Tackling under-declared employment in the European Union: input paper to thematic discussion of European Platform Tackling Undeclared Work

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Document 2
Tackling under-declared employment in the European Union

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1. Introduction

The under-declaration of work ranges from employers using unregistered employees, through the under-declaration of income by the formal self-employed and formal businesses, to the misuse of collaborative platforms and the digital economy to conceal the full amount of incomes and social security due.

The objective of this thematic discussion on under-declared employment in the European Union is: (i) to exchange information on what works and what does not, (ii) to generate knowledge about under-declared employment, and (iii) to explore how the Platform activities can contribute to tackling under-declared employment.

The intention is to focus upon two types of under-declaring work:

(1) ‘conventional’ under-declared employment, when formal employers pay their formal employees two salaries - an official declared salary, and an additional undeclared ‘envelope’ wage\(^2\) - and/or under-declare working time, and

(2) ‘modern’ emergent forms of under-declaring work\(^3\), including:
   a. non-declaration of a second job;
   b. not reporting income from online trade/services; and the misuse of collaborative platforms, the sharing and gig economies; and
   c. the payment of wages disguised as trusts, loans, transfers of assets and rights, loyalty points bonuses and shares.

This thematic discussion will focus attention on two key issues. In Section 1, the extent and character of conventional under-declared employment is addressed and section 2 evaluates how these forms of under-declared employment can be tackled. Section 3 outlines the ‘modern’ emergent forms of under-declaring work and how they might be addressed.

2. Extent and characteristics of conventional under-declared employment

This section addresses eight key questions:

- How common is under-declared employment?
- What conditions are attached to the payment of envelope wages?
- Are envelope wages paid for overtime or regular work?
- What is the attitude of employees to being paid envelope wages?
- Is the decision to pay envelope wages instigated by the employer and/or employee?
- Who receives envelope wages?
- Which employers pay envelope wages?
- Why do employers pay envelope wages?

2.1 How common is under-declared employment?

One of the only sources of data of under-declared employment in the EU is the 2013 special Eurobarometer no. 402 survey of 11,025 employees. This finds that one in 33


formal employees in the EU28 received envelope wages in the 12 months prior to the survey, and the median proportion of their gross salary paid as an envelope wage was 25%. Extrapolating from this, some 6.36 million of the 212 million employees in the EU-28 receive under-reported salaries.

Nevertheless, the proportion of formal employees receiving envelope wages is greater in East-Central Europe (6% of formal employees) and Southern Europe (4%) than in Western Europe (1%) and the Nordic nations (1%). So too is the proportion of their gross wage that is unreported higher in East-Central Europe (30%) and Southern Europe (50%) than in Western Europe (10%) and the Nordic countries (3%).

Overall, under-declared employment is concentrated in East-Central Europe. Just 22% of the formal employees surveyed in 2013 were in East-Central Europe, but 45% of those receiving envelope wages. It is not equally prevalent however, across all East-Central European nations. In Latvia, 11% of formal employees reported receiving envelope wages, 8% in Croatia, 7% in Romania and Slovakia, 6% in Bulgaria, Hungary and Lithuania, 5% in the Czech Republic, Estonia and Poland, and 4% in Slovenia. Neither, moreover, is it only East-Central European Member States that have above average rates of under-declared employment. Other member states with above EU-average rates include Greece (7%), Spain (5%) and Belgium (4%).

It is well-known that such direct surveys under-estimate the prevalence of undeclared work practices since they rely on participants being willing to report their illegitimate practices. The above figures, therefore, should be treated as lower-bound figures.

2.2 What conditions are attached to the payment of envelope wages?

The decision to pay an undeclared (envelope) wage in addition to the official declared salary usually occurs at the stage of a job offer. At the same time as the employer and employee agree an official declared salary, detailed in a formal written contract, a decision is also taken to fraudulently under-declare to the state authorities the full salary paid to an employee.

Often, when paying an envelope wage, additional conditions are attached to those stated in the written contract or terms of employment. No information is available on this for the whole EU28. However, the 2015 GREY employees’ survey conducted in Bulgaria, Croatia and FYR Macedonia collected such information. Table 1 reports the findings. Given that an employee could select more than one condition if they had multiple additional conditions attached to receiving envelope wages, the numbers do not necessarily always round-up to 100 in Table 1.

