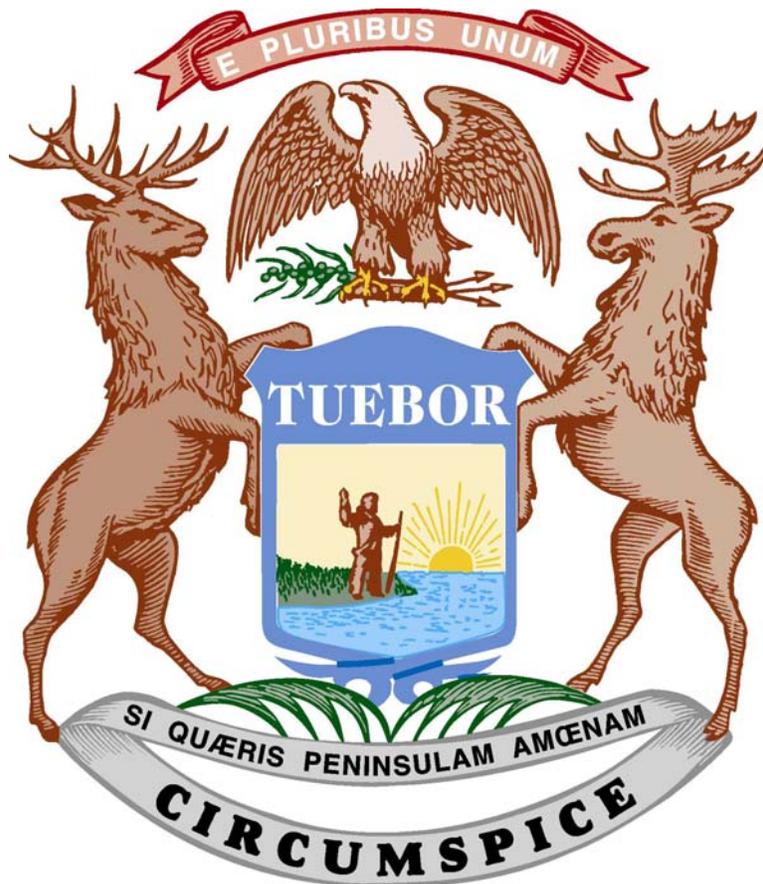


State of Michigan Tax Amnesty Program 2011



Michigan Department of Treasury
Office of Revenue and Tax Analysis
February 2012

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Executive Summary

- ◆ In 2011, the State of Michigan offered a tax amnesty program to provide taxpayers an opportunity to pay delinquent taxes without penalty and to generate additional tax revenue for FY 2011. The tax amnesty program was created by Public Act 198 of 2010.
- ◆ During the amnesty period, which ran from May 15 through June 30, 2011, 16,106 taxpayers filed 31,587 returns and remitted \$81.2 million in taxes and interest payments.
- ◆ Of the total taxes paid through the amnesty program, \$48.2 million or almost 60 percent of the total, was from “new” tax payments that otherwise might not have been collected. The remaining \$33.0 million in amnesty tax revenue was the payment of existing tax assessments that were still outstanding.
- ◆ Michigan’s previous amnesty program was held in 2002 and collected a total of \$81.9 million, of which 39 percent was “new” tax payments and 61 percent was from existing tax assessments.
- ◆ Most of the taxpayers participating in the 2011 amnesty program had delinquent taxes that were relatively small, but a few taxpayers paid very large amounts.
- ◆ Taxpayers that remitted delinquent taxes through the amnesty program were not charged any late payment penalties. As a result, a total of \$15.7 million in tax penalties were waived during the amnesty program.
- ◆ The Treasury Department was appropriated \$6.8 million to cover the cost of administering the tax amnesty program.
- ◆ The tax amnesty program generated an estimated \$65.5 million in GF-GP revenue, \$14.7 million in School Aid Fund revenue, and \$1.0 million in revenue for other funds, before adjusting for the administrative costs.
- ◆ Business taxpayers accounted for 77 percent of tax amnesty payments while individual taxpayers made 23 percent of the payments.
- ◆ The largest source of amnesty revenue was the \$19.4 million in Michigan Business Tax payments, which accounted for 23.9 percent of total amnesty collections. The next largest source was the \$15.0 million collected from income tax annual payments, which accounted for 18.5 percent of the total revenue.

Overview

In 2011, the State of Michigan offered a tax amnesty program that allowed taxpayers an opportunity to come forward and pay overdue taxes. The tax amnesty program was required by Public Act 198 of 2010, which stipulated the amnesty program would run from May 15 through June 30, 2011, a period of 47 days. While over 70 taxes were recognized as being eligible for amnesty, the most common taxes remitted during the amnesty period are listed in Table 1. A copy of the tax amnesty form is included in the Appendix.

Under the tax amnesty program, all penalty charges for late payment of taxes were waived, but late interest charges were not waived. In order to be eligible for the amnesty program, an outstanding tax liability had to be delinquent as of December 31, 2009. In addition, in order to receive the penalty waiver, the entire delinquent liability and late interest charges had to be paid in full by the end of the amnesty period.

Michigan's tax amnesty program generated a total of \$81.2 million in revenue from over 16,000 taxpayers. Of this amount, \$48.2 million was "new" revenue and \$33.0 million was from the payment of existing tax assessments. Tax penalties totaling \$15.7 million were waived as part of the amnesty program. The Michigan Department of Treasury received \$6.8 million to administer the tax amnesty program, which included the cost of an advertising campaign that focused on the theme "All Excuses Welcome."

Table 1
Major Taxes Eligible for Amnesty

Sales Tax	Use Tax
Income Tax Withholding	Single Business Tax (SBT)
Income Tax Annual Payments	Michigan Business Tax (MBT)
Real Estate Transfer Tax	Insurance Tax
Motor Fuel Taxes	Tobacco Taxes

The purpose of the tax amnesty program was twofold. First, it allowed taxpayers to create a "fresh start" by letting them fulfill unpaid tax obligations without incurring the usual penalty charged on late payments. Second, the expected additional revenue that would be generated by the tax amnesty program was needed to help balance the FY 2011 budget.

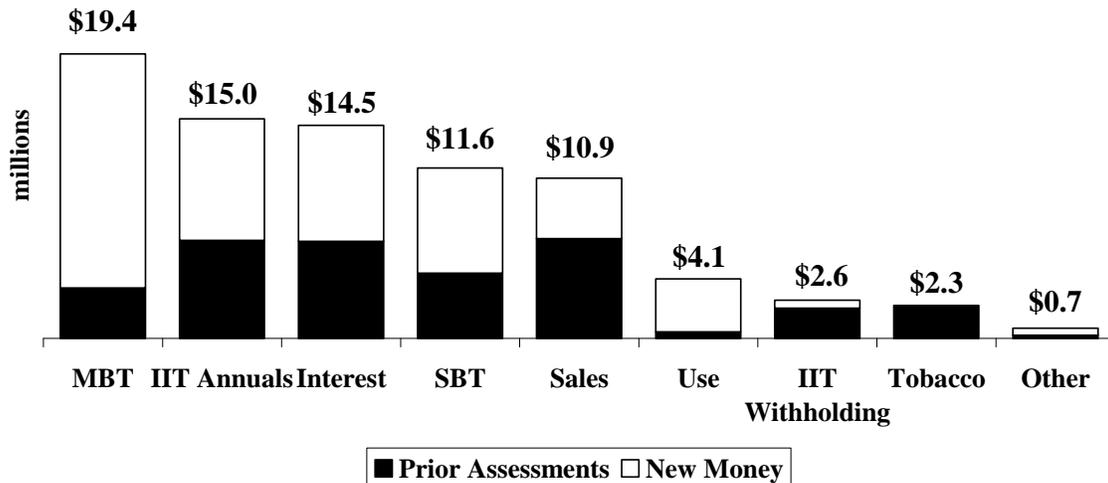
As with any tax amnesty program, the 2011 program provided the State with a one-time infusion of revenue in the year the amnesty was offered (FY 2011). However, it will also have an impact on tax collections in future years (particularly in FY 2012), for primarily two reasons. First, the tax amnesty program simply accelerated the tax payments made by some taxpayers. Some taxpayers with known tax delinquencies for which the Department of Treasury has issued a tax assessment, will eventually pay their liability. In 2011, some taxpayers in this situation decided to pay their liability during the amnesty period to take advantage of the penalty waiver. As a result, these amnesty payments increased tax collections in the amnesty year (FY 2011) but will reduce tax collections in subsequent years (particularly in FY 2012) when they otherwise would have made the payment. Second, by identifying new taxpayers and bringing them into the system, the amnesty program increased the tax base and should therefore increase collections in future years. The estimated impacts of both of these factors are described later in this report.

Revenue Received

Payments under the amnesty program totaled \$81.2 million, representing payments from taxpayers with existing assessments and “new” tax payments (see Chart 1). The largest source of tax amnesty revenue consisted of \$19.4 million in Michigan business tax (MBT) payments. Income tax annuals were the second largest source of revenue at \$15.0 million. The next two largest sources were the \$14.5 million paid in late interest charges and the \$11.6 million in single business tax payments.

These gross collections included \$48.2 million in “new” revenue and \$33.0 million from known tax delinquencies. Most of the amnesty revenue from the MBT, SBT, and use tax was from new revenue, while most of the amnesty revenue from income tax withholding and the tobacco tax was from existing tax assessments. Tax amnesty collections from the income tax annual payments, interest payments, and sales tax were more evenly distributed between “new” revenue and revenue from existing tax assessments. A weekly breakdown of tax amnesty payments during the amnesty program is provided in the Appendix.

