

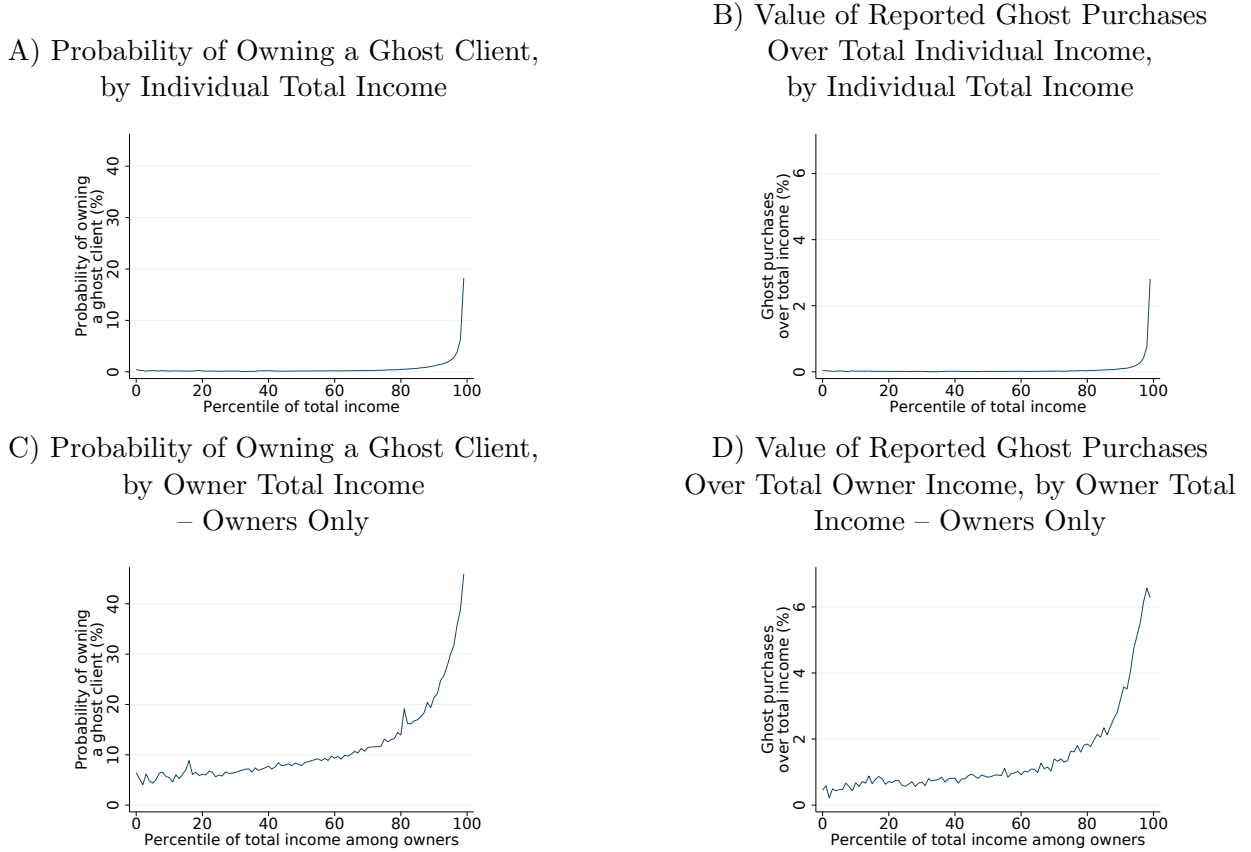
Ghosting the Tax Authority:
Fake Firms and Tax Fraud in Ecuador

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Dave Donaldson
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Online Appendix

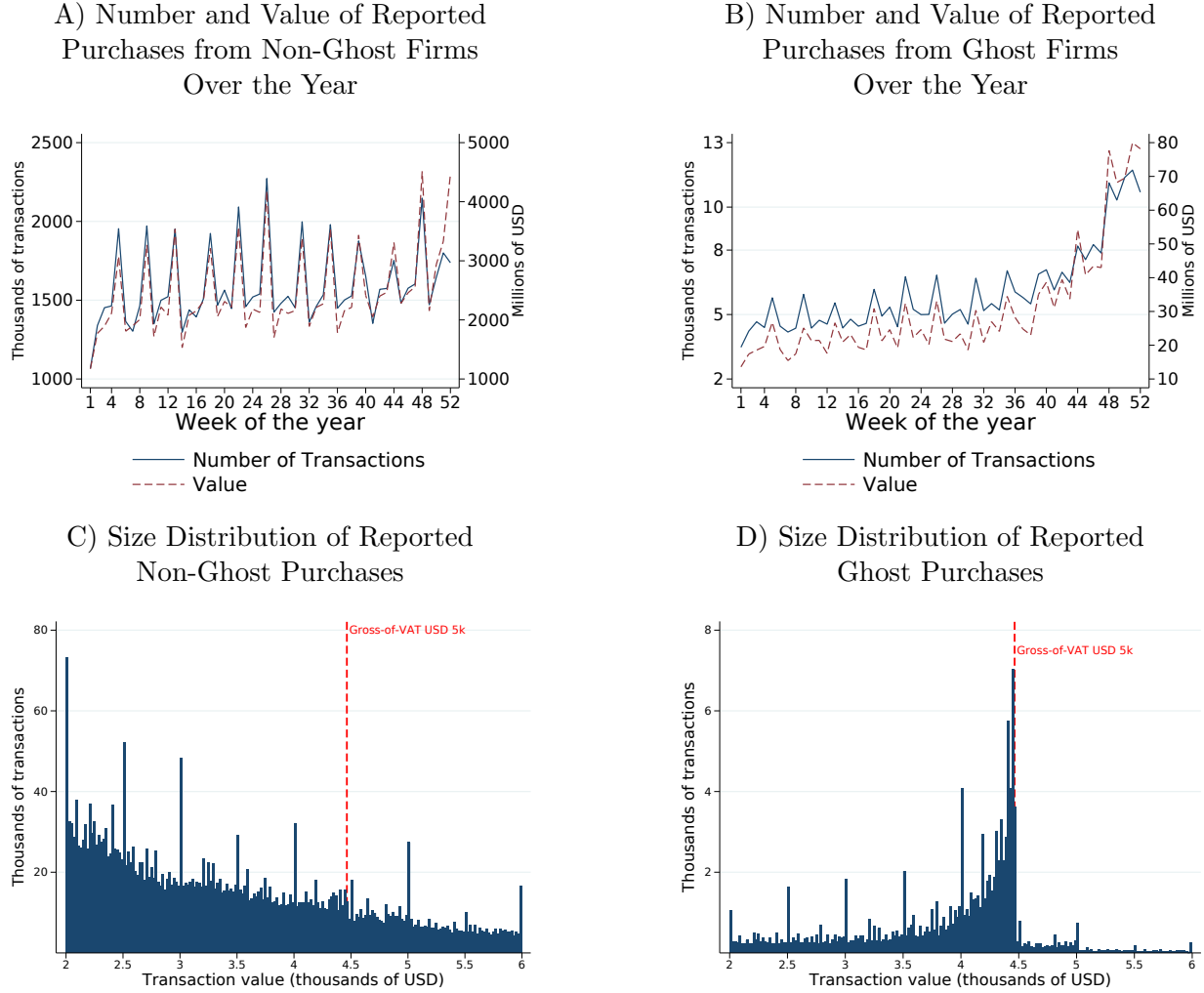
A Supplementary Results

Figure A1: Distributional Results
(Adjusted by Not Deducting Ghost Transactions from Firm Owners' Capital Income)



Note: This figure provides descriptive results on the use of receipts from ghost firms across the distribution of individuals' income (pooled 2010–2015), similar to Figure 1, Panels C–F. To calculate individuals' capital income, Figure 1 attributes firms' reported profits to their individual owners. This can make individuals' income look falsely lower the more fake ghost deductions the firms take. By contrast, this Figure calculates individuals' capital income based on the profits their firms would have without deducting the ghost transactions. Panels A and B look at individuals and their ownership in ghost client firms, by percentile of individuals' income (for individuals who earn at least \$1 a day and firms with up to 3,000 owners). Panel A shows the probability of having an ownership share in a ghost client. Panel B displays ghost purchases attributed to owners (i.e., individuals' ownership shares multiplied by the corresponding firms' ghost purchases) divided by individuals' total income. Panels C and D show the same as A and B, focusing only on firm owners (i.e., individuals with capital income from a firm in our sample). Outcome variables trimmed at the top 1% of positive values.

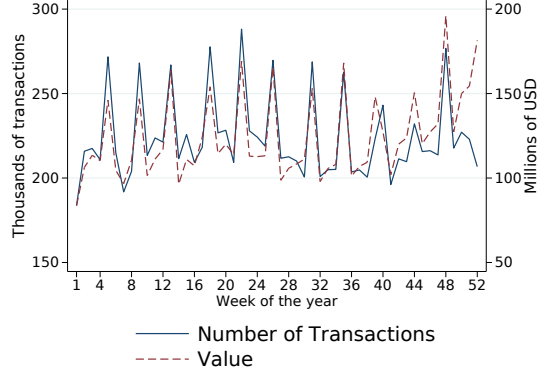
Figure A2: Patterns of Reported Purchases by Ghost Clients from Regular Firms versus from Ghost Firms (Incorporated Firms Only)



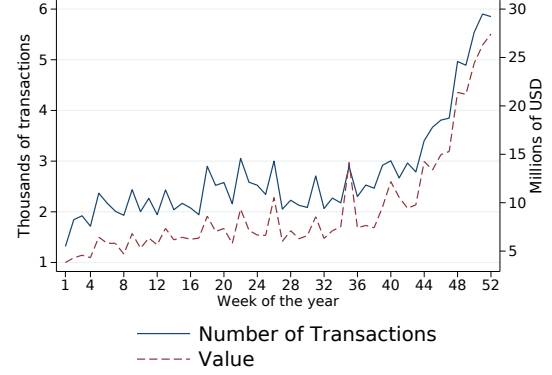
Note: Panels A and B show the weekly number and total value of reported purchases over the year, and Panels C and D the frequency of values for reported purchases, from non-ghost firms and ghost firms, respectively (for all years during 2010–2015) among economically active incorporated ghost clients that file a purchase annex. Transaction values are net-of-VAT. The red dashed lines in Panels C and D show the corresponding gross-of-VAT amount above which firms are required to make payments via the formal financial system. For ease of visibility, Panels C and D include only transactions that are fully subject to VAT. Figure 2 shows the same graphs for all economically active firms that file a purchase annex.

