

Factsheet on Undeclared Work - FINLAND (September 2017)

1.1 Nature and Estimated Scale of Undeclared Work

1.1.1 Definition of undeclared work

In Finland undeclared work is defined as work which is paid for but not declared to the tax administration.^{1 2} The 'shadow economy' is a wider concept that consists of 1) undeclared wages, 2) undeclared enterprise income and 3) hidden dividends.³ Most often undeclared work refers to the activities of SMEs, while in larger companies the problems relate more to different kinds of tax roving advantages for personnel.

Currently the concept of the 'shadow economy' is more frequently used in official contexts than undeclared work, with the shadow economy being defined in different ways, with undeclared work being a rather unambiguous concept according to the authorities. The Law on the Grey Economy Information Unit in the Tax administration states that the shadow economy is an organisational action which neglects statutory payments like taxes, pension, insurance or Custom payments. In the National economy, the definition excludes production that is not accounted for in the National economy. The fiscal definition considers the shadow economy as a legal economic activity that is hidden from the authorities. The illegal economy is defined as criminal activity, and not included in the shadow economy.⁴

1.1.2 Characteristics of undeclared work⁵

The main type of undeclared work is "envelope wages" (hidden employment) in the construction, accommodation and catering sectors. Also entertainment and real estate sectors have been identified as fields of hidden employment. A particular area is household renovation work obtained from the small construction companies or self-employed individuals, which often remains undeclared. Illegal migrant work is not a problem in Finland but related underpaid work amongst migrant workers is, and mostly in connection to the construction and catering sectors.

Shadow wages are most frequently found in the construction sector (7.1 per cent of total wages) and real estate (6.7 per cent). The accommodation and catering industry, as well as the entertainment sector, are also mentioned as an increasing proportion of the shadow economy.

Statistics are not available for the distribution of undeclared work by employer size. Most often undeclared work refers to SMEs, while in larger companies the problems relate more to different kinds of income tax roving advantages for personnel.

Limited evidence is available on the main motivators for undeclared work in Finland. On the basis of authors' contextual knowledge the main motivators relate to heightened profitability risk in different sectors, especially during difficult economic conditions. A relatively high tax rate and high employment expenses also increase the motivation of the employers to use undeclared work. In addition households may have difficulty affording renovation and other household work due to high expenses. People

¹ Etelä-Saimaa Magazine (2016). Interview with Heimo Säkkinen, Tax Inspection Chief. <http://www.esaimaa.fi/Online/2015/08/18/Pimeit%C3%A4%20palveluja%20ostaneen%20tunte%20yli%20puolet%20suomalaisista/2015119438441/4>. Accessed 3.4.2016.

² Virén, M. (2013).

³ Hirvonen, M. & Lith, P. & Walden, R. (2010). Finland's internationalizing shadow economy. (Suomen kansainvälistyvä harmaa talous.) Publications of Parliament Audit Committee 1/2010.

⁴ [https://www.vero.fi/fi-FI/Tietoa_Verohallinnosta/Harmaan_talouden_torjunta/Harmaan_talouden_maaritelma\(14464\)](https://www.vero.fi/fi-FI/Tietoa_Verohallinnosta/Harmaan_talouden_torjunta/Harmaan_talouden_maaritelma(14464)). Accessed 15.4.2016.

⁵ Tax Administration (2016). Shadow economy – supervision statistics 2015 (in Finnish). Release 30.3.2016. [https://www.vero.fi/fi-FI/Tietoa_Verohallinnosta/Uutiset/Uutta_tietoa_harmaasta_taloudesta_Harmaa\(39511\)](https://www.vero.fi/fi-FI/Tietoa_Verohallinnosta/Uutiset/Uutta_tietoa_harmaasta_taloudesta_Harmaa(39511)). Accessed 3.4.2016.

who receive social assistance, such as unemployment benefit, may be caught in an 'incentive trap', which prevents them from declaring minor assignments so as not to lose benefits.

In the case of restaurants run by migrants, for example, significant benefits of undeclared work are pursued.

1.1.3 Estimated scale of undeclared work ⁶

Currently statistics differentiating between the distribution of UDW by type are not available for Finland. Partly, this is due to the focus of research, partly for other reasons like interpretation and use of available data sources. Hirvonen et al. (2010) focus on fiscal tax deficit, legally earned but not properly declared income. This measurement is close to that what is done in Sweden.⁷ Nurminen (2008) and Virén (2013, 2014) write about the part of GDP not properly included in official statistics.

