



PROJECT BRIEFING

Overview

This project set out to explore the links between the risk-based audit strategies and taxpayers' compliance, when taxpayers differ in earning abilities, attitudes to risk, and opportunities to evade tax.

In addition it investigated the role of information transmission and the formation of social custom of tax compliance in social networks.

Risk-based Auditing and Taxpayers Compliance

Challenge

The main objectives of the research were:

- To assess the extent of the advantage of risk-based audits over random audits, in terms of raising revenue and reducing non-compliance
- To explore the interaction between occupational choice and individual tax evasion decisions
- To investigate the dynamics of compliance in different occupational groups and its implications for the choice of audit strategy.

Analysis

A combination of a theoretical model and agent-based computer simulations was used. Assumptions made were:

- Individual beliefs about the probability of being audited evolves based on own experience and on the information about experience of others
- Individual attitudes to tax compliance evolves based on the perceived extent of compliance of others
- Information exchange and social pressure are stronger when individuals belong to the same social network.

Research Outcomes

- The less risk-averse taxpayers tend to self-select in the occupations where tax evasion is possible
- The average compliance rates and the preference for compliance for different occupations tend to significantly different levels, with the lowest compliance rate and the weakest preference for compliance among taxpayers in the riskiest (with the least certain income) occupation
- The fully risk-based strategy generated the highest level of revenue and led to the highest average compliance rates
- The revenue and compliance rates are very similar for the fully risk-based audits targeting either the most likely evaders or the largest evaders

The potential impact of this project is in the improvement of the efficiency of tax audits of a tax authority, both in recovering unpaid tax and in generating higher compliance in the society.

Find out more:

Nigar Hashimzade, University of Durham: Nigar.Hashimzade@durham.ac.uk

Matthew Rablen, University of Sheffield: m.rablen@sheffield.ac.uk

Gareth Myles (former Director of TARC), University of Adelaide:
gareth.myles@adelaide.edu.au