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The Impact of Audit Coverage Ratio on Tax Compliance: A Systematic Mapping of Global Evidence

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This systematic literature review deconstructs the complex relationship between Audit Coverage Ratios (ACR) and tax compliance by synthesizing global evidence from 27 empirical and theoretical studies (2015–2025). The findings demonstrate that the classical "deterrence model" is insufficient for the modern fiscal landscape, as audit effectiveness is fundamentally non-linear and context-dependent. In emerging economies, increasing the ACR serves as a necessary baseline constraint; however, in low-trust or high-corruption jurisdictions, enforcement yields diminishing returns as lack of state legitimacy neutralizes moral obligation. The study identifies a "Dimensional Trap" among SMEs, where size-dependent enforcement incentivizes strategic stagnation to evade detection. Theoretically, this review supports a migration from the Allingham-Sandmo model toward the Slippery Slope Framework, while introducing "automated compliance" via digital architectures like e-invoicing. Policy implications suggest a shift from random to risk-based audits and the adoption of hybrid strategies that balance credible threats with procedural fairness. Ultimately, sustainable revenue mobilization requires tax authorities to sharpen enforcement with data while softening it with legitimacy to prevent "crowding out" intrinsic tax morale. Future research should address the long-term impact of AI-driven algorithmic enforcement on taxpayer trust.

Keywords: Tax Compliance, Audit Coverage Ratio, Dimensional Trap, Tax Morale, Slippery Slope Framework

Introduction

In the contemporary era of fiscal management, tax administrations globally are navigating a profound resource paradox. As the global economy increases in complexity—driven by the proliferation of crypto-assets, the gig economy, and sophisticated cross-border profit-shifting—the demand for oversight has reached an all-time high (OECD, 2023). However, traditional enforcement budgets and staffing levels often remain stagnant or in decline. According to the OECD (2023), tax authorities in both advanced and emerging economies are under intense pressure to reduce operating costs while simultaneously closing the tax gap. This tension has necessitated a strategic transition from manual, random audit selection to technology-driven, risk-based coverage, utilizing artificial intelligence and predictive algorithms to optimize the effective audit

coverage ratio (IRS, 2023; IMF, 2023).

The efficacy of these audit practices, however, cannot be understood through a purely logistical lens. Historically, the academic consensus was rooted in the economic deterrence model proposed by Allingham and Sandmo (1972), which posits that taxpayers are rational agents who maximize utility by weighing the financial benefits of evasion against the probability of detection and subsequent penalties. While this model established the foundational role of audits as a deterrent, it has been critiqued for failing to account for the psychological and social nuances of human behavior (Hashimzade et al., 2012).

Modern research has evolved toward more integrated models, most notably the Slippery Slope Framework (Kirchler et al., 2014). This framework suggests that compliance is driven by two distinct dimensions: the power of the authority, which leads to enforced compliance, and the trust in the authority, which fosters voluntary cooperation (Muehlbacher et al., 2011; Batrancea et al., 2022).

A critical challenge in current tax policy is the differential impact of these audit mechanisms across taxpayer segments. Empirical evidence suggests that individual taxpayers and Small-to-Medium Enterprises (SMEs) respond to the threat of an audit in fundamentally different ways. For individuals, audits often function as a scarecrow, significantly increasing post-audit compliance through a heightened perception of detection risk (Bergolo et al., 2023; Hebous et al., 2023). Conversely, SMEs often engage in more complex gamesmanship, responding to audits with strategic adjustments such as increased tax planning or intrafirm transactions to minimize future liabilities (Li & Wang, 2025; Phillips, 2014). Furthermore, for small businesses, the administrative burden of an audit can threaten business continuity, creating a delicate balance between enforcement and economic survival (Belnap et al., 2022).

Despite the proliferation of digital tools—such as the UK’s Connect system or AI-driven risk scoring—the interaction between technology, institutional quality, and taxpayer morale remains inconsistent in the global literature. While technology acts as a "force multiplier" for enforcement, its impact on trust and voluntary morale is less clear (Quijano-Cabezas et al., 2025). There remains a significant gap in systematic evidence that maps how variations in the Audit Coverage Ratio (ACR) influence the shift from enforced to voluntary compliance across different institutional contexts.

This paper seeks to address these gaps by conducting a systematic mapping of global evidence regarding the impact of ACR on tax compliance. Specifically, this study explores:

1. How ACR variations influence voluntary compliance across jurisdictions.
2. The disparate deterrent effects between individuals and SMEs.
3. The moderating role of institutional trust and quality.
4. The conceptual distinction between enforced and voluntary compliance in a high-coverage environment.

Research Method

This systematic literature review (SLR) adheres to the **PRISMA (Preferred Reporting Items for Systematic Reviews and Meta-Analyses)** guidelines to ensure transparency, reproducibility, and rigorous selection of evidence. The primary objective is to map global evidence regarding the impact of audit coverage ratios on tax compliance, with specific focus on taxpayer heterogeneity, institutional trust, and voluntary compliance (tax morale).

2.1 Search Strategy

A comprehensive search was conducted using the **Scopus** database, selected for its extensive coverage of high-impact journals in economics, finance, and social sciences. The search strategy employed a Boolean logic string designed to capture the intersection of three key concepts: (1) Audit enforcement (intervention), (2) Compliance behavior (outcome), and (3) The fiscal context.

The specific search string used was:

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TITLE-ABS-KEY ( ( "audit coverage" OR "audit probability" OR "audit rate" OR "audit frequency" OR "detection risk" OR "enforcement likelihood" OR "audit intensity" ) AND ( "tax compliance" OR "tax evasion" OR "tax avoidance" OR "tax morale" OR "voluntary compliance" OR "taxpayer behavior*" OR "tax honesty" ) AND ( "tax*" OR "fiscal" OR "revenue" ) )
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2.2 Inclusion and Exclusion Criteria

To ensure the quality and accessibility of the reviewed literature, the following inclusion criteria were applied sequentially:

- **Document Type:** Limited to "Article" to focus on original, peer-reviewed empirical research. Conference papers, book chapters, and review notes were excluded to maintain methodological rigor.
- **Language:** Limited to "English" to ensure coherent synthesis and analysis.
- **Access:** Limited to "Open Access" to ensure full-text availability for detailed data extraction.

