



# Tax Amnesties: Theory, Trends, and Some Alternatives

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## Abbreviations and Acronyms

BIR	Bureau of Internal Revenue (Philippines)
CPBO	Congressional Planning and Budget Office (Philippines)
DIAN	Dirección General de Impuestos Nacionales (General Directorate of National Taxes, Colombia)
FTA	Federation of Tax Administrators
FY	Fiscal year
GDP	Gross domestic product
GF	General fund
GNP	Gross national product
IR	Irish Revenue
IRAS	Inland Revenue Authority of Singapore
IRPF	Impuesto sobre la renta de personas físicas (personal income tax, Spain)
P	Philippine peso
PAES	Parcelamento Especial (Special Installment program, Brazil)
TL	Turkish lira
VAAP	Voluntary Abatement and Assessment Program (Philippines)
VAT	Value-added tax



# Preface

Tax amnesty programs have a long history and remain as popular as ever, across both countries and states. Policymakers often view such programs as an efficient tool that produces both short- and medium-term benefits. In the short term, amnesties yield additional revenue, although often not as much as expected. This “extra” revenue can be most desirable in times of recession or financial crisis when revenues are under pressure and expenditures are growing quickly. In the medium term, a successful tax amnesty is expected to increase the tax base, and therefore future revenue collection, as tax evaders are brought into the tax net. In other words, the amnesty is expected to improve tax compliance. Some policymakers view tax amnesties as an efficient measure, as they immediately raise the yield of a given tax without changing its structure (its tax rate and base), and also as an equitable one, as the revenue collected from tax evaders reduces the disparity in the effective tax rate of previously evading citizens and tax-law-abiding ones.

International experience, however, shows that the perceived benefits of tax amnesty programs are at best overstated and often unlikely to exceed the programs’ costs—of administration and of reduced taxpayer compliance—which are rarely measured. The benchmark that policymakers often use to assess the revenue impact of a tax amnesty is the short-term *gross* revenue gain, and not the *net* revenue gain—not only in the short term, but also over a medium-term horizon. Over the medium term, potentially the largest and most significant cost of a tax amnesty can be a reduction in future tax compliance.

This paper provides an overview of the advantages and disadvantages of tax amnesties as a tool for raising revenue and increasing tax compliance. Drawing on results from the theoretical literature, econometric evidence, and selected country and U.S. state case studies, it concludes that (1) “successful” tax amnesties are the exception rather than the norm as, over time, net revenue collection and compliance are often negatively affected by amnesties; (2) the main problems that tax amnesties set out to address, namely, weak revenue performance and high delinquency and noncompliance rates, are unlikely to be resolved without an improvement in the tax administration’s detection and enforcement powers; and (3) the most “successful” amnesty programs have relied on improving the tax administration’s enforcement capacity. Finally, given the potential drawbacks of tax amnesties, a few alternative measures are discussed.

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## Introduction

“Our new Constitution is now established, and has an appearance that promises permanency; but in this world *nothing can be said to be certain, except death and taxes.*” (emphasis added)

Benjamin Franklin (1817)  
(letter to Jean-Baptiste Leroy, 1789)

Notwithstanding Benjamin Franklin’s famous statement on the certainty of taxes, tax amnesties—which are an invitation to tax evaders to join the ranks of people who pay the “unavoidable” taxes—have shown an extraordinary resilience over the centuries. The first documented tax amnesty, dating from over two millennia ago, can be found on the Rosetta Stone (200 B.C.) in Egypt (it provided for the release from prison of tax evaders).<sup>1</sup> The popularity of amnesty programs over time and across countries is understandable. Every so often, a “very successful” tax amnesty program occurs and attracts widespread media and policymakers’ attention. One such recent example is Italy’s Scudo Fiscale (2001), which targeted undeclared offshore capital and enabled the repatriation of some €60 billion. Because of the large sums involved, variants of this amnesty program soon emerged across several European and accession countries. Within the United States, a surge in tax amnesty programs among states occurred in the late 1990s and early 2000s owing to a combination of dwindling fiscal revenue and mandatory balanced budget constraints.

Policymakers often view tax amnesty programs as an efficient policy tool that produces both short- and medium-term benefits. In the short term, amnesties become an additional source of revenue. The gross revenue collected through an amnesty can amount to a few percentage points of the targeted tax collection, and in some cases can be significant. This “extra”

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<sup>1</sup>See Adams (1993) for a historical account of taxes and tax amnesties.

revenue can be most desirable in times of recession or financial crisis when revenues are under pressure and expenditures are growing quickly. In the medium term, a successful tax amnesty program is expected to increase the tax base and therefore future revenue collection, as tax evaders are brought into the tax net. In other words, the tax amnesty is expected to improve tax compliance. By immediately raising the yield of a given tax without changing its structure (that is, its tax rate and base), tax amnesty programs are an efficient policy measure, and also an equitable one, because the revenue collected from tax evaders reduces the disparity in the effective tax rate of previously evading citizens and tax-law-abiding ones. This is expected to improve horizontal equity—because, for a given income level, a tax evader is subject to a lower effective tax rate—and, potentially, vertical equity too—in the case where tax-evasion motives and opportunities are an increasing function of income. Finally, some tax amnesty programs are designed with a broader macroeconomic aim in mind, such as repatriating flight capital (for reasons that go beyond immediate revenue and tax compliance motives, such as balance of payments, domestic investment, or financial system considerations).

Experience, however, reveals that the perceived benefits of tax amnesty programs are at best overstated and often unlikely to exceed the programs' costs, which are rarely measured. The benchmark that policymakers often use to assess the revenue impact of a tax amnesty is the short-term *gross* revenue gain, and not the *net* revenue gain, not only in the short term, but also over a medium-term horizon.<sup>2</sup> Against a more comprehensive benchmark, the short-term gross revenue collected, which is often advertised as proof of an amnesty's success, needs to be offset by (1) any eventual reduction in taxpayer compliance (resulting from the loss of credibility of the tax administration and the adverse incentive effects this creates); (2) the direct cost of administering the amnesty (administrative resources, advertising, etc.); and (3) the cost in forgone tax revenue (i.e., the incentive component of a tax amnesty program, such as waived penalties and interest rates, for all tax evaders, even though some of them would have been detected by the tax administration and would have eventually paid these financial penalties).

Over the medium term, potentially the largest and most significant cost of a tax amnesty program can be a reduction in future tax compliance. Several behavioral channels predict such an effect. For example, if citizens expect another tax amnesty program to be offered again, then tax evasion becomes less costly than it was before the launching of the first tax amnesty program; that is, if a “new” tax evader decides that the benefits of tax evasion

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<sup>2</sup>Casanegra (2002) argues that even in terms of their short-term revenue objectives, the majority of tax amnesties have failed to fulfill the expectations of increased revenue.

outweigh the costs, a legal escape route is expected. Ironically, expectations of a future tax amnesty, which drive up noncompliance, are likely to become self-fulfilling as policymakers try to reduce noncompliance by introducing a tax amnesty aimed at bringing tax evaders back to the tax net. Having observed a “successful” tax amnesty (that is, one that is perceived as having motivated many previous evaders to come forward), taxpayers can update their prior beliefs regarding the tax administration’s capacity to detect evaders. Their conclusion might be that, at the margin, it is optimal to become a tax evader, because the savings from evaded tax payments may outweigh the expected probability of detection and the associated fines. Another “cost” of tax amnesty programs is that they affect the intertemporal dimension of gross revenue collection. On one hand, they may bring forward revenue collected from identified tax evaders (if these are allowed to participate in the tax amnesty program). On the other hand, however, in the immediate post-amnesty year, a decrease in revenue stemming from tax settlements, fines, and penalties is likely.

The ease in quantifying the short-term benefits of tax amnesty programs combined with the difficulty in quantifying their costs, especially in terms of compliance, could partly explain amnesties’ popularity. This bias is reinforced by policymakers’ well-known high discount rate (because their horizon is often as long as the next election): a tax amnesty program provides short-term benefits (extra revenue without raising taxes) at the expense of a potential future—that is, post-election—drop in tax compliance.

Notwithstanding the (often misguided) appeal of tax amnesties, alternative policies do exist in both the short and medium terms, and have been successfully applied by countries. These alternative strategies tend to target the source of the original problem, namely, weak tax compliance. Weak compliance is often the result of several factors, notably (1) weak administration, (2) a weak legal system (or enforcement of the law), and (3) inadequate tax policy (for example, a tax system that is too complex, regressive taxes, high tax rates). Clearly, addressing some of these areas of relative weakness takes time (and the formulation of medium- to long-term strategies); however, some short-term measures aimed at (1) raising revenue in the short term and (2) improving short-term compliance with a view to improving future revenue can also be implemented. These include payment installment agreements (including in situations of economic crisis), extended payment installment arrangements, and permanent programs to encourage voluntary disclosure of violations. All of these short-term measures follow the general recommendation that *up-front write-offs of tax liabilities, including interest and penalties, should be avoided.*

This paper is structured as follows: Chapter 2 defines “tax amnesty” and provides an overview of the types of tax amnesties that have been introduced. Chapter 3 reviews the economic literature on tax amnesties and

summarizes its key results. Chapter 4 describes recent trends and presents recent econometric evidence and various state and country case studies. Chapter 5 highlights alternative policy measures to a tax amnesty. Chapter 6 presents some broad conclusions.

## Definition and Types of Amnesties

### Definition and Reasons for Amnesties

#### Definition<sup>3</sup>

A tax amnesty can be defined as *a limited-time offer by the government to a specified group of taxpayers to pay a defined amount, in exchange for forgiveness of a tax liability (including interest and penalties), relating to a previous tax period (s), as well as freedom from legal prosecution*. Amnesties generally fall in two categories: financial and legal. For the former, a tax amnesty implies a reduction (in real terms) of taxpayers' declared or undeclared tax liabilities as established by law.<sup>4</sup> This reduction can be achieved through a variety of measures: for example, through a reduction or cancellation of (1) interest and penalties owed on the underreported or undeclared taxes or (2) tax liabilities (or some combination of these).<sup>5</sup> The latter includes a waiving of civil and criminal penalties.

Tax amnesties can be designed to cover all taxpayers, broad categories of taxpayers (e.g., small taxpayers), or tax types (e.g., corporate income tax, personal income tax). Tax amnesties can also be offered with respect to social security contributions.

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<sup>3</sup>This paper deals with *tax* amnesties, which are understood to include amnesty programs for domestic taxes and social security contributions.

<sup>4</sup>Typically, a taxpayer's declared (or assessed) but unpaid liabilities would be referred to as "tax arrears" and the taxpayer as a "delinquent taxpayer," whereas undeclared or underdeclared liabilities would be referred to as "evaded taxes" and the taxpayer as a "tax evader."

<sup>5</sup>In some cases, only the penalty and interest components of the liability—which often account for the bulk of the overall tax debt—are forgiven, partially or fully. In other cases, the basic tax liability itself is reduced. Alternatively, the tax authority establishes a repayment schedule under which interest and penalties stop accruing altogether, or interest is assessed using below-market interest rates. Such a rescheduling is still an amnesty, because the net present value of the debt is reduced.

Tax amnesties differ from payment installment arrangements. Whereas tax amnesties provide for a reduction of all or part of taxpayers' total tax liabilities (i.e., a reduction in the net present value of the amount of tax, penalties, and interest owed), payment installment agreements maintain, in principle, the net present value of the amount of tax owed. They constitute a contract between the tax administration and the taxpayer whereby the latter agrees to pay, over a longer time period, the total amount of taxes owed, plus interest and penalties, based on ability to pay.

### Rationale

Historically, the rationales provided by governments for introducing a tax amnesty program can be classified into three categories: (1) to raise revenue quickly; (2) to increase future tax compliance (e.g., by encouraging taxpayers to declare and pay previously undeclared tax, file tax returns, or register to pay taxes—and stay current on their tax obligations); and (3) to induce the repatriation of flight capital (for reasons that go beyond immediate revenue and tax compliance motives, such as balance of payments, domestic investment, or financial system considerations).

Tax amnesties are sometimes offered in periods of economic crisis, when there is a fear that taxpayers may be unable to meet their various tax liabilities, when there are major currency devaluations, or when there is a change of government. In these cases, as well as many others, the tax burden is often viewed as excessive and poorly correlated with ability to pay. As a result, a new government may introduce an amnesty program to address past or sudden problems of major noncompliance, decrease the stock of outstanding tax arrears, and give taxpayers a chance to resolve their past tax violations and get current on their tax liabilities. Governments also introduce tax amnesties in response to pressures from various interest groups for forgiveness of existing tax debts, declared and undeclared.

In addition to the above, IMF missions have found that in many countries, especially developing and transition countries, tax amnesties are introduced as a result of fundamental weaknesses in the legal framework, management, and operations of the tax administration. Box 1 describes in greater detail some of the legal, procedural, and management problems that can give rise to the introduction of tax amnesty programs in an effort to raise tax revenue in the short term and address different types of noncompliance.

Tax amnesty programs can be introduced all along the tax administration process in an attempt to remedy some of these shortcomings. Examples include amnesties for failure to comply with registration (e.g., to improve the accuracy and completeness of the taxpayer register and incorporate taxpayers engaged in informal economic activities); amnesties for failure to comply with filing and payment obligations (e.g., to raise revenue and increase the

### **Box 1. Weaknesses in Revenue Administration That Can Give Rise to Tax Amnesties**

In many developing and transition countries, despite reforms undertaken to date, the legal framework for tax administration is deficient; it does not provide the administration with the necessary powers to enforce tax collection and it lacks key provisions to encourage taxpayers to comply with their obligations voluntarily. Examples of this deficiency include the following:

- Lack of a fair interest and penalty regime (interest rates and penalties are too high or too low, and are not structured to reflect the severity of different types of infractions);
- Limited ability of the tax administration to obtain taxpayer-related information (e.g., access to third-party or bank information);
- Nonexistence of a well-designed, fair installment payment system (e.g., one that facilitates payment for taxpayers who can show they are financially unable to meet their tax obligations in full, but are willing to pay over a longer period);
- Absence of tax administration powers to enforce collections (e.g., seize bank accounts, physical assets, accounts receivable) and reliance by the tax administration on the courts to carry out this critical function;
- Lack of tax administration powers to “write off” what the tax administration considers to be uncollectible tax debts; and
- Abuse of the appeals system to postpone payment of tax arrears. Taxpayer appeals of the tax administration’s decisions or rulings are often costless to the taxpayer and have the effect of immediately suspending or canceling the tax administration’s collection enforcement actions. Thus, taxpayers can easily interrupt collection enforcement actions via recourse to the appeals system.

These weaknesses in the legal framework can affect every link in the chain of basic tax administration procedures: taxpayer registration, collection, audit, and enforcement.

Specific problems that are observed in many developing and transition countries include the following:

- Taxpayers have high noncompliance rates with respect to their filing and payment obligations (e.g., basic compliance controls are weak and the sanctions and penalty regimes are ineffective);
- The taxpayer register is inaccurate and outdated, and large numbers of potential taxpayers in the informal economy are not registered (related to lack of access to third-party information);
- The installment payment system(s) is poorly designed (e.g., taxpayers are not encouraged to settle their tax arrears by paying installments of overdue tax on their capacity to pay. Many installment payment schemes are difficult to administer; repayment periods are excessively long; interest and penalty structures are inappropriate; and taxpayers are not required to remain current with their new tax obligations); and



**Box 1 (concluded)**

- There is a large and increasing stock of overdue tax arrears. Often this occurs because the tax administration lacks collection enforcement powers and powers to write off uncollectible tax debts. But this also reflects shortcomings in administrative procedures (e.g., the information on tax arrears is inaccurate; the tax administration does not classify arrears based on their priority or ease of collection and does not take prompt action to recover arrears as they arise; administrative actions are not concentrated on the newer, larger tax debts, but instead on older, smaller tax arrears that are more difficult to collect; and there are too few collection enforcement officers and they lack appropriate skills).

Finally, weak management of the tax administration—including a management team that is unaware of the above-mentioned problems, lacks management information to monitor basic procedures, and does not take action to remedy these shortcomings—can be a major contributing factor to the weak tax administration performance that in many countries has led to the adoption of tax amnesties.

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Source: IMF staff.

number of active taxpayers); and amnesties that limit the tax administration's audit powers in exchange for taxpayers reporting previously undeclared income and declaring more accurately and honestly in the future (e.g., to increase revenue).

However, the disconnect between the advertised rationale for and the roots of tax amnesties often leads to the design of amnesty programs that do not address the sources of the problem. As shown in Chapter 4, which discusses in greater detail some of the different types of tax amnesties that various countries have introduced, in many developing and transition countries, amnesties rarely address specific weaknesses in the tax administration's legal framework, procedures, and management—the very issues that contributed to low compliance levels or weak revenue performance in the first place.