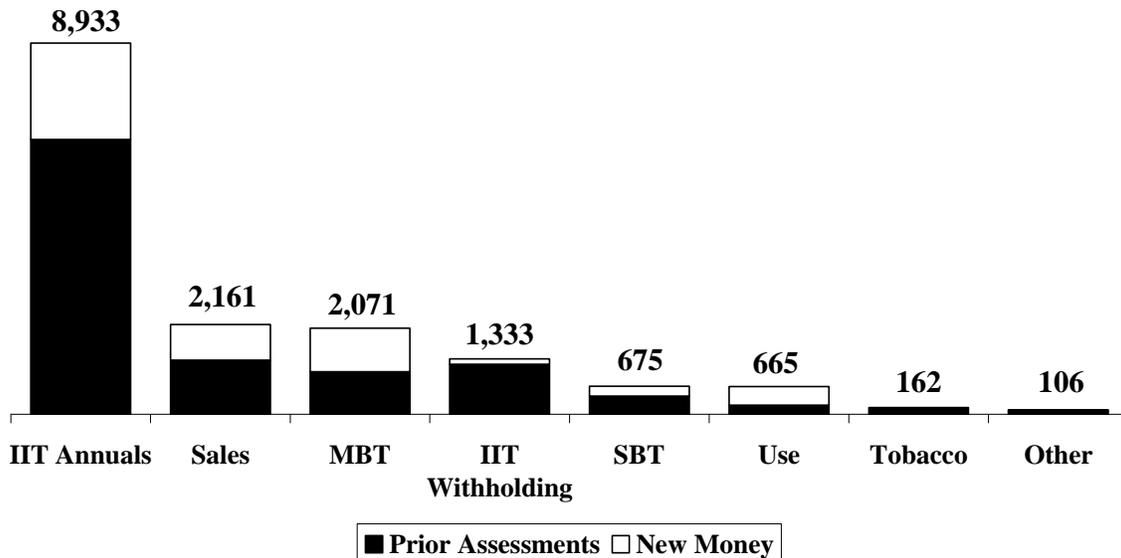
Chart 1
Michigan's Tax Amnesty Grosses
\$48.2 Million in New Revenue and
\$33.0 Million from Prior Assessments



Amnesty Taxpayer Participation

Over 16,000 taxpayers participated in the tax amnesty program (see Chart 2). The tax that was paid by the most taxpayers under amnesty was the individual income tax annual payments. Delinquent income tax payments were made by 8,933 taxpayers, which accounted for 55.4 percent of all of the taxpayers who filed amnesty returns. The second most frequent tax paid by taxpayers was the sales tax, which was paid by 2,161 taxpayers. The taxes with the next largest number of taxpayers filing amnesty returns were the MBT, which was paid by 2,071 taxpayers, and income tax withholding payments, which were paid by 1,333 taxpayers.

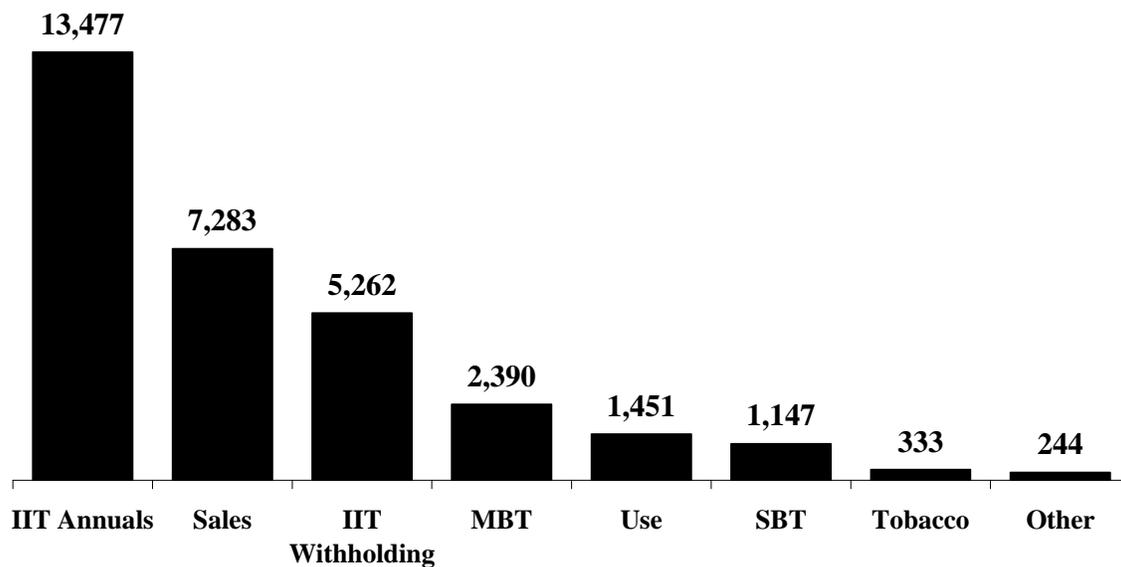
Chart 2
Over 16,000 Taxpayers Take Advantage
of the Amnesty Program



Amnesty Tax Returns Filed

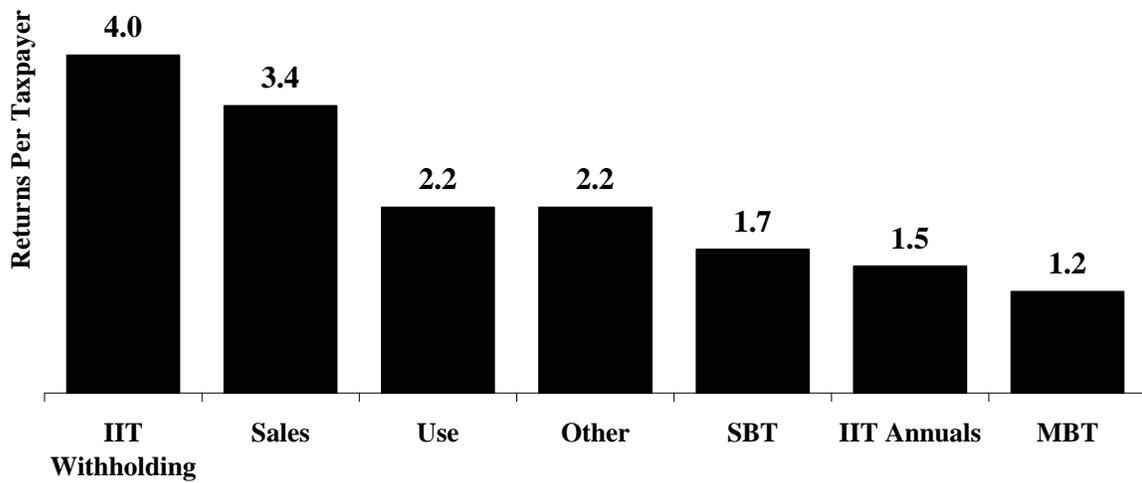
The 16,106 amnesty taxpayers filed a total of 31,587 tax returns, an average of 2.0 returns per taxpayer, as most taxpayers filed amnesty returns for more than one tax year. Overall, the largest number of tax amnesty returns was filed for income tax annual payments, with a total of 13,477 returns (see Chart 3). Among the other major taxes, sales tax returns totaled 7,283, income tax withholding returns totaled 5,262, MBT returns totaled 2,390, use tax returns totaled 1,451, SBT returns totaled 1,147 and there were 577 returns filed for various other taxes.

Chart 3
Amnesty Taxpayers File 31,587 Tax Returns



While the average amnesty taxpayer filed two tax returns, the average number of returns filed per taxpayer for each of the major taxes ranged from 1.2 returns for taxpayers filing MBT returns to 4.0 returns for businesses remitting delinquent income tax withholding payments (see Chart 4).

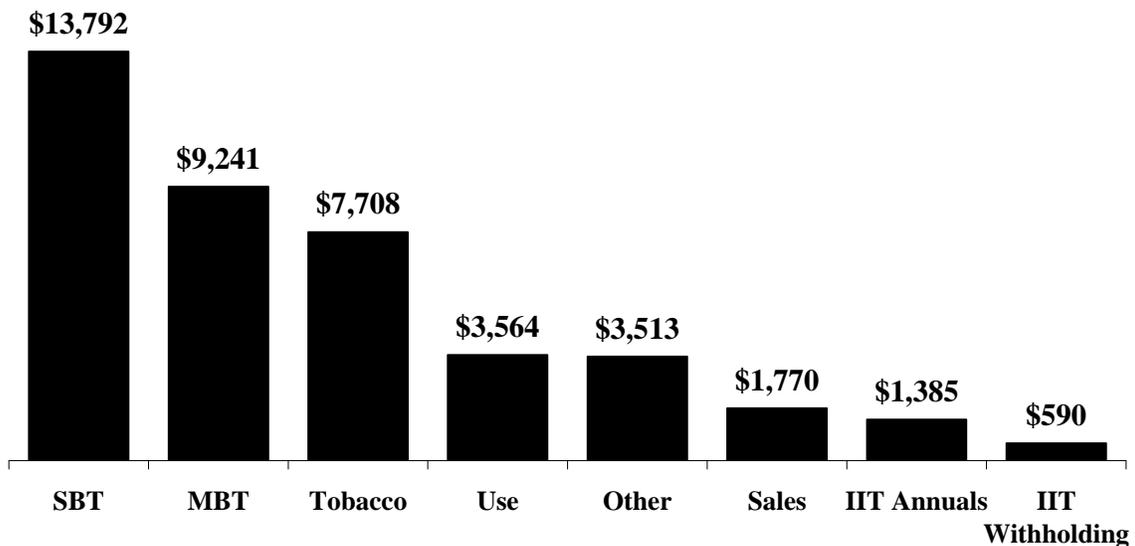
Chart 4
Average Amnesty Taxpayers File Two Returns Each



Amnesty Payments Per Tax Return

Amnesty tax and interest payments averaged \$2,569 per return, double the average from the previous 2002 tax amnesty experience which brought in \$1,243 per return. The highest per return amnesty payments were in the SBT and MBT. The average SBT amnesty return had a payment of \$13,792 and the MBT average payment was \$9,241. While individual income tax annual payments had the largest number of taxpayers file a return, the average payment per return was below average at \$1,385 (see Chart 5)

Chart 5
Amnesty Payments Average \$2,569 per Return
Average Return Payment Including Interest



Distribution of Amnesty Payments by Size of Payments

While most of the amnesty returns were filed by taxpayers with relatively small delinquent liabilities, the majority of the \$81.2 million was paid on a relatively small number of returns that owed large delinquent liabilities. A total of 22,766 returns (72.1 percent of the total) were filed with a payment less than \$1,000; however, the total revenue collected from these returns accounted for less than 8 percent of the total amnesty payments and the average payment per return was only \$275. These returns include 880 returns that had no tax due, but were filed under the amnesty program to eliminate penalty charges that were still outstanding.