2.3 Selection Process

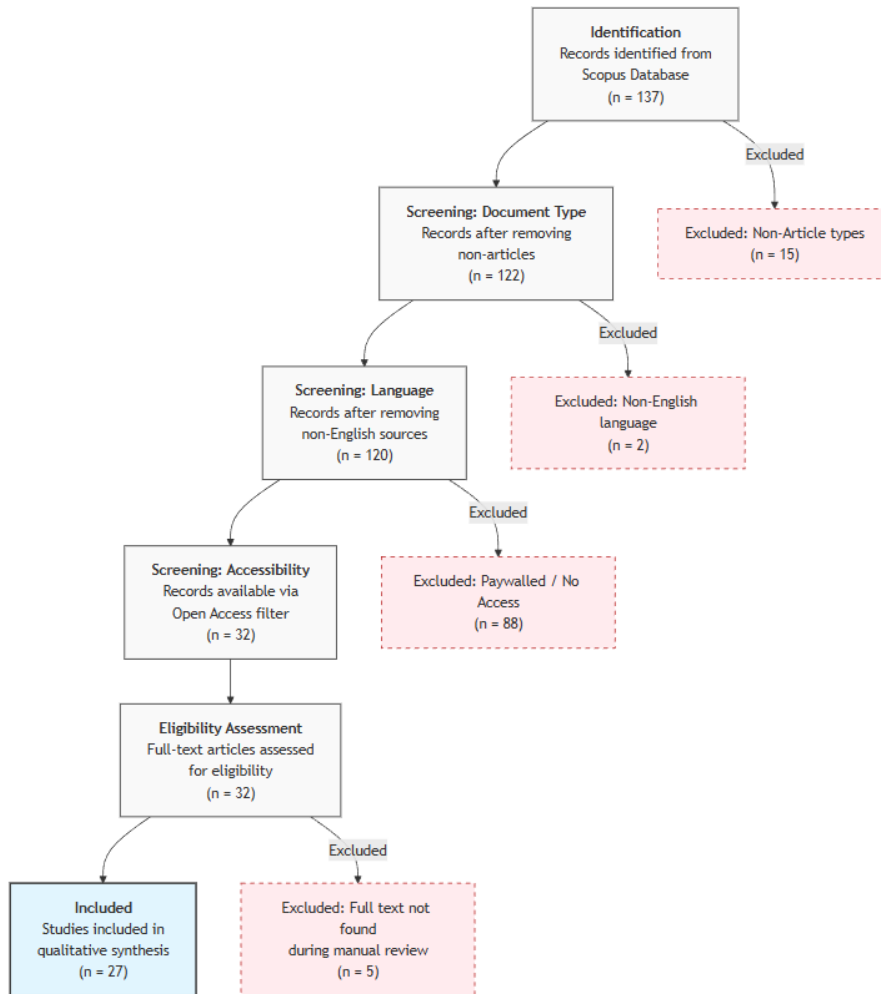
The initial search yielded **137** documents. Filters were applied sequentially: excluding non-article document types reduced the pool to **122**; restricting to English language left **120**; and applying the Open Access filter resulted in **32** potentially eligible articles.

A manual full-text review of these 32 articles was conducted to verify accessibility and relevance to the research questions. During this stage, **5** articles were excluded as they were found to be inaccessible (false positives for open access) or lacked full-text availability. The final sample consisted of **27** articles included for qualitative synthesis.

Result and Discussion

The selection process is illustrated in the PRISMA flow diagram below (Figure 1).

Figure 1. PRISMA Flow Diagram of the Literature Selection Process



3.1 Distribution of Selected Studies

The final set of **27 articles** represents a focused collection of high-quality, accessible global evidence. The rigorous filtering for Open Access ensures that the findings discussed in this review are verifiable and widely available to the academic community. The high exclusion rate at the "Access" stage (n=88 removed) highlights the barrier to information in this specific niche, reinforcing the value of this open-access systematic review.

The selected articles were subsequently categorized based on the four research questions: General Impact (RQ1), Taxpayer Heterogeneity (RQ2), Institutional Context (RQ3), and Tax Morale (RQ4).

3.2 Matrix Synthesis

This section systematically maps the 27 empirical and theoretical studies included in this review. Table 1 synthesizes the articles by their methodological approach, geographical scope, and primary findings relative to the research questions (deterrence, SME behavior, and institutional factors).

Table 1: Comprehensive Synthesis of Global Evidence on Tax Compliance

Study	Jurisdiction	Methodology	Sample / Target	Key Finding / Impact
(Al-Asfour & Abu Saleem, 2023)	Jordan	Survey	Individual Taxpayers	Moral motivations and trust in the state are critical; audit probability is significant but secondary to ethics.
(Chan et al., 2023)	Indonesia	Quasi-Natural Exp.	High Wealth Individuals	Specialized tax offices increased reporting for the wealthy, but effects diminished over time (short-lived).
(Coppier et al., 2025)	Italy (Theoretical)	Dynamic Model	SMEs vs. Large Firms	Identifies a "dimensional trap": SMEs avoid growth to escape the higher audit probabilities of large firms.
(Gamannossi degl'Innocenti & Rablen, 2017)	UK / General	Theoretical Model	Taxpayers	Taxpayers "bracket" decisions; increased audits reduce avoidance but can paradoxically increase evasion in low-probability ranges.
(Hartl et al., 2015)	Austria	Lab Experiment	Students	The description of authority power (legitimate vs. coercive) changes compliance more than the objective fine rate.
(Hashimzade & Myles, 2017)	General	Agent-Based Sim.	Self-employed	Predictive analytics and risk-based audits are superior to random audits; social customs drive the indirect effects.
(Huang & Gao, 2022)	China	Archival Data	Suppliers (Listed Firms)	Geographic distance from customers increases information asymmetry, leading to higher tax avoidance.

