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Political alignment and tax audits

Evidence from South African firms

Fadzayi Chingwere,¹ Aimable Nsabimana,² and Kunal Sen³

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Abstract: How does political alignment with the ruling party influence the audit outcomes of the firms? This paper investigates whether political alignment with the ruling party influences the intensity and outcomes of firm audits in South Africa. Using a regression discontinuity design based on close provincial election results from 2014, we examine how firms are treated in municipalities narrowly won versus narrowly lost by the African National Congress (ANC). We combine detailed audit data with corporate income tax (CIT) returns to assess whether audit frequency, enforcement outcomes, and firm-reported liabilities differ along political lines. Our findings show a marked reduction in audit amounts, number of audit cases, and compliant taxpayers in ANC-aligned municipalities. These effects extend to tax reporting behavior: firms in aligned areas report significantly lower corporate tax liabilities despite exhibiting higher reported sales. This pattern suggests that political alignment dampens enforcement without corresponding decreases in firm performance. The study provides suggestive evidence of regulatory forbearance shaped by political incentives, raising broader concerns about fairness, institutional credibility, and the erosion of tax morale in politically connected jurisdictions.

Key words: close elections, firm audits, South Africa

JEL classification: H26, H30, M42, D72

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1 Introduction

The integrity of regulatory enforcement remains a central concern in political economy and public finance (Asher and Novosad 2017; Bardhan and Mookherjee 2010; Nagavarapu and Sekhri 2014). Governments rely on institutions such as tax authorities and audit agencies not only to collect revenue, but also to enforce the rule of law and to foster a sense of fairness among citizens and firms (Besley et al. 2013). Yet the functioning of these agencies can be undermined by political interference, especially in settings where the ruling party faces incentives to shield supporters or punish rivals (Asher and Novosad 2017; Bardhan and Mookherjee 2010). Nowhere is this more salient than in the administration of firm audits, a process that is designed to be neutral and technical, but which is vulnerable to subtle forms of manipulation (Asher and Novosad 2017; Bardhan and Mookherjee 2010; Nagavarapu and Sekhri 2014). In contexts where political actors control key levers of oversight or personnel, the risk emerges that enforcement may serve not only fiscal goals, but also partisan interests (Gerber and Huber 2009; Khanna and Mukherjee 2023).

Understanding the scope and consequences of political manipulation in audit processes is essential for several reasons. First, selective enforcement can undermine voluntary compliance, erode trust in government, and introduce distortions that persist long after the political cycle has ended (Besley et al. 2013; Khanna and Mukherjee 2023; Nagavarapu and Sekhri 2014). Second, if politicians are able to redirect audit resources toward opposition strongholds or away from allied municipalities and firms, they may perpetuate patronage networks that stifle competition and weaken state capacity (Asher and Novosad 2017; Bardhan and Mookherjee 2010). Third, understanding whether audit outcomes are politically manipulated is crucial because such interference can compromise the integrity of tax administration and weaken accountability mechanisms. However, empirically identifying political manipulation in audit processes is challenging, since audit outcomes are influenced by a mix of administrative, economic, and institutional factors. It is often difficult to disentangle whether observed differences in audit enforcement across municipalities reflect strategic political behaviour, or simply legitimate variation in tax capacity, local economic conditions, or bureaucratic constraints. Consequently, causal evidence on the influence of political incentives on audit practices remains scarce, particularly in developing countries where the risks of political interference in bureaucratic processes are high and data limitations and institutional opacity make rigorous evaluation more difficult (Asher and Novosad 2017; Khanna and Mukherjee 2023).

This paper examines the extent to which political alignment with the ruling party influences the conduct and outcomes of firm audits in South Africa. Specifically, we evaluate whether municipalities narrowly aligned with the African National Congress (ANC) following the 2014 provincial elections experience systematically different patterns of audit enforcement compared to those narrowly out of alignment. This focus is motivated by a rich body of theoretical and em-

pirical work on political favoritism, regulatory capture, and the allocation of public resources. Scholars have long argued that politicians may deploy state power to benefit loyal constituencies, reward supporters, or insulate allies from regulatory scrutiny (Bardhan and Mookherjee 2010). Recent studies have furthermore leveraged close election outcomes to identify the causal impact of political alignment on resource allocation, public goods provision, and corruption (Asher and Novosad 2017; Khanna and Mukherjee 2023; Mahadevan 2024). Yet, few papers have directly linked electoral dynamics to the enforcement of tax regulation, and even fewer have been able to trace these effects using administrative data at a granular level.

The South African setting provides a unique opportunity to address these questions. Firstly, South Africa provides a sophisticated tax administration with a history of dominant-party rule and intense local political competition. The institutional environment ensures that tax audits are an important tool for revenue collection and regulatory oversight, but one that is not fully insulated from political pressure. In the South African context, our period of analysis coincides with the well documented phenomenon of state capture under the Jacob Zuma administration, when there was a systematic weakening of the enforcement capabilities of the revenue authority in the country, the South African Revenue Service (SARS).¹ Secondly, the availability of universe-level administrative tax data, matched to precise election outcomes, allows for a credible empirical strategy. By exploiting quasi-random variation in ANC alignment across narrowly won and lost municipalities, this study isolates the causal effect of political incentives on audit intensity, audit composition, and, in extended analyses, related compliance outcomes.

In this context, we employ a regression discontinuity design (RDD) centred on the margin of ANC victory in the 2014 provincial elections, using municipal-level results from these elections as the running variable. This approach, widely used in the political economy literature (Asher and Novosad 2017; Khanna and Mukherjee 2023; Mahadevan 2024; Mahadevan and Shenoy 2023), exploits the fact that municipalities on either side of a close electoral threshold are, on average, similar in observable and unobservable characteristics. Any discontinuous change in audit enforcement at this threshold can therefore be interpreted as a causal effect of political alignment, rather than underlying economic or administrative factors. Importantly, the data capture all firm audits conducted by the national tax authority over several years, including the monetary value and outcome of each audit, as well as demographic, economic, and political characteristics at the municipal level.

This research adds to a growing literature on the political economy of enforcement and regulatory institutions. Our work relates to evidence that political alignment shapes tax behaviour via

¹ As noted by Bhorat et al. (2017), with the appointment of the new SARS Commissioner by the President of South Africa in 2014, the agency was beginning to run up against politically connected persons involved in a variety of illicit activities, some of them associates of the President and his family, as well as businessmen known to be financial contributors to the ANC" (pp. 50-51).

attitudes toward government. Using U.S. data, Cullen et al. (2021) show that when voters are aligned with the president, taxpayers report more easily evaded income, suspect EITC claims fall, and both audits triggered and audits with additional tax due decline, consistent with improved attitudes reducing evasion. We extend this literature to a firm-level, developing-country setting using a close-election RDD. While prior work has documented the use of audits and inspections to reduce corruption (Avis et al. 2018; Duflo et al. 2013; Ferraz and Finan 2008, 2011; Olken 2007), few studies have linked the timing and targeting of audits directly to the incentives created by close electoral competition. The use of universal administrative firm audit data further distinguishes this study, allowing for an analysis that moves beyond perception-based measures or aggregate statistics. Moreover, the South African context, with its blend of institutional sophistication and political contestation, offers valuable lessons for other countries seeking to safeguard regulatory enforcement from partisan influence.

Additionally, extant literature have also demonstrated that political incentives can significantly influence the allocation and enforcement of audits and public oversight. For instance, Avis et al. (2018) show that government audits in Brazil are highly responsive to political incentives, with increased scrutiny and enforcement in areas that pose political risks. Similarly, studies such as Callen et al. (2020), Khanna and Mukherjee (2023), and Lambais and Sigstad (2023) document that regulatory processes, including audits and public resource allocation, are susceptible to partisan manipulation in diverse political contexts. Building on this literature, our empirical analysis uncovers a striking pattern in South Africa: municipalities where the ANC narrowly won in 2014 experienced a significant decline in the final audit amounts assessed by the tax authority. This result points to a substantive reduction in effective audit enforcement, rather than merely changes in audit selection or targeting. Further heterogeneity analyses reveal that both the number of audit cases and the number of compliant taxpayers decrease discontinuously at the ANC margin threshold, indicating that political alignment not only suppresses the intensity of audit activity but also undermines overall taxpayer compliance in affected municipalities. These findings provide new granular insights into how partisan alignment can erode tax enforcement, fiscal discipline, and public trust in a dominant-party democracy.

To better understand the mechanisms driving the observed decline in audit enforcement, we turn to complementary administrative data from corporate income tax (CIT) returns. Using a parallel regression discontinuity (RD) design, we assess whether political alignment influences firm-level tax behaviour, focusing on two key outcomes: reported tax liabilities and firm output. The analysis reveals a sharp discontinuity at the ANC's winning margin cutoff, firms in aligned municipalities report significantly lower total tax payable, consistent with reduced audit intensity and enforcement. Importantly, this pattern corresponds with a decline in positive audit adjustments (i.e., liabilities uncovered through audits), suggesting a broader erosion in tax enforcement capacity. We also find that total firm sales, a proxy for output, increase discontinuously in aligned areas, indicating that reductions in reported tax may not stem from

weaker economic fundamentals, but rather from politically mediated enforcement gaps. Together, these patterns suggest that political alignment not only influence the audit outcomes, but also shapes the broader tax compliance environment, likely as firms anticipate reduced scrutiny or leniency from tax authorities. This mechanism aligns with theoretical arguments on regulatory forbearance and the fiscal costs of patronage (Bardhan and Mookherjee 2010; Duflo et al. 2013; Hodler and Raschky 2014), and extends recent empirical evidence showing that the consequences of political favoritism can spill over into firm-level behaviour and judiciary outcomes (Akçigit et al. 2023; Lambais and Sigstad 2023; Lei 2021). The findings highlight the vulnerability of technical enforcement processes to political interference, with direct implications for state capacity and equitable revenue mobilization.

By integrating rigorous causal identification with universe-level administrative data, this paper makes several contributions to the literature on political economy and public finance. First, it provides clear causal evidence that political incentives can distort technical rules-based processes such as firm audits, based on foundational concerns about regulatory capture and political manipulation of public institutions (Acemoglu and Verdier 2000; Bardhan and Mookherjee 2010). This extends recent work showing that exposure to audit or external scrutiny can discipline politicians and reduce corruption (Avis et al. 2018), by demonstrating that audit processes themselves are susceptible to partisan influence. Second, the study contributes to the literature on political alignment and distributive politics in developing democracies, where dominant-party systems can exacerbate the risks of selective enforcement (Asher and Novosad 2017; Callen et al. 2020; Khanna and Mukherjee 2023; Lambais and Sigstad 2023). Using a regression discontinuity design around close municipal elections, the article isolates the causal impact of political alignment, addressing identification challenges highlighted in the RDD literature (Lee and Lemieux 2010). Third, by documenting both the direct effects on audit activity and the indirect effects on firm behaviour and tax compliance, the analysis speaks to the multifaceted nature of political interference in fiscal policy, complementing the findings on regulatory forbearance and its implications for state capacity and economic development (Asher and Novosad 2017; Duflo et al. 2013; Lei 2021). Collectively, these results highlight the need for institutional reforms that protect regulatory enforcement from political manipulation.

The remainder of the paper is structured as follows. Section 2 reviews the context of South African elections. Section 3 discusses the data sources. Section 4 details the empirical strategy. Section 5 presents the main results on audit outcomes. Section 6 explores mechanisms and supporting evidence from CIT data. Section 7 discusses policy implications and concludes.

2 The South African political context

2.1 South Africa's elections

South Africa's democratic system began in 1994 with the country's first election open to all citizens. This marked the end of apartheid and the start of inclusive governance. The country adopted a new constitution that set up regular elections for national, provincial, and local governments (Republic of South Africa 1996). An independent electoral commission (IEC) was established to make sure elections are fair and free (IEC 2023). Since 1994, national and provincial elections have been held every five years. Voters choose the National Assembly and provincial legislatures through a system where parties get seats in proportion to their share of the vote. The President is then chosen by the National Assembly.

Local government elections started in 1995 and also take place every five years. These elections use a mix of ward voting and proportional representation to select municipal councils, which are in charge of local services and governance (do Vale and Cameron 2016; Republic of South Africa 1998). The African National Congress (ANC) has won every national election since 1994 and has usually been the largest party in provinces and municipalities. But, over time, its support has fallen, especially in cities and at the local government level. Other parties, like the Democratic Alliance (DA) and the Economic Freedom Fighters (EFF), have become more important, and elections have become more competitive (IEC 2023).

Figure 1 shows the decline of ANC support across national, provincial, and local elections over time. Initially dominant, the ANC's backing, especially in local elections, has waned amid increased political competition. This shift highlights broader changes in governance, service provision, and resource management (IEC 2023; Southall 2004). Panel (a) indicates lower ANC support in local elections, with voters sensitive to local issues. Panel (b) highlights provincial variations, with notable declines in the Eastern Cape and Free State and persistent opposition in the Western Cape. Traditional strongholds like Gauteng and KwaZulu-Natal face rising competition. Trends like urbanization, youth disengagement, and dissatisfaction with corruption and inadequate services have eroded ANC support (Southall 2004). Meanwhile, parties like the Economic Freedom Fighters (EFF) and MK Party have gained traction, notably among youth. In the 2024 general election, the ANC lost its parliamentary majority, leading to a coalition government. This evolving political landscape creates opportunities for empirical analysis. Close elections and variation in party control across municipalities offer a credible setting to study how political alignment affects public outcomes, including audit outcomes and tax enforcement.

