

# **Tax Amnesties and their Potential Application in New Zealand in 2018 – A Critical Literature Review and Hypothetical Case Analysis**

A dissertation submitted to Auckland University of Technology (AUT) in partial fulfilment of the requirement for the Degree of Master in Business (Accounting)

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## **Abstract**

This study examines the strengths and weaknesses of various tax amnesties. This has been done by examining different tax amnesties around the world, and to identify factors which have contributed towards their success or failure. The examination of these tax amnesties shows that successful tax amnesties contain at least one of, or a combination of the following factors: a strong level of law regulation and enforcement, a low frequency of tax amnesties, strong tax reform following tax amnesties, a high level of advertising and public awareness around the amnesties, and the presence of an immigrant population. These factors and other factors are then compared to the tax environment in New Zealand to determine if a tax amnesty should be implemented here. The findings suggest that considering the conditions in New Zealand it will be appropriate to implement a tax amnesty. The present study reinforces the fact that tax amnesties are still an important tool in the taxation toolbox.

**Keywords:** Tax amnesty, tax compliance, tax morale, tax evasion, shadow economy, Automatic Exchange of Information

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## **Attestation of Authorship**

“I hereby declare that this submission is my own work and that, to the best of my knowledge and belief, it contains no material previously published or written by another person (except where explicitly defined in the acknowledgements), nor material to which a substantial extent has been submitted for the award of any other degree or diploma of a university or other institution of higher learning except where due acknowledgement is made in the acknowledgements.”

Signed: \_\_\_\_\_ Chang, Daryl

Date : \_\_\_\_\_

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# **Section 1 Introduction**

## **1.1 Background**

The effects of tax deviants are experienced all over the world. They inflict economic harm on the country, and place themselves in an unfair economic position while enjoying the same benefits as the average taxpayer without penalty. Tax evasion is a major component of tax non compliance. It is a global issue which only differs among countries in the extent to which it is being carried out. Throughout the 2010s, the IRD has uncovered significant amounts of underreported taxes, with \$159 million being identified in 2016 alone (NZ Herald, 2018). The CA ANZ tax leader, John Cuthbertson, estimates that undeclared tax from the shadow economy in New Zealand deprives the IRD over \$1 billion per year, which is attributable to 20% of self-employed workers underreporting their income (NZ Herald, 2018). Among the many potential solutions is a tax amnesty. Discussions of a potential usage of a tax amnesty have arisen twice in the past two decades; once in 2004 and again in 2010, although ultimately they were not pursued due to the consequences associated them. Most of extant literature and research on tax amnesties suggests that they are a controversial tool at best, and their success is dependent on when they are conducted, how they are conducted, and in what environment they are conducted. A common conclusion in many of these studies is that frequent tax amnesties will have an adverse effect on tax non-compliance and ultimately hurt the taxation system in the long run, due to future expectations that they will occur again in the future. Despite these conclusions, tax amnesties are still utilized frequently by countries around the world, and have resulted in great levels of success. In recent years, many countries have begun to apply tax amnesties in response to the debut of the new Automatic Exchange of Information (AEOI) system in order to capitalize on the new threat of detection that the system poses to current tax evaders. This resurgence in tax amnesties should encourage an in-depth look at tax amnesties as a potential solution to New Zealand's current tax evasion predicament, and whether New Zealand should apply one in the near future.



## **1.2. What is a Tax Amnesty?**

A tax amnesty is essentially a tax forgiveness event in which a taxpayer is allowed to bring forth undeclared income and retroactively pay tax on it at a discounted rate. These amounts are nominal compared to the full amount of tax the taxpayer would have otherwise have to pay under regular law. Due to this facet of tax, they are commonly referred to as “tax forgiveness” events by researchers and politicians alike.

If the tax was 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 avoid penalties which they would have otherwise incurred if they were caught thereby granting them incentive to participate. Le Borgne & Baer (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." (Le Borgne & Baer, as quoted in Mikesell & Ross, 2012). The extent of the forgiveness varies between different tax amnesty policies depending on what the tax amnesty is designed to achieve.

## **1.3. A Brief History of Tax Amnesties in New Zealand**

New Zealand has conducted one tax amnesty in the past. Over a period of two months, the tax amnesty was open from September to 14 November 1988. The key properties of the tax amnesty were that late tax payment penalties were still charged in order to ensure a degree of fairness in the amount of taxes collected compared to taxpayers who had paid on time. Penal fees typically chargeable under s 420 of the New Zealand Income Tax Act 1976, which would have charged up to 300% of the tax evaded as a penalty, were waived in order to encourage non-compliant taxpayers to enter the system. Two years prior to the amnesty the penalty for evading tax was increased from \$2,000 to \$15,000. This was a deliberate decision to highlight the severity of non-compliance and emphasize the importance of the grace period being allowed to current tax evaders. The government also promised that being an amnesty applicant would not bias the chances of being audited or investigated

by the IRD so as to ensure that the policy would not become a policing exercise (Hasseldine, 1989).

In August 1989, the IRD released detailed results of the amnesty. In respect of the large disclosures, interest and dividend income were very prevalent, and to a lesser extent disclosures from writers, artists, musicians and sports people having overseas income (for example, royalties). While the government has never outright declared the amnesty a success or failure, Hasseldine (1989) makes a brief comparison to the amnesties conducted in the United States. In the New Zealand tax amnesty, a total of 16,083 taxpayers lodged 24,685 amnesty returns over a period of two months. New Zealand's amnesty collected \$26.3 (with \$3 million of the collections being refunds). To provide a point of reference, compared to the \$20 million collected over a year in 20 states across America (not including the largest states such as Illinois or California) this was a tremendous achievement. The other key benefit that New Zealand gained from the amnesty was fresh data on tax evaders which could be further used in tax evasion analysis. Considering these factors, researchers and the government generally agree that the tax amnesty was a success.

The next discussion on tax amnesties occurred in 2004, when the IRD proposed the usage of limited targeted amnesties in New Zealand. The purpose of the amnesty was to reduce the level of ingrained tax evasion in specifically targeted industries in New Zealand and to serve as a last chance for non-compliant businesses to "clean up their act" and comply with the legislation. It was designed as a series of tax amnesties in order to allow for alterations of each policy for each industry. Although tax evasion was the primary target, the amnesty was also to be extended to other taxes such as GST as long as the IRD had reviewed the situation. Several developments in the proposal were made, but due to heavy emotional resistance and negative responses from both the public and in media coverage of the policy, discussions on the policy were ultimately scrapped. There was also a public sentiment that the policy was unfair as it allowed non-compliant taxpayers to essentially get a free pass and was felt like a punishment for those who had been following the law. Despite assertions from the government insisting that this was not the intent of the policy, emotional resistance and general

unpopularity of the proposition has left any further discussion and potential application of the policy abandoned. Since December in 2005, discussions of the tax amnesty were suspended (Sawyer, 2005). Minor discussions on the potential application of a tax amnesty were held in 2010, but no significant progress was made and the discussions quickly ceased.

#### **1.4. Objective of this study and Research Objectives**

The objective of this research is to provide a review and synthesis of relevant literature concerning tax amnesties and their effectiveness in retrieving tax losses and improving tax compliance. The literature identifies key factors in the success and failure of various amnesties. To achieve the objectives of the study, the research analyses: (i) the importance/relevance of tax amnesties (ii) the main effects of a tax amnesty on Tax Compliance and reclaiming lost revenue from Tax Evasion and (iii) whether a tax amnesty should be implemented in New Zealand.

It does so by examining the existing literature regarding the applicability and potential effectiveness of a tax amnesty if conducted in New Zealand based on current events and conditions, and the culture and economy of New Zealand. The findings of the present research may provide a platform of ideas which could potentially assist New Zealand tax authorities and policy makers to consider the role of a tax amnesty to combat tax avoidance and evasion in New Zealand and encourage investments that better promote economic growth.

This research proceeds as follows. Section 2 of the research details the research design and methodology employed. Section 3 provides a review of important research and factors conducted about tax amnesties. Section 4 identifies common practices and factors which have contributed to their success or failure. Section 5 provides a review of the business and tax environment in New Zealand and discusses whether or not a tax amnesty should be implemented in the country. Section 6 sets out the conclusions and areas for future research.

## **Section 2 Research Methodology**

### **2.1 Research Method**

The critical review method was adopted for this research project. This method offers a more in-depth level of literature analysis than more basic methods such as a scoping or rapid review, as it enables the inclusion of “conceptual innovation” (Grant & Booth, 2009, p.93). The critical review method is commonly used by researchers to build on or create new hypotheses or models within a given field of study. For this study, the critical review method is used to assess the existing literature and past research in order to provide a platform from which conceptual development and future research can be conducted. To expand on the lack of empirical research and studies conducted on recent tax amnesties, the research was extended to include information from websites, using simple search engine. From a practical perspective, the critical review best fits the time constraints for this study. It was also suitable as no ethical consideration was required for this project as this research method does not involve the study of people.

This research study was qualitative to suit time constraints. The research was conducted using secondary data (from published articles and documents) and will suggest future approaches to reduce tax losses from non-compliance.

### **2.2. Research Process**

The process began with the identification of research objectives and questions that would form the basis of the study and develop the topic of interest. In the next step, a keyword search was conducted in order to find studies and websites that were relevant to the effects of tax amnesties in different countries and studies which addressed the impact of tax amnesties in New Zealand. In the next step the scope was expanded by using relative key word searches including Tax Evasion and Tax Compliance. In particular, tax amnesties occurring after the year 2000 were given priority over older tax amnesties where there were choices so as to give a more modern outlook on the impact of tax amnesties within the last decade as they would be more relevant. The scope of the literature review was limited to sources available on websites written in English. The sources were then compiled into a simple

word document detailing the author, the source type, the country, the date of the amnesty, and key information from each amnesty. This enabled the author to better understand and refine insights into the research and be sure that the selected studies were appropriate for building a study that matched the research objectives.

### **2.3. Importance of the Study**

The global losses from tax evasion are staggering amount, amounting in the trillions for individual countries alone. The New Zealand economy has suffered greatly from it as well. A study carried out by the European Network on debt and development in 2011 stated that the shadow economy in New Zealand amounted to almost \$20 billion. To give a sense of context, the amount of money lost specifically to tax evasion in New Zealand is equivalent to 44% of the national health budget, which speaks volumes about how harmful it is to the economy and the loss of potentially beneficial activities that the public is missing out on (Field, 2011). Ambitious projects like environmental preservation, architectural upgrades to roads, and other projects could potentially be funded if these funds were returned. The ongoing losses from tax evasion continue to rise today, with an estimated \$1.3 billion every year being lost, despite a hefty investment of \$330 million in increased compliance costs from 2010-2014. Slow progress has been made since to recover these losses, but it is clear that the administrative costs of noncompliance far outweigh the amounts being brought in, even in a country considered rich and advanced in tax knowledge and regulation (Mathewson, 2014).

