

Factsheet on Undeclared Work - BULGARIA

1.1 Nature and Estimated Scale of Undeclared Work

1.1.1 Definition of undeclared work

In Bulgaria there is no common definition of undeclared work (UDW) adopted and applied nationally – with no single definition in law and with different responsible authorities having different understandings what encompasses UDW (as illustrated in 1.1.2 below). Undeclared work is broadly considered as a significant part of the informal (shadow) economy, which comprises lawful economic activities for the production and exchange of goods and services, but which avoids state regulation, taxation, social security contributions and control.

1.1.2 Characteristics of undeclared work

The main types of undeclared work in Bulgaria, are, according to the annual reports of:

- The *National Revenue Agency (NRA)* at the Ministry of Finance (MF): working without a labour contract, with a contract with a lower official wage than the real wage; recruitment under, or at the minimum insurance threshold for the respective job; or declaring labour contracts as part-time work instead of the real full-time employment; and
- The *General Labour Inspectorate Executive Agency (GLI EA)* at the Ministry of Labour and Social Policy (MLSP): an employment relationship without a written labour contract; labour contracts not registered in the NRA; undeclared work based on false calculation of working time that does not account for night, holiday and extra hours work; 'envelope wages'.

The main broad sectors where undeclared work is found are: wholesale trade and retail (food, garments, textiles); agriculture, food processing; services (repairs, advertising, accounting, waterproofing of buildings, funerals, taxi, security); trade in food commodities (grain, sugar, etc.); production and distribution of excise goods (cigarettes, fuels, alcohol); construction, real estate sales; tourism, hotels and restaurants and transport.

In terms of employer size, undeclared work is mostly found in micro-, small- and medium-size enterprises, sole traders and self-employed, mostly located in small/medium towns and in rural areas (Dzekova, R. (2014); Nonchev, A. (2011)¹).

The relatively high unemployment and poverty rates, and insufficient disposable incomes, are key motivators for undeclared work, and while reforms of the pension and health systems are ongoing their progress is delayed. As far as the 10% tax flat rate was introduced, there are no specific incentives or alleviations for low-income groups of the population or for micro- and small enterprises.

1.1.3 Estimated scale of undeclared work

The NRA provides information on taxes and social insurance contributions that are incorrectly declared and the impact on the budget resulting from their non-payment. In 2014 GLI EA reports about violations such as regulations governing formation, modification, implementation and termination of employment contracts; distribution of working time and labour remuneration. After 2013, the key performance indicators are improving. This general trend results from improvements in the organisation of the work of the NRA and GLI EA and the cooperation between the tax, labour and social security public authorities.

- The National Statistical Institute (NSI) applies the tabular approach for the purpose of exhaustive adjustments of the GDP and GVA. According to Eurostat

¹ Nonchev, A. (2011) Dynamics of the Hidden Economy in the period of Crisis. Internet: www.csd.bg/fileSrc.php?id=20590

methodology applied in 2012² and further, the initial corrections of the GDP produced in 2011 was by 13.02 % (GDP = EUR 41 693.3 million); and by 15.02 % of the GVA (Kolev, M. 2014³). The distribution of this 13.02 % of GDP was as follows: additional income, unincorporated activities and national accounts adjustments – 6.74 %; adjustment for self-employed persons - 1.46 %; adjustment for working without a contract (Labour Force Survey) - 1.39 %; income in kind, private use of business cars, tips - 1.79 %. Some pieces of that information as the adjustments for the self-employed and incomes in kind and tips could be used for UDW quantifications.

- The 2016 annual research on the hidden economy performed by the Centre for Study of Democracy shows that the index of the hidden economy has decreased (Hidden economy in Bulgaria, 2016), and at the lowest level between 2002 and 2016.

The Risk Management Directorate of the NRA has carried out a risk analysis related to the concealment of employee wages. The mechanism used for concealment comprises the conclusion of employment contracts with lower salaries than those actually paid and / or with fewer than the actual working hours (usually labour contracts for 4 hours or less), which result in the declaration and submission of lower social security contributions and income tax. A peculiarity in this case is the participation of both parties (employer and worker) in the process of concealing real wages. According to the analysed data, the average annual loss amounted to approximately BGN 440 million, and involved on average approximately 35,000 employers, representing about 47% of the risky employers.

Risk characterization data for 2010-2015 is shown below:

Year	Relative share of risky employees	Relative share of risky employers	Total potential damage (taxes + social contributions) (in thousands of BGN)
2010	53.79%	47.50%	441,054
2012	59.33%	48.04%	375,539
2013	58.79%	47.60%	363,685
2014	58.71%	47.64%	469,173
2015	58.50%	47.49%	426,976

The NRA has not investigated the risk of tax evasion and social security contributions from total undeclared work.

1.2 Institutional Framework

1.2.1 Responsibilities for addressing Undeclared Work

The key national authorities with responsibilities for identifying, tackling and/or preventing UDW are the NRA at the MF and the GLI EA at the MLSP.

² The methodology was changed in 2016 and new information about the revised GDP and GVA will be published. It will take into account the illegal activities and the black economy.

