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Applied Economics >

Volume 41, 2009 - Issue 19: Special Theme: The applied economics of employment

1,3878221ViewsCrossRef citations to dateAltmetric

Original Articles

Tax evasion and self-employment in a hightax country: evidence from Sweden

Per Engström & Bertil Holmlund Pages 2419-2430 | Published online: 08 Feb 2010

ages 2419-2430 | Published online: 08 Feb 2010

L Cite this article **Z** https://doi.org/10.1080/00036840701765452

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Acknowledgement

We thank Annika Persson for useful comments.

Notes

¹ There exist also other studies using different methods that also indicate that tax evasion is more prevalent among groups with more opportunity to evade. See e.g. Slemrod et al. (2001) and Joulfaian and Rider (1998). Blumenthal (2001) examine how normative appeals affect tax compliance using a randomized experiment.

² According to OECD data, the tax-to-GDP ratio in Sweden stood at 50.7% in 2004 which is the highest ratio among OECD countries; Denmark came second at 49.6%. Agell et al. (<u>1996</u>) provide an overview and evaluation of the major 1991 reform of the Swedish tax system.

³ The theoretical literature on tax evasion does not provide clear prediction	is regarding
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⁶ We have obtained similar results for broader measures of food consumption, such as food purchases plus meals out.

⁷ Disposable income thus includes transfers consisting of taxable transfers, such as sick pay and unemployment benefits, and tax-free transfers, such as child allowances and social assistance payments.

⁸ Pissarides and Weber (<u>1989</u>) define households as self-employed if income from selfemployment accounts for at least 25% of total income.

⁹ The fraction of self-employed in total employment is 10% according to the labour force surveys of 2000. Note that our sample is restricted to couples. Moreover, our measure of the rate of self-employment in households is not directly compared to the labour force survey data based on individuals.

¹⁰ The food consumption ratios are substantially lower in 2003–2004 than in the previous surveys, a pattern also visible in the aggregate data published by Statistics Sweden. The likely main reason for the differences is that the measurement techniques have changed. According to Statistics Sweden (2003), the surveys for 1999–2001 produced an upward bias in food consumption by inducing households to include some nonfood items in their reports of food purchases.

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¹⁵ It is not possible to disentangle income sources in the 1999–2001 data so we focus on 2003–2004.

¹⁶ We have examined whether the basic results are affected by relaxing our maintained assumption that the Engel curves for employees and self-employed have the same slopes. There is some evidence from the OLS estimations that the Engel curve for employees is slightly steeper, but this have negligible effects on the estimated degree of underreporting for the main part of the income distribution. The IV estimates do not indicate any differences in slopes.

¹⁷Skatteverket (<u>2006</u>) presents evidence based on tax audits that implies underreporting of a similar magnitude for this group of self-employed.

¹⁸ According to data from Statistics Sweden, the amount of reported entrepreneurial income (inkomst av näringsverksamhet) accounts for about 3% of total reported labour income as defined above. The amount of hidden entrepreneurial income relative to total reported income is thus given as

¹⁹ Persson (2005) compares earnings among employees and self-employed using Swedish data for 2002 and find substantially lower reported earnings among the selfemployed even after having standardized for industry affiliation. The paper does not

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 23 The estimates in column (1) imply , whereas the estimates in column (4) imply .

²⁴ One example is the paper by Bovi (2003), where the determinants of underground (OECD) economies are examined. Bovi finds that the underground economy is mainly affected by variables capturing 'institutional failures' and to a lesser degree taxation and market regulations.

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