<table>
<thead>
<tr>
<th>% of employees paid envelope wages:</th>
<th>Bulgaria</th>
<th>Croatia</th>
<th>FYR Macedonia</th>
</tr>
</thead>
<tbody>
<tr>
<td>No additional conditions in verbal contract</td>
<td>50</td>
<td>39</td>
<td>60</td>
</tr>
<tr>
<td>Additional conditions:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>asked to work longer working hours than stated in their written contract</td>
<td>28</td>
<td>34</td>
<td>24</td>
</tr>
<tr>
<td>asked to conduct different tasks to those in their written contract</td>
<td>20</td>
<td>27</td>
<td>15</td>
</tr>
<tr>
<td>asked not to take their full statutory entitlement to annual leave</td>
<td>9</td>
<td>19</td>
<td>11</td>
</tr>
</tbody>
</table>

Source: 2015 GREY employees survey

2.3 Are envelope wages paid for overtime or regular work?

The 2013 Eurobarometer reveals that 37% received envelope wages for their regular employment, 31% for over/extra time worked, and 25% for both their regular work and overtime/extra work. 7% did not know or refused to answer. With one-third of envelope wages in the EU paid for overtime or extra work, this often appears to be a tactic used
by employers to cope with temporary increases in demand by using their existing formal labour force on an undeclared basis, rather than buying in extra labour or outsourcing, or taking on wholly undeclared labour to meet temporary increases in demand.

2.4 What is the attitude of employees to being paid envelope wages?

Some employees would prefer full declaration of their salary. This is because they can then obey the law, get access to higher levels of credit/loans, and even gain official recognition as a full-time rather than part-time worker in some cases. Others, however, may be happy to receive an envelope wage, perhaps because they believe that they receive a higher ‘take-home pay’ when paid in this manner. Others might be neutral.

Table 2 reports the responses in the 2007 Eurobarometer survey on undeclared work (the 2013 survey did not include such a question).

One-third of employees receiving envelope wages are happy with this arrangement, one-third would prefer full declaration, and the remainder are either neutral or do not know/refuse to answer.

Table 2. Attitude of employees towards receiving envelope wages (2007)

<table>
<thead>
<tr>
<th>% of employees receiving envelope wages:</th>
<th>EU27</th>
<th>Western Europe</th>
<th>Nordic nations</th>
<th>East-Central Europe</th>
<th>Southern Europe</th>
</tr>
</thead>
<tbody>
<tr>
<td>Would prefer full declaration of their salary</td>
<td>33</td>
<td>12</td>
<td>27</td>
<td>40</td>
<td>34</td>
</tr>
<tr>
<td>It depends</td>
<td>16</td>
<td>4</td>
<td>9</td>
<td>18</td>
<td>19</td>
</tr>
<tr>
<td>Happy receiving envelope wage</td>
<td>33</td>
<td>82</td>
<td>58</td>
<td>24</td>
<td>19</td>
</tr>
<tr>
<td>Don't know/refused to answer</td>
<td>18</td>
<td>2</td>
<td>6</td>
<td>18</td>
<td>28</td>
</tr>
</tbody>
</table>

Source: Authors’ own work based on the Special Eurobarometer 284 (2007)

There are, however, clear East/West and North/South regional variations in the EU. Recipients of envelope wages in Western Europe and the Nordic nations are more commonly happy to do so, and those in East-Central Europe and Southern Europe more commonly would prefer full salary declaration.

Given that only one-third of recipients of envelope wages would prefer full declaration of their salary, it will be difficult during inspections to elicit ‘whistle-blowing’ behaviour from employees, and even unhappy may fear losing their job if they whistle blow.

Indeed, this contentment with envelope wages seems unlikely to change in the future as younger generations enter the workforce. A 2016 survey of 497 Romanian and Moldovan students of the Faculty of Economics and Business Administration at Alexandru Ioan Cuza University of Iaşi found that in their future employment, 40% would prefer the full declaration of their salary, 28% were happy to receive envelope wages, and 28% neutral. 4% did not answer. The majority are thus happy or neutral about under-declared employment. Indeed, only 13% would reject an offer of employment if an employer imposed additional conditions to those in the formal contract in return for an envelope wage.4 If this cohort of university business studies students reflects the attitudes of the wider future workforce, it provides a compelling case for educational and awareness raising campaigns about the benefits of full declaration and the costs of receiving envelope wages.

