Tackling undeclared work in the European Union and the EU candidate countries

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• Definition of undeclared work
• Nature of undeclared work
• Tackling undeclared work in the European Union and Norway
  ▸ Existing national policy approaches
  ▸ Relative importance of different types of policy measures
  ▸ Examples of measures implemented since 2008
• Tackling undeclared work in the five EU candidate countries
Any paid activities that are **lawful as regards their nature** but **not declared to the public authorities**, taking into account the differences in the regulatory system of Member States

(European Commission, 2007)
Nature of undeclared work

Undeclared waged employment
- Within a formal or informal enterprise
- Wholly undeclared
- Partially undeclared (envelope wages)
- Greater proportion in southern Europe and East-Central Europe (envelope wages)

Undeclared self-employment
- Own-account undeclared work for an enterprise or client
- Own-account undeclared work for neighbours, kin, friends… (‘socially embedded’)
- Higher proportion in Continental Europe & Nordic nations. More likely to be for kin, friends and neighbours
Approaches to combatting undeclared work

Deterrence

- Improve detection
- Penalties

Enabling compliance

- Preventive
- Curative
- Fostering commitment
Approaches used to tackle undeclared work in the EU 27

Eurofound, 2009
Deterrence

- Measures to improve detection: 100%
- Penalties: 93%
Use of measures in 31 countries (2010)

Enabling compliance

Preventive measures: 90%

Curative measures: 64%

Fostering commitment: 69%
Measures in 31 countries (2010)

Importance accorded to different policy measures (2010)

<table>
<thead>
<tr>
<th>% citing</th>
<th>Most important</th>
<th>2\textsuperscript{nd} Important</th>
<th>Least important</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deterrence measures</td>
<td>57%</td>
<td>17%</td>
<td>16%</td>
</tr>
<tr>
<td>Preventative measures</td>
<td>19%</td>
<td>46%</td>
<td>23%</td>
</tr>
<tr>
<td>Curative measures</td>
<td>14%</td>
<td>19%</td>
<td>32%</td>
</tr>
<tr>
<td>Fostering commitment to declared work</td>
<td>10%</td>
<td>18%</td>
<td>29%</td>
</tr>
</tbody>
</table>
## UK policy measures: return/cost ratios

<table>
<thead>
<tr>
<th>Approach</th>
<th>Method</th>
<th>Measure</th>
<th>Return/cost ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deterrence</td>
<td>Detection</td>
<td>All detection measures</td>
<td>5:1</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Tax evasion hotline</td>
<td>2:1</td>
</tr>
<tr>
<td></td>
<td>Preventive</td>
<td>Preventive</td>
<td></td>
</tr>
<tr>
<td>Enabling</td>
<td>Curative</td>
<td>VAT amnesty</td>
<td>23:1</td>
</tr>
<tr>
<td>Commitment</td>
<td>Advertising campaigns</td>
<td></td>
<td>19:1</td>
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</tbody>
</table>
Eurofound’s ‘knowledge bank’

- Eurofound’s Network of Correspondents: **186 measures, 33 countries**
- Vehicle/tool for the systematic **sharing of knowledge** on ‘good practice’
  - shows what has been **tried and tested** elsewhere
  - evaluates their **transferability** across nations, sectors and occupations
  - assesses the relative **effectiveness**
Search engine of the ‘knowledge bank’
Examples of Measures (since 2008)

Detection
- More (effective) inspections (BE, CZ, DK, PT, SK, ES, DE, IT, LT, LV, LU, NO, RO, SL, SE, EE)
- Identity cards (LU, IT, NO, SE, CZ)
- The Grey Economy Information Unit (FI)
- Obligation to register new employees immediately (AT, BG, IT, SK, SE)

Penalties
- Increasing sanctions (SK, CZ, FR, DK, NL, UK)
Examples of Measures (since 2008, cont.)

**Prevention**
- Cash register legislation (SE, PL)
- Simplified Employment Act (HU)
- Start-up premium (DE)

**Curative**
- Amnesty for undeclared workers (ES)
- Reverse VAT in the construction industry (FI)
- Tax deductions for household work (SE)
- Service voucher schemes, e.g. IT
Commitment

- Public information and awareness-raising campaign (LT)
- ‘Against the shadow economy – for fair competition’ (LV Employers)
- Collaboration against the black economy (NO, social partners involved)
- National Centre ‘Business to the rules’ (BG, trade unions involved)
- ‘Let’s stop undeclared work’ (SL, social partners involved)
- Notification letters – normative appeals (EE)
- Other examples with social partner involvement in SE and DE
None of the five countries have single compliance agency or central coordinating committee.

Some form of tri-partite social dialogue on undeclared work in all five countries.

Curative measures less common than in EU 27; soft measures to foster commitment relatively new.

Iceland: more importance on enabling measures.

Conclusion: Candidate countries need to give more prominence to fuller range of measures (hard and soft).
Outcomes: 5 key issues

- Little sharing of knowledge on ‘good practice’
- Little attention to ‘commitment’ rather than ‘compliance’ approach
- Need for more extensive **evaluation** of policy measures
  - Evaluate in terms of **objectives** they set themselves
  - Use common units of evaluation (e.g., return/cost ratio)?
- Need to understand which policy measures are **most effective in various contexts**
- Need to understand what **combinations** and **sequences** of policy measures are most effective in various contexts
International co-operation

- Growing concern cross border UDW
- Many bi-trilateral agreements
- Need for broader international co-operation and exchange of knowledge, good practices
Compliance Model adopted by Australian Tax Office

Attitude to compliance

- Have decided not to comply
- Don’t want to comply, but will if we pay attention
- Try to but don’t always succeed
- Willing to do the right thing

Compliance strategy

- Use the full force of the law
- Deter by detection
- Assist to comply
- Make it easy

Our strategies aim to create pressure down
For more information:
www.eurofound.europa.eu