

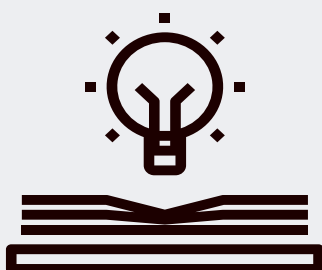
European Platform Tackling Undeclared Work

Platform seminar: “Preventative approaches to tackle undeclared work, with a focus upon tax rebates and notification letters”

16 May 2019, Brussels, Belgium

The Platform seminar provided participants with an opportunity to exchange experiences in relation to setting-up and implementing preventative methods and tools to tackle undeclared work. Discussions focused on tax rebates as a demand-side incentive for tackling undeclared work and on the use of notification letters to transform undeclared work into declared work.

Key findings

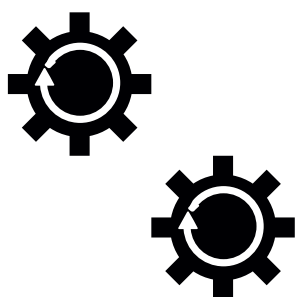


- ▶ **Effective preventative approaches are long-term, tailored strategies.** Over time, they can trigger behavioural change to declare work and increase in trust in institutions. Preventative strategies should combine a range of measures and must be regularly tested, evaluated and adapted according to the results. Pilot schemes can be used to find effective ways to tailor approaches to the national context and culture. However, preventative approaches and deterrence approaches are complementary. Both can be used to tackle undeclared work.
- ▶ **Moving towards preventative measures requires a change of strategy of the role of enforcement institutions.** A preventative approach requires support of all relevant institutional and civil society stakeholders - a strong partnership should be based on a shared vision and operational strategy. This can involve introducing key performance indicators (KPIs) to assess, for instance, the number of legitimised labour relations; overcoming internal resistance; and reviewing staff competencies and skills.
- ▶ **When carefully designed, preventative approaches can be cost effective and relatively straightforward to implement.** Examples from the seminar such as using notification letters to ‘nudge’ behaviour towards compliance have shown positive results in transforming undeclared work into declared work through cost effective means - they require fewer resources and make use of existing information on non-compliant individuals or businesses. Other examples used in broader labour legitimising policy efforts, such as providing tax rebates for using declared work, can be costly in the short term but can have longer-term effects including an increase in tax receipts through a positive impact on attitudes to tax morality.
- ▶ **Notification letters should be targeted, tailored and make it easy to comply. Results should be publicised.** The recipients of notification letters can be identified through data mining, analysis and matching, combined with risk assessment. Examples presented by Estonia, Greece, Lithuania and Spain indicated a range of effective methods when designing the content of notification letters. These included experimenting with the ‘severity’ of language used, ensuring easy-to-follow instructions, personalising the letter to the recipient and locality, and reinforcing examples about the positive compliant behaviour of others (e.g. ‘9 out of 10 businesses in your area pay their tax on time’). Severity in language ranged from reminding the recipient about the risks and impact of non-compliance, to detailing personal impacts such as their increased risk of sanctions, inspections and the consequences of being caught. To maximise impact, the outcomes could be publicly communicated, follow-up visits arranged, and support and advice offered.



- ▶ **Tax rebates can be effective but should be easy to use and carefully calibrated to ensure a positive cost-return ratio.** Tax rebates are mostly used in sectors where cash is commonly used, including household work, nursing and care work. As such they also have wider benefits such as stimulating economic growth in targeted sectors and supporting families. Examples from Denmark, Finland and Sweden showed that while complex to initiate (due to regulatory systems, and requiring long-term political and public support which is not always easy to obtain), there is mostly a positive response to such schemes. However, to ensure cost effectiveness, tax rebates should calculate the level of the tax reduction is sufficient to outweigh the benefits of sourcing from the undeclared economy over the long-term. Piloting these actions in sectors where undeclared work is prevalent can be a good first step. Other learning from these examples showed that the claim procedure should be as simple as possible, it should be widely accessible, the risk of abuse should be anticipated and mitigated, and the administration should take place through a single agency with dedicated staff.

Take the learning forward



- ▶ **Preventative approaches to tackling undeclared work are still relatively nascent. They require testing and further evidence is needed of their long-term impact.** However, the seminar provided a good evidence base of the impact of some preventative measures, including tax rebates and notification letters.
- ▶ For countries aiming at implementing new preventative initiatives, **pilot schemes have been shown to be an effective starting point. Evaluation of these schemes over the long-term is essential.** Evaluation can include sampling, including control groups and target sectors; clarifying how the impact will be measured (including return on investment / cost effectiveness) and evaluated; learning from pilots and adapting the scheme based on the evaluation; and testing the revised scheme.
- ▶ **Countries can learn from existing examples about what works well and what does not, to develop their own tailored approaches.** Authorities and social partners engaging in preventative approaches should seek opportunities to learn from experiences with specific preventative measures (for instance through learning exchanges, reviewing examples of practice, collaborating with other authorities and Member States). Additional discussion could also take place about how KPIs could be reformulated.
- ▶ **Further work could be done to develop strategies and plans for staff competencies and skills** required by authorities aiming towards a more preventative approach. Training could be enhanced for existing staff around new skills.
- ▶ Looking further ahead, **notification letters could be applied in other types of undeclared work** - including undeclared work in the collaborative economy as well as bogus self-employment, under-declared working time, letterbox companies, social insurance contribution evasion and unregistered employment.

Further information: A Learning Resource Paper from the seminar, which discusses these issues in greater detail, will be published in July 2019.