The question of converting these tax evaders into compliant taxpayers and retrieving these lost funds, as well as reducing the amount of revenues lost from tax evasion in the future, has been a subject for ongoing study by academics and governments alike. The New Zealand government is not a stranger to this issue. For the last two decades, the government has suggested and initialized several policies in an effort to combat non-compliant taxpayers and minimize these losses. Most common among these has been the repeated discussion over the usage of a tax amnesty. Historically, as discussed in section 1.3, New Zealand has only performed one tax amnesty in 1988, with

reasonable success. It subsequently discussed applying one in 2004, and more recently (more details are given on later sections). However, tax amnesties are a controversial tool in the taxation toolbox and bring forth both successes and failures for governments utilizing them. While they have the potential to reap incredible amounts of revenue from a source of funds that would otherwise be permanently lost to the activities of tax evaders when conducted successfully, tax amnesties also have the potential to destabilize the taxation structure of a country by having the opposite effect: i.e. creating more tax evaders because of the perception that leniency is given towards otherwise would-be criminals. This may result in increased tax evasion in the future while only granting a temporary boost to offsetting current debts through the amounts retrieved. Timing is also a crucial factor when discussing tax amnesties. New technological developments in government policies create new ways in which non-compliance is detected, as well as methods in how to avoid it. An up-to-date look at these developments enables a revision of old studies in order to apply their concepts to the modern world of taxation and consider the modern effects of tax amnesties.

In the case of New Zealand, the decision to utilize a tax amnesty seems up in the air. By learning from the example of tax amnesties conducted internationally, New Zealand policy-makers will have a better understanding of what the benefits and dangers of using a tax amnesty might be in the current environment. This study will assess the current economic environment in New Zealand, compare its conditions to those of countries that have had tax amnesties in the past, and make inferences on the effects of undertaking a tax amnesty in New Zealand in the near future. Furthermore, it will provide a platform for further research regarding the implications and whether an amnesty should be pursued. In particular, a review of the impacts of having a tax amnesty in New Zealand may help policy-makers and tax administrators to analyse the general benefits and challenges of using a tax amnesty.

## **Section 3 Consideration of Relevant Factors**

### **3.1. The Main Objectives of a Tax Amnesty**

There are two main objectives in a tax amnesty. The first primary objective is the short-term retrieval of revenues lost from tax evasion. This objective is straight forward as the funds retrieved will be used to either bolster the national treasury of a government, or sometimes used to fund the administrative costs of applying the amnesty and any following tax reforms. The second objective is the reduction of long-term future non-compliance in their legal structure. The key effect of this objective is to reduce non-compliance in the economy and therefore reinforce the structure of compliance by adding more taxpayers to the taxation database and maintaining a record of taxpayers and transactions.

The most successful tax amnesties are the ones which take both of these factors into account. A tax amnesty which increases tax compliance with no revenues to show for it prove its success is subjected to scrutiny, whereas tax amnesties which retrieve large amounts of revenue on its usage but damages the tax system in the future is not sustainable and will ultimately damage the economy further (OECD, 2017).

### **3.2. The Benefits and Costs of a Tax Amnesty**

Extant research has found that there are a similar number of benefits of using a tax amnesty. The benefits and costs of a tax amnesty are summarised in Sawyer's 2005 study on ingrained taxation in New Zealand, as follows:

#### **Benefits:**

- Generating an immediate increase in tax revenues
- Reducing administrative costs
- Improving post-amnesty voluntary compliance through better record-keeping
- Monitoring of individuals who were previously non-filers who did not declare all of their income
- Improving post-amnesty voluntary compliance if the amnesty is part of a larger effort directed at reforming the tax system, such as through

improved enforcement efforts, and reasonable and equitable civil and criminal penalties, and

- More extensive and improved taxpayer services and education.

**Costs:**

- Producing small and overstated amnesty revenues (in relation to revenues arising from normal audit activities)
- Reducing post-amnesty voluntary compliance from previously honest individuals who view the amnesty as unfair
- Individuals who are now less motivated by guilt to pay their taxes
- Individuals who are now aware of the possibilities of non-compliance
- Individuals who now realise that the government is unable to enforce the tax laws, and
- Individuals who anticipate that another amnesty may be carried out in the future

The weight of each benefit and cost will vary greatly depending on which country the tax amnesty is performed in, and how it is executed (Torgler, Schaltegger, & Schaffner, 2003).

### **3.3 The Interaction between Tax Amnesties and Tax Compliance**

The ever-increasing amount of tax non-compliance is one key reason that tax amnesties are carried out. The level of rigidity and enforcement of a country's taxation system is often a strong indicator of how secure and well regulated the tax system is in that country. A low level of tax compliance signals that the enforcement and security systems of a country are weak. This will deter investors and immigrants from investing more into the country or its businesses because of a lack of trust, while also encouraging more tax deviants to take advantage of a system and therefore further damage the economy of that country. A recent study aggregating old and recent effects on tax compliance attitudes finds that extant literature on tax non-compliance is highly caused by many different factors, including (but not limited to) the economic factors, socio-demographic factors, reciprocity (trust in government, fairness), intrinsic motivations, and culture (Ma, 2017).



The extant literature has observed that tax amnesties can have a wide variety of effects on tax compliance. These effects stem primarily from the type of tax amnesty that is performed, the frequency by which it is performed, and the level of enforcement of the amnesty after its application. Most of the reviewed literature and media releases reviewed assume the position that tax amnesty has a negative impact in the long term on taxpayers' tax compliance. They highlight the negative impacts on the long term tax compliance for several different reasons. A common finding is that tax amnesties will encourage a decrease in tax compliance behaviour because taxpayers will begin to anticipate that future tax amnesties may be declared, so they will decrease their compliant tax activities in the expectation that they will be forgiven for them in the future (Leonard & Zeckhauser, 1986). Furthermore, they can also deter honest taxpayers to comply with their taxation obligations in the future (Alm & Beck, 1993). This is particularly true if a country has an established history of tax amnesties, such as countries like India and the US (Luittel and Sobel, 2007).

The opposite of these arguments is that a well-designed tax amnesty policy, combined with increased enforcement of tax rules, will lead to a wider result than just better enforcement. An experimental study conducted by Alm, McKee, and Beck (1990) found that a combination of good tax enforcement and a well-designed tax amnesty programme can offset and ultimately increase the level of tax compliance resulting from the tax amnesty. Tax aggressiveness resulting from a single tax forgiveness event can also be reduced with strong compliance enforcement (Thornock & Shevlin, 2017). Beyond the tax amnesty, it also falls to the governing revenue authority to follow up on non-participating taxpayers and ensure proper enforcement of the amnesty is upheld in order to uphold promises to the public and improve compliance in the future (Sawyer, 2005). In both studies, the effect of combining both policy rigidity and compliance enforcement could minimize tax aggressiveness and in some cases increase tax compliance.

### **3.4. Taxpayer Incentives**

On the surface tax amnesties may seem to be offering an overwhelming incentive for taxpayers to participate. There is a large amount of extant

literature on tax compliance which have shown that taxpayers are motivated by a large variety of factors – tax morality, culture, economy, and technological advancements to name a few. Participation stems from the changing economic environment as well as intrinsic motivations which ultimately make them participate in the tax amnesty. As Hasseldine and Beggington (1991) describe:

“Economic orientated responses are short-term solutions only, and it is necessary to look to psychological aspects to ameliorate long-term problems. If evasion persists over a long time and continues to account for a large percentage of the total tax take then structural solutions may be appropriate”

Ross and Buckwalter (2013) and Bayer, Oberhofer, and Winner’s (2015) study of U.S. state tax amnesties suggest that due to strategic delinquency tax evaders do not participate in tax amnesties. If such a taxpayer suspects or has reasonable belief that a tax amnesty is about to be enacted, they may declare withhold declaring their income until the tax amnesty comes in effect and only then decide to declare their income in order to save money on taxes. Another key incentive for participation in tax amnesties is the expectation or potential shock of an upcoming event or discovery threatens detection, whether it is through a policy or through technological innovation. For instance, the publicized purchase of Swiss banking information or other similar tax havens (like Singapore) by foreign authorities may be a red flag to evaders that their detection is imminent (Bayer et al, 2015). Only by calibrating the tax amnesty to respond to both an economic and psychological response can the best results be achieved.

### **3.5. Types of Amnesties**

There are variations among the type of tax amnesties which are employed by a country. They primarily differ in the type and level of forgiveness allowed towards previously non-compliant taxpayers. However, most of the studies on tax amnesties do not explicitly state the type of tax amnesty conducted, but focus only what it covered. However, Sawyer (2005) noted that there are five main types of amnesties employed by governments, although often some features may overlap depending on the amnesty. They are the following:

1. **Filing amnesty:** this involves the waiving of penalties for non-filers who commence filing
2. **Record-keeping amnesty:** this involves the waiving of penalties for past failure to maintain statutorily required records, provided such records are now kept
3. **Revision amnesty:** this is an opportunity to revise past tax returns without penalty or with a reduced penalty. This enables taxpayers to correct past returns (upwards) and pay any taxes that are missing or outstanding. Taxpayers will not normally be immune from investigation and auditing activities.
4. **Investigation amnesty:** This involves a promise not to investigate the source of incomes disclosed for specific years and may require the payment of an 'amnesty fee'. It will also involve a promise in effect not to investigate the real amount or origin of the income.
5. **Prosecution amnesty:** This will involve immunity from prosecution for detected offenders, usually a waiver of the penalty on pleading guilty, with the penalty waived on the basis of the payment of some compensation.

Another varying factor is that the duration of tax amnesties can differ greatly. They may be one-off amnesties which typically only last for a few months, after which the amnesty will only be conducted again in the far future if the government deems it necessary. There may also be persistent tax amnesties, which take the basics of the initial amnesty and enable disclosures over a large period of time, sometimes even on a permanent basis as seen in the case of the United States in which case they are integrated into a taxation reform.

## **Section 4 Tax Amnesties Conducted Globally**

### **Argentina**

#### **1987 Tax Amnesty**

The Argentina tax amnesty focused on the reclamation of repatriated overseas funds. Like most tax amnesties it promised not to prosecute delinquent taxpayers, but it waived all taxes owed. Where it differs from other similar amnesties is its debt-to-equity program where for every dollar of returned debt, another dollar had to be used to purchase new equipment, build new plants, or increase the physical capability of existing plants. Taxpayers found this stipulation to be too unfavourable as it took away most of the benefits that the taxpayer would have gained in the first place. The 100% tax waiving was inconsequential to the Argentina taxpayer because widespread tax evasion in Argentina and a lack of commitment to increased enforcement meant that a taxpayer was unlikely to get caught anyway. Furthermore the severity of this amnesty was undermined as another tax amnesty was declared in 1988 which reworked the debt to equity program and annulled the previous amnesty (Ucihtelle, 1989).

