



# Measures to Combat Undeclared Work: a knowledge bank and an overview report

Authors: Prof. Colin C Williams, *University of Sheffield, UK*  
and Dr. Piet Renooy, *Regioplan, NL*

**Radosław Owczarzak**

Research Manager

**Eurofound**

European Foundation for the Improvement  
of Living and Working Conditions



# The policy background

- Employment Policy Guideline no. 9 on transforming undeclared work into regular work (2003)
- EC's 2nd Communication 'Stepping Up the fight against undeclared work' (2007)
- European Parliament (2008) called on '*establishing a database on the various approaches and measures implemented nationally by each MS, to assess their feasibility and transferability to other sectors and areas of work in other MS*'
- Joint ETUC – UEAPME Project: '*Cooperation between SMEs and trade unions in Europe on common economic and social concerns*' – a chapter on UDW (10 June 2009)



## Defining undeclared work

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)

Types of undeclared work:

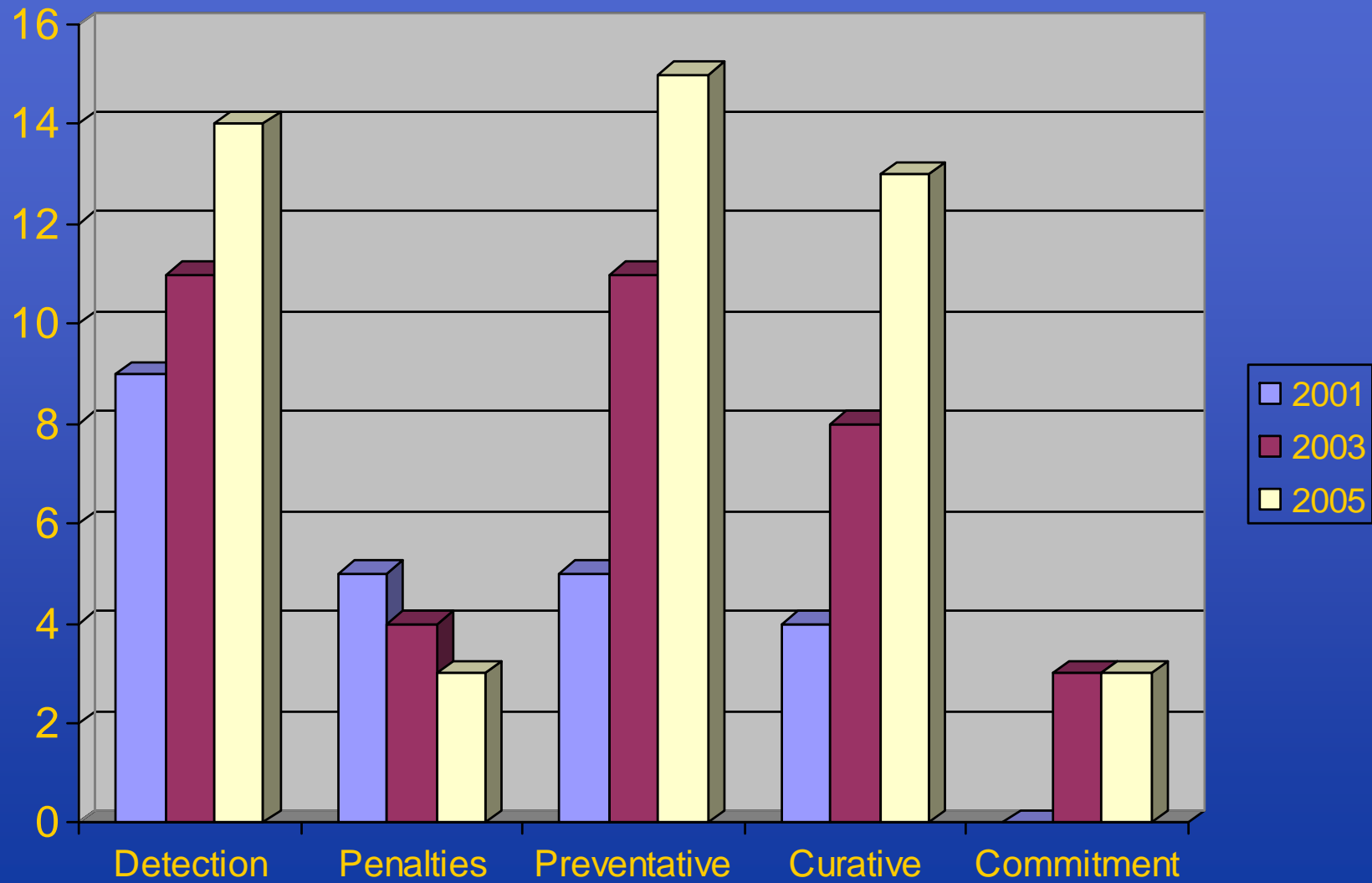
- undeclared work within a formal enterprise:
  - ▶ wholly undeclared, whereby all of the person's wages are paid 'off the books'
  - ▶ partially undeclared whereby a portion of the wage from one's formal employer is paid officially and the remaining portion is paid off the books ('envelope wages');
- own-account undeclared work for a formal enterprise or delivery of goods and services directly to consumers who are neighbors, family, friends or acquaintances