(Irawan & Utama, 2021)	International (47 Countries)	Panel Regression	National Level	Audit intensity is statistically insignificant when corruption perception is high; institutional quality dominates.
(Jin et al., 2023)	China	Multi-agent Sim.	Digital Platform Sellers	High-quality platform data sharing effectively constrains evasion in the digital economy.
(Kasper & Rablen, 2023)	Austria	Lab Experiment	Individual Taxpayers	Exogenous audits cause a "bomb-crater" compliance drop; endogenous (risk-based) audits induce learning and higher compliance.
(Kirchler et al., 2014b)	Netherlands	Lab Experiment	Students	Enhanced anonymity does not change compliance rates, validating standard experimental designs against social desirability bias.
(Kogler et al., 2022)	General	Process Tracing (Eye-tracking)	Students	Compliers and evaders process information differently; evaders fixate on audit probability, compliers on tax due.
(Laine et al., 2020)	USA	Online Experiment	General Public	Strong financial incentives allow individuals to overcome their "aversion to lying" in tax declarations.
(Lefebvre et al., 2015)	Belgium/France/NL	Lab Experiment	General Public	Social information is asymmetric: knowing others evade hurts compliance, but knowing others comply does not help.
(Lisi, 2023)	Italy	Theoretical Model	Firms	Combining audits with tax rewards (carrots) creates better labor market outcomes than audits alone.
(Mazzolini et al., 2022)	Italy	Admin. Data (Diff-in-Diff)	Self-employed	Operational audits have a lasting positive effect on income reporting, but only if the audit results in a positive assessment.

(Mendoza & Wielhouwer, 2015)	General	Game Theory	Firms	Trust-based regulation (low audit probability) works only if backed by severe penalties for breach of trust.
(Muehlbacher et al., 2023)	Austria	Lab Experiment	Students	"Tax framing" (using tax language) elicits higher compliance than neutral gambling frames, challenging neutral economic models.
(Nguyen et al., 2020)	Vietnam	Mixed Methods	200 Firms	Audit probability and sanction severity are the strongest drivers of voluntary compliance in this transitional economy.
(Piolatto & Rablen, 2017)	General	Theoretical	Taxpayers	Prospect Theory can reverse the "Yitzhaki puzzle," explaining why higher tax rates might not always decrease evasion.
(Ratto et al., 2013)	UK / US	Theoretical/Empirical	Taxpayers	The indirect "spillover" effects of audits on the community outweigh the direct revenue recovered from the audited target.
(Santoro, 2017)	Italy	Admin. Data	71,000 Small Businesses	Repealing audit exemptions increased reported turnover only for firms that perceived a tangible increase in audit risk.
(Saulītis & Chapkovski, 2025)	Latvia	Field Experiment	3,813 Businesses	A 5% audit probability combined with normative appeals was the optimal strategy to reduce wage underreporting.
(Skandalis & Skandali, 2025)	Greece	Survey / PLS-SEM	Tourism SMEs	FinTech adoption and perceived audit probability significantly improve VAT compliance; tech replaces physical monitoring.
(Soliman et al., 2014)	General	Lab Experiment	Taxpayers	Taxpayers are "adaptive learners"; compliance is dynamic and evolves based on the interaction of audit and penalty rates.

(Yang, 2025)	Thailand	Machine Learning	3,010 Enterprises	Random Forest models predict compliance risk with >92% accuracy, outperforming traditional logistic regression methods.
(Zhang et al., 2016)	UK & Italy	Lab Experiment	Taxpayers	Significant cross-country differences exist; Italians are more compliant in lab settings, suggesting cultural norms moderate deterrence.

3.2.3 Synthesis of Findings

The matrix illustrates a clear bifurcation in the literature. While earlier studies (2015–2020) largely focused on the psychological moderators of the Allingham-Sandmo model (e.g., trust, framing, and social information), the most recent literature (2023–2025) has pivoted toward structural and technological determinants. Specifically, the works of Yang (2025) and Skandalis & Skandali (2025) highlight that modern enforcement is defined by predictive capabilities (Machine Learning) and digital infrastructure (FinTech), rather than the manual probability of a random audit. Furthermore, the recurrent identification of the "dimensional trap" for SMEs (Coppier et al., 2025) suggests that uniform enforcement strategies are producing unintended macroeconomic distortions.

3.3 Analysis of Research Question 1: The Influence of Audit Coverage Ratios on Voluntary Tax Compliance Across Jurisdictions

Research Question 1 (RQ1) investigates the relationship between the variation in Audit Coverage Ratios (ACR)—defined as the probability of a taxpayer being selected for a tax audit—and the levels of voluntary tax compliance across diverse legal and economic jurisdictions. While classical economic theory, specifically the Allingham-Sandmo (AS) model, posits a linear positive correlation where higher audit probabilities ostensibly increase compliance by raising the expected cost of evasion, the synthesis of the reviewed literature (2015–2025) reveals a far more complex reality. The empirical evidence suggests that the effectiveness of audit coverage is not absolute but is heavily moderated by jurisdictional context, the specific design of the audit rule (random vs. risk-based), and the prevailing institutional quality.

3.3.1 The Divergence Between Emerging and Developed Economies

A critical finding from the cross-jurisdictional analysis is that the "deterrence effect" of audit coverage is observed differently in emerging markets compared to developed economies. In emerging jurisdictions, where tax administration capacities are often developing and the shadow economy is substantial, the sheer probability of audit remains a primary driver of compliance.

