

Factsheet on Undeclared Work – DENMARK

1.1 Nature and Estimated Scale of Undeclared Work

1.1.1 Definition of undeclared work

The Danish tax authorities define *undeclared work* as legal productive activities that are not reported and taxed according to existing legislation. This definition is generally accepted.

If the unreported activities are performed by foreigners without a work-permit, they will also fall into the category of *illegal work*.

Exempted from undeclared work are unpaid activities performed to assist friends and family members. In addition young people aged 15 years and under may work in private households without reporting their income. Pensioners can do the same, if their income is below EUR 1,410 (DKK 10,500) per year (2016).

1.1.2 Characteristics of undeclared work¹

According to a recent survey, around 40% of the population had in 2014 bought services through undeclared work. The majority of the services were paid in cash (26%) followed by bipartisan favours (19%). The survey does not contain detailed data about the various form of UDW by sector, but in surveys from 2008-09², 29% of the persons who had carried out undeclared work against payment in cash stated that the most important activity was construction work, hotels and restaurants (17%), public and personal services (13%), cleaning (11%) and agriculture (incl. gardening), fishing and quarrying (11%). Exchange of services, most important sectors: Construction (33%), public and personal services (13%), agriculture (incl. gardening), fishing and quarrying (13%), transport and telecommunications (10%). Data from 2014 reports that the major forms of services bought through UDW in 2014 are: Hairdressers (7%), repair of electrical systems in private homes (6%), auto repair (5%), assistance from a carpenter (4%), cleaning (4%) and care of pets (4%).

Typically undeclared work is performed for friends and relatives and the vast majority of services are bought from private individuals, not firms.

The majority of those doing unreported work are men. Thus among the men, 28% had performed undeclared work in 2014, while the share among women was 16%. Among those demanding undeclared work, there was no significant gender bias.

Age plays an important role, when it comes to performing undeclared work. Thus approximately one in three aged 18-39 years performed undeclared work in 2014, while the same was true of only one in five in the forties and one in eight in the over fifty age bracket. Among the buyers of undeclared work, the age distribution was more even.

Also income is an important determinant for supplying and demanding undeclared work. The suppliers of undeclared work are more often low-income earners. Thus, every third person in the lowest income decile carried out unreported work in 2014. Among those in the highest decile only about 1 in 10 carried out undeclared work during the same period. Looking at education, it is not surprising that people with craft training are more frequently found among the suppliers of undeclared work.

¹ The majority of this and the following section is based on a recent publication from the Rockwool Foundation (Nyt fra RFF, Marts 2016. Internet: <http://www.rockwoolfonden.dk/publikationer/markant-fald-i-efterspoergslen-paa-sort-arbejde/>)

² Rockwool Foundation (2010): Danes and undeclared work [Danskerne og det sorte arbejde], New from the Rockwool Foundation 2010:77. Internet: <http://www.rockwoolfonden.dk/publikationer/danskerne-og-det-sorte-arbejde/>

The main motivators for undeclared work are the wish to save money and a personal relation to somebody, who supplies undeclared work.

An interesting feature from the recent studies of undeclared work is a decline in the share of the adult population, who state that they would be willing to perform undeclared work, if they had the opportunity. One reason for this change is probably that an increasing share of the population is stating that they see the risk of being detected, when performing undeclared work, to be higher in 2014 than in previous years. This increase is however solely observed among those not doing unreported work themselves.

1.1.3 Estimated scale of undeclared work

Based on information about the share of the adult population performing undeclared work (24%) and the average number of undeclared hours they report (1.7 hours per week), the share of undeclared work as a share of all declared work amounted to 1.6% in 2014. This can also be taken as a rough estimate of the contribution of undeclared work to GDP, if one assumes that the productivity and the distribution by sectors is the same for undeclared and for declared work.

The share of undeclared work relative to all declared work has declined significantly in recent years from around 3.0% in 2009 and 2010. The decline is solely due to a decline in the average number of unreported hours worked, while the share of the population performing undeclared work has been stable.

Since 2012 a number of policy changes have been introduced. They could explain the observed decline in the estimated scale of undeclared work and are described in detail below.

1.2 Institutional Framework

1.2.1 Responsibilities for addressing Undeclared Work

The responsibility for addressing undeclared work is divided among several authorities.

The major actor is the Central Customs and Tax Administration (under the Danish Ministry of Taxation), which is responsible for implementing the legislation on income taxation and controlling tax returns. Based on existing legislation, the authority thus defines the border line between income from work, which has to be declared, and income, which is exempt from reporting. The authority has also taken initiatives to a number of campaigns directed at increasing the awareness of the damaging effects of undeclared work and of the risks of being detected, when supplying or demanding undeclared work.

The Danish Working Environment Authority (also under the Ministry of Employment) focuses on the issue of health and safety at work for people performing undeclared work (including illegal workers). The assumption is that working in the "grey segment" of the labour market also carries an increased risk of dangerous working conditions.

Furthermore the Danish Immigration Service (under the Ministry for Foreigners and Integration) is responsible for granting work and residence permits to non-EU-citizens. The issue of illegal work is therefore the main focus of this authority.

