

Chapter 2

Restructuring of Revenue Administration in Turkey



Tamer Budak and Serkan Benk

2.1 Introduction: A Brief Historical Setting

The foundations of the Turkish Revenue Administration go back to the era of the Ottoman Empire. The first financial organization in the Ottoman Empire era was established during the reign of Murat I (1359–1389), which was subsequently developed by Suleiman the Magnificent in a way to bring about a more efficient revenue and spending structure of the state. However, it is not possible to speak of a Ministry of Finance in the Ottoman State in its fullest sense until 1838. Prior to it, the functions of the Ministry of Finance had been carried out by an administration known as “*Hazine-i Amire*” headed by a person in charge called “*birinci sınıf muhasip* (first-class accountant)” or “*defterdar* (head of the financial department)”. There was also “*Darphane Nezareti* (Bank Note Printing House Supervision)”, acting as an independent body from Hazine-i Amire and “*Mansure Hazinesi* (Mansura Treasury)” to manage military income and expenses (Tezcan 2003, pp. 126–128).

The Ministry of Finance was officially founded in 1838. It was made up of departments, each headed by a high-ranking official called “*reis* (chairman).” *Harac Dairesi* (Tribute Department) charged with the duties of revenue administration in modern sense was also part of the Ministry of Finance. The main task of the Tribute Department was to collect charges received from municipalities from each neighborhood called “*Avarız* (extraordinary tax in the Ottoman Empire)” and “*Bedeli Nuzul* (Nuzul Levy).” It is observed that in 1881, the Ministry of Finance was divided into two units, being called “*Heyet-i Merkeziye*” and “*Heyet-i Mülhaka*,” respectively. Within this structure, initially the General Directorate of Revenues was included in *Heyet-i*

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Merkeziye. However, subsequent changes in the functional and organizational structure of the Ministry of Finance were made in 1908 to the effect that such structural modifications somewhat formed the basis of the current system. Interestingly, the very first decree by the first Turkish Grand National Assembly passed simultaneously with the proclamation of the Republic in 1923 was itself a tax law (www.gib.gov.tr).

Although the Ministry of Finance was founded by the modern Turkish Republic in 1923; it is noted that Law no. 2996 concerning Finance Power Organization and Duties (Official Gazette: July 7, 1936; 1349), a legal regulation of the Ministry's organizational structure and duties, was enacted in 1936 (GİB 2010, p. 1). With this statute, a triple system of organization was formed comprising the Directorate of Public Revenue (General Directorate of Revenues), the Directorate of Collection and the Commissions of Tax Objection and Appeal. While the duty of the Directorate of Public Revenue was to prepare the revenue budget and laws of the state to manage the tax organization, the Directorate of Collection was entrusted with the application of laws relating to revenue collection, receiving tax assessment forms, and gathering accounts coming from provinces. The Commissions of Objection and Appeal were assigned to deal with tax disputes and carry out procedures for judgements on tax payment.

With an amendment in 1942, the Directorate of Public Revenue was abolished and two separate general directorates under the names of "Public Directorate of Indirect Taxes" and "Public Directorate of Direct Taxes" were instead created. However, in 1946, by virtue of Law no. 4910 Related to the Change of Articles of Law no. 2996 Related to the Foundation and Duties of the Ministry of Finance and to the Addition of Some Articles to this Law (Official Gazette: June 7, 1946: 6327), the Turkish Revenue Administration was brought under an umbrella regime and rebranded as General Directorate of Revenues. In 1950, Law no. 5655 amending the Articles of Law no. 2996 Related to the Foundation and Duties of the Ministry of Finance and the Addition of Some Articles to this Law (Official Gazette: April 3, 1950; 7473) also overhauled the provincial organizational structure of the revenue administration, resulting in abolishment of the "General Directorate of Collection" and replacement of the Directorate of Public Revenue with the General Directorate of Revenues. Another significant outcome was the introduction of new independent tax offices (DPT 1996, p. 60).

Notably, the most radical change in the organizational structure of the Turkish Revenue Administration was made by Statutory Decree no. 178 of 1983 (Official Gazette: December 14, 1983; 18251, which combined the Ministry of Finance, the Ministry of Customs, and the Ministry of Monopolies under a single unified structure to streamline the operations. While the remit of the General Directorate of Revenues was extended to include direct and indirect taxes; the General Directorate of Customs and the General Directorate of Control were assigned to respectively carry out all procedures relating to customs duties (www.gib.gov.tr).

A comparable attempt to fundamentally restructure the Turkish Revenue Administration was another legislation through the Law on the Organization and Tasks of Presidency of Revenue Administration, No. 5345 (Official Gazette: May 16, 2005;

25817) which came into force in 2005 marking a new period into which the Turkish Revenue Administration entered under a framework of restructuring, only to be reorganized as a semi-autonomous administration affiliated with the Ministry of Finance.