2.5 Is the decision to pay envelope wages instigated by the employer or employee?

Until now, it has been assumed that under-declared employment is instigated by employers. To test this, the 2015 GREY employee survey asked every employee

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receiving envelope wages: ‘Who suggested paying this additional salary which would not be declared to the authorities?’.

As Table 5 reveals, envelope wages are in 65% of cases in Bulgaria initiated by the employer, 70% in Croatia, and 54% in FYR Macedonia. This is not surprising given the benefits to employers from this type of noncompliance, which is not always the case for employees. However, in 1 in 3 cases of envelope wages in Bulgaria and Croatia, and nearly half of all cases in FYR Macedonia, the employee reported playing a role in suggesting this wage arrangement. However, given the differential power of the employer and employee in such negotiations, caution is required.

Table 5. Is salary under-reporting employer- or employee instigated? (2015)

<table>
<thead>
<tr>
<th>% of employees receiving envelope wages:</th>
<th>Bulgaria</th>
<th>Croatia</th>
<th>FYR Macedonia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initiated by employer</td>
<td>65</td>
<td>70</td>
<td>54</td>
</tr>
<tr>
<td>A joint idea</td>
<td>29</td>
<td>20</td>
<td>24</td>
</tr>
<tr>
<td>Initiated by employee</td>
<td>2</td>
<td>10</td>
<td>22</td>
</tr>
<tr>
<td>Refused/do not know</td>
<td>4</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: 2015 GREY employees survey

Indeed, Franic (2017) distinguishes four types of employee receiving envelope wages based on in-depth qualitative interviews in the Croatian city of Zagreb, and in doing so displays the lack of choice available to many employees receiving envelope wages. These four types are:

- **Under-declared by deception** – for a typical Croatian employee the phrase ‘income from employment’ means ‘take-home pay’. Employers, therefore, will offer a job to a person at a certain take-home pay rate but not mention that only a portion of this will be the official declared salary and the rest paid as an undeclared (envelope) wage.

- **Reluctant voluntarists** – these employees give their consent to under-declaration, which is not the case with those deceived, but do so reluctantly and are not happy with this arrangement. Their decision to consent arises out of desperation given the lack of alternative employment opportunities.

- **Monetary rationalists** – an employer offers a job candidate either a higher take-home pay with a low amount as a declared salary and the rest as an envelope wage, or a much lower take-home pay if the salary is fully declared, and allows the employee to make the decision. Given that these employees choose the higher take-home pay, they are ‘monetary rationalists’.

- **Pure voluntarists** – these employees give their unconditional agreement to receive envelope wages. They are often either in senior posts in their companies or in lower tiers but possess a high level of trust in their employers.

In sum, although some employees assert they have chosen to receive envelope wages, many do so due to their lack, rather than as a matter, of choice.

### 2.6 Who receives envelope wages?

All employee groups are involved in under-declared employment. However, envelope wages are relatively more concentrated in some employee groups, namely:

- men
- younger age groups
- those with financial difficulties paying the household bills
- skilled manual workers and
- those travelling for their job.
2.7 Which employers pay envelope wages?

All types of business are involved in under-declared employment. However, it is relatively more concentrated in smaller firms, and the agricultural, construction, transport, hotel and restaurant, repair services, and retail sectors.

1 in 20 (5%) formal employees in smaller businesses (with less than 20 employees) receive envelope wages, compared with 1% of formal employees in larger businesses (with 50+ employees). Indeed, only one-third (34%) of employees surveyed were in smaller businesses (employing less than 20 employees), but nearly two-thirds (63%) of employees receiving envelope wages are in such small businesses.

This may result from the relative lack of dedicated human resource management (HRM) staff and formal HRM practices in smaller businesses. The result is that such employers can introduce unwritten verbal contracts that contravene the employees’ formal written contracts. Under-declared employment, therefore, is essentially a small firm problem. However, it is not absent in larger firms; 1 in 6 (16%) formal employees receiving envelope wages are in large firms (with 100+ employees). Hence, although a small firm problem, it is not exclusively so.

Is under-declared employment more prevalent in some sectors? Sector was not included as a category in the 2013 Eurobarometer survey so we here report the results of the 2007 Eurobarometer survey. Figure 1 reports the results. This reveals that under-declared employment is common in the construction sector (where 10% of all formal employees are paid envelope wages), agriculture (7% receive envelope wages), and the hotel and restaurant, repair services, transport and retail sectors (where 6% of employees receive envelope wages).