## Types of Tax Amnesties

### A Taxonomy of the Most Common Types of Tax Amnesties

Although the specific provisions of the most common types of tax amnesties have differed widely, they share a common feature: a temporary grace period during which delinquent taxpayers can pay outstanding tax debts or correct other tax law infractions with reduced financial and legal penalties. Amnesties are most often designed to include all taxpayers or large groups of taxpayers, although the amnesty's specific conditions may differ. For example, the

**Table 1. Possible Design Features of Tax Amnesties**

Who Is Targeted	What Taxes Are Covered	What Is Forgiven	Accompanied by	Other
Unregistered taxpayers	Personal taxes	Interest	Increased enforcement	Duration - One-time
Nonfilers	Business taxes	Tax penalties	Increased audit	- Permanent
Delinquent taxpayers: - Unpaid tax liabilities	Property taxes  Other	Criminal prosecution: - Civil penalties - Imprisonment	Tax reform: - General - Designed, in part, to address non-compliance	Basis: - Legislative - Administrative decree
Evaders: - Nonreported tax liabilities - Underreported tax liabilities		Tax liabilities: - Small amounts - Any amount		

Source: Pellechio (1993).

program may be designed to encourage taxpayers who have failed to file tax returns to file. The focus may be on taxpayers who have filed tax returns but underreported income, or taxpayers who have reported accurately but failed to pay. Table 1 indicates some of the factors that have typically been taken into account in designing the most commonly observed types of tax amnesties.

### Other Types of Amnesties

Many countries have introduced amnesties that do not provide for an outright waiver of penalties and sanctions for undeclared or underreported taxes, but that do provide other incentives for taxpayers who have not complied with the tax laws to start doing so. Examples include audit amnesties and legal amnesties.

Audit amnesty programs have varied features. One type provides for a limit on the tax administration’s capacity to audit taxpayers for a certain period as long as they increase the amount of tax paid in present or future periods, or both. The incentive to participate is that taxpayers who “voluntarily” declare previously undeclared taxes will not be audited. Colombia offered such a program in 1998: taxpayers who declared a 30 percent increase in their taxable income for the 1996, 1997, and 1998 tax years would not be subject to an audit by the national tax and customs directorate (DIAN) of their income tax returns for those years. This benefit could be extended to taxpayers who did not file income tax returns in 1996 and 1997.

Another type of audit amnesty is a guarantee against audits of returns filed in future years, but not for past returns. This approach is usually employed on a temporary basis when the tax administration does not have the capacity for adequate audit and enforcement. Portugal offered such a program in 1986: it guaranteed that a corporate taxpayer whose tax liability increased by at least 30 percent would not be audited for the next five years through the standard selection process; taxpayers could nonetheless be audited for serious cause such as suspected fraud. This type of amnesty poses significant problems, not least of which is a strong incentive for companies with greater than the specified increase in tax revenue to limit their tax payment to the minimum required.

Finally, another audit amnesty is a guarantee to the taxpayer that his or her tax returns for earlier tax periods will not be audited as long as his or her most recent tax return is correct. Countries that have introduced this type of audit amnesty include Colombia, the Dominican Republic, and Mexico. The incentive for the taxpayer to participate is that it forbids audits for earlier tax periods. However, the incentive might be weaker than it might seem because, for the audits to be forbidden, the taxpayer will always have to file correctly in the future. Otherwise, the possibility of auditing (all) previous returns will apply once again. On the other hand, strong participation externalities exist for this type of amnesty: the more taxpayers participate in the amnesty, the higher the probability of an audit for those who do not participate in the amnesty (for a given audit capacity of the tax administration). Because the results of this type of measure have not been studied in full, it is difficult to gauge their impact on future compliance and to what extent they have been more or less effective in terms of encouraging taxpayer compliance than more commonly used types of amnesty programs.

## Economic Analysis

In this chapter we first give a heuristic intuition of the economic literature and modeling of tax amnesty. We then describe the key results of the literature.

### The Modeling of Tax Amnesty

The literature on tax amnesty extends the literature on tax compliance that started with Allingham and Sandmo (1972).<sup>6</sup> The standard tax amnesty problem<sup>7</sup> is for the government, taking into account the citizens' optimization problem, to design, *ex ante*, a tax code so as to raise a desired amount of revenue efficiently (assuming an exogenous amount is needed), and, *ex post*, to decide whether to offer an amnesty or not depending on whether revenue targets have been achieved or not. Citizens, given the tax environment chosen by the government, decide whether to comply with the tax code or not. For those who do not comply, an amnesty, if provided, is an opportunity to reassess their choices in light of the (potentially) new tax environment that the government is announcing, or of unexpected changes in their own situation.

The tax-evasion decision is a trade-off between the benefits of tax evasion and the costs of detection. The former are primarily pecuniary (the amount of tax evaded); the latter are a function of a rich array of variables that can be classified in two categories: those that are under direct control of the government, and those that are taxpayer idiosyncratic, reflecting his or her preferences (e.g., toward risk), as well as social attitudes toward evasion.

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<sup>6</sup>See Andreoni, Erard, and Feinstein (1998) for a recent survey of this model and the following tax compliance literature.

<sup>7</sup>Early contributions to the tax amnesty literature include Alm, McKee, and Beck (1990); Andreoni (1991); Malik and Schwab (1991); Stella (1991); and Graetz and Wilde (1993).

The government can significantly affect most variables influencing the cost-benefit trade-off of tax evasion. These variables include

- Direct penalties for tax evasion (financial, civil, and criminal),
- Indirect penalties (psychological, reputational costs),<sup>8</sup>
- Probability of detection (amount of resources devoted to tax administration),<sup>9</sup> and
- Benefits from tax evasion (financial savings; time savings related to avoiding the sometimes complex taxpaying process).

To reduce the financial incentive associated with tax evasion—the difference between the tax actually paid (potentially zero) and the legal tax obligation—governments ought to have as broad a tax base as possible so as to avoid high marginal tax rates (the incentive to underreport taxable income or to overclaim deductions is directly influenced by the taxpayers' top marginal rate).<sup>10</sup>

The administration's optimal probability of detecting tax evasion is less than 100 percent because strict enforcement is costly both for the government (resource costs) and for citizens (through frequent audits, etc.). As noted by Stella (1991), because fraudulent taxpayers recognize the government's time-inconsistency problem—that is, the incentive for the government to announce a very strict enforcement technology but then to enforce a more lenient regime (because of the associated costs)—these announcements might not be initially fully credible; tax evaders therefore adjust their behavior slowly over time, as information about the true enforcement technology is revealed. The government could also, in theory, prevent cheating by setting an extremely high penalty for fraud. However, in practice,

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<sup>8</sup>Measures that a government can take to increase the indirect penalties associated with tax evasion include, for example, (1) running media campaigns to instill the idea that tax evasion is shameful, disloyal to other citizens, unpatriotic, etc. (thereby increasing the psychological "guilt" associated with tax evasion) and (2) naming and shaming tax evaders (many U.S. states publish, on the Internet, the list of the state's top tax delinquents), thereby increasing reputational costs.

<sup>9</sup>The probability of detection is a key parameter in the tax-evasion decision: a high probability leads to greater voluntary compliance through a direct channel (citizen's direct cost-benefit analysis in a rational choice model), and an indirect channel (it limits free riders and coordination failures that undermine the credibility of the tax system).

<sup>10</sup>The literature usually assumes that citizens are atomistic players and therefore do not take into account the lower public good provision associated with their tax-evasion decision. In a general-equilibrium setup, the quality and level of public spending also need to be taken into account. It should be noted that the earlier literature (Yitzhaki, 1974) showed that when penalties are proportional to evaded taxes, higher marginal rates imply less evasion. This result tends not to hold empirically and was obtained in a model without public goods.

such prohibitive penalties are not feasible because of (1) equity considerations (e.g., penalties that are perceived to be out of proportion with the offense are less likely to be applied), (2) feasibility constraints (e.g., the penalty cannot exceed an individual's total wealth), and (3) corruption incentives (e.g., relating to tax enforcement officials).

Tax amnesties can arise when governments raise less revenue than expected (based on the tax code, the tax enforcement level, etc.).<sup>11</sup>

## Results from the Theoretical Literature

Three results from the theoretical literature stand out:

- Tax amnesties on their own<sup>12</sup> have, at most, only a limited effect on compliance.
- The compliance effects of tax amnesties are uncertain (both the short-run and long-run impacts).
- The revenue impacts of tax amnesties are uncertain (both the short-run and long-run impacts).

On its own, a tax amnesty has no direct effect in increasing compliance. This key result in the literature<sup>13</sup> has the following intuition: tax amnesties offer citizens an incentive to reveal past tax evasion and become current with their tax payments. They do not, however, affect the direct cost-benefit of tax evasion: the tax code is unchanged, tax administration enforcement is unchanged, and so on. For tax evaders, that is, citizens for whom the tax-evasion benefits were higher than its cost, an amnesty has no direct effect on their equilibrium trade-off: they will continue to evade tax.

An amnesty, on its own, can affect compliance only through behavioral channels—its net effect, however, is unclear:

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<sup>11</sup>Chapter 5 describes alternatives to a tax amnesty that a government can choose.

<sup>12</sup>That is, tax amnesty programs that are not coupled with other fiscal measures, mainly of a tax administration nature (e.g., an increase in the penalty structure, an increase in tax-evasion detection capacity).

<sup>13</sup>This has been derived in *static* models by Alm and Beck (1991), Andreoni (1991), Malik and Schwab (1991), and Graetz and Wilde (1993), and more recently in a *dynamic* setup by Macho-Stadler, Pau, and Perez-Castrillo (1999) who also find that only “extensive” amnesties (i.e., those in which a fraction of the present discounted value of the tax liability is cancelled on top of the fines) are sufficient to alter tax evaders' behavior. Das-Gupta and Mookherjee (1998) focus on the importance of having an effective tax administration in fighting tax evasion.

- On the one hand, amnesties can increase compliance through a “remorse” channel whereby some citizens originally underestimated the “guilt” cost of committing fraud;<sup>14</sup> an amnesty (on its own), by reducing the switching cost from tax evader to taxpayer, increases compliance from some of those people (see Malik and Schwab’s (1991) “adaptive utility” framework).
- On the other hand, amnesties could damage compliance through the following channels:
  - Higher future audits: rational citizens understand that participating in an amnesty reveals one as a tax evader, which could lead to frequent audits.<sup>15</sup> Because audits are costly for taxpayers (financially and psychologically), even if a citizen decides to comply fully with the law going forward, higher future audit probabilities reduce the incentive to participate in a tax amnesty.
  - Reduced future opportunity of tax evasion: because participating in an amnesty provides the tax authority with better information about one’s true income, an individual’s future tax-evasion possibilities are reduced; as a result, some individuals (e.g., fearing an unstable tax-policy regime) would still prefer not to participate in an amnesty (i.e., retain the option value of future tax evasion), even if this choice is coupled with increased costs of tax evasion (e.g., Fisher, Goddeeris, and Young, 1989; and Stella, 1991).
  - Loss of reputation: if a citizen’s tax-evasion history becomes public, the ensuing loss of reputation could be very damaging.
  - Reduced overall compliance from currently tax-abiding citizens who feel the tax amnesty is “unfair” to them (Alm, McKee, and Beck, 1990).
  - A revelation of the tax administration’s weak detection capacity (the more so, the more popular the amnesty is): in an asymmetric information environment where the government’s type (weak/strong tax law enforcer, weak/strong tax administration, etc.) is imperfectly known to the public, merely granting an amnesty once immediately reveals the government’s type and

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<sup>14</sup>These costs are subjective and idiosyncratic, and only experience reveals their true extent—they are therefore inherently difficult to forecast for an individual. Another example is the anxiety cost of continuously living with the probability of being detected as a fraudster.

<sup>15</sup>Greenberg (1984) finds this is an optimal audit strategy for the tax administration; see also Olivella (1996). Because this strategy, however, leads to less participation in a tax amnesty program, some amnesty programs guarantee that program participants will not face a higher probability of audit than will other taxpayers. This claim is, however, difficult for citizens to verify.

therefore increases citizens' expectation of further tax amnesties (or reduces citizens' expected probability of being detected), which, in turn, reduces compliance.<sup>16</sup> The mere discussion of an amnesty has a similar effect on compliance (Das-Gupta and Mookherjee, 1996).

However, political economy considerations might warrant a tax amnesty. Amnesties can be used to ease the political transition to stiffer penalties and enforcement of tax evasion and fraud. Amnesties would then be used to also clear the stock of past evasion, which hinders current enforcement. Combined with an improved enforcement technology, they can help speed up the transition to a new (tax-evasion-free) steady state (Macho-Stadler, Pau, and Perez-Castrillo, 1999).

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<sup>16</sup>This remains the case even if the government announces that this is a one-off amnesty (because of a dynamic inconsistency problem and potentially low initial credibility).



## Recent Trends and Evidence

In this section we analyze the recent trends in tax amnesties, and some evidence is provided regarding their revenue and compliance effects. The first section is devoted to a review of the econometric literature on the (mainly revenue) effect of tax amnesties. The second section describes the U.S. states' experience with amnesties (through a general overview and then two case studies: the tax amnesty programs of Kentucky and Michigan, both in 2002). The experience of the U.S. states is worth investigating because, given the relative homogeneity of these states (at least compared with cross-country studies), it is easier to identify key factors affecting the success of tax amnesty programs. The final section focuses on cross-country experiences, first through a general overview of recent tax amnesty trends, and then through selected case studies (Ireland, Italy, Argentina, Turkey, and the Philippines); these case studies have been selected for the range of amnesty programs they cover.

### Econometric Studies

Econometric evaluations of the revenue and compliance effects of tax amnesties are challenging because, in practice, tax amnesties are always combined with enhanced enforcement (i.e., a tax policy measure is combined with a tax administration measure). Statistical identification of each of these effects, rather than the combined effect, is therefore difficult. Bearing this statistical problem in mind, we now review the empirical literature. Most of the econometric studies have been conducted on U.S. states.

#### Evidence from the U.S. States

Simple statistical evidence shows that even the most successful tax amnesty programs report only a small short-run (one fiscal year) increase in gross tax

**Table 2. U.S. States' Tax Amnesties: Summary Statistics on Increased Tax Revenue Collection**  
(*In percent of relevant revenue*)<sup>1</sup>

Minimum	0.006
Maximum	2.60
Mean	0.72
Median	0.50
Standard deviation	0.74
First quartile	0.09
Third quartile	1.05

Source: Calculations based on data from U.S. Congress (1998).

<sup>1</sup>The table covers the period 1983–97 and refers to tax collections in the amnesty as a percentage of the state's revenue from the taxes covered in the last full fiscal year prior to the amnesty.

revenue (Table 2).<sup>17</sup> Several factors need to be netted to obtain a proper measure of new tax collection: namely, (1) administrative costs (staff time, advertising budgets, etc.) and (2) “accounts receivable” (this term refers to tax evaders who have already been detected by the tax administration and who have been sent notices of their new tax bill—see Box 2 for details). Accounts receivable should be excluded from the measure of “new money” that results from a tax amnesty because an amnesty merely brings forward the tax payment from these taxpayers, but often at a cost because, absent an amnesty, these detected tax evaders would have had to pay substantial penalties, which are usually forgiven (as part of the tax amnesty incentive package)—see the next section for details.

Econometric evidence regarding the (gross) long-run revenue effect of tax amnesty cum increased enforcement strategy is mixed, at best. Joulfaian (1988), studying Massachusetts' amnesty program, finds that chronic nonfilers as well as filers who underreport tax are not attracted by tax amnesties. Alm, McKee, and Beck (1990), in an experimental study, find that compliance decreases after amnesties (on their own), but rises if amnesties are combined with tighter enforcement. Alm and Beck (1993) find that the 1985 Colorado tax amnesty had no long-run effect on tax revenues (both the level and the growth rate). Christian, Gupta, and Young (2002) find, using data on subsequent filing from the Michigan income tax amnesty, that about two-thirds of “new filers”—that is, taxpayers who either never filed a tax

<sup>17</sup>It is likely that the U.S. states' experience represents upper bounds in collecting revenue from tax amnesties because the states have a relatively low-cost and credible way to improve their auditing technology: they can cross-check data with the federal government (Stella, 1991).

### Box 2. Accounts Receivable

“Accounts receivable” refers to delinquent taxpayers who have already been detected by the tax administration and who have been sent notices of their new tax bill.

Not surprisingly, tax amnesty programs that allow known delinquent taxpayers to participate in the amnesty are often successful in terms of generating gross revenue. These taxpayers are offered the possibility to settle their taxes owed and detected with the benefit of (1) a waiver of criminal prosecutions; (2) a waiver of civil prosecution; and (3) some financial incentive, usually a reduction in fines and penalties (sometimes a complete waiver), to settle their taxes.

Revenue collected from accounts receivable is the predominant revenue source among U.S. states’ tax amnesty programs.<sup>1</sup> Of the \$6.6 billion (2004 US\$) in total gross amnesty revenue collected by the states during 1980–2004, 92 percent was from amnesty programs that allowed taxpayers with accounts receivable to participate. The average revenue per amnesty is \$14 million for programs that do not allow accounts receivable, and it reaches \$123 million for those that do. Sixty-two percent of tax amnesty programs allowed taxpayers with accounts receivable to participate in the amnesty.

Taxpayers with accounts receivable and who decide to participate in a tax amnesty reveal (1) that they have the financial means to pay their taxes in full and (2) that they are willing to do so (rather than appeal the tax administration’s tax assessment in court). Therefore, the probability of collecting taxes from these taxpayers is relatively high. For this class of taxpayers, the tax amnesty is likely to

- entail a loss of revenue in terms of waived penalties; and
- change the dynamics of collection of the revenue: the amnesty accelerates the collection of some previously assessed taxes that would have been collected in later years.

The net revenue effect from allowing accounts receivable to participate in a tax amnesty is therefore ambiguous (it could easily be negative depending on the generosity of the amnesty program).

