

36th International Public Finance Conference “Fiscal Policies and Inflation”

Editors

Prof. PhD. M. Erkan ÜYÜMEZ

Assoc. Prof. PhD. Canatay HACIKÖYLÜ



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DATES & VENUE

Dates 27-30 October 2022
Venue Amara Luxury Resort,
Antalya, TR.
Esentepe Mah. Ahu Ünal Aysal Cad. No:1
Göynük Kemer, Antalya.

REGISTRATION

Registration and Information Desk is located at Amara
Luxury Resort Hotel, **Antalya, TR** from 09.00 to 16.30.

S4YunusEmre

October 29, 2022; 14:45 – 15:45; Salon Yunus Emre

Taxable Event of the According to Income Elements
Erdinç Alp (Ordu University, TR)



A Solution to Provide Fairness in Income Distribution in
Turkey: Basic Income
Arınç Boz (Zonguldak Bülent Ecevit University, TR)



The Effect of Housing Price Increase on Income Distribution:
An Empirical Analysis Between OECD Countries (2010-2020)
Gökhan Ünal (Atılım University, TR)
Özge Çamalan (Atılım University, TR)



Convenor: **Cihan Yüksel** (Mersin University, TR)

S4Frigya

October 29, 2022; 14:45 – 15:45; Salon Frigya

Use of Digital Currency in Tax-Free
Financing of Public Spending
Memduh Aslan (Kocaeli University, TR)



Digital Wallet and Tax Dimension
Orçun Avcı (Aksaray University, TR)



Evaluation of Taxation of Income Generated by Real Persons
From Social Media Platforms by Comparing Various
Countries: Problems and Suggestions
Cansu Dilibal (Bursa Uludağ University, TR)
Hüda Carda (Bandırma Onyedi Eylül University, TR)
Özgür Biyan (Bandırma Onyedi Eylül University, TR)



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EVALUATION OF TAXATION OF INCOME GENERATED BY REAL PERSONS FROM SOCIAL MEDIA PLATFORMS BY COMPARING VARIOUS COUNTRIES: PROBLEMS AND SUGGESTIONS

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Abstract

With the rapid and effective spread of the digital economy in the world right after globalization, new business models were developed and various ways of earning income emerged. One of these ways is for real people to earn money by producing content, receiving advertisements and promoting products on the most common platforms of today, such as Youtube, Instagram, Facebook and Twitch, which are called social media. In the Turkish Tax Law, the income of social media content producers has been created as a gain exclusion under the repeating article 20/B of the Income Tax Law with the regulation made in Law No. 7338. It is noteworthy that in the Ministry of Finance's communique on this regulation, this income is considered as "commercial income". However, the fact that the income of social media content producers has the characteristics of other income in addition to commercial income, has led to questioning the correct taxation. Although there are approaches that assume that the income generated belongs to the income from self-employment, there are also voices that argue that it should be counted among the different types of income from time to time. On the other hand, the said income is exempt from tax under certain conditions, so there are regulations for final taxation with withholding. In this study, the income of social media content producers in Turkish tax law is evaluated in terms of tax law within the framework of the views expressed in the literature and also compared with the practice of different countries. As the main result of the study, it was found that there are some qualification problems in the income of social media content producers, and they also have problems in terms of tax fairness, and appropriate conclusions were drawn about the practices in different countries.

Keywords: Social Media, Tax Liability, Income Tax, Digital Economy.

JEL Code : H24, H27, K33.

1. Introduction

With the proliferation of the Internet and the rapid expansion of the digital world, it is becoming more common to develop new and different economic activities that add value and generate income in ways other than traditional methods. For people who can reach many people through widespread platforms, increasing their number of followers and generating different incomes in this way has become not only an everyday situation, but also a goal. In addition to these developments, countries that want to get their share by taxing income have started to look for ways to make their tax systems suitable for this new economy.

As far as Turkish tax law is concerned, such discussions have taken place both in academia and in practice. The discussion, which started with what type of income or income is included in labor income, particularly focused on what the book and voucher system should be. This study attempts to evaluate, through a comparison with foreign practices, whether it is appropriate to subject such income to taxation as business income under the law. On the other hand, an attempt is made to analyze whether the current regulations are appropriate in terms of income characteristics.

2. Concept of Social Media and Methods of Generating Revenue on the Platforms

Social media; referred to as a click ecosystem consisting of search engines, media sites, online intermediaries, and online visitors (Chaffey & Smith, 2008: 98). In terms of the social dimension, social media, as an environment that allows individuals to present themselves, is said to provide an environment in which other people can fulfill the desire to control the individual's impressions of themselves (Goffman, 1959: 11). Although the concept of platform is not considered new, a definition of platforms in digital environments is made as "a business based on providing value-added interactions between external producers and consumers" (Bozdoğanoglu, 2020: 39-40). The most widely used social media platforms today are Facebook, Twitter, Instagram, and YouTube.

