Title: Notching Really Matters: Effect of Third-party Audit on Tax Compliance of Firms

Speaker: Bhanu Gupta, Ashoka University

Area: ESS

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Abstract:

Do third-party auditors act as watchdogs of tax administration or do they help firms misreport taxes? We answer this question by examining firms response to audit notches—defined as discontinuities in audit requirement—and exogenous policy-induced changes in notches. Using Indian administrative panel data, we develop a novel empirical framework that considers dynamic responses of a firm to notch and conduct a difference-in-differences analysis. Our estimates suggest that firms remit 20 percent higher taxes and report 16 percent higher taxable income, because of third-party audits. Using these estimates, we conclude that the policy is cost-effective and raises net social benefit.

Speaker Profile:



Bhanu Gupta is an Assistant Professor of Economics at Ashoka University. His research interests span the fields of public economics, development economics and education.

He completed his doctorate in economics from the University of Michigan, Ann Arbor in 2020. In his dissertation, he analyzes the effect of third-party audits on tax compliance of Indian firms using administrative data. His other work explores behavioral and political economy factors that distort

investments in human capital formation and social protection. Currently, his research focusses on identifying the fiscal benefits and costs that are associated with an individual's choice of schooling. The other strand of his research focusses on improving tax compliance by reducing evasion under the goods and services tax.

Before his doctoral studies, Bhanu completed his masters in economics from Delhi School of Economics and undergraduate studies from the University of Delhi. He has also worked as a research associate at the Indian Statistical Institute – Delhi.

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