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Tax Amnesties

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Abstract

A tax amnesty can be a useful tax policy tool when exploited in exceptional circumstances. Amnesties can also be used systematically as a discriminatory mechanism to improve the efficiency or even the equity of the tax system, but only if government commitment to enforcing tax law is credible. If such credibility is lacking, amnesties may actually undermine future tax revenue by breaching the implicit, psychological contract between taxpayers and the state, thus reducing taxpayers' internal motivation for compliance. Amnesties also have important political implications, because they can signal intertemporal inconsistency in government decision-making and may be linked to the political business cycle. Amnesties respond to externalities among states or layers of government deriving from tax and enforcement policies, and network effects in these fields can trigger waves of amnesties.

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Prevalence and types of tax amnesties

Both local and central authorities grant tax amnesties. Over the past fifty years, the central governments of some developing countries (e.g., Argentina, Colombia, Brazil, India, the Philippines, Turkey) have repeatedly offered amnesties (Le Borge and Baer 2008), as have the central governments of developed countries plagued by specific economic problems such as recession, financial crisis and large public debt (e.g. Ireland, Italy, Spain, Greece, Portugal). Many developing and developed countries have also occasionally resorted to some form of amnesty to foster flight capital repatriation or to ease economic liberalization and openness to international trade. Local governments, too, often resort to tax amnesties. Many U.S. states have made repeated use of waves of amnesties (Alm and Beck 1993; Mikesell et al. 2012) in response to a variety of motivations, including decreased central support for local tax enforcement in the 1980s (Dubin et al. 1982) or the dwindling of local tax revenue coupled with a mandatory balanced budget in the 2000s.

Lawmakers and local administrators are constantly devising new types of tax amnesties. Innovation and differentiation in this field is likely sparked by the need to capture the attention of the public, and, where tax amnesties are frequent, to appeal to groups that have not yet been reached by previous offers.

In terms of the immediate financial benefits to participants, some tax amnesties not only reduce or waive sanctions and interest, but also reduce the principal on the tax. These are the so-called extensive tax amnesties (Franzoni 1996; Macho-Stadler et al. 1999), which also often provide immunity from audits for past, and sometimes future, tax liabilities.

The timing of amnesties is a key feature in their functioning: how long the program is available, whether or not extensions will be granted and the frequency with which amnesties are offered clearly affect their results (Mikesell 1986). In many countries, unaudited taxpayers who spontaneously report tax evasion can be granted a standing permanent tax amnesty (Andreoni 1991), although these amnesties are never of the extensive type and are sometimes available only for a limited time after the violation. Standard tax amnesties instead can be designed to cover recent or past liabilities that still fall within the expiration term of the tax obligation. The benefits of amnesties for the participants sometimes also extend to the future, as various provisions can be introduced to reduce expected future liabilities. For example, in some amnesties, participants who increased their subsequent reported income by a given percentage for several years were exempted from future audits on those years, barring major violations. Portugal granted an amnesty of this type in 1986 (Baer and Le Borgne 2008, p. 10).

Another important aspect of tax amnesties is the information disclosed by participants, which serves to condition their future expected payments. Some amnesties even provide for the free writing-off of past liabilities, so long as the taxpayer's latest tax return was honest (Pommerehne and Zweifel 1991). When a new tax return is filed, the tax administration ordinarily maintains its full powers of auditing. Taxpayers participating in an amnesty may also be subject to special surveillance in subsequent years. Of course these policies reduce the amnesty's appeal and its potential as an immediate revenue source. If the government is primarily interested in raising revenue and encouraging participation to boost the immediate amnesty's proceeds, the auditing powers can be limited or excluded, and anonymity can be offered to the amnesty participants. One way this can be achieved is by allowing participants to disclose their liabilities and to make the amnesty payments to a third party (such as a bank), which releases a certificate to be used as a shield in case of future tax audits: the 2001 Italian tax amnesty for capital repatriation with these characteristics was called a "scudo fiscale" (tax shield). However, it is also true that the government's commitment not to access such information may be more or less credible. In Italy, a 2011 law introduced a new tax on capital that benefited from that 2001 amnesty. The new tax was justified on the basis of the benefit principle, with the benefit being continued secrecy to those who entered the amnesty despite newly introduced legislation granting the tax administration easier access to taxpayers' bank accounts.