In 2011, according to tax inspection authority calculations, the shadow economy accounted for about 5.5–7.5 per cent (EUR 4,000–6,000 mill.) of the total economy.⁸ On this basis "shadow wages" were estimated to be 2 per cent of the total payroll (about EUR 1,241 mill.).⁹

However, according to Virén (2014), there were problems in these calculations. According to the tax inspections only about 0.5 per cent of wages were actually undeclared. The problem of estimating was further pronounced due to unrepresentative nature of the inspections.¹⁰ Nurminen (2008) estimates the share of the shadow economy as 1.5 per cent¹¹ and Virén (2014) considers this more plausible.

According to Hirvonen et al. (2010) shadow wages were most frequent in the construction sector (7.1 per cent of the total wages) and real estate (6.7 per cent). Also accommodation and catering and transport are frequently mentioned, as well as the entertainment sector¹².

The Government's assessment considering overall shadow economy is based on international sources like Schneider (2011), stating the share of shadow economy about 13.7 per cent, but these estimations are considered well exaggerating from the point of view of Finnish authors.¹³

1.2 Institutional Framework

1.2.1 Responsibilities for addressing undeclared work

A large number of different ministries and authorities with a broad range of tasks take part in combating the grey economy and economic crime. *The Ministry of the Interior* coordinates the work connected to the grey economy. *The Ministry of Finance* is responsible for taxation.

The Ministry of Social Affairs and Health is in charge of social security and occupational safety and health and *Regional State Administrative Agencies* are in charge of the

⁶ Ministry of the Interior (2016). Economic crime and shadow economy.

https://www.intermin.fi/en/security/combating_crime/economic_crime_and_the_shadow_economy. Accessed 3.4.2016.

⁷ Skatteverket (2014). Skattefelets utveckling i Sverige 2007-2012. Rapport 1.8.2014. https://www.skatteverket.se/download/18.5c88598914352927a4215e6/1389176760118/Rapport_Skattefelets+utveckling+i+Sverige+2007_12.pdf

⁸ Hirvonen et al. (2010).

⁹ Virén (2014).

¹⁰ Virén (2014).

¹¹ Nurminen, R. (2008). Shadow economy value low in Finland. (Piilotalouden arvo Suomessa vähäinen). *Tieto&Trendit* 2008:8., 12–14.

¹² Hirvonen et al. (2010).

¹³ Virén (2014).

supervision and direction of standards and practices in workplaces. *The Ministry of Economic Affairs and Employment* is in charge of fair competition between companies and labour law and non-discrimination in working life. In addition, other authorities including the police, Customs Bureau and the Finnish Centre for Pensions, as well as authorities dealing with debt recovery and bankruptcies, combat the grey economy.

When combating the issue of UDW the role of the Tax administration and Regional State Administrative Agencies (AVIs) (through their work protection function and contractor's liability function) is crucial. The labour administration's role relates to labour intensive sectors, and there is cooperation between agencies, e.g. with different Ministries, Police, Customs, Pensions' Centre and professional organisations. This takes place in the wider framework of battling the shadow economy, not only UDW. The shadow economy, as stated above, refers also to retail control, insurance payment control and different forms of crime tackling.¹⁴¹⁵

The Tax administration is responsible for tax inspections and AVIs, e.g. to supervise the implementation of Contractor's liability Act, which is designed to decrease the level of undeclared work in the construction sector, as well as in other branches of the economy.¹⁶ AVIs are also responsible for supervising foreign workers.

1.2.2 Characteristics of the responsible organisations

Information on the specific structure of the organisations responsible for UDW related issues is not available. The mentioned organisations operate on a national level and engage in cooperation. The special Grey Economy Information Unit was established in 2011 as part of the Government programme against shadow economy. The Grey Economy Information Unit in Tax administration forms 0.5 per cent of its total personnel (about 5,000 persons in 2014). In 2016, the number of tax inspectors in operational activities was between 500 and 600. The unit informs public, publishes expert reports which enhance the cooperation between different authorities.¹⁷ There are also six AVIs in different regions.

1.2.3 Cooperation and collaboration between authorities and cross-border authorities

Little information is available on the nature and models of cooperation between organisations with an interest in UDW in Finland.

However information exchange between them has been strengthened in the context of the Government programme against shadow economy 2011–2015. The new strategy for tackling the shadow economy and economic crime 2016–2020 was agreed on 12 April 2016. In May the strategy was accompanied with the action plan on concrete measures. In line with the requirements of the Parliamentary Audit Committee, the strategy includes internationalisation, a holistic approach to the formulation of the Strategy, consistency in efforts to tackle the shadow economy and its anticipated progress in the long term. The government wants to tackle the shadow economy and economic crime especially by means of preventive action. To be successful in tackling the shadow economy and economic crime, authorities need to collaborate and have a common view of the situation. UDW is addressed in this respect. The new operations

