

Fast money? The contribution of state tax amnesties to public revenue systems.

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Body

ABSTRACT:

State tax **amnesties** have become a commonplace component of state tax administration over the last 30 years. This paper reviews the structural evolution of all state **amnesty** programs and makes the case that their fundamental purpose has shifted from improving tax administration to emphasizing revenue maximization. It then provides empirical evidence on which state **amnesty** program features aid in this effort. The regression results reveal that most of the malleable **amnesty** program features that tend to increase **amnesty** recoveries also conflict with or undermine the goal of improving the tax administration system.

Keywords: tax **amnesty**, state tax administration JEL Code: H71, H30

State tax **amnesties**, fixed-term programs which forgive some consequences of previous tax delinquency in exchange for voluntary payment of liability, are no longer an exceptional event in the United States. Since their inception in the early 1980s, 45 states plus the District of Columbia have conducted 117 tax **amnesties**, and all but 12 of these states have offered multiple **amnesties**. An exploration of tax **amnesty** structures and the accompanying programs reveals that their relationship to American state tax administration has evolved. Early **amnesty** programs were coupled with important administrative reforms and efforts at improving the compliance environment, while the structure of recent programs and their timing relative to adverse fiscal shocks shows a substantial emphasis on revenue generation. In fact, many of these structural changes are somewhat inconsistent with an administrative system built on maintaining voluntary compliance and traditional enforcement. Indeed, a regression analysis of the effects of **amnesty** features on **amnesty** recoveries suggests that aggressive recovery maximization is best pursued by introducing structural features that compromise existing tax compliance.

The new emphasis on revenue generation, even to the extent of compromising the existing system of tax administration, raises concerns because the historical record shows that **amnesty** recoveries are seldom large enough to have a dramatic impact on a state's fiscal position, providing a contribution to tax revenue that is small even when compared to other non-traditional sources of modest revenue (e.g., rainy day funds or lotteries). Even among the early compliance-oriented **amnesties**, the preponderance of evidence suggests that **amnesties** provided only a temporary revenue shock instead of a continuing fiscal base. Somewhat paradoxically, if state legislatures continue to repeatedly enact **amnesty** programs, the evidence of a zero long-term revenue effect at best or possibly even a negative effect at worst, suggests that administrators might need to maximize initial revenue to the greatest possible extent, as it will likely be the only fiscal contribution.

More than 20 years ago, Alm, McKee, and Beck (1990, p. 23) wrote,

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Beleaguered by declining tax revenues and mounting expenditures,

many state governments in recent years have sought alternative and novel revenue sources. One approach that has been used by twenty-eight states since 1981 is the tax amnesty.

At the time, those states had conducted a total of 37 amnesties, and the programs still carried a sense of being a new development for American government finance. Amnesties seemed to be a tool more appropriate for chronically non-compliant European or developing countries, which could use them to boost collections and possibly compliance. American observers were principally worried about the consequences of tax amnesties for voluntary compliance, especially if taxpayers developed an expectation that the next amnesty might be just on the horizon. (1)

The reviews of these early efforts concluded that tax amnesties were first and foremost a tool for improving tax administration. In a study of the first 26 state amnesty programs, Mikesell (1986) examined their structural features, noting throughout how these attributes contributed to the state system of tax administration. In a pair of independent surveys of state tax administrators, Ross (1986) and Parle and Hirlinger (1986) reviewed the goals and objectives of the early amnesty programs. (2) They similarly found relatively little interest among the states in boosting short-term revenue, as emphasis was placed on bundling the amnesty with other enforcement strategies and improved compliance initiatives.

After 117 programs (and counting) over 30 years, (3) we argue in this paper that amnesties have evolved into a standard component of American state tax collection systems with a purpose quite different from the administrative functions described in the contributions of Mikesell, Parle and Hirlinger, and Ross cited above. Specifically, we argue that amnesties have become tools of revenue generation, and that this is being pursued even at the expense of existing systems of tax administration. To demonstrate this, the first part of this article provides a narrative analysis of the path of state tax amnesty programs since 1981, paying particular attention to the amnesty features highlighted in Mikesell (1986). This overview demonstrates the differences in structure between the early surge of amnesties in the 1980s and more recent amnesties (the 66 conducted or scheduled since 2000). This paper then regresses amnesty recoveries against features of the amnesty programs. The empirical evidence indicates that most program features that are correlated with greater recoveries are those which conflict with tax administration concerns.

The layout of the paper is as follows. The next section provides background on tax amnesties drawing on the previous literature especially as it pertains to systems of tax administration. Section II discusses the pattern of amnesty offerings and revenue recoveries across the states over time. Section III proceeds with a narrative analysis of how the program features within the amnesties have evolved over time to reflect a tool for revenue generation rather than improving administration. Section IV presents an empirical analysis of how these features actually affect revenue recovery, and Section V concludes.

I. THE AMNESTY IDEA

Baer and LeBorgne (2008, p. 5) define a tax amnesty to be "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." (4) These temporary programs allow taxpayers who have previously evaded taxation to voluntarily remit unpaid taxes without incurring all the sanctions that failure of timely payment would ordinarily incur. If collected through enforcement action, taxpayers with these liabilities would owe the tax plus various penalties and interest on the unpaid amount and might also be subject to felony prosecution. By participating in the amnesty, taxpayers can avoid certain program-specified consequences.

To consider the contribution and the complication that an amnesty might make to tax administration first requires an understanding of tax administration itself. Penniman (1980, p. 173) aptly characterized tax administration in this

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way: "... the tax official's service can be generalized only in terms of the value of the revenue he collects for the operation of all government and in the fairness with which he collects such revenue within the state's tax framework." The tax amnesty likewise must balance revenue and fairness in the service of tax administration. One contribution is the extra revenue that may flow from the amnesty, which the amnesty no doubt accomplishes in a manner particularly appealing to elected representatives. Amnesty collections emerge without the politically difficult tasks of increasing statutory rates or changing definitions in the tax base. Amnesty programs, however, raise equity concerns that likely impact the overall efficiency of state tax administration. Because the money comes from those who previously had shirked payment, the amnesty understandably strikes the public as a special deal for evaders and therefore arguably violates principles of general fairness. Honest taxpayers may believe they have been cheated by the special deal provided to evaders, which could harm overall compliance by encouraging the attitude that waiting for the next amnesty is better than perpetual voluntary compliance. Since most major tax systems rely on voluntary compliance to generate collections, putting the honest taxpayer at regular economic disadvantage conceivably works against the efforts of an efficient system of tax administration. Furthermore, the only new revenue truly generated by the amnesty comes from those collections that would not otherwise be uncovered through normal enforcement efforts. Amnesty programs are revenue losers on accounts whose collection would occur without forgiveness, but surrender interest and penalties nevertheless. Hence there is a concern that the amnesty may harm the compliance climate and discriminate against the honest taxpayer for what may be little true new revenue. The difficulty in accomplishing this balancing act between obtaining additional revenues and harming the compliance climate is the source of the reluctance that states historically had in regard to the amnesties.

