

## **The Role of Tax Audit in Enhancing Tax Compliance**

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### **ABSTRACT**

*This research paper aims to shed light on the importance of tax audit in enhancing tax compliance by striking a balance between fostering proper voluntary compliance and maintaining strict oversight. It emphasizes the transition from traditional tax audit approaches (reactive methods) to modern approaches (proactive methods), through which tax administrations seek to influence taxpayer behavior by increasing their trust in tax systems and their transparency. This involves adopting an integrated compliance system based on reliable technology and embedding tax rules into daily systems, enabling real-time or near-real-time interaction.*

*Algeria strives to improve the efficiency of its tax control system through various reforms and the digitalization of its tax administration. However, the challenge of technological infrastructure remains a significant obstacle to the re-engineering of its tax system, particularly in the area of control.*

### **1. Introduction**

The mobilization of tax revenues is of paramount importance to safeguard the rights of the public treasury and achieve sustainable development goals. Voluntary tax compliance is a vital tool in this regard. Empirical evidence has consistently demonstrated the relative effectiveness of coercive approaches in mobilizing tax revenues, particularly in developing countries. These approaches are often embodied in various forms of tax ex-post control, such as tax audits and investigations. This has led to a continuous search for ways to transform these tax ex-post control practices (interactive activities) to better align with taxpayer needs, encourage voluntary compliance, and simultaneously preserve public treasury revenues.

Tax auditing has been closely linked to tax collection, focusing on verifying the accuracy of declarations and ensuring they are free from both intentional and unintentional errors. This has reinforced the perception of coercion in tax collection, as it underscores the state use of authority in enforcing compliance. However, the growing demands to enhance the spirit of citizenship, combined with the rapid pace of technological advancements and their impact on transaction patterns and speed, make it imperative to rethink the approach to tax auditing. This shift is necessary to ensure its adaptation to emerging changes while maintaining its critical role in safeguarding the public treasury's rights to the real tax revenues.

Algeria, like many other countries, faces significant challenges in this regard, most notably a narrow tax base, low tax morale, and the prevalence of the informal economy. In response, She has undertaken a series of reforms in its tax system, particularly in the area of supervision. Against this backdrop, the central research problem of this study arises:

**To what extent does tax auditing in Algeria incorporate modern trends that enhance voluntary tax compliance?**

This primary research question is further divided into the following sub-questions:

- What are the key modern trends in tax auditing?
- How does tax auditing enhance voluntary tax compliance?
  
- What are the main achievements and shortcomings of Algerian tax system in this area?

And to address these questions, the study proposes the following hypotheses:

1. Tax auditing in Algeria remains largely confined to ex-post-control measures.
2. Modern trends in tax auditing emphasize a shift from ex-post-control to proactive and real-time control activities to ensure voluntary tax compliance.
3. The main challenges facing modern tax auditing in Algeria include weak technological infrastructure and limited integration between the tax administration and other key stakeholders, such as service providers and banking institutions.

#### ***Previous studies:***

The effectiveness of tax audits in improving compliance is supported by various studies, which highlight the importance of audit intensity, quality, and frequency. as follows:

#### **Deterrence and Compliance**

[Leonard Juma Oringo, Benard Baimwera, Daniel Kirui, Effect of Tax Audit on Turnover Tax Compliance among Small and Medium Enterprises in Langata Sub-County, Nairobi, Kenya](#), 04 Dec 2024-[Journal of finance and accounting](#): Tax audits play a crucial role in enhancing tax compliance by increasing the likelihood of detection of non-compliance, thereby deterring tax evasion. The study found a significant positive effect of tax audits on turnover tax compliance among small and medium enterprises, with a correlation of 0.486. Regular tax audits not only assist in tax collection but also help maintain the integrity of the tax system, fostering taxpayer confidence and promoting adherence to tax obligations.

Muhammad Yamin Noch, Entis Sutisna, Kartim, Septyana Prasetyaningrum, Yaya Sonjaya, **Impact Corporate Taxpayer Compliance On Tax Revenue Growth With Tax Audit Moderation**, 30 Sep 2024, Jurnal Akuntansi - Fakultas Ekonomi Universitas Tarumanagara: The study indicates that tax audits play a role in monitoring corporate taxpayer compliance; however, they do not significantly enhance tax revenue. Despite positive coefficients for both taxpayer compliance and tax audits, neither variable had a substantial effect on tax revenue growth. Furthermore, the interaction between taxpayer compliance and tax audit did not significantly moderate the impact on tax revenue. This suggests that while audits are important, their effectiveness in improving compliance and revenue is limited.

#### **Audit Quality and Technology**

Feny Fidyah, Koredianto Usman, Afrila Eki Pradita, Dyah Setyawati, **The Impact of Artificial Intelligence on Auditing Processes and Accuracy: A Future Outlook**, 20 Sep 2024, [Dinasti International Journal of Economics, Finance and Accounting](#): The paper discusses AI's role in enhancing audit quality and compliance outcomes through real-time data analysis and anomaly detection. It also highlights future developments like blockchain integration, which can further improve auditing processes and taxpayer adherence.

Favourate Y Mpofu, **The application of Artificial Intelligence in external auditing and its implications on audit quality? A review of the ongoing debates**, 18 Dec 2023, [International Journal of Research In Business and Social Science](#): The paper discusses the application of AI in external auditing, highlighting its potential to improve audit quality through enhanced efficiency and effectiveness. However, it also notes concerns regarding ethical principles and biases, indicating a complex relationship with compliance outcomes.