Source: IMF staff.

<sup>1</sup>Notwithstanding this U.S. example, the general issues with accounts receivable are equally valid in developed and developing economies.

return or did not file for all taxes they were supposed to—and 90 percent of previous filers who filed amended returns under the amnesty program subsequently filed income tax returns. However, the additional revenue raised from these (5,500) taxpayers was marginal (about 0.1 percent of the state’s personal income tax revenues).

Le Borgne (2006), in a recent econometric analysis of the determinants of the occurrence of tax amnesties in U.S. states from 1977 to 1998, extends the study of Dubin, Graetz, and Wilde (1992). These authors find that tax amnesty programs in U.S. states are more likely to be driven by the potential yield (high taxes) that they can produce rather than by the need to increase

revenue in light of fiscal duress. As Dubin, Graetz, and Wilde note, Le Borgne finds supportive evidence that states with high tax levels are (slightly) more likely to initiate a tax amnesty. However, in contrast with Dubin, Graetz, and Wilde, Le Borgne finds that, even controlling for the revenue yield effect (and a state's growth rate), tax amnesties are more likely to be declared when a state is experiencing a growing budget deficit. Tax amnesties are therefore viewed as a revenue-raising source. Le Borgne also finds that the timing of tax amnesties is affected by political considerations. In keeping with the well-known aversion to increase taxes ahead of elections (Besley and Case, 2003), state governors are far less likely to declare a tax amnesty during a gubernatorial election year. Because of the peculiarity of tax amnesty programs as a revenue source—that is, raising revenue from taxes owed in the past—these programs could conceivably be even more costly politically because law-abiding taxpayers/voters might consider a tax amnesty as “unfair” to them. The evidence reported in Le Borgne is consistent with this view: there is a significant correlation between incumbent governors losing their reelection bid and declaring a tax amnesty during their reelection year.

### **Recent Econometric Evidence from Around the World**

Torgler and Schaltegger (2005), using a study of tax amnesty programs in Switzerland and Costa Rica, analyze the relationship between tax compliance and citizens' ability to vote in favor (or not) of introducing a tax amnesty program. They find that tax compliance only increases after voting. Voting offers citizens an opportunity to discuss the merits and purpose of the amnesty program; the authors conjecture that this may induce a kind of civic duty, as taxpayers become aware of the importance of contributing to the provision of public goods.

López-Laborda and Rodrigo (2003) investigate the long-term impact on Spanish individual income tax (IRPF) compliance of the amnesty measures granted in 1991 within the framework of the 1988–91 income tax reform program. Using advanced time series techniques (testing for the endogenous estimation of structural breaks) on monthly data from 1979 to 1998, they find that the amnesty had no effect on tax collection in either the short or the long term. However, they do find evidence of a permanent positive impact caused by the legislative and administrative measures linked to the IRPF reform process that started in 1988.

Das-Gupta and Mookherjee (2000) provide empirical estimates of the revenue effects of various tax amnesty programs offered in India from 1965 to 1991. From their empirical analysis, they find that (1) the early tax amnesty programs (up to 1980) were arguably unanticipated by taxpayers; however, apart from the 1975 program, they all produced negative revenue gains, once the indirect effects (compliance, filing behavior, waiving of fines, and penalties, etc.) were taken into account; (2) post-1980 programs had all been

widely anticipated and therefore resulted in a negative overall revenue effect; and (3) the revenue impact of tax amnesty programs declines over time.

## Trends and Case Studies

### Global Trends

Amnesties have been used repeatedly over time and across countries, regardless of their degree of economic development. Developed countries such as Australia, Austria (1982, 1993), Belgium (1984), Finland (1982, 1984), France (1982, 1986), Greece, Ireland (1988, 1993), Italy (1982, 1984, 2002), New Zealand (1988), Portugal (1981, 1982, 1986, 1988), Spain (1977), and Switzerland have all introduced amnesties at some point. Developing countries that have also enacted tax amnesties (often repeatedly) include Argentina (1987, 1995), Bolivia, Chile, Colombia (1987), Ecuador, India (several years), Panama (1974), Peru, Mexico, the Philippines, the Russian Federation (1993, 1996, 1997), and Turkey.<sup>18</sup> In the United States, although states did not offer a tax amnesty until 1982, they have since offered some 78 programs (until 2004), with almost all states (42 out of 50) offering a tax amnesty of some sort. Most of these U.S. states have introduced several amnesties during that period (e.g., four for Louisiana and three for Arizona, Connecticut, Florida, Massachusetts, Missouri, New Jersey, and New York). As shown in Figure 1, amnesties tend to be clustered over time. Figure 2 reveals that revenue collection from amnesty programs also tends to have a similar clustering.

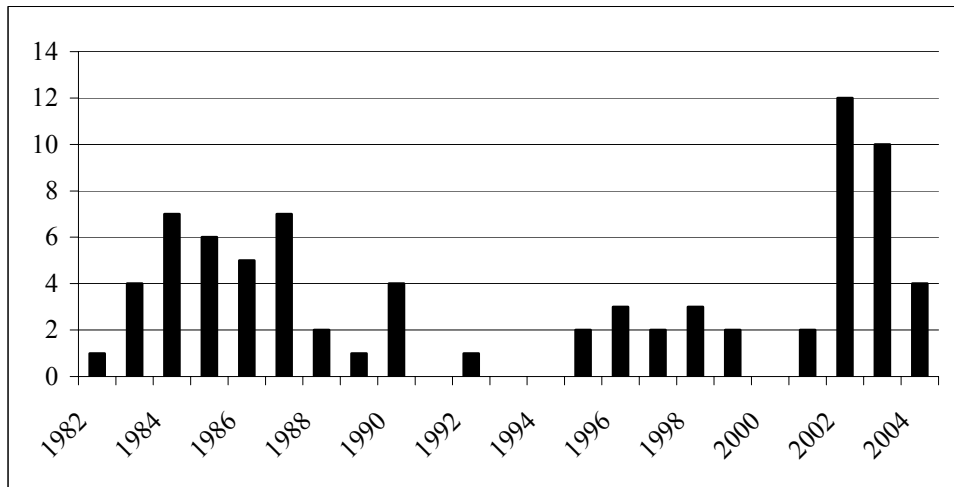
International evidence regarding the effectiveness of tax amnesties is mixed. “Successful” tax amnesties—at least based on the *gross* amount of revenue raised—include the Argentine general amnesty of 1995 (whose gross yield was around \$3.9 billion), an amnesty in India in 1997 (\$2.5 billion) according to *Time Asia* (1998), the Irish amnesty of 1988 (\$700 million), and Italy’s 2002 amnesty on capital repatriation. In the United States, the gross revenue collected from the 78 amnesties during the period 1980–2004 totaled \$6.6 billion (in 2004 U.S. dollars).

Repeated tax amnesties tend to be less successful in raising gross tax revenues. Recently, Ireland offered a series of tax amnesties (1988, 1993, and 1999); Italy adopted 27 amnesties over a roughly 20-year period; the Philippines had about 15 amnesties over 11 to 12 years in the 1980s and 1990s, and compliance declined over that time. India has a long history of amnesty.

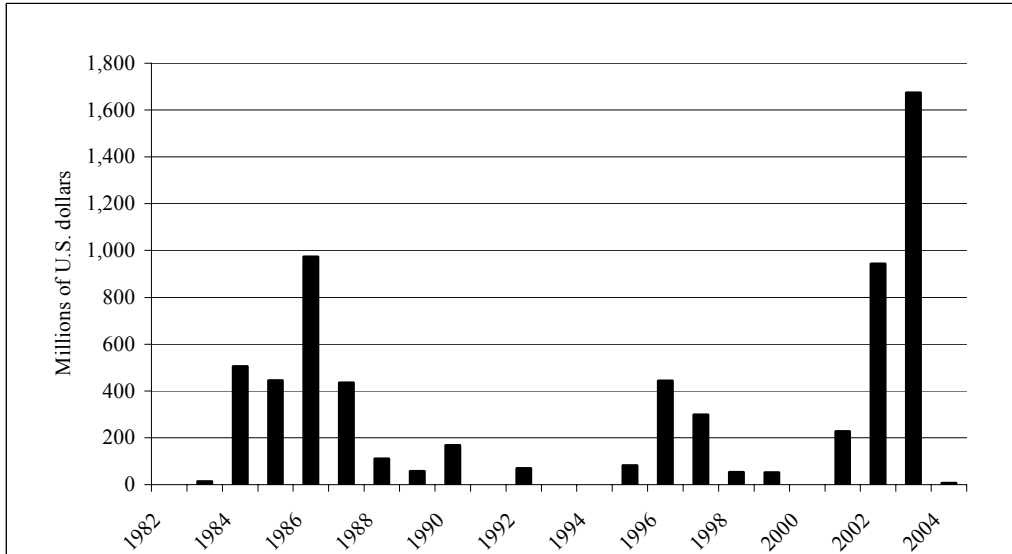
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<sup>18</sup>See, for example, Torgler and Schaltegger (2005) for an overview of the various tax amnesty programs across the world. Alm (1998) analyzes the Russian experience with tax amnesties.

Figure 1. U.S. States: Number of Tax Amnesties Per Year, 1982–2004



Source: IMF staff calculations based on data from the Federation of Tax Administrators (FTA).

Figure 2. U.S. States: Tax Amnesty Gross Revenue Per Year, 1982–2004  
(In 2004 U.S. dollars)

Source: IMF staff calculations based on data from the FTA.

We now turn to selected case studies, starting with two tax amnesty programs offered in 2002 by two U.S. states, Kentucky and Michigan. Both of these programs have been described as a success. The program designers took into account the experience these states had with previous tax amnesty programs.

Next, we analyze country case studies. We start with Ireland's experiences with tax amnesties, which include some very successful programs and one less successful one. We then analyze Italy's 2001 tax amnesty (Scudo Fiscale) on offshore investment tax evasion. This amnesty program has received a lot of attention, mainly from other European countries, for it is thought of as having been quite successful (in part because of the very large offshore capital that was reported as repatriated). However, against its stated goals of increasing the tax base and fostering domestic investment and growth, the impact of the amnesty is limited, at best. We then turn to Argentina's various amnesty programs from 1995 to 2004; because of the high frequency of occurrence of these programs, the overall impact of the various programs offered is negative. We then investigate Turkey's 2003 amnesty programs aimed at reducing the stock of tax and social contribution arrears. The results of these programs have not been positive. Finally, we study the Philippines' multiple experiences with tax amnesty programs from 1972 to 1987. As in the Argentine case, the high frequency of amnesty programs has probably reduced overall tax compliance and contributed to the continued decline in the tax-to-GDP ratio.

## Kentucky<sup>19</sup>

### *Overview*

Faced with an economic downturn and a projected reduction (in nominal terms) in General Fund (GF) fiscal revenue for fiscal year (FY) 2002, the governor of the U.S. state of Kentucky decided to introduce a tax amnesty in 2002. The aims of the program were twofold: first, to raise revenue in the short term so as to loosen the fiscal constraint (i.e., Kentucky has a strict balanced budget requirement for its GF); second, to broaden the tax base and improve future compliance.

The key features of the tax amnesty program were<sup>20</sup> (1) generous incentives to participate, (2) a significant increase in the costs of tax evasion, and (3) a widespread public information campaign. Among the incentives were a waiving of all interest and collection fees on taxes owed as well as criminal prosecution and all civil penalties. The added tax-evasion costs included (1) collection fees increasing from 20 to 25 percent, (2) a new 25 percent

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<sup>19</sup>For more details, see "Commonwealth of Kentucky: 2002 Tax Amnesty Final Report," Kentucky Revenue Cabinet, November 2003.

<sup>20</sup>Other features were (1) a short participation window (the program ran for 61 days starting from August 1, 2002), (2) widespread taxpayer eligibility (only taxpayers under criminal investigation or those subject to criminal litigation were not eligible), (3) inclusion of all state taxes, and (4) an extensive period of time covered (all tax evaded from the end of the previous tax amnesty coverage (December 1, 1987) up to December 1, 2001).

assessment fee on all additional liabilities assessed for any amnesty-eligible period, (3) a new 50 percent failure-to-file fee, (4) the possibility of publishing the list of delinquent taxpayers, and (5) corporate officers and members of limited liability and limited partnership companies being individually liable for payment of some evaded taxes. The operational cost of the tax amnesty (mainly advertising) reached \$2.8 million (lower than the allocated \$3.1 million).

The 2002 tax amnesty was Kentucky's second; the first one dated back to 1988. That first amnesty provided for the waiver of criminal prosecution, all civil penalties, and one-half of the interest due (compared with 100 percent in 2002). A total of 18,761 taxpayers participated in that first amnesty program and paid a total of \$61.1 million—representing 1.8 percent of total GF revenue (which reached \$3.344 billion in 1988).

### ***Effects and Assessment***

The 2002 amnesty program attracted a large number of participants and raised significant revenue. A total of 23,592 taxpayers' applications were received in 2002 (52 percent from individuals, the rest from businesses).<sup>21</sup> Of these 23,592 taxpayers, only 346 applicants (i.e., less than 1.5 percent of the total) were new filers. The vast majority of amnesty revenue came from businesses (86 percent, or \$103.7 million). Total revenue collection reached \$123.4 million.

Despite the appearance of success, the amnesty program was disappointing as assessed against its objectives. Total collection did reach \$123.4 million, which is a significant amount, especially in times of fiscal duress. However, this headline number is deceptive (as a judge of success) for the following reasons:

- Hardly any new filers participated in the amnesty. A key goal of the tax amnesty was to increase tax compliance and broaden the tax base. On the basis of this key criterion the amnesty program seemed to have had, at best, a limited impact: both the number of new filers (346) and the amount they paid (\$2.6 million: 2.1 percent of total amnesty revenue or 0.03 percent of total GF revenue) are negligible.<sup>22</sup>

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<sup>21</sup>Eighty-seven percent (20,510) of applications for amnesty were eventually accepted. Those that were not ultimately approved were rejected because the taxpayer failed to pay the liability in full.

<sup>22</sup>The new filers category includes both first-time registrants (87 percent of new filers) (i.e., people who have never filed any taxes with the state), and taxpayers who are already registered for some taxes but requested new accounts for other taxes (13 percent of new filers). The first-time registrants contributed \$1.2 million (or less than 1 percent of total amnesty revenue).



- A significant share (37 percent) of the \$123.4 million came from accounts receivable. Most of these revenues would have been collected over time; the amnesty just brought these revenues forward at the expense of subsequent fiscal years (especially FY 2003).
- The amnesty is likely to have decreased the compliance level of taxpayers who were current with their liabilities. Indeed, according to information gathered from the 2002 tax amnesty program, the 1988 tax amnesty led to a decrease in compliance in 1989. Given the expected lack-of-recall problem (i.e., people forget activities that took place long ago, which in this context includes taxes owed in the distant past), one would expect people—for a given degree of compliance—to have a better recollection of their recent tax-evasion activities. Figure 3 shows that the lack-of-recall problem is indeed acute (or that taxpayers estimate that the probability of detection declines rapidly as years pass), except for FY 1989 (1 percent of total collection, versus 0.5 percent for both 1990 and 1991).<sup>23</sup>
- The 2002 amnesty yielded slightly less revenue than did the 1988 program despite more generous participation incentives and increased tax-evasion penalties. Indeed, the \$123.4 million in tax amnesty payments amounted to 1.7 percent of the state's GF revenue (\$7.4 billion in 2002) compared with the 1.8 percent collected during the 1988 tax amnesty.

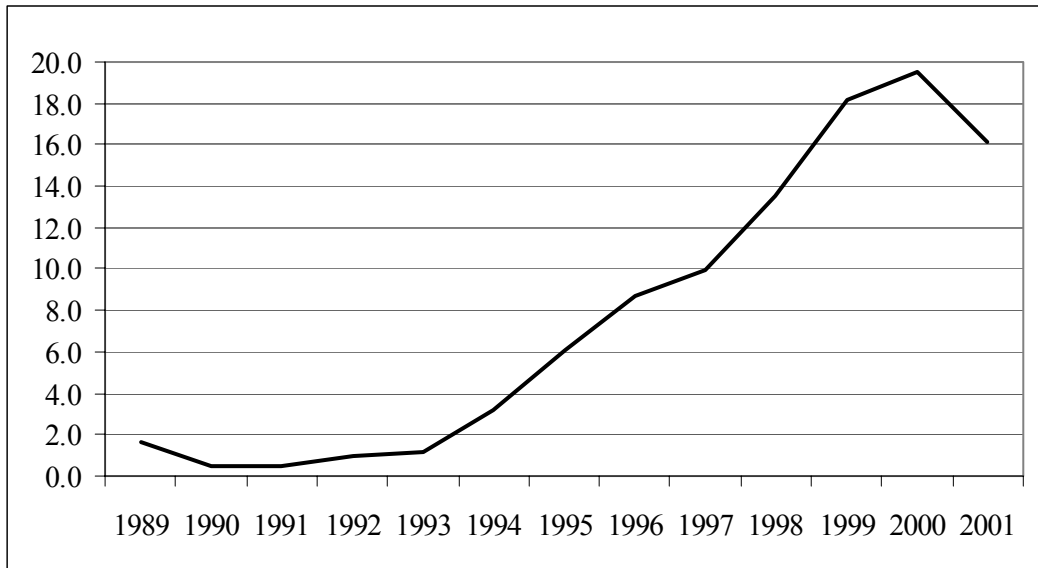
### ***Conclusions***

Kentucky's 2002 tax amnesty program did not meet one of its two goals (broadening the tax base and improving future compliance). However, it did manage to raise revenue in the short term (tax amnesty payments amounted to 1.7 percent of the state's 2002 GF revenue), which provided the state some fiscal breathing space in a difficult economic environment and, at the margin, therefore helped the state either not to increase taxes or not to cut expenditures, given its balanced-budget requirement. The (significant) downside of this short-term revenue gain is its cost: a large share of these

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<sup>23</sup>It is also interesting to note that taxpayers reported less tax evasion for 2001 (the year immediately prior to the 2002 amnesty). This could reflect several types of strategic behavior on the part of taxpayers, including the expected and pre-announced toughening of penalties for tax evasion in the post-amnesty era, which would be expected to increase compliance.

