



SDI FINAL EVALUATION FORM 1.1

PART 1:

Journal Name:	British Journal of Economics, Management & Trade
Manuscript Number:	2014_BJEMT_15345
Title of the Manuscript:	Is tax amnesty good for tax evader ?
Type of the Article	Original Research Article

PART 2:

FINAL EVALUATOR'S comments on revised paper (if any)	Authors' response to final evaluator's comments
Given the discussed behaviour of tax evaders and that an amnesty program may: 1. encourages a secondary tax evasion; 2. encourages honest taxpayers to evade taxes; and 3. has a declining marginal benefit to the state, I suggest the author to explain the models in a context to provide solutions for these problems.	We want to express our gratitude to the anonymous referee and the editor for practical and helpful comments on our earlier manuscript. We see that governments perceive tax amnesties as another short-run revenue source rather than a tax increase alternative, but it does not mean that tax amnesty programs encourage honest taxpayers to convert their income into nontaxable forms. See Eq. (1). We offer the following interpretation for the first and second questions. Our models caution states against offering intermittent tax amnesties. We say doing so might encourage scofflaws to ignore people's tax bills and wait for the next amnesty (in lines 119 to 122). In the case of one-shot tax amnesty, as indicated in Eqs. (4) and (5), we prove that a rise either in ν (i.e. the proportion of unreported income to fixed real income) or in K (the proportion of back duty payments to actual unreported taxes of a tax evader after joining tax amnesty programs) decreases the von Neumann-Morgenstern cardinal utility. Following Pratt (1964) and Arrow (1965), intuition for this result can be developed by noting that, under tax amnesty, the presence of secondary tax evasion reveals the representative tax evader's expected utility exhibits decreasing absolute risk aversion (DARA), and that tax evaders are risk averters. Even though the analysis in this paper is mainly restricted to tax evaders who participate in the tax amnesty plan but repeat tax evasion, the effect of participating or not participating in the tax amnesty plan on expected utility and risk-related decisions, such a penalty rate increase or an increase in the probability of detection can also affect a representative tax evader's risk appetite toward tax amnesty. We offer the following interpretation for the third question. As mentioned in this version, we show that during the initial assessment period of the tax amnesty plan, tax revenue drastically increased. However, because tax payers may be exempted from fines and not required to pay overdue taxes once the assessment period was over, tax revenue stably declined and ultimately converged on a fixed value. Our conclusion is in line with most state amnesties, recently implemented in U.S. and many other countries. This was apparently the experience in Louisiana, which brought in \$450 million from its 2009 tax amnesty program. As discussed, tax amnesty is no doubt a pretty good short-term solution. In addition, the empirical finding from Luitel et al. (2007) suggested that tax amnesty has a declining marginal benefit to the government, which is in line with the models we employ. In other word, these empirical evidences reinforce the results obtained in our mathematical solutions. Even though it lacks empirical tax return data of the amnesty participants for us to estimate the long-term revenue effects of state tax amnesty programs. However, because tax payers are exempt from fines and not required to pay overdue taxes



SDI FINAL EVALUATION FORM 1.1

	once the assessment period was over, our model show that tax amnesty programs produce no additional revenue in the long-run, especially if honest taxpayers resent the special treatment of tax evaders and if individuals come to believe that tax amnesty is not simply a one-time opportunity.
--	--