Figure A3: Patterns of Reported Purchases by Ghost Clients
from Regular Firms versus from Ghost Firms (Sole Proprietorships Only)

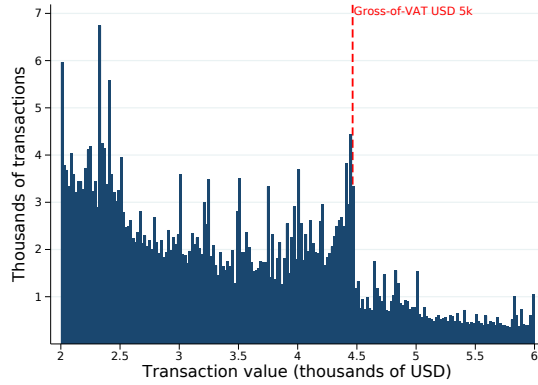
A) Number and Value of Reported Purchases from Non-Ghost Firms Over the Year



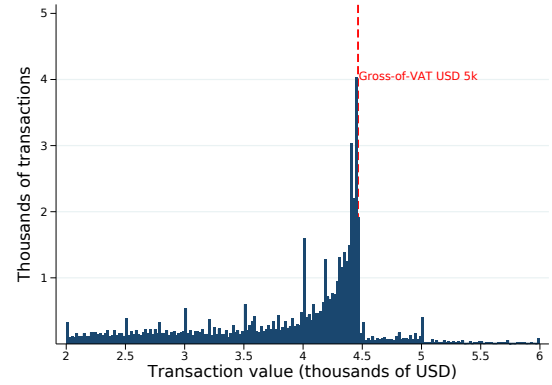
B) Number and Value of Reported Purchases from Ghost Firms Over the Year



C) Size Distribution of Reported Non-Ghost Purchases



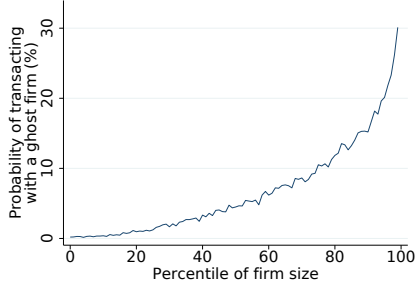
D) Size Distribution of Reported Ghost Purchases



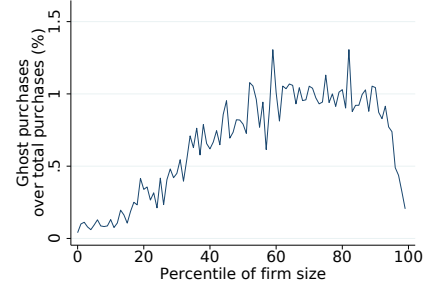
Note: Panels A and B show the weekly number and total value of reported purchases over the year, and Panels C and D the frequency of values for reported purchases, from non-ghost firms and ghost firms, respectively (for all years during 2010–2015) among economically active sole proprietorships that are ghost clients and file a purchase annex. Transaction values are net-of-VAT. The red dashed lines in Panels C and D show the corresponding gross-of-VAT amount above which firms are required to make payments via the formal financial system. For ease of visibility, Panels C and D include only transactions that are fully subject to VAT. Figure 2 shows the same graphs for all economically active firms that file a purchase annex.

Figure A4: Distributional Results
(Incorporated Firms Only)

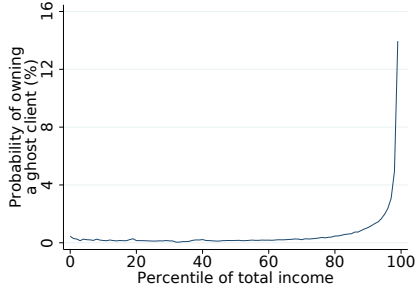
A) Probability of Being a Ghost Client,
by Firm Size



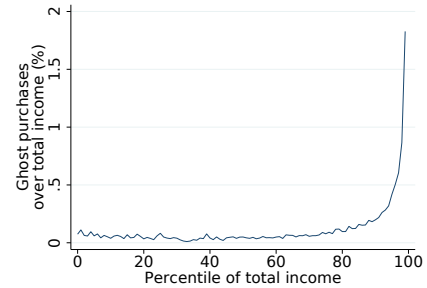
B) Value of Reported Ghost Purchases
Over Firm Total Purchases, by Firm Size



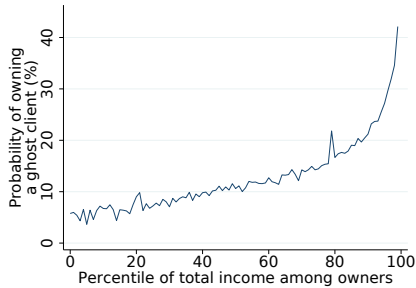
C) Probability of Owning a Ghost Client,
by Individual Total Income



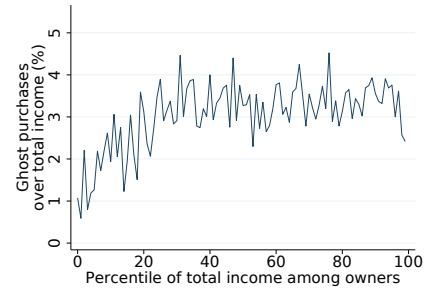
D) Value of Reported Ghost Purchases
Over Total Individual Income,
by Individual Total Income



E) Probability of Owning a Ghost Client,
by Owner Total Income
– Corporate Owners Only



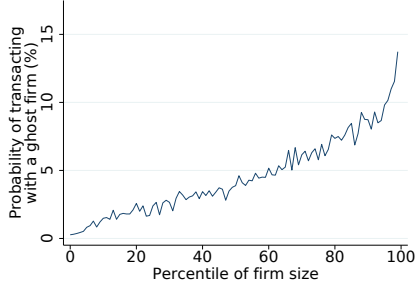
F) Value of Reported Ghost Purchases Over
Total Owner Income, by Owner Total
Income – Corporate Owners Only



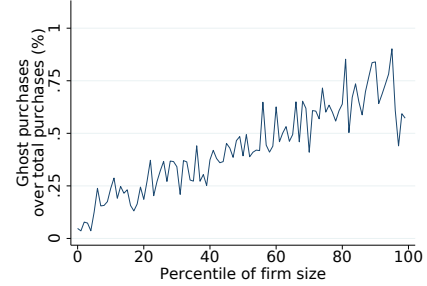
Note: This figure provides descriptive results on the use of receipts from ghost firms across the distribution of firm size and individuals' incomes (pooled 2010–2015) for incorporated firms. Panels A and B show the probability of being a ghost client and the share of firms' reported purchases that are based on receipts from ghost firms, by percentile of firm revenue (for incorporated firms that have positive revenues). Panels C and D look at individuals and their ownership in ghost client firms, by percentile of individuals' income (for individuals who earn at least \$1 a day and incorporated firms with up to 3,000 owners). Panel C shows the probability of having an ownership share in an incorporated ghost client. Panel D displays ghost purchases from incorporated firms attributed to owners (i.e., individuals' ownership shares multiplied by the corresponding firms' ghost purchases) divided by individuals' total income. Panels E and F show the same as C and D, focusing only on corporate owners (i.e., individuals who earn at least \$1 a day in capital income from an incorporated firm). Outcome variables trimmed at the top 1% of positive values. Figure 1 shows the same graphs including ghost purchases from all economically active firms that are required to file a purchase annex.

Figure A5: Distributional Results
(Sole Proprietorships Only)

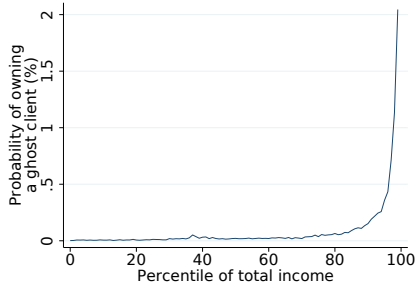
A) Probability of Being a Ghost Client,
by Firm Size



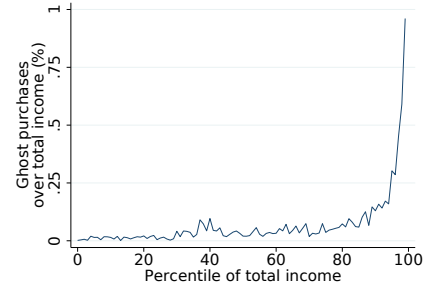
B) Value of Reported Ghost Purchases
Over Firm Total Purchases, by Firm Size



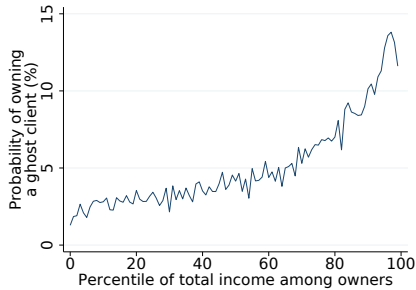
C) Probability of Owning a Ghost Client,
by Individual Total Income



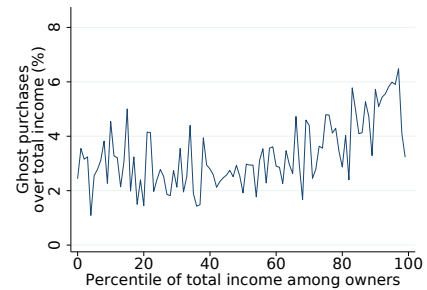
D) Value of Reported Ghost Purchases
Over Total Individual Income,
by Individual Total Income



E) Probability of Owning a Ghost Client,
by Owner Total Income
– Sole Proprietorship Owners Only

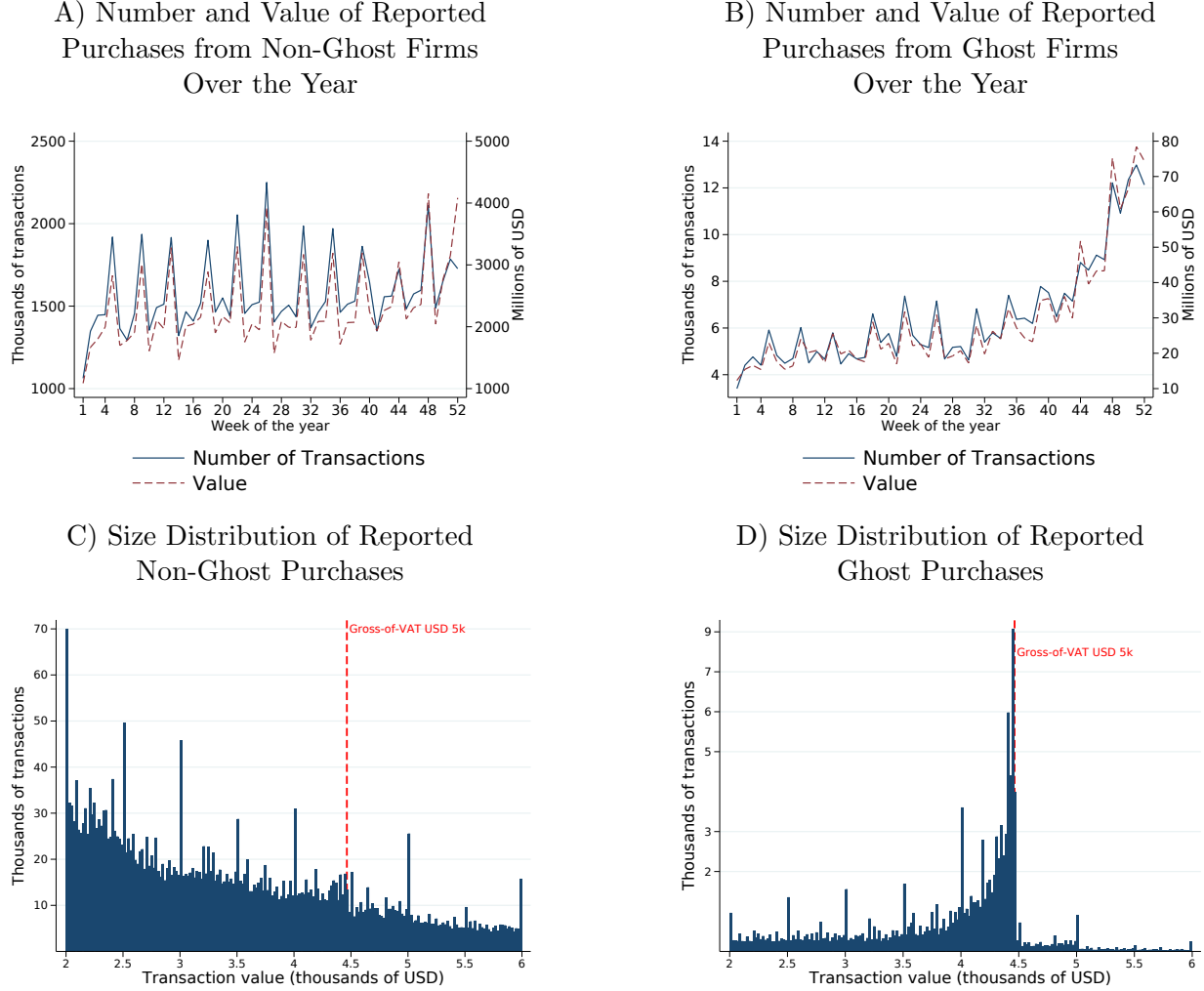


F) Value of Reported Ghost Purchases Over
Total Owner Income, by Owner Total
Income – Sole Proprietorship Owners Only



