



# Factsheet on undeclared work – CZECH REPUBLIC

**March 2023**

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<sup>1</sup> This is an update of the [2017 factsheet](#)



The authors would like to thank all of the stakeholders consulted for their input into the factsheet.

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# 1.0 Nature and estimated scale of undeclared work

## 1.1 Legal definition

In the Czech Republic, there is no reference to undeclared work in the law, however the definition of the term 'illegal work' exists instead in the Czech legislation. The Employment Act (Article 5.e) defines illegal work as dependent work<sup>2</sup> performed outside of an employment relationship or performed by a foreigner without a valid work or residence permit. A pervasive form of illegal work, referred to as “*Švarcsystém*” (named after the entrepreneur Miroslav Švarc, its “inventor”) consists of using self-employment contracts in place of employer-employee contracts in work relations that fundamentally constitute an employer-employee relationship and ought to be covered by an employment contract, or what is elsewhere termed bogus self-employment. In this factsheet, the term of “illegal work” is used in reference to the formal definition as defined by law.

The State Labour Inspection Office (SLIO)<sup>3</sup>, the Labour Office<sup>4</sup>, the Regional Labour Inspectorates (RLI), the Foreign Police, as well as members of the tripartite body all apply the current state of the legislation when considering illegal work. There has been a gradual clarification of how and when to best apply the specifics of the Employment Act and the Labour Inspection Act.

The Czech Republic currently lacks a direct strategy to combat undeclared work. However, the government has established resolutions through meetings of the interministerial body. These resolutions set forth plans and objectives in both legislative and non-legislative domains to address the issue of undeclared work.

## 1.2 Estimates of undeclared work

Estimates of undeclared work in this section are based on two available sources providing cross-country comparable data: Eurobarometer surveys and the Labour Input Method (LIM) study. Caution is required because of various limitations of the applied methodologies<sup>5</sup>.

Examining the extent of undeclared work based on Labour Input Method (LIM) estimates,<sup>6</sup> in 2019, 7.0 % of total labour input in the private sector in the EU was undeclared (7.7 % in 2013). Therefore, between 2013 and 2019,

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<sup>2</sup> Dependent work is performed in a relationship of a supervisor-employer with a supervisee-employee, work that deserves a salary, and is performed within specified work hours.

<sup>3</sup> Website: [www.suip.cz](http://www.suip.cz), contact email: [opava@suip.cz](mailto:opava@suip.cz), accessed 13 November 2022.

<sup>4</sup> Website: [www.uradprace.cz](http://www.uradprace.cz), contact email: [podatelna.gr@uradprace.cz](mailto:podatelna.gr@uradprace.cz), accessed 13 November 2022

<sup>5</sup> Undeclared work can be measured both directly and indirectly. Indirect methods are based on the comparison of macroeconomic aggregates (such as national accounts). Direct methods, on the contrary, are based on statistical surveys and have advantages in terms of comparability and detail, but tend to under-report the extent of undeclared work. There is a consensus among both practitioners and academics that a direct approach should be used more to explore the nature of undeclared work in terms of who engages in such work, why they do so, which forms of undeclared work they undertake, and their reasons for doing so. When estimating the magnitude of undeclared work, the consensus is supportive of the use of indirect methods that search for discrepancies in comparable sets of secondary macroeconomic data (i.e. data constructed and/or collected for other purposes). The LIM study is based on the indirect method, whereas Eurobarometer surveys on the direct method.

