed for this purpose consists of overlapping generations of 55-period living individuals incorporating intragenerational heterogeneity, informal sector and bequest motive which are very crucial features for Turkey. Recent researches indicate that comparing to other developing countries the consumption taxes are relatively high in Turkey. The tax reform in this study suggests to decrease the consumption tax rates to increase the welfare gains. We find that the welfare gains highly depend on the the skill level of supplied labor, private inter-family transfers and the level of consumption tax. The results point out that the proposed tax reform increases welfare gains of the individuals.

Keywords: Informal Sector, Bequest Motive, Overlapping Generations, Tax Reform, Turkey

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