



SCREENING CHAPTER 33 FINANCIAL AND BUDGETARY PROVISIONS

**Country Session: The Republic of TURKEY
4 October 2006**



CONTENTS

- I. Overview of Budgetary and Accounting System
- II. Own Resources and Administrative Infrastructure
 - A. Traditional Own Resources
 - B. Value Added Tax Resource
 - C. GNI Resource
- III. Treasury System



AGENDA ITEM I: OVERVIEW OF BUDGETARY AND ACCOUNTING SYSTEM

Country Session: The Republic of TURKEY
4 October 2006



I. OVERVIEW OF BUDGETARY AND ACCOUNTING SYSTEM

A. Overview of Budgetary System

B. Monitoring Budget Revenues within Accounting System



A. OVERVIEW OF BUDGETARY SYSTEM

1. Legal Framework
2. Structure of General Government Budget
3. Budgetary Principles
4. Budgetary Process
5. Institutions Taking Part in Budgetary Process
6. Bilateral Financial Cooperation Project with Dutch Government

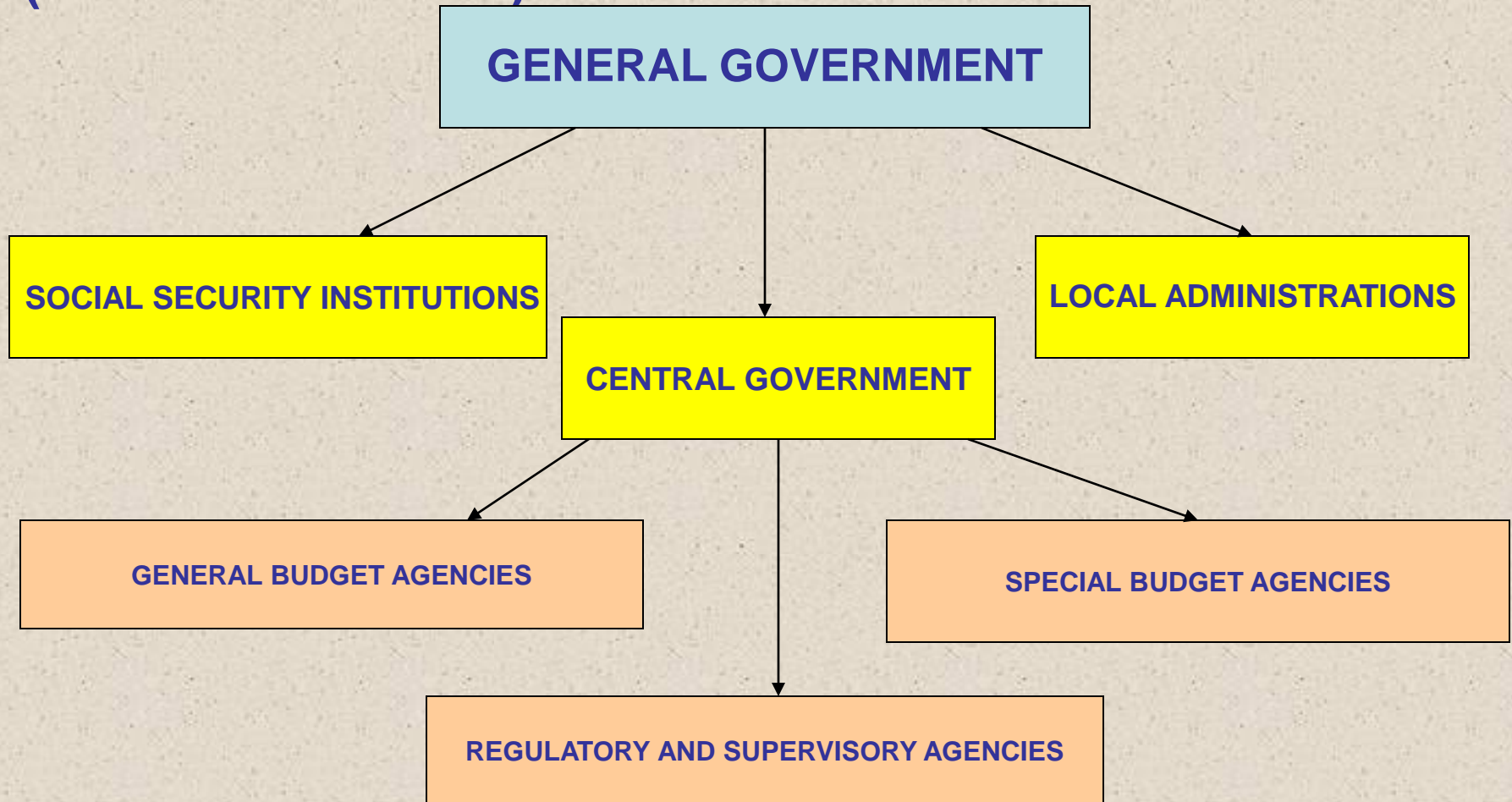


1. Legal Framework

- Constitution of the Republic of Turkey
- Public Financial Management and Control (PFMC) Law No.5018
- Budget Law



2. Structure of General Government Budget (PFMC Law No. 5018)





3. Budgetary Principles

- Ensuring sustainable development with macroeconomic stability.
- Exercising spending power in compliance with relevant laws.
- Ensuring compliance with the policies, targets and priorities of development plan and programs.
- Providing that specific revenues shall not be allocated to specific expenditures.
- Ensuring transparency of public financial operations.
- Indicating all revenues and expenditures with their gross values.



3. Budgetary Principles (cont'd)

- Providing revenue and expenditure balance.
- Put into force only upon the approval of authorised bodies.
- Using classification in line with the international standards.
- Specifying appropriations towards realization of specific purposes.
- Preparing the budget along with the estimations for following two years.
- Ensuring clarity and fiscal transparency in reporting budget estimations and budget implementation results.



4. Budgetary Process

- Adoption of Medium-Term Program by Council of Ministers (end of May)
- Medium-Term Fiscal Plan Decision of High Planning Council (until 15 June)
- Publication of Budget Call and Budget Preparation Guide, Investment Circular and Investment Program Preparation Guide (end of June)
- Preparation and dispatchment of the budget proposals (end of July)



4. Budgetary Process (cont'd)

- Presenting budget draft law to Turkish Grand National Assembly (TGNA) (no later than 75 days before the beginning of fiscal year)
- Central government budget draft law shall be submitted to TGNA along with the budget estimations of local administrations and social security institutions
- Discussion, adoption and approval of Budget Law in TGNA (before the beginning of fiscal year - 1 January)



5. Institutions Taking Part in Budgetary Process

- Public Administrations
- Ministry of Finance
- Undersecretariat of State Planning Organization
- Undersecretariat of Treasury
- Turkish Grand National Assembly



6. Bilateral Financial Cooperation Project with Dutch Government

MATRA/PSO- “Strengthening the Budget Planning and Preparation Process” Project

Beneficiary: General Directorate of Budget and Fiscal Control, Ministry of Finance

Counterpart: Dutch Ministry of Finance

Purpose: To strengthen the legal and institutional structure of DG Budget and Fiscal Control regarding budget preparation and planning process in order to increase the efficiency of budget policy and ensure compliance with EU Acquis

Duration: 2 years (started in 2004, extended until 2007)



B. MONITORING BUDGET REVENUES WITHIN ACCOUNTING SYSTEM

1. Legal Framework
2. Technological Infrastructure
3. Monitoring Revenues in Accounting System
4. Budget Implementation Results
5. Pre-accession Financial Assistance 2005 Project



1. Legal Framework

a. PFMC Law No. 5018

- Accounting system enables producing standard financial reports and final account.
- Public accounts are kept in a way to cover increases and decreases in equity.
- Government accounting standards are determined by the Government Accounting Standards Board in line with the international standards.



b. General Government Accounting Regulation

- Accrual Based Accounting System is adopted.
- The system enables producing ESA tables related to general government by using bridge tables.
- Public revenues and expenditures are shown in the accounts of the fiscal year in which they are accrued.
- Budget revenues are booked in the year they are collected while the budget expenditures are booked in the year they are paid.
- Detailed chart of accounts has been determined and put into force.
- Detailed chart of accounts ensures flexibility.



SCREENING CHAPTER 33
FINANCIAL AND BUDGETARY PROVISIONS
AGENDA ITEM I: OVERVIEW OF BUDGETARY AND ACCOUNTING SYSTEM



i. Framework Chart of Accounts

Balance Sheet Accounts

ASSETS	LIABILITIES
1 CURRENT ASSETS <ul style="list-style-type: none">10 Liquid Assets11 Stocks, Bonds and Securities Account12 Operational Receivables<ul style="list-style-type: none">120 Account Regarding Receivables from Revenues121 Account Regarding Receivables from Prosecuted Revenues122 Account Regarding Deferred and Postponed Revenues13 Institution Receivables14 Other Receivables15 Stocks16 Business and Personnel Advance payments17 Contract Progress Cost18 Deferred Expenditures for following months and Accrued Revenues19 Other Current Assets	3 SHORT TERM LIABILITIES <ul style="list-style-type: none">30 Short Term Domestic Financial Debts31 Short Term Foreign Financial Debts32 Debts Generated By the Operations33 Depository Accounts34 Advances Received35 Contract Progress Income36 Other Payable Liabilities37 Debt and Expenditure Allowances38 Deferred Revenues for the Following Months and Accrued Expenses39 Other Short Term Liabilities
2 NON-CURRENT ASSETS <ul style="list-style-type: none">21 Stocks, Bonds and Securities Account22 Operational Receivables<ul style="list-style-type: none">220 Account Regarding Receivables from Revenues222 Account Regarding Deferred and Postponed Revenues23 Institution Receivables24 Financial Non-Current Assets25 Tangible Assets26 Intangible Assets27 Assets Subject to Amortization28 Prepaid Expenses Account and Accrued Revenues29 Other Non-Current Assets	4 LONG TERM LIABILITIES <ul style="list-style-type: none">40 Long Term Domestic Financial Debts41 Long Term Foreign Financial Debts42 Debts Generated By Operations43 Other Debts44 Advances Received45 Debt and Expenditure Allowances48 Deferred Revenues for the Following Years and Accrued Expenses49 Other Long Term Liabilities
	5 EQUITY ACCOUNTS <ul style="list-style-type: none">50 Net Worth51 Value movements52 Revaluation Differences54 Reserves57 Past Years Positive Operating Results58 Past Years Negative Operating Results59 Periodic Operating Results



i. Framework Chart of Accounts (Cont'd)

6 Operating Accounts

60 Revenue Accounts

600 Revenues Account

61 Rebate, Return and Discount Accounts

63 Expense Accounts

69 Operating Results

8 Budget Accounts

80 Budget Revenue Accounts

800 Budget Revenues Account

805 Revenue Reflection Account

81 Accounts regarding discounts from Budget Revenues

810 Account Regarding Discounts from Budget Revenues

83 Budget Expense Accounts

89 Budget Implementation Results

9 Memorandum Items



c. General Budget Accounting Regulation

- Regulates the implementation of the accounting system, the framework of which is determined by the General Government Accounting Regulation, by the public administrations within the scope of general budget.



