

Chapter 16

In Search of Cooperative Compliance: International Compliance Assurance Programme (ICAP) and Turkey

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ABSTRACT

International Compliance Assurance Programme (ICAP) of OECD, a brand-new application, is the international reflection of the tax compliance expectations rising over cooperative compliance. ICAP is an application in which the tax risks of MNE groups are evaluated by bringing together the tax administrations of more than one country in which they operate and the relevant MNE group, and it has the capacity to create positive outputs at the point of ensuring voluntary tax compliance based on the establishment of tax certainty and consistency. In this study, the characteristics, composition, and function of ICAP is revealed with the concept of cooperative compliance by comparing similar concepts with ICAP. Based on these elements, the chapter discusses Turkey's future participation in the programme.

Taxpayers' decisions to pay or avoid/evade taxes usually emerge as a result of a cost-benefit analysis. The risk of encountering tax audits or tax penalties has always play a leading role in decisions of taxpayers. Consequently, it is known that tax systems respond in various ways to the efforts of taxpayers to reduce their tax burdens, and the majority of these responses involve punitive mechanisms. On the other hand, the main factor affecting taxpayers' decisions is not always the existence of the state's power to impose punishments or the fear of this authority. At this point, the concept of cooperative compliance emerges as a policy tool. It is thought that tax compliance can be achieved by establishing more communication, cooperation and trust between taxpayers and tax administrations. On the other hand, tax compliance is a multidimensional concept and it should be ensured in the international manner. International Compli-

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ance Assurance Programme (ICAP) of OECD, a brand-new application that we have now encountered, is the international reflection of the tax compliance expectations rising over cooperative compliance. ICAP is an application in which the tax risks of multinational enterprise (MNE) groups are evaluated by bringing together the tax administrations of more than one country in which they operate and the relevant MNE group, and it has the capacity to create positive outputs at the point of ensuring voluntary tax compliance based on the establishment of tax certainty and consistency. In this study, the characteristics, composition and function of ICAP is revealed, besides, the concept of cooperative compliance by comparing similar concepts with ICAP. Based on these elements, it is aimed to discuss Turkey's future participation in the programme.

INTRODUCTION

The taxation relationship, which positions the state and the taxpayer as opposite sides, has always included a tension between these two parties throughout history. States always consider how taxpayers perceive taxes and how they react to them, and in light of this, ongoing efforts are made to avoid incompatibilities. In general, such efforts have typically taken the form of penalties and performing audits. By acting in this regard, the goal is to make taxpayers feel the weight of the state's deterrence power. However, a means of convergence between the state and taxpayers has been sought over time, particularly in light of the public interest in tax collection. At this stage, initiatives that prioritize the idea of assuring tax compliance come to the fore rather than those that aim to eliminate tax incompatibility. In this context, states developed a set of practices to ensure cooperation between tax administrations and taxpayers, and ICAP is one of them.

As a risk assessment programme on a voluntary basis, ICAP constitutes one of the sound policy tools to improve communication between tax administrations and tax compliance. From this point of view, this programme can be considered as an example of cooperative compliance effort. Cooperative compliance, which is a relatively new concept, poses an attitude that aims to increase trust between taxpayers and the government in order to ensure tax compliance. This concept entails taking various actions to collect taxes within the context of a relationship based on communication and guidance, away from the pursuit of "thieves and cops" and ICAP has served as the representation of this idea in the international arena.

When seen from this angle, it becomes clear that in order to comprehend this matter, one must first evaluate the historical stages that the issue of tax compliance has undergone. Following this assessment, the subject of cooperative compliance needs to be looked at. From this vantage point, it is possible to evaluate the ICAP framework, which is the multilateral representation of domestic cooperative compliance procedures. Put it differently, examining the application of ICAP requires addressing taxpayers' reactions to taxes and the issue of tax compliance, as well as the term cooperative compliance, which can be observed in country practices.

TAXPAYERS' ATTITUDES TOWARDS TAXES: COMPLIANCE OR NON-COMPLIANCE

Taxes can be approached as a financial burden on taxpayers, so it is observed that some taxpayers can resist taxes. It is possible for taxpayers to choose strategies like avoiding the taxable event or acting in

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