Eugene Y. Lee, Gordon C. Leeroy, Gordon C. Leeroy, **Impact of Blockchain on Improving Taxpayers' Compliance: Empirical Evidence from Panel Data Model and Agent-Based Simulation**, 01 Mar 2024, *Journal of Emerging Technologies in Accounting*: The paper highlights that integrating blockchain technology can enhance IRS

efficiency and reduce noncooperative behavior, thereby improving taxpayer compliance. It emphasizes the importance of audit intensity and qualification rates in establishing effective tax compliance systems.

#### Role of Education and Communication

Malgit Amos Akims, [Tax Education and Tax Compliance: A Review of Literature](#), 30 Nov 2023, [Journal of economics](#): The paper emphasizes that tax education significantly affects tax compliance, suggesting that enhancing taxpayer knowledge through education can improve compliance levels. It supports the idea that educating taxpayers about their obligations is crucial for increasing tax compliance.

Fragiskos Gonidakis, Sofia Asonitou, Chara Kottara, Dimitra Kavalieraki-Foka, Efstathia Gkotsina, **The Contribution of Education to the Creation of Tax Awareness and Compliance**, 01 Jan 2024, [Springer proceedings in business and economics](#): The paper emphasizes that education significantly influences tax compliance, highlighting the need for improved tax education among young people in Greece to enhance awareness and compliance levels, aligning with the idea that educating taxpayers can improve compliance during audits.

#### **Research Methodology and Approach:**

To address the research problem, the study employed a descriptive-analytical approach to examine the concepts, dimensions, and implications of the study variables. It analyzed the relationship between these variables and applied the findings to the context of the Algerian tax system. The study utilized analytical tools such as observation and field reality to support its analysis.

The research was structured into a theoretical section, which focused on the dimensions of the independent variable—tax compliance—and the dependent variable—tax auditing. It also explored the relationship between the two and highlighted recent developments in tax auditing that positively influence tax compliance. The study then examined the extent to which the Algerian tax system has integrated these developments, which enhance tax compliance, and assessed the system's alignment with global trends. This approach aimed to identify the strengths of the Algerian government's efforts and the areas requiring further attention and improvement.

## **2. Tax Audit**

Tax auditing is a cornerstone of effective tax administration, ensuring compliance and promoting fairness in taxation systems. It plays a vital role in safeguarding public revenues and maintaining trust between taxpayers and authorities.

### *2.1. Definition of Tax Audit*

*A tax audit is a structured examination conducted by tax authorities to assess the accuracy of a taxpayer's financial and non-financial records in relation to their tax obligations. It involves the review of tax returns, financial statements, and other relevant documentation to ensure compliance with tax laws and regulations. The primary objectives of a tax audit include detecting errors, addressing non-filing of returns, validating self-assessments, and discouraging tax evasion by creating an understanding that submitted returns will be scrutinized.*

Tax audits are essential tools for tax authorities to ensure that taxpayers accurately report income, deductions, and liabilities. They also serve to identify cases of underreporting, fraud, or negligence, leading to corrective measures such as additional assessments or legal actions when necessary. The process not only improves compliance but also strengthens the integrity and efficiency of the tax system by fostering trust among compliant taxpayers (Nigeria Governors' Forum, 2018).

#### *Comparison of Tax Audit and Tax Investigation*

Distinguishing between tax auditing and tax investigation is crucial for understanding the specific role of tax auditing in tax administration. The key differences between the two are summarized in the table below ;

**Table :** Comparison , Tax Audit and Tax Investigation

|                     | <b>Tax Audit</b>                                                                                                                                                                                                                                                                                                                                                            | <b>Tax Investigation</b>                                                                                                                                                                                                                                           |
|---------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Purpose             | <input type="checkbox"/> To ascertain compliance with tax laws.<br><input type="checkbox"/> To address non-filing or inaccurate filing of tax returns.<br><input type="checkbox"/> To detect and correct accounting or arithmetic errors.<br><input type="checkbox"/> To provide an avenue for educating taxpayers on their obligations and the interpretation of tax laws. | <input type="checkbox"/> To gather admissible evidence for legal prosecution.<br><input type="checkbox"/> To identify deliberate actions aimed at evading taxes.                                                                                                   |
| Scope and Technique | <input type="checkbox"/> Focuses on reviewing records to verify the correctness of self-assessed returns.<br><input type="checkbox"/> May involve interviews and reconciliation meetings to clarify issues.<br><input type="checkbox"/> Relies primarily on taxpayer-submitted evidence.                                                                                    | <input type="checkbox"/> More detailed and intrusive than audits.<br><input type="checkbox"/> Includes forensic accounting, third-party information, and informant reports.<br><input type="checkbox"/> May involve surveillance and advanced investigative tools. |
| Outcome             | <input type="checkbox"/> Can lead to additional assessments if discrepancies are found.<br><input type="checkbox"/> May provide feedback to tax authorities for policy improvements.                                                                                                                                                                                        | May lead to criminal prosecution, fines, or distraints to recover undercharged taxes.<br><br>Can result in both financial and reputational consequences for the taxpayer.                                                                                          |
| Trigger             | <input type="checkbox"/> Routine reviews or risk-based selection of cases.<br><input type="checkbox"/> Specific criteria like refund claims, nil returns, or unusual business patterns.                                                                                                                                                                                     | Initiated based on evidence or suspicion of fraudulent activities.<br><br>Includes cases of unreported income, hidden assets, or false deductions.                                                                                                                 |
| Legal Framework     | Governed by tax administration laws allowing reviews within specific timeframes (usually six years). Findings may lead to adjustments but not criminal charges.                                                                                                                                                                                                             | <input type="checkbox"/> Extends beyond the six-year audit window if fraud or deliberate default is suspected.<br><input type="checkbox"/> Operates under stricter legal protocols with potential criminal penalties.                                              |