Figure 1. Under-declared employment in the EU-28, by sector of work

<table>
<thead>
<tr>
<th>Sector of work</th>
<th>Share of employees receiving under-reported salaries (%)</th>
<th>Distribution of employees by sector of work:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Employees receiving envelope wages (%)</td>
<td>All employees (%)</td>
</tr>
<tr>
<td>EU-27</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Construction</td>
<td>10</td>
<td>20</td>
</tr>
<tr>
<td>Industry</td>
<td>5</td>
<td>20</td>
</tr>
<tr>
<td>Household services</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Transport</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>Personal services</td>
<td>4</td>
<td>14</td>
</tr>
<tr>
<td>Retail</td>
<td>6</td>
<td>13</td>
</tr>
<tr>
<td>Repair services</td>
<td>6</td>
<td>4</td>
</tr>
<tr>
<td>Hotel and restaurant</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>Agriculture</td>
<td>7</td>
<td>2</td>
</tr>
<tr>
<td>Other</td>
<td>2</td>
<td>11</td>
</tr>
</tbody>
</table>

Source: Authors’ own work based on the Special Eurobarometer 284 (2007)

However, a focus upon specific sectors is not advocated. Employees receiving envelope wages prevail across all sectors of the economy, with 20% of all employees receiving envelope wages in construction, 20% in manufacturing industry, 14% in personal services and 13% in retail services.

2.8 Why do employers pay envelope wages?

Superficially, the reason employers pay envelope wages is simple. Employers do not have to pay the full tax and social contributions owed to the state if a portion of the total salary of an employee is not declared. As such, employers weigh up the benefits in terms of money saved, against the costs in terms of the probability of detection and penalties, and decide to pay envelope wages. This saving on labour costs could
hypothetically be either kept by the employer or used to pay the employee a higher salary, or a combination of the two. The problem with this rational economic actor explanation, however, is that it does not explain why some employers decide to pay envelope wages and others do not. Indeed, many employers fail to do so even when the rational economic decision would be to pay envelope wages. Instead, they voluntarily comply.

In recent years, a social actor approach has emerged to explain this. Grounded in institutional theory\(^5\), this views under-declared employment to arise when the norms and beliefs of employers and employees (i.e., the informal institutions) do not align with the laws and regulations of the formal institutions. The view is that under-declared employment is used by employers (and sometimes employees) who do not accept the formal ‘rules of the game’, such as due to their belief that the state is corrupt, or that the state does not provide them with the public goods they deserve given the taxes they pay.\(^6\)

In consequence, although under-declared employment superficially appears to be simply a way of employers saving costs by reducing their tax and social contributions owed, this illegal wage practice only occurs when employers (and employees) do not accept the formal ‘rules of the game’ (i.e., the codified laws and regulations).

To identify when this is likely to occur, an evaluation of the relationship between cross-national variations in the prevalence of envelope wages and various macro-level economic and social conditions reveals that the likelihood of under-reporting wages is higher in Member States with:

- lower GDP/capita;
- unmodernised state bureaucracies with greater public sector corruption;
- higher levels of severe material deprivation;
- higher income inequality;
- lower levels of expenditure on labour market interventions to protect vulnerable groups; and
- less effective policies of redistribution via social transfers to protect workers from poverty.

It is important, therefore, to confront these systemic determinants to solve under-declared employment.

**Before the event, participants should consider their responses to the following questions, in preparation for a Plenary discussion.**

**Questions for discussion in plenary**

1. *How does under-declared employment in your Member State and/or sector fit the above description?*

2. *Are there any particularities about under-declared employment in your Member State and/or sector that are not included in the above description?*

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3. Policy approaches and measures for tackling conventional under-declared employment

This section addresses four key questions:

- What policy approaches could be used for tackling under-declared employment?
- What empirical evidence exists about what works and what does not?
- What types of risk assessment could be conducted to identify risky-businesses likely to be involved in under-declared employment?
- What types of awareness raising campaign could be used to tackle under-declared employment?
- What additional policy measures could be used to tackle under-declared employment?

To tackle envelope wages, two contrasting policy approaches are available to governments and social partners:

- A ‘direct’ approach ensures that the costs outweigh the benefits, mostly by increasing the penalties and risks of detection, which dissuades employers and employees from under-declaring wages.
- An ‘indirect’ controls approach, meanwhile, asserts that under-declaring wages occurs when the norms, values and beliefs of employees and employers are not in symmetry with the codified laws and regulations. Here, therefore, policy measures seek to align the norms, values and beliefs of employees and employers with the laws and regulations.