Note: This figure provides descriptive results on the use of receipts from ghost firms across the distribution of firm size and individuals' incomes (pooled 2010–2015) for sole proprietorships. Panels A and B show the probability of being a ghost client and the share of firms' reported purchases that are based on receipts from ghost firms, by percentile of firm revenue (for sole proprietorships that have positive revenues). Panels C and D look at individuals and their ownership in ghost client firms, by percentile of individuals' income (for individuals who earn at least \$1 a day and sole proprietorships). Panel C shows the probability of having a sole proprietorship that is a ghost client. Panel D displays ghost purchases attributed to owners (i.e., the corresponding sole proprietorships' ghost purchases) divided by individuals' total income. Panels E and F show the same as C and D, focusing only on individuals who earn at least \$1 a day in capital income from a sole proprietorship. Outcome variables trimmed at the top 1% of positive values. Figure 1 shows the same graphs including ghost purchases from all economically active firms that are required to file a purchase annex.

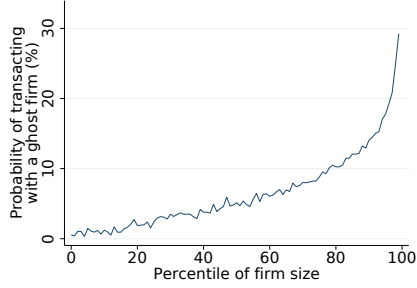
Figure A6: Patterns of Reported Purchases by Ghost Clients
from Regular Firms versus from Ghost Firms
(Robustness to Purchase Annex Filing Behavior)



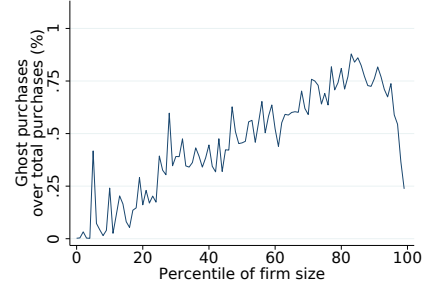
Note: Panels A and B show the weekly number and total value of reported purchases over the year, and Panels C and D the frequency of values for reported purchases, from non-ghost firms and ghost firms, respectively (for all years during 2010–2015) among economically active ghost clients that file a purchase annex. Transaction values are net-of-VAT. The red dashed lines in Panels C and D refer to the corresponding gross-of-VAT amount above which firms are required to make payments via the formal financial system. For ease of visibility, Panels C and D include only transactions that are fully subject to VAT. The sample is limited to firm-year pairs with purchase annex filings in every month in that year. Figure 2 shows the same graphs for all economically active firms that file a purchase annex independent of the firms' filing frequency. Table A5 provides descriptive statistics on firms' purchase annex filing behavior.

Figure A7: Distributional Results
(Robustness to Purchase Annex Filing Behavior)

A) Probability of Being a Ghost Client,
by Firm Size — Firm-Year Pairs that Filed
a PA Every Month



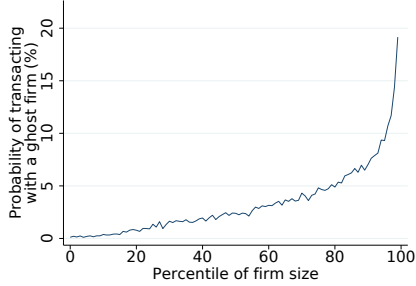
B) Value of Reported Ghost Purchases
Over Firm Total Purchases, by Firm Size
— Firm-Year Pairs that Filed a PA Every
Month



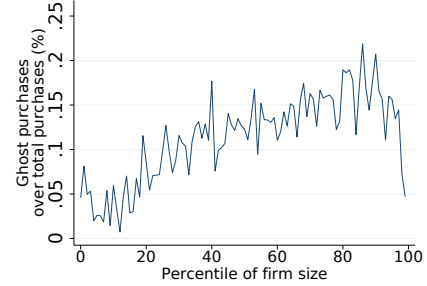
Note: This figure provides descriptive results on the use of receipts from ghost firms across the distribution of firm size (pooled 2010–2015). Compared to Figure 1, the sample is restricted to firm-year pairs with purchase annex filings in every month. Panel A shows the probability of being a ghost client. Panel B displays the share of firms' reported purchases that are based on receipts from ghost firms. Table A5 provides descriptive statistics on firms' purchase annex filing behavior.

Figure A8: Distributional Results
(Small Ghost Firms Only)

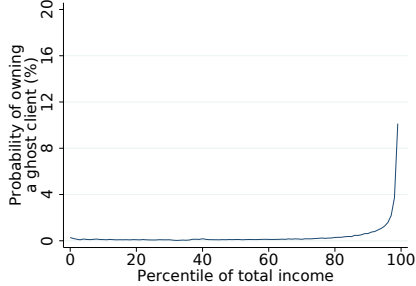
A) Probability of Being a Ghost Client,
by Firm Size



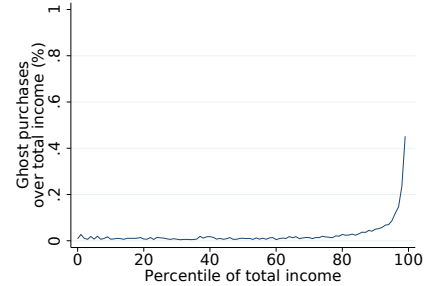
B) Value of Reported Ghost Purchases
Over Firm Total Purchases, by Firm Size



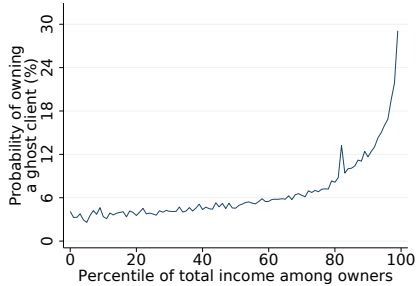
C) Probability of Owning a Ghost Client,
by Individual Total Income



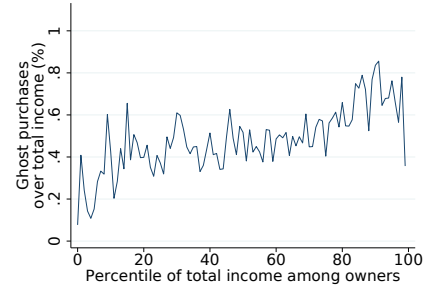
D) Value of Reported Ghost Purchases
Over Total Individual Income,
by Individual Total Income



E) Probability of Owning a Ghost Client,
by Owner Total Income
– Owners Only

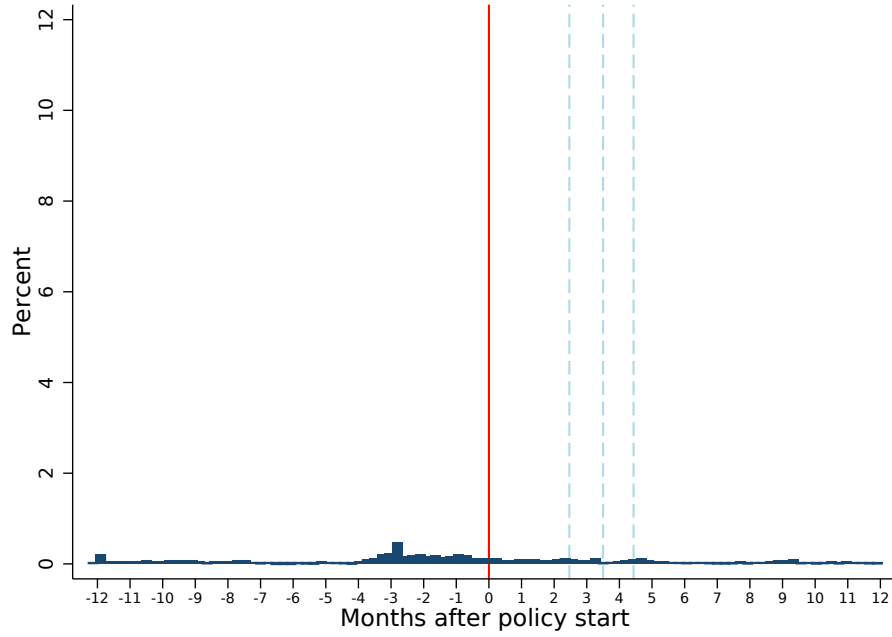


F) Value of Reported Ghost Purchases Over
Total Owner Income, by Owner Total
Income – Owners Only



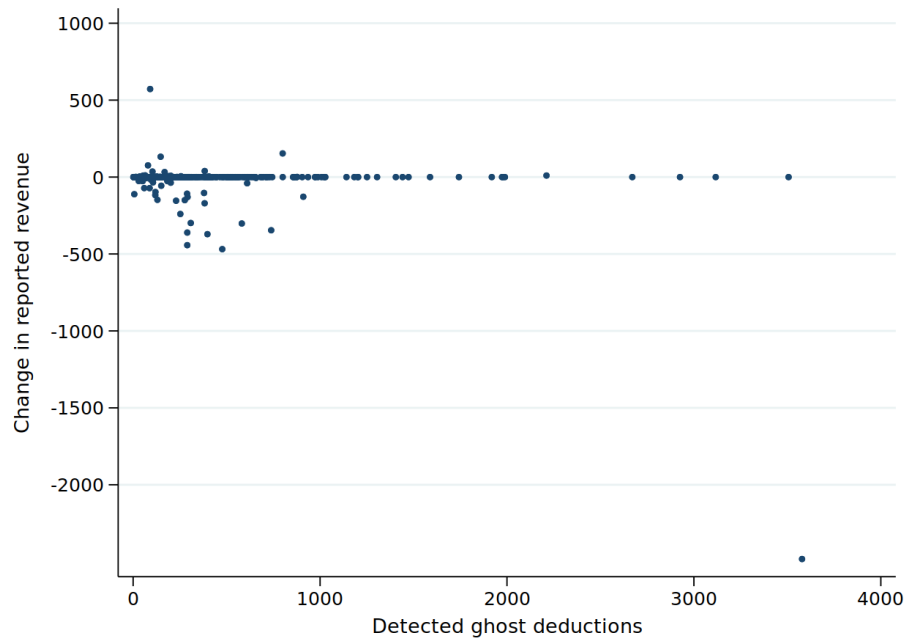
Note: This figure provides descriptive results on the use of receipts from ghost firms across the distribution of firm size and individuals' incomes (pooled 2010–2015) as in Figure 1, but restricting the sample to the lower two terciles ghost firms in terms of their size. Panels A and B show the probability of being a ghost client and the share of firms' reported purchases that are based on receipts from ghost firms, by percentile of firm revenue (for firms that are required to file a purchase annex and have positive revenues). Panels C and D look at individuals and their ownership in ghost client firms, by percentile of individuals' income (for individuals who earn at least \$1 a day and firms with up to 3,000 owners). Panel C shows the probability of having an ownership share in a ghost client. Panel D displays ghost purchases attributed to owners (i.e., individuals' ownership shares multiplied by the corresponding firms' ghost purchases) divided by individuals' total income. Panels E and F show the same as C and D, focusing only on firm owners (i.e., individuals with capital income from a firm in our sample). Outcome variables trimmed at the top 1% of positive values. This figure uses firms' reported profits to calculate their owners' incomes, which can make owners' income appear artificially lower the more ghost deductions a firm takes.