In terms of the extent of coverage, amnesties are often granted only to taxpayers not yet under investigation. These could be taxpayers who missed a filing deadline (e.g. for VAT), or who failed to file one or more tax returns, or simply those who reported regularly but cheated. However, amnesties can also include those whose liability has already been assessed or liquidated (i.e., the so called accounts receivable). By granting an amnesty, the tax administration surrenders the right to collect payments from taxpayers through standard means, such as audits, injunctions or litigation in courts. The ensuing opportunity cost is likely to be larger if the ordinary collection process has already been initiated, as in the case of accounts receivable. Another aspect of coverage is the type of tax or tax base to which the amnesty refers. From this point of view, in principle, all types of payments can be considered, including social contributions, charges and fees, and so on. Amnesties tend to be general to assuage taxpayer fears that further audits will ensue if one specific hidden tax base is disclosed. With reference to the tax base, it is also important to distinguish standard amnesties from those specifically targeted to flight capital, since the latter involve problems of international relations and tax competition. Amnesties can also involve leverage, so in some cases participants have been required to invest the hidden tax base in special public debt bonds. These securities delivered no yield or a low yield and could not be traded before a given date. As in the case of intermediation by third parties, these special

bonds could be used as a shield in case of tax audits. An amnesty of this type was granted in Spain in 1991 (Macho-Stadler et al. 1999). In other cases (for example, the 1987 amnesty in Argentina) the evaded tax base could also be invested in private enterprises, provided that the investment was twice the evaded tax base amount.

Amnesties are also characterized by the interventions supporting them, which range from global reforms of the tax system to specific provisions aimed at strengthening tax enforcement. The underlying reasoning is some stick should be given along with the carrot represented by the amnesty, in order to avoid negative effects on compliance. These further interventions often include harsher penalties for tax evasion, reorganization of the activities and of the legal capabilities of tax auditors, modifications of laws regulating tax shelters, use of the funds collected through the amnesty for financing enforcement activities. Moreover, specific information can be sent to the perspective participants to inform them of their likely tax liability, together with the threat of naming and shaming evaders who do not participate, or of increasing penalties specifically for them.

A traditional justification often provided for granting a tax amnesty is that special circumstances may motivate unwanted breaches of the law or mistakes by citizens. This is mainly true for amnesties that accompany huge reforms in taxation or other related fields, or that are granted after major upheavals such as political regime change, changes in currency, and so on. In these cases, the amnesty is well grounded in terms of equity and should not be harmful in terms of efficiency, since it should be unexpected (and will not induce an ex-ante evasion increase) and unlikely to be repeated (and will not encourage subsequent evasion). The resort to tax amnesties, however, is more frequent and widespread than one would expect on the basis of exceptional circumstances alone. The Philippine government, for example, called its 1980 amnesty the “final amnesty”, although many others followed.

Amnesties are actually a well-established, ancient and widely used institution. There is evidence of a tax amnesty in the Rosetta stone (from around 200 B.C.): the priests of a Memphis temple thank the Monarch for not demanding a large sum of tax arrears due by the people. Tax amnesties can also be considered a form of pardon that shares some features with other past or recent institutions (Cassone and Marchese 1999) in the field of religion (jubilees, indulgences), criminal justice (plea bargaining), and penal or civil violations (amnesties for illegal immigration, breach of regulatory rules, and so on). The provision of statutes of limitation for some legal obligations and even for crimes can also be considered as a limiting case of a permanent standing amnesty, which might be rationalized on the basis of the fact that as time passes without any actual law enforcement, the net advantages of delayed enforcement tend to vanish or even turn to disadvantages. These

considerations suggest that amnesties might exert some positive social function. However, since tax amnesties are also harshly criticized, it is important to understand both the pros and the cons of this institution.

