

# Income Tax Amnesty in California

Phil Spilberg

California Franchise Tax Board

## Recent & Planned Amnesty Programs

- Voluntary Compliance Initiative (VCI), January through April 15, 2004
- Amnesty, February through March, 2005

## Voluntary Compliance Initiative

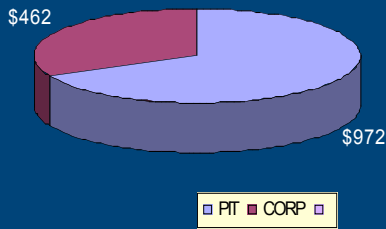
- No carrots, only sticks
- Taxpayer had to reverse shelter and pay full tax, interest and penalties
- Substantial new penalties after VCI
- Starting with TY1999, statute increased from 4 to 8 years
- Disclosure requirements

## Voluntary Compliance Initiative

- \$1.4 Billion Tax Revenues
- 1,200 Taxpayers
- 2,100 Tax Years

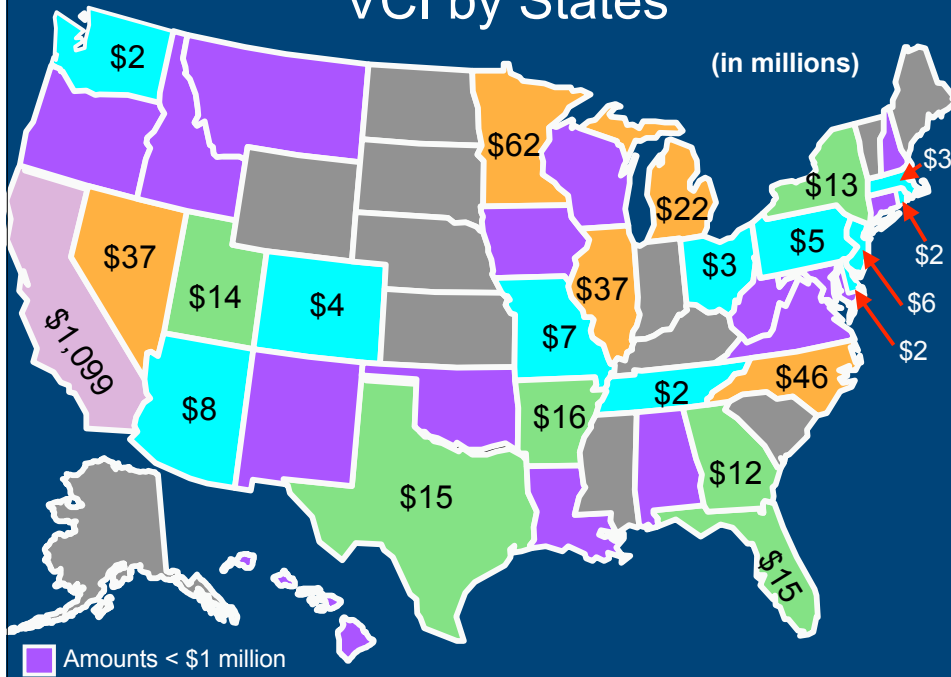
# VCI by Total Revenue

(in Millions)

