



European Platform Undeclared Work

Fifth Plenary meeting of the European Platform tackling undeclared work

**Report on tackling under-declared
employment in the European Union**

October 2018

1 Introduction

The fifth Plenary meeting of the European Platform Tackling Undeclared Work was held in Brussels on 18-19 October 2018. The first day of this meeting was dedicated to the topic of tackling under-declared employment in the European Union. This report summarises the discussions at the workshop, which drew on the findings of two studies on this topic produced as part of the Platform's work programme.¹

The objective of this thematic discussion on under-declared employment in the European Union was: (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.

Two types of under-declared work were the focus of attention:

- (1) 'conventional' under-declared employment, when formal employers pay their formal employees two salaries - an official declared salary, and an additional undeclared 'envelope' wage² - and/or under-declare working time, and
- (2) 'modern' emergent forms of under-declaring work³, including:
 - a. non-declaration of a second job and under-declared self-employment;
 - b. not reporting income from online trade/services; and the misuse of collaborative platforms, the sharing and gig economies; and
 - c. concealing money transactions using crypto-currencies or unregulated/secretive electronic money transfers.

In Section 2, the discussions on conventional under-declared employment are reported, including its extent and character and how it can be tackled. Section 3 then outlines the discussion on some 'modern' emergent forms of under-declaring work and how they might be addressed. The final Section 4 discusses what more might be done to tackle under-declared employment.

2 Conventional under-declared employment

2.1 Prevalence of conventional under-declared employment

In the 2017 and 2018 Factsheets on Member States, conventional under-declared employment where formal employers pay their formal employees an envelope wage and/or under-declare working time was commonly highlighted as one of the most common forms of undeclared work, especially in Southern and Eastern-Central European Member States.

The four Mutual Assistance Projects conducted in Romania, Latvia, Lithuania and Slovakia, further reinforced that under-declared employment, in the form of envelope wages and/or under-declaring working time, is one of the most prominent undeclared practices in these East-Central European member states.

Until now, however, the only EU-wide evidence available has been a 2013 Eurobarometer survey on whether formal employers pay their formal employees an undeclared 'envelope' wage in addition to their declared salary.⁴ This reveals that in

¹ Williams, C.C. and Horodnic, I. (2017) *Under-declaring work/falsefully declaring work: under-declared employment in the European Union*, European Commission, Brussels. Mineva, D. and Stefanov, R. (2018) *Evasion of Taxes and Social Security Contributions*, European Commission, Brussels.

² Williams, C.C. and Horodnic, I. (2017) *Under-declaring work/falsefully declaring work: under-declared employment in the European Union*, European Commission, Brussels.

³ Mineva, D. and Stefanov, R. (2018) *Evasion of Taxes and Social Security Contributions*, European Commission, Brussels

⁴ Williams, C.C. and Horodnic, I. (2017) *Under-declaring work/falsefully declaring work: under-declared employment in the European Union*, European Commission, Brussels.

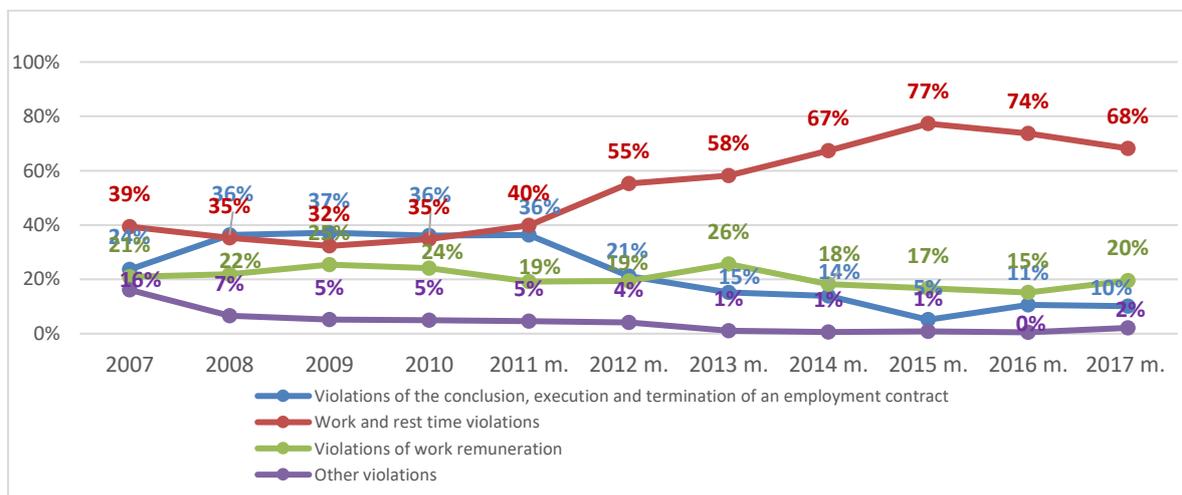
2013, one in 33 formal employees in the EU28 received **envelope wages**, and the median proportion of their gross salary paid as an envelope wage was 25%. Given that survey participants may not be willing to report their illegitimate practices, these figures need to be treated as lower-bound figures and a probable under-estimate of the actual commonality of envelope wages.