On the other hand, a small number of amnesty returns accounted for a large share of the total payments. Only 77 returns made a payment in excess of \$100,000, which equaled 0.2 percent of total returns, but the \$26.8 million in tax and interest payments generated from these returns accounted for 32.0 percent of the total amnesty revenue received. The average payment per return for these taxpayers was \$350,000. The 1,123 tax returns containing over \$10,000 in payments made up only 3.6 percent of total returns filed yet contributed 66.0 percent of total amnesty money (Table 2).

Table 2
Distribution of Amnesty Payments
Per Return
(millions)

Amnesty Payment <u>Amount</u>	Number of <u>Returns</u>	Total Amnesty <u>Revenue</u>	<u>Average</u>
No Payments	880	\$0	\$0
Less than \$100	7,117	\$228,441	\$32
\$100 to \$1,000	14,792	\$5,966,287	\$403
\$1,000 to \$10,000	7,675	\$21,389,157	\$2,787
\$10,000 to \$100,000	1,046	\$26,825,878	\$25,646
Over \$100,000	<u>77</u>	<u>\$26,750,106</u>	<u>\$347,404</u>
Total	31,587	\$81,159,869	\$2,569

Amnesty Payments: Individuals Versus Businesses

Amnesty payments by individual taxpayers totaled \$18.7 million (23 percent); while business taxpayers paid \$62.5 million (77 percent) (see Chart 6). The vast majority of individual payments were for delinquent income tax liabilities; however, individual taxpayers also paid inheritance, estate, and intangibles taxes under the amnesty program. Business taxpayers paid SBT, MBT, sales tax, use tax, income tax withholding, tobacco taxes, and motor fuel taxes.

Amnesty Payments by Tax Year

Most of the amnesty payments were for recent tax years. Excluding interest payments, 59.6 percent (\$39.7 million) of the amnesty tax payments were for tax years 2008 and 2009 (the 2010 tax year was not eligible for the amnesty program). (see Chart 7). Another 20.0 percent or \$13.3 million of the amnesty tax payments were for tax years 2006 and 2007. Only \$1.5 million, or 2.3 percent of the total amnesty tax payments, were filed for tax year 2000 or earlier (Michigan's previous amnesty program was in 2002). Chart 15, on page 20, shows interest payments by tax year.

Chart 6
Amnesty Payments from
Individuals and Businesses

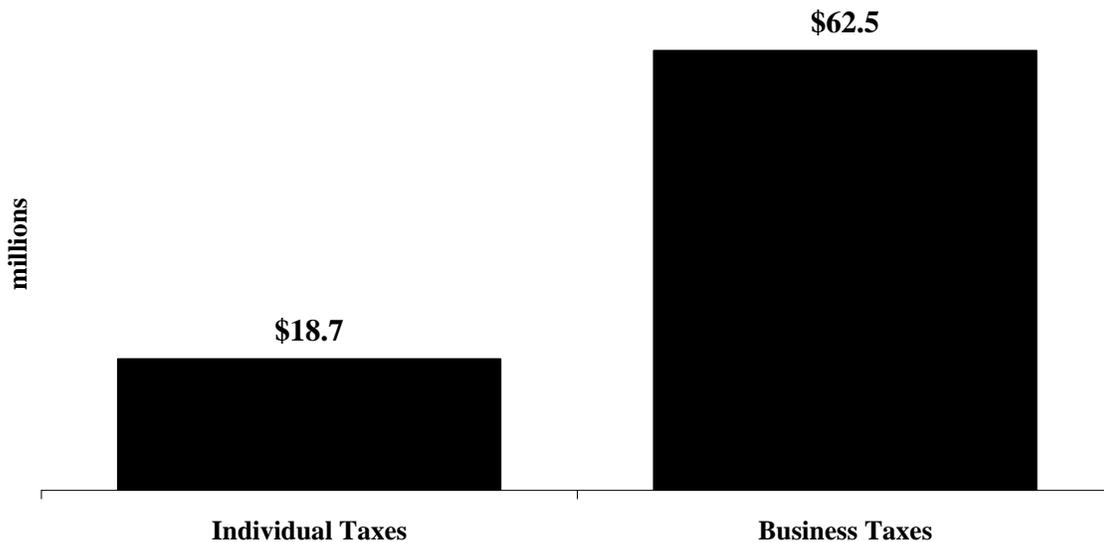
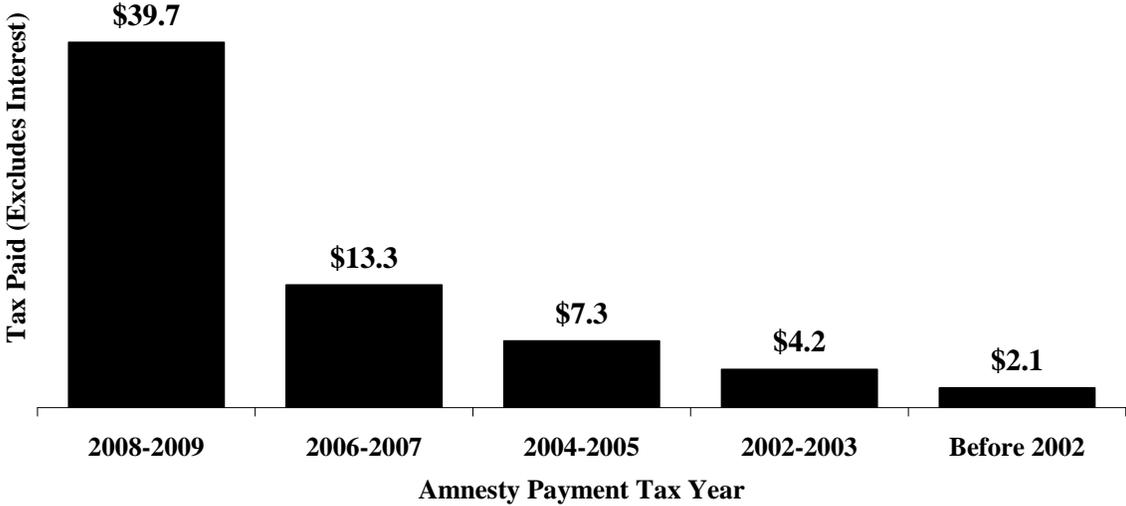


Chart 7
Most Amnesty Tax Money for Recent Tax Years



“New” Revenue from Amnesty

A total of \$48.2 million was paid by taxpayers for whom there was no outstanding assessment and therefore these payments represent new tax revenue that might not have been collected without the amnesty program. These new tax collections represent 59.2 percent of total amnesty gross collections. Some of these new tax payments were made by taxpayers that had not previously filed any tax returns. These new tax collections included \$16.0 million in MBT, \$8.3 million in income tax annuals, \$7.2 million in SBT, \$4.1 million in sales tax, and \$3.6 in use tax. This new revenue also included \$7.9 million in interest (see Chart 8).

This new revenue was paid by 5,070 taxpayers and included 2,319 income tax annual taxpayers, 1,049 MBT taxpayers, 861 sales taxpayers, 447 withholding taxpayers and 237 SBT taxpayers (see Chart 9).