2.2 Efforts to Transform the Turkish Revenue Administration

A brief historical summary above shows a strong desire to constantly modernize the revenue system. To that end, early meaningful efforts to restructure the Revenue Administration can be seen as early as in the 1950s. They were initially reactive in the sense that the groundwork for such efforts mainly targeted the problems that the revenue administration faced and consisted of corrective proposals aimed at solving them. Not only did remedial solutions come from experiences with domestic practice, but international institutions, researchers, and practitioners played an influential role shaping relevant policies (Karayılan and Alantar 2003, p. 64). In fact, the first of such studies by the latter was a report presented by James Martin and Frank Cush to the Ministry in 1951 (Ünal 2014, p. 60). In this report, the staff regime and budget structure of the revenue administration as well as the problems related to the central and provincial administration were raised and pertinent solutions were proposed to solve them. In the 1960s, the restructuring of the revenue administration came to the fore again and in 1963, a report entitled “Report on the White Mission on Tax Administration in Turkey” was prepared by Frank White to advise the Ministry. In the report, it was emphasized that the revenue administration had to be transformed into an independent organization (Kırım, 2001, pp. 105–107). Moreover, White’s proposal included a new Undersecretariat of Revenue and severance of the relations between the governor, provincial treasurer and district revenue officers, and tax administration in provincial organizations (Sevik 2006, p. 8).

The draft law of “Revenue Administration” prepared in 1964 is another important study carried out by the Ministry of Finance, allowing the Tax Reform Commission to be formed in 1960s. Pursuant to this study, a draft law aiming to organize the Revenue Administration as “General Secretariat of Revenue” was sent to the parliament, but failed to become law. The 1980s marked another attempt in the form of a report by Adnan Baser Kafaoglu who pointed to a need for the Revenue Administration to be restructured; however, his proposals were not followed and no regulation came to fruition (Öner 2005a). From the mid-1980s, a number of studies, draft laws, and reports on restructuring the Revenue Administration were prepared, but none was put into effect (Oz and Karakurt 2007, p. 82).

By the 1990s, disagreements over the restructuring of the Revenue Administration resurfaced again due to Turkey’s budget deficits and financing problems experienced. In 1991, a panel themed “The Restructuring of Turkish Revenue Administration” was arranged by Marmara University Financial Research and Implementation

Center. In this panel, the participants expressed their views on how an effective revenue administration would be created (Milliyet 26.01.1991: 5). A Taxation Specialization Commission Report prepared by the Turkish Union of Chambers and Exchange Commodities in 1992, stressed that the Revenue Administration did not have a healthy organization to carry out its functions adequately. Again, in 1996, the report of Taxation Specialization Commission of TOBB (Turkish Union of Chambers and Exchange Commodities) drew attention to persistence of “The Problems of the Revenue Administration” which called for urgent action. In the Taxation Specialization Commission Report of 2001, the State Planning Organization (DPT) in 2001 highlighted the problems of the Revenue Administration and presented its own assessments on how to enhance the effectiveness of the administration (http://www.sbb.gov.tr/wp-content/uploads/2018/11/08_Vergi.pdf).

The common trait of all these studies aimed at restructuring the Revenue Administration at different levels is the desirability of restructuring the general framework for the superstructure of institutions. It can be stated that the primary elements emphasized in these studies were for the strengthening of the administration, the development of its technological infrastructure, making the organizational structure more functional, the restoration of the relation between the center and the provinces, and the realization of an administrative mentality with the taxpayer in its focus. Also in these studies, the harmony between the units making up economical policies was mentioned to the extent that tax policies could not be created independently from economical policies.

However, the Turkish Revenue Administration that was largely formed by way of regulations in the 1950s profoundly retained its structure until 2005 (Öner 2005a, p. 38). Efforts directed at reshaping and developing its shortcomings always remained on the agenda mainly stimulated by the studies carried out before 2005, but the reason why no satisfactory resolution was materialized is because the problem could never be treated from a holistic perspective. Moreover, the fact that public sector deficits increased continuously and the taxes could not be collected on time and sufficiently, causing increase in indebtedness gradually but surely revealed the need for a powerful revenue administration.

It is observed that concrete steps to ensure the restructuring of the revenue administration in the real sense began to be taken in the 2000s. In that vein, the passage of Law no. 5345 in 2005 provided a much needed legal framework for structural, organizational, and functional transformation of the Revenue Administration (Güzelsarı 2007, pp. 204–205). It is only with this law that a more holistic approach to the process of restructuring the Turkish Revenue Administration was adopted for the first time (Arioğlu 2005, pp. 69–70). Thus, this study examines the restructuring process of Turkish Revenue Administration in two distinct stages, before and after the law of 2005.

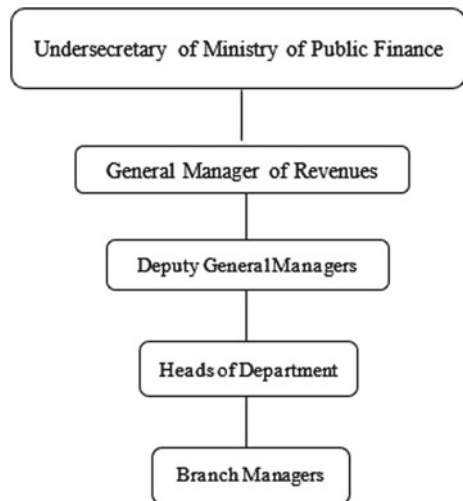
2.2.1 Pre-2005

Before 2005, the central organization of Turkish Revenue Administration took the form of a general directorate of revenues as a main service unit, headed by the deputy secretary of the Ministry of Finance, together with “Regional Directorates of Revenues” as its peripherals. This administrative structure was, as can be seen in Fig. 2.1, made up of a sufficient number of assistant general managers, heads of department, managers of branches, officials and other staff working under the supervision of a general director (Tezcan 2003, p. 136).