#### **2017 Tax Amnesty**

The 2017 tax amnesty in Argentina followed a much more standard procedure when compared to its 1988 counterpart. It enabled assets to be declared and repatriated at special tax rates depending on the amount declared. A key caveat to this amnesty was that asset repatriation was optional, giving taxpayers to keep assets overseas if they desired to. During the process, Argentina enhanced its enforcement and regulatory procedures and rejected illegal assets such as money-laundering assets, drug related assets, and terrorist related assets. The Financial Intelligence Unit (FIU) in Argentina was granted additional power to communicate information on laundering risks to other public agent and intelligence agencies. Last but not least, Argentina signed cooperation agreements with other countries such as Switzerland and the United States in order to further combat money laundering procedures. These extra measures paid off, as the amnesty retrieved roughly six times the revenues anticipated by the administration, exceeding

all expectations (OECD, 2017). Although it is unclear how this will affect compliance in the future, it is noted by the OECD as a prime example on how to conduct a tax amnesty.

The Argentina tax amnesties are a clear example of how a well designed plan for tax reform and enhanced enforcement procedures can influence the success of a tax amnesty, despite having a high frequency of them.

## **Australia**

### **The 1988 Australian tax amnesty**

There has not been much information disclosed on the 1988 Australian tax amnesty. It was conducted almost at the same time as the New Zealand tax amnesty of the same year as a part of effort to combat rising tax non compliance. The amnesty ran from 30 May to 31 October 1988 in which no penalties were imposed nor prosecutions sought to un-lodged income tax returns. No information on the revenue result of the amnesty have been published, but it was considered a success by the Australian Tax Office (ATO) as it saw a favourable response of 102,611 new taxpayers added to the system as well as 158,953 taxpayers who filed two or more returns to settle their obligations. (Hasseldine, 1989). It can be considered a success with regards to strengthening the tax database with new information, but without revenue information not much can be said about its actual success.

### **The “Do It” Program in 2014**

Of all the tax amnesties and policies conducted in the world, the most relevant one performed is an ongoing tax amnesty program in Australia. The taxpayers, political environment, and recent events in New Zealand and Australia share many similarities amongst one another. Both countries feature a large immigrant population who possess income and assets overseas which have resulted in large amounts of undeclared sources of income. The “Do It” tax amnesty program was initiated in late 2014 in order to allow immigrants who kept funds and assets off the record in offshore accounts and provide them a last chance to declare these accounts or face drastic consequences in the form of massive fines, investigations, and other penalties. Discussions on whether corporations would be allowed in the future have

commenced but no decisive information has been produced from the conversations so far. The main motivation for taxpayers to declare their offshore assets is the implication that any instances of tax evasion or illegal tax activity caught in the future would implicate an unlimited review. Furthermore taxpayers who come forward willingly are promised that they would not be subjected to future audit and investigation regarding their declared accounts.

The program has shown great success as both an exercise in reclaiming tax evasion and strengthening the overall tax system. As a standalone program in its deadline, 1750 Australians declared a total of \$240 million in income, and \$1.7 billion in assets under the amnesty. Furthermore, outside of this deadline 800 more voluntary disclosures were expected (ANAO, 2017). The media presence and importance of the program increased awareness of tax law and voluntary disclosure in Australia, as even after the amnesty's grace period voluntary disclosures continued to be declared. The positive results led to further efforts by the ATO to reclaim evaded taxes from other sources, as in 2015 they announced that they were targeting AUD\$4.1 billion from funds stored offshore in HSBC Swiss bank accounts (Farrell, 2015).

Overall the amnesty was extremely successful. Not only did it succeed in directly reclaiming a portion of the lost income to tax evasion, but it also succeeded in registering new taxpayers into the system, and particularly wealthy ones at that. It also succeeded in shifting the mindset of taxpayers resulting in increased compliance as evidenced by the increased amount of pending voluntary disclosures even after the tax amnesty period. The effects from project "Do It" are still ongoing to this day. The ATO had estimated in 2014 that under the initiative a total of \$600m of disclosures and a further \$4bn of assets are still expected to be declared (Farrell, 2015), and the statistics of tax settlements disclosed have only increased under the effects of the tax amnesty program.

## **Colombia**

### **1987 Tax Amnesty**

The tax amnesty in 1987 allowed taxpayers who had failed to declare income or liabilities that were incorrectly filed prior to file them without sanction or

penalty. Taxpayers under investigation by tax authorities were not allowed to participate. The amnesty also required that any amount reported by taxpayers must exceed any income reported previously. At the same time as the amnesty, the government made several tax reforms to further incentivize taxpayers to participate. It unified the corporate income tax rate, lowered personal income tax rates, removed double taxation of dividends, and raised income tax withholding rates (Uchitelle, 1989). \$94 million was estimated to have been raised as a result of the amnesty. While it was not as large of an amnesty as others observed, it exemplifies that tax reformation and enforcement efforts conducted in conjunction with the tax amnesty as a trigger can help to generate increased revenue returns.

## **Turkey**

### **Overview of 29 Amnesties**

The tax amnesties conducted in Turkey cannot be considered individually, and are thus reviewed as a collection of all of its amnesties. Turkey has had 29 fiscal tax amnesties since 1924, which has resulted in an amnesty every 2-3 years. Each amnesty generally offered the same promise of reduced penalties for the disclosure of income and assets which would otherwise have been penalized harshly. While there have been no studies focusing on a single tax amnesty in Turkey, a survey questionnaire in a study conducted by Gerger (2012) examines the taxpayer attitudes towards the application of tax amnesties in Turkey. The survey consisted of 240 participants, who were official taxpaying citizens in the Manisa province. Gerger attributes the high frequency of tax amnesties without proper sanctions to limit tax evaders as the main reason responsible for the fact that most of them have resulted in failure. The study found that taxpayers have been conditioned to expect another tax amnesty. 80.7% of respondents in the study believed that the current amnesty would be extracted, and that another would take its place in the coming years. The tax amnesty situation in Turkey is a classic example of the result of utilizing multiple tax amnesties without enforcing strict sanctions on participating taxpayers, as the lack of enforcement and real penalties to tax evaders disillusioned honest taxpayers, ultimately leading to increased non-compliance and the long term reduction of tax revenues recovered. Turkey

has since announced another tax amnesty in 2016, but little public information is available on its performance.

## **Russia**

### **Series of Amnesties from 1992**

A study by Alm, Vasquez, and Wallace (2009) covers a series of Russian tax amnesties in detail. Russia has conducted several tax amnesties since 1992. The first amnesty was conducted in 1993, which stipulated that all enterprises, organizations, and private entrepreneurs who disclosed their unpaid tax payments for all years leading up to and including 1993 would not be liable for sanctions on those unpaid payments, while also promising punishment to any concealed incomes found after November 30<sup>th</sup> at triple the unpaid tax rate (Alm, Vasquez, and Wallace, 2009). The amnesty was considered flawed primarily due to its extremely short period in which taxpayers were granted to disclose unpaid tax obligations, and even shorter 1 month period in which they had to repay their liabilities which many taxpayers were unable to do. Another flaw was the fact that the amnesty did not take into consideration taxpayers who had made honest unintentional mistakes and did not provide any leeway towards taxpayers in such a situation. For these reasons, the amnesty failed to reap any considerable revenues. The following amnesties conducted in Russia would essentially be attempts to fix and repair these few flaws. The 1996 amnesty allowed tax arrears to be deferred to a later date, provided that current payments and 50% of the arrears were paid off, but taxpayers found that the remaining 50% of arrears were too burdensome as they were accompanied by a 30% annual penalty fee on each year they were not paid. In 1997, Budget Law 29- FZ of 26 February 1997 established guidelines for newly granted deferments on taxes and other mandatory payments. Tax amnesty in 1998 then allowed further deferments of tax liabilities payable, and allowed enterprises with delinquent tax payments to defer payments 10 years into the future at a 5% interest rate on the outstanding payment. Out of 216,000 potential enterprises, only 10% of them actually filed for a deferment of tax payments, and only 74% of those enterprises were granted a deferment. This cycle of annual tax payment deferments would essentially continue in a similar fashion up until 2002, where the main



differences were the industries allowed to participate. Overall, Alm, Vasquez, and Wallace (2009) found that everything considered, there were no increased revenues as a result of the amnesties, and that they may have actually fallen as a result. The failure of the amnesties is attributable to the lack of a sophisticated tax authority to manage an over complicated tax system, the over frequency of tax amnesties which continually betrayed the belief of the amnesty being a one off event, and the lack of a noticeable increase of enforcement post amnesty.

## **France**

### **1982 and 1986 France Tax Amnesty**

The France tax amnesties in both 1982 and 1986 focused on the repatriation of illegal overseas funds back into France. Both amnesties were similar in their offerings; the repatriation of overseas funds without conviction by the government. Where they differ however was in the incentives offered in the 1986 amnesty, where the tax rate on repatriated capital was reduced to 10%, gold holdings were made anonymous, but most importantly the 1986 amnesty abolished the wealth tax. This encouraged taxpayers to invest locally in France as there was now a means of healthy investment in the country. The 1986 amnesty resulted in an estimated \$1,610 million in repatriated funds (Uchitelle, 1989). The main takeaway is that structural government changes must be made in order to incentivize taxpayers to partake in an amnesty in order for them to succeed.

## **Ireland**

### **1988 Ireland Tax Amnesty**

The 1988 tax amnesty in Ireland was considered to be one of the best amnesties conducted in its time. It gave a long grace period of 10 months for delinquent taxpayers to settle their un-lodged tax payments without penalty or any interest charges, and promising not to prosecute them. Ireland also stepped up its law enforcement measures by introducing “tax sheriffs” responsible for tax collections. It also increased the awareness and presence of the amnesty by advertising it in the newspapers, and published the names

of delinquent taxpayers in order to exemplify the changes they were bringing. The amnesty managed to retrieve over \$750 (IR 517) million of tax revenue, completely surpassing the original projection of \$100 (IR 500) million, which resulted in a massive success. Following the amnesty, a new tax system was implemented and was accompanied by increased interest and penalty payments on delinquent tax payments, as well as granting revenue commissioners more powers, including the power to seize stock and other assets and freeze the bank accounts of convicted tax evaders (Uchitelle, 1989). However, the long term effects of the amnesty are unknown, as Uchitelle (1989) states that the lack of adjustment to the high standard tax rate nor the addition of more exemptions may hinder long term tax compliance to increase. Taken as a standalone policy, the amnesty achieved and surpassed its revenue goals and aided in the recovery of much needed funds for the government treasury.

