Tax evasion in Greece: Billions earned by high-income professionals go untaxed

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Wide-scale tax evasion in Greece accounts for 28 billion Euros in unreported taxable income –just among the self-employed, according to a new study, "Tax Evasion Across Industries: Soft Credit Evidence from Greece," by Adair Morse, a visiting assistant professor of finance at Berkeley-Haas.

At a tax rate of 40 percent, that's a revenue loss responsible for nearly one-third of Greece's deficit in 2009 or almost 50 percent of the deficit in 2008, according to the study co-authored by Margarita Tsoutsoura, assistant professor, University of Chicago Booth School of Business, and Nikolaos Artavanis, PhD candidate, Virginia Tech Pamplin College of Business.

Using bank data on household borrowing, the paper finds that highly paid, highly educated professionals are at the forefront of tax evasion in Greece: doctors, engineers, private tutors, financial services agents, accountants, and lawyers. Morse contends the findings are troubling from a perspective of inequality in the financially struggling country.

"The goal of the paper is to use our rich bank data to provide a country-representative estimate of tax evasion in aggregate and by occupation, and to offer analysis relating to factors that allow the tax evasion to persist," says Morse. "But we were also very aware that understanding who is paying taxes and who is not is important to the people of Greece. One might ponder how it can be a good thing that the higher-income professions 'tax evade' a higher proportion of this income."

The researchers further sought to understand how such dramatic tax evasion could exist and continue, with two main conclusions. First, the tax evaders tend to work in occupations that are least likely to leave a verifiable "paper trail" for tax collectors. Second, legislation, including a 2010 bill addressing the widespread tax evasion, has been slow to win approval. Morse asserts that it may not be mere coincidence that the majority of Greek Parliament members' professions correlate with the largest tax evaders', even excluding lawyers. "Industry associations are strong," Morse suggests. "Parliament members face enormous loyalty pressure."

The data consist of credit applications for consumer credit products at one of the ten large Greek banks from 2003 to 2010. The authors study situations in which the bank determines the credit level such as refinance loans, new credit cards, and a sample of loans in which borrowers requested more money than they received. In these situations, Morse uses the bank decision on the appropriate credit level to understand how much income the bank must perceive individuals to have to back out the bank's estimate of true income. The authors term such lending "soft credit" since the information about true income is soft information. The researchers infuse this new insight with the observation that Greek banks have learned to adapt to an economy where income is often hidden to remain competitive.

Morse hopes the study's findings will encourage EU and Greek policymakers to create incentives for more accurate income reporting such as paper trial mandates or occupation licenses for tax evading industries. Already the research is having an impact on the rhetoric in Greece, encouraging the population to think about the culture of tax evasion and how tax evasion does not equally benefit all Greeks. The Greek government recently approved new regulations requiring all businesses to issue receipts for transactions so it may track business taxes due. If a business doesn't comply, the customer can reportedly walk away –without paying.

More information: See full paper: faculty.chicagobooth.edu/adair … rs/TaxEvasionWeb.pdf

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