

THE IMPACT OF EMBEDDED INTELLIGENT AGENTS ON TAX COMPLIANCE DECISIONS

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ABSTRACT

The use of tax preparation software to meet Federal tax compliance requirements has dramatically increased in the last decade. It is generally assumed that such software improves the accuracy of taxpayer's returns, in part, because embedded intelligent agents identify potential form errors, provide interpretations of tax laws, and highlight potential IRS audit flags. This assumption is inconsistent with the theory of technology dominance which posits that novice users with limited tax knowledge will become overly dependent on the software, and ultimately be more susceptible to poor decision making. Alternatively, skilled users with sufficient tax knowledge are posited to use such decision aids as a support tool for improved decision making. This study presents the results of computerized tax experiment that are consistent with the hypothesized effects. Overall, the audit flags embedded in the software caused taxpayers to take a more conservative position. For novice decision-makers, this conservative adjustment is rather extreme and results in a significant overstatement of taxable income and accordingly, tax liability. Skilled users, however, maintained essentially the same level of taxable income and corresponding tax liability despite warnings of potential audit.