Table 3 reports the results of an empirical evaluation of their effectiveness in reducing under-declared employment. The finding is that:

- the ‘direct’ approach of increasing the penalties and probability of detection does not influence employees’ tendency to accept envelope wages, but increasing the risks of detection does reduce the likelihood of employers paying envelope wages.
- the ‘indirect’ approach of improving voluntary compliance reduces the likelihood of employees receiving envelope wages and employers’ under-declaring wages.

The outcome is that an indirect approach is recommended as the primary tool for changing the behaviour of employees and employers, and improving the perceived and actual risks of detection is a secondary tool recommended for changing the behaviour of employers.

Table 3. Evaluation of policy approaches: results of regression model

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Employees</th>
<th>Employers</th>
</tr>
</thead>
<tbody>
<tr>
<td>The higher the perceived penalties and probability of detection, the lower the likelihood of salary under-reporting.</td>
<td>Not confirmed</td>
<td>Not confirmed</td>
</tr>
<tr>
<td>The higher the perceived penalties, the lower the likelihood of salary under-reporting.</td>
<td>Not confirmed</td>
<td>Not confirmed</td>
</tr>
<tr>
<td>The higher the perceived probability of detection, the lower the likelihood of salary under-reporting.</td>
<td>Not confirmed</td>
<td>Moderately confirmed</td>
</tr>
<tr>
<td>The higher the tax morale, the lower the likelihood of salary under-reporting.</td>
<td>Strongly confirmed</td>
<td>Strongly confirmed</td>
</tr>
</tbody>
</table>

Improving the rate of detection of salary under-reporting, however, is difficult. On the one hand, such a practice is difficult to detect through workplace inspections. This is because these formal employees have a written contract or terms of employment and
a declared salary. On the other hand, whistleblowing is likely to be limited. Only 33% of employees receiving envelope wages would prefer full declaration, meaning that there is likely to be limited whistle-blowing from employees. Moreover, even those employees unhappy who might wish to whistle blow will be reticent about doing so for fear of losing their job.

For this reason, a shift away from reliance on workplace inspections and whistleblowing is required when detecting under-declared employment. A shift towards data mining and matching is required to detect under-declared employment. What types of risk assessment could be conducted to identify risky-businesses likely to be involved in under-declared employment? Table 4 provides a preliminary set of possible indicators.

Table 4 Preliminary list of indicators of risky-businesses likely to be involved in under-declared employment

<table>
<thead>
<tr>
<th>Indicators of under-declared employment in a business</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average salary in company compared with average salary in the same sector</td>
</tr>
<tr>
<td>Average salary in company compared with average salary in region</td>
</tr>
<tr>
<td>Average salary of a certain occupation/profession in the business does not correspond with the average salary within the same occupation/profession in the country, sector and/or region</td>
</tr>
<tr>
<td>Large proportion of a company’s employees are working part-time compared with other similar businesses</td>
</tr>
<tr>
<td>Number of employees/total wages paid is not appropriate to the turnover</td>
</tr>
<tr>
<td>Complaints have been received about undeclared work</td>
</tr>
<tr>
<td>The business has previous violations related to undeclared work</td>
</tr>
<tr>
<td>Businesses where a higher proportion of workers receive the minimum wage compared with other similar businesses</td>
</tr>
</tbody>
</table>

Using dynamic benchmarking to identify anomalies/outliers, is therefore required to detect under-declared employment. Data is needed to analyse for example average earnings in firms, and to cross tabulate this with average salaries in their region and/or sector, or by occupation, to identify outlier businesses paying below the average wage for their region and/or sector, or for particular occupations. However, this identification of potential outlier/anomalous businesses likely to be paying envelope wages, to enable more targeted inspections, does not help when it comes to proving salary under-reporting. It is unlikely employers and employees will admit to such a practice.

