

PARTICIPATION IN TAX AMNESTIES: THE INDIVIDUAL INCOME TAX**

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ABSTRACT

Do tax amnesties generate revenue that would not otherwise be collected? Will tax amnesties provide continuing future revenue gains? And is an amnesty appropriate in the transition to a new tax enforcement regime? Based on economic analysis of the choice to participate in an amnesty and examination of the characteristics of participants in Michigan and other states, it appears that amnesties are not particularly effective in identifying tax evaders, so that any long-term revenue gains are likely to be small. But amnesties are appropriate in easing the transition to enhanced enforcement and seem to generate immediate revenue efficiently.

"The avoidance of taxes is the only pursuit that still carries any reward."

John Maynard Keynes

I. Introduction

DO tax amnesties generate revenue that the tax authorities would not otherwise collect? Will tax amnesties provide continuing or long-run revenue gains not available from enhanced enforcement alone? And if a change in tax enforcement is to occur, in what sense is an amnesty appropriate in the transition to the new regime? Although twenty-six states have conducted tax amnesty programs since 1982, there has been little analysis of them to date, and almost none based on actual amnesty results.² In this paper we examine individual participation in amnesties, both from the point of view of what economic analysis would lead us to expect and on the basis of evidence from actual amnesty programs. The empirical analysis is based on detailed information gathered on a random sample of taxpayers participating in the Michigan amnesty, and on fragmentary evidence we have been

able to gather on amnesties in other states. In our view, information about the types of taxpayers (or nontaxpayers) who participate in amnesties and the circumstances that lead them to participate can be of considerable use in evaluating the effects of amnesties and for predicting the prospects for a federal tax amnesty from the state results.

Under a tax amnesty, taxpayers are offered an opportunity to come forward during a specified period of time and pay previously unpaid taxes. The carrot encouraging participation is usually forgiveness of at least some penalties that could have been assessed on the overdue taxes. Typically there is also a stick—the promise of harsher penalties for evasion and stepped-up detection efforts to follow the amnesty. To the extent that evasion is a product of rational decision-making, we argue below that it is difficult to imagine that a tax amnesty can generate substantial revenue in the short or long run without the threat of enhanced enforcement to follow. In principle, however, a change in enforcement regime might be carried out without an intervening amnesty period. The analysis in this paper is most relevant to the question of what is gained by offering an amnesty, as compared with changing the enforcement regime only.

In addition to providing an immediate source of revenue at low collection cost, proponents have argued that an amnesty can bring forth tax evaders who would not easily have been identified even with enhanced enforcement and add them to the tax rolls.³ Known taxpayers may also report additional sources of income that would otherwise have been difficult to detect. These disclosures would have implications for future revenue collections over and above that originally collected during the amnesty period. The negative arguments focus on the behavior of nonparticipants (Lerman, 1986). Tax amnesties

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may reduce future tax collections by giving taxpayers who would otherwise voluntarily comply on time an incentive to delay payment until a future amnesty is declared. The very success of amnesties in bringing forth large sums of new revenue may provide taxpayers better information about the extent of undetected tax evasion, inducing them to revise downward their estimates of the probability of detection and become more likely to engage in evasion.

Although the evidence that we discuss is not directly relevant to the behavior of nonparticipants, it indicates that any reasonable estimate of the annual continuing revenue increase from participants due to amnesty must be quite small. Thus, the negative effects on revenue might swamp the positive ones even if they influence the behavior of only a small proportion of compliant taxpayers.

The paper is organized as follows. We first discuss amnesty participation from the perspective of the economic theory of tax evasion, analyzing the factors that would influence the decision to participate, and suggesting hypotheses about participants. We briefly discuss evidence available about amnesty participation in several states and then turn to the more detailed results concerning individual income tax amnesty participants in Michigan. We compare the empirical data with our tentative hypotheses, and also discuss the long-run revenue effects of amnesty in light of the data. The paper concludes with some summary comments about state amnesties.

II. Toward An Economic Perspective About Amnesty Participation

The Theory of Tax Evasion and Amnesty Participation

All amnesty participants are or have been in some sense tax evaders. The economic theory of tax evasion therefore seems an appropriate place to start in attempting to understand the behavior of amnesty participants. The standard ap-

proach to tax evasion assumes that the taxpayer acts to maximize expected utility based upon perceptions of the probabilities of evasion being detected and penalized, the nature of the penalty, and the taxpayer's degree of risk aversion. The potential gain from evasion is the amount of tax liability not paid; the potential costs are the penalties (which might be monetary, criminal, or psychic) that the taxpayer would suffer if evasion is detected and successfully prosecuted.