Meanwhile, the only EU-wide survey conducted on the extent to which **employers under-declare the working time of their employees** is a study of undeclared work using the Labour Input Method (LIM) which suggests that 9.3% of total labour input in the private sector in the EU is undeclared labour.⁵ Throughout the Plenary workshop, many presentations and participants highlighted that the under-declaration of working time is indeed a common phenomenon across all EU Member States.

In a presentation on **Greece**, it was highlighted that under-declaring working time is a frequently identified phenomenon. Employees are often declared as part-time workers but are effectively working full-time. Employers therefore declare less working time for their employees rather than the real time schedules. It was asserted that this is common, for example, in businesses such as supermarkets, restaurants and small enterprises who employ a person on say a 4-hour contract, but they work for 7-8 hours per day or even more.

It was similarly highlighted in the presentations on under-declared employment in both **Bulgaria** and **Croatia** that under-declaring working time is a very common phenomenon and one of the most prevalent undeclared practices in these Member States.

The fact that this is one of the most prevalent undeclared practices was very clearly displayed in the presentation on under-declared employment in **Lithuania**. As Figure 1 displays, in Lithuania, under-declared employment, in the form of working time and rest time violations (e.g., under-declaring working time), constitutes well over two-thirds of all violations detected by the Labour Inspectorate. Violations of work remuneration (e.g., paying envelope wages), are a smaller proportion of all detections.



As the opening presentation to the first day of the Plenary thematic workshop revealed, reporting the results of the 2013 Eurobarometer survey, envelope wages are relatively 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. It was also reported that those receiving envelope wages are

⁵ Williams, C.C., Bejakovic, P., Mikulic, D., Franic, J., Kedir, A. and Horodnic, I.A. (2017) *An evaluation of the scale of undeclared work in the European Union and its structural determinants: estimates using the Labour Input Method*, European Commission, Brussels

more likely to be found in smaller firms, and the agricultural, construction, transport, hotel and restaurant, repair services, and retail sectors. However, a sector-specific approach was not advocated when tackling envelope wages. 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.

The resultant discussion regarding the prevalence of under-declared employment drew attention not only to the fact that the 2013 Eurobarometer data on envelope wages was now out-dated and needed updating, but also that better empirical evidence is required on the under-declaration of working time of employees.

2.2 Character of conventional under-declared employment

Although the decision to pay an envelope wage or to under-declare working time usually occurs when a job offer is made, and is usually instigated by the employer, many of the presentations during the thematic workshop revealed that it is not always solely an employer decision and that many employees are happy to receive envelope wages.

The 2007 Eurobarometer survey revealed that only 33% of employees in the EU receiving envelope wages would prefer full declaration of their salary. The majority would not. A third are happy receiving an envelope wage, and the remainder are neutral or do not know/refused to answer. The introductory presentation further revealed that a survey of 500 undergraduate students in Romania and Moldova showed that only 13% would reject a job offer if they were offered part of their salary as an undeclared envelope wage.

The presentation on under-declared employment in **Croatia** provided greater understanding of why many employees are happy to accept envelope wages. In Croatia, the findings of in-depth qualitative interviews in the capital city of Zagreb were reported. This identified four types of employees receiving envelope wages:

- *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 agree to an envelope wage 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.