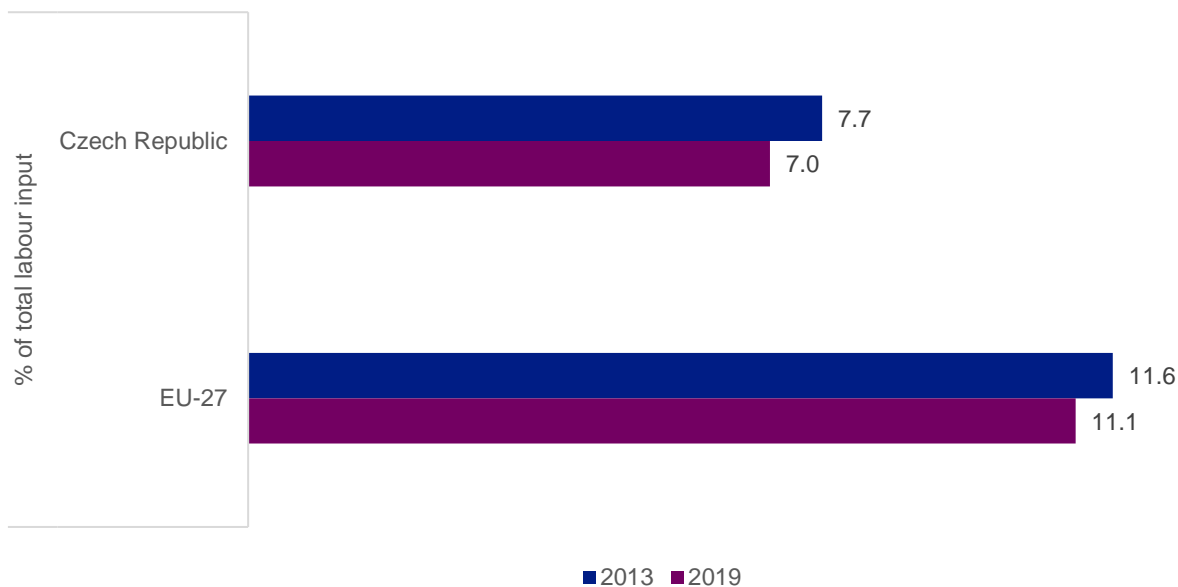
<sup>6</sup> Williams, C.C., Bejakovic, P., Mikulic, D., Franic, J., Kedir, A. and Horodnic, I.A. (2017) [An evaluation of the scale of undeclared work in the European Union and its structural determinants: estimates using the Labour Input Method](#), European Commission, Brussels.

Franic, J., Horodnic, I.A. and Williams, C.C. (2022), Extent of undeclared work in the European Union, European Platform tackling undeclared work.



there has been a decline in undeclared work. This displays the progress in tackling undeclared work. The extent of undeclared work in the Czech Republic was lower compared to the EU-27 average (see Figure 1 below).

**Figure 1. The scale of undeclared work in the private sector in the Czech Republic and EU-27, 2013 and 2019.**



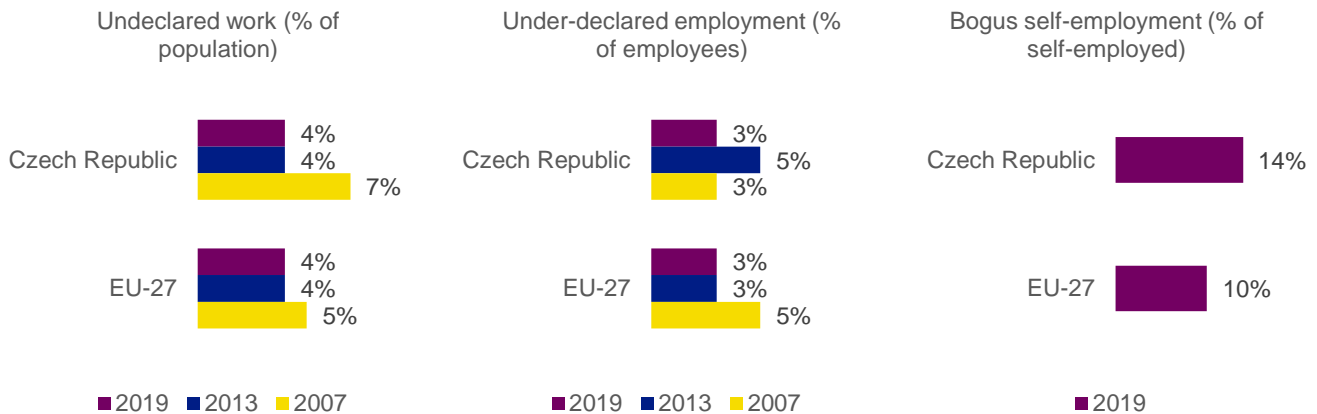
Source: Franic, J., Horodnic, I.A. and Williams, C.C. (2022), Extent of undeclared work in the European Union, European Platform tackling undeclared work. Figures 3 and 6. Retrieved on 30 November 2022.