Publicity efforts surrounding amnesties usually aim to convince tax evaders that the probability of detection has increased, that future penalties will be more stringent, and that tax evasion is morally wrong. If persuasive, such efforts should reduce future evasion. In a standard one-period expected utility model (Allingham and Sandmo, 1972; Skinner and Slemrod, 1985) it is easy to show that a taxpayer evading some but not all taxes will increase compliance in response to an increase in the probability of detection, the penalty for evasion, or the psychic cost per dollar of evaded taxes.

Nonfilers who have been evading all taxes (for which that is feasible) may not change their behavior, however, even if they believe detection probabilities and costs have increased. If the marginal benefit of evasion initially is substantially greater than the marginal cost, then an increase in the marginal cost may not induce less evasion by these individuals.

Whether to participate in an amnesty is still another matter. The decision involves issues that cannot be adequately captured in a one period model of evasion. The potential amnesty participant is not a typical taxpayer. He is someone who has chosen to evade in the past, may wish to do so in the future, and will be mindful of the effects of participation on prospects for future evasion. Without specifying a complete formal model, it is possible to identify three major consequences of amnesty participation that are relevant to the participation decision.

1. *Penalties ordinarily imposed if overdue taxes are detected are avoided.* These penalties may be monetary, criminal, or the social stigma associated with being

identified as a tax evader (which may adversely affect employment and public service opportunities). The forgiveness of penalties is intended to motivate amnesty participation. But penalties could have been avoided by paying all taxes on time. For the unrepentant evader who had previously optimized on the evasion decision and intends to go on cheating as before, amnesty therefore has little to offer.

Forgiveness of penalties may, however, be an important consideration for one who believes that the costs of evasion have increased (due perhaps to perceived changes in enforcement, or to a revised view of the moral propriety of evasion). The individual may now wish to have been more compliant in the past, and amnesty provides an opportunity to do so without penalty. For those who also intend to reduce or discontinue evasion in the future and expect that doing so will increase the likelihood that past evasion will be detected (e.g., nonfilers who choose to begin filing), the opportunity to avoid penalties may be particularly important.

2. *Personal guilt is removed.* As with the potential penalties discussed above, guilt was presumably already considered in the original decision to evade. The removal of guilt is therefore only an inducement to participation for those who feel more guilty than they anticipated, perhaps as a result of amnesty publicity.

3. *The probability that future or undisclosed past evasion will be detected is increased.* An individual who uses amnesty to report, for example, previously unreported self-employment income will have more difficulty concealing such income in the future. While this is obviously what the sponsoring government intends, this factor is also a deterrent to amnesty participation for those who plan to continue some degree of evasion in the future.

Equally important, the individual may have evaded taxes not covered by the amnesty. These may be federal, local, or even other state taxes to which the amnesty does not apply. If the potential participant anticipates that information derived from amnesty will be shared with the federal or local government, the expected increase in detection of these other types of

evasion may override any perceived benefits from participation.

In this connection it is worth emphasizing that while standard models of tax evasion treat it as a choice along a continuum (the amount of tax evaded), the amnesty participation decision inevitably has a discrete element. A participant can, of course, choose not to disclose all past evasion. But the mere act of participation may substantially increase the probability that future or remaining past evasion will be detected. As a result, many taxpayers who have come to regret their past evasion may nonetheless choose not to participate, particularly if they have evaded any taxes that are not covered.

Expected Characteristics of Amnesty Participants

Some predictions about which tax evaders will choose to participate in an amnesty are now possible. To begin with, those who intend to continue past patterns of evasion may be ruled out as likely participants. This group includes those who are unconvinced that the enforcement regime has changed and unpersuaded by arguments about the immorality of evasion, as well as those for whom any change in perceptions is simply insufficient to bring about a behavioral change. Most chronic nonfilers seem likely to fall into this category, particularly those who also do not file for federal taxes.

Among those who intend to increase compliance, not all will choose to participate in an amnesty. Participants seem likely to belong to one or more of the following categories: (1) those who perceive a large increase in the likelihood that past evasion will be detected or in the penalties to be imposed; (2) those who now feel increased guilt with respect to their past behavior and participate to relieve it; or (3) those who have engaged in little evasion of taxes not eligible for amnesty and who are therefore not concerned that participation will reveal such other evasion.