The General Directorate of Revenues was seemingly organized in a relatively simple way. Its main duties were initially set out by a legal framework as “preparing and carrying out the policy of state revenue” in accordance with article 12 of Decree no. 178 and later expanded by two subsequent statutory Decrees no. 516 and 543 in 1993 and 1994, respectively, to entail the following duties:

- (a) It prepares and carries out the policy of state revenue,
- (b) It prepares laws related to state revenue and all kinds of changes related to these,
- (c) It arranges the revenue budget of the state with its intended legislative goals,
- (d) It takes precautions that will provide the harmony of the taxation system of local administrations with that of the state,
- (e) It examines all kinds of laws, offers. and drafts that would have an effect on the revenue and expresses its opinions on these and ensures the appropriateness of the drafts to the policy of state revenue and taxation technique,
- (f) It sustains international taxation relations, carries out dual or multilateral tax agreements,
- (g) It ensures the implementation of laws pertinent to the state revenue,

Fig. 2.1 Turkish revenue administration before 2005



- (h) It takes necessary precautions for the state receivables to be collected on time and in a way that is compatible with laws,
- (i) It carries out tax supervision,
- (j) It improves the services of tax technique implementation and carries out procedures related to other taxes,
- (k) It replies to questions about the disagreements and hesitations in practical implementation of rules and procedures,
- (l) It carries out procedures relating to taxes to be written off and the writing off the receivables of the treasury that cannot be collected and become overdue in accordance with the laws,
- (m) It collects, assesses, publishes assessment and collection accounts and statistics,
- (n) It cooperates with international institutions on issues concerning taxation, attends meetings, and expresses views,
- (o) It provides taxation intelligence services,
- (p) It designs and carries out data processing services for the procedures within the scope of its functions and determines what duties to be carried out, ensuring that the organization has the necessary capacity for this purpose,
- (q) It devises enabling procedures within the organizational field to allow duties to be examined and checked by its controllers.

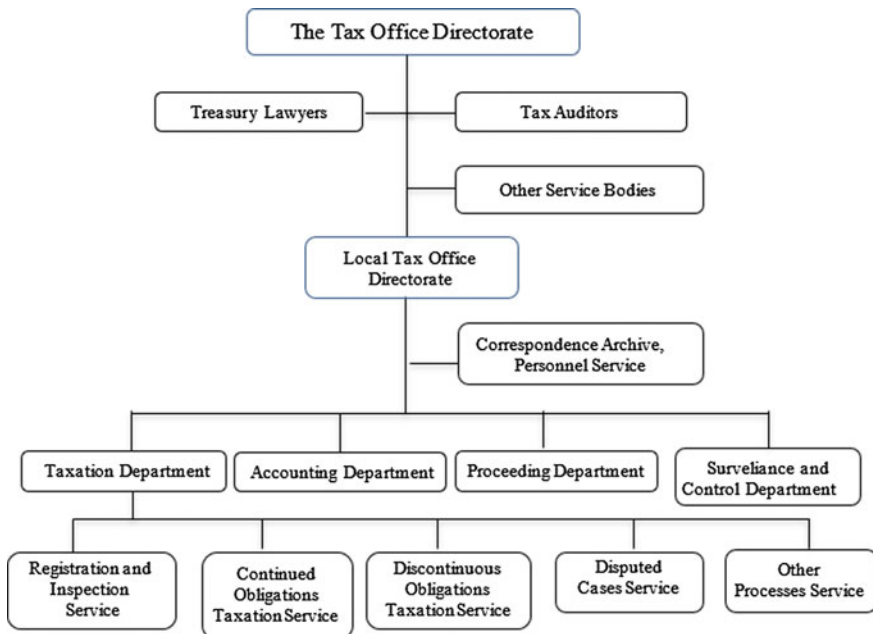


Fig. 2.2 Pre-2005 provincial organization of directorates of tax administration

As seen in Fig. 2.2, the total of 111 Directorates of Revenue were set up within the scope of Statutory Decree no. 178 together with a tax office provincial organization. To make sure the above-specified duties discharged at a level of regions by Regional Directorates of Revenue, it was projected to establish Regional Directorates of Revenue in 12 regions in accordance with Statutory Decree no. 543. From June 1, 1998 onwards, six regional directorates were put into operation in Adana, Ankara, Antalya, Erzurum, Izmir, and Samsun. Further tax office directorates, taxation directorates and directorates of revenue were set up in accordance with Statutory Decrees no. 516 and 543, comprising the provincial organization of revenue administration.

The way in which the Turkish Revenue Administration is organized in the form of a General Directorate caused some important problems within the organizational scope hindering its effectiveness. Of all the problems perhaps the foremost is that it became no longer possible for revenue administration to carry out its duties with the existing central and provincial structures of organization. The General Directorate of Revenue was responsible for carrying out a wide range of significant duties including keeping up with developments in economical and social life, creating policies of taxation, preparing and carrying out appropriate regulations and the taxation policies for minimizing risks in the process of implementation, preparing international taxation agreements for realizing tax supervision, creating and improving the necessary infrastructure for tax practices, and using modern technology in tax practices. Ever-expanding scope of operations made it impossible to carry out such a broad spectrum of duties requiring expertise at different levels between fragmented departments within the single structure of general directorate. Hence the lack of productivity became an issue (DPT 2001, p. 28).