Many in Croatia, therefore, accept envelope wages more due to their lack, rather than as a matter, of choice. They also do not trust that inspectors can help them, so are unwilling to make complaints. Indeed, workers do not know the gross amount of their wage, and they do not know what the taxes and social contributions collected are being used for (e.g., pensions, schools, health). It was therefore concluded that it was crucial to educate Croatian citizens and raise their awareness about the costs of envelope wages and benefits of fully declared work.

No similar studies have been so far conducted on the second type of under-declared employment, namely **under-declaring working time**. Whether employees are similarly happy under-declaring their working time is not currently known and requires further investigation.

The presentation on under-declared employment in **Bulgaria** suggested that this is again often an employer-instigated decision, taken in a context where the labour contract for part-time work must specify the duration and allocation of the working hours.

The presentation on under-declared employment in **Cyprus** similarly highlighted that under-declared employment is not always purely employer-instigated and can be also suggested by employees. In Cyprus, this is mainly a problem in relation to employees who receive state benefits, and do not want to lose the right to such benefits or to receive lower benefit levels. In a few cases, under-declared employment is more the result of not wishing to register overtime payments.

2.3 Determinants of conventional under-declared employment

Superficially, under-declared employment is simple to explain. 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 pay envelope wages. Employees, moreover, similarly weigh up whether the benefits outweigh the costs.

The problem with this rational economic actor explanation, however, is that it does not explain why some employers decide to under-declare employees and others do not, and why some employees accept under-declared employment and others do not. Indeed, many employers and employees do not engage in under-declared employment even when the rational economic decision would be to do so. Instead, they voluntarily comply.

The opening presentation highlighted how, in recent years, a social actor approach has emerged to explain this. Grounded in institutional theory⁶, 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.⁷

Discussion during the workshop highlighted how, 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).

Indeed, in most of the presentations, including those on **Bulgaria, Croatia, Cyprus, Latvia, Lithuania** and **Spain**, this issue of a lack of trust in the state and lack of belief and understanding in what it is seeking to achieve, was voiced as a key driving force behind participation in under-declared employment.

⁶ North, D.C. (1990). *Institutions, Institutional Change and Economic Performance*. Cambridge: Cambridge University Press.

⁷ Williams, C.C. and Horodnic, I.A. (2015a). 'Evaluating the prevalence of the undeclared economy in Central and Eastern Europe: an institutional asymmetry perspective'. *European Journal of Industrial Relations*, 21(4): 389–406. Williams, C.C. and Horodnic, I.A. (2015b). 'Explaining and tackling envelope wages in the Baltic Sea region'. *Baltic Journal of Management*, 10(3): 295–312.

2.4 Tackling conventional under-declared employment

As the opening presentation highlighted, two approaches are available for tackling under-declared employment:

- 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 laws and regulations. Here, therefore, policy measures seek to align the norms, values and beliefs of employees and employers with the laws and regulations.

A first policy approach is therefore to increase the **costs of participating in under-declared employment**. If many part-time workers are really on full-time contracts which are under-declared, one solution is to increase the costs of these part-time contracts so that it is no longer so advantageous for employers to under-declare employees.

The opening presentation highlighted how this has been attempted in **Romania**. The Emergency Governmental Ordinance no. 4/2017 from July 2017 amending the law no. 227/2015 of the Fiscal Code, states that when the gross monthly income from part-time employment is below the level of the national minimum gross wage (calculated for full-time contracts), the level of social contributions due by employers is equivalent to where the national minimum gross wage is paid. As such, regardless of the number of hours worked, the tax due is calculated at the level of a full-time contract (8 hours per day). This was applied starting from August 2017. When this policy measure was implemented, the number of part-time contracts decreased by 119,254 (an 11% reduction in part-time employment in August compared with July). Full-time contracts, meanwhile, increased by 61,053 in August compared with July. It might be that a share of the part-time contracts concealed *de facto* full-time employees which, under the new legislation, were transformed into full-time contracts. However, the total number of employees, which until August increased every month, decreased by 58,201 in August compared with July. What proportion of these jobs moved from under-declared employment into wholly undeclared employment is not known.