Although relieving guilt may be an important motive for some, it is not so clear, *a priori*, who such people would be. One reasonable hypothesis is that this motive

will be relatively unimportant for those who have purposefully avoided large amounts of taxes over long periods of time. While this group may have the most to be guilty about, they have already demonstrated an ability to live with that guilt.

Proponents of amnesties have made a rather different argument, however. They suggest that many tax evaders had already come to see their evasion as a mistake, even without any change in external circumstances. They wanted to make amends, but were deterred by the penalties they feared would be imposed. Fear of penalties might even have led to continued evasion, because of a belief that complying (e.g., reporting a heretofore concealed source of income) would lead to detection of past evasion. Taxpayers of this type might welcome an amnesty as a chance to "start fresh." This description no doubt applies to some amnesty participants; our empirical analysis can cast some light on its prevalence.

Summarizing our conceptual analysis, it seems clear that those who are most committed to the practice of tax evasion, presumably because they perceive the largest benefits from it, are the least likely to participate in a state amnesty. That leaves as more likely participants who might be called "marginal tax evaders"—individuals who derived small advantage from evasion or who came to that position reluctantly or by accident. For such individuals, the marginal cost of amnesty participation seems likely to be small.

The conceptual analysis also suggests some things about how the structure or operation of an amnesty program can affect participation. Participation is positively related to perceived changes in the probability of detection of both past and future tax evasion and in the penalties to be imposed. Creating a strong impression that enforcement measures are being enhanced thus seems likely to be an important key to encouraging amnesty participation. Because it is *perceived* changes in enforcement that matter, there is opportunity here for the tax authorities to provide information leading taxpayers to overestimate the probability of detection. In addition, providing confidentiality about

amnesty participation allows the participant to avoid any social stigma that might result if evasion were ultimately detected, which might increase the probability of participation for some taxpayers.

III. Evidence about Amnesty Participation: The Individual Income Tax

What Do We Know About State Tax Amnesties Generally?

It is a bit dangerous to draw generalizations about state tax amnesty programs both because the nature of the amnesties (as to what taxes were eligible) has differed among the states and because states have emphasized different aspects in reporting the results. Nonetheless, several characteristics seem to stand out in the state reports we have examined for five large amnesty programs (California, Illinois, Iowa, Massachusetts, and New York) as well as the results in Michigan. These characteristics (and sources) are presented in Table 1.

The individual income tax accounts for the majority of tax evasion cases resolved through amnesty programs. The fraction of amnesty revenue accounted for by the income tax is substantially smaller, indicating that the average income tax payment in amnesty is lower than the overall average payment. In fact, *most of the tax cases in amnesty involve small payments, often less than \$100.* About half of the applicants in Illinois involved payments of less than \$100 as did 36 percent of the individual income tax payments (excluding accounts receivable) in Michigan. In Iowa, 73 percent of the applications involved payments of less than \$1,000. *Not having filed (rather than having filed incorrectly) is the common form of evasion among amnesty participants,* and most commonly, individual income tax participants use amnesty to file for only one year. Nonfilers represented between 34 and 90 percent of individual income tax applicants (or revenue) in these states, as shown in Table 1. Filing for one year represented 47 percent of the cases in Massachusetts

Table 1. Individual Income Tax State Amnesty Experience

State	Percent of Applicants or Cases	Percent of Revenue or Collections	Average Income Tax Amount	Average Amount All Taxes	Percent Nonfilers
California	98 % ^a	72 %	\$ 694	\$ 947	na
Illinois	56 % ^a	4 %	\$ 511	\$5,558	34% (79% ^c)
Iowa	75 % ^a	14 %	\$1,025	\$5,388	59% ^d
Massachusetts	52 % ^b	34 %	\$ 813	\$1,258	61% ^d
Michigan	69 % ^c	31 %	\$ 664	\$ 946	65% (or more)
New York	65 % ^a	43 %	\$4,672	\$4,500 ^e	90%

^a Applicants^b Cases^c Applicants excluding accounts receivable^d Revenue^e Approximately

Sources: "Amnesty Fact Sheet," State of California, undated;

"Amnesty Update," State of Illinois, undated;

"Iowa Tax Amnesty Report," January 1987;

"Massachusetts Tax Amnesty Program, A Statistical Synopsis," June 1986;

"Tax Amnesty: The New York State Experience," February 1988.

and 72 percent in Michigan.