³ Kolev, M. (2014). Measuring and Tackling the Undeclared Economy in Bulgaria, Sofia, Power point presentation at a conference on Informal economy and undeclared work in Europe, in States and States of Informality in Europe: Current and Future Perspectives, Marie Curie International Conference Sofia, 4 September, 2014. Internet: www.csd.bg/artShow.php?id=17041

Social partners' organisations are interested in UDW, mainly through participating in working groups with state bodies and implementing projects to tackle the informal economy and UDW.

There are a few national NGOs which carry out research activities on the informal economy, including undeclared work as a significant part of it. For example, starting from 2002 the Centre for Study of Democracy carries out regular studies on the hidden economy.

The NRA investigates (mainly) on partially or fully undeclared taxes and social insurance contributions. GLI EA controls the implementation of labour legislation and imposes sanctions related to undeclared work. In addition to the work of these agencies the National Social Security Institute (NSSI) deals with social security payments and collects information about them; the NSI collects information on undeclared work for statistical purposes, including that on its impact on gross domestic product (GDP) and gross value added (GVA).

1.2.2 Characteristics of the responsible organisations

The NRA is a specialized body subordinated to the Ministry of Finance for ascertaining, securing and collecting public receivables and determined by the legislation private state receivables. The governing bodies of the Agency are a Board of directors and an executive director. The structure of the Agency includes the Central management and six territorial directorates (TD), namely the TD of NRA Sofia, TD of NRA Plovdiv, TD of NRA Varna, TD of NRA Burgas, TD of NRA Veliko Tarnovo and TD of NRA "Big taxpayers and insurers". There are 28 regional service offices that cover the entire territory of the state. The organisation had 7,686 employees at the end of 2016.

The GLI EA is a subordinate administrator of budgetary funds with responsibilities to control the observance of labour law and legislation in the field of occupational health and safety, promotion of employment, labour migration and labour mobility, in all economic sectors. The GLI EA is managed by an executive director and comprises a general administration, structured in four directorates, and a specialised administration, divided into two directorates and one general directorate. The GLI EA operates 28 regional offices (one in every district town), subordinate to the general directorate. The organisation has 495 employees, including the core staff of 350 persons with the powers to make inspections.

1.2.3 Cooperation and collaboration between authorities and cross-border authorities

The institutions with functions to deal with UDW cooperate in applying deterrence and enabling measures. The rules and procedures of cooperation are laid down mainly in legislation and in signed cooperation agreements.

In 2009 a Labour Inspection Act was adopted to regulate the functioning of the national labour inspection system (before the Act, the coordination was based on multi- and bilateral agreements). A tripartite Cooperation Agreement No85/29.09.2010 was signed between the NRA, GLI EA and NSSI. Working groups of experts from the three institutions define criteria for the selection of inspection objects/work premises; develop a strategy for joint inspections and rules for the exchange of information. Specific measures are designed and applied for cooperation between the three institutions in the work with employers, employed and self-employed.

In addition to the control activities and exchange of data, public authorities with functions relating to UDW cooperate in applying enabling measures. Examples are a joint campaign carried out by the NRA and GLI EA for the observation of labour, tax and social security legislation among companies located in Black Sea towns, resorts and holiday villages; design and publication of brochures and promotion flyers ('Money in envelope', 'Take a purchase receipt' and others).

The NRA, GLI EA and NSSI work actively with social partners, particularly for carrying out specific inspections in enterprises.

The institutions adopt internal rules and procedures for organising the exchange of data. Based on signed agreements, regular exchange of data of mutual interest and need is carried out. Operational data are exchanged in the case of joint inspections and other activities. The GLI EA and NSSI organisations have mutual real time access to databases and registers of labour contracts maintained by the NRA.

GLI EA is the country liaison office and participates in the exchange of information and control under Directive 96/71/EC concerning the posting of workers in the framework of the provision of services, including information on abuses, through the Internal Market Information System (IMI). The Agency is the competent authority under a signed trilateral agreement between Bulgaria, Romania and Greece, as well as under bilateral agreements with other EU member states.

Both NRA and GLI EA participate in international working groups, projects and events at EU level on various issues regarding undeclared work.

1.3 Policy Focus and Measures

1.3.1 Policy approach

The Bulgarian Government applies a unified policy approach for tackling the shadow economy and UDW as a significant part of it. In 2015, the Government adopted a National Strategy on increasing the collection of revenues, tackling the shadow economy and reducing expenditures for the enforcement of legislation 2015-2017. The review of measures in the Action Plan to the Strategy shows that although deterrence oriented measures are prevailing, preventive, curative and promotion approaches are considered in the policy on tackling the informal economy.

1.3.2 Measures to tackle UDW

An amendment to the Labour Code laid down the obligation for employers to register signed labour contracts in the NRA within three days and to register termination and any change in the position or term of the labour contract within seven days. The penalties for violation of this obligation are very stringent, for example in the case of a second violation by an employer, with an established person working without a labour contract, the GLI EA is entitled to suspend operations at the work premises. On the initiative of the GLI EA, in July 2015, by amending the Labour Code, a daily labour contract was regulated for seasonal work in the agriculture sector. The measure became popular among farmers.

