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Understanding Influence of Tax Amnesties on Tax Compliance and Fairness Perceptions of Taxpayers*

Abstract: This paper aims to investigate the effect of tax amnesties on tax compliance decisions of taxpayers. In particular, we focused on Turkish taxpayers' fairness perceptions and their voluntary tax compliance after the recent legislation of 6736 which is claimed to be the biggest tax amnesty (i.e. tax debt restructuring legislation) in the last decade. The paper starts with an extensive summary of the international literature, and introduces literature in Turkish. The research looks into the influence of the perception of tax amnesties on fairness and tax compliance of taxpayers while controlling for widely-discussed factors that influence tax compliance such as risk awareness and government trust. The survey was conducted with 1028 participants, and the structural model was constructed to test for the above-mentioned effects. Considering the literature is not extensive on the effect of tax amnesties on taxpayer compliance particularly in Turkey, there is a clear gap in the literature to which our research intends to contribute. It also concludes with policy suggestions.

1. Introduction

Tax amnesties are a controversial issue for tax policymakers and academics. Nevertheless, it is a recurring policy for many tax administrations. Marchese (2014) describes tax amnesties as unique opportunities for taxpayers to write off their existing liabilities. Hence, they are considered as an easy way to unburden those taxpayers who are non-compliant for any reason with their tax liabilities. Nevertheless,

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the driving force of tax amnesty practices is rarely easing the burden of compliant taxpayers but generating revenue. Consequently, supporters argue that tax amnesties raise revenue both in the short and long run, by bringing taxpayers who do not file or are not registered back into the tax system. However, opponents of the practice criticized it on the grounds that tax amnesties weaken incentives for long-run tax compliance and yet generate less revenue than intended. Moreover, they claimed that tax amnesties discourage taxpayers who are compliant and implicates unfairness of the taxpayers in the minds of compliant taxpayers. Consequently, it has often been discussed in the literature whether the tax amnesties are a good tax policy practice.

Tax amnesties appeared as a preferred policy for tax policymakers, and were utilised by many countries over the years. Although tax literature discussed the advantages and disadvantages of tax amnesties, it is hard to suggest that the literature agreed on a single dominant view. Despite this, tax amnesty practices became more common over the last fifty years as the central governments of some developing countries (e.g., Argentina, Colombia, Brazil, India, the Philippines, Turkey, Greece) have repeatedly offered amnesties, and the central governments of developed countries troubled by economic problems such as recession, financial crisis, and large public debt (e.g. Ireland, Italy, Spain, Portugal) saw it as a knight in shining armour.

This paper aims to investigate the effect of tax amnesties on tax compliance decisions of taxpayers. In particular, we focused on Turkish taxpayers' fairness perceptions and their voluntary tax compliance after the recent legislation of 6736 which is claimed to be the biggest tax amnesty (i.e. tax debt restructuring legislation) in the last decade. The paper starts with an extensive summary of the international literature, and it introduces literature in Turkish. The research looks into the influence of the perception of tax amnesties on fairness and tax compliance of taxpayers while controlling for widely discussed factors that influence tax compliance such as risk awareness and government trust. The survey was conducted with 1028 participants, and the structural model was constructed to test for the above-mentioned effects. Considering the literature is not extensive on the effect of tax amnesties on taxpayer compliance, particularly in Turkey, there is a clear gap in the literature to which our research intends to contribute. It concludes with policy suggestions.

2. Research Background and the Gap

Tax amnesty has been defined by many researchers in the literature (Andreoni, 1991; Marchese, 2014; Stella, 1991). However, Borgne and Baer (2008) defined it in

the most comprehensive manner: a tax amnesty can be defined as 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.

Despite its long history, we can claim that the literature about tax amnesties attracted attention from academics starting from the early 1980s, in which some US states such as Arizona introduced tax amnesty practices (Parle and Hirlinger, 1986). An overview of the literature shows that most of the studies in the literature mainly focused on the economic benefits of the tax amnesty practices. However, they overlooked their psychological aspects, which might be crucial to the success of the policy (Alm and Beck, 1990; Alm and Rath, 1998; Lerman, 1986; Malik and Schwab, 1991; Rechberger et al., 2010).