**Source :** (Nigeria Governors' Forum, 2018)

### Key Differences

- **Focus:** Audits aim to verify compliance, while investigations aim to uncover and prosecute fraud.
- **Approach:** Audits are routine or risk-based, while investigations are initiated by specific suspicions.
- **Legal Consequences:** Audits rarely lead to legal action, whereas investigations often result in prosecution.
- **Transparency:** Taxpayers are usually informed about audits in advance, but investigations may proceed covertly (Nigeria Governors' Forum, 2018)

### 3. Tax compliance

Tax compliance is the responsibility of individuals and businesses to meet tax obligations set by the government. It plays a key role in supporting public services and maintaining economic stability.

#### 3.1. Definition of Tax compliance

Tax compliance is defined from several perspectives, including the following:

Tax compliance refers to the extent to which taxpayers fulfill their tax obligations in accordance with the legal and administrative requirements of the tax system. James and Alley (2012) define it as the willingness of taxpayers to act in line with both the “spirit” and the “letter” of the tax law without the need for enforcement actions, highlighting the importance of voluntary adherence. This encompasses both procedural compliance, such as timely filing of tax

returns and accurate reporting of tax liabilities, and substantive compliance, which involves a genuine effort to meet the broader intentions of tax regulations. Cuccia (2013) further elaborates that tax compliance entails the accurate and timely submission of all required tax returns, ensuring that reported liabilities are consistent with the prevailing laws at the time of filing. While voluntary compliance is often driven by trust in the tax system and perceptions of fairness, enforced compliance relies on deterrents such as penalties and audits, as noted by Roth et al. (2015). Also compliance behavior is influenced by a combination of factors, including the complexity of tax laws, taxpayer knowledge, and the perceived legitimacy of government actions, illustrating that compliance is not merely a legal obligation but also a reflection of the relationship between taxpayers and the state. (Wadesango Newman, 2018.)

Accordingly, tax compliance refers to the voluntary or enforced adherence of taxpayers to their legal obligations within a tax system. This includes accurate reporting of income, proper filing of tax returns, and timely payment of taxes owed. It is underpinned by a combination of intrinsic motivation, education, and deterrence mechanisms:

*3.1.1. Voluntary compliance:* Rooted in taxpayers' intrinsic motivation and understanding of their civic duty, supported by taxpayer education and awareness campaigns that build trust and tax morale.

*3.1.2 Enforced compliance:* Ensured through audits, penalties, and legal enforcement to deter tax evasion and foster a culture of accountability (Alm, 1999) (OECD, 2021)

### **3.2. Tax Compliance Approaches:**

Structured approach helps tax authorities identify compliance barriers and implement targeted strategies to foster adherence, as follows:

**3.2.1 Economic Approach :** We find the following in it:

*3.2.1.1 Financial Encumbrance:*

- Taxpayer compliance is inversely related to the size of the tax liability.
- Smaller, manageable tax liabilities are more likely to be paid, whereas large liabilities may lead taxpayers to evade or underreport their income.

*3.2.1.2 Cost of Compliance:*

- High compliance costs, including time spent on filing, fees for accountants, and psychological stress, discourage compliance.
- Simplifying tax processes can reduce these costs and improve adherence.

*3.2.1.3 Incentives for Compliance:*

- Offering tax benefits, such as holidays, free zones, or lower rates, fosters higher compliance.
- Incentives act as a motivator by rewarding compliant behavior with financial relief.

**3.2.2 Behavioral Approach,** We find the following in it:

*3.2.2.1 Individual Differences:*

- Factors like age, gender, education level, and personal values influence compliance behavior.
- Personal circumstances, such as risk tolerance or industry-specific norms, also play a role.

*3.2.2.2 Fairness and Equity:*

- Perceived fairness of the tax system significantly affects compliance.

- Unfair treatment or a sense of inequity can lead to intentional evasion.

#### *3.2.2.3 Perception of Risk:*

- Taxpayers are less likely to comply if they perceive minimal risk of detection or punishment.
- Strong enforcement measures and visible penalties enhance perceived risk, discouraging evasion.

#### *3.2.2.4 Psychological Factors:*

- Some taxpayers view evasion as a challenge or game, testing their skill against the system.
- Changing such perceptions requires robust education and ethical campaigns.

### *3.3. Challenges and External Influences, It revolves around the following:*

#### *3.3.1 Business and Industry Nature:*

- Certain industries with cash transactions or informal operations are more prone to non-compliance.

#### *3.3.2 Economic Climate:*

- Recessions or market fluctuations may push businesses toward evasion to maintain viability.

#### *3.3.3 Competitive Pressures:*

- In competitive markets, businesses might evade taxes to reduce costs and gain an edge (Attipoe, November 2023).

