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# Tax Auditors' Judgment and Decision Making

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The importance of judgment and decision-making in tax audit is accepted without any argument. Ashton (1974) argued that although judgment is the most important factor in the process of audit, it is difficult to explain how auditors make judgment. Sometimes auditors use their professional judgment which they acquired through experience in evaluating audit evidence before making the decision. Taxpayers and tax practitioners, for example, are more interested in knowing the decision/choice made by tax auditors when resolving tax audit cases.

Judgment and decision-making are distinct decisions in the context of a tax audit. Judgment should be regarded as a recommendation, whereas decision-making or choice decision should be regarded as decision-making or choice decision. In tax audit, recommending tax audit adjustments involves examining taxpayers' facts and circumstances and the applicable tax law to evaluate the benefits and costs associated with potential tax audit adjustments. Tax auditors then use their discretion to propose tax audit adjustments that are most appropriate for a taxpayer's situation. The outcome, on the other hand, involves a decision or choice. Tax auditors make a final decision whether to resolve the tax audit case with or without any tax audit adjustments,

When resolving tax audit cases, tax auditors need to go through four steps before they recommend any or no tax audit adjustments. The four steps are to (i) obtain information about taxpayers' return; (ii) evaluate the information; (iii) determine the accuracy of income reported; and (iv) develop recommendations. These four steps are aligned with Einhorn and Hogarth's (1981) general framework for decision-making which are (i) information acquisition; (ii) evaluation; (iii) action; and (iv) feedback or learning. It is reasonable to assume that the tax auditors' aggressiveness in judgment may influence the outcome of tax audit findings. As a result, inaccurate additional taxes and penalties could be imposed not only on non-compliant taxpayers, but even on compliant taxpayers.



Worldwide, the implementation of the self-assessment system has made tax audit a routine job for tax auditors. Two types of tax audit, desk audits and field audits are conducted to ensure that taxpayers have prepared tax returns correctly, as well as declared and paid the right amount of income in accordance with tax laws, rules, and regulation. In completing a tax audit, tax auditors frequently face challenges such as the lack of evidence due to a paperless system (Gilbert, Petticrew, & Salt, 2001), task complexity and the ambiguity of tax laws. Reynolds (2007) argued that the tasks might become complicated if the audit issues encroached on grey areas which make distinguishing between tax evasion and acceptable tax avoidance difficult. In addition, tax auditors also need to cope with poor cooperation from taxpayers, poor record-keeping, inadequate resources, and shortage of manpower. Such work-related problems are assumed to be stressful to tax auditors; thus, might lead to the aggressiveness in judgment.

For instance, in Australia, the ATO (2006) reported that most cases brought to litigation were due to tax auditors' failure to perform the following: to identify relevant facts, to reference identified facts as evidence, to gather appropriate evidence, making inappropriate assumptions and assertions in audits and objection decision and to obtain relevant facts and information. In the Malaysian setting, the audit timeframe as stipulated in the tax audit framework (IRBM, 2019) requires tax auditors to resolve tax audit cases within three months. It is of the opinion that the three months audit timeframe can influence the judgment process which leads to an inaccurate judgment. In addition, job stress and other tax audit related problems as mentioned above can influence the process of gathering and evaluating the evidence in settling tax audit cases. As a result, tax auditors make aggressive judgment in deriving a decision to resolve the cases quickly.



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