Tax amnesties have many benefits, as they are preferable for the government. Firstly, they encourage taxpayers who have violated the tax system to behave cooperatively in the future (Hasseldine, 1989; Malik and Schwab, 1991). People may be unable to evaluate the outcome of violating the tax system, and therefore they might suffer heavy consequences and sanctions. Considering their unpleasant experiences, offering them a clean slate for a fresh start might encourage their compliance in the future (Alm and Beck, 1991). Secondly, they may encourage companies that are operating in the shadow economy to register and be freed from the sanctions of their past actions. Therefore, the efficiency of the economy increases and the tax base expands in such countries (Bose and Jetter, 2012). Thirdly, taxpayers who are confident about their ability to remain undetected are unlikely to register or file their tax returns. A favourable tax amnesty might encourage them to eliminate their tax evasions and open a door to legality (Cassone and Marchese, 1995). Fourthly, tax amnesties can increase the operative capacity of the tax administration by eliminating the number of problematic files that need attention by specialised bodies (Marchese, 2014). Lastly, and more importantly, tax amnesties are argued to raise tax revenue (Andreoni, 1991; Malik and Schwab, 1991). However, the effect of tax amnesty on tax revenue is arguable and, according to Farrar and Hausserman (2016), defines the contribution of tax amnesties as "modest at the best". Hasseldine (1998) supported this by examining a number of state tax amnesties in the United States, and found that amnesty revenues range from just 0.008 to 2 per cent of state tax revenues. Furthermore, Alm and Beck (1990) found that tax amnesty had no long-run impact on the level or the trend of tax collections.

Although the above-mentioned benefits support tax amnesties, there is another side of the coin in which tax amnesties might harm tax compliance. Firstly, tax

amnesties harm the credibility of tax policy which is crucial for the compliance of taxpayers (Alm and Beck, 1990; Cassone and Marchese, 1995; Hasseldine, 1989). Taxpayers tend to behave according to their experiences and expectations; therefore, if amnesty becomes a common practice, taxpayers might find an incentive to become non-compliant in the hope of paying their taxes in a better deal (Bose and Jetter, 2012; Cassone and Marchese, 1995). Secondly, compliant taxpayers might perceive tax amnesties as violating the implicit psychological contract between the state and its citizens in which both parties promised to obey the regulations and respect the rights of each other (Rechberger et al., 2010). Feld and Frey (2002, p. 89) define the thin line of the aforementioned balance of contract by claiming taxpayers must pay their taxes honestly and tax authorities, for their part, "*must acknowledge and support the contract with the taxpayers by acting in a respectful way towards them, but also by preventing honest taxpayers from being exploited by the process*". Thirdly, tax amnesties are costly practices, and their costs are hard to estimate (Borgne and Baer, 2008). Tax amnesties usually require a campaign to introduce their benefits to taxpayers and clearly address their conditions to taxpayers. If not clearly planned and advertised, tax amnesties might fail to deliver indented gains, and therefore could bring additional costs to the public. Lastly, and possibly the most debated downside of the tax amnesties, is the equity problem that they create (Hasseldine, 1998). Many scholars have criticised amnesties because they introduce discriminatory treatment of taxpayers according to enforcement of tax law. Specifically, when an amnesty is introduced the beneficiaries can fulfil their tax obligations by paying less amounts of money than those who were compliant from the beginning. Hence compliant taxpayers felt cheated and mistreated, as they would be better off if they had postponed or avoided paying their taxes (Marchese, 2014b). Considering there are studies that show perceived justice is an important determinant of taxpayer compliance (Blodgett et al., 1997; Bobek and Hatfield, 2001; Farrar and Thorne, 2012; Hartner et al., 2010), surprisingly there are very few works, to our knowledge, that investigatethe influence of perceived justice on tax compliance and amnesty approval. Only Rechberger et al. (2010) have so far investigated post-amnesty tax compliance, and they found that it was positively influenced by a perceived justice of tax amnesty. Therefore, the fairer the tax amnesty was perceived, the more honest people reported their income in the filing periods following an amnesty (Rechberger et al., 2010).