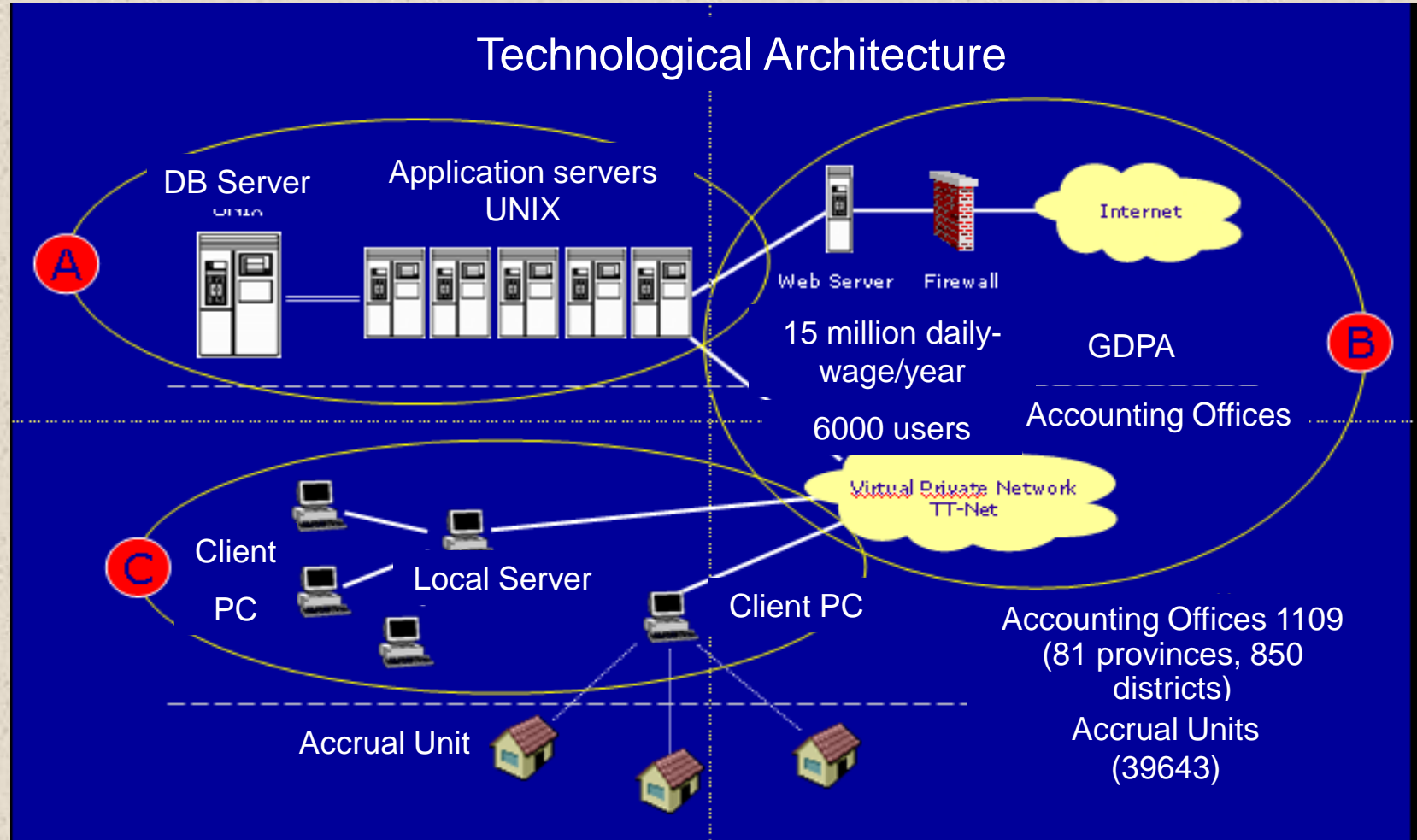
2. Technological Infrastructure

a. Say2000i Web Based Accounting Office Automation System

- Say2000i is a system designed to computerize daily financial operations of 1109 accounting offices.
- All accounting office transactions can be monitored instantly and in detail from the central organisation of Ministry of Finance General Directorate of Public Accounts (GDPA).
- A computer based infrastructure has been developed to monitor the daily tasks of accounting offices.
- A network is established to enable communication of accounting offices with each other and GDPA. Through this network, GDPA is able to communicate with other public institutions.



a. Say2000i Web Based Accounting Office Automation System (Cont'd)





b. Institutions Connected



**say2000i
system**

**Control of title holdership
and transfer of pension
deductions in Prescription
Control System.**

**Transfer of appropriations
by General Directorate of
Budget and Fiscal Control
via electronic media.**

**Transfer of dispatch orders
to Ziraat Bank in electronic
media.**

**Transfer of accounting records
of tax administrations into
electronic media.**

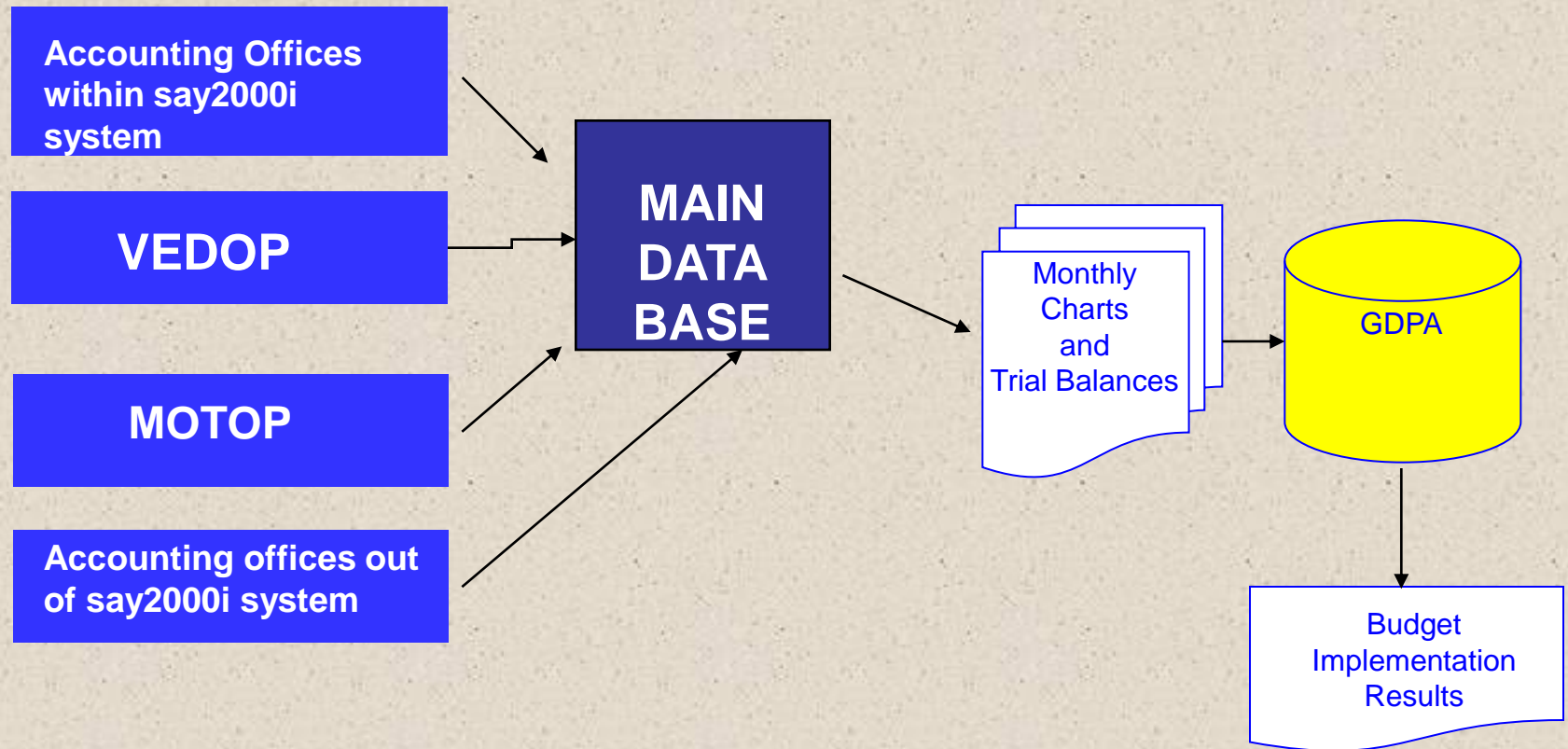
**Transfer of deductions of the Police
Benevolent Fund into salary
calculation, sending feedback on
deduction information.**

**Realization of customs duty
collection automatically from
the bank account of the
taxpayer.**

**Inquiry of customs
declarations and taxes that
are accrued.**



c. Data Flow Scheme





3. Monitoring Revenues in Accounting System

a. Accrued Revenues

Pursuant to concerned legislation, accrued revenues shall be recorded, by the accounting units, to auxiliary accounts determined by detailed chart of accounts of “120 Account Regarding Receivables from Revenues”.

120					Account Regarding Receivables from Revenues
120	01				Taxes
120	01	04			Domestic Taxes on Good and Services
120	01	04	01		Domestic VAT
120	01	04	01	01	Based on Declaration
120	01	04	01	03	Excises from Payments
120	01	04	04		Excise Duties (E.D.)
120	01	04	04	01	E.D. from Petroleum and Natural Gas (I)
120	01	04	04	02	E.D. from Motor Vehicles (II)
120	01	04	04	04	E.D. from Beverages (III-a)
120	01	04	04	05	E.D. from Tobaccos (III-b)
120	01	04	04	06	E.D. from Cola (III-c)
120	01	04	04	07	E.D. from Durable Goods and Others (IV)
120	01	05			Taxes on International Trade and Transactions
120	01	05	01		Customs Duties
120	01	05	02		VAT ON Imports
120	01	05	07		Other Taxes on International Trade and Transactions



b. Overdue Receivables

Of the revenue receivables recorded in the accounting system, receivables that have not been collected in due time shall be recorded to “121 Account Regarding Receivables from Prosecuted Revenues” and the prosecution shall be initiated in accordance with the related legislation.

121					Account Regarding receivables from Prosecuted Revenues
121	01				Taxes
121	01	04			Domestic Taxes on Good and Services
121	01	04	01		Domestic VAT
121	01	04	01	01	Based on Declaration
121	01	04	01	03	Excises from Payments
121	01	04	04		Excise Duties (E.D.)
121	01	04	04	01	E.D. from Petroleum and Natural Gas (I)
121	01	04	04	02	E.D. from Motor Vehicles (II)
121	01	04	04	04	E.D. from Beverages (III-a)
121	01	04	04	05	E.D. from Tobaccos (III-b)
121	01	04	04	06	E.D. from Cola (III-c)
121	01	04	04	07	E.D. from Durable Goods and Others (IV)
121	01	05			Taxes on International Trade and Transactions
121	01	05	01		Customs Duties
121	01	05	02		VAT ON Imports
121	01	05	07		Other Taxes on International Trade and Transactions



c. Guaranteed Receivables

Pursuant to concerned legislation, receivables deferred and postponed against warranty shall be written off from the account 120 and recorded, by the accounting units, to auxiliary accounts determined by detailed chart of accounts of 122 or 222 “Account Regarding Deferred and Postponed Revenues”.