For instance, Nguyen et al., (2020) examined determinants of compliance among firms in **Vietnam**, a transitional economy. Their mixed-method study concluded that audit

probability, alongside the severity of sanctions, had the strongest direct impact on voluntary compliance. In this context, the audit ratio acts as a fundamental signal of state capacity; without a credible threat of detection, voluntary compliance mechanisms (such as tax morale) are insufficient to secure revenue. Similarly, in **Indonesia**, Chan et al., (2023) analyzed the impact of establishing a specialized tax office that increased monitoring intensity for High Wealth Individuals (HWIs). The intervention, which effectively raised the audit probability for this specific segment, led to a significant increase in reported taxable income. These findings support the "enforced compliance" hypothesis in emerging markets: when the baseline enforcement is perceived as low, increasing the coverage ratio yields tangible revenue gains.

However, this dynamic shifts in developed jurisdictions with higher baselines of institutional trust. Zhang et al., (2016) conducted comparative laboratory experiments between **Italy** and the **United Kingdom**. Contrary to the stereotype that Southern Europeans are less compliant due to lower morality, the study found that Italians were actually *more* compliant than their British counterparts when facing identical audit probabilities in a controlled setting. This suggests that "real-world" non-compliance in Italy is driven not by an inherent lack of tax morale, but by the specific institutional environment and perceived inefficiency of the tax authority. Thus, in developed contexts, increasing the audit ratio alone—without addressing the underlying "fiscal contract" and trust in government—may yield diminishing returns.

3.3.2 The "Bomb-Crater Effect" and the Design of Audit Rules

The literature further refines RQ1 by distinguishing between the *quantity* of audits (the ratio) and the *quality* of the selection mechanism (random vs. risk-based). A purely quantitative increase in random audits can arguably produce counterproductive behavioral responses.

Kasper & Rablen (2023), through laboratory experiments in **Austria**, identified the persistence of the "bomb-crater effect"—a phenomenon where compliance drops significantly immediately following an audit. This occurs primarily under **exogenous (random)** audit rules, where taxpayers succumb to the "gambler's fallacy," believing that the probability of being audited twice in succession is negligible. In such scenarios, a high audit coverage ratio might catch evaders once, but fails to induce sustained voluntary compliance.

Conversely, the study found that **endogenous (risk-based)** audit rules—where the probability of audit is tied to the taxpayer's reported income—effectively mitigate this effect. When taxpayers understand that the audit ratio is dynamic (i.e., "if I report too low, my risk goes up"), they "learn" to comply voluntarily to avoid the threshold. This is corroborated by field evidence from **Italy** provided by Mazzolini et al., (2022). Analyzing administrative data on self-employed taxpayers, they found that operational audits had a lasting positive effect on reported income, but *only* when the audit resulted in a positive assessment (a fine). The "nil" audits (audits that found no evasion) did not deter future non-compliance, suggesting that the *experience* of enforcement is as critical as the statistical probability.

3.3.3 The Moderating Role of Institutional Quality and Corruption

A profound limitation to the effectiveness of audit coverage ratios is the level of systemic corruption. Irawan & Utama (2021) conducted a panel data regression across **47 countries**, finding that while corruption perception significantly increased tax evasion, the intensity of tax audits was statistically **insignificant** in reducing it within high-corruption environments. This implies a "threshold effect" for RQ1: increasing the audit coverage ratio is futile if the collected revenues are perceived to be mismanaged or stolen. In such jurisdictions, the "deterrence" signal is drowned out by the "unfairness" signal, leading taxpayers to rationalize evasion regardless of the risk. This aligns with findings from **Jordan**, where Al-Asfour & Abu Saleem (2023) emphasized that while audit rates influence decisions, the "trust between citizens and the state" remains the paramount variable. In emerging markets, the variation in audit ratios must be accompanied by visible improvements in governance to translate into higher voluntary compliance.

3.3.4 Perceived Probability and Communication Strategies

The influence of audit coverage is also mediated by how that coverage is *communicated* to the taxpayer. Often, the *perceived* audit probability is more influential than the *actual* statistical ratio.

Saulītis & Chapkovski (2025) demonstrated this in a large-scale field experiment in **Latvia**. They tested various intervention strategies on firms suspected of wage underreporting. The study found that a message explicitly stating a **5% audit probability**, combined with a normative appeal (highlighting the social cost of evasion), was the most effective strategy for increasing reported wages. This suggests that the audit ratio need not be aggressively high to be effective; it merely needs to be credible and salient. A 5% risk, when clearly communicated, was sufficient to alter behavior without triggering the negative "crowding out" effects often associated with more aggressive threats.

Similarly, Santoro (2017) analyzed a policy reform in **Italy** that removed audit exemptions for small businesses. The study found that reported turnover increased *only* among the subset of firms that perceived the reform as a tangible increase in their personal audit probability. Firms that did not perceive the change in the "rules of the game" did not alter their compliance, despite the objective change in the legal framework. This underscores that variation in audit coverage ratios is legally irrelevant if it is not psychologically internalized by the taxpayer.

3.3.5 Indirect Effects and Community Spillovers

Finally, the influence of audit coverage extends beyond the audited individual to the broader community, a phenomenon known as the "spillover" or "indirect" effect. Ratto et al., (2013) argue that the indirect revenue gains from audits (caused by the general population increasing compliance out of fear) often substantially outweigh the direct revenue recovered from the audits themselves. This suggests that a higher audit coverage ratio functions as a "public good" of enforcement, setting a community-wide baseline for compliance.

However, this spillover is sensitive to social information. Lefebvre et al., (2015) found in experiments across **Belgium, France, and the Netherlands** that while examples of high

compliance do not necessarily encourage others, examples of *low compliance* (i.e., hearing that others successfully evaded) significantly erode voluntary compliance. Thus, a low audit coverage ratio carries a double risk: it misses revenue from evaders and sends a signal of "impunity" that degrades the compliance of the honest majority.

