

Firm Networks and Tax Compliance: Experimental Evidence from Uganda

Miguel Almunia, CUNEF Universidad

Abstract

How do tax enforcement interventions diffuse through firm-to-firm networks? We explore this question with a randomized trial in Uganda. Using transaction-level VAT data, we map seller-buyer networks and identify discrepancies in the amounts reported by trading partners. Enforcement letters highlighting these discrepancies are sent to either the seller, the buyer, or both. The correction rate in the treatment group is 23.8%, fourteen times higher than in the control group.

This response is asymmetric: corrections are primarily made by sellers, even when only buyers receive letters, providing novel evidence that firms can induce changes in their partners' tax reporting. Spillover effects extend to transactions not listed in the letters, including those involving other trading partners. The intervention also results in sustained improvements in reporting behavior over subsequent months. Our study sheds light on firm-to-firm communication within networks and offers policy-relevant insights for fighting tax evasion.