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# The Effects of Auditing Announcements on Tax Fraud

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## Abstract

In the Netherlands, the tax authorities announce at the beginning of the tax-filing period a specific component in tax reports which will receive special attention when auditing. Theoretical models predict that rational taxpayers will reduce misreporting on these components in response to stricter auditing. We use detailed administrative data from the Dutch tax authorities (Belastingdienst) to detect unusual patterns in tax reports due to two announcements. We find increased declarations of secondary income and freelance income not subject to third-party reporting. We also observe patterns in property and residual assets declarations which presuppose that increases are not always directly visible on the tax item targeted by the announcement but reveal themselves in other overlapping topics. The substitution patterns suggest that taxpayers try to reduce their declarations in the announcement related topic whenever possible and declare previously underreported income and wealth across other topics in an effort to minimize their tax burden. When shifting declarations to other sections is not possible, taxpayers increase their declarations in the topic targeted by the auditing announcement.

**Keywords:** Empirics

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