Another way of increasing the costs of under-declared employment is to **increase the penalties**. For example, in **Bulgaria**, the administrative sanction for such a violation of labour legislation ranges from 1500 to 15000 BGN (c.€750–7500) and mandatory instructions will be issued by the Labour Inspectorate to the employer to amend the part-time employment contract to a full-time employment contract.

In **Greece**, similarly, until 21/8/2018, the fine for the employer was €9197-10,550 per undeclared worker. However, the fines for under-declared work were much lower, depending on the importance of the offense and the size of the company. This was thought to encourage employers to use under-declared rather than undeclared workers. Since 21/8/2018, therefore, a new sanctions system has been introduced. The penalty for each undeclared employee is €10,500 plus three months social security contributions. However, the penalty decreases to €7,000 if the employer employs the worker for three months, to €5,000 if the employer employs the worker for six months and to €3,000 if the employer employs the worker for one year. Therefore, this sanctions system is designed to encourage the transformation of undeclared work into declared work rather than simply to deter undeclared work. It is one of the first known penalty systems in the EU designed for this purpose of incentivising the transformation of undeclared or under-declared work into fully declared work.

It is not just penalties that can be used to increase the costs of under-declared employment. So too does **increasing the probability of detection** raise the actual and/or perceived costs of engaging in under-declared employment.

The workshop discussed how improving the rate of detection of under-declared employment is difficult. On the one hand, it was pointed out by many participants that such a practice is difficult to detect through workplace inspections. These are formal employees with a written contract or terms of employment and a declared salary. On the other hand, it was pointed out that few employees are likely to report this work arrangement either because they are happy or fear losing their job.

As the presentation on tackling under-declared employment in **France** highlighted, identifying such under-declared employment during inspections is a very difficult task. Indeed, although there was overall a sense that identifying under-declared employment during inspections was difficult, examples of how this can be pursued were provided. In **Cyprus**, inspections involve the employers and employees completing a questionnaire regarding their gross and net salary, and the mode of payment (cash/bank), and the inspectors receive work schedules and wage statements and pay slips.

Indeed, speakers and participants agreed that the greater use of **data mining and matching** was important in detecting under-declared employment. In this regard, the presentation on **Greece** reported how there has been the ATHENA national operational action plan to tackle under-declared work since October 2018. This uses data mining of employment in real time from the ERGANI OP.S. database to organise a targeted annual inspection action plan of economic sectors or geographical areas identified as risky. 'Red flags' used to identify under-declared employment include businesses with a:

- ✓ High percentage recruiting and redundancies within 2-5 days in relation to the total number of employees (>20%);
- ✓ High percentage of labour disputes in relation to the total number employees (>20%);
- ✓ High percentage of employees with less than 20 hours/week (>30%);
- ✓ High percentage of altering employment contracts, from full-employment to part time, within the last semester (>30%);
- ✓ High percentage of schedule modifications of employees in relation to the total number of employees (>20%);
- ✓ High numbers of recruits and redundancies in relation to the total number employees, within the last semester (>40%);
- ✓ High percentage of foreign employees or posted workers (>50%);
- ✓ High percentage of labour accidents in relation to the total number employees (>10%).

Or the business has:

- ✓ Never been inspected/was inspected a long time ago.

According to the available data in Greece, under-declared work employment occurs throughout all sectors of economic activity but is more prevalent in food-supply companies, cleaning and safekeeping services, banks, road transport, accommodation, retail, tourism and seasonal businesses.

In **Cyprus**, and learning directly from Greece, the ERGANI database is similarly being introduced to enable inspectors to receive information on the terms of employment and duration of employment of employees, along with SharePoint, an application that allows inspectors to have up-to-date information for inspections, and discussions with the Ministry of Finance are taking place to allow labour inspectors to receive information on incomes, revenues and VAT.

Overall, however, participants in the workshop recognised that there was a need to move towards a more strategic approach to database design which as a first step asks, 'what data do I need to identify under-declared employment?' rather than 'what do I possess which I could use?'.