The compliance effect of the amnesty seems crucial both in terms of revenue potential and as a signal of equity implications, but empirical evidence of such an impact is far from conclusive due to the complexity of the research question. A few studies have studied individual amnesty programs and the responses by taxpayers over time. From a random sample of tax amnesty participants, Fisher, Goodeeris, and Young (1989) found that the early Michigan experience did not significantly bring previously unknown delinquent taxpayers permanently back to the tax rolls. Instead, they found that most amnesty participants were taxpayers known to the state who were paying only a portion of unpaid liabilities, and that a high estimate of the new taxpayers remaining on the rolls permanently was about 21 percent: Christian, Gupta, and Young (2002) came to similar conclusions on the same Michigan-1 (1986) amnesty after examining subsequent filings over a longer time horizon. Likewise, Joulfaian (1989) found that more than half of the Massachusetts-1 (1983) program participants were known delinquents, and 70 percent of their liabilities were less than four years old, which are the most likely to be collected under routine operations. Alm and Beck (1993) found no effect, positive or negative, in a careful time-series analysis of tax collection levels and trends that could be attributed to the 1985 Colorado amnesty program. Though informative, the main drawback of these single program ex-post analyses is that there is no variation at the program level: there are also concerns regarding their external validity.

Luitel and Sobel (2007) extended the literature by examining multiple states over time by drawing upon 37 state quarterly revenue collections with "regular" tax systems between 1981 and 2004. (5) In a series of panel fixed effect regressions, they found robust evidence that repeated offerings of amnesty reduced state revenue collections, which is consistent with a compliance problem in post-amnesty periods. A limitation of the Luitel and Sobel (2007) analysis, however, was the difficulty in determining whether a downward trend in revenue collections following each amnesty iteration was a consequence of the amnesty itself, or if instead states repeatedly offer and reoffer amnesties because of persistent revenue problems.

Alm, McKee, and Beck (1990) found that participant taxpayer compliance decreased with amnesty offerings in an experimental setting, better allowing for the randomization not found in real world policy. In their experiment, subjects were divided into different sessions where they would voluntarily report their income for taxation over 25 rounds. By itself, the introduction of an amnesty did appear to lower compliance, but introducing new enforcement strategies and making promises of the amnesty being a "one-time event" appeared to be successful in offsetting this effect. This might be considered the strongest evidence that improving long-run compliance post-amnesty is possible, but it is not clear that the experimental settings transfer to the real world of politics and policy. For

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instance, lab administrators might be considered more credible by their subjects in such promises than state policy makers would be by their constituencies.

Though all the studies have their limitations, the preponderance of evidence is against the view that amnesties increase long-run revenues. The clearest conclusion from this research is that the fiscal contribution of an amnesty is in the direct recovery during the amnesty but not later. (6) Therefore, it is important to measure and understand this direct recovery revenue because it may well be the only fiscal contribution of the amnesty.

II. AMNESTIES AND THEIR RECOVERIES

Since 1980, 45 states plus the District of Columbia have conducted at least one formal tax amnesty program; all but 11 of these have run more than one program, certainly casting doubt on the claims sometimes made by the states that the program offers a "one-time opportunity" for an honest, new start with the tax authorities. (7) Figure 1 shows the annual frequency of state programs during the American amnesty era from 1981. (8) The 1980s were a period of aggressive experimentation with 33 amnesty programs in 30 states, with Florida, Illinois, and Louisiana having repeated programs. Amnesties of this time did not stem from fiscal stress, but as Dubin, Graetz, and Wilde (1992) note, they were likely a state reaction to reduced federal enforcement efforts in that period that resulted in a lower compliance environment. (9) State tax officials described the amnesties in terms of improving and updating their administrative systems (Parle and Hirlinger, 1986), and this was likewise reflected in the amnesty features and accompanying programs (Mikesell, 1986).

[FIGURE 1 OMITTED]

The amnesty pace declined in the 1990s, when there were only 18 occurrences, eight of which came from states offering programs for the first time. The 2000s brought a flurry of 51 amnesties, however, and 15 more have been conducted in 2010, 2011, or are already scheduled for 2012. The figure shows dramatic increases in amnesties at both ends of the period from 2000 to the present. This pattern is almost certainly related to the declines in state tax collections during and shortly after the recessions of 2001 and 2007-2009, combined with general public opposition to statutory tax increases as a source of additional revenue.

Table 1 identifies the state (and District of Columbia) tax amnesties conducted since 1981. Along with the dates of each amnesty, the table identifies the gross state tax recovery in current and constant dollars from each program. (10) Collections reported in the table are gross values for several reasons. First, tax revenue generated by other methods is traditionally reported on a gross, not net, basis. There are no deductions for the cost of collecting the revenue--those administrative costs are captured on the expenditure side of fiscal reporting--so this reporting allows for consistent comparison with other tax revenue. (11) Second, where data on the cost of running an amnesty are available, such cost is modest in comparison with collections, so reporting revenues on a net basis would have little impact on the amounts. In many instances, the amnesty program is administered with resources redirected from an existing department, and as a result the reported program cost is zero because there was no special budget appropriation. Third, there has been no standard approach to calculating program cost, meaning that there would be considerable inconsistency in reporting for net numbers. States which report "net revenues" may or may not have counted an estimate of forgone penalties and interest as program costs, for instance. For these reasons, gross collections are appropriate for comparing and evaluating the results of state amnesty programs. The vagaries of the data reporting process dictate considerable caution in use of the results. These are important data, however, because they remain the common basis on which states evaluate and promote the success of the amnesty. Because the existing evidence suggests there is no positive impact on revenue flow after the amnesty (Baer and LeBorgne, 2008), and that the impact may even be negative, the emphasis on the fiscal contribution of the direct amnesty recoveries is the appropriate focus of attention. (12)

In the aggregate, state amnesties report over \$10.7 billion in recoveries (when adjusted to 2005 prices), a substantial but modest number in comparison to the \$1.3 trillion total tax revenues collected during the equivalent periods. Revenue production has, however, varied widely across state programs. In real terms, the greatest collections were from the California-2 (2005) program (\$683.4 million) and the New Jersey-4 (2009) program (\$661.7 million), and the smallest were from the Illinois-1 (1981) program (\$165.9 thousand) and the North Dakota-

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1 (1983) program in (\$259.2 thousand). The largest amnesty numbers are big enough to draw public attention to the results, even though the proceeds look much smaller when compared to the total tax revenues of the state. For instance, total tax collections in New Jersey in 2009 exceeded \$24 billion the amnesty proceeds were 2.7 percent of that amount, which is hardly enough to dramatically change the state's fundamental fiscal situation and not a flow that would be a permanent component of annual revenue.

States do not report the type of tax for which the amnesty has made a recovery as regularly as they report total recoveries. Table 2 shows the distribution across taxes for the 23 states for which these data are available. (13) The table also presents the distribution of total tax revenue across taxes so that a comparison with amnesty results can be made. The table focuses on sales and use, individual income, and corporate income taxes because these are the most significant taxes in these states; furthermore, the total recoveries from the three exceed 80 percent of the total in all but four of the states. It is apparent the amnesties vary dramatically in regard to the relative yields for the three taxes. While the averages across all states are similar around 30 percent for each-the variation from state to state is dramatic: sales and use tax shares range from 6.56 percent (Missouri-1 (1983)) to 70.09 percent (Louisiana-1 (1985)); individual income tax shares range from 4.53 percent (Missouri-1 (1983)) to 81 percent (Arkansas-1 (1987)); corporate income tax shares range from 2.16 percent (New York-3 (2002)) to 87.91 percent (Missouri-1 (1983)). (14) For some states, recoveries are heavily drawn from the sales and use tax, and for others the income tax is the primary source. (15) Seldom is there a close balance between recovery shares of sales and use and individual income taxes for an individual state. The table shows both a close balance in virtually all states between the revenues from sales and use and individual income taxes and only a modest contribution from the corporate income tax to total tax revenue. Amnesty recovery patterns diverge substantially from that, possibly revealing some differences in the level of evasion across taxes, but it is just as likely that this divergence simply reveals a difference in amnesty participation for unknown reasons.