2.2 State capture in South Africa

State capture refers to the period in South Africa's history when there were widespread scandals under the Jacob Zuma administration (2009–2018) involving one particular business family, who, with corrupt relationships to government figures, allegedly influenced decisions for illicit gain through non-transparent and illegal means. The "State of Capture" report by the Public Protector Thuli Madonsela in 2016 led to the Zondo Commission of Inquiry to investigate these allegations, which found significant corruption, fraud, and weakening of state institutions. Foremost among these state institutions was the South African Revenue Service (SARS) which was widely admired for its ability to detect and pursue delinquent tax payers, and evolved into a highly efficient revenue service under the Presidential tenure of Thabo Mbeki, the predecessor to President Zuma (Bhorat et al. 2017). However, with the appointment of a new SARS Commissioner by President Zuma in 2014, several senior SARS officials resigned or were forced to resign, as President Zuma attempted to bring SARS under his control. Further, the Projects and Evidence Management and Technical Support Division (PEMTS) which conducted civil and criminal investigations in SARS, was disbanded². As the Nugent report (2018) on the governance of SARS during the state capture period notes, "the organisational structure of SARS that provided oversight was pulled apart (and) capacity for investigating corruption was disabled" (p. 4)³. The 2014 provincial elections - the focus of our study - were held in the middle of the state capture period, and occurred at a time when the enforcement capability of the revenue service of South Africa was greatly weakened as a consequence of state capture. In this paper, we will examine whether the tax audits of the revenue service may have been politically targeted in an environment of weak state capacity.

3 Data sources and description

3.1 South African 2014 election outcomes

To capture political alignment, we use the 2014 South African provincial election results, obtained from the official Electoral Commission of South Africa (2024) website. Specifically, while the election was provincial, we used the votes of this election tallied at the municipal level, which provide local municipality-level data on vote shares by political party. The dataset covers all local municipalities nationwide and we categorized results into four groups per municipality: the winning party, the second winning party, the third winning party, and a combined category for all other parties. For each local municipality, the dataset records the province name,

² As the report of the Judicial Commission of Inquiry into State Capture states, SARS offers one of the clearest patterns of state capture in the South African context: [Zondo Commission Report, 2022](#).

³ More on the Nugent report: [Commission of inquiry into Tax administration and governance, Dec. 11, 2018](#).

municipality name, party name, number of votes received, and the vote share expressed as a percentage. This structure allows for a detailed analysis of political competitiveness at the local municipal level, enabling the construction of variables such as vote margins between parties and the identification of municipalities where elections were closely contested.⁴

Figure 2 presents the distribution of political competitiveness across provinces and municipalities using the Herfindahl Index, a standard measure of vote concentration. Panel (a) shows substantial variation in competitiveness across provinces. Gauteng, and the Western Cape exhibit lower median Herfindahl values and narrow dispersion, indicating more competitive electoral environments. In contrast, provinces such as Limpopo and Mpumalanga display higher median values, suggesting greater political concentration and dominance by a single party. Notably, the presence of several low outliers in Limpopo and Western Cape indicates that they also contain pockets of intense competition at the municipal level. Panel (b) shows the overall distribution of Herfindahl Index values across municipalities. The bulk of municipalities fall between 0.4 and 0.6, reflecting moderate competition, while a notable number exhibit values above 0.7, consistent with strong party dominance. These patterns highlight both provincial and municipality heterogeneity in political competition.

Building on these patterns of political competition, Figure 3 presents the ANC's 2014 provincial election results by municipality. This figure offers a geographic perspective on the variation in ANC support across the country, highlighting where the party achieved comfortable victories, where electoral contests were closer, and where opposition parties performed strongly. In many municipalities, especially those located in Limpopo, Mpumalanga and sections of the Eastern Cape, the ANC recorded very high share of votes, reflecting the strong party dominance captured by the higher values of the Herfindahl Index noted earlier.⁵ In contrast, municipalities in Gauteng and the Western Cape generally experienced much closer races, with the ANC winning by smaller margins or, in some cases, being outperformed by opposition parties. The map in Figure 3 illustrates these differences, emphasizing the coexistence of both secure ANC strongholds and more competitive local political arenas. This spatial diversity in ANC

⁴ Table A1 provides a summary of electoral data over a coverage of South Africa's 213 municipalities across nine provinces. Provinces differ substantially in their share of municipalities, with KwaZulu-Natal and the Eastern Cape contributing the largest numbers.

⁵ Figure A2 shows the kernel density distribution of the vote margins between the winning and runner-up parties in municipalities. The curve reveals a uni-modal, right-skewed distribution, with the highest density of municipalities exhibiting margins in the range of 55% to 70%. This indicates that in many municipalities, the winning party significantly outperformed the runner-up, reflecting strong electoral dominance. However, the left tail of the distribution shows a non-negligible number of municipalities with narrower margins, including those below 20%, which represent more competitive elections. These municipalities are particularly relevant for causal identification strategies that exploit close elections to approximate quasi-random assignment. The overall shape of the distribution reinforces the heterogeneity in local political competition across South Africa, with both dominant-party and closely contested areas present in the data.

electoral support is central to the analysis that follows, as it provides the context for exploring how political alignment may shape audit outcomes.

3.2 Audit data

The audit dataset comes from the National Treasury Secure Data Facility (NT-SDF), based on Extraction 6 (e6), received in August 2024. This audit dataset covers tax audits conducted by the South African Revenue Service (SARS) over the period 1991 to 2023, although the majority of observations are concentrated between 2010 and 2022. It contains detailed information on audit outcomes for both individual and firm taxpayers, including audits for Corporate Income Tax (CIT), Value-Added Tax (VAT), and Pay-As-You-Earn (PAYE) taxpayers. Audit events are documented at the firm's official headquarters. In our data extract, branch operations are not individually audited; therefore, multi-location firms do not have multiple entries across different municipalities due to their branch offices. Administratively, SARS assigns audits to the address listed for the taxpayer. Our data is linked to the headquarters' record, and there are no separate audit files for branches.

The raw audit dataset initially comprises approximately 40 million records. However, due to the structure of the administrative system—where audits are recorded at multiple steps and risk stages—substantial data cleaning was required. Duplicates were dropped by selecting only the final audit step for each taxpayer-year, ensuring that each observation reflects a completed audit event. Observations corresponding to incomplete audits, canceled audits, or audits missing critical financial data were removed. Focusing on firm behaviour, we restrict the sample Corporate Income Tax (CIT) and Value-Added Tax (VAT) audits that relates to firms. The cleaned audit data are then merged with municipal election results using standardized municipality codes and names. Only taxpayers located in municipalities that participated in the 2014 elections and have matched audit records are included in the final analytic sample of approximately 1.6 million observations. Furthermore, the focus is on taxpayers in municipalities where the ruling African National Congress (ANC) either narrowly won or lost, exploiting the quasi-random variation around electoral thresholds.

Table 1 summarizes annual audit outcomes for firm taxpayers, presenting the number of taxpayers audited and average final audit amounts (ZAR), broken down by firm size (Micro-Small vs. Medium-Large) for each audit year. Over the period, approximately 1.6 firms were audited, with considerable variation by firm size and across years. Notably, Micro-Small firms accounted for the majority of audited taxpayers, while Medium-Large firms consistently faced significantly larger audit amounts, despite representing fewer taxpayers. Annual average final audit amounts reveal considerable fluctuation highlighting substantial heterogeneity in audit intensity and outcomes across years and firm sizes. Our firm-year panel is unbalanced. Audits are targeted

and infrequent, so the same firm is not audited every year, and audit intensity and timing vary across firms and municipalities over time. As a result, the set of firms included varies across years.

The key independent variable is an indicator for political alignment, which equals one if the ANC narrowly won the municipality in 2014 and zero otherwise. Narrow victories are defined within a symmetric margin around zero (e.g., $\pm 10\%$). Several audit outcomes serve as dependent variables in the analysis, including the *final audit* (the difference between the taxpayer's original return and the audit adjustment amount), *positive audit* (amount individual owes the government) and *negative audit* (amount individual owed by the government). We also calculated the shares of the positive and negative audits with respect to the total number of audits in each municipality and audit year. Control variables include firm characteristics such as size and sector and fixed effects for provinces and municipality to account for regional economic and administrative differences.

The shares of the positive and negative audits are illustrated in Figure 4, which graphically displays the annual shares of positive and negative audits as a proportion of total audits conducted from 2011 to 2019. Panel (a) shows the share of positive audits—cases where taxpayers owed additional taxes—while panel (b) shows the share of negative audits, where refunds were due. The share of audits resulting in positive adjustments shows an increasing trend from around 30% in 2011, peaking at nearly 50% by 2019, followed by a noticeable decline thereafter. Conversely, the share of audits with negative adjustments consistently decreased from approximately 68% in 2011 to a low of around 52% in 2019, subsequently rising again.

3.3 Company income tax returns

The Corporate Income Tax Firm Panel extraction 5 version 1 (CITFP e5_v1) is a comprehensive administrative dataset derived from SARS' IT14 and ITR14 tax return forms, covering tax years 2008 to 2022 (National Treasury and UNU-WIDER 2023). It contains company-level financial and tax information submitted by all registered CIT-paying firms in South Africa. This dataset includes comprehensive firm-level tax information such as reported taxable income, sales, cost of sales, total deductions, taxable turnover, and tax credits claimed. Additional firm characteristics captured include firm size classification, industry sectors, and geographic identifiers at the municipality level, facilitating precise matching with electoral data.

Table 2 shows the evolution of taxable firms and their mean total tax payable across different size categories. From 2011 to 2019, total tax liability dropped noticeably, especially for medium-large firms, whose average tax payment declined from over R600 000 in 2011 to R344 000 by 2019. This suggests a compression of the effective tax base at the top end. In contrast, micro-small firms report consistently lower tax liabilities, with more moderate increases

over time. The total number of firms shows a relatively stable growth over time. These statistics highlight considerable heterogeneity in corporate tax reporting and compliance across firm sizes, which underpins the subsequent analyses of how political alignment impacts corporate tax enforcement and compliance behaviours.

3.4 South African population census

The South African population census is a nationwide enumeration conducted by Statistics South Africa (Stats SA) to collect demographic, social, and economic data on all individuals and households within the country (Statistics South Africa 2012). It serves as the cornerstone for planning, policy formulation, and resource allocation across government and civil society. The census is conducted every ten years, with previous rounds held in 1996, 2001, 2011, and most recently in 2022. South Africa follows a *de facto* methodology, meaning individuals are counted based on where they were located on the census reference night. Data collection is carried out using a combination of face-to-face interviews, online self-enumeration, and telephonic surveys, depending on accessibility and infrastructure.

For this study, we rely on the 2011 South African Census, which was the third post-apartheid enumeration. The dataset was obtained from IPUMS International, a global repository that harmonizes census microdata for research use (Minnesota Population Center 2023). In our analysis, we use municipal-level indicators derived from the census to capture key socio-demographic dimensions such as total population, share of children under six, female population share, unemployment rate, median income, and urban population ratio. These variables allow us to test the reliability and robustness of our running variable across multiple population characteristics, ensuring that our results are not unduly driven by demographic idiosyncrasies.

4 Estimation strategy

This study applies a regression discontinuity (RD) design that focuses on closely contested 2014 elections to assess whether political alignment with the ruling party influences audit outcomes in municipalities. We also explore mechanisms contributing to these outcomes using corporate tax returns. To estimate the causal effect of political alignment on audit results, we compare municipalities where the ruling party narrowly won to those where it narrowly lost. The key explanatory variable is the vote margin by which the ruling party candidate wins or loses in a municipality. This vote margin—normalized around zero—is used as the running variable in the RD design. Following prior literature (Asher and Novosad 2017; Bardhan and Mookherjee 2010; Nagavarapu and Sekhri 2014), this vote margin is considered quasi-random

in close contests, making the RD strategy credible for identifying local average treatment effects (LATE).

An important consideration in implementing the regression discontinuity (RD) design is the choice of the smoothing parameter, or bandwidth (Calonico et al. 2015; Imbens and Kalyanaraman 2012; Imbens and Lemieux 2008). In this study, we estimate local linear regressions using a rectangular kernel and employ the optimal, data-driven bandwidth selection procedure developed by Calonico et al. (2015). To ensure robustness, we present results using a range of bandwidths, including values below and above the optimal choice. The main findings remain consistent regardless of bandwidth size or the polynomial order employed in the estimation.

A key identification assumption of the RD design is that units on either side of the cutoff are similar in both observed and unobserved characteristics. To validate this assumption, we conduct two balance checks. First, the McCrary density test (McCrary 2008) is used to examine whether there is any discontinuity in the distribution of the running variable (the ANC winning margin) at the cutoff. Figure 5 shows no significant discontinuity in the density of the running variable at zero, supporting the validity of the RD design. Second, Figure 6 presents balance tests for a range of pre-determined municipality-level demographic characteristics drawn from the 2011 South African census (Statistics South Africa 2012). These include the total population, the share of the population under six years old, the urban share, and the median income. The results show no significant discontinuities in these covariates at the cutoff, further validating the comparability of municipalities just above and just below the ANC margin threshold. Table A3 in Appendix shows the regression discontinuity estimates for each of the demographic outcomes at municipality level using different bandwidths for robustness.