Although these data are not strictly comparable across states, and we would not claim that all states' experiences with amnesty have been identical, the patterns appear to be strong and broadly consistent. We turn now to a more detailed examination of individual income tax amnesty participants in Michigan, the case for which we have more complete and detailed data. We will return at the end of that discussion to some comparisons with the experience in New York, on which some additional information is also available.

The Michigan Case

The Data Base on Amnesty Participants⁴

Between May 12 and June 30, 1986, more than 50,000 taxpayers filed for amnesty under the Michigan program. Most state taxes due prior to September 30, 1985 were eligible for amnesty, including unpaid liabilities already known to the state (accounts receivable) providing these were not involved in a criminal investigation,

or civil action, or criminal prosecution. To provide a basis for further research, the Michigan Department of Treasury created the Michigan Amnesty Data Base, a 10 percent random sample of all taxpayers who filed for amnesty. The data base contains detailed information on this sample derived from tax returns and other materials filed during amnesty. Under the Michigan amnesty program, taxpayers with accounts receivable were allowed to pay the amounts owed and were not required to file new tax returns. Such taxpayers are not included in the data base because no other information (beyond the amount paid) was available for them. Additional descriptive information on the data base is reported in Goddeeris, Martin, and Young (forthcoming).

The sample of participants who filed for amnesty under Michigan's individual income tax includes 1,948 taxpayers, about 9.5 percent of its parent population of 20,496. Although a small fraction of those originally drawn could not be included in the final sample (mostly individuals who filed for amnesty but were found to have no liability), the sample appears to be representative of the larger population of

income tax amnesty participants. The sample distributions of amounts paid in amnesty and numbers of years filed correspond closely to the population distributions. The total amount paid to amnesty by this sample, just over \$1.5 million, is somewhat more than 10 percent of the total of \$13.6 million derived from all income tax amnesty participants not classified as accounts receivable.⁵

Tax Circumstances of Participants

Individual income tax amnesty participants spanned a broad range of incomes, occupations, and types of tax evasion. As a group they look very much like other Michigan taxpayers in a number of dimensions. The mean number of exemptions claimed (2.5) and the percentages of returns filed jointly by married couples (49.5 percent) and by single individuals (48.5 percent) are all virtually identical to the corresponding numbers for the full population of Michigan taxpayers for 1984. Most participants were full-time residents of Michigan for the years for which they filed, only 5 percent were not. The average adjusted gross income (AGI) reported by amnesty participants is, at \$56,175, considerably higher than the average AGI of \$23,129 on all Michigan returns in 1984, but this mean is heavily influenced by a few very large AGI values. The median AGI reported is \$20,600, about \$2,200 above the corresponding figure for the taxpaying population. A rough characterization of the occupational distribution of participants suggests few obvious differences from the general population in Michigan.⁶

For purposes of determining why individuals chose to participate in amnesty, the nature of the problems they sought to correct and the circumstances surrounding their evasion and participation seem crucial. Accordingly, we have assigned each of the taxpayers in the amnesty income tax sample to one of four groups. The first group includes those who filed any amended tax returns during amnesty. These taxpayers were clearly known to the tax authorities, although their tax evasion was not. In accord with the available data from other states this group is rel-

atively small, accounting for about 24 percent of the sample.

Participants filing new tax returns as part of amnesty form the next two groups, with the division based on whether we have information that the taxpayer had not been totally outside the state and federal tax systems. Class 1 includes taxpayers for whom one or more of the following is true: a return claims that state tax liabilities had partially been paid through withholding or payments of estimated tax, a W-2 form is present on a return, or the amnesty materials contain a copy of a letter from the Michigan Department of Treasury sent to the taxpayer prior to amnesty. Taxpayers receiving such a letter had been identified from a match of computer tapes as having filed federal returns from Michigan addresses without filing the corresponding state income tax returns. The remainder of participants for whom new returns are present but none of the above listed conditions is met forms Class 2. These groupings should be interpreted cautiously, as it is possible that some of the Class 1 taxpayers had never filed Michigan returns, while some of those in Class 2 had filed at some time in the past. Class 1 is much the larger, including 50 percent of the full sample, while Class 2 accounts for another 16 percent.

Finally, some taxpayers had no tax returns available when data were entered. Either these taxpayers filed an amnesty return and paid the tax and interest due but did not file a state tax return, or the state tax return was in use for some other Treasury procedure (audit or review of some type). In any case the only information available about those taxpayers is the amount of tax and interest paid; other economic characteristics are not available. Many in this group, which represents 11 percent of the sample, may also have been outside the state tax system.