Conclusion for RQ1

In conclusion, the variation in audit coverage ratios influences voluntary tax compliance through a non-linear, context-dependent mechanism. In emerging jurisdictions (Vietnam, Indonesia), increasing the ratio is a necessary "hard" constraint to establish compliance baselines. In developed or high-corruption contexts (Italy, International panels), the ratio's effectiveness is contingent on *institutional trust* and the *design* of the audit rule. Risk-based audits that foster learning (Kasper & Rablen, 2023) and clearly communicated probabilities (Saulitis & Chapkovski, 2025) are significantly more effective than random increases in coverage. Ultimately, a higher audit ratio is a potent tool, but only when it is perceived as a credible, fair, and targeted enforcement of the fiscal contract.

3.4 Analysis of Research Question 2: Divergent Deterrence Effects Between Individual Taxpayers and Small-to-Medium Enterprises (SMEs)

Research Question 2 (RQ2) examines the extent to which the deterrent effect of audit coverage differs between individual taxpayers and Small-to-Medium Enterprises (SMEs). While classical economic theory, represented by the Allingham-Sandmo (AS) model, posits a universal utility-maximization framework applicable to all rational agents, the synthesis of the reviewed literature (2015–2025) reveals a fundamental divergence in how these two groups perceive and react to enforcement risks. The analysis indicates that while individual taxpayers' compliance is often constrained by third-party reporting and psychological heuristics (such as the "bomb-crater effect"), SMEs exhibit sophisticated strategic behaviors, actively managing their firm size and operational structure to evade detection thresholds. Consequently, the deterrent effect of audit coverage is linear and direct for individuals but non-linear and structurally distortive for SMEs.

3.4.1 Individual Taxpayers: Psychological Heuristics and the "Bomb-Crater Effect"

For individual taxpayers, the deterrent effect of audit coverage is heavily mediated by psychological biases and the visibility of income sources. The literature suggests that individuals often behave less like the rational calculators of the AS model and more like "gamblers" assessing the likelihood of a repeat event.

Kasper & Rablen (2023) provide compelling evidence of this through their laboratory experiments in Austria. They identified a robust "bomb-crater effect," wherein individual compliance significantly drops immediately following an audit. This behavior stems from the "gambler's fallacy"—the erroneous belief that the probability of being audited twice in succession is negligible. Under exogenous (random) audit rules, an increase in audit coverage may catch non-compliant individuals once, but it paradoxically reduces their subsequent compliance as they feel "safe" for the immediate future.

Furthermore, Gamannossi degl'Innocenti & Rablen (2017) highlight that individuals do not view their tax liability as a single global problem but engage in "narrow bracketing."

They segregate income sources (e.g., salary vs. investment income) and apply different compliance strategies to each. For income subject to third-party reporting (like wages), the deterrent effect of audits is almost absolute because the probability of detection is near 100%. However, for self-reported income streams, the deterrent effect weakens significantly, and individuals are more likely to evade despite the general audit coverage ratio.

In contrast to SMEs, who may restructure their entire business to avoid audits, individuals are often "price-takers" in the compliance market—they cannot easily change their employment status to avoid tax, so their reaction to audits is often limited to the "gambling" behavior described above or evasion on fringe income.

3.4.2 SMEs and the "Dimensional Trap": Strategic Structural Avoidance

The response of SMEs to audit coverage is fundamentally different and more strategic. Rather than merely gambling on detection, SMEs actively manipulate their firm structure to avoid the "radar" of the tax authority entirely. This phenomenon is conceptualized by Coppier et al., (2025) as the "dimensional trap."

In many jurisdictions, tax authorities utilize "size-dependent enforcement," where larger firms are subject to higher audit probabilities due to their higher revenue potential. Coppier et al., (2025) demonstrate through dynamic modeling that this creates a perverse incentive for SMEs. To avoid the stricter monitoring associated with crossing a certain size threshold (e.g., employee count or revenue), SMEs may intentionally stunt their own growth, refusing to expand even when market conditions are favorable. In this context, the deterrent effect of audit coverage does not just increase compliance; it distorts the macroeconomic structure by trapping firms in a state of inefficient smallness.

This theoretical finding is supported by empirical evidence from **Italy**. Santoro (2017) analyzed a policy reform that removed audit exemptions for certain small businesses. The study found that reported turnover and profits increased *only* among the subset of firms that perceived the reform as a tangible increase in their specific probability of being audited. Unlike individuals who might evade based on a general sense of risk, SMEs conduct a cost-benefit analysis of the specific regulatory threshold they occupy. If the cost of compliance (taxes) exceeds the benefit of growth (minus the risk of audit), they will strategically stagnate.

3.4.3 Reputational Costs and Corporate Governance

Another critical distinction is the role of reputation. For an individual taxpayer, evasion is a private act with private consequences (fines). For an SME, an audit can have public, market-based consequences.

Nguyen et al. (2020), in their study of 200 firms in **Vietnam**, found that "corporate reputation" was a statistically significant determinant of voluntary compliance, alongside audit probability. For SMEs, particularly those seeking credit or partnerships, the stigma of being labeled a tax evader can be more damaging than the financial penalty itself. This suggests that for SMEs, the deterrent effect of an audit is amplified by the "social capital" the firm risks losing.

This reputational sensitivity is also evident in the field experiment by Saulītis & Chapkovski (2025) in **Latvia**. They found that normative messages (appealing to social duty) combined with a specific 5% audit threat were highly effective for businesses. The authors argue that business owners, unlike atomized individuals, are embedded in a professional network where "standing" matters. Thus, a low audit probability (5%) can be effective for SMEs if it threatens their reputational standing, whereas individuals might ignore such a low risk as a negligible financial gamble.

3.4.4 Technological Mediation: FinTech as the New SME Deterrent

Finally, the "opportunity structure" for evasion differs significantly. Individuals are increasingly constrained by digital third-party reporting, but SMEs in cash-intensive sectors (like tourism or retail) have historically retained the "opportunity" to evade. However, recent literature indicates that technology is closing this gap.