Figure A9: Amendment Rates of Non-Ghost Clients



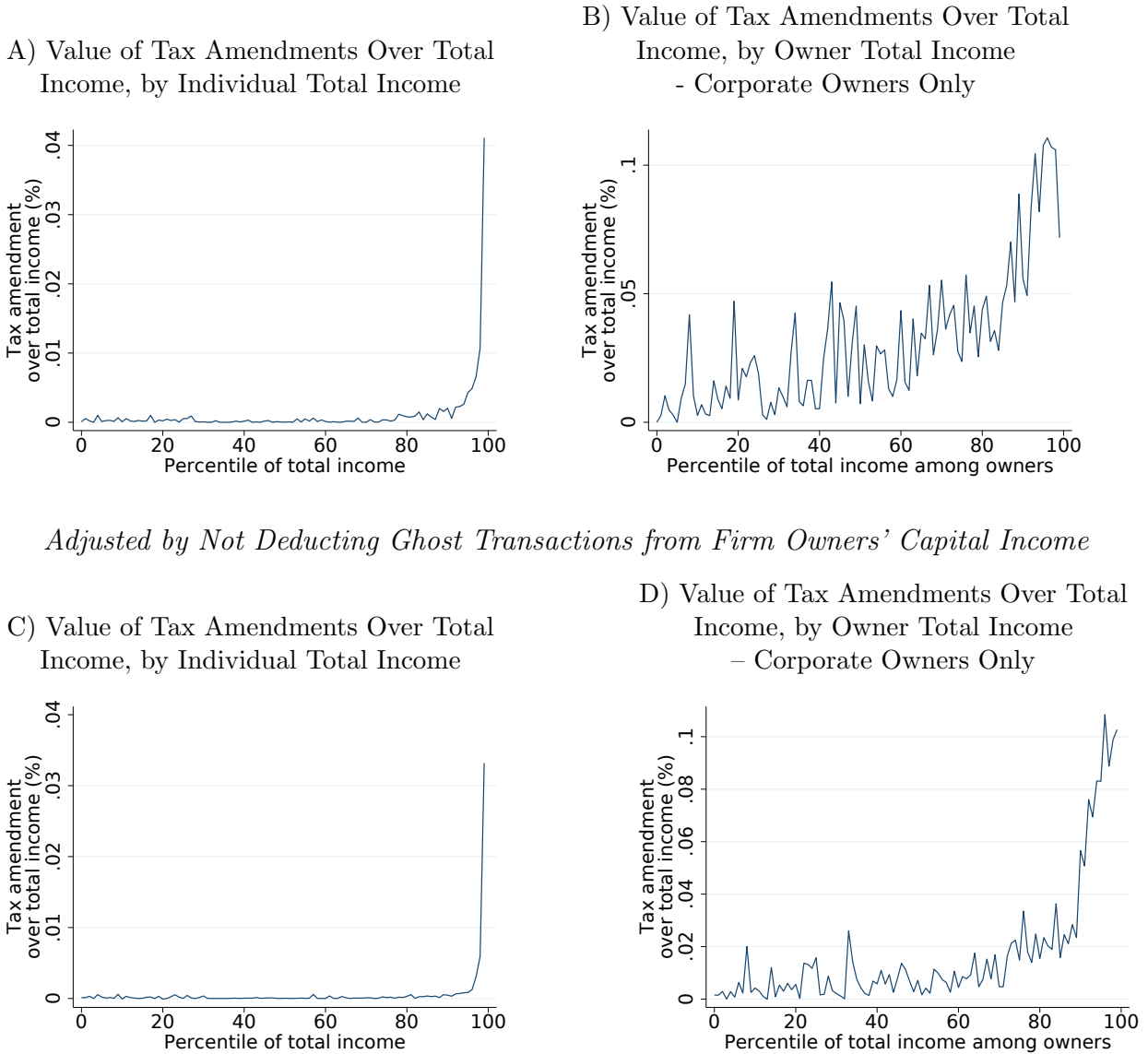
Note: This figure shows amendment rates for non-ghost clients for tax filings from 2010–2015. Zero indicates the start of the notification intervention by SRI (July 18th 2016). For comparison, Figure 3 Panel B shows the same for the sample of notified ghost clients. Blue dashed lines plot the dates in which SRI sent additional sizeable batches of notifications. We observe seasonal small amendment rates around the Ecuadorian tax day on April 15th, which are unrelated to the intervention.

Figure A10: Revenue Adjustments Versus Notified Amounts
(Adjusting Sample)



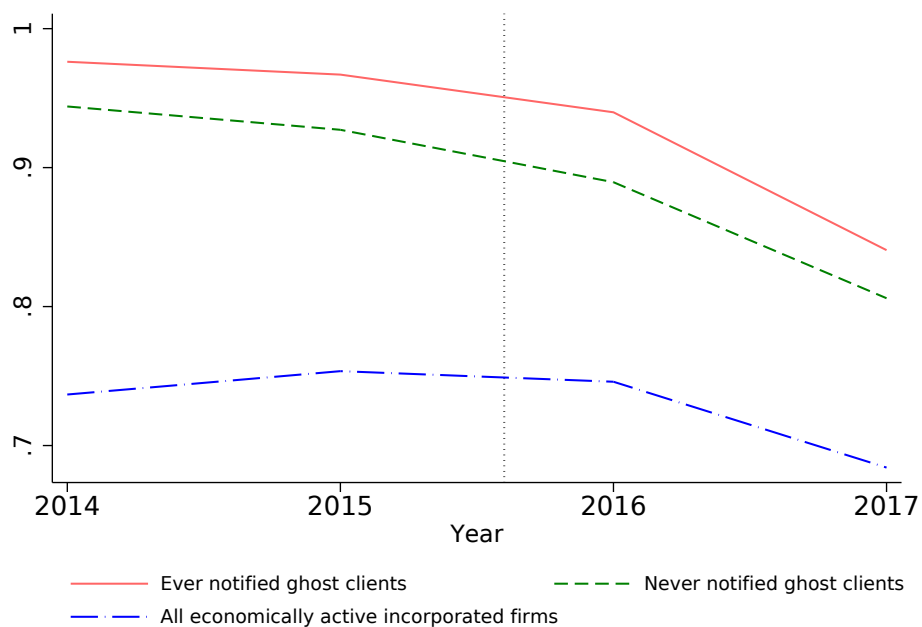
Note: This figure shows how a firm's revenue amendments compare to the amounts of ghost deductions mentioned in the notification for a given firm-year among the adjusting firms (2010–2015). Figure 3, Panels C and D show this relationship for cost amendments. All monetary figures in thousands of USD.

Figure A11: Distributional Effects – Response to Policy Intervention



Note: This figure provides descriptive results on the value of tax amendments in response to the notifications across the distribution of individuals' incomes (pooled 2010–2015). Panel A shows results for all individuals, Panel B for corporate owners only (including firms with up to 3,000 owners). Panels A and B use firms' reported profits to calculate their owners' income, which can make owners' income look falsely lower the more ghost deductions a firm takes. Panels C and D show results when using the profits firms would have without deducting the ghost transactions. The value of tax amendments attributed to owners is their ownership share in a firm multiplied by the firm's change in reported tax, summed across firms. Panels A and C include individuals who receive a salary from an incorporated or non-incorporated firm or have an ownership stake in a firm, and earn at least \$1 a day. In Panels B and D, corporate owners are individuals holding stakes in incorporated firms with positive profits and who earn at least \$1 a day in capital income from incorporated firms. Outcome variables trimmed at the top 1% of positive values.

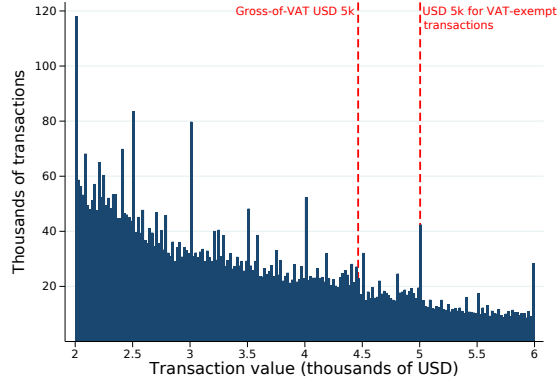
Figure A12: Probability of Filing Corporate Income Tax



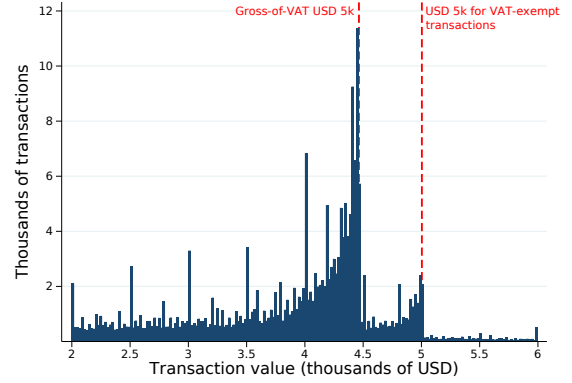
Note: This figure plots the share of firms that file corporate income tax in 2014–2017 among the sample of incorporated firms that have been economically active at least once in our study period (2010–2015). Since corporate income taxes are filed in April of the following year, the filing for 2016 is the first one affected by the notification intervention.

Figure A13: Patterns of Reported Purchases by Ghost Clients
from Regular Firms versus from Ghost Firms

A) Size Distribution of Reported
Non-Ghost Purchases



B) Size Distribution of Reported
Ghost Purchases



Note: Panels A and B show the frequency of values for reported purchases, from non-ghost firms and ghost firms, respectively (for all years during 2010–2015) among economically active ghost clients that file a purchase annex. Includes transactions subject to VAT as well as those exempt from the tax. Transaction values of transactions subject to VAT are net-of-VAT. The legal requirement to make payments through the formal financial sector applies to transactions greater or equal than \$5,000 gross-of-VAT, indicated by the red dashed lines for transactions subject to and exempt from the VAT, respectively. Figure 2, Panels C and D show the same graphs excluding transactions that are not subject to VAT.