Summary statistics for the full sample and each of the groups are provided in Tables 2, 3 and 4. Some features stand out rather consistently across groups: the relatively low number of returns per participant (under two in each case), the high percentages filing for only one year (72

Table 2. Tax Circumstances of Michigan Individual Income Tax Amnesty Participants

Taxpayer Group	Percent of Sample	Tax Year	Number of Years	AGI Year
1984 Michigan Income Tax Population	na	\$870	na	\$ 23,129
Income Tax Amnesty Sample	100 %	\$385 (26)	1.53 (0.03)	\$ 56,175 (15,236)
Amended Return Present	23.8%	\$379 (77)	1.28* (0.04)	\$114,965* (51,276)
New Returns				
Class 1 ^a	49.5%	\$270* (15)	1.52 (0.04)	\$ 35,818 (10,820)
Class 2	15.6%	\$536* (68)	1.83* (0.09)	\$ 31,315 (15,821)
Tax Return Data Not Available	11.1%	\$721* (114)	1.66 (0.10)	na

Entries are means with standard errors below.

*Group mean is statistically different from that of the rest of the sample at the .01 significance level.

^aTax was withheld or estimated tax paid or a W-2 was submitted with the tax return or taxpayer was identified as having filed a federal return, but not a state return.

percent on average), and the high percentages paying small amounts of tax (41 percent paying \$100 or less tax per year on average). There are, however, some notable differences among groups. Those filing amended returns had the highest AGI, but filed for the smallest number of years and paid only an average amount of tax during amnesty per year filed. Those who filed new returns during amnesty but for whom we have no evidence of prior participation in the tax system (Class 2), filed for more years than the typical participant, had relatively low AGI, and paid relatively large amounts per year filed.

Filers of New Returns

Filing new tax returns during amnesty was far more common than filing amended ones, and most of those filing new returns had some evidence of prior contact with the tax system. The half of all partici-

pants falling into Class 1 had the smallest average amnesty tax payment per year, and as shown in Table 4, 45 percent paid \$100 or less per year filed. These participants typically owed little because they had already paid some state tax for the year or years in question, through withholding or quarterly payments (82 percent of those in Class 1 had prepaid at least some of the state tax).⁷ Their reasons for failure to file on time are not known—some probably thought it was not required; others may have perceived the expected benefits of filing as trivially small and simply chose not to bear the costs of preparing a return.

Perhaps some who had prepaid some tax and then chose not to file were concealing other sources of income (such as interest or self-employment income) on which no tax had been paid. This possibility has some relevance to the long-run revenue

Table 3. Number Of Tax Years Filed In Amnesty For Michigan Amnesty Individual Income Tax Participants With Different Tax Circumstances

Taxpayer Group	Number Of Tax Years Filed For In Amnesty Distribution By Taxpayers		
	1	2	3 or More
Income Tax Amnesty Sample	72.4%	16.7%	11.0%
Amended Return Present	81.7	13.8	4.5
New Returns			
Class 1 ^a	71.9	16.9	11.2
Class 2	58.9	23.7	17.4
Tax Return Data Not Available	73.7	11.5	14.8

^aTax was withheld or estimated tax paid or a W-2 was submitted with the tax return or taxpayer was identified as having filed a federal return, but not a state return.

Table 4. Percentage Distribution Of Michigan Amnesty Income Tax Participants By Size Of Tax Payment Per Year For Taxpayers With Different Tax Circumstances

Taxpayer Group	Tax Payment Class (in dollars)			
	0-100	101-500	501-1,000	>1,000
Income Tax Amnesty Sample	41.5%	40.6%	9.7%	8.3%
Amended Return Present	45.3	40.1	9.3	5.4
New Returns				
Class 1 ^a	44.6	41.5	8.0	5.9
Class 2	31.7	41.9	11.9	14.5
Tax Return Data Not Available	32.5	36.0	15.0	16.5

^aTax was withheld or estimated tax paid or a W-2 was submitted with the tax return or taxpayer was identified as having filed a federal return, but not a state return.

effects of amnesty, because even if such taxpayers were known, their unpaid tax liabilities might have been difficult to detect had they not come forward. It is of course also possible that these individuals were simply underwithheld for income that the tax authorities knew (or

could have known) about.