Although these amnesty recoveries were no doubt welcome, in comparison with the size of fiscal deficits being experienced by many American states in the aftermath of the Great Recession, they were modest. To the extent that state fiscal problems are structural and not cyclical, the onetime revenue from the amnesty will not provide the needed solution and will harm a state's long term fiscal prospects to the extent it creates the feared compliance incentive problem.

III. THE EVOLUTION OF AMNESTY STRUCTURE: FROM ADMINISTRATIVE TO REVENUE CONCERN

There are several important program design differences across the state amnesties, and these features can be critical to determining how much revenue the amnesty immediately recovers relative to its impact on the state tax compliance climate. Table 3 shows how several of these significant features of the programs have evolved across the decades.

A. Eligible Liabilities and Applicants

The tax previously unpaid to states may include several logical categories: accounts receivable, taxes from delinquent filers who may be either accounts known to the tax department or previously unknown, taxes from incomplete prior returns, and taxes from firms or filers previously unknown to the state. (16) While some early amnesties provided extremely limited eligibility (Texas-1 (1984) limited eligibility to unregistered merchants and Idaho-1 (1983) limited eligibility to periods in which no return had been filed), such narrow eligibility has been the exception. (17)

The major distinction across the earlier amnesties was the inclusion of accounts receivable in the program. While the amnesties of the 1980s were closely divided in the eligibility of these liabilities (15 included them, while 18 did not), amnesties since then have overwhelmingly included accounts receivable (63 have, while only 21 have not). In 1986, Mikesell pointed out that inclusion of accounts receivable in amnesty eligibility was at that time a strong distinguishing feature between programs with high per capita recoveries and those with low per capita recoveries, and Alm and Beck (1991) would later find the inclusion of accounts receivable to be a statistically significant determinant of total amnesty recoveries. Since then, states have overwhelmingly included liabilities in accounts receivable, even though these represent the softest results in terms of producing new net revenue and in terms of

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rewarding non-compliance. Because the liability is both known and established, these revenues are most likely going to be collected through the enforcement mechanisms available to the state if the taxpayer has any recoverable financial resources. Taxpayers truly without the means to get current from accounts receivable would be unlikely to have the means to become current through an amnesty program. It is difficult to view the inclusion of accounts receivable as having a purpose beyond speeding up the collection process by a few months.

B. Forgiveness of Penalties and Interest

Features that characterize all state amnesty programs include the following: they do not forgive the basic tax owed, they do not close tax years for potential audit, and they all waive criminal prosecution for violations included in the amnesty. Beyond those elements, the state programs mix varying degrees of forgiveness of financial penalties and interest that would have otherwise been owed by the non-compliant taxpayer. Table 3 shows that amnesties have extended more toward forgiveness of interest across the decades. In the 1980s, amnesties generally provided for cancelled penalties, but continued at least part of the interest liability. For the 2000s, virtually all amnesties granted at least partial interest forgiveness. (18) The pattern of interest relief continues into the 2010s, when 12 of the 15 amnesties so far have provided at least partial interest relief in addition to penalty relief. Because many states in recent years have at least an informal program of providing penalty relief for any taxpayer who makes a voluntary disclosure of unknown liabilities, the forgiveness of penalty in formal amnesty program provides little marginal incentive, meaning that the best remaining award for enticing taxpayers into the amnesty program involves reductions in interest payments. This is likely the reason for the gradual shift in the extent to which this incentive is offered to bring taxpayers into the system. At their least generous, the Florida-3 (1992) and Illinois-1 (1981) programs offered only amnesty from prosecution.

In many respects, forgiving interest is the most sensitive element of the amnesty in terms of maintaining equity and compliance incentives. The programs do not relieve the basic tax obligation, so that is not an issue, and the penalty has been demonstrated not to have its intended effect if the taxpayer is delinquent, so it involves no great revenue loss if waived. But to forgive interest is tantamount to giving the evaders an interest-free loan, and that gives the tax cheat an economic advantage over honest taxpayers. (19) This advantage clearly has been on the minds of amnesty designers, as several programs have only a partial or no interest waiver. Interest obligations do accumulate on older liabilities, however, and some recent programs have created special higher waiver rates for such older obligations. (20) The recent Florida program went as far as distinguishing between taxpayers who are being audited or under inquiry, examination, and civil investigation and those who initiate contact with the Department of Taxation. The former may receive a waiver of 25 percent of interest while the latter may receive a 50 percent waiver. For the few amnesties providing data on the age of the delinquent liability collected, however, a large amount of the total recovery comes from accounts that only recently became delinquent. Figure 2 demonstrates this point by summing the total recoveries by age of delinquency for the six amnesty programs that report these data, and then dividing it by total amnesty collections. Within these aggregates, the percentages of total recovery from tax years no more distant than five years are 77.15 for Kentucky-2 (2002), 81.8 for West Virginia-2 (2004), 71.54 for Indiana-1 (2005), 62.24 for Iowa-2 (2007), 65.73 for Pennsylvania-2 (2010), and 59.73 for Pennsylvania-1 (1995). Recoveries from delinquent accounts of less than a year or two are often not eligible for amnesty, which is a policy intended to prevent taxpayers from becoming delinquent just for the purposes of participating in the amnesty, effectively treating the state as a short-term loan officer. It would seem from these data that programs which offer only a limited look back for amnesty would likely not be forgoing significant revenue. Also, devoting significant resources to collecting older accounts might not represent a prudent investment for a state tax compliance department.

[FIGURE 2 OMITTED]

C. Amnesty Length

State amnesty programs run for a limited number of days. Requests for amnesty must be filed within a specific period in order to be eligible for consideration. The early amnesties tended to run for about three months. Later amnesties are shorter, now averaging close to two months. That would be consistent with taking advantage of the

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improved communication and information technology systems that have developed in the past quarter century of amnesty history.

As one might surmise, the amnesty record shows that a longer amnesty period is associated with a lower recovery per day during the program, as participation is either fixed or only increases at a diminishing rate with amnesty length. For amnesties of 60 or fewer days, the median daily recovery is \$744,848, while for amnesties of 80 to 100 days, it is \$278,852, and for amnesties of 110 days or longer, \$95,076. The shortened amnesty period that has emerged suggests that amnesty design has responded to this pattern of diminished returns from long programs.

D. Quarter in Which Amnesty Conducted

Amnesties have tended to be conducted in the later quarters of the calendar year (i.e., the beginning of most state fiscal years). In the early amnesty era, there was a concern that amnesties earlier in the year would conflict with the heaviest part of income tax filing season and that adding this work would complicate both administration and compliance. These administrative and compliance concerns appear to have become somewhat less important in the most recent decade with more programs offered earlier in the year. The third calendar quarter is the most popular quarter for an amnesty, with 45 percent of all programs conducted then.

E. Installment Plans

The amnesty programs differ in regard to whether they require the full liability be paid during the amnesty period (or shortly thereafter) to receive the amnesty incentive or whether they allow the taxpayer to establish an installment plan for payment of the liability over some period in the future. Since participants in amnesty programs have shown themselves to be less than reliable taxpayers, it may be surprising that amnesty programs established such installment programs at all. (21) However, if the objective is to improve compliance and administration, these installment plans serve the purpose of enticing such taxpayers to at least come forward and make themselves known, even if they ultimately cannot fulfill the obligations of their payment plans.