Chart 8
New Money from Amnesty
(Non-Assessed Returns) Totals \$48.2 Million

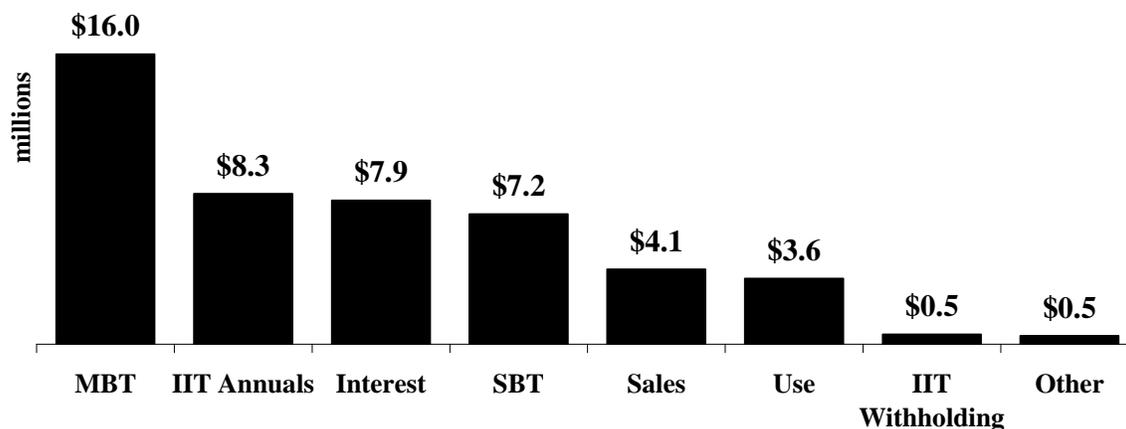
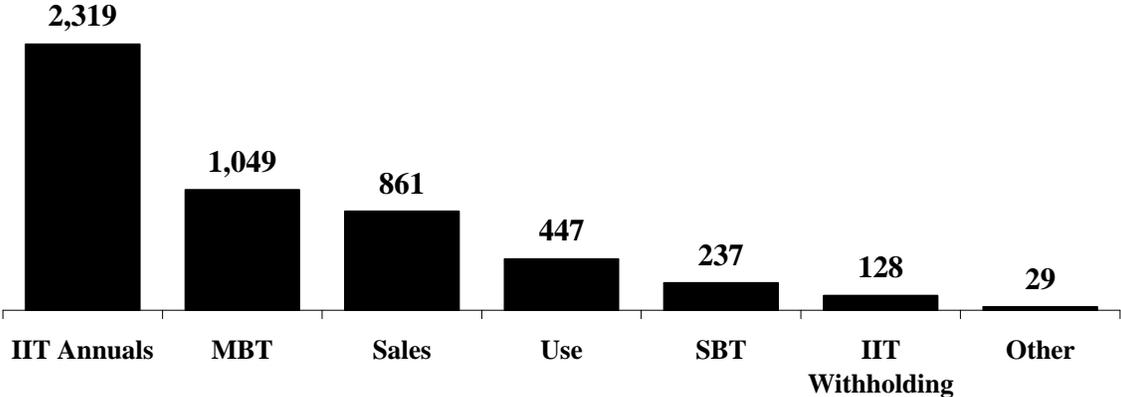


Chart 9
Over 5,000 "New" Taxpayers Take Advantage
of the Amnesty Program



Amnesty Revenue from Existing Assessments

In addition to the “new” tax revenue, the amnesty program also collected a total of \$33.0 million from taxpayers with existing tax assessments. When the Department identifies a tax underpayment due to an error or omission, the Department notifies the taxpayer and issues an assessment of the tax, interest, and penalty still owed. Amnesty payments of outstanding assessments included \$6.8 million in sales tax, \$6.7 million in income tax annuals, \$4.5 million in SBT, \$3.4 million in MBT, \$2.3 million in tobacco taxes, \$2.1 million in income tax withholding and \$0.4 million in use tax. These taxpayers also paid \$6.6 million in interest (see Chart 10).

The \$33.0 million generated from tax assessments was paid by 11,036 taxpayers, including 6,614 income annual taxpayers, 1,300 sales taxpayers, 1,205 withholding taxpayers, 1,022 MBT taxpayers, 438 SBT taxpayers and 162 tobacco tax taxpayers (see Chart 11). The average amount paid by these taxpayers was almost \$3,000.

Chart 10
Amnesty Collections from
Prior Assessed Returns Totals \$33.0 Million

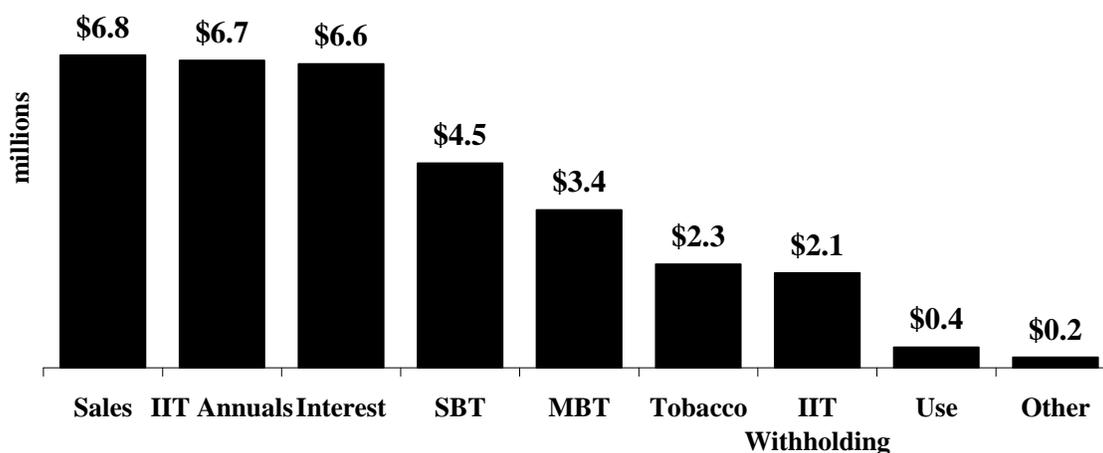
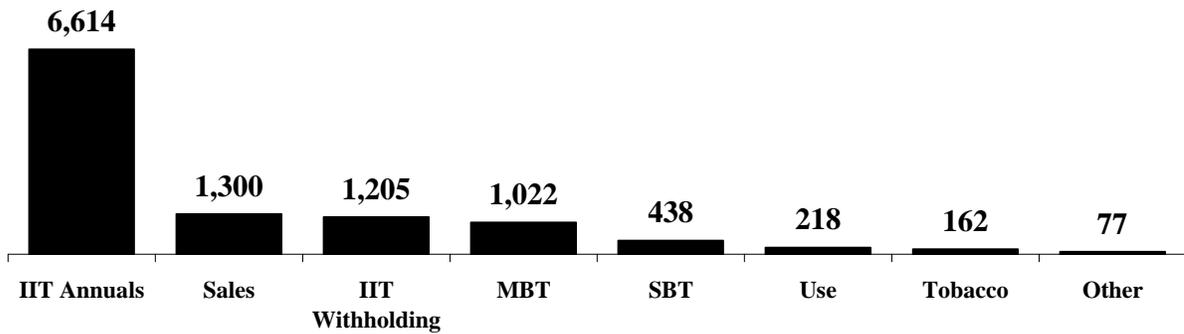


Chart 11
Over 11,000 Taxpayers With Existing Tax Assessments
Take Advantage of the Amnesty Program



Penalty Waived

Michigan tax amnesty participants received \$15.7 million in tax penalty waivers. MBT taxpayers received \$3.8 million in penalty waivers followed closely by Individual Income Tax (IIT) annual taxpayers with \$3.6 million in penalty waivers. Tobacco taxpayers received \$2.7 million in waivers followed closely by SBT and sales tax taxpayers, each with \$2.2 million in penalty waivers (see Charts 12 and 13).

Chart 12
Total Penalty Waived by Tax
millions

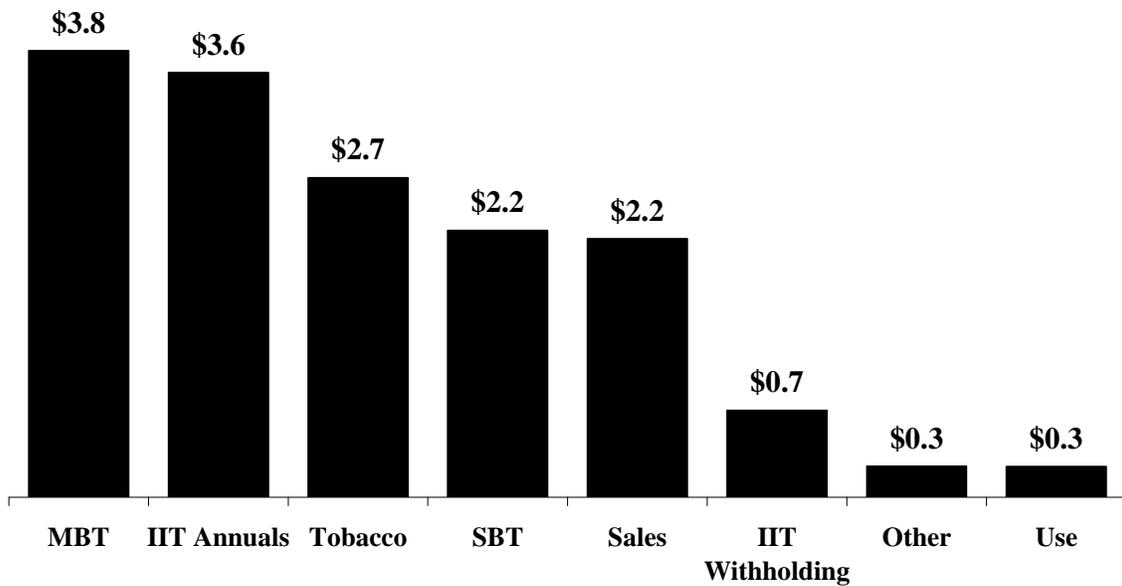
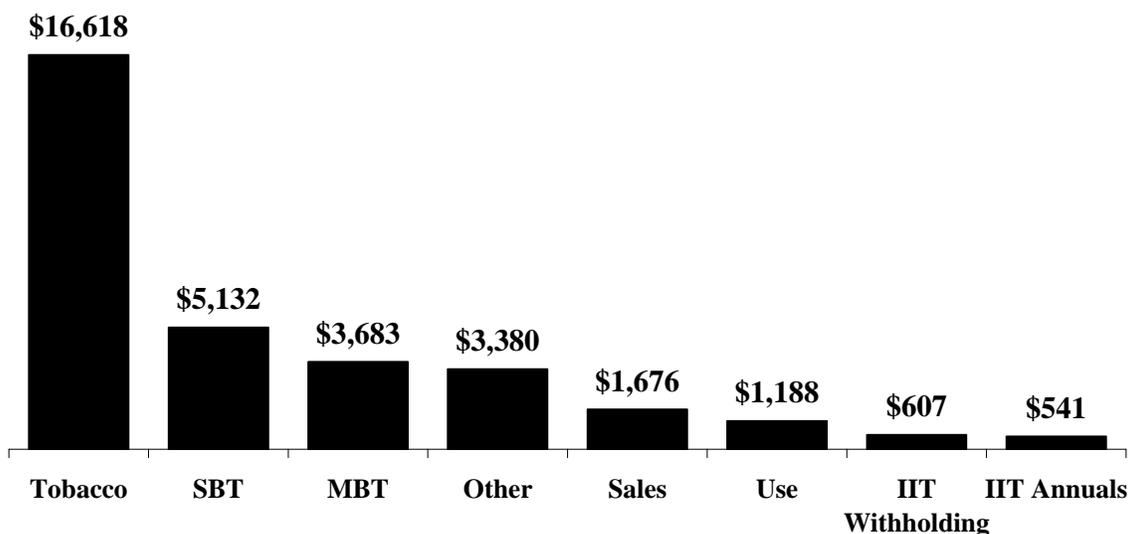


