

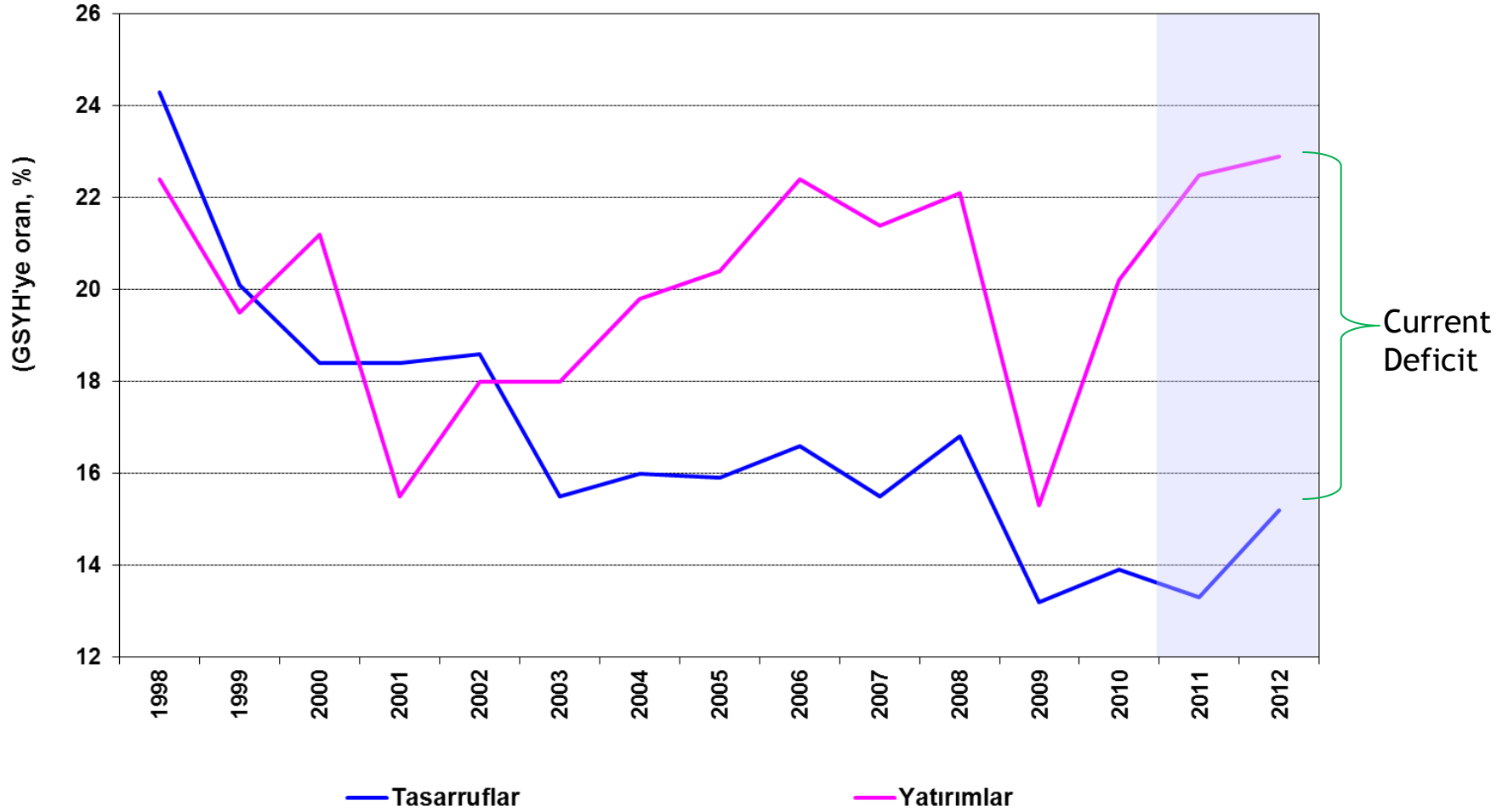
CHANGING INCENTIVES FOR THE PERSONAL PENSION SYSTEM IN TURKEY: STATE MATCHING CONTRIBUTION

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SAVINGS vs. INVESTMENTS





CURRENT INCENTIVES

EET:

Contribution Phase: Contributions can be deducted from the income tax base

- Deduction limits :
 - Monthly limit: 10% of person's gross wage
 - Annual limit: Minimum gross wage

Investment Build-Up Phase: Investment gains are not taxed

Pay-out phase: Differing rates of withholding tax applied on the full amount.

- 15%, 10%; 3,75%

A NEW TYPE OF INCENTIVE FOR THE PERSONAL PENSION SYSTEM

- Tax deduction **OUT**
 - State Matching Contributions **IN**

THE NEED FOR CHANGE

- ▶ Incentive Utilization Rate is Low.
 - Only 35% of the participants can enjoy this incentive.
 - Problems with the employer's payroll depts (lack of knowledge, avoidance of extra operational burden, etc.)
 - Aprox. 25% of the participants are not subject to income tax (e.g. Housewives, etc.)

- ▶ State incentives are consumed, so low appreciation of the incentive.
 - Low level of awareness

- ▶ Participants who cannot utilize tax deduction encounters double taxation.
 - Legal disputes

NEW INCENTIVE: STATE MATCHING CONTRIBUTION

▶ Contribution Phase:

- No tax deduction for contributions.
- State match of up to 25% of the participant's contributions (rates differ according to the number of yrs of presence within the system)
- Annual state matching contribution is limited to 25% of min. annual gross wage

▶ Interest Build-up Phase:

- Investment gains are not taxed.

▶ Pay-out Phase:

- Only investment gains will be subject to withholding tax.

STATE MATCHING CONTRIBUTION

2 Crucial Impacts

► Equity among participants:

- The incentive provided by the government will not differ according to the marginal tax rate of the participant.
- The utilization of the governmental incentive will rise to 100% from 35%.
- The problem and disputes regarding double taxation will be eliminated.

► Visibility:

- The participant will be able to clearly see the governmental incentive on his/her account.
 - Greater appreciation of the governmental incentive by the participant.
 - The incentive will be channelled to savings rather than consumption.