The figures below indicate the current state and development of undeclared and under-declared work and bogus self-employment between 2007 and 2019 for the Czech Republic, based on Eurobarometer surveys. It should be noted that this is not a measure of the size of the undeclared economy. It only measures the proportion of the population who have engaged in undeclared work in the past 12 months. In some Member States, undeclared work may be more characterised by small-scale one-off acts of baby-sitting or home repairs and in others such work may be more regular wage employment relationships<sup>7</sup>.

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<sup>7</sup> Williams, C.C and Horodnic I.A. (2020). Trends in the undeclared economy and policy approaches Evidence from the 2007, 2013 and 2019 Eurobarometer surveys, European Platform tackling undeclared work. Figure 10. Retrieved on 28 September 2022.

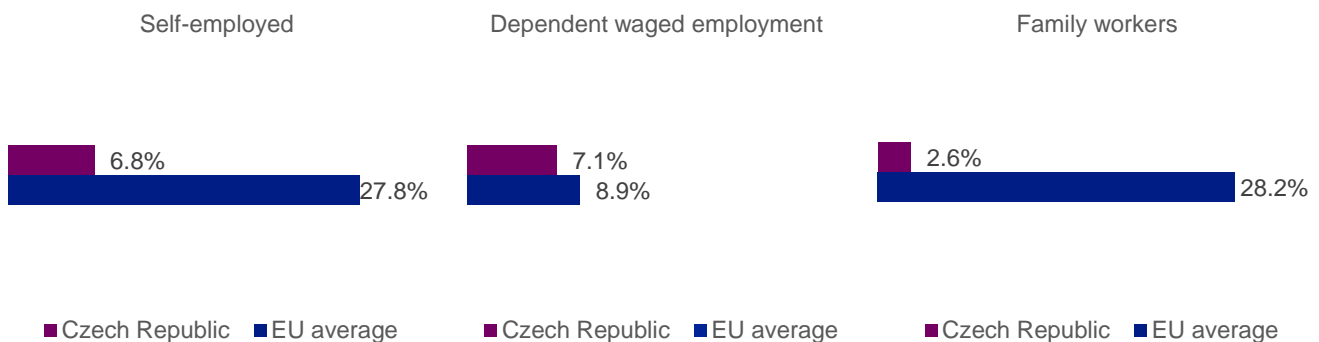
**Figure 2. Composition of undeclared work, the Czech Republic and EU-27, 2007, 2013 and 2019**



Source: Source: Williams, C.C and Horodnic I.A. (2020). [Trends in the undeclared economy and policy approaches Evidence from the 2007, 2013 and 2019 Eurobarometer surveys](#), European Platform tackling undeclared work. Figure 10. Retrieved on 28 September 2022.

There are also marked differences in the prevalence of undeclared work in different types of employment relationship. Figure 2 gives a detailed overview of the extent of undeclared work in different types of employment relationship, namely self-employment, dependent waged employment, and family work. Analysing the 2019 Labour Input Method (LIM) estimates<sup>8</sup>, in the Czech Republic, 7.1 % of dependent waged employment is undeclared measured as a share of total labour input, the proportion of self-employment that is undeclared is 6.8 % (measured as a share of their total labour input) and the proportion of family work that is undeclared is 2.6 %<sup>9</sup>.

**Figure 3. Prevalence of undeclared work in the private sector by type of employment relationship, the Czech Republic, EU-27 average, 2019**



Source: Franic, J., Horodnic, I.A. and Williams, C.C. (2022), Extent of undeclared work in the European Union, European Platform tackling undeclared work. Table 2. Retrieved on 30 November 2022.

Analysing the structure of the undeclared labour market in the Czech Republic in 2019 using the LIM estimates,<sup>10</sup> the proportion of undeclared labour input that is dependent waged employment is 82.5 % (62.9 % in the EU-27), 17.3 % of undeclared labour input is self-employment (36.3 % in the EU-27) and the proportion of undeclared labour input that is family work is 0.2 %<sup>11</sup> (0.8 % in the EU-27) as indicated in Figure 3 below. Therefore, compared

<sup>8</sup> Franic, J., Horodnic, I.A. and Williams, C.C. (2022), Extent of undeclared work in the European Union, European Platform tackling undeclared work.