Since election outcomes in tightly contested municipalities are subject to numerous unpredictable factors, the assumption of local randomization near the cutoff is plausible (Eggers et al. 2015). This setting enables a credible estimation of the effect of ruling party alignment on subsequent audit outcomes by comparing municipalities just above and just below the margin of victory threshold. We employ a bandwidth of 10 percentage points around the winning vote margin cutoff. This is closely related to the optimal bandwidth of 9.7 percentage points obtained under the Calonico et al. (2015) method using the final audit amount from the administrative data. This bandwidth is applied uniformly across all outcome variables to ensure consistency and facilitate interpretation. In the context of existing literature on close elections, this range is comparable to those used in prior studies. For example, (Asher et al. 2021) consider margins between 3 and 20 percentage points; (Prakash et al. 2019) use margins between 6.16 and 7.79 percentage points; (Bhalotra et al. 2018) examine margins between 16 and 21 percentage points; while (Lehne et al. 2018) and (Clots-Figueras 2012) focus on margins of 6 to 9 percentage points. This shows that a 10-percentage bandwidth falls well within the commonly used range in the literature on close-election regression discontinuity. In the RD design, we

cluster at the municipality level (the unit at which the running variable varies) and report standard bandwidth used in the analysis.

Equation 1 estimates the specification at the firm–municipality level, where the dependent variable captures various audit outcomes. The key running variable, vote margin, is defined as the net difference in the share of votes received by the winning party relative to the runner-up in each municipality.

$$Y_{ia} = \beta \mathbb{1}\{\text{vote_margin} > 0\}_a + f(\text{vote_margin}_a) + \epsilon_{ia} \quad (1)$$

for $a \in \text{BW}$

The function $f(\text{vote_margin})$ flexibly controls for the vote margin, allowing its slope to vary on either side of the cutoff. The analysis is done at firm-level, where Y_{ia} are audit outcomes for firm i in municipality a , and is restricted to observations within an optimal bandwidth (BW) around the cutoff⁶. The RD coefficient β captures the local average treatment effect (LATE) of being aligned with the ruling party. The specification is estimated using data for the years following the 2014 elections. Since the RD design identifies causal effects only near the cutoff, all causal claims are limited to the subset of constituencies where elections were closely contested.

To further explore the dynamics around the election threshold, we use audit data spanning from 2011 to 2019. The goal is to assess how crossing the 2014 winning margin cutoff influences audit outcomes both before (2011–2013) and after (2015–2018) the election. The pre-election period serves as a placebo test to detect any pre-existing trends in audit outcomes, while the post-election years capture potential shifts attributable to political alignment with the ruling party. We implement a difference-in-discontinuities approach, as outlined in equation 3, where Y_{iat} are audit outcomes for firm i in municipality a , at year t , which includes year fixed effects (θ_c), and municipality fixed effects (δ_i). The $\{\text{Vote_margin} > 0\}$ is a dummy variable equals to 1 if a firm is in a municipality where the ruling party won within the optimal bandwidth and D^t is the time dummy for after 2014 elections. The $\mathbf{X}_{iat}$ is a vector of control variables. The analysis is restricted to constituencies within a bandwidth around the cutoff. The year-specific coefficients (β_t) are the main parameters of interest, tracking how audit outcomes evolve relative to when the ruling party narrowly won over time. Because audits are not admin-

⁶ Because audit outcomes can be zero or negative (for example, refunds), we transform the dependent variable using the inverse hyperbolic sine:

$$\text{asinh}(Y_{ia}) = \ln(Y_{ia} + \sqrt{(Y_{ia})^2 + 1}) \quad (2)$$

This transformation is defined for all real Y_{ia} , and behaves like the natural log for large log-like for positives and symmetric for negatives, and is approximately linear near zero.

istered uniformly across years to the same firms, there is limited within-firm variation in audit outcomes; firm fixed effects are therefore not feasible in the audit-outcome regressions. In the DiD/event-study specifications, we include municipality, province and year fixed effects, and the alternate regression include firm size and industry fixed effects. Standard errors are clustered at the municipality level.

$$Y_{iat} = \theta_c + \delta_t + \sum_{\tau=-3; \tau \neq -1}^4 \beta_t \cdot \{Vote_margin > 0\}_a \times D_{it}^{\tau} + \mathbf{X}_{iat}\gamma + \epsilon_{iat} \quad (3)$$

5 Results and discussions

This section presents the core empirical findings on the relationship between political alignment and tax audit enforcement. Drawing on the regression discontinuity design outlined earlier, we assess whether municipalities where the African National Congress (ANC) narrowly won in the 2014 elections experienced systematic differences in audit activity compared to those where the party narrowly lost at municipal level. The results are structured into three parts. First, we examine changes in the final audit amount to assess the intensity of enforcement. Second, we explore heterogeneous effects by analyzing patterns in the number of audit cases and compliant taxpayers—those with zero audit adjustments. Third, we investigate underlying mechanisms using corporate income tax (CIT) return data to understand whether political alignment also influences firm-level tax reporting behaviour.

5.1 Elections and firms audit outcomes

Table 3 presents the core regression discontinuity (RD) estimates quantifying the effect of political alignment on final audit amounts. The analysis compares municipalities where the ANC narrowly won versus those where it narrowly lost the 2014 provincial elections. Across a range of bandwidths (8–12 percentage points), the estimates consistently indicate a statistically significant reduction in final audit amounts in ANC-aligned municipalities. The preferred specification using a 10-percentage-point bandwidth—which closely matches the optimal bandwidth determined through data-driven selection—yields an RD estimate of -13.17 log points ($p < 0.01$). This implies that final audit assessments in aligned municipalities are, on average, approximately 13% lower than in non-aligned ones during the post-election period (2015–2018).

This parametric evidence is visually corroborated in Figure 7, which illustrates the relationship using both an RD plot (Panel a) and an event-study specification (Panel b). In Panel (a), we observe a clear and abrupt drop in the log of final audit amounts exactly at the zero-margin cutoff. Municipalities just above the threshold—where the ANC narrowly won—experience sig-

nificantly lower audit amounts compared to those just below it. This discontinuity is not only statistically sharp but visually stark, supporting the claim that audit outcomes shift at the political margin. Panel (b) extends this analysis by tracing the evolution of audit amounts over time. The event study shows no evidence of differential pre-trends in the years prior to the 2014 election, reinforcing the credibility of the identification strategy. In contrast, the post-election years display a sustained downward shift in final audit amounts in aligned municipalities. Given balance across the RD cutoff on the running variable and underlying assembly demographics (Figure 6), we can claim that the observed reduction is not due to pre-existing trajectories but arises after the electoral treatment. As a robustness check, we normalize audit outcomes by firm sales (final audit amount) / sales) to mitigate size-composition concerns. We construct audit-by-sales as the ratio of (real) final audit amount to (real) sales. We set the ratio to missing when the denominator is non-positive or missing and winsorize at the 1st/99th percentiles. The RDD and DiD results using this ratio are qualitatively unchanged (Appendix, Fig. A1), indicating that our main findings are not driven by firm size or revenue scale. The evidence paints a coherent and robust picture: municipalities narrowly aligned with the ruling party are subject to significantly less intense audit scrutiny, both in terms of the magnitude of audit findings and the persistence of this effect over time.

5.2 Heterogeneity analysis

We begin the heterogeneity analysis by investigating whether political alignment affects the frequency of tax audits, measured by the number of audit cases at the firm-municipality level. Figure 8 illustrates the impact graphically using both a regression discontinuity (RD) plot and an event study design. Panel (a) shows a clear and sharp discontinuity in the log number of audit cases at the ruling party's winning margin threshold. Municipalities where the ANC narrowly won exhibit significantly fewer audit cases than those where it narrowly lost. This visual evidence suggests that political alignment suppresses audit activity, likely reflecting selective enforcement decisions by the tax authority in aligned regions. Panel (b) supports this interpretation by presenting the dynamic evolution of audit case counts. The event study estimates show no significant pre-trends prior to the 2014 election, strengthening the identification strategy. In contrast, there is a systematic and sustained decline in the number of audits in the post-election years for aligned municipalities. The downward trend becomes more pronounced from the second year onward, consistent with a political effect taking hold after the election. These graphical findings are strongly supported by the regression estimates reported in Table A4 (Column 1) in Appendix. The RD estimate for the number of audit cases is -2.36 log points,

significant at the 1% level. This reduction in enforcement intensity suggests that fewer taxpayers are subject to scrutiny purely due to political considerations.⁷

Next, we examine whether political alignment influences the number of compliant taxpayers, defined as firms whose audits resulted in zero adjustments, that is, those deemed fully compliant with tax obligations. Figure 9 provides visual evidence using a regression discontinuity (RD) design and an event study framework. In Panel (a), the RD plot shows a marked discontinuity at the ANC's municipal winning margin cutoff. Specifically, municipalities narrowly aligned with the ANC experienced a visible drop in the number of compliant taxpayers, as captured by the log of compliant firms. This implies that aligned municipalities not only experienced fewer audits overall, but also fewer clean audits, suggesting a broader suppression of enforcement activity rather than a shift toward better-targeted audits. Panel (b) extends the analysis over time. The event study shows no evidence of divergent pre-trends prior to the 2014 election, again validating the RD design's identifying assumptions. However, post-election years display a sustained decline in compliant taxpayers in ANC-aligned municipalities. The effect grows larger over time, reinforcing the view that political alignment leads to systemic reductions in audit activity. These visual findings are confirmed by the regression estimates reported in Table A4 (Column 2). The RD estimate is -2.28 log points, statistically significant at the 1% level. This magnitude closely mirrors the estimated decline in total audit cases, suggesting that the reduction in compliant taxpayers is driven not by a shift in taxpayer behaviour, but by fewer audits being conducted in the first place.⁸

Taken together, the visual and statistical evidence consistently shows that political alignment with the ruling party not only influences who gets audited but also whether audits occur at all, even among fully compliant firms. This pattern of regulatory forbearance results in a broad reduction in audit frequency compliancy in aligned municipalities, highlighting the dampening effect of political favoritism on enforcement.⁹

⁷ By analyzing the results from the 2016 municipal elections, we determined an RD estimate of -3.41 log points, which indicates that this trend persists even when municipal elections are considered instead of provincial elections. These findings are depicted in Table A5 and Figure A7 found in the Online Appendix.

⁸ Through our analysis of the 2016 municipal election results, we found an RD estimate of -3.45 log points for compliant taxpayers. This suggests that the trend continues to hold when municipal elections are considered instead of provincial ones. These results are presented in Table A5 and Figure A7 in the Online Appendix.

⁹ Additional evidence on audit composition and monetary outcomes is provided in Appendix Figures A3 and A4, supported by regression discontinuity estimates in Table A4. Figure A3 shows that the share of positive audits—cases where taxpayers owe additional liabilities—declines, while the share of negative audits—cases resulting in refunds—increases in ANC-aligned municipalities. These visual patterns are confirmed in Table A4, where the share of positive audits falls by 4 percentage points ($RD = -0.04, p < 0.01$), and the share of negative audits rises by the same margin ($RD = 0.04, p < 0.01$).

Appendix Figure A4 further reveals that this pattern is reflected not only in the composition but also in the monetary value of audit outcomes. The log of positive audit amounts decreases significantly in aligned municipalities ($RD = -0.83, p < 0.01$), suggesting that politically aligned firms are less likely to be assessed with large liabilities.

6 Mechanisms

6.1 Elections and tax returns

To shed light on the mechanisms behind the audit disparities, we examine corporate income tax (CIT) liabilities reported in tax returns. Figure 10 displays a regression discontinuity (RD) plot of $\log(\text{total tax payable})$ at the firm-municipality level. A clear downward shift is observed at the ANC's narrow victory threshold, indicating that firms located in municipalities where the ruling party narrowly won the 2014 municipal election paid substantially lower taxes than those in narrowly lost municipalities. Table 4 corroborates this visual evidence, showing statistically significant reductions across bandwidths ranging from 8 to 12 percentage points. The preferred specification at a 10-percentage point bandwidth suggests a decrease of 1.78 log points in reported tax liabilities.

Further heterogeneity analysis by firm size (Figure A5) in Appendix shows that this effect is not driven by differences in firm size. Both Micro-Small and Medium-Large firms display a sharp discontinuity at the cutoff suggesting that the impact of political alignment on tax enforcement is the same on all firm sizes. These findings highlight how political patronage can influence not only who gets audited but also the ultimate fiscal outcomes captured in administrative tax data. This selective enforcement risks eroding state capacity and distorting horizontal equity in tax systems, particularly where audit and assessment discretion is high (Asher and Novosad 2017; Bardhan and Mookherjee 2010; Khanna and Mukherjee 2023).¹⁰

6.2 Elections and firm output

We further explore mechanisms by examining firm output, proxied by total sales, to assess whether the observed reduction in tax liabilities and audits may stem from differences in un-

In contrast, the log of negative audit amounts increases ($RD = 0.63, p < 0.01$), implying that aligned taxpayers may receive more generous refunds or adjustments.

Together, these results provide strong evidence that political alignment reduces both the likelihood and severity of enforcement actions, while increasing favorable outcomes such as refunds. Positive audits typically reflect detection of tax underreporting, whereas negative audits may indicate either legitimate overpayment or discretionary leniency. The observed decline in positive audit frequency and amounts—coupled with increases in negative audits—is consistent with regulatory forbearance or political patronage, where enforcement discretion is exercised to benefit aligned constituencies (see Bardhan and Mookherjee (2010), Asher and Novosad (2017) and Khanna and Mukherjee (2023)). These patterns highlight that political alignment distorts not only who is audited, but also how audits are conducted and resolved.

