Investigating the Effect of Service Messages on Noncompliant Taxpayers' Reactions to Imperfect Audits

Accounting professor Mary Marshall, along with her research team, undertook a comprehensive study aimed at improving interactions between the Internal Revenue Service (IRS) and taxpayers who have encountered imperfect audits. The research, involving 802 U.S. taxpayers, delved into an often overlooked aspect: understanding how taxpayers react when audits fail to detect noncompliance, known as imperfect audits. Marshall notes that this scenario is increasingly common due to the IRS's well-known budget constraints and the imperative for technological upgrades.

The study uncovered a significant finding – taxpayers subjected to imperfect audits are less likely to comply in subsequent tax years. "The easiest solution is to better fund the IRS and reduce the incidence of imperfect audits, but we wanted to find a more pragmatic, cost-effective solution," says Marshall. Their experiment incorporated a service message reminding taxpayers of their rights and the IRS mission.

Results were promising. Taxpayers who received the service message showed a positive response, demonstrating no decrease in compliance even when aware that the IRS had not detected all discrepancies during the audit. Intriguingly, the study also revealed that the service message increased compliance among taxpayers who were not audited.

In essence, the research not only underscores the challenges presented by imperfect audits but also introduces innovative, budget-friendly strategies to enhance compliance. These insights carry valuable implications for shaping effective tax policy and administration.

“It is always rewarding to help regulators solve real problems. We were excited and honored to present the results directly to the IRS at their annual Research Conference,” added Marshall.

The research team also included Nina Collum, Senior Instructor at Louisiana Tech University, and Susan Jurney, Professor at Oklahoma City University.