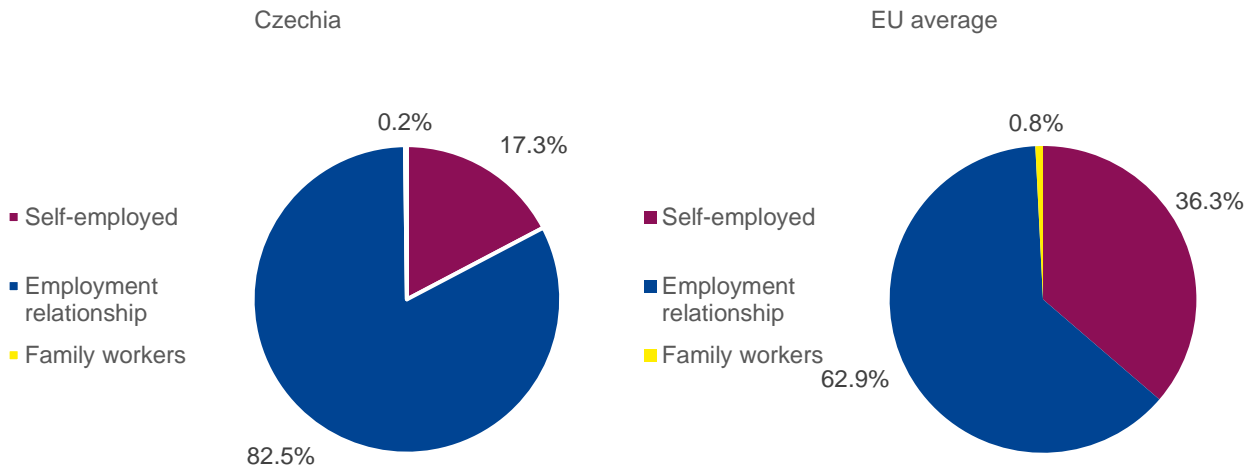
<sup>9</sup> This data (taken from the labour force survey), is based on a small sample, which might affect its statistical reliability.

<sup>10</sup> Franic, J., Horodnic, I.A. and Williams, C.C. (2022).



with the EU-27, dependent waged employment is a larger proportion of undeclared work while self-employment accounts for a smaller share.

**Figure 4. Structure of the undeclared labour market in the private sector, the Czech Republic and EU-27, 2019**



Source: Franic, J., Horodnic, I.A. and Williams, C.C. (2022), Extent of undeclared work in the European Union, European Platform tackling undeclared work. Figure 8. Retrieved on 30 November 2022.

Illegal work is included among the most frequently controlled areas of the labour inspection together with disguised agency employment<sup>12</sup> as they are the most serious violations of labour law. From the point of view of the public budget, illegal work is mainly connected with evasion of personal income taxes and premiums for social security and health insurance.

Every year, the labour inspection authorities receive thousands of requests for inspection. In 2021, in connection with the COVID-19 pandemic, the labour inspection authorities received an increased number of requests for inspection in the field of labour relations. The received requests most often drew attention to violations of remuneration, employment relationship, as well as working hours and agency work<sup>13</sup>.

For a long time, illegal work has been detected in the construction and manufacturing sectors. Agency work appears most often in areas of the manufacturing industry.

There is no systematic evidence on the distribution of undeclared work by employer size, although both existing ad hoc surveys<sup>14</sup> and SLIO inspection practice are consistent with the majority of illegal employment and illegal work cases being concentrated among small (under 10 workers) or medium sized companies (10-49 workers), and the self-employed. However, it is possible that some large employers under-report actual hours worked (in the services sector in particular). This trend has been stable over time. In 2016 approximately 52 % of SLIO inspections

<sup>12</sup> Zastřené zprostředkování zaměstnání.

<sup>13</sup> Report available at

<https://www.suip.cz/documents/20142/43676/Program+kontroln%C3%ADch+akc%C3%AD+2022.pdf/2a998c2f-22b2-ead2-37c6-7aa7c3da98b1>, accessed 12 December 2022

<sup>14</sup> Filipec, P. (2011). The Shadow Economy Analysis in the Czech Republic. Charles University in Prague, Faculty of Social Sciences. Available at: <https://is.cuni.cz/webapps/zzp/detail/95977>

Also, CETA (2015). Shadow economy in the Czech Republic: A study [Studie: Stínová ekonomika v České republice] Available at [http://eceta.cz/wp-content/uploads/2015/11/SE\\_01\\_2015\\_web.pdf](http://eceta.cz/wp-content/uploads/2015/11/SE_01_2015_web.pdf)



targeted employers with 0-9 employees, 16 % with employers with 10-49 employees, and employers without any registered employees.