¹⁰ The reduction in total tax payable observed in CIT returns is consistent with the sharp drop in positive audit liabilities shown in Figure A4 and Table A4, suggesting that politically aligned municipalities not only experience fewer audits but also fewer upward revisions in tax liability. Both outcomes reflect audit-detected tax obligations—positive adjustments in audit data and final tax liability in tax returns—so the alignment across both measures highlights a coherent pattern of reduced enforcement.

derlying firm performance. Figure 11 displays a clear discontinuity at the threshold, indicating that firms in municipalities where the ANC narrowly secured victory reported significantly higher sales compared to those in areas where it narrowly lost. These results are supported by the regression discontinuity estimates in Table 5, which show a statistically significant increase in $\log(\text{total sales})$ ranging from 0.35 to 0.37 across optimal bandwidths of 9 to 13 percentage points. This pattern suggests that politically aligned municipalities may host firms with higher reported economic activity post-election, either due to preferential treatment in public contracts, reduced regulatory pressure, or changes in reporting behaviour¹¹. Disaggregating the effects by firm size (Figure A6) reveals that both micro-small and medium-large firms exhibit similar upward discontinuities, though the slope is flatter among micro and small firms, potentially indicating more uniform responses across the firm size distribution. These patterns suggest that politically aligned municipalities may foster more favorable conditions for business performance or incentives for strategic income reporting. The observed increase in firm output may thus operate as a channel through which political alignment translates into lower tax liabilities and fewer audit flags, reinforcing the evidence of politically motivated regulatory forbearance¹².

7 Conclusion

This paper studies how political alignment with the ruling party affect firm audit outcomes in the context of South Africa. Leveraging on a decade of administrative audit and RDD with close electoral margins around the 2014 municipal elections, we show that municipalities where the the ruling party narrowly won experience substantially lower final audit assessments, fewer audits conducted, and fewer compliant taxpayers. The magnitude and persistence of these effects, coupled with the absence of pre-treatment differences, point to politically motivated regulatory forbearance rather than endogenous firm behaviour or structural differences. We also find that the reduction of firm audit outcomes in aligned municipalities affects both the number of audit cases and their composition. Positive audits—those resulting in additional tax liabilities—decline in frequency and monetary value, while negative audits—those resulting in refunds—increase, suggesting a shift toward more lenient enforcement. We finally show that firms in aligned municipalities report significantly lower corporate tax liabilities while at same

¹¹ The sales response might reflect real economic advantages, such as improved access to procurement, or strategic over-reporting to signal legitimacy under a lenient auditing regime. For similar arguments on favoritism and firm outcomes, see Ferraz and Finan (2008), Ferraz and Finan (2011) and Colonnelli et al. (2017).

¹² The increase in firm output complements the reduction in positive audit amounts (i.e., additional liabilities uncovered through audits), as both outcomes affect tax liability. In politically aligned areas, firms may report higher sales while simultaneously facing fewer upward adjustments through audits, reinforcing the interpretation that enforcement discretion shapes tax outcomes. See also Carrillo et al. (2017) for related insights on taxpayer reporting behaviour under varying audit risks.

time, these firms report higher sales on average, potentially reflecting either real economic benefits from political favoritism or strategic over-reporting under conditions of reduced audit risk. More broadly, the results underscore the subtle but far-reaching ways in which political electoral incentives can compromise bureaucratic neutrality.

Our study has a few limitations. Two data features shape the scope of our claims. First, our audit panel is unbalanced: the same firm is rarely audited twice. We therefore do not estimate firm-level panel models and instead rely on cross-sectional RDD contrasts around the electoral cutoff, accepting that we cannot difference out time-invariant firm heterogeneity. Second, we do not analyze candidates' demographics (e.g., age, gender, education), as these were not available from the election website and hence could not be incorporated into the heterogeneity analysis. More broadly, the RDD identifies a local average treatment effect near close contests, so external validity away from narrowly decided municipalities is limited. Our sales and total-tax results are based on self-reported corporate returns; we cannot fully separate real activity from reporting responses to perceived enforcement. Although we match taxpayers to municipalities using standardized identifiers and run multiple balance checks, residual measurement error (e.g., boundary changes or address quality) may add noise. Finally, while year and municipality fixed effects and event-study checks reduce concern about concurrent shocks, we cannot completely rule out time-varying institutional changes (e.g., resource re-allocations within SARS) that differentially affect aligned areas. These caveats underscore that our findings speak most directly to marginal municipalities and to the mechanisms observable in administrative tax data.

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Main tables

Table 1: Summary statistics of firm-level audits

Audit year	All firms		Micro-Small		Medium-Large	
	Tax payers	Final audits (mean(ZAR))	Tax payers	Final audits (mean(ZAR))	Tax payers	Final audits (mean(ZAR))
2 011	22 819	6 590	9 643	16 783	1 719	-25 604
2 012	89 873	10 187	56 083	12 794	9 941	6 334
2 013	121 628	-18 753	70 470	-15 393	15 849	-78 179
2 014	141 422	-17 163	83 777	-14 548	19 597	-51 344
2 015	167 314	-8 150	100 484	-10 337	23 641	-24 752
2 016	184 702	-5 379	111 935	-6 347	28 018	-20 594
2 017	133 817	4 189	61 700	-2 367	25 586	-1 862
2 018	236 967	729	125 504	169	47 256	-13 896
2 019	526 295	871	345 503	1 516	96 040	-6 761
Total	1 624 837		965 099		267 647	

Note: This table presents annual audit amounts for firm taxpayers, including the number of firms and average of audits amounts for Micro-Small and Medium-Large firms. The values are expressed in real South African Rand terms.

Source: Authors' own calculations based on firm audit data from the National Treasury Secure Data Facility.

Table 2: Summary statistics of Corporate Income Tax

Tax year	All firms		Micro-Small		Medium-Large	
	Tax payers	Total tax (mean (ZAR))	Tax payers	Total tax (mean (ZAR))	Tax payers	Total tax (mean (ZAR))
2011	757 285	50 877	480 922	21 905	12 163	668 860
2012	811 360	53 819	473 959	22 994	27 286	524 940
2013	832 352	57 165	454 178	27 471	62 646	451 806
2014	849 939	45 168	439 651	22 921	66 966	416 484
2015	871 496	45 695	443 562	22 363	71 448	412 569
2016	1 013 562	41 670	494 401	20 372	78 018	396 269
2017	1 081 961	42 547	521 166	19 474	83 329	380 059
2018	1 114 576	45 012	544 718	18 443	87 567	364 946
2019	1 112 083	45 587	582 966	16 098	91 511	344 411
Total	8 444 614		4 435 523		580 934	

Note: This table presents annual total tax for firm, including the number of firm and average of total tax payable amounts for Micro-Small and Medium-Large firms. The values are expressed in real South African Rand terms.

Source: Authors' own calculations based on Corporate Income Tax data from the National Treasury Secure Data Facility.

Table 3: Discontinuity in firm audit amounts

Outcome variable	log(final audit amount)				
RD_Estimate	-15.79*** (1.26)	-13.37*** (0.51)	-13.17*** (0.50)	-12.96*** (0.50)	-12.70*** (0.49)
Observations	13,602	31,739	32,052	32,165	34,274
Bandwidth (% winning margin)	8	9	10	11	12

Note: This table presents regression discontinuity estimates examining whether there is a discontinuity in audited amounts for firms across municipalities where the ANC narrowly won or lost in the 2014 municipal elections. Estimates are reported for a range of bandwidths from 8 to 12 percentage points around the vote margin cutoff. A bandwidth of 10 percentage points, which closely aligns with the optimal bandwidth, is used consistently across all outcome measures. Each column reports results for the window indicated; the number of observations varies mechanically with the bandwidth (narrower windows contain fewer observations). The results show evidence of discontinuously lower final audit amount for firms in municipalities where the ANC narrowly secured victory, for the post-election period spanning 2015 to 2018. Standard errors are clustered at the municipality level. Standard errors in parentheses and * Significant at 10 percent level ** Significant at 5 percent level *** Significant at 1 percent level.

Source: Authors' own calculations based on firm audit data from the National Treasury Secure Data Facility and South Africa 2014 provincial elections data.

Table 4: Discontinuity in firm total tax payable

Outcome variable	log(total tax)				
RD_Estimate	-1.22*** (0.10)	-1.80*** (0.02)	-1.78*** (0.02)	-1.77*** (0.02)	-1.76*** (0.02)
Observations	14,509	37,224	37,561	37,704	40,301
Bandwidth (% winning margin)	8	9	10	11	12

Note: This table presents regression discontinuity estimates examining whether there is a discontinuity in total tax payable for firms across municipalities where the ANC narrowly won or lost in the 2014 municipal elections. Estimates are reported for a range of bandwidths from 8 to 12 percentage points around the vote margin cutoff. A bandwidth of 10 percentage points, which closely aligns with the optimal bandwidth, is used consistently across all outcome measures. Each column reports results for the window indicated; the number of observations varies mechanically with the bandwidth (narrower windows contain fewer observations). The results show evidence of discontinuously lower total tax for firms in municipalities where the ANC narrowly secured victory, for the post-election period spanning 2015 to 2018. Standard errors are clustered at the municipality level. Standard errors in parentheses and * Significant at 10 percent level ** Significant at 5 percent level *** Significant at 1 percent level.

Source: Authors' own calculations based on Corporate Income tax data from the National Treasury Secure Data Facility and South Africa 2014 provincial elections data

Table 5: Discontinuity in firm output (total sales)

Outcome variable	log(total sales)				
RD_Estimate	0.37* (0.20)	0.35* (0.20)	0.36* (0.20)	0.36* (0.19)	0.36* (0.19)
Observations	45,126	45,513	45,691	48,938	48,938
Bandwidth (% winning margin)	9	10	11	12	13

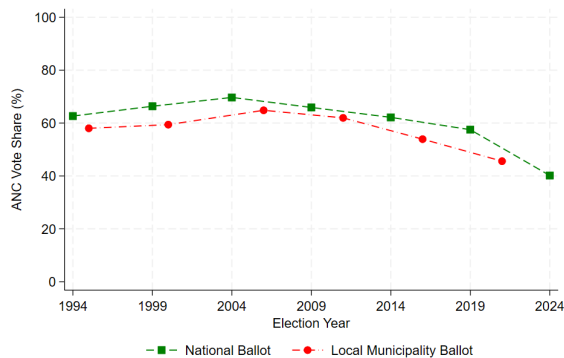
Notes: This table presents regression discontinuity estimates examining whether there is a discontinuity in total sales for firms across municipalities where the ANC narrowly won or lost in the 2014 municipal elections. Estimates are reported for a range of bandwidths from 9 to 13 percentage points around the vote margin cutoff. A bandwidth of 10 percentage points, which closely aligns with the optimal bandwidth, is used consistently across all outcome measures. Each column reports results for the window indicated; the number of observations varies mechanically with the bandwidth (narrower windows contain fewer observations). The results show evidence of discontinuously higher total sales for firms in municipalities where the ANC narrowly secured victory, for the post-election period spanning 2015 to 2018. Standard errors are clustered at the municipality level. Standard errors in parentheses and * Significant at 10 percent level ** Significant at 5 percent level *** Significant at 1 percent level.

Source: Authors' own calculations based on Corporate Income Tax data from the National Treasury Secure Data Facility and South Africa 2014 provincial elections data.

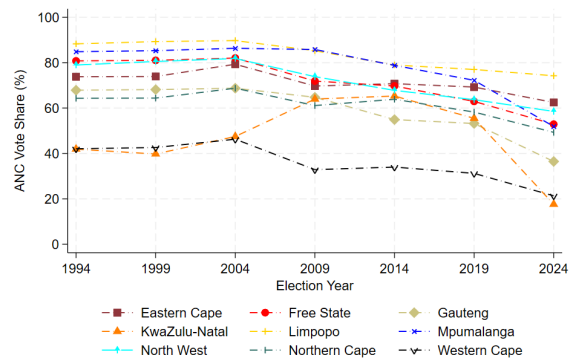
Figures

Figure 1: Shifting Patterns of ANC Support: National, Local, and Provincial Elections

(a) National vs Local Municipality



(b) Provincial Breakdown

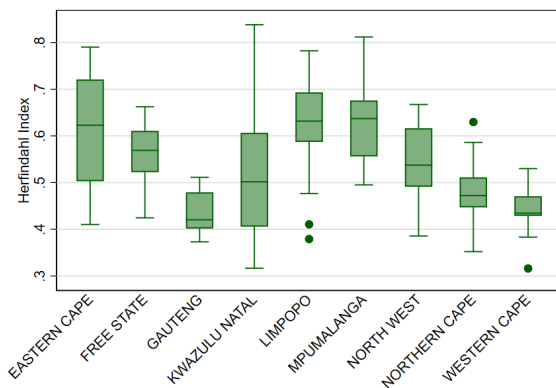


Note:: The graph shows a clear decline in ANC support over time across national, local, and provincial elections. Local municipal election results indicate at consistently lower support than the national level. At the provincial level, once-dominant regions have seen steady decreases in ANC vote share, with particularly sharp declines in key urban and contested provinces. The trend reflects growing electoral challenges and a shift away from single-party dominance across the country.