# Policy approaches towards undeclared work

Approach	Method	Measures
Deterrence (stick)	Improve detection	Data matching and sharing Joining-up strategy and operations
	Penalties	Increase penalties for evasion
Enabling Compliance (carrot)	Preventative	Simplification of compliance Direct & indirect tax incentives Smooth transition to self-employment Introducing new categories of work Micro-enterprise development
	Curative	Purchaser incentives: - service vouchers - targeted direct and indirect taxes  Supplier incentives: - amnesties and voluntary disclosure - business advisory & support services
	Fostering commitment	Promoting benefits of declared work Education Peer-to-peer surveillance Tax fairness Procedural & redistributive justice



## Approaches to tackle UDW in the UE27





## UK policy measures: return/cost ratios

Approach	Method	Measure	Return/cost ratio
Deterrence	Detection	All detection measures	5:1
		Tax evasion hotline	2:1
Enabling	Preventive		
	Curative	VAT amnesty	23:1
	Commitment	Advertising campaigns	19:1



## Outcomes: 5 key issues

1. **Little sharing** of knowledge on ‘good practice’
2. Little attention to ‘**commitment**’ rather than ‘compliance’ approach
3. 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**)?
4. Need to understand which policy measures are **most effective in various contexts**
5. Need to understand what **combinations and sequences** of policy measures are most effective in various contexts



## Creation of the 'knowledge bank'

- Eurofound's Network of Correspondents: **100 measures, 28 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**





## Measures

- Campaigns to stimulate awareness
- Social partner-actions
- Filling gaps in legislation and regulation
- Enabling measures
- New organisations
- Stepping up Inspections
- Migrants
- New legislative regimes for specific types of work



## Joint Shadow Economy Teams, the UK (2001-2006)

- Locally-based teams of officers from the Department for Work and Pensions (DWP), Her Majesty's Revenue and Customs (HMRC) and the employment agency Jobcentre Plus
- Four priority areas of economic activity: construction and building; the operation of taxis and couriers; catering; and hotels and guest houses.
- By applying area-based cross-departmental intelligence and data sharing JoSETs sought to detect:
  - ▶ 'unregistered businesses' – legitimate businesses trading above the VAT threshold who deliberately do not register for VAT
  - ▶ 'moonlighters' – individuals who work formally and pay tax but who have a second hidden job for which they do not pay tax
  - ▶ 'ghosts' – individuals who are completely unknown to the tax authorities as they do not carry out any formal work and hence do not pay any tax on employment or self-employment income sources
  - ▶ false benefit claimants
- JoSETs appear more effective and efficient at combating undeclared work than work conducted within individual government departments acting without cooperation.