In 2021, a total of 4 868 inspections aimed at detecting illegal work have been carried out. These checks revealed a total of 2 993 people working illegally, of which 268 were Czech citizens, 271 EU citizens and 2 454 foreigners from third countries<sup>15</sup>. In the area of illegal work, 677 fines totalling CZK 165 million were imposed. Altogether since 2012, more than 142 000 investigations have been carried out in the field of detecting illegal work where almost 33 000 illegally employed employees were identified.

Since 2016, illegal work was detected more and more among foreigners. In 2021, 83 % of detected illegal employees were foreigners. The results of inspections demonstrate that disguised agency work particularly affects foreigners.

One of the two main incentives which may motivate the existence of illegal work is the high tax wedge on low-wage earners through social security contributions. Equally importantly, the Czech tax wedge gap between self-employed and employees continues to be one of the largest in the EU. Correspondingly, an unusually high proportion of workers in the Czech Republic are self-employed, i.e., work in job types more prone towards undeclared work.

According to the 2018 Flash Eurobarometer 467 survey, 5 % of Czech citizens were service providers on collaborative platforms. In the 2019 annual Platform survey for the success rates in tackling bogus self-employment, the Czech Republic cited 510 cases of bogus self-employment in 2018, and 308 in 2017. According to EU LFS<sup>16</sup> data, the share of bogus self-employment in the Czech Republic was 1 % of total employment and 7.2 % of all self-employed in 2017. According to European Working Conditions Survey (EWCS) data, in 2015 the share of bogus self-employment was 8.7 %.

## 2.0 Institutional framework

### 2.1 Responsibilities and characteristics of organisations involved in tackling undeclared work

**Table 1. Overview of key institutional features in the Czech Republic for addressing undeclared work**

Key institutional feature	Existence
A high-level coordinating body in the country	Yes
A national strategy for tackling undeclared work	No
Common cross-government strategic objectives and KPIs/targets for tackling undeclared work	No

<sup>15</sup> In 2022, labour inspection authorities planned to carry out at least 6 700 inspections.

<sup>16</sup> European Union Labour Force Survey.





Sources: Williams, C.C. and Horodnic, I.A. (2022). [Progress of national authorities towards a holistic approach, Study using a common assessment framework May 2022](#). European Platform tackling undeclared work.<sup>17</sup>

Labour inspection bodies are supervisory bodies in the field of the protection of labour-law relations and working conditions. When performing inspections, inspectors in the **State Labour Inspection Office (SLIO)** and **Regional Labour Inspectorates (RLI)** focus on fulfilling the obligations arising from the provision of Article 3 of the Labour Inspection Act. In this regard, SLIO acts as the high-level body in the Czech Republic responsible for tackling undeclared work.

When carrying out inspections in the area of employment, SLIO focuses on the fulfilment of obligations arising from the provision of Article 125 of the Employment Act, in particular on the area of the fulfilment of mandatory proportion (of employed persons with disabilities), as well as agency employment and illegal employment. The primary objective of the control activities of SLIO and RLI is the detection of violations of legal regulations by employers that may have serious effects on the working conditions of employees, and the subsequent administrative punishment of such acts. However, the labour inspection authorities also try to have a preventive effect on employers through increasing their legal awareness, not only through the inspections themselves, but also through educational activities and advice.

SLIO and RLI are authorised to inspect whether employers observe all obligations arising out of the applicable legal regulations (lawful treatment to workers, respecting working conditions, payment of social security contributions, legal employment of foreigners, etc.), to require removal of any defects found during the inspection and to impose sanctions. SLIO also runs a web-based tool for submission of complaints related to labour relations matters including occupational health and safety issues<sup>18</sup>.

At the same time, the Labour inspection authority provides advice to employers and employees in the area of labour relations and conditions, such as the areas of employee remuneration, working hours and overtime, unequal treatment and discrimination, illegal employment, occupational health and safety, and compliance with employee posting conditions.