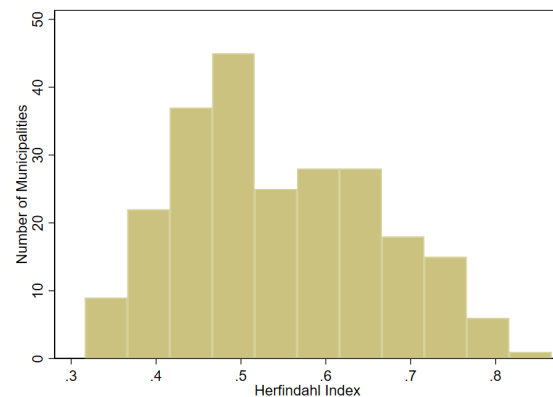
Source: Authors' own illustration based on South Africa 2014 provincial elections data.

Figure 2: Political competitiveness across provinces and municipalities

(a) Provinces



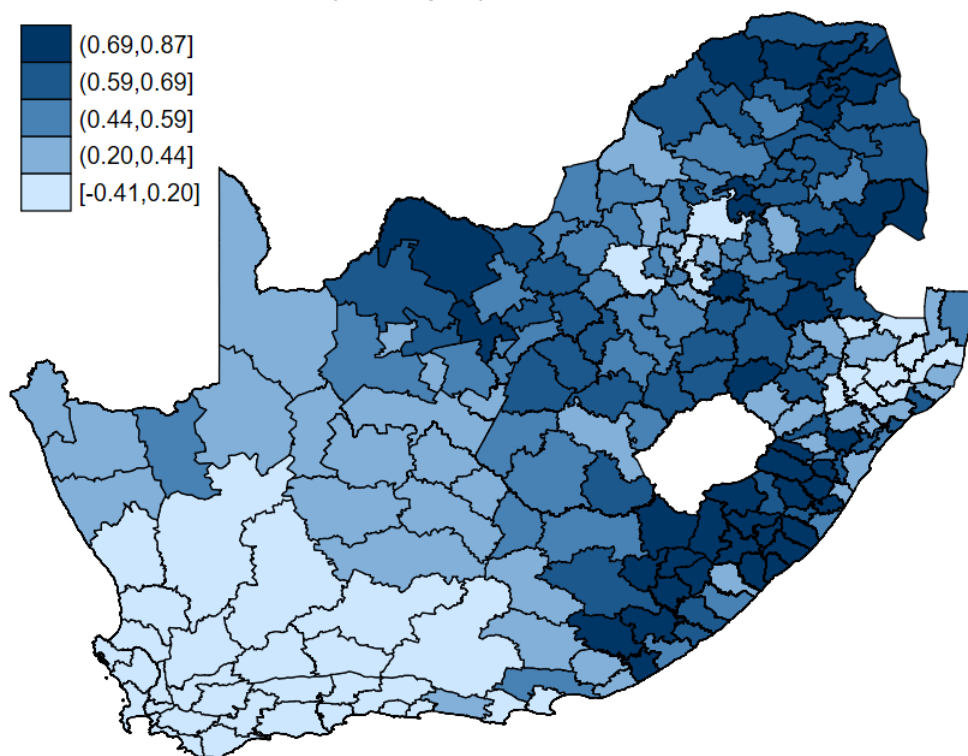
(b) Municipalities



Note: The Herfindahl Index reveals provincial and municipal variation in electoral concentration using 2014 provincial elections. While some provinces display high overall dominance by a single party, the presence of low outliers, particularly in Limpopo and Western Cape, indicates pockets of strong local competition. The municipal-level distribution further highlights the heterogeneity in political competitiveness across the country.

Source: Authors' own illustration based on South Africa 2014 provincial elections data.

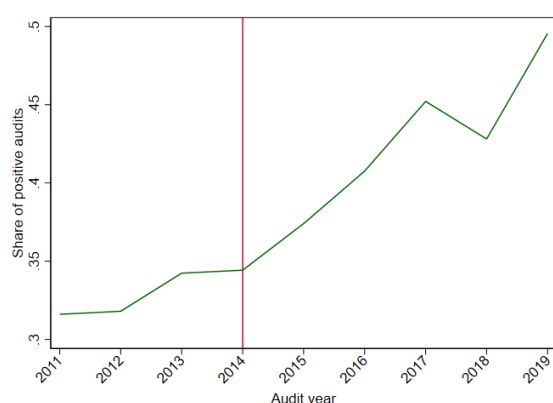
Figure 3: ANC 2014 Election Results by Municipality



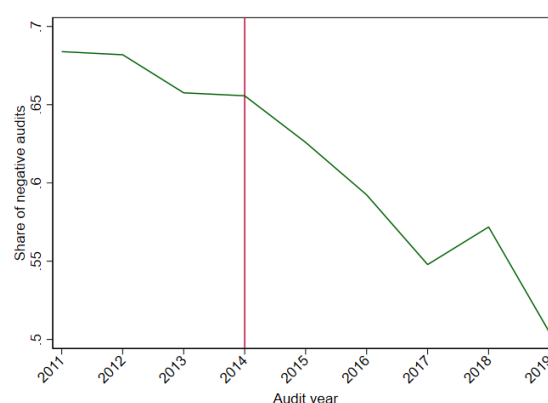
Note: This figure presents the distribution of the ANC's winning margin across municipalities. The winning margin is defined as the difference between the proportion of votes received by the ruling party ANC and that of the runner-up party in a given municipality. A negative margin indicates that the ruling party lost, a margin close to zero indicates a tightly contested election, while larger positive values reflect strong ruling party dominance. Source: Authors' own illustration based on South Africa 2014 provincial elections data. This map was created using Stata 18 using 'shp2dta' and 'spmap' commands. Shapefiles were downloaded from Open Africa website at <https://data.humdata.org/dataset/cod-ab-zaf?>.

Figure 4: Firm audits shares per year

(a) Positive audits



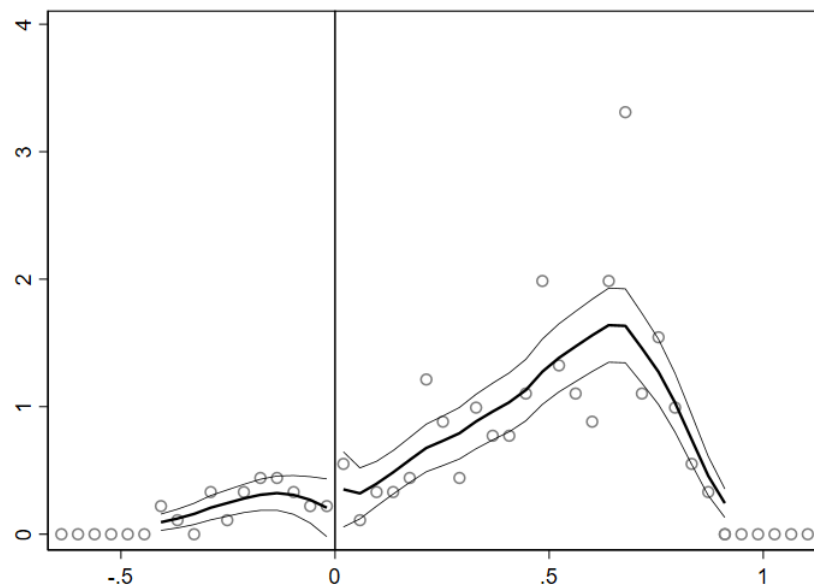
(b) Negative audits



Note: This figure presents the annual share of positive and negative audits conducted by the South African Revenue Service (SARS) between 2011 and 2019. The red line indicates the period of 2014 elections. Positive audits refer to cases where audits resulted in additional tax liabilities assessed, while negative audits refer to audits resulting in refunds or reduced tax liabilities. Shares are calculated as proportions of total audits conducted each year. Data source: NT-SDF administrative audit data.

Source: Authors' own illustration based on firm audit data from the National Treasury Secure Data Facility.

Figure 5: McCrary test for the balance across the RD cutoff

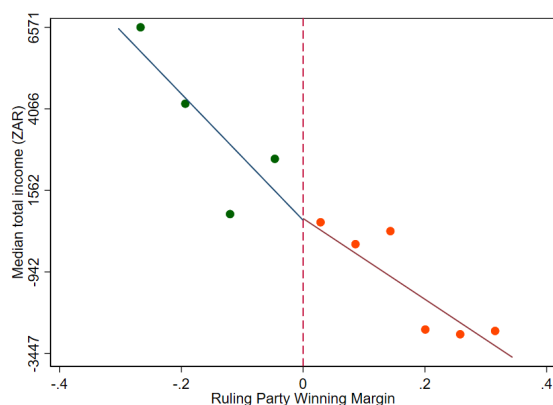


Note: This figure presents represent the smoothness of the running variable density (ruling party winning margin in the 2014 South African provincial elections) and find no evidence of manipulation or sorting around the RD cutoff using the McCrary test. The running variable represents the vote margin by which the African National Congress (ANC), the ruling party, either narrowly won or lost the elections, and the analysis is conducted at the municipality level. There is no visible discontinuity in the density of the running variable at the cutoff point of zero. The plot suggests a smooth distribution of municipalities just above and just below the threshold, which supports the validity of the RD design. The absence of manipulation implies that the assignment of municipalities to treatment (ANC narrowly winning) and control (ANC narrowly losing) groups is as good as random, which strengthens the causal interpretation of subsequent RD estimates examining the effect of political alignment on audit outcomes.

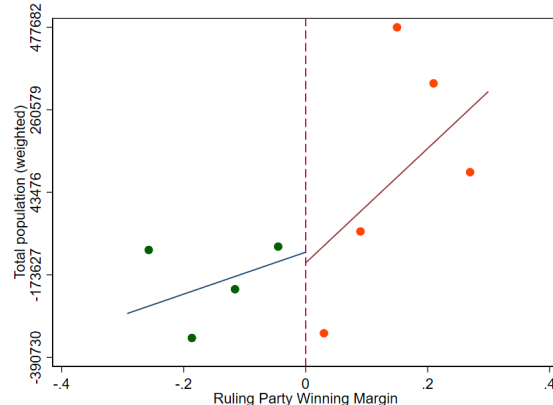
Source: Authors' own illustration based on South Africa 2014 provincial elections data.

Figure 6: Balance of municipal demographic characteristics across the RD cutoff

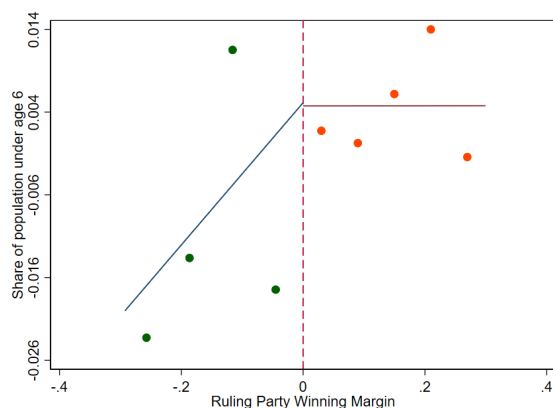
(a) Median income



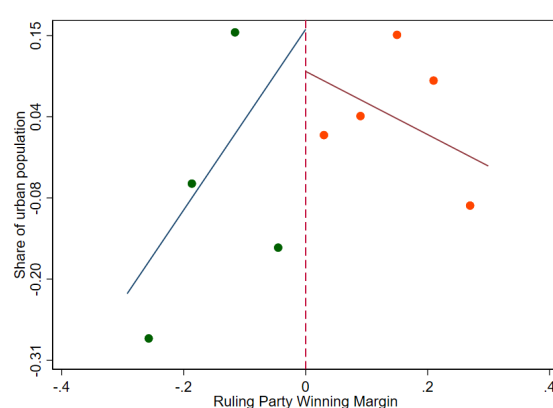
(b) Total weighted population



(c) Share of ages under 6



(d) Share of urban population

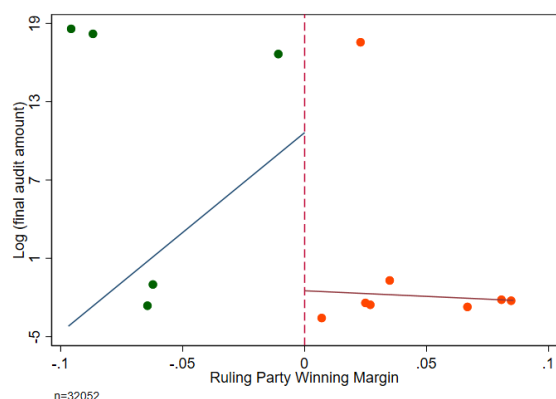


Note: This figure examines the balance of key municipal demographic characteristics around the RD cutoff for the ruling party's winning margin. Panel (a) assesses the relationship between median total income and the ruling party's vote margin, showing no visible discontinuity. Panel (b) plots total weighted population and displays some divergence around the cutoff, but the pre- and post-cutoff trends remain relatively continuous. Panel (c) shows the share of the population under age 6 and suggests no sharp break at the threshold, supporting balance. Similarly, Panel (d) on the share of the urban population indicates a smooth distribution across the cutoff, with no systematic jump. Collectively, these plots provide visual evidence that municipal demographic characteristics are balanced around the threshold, validating the continuity assumption required for the regression discontinuity design. The regression discontinuity estimates for each outcome are also presented in the Appendix Table A3

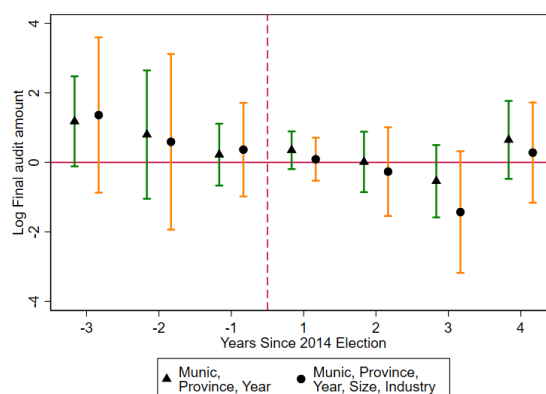
Source: Authors' own illustration based on South Africa 2011 national population census data.