Skandalis & Skandali (2025) studied **Greek tourism SMEs** and found that the adoption of FinTech (e-invoicing, POS integration) is transforming the deterrent landscape. For these SMEs, traditional audits were often ineffective because cash transactions left no trail. The introduction of digital tools creates a "digital panopticon" where the probability of detection approaches 100% for every transaction. The study found that FinTech adoption significantly improved VAT compliance, effectively replacing the "periodic threat" of a physical audit with the "continuous threat" of digital monitoring. This suggests that for SMEs, the *method* of coverage (digital vs. physical) is now a more critical determinant of deterrence than the coverage ratio itself.

Similarly, Jin et al. (2023) found that for digital platform sellers (a modern form of SME), the "quality of platform data" shared with tax authorities is the primary driver of compliance. When platforms share high-quality data, the information asymmetry that allows SMEs to evade is eliminated.

3.5 Analysis of Research Question 3: The Moderating Role of Institutional Quality and Trust in Government

Research Question 3 (RQ3) investigates the interaction between the "hard" variable of enforcement (Audit Coverage Ratio) and the "soft" variables of the institutional environment (Institutional Quality and Trust in Government). While the standard Allingham-Sandmo (AS) model treats the tax authority as a neutral enforcer of rules, the synthesized literature (2015–2025) demonstrates that the effectiveness of an audit coverage ratio is not absolute. Instead, it is deeply contingent upon the perceived legitimacy of the state. The analysis reveals that institutional quality acts as a "filter" through which deterrence signals are processed: in high-trust environments, audits reinforce a social contract of contribution; in low-trust or high-corruption environments, audits are often perceived as coercive extraction, significantly dampening or even nullifying their positive impact on compliance.

3.5.1 The "Deterrence Failure" in High-Corruption Environments

One of the most profound findings regarding RQ3 is the potential for institutional corruption to completely sever the link between enforcement and compliance. Irawan & Utama (2021) provide critical empirical evidence from a cross-country panel analysis

involving 47 jurisdictions. Their study tested the impact of both tax audit intensity and the perception of corruption on tax evasion.

Contrary to the expectations of the deterrence model, they found that in environments where corruption perception is high, the intensity of tax audits becomes statistically **insignificant** in reducing evasion. This suggests a "threshold of legitimacy": if the taxpayer believes that the collected revenue will be misappropriated by corrupt officials, the moral cost of evading tax drops to near zero. In such a scenario, increasing the audit coverage ratio does not restore compliance because the "fiscal exchange" (paying taxes in return for public goods) is broken. The taxpayer rationalizes evasion not as a crime, but as a defense against a predatory state. This finding answers RQ3 by establishing that institutional quality is a *prerequisite* for audit efficacy; without a baseline of integrity, the "stick" of enforcement is ineffective.

This is corroborated by Al-Asfour & Abu Saleem (2023) in their study of **Jordan**, an emerging market context. They argue that "tax ethics"—the intrinsic motivation to pay—are inextricably linked to the government's credibility in managing public funds. When trust in the government's financial stewardship is low, the state cannot rely on voluntary compliance and is forced to rely solely on expensive, high-friction enforcement, which creates an antagonistic relationship with the taxpayer.

3.5.2 The "Slippery Slope": Coercive vs. Legitimate Power

The mechanism by which trust moderates enforcement is further elucidated by the "Slippery Slope Framework," which distinguishes between **coercive power** (audits and fines) and **legitimate power** (trust and expertise). Hartl et al. (2015) examined this dynamic experimentally, showing that the *description* of the tax authority significantly alters compliance behavior, independent of the objective audit probability.

When the authority was depicted as having "legitimate power" (i.e., being knowledgeable, fair, and helpful), taxpayers displayed higher voluntary compliance. In this high-trust context, audits serve as a "safety net" that reassures honest taxpayers that free-riders will be caught, thus reinforcing the social norm of contribution. However, when the authority was depicted as exercising "coercive power" (relying solely on strict surveillance and punishment), compliance became brittle. In low-trust/high-coercion environments, taxpayers comply only as long as they believe they are being watched. If the audit coverage ratio dips, or if they find a loophole (as discussed in the "Narrow Bracketing" study by Gamannossi degl'Innocenti & Rablen (2017), compliance collapses immediately because there is no underlying moral residue to sustain it.

3.5.3 Trust-Based Regulation: The "Carrot" and the "Stick"

Mendoza & Wielhouwer (2015) theoretically modeled a "trust-based" regulatory approach, answering RQ3 by showing how trust allows for *lower* audit ratios to achieve the same compliance outcomes. Their game-theoretic analysis proposes that a tax authority can offer a "carrot" (a reduced probability of audit) to taxpayers who consistently demonstrate compliant behavior.

However, they qualify that this moderation effect works only if the "stick" (the penalty for betraying that trust) is sufficiently severe. In a high-trust institutional setting, the state can afford to lower the audit coverage ratio for the majority of citizens, reserving

resources for egregious violations. This "trust-based regulation" reduces the friction of enforcement and enhances the "fiscal exchange" between taxpayers and the state, answering RQ3 by demonstrating that trust makes enforcement *efficient*.

3.5.4 Cultural and Institutional Context: The Cross-Country Lens

Finally, Zhang et al. (2016) conducted comparative laboratory experiments in the **UK and Italy** that provide nuanced insight into how cultural and institutional contexts shape compliance. Their results directly challenge the stereotype that cultural norms are immutable; Italian participants were actually *more* compliant than their British counterparts in a controlled setting where institutional trust was removed as a factor. This suggests that the lower compliance rates observed in reality in Southern Europe (often attributed to "tax morale") are actually a rational response to perceived inefficiencies in the tax administration and public spending. In the UK, high institutional trust allows for compliance to be sustained with lower perceived coercion. In Italy, where trust in government is lower, the same audit probability is processed differently—often as an adversarial challenge rather than a civic duty.