Other key institutions that coordinate their efforts in addressing undeclared work in the Czech Republic are:

- ▶ **The Czech Social Security Administration (CSSA)**<sup>19</sup> which is an authority of the Czech Republic's public administration and is responsible for social security (pension and sickness insurance) and medical assessment services. Controls on social security contributions are conducted primarily by CSSA. If any irregularities concerning potential problem with social security contributions are discovered during labour inspection, information about the case is referred to the CSSA.
- ▶ **The Labour Office of the Czech Republic**<sup>20</sup>, it is managed by the Ministry of Labor and Social Affairs. The Labour Office of Czech Republic performs tasks in the areas of employment, protection of employees in the event of the employer's insolvency, state social support, benefits for persons with disabilities, care allowance, assistance in material need, foster care benefits and maintenance allowances, and substitute maintenance for a dependent child. There is a submission tool with the possibility to report an illegal work complaint<sup>21</sup>.

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<sup>17</sup> A questionnaire survey that was sent to the 32 labour, tax and social security authorities participating in the European Platform tackling undeclared work (hereafter "the Platform") in the 27 European Union member states plus Norway and Iceland (i.e., 28 labour authorities, 3 tax authorities and 1 social security authority), Replies received between December 2021 and February 2022.

<sup>18</sup> Online tool: <http://epp.suip.cz/epp/index.php>, contact email: [opava@suip.cz](mailto:opava@suip.cz), accessed 13 November 2022

<sup>19</sup> Website: [www.uradprace.cz](http://www.uradprace.cz), contact email: [podatelna@aa.mpsv.cz](mailto:podatelna@aa.mpsv.cz), accessed 19 December 2022

<sup>20</sup> Website: [www.uradprace.cz](http://www.uradprace.cz), contact email: [podatelna@aa.mpsv.cz](mailto:podatelna@aa.mpsv.cz), accessed 19 December 2022

<sup>21</sup> Website: [www.mpsv.cz](http://www.mpsv.cz), contact email: [posta@mpsv.cz](mailto:posta@mpsv.cz), accessed 13 November 2022



- ▶ **Financial Administration of the Czech Republic**<sup>22</sup> is subordinate to the Ministry of Finance and has tax administration as its main goal. Specifically, the institution manages personal income tax, corporate income tax, value added tax, road tax, inheritance tax and other taxes.
- ▶ **The Customs Administration of the Czech Republic**<sup>23</sup> controls whether all legal requirements for employment of foreigners are fulfilled – any irregularities are referred to the labour inspectorate for further procedure.
- ▶ **Organised Crime Unit of the Police of the Czech Republic**<sup>24</sup> inspects if workers are employed under exploitative working conditions. If findings of labour inspection constitute suspicion of the relevant criminal activity (Article 168 or Article 342 of the Act No. 40/2009 Coll. The Criminal Code), those findings are referred to the Police for further investigation.

The authority inspecting business documents during labour inspections covers only documents that are related to the subject matter of the inspection.

**Table 2. Overview of tools to tackle undeclared work used by social partners in the Czech Republic**

Social partner tools to tackle undeclared work	Existence
Raising awareness and changing behaviours through campaigns, awards, dedicated websites, etc at sectoral and company level	Yes
Referring cases of undeclared work to enforcement and judicial authorities	No
Negotiating collective agreements which contain instruments to tackle undeclared work, including in supply or subcontracting chains	No
Supporting workers by protecting them when in undeclared work situations, and aiding transition into a declared work situation	No
Raising awareness of situations of undeclared work and making calls for action	Yes
Cooperating across borders in the fight against undeclared work	No
Performing research to identify the key reasons, manifestations, specifics and impact of undeclared work	Yes
Providing policy and legal advice on procedural and legal changes needed	Yes
Providing policy advice on where enforcement authorities should focus their efforts (e.g., bogus self-employment, particular sectors)	Yes
Taking part in consultations and working groups	Yes
Providing technical support to enforcement authorities in developing information tools, data mining and risk assessment, building websites and social media platforms	Yes
Establishing relevant contacts through their networks of members	Yes
Serving as access points to corporate databases	No
Conduct workplace inspections	Yes

<sup>22</sup> Website: [www.financnisprava.cz](http://www.financnisprava.cz), contact email: [podatelna2000@fs.mfcr.cz](mailto:podatelna2000@fs.mfcr.cz), accessed 19 December 2022

<sup>23</sup> Website: [www.celnisprava.cz](http://www.celnisprava.cz), contact email: [podatelna@cs.mfcr.cz](mailto:podatelna@cs.mfcr.cz), accessed 13 November 2022

<sup>24</sup> Website: [www.policie.cz](http://www.policie.cz), contact email: [epodatelna.policie@pcr.cz](mailto:epodatelna.policie@pcr.cz), accessed 13 November 2022



Source: Williams, C.C. and Horodnic, I.A. (2022). [Progress of national authorities towards a holistic approach, Study using a common assessment framework May 2022](#). European Platform tackling undeclared work.