Pros

Among the pros is the idea that amnesties encourage repentance of violators and/or foster their willingness to behave cooperatively in the future (Malik and Schwab 1991). People may be unable to clearly assess ex-ante the costs and benefits of violating rules, such as engaging in tax evasion, and while ex post repentance may ensue, the fear of heavy sanctions for past conduct sometimes discourages disclosure of the violation. Amnesties have the positive effect of rendering repentance less costly, and the return to honest behaviour (such as the regular payment of future taxes) therefore more likely. The benefits of amnesties in this case are the partial restoration received by society (through payments or other forms of contribution by the violators), and by expected improvement in future compliance

While repentance implies some form of limited rationality, the full rationality of taxpayers can also be assumed when justifying the participation of citizens and the granting of tax amnesties by governments. Participation can be justified if it is in the best interest of the taxpayer to revise her economic calculus because the costs of evasion have increased, as a result of actual or anticipated changes in law enforcement, for example, which increase the expected sanctions for past misconduct. These revisions, however, are more likely for small evaders that can easily adapt to even marginal changes in the law, while the effects on repeat evaders who have hidden large sums are probably limited.

Good economic news might also provide the motivation for granting an amnesty. If the economy is growing quickly thanks to policies of liberalization and of opening to international trade, it may be the case that firms can benefit more in the new environment if they are legal and have a clean tax record, as this paves the way for accessing the credit market or for listing on the stock exchange and so on. For a firm that has been operating for some time in the hidden economy, however, shifting to legality could imply a huge cost in terms of sanctions for past evasion, and an amnesty can grease the wheels of change. The results of the amnesty in this case should be evaluated not only with reference to the effects on tax revenue, but also in terms of the effects on GDP that should ensue thanks to productivity increases in firms that were able to shift to legality (Bose and Jetter 2012).

Amnesties can improve efficiency when they are designed as an optimal discriminatory policy in the field of taxation (Marchese and Cassone 2000). Amnesties are in general discriminatory since they imply a more favourable treatment for those who evaded tax – and for those who can regularize their

position at a discount – than for those who complied from the outset on the one hand, or for those who were discovered and punished before the amnesty on the other. Amnesties can perform a role similar to that of price discrimination, and can increase a firm's profits. For example, selling a good in different markets at different prices can boost a firm's revenue, and this might occur even if some arbitrage arises; in other words, for example, even if some of those who were expected to buy at a higher price manage to buy at a lower one. Amnesties can be seen as a way of opening another market beyond that of compliance. If such an offer appeals to a large enough number of "customers" attracted by the expectation of future tax amnesties, government revenue can increase even if the number of regular tax compliers decreases. Price discrimination, however, can be optimally designed only if there are characteristics that distinguish markets, or, in our case, that distinguish perspective evaders and compliers.

For a case in which an efficient discrimination can be applied, consider economic shocks that affect only some firms or individuals (e.g. sectorial crises, adverse life events, and so forth). Tax evasion can work as an extreme method of increasing disposable income in such circumstances. Those more harshly hit by a negative shock are also those more likely to resort to such extreme measures. In this case, an amnesty helps the unluckiest to improve their circumstances as well as easing their return to legal behaviour when the shock is over. Since there might always be a share of the population experiencing these problems, a standing permanent tax amnesty can be justified both in terms of efficiency (supplying insurance) and of equity (helping those more in need) (Andreoni, 1991).

