

NARRATIVE REPORT ON TURKEY



PART 1: NARRATIVE REPORT

Vulnerable geopolitics

Turkey lies between Europe and Asia and has borders with Balkan countries (Bulgaria and Greece), Caucasian countries (Azerbaijan, Georgia, Armenia) and the Middle East (Iran, Iraq, Syria). This geopolitical position makes Turkey vulnerable to terrorist activities, smuggling, human trafficking and war.

Turkey joined the Financial Action Task Force (FATF) in 1991 and membership has contributed extensively to improvements in the legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats in the country – although progress has been slow. In 2012 Turkey almost saw its membership of the group suspended, and it was only [removed from the list of high risk jurisdictions in 2014](#).¹

Fast Cash and money laundering

In 2015 the Turkish government had its commitment to countering financial crime brought into question when the Ministry of Customs and Trade introduced a new customs code. [The code](#)² allowed for unlimited transfers of cash into and out of the country, and was [heavily criticized](#) by the public and members of parliament because of the potential for the new rules to facilitate illicit financial flows.³ The [previous code](#), issued in 2013,⁴ was compliant with international anti-money laundering standards. Under pressure, [the Ministry reversed](#) and introduced a new regulation similar to the previous 2013 regulation on May 18, 2016.⁵

The high profile case of the [U.S. vs Reza Zarrab](#) also raises questions regarding the role of Turkish banks in administering anti-money laundering rules. Reza Zarrab is an Iranian- Turkish businessman who is accused by the US authorities of laundering Iranian oil money through his network of companies. US authorities are accusing the state-run Turkish Bank, Turkiye Halk Bankasi AS of assisting in this scheme and have arrested a senior bank official.⁶

All the President’s men

On November 28, 2017, the leader of main opposition party Kemal Kılıçdaroğlu [claimed](#) that people close to the President of Turkey, Recep Tayyip Erdoğan, had sent millions of dollars to an off-shore company in the tax haven Isle of Man in December 2011 and January 2012.⁷ Kılıçdaroğlu based his claims on SWIFT documents of these transactions. On November 29, the President replied those claims in twofold. He began with denying alleged transactions and declared the documents as fake. He also said that rather than exporting money to the Isle of Man, money was coming back to Turkey because the individuals named had recently sold companies in the Isle of Man. This [prompted further questions from the opposition](#) about how the individuals came to own these companies in the first place.⁸

This is not the first time that the President’s family and friends have ended up courting tax controversy. In 2017 the [#maltafiles revealed](#)

Rank: 30

Chart 1 - How Secretive?

68
Secrecy Score

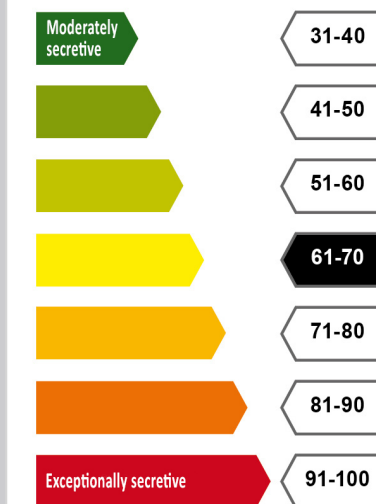
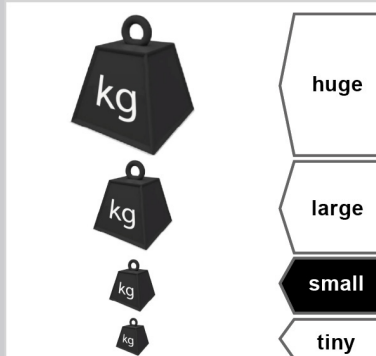


Chart 2 - How Big?



Turkey accounts for less than 1 per cent of the global market for offshore financial services, making it a small player compared with other secrecy jurisdictions.

The ranking is based on a combination of its secrecy score and scale weighting.

Full data on Turkey is available here: www.financialsecrecyindex.com/database

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how the President's son in law created a complex tax avoidance scheme via Dubai, Malta and Sweden in an attempt to repatriate his company's profits to Turkey tax free. In the end, the scheme was scrapped, and the company waited for Turkey to establish a tax amnesty, put in place by the very same individual.⁹

Turkey's Treaty Network

As of October 25, 2017, Turkey has [84 double tax agreements](#) (DTAs)¹⁰ and [3 tax information exchange agreements](#) (TIEAs) in force with Guernsey, and Jersey¹¹ and the Isle of Man.¹² Another 6 DTAs have been signed but not ratified yet.¹³ Turkey has also signed TIEAs with Bermuda and Gibraltar but they have not come into force.^{14,15} Another five TIEAs negotiations were underway at the time of writing. Partner jurisdictions are Cayman Islands¹⁶ Barbados,¹⁷ Bahamas,¹⁸ Panama,¹⁹ and British Virgin Islands.²⁰ None of the signed TIEAs provides for automatic exchange of information. Turkey follows the wording of the OECD Model TIEA of 2002 which only deals with exchange of information on request.