Here again the data presented in Table 3 show a considerable change in structure when later amnesties are compared to earlier ones. In the amnesties of the 1980s, 17 programs allowed installment payments while 16 did not. There was also a close split for the 1990s amnesties, with eight programs allowing amnesties while nine did not. But that changed in the 2000s, as only 15 of the 51 amnesties permitted installment plans and only one of 15 amnesties to date in the 2010s have allowed an installment payment option.

F. Accompanying Programs

Amnesties have often been bundled with other programs, revealing a mixture of interest in both recovering tax revenue and in favorably influencing the compliance climate. In an early study, Mikesell (1986, pp. 522-523) found amnesty programs to be accompanied by additional programs designed to improve future compliance, and even argued that the amnesty may have been the cover necessary to make such enforcement enhancements and other changes to the rules "politically palatable." These programs increased penalties and interest for the future, made tax evasion a felony, promised more rigorous enforcement, introduced new computer technologies, and allowed for improved audit detection techniques, among other changes (Mikesell, 1986; Alm and Beck, 1991).

In contrast, it does not seem to be the case that the more recent programs can be viewed as providing political cover for ramping tip enforcement practices. Most of the recent amnesties are in states that had offered amnesty in the past and had made substantive administrative changes with the earlier amnesty, and thus had fewer opportunities to introduce new enforcement initiatives with their more recent amnesty programs. Table 4 identifies the programs since 2000 that accompanied the amnesties, either directly in the legislation instituting the amnesty or in materials (guides, news releases, advertising, etc.) produced by the revenue administration about the amnesty. Recent programs have accompanying compliance programs less frequently than was the case for the early amnesties.

In the 58 amnesty programs identified in Table 4, only 26 bundled an accompanying program of any kind, suggesting the absence of a genuine interest in improving the long-run compliance effort. Furthermore, those

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programs that did take place do not have an orientation towards improving the overall compliance environment. Only 14 (including West Virginia-2 (2004), which has both compliance and recovery features) of the 26 programs made changes to the post-amnesty compliance environment by increasing penalties and interest, devoting amnesty proceeds to additional tax enforcement resources, or giving additional powers to tax enforcement. The remaining 12 amnesty programs listed in Table 4 were structured to increase recovery without providing changes to improve future compliance. These states structured their programs so that taxpayers who were eligible for the amnesty program but did not would be subject to extra penalties if discovered. In these cases, other future taxpayers would be subject to only ordinary penalties. Such a program creates an incentive to participate in the amnesty if a taxpayer is currently evading or delinquent, but has no effect on the long term revenue incentives and compliance of future possible evaders. Therefore, for most states, the amnesty was provided, but there were no changes in penalties, enforcement, or any other program that might make tax evasion less advantageous post-amnesty than pre-amnesty among the general population. The compliance rules and consequences would be expected to be no stricter after the amnesty.

The compliance initiatives attached to amnesties in recent years have been modest when compared to the changes that accompanied amnesties in the 1980s. This is also likely a consequence of the passage of time, as states were generally able to find the means to computerize and otherwise improve their tax administration systems by the start of the 21st century. Whether a part of the amnesty wave of the 1980s or not, by 2000, evasion had become a felony in state tax systems. Interest and penalties could only be reasonably added at the margin in repeat amnesties, and promises of a "onetime only event" presumably lose their credibility. (22)

G. Prior Amnesty Experience

As previously discussed, amnesties were often advertised as a last chance for tax compliance before stricter programs were implemented. Because of the considerable concern about the effects of an amnesty on the compliance environment, states felt it necessary to emphasize that, although the amnesty recoveries proved that many taxpayers had successfully evaded taxes in the past, conditions were changing and what had worked before would not work in the future. The amnesty provided the last opportunity to comply before the tax evasion was discovered and had even greater consequences. Obviously, virtually all amnesties conducted in the 1980s were the first ones run by a state--but even then 10 percent were repeat programs. Overall, 62 percent of amnesties are repeat programs. Since the 1980s, the share of amnesties in a decade that were the first run by the state has continually declined, from 44.4 percent in the 1990s to 13.7 percent in the 2000s, and then to 6.7 percent (one state) thus far in the 2010s. As noted earlier, only five states have yet to conduct an amnesty, so the prospects for new programs this decade are not great.

Multiple amnesty states generally wait five years or more before repeating an amnesty (more than eighty percent did so in the 1980s, 1990s, and 2000s), but only 73.3 percent have waited that long for the 2010s to date. The percentage of states waiting more than 10 years before running another amnesty has declined consistently, from 90 percent in the 1980s, to 72.2 percent in the 1990s, to 58.8 percent in the 2000s, and to 26.7 percent in the 2010s. Seldom would states now be able to make a convincing claim that an amnesty represents a unique opportunity to come clean with the state tax system. If one is run, there is likely to be another coming relatively soon. Of the 45 states plus the District of Columbia that have run or scheduled amnesties, only 11 have stopped with one (so far, at least), and 23 states have run three or more programs.

IV. ANALYZING THE AMNESTY EXPERIENCES: WHAT THE RECOVERY RECORD SHOWS

This section investigates empirically which amnesty features are associated with a productive amnesty program. A similar exercise was performed for the 28 earliest amnesty programs by Alto and Beck (1991), who used amnesty revenues as a proxy for income tax evasion among the states, which they regressed on the expected determinants of income tax compliance. Of course, as Aim and Beck (1991) noted, this created measurement error problems since amnesties involved more taxes than just the income tax. As previously demonstrated in Table 2, the amnesty recovery shares for various taxes often differ substantially from their shares in routine state tax collections. Therefore we model the output of an amnesty program as the result of a revenue production function of two classes of inputs: unpaid tax liabilities and amnesty program design. The latter input classification has been the

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subject of the narrative analysis to this point in the paper. The amount of unpaid tax liabilities should naturally lead to larger amnesty recoveries, but is a stock of unknown size that must be captured with proxy variables. These proxy variables for unpaid liabilities include the share of total personal income coming from reported nonfarm proprietor income, the existence of a national recession, the intensity of federal audits, and the absence of a state sales tax. The amnesty program features will include indicators for repeat amnesties, the lag time between amnesties, the eligibility of accounts receivable, the implementation of an installment payment plan, the length of the amnesty, the quarter in which the amnesty was held, and whether or not there exists an alternative to the amnesty in the form of a voluntary disclosure program. These specific variables will be discussed in greater detail below.