It can be seen that the most widely used social media platforms in the world also have organic connections with each other. While YouTube is the second most used internet platform in the world, Instagram is the 28th most used platform. Google/Alphabet owns YouTube. Instagram is part of the Facebook empire. YouTube and Instagram are a part of Internet advertising, which contributes significantly to the profits of Google and Facebook (Fuchs, 2021: 174). While some of these platforms share their advertising revenue with social media phenomena, some others use other methods instead of sharing. For example, in the YouTube affiliate program on Youtube and in-stream ads on Facebook, advertising revenue is shared with phenomena. On the other hand, on Instagram platforms, the ad revenue is not shared with the influencers. On Instagram, influencers are not paid by the platform, and influencers can earn revenue in return for product or service advertising through collaboration agreements with brands. Twitch, on the other hand, shares the platform's revenue with publishers, offering them the opportunity to earn income (Yegen, 2022: 187-188). Since it is possible to generate income from these platforms from anywhere in the world, curiosity and concern have

arisen about how the tax rules for social media phenomena should be applied globally (Abidin & Ots, 2016: 157).

3. Taxation of Income from Social Media Platforms in Various Countries and Turkey

In the countries studied, income from social media platforms is taxed in the same way as all other income. In other words, there is no separate regime for taxing income from social media platforms. Therefore, individuals pay taxes on their taxable income and have the right to make deductions under the general rules. In addition, social media phenomena are generally recognized as self-employment in the countries studied. For example, in Finland, if the amount of monetary income from activities on social media platforms becomes significant, they are classified as self-employed/independent entrepreneurs (Abidin et al., 2020: 75). Similarly, in Canada, phenomena that work for themselves as independent contractors or sole proprietors are considered self-employed (TurboTaxCanada, 2022). In addition, income tax returns must be filed for income from social media activities in these countries. In the United Kingdom, for example, a return must be filed, if the income from the phenomena, which are generally considered self-employed, exceeds 1,000 Euros.

The specific regulation on the taxation of income obtained from social media platforms in Turkey took the form of a tax exemption through Law No. 7338. In which article 20/B was added to the Income Tax Law, stating that social media phenomena are exempt from income tax, provided that they do not exceed the amount included in the fourth income bracket of the tariff set forth in Article 103 of the Income Tax Act (ITA) (TL 880,000 for the year 2022). It is not clear from the provisions made by the legislator in the repetitive Article 20/B of the ITA whether the income covered by the said exemption is commercial income. The title of the article, assumes that the income obtained is "income", but it does not say what kind of income it is. From the explanations in the communiqué of the Ministry of Finance and the explanatory memorandum of the law, it is clear that it is "commercial" income.

There are also discussions in the literature about the nature of income from social media activities. In other words, the initiative that starts with a phone camera later becomes the person's profession and the video content is produced based on personal work, scientific or professional knowledge or expertise. The comments that it is possible to evaluate a person's work, which is more labor-intensive than capital and without commercial organization, and that it is possible to evaluate the income from personal work as income from self-employment meet a common point (Ergin, 2021; Uçar, 2019: Aydemir & Baykaç, 2020).

One of the main reasons for the dispute over whether income from social media activities is commercial income or income from self-employment is the application of different rules for the two types of income. According to the Income Tax Act, commercial income is subject to the accrual principle, while income from self-employment is subject to the collection principle (Şenyüz et. al., 2022: 8). If income from social media platforms is to be considered as business income, it must also be on an accrual basis. This violates the principle of equality by creating a different practice from other commercial income.

In accordance with Article 20/B(5) of the ITA, a threshold has been established for the requirement to file a declaration in the exemption request for social media income. Filing a declaration is a very important obligation for taxpayers. If withholding tax becomes the final form of taxation, taxpayers who earn income subject to withholding tax are cut off from tax administration, and this situation does not create tax awareness among taxpayers, and awareness that tax obligation is a national obligation cannot be created (Biyan & Güneş, 2012: 196-197). In addition, the fact that taxpayers cannot file a return because they do not exceed the thresholds set according to the tariff, and therefore cannot benefit from the possibility of spending, also violates justice.

There is also a regulation on whether those who earn income from social media under the repeated Article 20/B of the Income Tax Law make tax withhold under Article 94 of the Income Tax, that is, whether they are liable to pay tax. Those who earn the said income are subject to tax deduction on their income, but do not make income withhold under Article 94 of the Income Tax Law. The rent, fee, etc. paid by the person who is not eligible for the exemption or violates the conditions. The exclusion of income subject to withholding tax makes it difficult to trace and audit. Therefore, the rule, which was introduced to tax an income earner under a simple procedure, creates an informal environment by not providing for the obligation to withhold.

4. Conclusion

When evaluating the regime adopted in the Turkish tax law to tax real persons' income from social media platforms, taking into account the practices of different countries, the following conclusions and suggestions can be made:

- The type of income should not be limited only within the framework of business income, but it should be possible to determine the tax liability according to the type of activity of each earner.
- Income from social media activities is usually both self-employment and business income and even self-employment income comes to the fore as income on a collection basis,
- It is fairer to leave the obligation to keep books, prepare records and declarations on a voluntary basis, or to establish a lower declaration limit in light of the principles of purity of income and actual income,
- It can be stated that the deactivation of the taxable entity and its exclusion from the withholding tax obligation should be reconsidered (at least, those who do not benefit from the exemption should be included in the group of taxable entities) in order to avoid the informal environment.

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