To start to do this, various indicators that could be used to identify risky-businesses likely to be involved in under-declared employment were highlighted. These included:

- Average salary in company compared with average salary in the same sector;
- Average salary in company compared with average salary in region;
- 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;
- Large proportion of a company's employees are working part-time compared with other similar businesses;
- Number of employees/total wages paid is not appropriate to the turnover;
- Complaints have been received about undeclared work;
- The business has previous violations related to undeclared work;
- Businesses where a higher proportion of workers receive the minimum wage compared with other similar businesses.

It was also widely recognised by participants that the use of dynamic benchmarking is necessary to identify anomalies/outliers (i.e., 'risky' businesses). This identification of potential outlier/anomalous businesses likely to be under-declaring work, it was felt, could enable more targeted inspections. However, it was recognised that proving under-declared employment during inspections was difficult, not least because it is unlikely that employers and employees will admit to such a practice.

In consequence, participants recognised the need to also organise **awareness raising campaigns** and educational initiatives about the benefits of fully declared work targeted at both employers and employees. Importantly, it was recognised by participants that data mining and analysis should be used in a preventative manner to identify the targets for such campaigns by identifying for example the sectors and geographical areas where risky businesses are more prevalent, and the employee groups more likely to be happy accepting under-declared employment.

A presentation was given on an awareness raising campaign in **Latvia**, #Atrāpies (#FraudOff!), which advocates "zero tolerance" against cheating. This campaign is part of a broader "Anti-Fraud Movement" in Latvia involving multiple agencies. Participants heard how the target audience was young people aged 16-24 years old who start a job, with a focus upon using social media including YouTube videos and vlogs, Instagram and Facebook, including e-klase, one of the main media platforms in Latvia. Some of the main messages are that if someone offers illegal work, say "FraudOff!", and do not agree to receive envelope wages because the envelope wage often disappears or decreases, and in such cases, it will be difficult for you to prove the 'envelope' you agreed before. An innovative aspect of the campaign was to involve 20 YouTube vloggers as key influencers of young people, many of whom talked about their own negative experiences of undeclared work.

Participants in the meeting also heard about three awareness raising campaigns in **Bulgaria**:

- "Economy in Light" campaign – organized by the Bulgarian Industrial Capital Association,
- "Economy doesn't grow in the shadow" campaign, and
- "Envelope Wages" campaign (<http://www.zaplatavplik.bg/>)

The latter envelope wages awareness raising campaign was shown to include not only information on why accepting envelope wages is deleterious to employees but also to provide a tool on the website for employees to calculate the negative costs of accepting envelope wage payments. Employees can input their envelope wage and see how much they are losing in maternity pay, sick pay, unemployment pay and pension contributions. It also shows how much they will lose in total over the next thirty years.

Participants in the workshop also heard about an awareness raising campaign in **Lithuania**, entitled "No country for shadow", involving cooperation between NGOs, business and the public sector in a joint action. More than 80 towns and cities participated with over 1000 participants from different organisations in 2016, 2017 and 2018. Postcards, handed out to citizens in the streets and main squares of Lithuanian cities, informed every citizen how they could contribute to the shadow economy's reduction. The aim of this campaign has been to draw public attention to the problems caused by its scale and to spread the message that "everyone can choose a transparent way" and can contribute to their own and public welfare by refusing envelope wages.

There was recognition in the meeting, nevertheless, that awareness raising campaigns and educational initiatives will not alter the attitudes of employers and employees, and reduce under-declared employment, unless there is also reform of the formal institutions, especially in countries where there is a lack of trust in government. On the one hand, it was recognised that this requires alterations in the macro-level structural conditions that lead to lower voluntary compliance. As the introductory talk highlighted, 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.

On the other hand, there was recognition that 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.

There was also a recognition during the Plenary thematic discussion that besides better data mining and the use of awareness raising, that **notification letters** should be used to tackle under-declared employment. This was instigated by the workshop presentations on tackling under-declared employment in **Spain** and **Lithuania**.

The presentation on **Spain** highlighted how data mining had been used to identify risky businesses, resulting in 50.302 letters being sent. The outcome was that there were around 18% cases of increased working hours registered with the state authorities.