In consequence, there is a need for awareness raising campaigns and education about the benefits of fully declared work targeted at both employers and employees. For employers, such an awareness raising campaign should perhaps target small businesses in those regions and/or sectors where salary under-reporting is more prevalent, namely the agricultural, construction, hotel and restaurant, transport, repair services and retail sectors. For employees, meanwhile, such a campaign could be targeted particularly at the employee groups identified above, especially in small firms and the sectors where envelope wages are prevalent. This could focus upon the benefits of fully declared employment and the costs of receiving envelope wages in terms of the future benefits foregone. More widely, initiatives are also required to educate citizens and the future workforce about the benefits of taxation in terms of the public goods and services that they receive in return for the taxes they pay. Such policy initiatives might range from introducing into the civics curriculum in schools the issue of taxation and adhering to labour legislation, through letters to employees and employers as taxpayers about how their taxes are being spent, to signs such as ‘your taxes paid for this’ on fire engines, roads and ambulances, and in hospitals, doctors’ surgeries and schools.

Awareness raising and educational initiatives, however, will not alter the attitudes of employers and employees, and reduce under-declared employment, unless there is reform of the formal institutions, especially in countries where formal institutional deficiencies mean there is a lack of trust in government. On the one hand, this requires
alterations in the macro-level structural conditions cited above that lead to lower voluntary compliance. On the other hand, the quality of governance needs improving. This is because voluntary compliance improves when employees and employers: believe they are treated in an impartial, respectful and responsible manner by state authorities; believe they pay their fair share compared with others, and believe they receive for the taxes they pay the public goods and services they deserve.

Moreover, beyond data mining and awareness raising campaigns, what additional policy measures could be used to tackle under-declared employment? Box 1 provides a list of possible policy measures. This can be used to identify any additional policy measures that could be used.

For example, would a short-term voluntary disclosure initiative be an effective means of encouraging businesses to put their affairs in order? And what about increasing the minimum wage? Would this result in: a higher proportion of the total wage being paid as a declared salary; less employees being in under-declared employment, or more employees moving from under-declared formal employment to wholly undeclared work? Is it possible to calculate the optimum minimum wage level that reduces the proportion of the total wage paid as an envelope wage but prevents employers shifting employment relationships from under-declared formal employment to wholly undeclared work?

<table>
<thead>
<tr>
<th>DIRECT DETERRENCE MEASURES</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Penalties</strong></td>
</tr>
<tr>
<td>• Use of penalties and fines for employers or companies</td>
</tr>
<tr>
<td>• Use of penalties and fines for people or businesses who buy work which is undeclared</td>
</tr>
<tr>
<td>• Use of ‘blacklists’ for employers</td>
</tr>
<tr>
<td><strong>Measures to improve detection</strong></td>
</tr>
<tr>
<td>• Improving data mining and matching</td>
</tr>
<tr>
<td>• Improving data sharing</td>
</tr>
<tr>
<td>• Workplace inspections</td>
</tr>
<tr>
<td>• Registration of workers prior to starting work or on first day/week of work</td>
</tr>
<tr>
<td>• Coordination of strategy on undeclared work across government departments</td>
</tr>
<tr>
<td>• Coordination of operations across government departments (e.g., joint operations/workplace inspections)</td>
</tr>
<tr>
<td>• Coordination of data mining and sharing across government departments</td>
</tr>
<tr>
<td>• Use of peer-to-peer surveillance (e.g. telephone hotlines to inform about abuses/cases)</td>
</tr>
<tr>
<td>• Certification of business, certifying payments of social contributions and taxes</td>
</tr>
<tr>
<td>• Use of mandatory ID in the workplace</td>
</tr>
<tr>
<td>• Supply chain responsibility</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>DIRECT INCENTIVES</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Supply-side incentives</strong></td>
</tr>
<tr>
<td>• Simplify procedures for complying with existing regulations</td>
</tr>
<tr>
<td>• Society-wide amnesties</td>
</tr>
<tr>
<td>• Short-term voluntary disclosure initiatives: individual-level amnesties for voluntarily disclosing undeclared activity</td>
</tr>
<tr>
<td>• 'Formalisation' advice to start-ups</td>
</tr>
<tr>
<td>• 'Formalisation' support services to existing businesses</td>
</tr>
<tr>
<td>• Increase minimum wage</td>
</tr>
<tr>
<td>• Decrease minimum wage</td>
</tr>
<tr>
<td>• Direct tax incentives (e.g., exemptions, deductions)</td>
</tr>
<tr>
<td>• Targeted VAT reductions</td>
</tr>
<tr>
<td>• Provide free record-keeping software to businesses</td>
</tr>
<tr>
<td>• Provide fact sheets on record-keeping requirements</td>
</tr>
<tr>
<td>• Provide free advice/training on record-keeping</td>
</tr>
<tr>
<td><strong>Demand-side incentives</strong></td>
</tr>
<tr>
<td>• Service vouchers</td>
</tr>
<tr>
<td>• Targeted direct tax incentives (e.g., income tax reduction/subsidy)</td>
</tr>
<tr>
<td>• Targeted indirect taxes (e.g., VAT reductions)</td>
</tr>
<tr>
<td>• Initiatives for customers to request receipts (e.g., Lottery for receipts)</td>
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</tbody>
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INDIRECT MEASURES

