Give the wealthy a tax amnesty, the budget needs it

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Abstract
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The Australian Taxation Office continues its campaign to track down the offshore bank accounts of wealthy Australians, amid a global effort to improve tax transparency.

One option the ATO has in its kit bag is a tax amnesty, which it is considering for wealthy Australians who may have inherited sizeable Swiss bank accounts.

At a time when the Australian budget is facing severe challenges and company tax receipts are down, it would make sense for the government to offer an amnesty, enabling those Australians holding wealth in offshore bank accounts to repatriate the funds without severe penalties and awkward questions.

The amnesty could simply require income tax to be paid at the normal rates and with interest at the General Interest Charge rate (GIC). In this case penalties could be zero or at a greater rate depending on the extent of the tax avoidance arrangement. The penalties and interest charged must be low enough in order to induce the required level of disclosure by taxpayers, otherwise it’s pointless in the first place.

Many OECD member countries have offered tax amnesties from time to time in relation to different types of income. Research in this area overwhelmingly shows that after an amnesty is granted there is a substantial increase in revenue for the government.

For example, in Australia in the 1990’s mass marketed tax avoidance schemes attracted many taxpayers who subsequently faced penalties and interest charges with devastating results. The ATO granted a form of amnesty to those who voluntarily disclosed their involvement and these tax avoidance schemes were settled with reduced financial stress. The ATO similarly offered a form of amnesty in 2009 to those Australian taxpayers who had money in offshore
accounts.

In the 1990s the US offered a tax amnesty to multinational corporations that repatriated their foreign earnings as dividends without being subject to income tax in an effort to increase the amount of money invested in the US that would generate additional income tax in the future.

Cheats reward?

The arguments against a tax amnesty are that they encourage cheating and do not punish the guilty. In fact, the criticism of amnesties is quite extensive, as they are perceived by some as rewarding the tax evader and encouraging tax evasion on the basis that the taxpayer just waits until a tax amnesty is granted in the future. The literature on this topic is as extensive as the literature on tax amnesties.

While retribution might be important for some “honest” and complying taxpayers and citizens of Australia, it is arguably inefficient to have jails filled with white collar criminals when they could be more productive working in the community.

One of the main objectives for any tax administrator should be to maximise the tax revenue collected for the government.

The ATO’s Project Wickenby has been a success but has come at a cost of administration. The operation has generated additional tax receipts but one of its main benefits is in what it terms a “compliance dividend”. It means as a result of prosecutions and taxpayers being sent to jail, more taxpayers are now complying with the law and not using tax havens to hide money. A tax amnesty would also highlight the dangers of hiding money in offshore bank accounts and would add to the perceived value of the compliance dividend.

Luring the wealthy home

Why not offer an amnesty to those Australian taxpayers that for many reasons have found themselves with money in offshore bank accounts and living with the stress of being of being caught?

One of the biggest problems facing any Australian taxpayer with money in an offshore bank account is how to bring it back to Australia without being subject to questions by AUSTRAC, the ATO, or the Australian Crime Commission, especially if the amount of money is substantial.

The problem associated with proving that the money has been subject to income tax in another country may be very difficult to show. To simply say that it was an inheritance from your grandmother’s estate or you won the money gambling will not be sufficient without evidence. Given the extent of international cooperation between governments, any untruth is likely to be detected.

Temporary residents of Australia that have been granted the privilege of living in Australia only pay income tax on income sourced within Australia. Their offshore wealth is not taxed here nor is there any scrutiny of how the money was obtained. If it is good enough for temporary residents, why shouldn’t the same attitude be extended to every other resident of Australia?

If the government granted a general amnesty for all residents on their offshore income, and made it simpler for them to bring back their funds, Australia would be wealthier, more income tax would be collected on future investments, and the government might be closer to balancing the budget.