Another possible efficiency-based rationale for resorting to amnesties as a discriminatory policy is related to the exploitation of differences in the visibility of tax evasion (Marchese and Cassone 2000). Citizens who are more confident about their ability to remain undetected are less likely to file their tax returns regularly, but they may still be willing to pay to eliminate the risk of evading the law, and thus be interested in an amnesty. While it might be difficult to distinguish ex ante those who are more difficult to tax, it should become clear ex-post, since the more visible should comply immediately, while the less visible dare to wait. If a favourable amnesty is offered, the latter can enter it. The tax administration bears an opportunity cost since without the amnesty it might have enforced sanctions on the evaders, but if the payment asked for entering the amnesty equals the expected sanctions plus a risk premium, the result could be positive in terms of government revenue. Note that this approach can justify expected, repeated and periodic tax amnesties, which should work like a form of sales (Cassone and Marchese 1995). Sales, too, aim at discriminating among customers according to their impatience. It is well-known that efficient periodic sales can be compatible with a market in

equilibrium, in which the share of customers buying in periods in which the full price is applied is stable and the total revenue is larger than if sales are not held. Similarly efficient periodic tax amnesties are compatible with the stability of the number of regular compliers. A characteristic of both efficient amnesties and sales is the greater exploitation of those with the lowest demand (those who buy during sales or those who participate in a tax amnesty), while a better deal should be offered to regular buyers or compliers. This might seem somewhat counterintuitive, but the idea is that those who buy during sales and those who participate in amnesties, while paying less in absolute terms, should be fully expropriated of their willingness to pay, while those characterized by high demand (regular buyers and compliers) should be left with some net gain.

When amnesties are offered to tax evaders already under investigation, they can be rationalized as a form of plea-bargaining. In other words, the tax administration uses the amnesty to profitably renounce part of the expected proceeds as long as this also involves a partial cashing of its credits and a substantial reduction in the implementation costs it would have borne. As in the case of plea-bargaining, it is expected that those who are more willing to participate in the amnesty are also those who more patently violated the law, since they would lose if they tried to contest their liability. It is widely held that plea bargaining can be considered as an efficient selection tool, as on the one hand the guilty, who risk more, should reveal themselves by pleading guilty and thus be properly sanctioned, while by not pleading guilty, the innocent should go on to trial, where they are likely to be acquitted (Grossman and Katz 1983). A similar type selection is possible through amnesties. However, some problems may ensue with tax evasion, as long as only monetary sanctions are foreseen. In this case, *ceteris paribus* the amnesty is more appealing to those who have enough wealth to bear the liability and are thus easier to reach through standard means of enforcement. An amnesty, instead, is not relevant for those who are sanction-proof, as they have nothing to lose if an audit occurs.

While efficient discrimination is a potential, overall justification for tax amnesties in both developed and developing countries, in the latter countries, a further motivation is that they can help compensate for organizational problems related to performing audits and dealing with taxpayers' tax-related appeals. Here the main idea is that, whenever the productive capacity of the tax administration is modest and fixed in the short run, performance can be improved by using the amnesty to deal with the oldest unsolved cases, in order to concentrate resources on the most recent and probably more visible and thus easier to resolve ones. Moreover, amnesties can also be used by governments to periodically curtail the rents extracted from evaders by corrupted auditors seeking bribes. As long as the amnesty provides a large

enough discount, taxpayers will prefer to settle their liabilities directly with the state.

Cons

On the efficiency grounds, the main argument against tax amnesties is that credibility problems may arise concerning the ability and/or commitment of the state to enforcing the tax law (Stella, 1991). The idea is that governments in general, when granting an amnesty, try to look tough for the future, in order to induce compliance. Citizens, however, base their beliefs on past experience. Even if amnesties are accompanied by declarations about new stronger enforcement efforts, taxpayers, who take past auditing policy into account, are likely to only slightly correct their perception of the riskiness of tax evasion. Hence, the collection of resources from past evaders is likely to be low, and the expectation of future amnesties can induce previous compliers to evade. If an amnesty leads to larger evasion, a further subsequent amnesty might appear even more justified, but this might lead to a slippery slope, in which more and more generous and frequent amnesties are granted. Amnesties, in sum, could reveal the weakness behind the feigned tough stance of a government, thus permanently endangering its taxing capacity, i.e., reducing the overall taxpayers' willingness to pay, either through regular compliance or in amnesties.