- Campaigns to inform suppliers of undeclared work of the risks and costs of working undeclared
- Campaigns to inform suppliers of undeclared work of the benefits of formalising their work (e.g., informing them where their taxes are spent)
- Campaigns to inform users of undeclared work of the problems of purchasing goods and services from the undeclared economy
- Campaigns to inform users of undeclared work of the benefits of declared work (e.g., informing citizens of the public goods and services they receive with the taxes collected)
- Normative appeals to businesses to operate on a declared basis
- Measures to improve the degree to which customers of enforcement agencies believe they have been treated in a respectful, impartial and responsible manner (e.g., some more customer-friendly initiative)
- Measures to improve tax/social contributions/labour law knowledge (e.g., production of leaflets on responsibilities)

Before the event, participants should consider their responses to the following questions, as preparation for a Plenary discussion.

**Questions for discussion in plenary**

1. **Is it feasible to identify risky-businesses likely to be involved in under-declared employment by using data mining? If so, how?**
2. **What are the constraints preventing their identification in your Member State? (e.g., inadequate databases; lack of access to the relevant data)**
3. **How could these data analysis problems be overcome?**
4. **What type of awareness raising campaigns are required to tackle under-declared employment? (e.g., targeted at whom with what message)**
5. **What other policy measures could be used to tackle under-declared employment?**
6. **What combinations of policy measures could be used and how should they be sequenced?**

4. **Tackling modern emergent forms of under-declaring work**

This section addresses four key questions:

- What modern forms of under-declaring work have recently emerged in your Member State/sector?
- Who is engaged in these emergent modern forms of under-declaring work?
- What policy approaches could be used for tackling them?
- Is there any empirical evidence of what works and what does not?

A recent Platform report examines new forms of tax and social security contribution evasion. Figure 2 summarises the full range of forms of evasion.

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Figure 2. Classification of tax avoidance and social security evasion schemes

[Schemes identified as prominent or new are marked in blue].

**Tax evasion**
- (non-payment of taxes by ignoring the law and concealing information)
  - Undeclared employment
    - Under declared wage employment
    - Non-declaration of second job
    - Undeclared (self)-employment
    - Not reporting income from online trade/services
    - One-to-one paid favors
    - “Pool of workers’ circulation/outourcing to subcontractors, accumulating debt and claiming insolvency
    - Bogus self-employment
    - Misuse of collaborative platforms
    - Electronic money transfers
    - Use of crypto-currencies
    - Payments of wages disguised as trusts, loans, transfers of assets and rights, loyalty points, bonuses, shares
    - Employer-funded retirement benefit schemes
    - Bogus low-scale employment / mini-jobs
    - Misuse of fix/short-term contracts for actual long-term employment
    - Misuse of temporary work agencies / letterbox companies
    - Counterfeited A1 attestations
    - Claiming unemployment while engaged in UDW
    - Bogus employment registration
    - Impersonation and identity fraud
    - Failing to report material changes / death
    - Exploitation of foreign country maternity leave / benefits by temporary registering in the country
    - Exploiting vulnerable groups
      - Employing workers from refugee centres, seasonal workers, interns, and other service sectors
      - Unregistered company/self-employed
    - Work without license
    - Modern slavery

**Tax avoidance**
- (use of legal provisions to decrease the taxes due)
  - Bogus remuneration schemes
    - Bogus contracts
    - Bogus posting of workers

**Social security fraud**
- Claiming unemployment while engaged in UDW
- Bogus employment registration
- Impersonation and identity fraud
- Failing to report material changes / death
- Exploitation of foreign country maternity leave / benefits by temporary registering in the country
- Exploiting vulnerable groups

**Exploiting vulnerable groups**
- Unregistered/illegal employment
  - Work under the legal minimum wage
  - Modern slavery
Here, three ‘modern’ emergent forms of under-declaring work can be considered:

(1) Non-declaration of a second job; not reporting income from online trade/services; and undeclared (self-)employment;

(2) Misuse of collaborative platforms, the sharing and gig economies, and

(3) Payments of wages disguised as trusts, loans, transfers of assets and rights, loyalty points, bonuses, shares

4.1 Non-declaration of a second job; not reporting income from online trade/services; and undeclared self-employment

These three schemes are very similar and are all based on the non-declaration of either a second job, income from online trade/services (performed usually as a second job), or from other self-employment. The undeclared second jobs are usually performed after working hours, in some cases using the equipment or machines provided under the main job. The online platforms and websites offering domestic, repair and other services, are among the tools used by the non-declaring second job workers.

