

## Chapter 38

# Taxation Chapter in Turkey's European Union Membership Process

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### **ABSTRACT**

*With the signing of the Ankara Agreement in 1964, Turkey established economic relations with the EU of today for the first time. The EU candidate status was granted in 1999 and negotiations started in 2005. There are 35 chapters in the EU full membership process. One of the chapters is the Taxation Chapter. The aim of this study is to examine the taxation process between EU and Turkey. In this study, document scanning method has been used. In this context, Ankara Agreement, Financial Protocol, Provisional Protocol, Additional Protocol, Progress Reports, and Screening Meetings have been comprehensively screened. At the end of the study, the taxation provisions of the two parties have been set out in detail.*

### **INTRODUCTION**

The first economic relations between the EU and Turkey were established by the Ankara Agreement in 1964. This agreement led to the signing of a partnership agreement with the European Economic Community (EEC). The purpose of the Ankara Agreement has been identified as raising the rapid development of Turkey's economy and living standards. In addition, the removal of customs duty between the two parties has been included in the articles of agreement as the most important objective. In this partnership, it was decided that three different phases will be applied, namely, the preparation period, the transition period and the final period. The preparation phase ended in 1973 with the Additional Protocol Agreement and the transition period began. So far in the relations between the EEC and Turkey, the Common Customs Tariff was adopted. The transition period lasted 22 years. With the entry into force of the Customs Union Agreement in 1996, the last period began. It was signed between the EU and Turkey in 1996, and the processed agricultural products and industrial goods with the Customs Union has been seen as a turning point.

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In the Helsinki summit of 1999, Turkey were granted the status of EU candidate. In this context, Turkey's continued membership lasting 40 years strengthened its position. In 2004, Turkey has been considered to provide the Copenhagen political criteria. So, it was decided to start accession negotiations on 3rd October of 2005. On this date, Turkey appointed a chief negotiator in the EU accession relations and the EU officially began accession negotiations with Turkey. There are 35 chapters in the EU accession negotiations. Chapter 25 was the first chapter opened at the Luxembourg Conference in June 2006. This chapter's name was Science and Research. This chapter was temporarily closed on the same day. Negotiations started for a total of 16 chapters, most recently in June 2016. Only one of the negotiations has been temporarily closed and the others have not yet developed.

One of these chapters is the Taxation Chapter, which is Chapter 16. The taxation chapter was opened to negotiations on 30th June 2009, during the Presidency of the Council of the EU in the Czech Republic. This study focuses on the harmonization of the Turkish Tax System with the EU tax system. Therefore, Chapter 16 has been examined in detail. The aim of this study is to examine the history of the chapter taxation between the EU and Turkey and analyse the last point, the harmonization in terms of Turkish Tax System. In this study, document scanning technique has been used.

## **SIGNIFICANT EVENTS IN THE HISTORY OF EU-TURKEY RELATIONS**

There are ancient historical relations between Anatolian states and Europe. In 1923, with the establishment of the Republic of Turkey, a new page in relations with Europe was opened. Turkey was a member of many international organizations, especially for the purpose of developing international trade in our country. One of these organizations was the European Economic Community. The European Economic Community (EEC) was established in 1958. Turkey also sees advantages to be in this relationship with Europe. This agreement was the first relationship between Europe and Turkey in an economy context.

### **Ankara Agreement (Preparation Period 1964 – 1972)**

On 31st July of 1959, Turkey's Prime Minister Adnan Menderes applied to EEC for partnership. At that time, Turkey's application was accepted. The Ankara Agreement was signed in 1963 and entered into force in December 1964. In the same year, Greece's application to the community was accepted too. However, Greece immediately began to implement a common customs union with the EEC (Uysal, 2001). In fact, the Ankara Agreement was a roadmap rather than an actual implementation. The road map has 3 periods. This roadmap, includes the preparation period, the transition period and the last period. The preparation period is discussed under this section.

According to the agreement, the preparation period would last for five years. Due to the prolongation of the negotiations, it took 8 years from 1964 to 1972. During this period, the EEC committed to strengthening the Turkish economy and facilitating the transition to the Customs Union. Also during this period, the EEC would apply preferential tariffs for some agricultural products, thus comparative advantages for Turkey and would contribute to Turkey's development (Tuğrul, 1995). During this period, Turkey partly fulfilled commitments of the EEC.

Ankara Agreement consists of three parts. In addition, a provisional protocol, a financial protocol and a final act were signed under this agreement.

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