As long as a government lacks the commitment to enforce the tax law, the aforementioned discriminatory function of amnesties would actually be impossible to implement due to the lack of credibility of the threat of punishment. Discriminatory policies have also been criticized because the tax administration might lack enough information to design them, if taxpayers' attitudes differ along many dimensions (such as income, age, sex, location and so on). It might even be technically impossible to devise a sufficiently fine-grained discriminatory mechanism.

A further problem raised by amnesties is that they are costly, and their costs are difficult to anticipate and to correctly evaluate (Baer and Le Borge 2008). As already seen, a large share of these costs is represented by the opportunity costs of renouncing pursuit of the standard enforcement activity over the participants, thus renouncing the revenue that they would otherwise have produced. When the amnesty foresees payment by instalment, some instalments may be missed, and the initial assessment of the amnesty's proceeds prove incorrect. Other costs can be due to a temporary suspension of enforcement activities, which is often granted during the period in which the amnesty is pending. Moreover, amnesties need to be well designed and advertised: "Get to us before we get to you" is the famous slogan used to advertise the Michigan 2002 tax amnesty. Interventions can include mass-mailings of information to prospective participants, the provision of an

information hot line and so forth. Last but not least, if amnesties endanger the future compliance of honest taxpayers, this prospective revenue loss also needs to be accounted for. Difficulty in evaluating the total costs involved in an amnesty may actually contribute to their popularity, as they would thus be based on a kind of fiscal illusion.

In terms of equity, most critics are of the view that amnesties are unacceptable because they introduce discriminatory treatment of citizens according to law enforcement. More specifically, when an amnesty is granted *ceteris paribus*, the participants can fulfil their tax obligations by paying different amounts than those who complied from the outset or from those who were caught in the meantime. On the other hand, if one focuses not on the equity of rules but on the social outcome instead, one sees that even without amnesties, honest taxpayers and tax evaders routinely end up with differences in their actual contributions to the financing of the public budget. Moreover, as long as the amnesty collects revenue from tax evaders, these differences are reduced, thus securing more horizontal equity. Even vertical equity could increase, if the rich evade more and take advantage of tax amnesties more often. Here too, as is generally acknowledged, focussing on justice in procedures or on justice in outcomes leads to different conclusions.

Even by considering amnesties as discriminatory in principle, the economic approach would suggest considering the potential equity efficiency trade-off resulting from possible compensation for those who are negatively hit thanks to the proceeds that an efficient amnesty should produce. However, the compensation principle is problematic and a source of widespread debate: it would either have to involve the actual payment of compensations (and this would be difficult to plan for and is therefore practically never done) or a comparison on paper of utility gains and losses, which is not acceptable to those who claim there is no objective unit of measurement for making these calculations. At any rate, some types of amnesties, such as those aimed at capital repatriation or at easing the opening of the economy to international trade, have clear-cut and widely recognized general economic benefits extending beyond the effects on tax revenue. They are therefore often considered more acceptable from an equity point of view.

Another criticism of amnesties is that external incentives might endanger internal incentives to legal behaviour. In other words, as long as tax compliance in modern societies largely rests on the internal incentive represented by a moral imperative, the introduction of external incentives based on the gains that an amnesty can produce for both those who participate and those who do not, could push the public reasoning away from the moral perspective. This might have negative effects on compliance, since in many cases pure economic calculus shows that tax evasion pays, so widespread evasion should be expected. Amnesties, however, are generally considered as acceptable on

the grounds of equity if they discriminate in favour of more deserving people: amnesties that work as a form of insurance for the most unfortunate or exceptional amnesties granted to citizens faced with the difficulties posed by large-scale overhauls of the tax code or other major changes.

Not everyone who files for an amnesty is a tax evader. Even honest taxpayers may fear having made mistakes on their tax returns and want to avoid being audited or going to court, or they may also wish to avoid the inconvenience and cost of being audited. Particularly in developing countries, where enforcement is often intrusive and burdensome for citizens, amnesties can appeal to honest taxpayers. The role of amnesties in this case is ambiguous. On the one hand, they produce a benefit for participants who are honest and deserving from a social point of view; but, on the other, they can imply perverse incentives for the tax administration (Franzoni 2000), to capitalize on its own malfunctioning.