122					Account Regarding Deferred and Postponed Receivables from Revenues
122	01				Taxes
122	01	04			Domestic Taxes on Good and Services
122	01	04	01		Domestic VAT
122	01	04	01	01	Based on Declaration
122	01	04	01	03	Excises from Payments
122	01	04	04		Excise Duties (E.D.)
122	01	04	04	01	E.D. from Petroleum and Natural Gas (I)
122	01	04	04	02	E.D. from Motor Vehicles (II)
122	01	04	04	04	E.D. from Beverages (III-a)
122	01	04	04	05	E.D. from Tobaccos (III-b)
122	01	04	04	06	E.D. from Cola (III-c)
122	01	04	04	07	E.D. from Durable Goods and Others (IV)
122	01	05			Taxes on International Trade and Transactions
122	01	05	01		Customs Duties
122	01	05	02		VAT ON Imports
122	01	05	07		Other Taxes on International Trade and Transactions



d. Collection of Budget Revenues

Receivables from revenues recorded in related accrual accounts shall be, when collected, recorded to auxiliary accounts determined by detailed chart of accounts of “800 Budget Revenues”, and shall be booked by the accounting unit.

800					Budgetary Revenues Account
800	01				Taxes
800	01	04			Domestic Taxes on Good and Services
800	01	04	01		Domestic VAT
800	01	04	01	01	Based on Declaration
800	01	04	01	03	Excises from Payments
800	01	04	04		Excise Duties (E.D.)
800	01	04	04	01	E.D. from Petroleum and Natural Gas (I)
800	01	04	04	02	E.D. from Motor Vehicles (II)
800	01	04	04	04	E.D. from Beverages (III-a)
800	01	04	04	05	E.D. from Tobaccos (III-b)
800	01	04	04	06	E.D. from Cola (III-c)
800	01	04	04	07	E.D. from Durable Goods and Others (IV)
800	01	05			Taxes on International Trade and Transactions
800	01	05	01		Customs Duties
800	01	05	02		VAT ON Imports
800	01	05	07		Other Taxes on International Trade and Transactions



e. Share Allocation From Budget Revenues

- Article 37 of the PFMC Law No. 5018;

“The shares to be given to other administrations, institutions and organisations from the taxes, levies, charges and other revenues collected by public administrations within the scope of general government shall be covered by the appropriations to be included in the budget of the public administration collecting revenue for this purpose.”

- Article 227 of the General Budget Accounting Regulation;

“ ‘363 Account for Public Administrations’ Shares’, pursuant to concerned laws, shall be used to follow shares calculated to be transferred from general budget revenues which have been collected in cash or on account to local administrations, funds and the other institutions, and shares of the other public administrations collected together with the general budget revenues.”



e. Share Allocation From Budget Revenues (Cont'd) (Case Implementation)

**Budget Revenue
Records**

Transactions relating to budget revenue are booked by accounting offices during the month.

**Budget
Implementation
Monthly Results**

Accounting records of the accounting offices are consolidated and the budget implementation monthly results are reported.

**Determination of the
Share to be Allocated**

The share to be allocated is determined by the Ministry of Finance (GDPA) in accordance with the principles and procedures set out in the concerned legislation.

**Sending Payment
Order**

The payment order document for the share determined by the Ministry of Finance (GDPA) is prepared and sent to accounting office.

Payment

The central accounting office transfers the amounts to the accounts of those concerned upon supplying required cash from the Undersecretariat of Treasury.



4. Budget Implementation Results

- At the end of each month final results are attained upon completion and finalization of month-end tasks, approximately until the 10th of the next month, by all accounting offices.
- After submitting initial results, **Public Accounts Monthly Bulletin**, containing more detailed tables, is prepared.
- The Public Accounts Bulletin is published by the Ministry of Finance (GDPA) and put into service for users on www.muhasabat.gov.tr.
- On this web site, data and trend tables hitherto, since 1990, are also presented together with the graphics.



5. Pre-accession Financial Assistance 2005 Project

Project Title: Capacity Building for the Compilation of Accounting Data in All Institutions and Agencies within General Government Sector in the Context of e-Government.

Beneficiary: General Directorate of Public Accounts of the Turkish Ministry of Finance.

Counterpart: Italian Ministry of Finance and Economy.

Purpose: To support the Ministry of Finance to improve its secondary legislation on government accounting and reporting in order that the general government agencies can issue timely, accurate, reliable, consistent and analytically classified financial reports and statements on the basis of accrual accounting and in line with internationally recognised, in particular EU principles, standards, and practices.



SCREENING CHAPTER 33
FINANCIAL AND BUDGETARY PROVISIONS
AGENDA ITEM I: OVERVIEW OF BUDGETARY AND ACCOUNTING SYSTEM



THANK YOU FOR YOUR ATTENTION



AGENDA ITEM II: OWN RESOURCES AND ADMINISTRATIVE INFRASTRUCTURE

**The Republic of TURKEY
4 October 2006**



CONTENTS

- A. Traditional Own Resources (TORs)**
 - 1. Agricultural Duties and Sugar Levies**
 - 2. Customs Duties**
 - 3. Administrative Structures Supporting TORs**
- B. Value Added Tax (VAT) Resource**
- C. GNI Resource**



AGENDA ITEM II-A: TRADITIONAL OWN RESOURCES (TORs)

The Republic of TURKEY
4 October 2006



A. Traditional Own Resources

1. Agricultural Duties and Sugar Levies

2. Customs Duties

3. Administrative Structures Supporting TORs

i. Turkish Sugar Authority

ii. Undersecretariat of Customs

a. Administrative Structure

b. Customs Methods and Operations

c. Modernisation of Customs



1. Agricultural Duties and Sugar Levies

- In Turkey, agricultural products are not treated in any means differently than any other products in terms of customs and taxation.**
- There are no sugar levies imposed on sugar producers.**



2. Customs Duties

- According to the Customs Law No. 4458;

“ ‘Customs Duties’ means all the export or import duties applied to goods subject to the provisions in force.”

Currently there are no export duties applied in Turkey.

“ ‘Import Duties’ means customs duties and fiscal charges having an effect equivalent to customs duties payable on the importation of goods, import charges introduced under the agricultural policy or under the specific arrangement applicable to processed agricultural products.”



2. Customs Duties (Cont'd)

- Import Regime Decree (No. 95/7606); O.G. 31st December 1995
 - Import Regime Decree is classified under five lists:
 - Agricultural products (List I)
 - Industrial products (List II)
 - Processed agricultural products (List III)
 - Fish and fishery products (List IV)
 - Suspension list (List V)
 - Lists are renewed every year.



2. Customs Duties (Cont'd)

Import Regime Decree is prepared by taking into account;

- **World Trade Organization (WTO)**
- **Customs Union Between EU and Turkey**
 - **Free trade agreements**
 - **Preferential treatments (GSP)**
- **Specific needs and requirements of the agricultural sector**



3. Administrative Structures Supporting TORs

i. Turkish Sugar Authority

- Sugar Law No. 4634 (effective as of April 2001)

The purpose of this Law is to regulate the sugar regime, procedures and principles in sugar production, conditions and methods of pricing and marketing, regarding self-sufficiency and exports if necessary.



i. Turkish Sugar Authority (Cont'd)

- Institutions Established by the Sugar Law:

- Turkish Sugar Authority: It regulates and controls the sugar sector. All follow-up and supervision activities related to sugar sector are fulfilled by the Turkish Sugar Authority.**
- Sugar Board: It is the decision-making body of the Turkish Sugar Authority. One of the main duties of the Board is to determine and allocate quotas.**



i. Turkish Sugar Authority (Cont'd)

Sugar Quotas

- Quotas are classified as A and B.**

A quota: corresponds to domestic demand.

B quota: corresponds to compulsory reserves.

- Sugar produced out of quotas is called as C sugar and it cannot be marketed domestically.**
- Quotas have been allocated since 2002/03 marketing year. Quota breakdown for 2006/2007 marketing year is as follows:**

Beet sugar	: 2,107,000 tonnes
Starch based sugars	: 234,100 tonnes
Total	: 2,341,100 tonnes



ii. Undersecretariat of Customs

a. Administrative Structure

- Organized under Prime Ministry (One State Minister Responsible).**
- Consists of four main service units, four consultative and supervisory units and four supporting units.**
- About 1200 officers at the Central Administration.**
- Responsible for the implementation of customs and foreign trade legislation and carrying out customs enforcement services.**



a. Administrative Structure (Cont'd)

- Currently, two draft laws concerning the Turkish Customs Administration are before the Turkish Grand National Assembly.
- These laws aim at:
 - Reorganising the Customs Administration so as to achieve a more efficient structure.
 - Establishing representation structures of the Undersecretariat abroad to carry out regular communications and relations with the EU and other international organisations.



a. Administrative Structure (Cont'd)

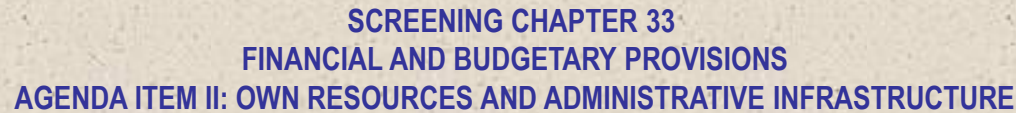
18 Regional Directorates

143 Customs & Customs Enforcement offices
(Total 6676 staff)



a. Administrative Structure (Cont'd)





a. Administrative Structure (Cont'd)

Workload of Turkish Customs

	2003	2004	2005
	(Bil.USD/~EUR)	(Bil.USD/~EUR)	(Bil.USD/~EUR)
Export	47,3 / 36,9	63,1 / 49,2	73,0 / 56,9
Import	69,3 / 54	97,5 / 76	118,0 / 92

No. of declarations	2,850,147	3,247,871
	3,513,322	

No. of companies dealing with foreign trade ~90,000



a. Administrative Structure (Cont'd)

Workload of Turkish Customs

	2003		2004		2005	
	ENTRY	EXIT	ENTRY	EXIT	ENTRY	EXIT
VESSELS	33,771	32,886	43,637	43,108	44,037	43,779
CONTAINERS	711,810	702,053	967,807	912,960	1,41,567	961,970
TIR CARNET	724,091	735,771	860,056	860,164	944,64	943,518
PASSENGERS	16,496,167	16,525,184	21,299,425	20,782,411	23,225,866	24,588,336



a. Administrative Structure (Cont'd)

Cooperation

Bilateral

43 Administrative Assistance Agreements

Regional

EU, SECI, ECO

International

WCO, UNODC, INCB, IAEA, INTERPOL, D-8, ISEDAK

With the EU Institutions

**Commission (Meetings, Seminars, Assistances, Customs 2007 ...)
OLAF (Hosting Missions, Joint Missions, Administrative Assistance)**



