

## THE ECONOMY

### Amnesties, Black Money and Taxation

A sum of Rs. 100 million is expected to come into revenue under the Tax Amnesty announced in the Budget Speech on March 16, 1989. The amnesty came into effect from April 1, 1989 and all individuals and business establishments hoping to avail of this concession are expected to do so by June 30, 1989. This will be the fifth such Tax Amnesty being offered locally by a Minister of Finance since 1964.

There are policy makers and revenue officials who support such amnesties on the grounds that they help the government to collect revenues that it may not get under normal conditions and also they give those outside the tax net an opportunity to come into the tax stream. They also argue that this is a means of bringing hidden assets into the open for investment and mobilising such funds for production. There are also strong views against the grant of amnesties and many countries have progressively reduced the concessions available to such tax payers. In Australia, for instance, a recent amnesty required that such persons pay all their taxes and they were permitted exemption only from penalties.

In Sri Lanka there have been four tax amnesties prior to the current one; the first such amnesty being offered by the Coalition Government in 1964 when Dr. N.M. Perera was Finance Minister. The limited time available did not permit this amnesty to have the desired effect, and a second amnesty which was in fact a continuation of the first was offered by the UNP Government's Minister of Finance Mr. U.B. Wanninayake in 1965. Unlike the first amnesty where the period was inadequate and those with undisclosed incomes did not cooperate for it to have the desired effect, and only Rs. 20 million of undisclosed income was declared; in the case of the second amnesty as much as Rs. 138 million was declared. The third amnesty offered by the United Front Government's Finance Minister Dr. N.M. Perera was a Demonetization Amnesty and a sum of Rs. 6,181,006 was declared. (See Table). Connected with this amnesty were also a Foreign Exchange Amnesty granted in 1971 and a Gem Amnesty in 1973.

The fourth amnesty was offered in 1979 where tax payers who came under this amnesty were required to deposit their previously undisclosed incomes in cash, in special accounts at the National

Savings Bank. These tax payers had to pay a 30 percent tax and were allowed to invest the balance 70 percent in any of four specified areas. The current amnesty is similar in that 20 percent will be taken as tax and the balance 80 percent will be held in deposit at the National Savings Bank, and may be withdrawn for specified investment purposes.

The Taxation Commission of 1968 had made the specific recommendation that no further tax amnesties should be offered in future by governments in Sri Lanka. The Commission argued that if in any country amnesties continued to be offered, dishonest tax payers would wait for such amnesties, and not declare their true and correct incomes and pay their taxes when due. Countering this view others maintain that no tax administration, however efficient, could eradicate tax evasion, and measures have to be found to bring out 'black money.'

Most informed persons are aware that there exists a sizeable "Black Economy" in this country; though it is not possible to make an accurate assessment of such amounts, when they are not declared and remain undisclosed. The Black

#### TAX AMNESTY DECLARATIONS

Amnesty	Year	Declared Undisclosed Income Rs. Mn.	Taxes Paid Rs. Mn.
First	1964	20	6.8
Second	1965	138	46.0
Third	1970	61	2.6
Fourth	1979	-	-
Fifth	1989	-	100.0

Economy, however, is not a new phenomenon in Sri Lanka. Furthermore, economists maintain that its size and the magnitude of its transactions appear to have recorded a significant increase in the past ten years. They argue that under the liberalised economy, there was far greater scope for the amassing of such incomes and earnings from illegal transactions which could not be declared for tax purposes.

Bribery and pay-offs, smuggling and gem business, unauthorised commissions,

racing and gambling, narcotics, unrecorded earnings of professionals, underdeclarations of value in real estate and other business transactions and speculative deals of various sorts represent some of more important sources of 'black money'. A small portion of such black money has been mobilised by the commercial banks into anonymously held Certificates of Deposit (CDs), the volume of which has risen by more than eight-fold since 1982 to reach a level of about Rs. 3 billion by 1988.

The estimates of a leading economist in 1987 placed the annual flow of black money at around Rs. 10 billion or 10 percent of the GNP or nearly 25 percent of total government revenue. This estimate also maintained that about 50 percent of such black money came from the gem trade, while the balance 50 percent was from narcotics, commissions, bribes and unauthorised payments and domestic agriculture. This economist also argued that if such monies were taxed at 20 percent they would yield a further amount of at least Rs. 2 billion. However, any estimates have to be made on the premise that the bulk of these monies would be declared when an amnesty is announced.

Whatever its magnitude, the available evidence indicates the existence of a sizeable stock of resources which fail to enter the mainstream economic activity. Moreover, the existence of such a black economy has important implications for macro economic policies, as black money lies outside the regulation of budgetary or monetary policy, rendering demand management difficult. Furthermore, these incomes tend to be highly consumption-oriented exerting an inflationary pressure on the economy.

The Hon. Minister hopes to raise at least Rs. 100 million through the tax amnesty. A tax consultant writing in the daily press stated "having regard to the figure of black money in circulation (discussed in the article) it should not be difficult to realise the amount anticipated in the budget. However, another analyst argued while a tax of 20 percent is to be levied on this money, when it is declared, there is only a 3 percent tax on Cash Deposit Certificates (CDCs). He questions why a person should pay 17 percent more in this case, when there is no difference between the amnesty black money and the CDC white money.