

# **Tax Evasion and Self-Employment in a High-Tax Country: Evidence from Sweden<sup>§</sup>**

by

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## **Abstract**

Self-employed individuals have arguably greater opportunities than wage earners to underreport their incomes. This paper uses recent Swedish income and expenditure data to examine the extent of underreporting of income among self-employed individuals. A key hypothesis is that underreporting of incomes among the self-employed would be visible in the data as “excess food consumption”, for a given level of observed income. Our results confirm the underreporting hypothesis. In particular, we estimate that households with at least one self-employed member underreport their total incomes by around 30 percent. Under-reporting appears to be much more prevalent among self-employed people with unincorporated businesses as among those with incorporated businesses.

*Keywords:* Tax evasion, self-employment, Engel curves.

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