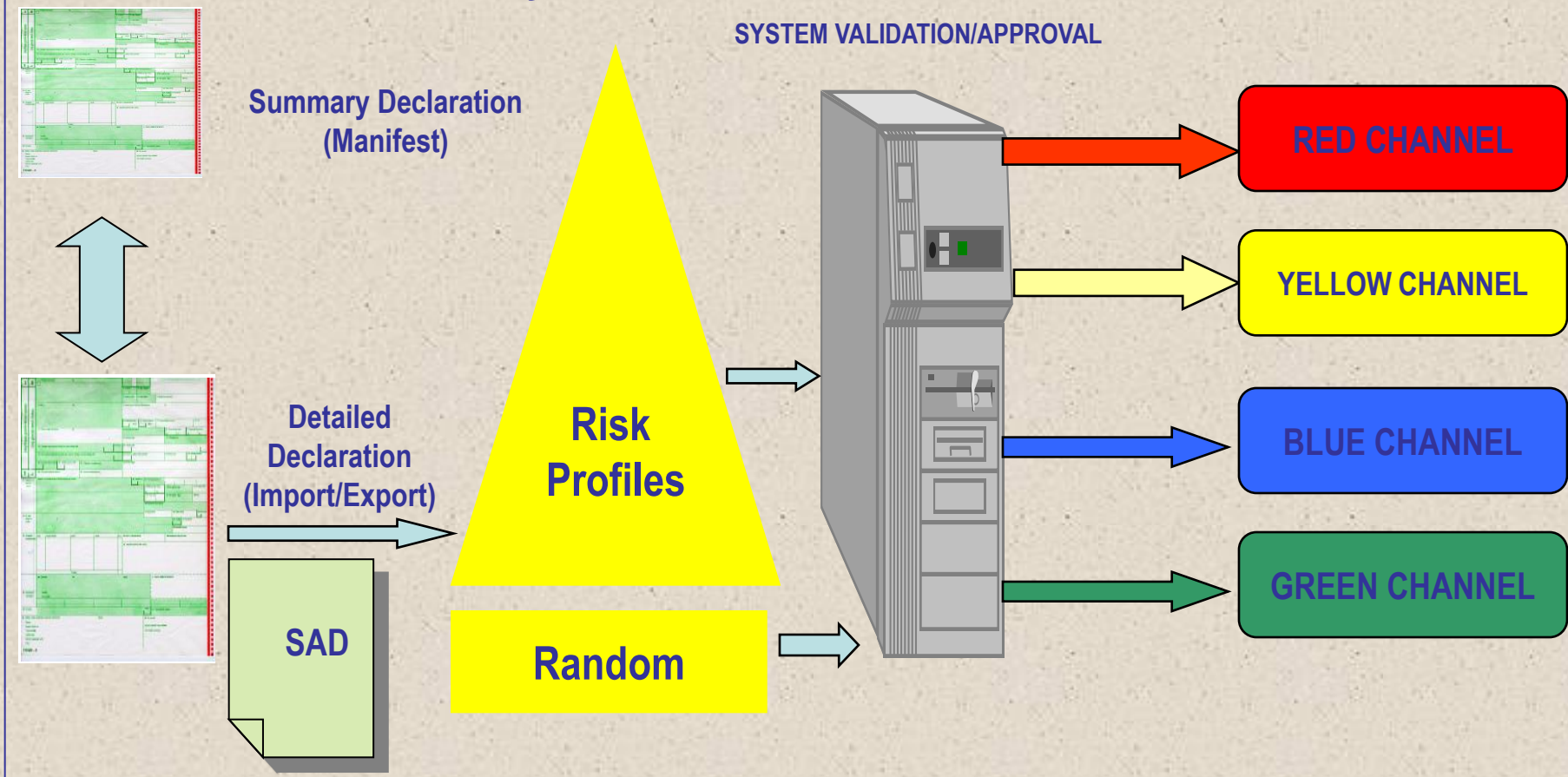
a. Administrative Structure (Cont'd)

Customs Inspections and Investigations

- Customs Board of Investigation**
 - To interdict, prosecute and investigate the smuggling activities.**
 - To perform inspections, investigations and inquiries with regard to all activities and transactions of the Undersecretariat and any affiliated or associated organizations.**
- Other Boards (Every Main Service Unit has its own Board of Controllers)**

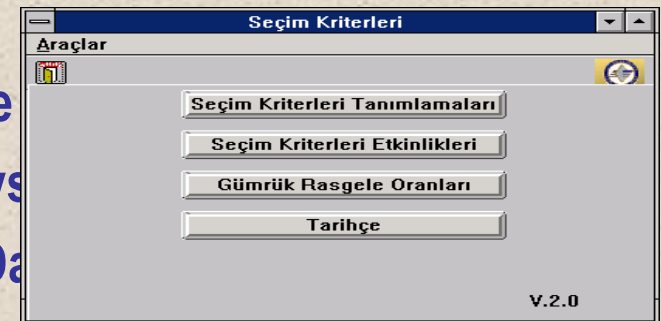
b. Customs Methods and Operations

1. Risk Analysis and Assessment Process



2. Tools and Modules for Risk Analysis

- Risk Analysis Module
 - Risk Analysis
 - Violation Data
 - Line Determination and Direction
 - Risk Profiles
- Customs Data Warehouse System
 - Instruction (Message) Module
- Company's Registration Info and Tax Number Module
 - Customs Brokers Module





3. Verification of Declarations

Before release;

- examination of the documents or,
- examination of the goods and taking samples for analyses or
- detailed examination

After release; post clearance examination is possible for the goods which belong to the Customs-Approved Persons who classified as A and B.

Verification of declarations is accomplished by Customs Inspection Officers assigned by Computerized Customs Transaction (BILGE) System according to the risk analysis.



4. Simplified Procedure

- Omitting certain documents that have to be accompanied and certain information that has to be recorded (incomplete declaration).
- Lodging a commercial or administrative document instead of the SAD (simplified declaration).
- Entering to the related customs procedure by means of the entry in the records.



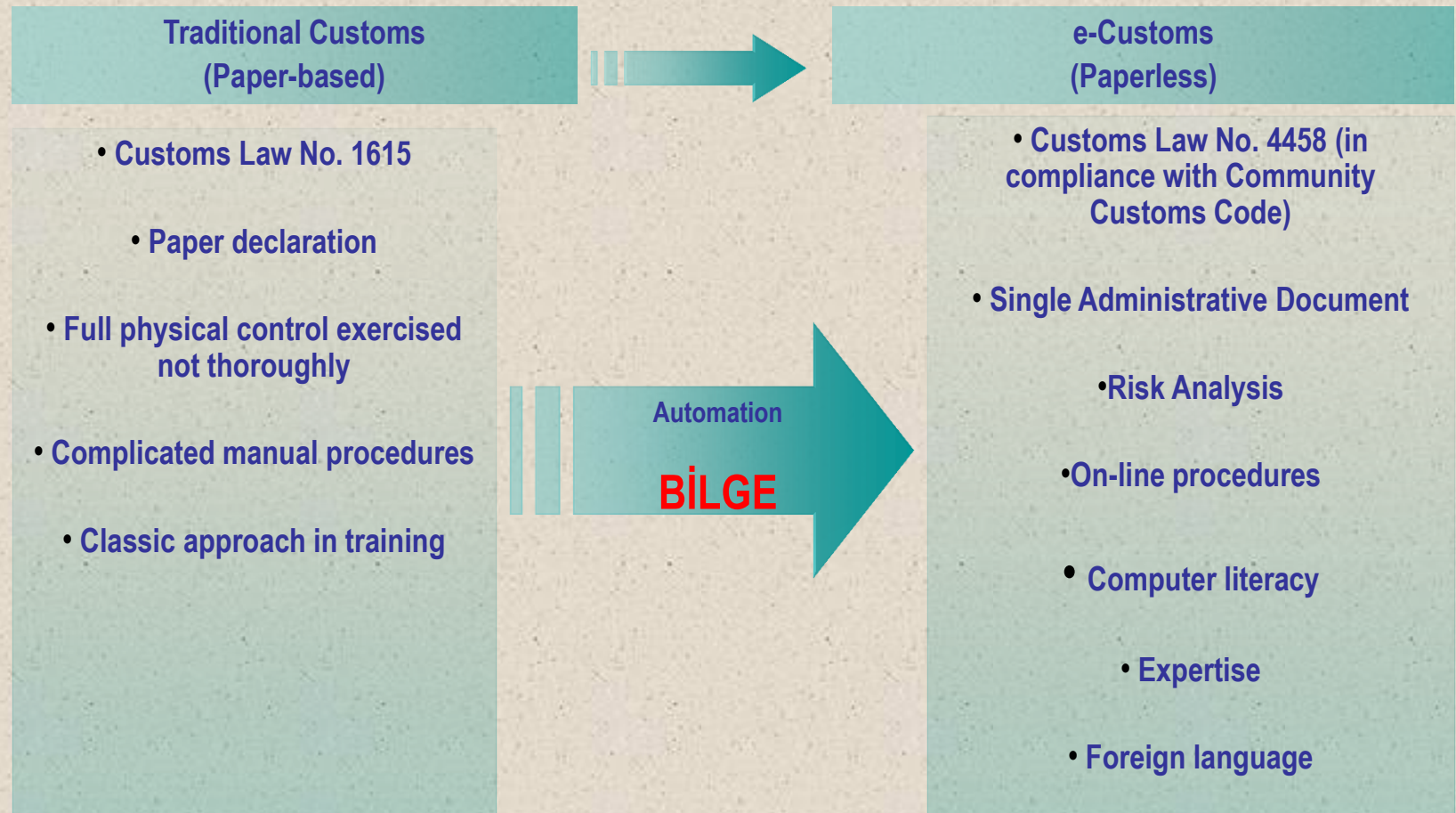
c. Modernisation of Customs

- Re-organization of customs administration.
- Development and implementation of IT systems for customs procedures.
 - Harmonisation of customs legislation and procedures.
- BILGE (Automated Customs Procedure - import, export, transit etc.)
 - GUMSIS (Customs Security Systems)
 - GUVAS (Customs Data Warehouse System)