Another significant problem with the pre-2005 structure was that the central and provincial organizations of the revenue administration were not organized in a complete hierarchical integrity. For instance, although there was not a hierarchical relationship between the General Director of Revenue and provincial treasurers, the most authorized people in provincial regions, tax offices, and the provincial organization of the revenue administration were administratively accountable to provincial treasurers (Gerçek et al. 2006, p. 3). This situation also adversely affected the connection between the General Directorate of Revenue and the provincial organization of the general directorate. In other words, it was not possible for the central organization of the revenue administration—pursuant to Law for Provincial Administration no. 5442 (Official Gazette; May 18, 1949: 7236)—to exert a direct authority on “provincial treasurers” who were placed within the provincial organization of the revenue administration. Despite having a broad authority in local tax matters, provincial treasurers could not deal with the procedural aspects of taxation properly because they were overburdened with other duties. As for the Regional Directorates of Revenue, they failed to discharge their duties properly because they were not sufficiently authorized to act in matters falling under their operational remit which were described mainly as functions aimed at their regional tax offices (Bureau of Tax Auditors 2002, p. 27).

Another problem seemed to relate to definition of the duties, authorization, and responsibilities of individual units in the central and provincial organizations of the revenue administration remained equivocal in most parts causing confusion and overlapping in practice. For instance, even though the General Directorate of Revenue

was made up of heads of department organized in view of different kinds of taxes, tax offices themselves were organized according to taxation procedures. This situation proved to be unsatisfactory preventing both the central and provincial organizations from discharging their fundamental duties properly (Gerçek 2007, p. 62.). Yet another problem arose from the revenue administration's inability to follow the procedures in a complete manner at all stages of taxation ranging from the imposition of taxpayers' obligation to determination of whether taxpayers had paid their taxes on time. The main reason for this flaw was apparently two-fold that the authority of tax offices was kept quite wide in scope. Moreover, tax office staffs were overwhelmed with an intense flow of paperwork and circulation owing to excessive regulation which left them unable to fulfill their more fundamental duties properly such as planning, coordination, and observation (Bureau of Tax Auditors 2002, p. 29).

The Revenue Administration suffered a lack of leadership and adequate training to form a sense of self-scrutiny or internal checks. Failing to create a corporate culture and mentality of internal check created an ownership problem, mostly discouraging management using own initiative and thus preventing the staff from taking on responsibility. This situation became prevalent with the consequences of operational problems not being solved on-site and on time. Because of the fact that both the provincial and central organizations undertook the same duty in many overlapping fields, the unnecessary workload of the central organization increased exponentially causing a waste of time, manpower, and money (DPT 2001, p. 28). A notable shortcoming was that the General Directorate of Revenue did not have a stated mission or vision. Nor did it have strategic plans or goals concerning the future. Not only did their absence make it impossible for the revenue administration to conduct a performance review, but it also made inspection a difficult task to achieve.

From the outset, the revenue administration was organized on the basis of the hierarchy within the civil service, but the simple hierarchic structure was by no means enough for effective management of the organization. Although employment rights of the staff in the central and provincial organizations of the Revenue Administration were by law subject to the merit system, the lack of objective and transparent criteria applicable to appointment, promotion, change of location, and personal rights of the staff affected their long-term effectiveness and productivity negatively (DPT 2001, p. 29).

The Revenue Administration in Turkey did not possess the right equipment for the latest technological developments existed in the developed countries to allow it to follow modern developments and keep up with them. Slow technological progress delayed appropriate changes to meet the necessities of evolving economical and social life, causing inability to deliver effective service to taxpayers (Acar et al. 2003, p. 8).

In brief, the pre-2005 Turkish Revenue Administration was criticized on the grounds that the organizational structure was insufficient and inward-oriented, the provincial units were not directly connected to the center, direct and fast communication could not be realized among units, the processes of assignment and function were disconnected from each other, resources could not be used productively and efficiently enough by reason of inadequate technological infrastructure, qualified staff

could not be retained, and the participatory and transparent mindset of administration was not sufficiently settled at all levels mainly due to poor quality in the delivery of services to taxpayers, the insufficiency of qualified labor and their lack of motivation as well as other structural problems stemming from ineffective administrative structure (Arioğlu 2005, p. 70). Added to these was unsettled and ambiguous tax policies for processes to facilitate effective and quality service to taxpayers (Öner 2005b, p. 38), and to devise an objective performance assessment system that would increase efficiency and productivity in the revenue administration (Sarılı 2003, p. 212) were criticized.