### *3.4. Measuring Tax Non-Compliance:*

Measuring tax non-compliance is a complex task due to the inherent difficulty of quantifying activities that taxpayers intentionally conceal. Despite these challenges, various methods have been developed to estimate the extent of non-compliance, each with its own strengths and limitations. Below is an overview of these methods:

#### *3.4.1 Direct Methods*

Direct methods rely on data generated by tax authorities, particularly through audits. These audits provide estimates of the "true" income of taxpayers, which can then be compared to reported income to measure non-compliance. In particular, we find the method of **Taxpayer Compliance Measurement Program (TCMP)**: It is done through the process of auditing a random sample of individual tax returns, and this provides a relatively accurate estimate of unreported income and levels of non-compliance. However, the TCMP has limitations:

- It fails to capture all underreported income.
- It often excludes non-filers.
- It cannot distinguish between honest errors and intentional evasion.
- Adjustments made post-audit may not be included.

#### *3.4.2 Survey-Based Methods*

Surveys are designed to capture taxpayer attitudes and behaviors, including perceptions of detection probabilities, fairness of taxation, and motivations for compliance or evasion. So surveys can provide insights into the psychological and social factors influencing compliance. However, their reliability is often questioned due to:

- Memory lapses among respondents.
- The tendency of respondents to underreport or misreport evasion.
- Challenges in ensuring the representativeness of survey samples.
- Inability to establish causality between attitudes and behaviors.

### 3.4.3 Indirect Methods

Indirect methods infer non-compliance from discrepancies in economic data or observable behaviors.

#### 3.4.3.1 Discrepancy Analysis:

- **Income vs. Expenditure:** Compares reported income with expenditure data from household surveys or national accounts.
- **Labor Force Participation:** Analyzes gaps between official and actual labor force participation rates.

#### 3.4.3.2 Monetary Indicators:

- Observes relationships between monetary aggregates (e.g., cash usage) and unreported income.
- Variables such as electricity consumption have also been used as proxies.

These methods are prone to criticism for potentially compounding measurement errors and attributing all discrepancies to tax evasion, which may not always be accurate.

### 3.4.4 Comparative Data

Studies comparing non-compliance across countries show that tax evasion is a global issue, with varying levels of severity (Alm, 1999)

## 3.5. Challenges in Measuring Non-Compliance

There are several core challenges associated with measuring non-compliance, particularly in corporate and organizational contexts:

### 3.5.1 Conceptual Ambiguity:

The term "compliance" is not universally defined, and its interpretation varies depending on the stakeholder (e.g., regulators, corporations, or private entities). The lack of a standardized definition complicates the measurement process. For instance, compliance data from government bodies may differ significantly from data collected by private organizations due to differing assumptions, biases, and objectives. This heterogeneity undermines the reliability and validity of compliance measurements.

### 3.5.2 The "Dark Figure" of Non-Compliance:

Similar to unreported crimes in criminology, much non-compliance remains hidden and unreported. Corporations often address non-compliance internally, avoiding regulatory oversight. Additionally, many victims of corporate non-compliance may be unaware of their victimization, particularly in cases without direct or immediate physical impacts (e.g., environmental violations or financial misreporting). This hidden nature of non-compliance poses significant challenges for accurate measurement.

### 3.5.3 Causal Relationships:

Establishing a direct cause-and-effect relationship between compliance strategies and behavior is challenging. Most commonly used methods, such as surveys and secondary data analysis, lack the rigor to determine causality. For instance, correlation does not imply causation, and without experimental designs, it is difficult to eliminate alternative explanations for observed behaviors.

### 3.5.4 Access to Data:

Measuring non-compliance often relies on third-party data, such as corporate reports or regulatory audits. These data sources may be incomplete, biased, or limited in scope, reflecting only what is reported or observed during audits. Furthermore, organizations may manipulate data to appear compliant, creating a phenomenon referred to as "cosmetic compliance."

### 3.5.5 Ethical and Practical Limitations:

Research methods like interviews and surveys must tread carefully when exploring sensitive topics like non-compliance. Employees may fear retaliation or legal consequences, leading to underreporting or dishonesty. Similarly, ethnographic methods require significant time and access, which are often difficult to secure in corporate settings.

### 3.5.6 Generalizability and Feasibility:

Methods such as randomized controlled trials or ethnographic studies provide detailed insights but are resource-intensive and lack scalability. Conversely, large-scale surveys or secondary data analyses offer broader applicability but fail to capture nuanced behaviors or establish causality.

### 3.5.7 Multiplicity of Measurements:

The abundance of data sources, each with unique limitations and biases, complicates the synthesis of findings. For example, regulatory data may focus on detected violations, while internal corporate data might highlight areas of perceived compliance, leading to conflicting conclusions. (Rorie, 2022)

## 4. Tax Auditing: A Mechanism to Strengthen Compliance and Foster Accountability

This section will highlight the importance of tax auditing in enhancing tax compliance levels and explore various modern strategies that enable achieving this goal.