The measure of amnesty output to be explained is the amnesty recovery as a share of the state's total tax revenue (in millions) in the previous year. Dividing recovery by revenue scales the data and mitigates the need to incorporate variables that explain the potential size of the tax base. Since amnesty recoveries are correlated with bringing new taxpayers onto the tax rolls, the amnesty recovery could be associated with increases in total tax revenues through improved compliance. As a result, recovery is scaled by the previous year's tax revenue to avoid this potential simultaneity bias in measurement, and this variable will be referred to as the recovery rate. (23)

Because states repeat infrequently, the model will be estimated as a pooled cross-section of the 108 state tax amnesty programs through 2010 for which complete data are available, though specifications to check the sensitivity of the model to outliers will also be presented. (24) The appendix provides descriptive statistics for this range of observations. The production of the amnesty recovery rate (Recovery Rate) will be modeled in a log-linear specification, expressed in vector form as:

$$(1) \ln(\text{RecoveryRate}) = [\text{b.sub.0}] + [\text{b.sub.1}]\text{NoSalesTax} + [\text{b.sub.2}]\text{HighAuditState} + [\text{b.sub.3}]\text{Recession} + [\text{b.sub.4}]\text{NFPIIncomeShr} + [\text{b.sub.5}]\text{SecondAmnesty} + [\text{b.sub.6}]\text{ThirdAmnesty} + [\text{b.sub.7}]\text{Lag} + [\text{b.sub.8}]\text{VDP} + [\text{b.sub.9}]\text{AcctsReceivable} + [\text{b.sub.10}]\text{Install} + [\text{b.sub.11}]\text{Open60t99Days} + [\text{b.sub.12}]\text{Open100pDays} + Q_a + \text{Decade}[\gamma] + [\epsilon]$$

Definitions, sources, and summary statistics are provided in the appendix. As previously described, the variables associated with coefficients [b.sub.1] through [b.sub.4] are intended to proxy for the amount of unpaid tax liabilities. Sales tax compliance is known to be particularly high, because the vendor acts only as a third party collection agent between customer and the government. (25) States that generate revenue without the use of the sales tax are therefore likely to have a larger stock of unpaid revenue. (26) Also, states overwhelmingly link their income tax compliance programs to federal efforts. States with greater federal compliance enforcement activity are likely to have lower state amnesty recovery potential, with the federal enforcement effort having spilled over to the state tax structure. Though data on federal audit intensity by state differ over time and are incomplete, the existing data do demonstrate that federal audit rates are systematically higher in some states than others (Birskyte, 2008). (27) States that have an average ranking in the top-10 most audited states in the available data (1997-2001) are identified as "high audit states" with a dummy variable (HighAuditState), with the expectation that these states will have lower recoveries in their amnesty programs than others ([b.sub.2] < 0). If recessions cause taxpayers to become delinquent or to evade their taxes, then they may be correlated with amnesty participation ([b.sub.3] > 0). Finally, states with high levels of self-employment likely have lower levels of routine tax compliance. (28) The amount of self-employment activity in the state is measured by the share of the state's total personal income derived from non-farm proprietor's income, and is expected to be positively related to the recovery rate ([b.sub.4] > 0).

The motivation behind the remaining amnesty program variables is largely derived from the major identifiable structures of these programs that have been discussed throughout this paper. Indicator variables identify whether the state previously enacted an amnesty program, by including controls to indicate if the amnesty is the state's second program (Second Amnesty) or if it is the third or more frequent program (Third-Amnesty). Presumably, amnesties would have smaller recoveries with each iteration due to a reduced pool of non-complaint taxpayers, so that [b.sub.5] and [b.sub.6] are negative. The more time that passes between amnesties (Lag) should increase the recovery rate since the stock of evaders and uncollected accounts accumulates over time. The Lag variable is measured for the regression as "1/(number of months since last amnesty).". Using this inverse relationship allows

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us to handle the conditionality of repeat amnesties with a consistent ordering. A state never before offering amnesty can be thought of as $1/[\text{infinity}] = 0$, an amnesty offered 20 years ago as $1/240 = 0.004$, and one ending in the previous month as $1/1 = 1$.

If the amnesty program is conducted in a state that also operates a voluntary disclosure program (VDP), then the amnesty program has a smaller marginal benefit over the state's routine operations, and thus the program will have lower recoveries ($[\text{b.sub.8}] < 0$). (29) Also included are dummy variables representing the eligibility of accounts receivable (AcctsReceivable), whether or not taxpayers can pay through an installment plan (Install), and the quarter in which the amnesty program began (Q). (30) The inclusion of accounts receivable should increase collections ($[\text{b.sub.9}] > 0$), and if installment plans encourage participation then they will increase recoveries as well ($[\text{b.sub.10}] > 0$). Several state amnesty reviews have found that a conventional view among program administrators is that increasing the duration of the amnesty period allows for more participation and amnesty collection. Evidence noted earlier, however, shows a declining recovery per day as the amnesty period becomes longer, suggesting diminishing returns from a longer amnesty. This motivates the pair of dummy variables for the duration of the amnesty, which if the state administrators are correct, will have a positive effect on amnesty recovery ($[\text{b.sub.11}], [\text{b.sub.12}] > 0$). As also discussed previously, early amnesty programs tended to administer the program late in the calendar year for fear of interfering with regular tax administration responsibilities for both the state authority and the individual taxpayer, but over time they have become more uniform across the year. The control for quarterly dummies will identify if this change in timing has a significant impact on recoveries. Finally, a set of dummy variables for each decade is introduced (Decade). The control for decades is intended to capture institutional changes that might be difficult to observe as states transitioned from an emphasis on improved administration and compliance to increased revenue generation. As discussed in the earlier section, our observation that amnesties have increasingly become geared towards revenue generation is based on how states have changed their observed structural features, but regression analysis will demonstrate if this trend remains after controlling for other unobserved features.

Table 5 provides the estimates of the regression model under alternative sets of restrictions. (31) Robust standard errors, reported in parentheses, are employed even when the Breusch-Pagan test was unable to reject the null hypothesis of homoskedastic errors. Specification (A) estimates a model with only the controls variables intended to proxy for unpaid tax liabilities, while specification (B) controls only for amnesty program features. Specification (C) combines the first two specifications, and specification (D) adds the decade indicators. Specification (E) drops the seven amnesty programs that excluded a major broad-based tax. A residual analysis demonstrates that five outliers result in a skewed distribution of errors, even with the removal of the observations in specification (E). After removing these outliers in specification (F), the residuals take a normal distribution as suggested by skewness and kurtosis tests. The mean variance-inflation-factor (VIF), reported for each specification, suggests multicollinearity is not a significant problem. (32)

Comparing the adjusted- $[R.\text{sup.2}]$ across specifications (A) through (D) suggests most of the explanatory power is derived from the amnesty structure variables. The OLS model has just a few statistically significant variables, likely due to the relatively small number of degrees of freedom and sensitivity to the normal distribution assumptions. One should keep in mind, however, that the sample here is very close to the full population, so statistical significance is more informative about a hypothesized larger sample than for the historical observations. Specifications (D) through (F) will serve as the main results when discussing the magnitude of the coefficients.

The coefficients of the variables in Table 5 generally have the expected signs and are relatively robust in size and sign, with the main difference between specifications being in statistical significance. Examining first the four variables measuring the size of unpaid liabilities, only the Recession indicator switches signs across specifications, though it is not statistically significant in any specification. Though statistically significant in just two specifications, the effect of not having a sales tax takes the expected sign in all specifications and the magnitude is relatively constant throughout. For an amnesty program that would otherwise recover 0.5 percent of its annual tax revenue, the fully specified models estimated in columns (D) through (F) suggest the effect of not having a sales tax increases the recovery rate by 0.73 to 0.78 percent. (33) The evidence is similar among states with high federal audit rates. The sign and size of the coefficient on HighAuditState are similar across specifications, with statistical significance fluctuating between specifications based on degrees of freedom. The effect of being a high audit state

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reduces an amnesty recovery rate of 0.5 to a recovery rate of 0.42 to 0.33 percent. (34) Finally, non-farm proprietors income is positively correlated with greater recovery rates and is statistically significant at the 5 percent level in specifications (E) and (F). Those point estimates suggest that a standard deviation increase in the NFPIncomeShr would increase a 0.5 percent recovery rate to 0.63 percent. (35)