2.2.2 *The Post-2005*

A tax strategy was developed to tackle rising tax administration issues of institutional improvements, automation, transparency, compliance, taxpayer services and tax audit. To reform the ailing structure of the revenue administration, a new law was enacted on the organization and duties of the Directorate of Revenue Administration (DRA) on May 16, 2005. The objective of the Law is to lay down the necessary legal ground to ensure that DRA will operate on the principles of transparency, accountability, participation, efficiency, and effectiveness. A taxpayer-oriented approach is adopted to implement the revenue policy. Fairness and impartiality are emphasized in tax collection to ensure voluntary compliance, to take necessary measures so as to help taxpayers to easily meet their liabilities by providing high-quality services with a consideration of taxpayer rights, all of which is thought to lead to the most cost-efficient way possible. The main institutional and organizational change in the law of 2005 is the establishment of a semi-autonomous tax administration operating on a functional basis. The Directorate of Revenue Administration is empowered to make plans on how to perform its tax responsibilities to address the need to minimize the tax burden on taxpayers by simplifying the tax system and providing the necessary assistance to taxpayer. In order to achieve its mission to increase the level of voluntary compliance with tax laws and combat against the black economy, the administration has established the following strategic objectives for improvement during the period between 2004 and 2006:

- Improve the efficiency and effectiveness of tax administration,
- Establish a modern integrated information technology support system, and
- Rationalize and simplify the tax system.

This process also implies a functional reorganization of the General Directorate of Revenue (GDR) from 2004 onwards. The tax policy department of the Ministry of Finance is upgraded while the tax audit management capacity is strengthened. A new strategy for taxpayer service as well as for improvements in the relations between taxpayers and the General Directorate of Revenue is also developed. With regard to the main organizational change, some entirely new functions were assigned

to the Presidency of Revenue Administration as part of the restructuring process for expansion of services. For the first time, the functions such as taxpayer services, audit, and strategic planning were introduced and organized both at the headquarters and the local level. As a complementary component of the strategic planning function, a new performance management system based on the best international practices is also established. This system is to be supported by the use of IT and management information system in performance measurement (OECD 2006, p. 6).

With Law no 5345, adopted in 2005, the General Directorate of Revenue was abolished and replaced by the Presidency of Revenue Administration as part of the Ministry of Finance. In other words, from June 16, 2005 onwards revenue units were brought under the General Directorate of Revenue within the Ministry of Finance, central organization and financial offices and fiscal directorates in districts and provinces were all but abolished. An autonomous organizational structure under the new Revenue Administration was directly linked to the Ministry of Finance in the place of the abolished structure (Tuncer 2005, p. 10; Erol 2005, p. 23).

The visions of the Presidency of Revenue Administration are listed as

- Applying revenue policies on the basis of fairness and objectiveness
- Collecting tax and other revenues at the minimum cost
- Ensuring voluntary compliance of taxpayers
- Respecting taxpayer rights
- Supplying high-quality services to taxpayers (Tekin and Çelikkaya 2018, p. 252).

The new revenue administration was organized in two units: the central organization and the provincial organization. The organization of the headquarter consists of main services and numerous units of consultation and facilitation. In this concept, the Main Service Units are the Department of Revenue Management, the Department of Taxpayer Services, the Department of Implementation and Data Management, the Department of Collection and Disputed Cases, the Department of Audit and Compliance Management, and the Department of EU and Foreign Affairs. On the other hand Consulting Units are arranged as the Department of Strategy Development, the Department of Legal Consultancy, and the Department of Consultancy on Media and Public Relations, while Facilitation Services are delivered by the Department of Human Resources, the Department of Support Services. Pursuant to Article 8 of Law no. 5345, duties assigned to the main service units could be carried out by more than one head of department if and when deemed necessary (Fig. 2.3).

Article 4 of the same law lays down the duties of the Revenue Administration as follows: (GİB 2006, pp. 10–11).

- (a) to implement the state revenue policy to be determined by the Ministry,
- (b) to facilitate taxpayers' adaptation to the new tax regime and services,
- (c) to take necessary measures in order to protect taxpayers' rights and relations based on mutual confidence between Ministry and taxpayers,
- (d) to inform taxpayers about their rights and obligations arising from tax laws,
- (e) to participate in the decision-making process and by-law workings related to the state revenues policy,