### 4.1. Role of Tax Audit in Improving Tax Compliance

Tax audits play a critical role in enhancing tax compliance by:

- **Deterrence of Non-Compliance:** Regular audits discourage taxpayers from underreporting or evading taxes, as they understand the likelihood of detection.
- **Verification of Accuracy:** They ensure that the tax returns filed reflect the taxpayer's actual financial position, thereby addressing discrepancies and promoting fairness in the tax system.
- **Educating Taxpayers:** Audits provide an opportunity to educate taxpayers about their rights, obligations, and the proper interpretation of tax laws.
- **Improving Revenue Collection:** By identifying and rectifying errors, audits ensure that the correct amount of tax is collected, thus reducing revenue leakages.
- **Building Public Confidence:** A transparent and effective audit process builds trust in the tax administration system, encouraging voluntary compliance among taxpayers (Nigeria Governors' Forum, 2018).

### 4.2. The modern approaches to tax auditing and their role in enhancing tax compliance

The rapid advancements in technology and information are increasingly impacting various aspects of life. Consequently, tax auditing must adapt to these changes to maintain its role in ensuring proper tax compliance. This can be achieved through several modern strategies and approaches, including:

#### 4.2.1 Proactive and Systemic Approaches to Tax Auditing

Modern tax auditing has shifted from being reactive—focusing on post-filing checks—to proactive strategies that aim to prevent non-compliance before it occurs. This involves integrating compliance measures into taxpayers' everyday financial and operational processes. Tax administrations now emphasize real-time data monitoring and interventions, which reduce errors and ensure that tax obligations are met seamlessly during the course of regular business activities. This proactive approach not only minimizes the need for extensive post-filing audits but also fosters a more cooperative relationship between taxpayers and tax authorities.

#### *4.2.2 Integration of Compliance by Design Principles*

Compliance by design involves embedding tax compliance mechanisms directly into the systems that taxpayers use to manage their finances. For example, businesses can integrate tax rules into their accounting software or point-of-sale systems, ensuring that tax calculations and reporting are automated and error-free. Pre-filled tax returns are another application of this principle, where third-party data, such as income information from employers or financial institutions, is used to complete most of the taxpayer's filing requirements in advance. This approach has proven highly successful in countries like Sweden and Denmark, significantly reducing administrative burdens and increasing voluntary compliance.

#### *4.2.3 Leveraging Advanced Technologies and Data Analytics*

The use of cutting-edge technologies, such as big data analytics, artificial intelligence (AI), and blockchain, has transformed tax auditing. Advanced analytics tools allow tax administrations to process vast amounts of data from multiple sources, including financial institutions, e-commerce platforms, and even social media. Machine learning models can identify patterns and anomalies that indicate potential fraud or non-compliance. Blockchain technology ensures the integrity of transactional data, creating a secure and tamper-proof record that tax auditors can rely on for verification. These technologies enhance the accuracy and efficiency of audits, enabling tax authorities to detect and address risks more effectively.

#### *4.2.4 Targeted Risk-Based Auditing*

Risk-based auditing focuses on identifying and prioritizing taxpayers or transactions that pose the highest risk of non-compliance. By using advanced risk assessment models and data-driven insights, tax administrations can allocate resources more effectively. Instead of conducting random audits, authorities can target specific high-risk areas, such as industries with complex financial structures or individuals with significant unexplained wealth. This targeted approach not only improves the efficiency of audits but also reduces the compliance burden on low-risk taxpayers.

#### *4.2.5 International Cooperation and Cross-Border Audits*

In an increasingly globalized economy, cross-border transactions and multinational enterprises pose unique challenges for tax compliance. To address these, tax administrations are strengthening international cooperation through agreements. Joint audits, where tax authorities from multiple countries collaborate on auditing a multinational entity, are becoming more common. Standardized frameworks, such as the Standard Audit File for Tax (SAF-T), facilitate the exchange of financial data between jurisdictions, making it easier to identify and address cross-border tax evasion and avoidance (OECD, 2017).

#### *4.2.6 Behavioral Insights and Taxpayer Engagement*

Understanding and influencing taxpayer behavior is a critical component of modern tax auditing. Behavioral insights, such as the use of nudges, have proven effective in encouraging compliance. For instance, sending personalized reminders about filing deadlines or highlighting the high compliance rates among peers can motivate taxpayers to fulfill their obligations. Social norm messaging, which emphasizes that most taxpayers are honest and compliant, reinforces positive behavior. These strategies, combined with clear and accessible communication channels, help build trust and reduce resistance to compliance efforts.

#### *4.2.7 Systemic Audits for Framework Validation*

Rather than focusing solely on individual cases of non-compliance, modern tax audits increasingly assess the effectiveness of broader compliance systems. This involves verifying that automated reporting tools, third-party data integrations, and other compliance frameworks are functioning as intended. By ensuring the robustness of these systems, tax administrations can prevent errors and fraud on a larger scale. Systemic audits also provide valuable feedback for improving tax policies and administrative practices.

#### *4.2.8 Collaborative Frameworks with Third Parties*

Tax administrations are partnering with software developers, accountants, and other third-party service providers to enhance compliance. For example, tax authorities may work with developers to create accounting software that includes built-in tax compliance features. These collaborations ensure that compliance requirements are seamlessly integrated into the tools businesses and individuals already use, reducing the need for additional effort. Such partnerships also allow tax administrations to leverage the expertise and resources of private-sector stakeholders.

#### *4.2.9 Real-Time Monitoring and Upstreaming*

Upstreaming involves shifting compliance activities closer to the point of taxable events, such as the time of a financial transaction or the issuance of an invoice. Real-time monitoring tools enable tax authorities to detect and address non-compliance as it happens, rather than relying on post-filing audits. For example, e-invoicing systems can automatically report transaction details to tax authorities, ensuring accuracy and transparency. This approach reduces the likelihood of errors and fraud while streamlining the compliance process for taxpayers.