The observed effects of amnesties

As for participation, amnesties tend to deliver somewhat extreme results. Either the entire potential population participates or only a very few members do. This is due to the fact that amnesties ordinarily reduce the perspective workload of auditors, who no longer need to focus on those who entered the amnesty, and can thus target non-participants more. Hence, the risks for non-participants (and thus their motivation for taking part) increase with the number of those who have already applied. In a certain sense, there is a network effect, and even in successful amnesties, participation tends to accelerate toward the end of the period of validity, as people wait and see how large participation has been. It is thus suggested that the period in which an amnesty is pending should not be too long (around 90 days), in order to avoid wasting time and to reduce costs. Moreover, this period should not coincide with that in which tax reports are filled-in, since it has been shown that this might exacerbate the trade-off that might arise between reporting for the amnesty and reporting for paying taxes of the current year (Alm and Beck, 1990). If both reports have to be made at the same time, when confronted with two ways for reducing their risk in the field of taxation, past evaders can more easily assess the relative advantages. If the amnesty is very cheap, they might even reduce the overall amount they pay, with a negative result for the public budget.

The economic effects of amnesties can be estimated using econometric techniques. The reliability of the results is limited by the fact that one either studies a specific amnesty – but then the data collection should be very detailed and the results might at any rate not have general significance – or one can pool many amnesties, but then one needs to control for the

specificities of each case considered. Moreover, it is not easy to disentangle the specific effects of amnesties from those of the supporting programs often jointly enacted.

Many studies have focused on the large number of amnesties granted in the USA, which present the advantage of providing a large data set of cases sharing a common legal and economic background. Mikesell and Ross 2012 arrive at a total of 117 amnesties granted by 41 States in the period 1980-2011. The results of these econometric studies show that some features of amnesties are decisive for boosting the proceeds, such as the effort made in advertising, the inclusion of accounts receivable and the possibility for instalment payments. Other relevant variables are those linked to tax evasion opportunities, either in terms of self-employment, or with reference to less auditing in the state by the central government. While the amnesties granted in the 1980s also included cases where eligibility was very restricted, the most recent amnesties are more often characterized by large admission criteria. Moreover, recent amnesties tend to waive interest to a larger extent (whereas the principal is never reduced), and are less often accompanied by supportive measures aimed at reinforcing future compliance. This might also be due to the repetition of amnesties over time, a fact that tends to reduce the number of new enforcement interventions not yet enacted that can be introduced, and to undermine the credibility of further threats, so that they are mainly dispensed with. From the point of view of gross revenue collected, USA states tax amnesties were sometimes successful (with an impact at any rate always below 3% of the yearly tax revenue), while their long term effect is unclear and probably nil or negative (Alm and Beck 1993; Luitel and Sobel 2007). It has been noted that the participants totally unknown to the tax administration mainly continued to report after they entered an amnesty, but their contribution to the tax revenue has often been scant (Christian et al. 2002), thus raising some questions about the role of amnesties in significantly enlarging the future tax base. The average sums paid in amnesties were often small and related to recent years. Since there is no reason to expect this on an objective basis, the explanation may either be a lack-of-recall of past evasion or a rational calculus about the fact that evasion made far in the past and not yet discovered is even less likely to be found out in the future. In general there seems to have been some change over time in the goals that the states pursued by granting an amnesty, which mainly ranged from boosting future compliance to providing an immediate source of revenue.

For countries that often granted tax amnesties (including Italy, Ireland, India, the Philippines, and Turkey) the best results seem to have been reached whenever an amnesty was offered together with a policy aimed at strengthening enforcement capacity and at improving the overall efficiency of the tax collection system (Baer and Le Borgne 2008). In some cases instead, such as in Argentina, where measures of this type were not introduced, amnesties gave rise to a spiral in which forgiveness for not paying what was due according to a previous tax amnesty was also offered, and participation in amnesties faded out over time. When a negative spiral is avoided, amnesties mainly modify somewhat the intertemporal profile of tax revenue; that is, they imply a temporary increase, also due to the fact that they anticipate the

cashing in of some future revenue that would have been obtained through ordinary enforcement activity, followed by a subsequent decrease, with no change in the revenue trend.