The presentation on **Lithuania** drew attention to their use of two forms of notification letter in the recent past. Firstly, participants heard how the Social Security Authority (SIDRA) had in May 2017 sent out 160,000 "cherry letters" (because of the colour of the envelope paper) in Lithuania to employees who had not accumulated their full pension entitlement over the past year. These were not just unskilled workers: 13,000 were heads of companies, 23,000 were engineers, specialists and technicians, 37,000 skilled workers, and only 30,000 unskilled workers. Of these, 50,000 employees subsequently reported increased income which exceeded the minimum monthly salary.

Secondly, workshop participants learned about the “warned to choose” model in Lithuania, which was applied for two years in 2015 and 2016. Average reported wages increased 15-17% in 2016 compared with 2015, representing €68 million in extra wages and €27 million in tax revenue.

Participants in the thematic discussion on under-declared employment also raised the issue of how to **combine and sequence** the policy measures. The conclusion was that various combinations and sequences were available: data mining could be followed up by targeted notification letters; awareness raising campaigns could be followed by notification letters (based on data mining of risky businesses), and data mining could be followed by a targeted awareness raising campaign using notification letters.

2.5 Lessons Learned

The outcome of these presentations was the identification of several **key features of good practice in relation to tackling under-declared employment:**

- The lack of up-to-date empirical data on the prevalence and character of under-declared employment across the EU, especially on under-declared working time, was perceived to inhibit evidence-based policy-making.
- There was agreement that a holistic approach was required towards under-declared employment, where national governments use a whole of government approach, by joining-up on the policy and enforcement level of both strategy and operations the fields of labour, tax and social security law, and involve and cooperate with social partners and other stakeholders. This approach involves using the full range of *direct* and *indirect* policy measures available to enhance the power of, and trust in, authorities respectively.⁸ The objective should be to transform under-declared employment into fully declared work in an effective manner. Among the measures that could be used, examples included:
 - Using penalties that facilitate the transformation of under-declared employment into fully declared employment by reducing the size of the fine by the amount of time that the employer subsequently employs the worker on a full-time declared basis.
 - To rely more on data mining and matching to detect under-declared employment, using dynamic benchmarking to identify anomalies/outliers. Moreover,
 - A strategic approach to database design is required by asking ‘what data do I need to identify under-declared employment?’ rather than ‘what do I possess which I could use?’
 - Data mining and analysis should be used in a preventative manner to identify the targets for such campaigns.
- Awareness raising campaigns and educational initiatives should be launched on the benefits of fully declared work targeted at both employers and employees.
- Greater use should also be made of notification letters to ‘nudge’ employers and employees towards operating on a fully declared basis.
- Governments should experiment with different ways of combining and sequencing these policy measures to see what is effective. For instance, data mining could be followed up by targeted notification letters; awareness raising campaigns could be followed by notification letters (based on data mining of risky businesses), and data

⁸ Williams, C.C. (2016) *Developing a Holistic Approach for Tackling Undeclared Work: background paper*, European Commission, Brussels.

mining could be followed by a targeted awareness raising campaign using notification letters.

3 Modern emergent forms of under-declaring work

The Plenary thematic discussion considered not only conventional forms of under-declared employment but also more modern emergent forms of under-declaring work. A recent Platform report, circulated as background reading prior to the thematic workshop, provided a listing of a plethora of new forms of tax and social security contribution evasion.⁹ The Plenary thematic discussion revealed how three specific 'modern' emergent forms of under-declaring work are being tackled in Member States:

- (1) Non-declaration of a second job and under-declared self-employment;
- (2) Misuse of collaborative platforms, the sharing and gig economies, and
- (3) Concealing money transactions using of crypto-currencies or unregulated/secretive electronic money transfers.

3.1 Non-declaration of a second job and under-declared self-employment

Work can be under-declared by individual citizens either when there is the non-declaration of a second job, or from under-declared self-employment. Non-declared second jobs are usually performed after working hours, in some cases using the equipment or machines provided under the main job. These non-declared second jobs and under-declared self-employment may occur in many forms, and in the contemporary era may be conducted via online platforms and websites offering domestic, repair and other services.

