

Taxes - no, amnesty – placet!

Financial crisis pushed the world economy to a great slowdown sharply decreasing the availability of funding and rising the level of costs. Difficulties in raising money to cushion the downturn for the economy have recently led Italian parliament to argue in favor of tax amnesty law. Kazakhstan had two amnesties for its history (in 2001, 2006). But unlike Italy, where the enforcement of the law had one of the most positive outcomes, either time the actual amount repatriated substantially underperformed the preliminary estimates.

The amnesty rules vary from country to country. Yet the evident weak point of the plan is as well as the economic uncertainty of the result the moral aspect of the program: good tax payers are knowingly permitted to a disadvantaged position by the State. In the alternative option between morality and the money government picks out the latter.

One of the reasons to carry out the amnesty law for Kazakhstan was to attract money into production segment of the economy. But in fact to boost the real sector that time much more funding was needed. The other issue for the country was the possible outflow of just legalized capital back to offshore zones. Thus situated the benefits of amnesty for Kazakhstan adds up to minimum. Bearing in mind above mentioned, the government should have better applied not the world “generally recognized” principles of the amnesty, but did it the other way. The way I see this law could have been carried into effect. For Kazakhstan tax amnesty is no more issue of the day however for the countries which are still going to face the process it still may be of current interest. Here is the alternative scheme which could have been implemented.



Government issues tax amnesty long-term bonds (say for 10 years) with the attributable to these kind of instruments interest (e.g. Coupon of Italy Buoni Poliennali Del Tesoro = 5.25%), minus small discount (say 1%). The discount is the honest penalty for tax evasion allowed by the taxpayers. Thus the two issues are resolved: the State raises money for the long term in a volume materially larger than it would have raised adhering to “general” amnesty practice. Consequently government is armed with considerably more cash base to inject into the economy. The alternative scheme is straightforward, the moral aspect of amnesty is eased, tax dodged funds are in service of government and work for the benefit of the State. Tax payers in its turn come clean by getting government bonds on all the legalized capital (100%) which could be sold for cash later at their discretion. The point is that the State earns money not the size of tax amnesty rate (e.g. 5%) but the whole legalized amount demanded (all 100%) for reasonable costs.

This alternative scheme if enforced would allow the country to have a unique experience of raising equity and funding for the country, the experience opportune in time of global recession.

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