

**C P E C**  
CENTER FOR TAX POLICY

# TAXPAYER REPORT

## **The Effectiveness of Tax Amnesty Programs: 1982-2002**

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### **INTRODUCTION**

Tax amnesty programs are one of many strategies employed by states to provide one-time infusions of cash into state treasuries, often during times of slow economic activity. The terms and structure of such programs vary from state to state, but generally amnesty programs provide a set time period during which delinquent taxpayers may remit back taxes and accrued interest, if applicable, without penalty. Amnesty programs are often most effective when they are structured as “carrot and stick” programs. That is, the carrot, or incentive, for the taxpayer is the ability to pay back taxes without penalty and the stick is the threat of both increased vigilance in collection efforts and increased penalties after the amnesty period expires. States, in general, must weigh the benefit of the one time cash infusion with the potential loss of penalty revenue should such delinquent taxes ultimately be collected without an amnesty program. Furthermore, states must consider the timing and message of amnesties. Amnesty is not a strategy that can be overused since successive programs will naturally yield smaller returns and may provide subtle incentives for tax evasion as taxpayers rely on the opportunity to pay back taxes penalty-free. However, as one-time sporadic strategies, tax amnesty programs may provide some budget balancing help to states struggling to find one-time revenues. This Center for Tax Policy report reviews the relative use and effectiveness of such programs for the period 1982-2002 and provides some basis for evaluating the potential benefits that might accrue to Colorado should an amnesty program be considered.

### **TWENTY YEARS OF EXPERIENCE IN THE STATES<sup>1</sup>**

Since 1982, 40 out of the 50 states and the District of Columbia have implemented tax amnesty programs. 17 of the 40 states and the District of Columbia have had more than one amnesty in the 20-year period, resulting in a total of 65 individual tax amnesty programs over the two decades. These programs have differed in both their structure and their outcomes. 59 of the 65

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<sup>1</sup> The data for this report was gathered from a report published by the Federation of Tax Administrators and is available at [www.taxadmin.org/fta/rate/amnesty1.html](http://www.taxadmin.org/fta/rate/amnesty1.html). The summary table from the Federation of Tax Administrators report is included in this Center for Tax Policy report as Table 1.

programs covered all taxes while the remaining amnesties covered specific taxes such as individual income tax, sales tax, and intangibles.

In total, the amnesties from the last two decades yielded just under \$3.1 billion<sup>2</sup> for state coffers. In gross and inflation unadjusted measures, the most successful programs were in the northeastern states of New York and New Jersey. The top grossing amnesty program was New York's 1985-86 program with nominal collections of just over \$401 million. New York was followed by New Jersey with the next three highest collections of \$359, \$276.9, and 186.5 million in 1996, 1987, and 2002 respectively. At the other end of the spectrum, North Dakota held the tax amnesty with the smallest level of collections. North Dakota's program collected \$200,000 in 1983. The average<sup>3</sup> state collection in the 20-year period was just under \$60 million.

Of the 40 states that have conducted amnesty programs, 13 have had amnesties during the recent economic downturn (2002 to the present). Of those 13, Massachusetts has had two quick successive amnesties, one in 2002 and another in early 2003. Table 2 shows the summary results for the recent amnesty programs.

<b>State</b>	<b>Amnesty Dates</b>	<b>Amnesty Collections</b>	<b>Per Capita Collections **</b>
Arizona	1/1/02-2/28/02	NA*	\$ -
Connecticut	9/1/02-12/2/02	\$ 109,000,000	\$ 31.50
Kentucky	8/1/02-9/30/02	\$ 79,900,000	\$ 19.52
Massachusetts	10/1/02-11/30/02	\$ 91,600,000	\$ 14.25
Massachusetts	1/1/03-2/28/03	NA	\$ -
Michigan	5/15/02-6/30/02	NA	\$ -
Missouri	8/1/02-10/31/02	NA	\$ -
Nevada	2/1/02-6/30/02	\$ 7,300,000	\$ 3.36
New Hampshire	12/1/01-2/15/02	\$ 13,500,000	\$ 10.59
New Jersey	4/15/02-6/10/02	\$ 276,900,000	\$ 32.23
New York	11/18/02-1/31/03	NA	\$ -
Ohio	10/15/01-1/15/02	\$ 48,500,000	\$ 4.25
Oklahoma	8/15/02-11/15/02	NA	\$ -
South Carolina	10/15/02-11/30/02	\$ 30,000,000	\$ 7.30
	<b>AVERAGE</b>	<b>\$ 82,087,500</b>	<b>\$ 15.38</b>

\* Data on collections not yet available  
 \*\* Per Capita Collections are based on 7/1/02 population data as reported by the US Census Bureau at <http://eire.census.gov/popest/data/states/tables/ST-EST2002-01.php>

<sup>2</sup> This total is the total for only 59 of the 65 amnesties. At this printing, there was not yet data on collections for recent amnesties in Arizona, Massachusetts, Michigan, Missouri, New York, and Oklahoma.