1. GIMOP- Project for Modernization of Customs Administration

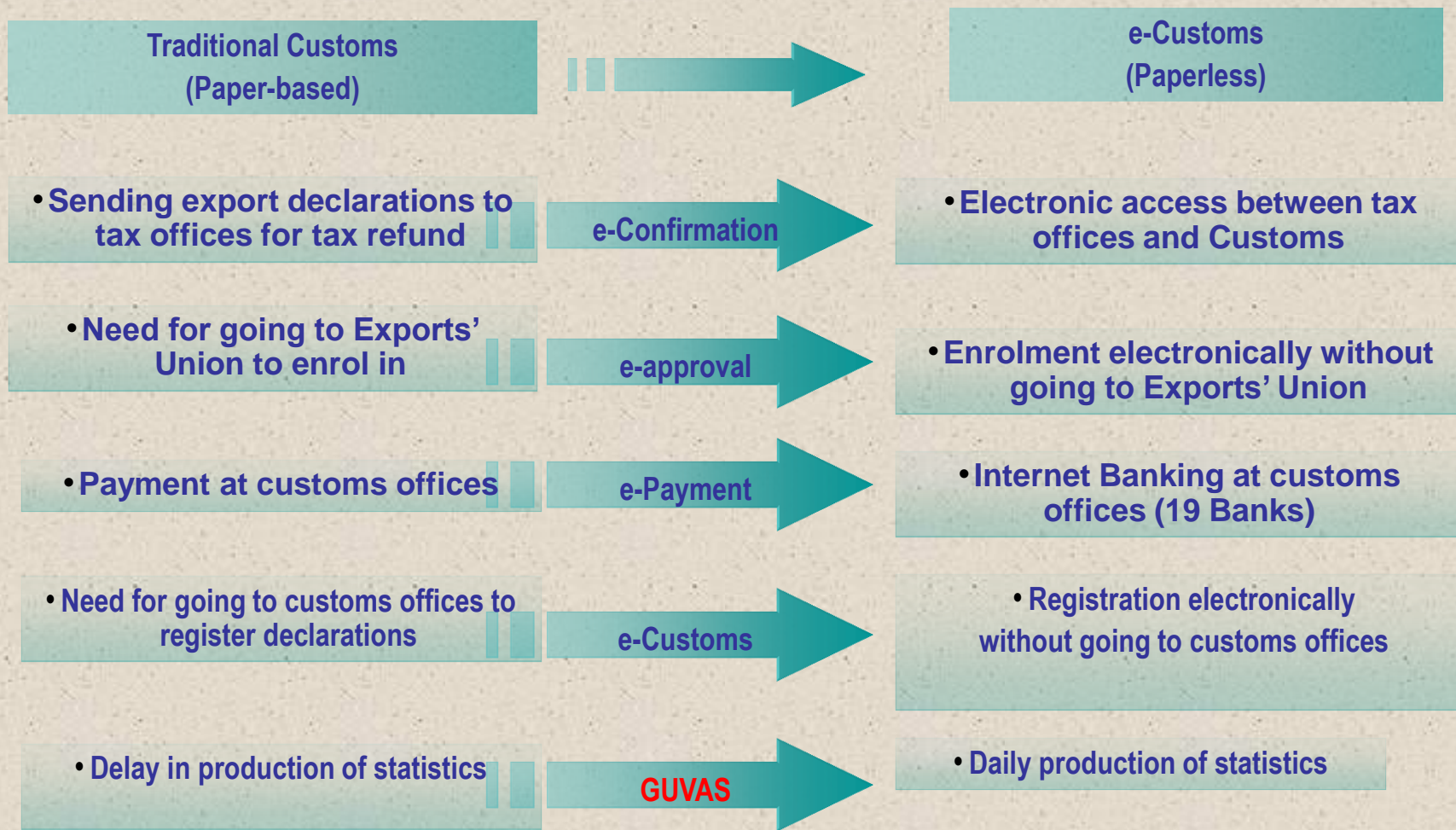
1998-2002





2. Transformation at Turkish Customs

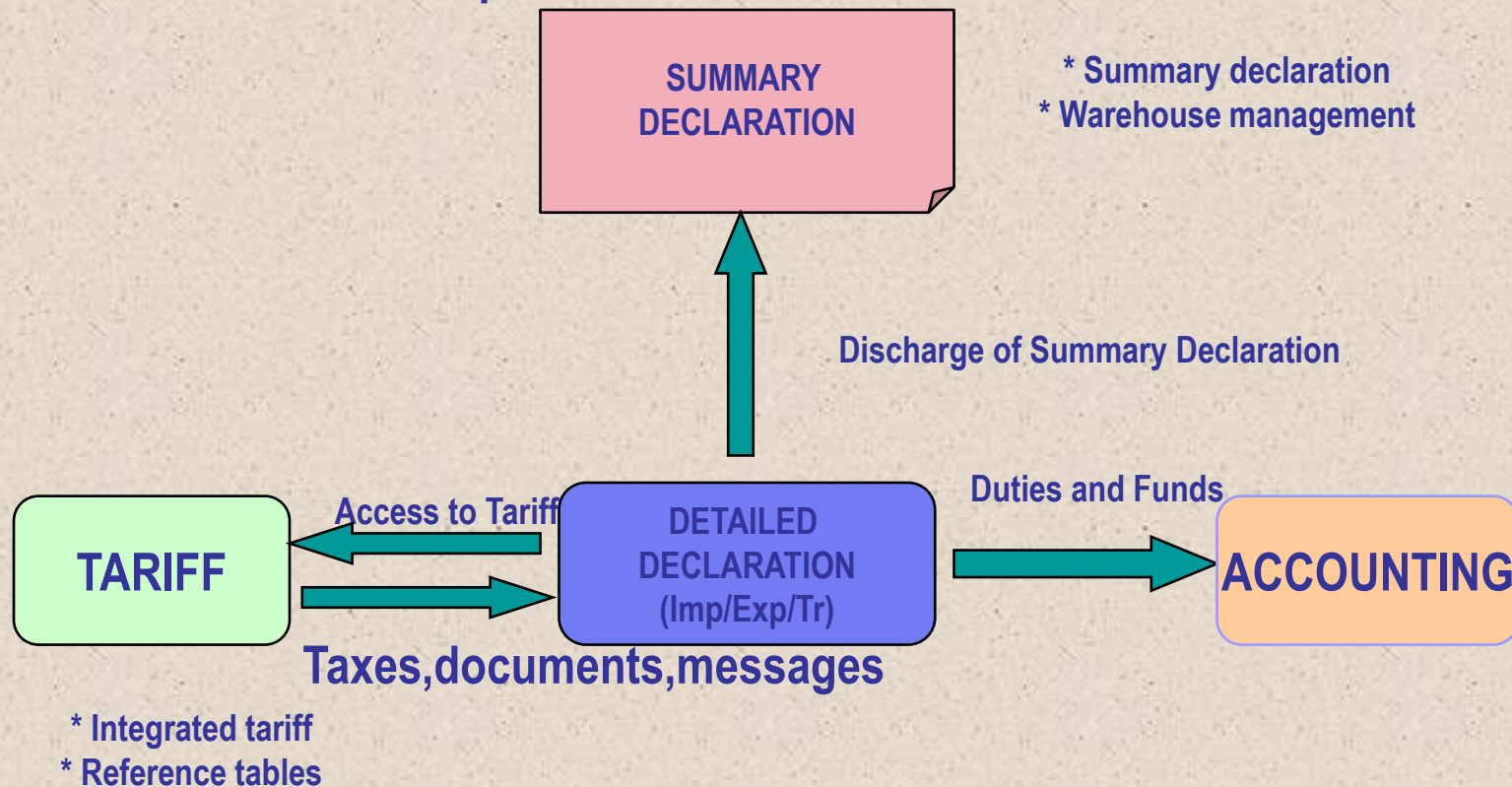
2003-2005





3. Software

A customs software (BILGE) is developed, which is capable of carrying out all procedures for customs clearance.





3. Software (Cont'd)

Methods of Submission of Declaration to BILGE

Traders can submit their declarations;

- through kiosks provided within the customs directorates**
- via Internet**

or

- from their own offices through EDI (Electronic Data Interchange) messages.**

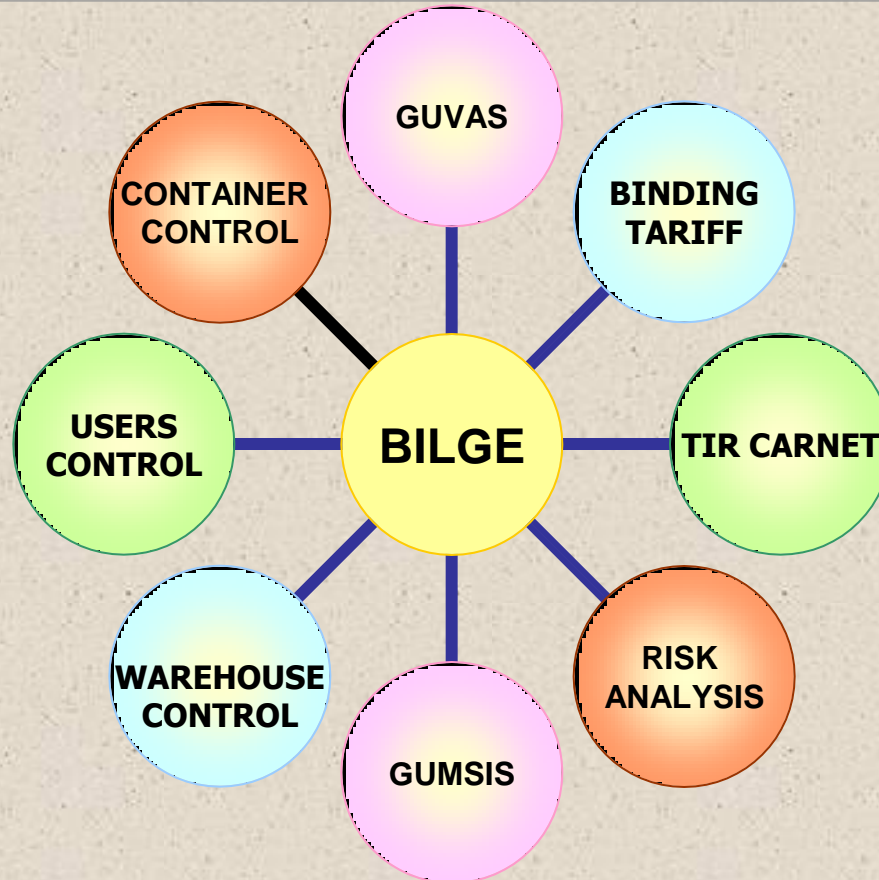
3. Software (Cont'd)



**Approximately 600 PCs are
available at 71 customs sites
for the use of traders.**

3. Software (Cont'd)

OTHER SOFTWARE INTEGRATED INTO BILGE





3. Software (Cont'd)

As of December 2005

71

Customs Directorates

&

16

Regional Directorates

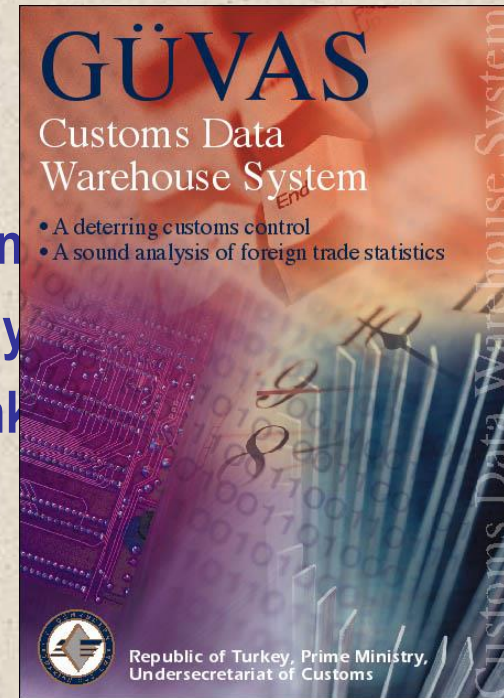
Automated

**The number of annual import and export declarations are about 3.99 million
99.5 % of all transactions are under automation.**

IT infrastructure of the remaining 54 customs directorates have been completed.