Other measures introduced: minimum social insurance thresholds by economic activities; reduction of all payments in cash to a maximum threshold; introduction of the opportunity through the website of the NRA for the electronic declaration of taxes and social security contributions; and compulsory connection of all fiscal devices of economic actors with the NRA system. Electronic services are provided through which individuals and employers receive information about: the employment contracts declared by the respective employer in the NRA, and about the social insurance data provided to the NRA. In 2014 the NRA introduced an integrated information system 'Control' and the GLI EA introduced a quality management system for the control activity and an information security system, in accordance with standards ISO 9001:2008 and ISO 27001:2013.

The annual reports are prepared for the implemented measures based on the National Strategy on increasing the collection of revenue, reducing the costs of the shadow economy and reducing expenditures for the enforcement of legislation. On the basis of these reports, an annual implementation plan is drawn up every year.

From the beginning of 2015 employers that hide social security contributions in large sizes for state social insurance or for health insurance for their employees are considered as subjects to crime according to the Criminal Code of the Republic of Bulgaria.

1.3.3 Good practice

As a result of the introduction of daily labour employment contracts for short term seasonal farm workers, NSI data shows a significant increase in the number of employed persons in the agricultural sector in the first half of 2016 compared to the first half of 2015 (before the contracts were introduced). In April 2016, for the first time since 2004, the number of employees in the agricultural sector exceeded 80,000, and throughout 2016 more than 100,000 single employment contracts of this kind were used.

Analysis by the Risk management Directorate in the NRA, related to the concealment of part of the wages of employees, was checked in 2012, 2013 and 2014 through inspections and audits (including over 2,500 inspections over these three years, around 1,850 inspections of natural persons to ascertain facts and circumstances and, approximately 200 audits of risky employers).

The assessments of the risk treatment have shown that the overall control measures were not particularly effective and have resulted in a negligible reduction in social insurance contributions lost over the entire treatment period. Applying statistical analysis found that the effect of the control actions was short term and gradually decreased. It was also found that the overall effect of all measures taken (including providing access to the social security account for all natural persons, raising awareness campaigns among non-controlled persons, media campaigns and the impact of any other control action under which an examination of the facts and circumstances relating to that risk is carried out in accordance with the instructions given for its treatment) was low – around a 3% reduction mainly as a result of measures against traders and builders. In addition, treatment does not reduce the proportion of at risk persons. Some increase of declared wages and/or duration of working daily time was registered, but they were still significantly lower compared than their actual values.

For 2014, the damage increased compared to 2013, which was opposite to the trend in previous years for a gradual reduction in damage. The main reasons for this increase were the changes in the external conditions: there was an increase in the number of employees in risk sectors, an increase of real amount of wages, and also change of legislation leading to the rise of the risk behaviors. From 1th of January 2014 in the Personal Income Tax Act has been stipulated the right to refund taxes for a certain number of natural persons who have received only income under employment relationships, not exceeding the amount of the annual minimum wage. This provision negatively affected the behavior of the persons in risk, who have started to declare even lower wages, flattened to the minimum wage for the state. Although the provision was abolished in 2015, it was the main cause of the higher damage to the budget in 2014.

The NRA cooperates and interacts with the other state authorities, applying the administrative principle of the official beginning for the electronic exchange of information, control and assistance in order to reduce the administrative burdens, and optimization of the terms and actions.

The NRA provides technical and information support to the other administrations / authorities regarding the exchange of information and guidelines developed by the NRA e-services - reference for current status of labor contracts, etc. The new electronic services aim to significantly facilitate the exchange of information between the administrative authorities in the country, with the expected end result being a faster and better service to citizens and companies. The increase in the number and usability of these electronic services means fewer visits and the reduced use of paper documents in the local NRA offices.

1.3.4 Challenges and barriers

Challenges: to improve the awareness of employed persons about labour and social insurance legislation and legal protection of workers' labour and social insurance rights, as well as the confidence in public institutions.

Barriers: lack of confidence in public institutions: procedural fairness and justice, and public trust, have to be restored.

Also the barriers include the overall difficult situation of the economy, unemployment, legislative shortcomings and subsequent deficiencies in the control activities in case of bankruptcy of enterprises.

In order to address these challenges and barriers, initiatives of social partners and other stakeholders are being implemented: Fostering a culture of commitment are the 'Come Into the Light' campaign (2007); and 'Work Legally' campaign (2008). The proactive role of social partners involves research, offering advice, public awareness, education services; services of the National Centre 'Rules for Business' (BICA and CITUB); Virtual Social Academy (BCCI, 2014), etc.

The NRA organizes regular information campaigns on undeclared work. These comprise the "Wages in the Envelope" campaign and the "Get Your Cash Receipt" campaign, which includes a lottery (clients can register their cash receipts to participate in the lottery).

Additional References

Hidden economy in Bulgaria in 2016. Policy Brief No. 64, September 2016. Internet: <http://www.csd.bg/artShowbg.php?id=17868>

States and States of Informality in Europe: Current and Future Perspectives, Marie Curie International Conference Sofia, 4 September, 2014. Internet: www.csd.bg/artShow.php?id=17041