Chart 13
Average Amnesty Penalty Waived by Tax
Per Return



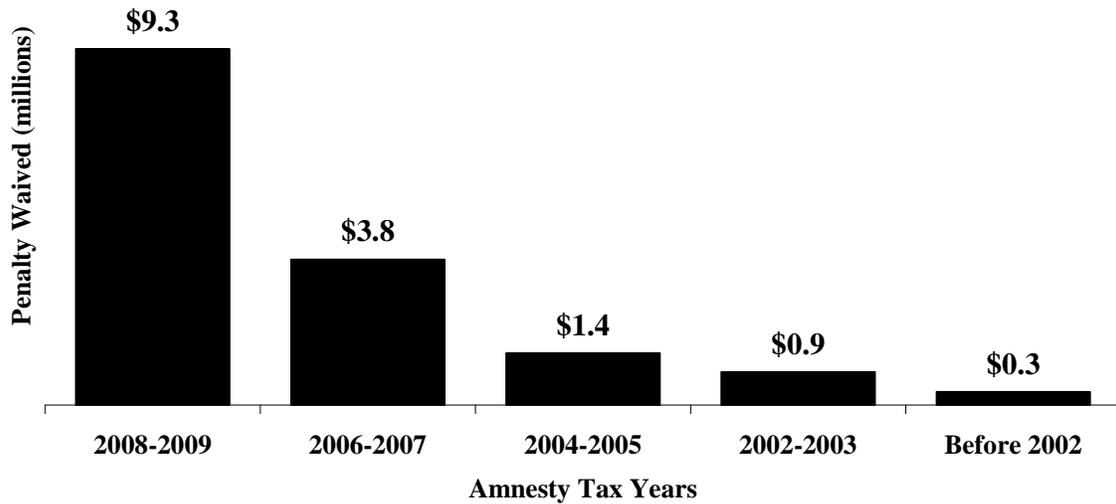
Most amnesty returns filed by existing taxpayers received relatively small penalty waivers although a few returns received large waivers. Almost 10,000 amnesty returns received less than \$100 in penalty waivers. In contrast, 21 returns received penalty waivers exceeding \$100,000. Overall, 22,261 returns filed by existing taxpayers received an average penalty waiver of \$706 (see Table 3).

Table 3
Distribution of Penalty Waived
Per Return
(millions)

Penalty Waived Amount	Number of Returns	Total Penalty Waived	Average
No Payments	558	\$0	\$0
\$0 to \$100	9,115	\$387,023	\$42
\$100 to \$1,000	10,445	\$3,467,303	\$332
\$1,000 to \$10,000	1,964	\$4,914,820	\$2,502
\$10,000 to \$100,000	158	\$3,759,174	\$23,792
Over \$100,000	<u>21</u>	<u>\$3,183,685</u>	<u>\$151,604</u>
Total	22,261	\$15,712,005	\$706

Almost all of the penalty waivers for amnesty were for returns filed for recent tax years. Of the total \$15.7 million in penalty waivers, \$9.3 million or 59.4 percent was waived on amnesty payments made for the 2008 and 2009 tax years. In contrast, only \$0.3 million in penalty waivers (2.2%) was claimed on returns for 2001 or earlier (see Chart 14).

Chart 14
Most Penalty Waived for Recent Tax Years
(millions)



Interest Paid

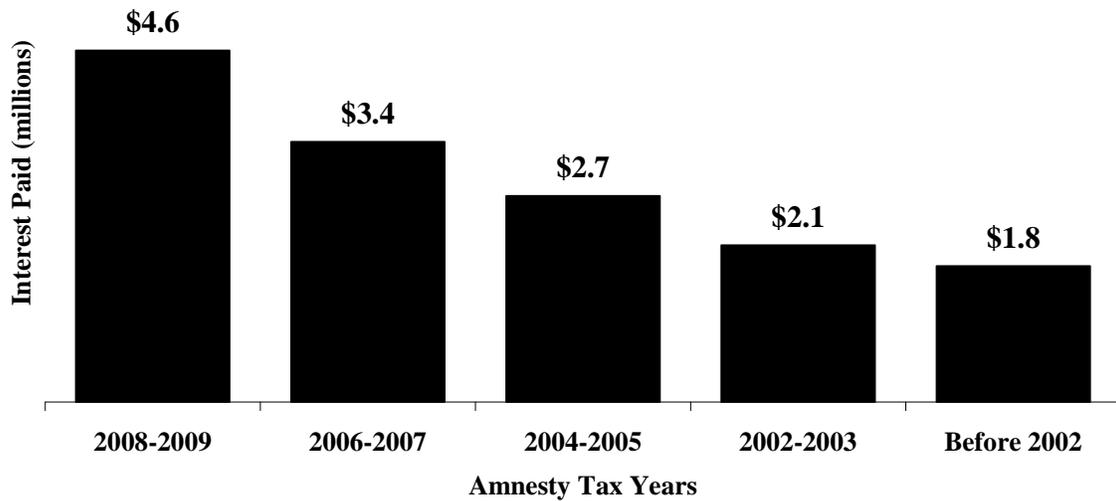
Michigan tax amnesty participants paid a total of \$14.5 million in interest on amnesty tax payments. SBT taxpayers paid \$4.2 million in interest followed closely by income tax annual filers who paid \$3.7 million in interest. MBT taxpayers paid \$2.7 million in interest, sales tax taxpayers paid \$2.0 million, and use tax taxpayers paid \$1.1 million (see Table 4). On average, tax amnesty participants paid \$903 in interest (see Table 4).

Table 4
Interest Paid by Amnesty Taxpayers
(millions)

<u>Tax</u>	<u>Total Interest Paid</u>	<u>Number of Taxpayers</u>	<u>Average Interest Paid</u>
SBT	\$4,184,060	675	\$6,199
IIT Annuals	\$3,665,306	8,933	\$410
MBT	\$2,662,247	2,071	\$1,285
Sales	\$1,956,841	2,161	\$906
Use	\$1,102,982	665	\$1,659
IIT Withholding	\$497,321	1,333	\$373
Tobacco	\$313,369	162	\$1,934
Other	\$164,947	106	\$1,556
Total	\$14,547,073	16,106	\$903

Unlike penalty waivers which were concentrated in recent tax years, tax amnesty interest payments remained high for earlier years. Tax amnesty participants paid \$4.6 million on 2008 and 2009 tax returns and returns for tax years 2001 or earlier brought in a significant \$1.8 million in interest (see Chart 15).

Chart 15
Interest Paid by Tax Year
(millions)



Amnesty Effect on FY 2011 and FY 2012 Revenues

The 2011 tax amnesty program generated gross revenues of \$81.2 million while \$6.8 million was appropriated to administer the program. As a result, net amnesty revenue for FY 2011 totaled \$74.4 million. Of this amount, \$60.1 million went to the General Fund-General Purpose (GF-GP) budget, \$13.4 million to the School Aid Fund (SAF), and about \$0.9 million to other funds (see Table 5).

When the 2011 tax amnesty program was enacted into law in 2010, it was estimated it would generate \$88.8 million in net new revenue in FY 2011, after the expense of administering the program. Of this net amount, it was estimated \$61.8 million would go to the General Fund-General Purpose (GF-GP) budget, \$26.1 million to the School Aid Fund (SAF), and about \$1.0 million to other funds. The primary reason behind the enactment of the tax amnesty program was to generate additional revenue needed at the time to enact a balanced budget for FY 2011.

Based on the final amnesty data, the net revenue actually generated from the tax amnesty program during FY 2011 fell short of the estimate by \$14.4 million. In terms of the distribution by fund, the lower than expected revenue primarily affected the SAF, as the actual amount going to the SAF fell short of the original estimate by \$12.7 million, while the GF-GP share of tax amnesty revenue was below the estimate by only \$1.7 million. Two reasons account for why the shortfall in the overall estimate was not more evenly distributed between the GF-GP and SAF. First, the amount that each of the major taxes generated in amnesty revenue was different than expected. The MBT and SBT were larger than expected and the sales and individual income taxes were smaller than expected. Given that all of the MBT and SBT revenue goes to the General Fund and most of the sales tax goes to the SAF, a greater share of the net collections (which were lower than originally estimated) went to the General Fund and less to the SAF. Secondly, the initial estimates assumed the cost of administering the amnesty program would be entirely reflected in the GF-GP budget, but the expenses were actually distributed between the two funds.

The impact of the amnesty program does not end with FY 2011. Amnesty will impact FY 2012 and beyond in two major ways: 1) some of the outstanding tax assessments collected through the amnesty program would have been collected at some point in time, and therefore these amnesty payments represent an accelerated payment that increases FY 2011 revenue but reduces the revenue that would have otherwise been realized in some future year; and 2) the new taxpayers that filed an amnesty return will likely continue to file tax returns in future years and therefore help generate additional revenue in these future years. When the amnesty program was enacted, the original estimate was that the negative impact from the acceleration in the payment of tax assessments would more than offset any positive benefits from the increased tax payments from new taxpayers. As a result, FY 2012 tax collections were expected to be reduced by \$49.8 million due to the 2011 tax amnesty program. Given that tax assessments were a smaller portion and “new” tax payments were a larger portion of the overall amnesty payments in 2011 than was expected, it is now estimated that FY 2012 tax collection will only be

reduced by \$15.9 million. As shown in Table 5, the 2011 tax amnesty program is expected to reduce FY 2012 GF-GP revenue \$12.8 million and SAF revenue \$2.9 million.

