

GPFP RA-GAP – Request to utilize funding to support an Emerging Market Economy Country

Country: Türkiye
Income level: Emerging Economy
Project: Delivering RA-GAP VAT and CIT Gap Estimations
Date proposed: January to June 2025

Background

In response to a request by the Minister of Treasury and Finance, FAD/R1 conducted a diagnostic assessment of the Türkiye Tax Administrations (TTA) in May-June 2024. The primary focus of this assessment was on improving voluntary compliance and analyzing suitable techniques to measure the tax gap. This marked the first CD engagement between R1 and the Turkish Tax Administrations in several years.

The Republic of Türkiye has made a substantial investment in developing a robust and forward-looking system of tax administration. TTA staff are well-trained, and there is a clear focus on delivering taxpayer services to support voluntary compliance. There is extensive use of modern technology to facilitate taxpayer interactions and crossmatch data from multiple third-party sources for effective compliance management.

Notwithstanding the many positive aspects observed, Türkiye faces a number of long-standing challenges to the efficient and effective administration of its tax laws. The tax-to-GDP ratio, at 17 percent, is significantly below the OECD average of 34 percent. This disparity reflects historical factors contributing to a weak tax culture, and a substantial informal sector, underscoring the necessity for comprehensive reforms aimed at boosting revenue without imposing additional burdens on taxpayers.

Tax gap work financed by the GPFP will be a part of, and supplement a broader Capacity Development (CD) engagement with the TTA to be financed from other sources. The broader program will focus on strengthening governance arrangements and core tax administration processes. In this regard, a fundamental understanding of the manifestations of non-compliance is essential.

This project is part of the RA-GAP umbrella project. Three countries are classified as LIDCs (Nigeria, Kenya, and Zimbabwe), while the other two (Armenia, and the Dominican Republic) are classified as emerging markets.

Engagement

Mr. Mehmet Simsek, Minister of the Turkish Ministry of Treasury and Finance (MTF) expressed to FAD a desire for tax gap assessments at the Annual Meeting 2024. With limited resources, the TTA needs to address non-compliance issues effectively and efficiently. Consequently, a nationwide strategic view of compliance risks is required. Tax gap studies can provide valuable insights, and FAD/R1 is poised to assist in this endeavor.

Criticality

Estimating the tax gap will be instrumental in developing evidence-based compliance improvement plans and enhancing internal capacity for tax gap analysis. While the TTA has conducted various tax gap estimates, these remain experimental and are not yet utilized, shared, or published. The TTA has sought to incorporate international experience and academic perspectives in reviewing methods for estimating the informal economy and has reached out to the IMF for support. Thus, the TTA welcomes the opportunity to understand the results and implications of the RA-GAP tax gap study, refining their compliance improvement plans as part of a broader tax reform effort, leading to a reduction of non-compliance. Additionally, this work will inform practices that can be replicated in other countries, especially in the Middle East and North Africa countries which tend to see TTA as inspiration for good practice.

Delivering tax gaps estimations

It is proposed to measure both the VAT Gap and the Corporate Income Tax (CIT) Gap. The VAT Gap is to be measured by FAD's RA-GAP standard VAT Gap estimation. The CIT Gap is proposed to be measured using a bottom-up approach based on operational audits since TTA does not have a random audit program in place.

During December 2024 and early January 2025, two informal engagement virtual meetings will be undertaken by FAD's RA-GAP team with Türkiye technical counterparts. These meetings will include detailed presentations of the VAT and CIT gap program estimation from RA-GAP, a positive check of the data requirements to develop gap assessments, and a discussion on administrative details for effectively developing an assessment. The VAT compliance gap could then be measured during January-April 2025 and the CIT gap in May-June 2025.

In December 2024, following RA-GAP recommendations, the Türkiye counterparts will start the on-line VAT gap estimation course. At least two staff of the technical counterpart should approve the online course (IMF's VGAPx) during the execution of the assistance.

Cost

The estimated total cost of the activity to estimate and produce a report on Türkiye VAT gap is USD 124,819.¹

¹ Estimated costs produced by CDMAP.