4. Customs Data Warehouse System (GUVAS)

- Management
- Performance measurement
- Foreign trade statistics analysis
- Anti-Smuggling Data Bank
- Valuation Data Bank





5. Modernisation of Customs Laboratories - 2004

Central and Regional Level;

- construction (national financing).**
 - designing.**
 - furnishing.**
 - equipping.**
- technical training for staff.**



6. EU Funded Projects

- 2003 - Modernisation of Turkish Customs I**
- 2004 - Modernisation of Turkish Customs II**
- 2006 - Modernisation of Turkish Customs III**



6. EU Funded Projects (Cont'd)

2003 - Modernisation of Turkish Customs-I

- Twinning - Capacity Building Project**
- GUMSIS I - Border Control Project**



6. EU Funded Projects (Cont'd)

2004 - Modernisation of Turkish Customs-II

- Web-based BILGE**
- ITMS (Pre-study/Integrated Tariff Management System)**
- NCTS (Legislative Harmonisation/New Computerised Transit System)**
 - Risk Management**
 - Modernisation of Customs Laboratories**
 - Automated Customs Archives Center**
 - Enforcement**



6. EU Funded Projects (Cont'd)

2005 - Modernisation of Turkish Customs-III

- CCN/CSI (Common Communication Network/ Common System Interface)**
 - ITMS (Integration to the system and twinning)**
 - NCTS (Integration to the system and twinning)**
 - GUMSIS II (Border Control Project)**
 - Capacity Building (Training)**
 - Capacity Building (Post Control)**



THANK YOU FOR YOUR ATTENTION



AGENDA ITEM II-B: VALUE ADDED TAX (VAT) RESOURCE

**Country Session: The Republic of TURKEY
4 October 2006**



B. VALUE ADDED TAX (VAT) RESOURCE

- 1. Legal Framework**
- 2. Scope of VAT**
- 3. Government Accounting**
- 4. Domestic VAT Data**
- 5. VAT Estimation**
- 6. Statistics on VAT**
- 7. Exchange of Information**
- 8. Control System**
- 9. Future Plans**
- 10. EU Funded Projects**



1. Legal Framework

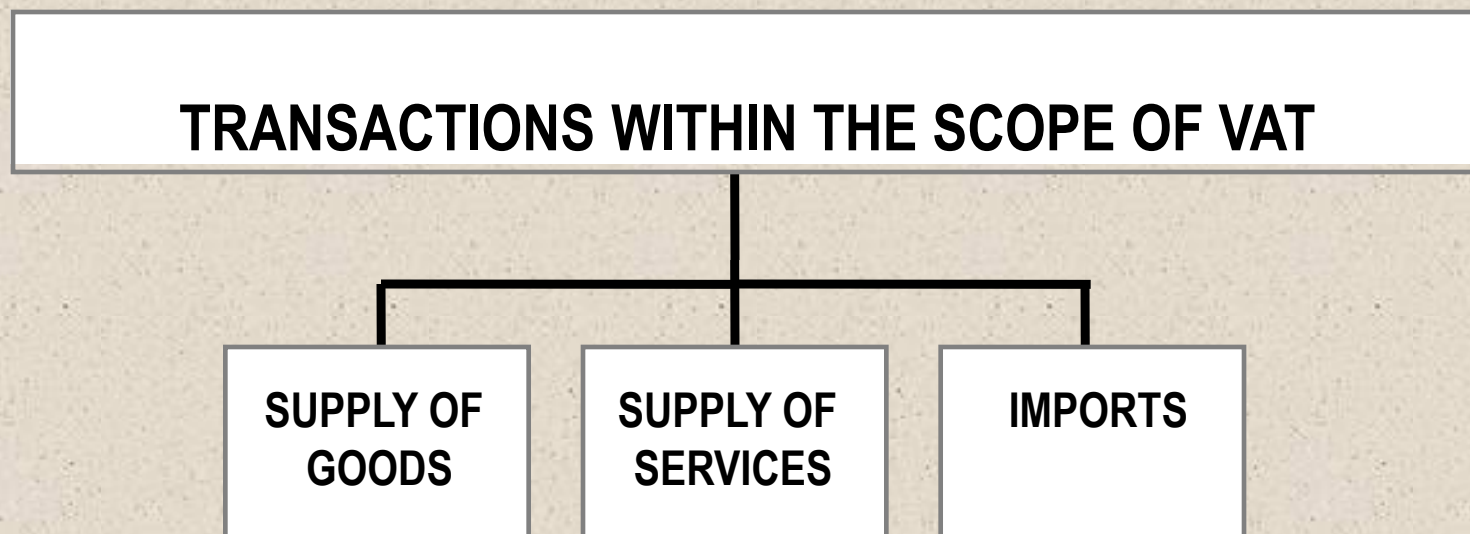
- VAT Law No. 3065.

**(Official Gazette No 18563, dated 2 November 1984,
put into force on 1 January 1985)**

- General consumption tax.**
- Covers all goods and services.**
- Applied to all stages from producer to consumer.**
- Calculated on transaction value with related rate.**



2. Scope of VAT



- Supply of goods and services referred to economic activities on continuing basis in Turkey and all kinds of importation of goods to Turkey are in the scope of VAT.



2. Scope of VAT (Cont'd)

TAXPAYER



- Those supplying goods and services.
- Those importing goods or services.
- Those organising artistic and sports activities with the participation of professional artists and sportsmen.
- Those renting the goods and the rights such as real estates, construction equipment, motor vehicle, installations, rights in the nature of real estates, rights of exploration and operation, rights of privilege, brand marks, titles, copyrights.
- Those who are registered as taxpayers on optional basis.



2. Scope of VAT (Cont'd)

Taxation Period

- In principle taxation period is one month for the taxpayers and those liable for the payment of tax.**
- For some small transportation enterprises (under certain thresholds) and taxpayers subject to simple procedure taxation (those who renounced from exemption) taxation period is three months.**
- In importation transactions, taxation period is the entry date of the goods to the customs territory.**



2. Scope of VAT (Cont'd)

Tax Base

- The tax base is the value of transactions.
- In consideration of these transactions, value is the sum of money; benefit, services and values that are represented by money and goods;
 - received in any manner or
 - the amount debted by buyers.



2. Scope of VAT (Cont'd)

Items Included in Tax Base

- Transport, loading and unloading expenses made by the sellers.**
- Costs of packaging.**
- Insurance, commission and similar expenses.**
- The elements such as taxes, duties, charges, shares and contributions to the funds.**
- Miscellaneous incomes such as due date difference, price difference, interest and premium.**
- All benefits, services and assets provided under service or similar names.**



2. Scope of VAT (Cont'd)

Exclusions From Tax Base

- Discounts**
- Shown separately in invoices and similar documents.**
- Amount should be in compliance with the commercial practices.**
- Calculated value added tax**
- are not included in tax base.**



2. Scope of VAT (Cont'd)

Items Included in Tax Base in Imports

- The customs value of the goods.
- When the customs duties are not collected on the base of customs tax value or goods are exempted from customs duty, the CIF value.
- If the value of the goods is unknown, the value of the goods assessed by the customs.

+

- At the time of importation any kind of
- taxes
 - duties
 - charges and
 - shares paid.

+

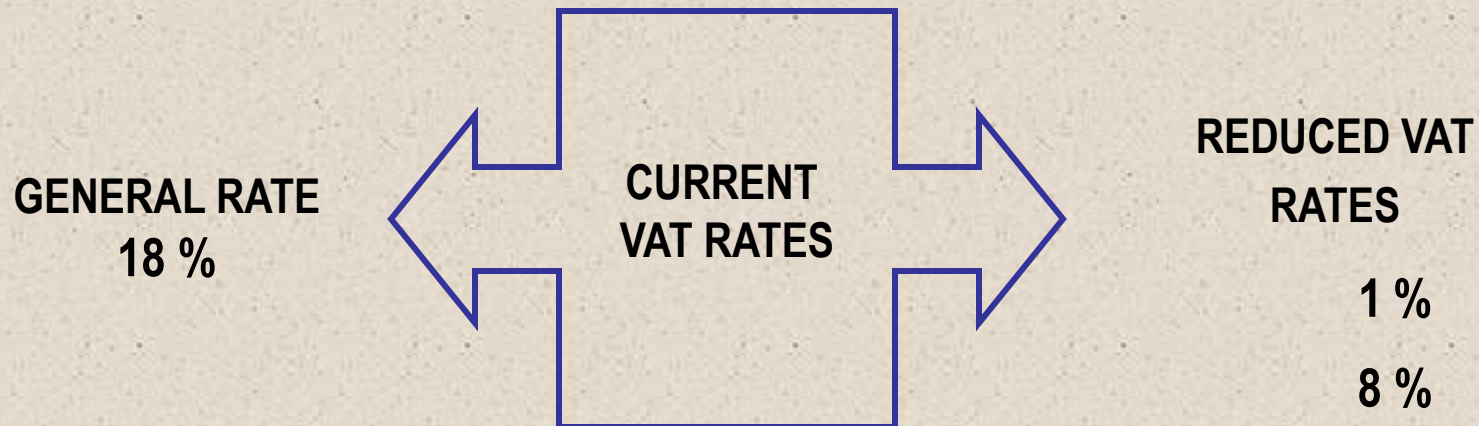
- Up to the registration date of customs declaration
- Payments and other expenditures that are not taxed.
 - Payments resulting from price differences and exchange rate differences.



2. Scope of VAT (Cont'd)

Rates (1/3)

- Currently three VAT rates are applied;





2. Scope of VAT (Cont'd)

Rates (2/3)

- **Goods and services subject to reduced rate are listed in Lists (I) and (II) annexed to Cabinet Decree No. 2002/4480.**
- **The goods and services that are not listed in these lists are subject to general rate.**
 - **1% rate is applied on the goods and services under List (I).**
 - **8% rate is applied on the goods and services under List (II).**



2. Scope of VAT (Cont'd)

Rates (3/3)

- 8% or 18% rate is applied on retail delivery of some goods listed in List (I).**

- Retail delivery;**

“Sale of goods to those excluding VAT taxpayers selling goods as it is or after processing and VAT taxpayers using the goods in their enterprises.”



2. Scope of VAT (Cont'd)

Deductible VAT

- Taxpayers are allowed to deduct paid VAT;**
 - On deliveries of goods to them and provision of services for them**
and
 - On imported goods and services**
- from calculated VAT of the transactions.**



2. Scope of VAT (Cont'd)

Non-Deductible VAT (1/2)

Charged VAT can not be deducted for the following;

- Transactions that are not subject to VAT,**
- Transactions that are exempted from VAT,**
- Passenger cars (for those used in commercial activities such as rental are VAT deductible).**



2. Scope of VAT (Cont'd)

Non-Deductible VAT (2/2)

- Wasted goods (except the goods wasted as a result of earth quakes, floods and fires in the regions that are declared as force majeure by the Ministry of Finance because of fire).**
- Expenses that are not accepted in Personal Income Tax Law and Corporate Tax Law.**



2. Scope of VAT (Cont'd)

Partial Tax Deduction

- According to Law, if transactions that are allowed to be deducted and that are not allowed to be deducted are done by the same enterprise, only the deductible portion of the VAT shall be subject to deduction.**



2. Scope of VAT (Cont'd)

Types of Exemptions

FULL EXEMPTIONS

- With right of deduction
 - With right of refund
- VAT Law Art. 11, 13, 14

PARTIAL EXEMPTIONS

(no refund)

- With right of deduction
- Without right of deduction
 - VAT Law Art. 17



2. Scope of VAT (Cont'd)

Exemptions Regarding Compensations (1/2)

Turkish VAT Exemption

Exemption for transit and international transportation (Art. 14)

- Services of travel agents are within the scope of Art. 14

Exemptions for social purposes (Art. 17/2)

- The supply of goods and services to official bodies responsible for the construction, setting out and maintenance of cemeteries, graves and monuments commemorating war dead are within the scope of Art. 17/2



2. Scope of VAT (Cont'd)

Exemptions Regarding Compensations (1/2)

Turkish VAT Exemption

Exemption for water delivery of agricultural purposes, land reclamation services and delivery of drinking water to villages (Art.17/4)

- Although the exemption in Annex Art. 12 covers all supply of water by public authorities, Turkish VAT system exempts only agricultural water supplied by public authorities

Exemption for sea, air, and railway vehicles (Art. 13)

- The supply, modification, repair, maintenance, chartering and hiring of aircraft is within the scope of Art.13

Exemption for national security expenses (Art.13)

- The supply, modification, repair and maintenance of warships is within the scope of Art 13



2. Scope of VAT (Cont'd)

Renouncement from Exemption (1/2)

- Taxpayers carrying out transactions exempted from VAT
 - by filing an application to the local tax administration,
 - by specifying exempted transactions,
can demand the transactions to be taxed.
- Those taxpayers can not renounce from their tax liabilities up to 3 years.