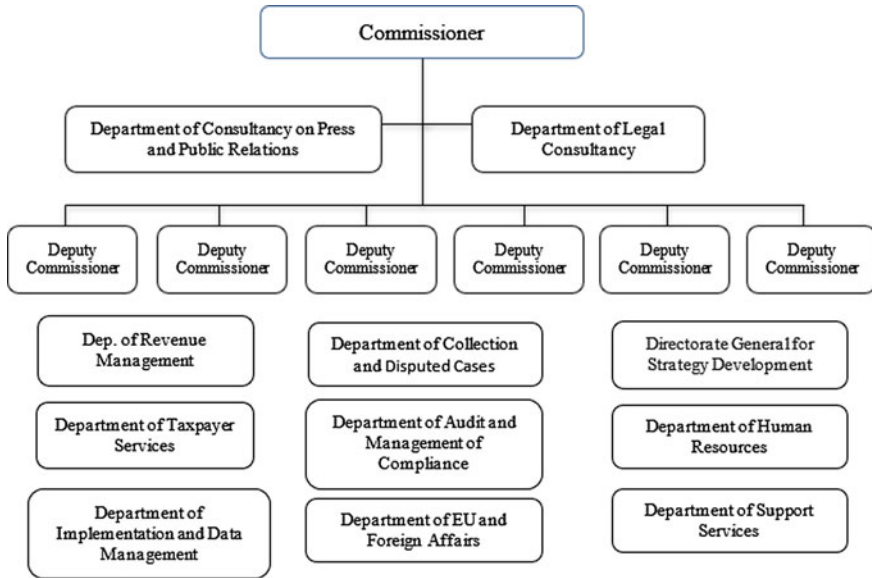


Fig. 2.3 Post-2005 central organization of directorates of tax administration

- (f) to ensure the collecting of the governmental claims and to take necessary measures to this end,
- (g) to take necessary measures to reduce disputes to the minimum level possible and to provide alternative dispute settlement,
- (h) to collect information about taxation and to implement data processing activities,
- (i) to measure the costs of all exceptions, exemption, and discounts in the tax laws or other fiscal laws, and to analyze their economic and social effects,
- (j) to carry out tax inspection and audit at the direction of main policies and strategies determined by the Ministry and to take necessary measures in order to prevent tax loss and evasion,
- (k) to take measures to ensure that the implementation of the local administration revenues policy is in compliance with the state revenues policy,
- (l) to review all proposals of legislation and drafts of laws affecting revenues and to report its views on these regulations,
- (m) to cooperate with other institutions and organizations on the implementation of revenue laws and regulations and to carry out data trade for this purpose,
- (n) to follow international developments in the area of interest and to cooperate with the EU, international organizations, and other states,
- (o) In accordance with the laws and regulations, to carry out operations for the deletion of tax dues and other governmental claims beyond the statutory limits,

- (p) to ensure the enhancement of qualified human resources, to design strategies for improvement in employee relations, to introduce new career plans and to measure staff performance,
- (q) to prepare organizational ethic rules based on the framework determined by the Civil Servants Ethics Committee and to inform the employees and taxpayers of such service ethics,
- (r) to inform public organizational activities regularly and to publicize the annual activity report,
- (s) to carry out other duties assigned by laws.

With these duties put forward, it was aimed for the revenue administration to be restructured by taking into account international examples in a way that would meet its present-day needs. The revenue administration is therefore defined as an institutional organization in terms of a dynamic process with the basic value of “constant development” at its heart. These changes are intended to reinforce the communication and functional ties between the central and provincial organizations and to increase the quality in provincial services to taxpayers (GIB 2018, p. 28).

Large Taxpayers Office was established by the Cabinet Decision numbered 2006/10788 dated 15.08.2006 under the Revenue Administration which was restructured with the Law No. 5345. The aims of establishing Large Taxpayers Office are to serve limited number of taxpayers who account for majority of tax revenues; to monitor and control these taxpayers closely; to determine problems occurred and take precautions; to eliminate uncertainties concerning interpretation of legislation and rules and to provide voluntary compliance (BMVDB 2019a, b, Large Taxpayers Office Activity Report-2013 http://www.bmvdb.gov.tr/lto_english/Activity%20Report.pdf).

Large Taxpayers is serving to 835 of the largest taxpayers of Turkey. The taxpayers are determined by some criteria such as turnover, total tax paid, assets and number of employees. Currently, 835 taxpayers of Large Taxpayers Office produce around 20% of total tax revenues of Turkish economy (BMVDB 2019a, b, Large Taxpayer Office http://www.bmvdb.gov.tr/lto_english/index.html)

Purpose and goals of Large Taxpayers Office are to increase voluntary compliance, to improve all kinds of economic activities, to improve service quality, and to become a participant and productive institution globally.

In view of the local organization of Revenue Administration under Law no. 5345, local administration consists of 30 Tax Office Directorates in 29 cities and 52 provincial offices. Tax Office directorates include group directorates, sub-directorates, sub-units, tax offices, and commissions. The structure of the Local Revenue Administration is illustrated in Fig. 2.4.

The provincial organization is thus made up of directorates of tax administration directly affiliated to the center, tax offices with the same responsibilities and authorization in places where directorates of tax administration were founded and directorates of revenue were affiliated to financial offices (Öner 2005b, pp. 36–39). The Directorates of tax administration are chambers that identify taxpayer in their