Because taxpayers are not required to report income by source on the Michigan tax return, we cannot disentangle these alternatives directly. The ratio of amnesty tax payments to total tax owed is, however, at least suggestive in this re-

gard. For each of the 788 taxpayers in the sample filing new returns and having at least some tax prepaid, we have calculated the ratio of amnesty tax paid to total tax liability (the latter calculated as the sum of amnesty tax, amounts withheld, and payments of estimated tax). The percentage distribution of values for this ratio is as follows:

Range of Values	0.0	.1	.2	.3	.4-	.6	.8
	.1	.2	.3	.4	6	.8	1.0
% in Range	42.0	18.2	10.8	10.3	6.6	3.9	8.3

These numbers indicate that most such participants had prepaid most of what they owed (assuming they paid their remaining liabilities during amnesty); 42 percent had prepaid at least nine-tenths. At the same time, it is evident that for a substantial minority there was either a deliberate attempt to minimize withholding on wage income or there were important other sources of income not subject to withholding. Over 8 percent had prepaid one-fifth or less of their total liabilities. The simple mean in this sample for the ratio of amnesty tax to total liability is 0.26. Not surprisingly, the ratio tends to be higher for those who paid more during amnesty. Weighted by amnesty tax paid per year filed, the mean ratio is 0.49.

The relatively low incomes and high amnesty tax payments for those in Class 2, (for whom we have no evidence of prior participation in the tax system) is consistent with the fact that they, unlike most of the other participants, had not previously paid most of their liabilities for the years in question. This group is of particular interest because it seems the most likely place to find chronic tax evaders brought into the system as a result of amnesty. With this in mind we have attempted to isolate subsamples of Class 2 with higher concentrations of chronic tax evaders. For Subgroup A we removed those who listed themselves as retired (24.1 percent of Class 2) or students (9.4 percent) on their returns, as well as any deceased taxpayers, nonresidents of Michigan, and others who provided no information on occupation (many of whom

may also have been retired or students). Subgroup B excludes all Class 2 participants except those listing their occupations as self-employed, management, executive, or sales. Given the absence of W-2 forms or taxes withheld, it seems likely that most of those in both subgroups, and particularly B, are self-employed.

Information on the subgroups is included in Table 5. The summary statistics for them look rather different from those for all participants, and even somewhat different from those for all of Class 2. Average incomes are relatively low, while the number of years and tax payments per year filed tend to be high. It is likely that these subgroups contain many participants in the "underground economy" who emerged during amnesty. The total numbers are relatively small, however, and not all of those in the subgroups are truly chronic tax evaders. It is striking that even in these samples most used amnesty to file for only one year, and the proportion filing for more than two years is less than one-quarter.

Use of Amnesty for Past Years Only

For individual income taxpayers, the last tax year eligible for amnesty was 1984. We expect that taxpayers for whom amnesty marked a behavioral change from evasion to compliance would have used amnesty to file for 1984 (and perhaps for several prior years). Filing only for one or more earlier years might indicate that the behavioral change occurred prior to amnesty (the taxpayer was in compliance in 1984) or that no tax was owed in 1984 (perhaps because the individual moved out of the state). Another possibility is that despite filing for amnesty the individual planned to continue evading for 1984 and later years. Under any of these circumstances, continued increases in income tax collections from such individuals should not be expected as a consequence of amnesty. Of those filing amended returns under amnesty, a majority (53 percent) filed only for years prior to 1984. Of those filing new returns, the corresponding numbers were 46 percent for Class 1 and 35 percent for Class 2.

Table 5. Characteristics of Subgroups of Class 2 Filers of New Returns

	Percent of Class 2	Tax Year	Number of Years	AGI Year	
Subgroup A	48.7%	\$ 803* (129)	2.01* (0.15)	\$19,164* (2,171)	
Subgroup B	22.7%	\$1,121* (251)	1.88* (0.19)	\$25,022* (4,188)	
Number Of Tax Years Filed For In Amnesty Distribution By Taxpayers					
		1	2	3 or More	
Subgroup A	60.1	16.9	23.0		
Subgroup B	63.8	14.5	21.7		
Tax Payment Class (in dollars)					
		0-100	101-500	501-1,000	>1,000
Subgroup A	18.9	40.5	17.6	23.0	
Subgroup B	14.5	31.9	18.8	34.9	

Class 2 includes those filers of new returns for whom there is no indication of contact with the state or federal income tax system (see text). Subgroup A excludes students, retired taxpayers, out-of-state residents, deceased taxpayers, and those listing no occupation. Subgroup B further excludes all except those listing occupations as self-employed, management, executive, or sales.