2. Scope of VAT (Cont'd)

Renouncement From Exemption (2/2)

However, renouncement from

- Exemption for cultural, educational and social purpose exemptions (17/1,2) (excluding exempted associations and charity foundations established for public interest) and**
- Exemption for delivery and services of military factories, navy yards and workshops in compliance with their establishment purpose(17/3-a) and**
- Exemption for transactions subject to banking and insurance transactions tax (17/4-e)**

is not possible.



3. Government Accounting

- **Established system of state accounts under the Ministry of Finance, General Directorate of Public Accounts.**
- **Centralisation of accounting data.**
 - **System accumulates the data on daily basis.**
- **Classification system of the VAT data:**
 - **VAT on declaration basis.**
 - **VAT on withholding basis.**
 - **VAT on imports.**



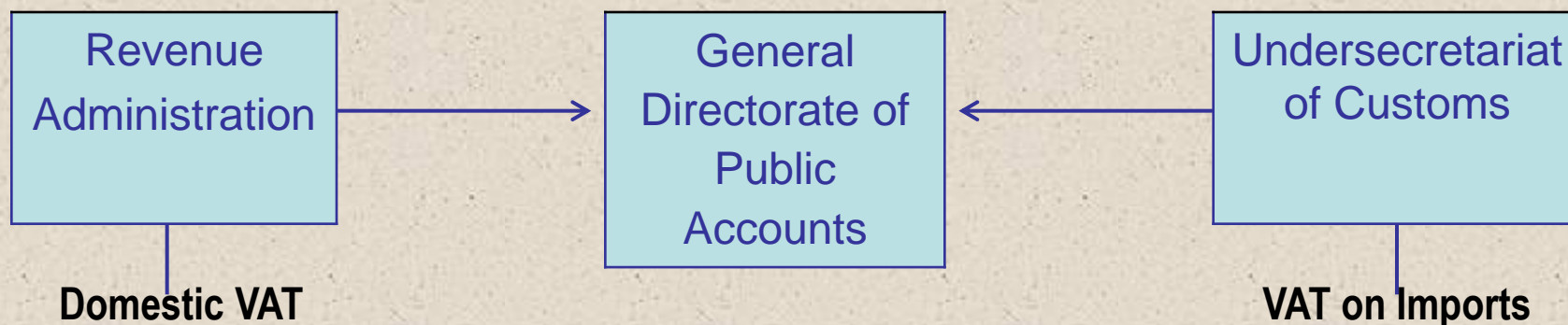
3. Government Accounting (cont'd)

VAT ACCOUNTS IN GENERAL BUDGET

General Budget Revenues
I- Taxes
1. Taxes on Income, Profits and Capital Gains
a) Income Tax
b) Corporation Tax
2. Taxes on Property
3. Domestic Taxes on Good and Services
a) Domestic VAT
Based on Declaration
Withholding Based
b) Excise Duties
c) Banking and Insurance Transaction Tax
d) Gambling Tax
e) Special Communication Tax
4. Taxes on International Trade and Transactions
a) Customs Duties
b) VAT on Imports
c) Other Taxes on International Trade and Transactions
5. Stamp Duties
6. Fees
7. Other Taxes not Elsewhere Classified



4. Collection of VAT Data



- Data collected by Revenue Administration and Undersecretariat of Customs are unified under General Directorate of Public Accounts.



4. Collection of VAT Data (Cont'd)

Domestic VAT Data

TAX RETURNS

E-FILES

- Given on the voluntary bases
- Usage ratio is continuously increasing
- All information on regular tax returns including distribution of transactions by VAT rates
- Covers 54.7% of total VAT taxpayers and 67.1% of the total VAT assessment

VEDOP

- VEDOP - Tax Offices Automation Project
- Sixteen different figures entered to the VEDOP on the basis of tax returns given. (e.g. VAT on exports, postponed tax)
- Covers 96.3% of the total VAT taxpayers (total 2,221,020 in Aug. 2006)
- Four main VAT data compiled from the database (tax base, assessed VAT, deductions and tax to be paid)



5. VAT Estimation

- Simple estimation model is used currently by General Directorate of Revenue Policies.
- The components of the model used are GNP deflator, development rate and elasticity rate.
- Input-output estimation methods and simulation techniques are also made of use in connection with Total Equilibrium Model.
- Estimations made by State Planning Organization regarding increase of imports and currency exchange rates are taken into consideration for VAT estimations on imports.



5. VAT Estimation (Cont'd)

- Estimation process ends by the end of 15 October.
- Breaking down the transactions by VAT rate can be done on electronic tax returns.
- There are separate accounts for the exemptions with refund of the tax paid at the preceding stage (esp. refunds on exports).



6. Statistics on VAT

E-FILED VALUE ADDED TAX DATA (VEDOP + EVDO)

(euro)

TERM	BASE	CALCULATED VAT	DEDUCTION	ASSESSMENT
Sept-Dec 2004	75.461.462.44	13.108.253.244	3.550.813.964	9.557.439.280
Jan - Dec 2005	326.221.802.819	51.635.120.545	45.628.494.343	6.006.626.202
Jan - July 2006	259.315.641.220	39.597.119.538	34.928.980.895	4.668.138.643



6. Statistics on VAT (Cont'd)

Weighted Average Rate

2005	(euro)
Total Assessed Amount	22.380.038.746
Domestic VAT	10.325.818.431
VAT on Import	12.054.220.315
Total Collected Amount	20.461.407.964
Domestic VAT	8.407.187.649
VAT on Import	12.054.220.315
VAT Collected/GDP	6,23 %
Weighted Average Rate	15,83 %

Weighted Average Rate has been calculated by dividing the value of calculated VAT to the total taxable amount of VAT, on the basis of e-filed tax returns concerning 2005.



7. Exchange of Information

- **There is adequate capacity to keep the documents and data used in calculation of the VAT base and to exchange information with the Commission.**
- **In case of a control request by the Commission, transfer of VAT data stored under the VEDOP and VERIA systems will be done during the legal harmonisation process.**



8. Control System

Audit Staff:

- Finance Inspectors**
- Tax Inspectors**
- Revenue Controllers**
- Tax Auditors (Local)**

VERIA: Data warehouse established for the use of audit and data analysis.
It compiles the data from various sources, including internal data from tax returns and external data from financial institutions, public registries etc.

The most frequently audited area of VAT taxation is the rebates on exports.



8. Control System (Cont'd)

VERIA

- **Turkish Revenue Administration (TRA) started the VERIA Project with VEDOP-2 in 2004 in order to meet the need for software programs to analyse data for auditing purposes.**
- **It is the system of processing the collected data from operational units, public institutions and external resources to cope with unregistered economy and tax evasion.**
- **TRA is working on developing special programs to analyse data.**



8. Control System (Cont'd)

Aims of VERIA

- **Generating a strong and effective management structure by using technological infrastructure and audit system,**
- **Identifying unregistered taxpayers and transactions,**
- **Controlling and classifying declarations,**
- **Cross-checking taxpayers' notifications,**
- **Determining profile of taxpayers and their tendency,**
- **Calculating sectoral averages,**
- **Producing statistical information and reports for auditing and management purposes.**



8. Control System (Cont'd)

Data From Operational System (VEDOP)

Tax Returns

- **Income Tax**
- **Corporation Tax**
- **Value Added Tax**
- **Withholding Tax**
- **Excise Duty**

Other

- **Central Taxpayer Registry Data**
- **Assessment and Collection of Revenues**
- **Vehicle Registry**
- **Information on Shareholders of Corporation and Members of Board of Directors.**



8. Control System (Cont'd)

Data Received From Banks and Financial Institutions

- Data on sales via POS and imprint machines and credit cards,
- Purchase / sale of all type of bills, bonds and other securities,
- Gold purchase / sale transactions,
- Repo / backward repo transactions,
- Forward transactions and option contracts.



8. Control System (Cont'd)

Data Transfer Method and Period

Transfer Method

- **Data is transferred through internet or by means of electronic media instruments (CD or DVD).**
- **The system established to receive data through internet is called BTRANS. Small-size information is mostly transferred via BTRANS.**
- **Large-size information is transferred on DVDs.**

Transfer Frequencies

- **Daily, Monthly, Quarterly, Annually.**



8. Control System (Cont'd)

Notifications (Form Ba and Form Bs) (1/2)

Taxpayers keeping their books on double entry method have to submit Form Ba and Form Bs for purchases and sales of the previous year.

Form Ba	Purchases over 30.000 TRY (\approx 18.180 €) from one taxpayer in previous year.
Form Bs	Sales over 30.000 TRY (\approx 18.180 €) to one taxpayer in previous year.



8. Control System (Cont'd)

Notifications (Form Ba and Form Bs) (2/2)

- **Purchase and sale amounts of taxpayers are cross checked.**
- **In case of inconsistency, related data is controlled.**
- **After all controls, taxpayers declaring inconsistent amounts of sale and purchase become subject to auditing.**



8. Control System (Cont'd)

VAT Audit Results

YEAR	TOTAL AUDIT NUMBER	AUDITED BASE (€)	BASE DIFFERENCE(€)
2004	30.192	8.563.129.330	2.300.498.672
2005	22.203	9.382.983.285	1.170.740.493



9. Future Plans

- Incorporating new information sources to the system.
- Integration with other databases.
- Generating effective analysis.
- Using all functions of e-Government to achieve fast data communication.



10. EU Funded Projects

AUDITING SUPPORT SYSTEM

Auditing Support System is a part of the Management Information System (MIS).