Figure 3. Kentucky: Time Allocation of the Revenue Collected Through the 2002 Tax Amnesty by Year of Tax Evasion, 1989–2001  
(In percent)



Source: Kentucky Revenue Cabinet.

revenues stemmed from identified tax evaders who would have eventually paid most of their tax liabilities; compliance, going forward, might also have been negatively affected, as data from Kentucky’s previous tax amnesty indicate.

## Michigan<sup>24</sup>

### *Overview*

In 2002, the U.S. state of Michigan introduced a tax amnesty, motivated by a nominal decline in the state’s revenue (two years in a row) and also a desire to broaden the tax base. After a peak in revenue in 2000, GF revenue declined, in nominal terms, by 2 percent in 2001 to \$9.8 billion and, from 2001 to 2002, by another 5.5 percent (to \$9.3 billion). This left the state’s public finances in a difficult situation because, by law, the governor has to submit a balanced budget, and the legislature is required to pass a balanced budget.

<sup>24</sup>For more details, see “State of Michigan Tax Amnesty Program 2002,” Office of Revenue and Tax Analysis, Michigan Department of Treasury, February 2003.

The key features of the 2002 program were<sup>25</sup> (1) moderate participation incentives (although it provided for a waiver of penalties and prosecutions for program participants—provided filing and payments were received before July 1, 2002—interest due was not waived); (2) a moderate increase in the future costs of tax evasion (after the amnesty period ended, failing to file a return incurred an additional 25 percent penalty); and (3) a limited public information campaign.

As in Kentucky's case, the Michigan 2002 tax amnesty was the state's second; the first one dated back to 1986. Michigan's first tax amnesty provided for the waiver of criminal prosecution, all civil penalties, and interest due. A substantial public relations campaign ("Get to us before we get to you") took place. All types of state taxes were covered by the 1986 amnesty; accounts receivable were eligible. In gross revenue terms, the 1986 amnesty was considered a success: it generated \$109.8 million, with \$44.6 million coming from new taxpayers and the remaining \$65.2 million coming from taxpayers with assessments. In relative terms, the 1986 amnesty brought in 1.7 percent of total GF revenue, while amnesty revenue from new taxpayers amounted to 0.7 percent of GF revenue.

### *Effects and Assessment*

A total of 22,220 taxpayers participated in the 2002 amnesty,<sup>26</sup> of which 4,225 were new taxpayers (they filed a total of 13,854 tax returns) and 15,995 were taxpayers with existing assessments (they filed 53,001 returns). Most taxpayers filed for the individual income tax (10,095 taxpayers, of whom 2,482 were new filers), with income tax withholding (3,452 taxpayers) and sales tax (3,067 taxpayers) being the other major taxes for which taxpayers decided to take advantage of the amnesty.

The amnesty was successful in terms of gross revenue generated from new filers (compared with expectations). Indeed, actual revenue collected from new filers reached \$31.7 million, significantly exceeding the expected target of \$24.3 million (out of this, \$1.5 million was set aside for program expenses). Also worth noting was the high share of revenue collected from new filers out of total tax amnesty collection (39 percent). Further analysis reveals that, out of a total gross revenue collection of \$81.9 million, more

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<sup>25</sup>Other features were (1) a short participation window (the program ran from May 15 to July 1, 2002); (2) widespread taxpayer eligibility (both individuals and businesses)—only taxpayers subject to a current tax-related court case or criminal investigation were not eligible; taxpayers with existing tax assessments or accounts receivable were eligible to participate; (3) inclusion of all state taxes; and (4) an extensive period of time covered (all tax evaded up to June 1, 2001).

<sup>26</sup>The 22,220 amnesty taxpayers filed an average of 3.3 returns each. Amnesty and interest payments averaged \$1,243 per return.

than a quarter (\$20.5 million) came from interest paid on the delinquent taxes (of which \$6.9 million came from new filers), and that business taxpayers contributed to 77 percent of the tax amnesty payments.

The apparent success with gross collection from new filers, however, needs to be considered in light of the costs of the program, which include

- Static costs: the amnesty program waived \$22.9 million in fines and penalties on accounts receivable. Thus, the static cost of collecting the \$31.7 million in new revenue was both the \$1.5 million in program expenses and the \$22.9 million in waived penalties that potentially could have been collected at some point in the future.
- Dynamic costs: intertemporal shifts in tax revenue. The dynamic effects of the tax amnesty are complex and difficult to assess. Some of the effects that can be estimated are the following:
  - Anticipated tax amnesty. Such an expectation could lead to a drop in current revenues, as taxpayers estimate the probability of being detected in the short time until the expected amnesty as sufficiently small, so tax evasion becomes the utility-maximizing choice (in essence, if interest is waived or reduced, it becomes a free or reduced-interest-rate loan from the state to tax evaders). In Michigan's case, this problem was mitigated by announcing simultaneously the forthcoming tax amnesty (about a year before its introduction) and the fact that the amnesty would include only taxes due up to the day of the announcement of the amnesty.
  - Accounts receivable bringing revenue forward. An amnesty is the opportunity for some taxpayers to resolve their dispute with the tax administration by avoiding penalties; the amnesty therefore accelerates the collection of some previously assessed taxes that would have been collected in later years (mainly FY 2003). The Office of Revenue and Tax Analysis of the Michigan Department of Treasury estimated that, out of the \$50.2 million collected from identified delinquent taxpayers, \$18.4 million was brought forward from FY 2003 revenue, thereby *reducing* FY 2003 revenue by that amount.
  - Compliance effect (a complex, yet crucial, dynamic effect). Tax amnesties can either increase compliance by enabling current tax evaders to regularize their situation or decrease it by increasing expectations of future tax amnesties and by discouraging current law-abiding citizens (who observe that previous tax evaders were not detected). In Michigan, tax amnesties seem to have had, at best, a limited effect on compliance. According to indicative data from the 2002 tax amnesty, the 1986 amnesty does not seem to have significantly increased noncompliance because most of the

2002 amnesty payments related to recent tax years.<sup>27</sup> This situation is, however, to be expected owing to the well-known recall problem. However, given that collection from new filers, excluding interest, amounted to \$24.8 million (which corresponds to several years of taxes owed), the net effect on FY 2003 is likely to be either small or negative (taking into account the \$18.4 million in accounts receivable brought forward to FY 2002 and some increase in noncompliance by currently compliant taxpayers who find the current tax amnesty unjust to them). For outer fiscal years, the net effect could be positive, albeit small, because of the phasing out of the revenue brought forward from current accounts receivable.

### ***Conclusions***

Overall, the 2002 tax amnesty had only half the success of the 1986 tax amnesty. Although the 2002 tax amnesty raised \$81.9 million of gross revenue, this amount represents less than 0.9 percent of the state of Michigan's 2002 GF revenue, and only about half the 1.7 percent of GF revenue collected during the previous—and first—tax amnesty of 1986. Similarly, amnesty revenue from new taxpayers amounted to 0.3 percent of GF revenue, less than half the 0.7 percent collected during the 1986 tax amnesty.

## **Ireland**

### ***Overview***

Ireland's public sector finances were in a precarious situation toward the end of the 1980s (e.g., the public debt-to-GDP ratio peaked at 147 in 1988). The tax administration (the Irish Revenue, IR) was also widely seen as inefficient. In 1998, as part of a wide-ranging public sector consolidation and reform effort, the IR decided to reform its "business processes" fundamentally (e.g., it introduced self-assessment of taxpayers' liabilities and undertook a large investment in information technology). To assist this reform effort and start anew in its relationship with taxpayers, three major types of tax amnesty/voluntary disclosure programs were introduced: (1) the 1988 interest rate amnesty, whose goal was to clear the large stock of tax arrears; (2) the 1993 "underreporting" amnesty;<sup>28</sup> and (3) a series of voluntary disclosure schemes (1999 onward).

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<sup>27</sup>Excluding interest payments, 60 percent of the amnesty tax payments were for tax years after 1999, and another 25 percent for the tax years 1996 to 1998, and just 0.6 percent were for tax years before 1988.

<sup>28</sup>The 1993 amnesty also brought in some IR£75 million in respect of "straightforward" arrears of tax: tax that had been declared but remained unpaid. Effectively this was akin to the 1988 interest amnesty.

*The 1988 Amnesty*

The 1988 amnesty focused on clearing up a large stock of arrears (which stood at close to 40 percent of annual tax revenues at that time; much of this debt was estimated, because proper tax returns were not available). The amnesty offered a waiver of interest and penalties if tax arrears were paid by September 30, 1988. In parallel with offering this tax amnesty, the IR undertook a major revamping of its tax arrears collection procedures (along with other, more general reforms of its “business processes”), with a view to preventing a renewed growth of the stock of arrears in the future.

*The 1993 Amnesty*

The 1993 amnesty allowed tax liabilities on unreported income to be settled with flat-rate payment of 15 percent of the income; interest and penalties were waived in their entirety. An interesting feature of this amnesty was anonymity: tax inspectors were not allowed to know who applied for the program. If a tax inspector audited an amnesty claimant for the years covered by the amnesty, production of a summary amnesty certificate meant that those years were off limits to the tax administration unless it had good reason to believe that the amnesty disclosure had not been complete.

The 1993 amnesty was accompanied by increased penalties (including an eight-year prison sentence in cases where the amnesty was not properly used and the tax underpaid was more than IR£100,000). However, the anonymity clause made evaluating the veracity of declarations made in connection with the amnesty, or indeed getting the evidence to show that the amnesty had not been used at all, very difficult.

*The Voluntary Disclosure Schemes (1999 onward)*

These schemes were not the most commonly used tax amnesties in that they did not include any financial incentives to program participants: all tax and interest generally had to be paid in full. However, they provided for legal forgiveness (a waiver from civil and criminal prosecutions). The IR was able to offer the voluntary disclosure schemes without financial incentives because of strong new administrative powers it obtained in 1999 (providing the IR with access to previously secret bank accounts). The IR notified (in advance) target groups that it intended to use these new powers, which encouraged voluntary disclosure before a tax investigation was started. These powers proved very fruitful (yielding more than €1 billion); see Appendix I for more details on these schemes.

*Effects and Assessment*

- The 1988 amnesty successfully met its goal of clearing the large stock of tax arrears and, in the process, collected significant revenue. The stock of arrears went down from 40 percent of annual revenue to an annual level of approximately 2.5 percent. Also, gross revenue collected reached yielded IR₹517 million (1.9 percent of GDP) through some 350,000 payments.<sup>29</sup> The IR had forecasted a yield of just IR₹50 million.
- The 1993 amnesty was also relatively successful in terms of gross revenue collection (IR₹185 million). However, large numbers of people did not come forward to pay even the 15 percent. This was evident from the number of taxpayers who subsequently came forward under the voluntary disclosure schemes that started in 1999. One possible reason is that the tax administration was perceived as having limited powers and, at the time, low credibility in terms of follow-through: the amnesty program did not raise the cost of tax evasion sufficiently compared with the benefits to affect overall tax compliance fundamentally.
- Powers and credibility came in 1999, after a major public inquiry into the tax administration and the financial institutions. After this, the banks became much more cooperative and the IR was determined to use its new powers to full effect to restore public confidence in the tax administration (see Appendix I for details).
- The capacity to “leverage” these powers and credibility, and to take full advantage of the banks’ new-found cooperation, became evident in the program for investigating bogus nonresident bank accounts. The tax administration’s success in this allowed it to develop a new model, which facilitated the efficient cleanup of “legacy” evasion involving offshore subsidiaries of Irish banks and safe-haven insurance products.
- This new voluntary disclosure model is fairly widely accepted because it involves considerable pain for the tax evader; in many cases the impact of full interest and penalties (penalties can be mitigated for post-1993-amnesty years only) means that voluntary settlement amounts are typically three or four times the evaded tax.
- The cooperation of the financial institutions has also been very important: if a bank or insurance company can be persuaded to write directly to its customers indicating the benefits of voluntary

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<sup>29</sup>Many taxpayers made multiple payments (for different types of taxes); it is not clear how many individual taxpayers were involved.

disclosure, this is the strongest possible signal that the bank will provide the tax administration with the relevant tax-related information when the formal investigation starts.

- Other enforcement powers have also been effective. For example, the “name and shame” provisions have been very important: every quarter the tax administration publishes long lists of names and settlement amounts identifying those who did not come forward voluntarily. This regularly reinforces the effectiveness of the tax administration’s new powers and its resolve to follow through.

### ***Conclusions***

Ireland’s tax amnesty programs, especially the voluntary disclosure schemes, have had a positive impact on reducing noncompliance and on driving long-term revenue upward.<sup>30</sup> Key to this success, however, was not the tax amnesty programs per se, but the much improved enforcement capacity that was developed prior to the launch of the programs. More effective enforcement programs led to a significant and structural shift in the cost-benefit analysis of tax evasion in Ireland: the improved capacity of the tax administration to detect evaders and follow through, the increased penalties for tax evasion, and strong administrative and legal enforcement powers all led to a sharp increase in the cost of tax evasion (higher expected probability of detection, higher penalties and fines if caught, and higher likelihood of being forced to pay if detected). At the same time, through a series of large cuts in the top marginal tax rates, the benefits of tax evasion have also been reduced. The combined effort to significantly increase the cost and lower the benefits of tax evasion has resulted in a large improvement in tax compliance.

### **Italy: The Scudo Fiscale<sup>31</sup>**

#### ***Overview***

To herald a “new regime” (the launch of the euro and the introduction of a number of tax reforms), in 2001 Italy introduced the Scudo Fiscale, a tax

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<sup>30</sup>Irish Revenue does not systematically publish estimates of noncompliance for the major taxes. However, data on total tax revenue collections and the ratio of tax arrears to total tax collection suggest that noncompliance has been falling steadily. Total tax receipts collected by Irish Revenue increased from approximately IR£12 billion in 1988 to approximately IR£55 billion in 2005, an increase of 358 percent over the 17-year period. Total tax debt as a proportion of total tax collection fell from about 38 percent in 1988 to about 3 percent in 2005. These trends are reflected in the figure in Appendix I.

<sup>31</sup>Based on the findings of a technical assistance mission from the IMF’s Fiscal Affairs Department, August 4, 2005.



amnesty aimed at repatriating unreported offshore investments.<sup>32</sup> The objectives of this amnesty were threefold: (1) to broaden the tax base (and therefore tax revenue), (2) to boost the supply of financial resources available for domestic investment by facilitating the return of assets previously held abroad, and (3) to boost economic growth (as a result of increased domestic investment). Prior to the introduction of the euro, many Italians were believed to be keeping some of their assets in offshore financial centers out of concern about inflation, weak currency, political instability, and high taxation on financial income. The Scudo Fiscale was offered as an opportunity for tax evaders to regularize their tax situation at the time of a regime change (the introduction of the euro removed both the currency and inflation concerns, and a series of tax reforms had reduced the effective tax rate on financial income).

Participation incentives were very generous and the program targeted a wide audience (all individual taxpayers resident in the country were eligible). Tax amnesty was granted provided tax evaders paid a light one-off penalty (2.5 percent of the funds declared to be held abroad);<sup>33</sup> payment of this 2.5 percent penalty excused participants from all related tax obligations, social security contributions, interest, and penalties, as well as administrative and criminal sanctions. Participation in the amnesty program also protected the privacy of participants, granting them full anonymity. Participants had to repatriate foreign funds through domestic financial institutions (which would receive and pay to the tax authorities the one-off penalty), which were under the obligation of not revealing to the tax authorities the taxpayer's identity, the amount repatriated, or the associated income. Finally, taxpayers had the option of repatriating capital (repatriation) or simply declaring capital held abroad without repatriation (regularization). In the first case, those who maintained their assets with a financial institution were excused from future income tax declarations and thus were able to maintain their anonymity over time. In the event of an audit on past periods, taxpayers could avoid the audit up to the amount of the regularized or repatriated capital.

The costs associated with continued tax evasion through offshore investments were increased substantially. The penalty for undisclosed foreign assets increased from a fixed penalty of €520 to a penalty rate of between 5 and 25 percent of the value of the undisclosed assets. Moreover, the government committed to make offshore tax fraud detection a priority.

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<sup>32</sup>The amnesty initially lasted from November 2001 to May 2002 and covered capital held abroad before August 1, 2001 (Government of Italy, 2001). For discussion of the content of the amnesty, see Manzitti (2002).

<sup>33</sup>This penalty was waived if the funds were invested in Italian government securities.