Figure 7: Final audit amount: RD plot and DiD analysis

(a) RD plot



(b) Event study

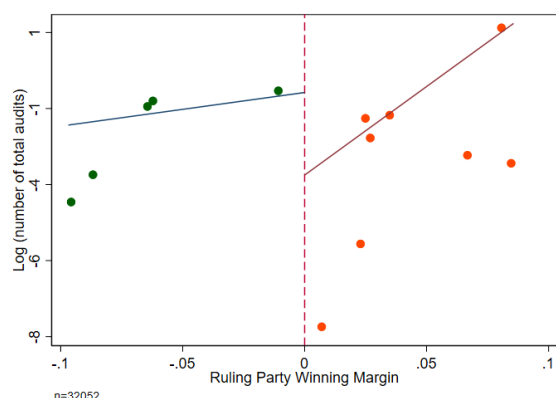


Note: This figure examines the impact of ruling party alignment on final audit amounts, estimated using Equation (1) at the firm-municipality level. Panel (a) implements a regression discontinuity (RD) design centered on the 2014 municipal election, using a running variable defined as the ruling party's winning margin, with an optimal bandwidth of ± 10 percentage points. The plot shows a visible discontinuity in $\log(\text{final audit amount})$ at the threshold, suggesting that municipalities where the ANC narrowly won had significantly lower final audit amounts compared to those where it narrowly lost after the 2014 elections. Panel (b) presents an event study analysis based on Equation (3), examining the dynamic effects of ANC's narrow victory on final audit amounts in the years surrounding the 2014 election. The estimates, reveal no clear pre-trends and suggest a downward shift in final audit amounts in the years following the election. The regression includes municipality, province and year fixed effects, and the alternate regression include firm size and industry fixed effects. Standard errors are clustered at the municipality level.

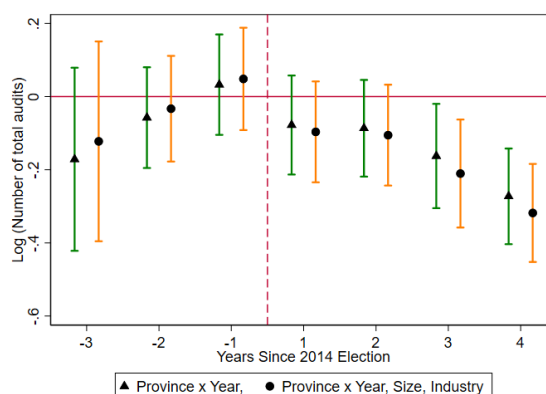
Source: Authors' own illustration based on firm audit data from the National Treasury Secure Data Facility and the South Africa 2014 provincial elections data.

Figure 8: No. of audit cases: RD plot and DiD analysis

(a) RD plot



(b) Event study

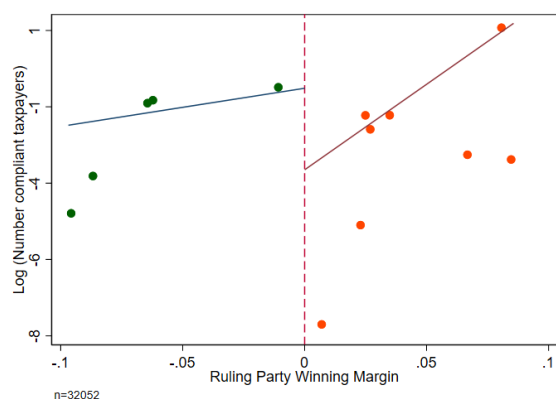


Note: This figure examines the impact of ruling party alignment on the number of audit cases, estimated using Equation (1) at the firm-municipality level. Panel (a) implements a regression discontinuity (RD) design centered on the 2014 municipal election, using a running variable defined as the ruling party's winning margin, with an optimal bandwidth of ± 10 percentage points. The plot shows a visible discontinuity in $\log(\text{number of audits})$ at the threshold, suggesting that municipalities where the ANC narrowly won had significantly lower audit cases compared to those where it narrowly lost after the 2014 elections. Panel (b) presents an event study analysis based on Equation (3), examining the dynamic effects of ANC's narrow victory on number of audit cases in the years surrounding the 2014 election. The estimates, reveal no clear pre-trends and suggest a downward shift in audit cases in the years following the election. The regression includes municipality and year fixed effects, and standard errors are clustered at the municipality level.

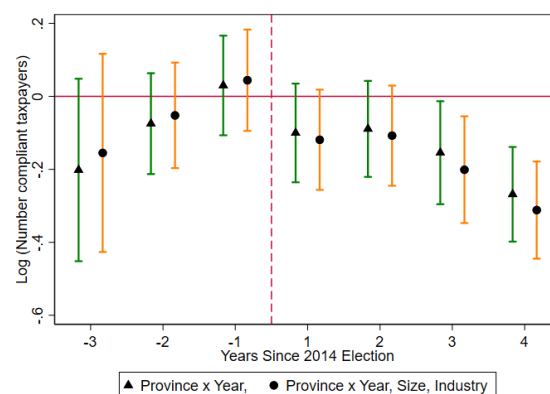
Source: Authors' own illustration based on firm audit data from the National Treasury Secure Data Facility and the South Africa 2014 provincial elections data.

Figure 9: Compliant taxpayers: RD plot and DiD analysis

(a) RD Plot

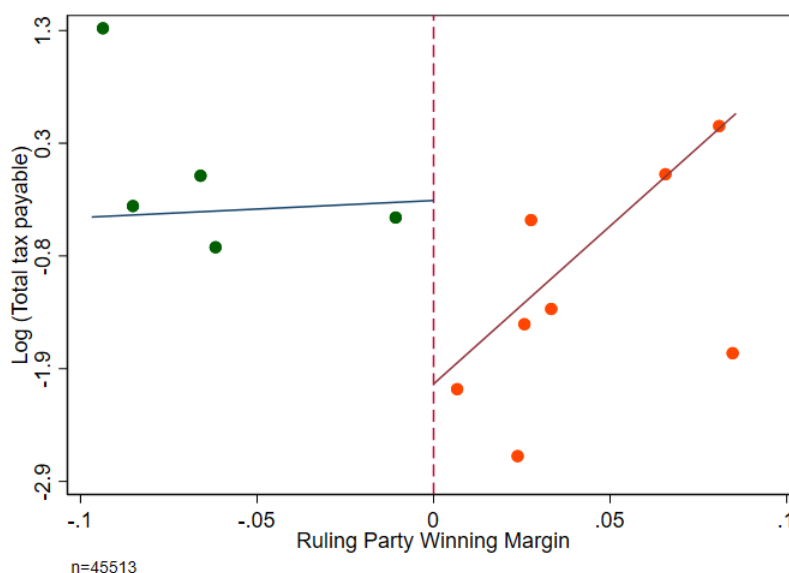


(b) Event study



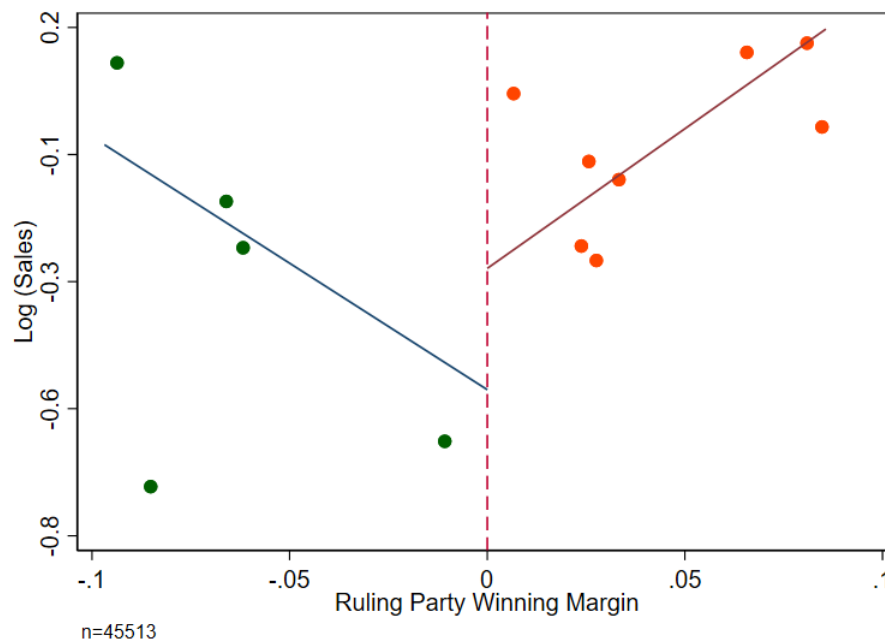
Note: This figure examines the impact of ruling party alignment on the number of compliant taxpayers—indicated by zero adjustments, estimated using Equation (1) at the firm-municipality level. Panel (a) implements a regression discontinuity (RD) design centered on the 2014 municipal election, using a running variable defined as the ruling party's winning margin, with an optimal bandwidth of ± 10 percentage points. The plot shows a visible discontinuity in log(number of compliant taxpayers) at the threshold, suggesting that municipalities where the ANC narrowly won had significantly lower compliancy compared to those where it narrowly lost after the 2014 elections. Panel (b) presents an event study analysis based on Equation (3), examining the dynamic effects of ANC's narrow victory on compliant taxpayers in the years surrounding the 2014 election. The estimates, reveal no clear pre-trends and suggest a downward shift in compliancy in the years following the election. The regression includes municipality and year fixed effects, and standard errors are clustered at the municipality level. Source: Authors' own illustration based on firm audit data from the National Treasury Secure Data Facility and the South Africa 2014 provincial elections data.

Figure 10: Corporate Income Tax (CIT): RD plot



Note: This figure examines the impact of ruling party alignment on tax payable, estimated using Equation (1) at the firm-municipality level. The figure shows a regression discontinuity (RD) design centered on the 2014 municipal election, using a running variable defined as the ruling party's winning margin, with an optimal bandwidth of ± 10 percentage points. The plot shows a visible discontinuity in log(total tax) at the threshold, suggesting that municipalities where the ANC narrowly won had significantly lower total tax amounts compared to those where it narrowly lost after the 2014 elections. Source: Authors' own illustration based on Corporate Income Tax data from the National Treasury Secure Data Facility and the South Africa 2014 provincial elections data.

Figure 11: Firms output (sales): RD plot



Note: This figure examines the impact of ruling party alignment on firm output, estimated using Equation (1) at the firm-municipality level. The figure shows a regression discontinuity (RD) design centered on the 2014 municipal election, using a running variable defined as the ruling party's winning margin, with an optimal bandwidth of ± 10 percentage points. The plot shows a visible discontinuity in log(total sales) at the threshold, suggesting that municipalities where the ANC narrowly won had significantly higher total sales compared to those where it narrowly lost after the 2014 elections.

Source: Authors' own illustration based on Corporate Income Tax data from the National Treasury Secure Data Facility and the South Africa 2014 provincial elections data.

Appendix

Tables

Table A1: Summary statistics of electoral provinces and municipalities

Province	Municipalities	Percent	SD	Min	Max
Eastern Cape	33	16,97	0,38	0	1
Free State	19	8,72	0,28	0	1
Gauteng	9	4,59	0,21	0	1
Kwazulu Natal	44	22,48	0,42	0	1
Limpopo	22	9,17	0,29	0	1
Mpumalanga	17	8,26	0,28	0	1
North West	18	7,34	0,26	0	1
Northern Cape	26	11,47	0,32	0	1
Western Cape	25	11,01	0,31	0	1
Total	213	100			

Source: Authors' own calculations based on South Arica 2014 provincial elections data.

Table A2: Summary statistics for firm level positive and negative audit amounts

Audit year	Positive audits		Negative audits	
	Mean (ZAR)	Count	Mean (ZAR)	Count
2011	152 646	5 871	-50 613	12 703
2012	179 007	22 227	-53 636	47 655
2013	83 401	32 988	-78 810	63 360
2014	58 253	38 689	-62 605	73 687
2015	70 816	49 993	-58 045	83 650
2016	76 627	61 080	-64 444	88 775
2017	129 227	46 913	-94 768	56 848
2018	139 992	53 656	-102 060	71 673
2019	97 648	119 450	-91 602	121 576
2020	116 904	107 839	-114 397	108 936
2021	222 600	50 044	-180 519	72 642
2022	236 525	34 587	-192 164	48 360

Source: Authors' own calculations based on firm audit data from the National Treasury Secure Data Facility.