#### *4.2.10 Capacity Building and Skill Development in Auditing*

The evolving nature of tax auditing requires auditors to acquire new skills and expertise. Tax administrations are investing in the professional development of their staff, focusing on areas such as data science, cybersecurity, and advanced analytics. Training programs ensure that auditors are equipped to handle the complexities of modern tax systems and effectively use the latest tools and technologies. This emphasis on capacity building enhances the overall effectiveness and credibility of tax audits. (OECD, 2017)

### **5. The tax control system in Algeria:**

The Algerian tax system is declarative, granting taxpayers relative freedom to submit their tax declarations voluntarily in a manner that aligns with their actual activities and income.

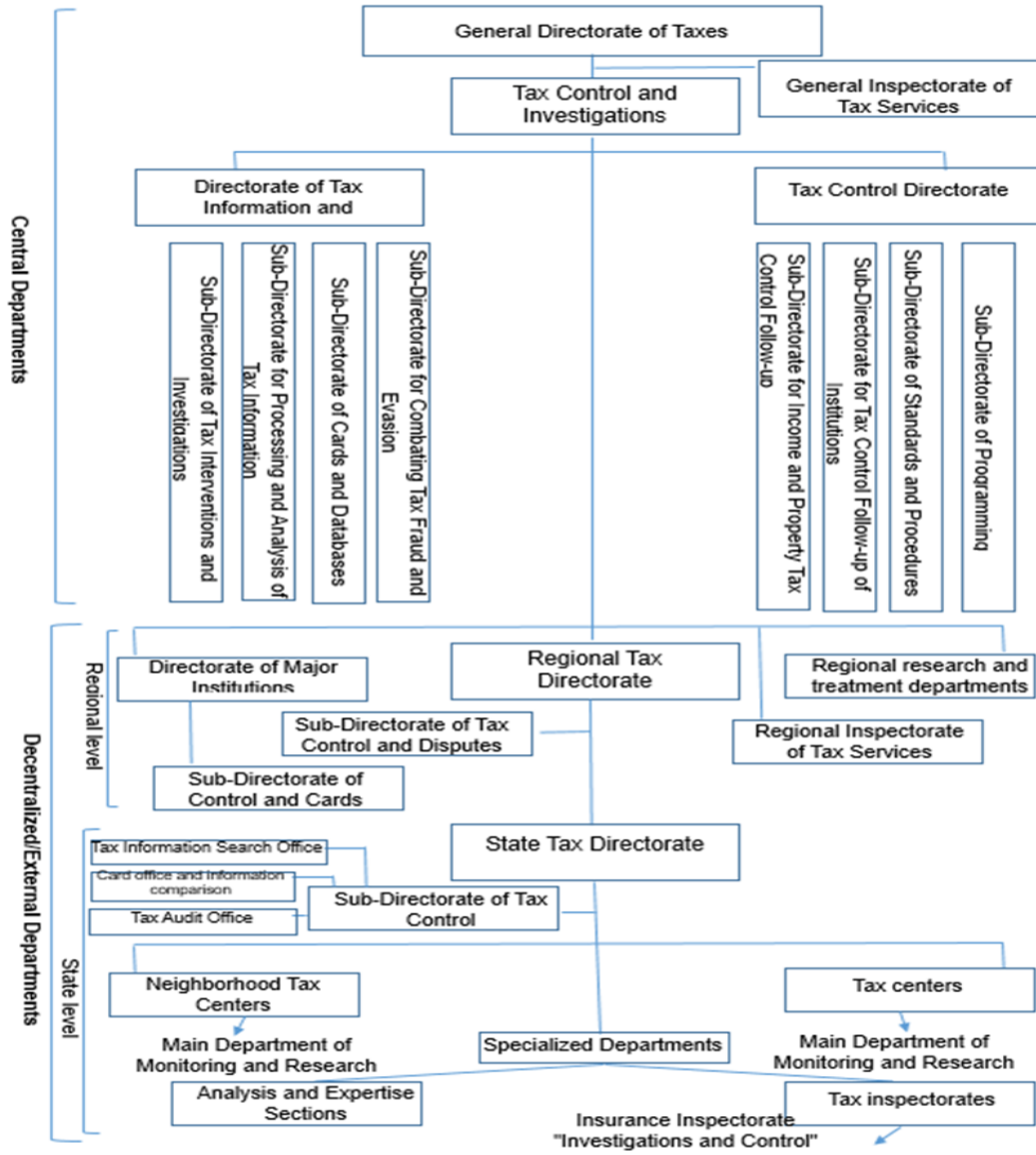
On the other side of the balance, there are various legal and regulatory control mechanisms in place to ensure the accuracy of these declarations.

#### *5.1. Tax control structures in Algeria*

The tax organization in Algeria is based on three main pillars: assessment, collection, control, disputes, resources, and reception and information (Décret exécutif n° 06-327 , 2006/1427).