Experiments have also been used to assess the effects of tax amnesties (Alm et al. 1990). It turns out that amnesties actually do foster subsequent increases in evasion. However, combining amnesties for the past with harsher penalties for the future prompts greater compliance. This combination is reminiscent of a feature that has also been deemed necessary for the efficient and equitable functioning of plea bargaining, where it is found that the judge should use discretionary power to threaten harsher penalties, so that those who plead guilty, while obtaining a discount compared to the new level of penalty, are actually given the sanction due ([Grossman](#) and Katz 1983).

Amnesties as a public choice issue

Amnesties imply a kind of temporary modification of the social contract between citizens and the state on taxation. As with contract renegotiations, such modifications can be justified by the arrival of new information not available when the pact was signed, or by changes in the preferences and objectives of the parties involved. It might, however, also arise out of intertemporal inconsistency, whenever the parties find it in their interest to renege on their past promises. In the specific case of taxation, the former case would occur with efficient amnesties that ease the adjustment to major changes or perform discriminatory tasks, while the latter would correspond to cases in which governments risk their credibility as law enforcers in order to secure an immediate increase in revenue. The short-run perspective that often plagues the functioning of democratic governments can easily lead to intertemporal inconsistency. Notwithstanding the long-term benefits of tough tax enforcement, politicians who stay in power for a limited period are likely to be tempted by amnesties that grant immediately available proceeds, while they might not be so worried about the damage that will materialize only in the long run, after they step down. To avoid these drawbacks, in some countries amnesties can only be introduced with the approval of large parliamentary majorities (as in Italy for amnesties waiving criminal offences) or they are subjected to approval by referendum (as in Switzerland).

Amnesties can be tempting from the political perspective, too, because they represent means of gaining a quick increase in revenue without burdening the entire tax-paying population with changes in the tax law and rate increases. This might be particularly welcome in pre-election periods, as politicians are keen on spending to boost economic growth and consent (the so-called political business cycle). Amnesties, however, might also be seen as a way of squeezing taxpayers, besides offending regular compliers. In fact, from the point of view of political consent, amnesties have not performed well. USA state governors

granting one during the electoral year proved more likely not to be re-elected (Le Borgne 2006).

Amnesties are relevant for politicians also when they participate in one. If information leaks and reaches the press, it can damage the social reputation and the possible political career of participants. Companies also risk damaging their reputation if it is discovered that they took advantage of an amnesty.

Economic psychology has characterized the implicit psychological contract between the state and the citizens concerning taxation. While citizens are obliged to pay taxes, the state must treat them respectfully yet punish those who fail to comply. If it does not punish them, the citizens who did comply may feel betrayed. In fact, in experiments where there are collective gains from cooperation, the participants often demand punishment for violators. In many cases, it turns out that those who cooperated are ready to sacrifice a share of their gains in exchange for implementing the punishment. If amnesties are perceived as a breach of the psychological contract of taxation, they will encourage further tax evasion. However, it is also true that honest taxpayers might consider participants in an amnesty as willing to change their behaviour. Frustration that some evaders may go unpunished in amnesties can also be dealt with if the hidden evaders are threatened with harsher penalties. In fact, punishment can serve two main purposes: retribution for illicit conduct and restoration of legal order. While the retribution recouped via amnesties is lower than that provided for by standard rules, amnesties can convey some advantages in terms of restoration as long as they foster greater future compliance. From this point of view, amnesties should be favoured by those who are more generally in favour of alternative penalties aimed at facilitating the social rehabilitation of those who breached the law (Reichberger et al 2010). The ambiguous role that amnesties can play implies that public debate over an amnesty programme may have important consequences. This is confirmed by experiments in Switzerland and in Costa Rica conducted by Torgler and Schaltegger in 2005. They found that only amnesties approved by referendum lead to increased compliance. This effect can be traced back to the formation of public opinion through the public discussions among participants in the experiment that accompanied the referendum. Participants perceived the amnesty not as an imposition from above, but as an agreed upon intervention with useful functions, and this in turn increased the social pressure for cooperation.