Table A1: Firm Size, Owner Income and Exporting

	Firm is a Ghost Client (Linear Probability)		Value of Reported Ghost Purchases Over Total Purchases	
	(1)	(2)	(3)	(4)
<i>Panel A: Firm Size and Owner Income</i>				
Percentile of Firm Size	0.1324*** (0.0013)	0.1105*** (0.0013)	0.0090*** (0.0003)	0.0062*** (0.0004)
Percentile of Owner Income		0.0457*** (0.0012)		0.0058*** (0.0004)
Observations	182,459	182,459	182,459	182,459
Adjusted-R2	0.063	0.069	0.004	0.005
<i>Panel B: Firm Size and Exporting</i>				
Percentile of Firm Size	0.1287*** (0.0013)	0.1077*** (0.0013)	0.0093*** (0.0003)	0.0065*** (0.0004)
Percentile of Owner Income		0.0445*** (0.0012)		0.0059*** (0.0004)
Exporter (1=Yes)	3.7190*** (0.2787)	3.4059*** (0.2780)	-0.2625*** (0.0550)	-0.3039*** (0.0556)
Observations	182,459	182,459	182,459	182,459
Adjusted-R2	0.065	0.070	0.004	0.005

Notes: This table shows the relationship between the use of ghost purchases and firm size, owner income, and whether the firm is an exporter (pooled 2010–2015). Columns 1 and 2 show regressions on a dummy variable indicating whether the firm is a ghost client, Columns 3 and 4 on the share of firms' reported purchases that are based on receipts from ghost firms. Percentiles of firm size are based on firms' mean annual revenue. Percentiles of owner income are based on ownership-share weighted total income of a firm's owners. Exporters are firms that reports exports in at least one year. Robust standard errors in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Table A2: Descriptive Statistics
(Incorporated Firms Only)

	2015		2010-2015	
	(1) Ghost clients	(2) Non-Ghost clients	(3) Ghost clients	(4) Non-Ghost clients
<i>Panel A: Ghost Clients vs. Non-Ghost Clients</i>				
Revenue (\$000)	5,499 (28,741) [750]	1,354 (35,368) [42]	8,556 (146,377) [803]	1,249 (38,335) [41]
Cost (\$000)	5,183 (26,143) [716]	1,275 (32,503) [45]	7,555 (98,579) [765]	1,138 (28,222) [43]
Tax liability (\$000)	69.11 (472) [5.30]	22.04 (790) [0.01]	220 (12,370) [5.97]	24.69 (2,518) [0.00]
Share exporting firms	0.097	0.032	0.096	0.030
<i>Panel B: Use of Ghost Firms by Ghost Clients</i>				
Number of unique ghost suppliers	2 (2) [1]		2 (2) [1]	
Number of identified ghost purchases/ total number of purchases	0.051		0.040	
Value of identified ghost purchases/ value of total purchases	0.140		0.104	
Number of firms	4,959	88,552	14,742	132,252
Number of observations	4,959	88,552	27,190	479,993

Note: This table shows descriptive statistics by ghost-client status for the universe of economically active, incorporated firms for 2015 (Columns 1 and 2) and pooled for 2010–2015 (Columns 3 and 4). Ghost client status is defined at the firm-year level. All amounts are from filings prior to the start of the policy intervention. Means are reported along with standard deviations in parentheses and medians in brackets. All monetary figures in thousands of USD. Table 1 shows the same statistics for the universe of economically active firms that are required to file a purchase annex. Table A3 shows the same statistics for sole proprietorships that are required to file a purchase annex.

Table A3: Descriptive Statistics
(Sole Proprietorships Only)

	2015		2010-2015	
	(1) Ghost clients	(2) Non-Ghost clients	(3) Ghost clients	(4) Non-Ghost clients
<i>Panel A: Ghost Clients vs. Non-Ghost Clients</i>				
Revenue (\$000)	755 (1,290) [390]	406 (810) [199]	748 (1,438) [362]	396 (771) [191]
Cost (\$000)	712 (1,255) [358]	393 (788) [190]	707 (1,381) [331]	381 (752) [181]
Tax liability (\$000)	8.32 (28.45) [1.46]	3.14 (20.66) [0.01]	8.61 (39.92) [1.61]	3.19 (24.74) [0.07]
Share exporting firms	0.011	0.008	0.008	0.008
<i>Panel B: Use of Ghost Firms by Ghost Clients</i>				
Number of unique ghost suppliers	2 (2) [1]		2 (2) [1]	
Number of identified ghost purchases/ total number of purchases	0.034		0.027	
Value of identified ghost purchases/ value of total purchases	0.144		0.103	
Number of firms	2,159	47,534	7,894	72,626
Number of observations	2,159	47,534	12,792	256,420

Note: This table shows descriptive statistics by ghost-client status for the universe of economically active sole proprietorships that are required to file a purchase annex in 2015 (Columns 1 and 2) and pooled for 2010–2015 (Columns 3 and 4). Ghost client status is defined at the firm-year level. All amounts are from filings prior to the start of the policy intervention. Means are reported along with standard deviations in parentheses and medians in brackets. All monetary figures in thousands of USD. Table 1 shows these statistics for economically active firms that are required to file a purchase annex. Table A2 shows these statistics for economically active, incorporated firms.

Table A4: Descriptive Statistics
(Firm-Year Pairs that Filed a Purchase Annex Every Month)

	2015		2010-2015	
	(1) Ghost clients	(2) Non-Ghost clients	(3) Ghost clients	(4) Non-Ghost clients
<i>Panel A: Ghost Clients vs. Non-Ghost Clients</i>				
Revenue (\$000)	4,951 (27,470) [728]	1,788 (40,042) [230]	7,446 (135,028) [766]	1,715 (22,891) [246]
Cost (\$000)	4,657 (24,955) [695]	1,687 (36,843) [222]	6,524 (84,882) [726]	1,595 (20,764) [236]
Tax liability (\$000)	62.77 (449) [4.82]	28.40 (901) [0.30]	205 (12,219) [5.48]	28.06 (677) [0.49]
Share exporting firms	0.084	0.036	0.083	0.037
<i>Panel B: Use of Ghost Firms by Ghost Clients</i>				
Number of unique ghost suppliers	2 (2) [1]		2 (2) [1]	
Number of identified ghost purchases/ total number of purchases	0.023		0.017	
Value of identified ghost purchases/ value of total purchases	0.102		0.071	
Number of firms	5,318	65,303	16,585	108,919
Number of observations	5,318	65,303	27,786	307,132

Note: This table shows descriptive statistics by ghost-client status for the universe of economically active firms filed a purchase annex in every month of 2015 (Columns 1 and 2) and pooled for 2010–2015 (Columns 3 and 4). Ghost client status is defined at the firm-year level. All amounts are from filings prior to the start of the policy intervention. Means are reported along with standard deviations in parentheses and medians in brackets. All monetary figures in thousands of USD. Table 1 shows these statistics for all economically active firms that are required to file a purchase annex.

Table A5: Purchase Annex Filing Intensity — Firm-Year Level

	Pooled	F101	Long Form F102
<i>Panel A: All firm-year pairs</i>			
Average number of months in which the firm filed a PA in that year	7.4	6.9	8.5
Filed PA 1 month or more in that year	0.78	0.76	0.82
Filed PA 3 months or more in that year	0.72	0.68	0.79
Filed PA 6 months or more in that year	0.64	0.59	0.74
Filed PA 9 months or more in that year	0.56	0.50	0.67
Filed PA 12 months or more in that year	0.42	0.37	0.51
Number of unique firm-year pairs	796,109	507,183	288,926
<i>Panel B: Only firm-year pairs with positive revenues</i>			
Average number of months in which the firm filed a PA in that year	8.2	8.0	8.5
Filed PA 1 month or more in that year	0.84	0.84	0.82
Filed PA 3 months or more in that year	0.78	0.78	0.79
Filed PA 6 months or more in that year	0.71	0.69	0.74
Filed PA 9 months or more in that year	0.63	0.60	0.67
Filed PA 12 months or more in that year	0.47	0.45	0.51
Number of unique firm-year pairs	693,685	407,955	285,730

Note: This table shows descriptive results of purchase annex filing behavior for different levels of filing intensity on the firm-year level over 2010–2015. All numbers correspond to shares, except for Row 1. Panel A includes all firms that are required to file purchase annexes, while Panel B restricts the sample to firm-year pairs with positive revenues.

Table A6: Yearly Descriptive Statistics for Notified and Adjusting Firms

	(1) 2010	(2) 2011	(3) 2012	(4) 2013	(5) 2014	(6) 2015	(7) 2010-2015
<i>Panel A: Notified firms</i>							
Revenue (\$000)	7,061 (35,012) [1,323]	9,950 (31,144) [2,060]	4,986 (22,966) [1,330]	4,982 (21,029) [1,191]	4,838 (12,004) [1,317]	5,589 (15,120) [1,305]	5,605 (20,696) [1,326]
Cost (\$000)	6,675 (33,033) [1,286]	9,341 (29,004) [1,992]	4,733 (21,736) [1,236]	4,478 (17,413) [1,091]	4,554 (11,456) [1,233]	5,305 (14,629) [1,236]	5,248 (19,075) [1,258]
Tax liability (\$000)	90.83 (489) [18.00]	142 (707) [23.33]	59.49 (298) [12.77]	97.10 (810) [13.73]	64.42 (167) [14.52]	69.39 (189) [12.94]	79.37 (475) [14.27]
Detected ghost transactions (\$000)	261 (447) [145]	356 (388) [210]	291 (373) [168]	316 (518) [165]	384 (634) [204]	362 (578) [191]	338 (529) [181]
Observations	153	182	416	513	556	562	2,382
<i>Panel B: Adjusting firms</i>							
Revenue (\$000)	2,757 (4,774) [1,259]	4,217 (4,453) [2,604]	2,959 (9,508) [906]	2,925 (7,596) [887]	4,047 (9,371) [1,235]	3,706 (8,130) [1,189]	3,486 (8,360) [1,121]
Cost (\$000)	2,707 (4,743) [1,180]	4,202 (4,920) [2,416]	2,878 (9,342) [849]	2,755 (7,182) [811]	3,862 (8,938) [1,220]	3,510 (7,679) [1,100]	3,328 (8,004) [1,053]
Tax liability (\$000)	20.34 (17.97) [20.37]	64.15 (85.85) [25.20]	26.35 (66.87) [6.79]	37.99 (115) [10.76]	44.16 (111) [11.69]	52.05 (141) [8.69]	41.99 (114) [10.01]
Detected ghost transactions (\$000)	216 (407) [113]	350 (462) [201]	205 (230) [118]	214 (307) [121]	297 (405) [178]	316 (508) [151]	268 (402) [145]
Observations	27	20	89	136	161	172	605

Note: This table shows descriptive statistics for notified ghost clients in Panel A and for adjusting firms in Panel B by year (Columns 1 to 6) and pooled for 2010–2015 (Column 7). Amounts from filings prior to the start of the policy intervention. Means are reported along with standard deviations in parentheses and medians in brackets. All monetary figures in thousands of USD.

Table A7: Notification Dates by Month

Date	Number of notifications sent	Percent
January 2016	1	0.04
March 2016	1	0.04
July 2016	4	0.17
September 2016	78	3.27
October 2016	276	11.59
November 2016	567	23.80
December 2016	1,046	43.91
January 2017	111	4.66
February 2017	16	0.67
March 2017	84	3.53
April 2017	37	1.55
May 2017	56	2.35
June 2017	12	0.50
July 2017	9	0.38
August 2017	36	1.51
September 2017	18	0.76
October 2017	28	1.18
November 2017	1	0.04
December 2017	1	0.04
Total	2,382	100

Note: This table shows the number of notifications sent to economically active, incorporated ghost clients by SRI per month.

