

Enhancing Tax Management: the Impact of Tax Audits on Taxpayer Behavior

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Abstract: This article explores the impact of tax audits on taxpayer behavior by examining both foreign experiences and domestic practices in Uzbekistan. It investigates the efficiency of tax audits over several years, revealing how such audits influence taxpayer activities. The analysis integrates theoretical insights and empirical data, aiming to enhance understanding of audit effects and improve tax management strategies. The findings suggest that audit efficiency plays a critical role in shaping compliance and taxpayer attitudes towards tax obligations.

Keywords: tax, tax audit, tax audit, audit efficiency, tax management.

Introduction

Taxation is a fundamental aspect of modern societies, serving as a primary source of revenue for governments to finance public services and infrastructure. However, the relationship between taxpayers and tax authorities is often characterized by complexity and occasional tension. Tax audits, in particular, represent a crucial mechanism through which governments enforce tax compliance and ensure the integrity of their tax systems.

The impact of tax audits on taxpayer behavior is a topic of significant interest and importance to policymakers, tax administrators, scholars, and taxpayers themselves. Understanding how audits influence taxpayer behavior can inform the design and implementation of more effective tax management strategies, ultimately leading to improved compliance, enhanced revenue collection, and a fairer tax system.

This paper aims to explore the multifaceted relationship between tax audits and taxpayer behavior. It will examine the theoretical underpinnings of taxpayer compliance, the various factors influencing taxpayer decisions, and the specific mechanisms through which tax audits affect taxpayer behavior. Additionally, the paper will review empirical evidence from existing research studies to provide insights into the real-world impact of tax audits on taxpayer compliance, deterrence, evasion, and overall tax morale.

By shedding light on the dynamics of tax audits and taxpayer behavior, this paper seeks to contribute to the ongoing discourse on tax policy, administration, and compliance. Ultimately, it aims to offer valuable insights and recommendations for enhancing tax management practices and fostering a more cooperative relationship between taxpayers and tax authorities.

1. Literature review.

The frequency of tax audits significantly impacts taxpayer compliance and behavior. Research shows that audits lead to increased tax compliance for several years post-audit, especially for individuals with more stable income sources [1]. Moreover, the effectiveness of audits, measured by the share of undeclared income detected, plays a crucial role in determining post-audit compliance levels [2] [3]. Interestingly, compliant taxpayers exhibit the strongest response to audits, indicating a nuanced relationship between audit frequency and taxpayer behavior [4]. Additionally, a study focusing on small and medium-sized enterprises in Kenya found that tax audits have a positive influence on tax compliance, emphasizing the importance of structuring audits systematically to enhance compliance among SMEs [5]. Overall, these findings underscore the complex interplay between audit frequency, effectiveness, and taxpayer compliance.

Tax audits have significant long-term effects on small business owners' tax planning strategies. Research shows that audits lead to increased reported tax liabilities for up to five years post-audit, particularly affecting those with stable income sources [6]. Audited firms, especially those underreporting taxes, are more likely to go out of business, with adverse effects on future revenues but no impact on wages, employment, or investment for surviving firms [7] [8]. Interestingly, audits also prompt firms to make changes to enhance tax efficiency, indicating potential side benefits [9]. Moreover, audit quality positively correlates with tax aggressiveness, suggesting auditors play a role in tax planning services rather than curbing tax aggressiveness [10]. These findings emphasize the lasting impact of tax audits on small businesses' tax strategies.

The threat of tax audits can indeed influence taxpayers' perception of the fairness of the tax system. Research indicates that audits not only raise reported tax liabilities for several years post-audit but also reveal information that constrains future misreporting, thus enhancing compliance behavior [11]. Moreover, credible personalized communications like threat-of-audit letters (TALs) can impact taxpayers' behavior by targeting specific areas of cost manipulation, ultimately leading to a positive effect on taxable income [12]. Additionally, taxpayers' perceptions of fairness dimensions, such as general fairness, tax rate structure, exchange with the government, and self-interest, significantly influence compliance behavior, highlighting the importance of a fair tax administration system in fostering taxpayer compliance [13, 14].

2. Research methodology.

Analysis, synthesis, induction and deduction methods were used to determine the results of tax audits. Conclusions were formed by studying foreign sources and relying on bibliographic research methods.

We will continue the research on the effectiveness of the audit and refer to the results of tax audits in our country below.

Moreover, according research [15,16,17], ineffective audits contribute to the deterrent effect of tax audits identified in some previous studies. In addition, relationship between audit performance and the analysis of optimal tax administration shows that a comprehensive analysis of the audit strategy for increasing revenue can reveal the behavioral responses to audit performance, as well as the appropriate and appropriate requires recognition of the different responses of absentee taxpayers[18,19,20].