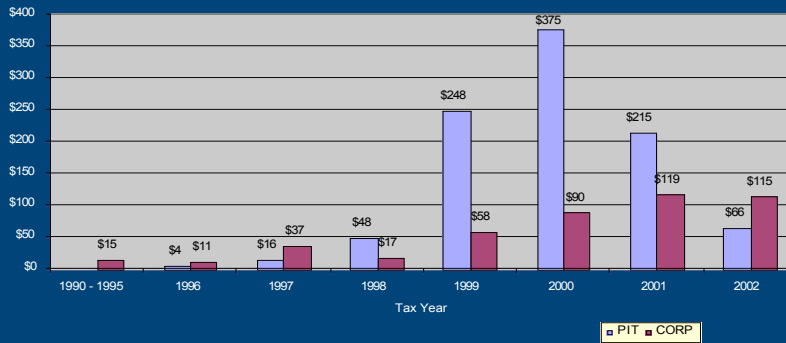


# VCI by States

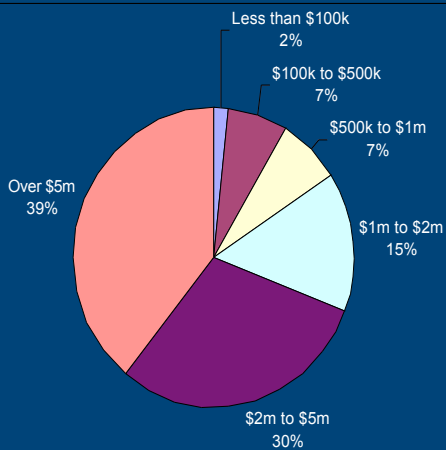
(in millions)



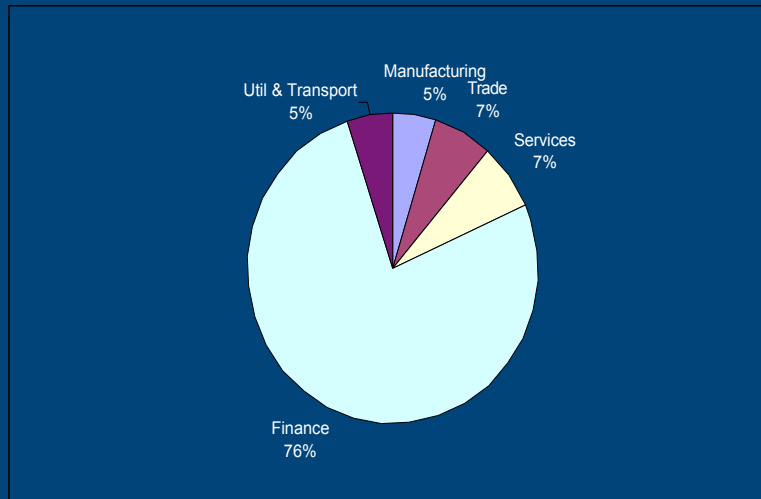
## VCI Revenues by Tax Year



## PIT VCI Revenues by AGI



## Corp VCI Revenues by Industry



## 2005 Amnesty

- For Tax Years 2002 and Prior
- Abates Penalties for Amnesty Participants
- 50% Interest Penalty for Amnesty Eligible Years after Amnesty
- Increase in Accuracy Related Penalty from 20% to 40%
- Projected Amnesty Participation - \$550 Million
- Projected Net Revenue - \$200 Million

## 2005 Amnesty Revenue Methodology

- Many Alternatives
- Needed a Methodology to Calculate Consistent Estimates
- Settled on an Elasticity Model

## Elasticity

- Elasticity =  $\frac{\% \text{ Change in Quantity (\%Q)}}{\% \text{ Change in Price (\%P)}}$
- Used NY Experience
- %Q was NY (adjusted) Amnesty Participation Divided by Prior Year Compliance Collections
- %P Considered Abatements During Amnesty and New Penalties and Interest after Amnesty

## Elasticity

- Personal Income Tax Elasticity – 6
- Corporate Elasticity – 1
- Based on NY Experience, we Assumed that 16% of Amnesty Participation \$\$\$ will be New Money, the Rest, Accelerations

## Projected Participation

- Projected CA Amnesty Participation =  $CA \%P * NY Elasticity$
- This was Computed for each Compliance Category (i.e. PIT Collections, PIT Audit)

## Revenue Model

- Calculates Participation Amounts Based on Elasticities
- Adjusts Participation Amounts for Penalty and Interest Abatements.
- Subtracts Accelerated Revenues from Future Collections.
- Adjusts Future Collections for New Interest and Penalty Provisions.

## Questions?

Email: [Phil.Spilberg@ftb.ca.gov](mailto:Phil.Spilberg@ftb.ca.gov)

Phone: 916-845-4310