The literature offers even less research when it comes to works in Turkish. Considering 34 tax amnesties were enacted in Turkey after 1924 with different scopes, the frequency of the amnesties shows us that Turkey has introduced an amnesty less than once in every 1000 days. Although this is defended by the

policymakers on the grounds that amnesties offer the possibility of paying debts in instalments by reducing the debt burden of the private sector to the public, the termination of conflicts by peace and settling of tax disputes without going to court, the frequency of tax amnesties has gone beyond being covered by this explanation. Table 1 below shows all tax amnestiesapplied until 2017.

Table 1: Tax Amnesties in Turkey

No	Date	Amnesty Definition
1	17.05.1924	First Tax Amnesty
2	05.08.1928	Elvin-i Selas's (Kars-Ardahan-Batum) Tax Amnesty
3	15.03.1934	Law No 4550 Arrears of Asset Tax Cancellation
4	04.07.1934	Law No 2566 on The Elimination of Arrears of Tax.
5	29.06.1938	Law No 3568 on the cancellation of the arrears of land taxes till the end of the fiscal year
6	13.06.1946	Forestry Companies to Be Exempted From Some Taxes On The Law No 5050 on Cancellation of Tax Wastes of Soil Crops Law No 113 on Amnesty
7	21.01.1947	Law No 5050 on Cancellation of Tax Wastes of Soil Crops
8	26.10.1960	Law No 113 on Amnesty (General)
9	28.12.1961	Law No 281 on the deference and liquidation of Tax Penalties Default Fines
10	23.02.1963	Law No 218 on Amnesty for Some Crime and Penalties
11	13.06.1963	Law No 252 on Amnesty for Sports Clubs' Tax Debt (for once)
12	05.09.1963	Law No 325 on Tax Debt Liquidation for State-Owned Enterprises Before 1960
13	16.07.1965	Law No 691 on Debt Cancellation and Arbitration By Treasury for Municipalities and Their Enterprises
14	03.08.1966	Law No 780 on Amnesty for Some Crime and Penalties Law No 1319 on Amnesty for Estate Tax
15	28.02.1970	Law No 1319 on Amnesty for Estate Tax
16	15.05.1974	Law No 1803 on Amnesty for Some Crime and Penalties Because of The 50th year of the Turkish Republic
17	20.03.1981	Law No 2431 on Acceleration of the Collection and the Declaration of Wealth Elements Out of Declaration
18	02.03.1982	Addition to Law No 2431
19	22.02.1983	Law No 2801 on A Special Way to Compromise with Some Public Claims

No	Date	Amnesty Definition
20	04.02.1985	Provisional Article 4 of the Law No. 3239 on Amendments to Certain Tax Procedures
21	03.12.1988	Law No 3505 (The First Tentative Item)
22	28.12.1988	Law No 3512
23	15.12.1990	Law No 3689 (The First Tentative Item)
24	21.02.1992	Law No 3787
25	05.09.1997	Public Notification of Collection No. 400
26	22.07.1998	Law No 4369
27	06.02.2001	Public Notification Of Collection No. 414
28	07.03.2002	Law No. 4746 Related to The Amnesty Arrangement With The Estate Tax (Estate Tax Law, A Temporary Matter: 21)
29	27.02.2003	Law No 4811 on Amnesty (General)
30	22.11.2008	Law No. 5811 on the National Economy of Some Assets (Asset Peace)
31	13.02.2011	Law No. 6111 Restructuring of Some Receivables and Social Insurance and General Health Insurance Law and Some Other Laws and Decrees on Amendment
32	10.09.2014	Law on the Restructuring of Certain Receivables by Making Amendments to the Labour Law No. 6552 and Certain Laws and Decree Laws
33	19.08.2016	Law No. 6736 on the Restructuring of Certain Receivables
34	30.06.2017	Law No. 7020 on the Restructuring Some Receivables

Source: Updated and modified from Cetin Gerger (2010, p. 5)

It could be expected the influence of such common application of the legislative power was to be investigated by many academics in the literature. However, the literature is not vast (Alm, 1999; Farrar and Hausserman, 2016). Moreover, the scarcity of the research is deepening when the Turkish literature is concerned (Guner, 1988; Tuncer, 2001). Given the extraordinary frequency of tax amnesties in Turkey, it is surprising to see that very little research has been conducted so far. The literature mainly consists of reviews or descriptive studies.