### **Ireland 1993 tax amnesty**

Ireland conducted another amnesty under the justification that the government wanted to root out the remaining tax arrears owed. The amnesty decreed that taxpayers were allowed to pay off un-lodged tax payments at a flat 15% rate with waived penalties and interest payments. While the amnesty was relatively successful, it eroded what good will the government had built up with the public, as the one-off promise of the prior amnesty was broken not even four years after its initial announcement (Le Borgne & Baer, 2008). Despite penalties being increased to include an 8 year jail term for failure to comply, this was undermined by an anonymity clause robbed tax inspectors of the right to know the identity of tax evaders they were inspecting, essentially weakening the tax administration greatly. The cost of tax evasion was still justified compared to the cost of being tax compliant. \$185 IR million was retrieved (Le Borgne & Baer, 2008), but a much smaller portion of the population actually participated in the amnesty, indicating the public dissatisfaction with the amnesty and likely leading to increased non-compliance in the following years.

## **Ireland 1999 – Voluntary Disclosure Scheme**

While not an amnesty in its own right, the 1999 Voluntary Disclosure Schemes essentially fixed all the problems which plagued the two preceding amnesties. Coming off the cuff of a major public inquiry and reformation of the tax administration and financial institutions, public trust in the government had been improved greatly. Banks became more cooperative with the tax administrators and increased the exchange of information between the two institutions. This increased power allowed the government to investigate and shut down fake bank accounts and retrieve offshore assets held under these accounts. These increased enforcement measures were made public through direct advice from banks to their customers, as well as a “Name and Shame” provisions utilized where the government would periodically publish the names of tax evaders to the public to demonstrate their new investigative powers and their ability to follow through with swift enforcement.

## **Italy**

### **Italy Tax Amnesty 2001: The “Scudo Fiscale” Tax Shield**

Italy raised a tax amnesty in 2001 along side the launch of the Euro and a number of tax reforms occurring in Italy. It had three main goals: (1) bring more taxpayers into the system, (2) increase resources for local investment by repatriating overseas assets, and (3) boost economic growth via local investments. The amnesty was offered as an opportunity for suspected Italian taxpayers who were keeping their assets in offshore financial centres out of fear of inflation, weak currency, political instability and a high tax on financial income to regularize their tax payments before harsh penalties were installed in the new regime. Furthermore, major taxpayer incentives such as a low charge rate of 2.5% was to be paid on the declared income while interest and other social security payments were waived, full anonymity promised to disclosers, and taxpayers who repatriated their assets back to Italy were excused from future income tax declarations (Le Borgne & Baer, 2008). The amnesty lasted for 6 months from November 2001 to May 2002. It performed very well, raising €54 billion in tax revenue from disclosures without prosecution of taxpayers, but more importantly it transitioned the country and

its taxpayers into the new regime and bolstered the economy in following years (OECD, 2004).

### **Tax Amnesty 2009**

The 2009 tax amnesty in Italy was performed in an effort to target taxpayers who maintained offshore accounts in tax havens, primarily targeting Swiss banks. The goals of the amnesty remained similar to those of the 2001 amnesty, with only the focus group changing. Italy promised much harsher punishment for not complying with the amnesty and utilized scare tactics in order to prove its point. Prior to the amnesty period, forced audits of 76 Swiss banks were carried out by the Italian police (Simpson & Jucca, 2009), and taxpayers with undeclared offshore income were publicized in Italian newspapers to make the new initiatives Italy was performing known to the public. Tax administrators were given much more power similar to those in Ireland, making it abundantly clear that they were cracking down on tax delinquency. The amnesty retrieved over €100 billion, surpassing expectations and previous amnesties.

Despite conventional logic that frequent tax amnesties are likely to have reduced tax revenues and lower tax compliance, the tax amnesties in Italy demonstrate that performed under the correct circumstances with the right methods, an amnesty still has the potential to prevail. The 2001 amnesty marked the end of an era and the beginning of a new regime, and with it brought significant changes and benefits to taxpayers who partook in the amnesty. The 2009 amnesty followed up this success with aggressive enforcement tactics which highlighted the power of the administration and the consequence of failure to comply.

## **Michigan, U.S**

### **1988 and 2002 tax amnesty**

The 2002 tax amnesty in Michigan was created by the Public Act 168 in 2001 (Guilfoyle, 2003). It allowed taxpayers to declare overdue taxes without penalty, and waived certain civil and criminal tax penalties for taxpayers as long as they paid off the liability in full and signed special documents for the

Michigan Treasury. It ran from May 15 to July 1 in 2002. A net total of \$30.2 million was retrieved from 13,854 new taxpayers after administration costs of \$1.5 million were deducted. This surpassed the predicted goal of \$24.3 million by \$7.9 million, which marks the tax amnesty as in terms of short term revenues. The amnesty however did not perform as well as the amnesty conducted in 1988, which outperformed it by lodging more tax returns from new taxpayers as well as the amount of revenues earned. The 1986 amnesty lodged 47,175 tax returns from new taxpayers, and \$73.2 million in revenue from those taxpayers. While the 2002 amnesty was by no means a failure, it fell short of its earlier counterpart primarily because of two reasons. First, the 1986 tax amnesty harshly penalized delinquent taxpayers if they were discovered after the amnesty period, while the 2002 amnesty had no such provision. Second, the 1986 amnesty held a massive public relations campaign (known as the “Get to Us Before we Get to You” campaign) which informed the public of the benefits and consequences of not participating in the amnesty, whereas the 2002 amnesty had no such advertising campaign (Guilfoyle, 2003). This would have increased the overall cost of the 1986 amnesty, but the additional revenues retrieved would have more than made up for the cost of the advertising campaign. These amnesties highlight the importance of having a substantial enough penalty to make the perceived cost of tax evasion too much for a taxpayer to continue risking it, as well as the importance of making the consequences and benefits of the tax amnesty as widespread as possible so people are aware of it.

## **Indonesia**

### **Indonesia 2016 tax amnesty**

Following the trend of many recent tax amnesties, the 2017 Indonesian tax amnesty focused on the repatriation of overseas assets and income. The main reason the tax amnesty was organized was to improve the low tax-to-GDP ratio of 12% (which is low compared to intermediate states which are about 24%, and developed countries which are at almost 50%) by tackling the issue of heavy tax non-compliance in Indonesia. The government targeted undeclared funds that were used for foreign or local investment, investment in illegal activities, and funds that were entrusted to a taxpayer who did not

have a tax registration number (Said, 2016). Countries that taxpayers typically stashed their funds include tax havens such as Switzerland, Singapore, Macau, and others. The amnesty allowed any taxpayer who had not fully declared their offshore income with the exception of taxpayers under investigation or taxpayers who had served a crime related to taxation. Taxpayers were given two options: (1) Repatriate assets into Indonesia for a low fee on the condition that they invest into Indonesian assets for a minimum of three years, from which they were allowed to make profits from their investments, or (2) Declare all of their assets without repatriation for a higher fee. The amnesty was conducted in three phases over eight months from 1 July 2016 to 31 March 2017, with penalty fees increasing during each phase. Like other amnesties, taxpayers were promised anonymity and their data was protected from criminal investigations carried out by the government.

The result of the amnesty did the estimated projections of the government. Although a large amount of assets were retrieved, it did not come close to the expected amount of returns. Out of the expected US \$12,400 billion from the payment of redemption money and US \$75.2 trillion from repatriated assets, only US \$8,564 billion of redemption money and US \$ 11,044 billion of repatriated assets were retrieved. However, the lack of funds retrieved is only one issue. Said (2016) highlights three more key issues with the amnesty. The first is that there is a loophole in their exclusion of taxpayers allowed to participate, where the law states that only taxpayers involved in illegal activity related *only* to tax crimes are not allowed. This means that taxpayers involved with other crimes are still allowed to participate, which greatly raises the threat of money laundering from white collar taxpayers who will gain an advantage from “whitening” dirty assets and gaining a profit from investment returns on assets brought back to India. Furthermore the anonymity clause which protects participating taxpayers makes the investigation of the legitimacy of funds difficult, without the cooperation agreements with overseas countries. Second, it inhibits the development of key enforcement procedures in India. The example cited is that of the whistleblower system which serves as a monitoring system for the detection of illegal tax activities. The tax amnesty directly inhibits the development of the system as taxpayers participating in the amnesty are protected by it. Ministers, deputy ministers,

employees of the Ministry of Finance, employees of the Directorate General of Taxes, and other parties involved in the implementation of the tax amnesty program are not allowed to analyze or provide information on taxpayers participating in the amnesty or they could face up to five years in jail (Said, 2016). This excludes taxpayers from **all** investigations, not just investigations related to taxation. The third issue is similar to the second, where law and enforcement agencies are directly inhibited from performing their duty as they are also subjected to the same conditions of being unable to use taxpayer information from the amnesty in investigations. These issues have major implications for the transparency and accountability for the Indonesian government as the amnesty seems to be excessively rewarding tax delinquency as they are being awarded an exclusive right which is not granted to those who have been rightfully following the law.

To summarize, the Indonesian tax amnesty of 2017 not only failed to retrieve the funds it had projected by a substantial degree, it has also skewed the favourability of benefits to taxpayers heavily towards tax delinquency as the relief it rewards them is extremely generous. The various concerns over the future of the accountability of the Indonesian government are legitimate, and the future of the tax system of Indonesia depends greatly on what they decide to do afterwards.

## **India**

### **1965-1992 Amnesties**

A study on Indian tax amnesties between 1952 to 1992 by Das Gupta and Mookherjee (2002) reviews the overall effects and implications of the amnesties. All of the amnesties prior to 1980 were very similar in their presentation – the allowance of the declaration of “black” funds for a reduced penalty fee and protection from prosecution. Of all the amnesties examined however, the amnesty in 1975 was the most successful. This was attributed to several factors. First, it was considered to be an unexpected amnesty, just as the amnesties in 1952 and 1965 were (Das Gupta & Mookherjee, 1995). Second, many changes were occurring in the country in conjunction with the 1975 amnesty, including an internal Emergency announced by India at the time, a limitation of civil liberties, increased investigation, and an increased

rate of conviction for tax offenders (Das Gupta & Mookherjee, 1995). These activities were associated with the amnesty as a sign of increased enforcement. Lastly, the tax rate of 60% on assets during the amnesty was lower than the marginal tax rate on income disclosures of 77%, giving more incentive, which was a larger difference than in the 1965 amnesty where at the time the tax rate on income disclosures was 65%. These are the standout factors which distinguished the 1975 amnesty from the other amnesties which are attributed to being the reason why the 1975 amnesty had such great success. As a percentage of the total revenue of the year, the amnesty represented 20.5% of all revenues (Das Gupta & Mookherjee 1995).

