





## European Platform Undeclared Work

## Multiagency initiative on tackling social dumping – the role of letterbox companies

Denmark

	<b>Summary</b> <p>Social dumping and the violation of Danish tax regulations and labour laws led to a collaborative multiagency initiative in 2012 to tackle these problems. In 2017 a pilot project, 'Seat of the Management', was introduced as part of the overall initiative to investigate the role of suspected letterbox companies in social dumping.</p>
<b>Title of the practice in original language</b>	<p><i>Myndighedsindsats for ordnede forhold - Bekæmpelse af Social Dumping, herunder Postkasseselskaber med udenlandske arbejdere, og mulig manglende efterlevelse af dansk skattelovgivning.</i></p>
<b>Name(s) of authorities/bodies/organisations involved</b>	<ul style="list-style-type: none"> <li>• Danish Tax Agency (<i>Skattestyrelsen</i>);</li> <li>• Danish Working Environment Authority (WEA) (<i>Arbejdstilsynet</i>);</li> <li>• Danish Agency for International Recruitment and Integration (SIRI - <i>Styrelsen for International Rekruttering og Integration</i>);</li> <li>• Danish national police (<i>Rigspolitiet</i>).</li> </ul>
<b>Sectors</b>	<p>All</p>
<b>Target groups</b>	<ul style="list-style-type: none"> <li>• Danish employers employing foreign workers (directly targeted);</li> <li>• Foreign firms posting workers to Denmark (directly targeted);</li> <li>• Foreign residents and workers (indirectly targeted).</li> </ul>
<b>Purpose of measure</b>	<p>Deterrence: improve detection</p>

	<b>Aims and objectives</b> <p>The aim is to detect social dumping, undeclared work and tax evasion in Denmark. The initiative focuses, in part, on the role letterbox companies may play in the fraudulent use of foreign workers.</p>
<b>Background context</b>	<p>With high taxes, high wages and strict labour legislation, Denmark has been affected by 'social dumping'. It can take the form of underpaid workers fraudulently posted to Denmark under dubious wage, contract and working conditions, or Danish firms hiring foreign workers who</p>




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	<p>register as bogus self-employed firms (letterbox companies).</p> <p>Multiagency initiative on tackling social dumping introduced in 2012 is a joint activity conducted by the Danish Tax Agency, the Danish Working Environment Authority, Danish Agency for International Recruitment and Integration (SIRI) and the police. The 'Seat of the Management'<sup>i</sup> project was subsequently initiated in 2017 in order to improve detection of letterbox companies and associated violations of Danish tax or labour regulations.</p> <p>Key sectors affected include transport, construction, agriculture, and the hotel, restaurant and cleaning sector.</p>
<b>Key objectives of the measure</b>	<p><b>General objective:</b></p> <ul style="list-style-type: none"> <li>To ensure compliance among Danish and foreign companies hiring or posting workers from foreign countries in Denmark; to identify, penalise and prevent social dumping and undeclared work.</li> </ul> <p><b>Specific objectives:</b></p> <ul style="list-style-type: none"> <li>To improve the detection of letterbox companies and associated violations of Danish tax or labour regulations to reduce or deter undeclared work;</li> <li>To ensure proper business registration by foreign service providers;</li> <li>To determine and enforce employers' tax and social security obligations to prevent undeclared work;</li> <li>To ensure better working environments, correct social benefits, workers' rights, respect for wage agreements;</li> <li>To combat human trafficking.</li> </ul>
<b>Main activities</b>	<p>As part of the multiagency agreement, the participating agencies have collaborated in common inspection and control activities:</p> <ul style="list-style-type: none"> <li>The Tax Agency determines if the company is taxable under Danish law;</li> <li>The WEA examines both Danish and foreign companies operating in Denmark to detect violations in work environment regulations, workplace safety issues, and proper notification in the Register for Foreign Service Providers (RUT);</li> <li>SIRI investigates whether firms are recruiting labour illegally using fake employment contracts, which generate fake or fraudulent work and residence permits as a means of permanent emigration to Denmark. Many were found to be letterbox companies with unclear seats of management;</li> <li>The Police assists in the joint inspections of workplaces or companies, carrying out collection of fines, arrests or prosecutions.</li> </ul>



	<p>The goal of these activities has been, among others, to try to determine:</p> <ul style="list-style-type: none"> <li>• Whether a foreign registered company with foreign employees in Denmark has its real economic activities in Denmark, making it liable to Danish tax, labour and social protection laws;</li> <li>• Whether a Danish registered company employing foreign workers is respecting Danish laws on wages, tax withholding, and working environment, as applied to these workers;</li> <li>• Whether the foreign employees of these companies are properly registered in Denmark with residence and work permits, and are receiving proper wages and paying taxes, etc.</li> </ul> <p>An increasing number of the above firms are in the 'letterbox company' category.</p>
<b>Funding/organisational resources</b>	<p>From 2016 through 2019, the annual budget was EUR 9.6 million (DKK 72 million). The Tax Agency has allocated a total of approx. 60-person-years to the initiative, funded by the national budget and its own operating budget. The WEA also allocated funds to control firms listed in the Danish business registry (CVR) and to check whether firms have registered in the Register of Foreign Service Providers operating in Denmark (RUT).</p>

