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Juan P. Mendoza, Jacco L. Wielhouwer, Erich Kirchler

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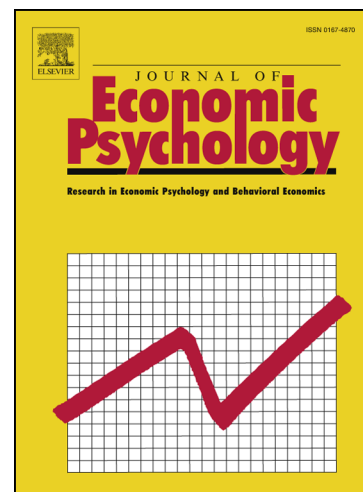
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The backfiring effect of auditing on tax compliance

Juan P. Mendoza^{a,*}, Jacco L. Wielhouwer^a, Erich Kirchler^b

^a*Department of Accounting, VU Amsterdam, The Netherlands*

^b*Faculty of Psychology, University of Vienna, Austria*

Abstract

Using country-level data from 2003–2014, we examine the association between auditing level (measured as number of verification actions taken by tax authorities per 100 taxpayers in each country) and tax compliance (measured as business executives' perception of tax evasion). Our hypothesis is that compliance increases until a certain auditing level is reached, and decreases beyond that level (i.e., an elevated auditing level backfires). In line with our expectation, the results of a series of tests indicate that there is a U-shaped association between auditing and tax evasion. We discuss how a potential backfiring effect may depend on the extent to which compliance is voluntary.

PsycINFO classification: 4270

JEL classification: H26, H3, H87, K42

Keywords: Tax compliance, Auditing, Tax enforcement

*Corresponding author.

E-mail addresses: j.mendozarodriguez@vu.nl (J.P. Mendoza), j.l.wielhouwer@vu.nl (J.L. Wielhouwer), erich.kirchler@univie.ac.at (E. Kirchler).

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