Table 5
Tax Amnesty Revenue FY 2011 and FY 2012
(millions)

	FY 2011				FY 2012 Estimated			
	Total	GF/GP	SAF	Other	Total	GF/GP	SAF	Other
Sales Tax	\$10.9	\$2.9	\$8.0	\$0.0	(\$2.1)	(\$0.6)	(\$1.6)	\$0.0
Single Business Tax	\$11.6	\$11.6	\$0.0	\$0.0	(\$2.3)	(\$2.3)	\$0.0	\$0.0
Michigan Business Tax	\$19.4	\$19.4	\$0.0	\$0.0	(\$3.8)	(\$3.8)	\$0.0	\$0.0
Income Tax Annuals	\$15.0	\$11.5	\$3.5	\$0.0	(\$2.9)	(\$2.3)	(\$0.7)	\$0.0
Income Tax Withholding	\$2.6	\$2.0	\$0.6	\$0.0	(\$0.5)	(\$0.4)	(\$0.1)	\$0.0
Use Tax	\$4.1	\$2.7	\$1.4	\$0.0	(\$0.8)	(\$0.5)	(\$0.3)	\$0.0
Tobacco Taxes	\$2.3	\$0.4	\$0.9	\$0.9	(\$0.4)	(\$0.1)	(\$0.2)	(\$0.2)
Other Taxes	\$0.8	\$0.3	\$0.4	\$0.1	(\$0.2)	\$0.0	\$0.0	(\$0.2)
Interest	<u>\$14.5</u>	<u>\$14.5</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>(\$2.8)</u>	<u>(\$2.8)</u>	<u>\$0.0</u>	<u>\$0.0</u>
Total	\$81.2	\$65.5	\$14.7	\$1.0	(\$15.9)	(\$12.8)	(\$2.9)	(\$0.2)
Expenses	<u>(\$6.8)</u>	<u>(\$5.5)</u>	<u>(\$1.3)</u>	<u>(\$0.1)</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$0.0</u>
Net Total	\$74.4	\$60.1	\$13.4	\$0.9	(\$15.9)	(\$12.8)	(\$2.9)	(\$0.2)

Other Amnesty Statistics

Web Statistics - The Department of Treasury created a special website so taxpayers would be able to conveniently receive accurate information on the tax amnesty program. This website included an overview of the amnesty program, information on who was eligible for amnesty and how to apply for amnesty. Also provided on the website were “Frequently Asked Questions” to further assist taxpayers. The website received a total of 69,971 visits prior to and during the amnesty period.

Taxpayer Calls - Even though an extensive website was available to provide information to taxpayers, taxpayers also called the Treasury Department for information. During the tax amnesty program the Department received 16,617 calls from taxpayers.

Amnesty Filers and Hearings - Of the 16,106 taxpayers that filed under the amnesty program, only 11 taxpayers were also in hearings to resolve a tax dispute. Under the 2002 tax amnesty program, in order to participate in the amnesty program taxpayers in the hearings process had to close their case. However, under the 2011 tax amnesty program, taxpayers pursuing a resolution of their tax dispute through the hearings process did not have to close their case in order to be eligible for the amnesty program.

Comparison with Michigan’s 2002 Tax Amnesty Program

Prior to the 2011 tax amnesty program, Michigan’s previous tax amnesty program occurred in 2002. The 2002 and 2011 programs were very similar in many ways, including the timing and duration of the program, the waiving of penalties, and other key features as shown in Table 6.

Table 6
Key Features of 2002 and 2011
Michigan Tax Amnesty Programs

Factor	2002	2011
Amnesty Period	5/15 – 7/1/02	5/15 – 6/30/11
Amnesty # of Days	48 Days	47 Days
Penalties Waived	Yes, 100%	Yes, 100%
Penalties Increased After Amnesty	No 1)	No
Interest Waived	No	No
Payment Plan Beyond Period	No	No
Significant Advertising Effort	No	Yes
Years Since Previous Amnesty	16 years	9 years

1) The 2002 amnesty program initially included an increase in penalties following the expiration of the amnesty program, but this increase was repealed before it went into effect.

Charts 16 and 17 compare the number of tax returns filed and the amount of gross revenue generated under each of these tax amnesty programs. While taxpayers filed twice as many tax returns in 2002 as in 2011 (66,855 in 2002 and 31,587 in 2011), both amnesty programs generated essentially the same amount of revenue (\$81.9 million in 2002 compared to \$81.2 million in 2011). The big difference between the two amnesty programs was in the amount of revenue generated from “new” revenue versus existing assessments. The 2011 tax amnesty program brought in \$16.4 million more from new taxpayers compared to 2002, but \$17.2 million less from existing taxpayers. The difference may have resulted from the \$16.0 million collected in 2011 from new MBT taxpayers. The complexity of eligibility and filing for the MBT, which became effective in 2008, may have contributed to the increase in new filings in 2011 compared with 2002.

While it is very difficult to estimate how much revenue an amnesty program will generate, an important factor that probably helps explain why the 2011 tax amnesty program generated slightly less revenue than the 2002 program is due to the dramatic economic downturn Michigan experienced in recent years. Due to the significant loss of jobs and income in recent years, it is very likely that a smaller percentage of taxpayers with delinquent liabilities had the financial means with which to pay their delinquent taxes in 2011 than in 2002. The impact of the Great Recession was factored into the original revenue estimate for the 2011 amnesty program, but was likely an even more significant issue than expected.

Chart 16
Twice as Many Tax Returns
Filed Under 2002 Tax Amnesty Program

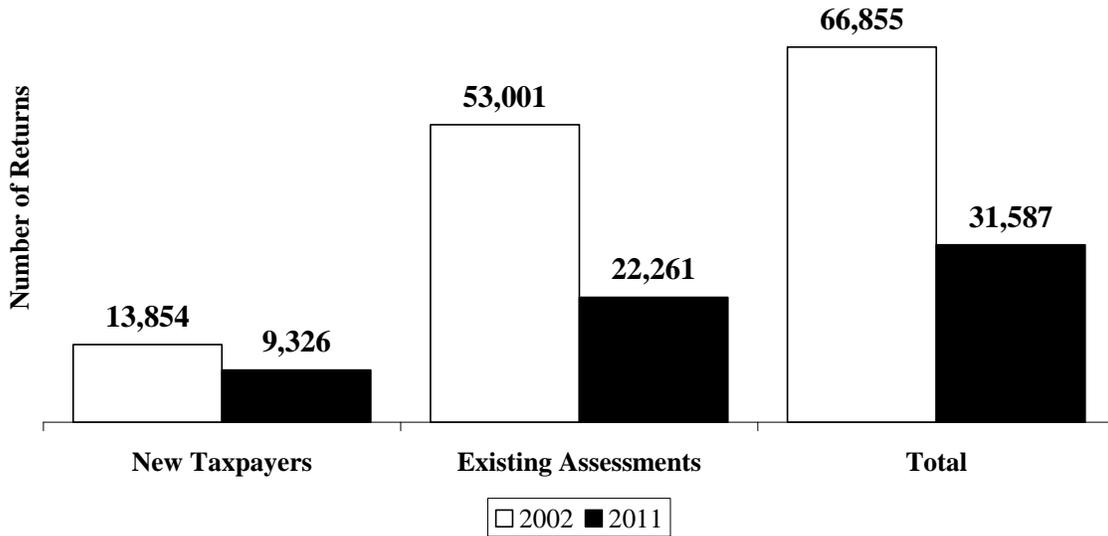
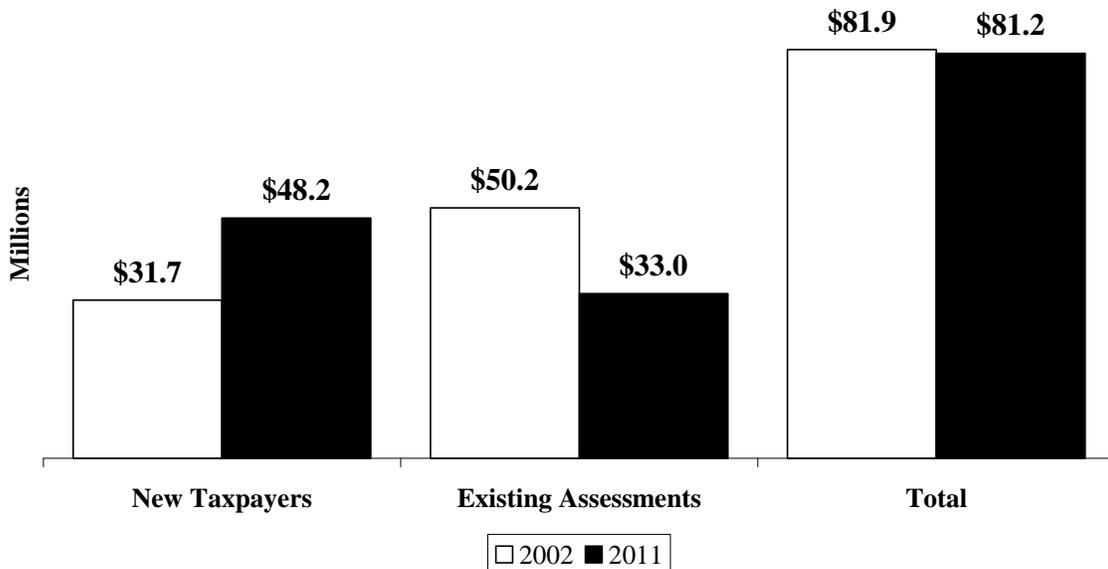


Chart 17
Same Amnesty Revenue Total in 2011 as in 2002
But \$16 Million More in New Money in 2011



Conclusion

Michigan's 2011 tax amnesty program generated \$81.2 million in gross collections and \$74.4 million after administrative expenses. This was below the original estimate by about \$14 million. As intended, this revenue helped balance the FY 2011 budget.

