

Macro Roundup Article

Headline: [A Welfare Analysis of Tax Audits Across the Income Distribution](#)

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Tweet: New research from @nhendren82 @bsprungkeyser finds that \$1 spent auditing taxpayers above the 90% income thresholds yields \$12 in revenue, including a “deterrence effect” which produces “at least three times more revenue than the initial audit.”

Summary: An additional \$1 spent auditing taxpayers above the 90th income percentile yields more than \$12 in revenue, while audits of below-median income taxpayers yield \$5. We begin by estimating the average initial return to all audits of US taxpayers filing in 2010-2014. On average, \$1 in audit spending initially raises \$2.17 in revenue. Audits of high-income taxpayers are more costly, but the additional revenue raised more than offsets the costs. Audits of the 99-99.9th percentile have a 3.2:1 initial return; audits of the top 0.1% return 6.3:1. Next, we use randomly selected audits to examine the impact of an initial audit on future revenue. This specific deterrence effect produces at least three times more revenue than the initial audit. Deterrence effects are relatively consistent across the income distribution. This results in the 12:1 return above the 90th percentile.

Primary Topic: Taxation

Topics: Academic paper, Fiscal Policy, Taxation, Weekly

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