Turning attention to the amnesty program features, two variables that stand out in Table 5 are the inclusion of accounts receivable and the accompaniment of a voluntary disclosure program. The accounts receivable indicator is statistically significant at the 1 percent level in all specifications, and the point estimates in specifications (D) through (F) suggest it would increase a 0.5 percent recovery rate to 1.37 or 2.34 percent. (36) This is the largest effect observed among the dummy variables, and is consistent with Mikesell's (1986) early observation that accounts receivable is the main distinguishing feature between amnesty program size, as well as Alm and Beck's (1991) finding on the eligibility of delinquent taxpayers. Though accounts receivable is an attribute tax administrators sometimes have control over during amnesty offerings, these also represent the "softest" returns as participation in the amnesty implies the state could probably have collected the entire amount through existing enforcement devices. Amnesties in states that operate a voluntary disclosure program, a competing device that allows delinquent taxpayers to avoid more significant punishment, also experienced lower recovery rates by statistically significant margins. The coefficients for voluntary disclosure program suggest they would lower a 0.50 percent recovery rate to about 0.30 percent. (37)

Despite lacking statistical significance, the signs of the quarter indicators are consistent with the traditional concern that offering amnesties in the beginning of the calendar year would interfere with the collections process. Using the fourth quarter as the reference group, having the amnesty in the first quarter is associated with lower collections while the highest collections occurred in third quarter amnesties. There does not appear to be evidence, however, to support the view that amnesty program length significantly encourages participation. Dummy variables for amnesty program length actually carry a negative sign in many specifications, though it is possible that some reverse causality is occurring, and amnesties with low recoveries result in an extension of the size of the window of opportunity.

The evidence from the regressions in Table 5 is that repeated amnesties have smaller recoveries than the first program, though this finding is not statistically significant and is sensitive to outliers. Relative to a first amnesty with a one percent recovery rate, the full sample specification in column (D) indicates that the second amnesty has recovery rates that are 0.26 percent points lower, and third or higher amnesties recover 0.19 percentage points less than the initial amnesty. (38) The time lag between amnesties is measured as the inverse number of months, with first amnesties taking a value of zero; this treats amnesties that are far apart as more similar to first amnesties in this measure than those that are closer together. (39) The point estimates indicate that about a 12 month increase in the time since an initial amnesty with a 0.5 percent recovery rate would increase the revenue recovery rate by about 0.04 percentage points, though this is not statistically significant. (40) Likewise, installment plans apparently increase participation enough to increase the recovery rate in specification (D), but the effect is not statistically significant and is sensitive to outliers. Specifications (E) and (F) demonstrate that recovery rates have fallen by statistically significant margins during the millennium decade, but this is also sensitive to the choice of sample.

These results are suggestive of the trade-offs confronted by amnesty program administrators. As described earlier, permitting an installment payment plan probably entices some taxpayers to come forward even though it seems many will be unlikely to live up to the terms of the agreement. States have been dropping this feature in the revenue maximizing era in hopes of quickly collecting the full liability, but the evidence presented in Table 5 suggests that the revenue recovered is not substantively influenced. This suggests that policy makers can retain this feature of good administration without significantly compromising revenue. Similarly, offering amnesty in the third quarter was done historically to prevent substantial interference with routine collections, while more recently amnesties have become more evenly distributed throughout the year. The evidence suggests that a third quarter beginning is most highly correlated with revenue recovery, although the effect is not statistically significant. Shutting down the program within 60 days also seems to cost no revenue, and shortens the demands on administrative resources. However, if a state wants a large recovery, permitting known delinquencies through accounts receivable and

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shutting down voluntary disclosure programs seem to have the most to offer in terms of gross recovery, though these changes would conflict with good existing tax administration policies.

V. SUMMARY AND CONCLUDING OBSERVATIONS

An exploration of the structures of state tax amnesties and amnesty policies reveals that the purpose of state tax amnesty programs has evolved. Early amnesty programs were coupled with important administrative reforms and efforts at improving compliance and enforcement, while the structure of recent programs and their timing relative to adverse fiscal shocks demonstrates an emphasis on revenue generation. In fact, many of these recent structural changes are inconsistent with an administrative system that values compliance and enforcement. Indeed, a regression analysis of the effects of amnesty features on amnesty recoveries suggests that if states are aggressively pursuing revenue maximization, the factors they can modify that are most influential on revenues also compromise existing tax administration. This raises some concerns because the historical record has demonstrated amnesty recoveries are seldom large enough to make any dramatic impact on state finances, even compared to non-traditional slack revenue sources such as rainy day funds or lotteries. Even among the early amnesties, which were more interested in long-term compliance and tax administration, the preponderance of evidence suggests that amnesties represent only a temporary revenue shock, not a continuing fiscal base.

Somewhat paradoxically, if state legislatures continue to enact amnesty programs, the belief that there is zero long-term revenue effect at best or a negative effect at worst suggests that administrators should seek to maximize revenue to the greatest possible extent, as it will likely be the only fiscal contribution. Should an amnesty be offered, the empirical evidence from prior programs suggests that gross revenue collections may be increased by making accounts receivable eligible for amnesty relief, by keeping the program open less than 60 days, and by holding the program in the third quarter of the calendar year. States that do not regularly tax sales, have low federal audit rates, and do not operate a voluntary disclosure program are likely to find their recoveries to be higher. Finally, states should recognize that the evidence indicates that historically collections decline with each successive offering and increase with the amount of time since the last amnesty, holding constant the other structural features of the amnesty program.

Several open questions remain regarding even the immediate revenue flow--would ordinary state enforcement systems have eventually brought in the revenue, rendering the net effect negative due to waived penalty and interest? Do amnesties have any effect on the perceived fairness of the tax administration system? Does substantial amnesty recovery measure the futility of tax administration, and therefore advertise that successful evasion is quite feasible? The avalanche of tax amnesties since 2000 and generally improving state revenue yields with the end of the Great Recession probably mean a pause in the pace of such programs for a few years. Nevertheless, it appears that such programs have become an accepted tool in state tax administration, as states generally regard their experiences with amnesties to have been successful. (41) As amnesty programs continue, future lawmakers and tax administrators may learn from the experiences of the 117 amnesties in the first 30 years of amnesty history.

APPENDIX A

Table A1

Descriptive Statistics for Observations in Regression Analysis
(Table 5)

Variable	Mean	Deviation	Minimum	Standard
				Maximum
Recovery/Revenue	6,841	69,14	12.75	27,599
No Sales Tax	0.04	0.19	0	1
High Audit	0.25	0.44	0	1
Recession	0.08	0.28	0	1
NFP Income Shr	0.08	0.02	0.05	0.15

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Second <u>Amnesty</u>	0.31	0.47	0	1
<u>Third+ Amnesty</u>	0.29	0.45	0	1
<u>Amnesty</u> Includes Accounts Receivable	0.66	0.48	0	1
State Has Voluntary Disclosure Program	0.22	0.42	0	1
<u>Amnesty</u> Has Installment Payment <u>Plan</u>	0.35	0.48	0	1
<u>Amnesty</u> Open 60-99 Days	0.46	0.50	0	1
<u>Amnesty</u> Open 100+ Days	0.11	0.32	0	1
Quarter 1	0.13	0.34	0	1
Quarter 2	0.14	0.35	0	1
Quarter 3	0.45	0.50	0	1
1990s	0.15	0.36	0	1
2000s	0.56	0.50	0	1

Note: The sample size is 108.