3.6 Analysis of Research Question 4: The Distinction Between Enforced and Voluntary Compliance

Research Question 4 (RQ4) addresses a fundamental tension in tax administration: the interplay between "enforced compliance," which is driven by the fear of detection and punishment (the "stick"), and "voluntary compliance," which is rooted in intrinsic motivation, social norms, and tax morale (the "carrot"). Classical economic theory, specifically the Allingham-Sandmo model, views compliance largely as a calculation of risk, effectively collapsing these two concepts into a single utility function. However, the synthesis of the reviewed literature (2015–2025) suggests that the Audit Coverage Ratio (ACR) acts as a psychological signal that can either reinforce or erode tax morale depending on how it is deployed. The evidence reveals that while high audit coverage can secure short-term revenue through coercion, it risks "crowding out" the intrinsic motivation necessary for sustainable, long-term compliance.

3.6.1 The Slippery Slope: Coercive vs. Legitimate Power

The most theoretical robust framework for understanding RQ4 found in the reviewed texts is the "Slippery Slope Framework," which posits that compliance depends on the interaction between the power of the authority and the trust of the taxpayer. Hartl et al. (2015) provide experimental evidence that the *nature* of the audit coverage matters more than the raw probability. Their study demonstrates that when the tax authority is perceived as exercising "coercive power" (characterized by strict surveillance and severe punishments), compliance is purely enforced. In this state, taxpayers pay only because they fear the audit.

Conversely, when the authority is viewed as exercising "legitimate power" (characterized by expertise, transparency, and fairness), voluntary compliance increases. The crucial finding for RQ4 is that high audit coverage can transition from being a tool of legitimate enforcement (catching free-riders to protect honest taxpayers) to a tool of coercion (treating all citizens as suspects). If the audit ratio is perceived as excessively

aggressive without corresponding service/trust, it pushes taxpayers down the "slippery slope" toward a state where they evade the moment the pressure is released.

This dynamic is further supported by Mendoza & Wielhouwer (2015), who modeled "trust-based regulation." They argue that a low audit probability can actually serve as a reward (a "carrot") for compliant behavior, fostering voluntary compliance. However, this system relies on a credible "stick": if trust is breached, the penalty must be severe. This suggests that the audit coverage ratio should not be uniform; rather, a lower ratio for trusted agents preserves their tax morale, while a higher ratio is reserved for high-risk agents to ensure enforced compliance.

3.6.2 The "Crowding-Out" Effect: Does Monitoring Kill Morale?

A central concern in behavioral economics is whether extrinsic incentives (audits) destroy intrinsic motivation (tax morale). Chan et al. (2023) analyzed this in the context of High Wealth Individuals (HWIs) in **Indonesia**. The establishment of a specialized tax office increased the audit probability for the wealthy, leading to a significant spike in reported income. While this is a victory for "enforced compliance," the authors raise concerns about the long-term "crowding out" of intrinsic motivation. The study found that the positive effects of the intervention were short-lived and diminished over time. This implies that reliance on high audit coverage creates a "cat-and-mouse" dynamic: once the initial shock of enforcement wears off, or if taxpayers find new ways to hide assets, compliance drops because the intrinsic "duty to pay" was never cultivated.

Lefebvre et al. (2015) add a social dimension to this via their experiments in **Belgium, France, and the Netherlands**. They found that social information regarding evasion is asymmetric: knowing that others are evading (low compliance) significantly increases one's own evasion, while knowing others are complying does not necessarily increase compliance. High audit coverage can inadvertently signal that evasion is rampant (i.e., "why else would they need to audit so many people?"). If the audit ratio is too high, it may signal a low-trust environment, thereby eroding the social norm of voluntary compliance and triggering a "race to the bottom".

3.6.3 The Brittleness of Enforced Compliance: The "Bomb-Crater" Effect

The distinction between enforced and voluntary compliance is most visible in how taxpayers behave *after* an audit. If compliance is voluntary, an audit should have little effect or reinforce the behavior. If compliance is enforced, the removal of risk should lead to recidivism.

Kasper & Rablen (2023) document the "bomb-crater effect," where compliance drops immediately after an audit. This occurs because taxpayers, operating under "enforced compliance" logic, succumb to the gambler's fallacy, believing they are safe from re-audit in the immediate future. The authors found that this effect is most pronounced under **exogenous (random)** audit rules. However, under **endogenous (risk-based)** rules, taxpayers learn that their behavior influences the audit probability. This suggests that "enforced compliance" is brittle and volatile, whereas "voluntary compliance" (or at least strategic compliance driven by learning) is more stable. To bridge the gap, audit coverage must be linked to behavior (endogeneity) rather than just being a random threat.

Kogler et al. (2022) utilized eye-tracking technology to provide physiological evidence of this distinction. They found that "compliant" taxpayers (voluntary) processed information differently than "evaders" (enforced). Compliers focused on the "tax due" and "income" (social responsibility), while evaders fixated on the "audit probability" and "fine level" (risk calculation). This confirms that a high audit coverage ratio primarily targets the cognitive processes of evaders but does little to engage the moral reasoning of voluntary compliers.

3.6.4 Bridging the Gap: Hybrid Communication Strategies

Recent research suggests that audit coverage need not be an enemy of tax morale if communicated correctly. Saulitis & Chapkovski (2025) conducted a field experiment in **Latvia** that successfully bridged the divide. They found that the most effective intervention was not a pure threat (enforced) nor a pure moral plea (voluntary), but a **hybrid** message.

Sending a letter that combined a specific **5% audit probability** with a **normative appeal** (emphasizing the public goods funded by taxes) yielded the highest revenue increase. The audit threat provided the necessary "floor" of enforcement to deter rational cheaters, while the normative appeal triggered the "ceiling" of voluntary compliance among those with higher tax morale. This indicates that the audit coverage ratio functions best when it is contextualized as a tool for fairness rather than a weapon of the state.