¹⁴ Valtiontalouden tarkastusvirasto (2015). (Tuloksellisuustarkastuskertomus. Harmaan talouden torjuntaohjelmat ja torjuntatyön koordinaatio.) Valtiontalouden tarkastusviraston tarkastuskertomukset 14/2015.

https://www.vtv.fi/files/4842/14_2015_Harmaan_talouden_torjuntaohjelmat_ja_torjuntatyon_koordinaatio.pdf

¹⁵ MEE (2011). (Talousrikollisuuden ja harmaan talouden torjuminen rakennus- sekä majoitus- ja ravitsemisalalla -työryhmän mietintö.) Ministry of Employment and Economy Publications. Competitiveness 17/2011. http://www.tem.fi/files/29563/TEM_17_2011_netti.pdf

¹⁶ Pesonen, R. (2011). Contractor's liability Act and combatting shadow economy.

<https://www.rakennustieto.fi/Downloads/RK/RK110202.pdf>

¹⁷ TA (2015). Tax administration action report 2014.

are concentrated on the Grey Economy Information Unit at the Tax administration, but some new obligations were set on Labour administration also concerning supervision.

Limited information is available on the effectiveness of cooperation between authorities in Finland, with the exception of the Government audit described at 1.3.4. While cooperation between other Member States does take place around the shadow economy, no information is available on cooperation relating specifically to UDW.

1.3 Policy Focus and Measures

1.3.1 Policy approach

The Finnish approach to fighting the grey economy, economic crime and undeclared work main elements are the political commitment in the form of special action programmes since 1996 which have been ratified by the government and co-operation both between different authorities and between authorities and representatives of the private sector, in particular with business and trade unions.

Main measures are proposals for legislation, resources for economic crime investigation, training of authorities, and research and information campaigns. These include:

Legislative amendments to reduce the potential for co-operation between the black economy and criminal businesses;

Modernising the powers of the authorities to increase efficiency;

Enhancing the processing of economic crime to better enforce criminal liability; and

Making currently confidential official information public to increase transparency in business and to enable self-monitoring by enterprises.

The Finnish approach is multi-method ranging from preventative, awareness rising to increasing ex-post control and strengthening the investigation of economic crime. The effective cooperation and exchange of information between public authorities is a key factor when detecting, combating and investigating financial crimes or undeclared work. A special unit undertaking analysis of the shadow economy was established in 2011 under the auspices of Tax administration, and additional funding was provided to authorities.

Several policy initiatives have been introduced in recent years. While several Governments since the 1990s have sought to tackle the shadow economy, efforts have been increased during the Katainen's Government (2010–2014). This shadow economy programme consisted of Ministerial cooperation with the aim of strengthening coordination, and providing continuity and resources to the authorities including a EUR 300–400 million increase in funding (but not only to target UDW).

1.3.2 Measures to tackle UDW¹⁸

The fact that no thorough research exists on the policies engaging measures to tackle shadow economy^{19,20}, was regarded problematic. In 2014 an assessment was made for the Parliament on measures to combat the shadow economy and white-collar crime in 2010–2014 (Katainen's Government). The programme was accompanied by EUR 20 million additional funding for authorities each year to help combat the shadow economy. The programme was also supported by other projects e.g. to combat white-

¹⁸ TA (2015). Tax administration action report 2014.

¹⁹ Virén (2014).

²⁰ Hirvonen, M. & Määttä, K. (2014). Report to the (eduskunta) Parliament audit committee on measures to combat the shadow economy and white-collar crime in 2010–2014; summary. Parliamentary Audit Committee Publications 1/2014.

https://www.eduskunta.fi/FI/tietoeduskunnasta/julkaisut/Documents/trvj_1+2014.pdf. Accessed 3.4.2016.

collar crime.²¹ The share of resources specifically directed to UDW measures is however unknown.

Disclosure obligations for the construction sector were introduced in 2014 and managed by the Tax administration, and included monthly lists of workers on site.

One of the main measures to address UDW are awareness rising campaigns, e.g. "Black future" net pages <http://www.mustatulevaisuus.fi/>, and undertaken through cooperation between the Tax administration, Police and Customs.

Public procurement and public subsidies have been identified as important target areas in the combat against the shadow economy.²²

The labour administration was responsible for clarifying different measures and the Ministry of Employment and the Economy for preparing legislation relating to e.g. constructor's liability act and obligation to deliver receipt in the cash trade. Paying wages in cash was forbidden in 2013 and accountant became obliged to report their suspicions. Also payments that pass the accounting and cash registered became under surveillance.