*Subgroup mean is statistically different from that of the rest of the income tax amnesty sample at the .01 significance level.

Comparison to Expected Results

Individual income tax participants in Michigan varied widely in many dimensions; it is misleading to speak of a single "typical participant." Some patterns do emerge in the empirical data, however, that are broadly consistent with what we know about the experience of other states, and with our expectations from the conceptual analysis. Perhaps of most impor-

tance, relatively few of those who participated in amnesty had evaded large amounts of taxes over long periods of time and were making a clean break from their past. This observation is based primarily on the low average number of years filed, the predominance of single year filers, and the fact that many did not even use amnesty for the latest year eligible.

The relatively large number of filers of new returns with some clear link to the

tax system (Class 1) is consistent with expectations in at least two ways. It seems reasonable to suppose that the threat of enhanced enforcement is more credible for these evaders than for others. Secondly, although we cannot say precisely how many, most of these taxpayers were probably already in compliance with the federal tax system, which reduces the expected cost of participation. Along the same lines, it is interesting to note that of those filing amended returns, 23 percent were by their own admission doing so to report increases in AGI already discovered by federal audit.

To be sure, some nonfilers who had prepaid no state tax and may well have been out of compliance with the federal system did come forward. However, the numbers and dollar amounts are relatively small. Projecting from Subgroup A (which removes primarily the retired and students from the Class 2 new filers) to the population of amnesty participants would yield about 1,500 taxpayers and \$1.1 million in taxes per year. Even in this subsample the majority used amnesty to file for only one year.

The portrait of the repentant tax cheat who welcomed amnesty, and had continued to evade only to hide past evasion, also appears to apply to few participants. Such individuals would have used amnesty for more than one year, including 1984, but only 21 percent of the sample met even those criteria.

The fact that large numbers of taxpayers (in Michigan and other states) used amnesty to pay relatively small amounts of past liability and interest is one of the more difficult observations to explain. More than 40 percent of participants paid less than \$100 tax per year and more than a third paid less than \$100 total. While these individuals likely saw small costs of amnesty participation, the benefits were small as well. Indeed, we might argue that the probability of detection and collection of such small amounts is zero (given expected collection costs to the state). Amnesty participation by these individuals, then, may indicate that the tax authorities were successful in creating inaccur-

ate perceptions of that probability, or in increasing psychic costs of guilt.

Long Term Revenue Effects

A plausible upper-bound estimate of the annual increase in Michigan income tax revenue due to increased payments from amnesty participants is about \$5.4 million, or less than two-tenths of one percent of 1984 Michigan income tax revenue. This estimate is based on the average amnesty tax payments per year for the participants in the sample, excluding only those who filed for amnesty for a single year prior to 1984. This estimate is in a number of respects very generous. It includes taxpayers who filed for more than one year but not for 1984. It projects the amounts paid in amnesty into the future, making no allowance for the fact that some of the participants are already retired, that much of the future amounts could have been collected without an amnesty or that some of the participants will slip back into past practices of evasion.⁸ Of the projected \$5.4 million, about \$1.9 is from taxpayers who filed for amnesty for only one year or not for 1984, and an additional \$800,000 is from new filers of Class 1, who were already known to the tax system.

New York has examined the issue of income tax filing after amnesty, and found that only about 36 percent of amnesty returns were filed by persons who did not file income tax returns in 1983 (the last year eligible for amnesty there) but followed up amnesty by filing in 1985. A total of 5,500 taxpayers fell into this category. We might take this as a high estimate of the total number of taxpayers permanently added to the tax rolls as a result of amnesty. Multiplying the number of taxpayers involved by the average outstanding income tax liability per year of New York amnesty participants⁹ yields an annual total of about \$12.1 million. This excludes any increase in revenue from filers of amended returns reporting new sources of income, but amended returns were even less important in New York than in Michigan, accounting for only 10 percent of all returns filed during am-

nesty. Consistent with our somewhat differently generated estimate for Michigan, the \$12.1 million figure represents a little more than one-tenth of one percent of annual New York income tax revenues.

IV. Concluding Comments and Observations

Our examination of evidence for the individual income tax in Michigan suggests that amnesty may not be a particularly effective way to identify tax evaders and turn them into tax compliers. The long-term addition to revenue coming from new taxpayers brought into (or back into) the system is likely to be small, and might easily be offset if amnesty has any negative effects on the compliance behavior of other taxpayers. Evidence from other states on this issue is limited, but we know of none that is clearly inconsistent with this conclusion.