### ***Effects and Assessment***

Overall, the gains achieved by the Scudo Fiscale, with one exception, fell short of expectations:

- Although the Scudo Fiscale managed to broaden the tax base in the short term, the revenue gain was limited. The authorities expected €40 billion to be regularized, with an associated revenue gain of 0.9 percent of GDP (Banca d'Italia, 2002). The outturn exceeded projections as far as assets regularized were concerned (€60 billion or 4.5 percent of GDP), but the short-term impact on revenue was only about 0.1 percent of GDP, and the projected structural increase in revenue was less than 0.03 percentage points of GDP a year.<sup>34</sup>
- Based on balance of payments data, the effect of the Scudo Fiscale on net capital repatriation was limited. Though €60 billion was declared to the tax authorities as repatriated, the balance of payments registered limited positive net capital inflow: in 2002, residents' assets abroad decreased by only €11.6 billion, compared with an increase of €22.3 billion in 2001, with reductions being mainly concentrated in the first semester of the year when the amnesty was effective (see Banca d'Italia, 2003). Possible explanations for this contradiction include that (1) only two-thirds of declared capital was actually repatriated (3 percent of GDP); (2) even if assets were effectively repatriated, taxpayers had no obligation to keep them in Italy so that they could (immediately) reexport repatriated assets, without losing the benefits of the tax amnesty; (3) even if taxpayers did not reexport capital, financial institutions (where assets were deposited) could have exported them as part of their own portfolio strategy; and (4) taxpayers could have anticipated the tax amnesty, taking capital abroad in order to regularize their evaded assets.
- Also, the Scudo Fiscale does not appear to have had any perceptible impact on investment or growth.<sup>35</sup> Several reasons account for this: (1) the capital inflow was limited compared with the size of the economy; (2) the amnesty incentives induced taxpayers to maintain their repatriated capital in the form of financial rather than physical investment (this guaranteed future anonymity with respect to the tax authorities); and (3) the expectation that repatriated capital could have been invested in the productive process at home relied on the

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<sup>34</sup>The projected structural revenue increase is based on the assumption that all repatriated capital remains in the form of financial investment and is subject to a final withholding tax of 12.5 percent.

<sup>35</sup>This impact is difficult to ascertain because the Italian economy was subjected to significant external shocks at the time.

assumption that taxpayers did not have alternative sources of investment for their assets (Cottarelli, 2002).

In contrast to the limited benefits achieved, the revenue costs of the Scudo Fiscale were large and opportunities to improve revenue administration were missed:

- The tax discount was very large. The amnesty provided two types of tax discounts: (1) a discount on the income derived from offshore capital and (2) a discount on the capital itself. Regarding the first discount, tax amnesty participants had to pay, in lieu of taxes and penalties, 2.5 percent of declared offshore capital. This was equivalent to paying tax on the interest matured on that capital for a period of about four years (at a gross return of 5 percent with a final withholding tax of 12.5 percent). But the taxpayer might have held the capital abroad for a much longer period of time, thus receiving a tax discount. Regarding the second discount, the tax amnesty did not include any tax on repatriated capital. Therefore, in the likely event that the repatriated capital was the result of previous income tax evasion, the amnesty also granted full exemption from all taxes potentially levied on that capital. Indeed, in the event of an audit, the taxpayer participating in the amnesty could avoid tax disputes related to any tax up to the amount of the repatriated capital. These two discounts gave rise to a large overall tax discount.<sup>36</sup>
- The Scudo Fiscale did not improve the ability of the tax authorities to detect tax evasion. Because the amnesty program granted full anonymity to participants repatriating offshore assets, tax authorities could not access information that could be used to improve audits and detect future evaders.
- Going forward, incentives for tax amnesty participants to remain compliant were limited. Taxpayers were granted full anonymity regarding their repatriating offshore assets, and could maintain this status by holding repatriated assets in the form of financial investments with a financial intermediary.
- Future tax compliance is unlikely to improve. The tax amnesty regularized previous evasion cases but did not substantially modify the evasion incentives built into the tax system. First, the structure of the tax system did not change vis-à-vis other countries, leaving unchanged the reasons to evade. Second, despite the increase in evasion penalties, the short-term probability of detecting tax evasion

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<sup>36</sup>For example, assuming that repatriated assets were held abroad for an average of 10 years and that about 50 percent of these assets resulted from previous tax evasion, the revenue forgiven by the Scudo Fiscale amounted to 1.1 percent of GDP and the tax discount reached 65 percent of taxes owed.

did not change significantly, leaving the cost of evasion rather low compared with the potential financial benefits of tax evasion. This, together with the large tax discount and the fact that the authorities have granted numerous other tax amnesties, may well make evasion more attractive and have a negative long-term effect on revenue collection.<sup>37</sup>

### **Conclusions**

The Scudo Fiscale generated limited benefits at a very high cost. It was introduced at a propitious time (a regime change) and did provide an incentive for the return (at least temporarily) of large amounts of undeclared offshore investments. However, it granted very large tax discounts and thus had limited effects on revenue collection. Indeed, the long-term revenue effect could well be negative because (1) the Scudo Fiscale was not combined with an improvement of the revenue administration; (2) it guaranteed taxpayers full anonymity, thereby limiting the ability of the tax authorities to collect information and detect future evasion; and (3) it might have reinforced expectations of a future tax amnesty (a second window was indeed offered in 2003).<sup>38</sup>

## **Argentina**

### **Overview**

Argentina had approximately a dozen tax amnesties between the mid-1950s and the early 1990s. It granted amnesties roughly every other year over the 1977–87 period. Most of these amnesties coincided with changes in government. More recently, seven tax amnesty programs were launched from 1995 to 2004.

Argentina has experimented with various types of tax amnesties. Although all these programs provided for a reduction of penalties and interest, the other participation incentives varied significantly. The key programs and their key features are the following:

- The *blanqueos* provided for a reduction of the basic tax liability. From 1970 to 1992, congress decreed seven *blanqueos*.

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<sup>37</sup>These arguments are supported by the findings of a 2005 task force that analyzed the major weaknesses of Italy's public accounts. The task force concluded that recent amnesty programs have undermined tax compliance in Italy. The findings are discussed in Faini and others (2005).

<sup>38</sup>A similar tax amnesty was offered in 2003 yielding €0.6 billion in new tax revenue—which corresponds to about €24 billion of newly regularized offshore investment.

- The *moratorias* are time-limited amnesties, implying reduction of penalties and interest, and can be implemented as “spontaneous filing” (voluntary filing) and as “payment facilities.” Payment facilities were introduced in 1990 to include obligations that had not been included in the spontaneous filing regime. The main difference between the two types of amnesty is that the spontaneous filing regime does not benefit taxpayers undergoing tax audits. The mechanism is simple: the legislation defines a cut-off date—to consolidate the tax obligations—and a deadline for filing under the special conditions of the amnesty. The legislation specifies the maximum number of payments, the interest rate, and the minimum amount of each payment.
- In 1991, an “audit amnesty” was introduced to “protect” taxpayers against audits and to encourage compliance with current tax obligations. The program limited the tax administration’s capacity to audit taxpayers for a certain period of time (for tax periods prior to 1991), as long as they were complying with their current obligations.
- In 1997, an amnesty program contained (1) a regime of voluntary filing of tax returns to encourage taxpayers to declare taxes and social security contribution liabilities that were more than one year old, (2) a reduction in the interest rate for late payment of up to 50 percent, (3) a waiver of financial penalties, and (4) a payment installment program for the remaining tax liabilities.
- In 2000, an amnesty program provided for (1) a regime for consolidating tax debts; (2) the elimination of the regime of voluntary filing of returns; and (3) a complete waiver of financial penalties and sanctions, and a partial waiver of interest penalties for late payment.
- In November 2001, a tax amnesty provided participants who paid 1 percent of their tax arrears by December 2001 eligibility for partial forgiveness of interest due and full cancellation of fines and penalties. Participants could also reschedule payment of their remaining arrears under payment facility plans. By February 2002, no debtors had met the conditions to be entitled to the tax amnesty. With tax revenue continuing to fall, the tax administration decided to extend the amnesty via a so-called “mini-amnesty” for unpaid taxes that accumulated between October 2001 and January 2002.
- In 2003, a tax amnesty program provided for (1) a 50 percent reduction in overdue interest payments, which were also capped at 30 percent of the principal value of the tax obligations, and (2) a waiver of all financial penalties. It also capped the interest rate on the repayment of the principal amount of tax owed (which could be paid over five years) at 6 percent annually, compared with the prevailing monthly rate of 3 percent.

### ***Effects and Assessment***

Though it is difficult to assess these programs' overall revenue impact, effectiveness, and costs (especially in the medium to long term, as amnesty programs were so frequent and other factors affected tax revenue collection), some major observations can be made:

- There are indications that repeated recourse to tax amnesties has undermined voluntary compliance and has reduced the amnesties' effectiveness over time. For example, starting in 1990, taxpayers who had unpaid installments from past amnesties could consolidate these debts during subsequent amnesties; on several occasions, additional decrees were issued to allow post-cut-off-date liabilities to be included in an ongoing amnesty (Cuevas, 2000). The ability to roll over tax debts has doubtless had a negative effect on taxpayer compliance.
- Were it not for the introduction of new taxes, the tax-to-GDP ratio would have fallen by an estimated 2½ points between 1996 and 2000. The declining trend in the tax-to-GDP ratio during this period reflected a fall in economic activity, but is also likely to reflect a decline in compliance rates.<sup>39</sup>
- Gross payments generated from recent tax amnesty programs have been modest, hovering around 2 to 4 percent of total tax collection from 1995 to 2003 (Table 3). Moreover, and as should be expected, since 1995 revenue from amnesties has been declining as a percent of GDP to nearly negligible levels, which suggests that their effectiveness as a revenue-raising instrument has been declining. Also, given the frequency with which they have been used (amnesties are practically a standard administrative feature of the tax collection system), there appears to be a kind of "tax amnesty fatigue" among taxpayers and a strong belief that the next amnesty is coming soon so that tax noncompliance can always be rectified promptly, if needed.

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<sup>39</sup>Official statistics are not available showing noncompliance levels by tax in Argentina prior to 2000. However, statistics published by the National Agency of Public Revenue of Argentina in 2005 show that value-added tax (VAT) noncompliance increased from 27.9 percent in 2000 to 34.8 percent in 2002 (during the economic crisis), and then fell to 24.8 percent in 2004. Although the overall trend for these four years shows improved compliance with the VAT, these figures nevertheless suggest that noncompliance levels for this tax in terms of total tax collection are still relatively high by international standards (by way of contrast, the VAT noncompliance rate in Chile in 2004 was about 19 percent).

Table 3. Argentina: Payments Made Through Tax Amnesty Programs, 1995–2003  
(In percent)

	1995	1996	1997	1998	1999	2000	2001	2002	2003
Amnesty payments/ total tax collection	1.7	1.7	1.9	1.4	1.5	3.2	3.7	1.9	1.3
Amnesty payments/ GDP	0.280	0.160	0.050	0.010	0.003	0.002	0.001	0.030	0.005

Sources: National Agency of Public Revenue of Argentina; and IMF staff estimates.

- The fact that, at the height of the country’s economic crisis in late 2001 and early 2002, no taxpayers had complied with the conditions of the (latest) tax amnesty suggests that other administrative arrangements (e.g., a well-structured payment installment program) may have been more effective in motivating taxpayers to settle their overdue tax arrears.
- The tax amnesties that were offered to encourage previously unregistered taxpayers to register to pay taxes (2000, 2001, and 2002 amnesties) failed to achieve this objective. A 2005 study by the Argentine tax agency found that only 551 new taxpayers registered to pay taxes as a result of the amnesty programs offered since 1995.<sup>40</sup>
- Two major reasons for introducing so many tax amnesty programs are weak tax administration procedures<sup>41</sup> and an inadequate penalty structure.<sup>42</sup>

<sup>40</sup>For more details, see Salim and Vassallo (2005).

<sup>41</sup>For example, a 2004 law offered a tax amnesty to taxpayers in the simplified tax regime who had ceased their activity without formally communicating this to the tax authority. The tax arrears that appeared as though they had accumulated since these taxpayers ceased their activity (although according to the tax department they were still economically active) were waived. Thus, part of the problem with the accumulation of tax arrears could be attributed to an inaccurate taxpayer register for taxpayers in the simplified regime. Instead of solving this problem through administrative procedures aimed at updating the register and ensuring it contained accurate information, the government issued an amnesty.

<sup>42</sup>An amnesty introduced at end-2003 offered taxpayers in arrears a 50 percent reduction in overdue interest payments and a waiver of all financial penalties. Many taxpayers had accumulated arrears because of the high interest rates on overdue tax and the ensuing rapid accumulation of overdue interest payments. However, rather than more reasonable penalty interest rates being included in the tax legislation, an amnesty was offered.

- Managing these amnesty programs has implied costs for the Argentine tax administration, including lost time and resources, because of the interruption of regular administrative procedures (in particular, audit and enforcement activity). However, the tax department has not measured these costs or taken them into account when considering new tax amnesty programs.
- Repeated tax amnesty programs in Argentina have adversely affected the equity and fairness of the tax system. Taxpayers who comply with their obligations on a regular basis see potential benefits from noncompliance in the form of either reduced tax payments via reliance on tax amnesties or long-term noncompliance in light of the revealed lack of strong administrative capacity. Noncompliers face fewer incentives to change their behavior given the prospect of repeated tax amnesties and the low likelihood that they will face enforcement actions.

### ***Conclusions***

Argentina's tax amnesty programs have not been successful, as revealed by the need to frequently introduce new programs aimed at boosting tax compliance and by the results of some of the tax amnesties, which have recently been analyzed by the Argentine tax department. Most amnesties were introduced independently of significant tax policy changes or of an overall program to strengthen the tax administration's detection and enforcement capacity. Thus, even though it is difficult to measure the effects of the repeated amnesties on overall tax compliance because of the effect of other factors (tax rate increases, new taxes, etc.), these programs do not appear to have contributed in any evident way to improve tax compliance and, on the contrary, are likely to have negatively affected taxpayers' perception of the fairness and effectiveness of the tax system.

### **Turkey<sup>43</sup>**

#### ***Overview***

Successive governments have relied on tax amnesties to reduce arrears, both of tax payments and social contributions. As in many other countries, there is no single cause of the arrears problem. Rather, the persistence of arrears reflects a history of failed tax amnesties, poor collection practices, weak enforcement, restrictions on writing off uncollectible debt, a lack of capacity to deal with debtors' inability to pay, and inappropriate penalty and interest

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<sup>43</sup>Based on technical advice provided by the IMF's Fiscal Affairs Department, August 2004.



structures. This cycle of amnesties and weak collections is self-perpetuating. To break it, a comprehensive solution that addresses the different specific aspects of the arrears problem is needed.

Below is a description of the recent tax amnesty programs in Turkey.

*The “Tax Peace Plan” (Early 2003)*

In early 2003, the Tax Peace Plan amnesty was introduced. The participation incentives were moderate: (1) arrears were recalculated by applying the change in the wholesale price index (typically below market interest rates) to overdue principal, (2) repayment was extended over 18 months, and (3) accrued interest was waived during the repayment period. In order to remain in the plan, participants were required to keep current with their tax liabilities.

*The August 2003 Amnesty (Social contributions)*

In August 2003, the government introduced a scheme to restructure the stock of social contribution arrears. The scheme’s main benefit was to introduce a 60-month repayment period. A 10 percent penalty was introduced (but not graduated over time), and compound interest rates were used instead of simple rates to encourage compliance.

*The 2005 Amnesty (Social contributions)*

In April 2005, a public receivables law was introduced in parliament, which provided for a number of blanket tax exemptions and amnesties. One of these related to social security arrears, the stock of which was estimated to have reached 6 percent of GDP. Although passage of this law was put on hold, it created an expectation of an amnesty, eroding compliance with social contribution collections.

To stem the decline in revenues and encourage tax compliance from taxpayers who wanted, but were unable, to comply with their tax liabilities, the authorities replaced the blanket amnesty program with a new program. The new framework provides for different payment schemes for different debtors, based on their ability to pay.<sup>44</sup> This payment installment program applies only to arrears accumulated before March 31, 2005.

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<sup>44</sup>The installment payment facility that was approved was tailored to ability to pay for only a reduced number of large debtors who kept good records. Other debtors with poor records and for whom it was difficult to ascertain capacity to pay were offered the amnesty.

### *Effects and Assessment*

- Except for the 2005 amnesty for social contributions, these tax amnesties have raised little revenue.<sup>45</sup> By substituting for proper collection methods, they may also have helped cultivate a culture of noncompliance.
- Although some consider the Tax Peace Plan a success, the evidence is not clear. Of the 380,000 taxpayers who were accepted into the program, roughly one-third defaulted. Although TL 4.8 billion was collected out of an expected TL 6.6 billion, there was no monitoring of whether participants complied with their current tax or social security liabilities.<sup>46</sup> These conditions could be waived, given the difficulty of calculating and enforcing penalties. Therefore, payments to the Tax Peace Plan may have come at the expense of creating new tax or social security arrears or increasing evasion.
- The August 2003 social contribution restructuring recovered little and did not keep pace with the increase in arrears. For one of the social contribution agencies (Social Fund for Employees, or SSK), out of the TL 4.2 billion eligible for restructuring (almost all the SSK total), TL 2.8 billion was entered for the scheme, of which less than a quarter—TL 0.5 billion—was collected. For another social contribution agency, Bağ-Kur, applications to restructure TL 1.7 billion were received (compared with reported arrears of 10 times this amount), of which TL 0.85 billion was collected.<sup>47</sup>
- Some have claimed that the August 2003 social contribution restructuring failed because its terms were less generous than the Tax Peace Plan, and that the participants expected that a more generous amnesty would be offered. However, it is not clear that the results of the 2003 amnesty were any worse than those of 2001 and 2002 (low amounts of arrears were applied for restructuring then). If the Tax Peace Plan's terms were more generous, it is not surprising that it collected more revenue. But this does not mean it was more successful, because collections through this plan could have come at the expense of accumulating new arrears elsewhere.

