The Effects of Random Audits on Firms

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Abstract

We analyse the impact of tax enforcement on firms using data from random audits implemented in Finland in 2014-2016. We combine information on timing, content and results of audits to detailed register data on firm performance and analyse the development of firm performance following an audit. Mechanical (direct) effects of audits are a signal of non-compliance, while dynamic effects of audits in subsequent years are a signal of strategic responses of firms to tax enforcement. We find that firms respond to audits by adjusting their tax-deductible expenditures. There is an increase in taxable income and corporate taxes paid also in the year following an audit.

Keywords: random audits, firm performance, tax compliance
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