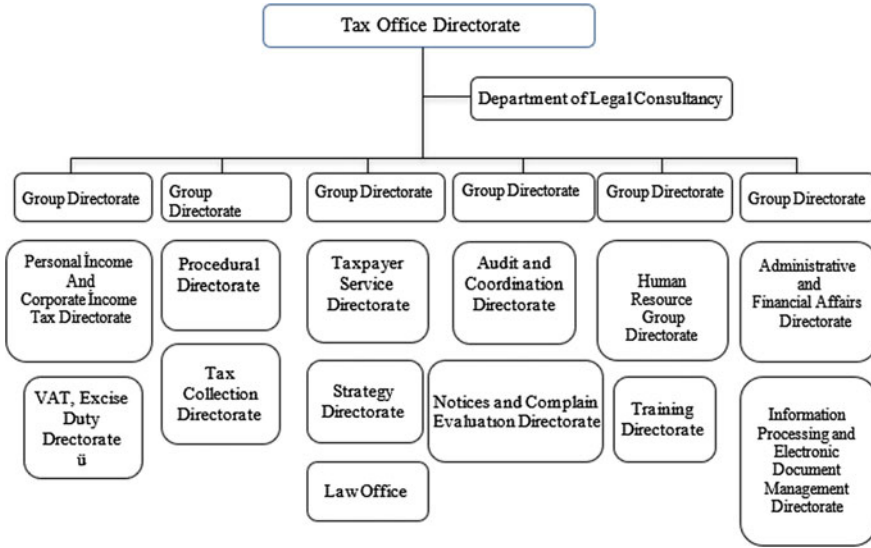


Fig. 2.4 Local revenue administration after 2005

scope of authority, carry out procedures of imposition, assessment, notification, collection, cancellation, deferment, return, payment, accountancy of taxes, and other similar tax activities and financial liabilities. They are authorized to make tax claims and respond to tax disputes before the judicial authorities arising out of legal procedures, objection to tax demand, appeals and declarative verdicts when necessary, and execute judicial decisions. They also develop and improve tax practices, express views to taxpayers about the implementation of laws, inform taxpayers about their rights and liabilities and observe the rights of taxpayers in practice. Among its duties are to carry out taxpayer services, data processing, statistics, collection of data, human resources management, buying, hiring, tax audit and inspection, cooperation, judgment so on and so forth. The Directorates of tax administration are made up of group managements, sub-managements affiliated with them, branches, tax offices and commissions. Tax offices are too chambers that identify taxpayers within their operational area to impose, assess, and collect taxes.

Directorates of revenue, designed to be affiliated to the financial offices, are provincial units responsible for answering tax queries on behalf of the provincial treasurer, preparing responses to requests and issues raised during inspections conducted on behalf of the provincial treasurers, compiling statistical data collected from provincial tax offices and sending them to the Directorate of Revenue Administration, as well as carrying out procedures concerning the cancellation of public receivables that need writing off (GİB 2018, p. 2) Currently the provincial organization of the Directorate of Revenue Administration comprises 30 directorates of tax administration (29 directorates of tax administration and 1 large taxpayer office) and 456 tax offices.

In July 2018, Turkey exchanged its 95-year-old parliamentary system for the new presidential system. According to presidential decree number 4, the status quo is maintained (Official Gazette: July 15, 2018: 30478).

2.3 Results of Restructuring

Prior to 2005, the Turkish Revenue Administration was criticized due to its incoherent organizational structure (General Directorate of Revenues). It was seen inward-oriented and its provincial and central organizations lacked integrity. The processes of assignment and procedures exhibited disconnection. The motivation of the staff suffered from inadequate management practices. As a result, staff retention was poor particularly in qualified manpower. Regular dataflow from other institutions remained inconsistent at best. The technological infrastructure was in its early stages, lacking in effectiveness and efficiency to the degree that service quality to taxpayers needed improvement and called for a new understanding, one based on a participatory and transparent administrative mentality. Such criticisms were addressed by Law no. 5345 of 2005 which intended to reorganize the entire system of Turkish Revenue Administration. It has brought about a radical restructuring whose results can be outlined as follows:

Firstly, the organizational structure of the revenue administration was separated from the central and provincial organizations of the Ministry of Finance after 2005. Instead, it was reorganized as a distinct organization directly responsible to the Minister in charge making it a semi-autonomous body. While previously, the General Director of Revenues ranked below the deputy secretary, the undersecretary and the minister, the new regulation placed the director as the highest ranking officer in the Directorate of Revenue Administration. Thus, the Directorate was excluded from the hierarchy of the deputy secretaries and the undersecretary. Red tape in the processes of decision-making and assignment were somewhat reduced.

In the pre-2005 structure, the central organization of the General Directorate of Revenues was organized according to tax types. The post-2005 legislation reorganized tax offices, which are provincial organizations, on the basis of the types of procedures. Moreover, tax office managers and staff had difficult and often complex duties such as knowing the taxation processes, accounting records and compulsory observance of all taxes, determining and supervising taxpayers. In the post-2005 period, an organizational model adopted in the center and the provincial organizations is function-based and focused on taxpayers. Thus, the newly-formed provincial organization now mirrors functional units projected as in the center. Accordingly, the new provincial organization now contains group directorates for taxpayer services, taxation, collection procedures and jurisdiction, accountancy, inspection and harmony management, human resources and support services as well as other directorates and branches linked thereto (Öner 2005b, p. 38).

With the new regulation, revenue units comprising the provincial organization of the General Directorate of Revenues are detached from the financial offices, which

were the provincial organizations of the Ministry. The provincial organization of the Revenue Administration is reorganized in a directly affiliated way to the Administration. However, in the provinces where a directorate of tax administration does not exist, units affiliated to the administration will continue to operate in the body of financial offices. In doing so, the administration now has an opportunity to directly correspond with the provincial organizations without governors and district governors intervening.

While duties such as creating taxation policies, preparing and applying draft laws were previously carried out by the General Directorate of Revenues and provincial organizations, in the aftermath of 2005, these duties were divided between the Ministry of Finance and the newly founded Revenue Administration (Öner 2005a, p. 152). In the new organizational structure, the duties of preparing revenue policies and draft law proposals, and a state revenue budget are transferred to the Ministry of Finance, while the duties such as the application of tax laws, tax supervision, and realization of tax harmony are given to the Revenue Administration. Thus, the effective implementation of tax policies is ensured through a powerful Revenue Administration.

However, a greater challenge was to define duties, determine authorization and establish pertinent procedures and processes in the operation mechanism and more importantly, to achieve adaptation to the change and create a mindset to put it in practice. For instance, the new organizational structure in the post-2005 enabled the Revenue Administration to gain administrative integrity in its central and provincial organizations, which became noticeable in the procedures for appointment and assignment of the staff throughout. Many other procedures have since been successfully applied first hand (Öner 2005b, p. 38). Previously the Ministry of Finance held the exclusive authority in staff appointments. The new system now accords such authority to the Director of Revenue Administration.