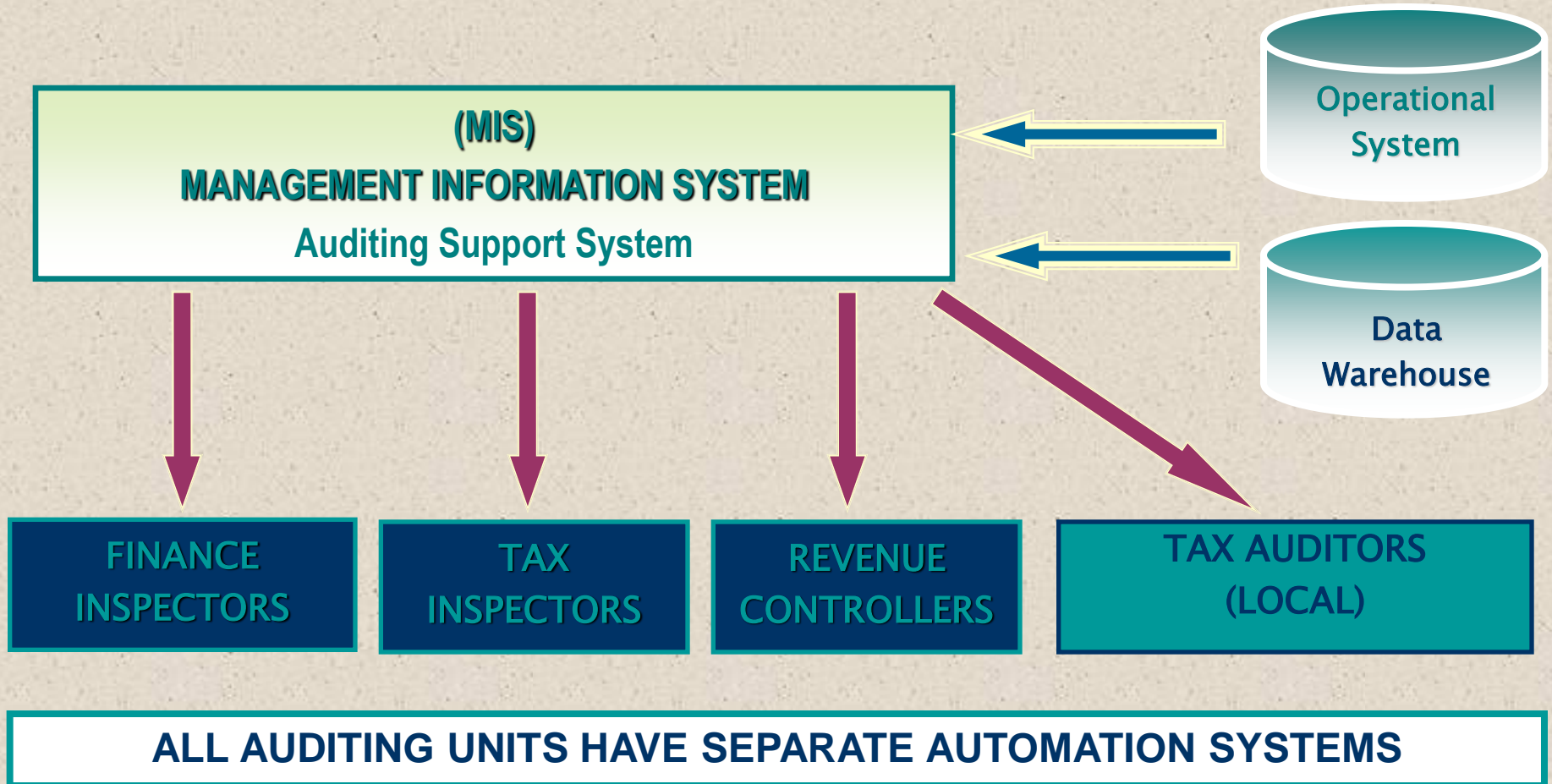
Auditing Units have on-line connection to IT Centre.

Auditors have access to all information about taxpayers via Auditing Support System.

- Taxpayer Registry Data,
- Shareholders of corporations,
- Tax returns,
- Notifications,
- Collections,
- Tax refunds.



10. EU Funded Projects (Cont'd)





10. EU Funded Projects (Cont'd)

Information Sharing within the System

Auditors have access to:

- **all existing information about taxpayers through VEDOP,**
 - **all previous reports about taxpayers,**
- **previous sector reports (model reports), with the approval of Report Control Commission (ROK),**
 - **legislation and regulations,**
 - **internet.**



THANK YOU FOR YOUR ATTENTION



AGENDA ITEM II-C: GNI RESOURCE

Country Session: The Republic of TURKEY
4 October 2006



C. GNI RESOURCE

- 1. Overview**
- 2. Methodology**
- 3. Responsible Institutions and Stakeholders**
- 4. Future Plans**
- 5. EU Funded Projects**



1. Overview

Quarterly and Annual Accounts

- Turkey has been involved in Eurostat work on national accounts since 2000.
 - National Accounts (NA) figures have been compiled on a regular quarterly basis since 1987.
- Gross Domestic Product (GDP) is estimated by production, expenditure and income approaches.



1. Overview (cont'd)

The system consists of the following elements:

- **Value added by kind of economic activity at current and constant prices.**
- **Expenditure on GDP at current and constant prices.**
 - **GDP by cost components at current prices.**

Annual accounts are derived in two ways:

- **as the sum of four quarters.**
- **in the framework of SUT/IOT compilation.**



2. Methodology

Production approach

- **Value added by type of economic activity at producers' prices.**
 - **GDP at purchasers' prices and GDP at factor cost.**
 - **Base year is 1987.**
- **Value added is equal to output at producers' prices.**
 - **Intermediate consumption at purchasers' prices.**



2. Methodology (cont'd)

Expenditure approach (1/2)

Private Final Consumption Expenditure

- Food and Beverages, Commodity Flow Method (CFM)**
 - Durable goods (CFM)**
 - Semi durable and non durable goods (CFM)**
 - Energy, transportation and communication**
 - Services**
 - Ownership of dwellings**



2. Methodology (cont'd)

Expenditure approach (2/2)

- **Government Final Consumption Expenditure**
- **Gross Fixed Capital Formation (Public and Private)**
 - **Machinery and Equipment (CFM)**
 - **Building Construction (by Building Permits)**
 - **Civil Engineering Works**
 - **Change in stocks**
- **Exports of goods and services (-) Imports of goods and services**



2. Methodology (cont'd)

Income approach

- Other taxes and subsidies on production
- Compensation of employees by kind of economic activity
- Consumption of fixed capital (Perpetual Inventory Method)
 - Operating surplus



2. Methodology (cont'd)

Statistics for own resources (1/2)

- Monitoring own resources have two dimensions: VAT, GNI Inventory.**
 - VAT: MoF data for taxes on products and production**
 - GNI: GDP figures prepared by TURKSTAT**
- Turkey has VAT implementation since 1984.**



2. Methodology (cont'd)

Statistics for own resources (2/2)

For GNI Inventory (Current situation)

There are two studies for description of Turkish National Accounts System:

- Short description of Quarterly NAs (QNA) for current situation**
 - Statistical System**
 - The architecture of NA**
- Description of methodology used for calculation of GDP in the latest main NA publication**
 - Data sources**
- Used methods for estimations for QNA, including production, expenditure and income approaches**



2. Methodology (cont'd)

Data sources

- **Surveys**
- **Administrative registers**
- **Censuses**



2. Methodology (cont'd)

Classifications

- ISIC Rev.2

- Classification by Broad Economic Categories

- Classification by Broad Economic Categories (SITC Rev 3) is used to classify commodities as consumer goods, intermediate and capital**
 - For 1998 SUT, ISIC Rev.3 / aggregated 97 industry groups**



2. Methodology (cont'd)

Dissemination

- Press release covers GNP in current and constant prices (1987)
- Quarterly NA data are published 90 days after end of reference quarter for first and fourth quarters, while time lag is shortened to 70 days in the cases of second and third quarters
 - 1st quarter 30 June
 - 2nd quarter 10 September
 - 3rd quarter 10 December
 - 4th quarter 31 March (following year)
- The last SUT (1998) was published in 2004



3. Responsible Institutions and Stakeholders

- TURKSTAT is the responsible institution.**
- Stakeholders are:**
 - Ministry of Finance**
 - State Planning Organization**
 - Central Bank**
 - Undersecretariat of Treasury**
 - Revenue Administration**



4. Future Plans

TURKSTAT is in the process of revising national accounts figures in accordance with ESA 95.

After GDP revision in accordance with the ESA-95, it will be possible to prepare a detailed GNI inventory reflecting current situation.

Revision Studies for Quarterly National Accounts (1/2)

- Base year change from 1987 to 1998.**
- From value added at producers prices to value added at basic prices.**
- Chain-linked series, for constant price estimates (over the year techniques).**
- Financial intermediation services indirectly measured (FISIM) according to method 4a.**



4. Future Plans (cont'd)

Revision Studies for Quarterly National Accounts (2/2)

- **Allocation of FISIM (by industries, households and general government)**
- **Central Bank output, as the sum of costs**
- **Backward estimates to 1998**
 - **NACE Rev 1.1 and A31 classification for production approach**
- **COICOP for private household consumption**
- **Exhaustiveness for QNA based on Labor Force Survey and annual sector statistics**
- **Using stratification method (by type of dwelling and heating system) for ownership of dwelling**
- **Computer software for gross fixed capital formation**



5. EU Funded Projects

Upgrading the Statistical System of Turkey – Phase I (National Accounts)

- Exhaustiveness of National Accounts

- Production Account for Non-Financial Corporations**
- Estimation of Taxes on Production and Imports**
- Private Household Consumption (PHC)**
- Annual Supply and Use Tables and Input-Output Tables**
- Rest of the World Account**
- The Integration of Available Employment Data in the National Accounts**
- Review the use of Annual Sources for Annual Estimates**
- Gross Capital Formation, Capital Stock and Consumption of Fixed Capital**
- Estimation Methods at Constant Prices**



5. EU Funded Projects (cont'd)

Upgrading the Statistical System of Turkey – Phase II (National Accounts)

- Government Finance Statistics**
- Household Sector Accounts**
- Regional Accounts**
- SUT and IOT**
- GCF, CS and Consumption of FC**
- Financial Accounts by Sector and FBS**
- Exhaustiveness of National Accounts**
- Estimation Methods at Constant Prices**



THANK YOU FOR YOUR ATTENTION



AGENDA ITEM III: TREASURY SYSTEM

Country Session: The Republic of TURKEY
4 October 2006



THE TREASURY

- Undersecretariat of Treasury is the sole institution responsible for cash management of central government.
- The Treasury receives revenues and performs payments through the accounts held at the Central Bank as an agent bank.



THE TREASURY AND THE CENTRAL BANK

- Central Bank is a member of SWIFT system.
- 57,600 transactions are held on behalf of Treasury on average per year.



THE TREASURY AND COMMERCIAL BANKS

- **Commercial banks have been able to receive tax revenues since 1996.**
- **21 commercial banks and 4 financial intermediaries, identified by the Ministry of Finance, are in charge of collecting taxes.**



COMMERCIAL BANKS

- Members of the SWIFT system**
- Internet based banking**
- Widespread branches**
- High capital adequacy ratio**
- Integration with the international banking sector**
- Adequate legislative infrastructure**



CONCLUSION

Due to their technical and institutional capacity, the Central Bank, on behalf of the Treasury, and commercial banks in Turkey are capable of obtaining and performing payments for the own resources system of the EU.



THANK YOU FOR YOUR ATTENTION