Nevertheless, the literature has related many extensively discussed factors to the frame of tax amnesties, and its effect on tax compliance decisions have been investigated (Alm and Beck, 1993; Bayer et al., 2015, 2015; Koch and Müller, 2015; Malik and Schwab, 1991; Torgler and Schaltegger, 2005). The literature commonly agrees that although tax amnesties target taxpayers who failed to fulfil their liabilities by creating convenient terms of payment, they might also cause some changes in the perceptions of the taxpayers (Government trust, fairness

perception, and risk preferences) who did not benefit from the tax amnesties. In particular, the taxpayers who have been compliant to their liabilities might therefore feel cheated,; their perception of fairness may be harmed (Gamage, 2014; Gilligan and Richardson, 2005; Giray et al., 2015).

Although there are some papers touching on tax amnesty issues in Turkish literature, the main reason behind deciding to conduct this research is the scarcity of Turkish literature that investigates the effect of tax amnesties and the factors that influence tax compliance. Additionally, there are no works spotted in the literature that focus on the effect of perception of tax amnesties on government trust. It is intended that this research aims to fill the gap in the literature in this manner. Hence, the purpose of this study is to analyse the effect of the tax amnesty perception of taxpayers on changes in their fairness perceptions and its influence on their tax compliance decisions with the factors that affect it, such as government trust, and risk preferences, during the time that the amnesty is in place.

Given the discussed literature the research question of this research has been formulated as:

How influential is the tax amnesty (6736) on the tax compliance perceptions of Turkish taxpayers?

Is the difference between beneficiaries and non-beneficiaries from the tax amnesty in terms of their;

- Fairness perception
- Government trust
- Risk perception?

Before creating the structural model, definitions of the constructs are provided below for clear understanding.

- Tax amnesty perception: perceived acceptance/approval of taxpayers of tax amnesty practice of the tax authority.
- Fairness (procedural): perceived fairness by taxpayers of tax legislation and the processes of the tax authority (Wartick, 1994).
- Government trust: Taxpayers' perceptive trust of the current government's performance (Frey, 1997; Alm and Torgler; 2006; Kirchler, 2007).
- Risk perception: a perceived possibility of being caught through tax evasion or unreported income.
- Tax Compliance: *willingness* to pay taxes (Kirchler, 2007).

In accordance with the explained research frame, a structural model to explain the complex nature of the compliance behaviour under tax amnesty perception was formed.

Figure 1: Structural Model
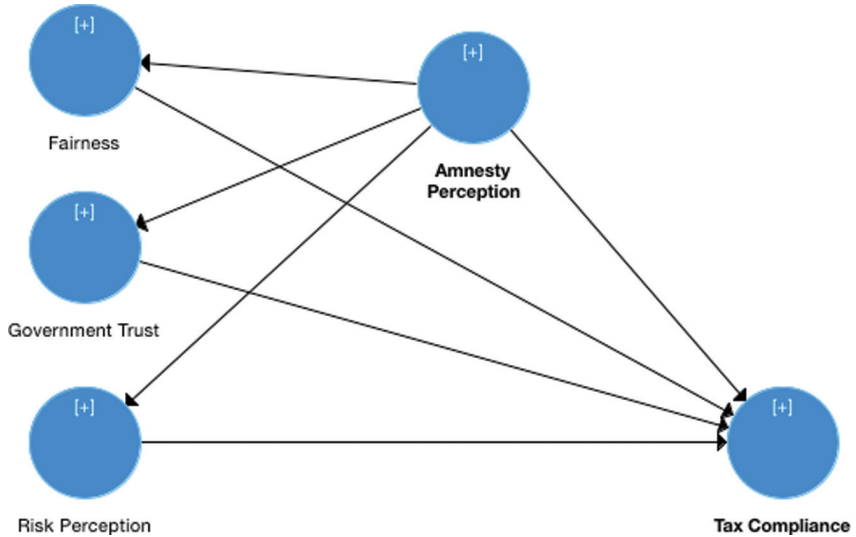
3. Methodology

