Do Tax Audits Deter CIT Non-Compliance? Evidence from administrative data[1]

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ABSTRACT

What is the impact of risk-targeted tax audits on corporate income tax (CIT) filers' future reporting behaviour? Do diverse types of examinations lead to different results in terms of their deterrence power? To the best of our knowledge, this is the first paper framed in the developing world addressing these research questions. By using a unique tax administrative dataset including the universe of anonymised CIT and VAT tax declarations for the period 2011-2018, the universe of anonymised risk-based audits across four audit waves and detailed information on the risk rules, criteria and risk weighting scheme employed by the Rwanda Revenue Agency to select tax returns for audit and by means of a matched-Difference-In-Difference methodology we find evidence of significant pro-deterrence effect on CIT reporting one year after audit. The average aggregate effect estimated across different matching approaches corresponds to an increase of 20.7% (12.3%) in income (CIT) reported by audited taxpayers the year after receiving the audit. The effect is lower in magnitude when time passes but not statistically significant and it is completely driven by the change in behaviour of audited taxpayers determined uncompliant. Our results suggest that the type of audit matters. Comprehensive audits drive the aggregate pro-deterrence result with an average increase of 28.5% (24.6%) in income (CIT) reported by audited taxpayers after receiving this type of audit. Desk-based audits tend to have a non-significant effect the first year after the audit and start to have a counter-deterrent effect after the second year leading to a reduction of 23.5% (9.5%) in income (CIT) reported by taxpayers that experienced these kind of audit.

Keywords: Tax Audit Evaluation, Tax Administration, Tax Evasion, Compliance, Taxation, Public Finance

JEL Classification: H26, H30, H32, H83, D78

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DISCLAIMERS: The interpretations and conclusions expressed in this paper does not necessarily represent the views of the RRA and its Management. The other usual disclaimers apply.

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[1] We are waiting clearance from the Rwanda Revenue Agency to submit the full paper to the conference, we hope you can consider abstracts at this stage.

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