Table A8: Impacts of Notifications on Reported Revenue, Cost, and Tax Liability of
Adjusting Firms – Yearly

	(1) 2010	(2) 2011	(3) 2012	(4) 2013	(5) 2014	(6) 2015	(7) 2010-2015
Revenue	-13,738 (19,618)	-5,223 (8,457)	-8,397 (7,983)	-10,441 (6,186)	-2,515 (3,595)	-17,733 (21,534)	-10,079 (6,872)
Cost	-200,276 (114,633)	-160,760 (60,790)	-130,318 (23,761)	-155,134 (37,215)	-181,664 (41,057)	-228,583 (51,238)	-181,626 (28,680)
Tax liability	40,599 (24,481)	26,236 (11,308)	21,135 (4,228)	29,192 (6,823)	38,457 (7,861)	40,165 (7,529)	34,003 (5,114)
Number of firms	27	20	89	136	161	172	460
Number of firm-year pairs	27	20	89	136	161	172	605

Note: This table shows changes to reported revenue, cost and tax within 90 days after mailing of the notification from SRI, among the adjusting firms. Each coefficient stems from a separate regression showing the average difference in the reported outcome variable across notifications between the original filing from before the notification and the amendment filing after the notification. Separate for each tax year from 2010–2015, in Columns (1) to (6), we regress the pre- and post-notification values for filings concerning the respective tax year on a post-notification dummy including firm fixed effects. In Column (7) we create a pooled sample of all filings (including amendments) for the 2010–2015 tax years. We then regress the reported values (separately for each outcome in question) on a firm-tax year fixed effect and a dummy variable indicating whether the filing was submitted in the 90 days following the firm was sent a notification about the filing from SRI. The coefficient reported here is that on the post-notification dummy variable. Each firm-tax year pair corresponds to a separate notification. Table 2 shows these results for 2015 and from 2010–2015. Standard errors clustered at the firm level. All outcomes in USD.

Table A9: Impact of Notifications on Reported Revenue, Cost, and Tax Liability of All Notified Firms

	(1) 2015	(2) 2010-2015
Revenue	-4,338 (7,106)	-2,667 (1,898)
Cost	-66,421 (16,971)	-44,748 (8,060)
Tax liability	16,834 (2,844)	10,909 (1,564)
Number of firms	562	1,589
Number of firm-year pairs	562	2,382

Note: This table shows changes to reported revenue, cost and tax within 90 days after mailing of the notification from SRI, among the notified firms. Each coefficient stems from a separate regression showing the average difference in the reported outcome variable across notifications between the original filing from before the notification and the amendment filing after the notification. If the notified firm did not file an amendment within 90 days following the notification, the post-notification value is the same as its reported pre-notification value. In Column (1) we regress the pre- and post-notification values for filings concerning the tax year 2015 on a post-notification dummy including firm fixed effects. In Column (2) we create a pooled sample of all filings (including amendments) for the 2010–2015 tax years. We then regress the reported values (separately for each outcome in question) on a firm-tax year fixed effect and a dummy variable indicating whether the filing was submitted in the 90 days following the firm was sent a notification about the filing from SRI. The coefficient reported here is that on the post-notification dummy variable. Each firm-tax year pair corresponds to a separate notification. Table 2 shows these results for adjusting firms. Standard errors clustered at the firm level. All outcomes in USD.

Table A10: Yearly Descriptive Statistics

	(1) 2010	(2) 2011	(3) 2012	(4) 2013	(5) 2014	(6) 2015	(7) 2010-2015
<i>Panel A: Ghost clients</i>							
Revenue (\$000)	6,674 (120,126) [494]	9,508 (219,424) [696]	7,481 (180,708) [544]	5,173 (34,998) [563]	4,731 (32,879) [592]	4,060 (24,098) [568]	6,058 (120,767) [568]
Cost (\$000)	6,207 (110,077) [466]	7,719 (128,782) [670]	6,304 (115,816) [517]	4,778 (29,601) [529]	4,338 (27,659) [548]	3,827 (21,928) [538]	5,364 (81,360) [536]
Tax liability (\$000)	91.99 (1,635) [3.35]	405 (21,989) [4.09]	262 (15,226) [3.47]	88.09 (1,740) [4.44]	82.22 (1,692) [4.56]	50.68 (395) [3.68]	153 (10,202) [3.91]
Number of identified ghost purchases/ total number of purchases	0.02	0.02	0.03	0.04	0.05	0.05	0.04
Value of identified ghost purchases/ value of total purchases	0.06	0.05	0.09	0.12	0.14	0.14	0.10
Observations	5,356	4,672	7,949	7,345	7,542	7,118	39,982
<i>Panel B: Non-Ghost Clients</i>							
Revenue (\$000)	853 (12,268) [92.84]	858 (10,823) [101]	783 (8,318) [100]	1,001 (46,440) [105]	1,051 (43,863) [106]	971 (27,793) [97.09]	927 (30,549) [101]
Cost (\$000)	793 (10,909) [87.67]	794 (9,187) [96.90]	727 (7,322) [95.83]	894 (29,794) [99.82]	947 (31,842) [99.63]	918 (25,542) [94.38]	852 (22,493) [96.12]
Tax liability (\$000)	13.40 (475) [0.0281]	14.17 (515) [0.0249]	11.68 (296) [0.0023]	23.79 (3,767) [0.0031]	21.27 (2,711) [0.0188]	14.67 (621) [0.0016]	16.77 (2,007) [0.0096]
Observations	99,830	113,843	125,188	133,444	140,336	143,486	756,127

Note: This table extends Table 1, showing descriptive statistics for ghost clients in Panel A and for non-ghost clients in Panel B by year (Columns 1 to 6) and pooled for 2010–2015 (Column 7). Ghost client status is defined at the firm-year level. Amounts from filings prior to the start of the policy intervention. Means are reported along with standard deviations in parentheses and medians in brackets. All monetary figures in thousands of USD.

B International Prevalence of Ghost Firms

Table B1: International Prevalence of Ghost Firms

Country	Source(s)	Description
Chile	González and Velásquez (2013) Jorrat (2001) CIAT (2008)	False invoices have historically represented between 15% and 25% of total VAT evasion in Chile, and this percentage increased significantly in years of economic crisis. Between 1990 and 2003, evasion based on false invoices represented between 16% (in 1992) and 38% (in 1998) of total VAT evasion. In 2004, the share decreased to 15%. While the evasion based on false invoices amounted to 328 billion CLP in 1998, it was about one-third of this amount in 2004, namely 114 billion CLP, which represents 0.2% of the Chilean GDP and 1.2% of the total tax revenue in 2004.
China	Hashimzade et al. (2010)	Tax fraud in claims for VAT rebates on exported products has been identified in China. This is a type of fraud for which a firm requires, among other things, a false VAT invoice. Furthermore, the National Audit Office found that central government departments were embezzling 21 million USD with fake invoices in 2010.
Colombia	Portafolio (2019) DIAN (2021)	The local tax authority has identified 506 firms dedicated to the sale of fake invoices. In Bogotá the authority began investigating 850 firms that were notified about these transactions and did not voluntarily rectify them. Moreover, in 2019, the authorities apprehended a group of people that had been using 15 ghost firms to sell fake invoices since 2005. The estimated tax revenue lost from this scheme was around 2,300 billion COP, which amounted to around 0.2% of the country's GDP for 2019.
Kenya	Mak'Osewe (2019)	The Kenya Revenue Authority (KRA) have highlighted the case of a businessman who allegedly used fictitious invoices to illegally claim VAT refunds for more than 500,000 USD between 2015 and 2018.

International Prevalence of Ghost Firms (Continued)

Country	Source(s)	Description
Mexico	OECD (2017) Senado de la Republica (2019)	Between 2007 and 2009, Mexico lost around 3 billion EUR in tax revenue because of false invoicing. Between 2014 and 2018, annual tax revenue lost due to ghost firms was about 5 billion MXN, which represents approximately 0.03% of the country's average GDP over the same period. Around 8,500 companies were identified as ghost firms in 2018.
Pakistan	Waseem (2020)	In Pakistan, invoice mills (ghost firms) are an important conduit through which the overclaim of refund takes place. More than 80% of their transactions are with exporters, who use these spurious invoices to obtain excessive refunds. Of the amount overclaimed as refund, nearly 37% is based on invoices issued by ghost firms.
Poland	M. of Finance of Poland (2018)	Between 2010 and 2016, the number and total value of fictitious invoices detected as a result of fiscal controls increased substantially. In 2010, 84,200 bogus invoices were detected, amounting to a total of 3,711.2 million PLN (0.26% of the country's GDP and 1.56% of the tax revenue). In 2016, the number of invoices increased to 421,300, with a total amount of 103,850 million PLN (5.6% of the country's GDP and 34.3% of the tax revenue). The average gross amount for which a fictitious invoice was issued, revealed in tax inspections/audits completed in 2010-2016, was 246.5 thousand PLN in 2016.
Rwanda	Mascagni et al. (2019) Mascagni et al. (2023)	Anecdotal evidence of taxpayers using fake receipts has been documented in Rwanda.
Slovak Republic	OECD (2017)	During 2014 and 2015, the amount of risky VAT detected in domestic invoicing fraud was more than 500 million EUR. This represents 0.64% of the country's average GDP for these two years, as well as 1.81% of the average total tax revenue for these two years.
South Korea	Krever (2014)	In 2011, 1,410 out of 2,000 audited companies and individuals were charged with invoicing fraud, a practice adopted both by firms and individuals.

C Data Appendix

This section provides further details on the data described in Section I. For our analysis, we combine various administrative records from the Ecuadorian Tax Authority (SRI), such as lists of tax IDs identified as ghost firms, notification data, tax forms (F101 for corporations and F102 for sole proprietorships and individuals), purchase annex data, firm characteristics, firm ownership data, and employment records. See Carrillo et al. (2023) for further details on data construction.

C1 Ghost Firms and Notifications Data

To classify firms as ghost suppliers, we use a list of tax IDs that were identified as being non-existent by SRI. These ghost firms were discovered between January 2016 and December 2017. In total, SRI detected 811 of them in this period.

A subset of client firms registering purchases from the aforementioned ghost firms received a notification from SRI. Specifically, we have data on notifications sent by the tax authority to firms referencing either their Corporate Income Tax (CIT) returns or their Value Added Tax (VAT) returns. In total, 5,007 notification letters were sent to 2,825 firms. We only keep the notifications related to CIT.²³ We observe the notification date and the total value of ghost transactions that the firm registered during a given fiscal year. After keeping only CIT notifications sent to economically active firms that filed at least one ghost transaction in the purchase annex in the fiscal year which the notification concerns, we are left with 2,382 notifications which were sent to 1,589 corporate ghost clients for the fiscal years 2010–2015.²⁴

C2 Purchase Annexes and Tax Returns

All incorporated firms in Ecuador are required to submit an annual tax form and monthly purchase annexes. For sole proprietorships, only those with annual sales above \$100,000, annual costs above \$80,000, or capital above \$60,000 are required to file purchase annexes. On the one hand, purchase annexes contain information about all transactions in which a firm was involved. For each transaction, we observe (anonymized versions of) the tax IDs of the buyer and the seller, the date on which it was registered, its value and the VAT paid. On the other hand, F101 and F102 data contains information on a variety of tax items, such as revenue, costs, tax liability, and profit. Importantly, our F101 and F102 records also include amendments, which are submissions in which corporations rectify information presented in previous tax returns. This data also allows us to compute the change in reported tax items

²³We do not use the data on VAT notifications because we do not have access to VAT amendments, but only corporate tax amendments. Also, whenever a firm receives both types of notifications for a given fiscal year, we only keep the CIT notification.

²⁴The total number of 5,007 notifications is composed of 4,176 notifications related to CIT and 831 related to VAT. Out of these, 668 notifications were sent to firms that are either not economically active or do not report a transaction from one of the 811 ghost firms in the purchase annex. Economically active incorporated ghost clients were sent 2,382 notifications related to CIT and 329 related to VAT, in total. Moreover, economically active sole proprietorship ghost clients received 1,288 notifications related to CIT and 340 related to VAT. Since we do not have data on amendments filed by sole proprietorships, they are not included in our analysis of the enforcement campaign.

between a firm’s original submission and the post-notification amendment. Lastly, we only keep submissions covering fiscal years 2010 to 2015.