The amnesties after the 1980s became regularized and became expected in India as taxpayers associated the amnesty with lowered enforcement levels due to the aforementioned emergency status being ended in 1977. This was accompanied by significantly lowered penalties and decreased tax rates on the amnesties, which led to taxpayers anticipating an increased regularity of tax amnesties as it was a sign of a lack of commitment from the government on enforcing its policies. As Das Gupta & Mookherjee (1995) conclude, the expected regularity of these amnesties contributed greatly to the diminishing and even negative effects on overall revenue as a result of the amnesties.

### **2016 Amnesty – The “Income Declaration Scheme”**

The 2016 India tax amnesty was created in response to the information revealed after the 2012/2013 that only 1 percent of the 1.3 billion population of India paid their taxes, which in 2014 was results in only roughly 2.4% of India’s GDP (Rumney, 2016). The amnesty ran for four months from June to September. A charge of 45 percent was levied on assets declared under the scheme. The scope of the amnesty was limited to income and assets of Indian taxpayers, and promised immunity from scrutiny, inquiry, penalty or prosecution under Indian income-tax and wealth tax laws (Tax Amnesty Scheme in India, 2016). The amnesty retrieved US \$9.5 billion by its end, which was far below the amount of suspected tax evasion in India of US \$ 500 billion stashed in tax havens such as Switzerland (Mundy, 2016). No official studies have been performed on the study which results in information being limited primarily to news articles with no specific reasons pointing to why the amnesty underperformed. Its 45 percent charge, while lower than the



percent charges seen in previous amnesties, is still significantly higher than the rate used in amnesties from other countries. Another reason is that amnesties and voluntary disclosure schemes are an extremely common occurrence in India. This amnesty comes not even a year after a disappointing tax amnesty enacted in 2015, which itself only had 700 declarations and raised a disappointing \$364 million in taxes (Singh, 2016). Furthermore, plans for another amnesty only a month after the end of the 2016 amnesty was announced and planned to be made effective in December, which proposed an even higher tax rate of 50% on declarations (Singh, 2016). It was delayed by objection from opposing parties led by Congress in Parliament and public protests against the proposed amnesty were held. The public and opposition distress, the high frequency of amnesties, and a lack of sufficient incentive are likely the reasons why the 2016 Indian amnesty failed to distinguish itself from the swamp of underperforming amnesties in India.

## **Section 5 Global Tax Amnesties Common Features**

As seen in section 4, informs us that there are many different components to determining the success of a tax amnesty. While the basis of these tax amnesties have been explored in some detail, there have been very few empirical studies conducted on them, especially on their long-term effects on non-compliance (Hasseldine 1989., Alm & Beck in 1993, and Sawyer 2005 to name a few). Each tax amnesty is unique as they are designed with consideration for their countries' circumstances, culture, and laws, which makes direct comparisons difficult. Despite this, there are some common practices which are shared between the amnesties which have contributed to their effectiveness.

### **5.1 Regulatory Environment and Strength of Enforcement**

An important aspect of tax amnesties is to ensure that an administration and system is ready to have a tax amnesty. Tax authorities should be prepared to handle tax cases with care and vigilance, accompanied with a robust database that is prepared to handle the new influx of taxpayers (OECD, 2017). This is typically accomplished by the country either having an existing strong regulatory environment which grants the tax administration the power it requires to enforce the amnesty provisions, or by granting tax administrations lacking in power additional rights through reform or policies. The countries which had a strong regulatory environment and enforcement protocols had more successful tax amnesties. This was more typical of countries with established taxation authorities and strong enforcement agencies. Aspects of a strong regulatory environment which contributed to a successful amnesty was their ability to make clear and well defined tax amnesty policies, organized methods of the collection of taxpayer information and transactions for amnesty participants, and the power to enforce their policies after the amnesty period. The Ireland 1988 and Italy 2009 amnesty programs demonstrated to the public the strength and dedication of their enforcement efforts though granting its tax administrators the power to hunt down and penalize tax delinquents. They also emphasized the penalties by publicizing the details of tax cheats they had caught to ensure that the public was aware of the new enforcement efforts. Despite the two countries having been

infamous for political instability prior to their amnesties, their efforts to strengthen enforcement and regulation resulted in the two countries having very successful amnesties. In Australia, the Australian Tax Office played an instrumental role in ensuring their “Do It” tax amnesty programme was successful by following up on their promise to investigate and punish taxpayers who continued to withhold their information beyond the tax amnesty grace period. These departments lay the groundwork for the effectiveness and continued enforcement of any economic policies that are enacted in their respective countries.

Countries which did not have a strong regulatory environment or made no efforts to strengthen them were negatively impacted by a tax amnesty. In Russia, Alm, Vasquez, and Wallace (2009) noted that the many Amnesties in Russia failed due to the lack of a sophisticated tax administration which was required to uphold a needlessly complex tax system which was being reformed almost every year. The lack of a solid administration led to consecutive failures in making effective tax amnesty policies. In their study of the effects of tax amnesties on anti-money laundering (AML) in Bangladesh, Attiya and Laila (2014) suggest that tax amnesties is being used by the government to foster the black economy and encourage corrupted behaviour. Due to the poor amount of control (or the liberty granted by the government), multi-millionaires were not even required to declare all of their black money in the amnesty, but had the option to declare as low as 1% of their total income. The simple act of submitting to the tax amnesty provides them with a second line of defence against government investigation due to the fact that they now had official documentary from the act of the submission to prove their compliance with the government. The lack of regulatory power for officials to audit and investigate these citizens allows the black economy to continue to expand and even thrive under a tax amnesty. Another example is the Indonesian tax amnesty in 2016-2017. The tax amnesty failed to perform well because it was carried out in an environment with very little control over the flow of information of taxpayer information. Due to the country not having a unifying governmental instrument which clearly outlined compliance items, Indonesian companies and citizens were forced to identify these items for themselves, exposing big gaps in their reported

income and assets (Said, 2016). Verification of these assets was often overlooked by authorities, and even went as far as allowing criminals to repatriate assets and even granting them protection from law enforcement agencies as long as their crimes were not related to tax crimes, which raises questions about the validity of its taxpayer database information and the morality of the government. Furthermore, the amnesty policy was proposed to taxpayers as an optional exercise, not an obligation for taxpayers to remedy their incorrect accounts. This downplayed the severity of the consequences of continued tax non-compliance. The tax amnesty also directly interfered with systems that Indonesia was in the process of implementing such as its Whistleblower system which was still in its infancy of its implementation when the amnesty was conducted (Said, 2016). If performed in countries with poor regulatory control, tax amnesties can have the opposite effect of weakening the tax system as a disruptive tool which can hinder other efforts to enhance the tax system.

## **5.2. Tax Reform following the Tax Amnesty**

The most successful tax amnesties are tied with an economic reform or set of policies which ensured that the boons granted from the tax amnesty were not confined to a single point of revenue income. A tax reform acts as a strong signal for taxpayers to realize that there is going to be a renewed commitment to tax enforcement and therefore increases the trust of the public in the government. Special programmes are often launched to support these reforms for a period of time in connection with a specific opportunity, such as availability of data on foreign savings or cooperation agreements with other tax administrations (OECD, 2017). The type of tax reforms ranged from simple adjustments to the tax amounts to large scale programmes which embraced the successes from the tax amnesty and integrate them into the existing tax system. There is overwhelming evidence that tax amnesties conducted without consideration of the future impacts on the tax system do not perform as well as those which had a clear plan for future tax reforms. In many cases the tax amnesty can act as a trigger to help ease a country into a tax reform, from a simple adjustment to tax rates to an entirely new regime. In Italy, the 2001 amnesty was conducted in conjunction with the introduction of the Euro into the country, which Italians saw as a fresh start for the tax

system in Italy and the amnesty acted as a gateway for them to get involved with it. Successful tax reforms also included incentives to entice taxpayers to partake in the amnesty. The 1986 France amnesty attracted taxpayers by abolishing the wealth tax existing at the time in order to enable taxpayers to make profits without being subjected to profit debilitating taxes through local investments. During the 1989 Colombia tax amnesty, the government simultaneously implemented major adjustments to the tax system by unifying the corporate income tax rate, lowered personal income tax rates, eliminated the double taxation of dividends, and raised income tax withholding rates (Uchitelle, 1989). Although the direct impact of the reform has not been measured, much of the increased tax collections and the expansion of the revenue database are owed to the combination of the amnesty and the reforms that it involved. A more recent example is the tax amnesty in Australia in 2013 evolved into the larger and currently persisting “Do It” programme which continues to evolve and propagate its agenda. The programme had great success, both as an exercise in reclaiming tax evasion and strengthening the overall tax system. As a standalone programme at its deadline, 1750 Australians had declared a total of \$240 million in income, and \$1.7 billion in assets, with 800 more settlements (ATO, 2014). The amnesty ultimately led to the establishment of a new regime for the settlement of offshore income in Australia. In both these countries, tax amnesties were utilized as a method of signalling major changes or adjustments to economic policies and offered as a final opportunity for taxpayers to set their affairs in order before the policy is fully implemented.

In contrast to these successful programs, the lack of a formal plan of tax reform in Russia was a key reason the Russian tax amnesties of the 1990s failed. These amnesties failed because any reforms they had planned were short sighted and did not consider the bigger picture. Each successive amnesty after the 1993 tax amnesty only sought to rectify the mistakes of the last without making any new significant or important changes to the actual reformation. Without a solid plan or vision for the new state of the amnesty, the successive tax amnesties only served to cause unneeded confusion in the Russian tax regime on top of failing to retrieve any significant tax losses (Alm, Vasquez, & Wallace, 2009). Another example is the Indian tax

amnesties, particularly those held after 1980. The only successful amnesty in 1975 owed its success not to any tax reform or policy design, but desperate measures which were given form by the “Emergency” state that was announced in order for India to restore its depleted treasury (Das-Gupta & Mookherjee, 1995). Once the “Emergency” state ended, the increased enforcement, punishments, and tax adjustments disappeared along with it, leading to the saga of ineffective amnesties after 1980. These examples showcase that a tax amnesty or reform that does not address the issues which led to its application in the first place will only result in confusion and dissatisfaction, leading to increased tax non-compliance and damage the tax system in the long run.

An amnesty conducted without a long term view devolves into a single economic event which is only beneficial in the short term for revenue gain and will undoubtedly ruin future tax compliance. Whether by coincidence or by strict planning, the existence of a solidly designed tax reform coinciding with the release of a tax amnesty can enhance the success of both. A tax amnesty can benefit from a tax reform by increasing taxpayer participation and obtaining more tax revenue and information, while the tax reform benefits from the tax amnesty by using it as a transitioning tool to convert taxpayers into the new tax system.