Bringing departments like human resources, taxpayer services and the European Union within the body the Directorate of Revenue Administration is consistent with the goals of increasing the quality and productivity of services, creating a new mentality of administration based on performance, and creating a functional revenue administration focused on taxpayers (Saraçoğlu and Arslan 2007, p. 30; Gerçek 2009, p. 31).

Law no. 5345 centralizes delivery of the mutual services of tax offices such as accountancy and executive acts under a single authority of the presidency of each directorate of tax administration. In this way, it is ensured that tax offices are only responsible for taxation procedures, thereby fostering a closer contact with taxpayers. Concentration in operations means that the workload of regional tax offices is profoundly decreased, as they are saved from dealing with cumbersome internal procedures allowing them more time for taxpayer services such as declaration, registration, and supervision as core duties.

Although the automation and digital transformation of the Revenue Administration started in the 1990s, the process of automation and digitalization gained momentum only after the restructuring. Following the success of early pilot schemes, the first stage of Tax Office Automation Project called VEDOP-1 began to roll out in 1998. In

the first stage of the project, 155 tax offices comprising 22 provinces were included in the scope of the projected automation system. Through this implementation, procedures such as registry, assessment, collection, vehicle registration, accountancy, and personnel affairs were implemented for the first time in an integrated manner in the computer-aided environment. The second stage of project (VEDOP-2) marked an important step between 2004 and 2006 in the fight against the black economy. The aim was to offer taxpayer services faster and in a better quality. Project VEDOP-2 allowed 283 tax offices to be included in the scope of automation. Added to these were group directorates and units of tax auditors. The new system of e-declaration, the Data Warehouse Project (VERIA) and call centers were created. The automation of tax offices responsible for collecting motor vehicle tax and the infrastructure of central servers was strengthened to match the widening capacity. The transition process to Web-Based Automated Tax Offices (e-VDO) is heralded as an important milestone in modernization of the revenue administration (GIB 2018, p. 4).

The third stage of VEDOP project (VEDOP-3) went on live in 2007 with a goal to extend e-VDO implementations to 301 tax offices, incorporating revenue services of 585 fiscal directorates. By 2008, e-VDO transformation of 507 revenue units and 123 tax offices were successfully completed (GIB 2018, p. 4).

By 2018, 447 all directorates of tax administration, large taxpayer offices and 581 fiscal directorates are included in the automation (GIB 2018, p. 4).

Furthermore, 2004 saw completion of a full transition to the system of “electronic declaration” within the scope of automation pursuant to Law no. 5228. New regulations within the process of restructuring the revenue administration ensured that by 2009; declarations received in the electronic environment remarkably constituted 99% of the total declarations submitted (GIB 2013, p. 43).

Notably, a new initiative to build a data warehouse aiming to determine tax-related issues falling outside declarations, to check the truthfulness of declarations and provide an informative support to control units has commenced within the scope of Data Warehouse Project (VERIA) (Tekin and Çelikkaya 2018, p. 261).

Turkish Revenue Administration has now reached a highly automated, technologically advanced e-services system including a complete e-tax office system with which a taxpayer can easily conduct almost anything he could finalize by getting to a tax office.

2.4 Conclusion

When the historical development of the Turkish Revenue Administration is examined, 2005 represents an important turning point in terms of radical changes in its organizational structure and working method. Prior to 2005, the tax administration was stiff, outdated and, unresponsive to ever-increasing demands placed on it; transformation into a flexible and agile structure shifted the focus on taxpayers who expect quick and effective decisions. International developments in taxation have played an important part in bringing about this process of change.

The Revenue Administration before 2005 did not have the organizational capacity to follow international developments closely and act on them. It lacked adaptation skills to make necessary changes to confront new challenges of economical and social life in a relatively short time. Not only did this situation impair its efficacy to devise quality service to taxpayers, but also its effectiveness and efficiency came under scrutiny, failing to rise to the challenges posed by modern economy and its ever-growing volume. By the same token, tax compliance ability was too affected. The classical organizational structure of the revenue administration suffered the predicted symptoms of insufficiency and complete inward-orientedness. The lack of coordination between central and provincial organizations resulted from the fact that provincial units were not directly affiliated with the center and that quality problems arose from the poor services of assignment and taxpayers, because of the inability to use resources efficiently and productively. The ensuing demoralization and lack of motivation among staff in turn gave rise to retention problems. Neither transparency nor participation was fully demonstrated in the administrative thinking at any levels, naturally causing weaknesses in the process of tax creation, imposition, and compliance. Law No. 5345 is geared toward addressing all these problems in such a way as to realize complete coordination and communication between the central and provincial organizations, increase quality in taxpayer services, and have the ability to use resources productively and efficiently. In the new legal regime, the central and provincial organizational structure of the revenue administration and its working principles were restructured in view of international developments.

These efforts at restructuring of the Turkish Revenue Administration have a dynamic character which has transformed it into a flexible organization with an ability to adapt to the needs and demands of the modern society. Economic necessities pose new challenges and newly created Turkish Revenue Administration is designed to tackle these difficult problems from a holistic approach, with the purpose of making the whole tax system more responsive, efficient and productive in line with international developments.

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