## VAT Incentive Scheme, the UK (10 April-30 September 2003)

- To encourage businesses that are not registered for VAT to come forward and register
- Businesses would not incur penalties for late registration as long as they did all of the following:
  - ▶ came forward voluntarily
  - ▶ assisted the HMRC in establishing the amount of VAT due
  - ▶ paid any arrears in full and furnished all VAT returns and payments on time for 12 months after registration
- Almost 3,900 applications for late registration had been processed



## Regulations to promote regular employment, Italy (2001-2003)

- The government passed a law promoting the regularisation of employment through the provision of substantial incentives
- The assumption was that undeclared work existed due to the high level of taxes and contributions to be paid
- **Specific measures**
  - ▶ automatic regularisation procedure and the three-year period of lower taxation and a general amnesty from contributions and taxes not paid in the previous years
  - ▶ progressive regularisation procedure – entrepreneurs submit an individual regularisation plan to the Committees for Formalisation of Irregular Labour (CLES)
- Limited impact: 800 applications/1500 persons → regularisation policies should be linked to economic development policies



## System to improve access to employment for Ukrainian citizens, Czech Republic

- **Network of advice centres** in 3 locations in Ukraine and in 5 in the Czech Republic:
  - ▶ **Services to future migrant workers:**
    - providing information and raising awareness about the opportunities for legal entry to and residence in Czech Republic
    - arranging contact between employers and jobseekers
    - socio-legal advice, mediating contacts to institutions, such as doctors, labour offices, and foreign and border police; providing contacts for potential accommodation near the place of work; and a consultancy service in the event of difficulties
    - in Ukraine: assistance filling in forms and permit applications, dealing with government offices
  - ▶ **Services to Czech employers**
    - consultancy regarding the employment of foreigners
    - online form for employers to define their requirements for potential workers
    - finding workers with the required skills, pre-selection of workers in Ukraine, including organisation of the final selection; and the option of organising working trips to Ukraine for the personal selection of the workers required
    - assistance in dealing with formalities



## Social partner-actions – HORECA, Portugal

- The Northern Hotels Trade Union initiated a campaign against undeclared work in hotels and restaurants, Portugal (2007)
- The starting point was a survey that showed:
  - ▶ about 33% were employed illegally
  - ▶ 39% of establishments surveyed do not declare for tax purposes the totality of salaries
  - ▶ More that 94% of establishments do not comply with regulations on the working time
- Specific measures:
  - ▶ Meetings with public authorities (labour inspectorate, social security, ministries)
  - ▶ statements and reports to the government and competent ministries
  - ▶ Distribution and dissemination of posters, brochures in companies
- Initiative was well received by workers and the public and achieved some positive results, but more support of the labour inspectorate would improve its efficiency



## Notification letters from Tax and Customs Board, Estonia (2008)

- Notification letters sent to companies with low wage levels compared with the average level in the region and the respective business sector, which might refer to the payment of undeclared wages or 'envelope wages'
- The initiative targeted 1,000 companies and 2,000 workers
- A preventive measure, providing employers with the opportunity to change their tax behaviour before receiving penalties
- Result: 46% of the companies that received these letters adjusted the wage levels in their companies and increased tax payments
- the most successful in terms of improved tax behaviour included cases where both the employer and the employees received the letters (56% improved their tax behaviour)



## Campaigns to stimulate awareness

- Latvia: 9000 employers in Latvia received a letter from the Revenue Service in which attention was given to the risks and damages caused when wages were received “under the table”
- Estonia: Billboards all over the cities addressing the issue of undeclared work.
- UK, Malta, Lithuania, Latvia and Slovenia : Telephone hotlines urging the public to report cases of UDW





## Denmark

- Focus on Information campaigns/awareness raising.
- Targeted at young people: why do should you pay taxes?
- Similar campaign in Sweden





# THANK YOU!

**Radosław Owczarzak**

**Eurofound**

**[row@eurofound.europa.eu](mailto:row@eurofound.europa.eu)**

**[www.eurofound.europa.eu](http://www.eurofound.europa.eu)**



## **‘Knowledge bank’ on UDW: Format**

- Background
- Objectives
- Specific measures
- Actors
- Characteristics, e.g. target groups, timing
- Achievements
- Transferability
- Contacts