### **5.3. Liberalization – Economic Prosperity, Technological Progress, and Changes to the Business Environment**

A major driving force, and often a reason why tax amnesties are proposed in the first place, is the introduction of a shift in political ideology or policy, or a revolutionary piece of technology which threatens to change the business environment. These changes are denoted by Bose and Jetter (2012) as economic “liberalization”. When a liberalization that is beneficial to the economy occurs, it provides an incentive for taxpayers to get involved with whatever form of liberalization is occurring in order to in gain some benefit for themselves, economical or otherwise. In the 1980s, Uchitelle (1989) cited the amnesties in Ireland (1988), Colombia (1988), and France (1986) as having the most successful amnesties. Bose and Jetter (2012) linked their success to major changes in their economic data during their amnesty years.

For example, Colombia's imports market grew from US \$814 billion to \$4,500 billion, in part thanks to drastically reduced tariff rates between 1984 and 1994. Similarly, France's imports market grew by 25 percent. The Indian tax amnesty in 1997 exhibited economic change through the enactment of its Voluntary Disclosure of Income Scheme which accounted for 20 percent of their annual gross tax revenues that year (Das-Gupta & Mookherjee, 1995). What these tax amnesties all showcase is that their economic conditions were changed to provide new opportunities (Bose & Jetter, 2012). Another type of liberalization can be seen in the 2009 Italy amnesty, where an aggressive shift in enforcement and raids on Swiss banks can be considered a type of liberalization. The unexpected tightening of the strictness of its policies shifted the mentality of taxpayers in the country. The shift in political tone in the country has been described by several news outlets inflicting "terror" on offending taxpayers, and this was a major reason why its amnesty was so successful (Simpson & Jucca, 2009). The most recent example of liberalization is the Automatic Exchange of Information (AEOI). As its name implies, it is a system which will facilitate the exchange of financial account information using the Common Reporting Standards (CRS) for presentation of taxpayer information between participating jurisdictions. Participating taxpayers will more easily be able to manage their foreign investments and foreign economic activities, providing a positive economic liberalization. With regard to tax, the main purpose of the AEOI system is to counter tax evasion rising from globalization and to identify sources of unreported or undeclared foreign income or assets, especially funds stashed in tax havens. The participation in major tax havens like Switzerland and Singapore poses a serious threat to tax evaders as their financial information will be made available to government authorities, which threatens them with severe punishment upon detection. Several countries such as Indonesia and France are already beginning to implement tax amnesties using the AEOI as a key feature, and are offering evaders a final chance to come forward before they are caught. The 2017 tax amnesty in France has already been successful in retrieving EUR 7.1 billion, and expects more in the future (Hauptli, 2017).

## **5.4 The Frequency of Tax Amnesties**

The number of consecutive tax amnesties conducted prior to a tax amnesty affects its success rate. Multiple studies carried have shown that a majority of frequent amnesties will fail because they create expectations in both taxpayers and tax evaders which result in them avoiding the amnesty. For abiding taxpayers, it is viewed as a punishment for following the law as by abiding with the law they miss out on the opportunity to have tax cuts, and for tax evaders they believe that the tax system is lenient and that there is reasonable belief a future tax amnesty will be declared. In Russia, frequent amnesties severely harmed their tax systems as each successive amnesty contradicted the purpose of ones that came before which led to economic uncertainty and increased noncompliance. India's 2016 amnesty which ran for 4 months claimed US \$9.8 billion in returns (Mundy, 2016). While this was equal to 20% of the GDP at the time, the government had implied that they were targeting a larger \$1 trillion in returns (Mundy, 2016). Ultimately their goals were not met as tax evaders remained elusive since India had held many tax amnesties prior. In Russia, this was also the case as they conducted two amnesties in the 1980s, and several more prior. While not as frequent as Amnesties conducted in India, these two amnesties were performed no further than 5 years apart which once again created the expectation of future amnesties which detracted taxpayers from participating (Menon, 2016).

There are few exceptions where repeated amnesties within a short time frame have worked. In the U.S., tax amnesties are practically an annual affair. With varying success between states, the tax amnesties in the U.S. have been overall successful and beneficial. As study of tax amnesties in the United States of America shows that as of 2012, the U.S.A had conducted a total of 37 tax amnesties since their introduction in 1982 (Mixell & Ross, 2012). The amnesties conducted in the USA by Mikesell and Ross (2012) reveal that these tax amnesties have been successful to varying degrees, depending on where the amnesty is exercised, when it is exercised, and how long the tax amnesty is available for. A key difference to conventional tax amnesties which may make a difference is due to sheer scale of the country, the U.S. utilizes state tax amnesties which focus on different aspects of taxable items in each state. They found that 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. A total of \$11 billion USD has been recovered through tax amnesties in the U.S represents a sizeable portion of the total economy. Repeated year-on-year success with their tax amnesty structure has resulted in a system which is reliable and effective in collecting taxes. The United States example shows that although frequent tax amnesties typically lead to lower compliance in the long run, they can still be successful as long as the goals, steps, and policies are rigidly designed, and that the appropriate level of enforcement is sufficient to support these policies.

Aside from the examples from the United States, countries which had frequent tax amnesties only succeeded when a major change to the tax system or the administration was applied. Italy is another example of a country which has had relatively frequent tax amnesties but has found success in using them. Despite having held three tax amnesties within 10 years, each tax amnesty continues to be successful. This is primarily due to the aggressiveness of their supporting activities to boost the importance of the tax amnesty. The motivation for Italy for chasing tax evaded money stems from their position as the third highest holder of debt in the world. This was reflected in their 2009 amnesty which aimed to reap more than 100 billion Euros, reaping a fifth of their expected total losses from tax evasion and exceeding their revenue goals (Simpson & Jucca, 2009). The current success of these amnesties should be taken with caution however, as their long term effects have yet to be analyzed.

## **5.5 Immigrant Population, Offshore Income and Assets**

Many tax amnesties have focused on the repatriation of offshore income and assets as the main target for tax revenue collections. Domestic and International coordination of local and foreign tax administrations is essential to ensure that tax authorities are able to communicate information between departments and have the authority to launch investigations on source funds when required (OECD, 2017). The amnesties in this case focus on the repatriation of assets from overseas, allowing taxpayers to bring them back into the country for at a reduced tax rate. Governments which targeted these funds typically had a rough estimate as to how many funds they suspected were being held offshore, either through obtaining information from banks,

cooperation agreements with other countries, or other investigative means. The most successful tax amnesties had incentives which were strong enough to convince taxpayers that the maintenance of said offshore assets was not worth it, or that there was a great opportunity being granted to those who would participate.

Recent amnesties have been prompted by the introduction and the beginning of the implementation of the Organization for Economic Cooperation and Development (OECD) AEOI, system which has the potential to unveil all hidden transactions, both local and foreign, within the sphere of countries that have signed up. The Australian Tax Office's project "Do It" programme is recent evidence that having a large amount of immigrants is a contributing factor to tax evasion and non-compliance. The ATO Deputy Commissioner Michael Cranston confirmed that most taxpayers who came forward during the amnesty were the grandchildren of rich migrant families who immigrated to Australia in the 1950s and 1960s, as at this time it was common practice for them to stash money away in secret Swiss accounts (Khadem, 2014). Over the course of the amnesty and the "Do It" project, the ATO reported that it had identified and continued to pursue over AUD 4.1 billion stashed in Swiss bank accounts. Italy performed a similar programme albeit with some key differences. Its immigrant population were found to be holding large amounts of income in offshore tax havens, mainly in Switzerland but also including tax havens in Singapore, Hong Kong, and others. The 2009 amnesty in Italy also uncovered large amounts of offshore assets and income stashed in the aforementioned tax havens, with settlers declaring EUR 100 billion primarily from offshore income areas, aided with cooperation agreements with the Swiss government to access bank information (OECD 2017). The tax amnesty of 2016-2017 in Indonesia similarly targeted offshore income in tax havens as the focus of their amnesties. Although the amnesty did not perform well, any successes they have had is attributable to the amount of offshore income obtained through their amnesties. In Indonesia, this was due to many of the assets being liquid in the form of bonds which made them impossible to repatriate from Indonesia. The type of offshore holdings that immigrants possess is a key factor for consideration when designing a tax amnesty to repatriate assets and income. The amnesties studied here are evidence that

countries which have a large immigrant population are likely to have taxpayers stashing funds offshore, and that it is an important factor to consider when designing a tax amnesty.

## **5.6. Advertising and Public Awareness of the Tax Amnesty**

The level of public awareness the population has of the tax amnesty is important to having a successful amnesty. An important factor in the most successful tax amnesties is that they make their presence known through a variety of techniques. This is important because such an effort helps to condition the public to the amnesty by informing, educating, and warning them about the benefits of participating and the consequences of evading a tax amnesty. The “Get to us Before We Get to You” public program in the 1988 Michigan amnesty is a perfect representation of this concept. While similar in design to the 2002 Michigan amnesty, having a public relations campaign and utilizing more frequent advertising resulted in more than double the amount of tax revenue thanks to these additional efforts. A study of tax amnesties in Germany by Garz and Pagels (2017) found that extensive media coverage of the amnesty including the focus on celebrities which have committed tax evasion can increase the taxpayer participation by 22.5 percent. While this study may not be globally applicable, other tax amnesties have utilized this technique did show beneficial returns. Italy adopted a heavy-handed approach in making its tax amnesty known to the public by performing high-profile raids on Swedish banks, with extended coverage of said raids in order to showcase their seriousness in ramping up auditing activities in the country, including the forced audit of four 4 Austrian banks (Dinmore, 2009). This utilization and clear demonstration of the consequences depicted a tangible fear to tax evaders, which ultimately resulted in reclaiming an astounding Euro 100 billion of tax evaded money in its 2009 tax amnesty (Simpson & Jucca, 2009). The severity of the act created a political reform where Italy had begun to adopt a no-tolerance policy against tax evasion. While the latter hard-handed method has not been adopted to such a degree as commonly as the former, both methods highlight the importance of putting the subject of tax amnesties into the limelight so that taxpayers know that the tax amnesty is being conducted, and are aware of the consequences of failing to meet their tax obligations.

## **Section 6 The New Zealand Context**

With reference to the amnesty success factors addressed above, the following section addresses which of the above factors and techniques are applicable in New Zealand, and whether New Zealand should implement a tax amnesty as the other countries have.

### **6.1 Well Developed Tax System**

New Zealand is recognized globally for having one of the best taxation systems in the world. In a 2014 international survey compiled by the Tax Foundation in the United States, New Zealand scored as the second best tax system in the world thanks to its relatively flat and low income tax, well-structured property tax, no capital gains tax and a broad-based value-added tax (Foreman, 2014). This is primarily attributed to the level of tax compliance research and tax compliance investment at the government level by the IR, through their usage of regularly planned large scale surveys of SMEs. Researchers have recognized that large enterprises in New Zealand are supported by a wealth of knowledgeable tax advisors who are paramount in ensuring that large businesses file and apply for taxes in an orderly and legal fashion (Hasseldine, 1989). While the majority of large firms are supported by the “big four” accounting firms in New Zealand (KPMG, E&Y, PwC and Deloitte), there are also many middle-level accounting firms which sport a professional body of tax advisors (Crowe Horwath, Audit New Zealand, and Staples Rodway to name a few). This strong level of tax understanding in the country enables the careful consideration and handling of a tax amnesty policy and their effects on the economy when implemented, which is especially important when tax reform is to be enabled after an amnesty. These specialists would be able to inform businesses and citizens of the importance and consequences of an amnesty. The IR would need to pay careful attention when designing the amnesty so that it does not contradict any existing policies.