All of this does not necessarily imply that amnesties are a bad idea, as they may serve other purposes. As noted earlier, state tax amnesties have in a number of cases provided an immediate and rather substantial source of revenue. Even that revenue which could have been collected anyway comes sooner and at lower collection cost than it would have with enhanced enforcement alone. An amnesty period may also ease the transition to a regime of enhanced collection and detection procedures and harsher penalties for noncompliance. If society is more willing to forgive evasion when it is an isolated case (as it seems to be for many amnesty participants) than when it is a continuing practice, an intervening amnesty period may make the change in regime appear more fair. The guilt felt by many basically honest taxpayers can be relieved without imposing severe penalties, while strengthened tax enforcement is left to deal with the "hardcore" evaders who choose not to participate.

A final positive side-effect of an amnesty, of which perhaps not enough use has been made, is as a source of data on the characteristics of tax evaders. To be sure, the amnesty participants are not likely to be representative of all evaders.

Available data on nonfilers and other evaders is so limited, however, that comparisons of the characteristics of amnesty participants relative to the larger taxpaying population might well pay dividends to state governments looking to improve the allocation of their enforcement resources.

As for the implications of the state results for a federal tax amnesty, the evidence is not altogether clear. It is apparent that if a federal amnesty could attract only the kinds of taxpayers who were the primary participants in state programs, the potential long-run revenue gains are relatively small, perhaps on the order of a billion dollars annually, as suggested by Lerman (1986). According to IRS estimates (Internal Revenue Service, 1983), most uncollected taxes at the federal level are associated with types of evaders who participated very little in state programs. While state participants were generally nonfilers (many of whom were already filing federally), at the federal level underpayments by those who do file (but conceal income or overstate deductions) are believed to be more than twenty times as large as the unpaid liabilities of nonfilers. It is not all surprising that evaders with substantial liabilities to the federal government chose not to participate in state amnesties. The extent to which they would come forward under a federal program largely remains to be seen.

ENDNOTES

**The authors appreciate the cooperation of the Bureau of Revenue of the Michigan Department of Treasury in providing data and financial support for part of this work. The assistance of Susan W. Martin, Stanley Borawski, Eric Krupka, and two anonymous referees is gratefully acknowledged. The conclusions and opinions expressed in this paper are the authors' alone and do not represent the opinions of the Michigan Department of Treasury or its employees. An earlier version was presented at the 1988 meeting of the Eastern Economics Association.

¹Quoted in J. Green, *The Cynic's Lexicon*, St. Martin's Press, 1984.

²The analyses of Leonard and Zeckhauser (1986), Lerman (1986), and Mikesell (1986) consider some of these issues, but do not have the benefit of detailed information about amnesty results.

³For example, "More important than immediate cash in the bank is the addition of taxpayers to the tax rolls who will continue to pay taxes, year after year" (Fisher, 1985), and "The real rationale for the Am

nesty program was . . . adding taxpayers to the tax rolls" (New York State Department of Taxation and Finance, 1988).

⁴The authors served as consultants to the Michigan Department of Treasury during the creation of the data base.

⁵An additional \$17.8 million in tax was collected from individual income tax accounts receivable cases.

⁶For example, the largest occupational category was "retired" at 13.1 percent, but households headed by retired persons comprised 14.5 percent of Michigan households in 1980.

⁷In New York, the only other state for which similar information is available, 51 percent of all returns filed during amnesty included a W-2 form indicating that some state tax had been paid. In fact, there was an average of 1.76 W 2 forms per return (Gugie, 1988).

⁸The fact that it also includes payments by many taxpayers who paid small amounts to amnesty is also interesting but not particularly relevant to the long-run revenue effect. If we exclude all those who paid less than \$500 in total to amnesty and then carry out the same calculation as above, the number in the sample falls from 1,188 to 396, but the total revenue estimate falls only about 10 percent, to \$4.5 million.

⁹The calculations are based on 2.12 returns per filer and an average tax liability per filer of \$4,672 (New York State Department of Taxation and Finance). New York reports, however, that the average tax remitted with an amnesty income tax application was only \$1,893. If the latter figure is more reflective of taxes that will actually be collected from these individuals, the estimate of added revenue given in the text should be adjusted downward.

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