<sup>3</sup> Again, this average uses collections unadjusted for inflation over the 20-year period.

The average state collection in recent amnesty programs was just over \$82 million. On a per capita basis, this amounted to an average collection of \$15.38 per state citizen. Naturally, the states varied in their success rates. Once again, the results were most successful in the northeast. On both an overall and per capita basis, New Jersey had the highest collections at \$276.9 million and \$32.23 per capita, respectively. Connecticut was a close follower with total collections of \$109 million and per capita collections of \$31.50. The state with the smallest recovery rate was Nevada with \$7.3 in total collections and \$3.36 in collections per person. Naturally, there are many factors that dictate the rates of success with such programs including the structure of the program<sup>4</sup>, the level of tax delinquency prior to the program, and cultural factors to name a few. As such, it is not a perfect extrapolation to use the experience of other states to predict the potential for success for a state such as Colorado. However, it does provide some bounds on estimates for collections should Colorado consider a tax amnesty program.

### PROJECTIONS FOR COLORADO BASED ON OTHER RECENT AMNESTIES

Table 3 below shows projections for a potential amnesty in Colorado based on the recent performance of such programs in other states.

State	Per Capita Collections	Colorado Population*	Colorado Estimate	Rational for Estimate
Overall Average	\$ 15.38	4,506,542	\$ 69,310,616	Average per capita collections of recent amnesties
New Jersey	\$ 32.23	4,506,542	\$ 145,245,849	State with highest per capita collections
Nevada	\$ 3.36	4,506,542	\$ 15,141,981	State with lowest per capita collections
South Carolina	\$ 7.30	4,506,542	\$ 32,897,757	State with closest population estimate

\*Population estimates as of 7/1/02 from US Census Bureau at <http://eire.census.gov/popest/data/states/tables/ST-EST2002-01.php>

Based upon experience elsewhere, estimates for collections in Colorado range from a high of just over \$145 million should Colorado collect at the per capita rate of New Jersey to a low of just over \$15 million should collections instead be closer to those of Nevada, the state with the lowest per capita collections from an amnesty program. Of the states to hold amnesties recently, South Carolina is closest to Colorado in total population. Collections based on the per capita collection rate of South Carolina would yield Colorado almost \$33 million. Again, amnesty programs will vary across states for a variety of reasons, so estimates based upon the experiences of other states are simply bounds on possible recovery rates. Given that, probably the best estimate for Colorado would be the one based upon the average collections from recent tax amnesties. Based on the average level of per capita collections, the estimate for Colorado would be just over \$69 million. Given the current budget shortfall of approximately \$850, the state should carefully consider the pros and cons of a tax amnesty program

<sup>4</sup> Of all the recent amnesty programs, only Arizona's limited the amnesty to a specific tax, the individual income tax. All other recent programs covered all delinquent taxes due to the state.

that is likely to recover less than 9% of the funds required to close the budget gap.

### **HISTORICAL USE OF AMNESTY IN COLORADO**

Colorado has held one tax amnesty in the two-decade period studied in this report. This program occurred in late 1985 and yielded \$6.4 million in collections for the state. At the time of the 1985 tax amnesty, state population in Colorado was just over 3.2 million people. Thus, on a per capita basis, the 1985 amnesty program collected approximately \$2 per capita. In inflation unadjusted figures, this amount is lower than the per capita collections of any of the recent amnesty programs used as the basis for projections in the section above. Table 4 shows that applying the 1985 per capita collection rate to Colorado's current population of just over 4.5 million people would lead to a projected collection level of just under \$9 million should the state consider a current tax amnesty program.

Collected in 1985	Population in 1985	Per capita collection in 1985	2003 Population	Estimate for 2003
\$ 6,400,000	3,208,813	\$ 2	4,506,542	\$ 8,988,330

### **CONCLUSION**

Over the past twenty years, and particularly since this last economic downturn, states have turned to tax amnesty programs as strategies for closing budget deficits. These programs have enjoyed varied levels of success. The most successful programs, both in gross and per capita receipts, have been in the northeastern states, particularly New York and New Jersey. The lowest grossing program was in the midwestern state of North Dakota. Although it is difficult to extrapolate from other states' experiences and predict the relative success of a program in any particular state, a range of estimates helps to place a bound on the potential range of collections. Estimating off of the per capita experience of a variety of state amnesty programs yields a range of estimates for Colorado from a high of just over \$145 million to a low of just under \$9 million. These estimates are based on the program in New Jersey and Colorado's 1985 amnesty program, respectively. An estimate based on the average per capita collections from amnesty programs held around the country in the past year yields just over \$69 million. This represents approximately 9% of the current budget shortfall in the state and is probably an aggressive estimate as the performance of New Jersey is factored into that estimate.