3.6.5 Determinants in Transitional Economies

Finally, Nguyen et al. (2020) highlight that in transitional economies like **Vietnam**, the distinction between the two types of compliance has different drivers. Their structural equation modeling revealed that "voluntary tax compliance" was driven by **corporate reputation** and **business ownership structure**, while "enforced compliance" was driven almost exclusively by **audit probability** and **sanctions**. This separation is crucial for policy: if a government wants to increase enforced compliance, it must raise the audit ratio. But if it wants to foster voluntary compliance, it must focus on reputation mechanisms (e.g., naming and shaming or certifying honest firms) rather than just increasing the number of inspectors.

Conclusion

4.1 Synthesis of Findings

This systematic literature review has synthesized global evidence from 27 empirical and theoretical studies (2015–2025) to deconstruct the complex relationship between Audit Coverage Ratios (ACR) and tax compliance. The overarching conclusion of this review is that the classical "deterrence model"—which treats audit probability as a linear lever for compliance—is insufficient for addressing the nuances of the modern fiscal landscape. Instead, the effectiveness of audit coverage is fundamentally **non-linear, context-dependent, and heterogeneous**.

The synthesis yields four critical insights corresponding to the research objectives:

1. **Contextual Efficacy:** The impact of audit coverage is not universal. In emerging economies (e.g., Vietnam, Indonesia), increasing the ACR acts as a necessary "hard constraint" to establish a baseline of enforced compliance. However, in jurisdictions with high corruption or low institutional trust, increasing audit intensity yields diminishing returns, as the lack of state legitimacy neutralizes the moral obligation to pay.
2. **Structural Distortions:** The deterrent effect creates unintended structural consequences for Small-to-Medium Enterprises (SMEs). Unlike individual taxpayers who may succumb to "gambling" behaviors (the "bomb-crater effect"), SMEs often engage in strategic stagnation. The identification of the "**Dimensional Trap**" (Coppier et al., 2025) highlights that size-dependent enforcement can incentivize firms to remain inefficiently small to evade detection thresholds.
3. **The Primacy of Trust:** Institutional quality acts as a gatekeeper for enforcement success. Empirical evidence (Irawan & Utama, 2021) confirms that in high-corruption environments, the "stick" of audits is effectively broken. Conversely, in high-trust environments, enforcement is viewed as a legitimate tool to protect honest taxpayers, thereby reinforcing voluntary compliance.
4. **The Brittleness of Coercion:** While high audit coverage can drive "enforced compliance," it risks "crowding out" intrinsic tax morale. Interventions relying solely on threats are brittle and prone to recidivism once the pressure is released. Sustainable compliance is best achieved through **hybrid strategies** (Saulitis & Chapkovski, 2025) that combine credible audit threats with normative appeals to civic duty.

4.2 Theoretical Implications

The findings of this review strongly support the theoretical migration from the purely economic **Allingham-Sandmo (1972)** model toward the **Slippery Slope Framework** (Kirchler et al., 2014b). The evidence confirms that taxpayers are not merely rational utility maximizers operating in a vacuum; they are socially embedded actors whose compliance decisions are moderated by the perceived power of the authority and their trust in the government.

Furthermore, the review necessitates an expansion of these frameworks to include **technological determinism**. Recent studies (Yang, 2025; Skandalis & Skandalis, 2025) suggest that in the digital economy, compliance is increasingly driven by the "architecture" of the payment system (e.g., FinTech, e-invoicing) rather than the psychological calculation of audit risk. This implies a new theoretical category of "**automated compliance**," where the opportunity to evade is structurally eliminated rather than behaviorally deterred.

4.3 Policy Implications

For tax administrations navigating the "resource paradox," this review offers a nuanced framework for optimizing enforcement strategies:

1. **Shift from Random to Risk-Based Audits:** To mitigate the "bomb-crater effect," authorities must move away from random selection. **Endogenous audit rules**—where risk is tied to behavior—foster taxpayer learning and sustained compliance.

2. **Segmented Enforcement Strategies:** A "one-size-fits-all" ACR is ineffective.
 - **For Individuals:** Use behavioral nudges and pre-filling to reduce the cognitive load and "gambling" heuristics.
 - **For SMEs:** Replace size-dependent thresholds with digital monitoring (e-invoicing) to eliminate the "Dimensional Trap" and leverage reputational incentives.
 - **For HWIs:** Maintain specialized, high-intensity monitoring units to counter sophisticated avoidance.
3. **Invest in "Legitimate Power":** Enforcement cannot rely on coercion alone. Tax administrations must cultivate legitimacy by ensuring procedural fairness and transparency. In low-trust environments, visible anti-corruption measures are as vital to revenue collection as the hiring of more auditors.
4. **Adopt Hybrid Communication:** Communication strategies should pair the "certainty of detection" (specific probability statements) with "normative justification" (public goods). This hybrid approach maximizes enforced compliance without eroding tax morale.

4.4 Limitations and Future Research

This review is limited by the fragmentation of data regarding the long-term effects of AI-driven audits. While current studies show short-term efficacy, the long-term impact of algorithmic enforcement on taxpayer trust remains under-researched. Future research should focus on:

- **Longitudinal studies** to test if the "crowding out" of tax morale persists over multi-year cycles of automated enforcement.
- **The "Digital Divide"** in compliance, specifically how FinTech mandates impact the informal economy in developing nations.
- **Cross-cultural experimental designs** to further isolate the variable of "social norms" from "institutional quality."

In conclusion, closing the tax gap requires a delicate balance. The audit coverage ratio remains a vital tool, but it is a blunt instrument. To foster sustainable revenue mobilization, tax authorities must sharpen this instrument with data, soften it with fairness, and wield it with a deep understanding of the behavioral and institutional context.

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