A1. Definitions and Sources

Recovery/Revenue is **amnesty** recovery as a share of total tax revenue collected in the year prior to the **amnesty** start date, multiplied by one million; revenue data are from U.S. Bureau of the Census, Governments Division. No Sales Tax is a dummy variable, where 1 indicates the absence of a state sales tax in the year of the **amnesty**. High Audit State is a dummy variable, where a value of 1 indicates that the state's mean rank in federal audits from 1997-2001 was in the top-10 most audited; the source is the Transactional Records Access Clearing House of Syracuse University (<http://trac.syr.edu>). Recession is an indicator variable that takes a value of 1 if there was a national recession as defined by the NBER. NFP Income Shr is the proportion of state personal income from non-farm proprietor's income in the year prior to the **amnesty** start date; the source is U.S. Bureau of Economic Analysis (<http://www.bea.gov>). Second **Amnesty** is a dummy variable, where 1 indicates a state's second **amnesty** program. **Third+ Amnesty** is a dummy variable, where 1 indicates a state's **third** (or higher) **amnesty** program. The variable 1/ (Months since last **amnesty**) is the inverse of the number of months between the ending month of the last **amnesty** and the starting month of the current **amnesty**, with zero being employed if the state has never offered previously offered an **amnesty**. **Amnesty** Includes Accounts Receivable is an indicator variable, where 1 indicates an **amnesty** program that includes accounts receivable among the eligible liabilities. State Has Voluntary Disclosure Program is a dummy variable indicating that the state offers some program where taxpayers can voluntarily reveal themselves to the state tax authorities without fear of criminal prosecution; the primary source was Setze (2009). **Amnesty** Has Installment Payment **Plan** is an indicator variable where 1 indicates the **amnesty** program permitted self-reporters to participate in a repayment **plan**. **Amnesty** Open X Days is an indicator for the range of days the **amnesty** was open. Quarter X is an indicator variable, where 1 indicates an **amnesty** occurred during quarter X. Finally, 1990s and 2000s are dummy variables that indicate if the **amnesty** start date began after 1989 or after 1999, respectively.

A2. **Amnesty** Program and Recovery Data

Data are from the authors' compilation from state **amnesty** evaluation reports, state press releases, news reports, state statutes, and various **third** party tabulations. Important **third** party sources include the Federation of Tax Administrators tabulation available at their website, <http://www.taxadmin.org/>, Mikesell (1986), and Joint Committee on Taxation (1998).

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(1) The first tax amnesty on record was reported on the Rosetta stone, an amnesty declared by Ptolemy V Epiphanes in Egypt, circa 200 BC. The stone itself expressed the appreciation of the priesthood for the program. It is not clear whether any state amnesties were based on this experience.

(2) Ross (1986) was able to survey more states, but was a bit less expansive on the issues relevant to state administration than Parle and Hirlinger (1986).

(3) This count is through December 2011. The tally does not include special use tax amnesties variously granted to try to induce remote vendors or their in-state clients to come forward with otherwise uncollected tax, for instance, the Illinois amnesty for remote vendor purchases for January 1-October 15, 2011 or other special amnesties to bring firms into programs associated with the Streamlined Sales Tax Program. Likewise, it does not include narrow programs like the Kentucky "Expedited Protest Resolution" program of 2010 (the Kentucky Department of Revenue (2010) explicitly states that this program was not an amnesty), or the Minnesota 2010 amnesty for offshore accounts and foreign entities used to evade taxes. It does not include the Pennsylvania use tax self-audit/amnesty program from March 1, 1983--June 30, 1983 that waived penalty and interest for previously unknown liabilities from 1980-1982 and recovered \$2,452,499. A similar use tax program conducted by Maine from July 1, 2006 through

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December 31, 2006 for liabilities from January 1, 2000 through December 31, 2005 is also not included. The count also excludes permanent "voluntary compliance initiatives" offered in many states that offer open-ended forgiveness of penalties for taxpayers who voluntarily come forward with liability previously unknown to the state. Also, it does not count local tax amnesties conducted separately from those run by the state.

(4) Forgiveness in the American states involves penalties, interest, and prosecution, not the basic liability.

(5) They defined "regular" tax systems as those that did not exclude a major tax base like sales or income.

(6) Baer and LeBorgne (2008) review research on both American and international amnesties. They also conclude that there is no evidence of a positive impact on revenue flows after the amnesty and some evidence of a negative impact.

(7) The five states abstaining from amnesties are Alaska, Montana, Tennessee, Utah, and Wyoming. It is noteworthy that four of these five states omit a major broad based tax, but this observation is not particularly conclusive since other states without such taxes have offered amnesties multiple times. Likewise, Alaska, Tennessee, and Wyoming rely more on revenues from extractive resources, but Texas has a similar tax base and has offered three amnesties.

(8) Note that 14 of the amnesties started in one year and ended in the next. This and later figures will follow the convention of counting the amnesty and its recovery in the start year. There is no reliable way of parsing the recoveries between years or of identifying any installment payments, in the few instances in which they have been permitted, to a later year. These magnitudes are modest, in any case.

(9) In a later unpublished study, LeBorgne (2006) finds amnesties are more likely when a state is experiencing a budget deficit. However, LeBorgne's analysis stops in 1996 before the difficult recessionary environment of the 2000s and the concurrent flurry of amnesties. Luitel and Tosun (2010) extend the analysis up to 2005 and likewise find fiscal stress to be an important determinant of amnesty (re)enactment.

(10) Table 1 is produced from state amnesty evaluation reports, state press releases, news reports, state statutes, and various third party tabulations. One important third party source is the Federation of Tax Administrators tabulation available at their website, Federation of Tax Administrators, Washington, DC, [http:// www.taxadmin.org/](http://www.taxadmin.org/). While this list provides a good initial source, it does omit some state programs. Two important additional sources, both requiring additions and corrections, are Mikesell (1986) and the Joint Committee on Taxation (1998).

(11) One exception to this use of gross rather than net collections is in regard to reporting for state lottery revenue in Bureau of Census Governments Division state revenue reports. This revenue is included in state revenue data on a net basis in miscellaneous revenues.

(12) Even gross recovery can be a misleading indication of fiscal contribution. In one of the few careful analyses of the quality of amnesty revenue, the New York State Office of Tax Policy Analysis (2004) estimated that, of the reported \$582 million from the 2002 amnesty, net new revenue was only \$83 million. The difference constituted waived penalty and interest (\$294 million), revenue foregone from other compliance operations (\$74.2 million), and revenue in the program that would have been collected without the amnesty (\$131 million). Few other states have so thoroughly examined the quality of the amnesty recoveries, The Kansas Department of Revenue in its Amnesty 2010 Final Report did report a waiver of penalty and interest of \$7.2 million on an amnesty recovery of \$10.77 million (state plus local), but gave no estimate of what might have been recovered in absence of the amnesty.

(13) State after action report sources include: Arkansas Department of Finance and Administration (2008); Indiana Department of Revenue (2006); Iowa Department of Revenue (2008); Kentucky Revenue Cabinet (2003); Commonwealth of Massachusetts Department of Revenue (2010); Michigan Department of Treasury (2003); New Hampshire Department of Revenue (2002), New York State Office of Tax Policy Analysis (2004); Kaufmann (2004); Pennsylvania Department of Revenue (1905), Pennsylvania Department of Revenue (2010); West Virginia State Tax Department (2005).