The enforcement authorities cooperate with social partners on tackling undeclared work through a specific agreement between the labour inspectorate and national representative trade unions. The State Office of Labour Inspection is obliged to regularly discuss the annual program of control actions with the trade unions.

As part of public outreach, citizens can submit their complaints regarding all areas of tax avoidance or abuse of the tax system using the individual addresses (e-mail and post) of all the offices of the tax administration<sup>25</sup>.

## 2.2 Cooperation and collaboration between authorities and cross-border authorities

### 2.2.1 The legal basis

The main legal basis for the work of authorities involved in tackling undeclared work are as follows.

**Table 3. Key authorities and their legal basis to tackle undeclared work**

Authority	Legal framework
State Labour Inspection Office	Act No. 251/2005 Coll., on labour inspection Act No. 435/2004 Coll., on employment Act No. 255/2012 Coll., on control Act No. 500/2004 Coll., Code of Administrative procedure
Czech Social Security Administration	Czech National Council's Act No. 582/1991 Coll., on the organisation and implementation of social security
The Labour Office of the Czech Republic	Act No. 73/2011 Coll., on the labour Office of the Czech Republic
Financial Administration of the Czech Republic	Act No. 280/2009 Coll., Tax Code
The Customs Administration of the Czech Republic	Act No. 17/2012 Coll. on the Customs Administration of the Czech Republic Act No. 435/2004 Coll., on employment

Sources: ELA (2022) Overview on responsibilities, inspection competences and legal frameworks in Member States, Cooperation Support Unit, (March 2022), unpublished.

### 2.2.2 Cooperation between authorities in the Czech Republic

As part of tripartite cooperation between the government, social partners and NGOs, the Czech Republic adopted regulations and policies which were developed in cooperation with the social partners and NGOs. To ensure effective monitoring, regular training of personnel from relevant public authorities is provided and the number of labour inspections has increased. Social partners adopted general and company level agreements, while

<sup>25</sup> Website: <http://www.financnisprava.cz/en/financial-administration/financial-administration-bodies/tax-offices/list-of-all-tax-offices>, accessed 13 November 2022



employers are also considering developing a blacklist of noncompliant labour market intermediaries to raise awareness and fight unfair competition.

When inspecting a workplace, SLIO naturally cooperates with CSSA and Trade Licencing Offices when checking formal aspects of inspected documents. A key collaboration is between SLIO and RLI. The labour inspectorates also frequently coordinate with the state, municipal and/or foreign police, as needed.

### 2.2.3 Cooperation with other Member States

The Czech Republic has a specific legal framework for cross-border joint inspections. Act No. 255/2012 Coll. the Control Act (Section 6) regulates possible participation of an inspector from another Member State during an inspection conducted in the Czech Republic.

A visiting inspector may participate in the capacity of an entity with a special status, the so called “invited person” if the inspector is authorized to be such an invited person by the Czech inspection authority for the purposes of an inspection. The specific rights of the invited person are derived from the purpose of the inspection, in which he/she takes part, i.e., the invited person participates in those actions of the inspecting party, which correspond to the reason for his/her participation in the inspection.

In fact, any evidence that can help clarify the subject matter of the case can be produced as evidence in court proceedings, provided that it was obtained lawfully. In administrative and criminal proceedings, evidence searched, obtained, or performed in an unlawful manner may not be in principle used in proceedings before court.

Similar to court proceedings, any evidence that helps clarify the subject matter of the case can be produced as evidence in administrative proceedings, if it was obtained lawfully. Evidence gathered by an inspection authority in another Member State must be provided to the Czech inspection authority in such manner that proves that the evidence is provided by a specific foreign authority, when the evidence is being provided and how it is being provided (be it via IMI<sup>26</sup>, postal service operator or another way). Evidence in other than Czech or Slovak languages must be provided together with an official translation into Czech, unless such translation is not required by the administrative authority.