As for public opinion on amnesties, the Bank of Italy (Cannari and D'Alessio 2007) conducted interviews in 1992 and 2004 in which questions were asked about the government motivations for granting an amnesty, the results expected and the respondent's evaluation of such a policy. Regarding the first question, the majority of respondents think that the Italian state resorts to amnesties either because it is powerless to punish evaders or because groups

of evaders had lobbied for preferential treatment. Yet in reference to the evaluation of the consequences and the moral judgement of this policy, only about 30% of respondents have clear-cut negative feelings (that evasion will increase and the policy offends honest citizens), while the remaining respondents express more nuanced opinions. The negative feelings, however, were more frequent in 2004 than in 1992, possibly due to some deterioration of the government's credibility in light of repeated tax amnesties.

Besides being relevant for internal political affairs, amnesties can also be linked to the state of cooperation or competition between governments or levels of government, since they represent a means of dealing with externalities in taxation and in enforcement policies. It is also the case that forms of imitation or competition often arise among neighbouring countries, so amnesties sometimes spread from one country to another. The importance of externalities in this field is confirmed by an empirical analysis of the motivations leading states in the USA to grant an amnesty, which revealed that the likelihood of amnesties increased as the effort of the federal government in auditing taxpayers within the state decreased (Dubin, Graetz and Wilde 1982; Le Borgne 2006). In the field of international relations, in 2010 the OECD suggested offshore voluntary disclosure programs as a solution to help governments benefit quickly in terms of revenue from the effects of improvements in international cooperation for information exchange and transparency that have occurred since the onset of the financial crisis. Voluntary disclosure implies a "limited-time offer by the government to a specified group of taxpayers to settle undisclosed or unpaid tax liabilities for a previous period in return for defined concessions over civil or criminal penalties. In some cases, there are also concessions over the amount of tax and/or interest payable" (OECD 2010, p.11): the definition is very close to that of an amnesty.

International organizations such as the IMF have studied more in general the policy of tax amnesties (Baer and Le Borgne 2008). They arrive at a substantially negative evaluation of this institution. Their suggestion in this field is to avoid the resort to amnesties, while pursuing alternative policies instead, such as: i) trying to reduce tax evasion by addressing its basic determinants (unsustainable tax system, insufficient and improper enforcement, the malfunctioning of courts, etc.); ii) resorting to permanent programs for encouraging disclosure of tax evasion and for granting extended payment agreements to taxpayers under economic stress for personal or conjunctural reasons; iii) improving the functioning of the tax administration, for example, by granting it with the power of disposing of cases unlikely to lead to net contributions to the revenue. The basic idea is to consolidate taxpayers' expectations about the commitment of the state to fighting tax evasion, while also dealing with the problems that often motivate the granting of an amnesty in other ways. These policy suggestions have sound economic foundations. They can be likened to the commercial practice that uses price discrimination systematically rather than intermittently, so that, for example, special sales can be replaced by permanent offers at outlets specializing in major discounts. Following these suggestions, however, is not easy, particularly when one

considers developing countries and countries where corruption is frequent. Whenever interventions such as a standing amnesty are introduced, it is possible that corrupt auditors will accept bribes in order to say that a taxpayer voluntarily disclosed her evasion. Problems of this type have arisen in the past even in the United States (Andreoni 1991). Likewise, whenever a personalised deal (such as an individual instalment plan for tax payments) must be designed, the risk of corruption of officials tends to be greater than when general public interventions such as tax amnesties are implemented, given that they are often regulated by the law. These considerations, coupled with the existence of genuine unanticipated phenomena that cannot be dealt with efficiently through other means, or with discrimination opportunities not available elsewhere, suggest that amnesties are and are likely to remain an accepted tool in tax administration.

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