To understand how these forms of under-declared work, as well as other forms of non-compliance, are being tackled in the **United Kingdom**, participants in the Plenary thematic discussion heard how Her Majesty's Revenue and Customs (HMRC) adopts a 'promote, prevent, respond' approach. Contributing to the discussion on how to **combine and sequence** policy measures, the HMRC approach is based on the belief that the best way to tackle non-compliance is to prevent it happening in the first place. As a result, HMRC are:

- promoting good compliance by designing it into their systems and processes, enabling customers to get their affairs right from the outset;
- preventing non-compliance by using the data they possess to spot mistakes, prevent fraudulent claims, personalising online services and automating calculations; and
- responding to non-compliance by identifying and targeting the areas of greatest risk and using tough measures to tackle those who deliberately try to cheat the system.

An innovative approach to tackling under-declared work being tested in the UK to tackle under-declared employment, was then presented, namely the Virtual Street Sweep (VSS) method. Based on detailed data mining, the VSS residential output looks in the data for unearned income (i.e. landlords not registered with HMRC but in receipt of rental income) whilst the VSS commercial strand aims to identify ghost businesses and those unregistered for VAT or PAYE.

As proof of concept, a pilot VSS of one street in Manchester was conducted to test the method. 85 commercial cases with a £1.28m yield were identified (i.e., an average per case of £19k) and 69 residential cases with a £210k yield (i.e., an average per case of £3k). Between November 2017 and August 2018, a VSS of a further 20 streets were

⁹ Mineva, D. and Stefanov, R. (2018) Evasion of Taxes and Social Security Contributions, European Commission, Brussels

conducted, identifying 189 commercial cases with a £256k yield (an average per case of £14k) and 66 residential cases with a £78k yield (an average per case of £6k).

This VSS model can target any street, locality or city at the click of a button to see the tax risks (e.g., whether inhabitants are able to afford the rent, who owns the buildings and whether they are declaring their rental income). The initial finding is that it reduces the production times for identifying risky customers by half and enables a more efficient allocation of resources to geographical hotspots of risk. It also enables new non-compliance trends to be identified and highlights forms of non-compliance that perhaps had not been considered beforehand as very prevalent.

3.2 Misuse of collaborative platforms

The collaborative economy is based on new IT tools and platforms for joining-up supply and demand for paid labour (crowd working) (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).¹⁰

The presentation from **France** on collaborative platforms discussed this new form of tax and social insurance evasion, and labour law violation, associated with collaborative platforms, and how it is being tackled in this country. In France, it was said that there are 276 collaborative platforms, 70% of which are headquartered in France. Although some activities on these Platforms are not subject to tax and social insurance payments, other activities should be subject to such payments. To address this, two major initiatives have been taken. First, in France, operators of collaborative platforms must pass on details of the activities that take place to the tax and social security authorities, under Article 242 of the General Tax Code (created by Article 87 of Law No. 2015 -1785 of 29 December 2015 on finance for 2016) and under Article 1649 of the general tax code (created by article 24 of the amended budget law for 2016), there is an associated obligation for the operators of collaborative economy platforms to transmit annually to the tax and social administrations the information relating to the operations carried out by the users of these platforms. Indeed, there are sanctions if they do not of up to €50,000. Secondly, there is an obligation under the same Article 242 for platforms to provide platform users with "fair, clear" information and transparency on the tax obligations incumbent on persons carrying out commercial transactions through them. However, the information held by these platforms is sometimes incomplete.

Unlike other forms of tax and social security evasion that are totally hidden from view, the activities undertaken on collaborative platforms are therefore more easily accessible to the tax and social security authorities if they gain access to the data of the collaborative platforms. The presentation from France displayed how the state authorities have indeed sought and gained access to the data held by collaborative platforms on the activities that take place on them, which makes tax and social security evasion far more difficult due to the state having access to evidence that these activities have taken place.

3.3 Concealing money transactions using crypto-currencies or unregulated/secretive electronic money transfers

Concealing money transactions using crypto-currencies or unregulated/secretive electronic money transfers is an emergent way of under-declaring work.

Participants heard a talk from **Norway** on the pool of workers circulation scheme and the use of PayPal in Norway. The Coordination Centre of Enforcement Authorities - a joint body of tax collection, labour inspectorate, police, and social security - detects patterns of labour relations related to undeclared work, bogus employment, fraud, etc.