The data were gathered from 1102 participants with a printed survey instrument by using face to face surveying while the amnesty applications were in place in 2016, from 4 different cities with a population of over one million. The data were collected with the convenience sampling method from active taxpayers (e.g. self-employed, tradesmen and owner-managers of companies) and a quota was applied for the beneficiary and non-beneficiary taxpayers of the tax legislation 6736 to achieve a representative sample. The survey instrument was formed with pre-tested scales (please see Ahmed and Braithwaite, 2005; Hartner et al., 2011; Kirchler and Wahl, 2010; Muehlbacher and Kirchler, 2010; Wenzel, 2002) to measure the variables in the structural model, and the variables were measured with a 7-Likert scale.

The demographics of the samples are provided in Table 2 and Table 3.

Table 2: Demographics of sample 1

	Tax Education			Gender			Civil status	
	Frequency	Percent		Frequency	Percent		Frequency	Percent
Yes	**239**	21.7	**Male**	**866**	78.6	**Single**	**354**	32.1
No	**847**	76.9	**Female**	**223**	20.2	**Married**	**735**	66.7
Total	1086	98.5	Total	1089	98.8	Total	1089	98.8
Missing	16	1.5	Missing	13	1.2	Missing	13	1.2
Total	1102	100		1102	100		1102	100

Table 3: Demographics of sample 2

	Benefiter from the Amnesty		Previous beneficiaries	
	Frequency	Percent	Frequency	Percent
Beneficiaries	**493**	0.45	**367**	33.3
Non-Beneficiaries	**609**	0.55	**718**	65.2
Missing	0	13	17	1.5
Total	1102	100	1102	100

4. Analysis

In order to test the structural model, stages that are suggested by Hair et al. (2014) and Kline (2011) for the structural equation modelling were followed. In this sense, firstly, exploratory factor analysis was performed to ensure that the gathered data provided a sensible factorial solution consistent with the model (Kline, 2011). Secondly, partially least square anaysis of the created structural equation model (PLS-SEM) path modelling was performed by evaluation of the structural model (Hair et al., 2014). The analysis was conducted on the model with PLS-SEM by using SmartPLS software packages.

The factorial solution yielded satisfactory results. Reliability and unidimensiality of the scales were established based on these results, and the scales were accepted to test in the next level. Table 4 provides the detailed results of the individual FA stage of the analysis.

Table 4: Factorial solution

	Factors				
	Fairness	**Tax Compliance**	**Government Trust**	**Amnesty Perception**	**Risk Perception**
Fairness Dist 2	0.901				
Fairness Dist 4	0.884				
Fairness Dist 5	0.870				
Fairness Dist 1	0.845				
Fairness Dist 3	0.708				
Compliance 2		0.913			
Compliance 3		0.873			
Compliance 1		0.822			
Compliance 4		0.656			
Government Trust 2			−0.970		
Government Trust 4			−0.967		
Government Trust 3			−0.853		
Government Trust 1			−0.493		
Tax Amnesty 6				0.743	
Tax Amnesty 4				0.712	
Tax Amnesty 8				0.692	
Tax Amnesty 3				0.637	
Risk 3					0.810
Risk 4					0.744
Risk 1					0.644
Risk 5					0.630
Cronbach's Alpha (0,70)	0.927	0.881	0.913	0.782	0.807
rho_A (0,70) Composite	0.937	0.891	0.914	0.791	0.854
Reliability (0,70)	0.945	0.918	0.939	0.858	0.872
AVE (0.5)	0.774	0.737	0.795	0.602	0.632

After reaching a meaningful factorial solution, evaluating the structural model comes next. The PLS-SEM analysis provides estimates that represent indicated relationships that are defined as path coefficients (Hair et al., 2011, 2014; Kline, 2011). The path coefficients are fully standardised regression coefficients that range between −1 and +1. Moreover, these coefficients explain the nature and strength of hypothesized relationships between two latent constructs. The higher the path coefficient, the more relevant its predictor latent variable and more variance of the endogenous variable it explains.