Over 16,000 taxpayers took advantage of the amnesty program to pay their delinquent tax liabilities without incurring any late penalty charges. These taxpayers filed almost 32,000 tax returns or about two returns per taxpayer, as most taxpayers with delinquent tax liabilities owed tax for more than one tax year.

Of the \$81.2 million in gross collections, \$48.2 million was "new" revenue from previously unidentified tax liabilities and \$33.0 million was from known delinquent liabilities that had already been assessed on taxpayers.

The 2011 tax amnesty program will also impact FY 2012 revenue. The new tax liabilities that were identified will bring new taxpayers into the tax system and should help generate additional revenue in the future; however, some of the existing tax assessments that were paid through the amnesty program in FY 2011 probably would have been paid eventually, so they represent an acceleration in tax collections received, not new tax revenue. As a result of these two factors, it is estimated the 2011 amnesty program will lower FY 2012 tax collections \$16 million below what they otherwise would have been.

Tax amnesty programs in general have their pros and cons. While an amnesty program brings new taxpayers into the tax system, tax amnesties may make it more difficult to collect delinquent taxes on an ongoing basis. Taxpayers with delinquent tax liabilities may decide to wait to pay their taxes until a tax amnesty program is offered to avoid having to pay the late penalties.

Appendix

Table 7
Amnesty Payments By Week
(actual dollars)

<u>Week</u>	<u>New (No Assessment)</u>	<u>Old (Existing Assessment)</u>	<u>Total Payments</u>	<u>% of Total</u>	<u>Cumulative % of Total</u>
Thru Apr 27	\$30,464	\$518,792	\$549,256	0.7%	0.7%
Apr 27 - May 2	\$23,295	\$313,766	\$337,061	0.4%	1.1%
May 2 - May 9	\$52,478	\$1,197,963	\$1,250,441	1.5%	2.6%
May 9 - May 16	\$113,004	\$1,047,803	\$1,160,807	1.4%	4.1%
May 16 - May 23	\$528,615	\$1,006,582	\$1,535,197	1.9%	6.0%
May 23 - May 31	\$563,523	\$1,556,630	\$2,120,153	2.6%	8.6%
May 31 - June 6	\$434,796	\$932,927	\$1,367,723	1.7%	10.3%
June 6 - June 13	\$2,480,564	\$2,061,447	\$4,542,011	5.6%	15.8%
June 13 - June 20	\$1,118,590	\$1,598,001	\$2,716,591	3.3%	19.2%
June 20 - June 27	\$2,741,023	\$1,382,561	\$4,123,584	5.1%	24.3%
June 27 - July 5	\$9,091,540	\$5,335,928	\$14,427,468	17.8%	42.1%
July 5 - July 11	\$18,573,841	\$9,610,957	\$28,184,798	34.7%	76.8%
July 11 - July 18	\$8,999,258	\$4,551,366	\$13,550,624	16.7%	93.5%
July 18 - July 25	\$2,189,203	\$2,664,048	\$4,853,251	6.0%	99.5%
July 25 - Aug 1	\$2,089,149	\$808,588	\$2,897,737	3.6%	103.0%
After Aug 1	(<u>\$884,232</u>)	(<u>\$1,572,503</u>)	(<u>\$2,456,735</u>)	-3.0%	100.0%
Total	\$48,145,111	\$33,014,856	\$81,159,967	100.0%	-----

Tax Amnesty Programs in Other States

Michigan is not alone in offering amnesty for past due taxes. Since 1982, 40 states and the District of Columbia have offered some form of tax amnesty. Of these, 16 have had multiple amnesty periods. A list of recent state tax amnesty programs is presented in Table 7.

Table 8
State Tax Amnesty Programs
November 1982 -- Present

<u>State</u>	<u>Amnesty Period</u>	<u>Previous Assessments Allowed</u>	<u>Gross Collections (millions)</u>
ALABAMA	01/20/84 - 04/01/84	No	\$3.2
	02/01/09 - 05/15/09	n.a.	\$8.1
ARIZONA	11/22/82 - 01/20/83	No	\$6.0
	01/01/02 - 02/28/02	No	n.a.
	09/01/03 - 10/31/03	n.a.	\$73.0
ARKANSAS	05/01/09 - 06/01/09	n.a.	\$32.0
	09/01/87 - 11/30/87	No	\$1.7
	07/01/04 - 12/31/04	n.a.	n.a.
CALIFORNIA	12/10/84 - 03/15/85	Yes	\$197.0
	02/01/05 - 03/31/05	No	n.a.
COLORADO	09/16/85 - 11/15/85	No	\$6.4
	06/01/03 - 06/30/03	n.a.	\$18.4
	10/01/11 - 11/15/11	No	n.a.
CONNECTICUT	09/01/90 - 11/30/90	Yes	\$54.0
	09/01/95 - 11/30/95	Yes	\$46.2
	09/01/02 - 12/02/02	n.a.	\$109.0
	05/01/09 - 06/25/09	No	\$40.0
DELAWARE	09/01/09 - 10/30/09	Yes	n.a.
FLORIDA	01/01/87 - 06/30/87	No	\$13.0
	01/01/88 - 06/30/88	No	\$8.4
	07/01/03 - 10/31/03	n.a.	\$80.0
	07/01/10 - 09/30/10	Yes	n.a.
GEORGIA	10/01/92 - 12/05/92	Yes	\$51.3
HAWAII	05/27/09 - 06/26/09	No	\$14.0
IDAHO	05/20/83 - 08/30/83	No	\$0.3
ILLINOIS	10/01/84 - 11/30/84	Yes	\$160.5
	10/01/03 - 11/17/03	n.a.	\$532.0
	10/01/10 - 11/08/10	Yes	\$314.0
INDIANA	09/15/05 - 11/15/05	n.a.	\$255.0
IOWA	09/02/86 - 10/31/86	Yes	\$35.1
	09/04/07 - 10/31/07	Yes	n.a.
KANSAS	07/01/84 - 09/30/84	No	\$0.6
	10/01/03 - 11/30/03	Yes	\$53.7
	09/01/10 - 10/15/10	Yes	n.a.
KENTUCKY	09/15/88 - 09/30/88	No	\$100.0
	08/01/02 - 09/30/02	No	\$100.0

Table 8 Continued

<u>State</u>	<u>Amnesty Period</u>	<u>Previous Assessments Allowed</u>	<u>Gross Collections (millions)</u>
LOUISIANA	10/01/85 - 12/31/85	No	\$1.2
	10/01/87 - 12/15/87	No	\$0.3
	10/01/98 - 12/31/98	No	\$1.3
	09/01/01 - 10/30/01	Yes	\$192.9
	09/01/09 - 10/31/09	n.a.	\$303.7
MAINE	11/01/90 - 12/31/90	Yes	\$29.0
	09/01/03 - 11/30/03	n.a.	\$37.6
	09/01/09 - 11/30/09	Yes	\$16.2
MARYLAND	09/01/87 - 11/02/87	Yes	\$34.6
	09/01/01 - 10/31/01	Yes	\$39.2
	09/01/09 - 10/31/09	Yes	\$9.6
MASSACHUSETTS	10/17/83 - 01/17/84	Yes	\$86.5
	10/01/02 - 11/30/02	Yes	\$96.1
	01/01/03 - 02/28/03	Yes	\$11.2
	04/01/10 - 06/01/10	Yes	\$32.6
MICHIGAN	05/12/86 - 06/30/86	Yes	\$109.8
	05/15/02 - 06/30/02	Yes	\$81.9
	05/15/11 - 06/30/11	Yes	n.a.
MINNESOTA	08/01/84 - 10/31/84	Yes	\$12.1
MISSISSIPPI	09/01/86 - 11/30/86	No	\$1.0
	09/01/04 - 12/31/04	No	\$7.9
MISSOURI	09/01/83 - 10/31/83	No	\$0.9
	08/01/02 - 10/31/02	Yes	\$76.4
	08/01/03 - 10/31/03	Yes	\$20.0
NEBRASKA	08/01/04 - 10/31/04	No	\$7.5
NEVADA	02/01/02 - 06/30/02	n.a.	\$7.3
	07/01/08 - 11/28/08	Yes	n.a.
	07/01/10 - 10/01/10	Yes	n.a.
NEW HAMPSHIRE	12/01/97 - 02/17/98	Yes	\$13.5
	12/01/01 - 02/15/02	Yes	\$13.5
NEW MEXICO	08/16/99 - 11/12/99	Yes	\$45.0
	06/07/10 - 09/30/10	No	n.a.
NEW JERSEY	09/10/87 - 12/08/87	Yes	\$186.5
	03/15/96 - 06/01/96	Yes	\$359.0
	04/15/02 - 06/10/02	Yes	\$276.9
	05/04/09 - 6/15/2009	n.a.	\$725.0
NEW MEXICO	08/15/85 - 11/13/85	No	\$13.6
	06/07/10 - 09/30/10	No	n.a.