¹⁰ Heyes, J. and Hastings, T. (2017). *The Practices of Enforcement Bodies in Detecting and Preventing Bogus Self-Employment*,

This has led to the identification of “bad guy ventures” where a group of companies, which use a web-site for hiring and swapping painters, carpenters and other construction workers with payments made through PayPal, has been created. While the Joint Centre continued tracing the activity of these “bad guy ventures”, it could not enlist the police to go after the “bad guys ventures” as no evidence of large scale fraud was available.

Where payments are concealed (using online payment systems or crypto currency), some discussion took place on whether authorities should perhaps ‘follow the staff’ (the movement of workers) rather than following the money to uncover evasion. It was concluded that this is potentially an innovative approach and that more thought is needed, and examples required, on how enforcement authorities might follow the workers.

The takeaway from the resultant discussion was that Inspectorates need to adapt to recognise the existence of these new forms of non-compliance.

3.4 Lessons learned

There is a need for Member States to keep abreast of emergent forms of under-declaring work and to identify means of addressing these new types of non-compliance.

This requires Platform-level discussion of these new emergent forms of under-declaring work and how they are being addressed in other Member States, so that mutual learning can occur, knowledge be shared, and any reinventing of the wheel by Member States prevented.

There is also a particular need to address how undeclared and under-declared work via collaborative platforms can be tackled both at a Member State level, and also whether collective action is required at EU-level to gain access to the records of activity on collaborative platforms.

There is a need for thinking on how transactions are being concealed using electronic money transfers and cryptocurrencies, the prevalence of this problem in relation to tackling undeclared work, and how it can be tackled both at Member State level (e.g., by following the workers) and whether EU-level action is required.

4 What more can be done?

The outcome of the workshop was that several ways forward/next steps were identified for both Member States and the Platform.

4.1 What more can be done by Member States

- There was agreement that a holistic approach was required towards under-declared employment, where national governments use a whole government approach, by joining-up on the policy and enforcement level of both strategy and operations the fields of labour, tax and social security law, and involve and cooperate with social partners and other stakeholders. This approach involves using the full range of *direct* and *indirect* policy measures available to enhance the power of, and trust in, authorities respectively. The objective should be to transform under-declared employment into fully declared work in an effective manner. Initiatives that should be pursued include:
 - Using penalties that facilitate the transformation of under-declared employment into fully declared employment by reducing the size of the fine by the amount of time that the employer subsequently employs the worker on a full-time declared basis.

- Rely more on data mining and matching to detect under-declared employment, using dynamic benchmarking to identify anomalies/outliers. In addition,
 - A strategic approach to database design is required by asking ‘what data do I need to identify under-declared employment?’ rather than ‘what do I possess which I could use?’
 - Data mining and analysis should be used in a preventative manner to identify the targets for such campaigns.
- Awareness raising campaigns and educational initiatives should be launched on the benefits of fully declared work targeted at both employers and employees.
- Greater use should be made of notification letters to ‘nudge’ employers and employees towards operating on a fully declared basis.
- Governments should experiment with different ways of combining and sequencing these policy measures to see what is effective. For instance, data mining could be followed up by targeted notification letters; awareness raising campaigns could be followed by notification letters (based on data mining of risky businesses), and data mining could be followed by a targeted awareness raising campaign using notification letters.
- There is a need for Member States to keep abreast of emergent forms of under-declaring work and to identify means of addressing these new types of non-compliance.

4.2 What more can be done by the Platform?

- The lack of up-to-date empirical data on the prevalence and character of under-declared employment across the EU, especially on under-declared working time, inhibits evidence-based policy-making. One option might be to identify opportunities for repeating the 2007 and 2013 Eurobarometer surveys.
- Platform-level discussion is required of new emergent forms of under-declaring work and how they are being addressed in other Member States, so that mutual learning can occur, knowledge shared, and the reinventing of the wheel by Member States prevented.
- Platform-level discussion is needed on how undeclared and under-declared work via collaborative platforms can be tackled at Member State level, and whether collective action is required at EU-level in gaining access to the records of activity on collaborative platforms.
- Platform-level discussion is required on how transactions are being concealed using electronic money transfers and cryptocurrencies, its prevalence in relation to undeclared work, and how this can be tackled at Member State level and whether EU-level action is required.