Turkey has signed the Multilateral Convention on Mutual Administrative Assistance in Tax Matters amended by the 2010 Protocol on 3 November 2011 that specifically provides for the optional use of automatic exchange in its Article 6. However, the necessary procedure at the national level took 6 years to complete, finally coming in to force in November 26, 2017.²¹

According to the [OECD database](#), Turkey has not completed the necessary procedure for the Multilateral Convention at the international level yet.²² The situation is similar for FATCA IGA between Turkey and the US. Turkey signed an agreement based on Model 1 on July 29, 2015 and completed domestic ratification process on October 5, 2016.²³ [However](#), the agreement has not come into force at the international level yet.²⁴ Moreover, Turkey has signed the Multilateral Competent Authority Agreement on Automatic Exchange of Information only on April 21, 2017 that sets details of the information to be exchanged, how and when²⁵ but has not initiated domestic ratification procedure yet. This is the only competent authority agreement Turkey has signed except the competent authority agreement with the US to implement FATCA.

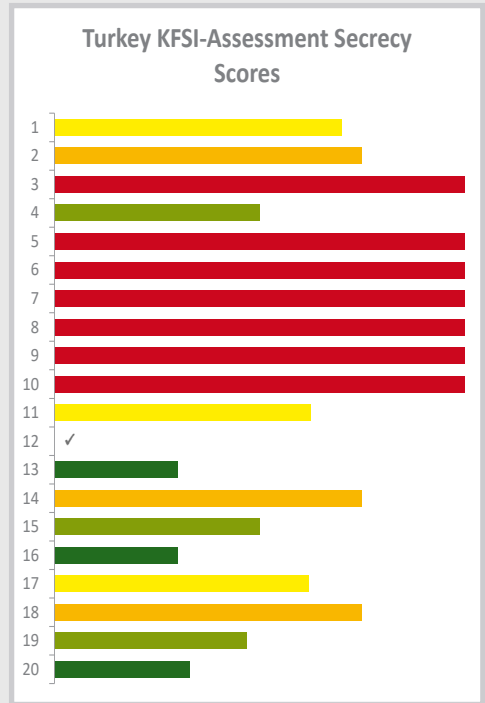
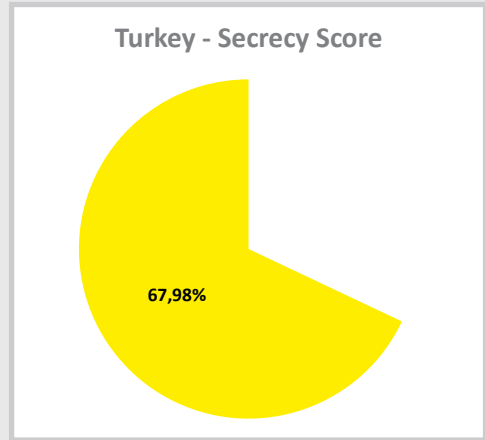
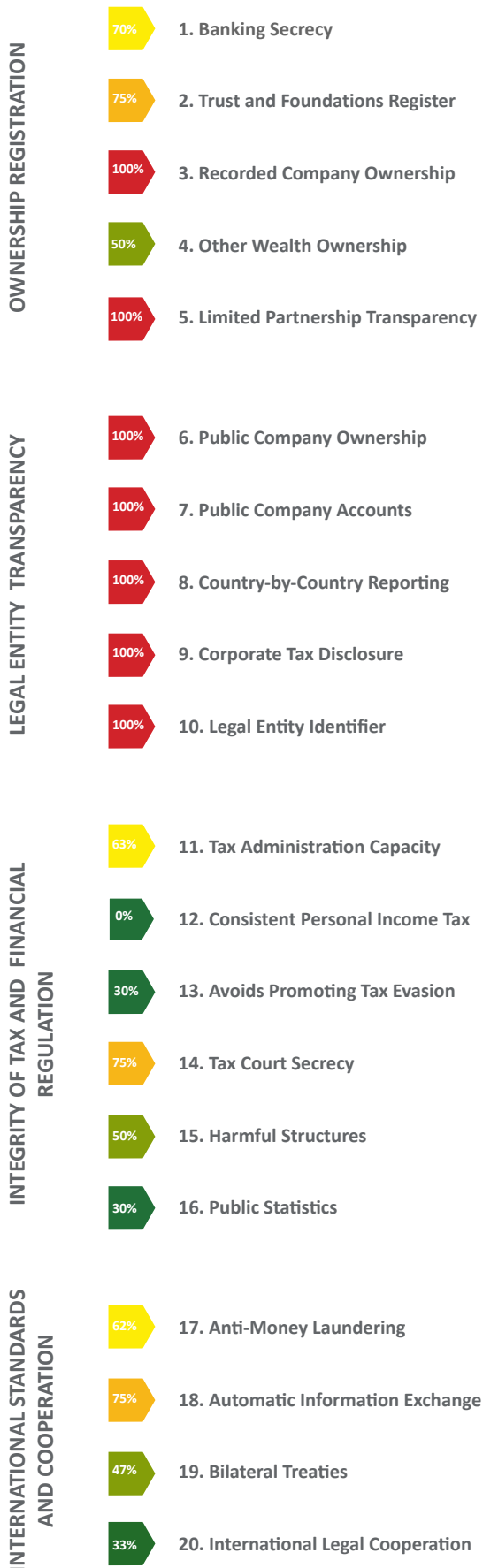
Consequently, Turkey has clearly not taken necessary international steps expeditiously to implement the new standard of automatic exchange of information. This is also evident in translation process of common reporting standard into domestic law under the OECD

