

RESEARCH INSIGHTS



Do Tax Amnesties Really Work?



A behaviorally informed notice can increase the effectiveness of tax amnesties. In Santa Fe, Argentina, notices of a tax amnesty were redesigned and tested against old and more complicated notices.



A simpler notice decreased the *cognitive cost* of understanding it, which in turn increased the probability of joining the tax amnesty and the amount collected by the city.



The downside of joining a tax amnesty is that people procrastinate on their own compliance and may set a bad example for their neighbors.

CONTEXT

Tax amnesties are broadly used across countries because they generate short-term revenue gains. However, existing evidence suggests that tax amnesties fail to have long-term effects, and in some cases they generate negative effects on compliance. With the goal of evaluating the impact of tax amnesties, this experiment relies on the behavioral principle of *limited attention* by redesigning the notice sent to taxpayers by the city of Santa Fe, Argentina in an effort to reduce cognitive effort and increase understanding of the benefits of participating in tax amnesties.

THE PROJECT

In the intervention, the notices were redesigned and sent to taxpayers in the city of Santa Fe, Argentina to evaluate whether increasing *salience* (use of color and visuals) and reducing cognitive costs (explanation of payment plans and payment calculations) increase the probability that taxpayers pay attention to the message and better understand the benefits of a tax amnesty.

Two field experiments were conducted as part of a tax amnesty in May 2017 that targeted more than 54,000 taxpayers who had failed to pay their property tax bill. The first experiment included taxpayers who owed bills from January

Key concept



LIMITED ATTENTION

The limited amount of attention at our disposal at any given moment, and the reason why we tend to overlook important details and forget things.

Key concept



COGNITIVE COSTS

The mental burden of doing things. For example, when the cost is perceived to be too high, people may put off to later things that they should be doing now.

2011 to December 2012 (about 16,000 taxpayers). The second experiment included taxpayers who accumulated debts between January 2013 and March 2017 (about 37,000 taxpayers). The difference in duration of the debt is relevant since debts prescribe after 5 years if the government does not initiate judicial proceedings. Authorities therefore likely direct resources to older debtors and take judicial enforcement steps absent any action by debtors. The control group of taxpayers received the traditional messages, and the treatment groups received redesigned communications.

RESULTS

Overall results suggest that the way in which governments communicate an amnesty has a significant effect. Two interventions were undertaken.

1. The behaviorally informed tax amnesty notice was found to encourage taxpayers to participate in the amnesty. During the first intervention, with debtors reaching the 5-year debt limit, the redesign encouraged a 30% higher participation rate in the tax amnesty than the control. During the second intervention, targeting debtors with more recent debts, participation grew 7% from the old to the redesigned notices.

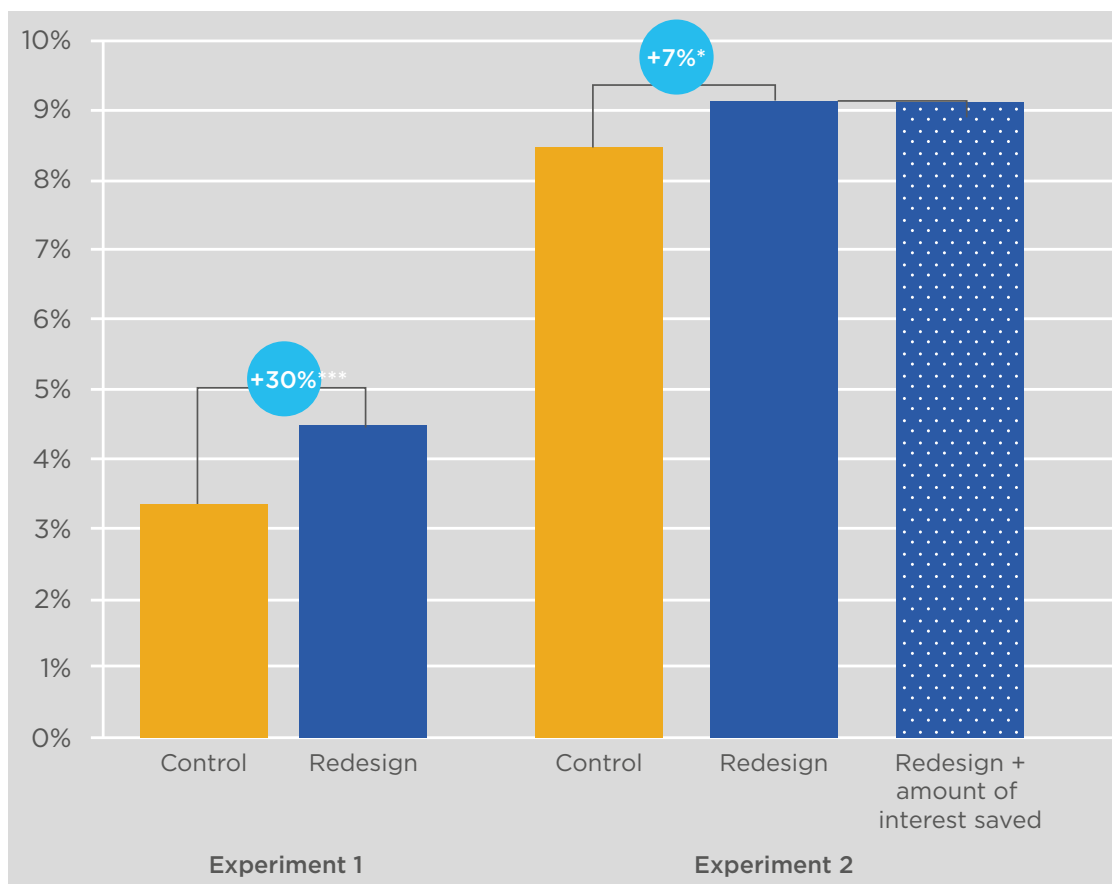
Key concept



SALIENCY

Individuals tend to direct their attention to items that are more prominent or emotionally striking and ignore those that are unremarkable, even when the objective importance of both is the same.

Probability of Taxpayers Joining the Tax Amnesty



*, **, and *** denote statistical significance at the 10, 5 and 1 percent level, respectively.

2. The evidence indicates that taxpayers who received the redesigned tax amnesty notice paid back larger sums than those who received the old notice. The amount collected was 8% higher compared to the control group in the first experiment and approximately 6% higher in the second experiment. An increase in collected taxes of 5% or more is considered substantial.
3. Despite the positive results in current debt and participation rates, tax amnesties have a negative spillover effect. Analyzing the behavior of neighbors of tax debtors who received redesigned notices, the study found that the availability of more detailed information on an amnesty and its benefits encouraged nonpayment behavior among previously compliant taxpayers.

POLICY IMPLICATIONS

1. Our results suggest that reducing taxpayers' cognitive costs of processing information can increase the collection of tax liabilities, a measure that can be undertaken without making substantial investments.
2. However, consistent with the nonexperimental literature, amnesties can have a detrimental effect on future tax compliance by previously compliant taxpayers.
3. The negative spillover effect of tax amnesties can generate negative incentives for tax compliance in the overall population.
4. Thus, tax amnesties can only be used sparingly, in the context of fundamental reforms that provide a rationale for granting an amnesty, and only if the threat of increased enforcement is real, and by governments that can ensure they abide by intertemporal commitments.

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www.iadb.org/behavioral



FULL STUDY

[Castro, E. and C. Scartascini. \(2019\). Imperfect Attention in Public Policy: A Field Experiment during a Tax Amnesty in Argentina.](#)

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