Since this study focuses specifically on the control aspect, the organizational structure of the tax control system in Algeria will be presented, or more precisely, the structures responsible for it at various levels, as illustrated in the Figure N° 1 below:

Figure 1 : Tax control structures in Algeria



Source : )Direction générale des impôts(2025 • (Décret exécutif n° 06-327, 2006) (Décret exécutif n° 21-252 , 2021)

### Forms of tax control in Algeria

Tax auditing in the Algerian system is based on verifying the accuracy and credibility of declarations submitted by taxpayers and comparing them with information obtained from external sources. Therefore, this control is subsequent control , conducted by tax administration bodies and employees. It encompasses three types, as follows:

#### 5.1.1 Investigation in accounting :

It is a set of operations that are based on the review of tax declarations for closed fiscal years. The inspection involves an on-site examination of accounting books and documents by tax administration officers holding a rank of at least inspector (عباد سهام, 2021).

This type of control, carried out by tax administration officers based on the documents in their possession, begins when the relevant departments receive the tax and accounting declarations submitted or filed by taxpayers. It is conducted systematically and non-selectively by examining the declared elements and correcting any identified errors.

This type of control, carried out by tax administration officers based on the documents in their possession, begins when the relevant departments receive the tax and accounting declarations submitted or filed by taxpayers. It is conducted systematically and non-selectively by examining the declared elements and correcting any identified errors.

It also involves comparing the information in G50 and G50A declarations and the annual declaration with data obtained from reconciliation statements, information cards, and client lists. The purpose of this audit is to correct observable errors in the declarations and to assist in preparing files for in-depth control later.

#### *5.1.2 Focused Accounting Investigation*

This type of control was introduced by the Supplementary Finance Law of 2008. It targets the accounting records of taxpayers for one or several types of taxes over a full or partial non-prescribed period, or for a set of transactions or accounting data for a duration of no less than one fiscal year. A focused accounting investigation becomes necessary when the tax administration **suspects the authenticity** of documents or agreements concluded by taxpayers, which may conceal the true substance of the contract through provisions aimed at avoiding or reducing tax liabilities.

#### *5.1.3 In-Depth Investigation of the Comprehensive Tax Situation*

This type of control applies to individuals subject to personal income tax, whether or not they have a tax domicile in Algeria, as long as they have obligations related to this tax. During this investigation, Investigating assistants verify the consistency between the declared income, financial assets, and the components of the lifestyle of the members of the taxpayer's household. An in-depth investigation of the comprehensive tax situation may be conducted when an individual's property holdings and lifestyle elements, despite not being registered for tax purposes, indicate the existence of undeclared activities or income evading taxation (عيد سهام، 2021).

We observe that the Algerian tax legislator exclusively uses the term "investigation" in the context of tax control, without explicitly employing the term "tax audit," which is the focus of this research paper. However, we can conceptually map the definition of tax auditing and distinguish it from tax investigation. Upon analysis, the term "tax audit" implicitly aligns with the concept of accounting investigation.

This conclusion is based on applying the concept of tax auditing to the various types of tax control in Algeria, using several criteria: objectives, methods, inputs, legal and regulatory framework, etc.

Therefore, our analysis of tax auditing in the Algerian tax system will focus on the accounting investigation type, as it is the term that most accurately reflects the essence, procedures, and objectives of tax auditing.

### *5.2. The adopted reforms for implementing modern tax audit in the Algerian tax system:*

The tax system has undergone significant reforms aimed at aligning this sensitive system with various changes and developments, particularly those related to the digitization of the tax sector, which specifically targets:

#### *5.2.1 Improving the relationship between the tax administration and the taxpayer:*

This is achieved by bringing the administration closer to the taxpayer, simplifying procedures, and making it easier for taxpayers to fulfill their tax obligations in a manner that fosters trust in the tax system. This is especially true in terms of promoting transparency and accountability, as exemplified by the platforms "Jibaytik" and "Mousahamatik," which provide various supports that taxpayers need in areas such as understanding declaration methods, declaration deadlines, and more.

Figure2: Algerian tax platforms "Jibaytik" and "Mousahamatik"



source : (Algerian General Tax Directorate , 2025)

The message and philosophy of these two platforms are: "Readiness, Ease, Speed, and Security". These slogans represent promises delivered by the remote tax administration services, which offer a high level of readiness and ease of access. Additionally, the exchange of data between the taxpayer and the portal is conducted securely. The remote declaration service is accompanied by easy assistance, thus providing:

#### 5.2.1.1 Online declaration and payment:

*Once a declaration is submitted, it is transferred to the "Payment" section, which serves as a guarantee of the correct receipt of the tax declaration by the tax authorities. The taxpayer can then remotely pay the declared taxes and fees online using a credit card or a prepaid card. Upon successful completion of the transaction, the taxpayer is notified of the outcome through a payment receipt in their personal space.*

#### 5.2.1.2 Usage that helps avoid calculation errors and typographical mistakes resulting from paper-based procedures:

For example, the "Mousahamatik" platform provides each taxpayer with a personalized space showing the number of declarations registered, the number of days remaining before the monthly declaration deadline, the number of declarations awaiting payment, the number of payments received by the tax administration, and the ability to make remote payments via interbank or prepaid cards. It also allows browsing or printing justificatory documents (payment receipts, bank domiciliation certificates, etc.). In this way, the tax administration embodies a behavioral vision in its performance.