In UK, there were about 1.2m people holding two jobs in 2015. The number of workers combining their main job with a second self-employment role has increased by 40% since 2006 to 450,000. These numbers become much larger if “moonlighters”, who do not declare their second incomes, are included.\(^8\)

In Greece, undeclared self-employment poses larger problems than on average in the EU. The share of the self-employed is double the EU average. According to a study by Dianeosis Research and Policy Institute, the self-employed in Greece hide as much as 57-58.6% of their income, while salaried workers are only able to hide about 0.5-1%. Very small businesses (0-9 people) in Greece employ 59% of all workers. The percentage of workers in large businesses (with more than 250 employees) is just 13% in Greece, compared with 33% in the EU. Thus, small businesses can more easily employ undeclared workers, evade tax and social security payments.\(^9\)

4.2 Misuse of collaborative platforms, the sharing and gig economies

The collaborative economy is based on the new IT tools and platforms for joining-up supply and demand for paid labour (crowdworking) (labour platforms) or assets (capital platforms). A positive aspect of the digitalization trend is that unlike other undeclared work, activity is easily recorded (has lower chances of being hidden). Still, the use of collaborative platforms presents several legal and tax dilemmas in relation to:

- Tax evasion by service providers (e.g., undeclared self-employment) (e.g. France reports that 40% of the income from platforms is not declared); and
- Worker protection issues (e.g. bogus self-employment).\(^10\)

4.3 Payments of wages disguised as trusts, loans, transfers of assets and rights, loyalty points, bonuses, shares

Bogus remuneration schemes are based on the practice of concealing the amount of the agreed actual salary/wage through alternative methods of payment of part of the amount.\(^11\). Depending on the agreement between the firm and the employee, these

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methods may include payment of wages in the form of benefit trusts, loans, assets and rights, loyalty points, bonuses, service vouchers, shares, products and goods, etc.

HMRC presents the following examples of prominent bogus remuneration schemes in the UK:

- **Payment to employee into benefit trusts.** The scheme aims to divert income from a business into a trust. The trust then loans it back to the business owners, their families, or both, claiming that no income tax or contributions arise.

- **Payments disguised as loans from a third party.** The scheme normally results in a loan from a third party on such terms that it is unlikely to ever be repaid. UK is applying a new “loan charge” to discourage disguised remuneration loans.

- **Transfers of assets and rights / loyalty points / bonus schemes.** Other schemes for disguised remuneration include paying contractors in the form of redeemable loyalty points (e.g. to advertise the contractor’s services on a job board), bonuses or other assets or rights. Although loyalty points are taxable income the scheme is still being used to attempt income tax evasion.

- **Employer-funded retirement or other benefit schemes.** Remuneration can be hidden in the form of retirement or other benefits paid by the employer. A variation of the retirement benefits and load schemes is using annuities as an alternative method of paying employees (a lump sum, usually to a pension company, in return for a guaranteed income. The worker is being paid in two parts. The first part is a salary, so small that there’s little or no income tax. The second part is claimed to be non-taxable, as it is a capital payment for a deferred annuity.

- **Employee buys shares in the company against remuneration.** Some schemes involve the company making a payment to an employee, on the condition that the employee subscribes for shares in the company at face (nominal) value equal to the payment.

Before the event, participants should consider their responses to the following questions, as preparation for a Plenary discussion.

**Questions for discussion in plenary**

1. **Which of these modern forms of under-declaring work are emerging in your Member State or sector?**

2. **Are any particularly prevalent and/or growing quickly? Who is engaging in such a practice/s?**

3. **Have you adopted any policy initiatives to tackle these forms of under-declared work? If so, do you have evidence that it has been effective?**

4. **How could these modern forms of under-declaring work be tackled?**

5. **Is it one policy initiative that is required? Or is there a need for a combination of policy measures to be used? How should they be sequenced?**

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