For the F101 and F102 data, in case a firm submitted multiple tax forms for the same fiscal year, we only keep the last (most recent) submission.²⁵ Additionally, for the subset of corporations that received a notification from SRI to amend their returns, we keep a maximum of two submissions for a given fiscal year: The last submission before notification, and the last amendment within 90 days of receiving the notification. In case they did not amend their tax returns after the notification date, we only keep their last pre-notification submission.

Then, to clean the purchase annex data, we restrict the sample to transactions in the period 2010–2015, and then ensure that the VAT paid is consistent with the transaction value. We discard any transactions with a negative value, purchases whose value is too large relative to the cost of the buyer and/or the revenue of the seller, and those in which the buyer and seller are actually the same firm.²⁶ This data allows us to calculate, for each buyer-year pair, the total number and value of purchases registered.

C3 Ownership, Employment

We have access to ownership records in which firms register their owners, including each owner’s share. As this data is available from 2011 onwards, we impute the same data from this year to the previous one. This means that we assume that the ownership structure did not change between 2010 and 2011. This data allows us to calculate owner’s capital income, and also to link ghost transactions of a firm to its owner.

In addition, for the employment records, we combine two rounds of employment data from SRI. The first round covers the period from 2007 to 2017, and the second round is available from 2009 to 2016. This constitutes the data we use to calculate labor income for the individuals in our dataset.

C4 Sample of Firms

In Ecuador, corporations file the corporate income tax form (F101), while sole proprietorships file a combined business and individual income tax return (long form F102). Our sample includes these, and also smaller sole proprietorships that file purchase annexes because they want to deduct itemized costs (short form F102). We define a firm as a tax ID that files an F101 or F102 tax form. Most of our analyses restrict the sample to F101 and F102-long-form filers, the only exception being part of the distributional analysis (Figures 1, A1, A4, A5 and A7), which also includes the short form F102 filers.

Furthermore, we restrict the sample to economically active firms. We define a firm-year pair as economically active if it satisfies at least one of the following criteria:

- It submitted an F10X with positive revenues or costs.

²⁵Our data allows us to identify precisely the last submission, as we observe both the date and the exact time of each submission.

²⁶For more details on the data and the cleaning process, see Adao et al. (2022).

- It appeared as a buyer or seller in the purchase annex.
- It had at least one employee.

This results in a list of 216,578 unique economically active firms for the entire 2010–2015 period.

C5 Combining the Data

To identify whether an amendment took place before or after receiving a notification, we merge the notifications data with the F101 records.²⁷ Additionally, to identify ghost clients, we merge the purchase annex data with the list of ghost firms provided by SRI. For each year, we define a buyer firm as a ghost client if it registered at least one transaction in which the seller is a ghost firm. For the entire period of our sample, we identified a total of 22,630 unique economically active ghost clients (14,742 F101 filers and 7,894 F102-long-form filers).²⁸

Within ghost clients, we make other classifications that we use for certain calculations. Namely, we define a notified ghost client for a given year as a ghost client that received a notification from SRI referencing their corporate tax returns of that year. Furthermore, within notified ghost clients, we define adjusting ghost clients as those that submitted an amendment with a reduction in at least one non-labor cost line item within 90 days of receiving a notification from SRI.

Additionally, to incorporate the ownership data in our analysis, we merge it with the purchase annex and the ghost firm list to identify which firms/individuals are ghost client owners. We define an owner as a ghost client owner if they own shares in a ghost client, independent of the size of their share(s). We then merge this list of ghost client owners with employment and tax forms data to recover their labor and capital income.

C6 Other Calculations and Adjustments

Individuals’ income: To create Figures 1, A1, A4, A5 and A7, we calculate each individual’s total income in the following way. We define individual i ’s income in year t as the sum of their labor and capital income in that year:

$$Total\ Income_{it} = Labor\ Income_{it} + Capital\ Income_{it}. \quad (1)$$

Labor income is the sum of the annual salaries earned by individual i from the firms they were employed at in year t . Capital income is the sum of income obtained through firm ownership—obtained by multiplying their ownership share in a firm by the firm’s profit—and

²⁷We exclude from the analyses all observations associated with 3 firm IDs whose original filing dates take place after the notification date. These are likely the result of data entry mistakes.

²⁸Note that a few firms file F101 in one year and F102 in another year. Thus, the sum of unique F101 clients and F102 clients over 2010–2015 does not add up to the number of unique ghost clients. Furthermore, if a firm filed both F101 and F102 in the same year, we only consider the F101 filing.

other rents:

$$Capital\ Income_{it} = \left(\sum_{n=1}^N Share\ Owned_{int} \times Profit_{nt} \right) + Other\ Rents_{it}, \quad (2)$$

where $n \in \{1, \dots, N\}$ indexes the firms in our sample.²⁹ *Other Rents* include professional fees, dividends, financial rents and other forms of taxable income, all of which are reported in the individual income tax returns (F102).

Income percentiles: To compute percentiles across the distribution of individuals' total income, we add a random value between \$1 and \$5 to the total annual income of each individual. This ensures that all 100 percentile bins include the same number of observations.

Finally, note that we follow a procedure similar to equation (2) to attribute ghost purchases to individuals, namely:

$$Ghost\ Purchases_{it} = \sum_{n=1}^N Share\ Owned_{int} \times Value\ of\ Ghost\ Transactions_{nt}. \quad (3)$$

²⁹For sole proprietorships (F102) that are not in the ownership data, but for which the tax ID of the owner is the same as that of the firm, we treat the ownership share as 1.

D Full Text of a Sample Notification

D1 Original (in Spanish)

Estimado Contribuyente:

En virtud de lo dispuesto en los numerales 2 y 9 del artículo 2 de la Ley de creación del Servicio de Rentas Internas, esta institución tiene la facultad de efectuar el control de los tributos internos del estado y la atribución de solicitar a los sujetos pasivos o a quien los represente cualquier tipo de documentación o información vinculada con la determinación de sus obligaciones tributarias o de terceros.

El artículo 9 de la Ley de Creación del Servicio de Rentas Internas, establece que los directores del Servicio de Rentas Internas ejercerán, dentro de su respectiva jurisdicción, las funciones que el Código Tributario asigna al Director General del Servicio de Rentas Internas.

Mediante la Resolución No NAC-DGERCGC14-00313, publicada en la edición especial del Registro Oficial No. 134 de 30 de mayo de 2014, se expidió el nuevo Estatuto Orgánico de Gestión Organizacional por Procesos del Servicio de Rentas Internas, mismo que es aplicable desde el 01 de noviembre de 2014, según lo dispuesto en la Resolución No. NAC-DGERCG14-00873.

Que, mediante Resolución No. PEO-JURRDRI15-000000009 publicada en el Registro Oficial No. 435 el 10 de Febrero de 2015, en ejercicio de la facultad que le confiere la ley, la Dirección Provincial de El Oro del Servicio de Rentas Internas resolvió delegar a quien desempeñe las funciones de Jefe Provincial de Gestión Tributaria, la facultad de expedir y suscribir el presente acto.

El artículo 94 del Código Tributario respecto a la caducidad de la facultad determinativa, señala:

Art. 94.- Caducidad.- Caduca la facultad de la administración para determinar la obligación tributaria, sin que se requiera pronunciamiento previo:

(..)

2. En seis años, contados desde la fecha en que venció el plazo para presentar la declaración, respecto de los mismos tributos, cuando no se hubieren declarado en todo o en parte;

El artículo 17 del Código Tributario sobre el hecho generador, señala:

Art. 17. - Calificación del hecho generador. - Cuando el hecho generador consista en un acto jurídico, se calificará conforme a su verdadera esencia y naturaleza jurídica, cualquiera que sea la forma elegida o la denominación utilizada por los interesados.

Cuando el hecho generador se delimite atendiendo a conceptos económicos el criterio para calificarlos tendrá en cuenta las situaciones o relaciones económicas que efectivamente existan o se establezcan por los interesados con independencia de las formas jurídicas que se utilicen. (El subrayado corresponde a la Administración Tributaria).

El artículo 10 de la Ley de Régimen Tributario Interno en el último inciso del numeral 16, en concordancia con el artículo 26 de su reglamento de aplicación, establecen:

Art. 10.- Deducciones.- En general, para determinar la base imponible sujeta a este impuesto se deducirán los gastos que se efectúen con el propósito de obtener, mantener y mejorar los ingresos de fuente ecuatoriana que no estén exentos.

(..)

Sin perjuicio de las disposiciones de este artículo, no serán deducibles los costos o gastos que se respalden en comprobantes de venta falsos, contratos inexistentes o realizados en general con personas o sociedades inexistentes, fantasmas o supuestas.

Art. 26.- No serán deducibles los costos o gastos que se respalden en comprobantes de venta emitidos por empresas inexistentes, fantasmas o supuestas, sin perjuicio de las acciones penales correspondientes.

En tal sentido, los artículos 24 y 25 del Reglamento para la Aplicación de la Ley de Régimen Tributario Interno, establecen las definiciones de empresas fantasmas o supuestas e inexistentes; señalando lo siguiente:

Art. 24.- Definición de empresas inexistentes.- De manera general, se considerarán empresas inexistentes aquellas respecto de las cuales no sea posible verificar la ejecución real de un proceso productivo y comercial. En el caso de sociedades, y sin perjuicio de lo señalado, se considerarán como inexistentes a aquellas respecto de las cuales no se pueda verificar su constitución, sea a través de documentos tanto públicos como privados, según corresponda.

Art. 25.- Definición de empresas fantasmas o supuestas.- Se considerarán empresas fantasmas o supuestas, aquellas que se han constituido mediante una declaración ficticia de voluntad o con ocultación deliberada de la verdad, quienes fundadas en el acuerdo simulado, aparentan la existencia de una sociedad, empresa o actividad económica, para justificar supuestas transacciones, ocultar beneficios, modificar ingresos, costos y gastos o evadir obligaciones. La realización de actos simulados, será sancionada de conformidad con las normas de defraudación, tipificadas en el Código Tributario.

El Servicio de Rentas Internas al revisar la información que dispone en sus bases de datos, ha identificado que registra operaciones con empresas que han sido consideradas para efectos tributarios como inexistentes, fantasmas o personas naturales y sociedades que realizan actividades supuestas y/o transacciones inexistentes, por lo cual deberá justificar la veracidad del hecho económico y por ende del gasto registrado en su (s) declaración (es) de las transacciones que se detallan a continuación:

Cuadro No. 1 Transacciones con empresas fantasmas o inexistentes, así como con personas naturales y sociedades con actividades supuestas y/o transacciones inexistentes

La Resolución No. NAC-DGERCGC16-00000356 publicada en el Segundo Suplemento del Registro Oficial 820 de 17 de agosto de 2016, dispone:

Art. 7.- Corrección de declaraciones.- Los contribuyentes que hubiesen utilizado en sus declaraciones, los comprobantes de venta, documentos complementarios y/o compro-

bantes de retención emitidos por empresas inexistentes, fantasmas o personas naturales y sociedades que realizan actividades supuestas y/o transacciones inexistentes, según corresponda, de no contar con documentación que respalde la realidad económica de la o las transacciones, deberán corregir sus declaraciones, cumpliendo para el efecto con lo establecido en la normativa tributaria vigente. En el caso del impuesto a la renta, la corrección a realizar afectará al estado de resultados del ejercicio fiscal respectivo; para el caso del impuesto al valor agregado, se realizará la corrección de la declaración a partir de la cual se genere un valor a pagar de impuesto por la disminución del crédito tributario. En caso de que esta Administración Tributaria detecte que un contribuyente no corrigió sus declaraciones, pese a encontrarse en el supuesto señalado en el inciso anterior, podrá ejercer su facultad determinadora para establecer el o los valores de impuesto que correspondan, con los respectivos intereses, multas y recargos que le sean aplicables, sin perjuicio de las acciones penales que se pudieren iniciar de conformidad con el Código Orgánico Integral Penal y demás normativa vigente.