### **6.2 Large Number of SME’s and Self-Employed Businesses**

A unique aspect of New Zealand is the makeup of the size of its companies. New Zealand’s businesses are made up of Small to Medium Enterprises.

Small businesses are defined by Statistics NZ as those having less than 20 full-time employees, and medium enterprises as those having between 20 and 49 full-time employees (Evans & Nam, 2014). Ninety-seven percent of New Zealand's enterprises are classified as SMEs, with 96 percent of these companies not even having any employees and being run by sole traders (Ministry of Business, Innovation, and Employment, 2017). In these SMEs, 15 percent of active SMEs owe one third of total IR tax debt, and a third of that debt is made up of penalties and interest (Inland Revenue, 2016). This shows that there is a significant amount of debt existing in the SME businesses in New Zealand.

Raitano and Fantozzi (2015) describe the business makeup in Italy as being very similar to the one in New Zealand, i.e. made up of a large amount of small companies and self-employed entities. As discussed above in section 4, they have both conducted very successful tax amnesties in similar economic environments. A tax amnesty would be very favourable for taxpayers in the New Zealand environment as it would allow small businesses and taxpayers who have made an error and been unable or unwilling to come forward due to penalty costs to be attracted to participating. However, even if penalties were significantly reduced, the tax penalty amount which some tax evaders would have to pay would potentially bankrupt or ruin their business if they are not able to even cover the penalty amount. Taxpayers in this situation will determine that the amnesty will not be worth participating unless the tax rate and penalty is completely waived, which is unrealistic and would likely never happen.

New Zealand has high quality tax advisors who are directly connected with large organizations and thriving industries (Sawyer, 2005). Recently, the IR has made efforts to spread this same knowledge to SMEs in the Hospitality industry (NZ Herald, 2018) who are struggling to file correct tax reports. A tax amnesty which includes assistance in preparing these tax returns may aid in helping SMEs rectify their disclosures.

### **6.3. Foreign Income Tax Exemption**

The population in New Zealand is heavily comprised of immigrants from all over the world. In particular, there were a number of policies were enacted in

the late 1980s which increased the flow of skilled migrants into New Zealand, beginning with the Immigration Act in 1987. As a result, many new immigrants from all over the world were invited to live in New Zealand along with support from the government including the payment of transportation fees. In the 2001 Census, New Zealand had around 700 thousand overseas born immigrants. As of the 2013 Census, the amount of overseas-born immigrants increased by around 300,000, and has exceeded 1 million residents, equivalent to 25.2 percent of the total population of New Zealand. This is indicative of a steady rise of the immigrant population in New Zealand.

A vacuum exists regarding the taxation of overseas residents. New Zealand only has one tax exemption rule on foreign income for tax residents. This rule enables a four-year tax exemption grace period on foreign income when becoming a taxpaying citizen in New Zealand after the 31 April 2006. The transitional tax resident rule (s HR 8 of the Income Tax Act 2007) allows taxpaying residents to be a part of this system if they are new migrants or returning New Zealanders who have not been a resident for tax purposes in New Zealand for at least 10 years prior to qualifying as a tax resident in New Zealand. In other words, this rule is only applicable to residents who migrated to New Zealand after 1996. This means that immigrants who lived in New Zealand prior to 1996 cannot utilize the provision and have no means of declaring their overseas income without incurring a penalty. This has created a void in the recognized foreign income of taxpayers in New Zealand. There were simply no other policies like s HR8 for immigrants prior to that timeframe. Between the 1961 and 2006 census, a rough comparison of the number of overseas-born immigrants in New Zealand amounted to at most around 730,000 immigrants who may have fallen under the situation described above. Declaring these amounts now would expose these tax residents to exorbitant amounts of compounded penalties, which discourages them from coming forward with these amounts, since the penalties may be beyond their ability to repay.

A Tax Amnesty can be utilized to resolve this issue. By providing a tax amnesty which is not restricted by a timeline, a tax amnesty will provide a

solution for taxpayers in the aforementioned situation by providing them the opportunity to join the tax system without being accosted by severe tax penalties due to situations which put them there in the first place that were out of their control. A tax amnesty provides a fair opportunity for these tax residents to step forward and declare their foreign income without fear of scrutiny and undue punishment. This aspect of the amnesty designed to tackle this issue will not punish existing taxpayers, and instead simply provide an opportunity for the immigrants who did not have the chance make a choice from mere timing. It will also reduce administrative costs that would have been spent on attempting to discover these taxpayers through auditing activities. The data collected will also expand the information available in the taxation database of taxpayers in New Zealand allowing for a more complete record of tax information on its taxpayers.

#### **6.4. Tax Amnesty in New Zealand**

The first and last official tax amnesty that New Zealand performed occurred more than two decades ago, which suits the “once-a-generation” description of the appropriate length between tax amnesties well (Hasseldine, 1989). However, conversation about tax amnesty usage is still relatively fresh in the mind of taxpayers, with the suspended talks of one in 2005 and more recent talks of a new one being applied in 2014. These recent events could have created some speculation of a possible tax amnesty being on the horizon. If this is the case, then there is the potential that strategic delinquent tax evaders would be waiting for a tax amnesty to be declared, in which case they would under-declare their income prior to the amnesty and therefore take advantage the amnesty by ultimately declaring all of their income when the tax amnesty arises (Bayer, Oberhofer, & Winner, 2015). Even considering these factors, however, when compared many of the other countries viewed in this study, New Zealand definitely does not have an established pattern of announcing tax amnesties as it has only conducted one in the past. Compared to countries with a high frequency of amnesties like India, Indonesia, and Russia, it has been almost 30 years since its first amnesty was actually held, leaving very little reason for residents to expect one to be suddenly held. As observed in by extant literature and the amnesties observed in section 4, the frequency of amnesty usage correlates with reduced revenues in the short run and increased

non compliance in the long run (Luittel & Sobel, 2007). Even in the case where frequent amnesties are apparent in a country, the amnesties in Italy and Turkey showcase that a tax amnesty that is accompanied with proper enforcement, a well designed tax reform, and gives proper incentive for a taxpayer to join the system can overcome the problems associated with tax amnesty frequency. The fact that New Zealand has only conducted one amnesty so long ago in its history gives it a significant advantage with regards to the consequences attached to amnesty frequency, and by incorporating the strategies employed by other countries the use of a new amnesty would hardly be considered controversial, let alone weird.

## **6.5 Adoption of the Automatic Exchange of Information (AEOI)**

The major impending change to the business environment in New Zealand comes in the form of a technological evolution. As an adopter of the new Automatic Exchange of Information (AEOI) system which is being implemented in more than 100 jurisdictions, there is a strong implication of detection for any currently existing tax evader. As explored in earlier sections, the risk of detection will be a major threat for tax evaders, and offering a tax amnesty before the implementation of the AEOI is fully realized would serve as a metaphorical “last chance” for them to clean up their act before they are threatened with unlimited review. The AEOI is an extremely powerful tool for raising the success rate of tax amnesties because it provides a very real and tangible threat to tax evaders, especially those who are evading by stashing offshore income in tax haven. The adoption of the AEOI by multiple countries including countries in renowned tax havens such as Switzerland means that outstanding undeclared income and assets will be unveiled and the risk of detection for evaders relying on offshore cash banking will increase exponentially. As a country with many immigrants and overseas investors, tax evaders in New Zealand would very likely be aware of the AEOI, and offering a tax amnesty would entice them into participation in the tax amnesty.



## **6.6 Should New Zealand implement a tax amnesty?**

The current economic conditions and climate in New Zealand support the use of a tax amnesty. As mentioned above, it has been a long time since New Zealand conducted a tax amnesty, so a tax amnesty can be introduced without taxpayers feeling that New Zealand is rewarding non-compliant tax behaviour. New Zealand is world renowned for having one of the strongest regulatory environments, especially with regard to its tax system. In a recent study focusing on tax simplification in New Zealand, Sawyer (2016) attributes the strengths of the system to its constitutional structure of operating with a unicameral Parliament – shaving a single house of representatives – and the fact that it is a unitary state, which avoids the problems of a Federal system where conflicts are known arise over differing opinions. Furthermore, in New Zealand the private sector has free access to information from public sector. This allows transparency and good flow information between departments.

The main purpose of a tax amnesty is to introduce a tax policy and reform in order to reduce future tax evasion by reducing tax non compliance. When comparing the situation in New Zealand to that of other countries observed in this study, it has many advantages which will help it perform a successful amnesty. There are two main phases which must be carefully designed in order to have a successful tax amnesty which will decrease non-compliance in the long term. These phases are the pre-amnesty and post-amnesty and the post-amnesty periods.

During the Pre-Amnesty period, ensuring the public is aware of what a tax amnesty is and how it can benefit them is a priority. Rigorous advertising campaigns similar to the "Get To Us Before We Get To You" campaign used in the 1988 Michigan amnesty should be performed. The campaign should educate taxpayers about the both the economic and non-economic of participating in the amnesty, and who is eligible to participate in the amnesty. The economic benefits include that declared funds will not be penalized and may be paid off with a lower than normal tax rate prescribed by the tax amnesty, and unique opportunities such as special investment rights or other benefits the amnesty promises. Non-economic benefits include immunity

from future investigation and criminal prosecution on the basis of the declared income and assets. The campaign must also educate the public on the consequences of being caught cheating after the tax amnesty is conducted. These consequences can include significantly increased penalties, criminal prosecution which can include time in jail, and loss of reputation in the case of a business that is caught cheating taxes. These consequences may be exemplified by publishing the names of caught tax evaders in public media as was done in the Italy 2009 amnesty. In this way, a tax amnesty can emphasize both economic and non-economic benefits and consequences of participating and not participating in a tax amnesty. The conditions for taxpayers participating in the amnesty must also be made clear. This may include conditions such as the requirement that the source of declared income are not linked with any criminal activity, or that a taxpayer must not be currently under investigation by the IR during the course of the amnesty. Clearly defining who may participate will avoid confusion for tax authorities later on when they are assessing taxpayer submissions in order to ensure that the amnesty does not become a money laundering exercise.