In our view, previous work on the inherent deterrent effect of tax audits does not account for audit effectiveness. These studies typically used administrative data to analyze the aggregate response of audited taxpayers. Overall, these studies show that compliance has a positive effect on post-audit tax compliance.

However, it remains unclear whether the perceived risk for future audits is influenced by audit outcomes or whether the trend toward recovery of past losses applies to individuals found to be noncompliant. For example, some studies show that the decline in reported income after an audit cannot be explained by loss recovery motives alone, as compliant individuals report lower income even after an audit [21,22,23].

The above studies suggest different approaches to responses to tax audits, but remain largely theoretical without revealing the actual mechanisms that drive these responses. The results show that compliance behavior does not always conform to the assumptions of standard and behavioral

models of tax evasion, as the effect of an audit on post-audit tax compliance depends on the effectiveness of the audit, as well as the taxpayer's prior taxation. In our opinion, tax audits do not have a positive effect on total post-audit tax legislation. Instead, we find that the inherent deterrent effect of tax audits is strongly related to audit effectiveness.

3. Analysis and results.

Looking at the research, all the conclusions emphasize that the importance of tax audits and audit effectiveness is also effective for taxpayers. But in our society, like all countries, cases of non-fulfilment of tax obligations by taxpayers are constantly observed. Table 1 below analyzes data on tax audits conducted in our country in 2016-2021.

Table 1¹

Analysis of the dynamics of changes in tax audits conducted in the Republic of Uzbekistan in 2016-2021 , billion .

Years	Total inspections was conducted	The amount of additional taxes and fees	Applicable financial sanctions quantity	Inspections as a result levied sums
2016	18 624	890.8	457.5	693.2
2017	15 130	767.2	352.6	469.7
2018	6,998	809.4	487.2	236.6
2019	5 356	906.4	402.0	178.6
2020	12 423	1 385.2	1 620.5	137.5
2021	33 337	2 893.9	2 535.3	687.0

Table 1 shows data on tax audits conducted in 2016-2021. In 2016, 18,624 tax audits were conducted, while in 2021, this figure is 33,337, which means that the number of tax audits has increased by 14,713. Also, it can be seen that in 2016, 5,637 tax audits and 5,664 in 2017 were conducted at the initiative of tax authorities, while in 2018-2020 they were equal to 0, and in 2021 they were conducted 139 times. The reason is that by the Decree of the President of the Republic of Uzbekistan No. [PF-5308 dated January 22, 2018](#), a 3-year moratorium was announced on the planned audit of financial and economic activities, that is, the planned audit (do not confuse with the audit on criminal cases).

Taxpayers with the highest risk determined as a result of cameral tax audits are assigned a tax audit. We would like to draw your attention to the information on the results of the tax control measures carried out in 2021 by the state tax service authorities (Table 2).

Table 2 provides information on the results of tax control measures conducted by the state tax service authorities during the year 2021, and the total number of enterprises with discrepancies was 10,387. During the conducted inspections, 10,242 camera tax inspections and 145 tax audits were carried out, and a deficit of 3140.0 bln.com was revealed.

At the end of the control measures, the total amount of risk identified during the inspection was 1973.0 bln.com, of which 1265.2 bln.com was calculated according to the segment analysis, and 707.9 bln. established bln.com.

We can see that 1,216.4 bln. com of the sums found in the difference were determined as a result of camera tax inspections, and 756.7 bln. com were determined during the tax audit.

4. Conclusions and suggestions.

The opinions of the above studies and the analyzes carried out in our country show that the tax audits conducted by the tax authorities have decreased over the years, but the results of the tax audits conducted on the basis of the newly introduced tax audits will be known after the next 2 years. Also, increasing the capacity of tax audits to detect non-compliance and improving the targeting of non-

¹Formed by the authors.

compliant taxpayers are also crucial in establishing and sustaining non-compliance. Furthermore, we did not support the hypothesis that audits affect taxpayers' compliance motivations.

Because taxpayers who have passed the tax audit can consider that they can understand the deficiencies identified by the tax authority and the tax violations that occurred as a result of not fulfilling the tax obligations only during the audit. But today, if the sources analyzed in the table above show that tax payers committed tax violations and law violations even during the period of 2018-2020, when tax authorities imposed a moratorium on tax audits, they should accept these tax audits as beneficial for them.

It is also necessary to pay attention to the effectiveness of the audit. In order for taxpayers not to face deficiencies identified only during tax control activities with tax authorities, it is appropriate for them to undergo audits and tax monitoring on their own initiative, which will have an effective effect on their activities, identify deficiencies in time and have a positive effect on maintaining the status of an honest taxpayer.

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