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<sup>45</sup>The 2005 amnesty raised sizable revenues, around 0.6 percent of GNP, from “collection of arrears from social security institutions.” A further 0.2 percent of GNP in collections of these arrears was projected for 2007.

<sup>46</sup>Prior to the Tax Peace Plan (2002), the authorities were collecting approximately TL 1.2–1.5 billion from tax arrears and accrued penalties and interest, clearly less than that collected through the Tax Peace Plan. Thus, viewed purely from the perspective of tax arrears collection, the Tax Peace Plan was successful.

<sup>47</sup>Though Bağ-Kur's arrears stock appears to have been quite massive, a high proportion of this stock was not meaningful, because it related to contributors (especially farmers) who did not realize that they were members of Bağ-Kur.

- From 2001 to 2003, penalties and interest were much less than the prevailing market interest rates (approximately 35 percent versus 80–100 percent). The incentive to borrow through the government was likely an important reason for the buildup of tax arrears during this period and suggests that an appropriate penalty and interest structure is crucial to avoid a situation where taxpayers accumulate high tax arrears.
- The lack of attention to the importance of cut-off dates for taxpayers to sign up for amnesties undoubtedly contributed to the expectation of future amnesties and reduced the likelihood that they will help increase taxpayer compliance. The fact that rumors of tax amnesties began long before cut-off dates were announced likely discouraged taxpayers from remaining compliant with their liabilities. The timing of the cut-off date is crucial.
- The experience of the 2005 social contributions amnesty highlights the importance of revenue administrations having the capacity to write off tax debts that are deemed to be unrecoverable, so officials can focus on those arrears that can be recovered. In Turkey, the social security agencies' legal inability to do this hampered their ability to clean up their books and focus on the most recoverable arrears.
- Although it is difficult to measure the effect of these tax amnesties on taxpayer compliance, it is notable that (except for the improved tax revenue performance that was experienced in 2005) tax revenue performance as measured by the tax-to-GNP ratio has been undynamic from 2003 to 2007 (projected). It has hovered around the same level since 2003, and is projected to be nearly the same in 2008 as it was in 2003 (Table 4). Social contribution collections increased significantly with respect to GNP between 2005 and 2006 as a result of the 2005 social contributions amnesty. However, whether the improved revenue performance will be sustainable in the medium to long term remains to be seen.

Table 4. Turkey: Tax Revenue Collection, 2003–08  
(In percent of GNP)

	2003	2004	2005	2006	2007 (Proj.)	2008 (Proj.)
Tax revenue	23.8	23.4	24.6	23.9	23.4	23.7
Social security contributions		5.9	5.9	6.8	6.4	6.4

Source: IMF staff.

## ***Conclusions***

Turkey's repeated tax amnesty programs do not appear to have been successful either in raising net long-term revenue or in increasing compliance. These programs have been introduced independently of major tax policy changes or of fundamental improvements in the capacity of the tax administration to enforce collection of tax liabilities and contributions.

## **The Philippines**

### ***Overview***

About 18 tax amnesty programs were introduced between 1972 and 1987; these amnesties concerned most taxes, including taxes on income, motor vehicles, goods, and property. In some amnesties, taxpayers with disputed assessments were also eligible. In addition to these tax amnesties, which were mostly announced through presidential decrees, the Bureau of Internal Revenue Administration (BIR), starting in the 1990s and continuing up until today, “administratively” mitigated or waived penalties and surcharges. This took place on a large scale, in principle as an incentive for taxpayers to notify the BIR voluntarily of previously undeclared income. The following are some examples of the amnesty programs referred to above:

- *October 1972.* This was the first of many tax amnesty programs in the Philippines; the Marcos regime offered the amnesty to taxpayers a few weeks after the declaration of martial law. The purpose was to give tax evaders the chance to reform and be a part of the “new society.” The amnesty covered untaxed income for 1971 and earlier—earned from sources inside and outside the Philippines. Any taxpayer who took the amnesty was granted a waiver of unpaid income taxes and penalties related to the nonpayment. Civil and criminal liabilities imposed under relevant laws, including the Anti-Graft and Corrupt Practices Act, were also waived. Freedom from investigation and examination of the amnesty return was also offered. The amnesty arrangement required payment of 10 percent of the previously untaxed income in lieu of the income taxes, interest, surcharges, and penalties.
- *November 1972.* An amnesty was offered to owners of untaxed or improperly taxed motor vehicles in exchange for payment of 30 to 50 percent of the taxes due. Similarly, an amnesty was offered to importers and other owners of untaxed goods. The persons in question were in turn required to pay a 25 percent tax on the value of the goods; the taxpayers were relieved of relevant penalties, and no questions were asked as to the origin of the goods. Another arrangement gave an opportunity to taxpayers with delinquent accounts and pending contested tax cases to settle their tax obligation

without civil, criminal, or administrative liability. Under this program, taxpayers faced a 40 percent discount on their debts if payment was made on or before January 31, 1973, or a 20 percent discount if payment was made on or before February 28, 1973.

- *March 1973.* An amnesty was offered to those who failed to declare their 1972 income accurately. The program targeted an increase in tax revenue compared with 1971. As such, the amnesty in general required the taxpayer to pay an amount at least equal to the income tax for 1971 plus 40 percent. The immunities and privileges offered under this amnesty were the same as under the October 1972 program.
- *January 1974.* This program had a broader coverage than previous income tax amnesties because it also covered inheritances and gift tax liabilities. It extended the amnesty both to taxpayers who had already availed themselves of previous amnesties but had declared their income only partially, and to taxpayers who had not availed themselves of the previous amnesties. The amnesty required payment of 15 percent of untaxed income or wealth.
- *January 1975.* This program was also related to income and wealth and was called the ultimate (i.e., last) tax amnesty. However, many more tax amnesties were implemented in the following years—so in reality an amnesty was offered every tax year until 1987. Some of these programs differed slightly from the previous programs because they had a somewhat narrower coverage—with regard to both tax types and beneficiaries. In addition, a common requirement of the amnesty programs was that taxpayers had to file a statement of net worth (wealth). Further, the authorities repeatedly attempted to impress upon taxpayers that after this “one-time tax amnesty,” the authorities would vigorously enforce the existing tax laws.
- *August 1986.* This program targeted undeclared income and wealth and was declared a one-time tax amnesty covering the years 1981 to 1985. The Aquino government implemented this program shortly after it had taken over from the Marcos government during the so-called People Power Revolution. Despite the fact that in 1986 many considered that the numerous tax amnesties offered under the Marcos regime had seriously eroded taxpayers’ confidence in government, the Aquino government still decided to carry out its own version of a tax amnesty. The rationale for this amnesty was that taxpayers had been discouraged from paying their taxes, as a form of civil disobedience during the Marcos regime—particularly for 1981–85. The amnesty required that taxpayers (1) file a statement of net worth as of December 31, 1980, and as of December 31, 1985, and (2) pay taxes equivalent to 10 percent of the increase in their net worth from January 1, 1981, to December 31, 1985.

- *September 1986.* Taxpayers with disputed assessments were allowed to settle their tax obligations by paying 30 percent of the assessed amount. Penalties and other liabilities related to these cases were also waived.
- *February 1999.* The BIR implemented the Economic Recovery Assistance Payment program, which granted immunity from audit and investigation to taxpayers who had paid at least 20 percent more than the tax paid in 1997 for income tax, value-added tax, and other taxes.
- *October 2002.* The BIR implemented the Voluntary Abatement and Assessment Program (VAAP), which was offered to those taxpayers found (through the BIR's analysis of third-party information) to have understated their sales. The BIR informed the taxpayers of its findings and gave them a chance to correct previous returns voluntarily without risking severe penalties. This program is still in place today.

During the entire period covered above (the 1970s to the 2000s), tax amnesties were implemented in an environment characterized by a weak revenue administration and a culture of low tax compliance. Extensive efforts over the past 10–15 years to improve revenue administration, supported by substantial external assistance, have unfortunately not brought about significant or sustained improvements in enforcement of the tax laws. The revenue administration suffers from severe weaknesses, some of which would make the launching of tax amnesties a risky undertaking.

### ***Effects and Assessment***

Recent studies and a public debate in the Philippines on the suitability of tax amnesties to generate revenue offer interesting insights on this issue. For example, in the context of analyzing the appropriateness of introducing yet another tax amnesty, a 2003 study by the Philippine Congressional Planning and Budget Office (CPBO) on tax amnesty programs implemented between 1972 and 1987 concluded that the track record of past amnesty programs was poor. The study showed that tax amnesty programs generated only P 2.9 billion in a span of 15 years, which translates into an average collection rate of 1.6 percent of annual tax revenue (Table 5). The CPBO concluded that the BIR's VAAP program of using third-party information to identify potential fraudulent taxpayers was likely to generate much more revenue than a new amnesty; this program had yielded approximately P 6.25 billion from October 2002 to January 2003. The CPBO proposed that the BIR be given enough time to test the efficiency of the VAAP and that consideration of the tax amnesty proposal be deferred. Some industry and legal groups opposed the implementation of the proposed tax amnesty of 2003, claiming that such a measure would result in moral hazard, that is, it would discourage the public from paying taxes, in expectation of the next amnesty.

Table 5. The Philippines: Tax Revenue Collection from Selected Tax Amnesties, 1972–87

Year	Tax Coverage	Percent of Total Collections
1972	Undeclared income/wealth, motor vehicles, nonfilers of income tax returns	0.02
1974	Undeclared income/wealth	2.47
1975	Undeclared income/wealth	2.81
1981	Undeclared income/wealth	2.11
1986	Undeclared income/wealth	2.15
1987	Undeclared income/wealth	0.61

Source: Philippine Congressional Planning and Budget Office.

Although the department of finance generally supported the 2003 draft tax amnesty bill, it expressed reservations regarding the frequency of tax amnesties in the Philippines. It strongly recommended the inclusion of a provision in the amnesty legislation that would put in place a moratorium on the granting of future tax amnesties. It argued that tax amnesties, when offered too frequently, could be counterproductive. Tax amnesties could be interpreted as a sign of weakness on the part of the government and its enforcement mechanism, and might encourage taxpayers not to fulfill their tax obligations based on the expectation of yet another future amnesty. In a presentation that the Department of Finance made to the House Ways and Means Committee in relation to the 2003 draft bill, it pointed out that because tax amnesties had practically been a yearly event in the past, tax collections resulting from amnesties were relatively minimal except during dramatic turning points in the Philippines’ political history—for example, the declaration of martial law in 1972 and the 1986 People Power Revolution, when many had high expectations of positive change. As mentioned above, the 2003 draft amnesty proposal did not get sufficient political support and was thus never implemented.

Some amnesty programs implemented in the 1980s and 1990s required tax evaders simply to pay a certain percentage of their taxes due; other programs required that taxpayers, in addition to paying, also file a statement of assets, liabilities, and net worth as a part of the amnesty arrangement. This latter requirement was set in an attempt to create a long-term compliance effect. The statement was intended to provide the opportunity for the BIR to update its taxpayer database, broaden the existing tax base, and provide a foundation for establishing benchmarks for future tax assessment purposes. However, the statements were never used to facilitate tax administration, and the data more or less went to waste because the BIR had no capability to manage this information effectively.

**Table 6. The Philippines: Tax Revenue Collection, 1999–2005**  
(In percent of GDP)

	1999	2000	2001	2002	2003	2004	2005
Tax revenue	14.5	13.7	13.5	12.5	12.4	12.4	13.0

Source: IMF staff.

As Table 6 shows, the ratio of tax revenues to GDP declined steadily between 1999 and 2004.<sup>48</sup> It is likely that the combination of repeated tax amnesties and weak tax administration efforts have been important factors fueling Philippine taxpayers' somewhat relaxed attitude toward tax compliance, resulting in a level of compliance that is now alarmingly low. Tax evasion is widespread; many businesses operate outside the tax net, and hundreds of registered taxpayers simply fail to file returns.

### ***Conclusions***

The Philippine tax amnesty programs have had several goals, including (1) to generate revenue; (2) to give noncomplying taxpayers the opportunity to comply with the tax law and to start with a clean slate without fear of penalties; (3) to facilitate tax administration, as tax officials would no longer have to go to the trouble of identifying, verifying, and prosecuting tax evaders; and (4) to trigger a spirit of reconciliation between government and taxpayers that could result in a stronger culture of tax compliance. However, the declining trend in tax revenue collections (in the 1999–2005 period) suggests that noncompliance rates have not fallen but have increased during this period. This suggests that the tax amnesty programs have not achieved their intended results, but instead are likely to have encouraged taxpayers to forgo or delay tax payments while speculating that another tax amnesty may be forthcoming. The result has been a continuous deterioration in taxpayer compliance that is likely to have been an important contributing factor to a decline in tax revenue over the years.

<sup>48</sup>Factors such as trade liberalization and the nonindexation of excises have been important contributors to the declining revenue trend.



## Alternatives to Amnesties

The previous sections have highlighted some of the shortcomings of tax amnesties: (1) immediate gross revenue collection is, at best, limited to a low (single-digit) share of revenue collection; (2) short-term gross revenue collection often far exceeds net revenue collection (i.e., net of administrative, advertising, forgiven fines, and penalties); and (3) the negative compliance effects can more than outweigh any of the short-term revenue benefits.

Given these shortcomings, in this chapter we review some of the strategies that could be implemented instead of a tax amnesty program. These strategies tend to target the source of the original problem: weak tax compliance. Weak compliance is often the result of several factors, notably (1) weak administration, (2) a weak legal system (or enforcement of the law), and (3) inadequate tax policy (e.g., a tax system that is too complex, regressive taxes, high tax rates). Clearly, addressing some of these areas of relative weakness takes time (and the formulation of medium- to long-term strategies); however, some short-term measures can also be implemented.

### Alternative Strategies for the Medium and Long Term

Alternative strategies for the medium and long term should aim at (1) strengthening the legal framework for tax administration, basic tax administration procedures, and management and (2) simplifying the tax policy regime while at the same time broadening the tax base and reducing tax rates.

Experience with tax amnesties in many countries suggests that two of the fundamental questions that the tax administration must ask are, why is a tax amnesty being considered in the first place, and what are the alternatives to such amnesty programs?

Clearly, in the medium and long term, a major objective for country authorities should be to strengthen the legal framework for tax

administration, as well as its basic systems and procedures, with a view to (1) encouraging taxpayers to comply voluntarily with their obligations (registration, filing, and payment of taxes) and (2) helping prevent a situation of massive noncompliance (e.g., large numbers of nonregistrants, high nonfiling and nonpayment rates, and a large and increasing stock of tax arrears)<sup>49</sup> that motivates introducing tax amnesties in the first place.

In light of some of the weaknesses in the legal framework for tax administration in many developing and transition countries, specific measures that could be considered to strengthen this framework include

- Removing the legal obstacles to the tax administration's access to taxpayer information.
- Requiring taxpayers to provide a guarantee when filing an appeal against the tax administration, instead of automatically suspending or canceling administrative actions to enforce collection of overdue tax when an appeal is filed.<sup>50</sup>
- Establishing appropriate interest penalty regimes (Box 3).
- Endowing the tax administration with appropriate collection enforcement powers. The tax administration should have the legal powers to recover arrears and impose penalties without prior court approval. Enforcement powers should also include the ability to write off individual tax debts that are deemed unrecoverable.<sup>51</sup>
- Establishing an effective and fair payment installment program for taxpayers who temporarily cannot comply with their tax obligations but are willing to do so.

At the same time, a priority for the tax administration should be to strengthen its core systems and procedures:

- Ensure the taxpayer register is complete, accurate, and secure.
- Reduce the rate of nonfilers, stopfilers, and delinquent taxpayers.

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<sup>49</sup>Tax arrears may also accumulate because a large number of registered taxpayers are inactive but nevertheless appear in the taxpayer register as having a taxable economic activity. Such taxpayers are steadily accumulating tax arrears. The underlying problem in this case is an inaccurate taxpayer register.

<sup>50</sup>However, one has to be mindful of an opposite concern, namely a situation in which the tax administration uses this right to send a very high tax assessment to, say, large taxpayers and then asks them to pay a large share of this inflated tax assessment (e.g., 20 percent to 30 percent) before entering into any appeal.

<sup>51</sup>An appropriate application of write-off powers would enable the tax administration to remove from its accounts those debts that are deemed unrecoverable because the taxpayer has declared bankruptcy, is under a process of liquidation, or would otherwise face a major financial hardship in meeting his or her tax obligations.