umbrella or the US FATCA that requires implanting the reporting and due diligence rules for automatic exchange of financial account information. The government has included some related provisions into its new Tax Procedure Code draft that has been at its agenda for a long time. Nevertheless, there is no timeline for the draft to come before Parliament.

Endnotes

- 1 FATF (2014) Mutual Evaluation of Turkey : 15th Follow-Up Report, <http://www.fatf-gafi.org/media/fatf/documents/reports/mer/Turkey-FUR-2014.pdf>; 29.01.2018.
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- 9 <https://theintercept.com/2017/05/26/malta-files-revelations-25-million-oil-tanker-gifted-to-erdogans-family/>; 29.01.2018.
- 10 OECD, Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS: BEPS MLI Position of Turkey, 25 October 2017, <http://www.oecd.org/tax/treaties/beps-ml-position-turkey.pdf>; 29.01.2018.
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- 12 Isle of Man; Turkey - Exchange of information agreement between Isle of Man and Turkey enters into force (02 Oct. 2017), News IBFD.
- 13 OECD, Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS: BEPS MLI Position of Turkey, 25 October 2017, <http://www.oecd.org/tax/treaties/beps-ml-position-turkey.pdf>; 29.01.2018.
- 14 Bk. OECD, Exchange of Tax Information Portal: Turkey.
- 15 Council of Minister Decision No. 2013/4586 dated March 25, 2013 (OG: 27.04.2013, 28630); Council of Minister Decision No. 2017/10680, dated July 3, 2017 (OG: 28.09.2017, 30194).
- 16 Turkey; Cayman Islands - Exchange of information agreement between Turkey and Cayman Islands – negotiations underway (27 Aug. 2012), News IBFD.
- 17 Turkey; Barbados - Exchange of information agreement between Turkey and Barbados – negotiations underway (27 Aug. 2012), News IBFD.
- 18 Turkey; Bahamas - Exchange of information agreement between Turkey and Bahamas – negotiations underway (27 Aug. 2012), News IBFD.
- 19 Turkey; Panama - Exchange of information agreement between Turkey and Panama – negotiations underway (27 Aug. 2012), News IBFD.
- 20 Turkey; British Virgin Islands - Exchange of information agreement between Turkey and British Virgin Islands – negotiations underway (27 Aug. 2012), News IBFD.
- 21 Council of Minister Decision No. 2017/10969 dated October 30, 2017 (OG: 26.11.2017, 30252).
- 22 OECD, “Jurisdictions Participating in the Convention on Mutual Administrative Assistance in Tax Matters Status”, 15 December 2017, http://www.oecd.org/tax/exchange-of-tax-information/Status_of_convention.pdf
- 23 Council of Minister Decision No. 2016/9229 dated September 19, 2016 (OG: RG: 05.10.2016, 29848).
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- 25 Turkey; OECD - Multilateral Competent Authority Agreement on automatic exchange of information – signed by Turkey (11 May 2017), News IBFD.

PART 2: TURKEY'S SECRECY SCORE



Notes and Sources

The ranking is based on a combination of its secrecy score and scale weighting (click [here](#) to see our full methodology).

The secrecy score of 68 per cent has been computed as the average score of 20 Key Financial Secrecy Indicators (KFSI), listed on the left. Each KFSI is explained in more detail by clicking on the name of the indicators.

A grey tick indicates full compliance with the relevant indicator, meaning least secrecy; red indicates non-compliance (most secrecy); colours in between partial compliance.

This paper draws on data sources including regulatory reports, legislation, regulation and news available as of 30.09.2017.

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To find out more about the Financial Secrecy Index, please visit www.financialsecrecyindex.com.