During inspections these authorities are assisted by the Police.

Finally the social partners (especially the trade unions) have taken a strong interest in undeclared work among migrants and posted workers (including illegal immigrants.). Their main perspective is thus the fear of 'social dumping' due to migrants and posted workers, who accept inferior work and pay conditions relative to the norms on the Danish labour market. One element in relation hereto is of course, whether the incomes of the migrants and posted workers are fully reported to the Danish tax authorities or whether the lower pay is combined with tax fraud.

1.2.2 Characteristics of the responsible organisations

The Central Customs and Tax Administration is a national body based in Copenhagen with regional branches. It has around 6 300 employees (2015).

The Danish Working Environment Authority (also under the Ministry of Employment) is a national body with three regional branches, each of which is responsible for workplace inspections at the local level. The total number of employees is around 550.

The Danish Immigration Service (under the Ministry for Foreigners and Integration) is a national authority based in Copenhagen with a total of about 500 employees (full-time).

1.2.3 Cooperation and collaboration between authorities and cross-border authorities

Since the opening of the Danish labour market for workers from the New Member States, the issue of social dumping has been high on the Danish political agenda. One aspect hereof has been the risk of undeclared work and underreporting of income in the sectors employing a high share of migrants and posted workers. Therefore resources have been allocated for increased control of social dumping in the form of inspections. Such regular inspections have been taking place since 2004. In the Budget Law for 2015, further EUR 3.7 million (DKK 27.7 million) were allocated for joint inspections by the tax authorities, the Working Environment Authority and the police. This meant that a total of EUR 9.6 million (DKK 72.0 million) were allocated for the joint inspections in 2015. The joint inspections are regulated by a written agreement, which defines the forms of cooperation and the planning of the inspections including the exchange of information between the participants. The Working Environment Authority is responsible for coordinating the collaboration.

The cooperation between the abovementioned authorities resulted in inspections of 773 firms in 2015 during eight national-wide inspections. The number has been rather stable in recent years. In 2015 the inspections led to 26 charges to foreign firms for not having registered their activities in Denmark and around 500 improvement notices for non-compliance with regulations concerning work and health safety. The main sectors targeted by the national inspections were construction, cleaning and catering, agriculture and the manufacturing industry, with the greatest emphasis on the first two. In addition to the national inspections just described, the authorities also cooperate on inspections at the regional level. A total of 38 such inspections were conducted in 2015.

An important tool for monitoring the activities of foreign employers in Denmark is the Register for Foreign Service Providers (RUT). This register is the Danish official registry to report foreign services. Foreign service providers, who do business in Denmark, must report this to RUT. The Working Environment Authority oversees that foreign companies adhere to the Danish working environment legislation. It also checks that foreign companies are reported to RUT, and that the notification is complete and correct in relation to rules.

1.3 Policy Focus and Measures

1.3.1 Policy approach

It is generally believed that the volume of undeclared work in Denmark amounts to only a minor part of the market economy. Furthermore undeclared work mainly takes the form of extra hours performed by workers who already have a full-time job, for instance in the construction sector.

Due to the rather high level of income taxes and a VAT rate of 25%, the economic incentives to perform undeclared work are considerable in the case of Denmark. In general however the widespread use of administrative registers and controls involving the use of personal identification numbers and a strict registration of private firms makes it difficult to develop a large-scale black economy.

In recent years there has however been an increased focus on combating undeclared work, probably also stimulated by the opening of the Danish labour market to migrants and posted workers. The major elements have been:

- Intensified and targeted controls and inspections by the authorities;
- More legal instruments to be applied in the control and prosecution of undeclared work; and
- Campaigns aimed at changing the attitude towards undeclared work both among the population in general and within specific target groups such as young people.

Thus the policy approach can mainly be characterised by deterrence although there are also examples of attempts to enable compliance through information and campaigns. Compliance has also been supported by allowing young people and retired persons to conduct undeclared work without being criminalised.

1.3.2 Measures to tackle UDW

Stronger control measures

As described above, since 2004 regular intensive control actions have been carried out against unreported and illegal work. The control actions have taken place under strong media attention and this has strengthened the preventive effects of the actions. Also, the outcomes of the individual inspections have in recent years been made public on the website of the Ministry of Taxation and the Working Environment Authority. The intensified control measures have had their main focus on sectors and businesses which have turned out to have problems in this field. One purpose of the controls has also been to get hold of persons, who work undeclared while receiving unemployment benefits or cash benefits for unemployed. Follow-up on individual cases regarding unemployment benefit is carried out by 24 private Unemployment Funds under the auspice of The Danish Agency for Labour Market and Recruitment. Follow-up on individual cases regarding cash benefits for the unemployed is carried out by Udbetaling Danmark, the authority responsible for the collection, disbursement and control of a number of public benefits.

In addition, tax authorities have in 2015 announced a new project, which is targeted at persons who declare a very low taxable income, while at the same time having a high standard of living exemplified by an expensive house, ownership of luxury cars etc. Thus by combining various administrative registers the tax authorities hope to better target individuals who get their income from undeclared work or criminal activities.