### Box 3. General Guidelines for Defining an Appropriate Interest Penalty Regime

The principle for establishing a sound interest penalty regime is that the rates should not be too low because otherwise the government is merely providing some discount financing, but they should also not be so high as to become difficult for the tax administration to enforce, such as for equity reasons. Overly high interest penalties can also contribute to exponential growth of tax arrears in a short period, making it difficult or impossible for taxpayers who would like to settle their outstanding tax debts to do so. An interest rate that is a few points above the prevailing commercial bank lending rate could meet both objectives, that is, prevent the government from providing discount financing while ensuring a degree of fairness.

- Strengthen collection enforcement processes (e.g., improve the quality of tax arrears data; analyze the stock of arrears and categorize arrears according to those that can be recovered and those that are unrecoverable; target enforcement efforts at recoverable arrears—usually by focusing on the most recent and largest arrears first; provide guidelines for writing off tax arrears that have been deemed unrecoverable; ensure that the tax administration has the proper organization and staffing to carry out enforcement work).
- Design and put in place appropriately designed payment installment programs.
- Strengthen the audit function and evaluate the final results of audits, including the actual payments obtained from assessments (with a view to preventing the accumulation of unpaid additional assessments that simply add to the stock of tax arrears).

In addition to the above, good management of the tax administration is, in the end, a key factor in improving the effectiveness of the tax administration and raising taxpayers' compliance levels over time such that recourse to tax amnesties becomes the exception rather than the rule. This will require, among other things, establishing simple and effective management performance indicators that provide basic information on the progress of core tax administration functions and alert the tax administration's management when problems arise in any given area of tax administration.

### Alternative Strategies for the Short Term

At the same time as introducing the above medium- to long-term reform measures to improve compliance, the tax authorities can also introduce short-term measures aimed at (1) raising revenue in the short term and (2) improving short-term compliance with a view to improving future revenue.

These are the very goals often ascribed to tax amnesty programs introduced by governments.

All the short-term measures discussed below follow the general recommendation that *up-front write-offs of tax liabilities, including interest and penalties, should be avoided.*

## **Payment Installment Agreements**

One alternative to such write-offs is to allow taxpayers to pay past obligations in installments over a certain period. The preferred option is for the period to be relatively short, for example, 12 to (at most) 18 months, in the form of a payment facility, also referred to as a payment installment agreement. Another desirable characteristic is for the tax administration to offer one, or few, payment installment programs, with clear eligibility criteria and strict requirements for compliance with agreed payment conditions. Experience has shown that the existence of many such programs at the same time, or of concurrent programs with different eligibility requirements and conditions, tends to discourage taxpayers' compliance and complicate the work of the tax administration. Box 4 summarizes the main considerations that a tax administration should take into account in designing an effective payment installment program and the key elements of such a program.

### ***Payment Installment Agreements in Situations of Economic Crisis***

The occurrence of a major economy-wide shock presents a special challenge to tax administrations in helping prevent taxpayers from significantly increasing their tax arrears. In the face of systemic disruptions in the economy, some tax administrations have adjusted their collection enforcement programs to allow greater flexibility in paying tax debts to those taxpayers facing genuine hardships caused by external events. At the same time, the tax administration must maintain the tax payment discipline of the overall taxpayer population. An example of this approach can be found in the actions taken by the Inland Revenue Authority of Singapore during the Asian financial crisis in the late 1990s as described in Box 5.

### ***Extended Payment Installment Arrangements***

A second-best option, one that the Brazilian tax authorities introduced in 2003 (Box 6), is to allow taxpayers to pay overdue tax obligations over a relatively long time. Such an arrangement has the effect of reducing the net present value of the tax liabilities (which is in essence equivalent to a tax amnesty), but requires payment of the nominal amount of tax owed in full. Thus, even though there is a reduction in the net present value of the amount

#### Box 4. Characteristics of an Effective Installment Payment Program

Best practice would suggest that a system of payment installment arrangements should take into account a number of factors:

- Whether the proposal to pay tax arrears over an extended period is realistic based on the facts of the individual case;
- The taxpayer's compliance history and the likelihood of future compliance;
- Whether the taxpayer has previously had, and adhered to, an installment arrangement of taxes or social contributions;
- Whether the taxpayer has filed all required tax returns;
- Whether the arrangement maximizes the amount of recovered tax from the taxpayer—or whether bankruptcy and recovery of at least part of the amount of tax owed in the shorter term would be a better approach; and
- Protection of the integrity of the tax (or social contributions) system.

The following are some key elements of a payment installment agreement:

- Payment should be for taxes imposed by an assessment issued in accordance with the tax code;
- The taxpayer should be in financial difficulties at the time of the application;
- The relief should be necessary or desirable in order to maximize net revenue over time;
- The application should be in writing;
- The application should be for any amount that is, or is likely to become, liable for payment;
- Any arrangement should be in two or more installments;
- Relief may be cancelled if the taxpayer fails to meet the installment arrangement or provides misleading information to obtain an installment arrangement; and
- Installment arrangements of more than a certain amount should require approval of the tax administration's headquarters office.

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Source: Barrant (2003).

of tax arrears paid, it may not be as drastic as the reduction from a one-time amnesty. Also, the potentially beneficial effects on compliance resulting from requiring delinquent taxpayers to pay tax arrears, even if over a longer period, should not be ignored.

### **Box 5. Singapore: Managing Tax Arrears During a Financial Crisis**

The financial crisis that affected Asia in 1997 raised concerns within Singapore's tax administration that severe liquidity problems associated with the crisis could lead many companies and individuals—even those with good tax compliance histories—into accumulating large amounts of tax arrears. To prevent this problem, the Inland Revenue Authority of Singapore (IRAS) put in place a program designed to give eligible taxpayers some extra breathing space to pay their tax liabilities. This program included the following measures:

- Individuals who lost their jobs were entitled to defer payment of their taxes for up to six months or until they found a new job, whichever came first.
- Individuals facing severe cash-flow difficulties were permitted to pay their taxes in interest-free installments, with the extension period determined on a case-by-case basis.
- Companies facing severe cash-flow problems were allowed to apply for “extended” installment plans—with or without interest, depending on the circumstances—which could be for a period of up to 50 percent longer than that under standard installment plans available to taxpayers.
- Companies could pay off their tax arrears in a flexible manner—subject to late payment penalties and interest charges—based on available cash flow.

Eligibility for any of these special measures was restricted to taxpayers with good compliance histories who could produce documentary evidence that full and immediate payment of taxes would cause a genuine hardship. Enforcement officers reviewed each request for assistance on a case-by-case basis, taking into account documentation of the taxpayer's financial position.

As it turned out, only a relatively small number of individuals and businesses sought relief under the IRAS program, and the ratio of tax arrears to current tax collections increased only temporarily from 6.3 percent in 1997 to 8.2 percent in 1998 before declining to 7.1 percent in 1999. IRAS believes that its special debt program helped to improve taxpayers' perception of the fairness of the tax system which, in turn, helped to preserve the generally high level of compliance among taxpayers during a very difficult period.

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Source: Brondolo (2001).

### **Permanent Programs to Encourage Voluntary Disclosure of Violations**

Instead of one-time amnesties, some countries have standing or permanent programs that provide for more lenient treatment of voluntary disclosures of tax violations at any time. Such programs may be better described as part of the penalty structure. Properly structured and in the presence of proper enforcement efforts, these measures may be a cost-effective way to

### **Box 6. Brazil: Payment Installment Agreements**

The Special Installment program (Parcelamento Especial, or PAES) provides for taxpayers who have federal tax arrears (declared or previously undeclared) to settle their debts over five years (in a maximum of 60 monthly payments). The monthly interest rate that applies varies from 1.0 percent to 5.7 percent, depending on the date on which the taxpayer entered into the installment payment agreement. Thus, taxpayers who concluded agreements with the federal tax administration immediately after the law introducing the PAES program (Law 10.684 of May 30, 2003) was approved, and who started making monthly payments immediately, were subject to lower monthly interest rates than were those who concluded agreements and started making their monthly payments later. Under the program, taxpayers must make a minimum monthly payment for the duration of the agreement; the minimum amount depends on whether the taxpayer is a legal entity or an individual. Certain types of taxes and taxpayers are not eligible for the program, including, for example, taxes withheld at source, tax arrears that have already been rescheduled under other payment installment programs, and arrears that are being appealed by the taxpayer or that the courts have decided are owed to the treasury.

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Source: IMF staff.

encourage voluntary disclosures of violations and may make a temporary amnesty unnecessary. A number of countries have such measures, including Denmark, Germany, Mexico, the Netherlands, Norway, Sweden, and the United States.<sup>52</sup>

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<sup>52</sup>See also Andreoni (1991) for a theoretical case regarding the desirability of a permanent tax amnesty.

## Conclusions

Countries and states have introduced tax amnesties for a variety of reasons. Among the most common ones are (1) an immediate revenue need (e.g., during an economic downturn), (2) a desire to improve tax compliance so as to improve revenue over the medium term, (3) a new government wanting to distance itself from a previous government's policy, (4) signaling a regime change and “drawing a line in the sand” (e.g., former Soviet Union transition economies moving to more market-based tax systems), and (5) repatriating offshore capital so as to boost domestic investment and growth (e.g., in Italy).

There are some fundamental difficulties in assessing the effectiveness of tax amnesty programs, not least because many other factors affect taxpayer compliance and tax revenue performance. These factors include, for example, overall macroeconomic performance, the structure of the tax system, and the effectiveness of the tax administration. In addition, few developing and transition countries systematically compile and analyze statistics relating to tax amnesty programs, including their impact on tax compliance. In an assessment of the effectiveness of tax amnesty programs, it is important to distinguish programs that were combined with other structural reform measures (e.g., revenue administration, tax policy) with stand-alone tax amnesty programs. Theory suggests that, on its own, a tax amnesty program is unlikely to significantly affect the cost-benefit trade-off of tax evasion and therefore the equilibrium level of compliance in the economy. Significant improvements in compliance levels can be achieved only through increasing the cost and reducing the benefits of tax evasion. The cost side (the expected probability of detection times the financial and nonfinancial costs of tax evasion if detected, itself weighed by the expected probability of enforcement) is most effectively addressed through revenue administration and legal reforms (e.g., increasing evasion detection capacity, enforcement powers, and fines) while the benefit side is often best addressed through tax policy reforms (e.g., lower marginal tax rates; a simpler, less complex tax code so as to limit compliance costs; and a progressive tax system that is more conducive to “fairness” and equity). Moreover,



significant administrative costs may be associated with introducing a tax amnesty and interrupting or canceling ongoing audit and enforcement measures.

Evidence shows that stand-alone tax amnesty programs have produced mixed results as far as gross revenue collection (the easiest, though inadequate, benchmark for assessing the success of an amnesty) is concerned, as predicted theoretically. First, although there are some exceptions, many programs have generated very little extra revenue, both in absolute amounts and in proportion to the overall revenue collected from the tax covered by the amnesty. Second, even though some amnesties have indeed significantly affected tax evaders' incentives and actions, this has not necessarily translated into large increases in tax revenue for the treasury (e.g., Italy's Scudo Fiscale was deemed highly successful because it did generate large-scale repatriation of offshore capital, at least in the short term, but it failed to generate significant revenue for the treasury because of the large financial incentives provided).

The effectiveness of stand-alone tax amnesties in generating net revenue gains is difficult to assess, but evidence points toward small positive gains in the short term, at best. However, close inspection often reveals that (1) a large share of the "new" revenue would have been collected anyway (e.g., when known delinquent taxpayers are allowed to participate in the program) and (2) the costs of collecting the gross revenue (both static and dynamic ones) can be so large that the net revenue gain is limited, or even negative.

Evidence shows, and theory also predicts, that repeated stand-alone tax amnesties can lead to an erosion of the gross revenue collected from each successive amnesty, and may also negatively affect overall tax compliance. Whenever a tax administration's weaknesses are not addressed as part of a tax amnesty program, the use of amnesties as a regular tool to collect revenue is likely to have serious consequences both for future compliance and for the long-term effectiveness of the tax administration. This has been demonstrated time and again in various countries (Argentina, the Philippines, Turkey), where repeated amnesties appear to have contributed to a reduction of revenues over time, or to a relatively undynamic tax revenue performance. In such cases, the authorities' statements to the effect that each amnesty will be the "last one" are not credible. Only an accompanying program of measures to strengthen the legal framework, core systems and procedures, and the management of the tax administration would help increase the effectiveness of enforcement measures, and thus the credibility of the tax administration. Thus, in these cases, tax amnesties have proved to be a poor substitute for fundamental tax administration reform.

Tax amnesties create other problems for the tax administration besides reducing compliance. They create additional workflow (to manage the

amnesty program) and divert resources from regular audit, collection enforcement, and taxpayer services activities. Collection enforcement cases that may be at the end of the enforcement process (e.g., cases that are before the tax courts awaiting a judicial decision) are often interrupted in cases in which identified delinquent taxpayers (“accounts receivable”) are eligible for the tax amnesty. This interruption results in a major waste of time and resources for the tax administration and in revenue losses for the treasury.

A tax amnesty program, *if* combined with a credible closing of the sources of noncompliance (e.g., weak administrative capacity, highly distortionary or a complex tax system) and a fundamental change in way the tax administration operates (e.g., the introduction of self-assessment), *may* be appropriate (although there have been many more failures than successes in this regard). This can be so for several reasons, such as for the sake of “fairness” after a change in political regime: in a situation where tax noncompliance reflected a political statement of opposition groups to, say, an illegitimate regime, once that regime has been replaced by a legitimate one, an (appropriately designed) tax amnesty could be introduced in recognition of the political nature of past tax evasion. It can also be an expedient and effective way to break with a culture of noncompliance and prepare citizens for a regime of strong tax enforcement. The case of the 1988 tax amnesty in Ireland, in which the amnesty was accompanied by a major revamping of the tax administration’s tax arrears collection procedures, is a good example, as is the 1999 Irish amnesty, which was used as a last opportunity for tax evaders to come clean knowing that the tax administration had received extensive new legal and enforcement powers (which immediately and significantly increased its evasion detection and enforcement capacities).

To maintain the authorities’ credibility and to ensure fairness and comparability of treatment of tax evaders with law-abiding taxpayers, tax amnesty programs should not reduce the net present value of the basic tax liability and accrued interest owed (the time value of forgone tax revenue). Tax evaders should not be rewarded by, *ex post*, being offered a lower effective tax rate than law-abiding citizens, because this could lead to reduced compliance from currently compliant taxpayers.<sup>53</sup>

Before thinking of introducing a tax amnesty—which is unambiguously a second-best option—governments should consider several alternatives. These include, in the short term, introducing various forms of (time-limited)

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<sup>53</sup>An amnesty program that is consistent with this principle could consist of a reduction, potentially up to 100 percent, in penalties for late payment, nonfiling of tax returns, and other violations of the tax laws. However, the actual tax and the accrued interest are still owed (“fairness” argument). This would allow tax evaders who want to return to the tax net to do so at a reduced financial cost thanks to the reduced penalties offered under the amnesty.

payment installment agreements (with strict eligibility criteria) and establishing a permanent voluntary tax evasion disclosure program. In the medium to long term, efforts should focus on strengthening the legal framework for tax administration and basic tax administration procedures, such that the cost of tax evasion is significantly increased. On the tax policy side, a simplification of the tax system coupled with a broadening of the tax base and a reduction in tax rates could noticeably reduce the gains from tax evasion.<sup>54</sup> The combination of these effects would structurally and significantly reduce the equilibrium level of tax evasion. Moreover, it would do so in a more equitable way for law-abiding taxpayers, and in a more cost-effective way for the government because (1) the administrative costs linked to a tax amnesty program are avoided and instead limited administrative resources are concentrated on immediately improving administrative capacity and (2) financial incentives offered by a tax amnesty program can be dispensed with and used, say, to finance the reform of the revenue administration.

Finally, if a government is committed to introducing a tax amnesty, certain principles should be adhered to so as to limit the drawbacks of the program. First, the authorities should identify the sources of the noncompliance problem they seek to reduce. These are likely to fall into one of two categories: an ineffective revenue administration (the source of the ineffectiveness should be identified: e.g., lack of evasion detection capacity, lack of enforcement powers) or an inappropriate tax policy system (distortionary, complex, etc.). Second, once the source of the noncompliance has been identified and before a tax amnesty is introduced (or at least concomitant with such an introduction), a reform program that targets the source of the problem should be put in place; this program should be credible (e.g., sufficient resources, in terms of financing or staff, should be dedicated to the reforms; these reforms should be widely disseminated to the public to signal a regime change). Third, the tax amnesty itself should contain the following elements:

1. It should be limited to a short time period (a few months only).
2. Participation should contain a very strict cut-off date (which predates the announcement of the amnesty program, to avoid a decline in tax compliance).
3. Participation should be limited to unregistered taxpayers, nonfilers, and tax evaders.<sup>55</sup> Participation should specifically not be allowed for identified delinquent taxpayers.

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<sup>54</sup>For an analysis of the effect of reduced personal income tax rates on tax compliance in the Russian Federation, see Ivanova, Keen, and Klemm (2005).

<sup>55</sup>This includes taxpayers who either do not report their tax liabilities or underreport them.

4. The amnesty should not reduce the net present value of the tax owed and the accrued interest rates on that principal (the interest rate applied should be appropriate).<sup>56</sup>
5. Finally, tax amnesty programs should not include measures that would go against the overall reform's objectives (of the administration, of the tax policy regime) that directly address the noncompliance problem. For example, granting anonymity to taxpayers who participate in an amnesty undermines the tax administration's capacity to identify noncompliant taxpayers correctly and monitor them effectively in the future.