Determining the significance of a path coefficient depends on its standard error, which is obtained through the bootstrapping procedure in PLS-SEM. The significance of the path coefficient is important because it assesses whether a

formative indicator significantly contributes/explains its corresponding construct. The empirical t value, which is calculated through the bootstrapping procedure, indicates the significance of the coefficient. If the t value is higher than a critical value[3], then the path coefficient is accepted significant. Choice of the critical value or the significance level depends on the field and the nature of the research. It is usually assumed to be a 5% significance level in PLS-SEM studies (Hair et al., 2011). However, when the research is exploratory in nature researchers often suggest a 10% significance level is adequate (Hair et al., 2014). Considering the research is exploratory in nature, a 10% significance level is accepted for this research. Additionally, when reporting the path coefficients Hair et al. (2014) advised the reporting of t values and degrees of freedom (p values) to determine their significance. Therefore, both t values and p values are reported with the path coefficients in this research.

Figure 2: Complete Results of the Structural model
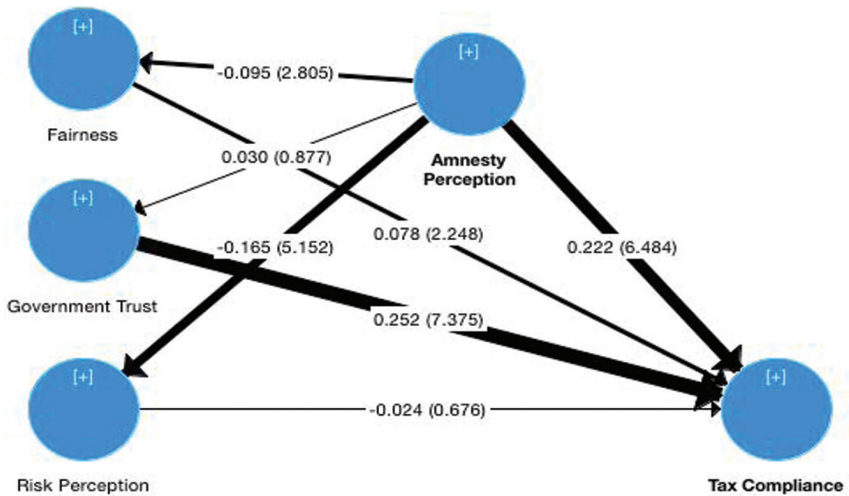
In the final analysis of the structural model in total, seven paths were examined in the structural model. Five path coefficients were proved to be significant while

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3   Critical value refers to the level in which the coefficient is significant at a certain error probability (i.e., significance level). The literature agrees that the commonly used critical values for two-tailed tests are 1.65 (significance level= 10%), 1.96 (significance level = 5%), and 2.57 (significance level = 1%). (Field, 2013; Hair, 2010; Hair et al., 2014; Tabachnick and Fidell, 2013).

the majority were significant at 1% significance level. One path coefficient proved significant in 5% significance level, which is Fairness -> Tax Compliance. Two path coefficients, which were Amnesty Perception -> Government Trust and Risk Perception -> Tax Compliance, were found not to be significant.

After path coefficients evaluation, the coefficient of determination, R^2 value, is the most commonly used measure to evaluate predictive capacity of structural models (Bowen and Guo, 2012; Kline, 2011). The R^2 values for each endogenous construct represent exogenous constructs combined effect (Hair et al., 2011). The value can range from 0 to 1, and a closer value to 1 indicates high levels of predictive accuracy. In our model, tax compliance is an endogenous construct; the examined R^2 value (0.134) has demonstrated acceptable predictive and explanatory capability. Given that the structural model has a complex nature with five latent constructs, the structural models' explanatory nature and significant relationships between the endogenous constructs, the R^2 value of tax compliance construct is accepted for this study.