The Grey Economy Information Unit has studied the impact on the construction sector of the legislative changes concerning the Information Reporting Requirement measure. The evaluation included a study of legislation introduced since 2011 affecting construction companies' independent notifications, i.e. 1) Tax number register/Independent tax numbers, 2) Reverse charge mechanism for VAT, 3) Extended duty to notify contractors and employees in the construction sector based on the Tax Administration report²³ including statistical and qualitative data. The new measure appears quite successful in terms of increasing declared businesses and work. The legislative changes concerning the construction sector have boosted tax revenue and increased companies' independent notifications given for tax purposes. This increase in notifications is seen in the higher payroll figures, mainly arising from new companies. The extent to which the pay of foreign nationals is included within the tax system has improved, although deficiencies in taxation coverage were also found. Overall it seems that the culture has become healthier in terms of transparency and adequate payrolls. However, on the downside is the increased administrative burden both on the side of the contractors and the tax administration. Further development is called for on the level of concrete practices, information exchange and especially in the use of electronic systems to foster the technical processing of information. Cuts in the public authorities' resources may threaten the implementation of the new system in long term.

In addition, some indicators exist on the level of the economic crimes and police investigations but not on UDW due its hidden nature. The number of crime reports made by the Tax administration remained the same in 2013 and 2014 (about 500) and the Tax administration has statistics on identified hidden wages.

Positive feedback has been received concerning the media campaign.

²¹ Hirvonen, M. & Määttä, K. (2014). Report to the eduskunta audit committee on measures to combat the shadow economy and white-collar crime in 2010–2014; summary. Parliamentary Audit Committee Publications 1/2014.

https://www.eduskunta.fi/FI/tietoeduskunnasta/julkaisut/Documents/trvj_1+2014.pdf. Accessed 3.4.2016.

²² Tax Administration (2015). Grey Economy 2015 reports grey economy in Finland and how it is fought against. Tax Administration Bulletin 11/17/2015. [https://www.vero.fi/en-US/Tax_Administration/News/Grey_Economy_2015_reports_grey_economy_i\(38729\)](https://www.vero.fi/en-US/Tax_Administration/News/Grey_Economy_2015_reports_grey_economy_i(38729))

²³ Rakentamisen tiedonantovelvollisuus urakka- ja työntekijätiedoista - lainsäädännön vaikuttavuus 7/2017

1.3.3 Good practice

Measures directed towards the construction sector like reverse value added tax and the Contractor's Liability Act have had positive results. Reverse value added tax means that the client pays VAT to the state instead of contractor in the construction sector. The liability act means that all contractors have an obligation to check contracting partners' ability to discharge their statutory obligations by checking certain information and registers before making an agreement on temporary agency work or subcontracted labour.²⁴ Efforts to raise awareness have been important in combatting the increasing shadow economy. Finland has embraced an overall shadow economy tackling policy.

The household deduction model is one long term initiative which encourages households to use declared work in renovations and other household tasks. This has had financial effects and also increases public awareness of the negative aspects of the shadow economy. In 2016, the household deduction is EUR 2,400 for a person (and EUR 4,800 for a household) for a renovation or other household work obtained from contractor and paid against receipt. Deduction is made from the households' income taxes (EUR 100 own-risk share).

1.3.4 Challenges and barriers

A key challenge in Finland is the increasing size of the total shadow economy, although estimations are controversial and inaccurate. UDW is especially prevalent in the construction sector but is also spreading to the other sectors. The economic crisis, high tax rate and inflexible labour market, and incentive traps also create the conditions for UDW to increase.

According to the Government audit, the programme to tackle the shadow economy is not yet sufficient, is poorly defined, is fixed term, and has projects within it which are poorly coordinated - although no evaluation studies currently exist.²⁵

The shadow economy has been less of a concern while more general economic issues have been under political debate. Still, committees are continuously discussing further measures to improve measures.

In conclusion, while the shadow economy has become a focus for attention in Finland, this is less the case for UDW. However, UDW activities have now spread to new sectors, and the main challenge is now collaboration also cross the borders, having a common strategy and promoting joint activities between different authorities also in practical level. There seems to be a chronic under resourcing of the controlling authorities, and challenges in developing effective policies.

²⁴ Laki tilaajan selvitysvastuusta ja vastuusta ulkopuolista työvoimaa käytettäessä (22.12.2006/1233) <https://www.finlex.fi/fi/laki/ajantasa/2006/20061233>

²⁵ Valtiontalouden tarkastusvirasto (2015). (Tuloksellisuustarkastuskertomus. Harmaan talouden torjuntaohjelmat ja torjuntatyön koordinaatio.) Valtiontalouden tarkastusviraston tarkastuskertomukset 14/2015. https://www.vtv.fi/files/4842/14_2015_Harmaan_talouden_torjuntaohjelmat_ja_torjuntatyon_koordinaatio.pdf