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Report Name: Turkey Increases Special Consumption Tax on Alcoholic Drinks and Tobacco Products

Country: Turkey

Post: Ankara

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Report Highlights:

On January 3, 2022, Turkey announced the domestic producer price index (PPI) inflation in the second half of 2021 was 47.39 percent, therefore triggering an automatic increase in the fixed-amount Special Consumption Tax (SCT) for alcohol beverages, soft drinks, fruit juice, and tobacco products. The SCT is levied on beverages in addition to VAT and tariffs and accounts for approximately 65 percent of the price of beer and distilled spirits in Turkey.

Turkey Increases Special Consumption Tax on Alcoholic Drinks and Tobacco Products

On January 3rd, 2022, the Turkish Statistical Institute (TurkStat) announced the Domestic Producer Price Index (PPI) inflation as 79.89 percent for 2021, the highest in last two decades. The PPI inflation in the second half of 2021 was 47.39 percent, therefore triggering an automatic increase in the fixed-amount Special Consumption Tax (SCT).

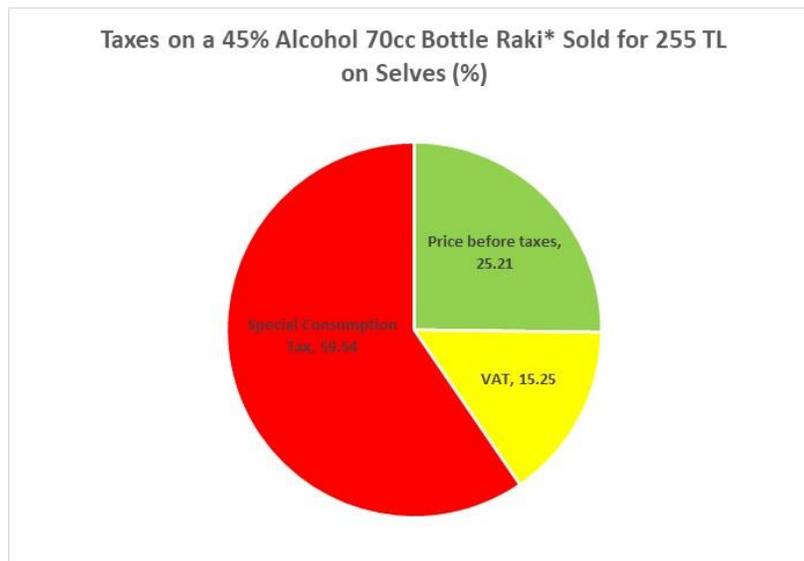
SCT is imposed on motor vehicles, petroleum and natural gas, alcohol, tobacco products, soft drinks, fruit juice, durable consumer goods (such as refrigerators, dish washers, washing machines etc.) and luxury items like fur, perfume, and jewelry.

Turkey's Special Consumption Tax (SCT) was established in 2002, following the 2001 financial crisis where dozens of banks went bankrupt overnight. The SCT was also a measure towards EU harmonization since the EU uses a similar tax for some items non-necessary items like alcohol and tobacco to discourage over consumption. In Turkey, the SCT functions as an important source of funding for the national treasury as a tax; its main purpose is not as a social tool, like in EU.

SCT law mandates that the STC on "List 3" items in the appendix of the law will be automatically updated every six months according to the domestic PPI inflation declared by TurkStat every January and July. "List 3" items are soft drinks, alcoholic beverages, fruit juice, and tobacco products. The President of Turkey can decrease or increase the amount with a decree in each term. In June 2021, the president stopped the automatic increase for the second half of 2021, in order to fight rapid inflation, according to his statement. Please see the attachment for the actual "List 3" and actual STC rates.

Value Added Tax (VAT) is applied in addition to the product price and the SCT.

Here is a sample tax calculation for raki, a popular alcoholic drink in Turkey, calculated by a tax expert¹.



* Traditional Turkish ethnic hard liquor popularly consumed in the country.

¹ <https://vergiyedair.com/2022/01/03/3-ocak-2022-otv-zammi-sonrasi-alkollu-icecekte-vergi-yuku-ne-oldu/>

Market experts believe that the increase of SCT on alcohol and tobacco products will increase the already high inflation rates, calculated by the consumer price index² (CPI), affecting the daily lives of the Turkish people. Furthermore, there are increased cases of people dying (or going blind) from consuming home-brewed and unregulated alcoholic drinks produced illegally to avoid paying the high taxes³.

According to Post analysis, sales of more expensive drinks like imported whiskey, gin, vodka etc. are less affected by increases in prices due to SCT spikes since people buying those already have the means to do so and are less likely to change brands or the kind of liquor they prefer to consume. Lower income consumers are more likely to experience being pushed out of the price point for alcoholic beverages in the legal marketplace and instead purchase cheaper illegally-produced liquor.

According to post observations, the traditional Turkish liquor, raki, is produced illegally at a higher rate than other types of alcohol, causing deaths. Members of the opposition parties criticize the Government of Turkey for seemingly using SCT to try to change the lifestyle of consumers and discourage them from consuming alcohol, due to the ruling party's religious convictions that frown upon alcohol use. Turkey is already the country with lowest amount of per capita alcohol consumption in Europe⁴.

Price increases in tobacco products also cause an increase in illegally smuggled tobacco to Turkey to allow people to roll their own cigarettes. Again, this is especially true for lower income consumers, according to the Post observation.

Attachments:

[Attachment 1 to the GAIN.pdf](#)

² CPI inflation has been 36.08 percent according to TurkStat for 2021.

³ Sample news excerpts <https://www.euronews.com/2021/12/16/at-least-25-people-die-of-adulterated-alcohol-poisoning-in-turkey>; <https://www.usnews.com/news/business/articles/2021-12-17/officials-22-die-in-istanbul-from-bootleg-alcohol-poisoning>; <https://m.bianet.org/english/life/236121-92-people-died-of-counterfeit-alcohol-in-turkey-in-69-days>

⁴ <https://www.oecd-ilibrary.org/sites/82129230-en/1/3/2/2/4/index.html?itemId=/content/publication/82129230-en&csp=e7f5d56a7f4dd03271a59acda6e2be1b&itemIGO=oecd&itemContentType=book#indicator-d1e21201>