Table 8 Continued

<u>State</u>	<u>Amnesty Period</u>		<u>Previous Assessments Allowed</u>	<u>Gross Collections (millions)</u>
NEW YORK	11/01/85	- 01/31/86	Yes	\$401.3
	11/01/96	- 01/31/97	Yes	\$253.4
	11/18/02	- 01/31/03	Yes	\$582.7
	10/01/05	- 03/01/06	n.a.	\$349.0
	01/15/10	- 03/15/10	Yes	\$56.5
NEW YORK CITY	10/20/03	- 01/23/04	Yes	n.a.
NORTH CAROLINA	09/01/89	- 12/01/89	Yes	\$37.6
NORTH DAKOTA	09/01/83	- 11/30/83	No	\$0.2
	10/01/03	- 01/31/04	n.a.	\$6.9
OHIO	10/15/01	- 1/15/2002	No	\$48.5
	01/01/06	- 02/15/06	No	\$63.0
OKLAHOMA	07/01/84	- 12/31/84	Yes	\$13.9
	08/15/02	- 11/15/02	Yes	n.a.
	09/15/08	- 11/14/08	Yes	\$81.0
OREGON	10/01/09	- 11/19/09	No	n.a.
PENNSYLVANIA	10/13/95	- 01/10/96	Yes	n.a.
	04/26/10	- 06/18/10	Yes	\$261.0
RHODE ISLAND	10/15/86	- 01/12/87	No	\$0.7
	04/15/96	- 06/28/96	Yes	\$7.9
	07/15/06	- 09/30/06	Yes	\$6.5
SOUTH CAROLINA	09/01/85	- 11/30/85	Yes	\$7.1
	10/15/02	- 12/02/02	Yes	\$66.2
SOUTH DAKOTA	04/01/99	- 05/15/99	Yes	\$0.5
TEXAS	02/01/84	- 02/29/84	No	\$0.5
	03/11/04	- 03/31/04	No	n.a.
	06/15/07	- 08/15/07	No	n.a.
VERMONT	05/15/90	- 06/25/90	Yes	\$1.0
	07/20/09	- 08/31/09	n.a.	\$2.2
VIRGINIA	02/01/90	- 03/31/90	Yes	\$32.2
	09/02/03	- 11/03/03	Yes	\$98.3
	10/07/09	- 12/05/09	Yes	\$102.1
WASHINGTON	02/01/11	- 04/30/11	Yes	\$320.7
WEST VIRGINIA	10/01/86	- 12/31/86	Yes	\$15.9
	09/01/04	- 10/31/04	n.a.	\$10.4
WISCONSIN	09/15/85	- 11/22/85	Yes	\$27.3
	06/15/98	- 08/14/98	Yes	\$30.9

Source: *Federation of Tax Administrators*

Michigan Tax Amnesty Application

Issued under authority of Public Act 198 of 2010. Filing is voluntary.

Amnesty will not be granted if this form is not filed. See instructions on Page 2.

PART 1: TAXPAYER IDENTIFICATION (Type or Print)

FOR INDIVIDUALS ONLY	1. Taxpayer Name (Last, First, Middle Initial)		2. Taxpayer's Social Security Number	
	3. Spouse's Name (Last, First, Middle Initial)		4. Spouse's Social Security Number	
	5. Mailing Address (No., Street, P.O. Box) City State ZIP Code			
FOR BUSINESSES ONLY	6. Business Name (DBA)		7. Federal Employer Identification Number (FEIN)	
	8. Business Contact Person	9. Business Title	10. State Where Incorporated	
	11. Mailing Address (No., Street, P.O. Box) City State ZIP Code			

PART 2: TAX PAYMENT DETAIL

If additional space is needed, refer to *Michigan Tax Amnesty Supplemental Schedule (Form 3874)*.

A Tax Type Code	B Assessment Number	C (C)	D Taxable Period (MM/YYYY)	E Amount of Tax Due	F Amount of Interest Due	G Total Tax and Interest Due	H (X)
12.							
13.							
14.							
15.							
16.							
17.							
18.							

19. Enter total of Column G..... **SUBTOTAL** ▶ 19.

▶ 20. Check here if you have continued Part 2 on the *Supplemental Schedule (Form 3874)* and enter the Schedule total here..... ▶ 20.

21. **TOTAL. Add lines 19 and 20. PAY THIS AMOUNT.** ▶ 21.

22. **PAYMENT. TOTAL AMOUNT PAID WITH THIS FORM.** ▶ 22.

23. Check here if you have included a tax return that claims a refund with this amnesty application.

PART 3: CERTIFICATION

I declare under penalty of perjury that I am eligible for amnesty under the conditions listed on page 2 of this form and that the information on this form and any accompanying returns and schedules is, to the best of my knowledge, true, correct and complete.

Signature of Taxpayer or Authorized Business Official	Date	Taxpayer Telephone Number
Taxpayer's Spouse's Signature	Date	
I authorize Treasury to discuss this application with my Tax Preparer: <input type="checkbox"/> Yes <input type="checkbox"/> No	Tax Preparer's Name	Tax Preparer's Telephone Number

Mail the Amnesty application with returns and payment to: Michigan Department of Treasury, Tax Amnesty, P.O. Box 30710, Lansing, MI 48909. For additional information, visit www.mitaxamnesty.com or call toll-free (855) 468-4829.

Instructions for Completing Michigan Tax Amnesty Application (Form 3855)

What is Tax Amnesty?

Tax Amnesty is a program for eligible individual and business taxpayers that allows for a waiver of penalty and/or prosecution for those who pay their tax liabilities, including interest, in full, by June 30, 2011. Amnesty will be in effect from **May 15 through June 30, 2011**. Your complete application, with payment in full, must be received or postmarked by no later than **June 30, 2011**.

Eligibility for Tax Amnesty

Tax Amnesty is available to individuals and businesses who:

- Have tax liabilities for eligible taxes for return periods ending on or before December 31, 2009.
- Have under-reported income or over-reported exemptions, deductions and/or credits.
- Have failed to file Michigan tax returns or are delinquent in paying a past tax due. Eligible tax types include, but are not limited to, the taxes listed below. A complete list of eligible tax types (including all motor fuel types), can be found at www.mitaxamnesty.com.

Individual Income (IIT)
Michigan Business (MBT)
Michigan Business Retaliatory (MBR)
Sales (SAL)
Single Business (SBT)
Use (USE)
Withholding (WTH)

Individuals and businesses are not eligible for tax Amnesty if they are:

- the subject of a current tax-related court case, hearing or criminal investigation.
- eligible to enter into a voluntary disclosure agreement with the state.

How to Apply

Personalized Tax Amnesty Applications

If you received a personalized tax Amnesty application with account-specific information and you are in agreement with the amount listed on line 21, there is no need to complete an additional Amnesty application or submit any tax returns. Submit payment in full along with the personalized tax Amnesty application.

If you feel the amount listed on **line 21 is not correct**, you must submit a tax return (use your current mailing address) with the personalized tax Amnesty application to support your claim. Cross off the incorrect tax and interest due in Part 2 and, if applicable, on the *Supplemental Schedule* (Form 3874), and enter the correct amount for each applicable tax period. Enter the correct total in line 21 and pay that amount.

Blank Tax Amnesty Applications

If you are completing a blank Amnesty application, you must submit the following: (1) Completed Amnesty application (form 3855); (2) Any unfiled tax returns for which you are requesting Amnesty; (3) Amended returns (if applicable); (4) Payment in full; (5) If you are a business taxpayer and the business is not registered, you must complete a *Registration for Michigan Taxes* (Form 518). Form 518 may be found at www.mitaxamnesty.com

PART 1: Taxpayer Identification

Individuals. Enter current information and include both spouse's name and Social Security number for joint returns.

Corporate Officers. If you are an officer of a business and are held personally liable for all or part of the businesses' outstanding taxes due, complete the Amnesty application under "For Individuals Only." Separate Amnesty applications must be submitted for each business in which you are liable.

Businesses. Enter exact business legal name and name of authorized official. Enter the Federal Employer Identification Number (FEDN) or Treasury assigned number (TR or ME prefix).

PART 2: Tax Payment Detail

Complete one line for each tax and each tax year/period (attach Form 3874 if necessary). Print or type your entries.

Column A – Tax Type. Enter the tax type using the code in parenthesis (see "Eligibility for Tax Amnesty"). Refer to www.mitaxamnesty.com for a complete list of eligible tax types.

Column B – Assessment Number. If there is an outstanding assessment, enter the assessment number.

Column C – Computed/Estimated (Treasury Use Only). If designated, the "C" represents a computed or estimated tax by Treasury.

Column D – Taxable Period. For each tax, enter the ending month and year (MM/YYYY) of its taxable period. For example, 2006 Income Tax would be shown as 12/2006. Do not enter tax filing due dates.

Column E – Tax Due. Enter the amount of tax due.

Column F – Interest Due. Enter the amount of interest due. For a list of interest rates, go to www.mitaxamnesty.com.

Column G – Total Tax and Interest Due. Enter the total of tax and interest due for each line (tax period).

Column H – Correction. Enter "X" if you have entered a corrected assessment amount. Print or type your correction.

Line 21 – Pay This Amount. Add lines 19 and 20 and enter the total. This is amount you owe.

Line 22 – Amount Remitted. Enter the amount paid with the Amnesty application.

Line 23 – Refund Return. Check the box provided if any of the returns you have submitted claim a refund.

PART 3: Certification

Review, sign and date the form. Both spouses must sign for joint returns. Authorized officials must sign business returns and indicate their business title. Tax Preparers may be authorized for disclosure.

Submitting Your Amnesty Application & Payment

Along with your complete amnesty application, enclose your check or money order payable to the "State of Michigan" for the total amount of tax and interest due. Write your account number or Social Security Number and the word "Amnesty" on your remittance. Mail the complete Amnesty application and full payment to: Michigan Department of Treasury
Tax Amnesty
P.O. Box 30710
Lansing, MI 48909

NOTE: Amnesty applications and payments must be received or postmarked by no later than June 30, 2011.