Table A3: RD estimates for 2011 census demographic characteristics

	(1)	(2)	(3)	(4)	(5)	(6)
VARIABLES	Total population (weighted)	Share of population under age 6	Total population (weighted)	Share of population under age 6	Total population (weighted)	Share of population under age 6
RD_Estimate	-114,317.74 (117,456.70)	0.04 (0.03)	-211,981.81 (136,022.82)	0.02 (0.02)	-238,834.29 (176,373.19)	0.00 (0.02)
Observations	15	15	33	33	54	54
Bandwidth	10	10	20	20	30	30
VARIABLES	Share of urban population	Median total income (ZAR)	Share of urban population	Median total income (ZAR)	Share of urban population	Median total income (ZAR)
RD_Estimate	0.19 (0.33)	-4,780.29 (3,371.94)	0.05 (0.19)	-1,923.97 (4,064.34)	-0.04 (0.16)	-528.36 (3,871.27)
Observations	15	15	33	33	54	54
Bandwidth	10	10	20	20	30	30

Note: This table presents regression discontinuity estimates testing for potential discontinuities in key municipal demographic characteristics at the ANC's winning margin cutoff in the 2014 municipal elections. The outcome variables comprise total population, share of population under age 6, share of female population, unemployment rate, share of urban population, and median total income at the municipal level, based on 2011 Census data. Each column reports results for the window indicated; the number of observations varies mechanically with the bandwidth (narrower windows contain fewer observations). The results serve as a balance test for the RD design, indicating no significant discontinuities in demographic characteristics between municipalities just above and below the cutoff. This suggests that observable characteristics are well balanced on either side of the threshold. Standard errors are clustered at the municipality level. Standard errors in parentheses and * Significant at 10 percent level ** Significant at 5 percent level *** Significant at 1 percent level.

Source: Authors' own calculations based on South Africa 2011 national population census data and South Africa 2014 provincial elections data.

Table A4: Discontinuities in audit outcomes

Outcome variables	(1) Audit cases	(2) Compliant taxpayers	(3) log(+ audits)	(4) log(- audits)	(5) Share of + audits	(6) Share of - audits
RD_Estimate	-2.36*** (0.04)	-2.28*** (0.04)	-0.83*** (0.05)	0.63*** (0.02)	-0.04*** (0.00)	0.04*** (0.00)
Observations	32,052	32,052	8,782	14,002	32,052	32,052
Bandwidth	10	10	10	10	10	10

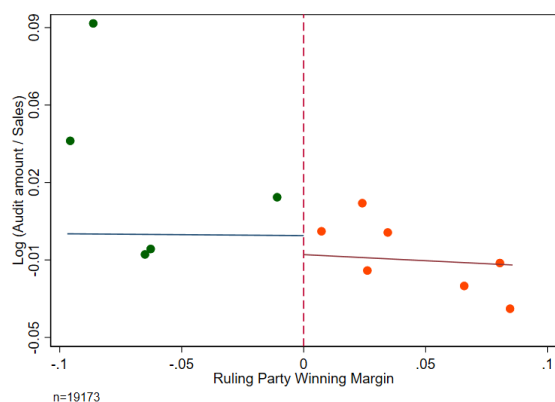
Note: This table presents regression discontinuity estimates examining whether there is a discontinuity in audit outcomes for firms across municipalities where the ANC narrowly won or lost in the 2014 provincial elections. Estimates are reported for a bandwidths of 10 percentage points around the vote margin cutoff. The results show evidence of discontinuously lower number of audit cases and compliant taxpayers, share and amount of positive audits amount for firms in municipalities where the ANC narrowly secured victory, for the post-election period after 2014. Standard errors are clustered at the municipality level. Standard errors in parentheses and * Significant at 10 percent level ** Significant at 5 percent level *** Significant at 1 percent level.

Source: Authors' own calculations based on firm audit data from the National Treasury Secure Data Facility and South Africa 2014 provincial elections data.

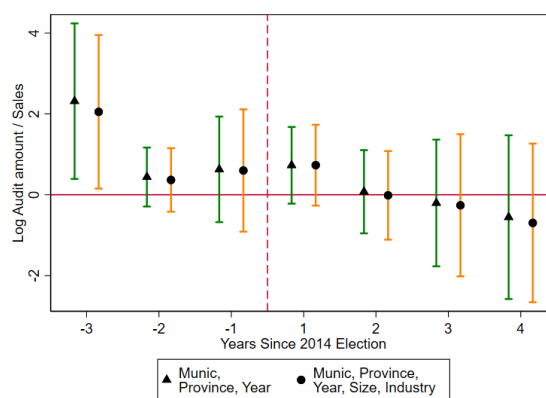
Figures

Figure A1: Final audit amount normalized by sales: RD plot and DiD analysis

(a) RD plot



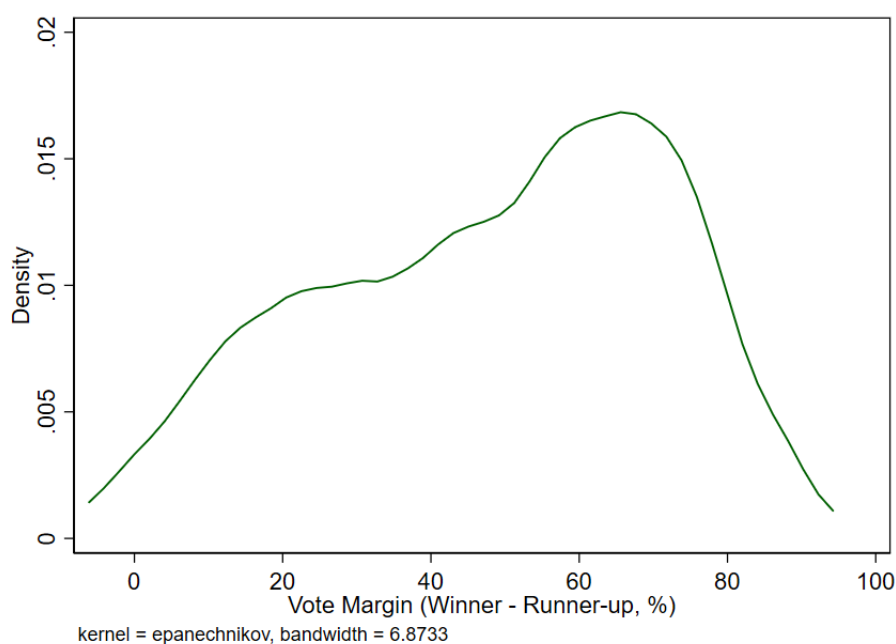
(b) Event study



Note: This figure examines the impact of ruling party alignment on final audit amounts normalized by sales, estimated using Equation (1) at the firm-municipality level. Ratio winsorized at the 1st/99th percentiles and denominator set to missing when sales are less than or equal to 0. Panel (a) implements a regression discontinuity (RD) design centered on the 2014 municipal election, using a running variable defined as the ruling party's winning margin, with an optimal bandwidth of ± 10 percentage points. The plot shows a visible discontinuity in $\log(\text{final audit amount} / \text{sales})$ at the threshold. Panel (b) presents an event study analysis based on Equation (3), examining the dynamic effects of ANC's narrow victory on the same ratio in the years surrounding the 2014 election. The estimates, reveal no clear pre-trends and suggest a downward shift in the ratio of final audit amounts to sales in the years following the election. The regression includes municipality, province and year fixed effects, and the alternate regression include firm size and industry fixed effects. Standard errors are clustered at the municipality level.

Source: Authors' own illustration based on firm audit and Corporate Income Tax data from the National Treasury Secure Data Facility and the South Africa 2014 provincial elections data.

Figure A2: Vote Margin Distribution in the 2014 provincial Elections

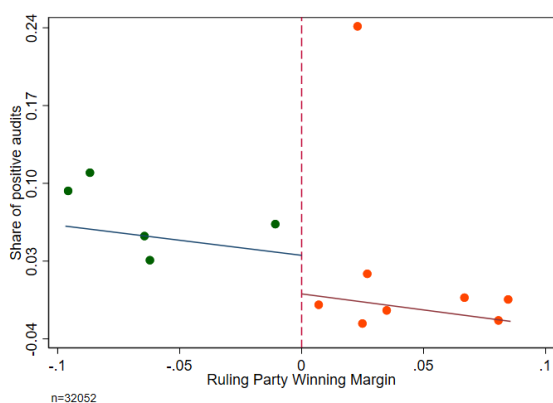


Note: This figure illustrates variation in vote margins across municipalities, highlighting asymmetry in electoral competitiveness. The smooth distribution helps visualize the concentration of dominant-party wins and the closely contested races.

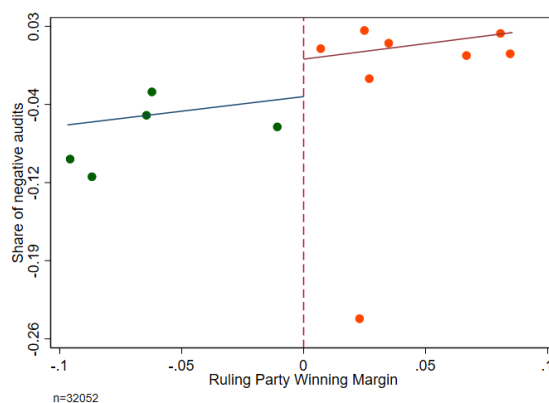
Source: Authors' own illustration based on the South Africa 2014 provincial elections data.

Figure A3: Positive and negative audit shares: RD plots

(a) RD plot: Positive audit shares



(b) RD plot: Negative audit shares

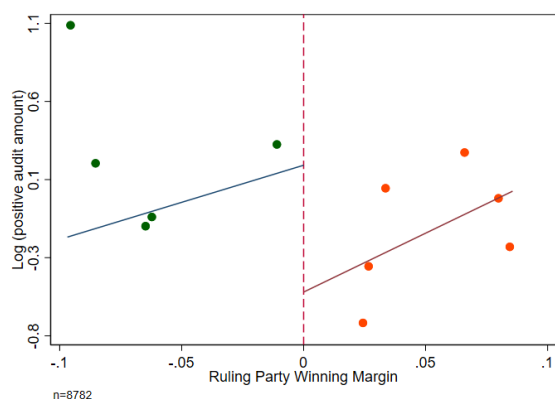


Note: This figure shows a regression discontinuity (RD) plot of the shares of positive and negative audits to total audits as well as shares of zero adjustments to total adjustments on either side of the 2014 winning margin cutoff, estimated using Equation 1 at the individual and firm-level for the years after the 2014 elections. The running variable is the ruling party's winning vote margin, with optimal bandwidth of ± 10 percentage point. The same analysis was done using the 2016 municipal elections and the findings are systematically similar, these findings are shown in Figure A8 in Online Appendix

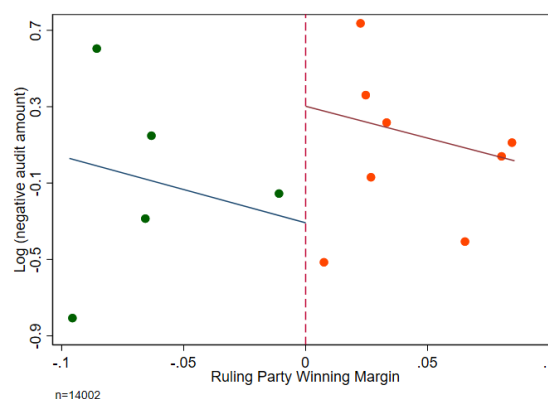
Source: Authors' own illustration based on firm audit and Corporate Income Tax data from the National Treasury Secure Data Facility and the South Africa 2014 provincial elections data.

Figure A4: Positive and negative amounts: RD plots

(a) Positive audit amounts



(b) Negative audit amounts

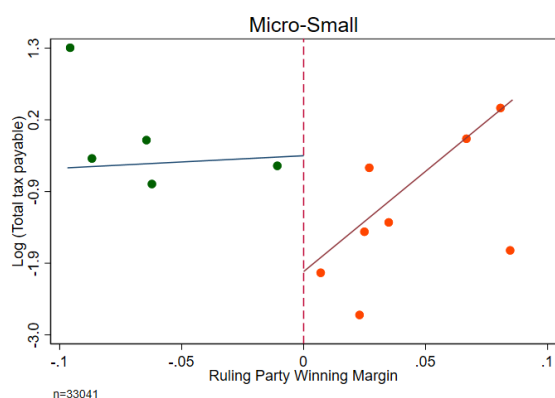


Note: This figure shows a regression discontinuity (RD) plot of negative and positive audit amounts for firms and individuals on either side of the 2014 winning margin cutoff, estimated using Equation 1 at the firm-level for the years after the 2014 elections. The running variable is the ruling party's winning vote margin, with optimal bandwidth of ± 10 percentage point. The same analysis was done using the 2016 municipal elections and the findings are systematically similar, these findings are shown in Figure A9 in Online Appendix

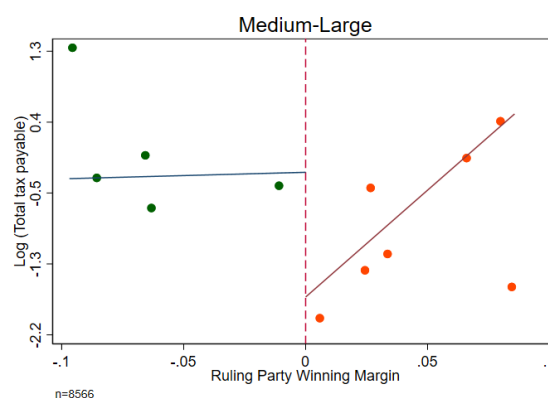
Source: Authors' own illustration based on firm audit and Corporate Income Tax data from the National Treasury Secure Data Facility and the South Africa 2014 provincial elections data.