Overall, the model's endogenous constructs provided a satisfactory coefficient of determination, and the model provided good explanatory and predictive capacity for this research. Detailed scores for path coefficients are provided in Table 5.

Table 5: Significance and Relevance of the Structural Model Relationships

Paths of the Structural Model	Path Coefficients	T Values	P Values	Significance Levels
Amnesty Perception -> Fairness	−0.095	2.805	0.006	1%
Amnesty Perception -> Government Trust	0.030	0.877	0.355	NS
Amnesty Perception -> Risk Perception	−0.165	5.152	0.000	1%
Amnesty Perception -> Tax Compliance	0.222	6.484	0.000	1%
Fairness -> Tax Compliance	0.030	2.248	0.021	5%
Government Trust -> Tax Compliance	0.252	7.375	0.000	1%
Risk Perception -> Tax Compliance	−0.024	0.676	0.488	NS

NS: Not significant

5. Conclusion

Turkish government brought in tax code 6736 to introduce the biggest tax amnesty in the history of modern Turkey. It was advertised widely in television, social media and radio, more than any other amnesty. It stretched over a year because of extensions of the application deadlines, and it provided very advantageous debt restructuring opportunities. Consequently, 3.7 million taxpayers have utilised the amnesty and a 31.3 billion tax debt was restructured, while a 950 million tax debt

was collected. Although every tax amnesty is introduced with a reason behind it, in the practice phase of the amnesty the intentions of the policymaker might not be materialise as hoped. For instance, if the tax amnesty stays on the agenda of society for longer than it should, some taxpayers might want to take advantage of the situation by avoiding their current liabilities of tax, which might result a decrease in the level of tax revenue, whereas, the main rationale behind the tax amnesty is to help taxpayers to pay unpaid tax bills. In our research, we aimed to discover the effect of tax amnesties on the fairness, government trust and risk perceptions and tax compliance of taxpayers.

In line with the majority of the literature, we found that the fairness perception of taxpayers is negatively affected by tax amnesties. Hence, equity concerns about tax amnesties are proved effective in our sample. To our knowledge, this is the first empirical result in the Turkish context, although a number of theoretical works exists claiming the same effect. Interestingly, amnesties proved not to be influential on government trust in our research.

Another surprising effect is proved in our sample – that the perceived possibility of being caught by the tax authorities has been negatively affected by tax amnesties. In other words, the efficiency of tax inspection deteriorates under the environment in which tax amnesties become policies that are more frequent. Therefore, we can conclude for our sample that tax amnesties reduce the fear of getting caught because of unreported income gained from cheating.

One of the strongest effects appeared as amnesties' influence on tax compliance. In our analysis, tax compliance is affected positively by the tax amnesties. Hence, the evidence from the literature that argues that tax amnesties provide an opportunity for taxpayers who are non-compliant for some reason is proved true for our sample.

Amongst the control variables, fairness and government trust showed a statistically significant effect, although risk perception has no significant effect on tax compliance.

Considering the above-mentioned findings, tax amnesties are still a very controversial issue for tax policies, and we need to think and research more about them as the literature offers considerably less knowledge to us. Nevertheless, our research's results directed us to rethink whether tax amnesties are good practices in a long run as they damage some important tools of tax policy such as tax inspection. Tax amnesties are also becoming a very contentious solution for tax collection, and this might make them lose their sense of opportunity for the taxpayers.

In order to understand tax amnesties in a detailed manner, we need the cooperation of tax administrators as academics, and more data are needed. Especially the difference between beneficiaries and non-beneficiaries of tax amnesties should

be examined through their tax return data. Nevertheless, the Turkish tax administration preferred to offer a discount to compliant taxpayers to ease their feeling of being cheated of tax benefits. However, the tax administration and possibly we ourselves do not yet know about the best policy because there is still very little research available.

We expect that full-scale findings would be more detailed and that they might shed light on the future decisions on tax amnesties by the policymakers.

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