	<p><b>Outcomes</b></p> <p>Since the start of the multiagency initiative in 2012, the control and monitoring of foreign firms has increased significantly. Joint inspection activities and publicity about the initiative have had a positive effect on outcomes. There has been a 40% increase in net income generated between 2017-18 from corrective measures as a result of inspections.</p>
<b>Achievement of objectives</b>	<p>Outputs:</p> <ul style="list-style-type: none"> <li>• Daily individual control actions and periodic joint actions channelling resources to where the effect is greatest.</li> <li>• Three planning groups have been set up among the three main actors (Tax Agency, Working Environment Authority, Police).</li> <li>• Thematic meetings, coordinated by the WEA, are held to exchange experiences, and dialogue meetings are held with the business organisations and trade unions.</li> <li>• A WEA 'hotline on foreign firms' has been established to facilitate reporting of suspected cases of social dumping etc. Organisations and individuals who</li> </ul>



	<p>suspect irregularities can contact the WEA via the hotline or the webpage.</p> <p>Outcomes:</p> <ul style="list-style-type: none"> <li>• Since 2015, both as part of the Multiagency initiative and on its own, the Tax Agency has carried out a total of 13 192 control inspections of workplaces. These control actions resulted in a net increase in revenue of EUR 98 million (DKK 738 million). 917 firms were instructed to revise the terms of their employee contracts from bogus single-person firms to wage earners.</li> <li>• The Danish Tax Agency has become increasingly effective in identifying firms with irregularities. In 2018 3 225 inspections were carried out, of which 1 499 (46%) resulted in some kind of corrective measures such as readjustment of income, tax, VAT etc., and generated a net income of EUR 26 million (DKK 191 million).<sup>ii</sup> This was an increase of 40% on the EUR 18 million (DKK 134 million) in 2017.<sup>iii</sup></li> <li>• Since 2012, the WEA, Tax Agency and Police have conducted 54 national actions and 203 regional actions.</li> <li>• From 2012 to 2018, the WEA received a total of 5 470 referrals about foreign firms of which 3 360 calls came through the hotline.</li> <li>• The WEA controlled 2 701 workplaces and 3 242 firms in the period 2014-18 as part of the joint national control activities.<sup>iv</sup></li> </ul>
<b>Lessons learnt and success factors</b>	<ul style="list-style-type: none"> <li>• Better methods and closer coordination between relevant agencies are necessary in order to improve detection and enforcement of social dumping regulations.</li> <li>• There is a need for international, cross-border cooperation in identifying and deterring social dumping generally, and letterbox company abuses in particular.</li> <li>• Bilateral relations need to be established with agency counterparts abroad in relation to tax, business registration, labour and social protection.<sup>v</sup></li> </ul>
<b>Transferability</b>	<p>Transferability is possible with formal cooperation agreements in place that are regularly renewed, committed budgetary resources, and full data exchange.</p>



Further information	
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<b>Useful sources and resources</b>	White paper on social dumping in Denmark (referring also to letterbox firms), presented to Financial Committee, Danish Parliament <a href="https://www.ft.dk/samling/20181/almdel/SAU/bilag/208/2052201.pdf">https://www.ft.dk/samling/20181/almdel/SAU/bilag/208/2052201.pdf</a> .  Brochure from Tax Agency in English on tax liability for foreign registered businesses <a href="https://skat.dk/skat.aspx?oid=2284040">https://skat.dk/skat.aspx?oid=2284040</a>  User guide for registration of foreign service providers in Denmark (RUT) <a href="https://file.erhvervsstyrelsen.dk/file/668564/user_guide_f_or_registration_in_rut.pdf">https://file.erhvervsstyrelsen.dk/file/668564/user_guide_f_or_registration_in_rut.pdf</a>  Danish Government Information in English for foreign firms and posted workers on taxes, VAT, registration <a href="https://workplacedenmark.dk/en/taxes-and-vat/">https://workplacedenmark.dk/en/taxes-and-vat/</a>

<sup>i</sup> The pilot project aims to determine the location of the real economic activity area or 'seat of management' of suspected letterbox companies. The legal criteria include:

- Whether the executive board was in Denmark; if so, it was taxable in Denmark;
- Whether the daily operational decisions of the foreign firm were taken in Denmark (management seat), such as negotiations, contracts, customers, suppliers, etc. If so, the tax liability abroad would be transferred to Denmark;
- Whether key employees were in Denmark;
- Whether buildings and premises of the company in another country were actually being used, or whether their real activity took place in Denmark;
- Where the company was registered, although this criterion has not yet been fully decided by the legal system.

<sup>ii</sup> Press release, 'Større præcision i indsatsen mod social dumping' (Greater precision in the effort against social dumping), available at <https://www.sktst.dk/media/2203/social-dumping-tal-og-tendenser.pdf>

<sup>iii</sup> Ibid.

<sup>iv</sup> In some cases, measures taken against foreign firms range from a warning or instruction to an immediate injunction or enforcement order. Where foreign firms had not notified the Register of Foreign Service Providers, the WEA can issue fines and/or inform the police.

<sup>v</sup> In March 2018, Denmark concluded such a bilateral social dumping agreement with Romania. Denmark also has similar bilateral agreements with Latvia, Lithuania and Slovakia. For the official press release on the Danish-Romanian agreement to stop social dumping, see in Danish: <https://via.ritzau.dk/pressemeddelelse/ny-aftale-med-rumaenien-skal-bidrage-til-ordnede-forhold-pa-arbejdsmarkedet?publisherId=90520&releaseId=12517525>. For an English description see <https://www.etuc.org/en/denmark-and-romania-unite-stop-social-dumping>.