Figure A5: Corporate Income Tax (CIT): RD plot by firm size

(a) Micro-Small



(b) Medium-Large



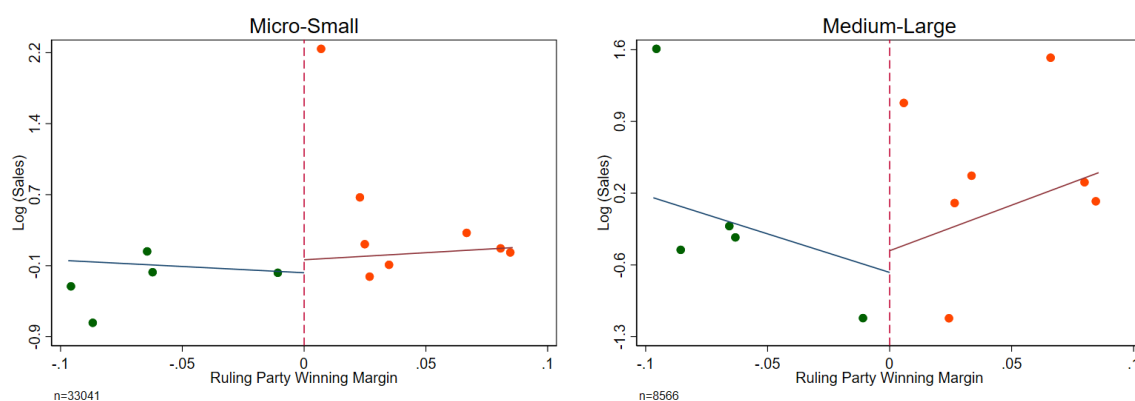
Note: This figure shows a regression discontinuity (RD) plot of corporate total tax payable by firm size on either side of the 2014 winning margin cutoff, estimated using Equation 1 at the firm-level for the years after the 2014 elections. The running variable is the ruling party's winning vote margin, with optimal bandwidth of ± 10 percentage point.

Source: Authors' own illustration based on Corporate Income Tax data from the National Treasury Secure Data Facility and the South Africa 2014 provincial elections data.

Figure A6: Firm output (sales): RD plot by firm size

(a) Micro-Small

(b) Medium-Large



Note: This figure shows a regression discontinuity (RD) plot of firm output measured by log of total sales by firm size on either side of the 2014 winning margin cutoff, estimated using Equation 1 at the firm-level for the years after the 2014 elections. The running variable is the ruling party's winning vote margin, with optimal bandwidth of ± 10 percentage point.

Source: Authors' own illustration based on firm audit and Corporate Income Tax data from the National Treasury Secure Data Facility and the South Africa 2014 provincial elections data.

The 2016 local municipality elections

Table

Table A5: Discontinuity in audit outcomes

VARIABLES	(1) log(Audit amount)	(2) Audit cases	(3) Compliant taxpayers	(4) Log(+ audits)	(5) log(- audits)
RD Estimate	-2.34*** (0.38)	-3.41*** (0.13)	-3.45*** (0.12)	-0.45*** (0.06)	0.88*** (0.05)
Observations	30,187	30,187	30,187	7,900	8,931
Bandwidth	10	10	10	10	10

Note: This table presents regression discontinuity estimates examining whether there is a discontinuity in audit outcomes for firms across municipalities where the ANC narrowly won or lost in the 2016 local municipal elections. Estimates are reported for a bandwidths of 10 percentage points around the vote margin cutoff. The results show evidence of discontinuously lower final audit amounts, number of audit cases and compliant taxpayers and positive audits amount for firms in municipalities where the ANC narrowly secured victory, for the post-election period after 2016. Standard errors are clustered at the municipality level. Standard errors in parentheses and * Significant at 10 percent level ** Significant at 5 percent level *** Significant at 1 percent level.

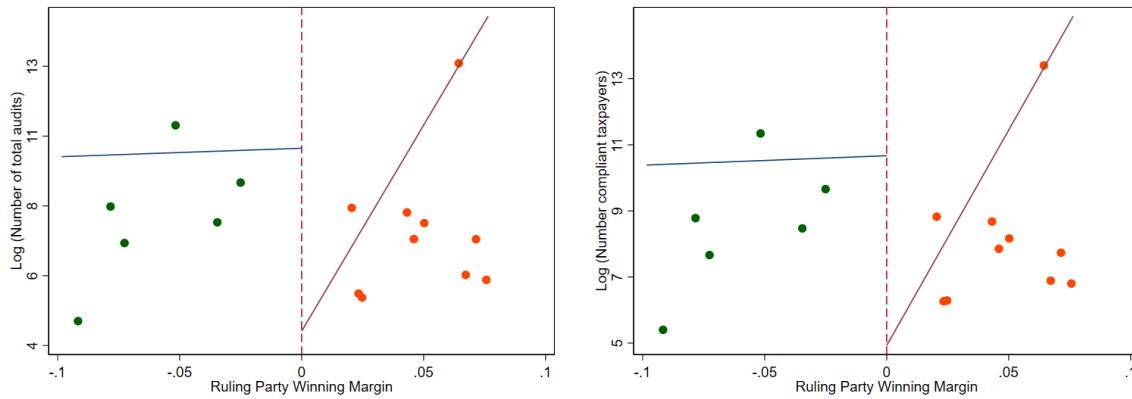
Source: Authors' own calculations based on firm audit data from the National Treasury Secure Data Facility and South Arica 2016 municipal elections data.

Figures

Figure A7: RD plots for number audit cases and compliant taxpayers

(a) No. of audit cases

(b) Compliant taxpayers



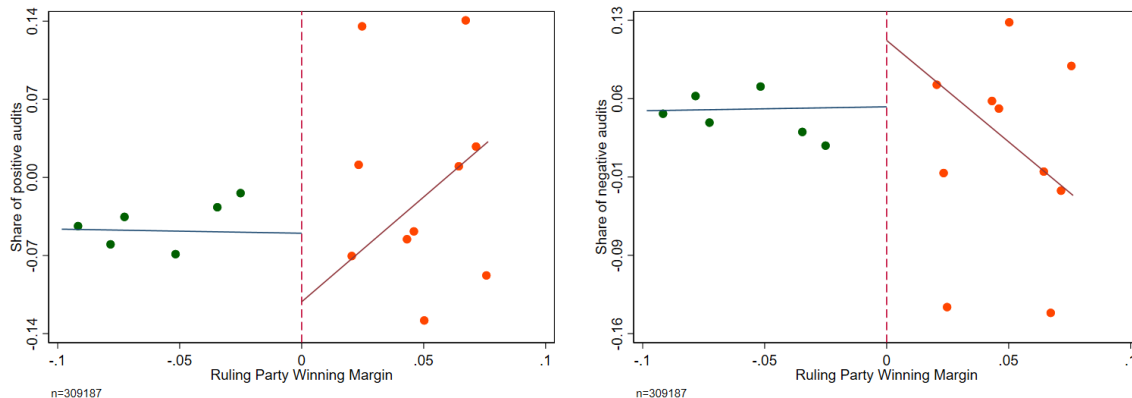
Note: This figure shows a regression discontinuity (RD) plot of the the number of audits done for firms and the number of zero adjustments on either side of the 2016 local municipality winning margin cutoff, estimated using Equation 1 at the firm-level for the years after the 2016 elections. The running variable is the ruling party's winning vote margin, with optimal bandwidth of ± 10 percentage point.

Source: Authors' own illustration based on firm audit from the National Treasury Secure Data Facility and the South Africa 2016 local municipality elections data.

Figure A8: RD plots and event study for audit shares

(a) RD plot: Positive audit shares

(b) RD plot: Negative audit shares

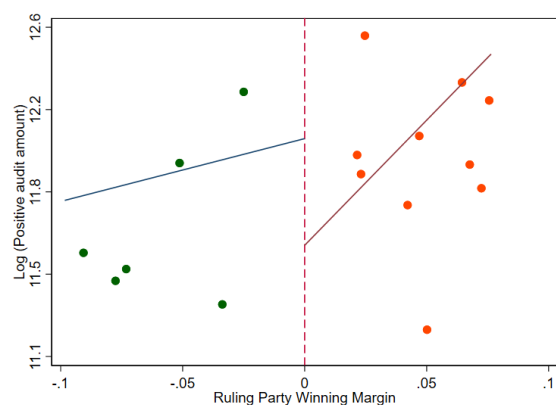


Note: This figure shows a regression discontinuity (RD) plot of the shares of positive and negative audits to total audits, estimated using Equation 1 at the firm-level for the years after the 2016 local municipality elections. The running variable is the ruling party's winning vote margin, with optimal bandwidth of ± 10 percentage point.

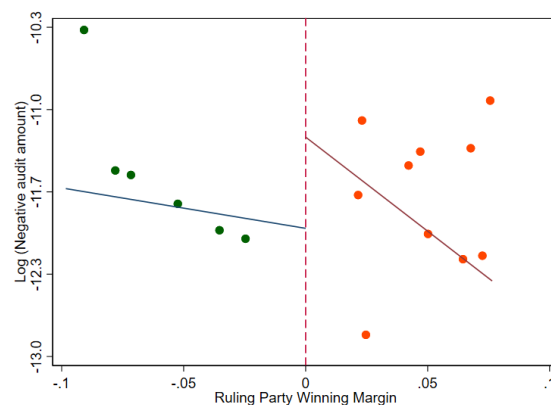
Source: Authors' own illustration based on firm audit data from the National Treasury Secure Data Facility and the South Africa 2016 provincial elections data.

Figure A9: Positive and negative amounts: RD plots

(a) Positive audit amounts



(b) Negative audit amounts



Note: This figure shows a regression discontinuity (RD) plot of positive and negative audit amounts for firms on either side of the 2016 local municipality winning margin cutoff, estimated using Equation 1 at the firm-level for the years after the 2016 elections. The running variable is the ruling party's winning vote margin, with optimal bandwidth of ± 10 percentage point.

Source: Authors' own illustration based on firm audit data from the National Treasury Secure Data Facility and the South Africa 2016 provincial elections data.

Appendix B: Data

This data appendix is created as per UNU-WIDER requirements for users of the National Treasury Secure Data Facility (NT-SDF). It reports on data directly used for the results presented in this paper.

Data access

The data used for this study was accessed from the NT-SDF and is subject to a non-disclosure of private information agreement. Outputs were subject to strict control by qualified staff members assigned to this task to ensure anonymity of firms and individuals. The data used for the paper was the Firm-Audit Data (2024) Extraction 6, Version 1. Period of data access: March 2025 to 20 October 2025.

Software

The empirical analysis was conducted in **Stata 19**. The regression discontinuity estimates were implemented using the **rdrobust** and **rdplot** commands (Calonico, Cattaneo & Titiunik 2015), which provide bias-corrected local polynomial estimates and robust confidence intervals. For the dynamic effects and event study specifications, we estimated two-way fixed effects models using **reghdfe** (Correia 2016), which allows for high-dimensional fixed effects and clustered standard errors at the municipal level.

Cleaning

Audit Data Construction and Firm-Level Outcomes

We use firm-level audit data from the South African Revenue Service (SARS), which records tax return assessments before and after the audit process. Each observation includes three primary financial variables:

- *Return Amount* – the tax amount originally declared by the firm in its corporate income tax (CIT) return;
- *Adjusted Amount* – the additional tax (positive) or reduction/refund (negative) assessed after SARS completes the audit;
- *Final Amount* – the post-audit assessed liability, calculated as:

$$\text{Final Amount} = \text{Return Amount} + \text{Adjusted Amount}.$$

Our main outcome variable is the *Final Amount*, which captures the total tax liability following an audit. We further classify audit outcomes into:

- *Positive Final Amounts*: firms with additional tax liabilities (SARS assesses more tax than initially declared);
- *Negative Final Amounts*: firms where SARS owes tax back to the firm (downward adjustments/refunds);
- *Compliant Firms*: firms with zero adjustment (Adjusted Amount = 0), implying no change between return and final assessed amount.

In addition to monetary audit outcomes, we construct the Number of Audit Cases, defined as the count of completed audits per municipality-year. Duplicate audit IDs within the same firm-year were removed to avoid double-counting.

Audit Composition Measures

To study compliance behaviour across municipalities and over time, we construct audit composition variables:

- *Share of Positive Audits*:

$$\text{Share Positive} = \frac{\text{Number of Audits with Final Amount} > 0}{\text{Total Number of Audits}}.$$

- *Share of Negative Audits*:

$$\text{Share Negative} = \frac{\text{Number of Audits with Final Amount} < 0}{\text{Total Number of Audits}}.$$

Incorporation of CIT Data and Additional Financial Variables

To account for firm size and tax behaviour, we merge these audit records with SARS Corporate Income Tax (CIT) data, from which we extract:

- *Total Tax Payable* – reported tax liability;
- *Total Sales/Turnover* – firm-level sales revenue from the CIT return.

These variables are used in the RD estimations and to compute audit intensity scaled by firm size:

$$\text{Audit Amount Normalised to Sales} = \frac{\text{Final Audit Amount}}{\text{Sales}}.$$

Data Preparation

Firm identifiers were cleaned and harmonised across tax years, non-corporate entities were excluded, and monetary variables were winsorised to limit extreme outliers. Variables involving audit amounts were transformed using the inverse hyperbolic sine function (asinh) in specifications requiring logged values (to allow for zero and negative amounts).

Finally, the cleaned firm-level panel was merged with municipal election results, assigning each firm the ANC margin of victory in the 2014 provincial elections, using firm headquarter locations matched to municipal boundaries.