After the tax amnesty, any enacted policies and reforms declare must be performed, and a commitment enforcement efforts must be put in place to ensure that they are being carried out correctly. The government must ensure that any benefits to participating taxpayers and consequences to tax evaders outlined declared prior to the amnesty are fulfilled and maintained, or they will lose credibility with the taxpayers and tax non-compliance will increase. The combined value of the benefits and penalties must both outweigh the value of being a tax evader. The benefits should entice tax evaders that entering the legal tax system yield some level of profitability. The 1986 France amnesty implemented this by abolishing its wealth tax which enticed taxpayers with an equal opportunity to invest and make profits. Arguably more important are the penalties, as they must increase the cost of being a tax evader through the risk of detection convincing them that evasion is not worth continuing, for instance by enabling an unlimited review of all income when caught after the amnesty period. To ensure that these benefits and punishments are executed, the government will have to ensure that tax authorities are granted the appropriate powers required in order for them to

conduct their duties. This may include granting them an increased level of investigative powers, more authority to conduct in-depth investigations and audits of suspects, and the power to impose severe penalties to any tax criminals arrested. The creation of specialized authorities, such as the “Tax Sheriffs” in the 1989 Ireland tax amnesty is an example of creating a unique enforcement unit to represent the new commitment to fighting against tax crime. To ensure an extra level of non-compliance deterrence, the details of crimes should be publicized to as great an extent as possible. This act will serve as a means to continually remind taxpayers of the consequences of tax evasion and the effectiveness of new anti tax crime activities that are being undertaken to combat tax evasion. New Zealand could use similar acts done by the Italian tax authorities during and after their 2009 amnesty, where they publicized the “raids” they performed on banks and continually publicized lists of tax evaders that were caught as a warning to anyone who did not disclose after the amnesty. When investigating sources of offshore income and assets, having information disclosure agreements with countries where the IR believes that money is being stashed will be crucial to the investigations. New Zealand has already signed up to participate in the AEOI, in which the list of countries participating includes well known tax havens such as Switzerland and Singapore who are willing to share their information. New Zealand is experienced with tax reformation, and can utilize the AEOI as a powerful motivation for tax evaders to participate. Just as Italy introduced aggressive auditing strategies in 2009, New Zealand can use the AEOI to detect taxpayers with undeclared offshore income at a greater level than before. This initiative is a tangible threat to non-compliant taxpayers, and will lend strong weight to any tax reform which New Zealand decides to undertake.

A crucial consideration is that the tax amnesty may result in the disruption of current efforts to fight against tax evasion that it has invested in. The IR has made several significant investments over the last 20 years in order to reduce its complexity and simplify it, particularly for small and medium enterprises (Sawyer, 2016). Specifically, in 2010, the government was reported to have contributed \$86 million to the IRD for the purpose of rooting out tax evasion and has since made progress on reclaiming some evaded taxes (NZ Herald,

2018). However, it is for this reason New Zealand should be wary about implementing a tax amnesty. As seen in the 2016 India amnesty, a tax amnesty may hinder existing programmes and policies. As a common tax amnesty practice is to grant taxpayers immunity from further investigation, a tax amnesty may interrupt current measures in place to root out tax evasion. However, the advantage of a tax amnesty in this situation is that it allows a large collection of funds over a short period of time for a substantially administration cost compared to long term investment in improving tax evasion. Although this means that the total retrieved funds will be at a lower rate than if all of these criminal activities were to be discovered later it will also allow an increase of information in the taxpayer database as well as allowing administrative costs saved. This newly acquired information and saved costs can be repurposed for use on future efforts to combat tax non-compliance.

As seen in other tax amnesties, immigrants are likely store income and assets so these potentially large amounts are yet to be retrieved and added to the tax system. New Zealand has many immigrants and immigrant run businesses, particularly in the trades and hospitality sectors. With the introduction of the AEOI, there is a large probability that offshore income being held in tax havens will be revealed by the AEOI, so a tax amnesty will prompt taxpayers in this situation to step forward to avoid an unpleasant experience in the future.

The IRD will be able to utilize its expertise and this consolidated information to design and develop appropriate tax reforms following the tax amnesty to ensure that a stronger tax system emerges from the process. These benefits however must be weighed against the opportunity cost of allowing the instances of tax evasion be naturally uncovered through auditing and, in the case of overseas income, the AEOI detecting these evaders.

The “Do It” programme in Australia provides a near perfect template of how a tax amnesty could be performed in New Zealand, as many of the policies and processes it went through would be easily applicable to the tax environment in New Zealand. To inform the population, New Zealand could opt to utilize advertising campaigns tax amnesty advertising campaigns and the lessons learned from the German tax amnesty study to promote the tax

amnesty on major advertising channels as well as using popular celebrities to increase interest in the amnesty. Along with having a good news network which most citizens watch, New Zealand also has high-profile celebrities and teams such as the All Blacks, whom the government could use to garner the required attention and provide details on an upcoming amnesty.

## Section 7 Conclusion

The tax amnesty has always been a controversial tool in the taxation toolbox. Despite sometimes being considered a decrepit and unreliable tool for reclaiming revenues, countries all over the world still utilize them frequently for just that reason. Furthermore, renewed global interest in utilizing tax amnesties has been triggered by the introduction of the AEOI. While the tax amnesty has been considered an excellent tool for reclaiming large amounts of revenues and updating taxpayer information to improve the taxpayer database, it has equally been criticized for reducing tax compliance over the long term and for rewarding tax evasion while simultaneously punishing tax compliant citizens. As observed in this study, tax amnesties from the distant past and relative present have seen varied levels of success. Some have had unparalleled success, such as in countries like Michigan in the US, Australia, and Italy, in contrast to the poorly performing amnesties from Russia, Indonesia, India, Argentina, and many others in which their amnesties caused more damage by failing to meet revenue retrieval targets and had subsequently lower tax compliance in the long run. The most successful tax amnesties are supported by a thorough regime of enforcement and reform to ensure lasting effects from the amnesty and to prevent it from being a standalone event. This prevents them from being seen as exercises which punish good tax behaviour and being an indication of a weakening tax administration desperate for money, and instead provide new incentives for taxpayers to be compliant with the tax system by offering taxpayers fair incentives and assurance that obedient taxpayers will be treated well.

The tax environment in New Zealand is an ideal one for a tax amnesty to be conducted in. IR research has revealed that companies in the SME sector are responsible for many compliance costs in New Zealand. These costs are in the form of large tax gaps in the form of unreported income to overstated deductions. Under a hypothetical tax amnesty scheme, New Zealand's strong tax system and regulation provides a fair opportunity for delinquent taxpayers to self-correct to avoid severe penalties. Its large immigrant population also ensures that there is a guaranteed target audience of taxpayers that the amnesty can reclaim funds from, giving immigrants who are unable to utilize

existing tax policies a chance to declare income without facing unfair punishment, as Australia and other countries have done.

Taking into consideration all of the above factors, New Zealand is well poised to employ a tax amnesty that will respect the rights of its citizens and reclaim tax funds from immigrants and citizens both locally and internationally. However, New Zealand must be careful that a tax amnesty is worth the interruption of its currently existing efforts to combat tax evasion. The rigidity of its regulatory environment will play a critical role in ensuring policy makers to make informed decisions when designing policies, ensuring that a potential tax amnesty will be fully dissected for its potential effects on the economy.

There is room for further research to be performed in to determine the long term effects of a tax amnesty. As Hasseldine (1989) noted in his study on voluntary compliance and tax amnesties, there was a dearth of compliance and tax amnesty research being conducted – this largely still holds true today, as although tax compliance research has increased, tax amnesty research has remained relatively stagnant. One of the major challenges that past researchers faced was the difficulty of the acquisition of tax database information, as many governments understandably decide to keep this type of information confidential to the public as a matter of privacy particularly when an amnesty has not performed well. Even considering this however, much time has passed since many old amnesties has passed, which leaves fresh financial information that can be assessed to determine what effects these amnesties have had on long term compliance. As New Zealand has been keeping track of compliance costs and areas in which tax evasion are occurring, it can utilize all of this information to create and maintain a tax amnesty and any new policies it makes.

This brief examination shows that a tax amnesty has the potential to be a powerful solution to the true harm that results from tax evasion in New Zealand.

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## Appendices

*Table 1: Summary of Section 4 – Tax Amnesties Conducted Globally*

Country	Amnesty Name & year	Regulatory Environment & Enforcement	Tax Reform Following Tax Amnesty	Liberalization	Frequency of Tax Amnesties	Immigration / Offshore Income Focus	Advertising / Awareness Campaigns	Overall Effectiveness	Special note / characteristics of Amnesty
Argentina	1987	-	-	+	High	+	-	-	Poor regulatory environment and tax system with frequent amnesties led to failure
Argentina	2017	+	+	-	High	+	?	+	Great Design and Reforms and increased enforcement can overcome past mistakes
Australia	1988	+	+	?	First	-	?	+	Reasonably Successful
Australia	2013 “Do It” Program	+	+	+	Low	+	+	+	Solid amnesty elevated to extreme success by post amnesty enforcement and tax reform

Colombia	1987	+	-	+	First	-	-	+	Proper Incentives and Increased Enforcement
France	1982 & 1986	+	+	+	High	-	?	+	Abolishment of wealth tax gave taxpayers incentive to participate
India	1965-1992	-	-	?	Very High	?	-	-	With exception of 1975, extreme frequency of amnesties with poor enforcement and lack of taxpayer incentives result in overall failure
India	2016	-	-	-	Very High	+	/	-	Government criticism, poor perception of government, weak regulatory

									environment, poor taxpayer incentives
Indonesia	2016	-	+	-	High	+	+	-	Amnesty disrupted existing tax evasion countermeasures, frequent tax amnesties dilute taxpayer confidence in government
Ireland	1988	+	+	+	High	-	+	+	Successful amnesty due to “Tax Sheriffs” and reforms and public awareness
Ireland	1993	-	+	-	High	-	-	-	Somewhat successful, but undermined success of previous amnesty due to frequency and



									weaker enforcement due to anonymity clause that protected criminals
Ireland	1999 – Voluntary Disclosure Scheme	+	-	-	High	-	+	+	Remedied problems from 1993 Amnesty
Italy	2001	+	+	+	High	+	/	+	“Tax Shield” and Euro tax reform increased amnesty success
Italy	2009	+	+	+	High	+	+	+	Harsh and aggressive reform and advertising of reforms
Michigan	1988	+	/	?	Quite High	/	+	+	“Get To Us Before We Get To You” Campaign and tax reforms results in extremely success

Michigan	2002	+	/	?	Quite High	/	-	+	Successful amnesty, but flawed due to lack of public awareness campaign
Russia	1992-2002 Amnesties	-	-	-	Very High	?	-	-	Weak tax authority and poorly designed amnesties
Turkey	29 Amnesties Overview	-	-	?	High	?	?	-	Amnesty Frequency dilutes Taxpayer expectations

**Legend:**

+ = Positive Impact / Strong

? = Unknown

- = Negative Impact / Weak

/ = Not Utilized