Por consiguiente y de conformidad con lo señalado en la normativa vigente, las transacciones efectuadas con comprobantes de venta, documentos complementarios y/o comprobantes de retención emitidos por los sujetos pasivos anteriormente descritos en los cuales no se pueda probar la realidad económica de tales operaciones conforme lo dispuesto en el Art. 17 del Código Tributario; se deberá realizar la respectiva corrección de la o las declaraciones en función del siguiente detalle de diferencias establecidas por la Administración Tributaria, sin perjuicio que más adelante se pueda detectar diferencias adicionales:

Cuadro No. 2 Diferencias en la (s) declaración (es) de Impuesto a la Renta por transacciones con empresas fantasmas o Inexistentes, así como con personas naturales y sociedades con actividades supuestas y/o transacciones inexistentes

Con estos antecedentes, se le otorga el plazo de diez (10) días hábiles , para que presente sus declaraciones sustitutivas de Impuesto a la Renta y del Impuesto al Valor Agregado, modificando la (s) diferencia (s) correspondiente (s) a las transacciones realizadas con ese (esos) contribuyente (s), liquidando el impuesto más los intereses y multas correspondientes.

En el caso de que no se cumpla con lo solicitado en el plazo otorgado o no se justifique documentalmente, el Servicio de Rentas Internas, en ejercicio de las facultades establecidas en la ley, iniciará los procesos de control y aplicará las sanciones pertinentes, para garantizar el estricto y correcto cumplimiento de la normativa tributaria, sin perjuicio de impulsar las acciones penales a las que tuviere lugar.

De igual manera se hace conocer al contribuyente lo dispuesto en el quinto inciso del artículo 101 de la Ley de Régimen Tributario Interno, en su parte pertinente, señala:

(...)

Cuando la enmienda se origine en procesos de control de la propia administración tributaria y si así ésta lo requiere, la declaración sustitutiva se podrá efectuar hasta dentro de los seis años siguientes a la presentación de la declaración y solamente sobre los rubros requeridos por la Administración Tributaria. (Énfasis añadido).

En caso de requerir mayor información al respecto del presente oficio puede acercarse a las oficinas del Departamento de Gestión Tributaria de la Dirección Provincial El Oro, ubicadas en la Av. 25 de Junio, Km 1 $\frac{1}{2}$ vía a Pasaje.

El presente oficio no constituye un acto de determinación tributaria, sino una comunicación meramente informativa que tiene como finalidad poner al tanto al sujeto pasivo sobre las diferencias que la Administración Tributaria ha detectado como consecuencia del análisis y los cruces de información respectivos. La Administración Tributaria se reserva el derecho de ejercer la facultad determinadora en el caso en que el sujeto pasivo no regularice las diferencias detectadas de conformidad con lo previsto en el Código Tributario y la Ley de Régimen Tributario Interno.

Finalmente, se advierte que el numeral 20 del artículo 298 del Código Integral Penal, al referirse a la defraudación tributaria, establece que la persona que simule, oculte, omita, falsee o engañe a la Administración Tributaria con el fin de evadir el cumplimiento de las obligaciones tributarias o para dejar de pagar en todo o en parte los tributos realmente debidos, en provecho propio o de un tercero, valiéndose de personas naturales interpuestas, o personas jurídicas fantasmas o supuestas, residentes en el Ecuador o en cualquier otra jurisdicción, será sancionada con pena privativa de libertad de cinco a siete años.

Así mismo, los representantes legales y el contador, respecto de las declaraciones u otras actuaciones realizadas por ellos, serán responsables como autores en la defraudación tributaria en beneficio de la persona jurídica o natural, según corresponda, sin perjuicio de la responsabilidad de los socios, accionistas, empleados, trabajadores o profesionales que hayan participado deliberadamente en dicha defraudación, aunque no hayan actuado con mandato alguno.

D2 Translation

Dear Taxpayer:

Under the provisions of paragraphs 2 and 9 of Article 2 of the Law on the Creation of the Internal Revenue Service, this institution has the power to carry out the control of the internal taxes of the State and is entitled to request from the taxpayers or those who represent them any type of documentation or information related to the determination of their tax obligations or those of third parties.

Article 9 of the Law on the Creation of the Internal Revenue Service establishes that the directors of the Internal Revenue Service shall exercise, within their respective jurisdiction, the duties that the Tax Code assigns to the General Director of the Internal Revenue Service.

Through Resolution No NAC-DGERCGC14-00313, published in the special edition of Official Gazette No. 134 of May 30, 2014, the new Organic Statute of Organizational Management by the Internal Revenue Service Processes was issued. This statute is valid since November 1, 2014, as stated in Resolution No. NAC-DGERCG14-00873.

That, through Resolution No. PEO-JURRDRI15-00000009 published in Official Gazette No. 435 of February 10, 2015, in exercise of the power granted by law, the El Oro Provincial Office of the Internal Revenue Service decided to delegate the power to issue and subscribe the present act to whoever performs the functions of Provincial Head of Tax Management.

Article 94 of the Tax Code, regarding the expiration of the determinative faculty states:

Art. 94.- Expiration.- The power of the administration to determine the tax obligation expires, without requiring prior pronouncement, if:
(..)

2. In six years, counted from the date on which the period for filing the declaration expired, with respect to the same taxes, when they have not been declared in whole or in part;

Article 17 of the Tax Code on the tax-triggering event states:

Art. 17. - Qualification of the tax-triggering event - When the triggering event consists of a legal act, it will be classified according to its true essence and legal nature, regardless of the chosen form or the denomination used by the interested parties.

When the triggering event is defined according to economic concepts, the criteria to rate them will consider the situations or economic relationships that actually exist or are established by the interested parties, regardless of the legal forms used. (The underscore corresponds to the Tax Administration.)

Article 10 of the Internal Tax Regime Law in the last subsection of section 16, and in accordance with article 26 of its implementing regulations, establishes:

Art. 10.- Deductions.- In general, to determine the taxable base subject to this tax, the expenses incurred in order to obtain, maintain and increase the income from Ecuadorian sources that are not exempt will be deducted.

(..)

Without prejudice to the provisions of this article, the costs or expenses that are supported by false sales receipts, non-existent contracts or those in which the counterpart is a non-existent, ghost, or alleged person or company, will not be deductible.

Art. 26.- Costs or expenses that are supported by sales receipts issued by non-existent, ghost or alleged companies shall not be deductible, without prejudice to the corresponding criminal actions.

In this sense, Articles 24 and 25 of the Regulation for the Application of the Law of Internal Tax Regime establish the definitions of ghost, alleged or nonexistent companies, noting the following:

Art. 24.- Definition of non-existent companies.- In general, nonexistent companies shall be defined as those for which it is not possible to verify the actual execution of a productive and commercial activity. In the case of the companies indicated, and without prejudice to this, those for which it is not possible to verify their incorporation, either through public or private documents, will be considered non-existent.

Art. 25.- Definition of ghost or alleged companies- Ghost or alleged companies shall be considered as those that have been constituted through a fictitious declaration of will or with deliberate concealment of the truth. That is, those who, based on a simulated agreement, feign the existence of a company, business, or economic activity, to justify alleged transactions, hide profits, modify income, costs and expenses or evade tax obligations. Taking part of simulated actions will be sanctioned in accordance with the rules of fraud, which are described in the Tax Code.

The Internal Revenue Service, while reviewing its records, has identified that your firm registers transactions with companies that are considered non-existent, ghosts, or individuals and companies that perform alleged activities and/or non-existent transactions for tax purposes. Therefore, you must justify the veracity of the economic event and consequently of the expenses recorded in your tax form(s) for the transactions detailed below:

Table 1 Transactions with ghost/nonexistent companies, or with individuals and companies with alleged activities and/or nonexistent transactions

Resolution No. NAC-DGERCGC16-00000356, published in the Second Supplement to the Official Registry 820 of August 17, 2016, stipulates:

Art. 7.- Amendment of tax returns.- The taxpayers that registered in their returns the sales receipts, complementary documents and/or withholding statements issued by nonexistent companies, ghosts or individuals and companies involved in alleged activities and/or non-existent transactions, in case of not having documentation that supports the economic reality of the transaction(s), must amend their returns, complying with the provisions of current tax regulations. Regarding income tax, the required amendment will affect the income statement of the respective fiscal year. In the case of the Value Added Tax, the tax return amendment will be implemented in cases in which this leads to a tax payment for the reduction of the tax credit. In the event that this Tax Administration detects that a taxpayer did not amend their filings, despite being in the situation indicated in the preceding paragraph, it may exercise its assessment authority to determine the corresponding tax value or values, with the applicable interest, fines and surcharges, without prejudice to the criminal actions that may be initiated in accordance with the Comprehensive Organic Penal Code and other current regulations.

Therefore, and in accordance with the current regulation, transactions registered with sales receipts, supplementary documents and withholding statements issued by the aforementioned taxpayers for which the economic reality of the transaction cannot be verified in accordance with the provisions in Art. 17 of the Tax Code; the applicable amendment of the return (s) must be implemented, according to the following breakdown of differences established by the Tax Administration, without prejudice to the possibility that further differences may be detected in the future:

Table 2 Differences in Income Tax Return(s) for transactions with ghost or non-existent companies, as well as with individuals and companies involved in alleged activities and/or non-existent transactions

In this context, you are granted a period of ten (10) business days to submit your amended Income Tax and Value Added Tax returns, modifying the difference(s) corresponding to the transaction(s) registered with that (those) taxpayer(s), and paying the outstanding tax plus the applicable interest and fines.

In the event that the request is not complied with within the given term or that no documents are submitted to validate the transaction, the Internal Revenue Service, in exercise of the authority established by the law, will initiate the correspondent control processes and implement the applicable sanctions, to ensure the strict and correct compliance with the tax regulations, without prejudice to starting any applicable criminal actions.

Likewise, the taxpayer is informed of the provisions of the fifth paragraph of Article 101

of the Internal Tax Regime Law, which states, in its relevant part:

(...)

When the amendment originates in control processes undertaken by the Tax Administration itself and if the Administration requires it, the amendment may be submitted up to six years after the filing of the return and only on the items required by the Tax Administration. (Emphasis added).

If you need more information about this resolution, you can go to the offices of the Tax Management Department of the El Oro Provincial Office, located at Av. 25 de Junio, Km 1 $\frac{1}{2}$ road to Pasaje.

The present document does not constitute an act of tax determination, but a merely informative communication, whose purpose is to inform the taxpayer about the differences that the Tax Administration has detected as a result of analysis and cross-checking of information. The Tax Administration reserves the right to exercise the determinative power in the case in which the taxpayer does not rectify the detected differences in accordance with the provisions of the Tax Code and the Internal Tax Regime Law.

Finally, it is noted that paragraph 20 of Article 298 of the Comprehensive Criminal Code, when referring to tax fraud, states that any person who simulates, conceals, omits, misrepresents or deceives the Tax Administration to avoid complying with their tax obligations or to stop paying in whole or in part the taxes owed, for own benefit or for the benefit of a third party, using straw individuals, or ghost or alleged companies, residents in Ecuador or in any other jurisdiction, will be sanctioned with a custodial sentence of five to seven years.

Likewise, the legal representatives and the accountant, regarding their declarations or other actions they carry, will be responsible as authors in the tax fraud for the benefit of the individual or company, as applicable, without prejudice to the responsibility of the partners, shareholders, employees, workers, or professionals who deliberately participated in said fraud, even if they were not following orders.