

## ***Measuring Monthly Net Incomes from linked Labour Force Survey Data with Administrative Records***

Authors: \*Leite, D., \*\*Rodrigues, S., \*\* Portugal, A.

### **Abstract**

We use labor force survey data – the Portuguese version of the EU Labour Force Survey for 2019 (*Inquérito ao Emprego*) – linked with administrative records on both labor market and demographic characteristics of the respondents, as well as detailed information on earning components (base wages, bonuses, fringe benefits, etc.) from monthly paychecks that employers are required to remit monthly to the tax authority for tax withholding purposes. We assess the extent and the structure of misreporting across comparable earning components from the survey and monthly administrative data on earnings. We document that respondents who locate between 25<sup>th</sup> and the 75<sup>th</sup> percentiles underreport monthly incomes net of withholding taxes by 5%, while those at the top 25<sup>th</sup> underreport by almost 10%. On the contrary, respondents at the bottom quintile tend to report incomes that are on average 10% higher than what is reported by employers to the tax administration. These misreporting patterns may bias downwards income inequality measures based on monthly incomes. Failure to report monthly incomes correctly may be related with informality at the bottom 20<sup>th</sup> of the distribution, and to misperceptions between effective and withholding taxes at the top.

\*Paris School of Economics and Statistics Portugal, \*\*Statistics Portugal