

The Effectiveness of Tax Amnesty Programs: 1982-2002
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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. 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, provides an inventory of such programs, and outlines some basis for evaluating the potential benefits that might accrue to Colorado should an amnesty program be considered.

Over the past twenty years, and particularly since this last economic downturn, 40 states and the District of Columbia 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.