In the end, tax amnesties are a poor alternative to the hard work of improving the structure of the tax system and strengthening the legal framework and the capacity of the tax administration. Strengthening the latter two, in particular, takes time, an enormous effort, and resources. Policymakers should not be tempted with perceived “easy fixes” through tax amnesties that might produce some short-term revenue gains at the expense of longer-term efforts to reform tax policy and modernize tax administration. At the same time, every effort should be made to analyze the core policy and administrative problems that have led to proposing a tax amnesty, to design strategies that will address these core problems, and to identify alternative policies that could lead to sustainable improvements in taxpayer compliance and tax revenue performance.

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<sup>56</sup>That is, it should not be concessionary (certainly not below the government's cost of borrowing, and preferably not below the consumer's cost of borrowing; otherwise the nonpayment of taxes becomes a cheap financing source for delinquent taxpayers who are offered an amnesty), but neither should it be so punitive as to become a substitute for the penalty structure (e.g., not significantly above the maximum commercial bank interest rates).

## 1

## Ireland: How New Administrative Powers Helped Close Bogus Nonresident Accounts

In 1998, a media exposé on widespread use of bogus foreign addresses by Irish bank depositors (to avoid withholding taxes on interest and reporting to the Irish Revenue) led to a major high-profile parliamentary inquiry. Also, during the late 1990s there was a public scandal involving prominent individuals (including a former prime minister) using numbered Irish bank accounts relating to deposits in the Cayman Islands. These developments provided the catalyst for significant new Irish Revenue (IR) powers in the Finance Act of 1999. For the first time the IR was given access to information in financial institutions, including “John Doe” access by which a class of persons, likely to have tax issues, could be identified.

### Bogus Account Follow-up

Armed with these new powers, the IR first recovered €225 million in underpaid withholding taxes (plus interest and penalties) from the banks that had facilitated the use of bogus foreign addresses. The IR then pursued the “underlying” tax due from depositors, because the deposits were in many instances “hot” money skimmed from businesses.

The IR decided to offer a period for voluntary disclosure (until November 2001) whereby bogus nonresident account holders coming forward during that time were required to pay full tax, but the interest and penalties were capped at 100 percent of the tax. There was also immunity from publication (the IR introduced a new “name and shame” policy whereby names, addresses, and tax settlement amounts are published in the newspapers) and immunity from criminal prosecution.<sup>57</sup>

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<sup>57</sup>This was done under the IR’s “care and management” powers: there was no special legislation.

As part of the amnesty, 3,675 voluntary disclosures were made and payments totaling €227 million were received by the November 2001 deadline.

The IR immediately followed up on this by getting John Doe orders from the banks to track down those who did not come forward voluntarily. As of 2004, the IR was still processing some files, but it had already identified, thanks to the John Doe, a further 8,300 persons, and the follow-up generated an additional €356 million in tax interest and penalties. All of these additional settlement cases (above a *de minimis* amount) have been individually named and shamed, and some have been criminally prosecuted.

The resolve with which the IR pursued these cases—and the public naming and shaming—greatly increased the tax administration’s credibility: people saw that the IR had both the means (powers) and the determination to follow through on these large-scale investigations if the voluntary disclosure window was not availed of.

## Offshore Investigations

Aside from keeping the money at home (and using bogus foreign addresses to hide the true identity of the depositor from the IR), tax evasion also involved moving hot money offshore—not just to havens such as the Channel Islands and Isle of Man, but also across the border into Northern Ireland.

In 2002/03 the IR had a breakthrough when a subsidiary of Bank of Ireland in Jersey made money-laundering reports to the Jersey authorities regarding some 260 trusts operated by the bank with Irish settlers and beneficiaries. The IR then persuaded the Irish headquarters of the bank to write to the trust settlers, offering a voluntary disclosure facility if they came forward and paid up by mid-2003. Full tax and full interest had to be paid; the benefits of voluntary disclosure were (1) mitigated penalties (but not for 1993 amnesty years), (2) no “name and shame” applied, and (3) no criminal prosecution. Some 90 percent of the 260 beneficiaries came forward voluntarily and paid more than €100 million.

Again, the IR followed through quickly on beneficiaries who did not come forward voluntarily—this time obtaining the names of the remaining 10 percent directly from the Jersey attorney general (AG). A number of these 10 percent are currently subject to criminal prosecution—the Jersey AG is assisting the prosecution by supplying documentation and other necessary evidence.

The IR conducted a similar exercise in 2003 in relation to an Irish building society with a subsidiary in the Isle of Man.

In 2004, the IR signaled that it was starting a general offshore-related tax evasion investigation—effective from March 29—and invited voluntary disclosures before that date, plus full payment by end-May 2004. Again the benefits were flagged as mitigated penalties, no name and shame, and no criminal prosecution. Full tax and full interest had to be paid.

In large part because the IR had proven its follow-through ability and resolve in the bogus nonresident cases and the Bank of Ireland Jersey affair—and helped also by extensive (free) publicity from the main Irish television station—this voluntary disclosure phase of the offshore investigation was a big success. Some 13,000 people came forward and voluntarily paid up a total of almost €600 million in 2004. A major element in this success was the fact that the Irish banks wrote, in advance of the deadline, to the Irish resident customers of their offshore subsidiaries. (In effect, by doing this they were signaling to their customers that their names would be provided to the IR under John Doe orders if they did not come forward voluntarily.)

The IR is now in the follow-through phase of getting John Doe orders identifying transfers by Irish banks to offshore centers such as Channel Islands and the Isle of Man. This follow-up phase will inevitably extend over a number of years.

## Insurance Products Investigation

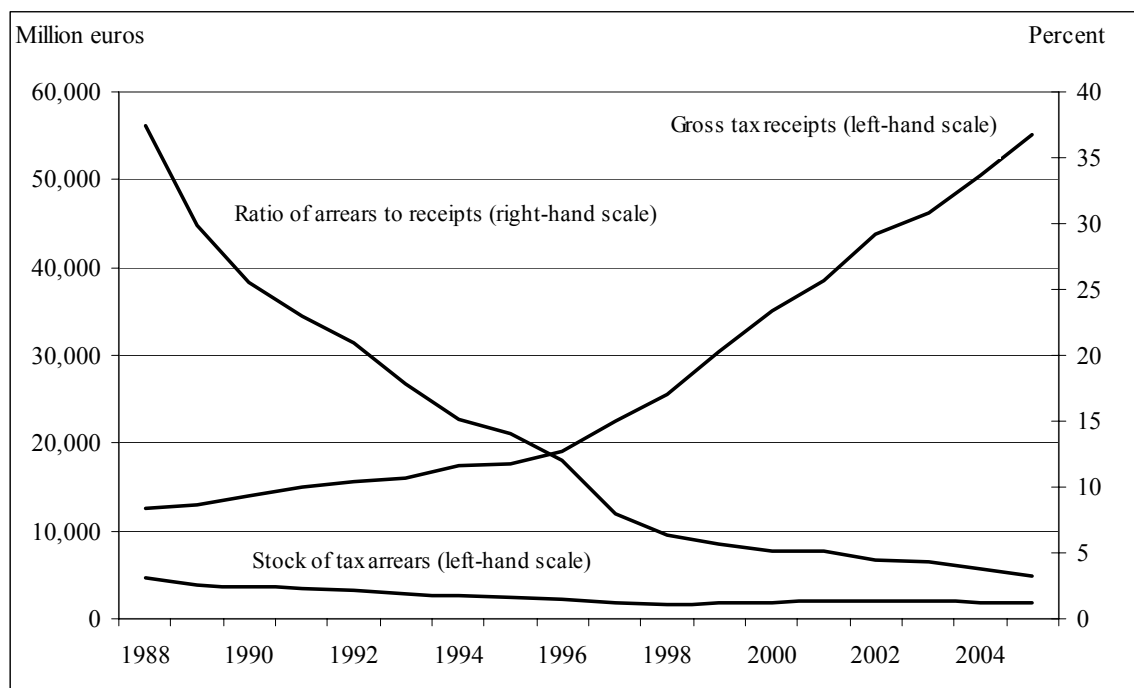
Many of the disclosures coming to light under the bogus nonresident and offshore investigations indicated that domestic insurance products were a popular safe haven for hot money—in particular, so-called “single premium” policies. (There was no reporting to the IR of such investments.)

The IR therefore decided in 2005 to apply the same voluntary disclosure “business model” to these investors prior to launching a formal investigation. The formula applied was the same: full tax and full interest, but mitigated penalties, no name and shame, and no prosecution for voluntary disclosures before May 23 and full payment by end-July 2005. The IR also asked the insurance companies to write in advance to their customers, but this time one of the biggest (Irish Life & Permanent) refused to do so.

Nonetheless, by the May 23, 2005, deadline, the IR had received some 10,000 voluntary disclosures.

The impressive turnaround in the performance and credibility of the Irish tax administration over the reform period can be seen from indicators such as the ratio of tax arrears to revenue, the outstanding stock of tax arrears (Figure A1).

Figure A1. Ireland: Tax Collection, Tax Arrears, and Ratio of Tax Arrears, 1988–2005



Source: Irish Revenue, Annual Report, 2005.



## APPENDIX

## 2

## Case Studies: Characteristics of Tax Amnesty Programs

	Kentucky	Michigan	Ireland		
<b>Date of the amnesty</b>	2002 (second one; first was in 1988)	2002 (second one; first was in 1986)	1988	1993	1999 onward
<b>Goal(s) of the tax amnesty</b>	Increase revenue during economic slowdown and balanced budget requirement; broaden the tax base	Increase revenue during economic slowdown and balanced budget requirement; broaden the tax base	Clear the stock of tax arrears to start anew and restore credibility to the tax administration	Target tax evaded through the use of domestic banking secrecy	Target tax evaded through the use of offshore bank accounts
<b>Tax amnesty design</b>					
Taxpayer eligible					
Unregistered taxpayers	Yes	Yes	Yes	Yes	Yes
Nonfilers	Yes	Yes	Yes	Yes	Yes
Identified delinquent taxpayers <sup>1</sup>	Yes (except taxpayers under criminal investigation)	Yes (except taxpayers under criminal investigation)	Yes	No	Yes
Evaders <sup>2</sup>	Yes	Yes	Yes	Yes	Yes <sup>3</sup>
Taxes eligible					
All taxes	Yes (from 1987 to 2001)	Yes (all taxes up to 2001)	[Yes]	[Yes]	[Yes]
Other	...	...	...	...	...
Participation incentives/ forgiveness					
Interest	Yes (100% waived)	No	Yes	Yes	No
Penalties	Yes	Yes	Yes	Yes	No <sup>6</sup>
Criminal and civil prosecution	Yes	Yes	Yes	Yes	Yes <sup>9</sup>
Tax liabilities	No	No	No	Yes subject to paying a flat 15% tax rate	No

Accompanying measures					
Increased enforcement, audit	[Moderate]		Yes (extensive computerization)	[Yes]	Yes <sup>12</sup>
Increased penalty (post-amnesty)	Yes (financial + “name and shame”)	Yes		Yes (including 8-year prison sentence)	[No]
Tax reform	No		Introduction of self-assessment after the amnesty period		[No]
Duration (one time/permanent)	One time; ran for 61 days	One time; ran for 45 days	One time	One time	First wave: 1999 to November 2001. Second wave: 2002–03. Third wave: 2004 onward
Anonymity (from administration)	No		No	Yes	No
<b>Tax amnesty outcome</b>					
Gross revenue collected	US\$123 million (1.7% of total general fund revenue)	US\$82 million, or 0.9% of total revenue (half the percentage of the 1986 tax amnesty). Out of which US\$20 million came from interest paid on delinquent taxes; US\$32 million came from new filers	US\$780 million (current). The forecast was a yield of US\$75 million	US\$260 million (current)	Very successful: over US\$1 billion collected so far
Participation	23,592 taxpayers file, but only 346 were new filers	22,220 taxpayers participated, out of whom 4,225 were new filers	Good: 350,000 payments	Moderate	Very good. Believed to have significantly reduced noncompliance
Other	37% of the money collected came from “accounts receivable”	US\$32 million collected from new filers at the (static) cost of US\$23 million in waived penalties and US\$1.5 million in program cost	Amnesty perceived by the administration as having been a huge success. Tax debt declined from 40 to 2.5% of annual revenue	Not very successful; large number of taxpayers later came forward in voluntary disclosure schemes	New strong administrative powers to deal with tax evasion through the use of bank secrecy

Case Studies: Characteristics of Tax Amnesty Programs (*concluded*)

	Italy	Argentina	Turkey		The Philippines
<b>Date of the amnesty</b>	2001 (Scudo Fiscale)	Multiple amnesties since 1950	Early 2003 (Tax Peace Plan)	August 2003 (social contributions)	18 amnesties between 1972 and 1987
<b>Goal(s) of the tax amnesty</b>	Broaden the tax base, boost investment and growth by targeting unreported offshore accounts	Raise revenue and broaden the tax base	Reduce the stock of tax arrears and expand the base	Reduce the stock of social contributions arrears and expand the base	Raise revenue and broaden the tax base
<b>Tax amnesty design</b>					
Taxpayer eligible					
Unregistered taxpayers	Yes	Yes	[Yes]	[Yes]	Yes
Nonfilers	Yes	Yes	[Yes]	[Yes]	Yes
Identified delinquent taxpayers <sup>1</sup>	Yes	Yes	[Yes]	[Yes]	Yes
Evaders <sup>2</sup>	Yes	Yes	[Yes]	[Yes]	Yes
Taxes eligible					
All taxes	Yes	Yes	Yes	No	Yes
Other	...	...	...	Social contributions	...
Participation incentives/ forgiveness					
Interest	Yes (100%)	Yes <sup>4</sup>	Yes <sup>5</sup>	Yes	Yes
Penalties	Yes <sup>7</sup>	Yes	[Yes]	Yes	Yes <sup>8</sup>
Criminal and civil prosecution	Yes	Yes	Yes	n/a	Yes
Tax liabilities	Yes	Yes (“blanqueos”)	No <sup>10</sup>	No <sup>11</sup>	Yes, often
Accompanying measures					
Increased enforcement, audit	No <sup>13</sup>	Not significant	Not significant	Not significant	Not significant <sup>14</sup>
Increased penalty (post-amnesty)	Yes	Not significant	Not significant	Not significant	Not significant
Tax reform	Yes (in particular, tax rates on financial income were reduced)	No	No	No	No
Duration (one time/permanent)	One time (although a similar amnesty was subsequently offered in 2003)	One-time amnesties but repeated very often	One time	One time	One-time amnesties but repeated very often

Anonymity (from administration) Yes		Yes (1991 audit amnesty) [No]	[No]	No	
<b>Tax amnesty outcome</b>					
Gross revenue collected	Although about US\$60 billion (4.5% of GDP) was repatriated, the short-term impact on revenue was about 0.1% of GDP (against a forecast of 0.9% of GDP)	On average 2% of annual tax revenue	TL 4.8 billion (against a projected TL 6.6 billion)	Small: for one agency (SSK), collection reached TL 0.5 billion out of a stock of TL 4.2 billion; for another agency (Bağ-Kur) only TL 0.85 billion was collected out of applications to restructure TL 1.7 billion	On average 1.6% of annual tax revenue
Participation	Widespread	Limited due to the expectation of repeated amnesty	380,000 taxpayers participated in the program, although 1/3 eventually defaulted	Moderate. Below expectations	Limited due to the expectation of repeated amnesty
Other	The Scudo Fiscale had no perceptible impact on investment and growth		There was no monitoring of whether participants complied with their current taxes	Amnesty did not prevent the stock of contributions arrears from rising (to 6% of GDP in 2005)	

<sup>1</sup>Defined as taxpayers with unpaid tax liabilities that have been detected and notified by the tax administration.

<sup>2</sup>Includes taxpayers that either do not report their tax liabilities, or those that underreport them.

<sup>3</sup>The financial accounts of tax evaders were specifically targeted. First in Ireland, then in offshore accounts.

<sup>4</sup>Payment facilities were used to lower the effective interest paid.

<sup>5</sup>These were recalculated using the wholesale price index, which was lower than market interest rates.

<sup>6</sup>Voluntary settlement amounts are typically 3 to 4 times the evaded taxes/interest and penalties were capped at 100% of the tax.

<sup>7</sup>In lieu of all taxes, social security contributions, interests, and penalties, a payment of 2.5% of the funds declared had to be made.

<sup>8</sup>In lieu of all taxes, interests, and penalties, a payment of 10% of evaded income had to be made (1972) or of 10% of the increase in evaded net wealth from 1981 to 1985 (1986).

<sup>9</sup>Those participating were also protected from “name and shame” provisions.

<sup>10</sup>But payment facilities of 18 months were introduced; interest did not accrue during this period.

<sup>11</sup>But payment facilities of 60 months were introduced; interest did not accrue during this period.

<sup>12</sup>Tax authority granted extensive new powers (access to information in financial institutions), which it used to target specific groups. Regular (quarterly) use of the “name and shame” provisions.

<sup>13</sup>Although the authorities declared that offshore tax fraud would become a priority, taxpayer anonymity negatively and significantly impacted the administration’s ability to improve enforcement.

<sup>14</sup>Some tax amnesties required taxpayers to submit a declaration of assets, liabilities, and net worth.

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