#### 5.2.1.3 Supporting financial inclusion through the "Mousahamatik" platform,

which brings the administration closer to taxpayers residing in remote areas far from tax centers or neighboring tax offices. Thus, the efforts of the Algerian tax administration to adapt its systems to contemporary developments and changes are evident. Additionally, there is a need to intensify the role of tax auditing (accounting investigations) in line with modern trends that ensure voluntary tax compliance. The digitization of services in this secure, transparent, simplified, and taxpayer-friendly manner, which helps taxpayers understand their rights and obligations and enables them to demand accountability and claim their rights through a personalized space that preserves their privacy due to their control over settings and passwords, will significantly enhance the relationship between the taxpayer and the tax administration, and consequently, the tax system. This is achieved by fostering the taxpayer's perception of fairness and their rights.

#### 5.2.2 Towards adopting embedded compliance:

This is achieved through several legal measures, the most important of which is the obligation for economic operators to implement electronic payment methods that allow their customers to pay for their purchases using electronic payment cards upon request (Art 47, 2018/1440) . In return, a reduction in the taxable base for corporate profits has been granted to commercial banks and Algeria Post for one year until December 31, 2025. This reduction is equivalent to the commissions borne by these institutions in the context of transactions carried out using electronic payment methods (Direction générale des impôts , 2025). In this way, tax administration bodies will be able to accurately identify tax bases by involving a third party, namely banks and Algeria Post.

Additionally, this encourages the use of electronic payment methods, logically preparing for the integration of tax rules into point-of-sale and accounting systems, ensuring that tax calculations and reports are automatic and error-free.

Furthermore, the possibility of real-time monitoring is also among the goals pursued by the Algerian tax administration, as demonstrated by these digital and legal measures embodied in the digital and electronic domain, particularly in daily transactions.

### 5.3. Existing Challenges:

Among the most significant challenges that still hinder the complete and smooth transition to a proactive approach to tax auditing, as observed through our field interactions with tax administration agents and visits to their workplaces to follow up on operations, are:

- Weak technological infrastructure: Algeria is still somewhat distant from blockchain technologies and the use of advanced data analysis and artificial intelligence technologies, especially in financial institutions. This is compounded by the difficulty in training human resources in this field within the tax administration, given their financial and economic background, which remains somewhat distant from this area, despite the introduction of specialized fields that integrate economics with advanced computer science and technologies.
- Resistance to change among taxpayers and the persistence of negative perceptions about taxes and compliance with paying them.
- The incomplete and absolute integration of tax processes into daily operations, which motivates the tax administration to consider the necessity of collaborating with software developers and accountants to create accounting software that includes embedded tax compliance features.

These challenges highlight the need for continued efforts to modernize the tax system and ensure its alignment with global best practices.

## 6. Conclusion

This research paper has explored the role of tax auditing in enhancing tax compliance, with a particular focus on the Algerian tax system. By examining both theoretical frameworks and practical applications, the study has highlighted the importance of modernizing tax audit practices to align with global trends and technological advancements. The findings underscore the critical role of tax audits in fostering voluntary compliance, improving revenue collection, and building trust between taxpayers and tax authorities.

It became evident that while Algeria has made significant strides in digitizing its tax administration and adopting modern audit practices, several challenges remain. These include weak technological infrastructure, resistance to change among taxpayers, and the incomplete integration of tax processes into daily operations. Despite these challenges, the reforms implemented, such as the introduction of platforms like "Jibaytik" and "Mousahamatik," demonstrate a clear commitment to improving the efficiency and transparency of the tax system.

The hypotheses proposed in this study were largely validated. First, it was confirmed that tax auditing in Algeria remains predominantly focused on ex-post control measures, with limited adoption of proactive and real-time auditing techniques. Second, the study highlighted that modern trends in tax auditing emphasize a shift from reactive to proactive approaches, leveraging advanced technologies such as artificial intelligence, blockchain, and data analytics to enhance compliance. Finally, the research identified key challenges, including technological limitations and the need for greater integration between tax authorities and other stakeholders, such as financial institutions and software developers.

From a theoretical perspective, the study reinforced the importance of tax audits as a mechanism for deterring non-compliance, verifying the accuracy of declarations, and educating taxpayers. It also emphasized the role of behavioral insights and compliance-by-design principles in fostering voluntary adherence to tax obligations. The integration of these modern approaches into the Algerian tax system has the potential to significantly enhance compliance levels, provided that the necessary infrastructure and human resources are developed.

On the practical side, the research highlighted the achievements of the Algerian tax administration in digitizing its services and improving taxpayer engagement. However, it also pointed out the need for further reforms, particularly in the areas of technological adoption, capacity building, and stakeholder collaboration. The study suggests that Algeria

could benefit from adopting best practices from other countries, such as the integration of tax rules into accounting software and the use of real-time monitoring tools.

In conclusion, while Algeria has made commendable progress in modernizing its tax audit practices, there is still considerable work to be done to fully align with global standards. Addressing the existing challenges will require a concerted effort from all stakeholders, including the government, tax authorities, taxpayers, and private sector partners. By continuing to invest in technology, training, and taxpayer education, Algeria can strengthen its tax system, enhance compliance, and ultimately achieve its sustainable development goals.

This research contributes to the ongoing discourse on tax compliance and auditing by providing a comprehensive analysis of the Algerian context. It offers valuable insights for policymakers and tax administrators seeking to improve the effectiveness of tax systems in developing countries. Future research could explore the long-term impact of digital reforms on taxpayer behavior and revenue collection, as well as the potential role of emerging technologies in further enhancing tax compliance.

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