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(14) The table includes only states with all three taxes. Amnesties in Texas, with no income tax, are obviously almost entirely sales and use tax recovery, and the Washington state amnesty, another state with no income tax, would reflect sales and use and business and occupation taxes.

(15) For the few states that provide the information, most amnesty returns come from individual income tax filers.

(16) Accounts receivable includes "tax evaders who have already been detected by the tax administration and who have been sent notices of their new tax bills" (Baer and LeBorgne, 2008, p. 17).

(17) One extreme exception was the Massachusetts-4 (2010) amnesty that limited eligibility to taxpayers who received a special "Tax Amnesty Notice" from the state. While sending notices of the amnesty to taxpayers is not exceptional, making the amnesty an "invitation only" event--and simultaneously promising extra penalties to those who do not participate--certainly is.

(18) While interest rates were historically low in the 2000s, it would be premature to conclude that this meant the waiver of accrued interest was unimportant. First, the interest rates states charge against delinquent payments are typically higher than "risk-free" Treasury bill rates, though the mark-up usually differs by the type of liability. Second, interest accrues throughout the period taxpayers are delinquent, so the history of interest rates over the lifetime of the liability is usually more important than the spot rate at the time the amnesty declares a waiver of accrued interest.

(19) Since the 1980s, the prime interest rate has been on a path of secular decline. Using tax delinquency as a source of operating capital is thus relatively less attractive now than in the past--credit-worthy businesses can get the money at low interest rates from traditional sources. Furthermore, to the extent that the interest rate on delinquent payments generally tracks market rates, the state sacrifices less by forgiving interest. Both influences work toward making interest waivers more likely.

(20) The Maine-4 (2010) amnesty waived 95 percent of the penalty for short term liabilities and 95 percent of the penalty plus interest for older liabilities. The New York-5 (2010) amnesty waived 50 percent of penalty and interest for newer liabilities and 80 percent for older ones.

(21) In fact, state amnesty reports often indicate that taxpayer failure to comply with installment plans is a common reason for amnesty denial. For instance, the New York-3 (2002) amnesty program reported that more than 100,000 of the 120,000 amnesty applications that were denied were due to taxpayers failing to complete an installment program, though they still collected more than \$35 million in revenue from this group (New York State Office of Tax Policy Analysis, 2004). The 120,000 denied applicants represented 11 percent of the total applications in the New York-3 (2002) amnesty program.

(22) States, however, continue to make this claim; for example, as demonstrated in Table 4, the West Virginia-2 (2004) amnesty promised to be a one-time only event while being in its second iteration.

(23) The authors appreciate helpful discussion from the editor and an anonymous referee on this issue. Note that the recovery rates in Table 1 use tax revenue for the year of the amnesty in order to gauge fiscal significance in the period of the amnesty.

(24) Among the regressors, the only observation with missing information prior to 2010 is on the existence of an installment plan in the South Dakota-2 (2001) program. Washington, DC is also excluded in all specifications because it has features of both state and local government.

(25) High sales tax compliance of course does not extend to the use tax..

(26) It is conceivable that tax rates themselves may matter in determining how much information tax paying entities reveal to the state. Unfortunately, the various definitional changes to rates, levels, and bases across states both over time and cross-sections make introducing the rates themselves infeasible. Proxy variables, like sales and income tax revenues as a share of total personal income, were tested but found to be statistically insignificant, whereas a dummy variable for sales tax usage has explanatory power. This suggests the tax portfolio is perhaps

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more important than the rates. Similarly, state income tax variables seem to have no effect on recoveries, likely because the federal government monitors reporting and states primarily piggy-back on this effort.

(27) High audit states include Alabama, Arizona, Arkansas, California, Louisiana, Minnesota, Mississippi, New Mexico, North Dakota, and Oklahoma.

(28) Slemrod (2007) notes the relatively higher non-compliance rate among the self-employed found in Internal Revenue analyses, a pattern that is likely to carry over to state income tax systems as well.

(29) In this dataset, the states that operate a voluntary disclosure program include Connecticut, Florida, Idaho, Indiana, Minnesota, Missouri, North Carolina, Pennsylvania, South Carolina, South Dakota, Vermont, and Wisconsin. When it was unclear if a state with a current voluntary disclosure program had the program during earlier amnesty programs, it was coded as having one at that time as well.

(30) The variable Q is an $n \times 3$ matrix of quarter identifiers, with the fourth quarter excluded. The parameter $[\alpha]$ is a 3×1 vector of coefficients.

(31) For dummy variables, the more precise estimation of the marginal effect in a semi-log specification is $\exp([\beta]) - 1$, but this is not reported due to space limitations; see Halvorsen and Palmquist (1980) for an illustration.

(32) No individual variable carries a VIF score above four in any specification.

(33) Calculations: $([\exp(0.38) - 1 = 0.46] \times 0.5) + 0.5 = 0.73$; $([\exp(0.44) - 1 = 0.55] \times 0.5) + 0.5 = 0.78$.

(34) Calculations: $([\exp(-0.18) - 1 = 0.17] \times 0.5) + 0.5 = 0.42$; $([\exp(-0.43) - 1 = -0.35] \times 0.5) + 0.5 = 0.33$.

(35) Calculation: $([0.02 \times 13.54 = 0.27] \times 0.5) + 0.5 = 0.63$.

(36) Calculations: $([\exp(1.54) - 1 = 3.68] \times 0.5) + .5 = 2.34$; $([\exp(1.01) - 1 = 1.74] \times 0.5) + 0.5 = 1.37$.

(37) Calculations: $([\exp(-0.48) - 1 = -0.38] \times 0.5) + .5 = 0.31$; $([\exp(-0.56) - 1 = -0.43] \times 0.5) + 0.5 = 0.29$.

(38) Calculations: $\exp(-0.30) - 1 = 0.26$; $\exp(-0.21) - 1 = -0.19$.

(39) Alternative approaches to inverse number of months, such as using dummy variables to indicate different lengths of intervals between amnesties, yielded qualitatively same results.

(40) Calculations: $([(-1/12) \times -0.96] \times 0.5 = 0.04) + 0.5 = 0.54$; $([(-1/12) \times -0.88] \times 0.5 = 0.036) + 0.5 = 0.536$.

(41) One amnesty that appears to have been generally regarded as not so successful was the Maine-4 (2010) amnesty, a program that began just nine months after the previous one. That is, however, the extreme exception.

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Table 1

Revenue Recovery by State Amnesty Program Since 1980

State	Begin Date	End Date	Recovery (\$)
Alabama-1	1/20/1984	4/1/1984	3,140,000
Alabama-2	2/1/2009	5/15/2009	8,100,000
Arizona-1	11/22/1982	1/20/1983	6,000,000

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Arizona-2	1/1/2002	2/28/2002	10,000,000
Arizona-3	9/1/2003	10/31/2003	51,000,000
Arizona-4	5/1/2009	6/1/2009	32,000,000
Arizona-5	9/1/2011	10/1/2011	Not available
Arkansas-1	9/1/1987	11/30/1987	1,700,000
Arkansas-2	9/1/1997	11/30/1997	3,000,000
Arkansas-3	7/1/2004	9/30/2004	3,556,683
California-1	12/10/1984	3/15/1985	197,000,000
California-2	2/1/2005	3/31/2005	675,000,000
Colorado-1	9/16/1985	11/15/1985	6,323,744
Colorado-2	6/1/2003	6/30/2003	18,000,000
Colorado-3	10/1/2011	11/15/2011	\$11.000,000

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