ABSTRACT

Banks lend to tax-evading individuals based on the banks’ perceptions of true income. This insight leads to a novel approach to estimate tax evasion from private-sector adaptation to semiformality. In our new study based on household microdata from a large bank in Greece, we replicate bank models of credit capacity, credit card limits, and mortgage payments to infer the bank’s estimate of individuals’ true income. We estimate a lower bound of 28 billion euros of unreported income for Greece, just for the self-employed. The foregone government revenues amount to 31 percent of the deficit for 2009. Primary tax-evading occupations are doctors, engineers, private tutors, accountants, financial service agents, and lawyers. Testing the industry distribution against a number of redistribution and incentive theories, our evidence suggests that industries with low paper trail and industries supported by parliamentarians have more tax evasion. We conclude by commenting on the property right of informal income.