Information campaign

Also in 2004, an information campaign against undeclared and illegal work was launched in co-operation with the social partners. The campaign focused on the concept of "Fair play". It described undeclared work as not only tax evasion leading to a reduction in public revenues – but also unfair competition in relation to other competing enterprises and to the great majority of people who pay their taxes. This first campaign has been followed by several others, some of which have been targeted at specific groups like young people or public procurers. Another important target group has been entrepreneurs of a non-Danish ethnic background, who have been informed about the Danish tax-legislation and employment regulations.

Legislative initiatives

In April 2005 the Danish Parliament (Folketinget) approved a law, which gave the tax authorities better instruments to combat undeclared work. They were thus given authority to obtain access to construction sites to control the information given by the employer concerning sub-contractors and employees. Also they were allowed to instruct employers to have an updated file of all employees from their first day of work.

In 2012 new legislation was introduced, which further allowed for tighter monitoring in the form of:

- Private consumers who pay bills amounting to more than EUR 1 343 (DKK 10 000) must pay using digital means of payment and not in cash. This allows for monitoring of the payment. The same rule applies to firms. If cash payments are used, the buyer can be made responsible for unreported income tax and VAT by the seller.
- At all construction sites there must be signs indicating the names and VAT registration number of the firms working there. Foreign firms must show their number in the Register for Foreign Service Providers (cf. above). Also all vans must carry the name of the firm which owns them and the VAT registration number.
- As part of the fight against major organised undeclared work, the tax authorities were given the right to enter private property, but only in the case where there is visible outdoor work of a professional nature taking place. The tax authorities are able to enter the land itself, e.g. the garden, and not into private homes.
- All workers became obliged to carry a valid piece of ID and show it to the tax authorities if required.

After a change of Government in 2015, the last two items have been taken out of the legislation based on the argument that they were in conflict with basic citizen's rights.

Lower taxation on work

Over recent decades, taxes on work have been reduced. The effects hereof are documented in a series of tables published on the home page of the Ministry of Taxation. For a low-income earner, the marginal tax rate has fallen from 45.5 % in 1999 to 40.3 % in 2016. For high-income earners the reduction is 6.9 percentage points, from 63.3 % in 1999 to 56.4 % in 2016. There has thus been a reduction in the incentive for UDW driven by the income tax system.

Subsidies for services bought by private households

The law on subsidies to home improvements was in effect in the years 1991-1995. In the beginning, the subsidy covered 40 % of wage costs and profits. The subsidy was only paid for wage costs and profits – materials were not subsidised. There was a maximum of EUR 940 (DKK 7 000) per household – in a period the maximum was EUR 1 343 (DKK 10 000). In 1994 the subsidy stopped but with payments running into 1995. All in all expenses to this the subsidy had an amount of EUR 706 million (DKK 5.3 billion).

Since 1994 various schemes have existed, which imply that a wage subsidy or a tax deduction is given to households that buy household and craftsmen services (cleaning, gardening, repair work etc.) from private firms. The purpose of the schemes is both to stimulate the demand for labour and to reduce the amount of undeclared paid household work. The exact services eligible for support and the size of the subsidy have varied over time. In its present form, in 2016 and 2017, the scheme supports household services like cleaning, childcare and gardening and various sorts of repair work and renovations, mainly with the aim of saving energy. For household services the tax deduction is EUR 807 (DKK 6 000) per adult living in the household. For repair work and renovation the deduction is EUR 1 613 (DKK 12 000). Given the marginal tax rates above, the cash value of the deduction is around half of the figures just mentioned.

1.3.3 Good practice

Given the decreasing amount of undeclared work in recent years reported above, it is tempting to point to the effects of the new legislation introduced in 2012. In particular, there seems to have been an effect on the average number of hours of undeclared work for persons who supply it. Also there is an increasing awareness of the risks of being detected, when buying services from undeclared work. Based on the available evidence one cannot point to a specific cause for this, but one candidate could be the limit of EUR 1 343 (DKK 10 000) set to paying for services in cash, which is also mentioned above is the main form of compensation, when it comes to undeclared work.

1.3.4 Challenges and barriers

As already mentioned, undeclared work plays a rather limited role on the Danish labour market. Also it seems that the amount of undeclared work as a share of GDP is actually declining. A plausible explanation is the intensified and targeted controls and inspections by the authorities and the increase in the number of legal instruments applied in the control and prosecution of undeclared work

A present a major challenge takes the form of 'social dumping' by migrants and posted workers and foreign firms working in Denmark. In a Danish context the term social dumping refers to situations where work and pay conditions are below the usual level on the Danish labour market, but also to employers and employees not reporting income that is subject to VAT or income tax payment.

Therefore significant resources have been allocated to address the various forms of social dumping including undeclared work by migrants and posted workers. There is no doubt that the joint efforts by a number of public agencies have resulted in putting a downward pressure on the extent of undeclared work in this area. An exact assessment of the degree of success is however not possible based on the available evidence.