Bilateral cooperation agreement has been concluded with Germany to intensify cooperation in combating employment fraud in social security contributions and benefits<sup>27</sup> and Poland.

## 3.0 Policy focus and measures

### 3.1 Policy approach

Repression<sup>28</sup> is the main tool of addressing undeclared work policy as Czech policymakers focus on the parameters of the relevant legislation. The continuous updates of the Employment Act and of the Labour Code introduced since 2004 with an eye towards reducing illegal employment practices include more stringent conditions for unemployment registration, stricter conditions on temporary employment agencies and on the type of jobs to be performed by self-employed instead of regular employee-employer contracts, and extended powers of RLI as

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<sup>26</sup> The Internal Market Information System of the European Commission.

<sup>27</sup> The text of the agreement is available at [https://www.zoll.de/DE/Fachthemen/Arbeit/Bekaempfung-der-Schwarzarbeit-und-illegalen-Beschaeftigung/Zusammenarbeit/Internationale-Zusammenarbeit/internationale-zusammenarbeit\\_node.html](https://www.zoll.de/DE/Fachthemen/Arbeit/Bekaempfung-der-Schwarzarbeit-und-illegalen-Beschaeftigung/Zusammenarbeit/Internationale-Zusammenarbeit/internationale-zusammenarbeit_node.html), Accessed 1 March 2023.

<sup>28</sup> Repression policy consists in improving detection and imposing penalties. Other examples of measures are preventative, curative and fostering culture of commitment/alignment of citizens with state.



an inspection authority together with increased penalties for illegal work of an increasing variety. In recent years, SLIO has become the main authority addressing illegal work.

## 3.2 Main policy measures

The 2022 holistic approaches study<sup>29</sup> indicates that four types of measures are commonly used in the Czech Republic to tackle undeclared work - predominantly the use of:

- ▶ Penalty measures;
- ▶ Initiatives to increase detection (e.g., inspections);
- ▶ Incentives to make declared work easier and more beneficial;
- ▶ Education and awareness-raising campaigns and initiatives to modernise authorities to improve trust in government.

Annex 1 provides more detail on the specific policy measures used to tackle undeclared work.

## 3.3 Good practices<sup>30</sup>

Good practices in tackling undeclared work have been explored by the European Platform tackling undeclared work. The following good practices addressing undeclared work are identified in the Czech Republic:

- ▶ [National Programme of Inspection Actions 2022 Protecting workers from Ukraine](#) (2022). Under the adopted legislative Act No. 65/2022 Coll. ("Lex Ukraine") and related laws Ukrainian refugees/displaced people have been granted temporary protection status allowing them to enter the Czech labour market more easily. This has resulted in broadening the Czech Labour Inspectorate's national programme of inspection actions for 2022 to include a focus on ensuring compliance with working conditions of Ukrainian workers with temporary protection status.
- ▶ [Bilateral memoranda of understanding](#) (2021). The Dutch Ministry of Social Affairs and Employment signed four bilateral Memoranda of Understanding between equivalent ministries in the Czech Republic, Portugal, Romania and Slovakia with the aim to improve and intensify cooperation to address undeclared work by enhancing its detection.
- ▶ [Inter-agency inspections to tackle undeclared work](#) (2019). The State Labour Inspection Office cooperates with the Labour Office and CSSA to prepare and follow-up inspections to detect undeclared work and illegal employment. Inspection procedures and collaboration methods were tested in a pilot project from 2011 to 2015 and then subsequently rolled out across the country.
- ▶ [Assistance on the Spot](#) (2017). The labour inspectorate provides information and advice to employers who are found to be (or are at risk of being) in breach of labour regulations with respect to the bogus self-employment of workers. It assists companies to stay within the law by informing (and possibly fining) employers who are not in compliance with the law, informing workers of their rights, and supporting and advising employers to avoid future violations.

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<sup>29</sup> Williams, C. and I. Horodnic (2022). Progress of national authorities towards a holistic approach, Study using a common assessment framework May 2022. European Platform tackling undeclared work.

<sup>30</sup> [Virtual library | European Labour Authority \(europa.eu\)](#)



Other practices are available on the European Labour Authority [website](#).

### 3.4 Challenges and barriers

While undeclared work in the Czech Republic is similar to the EU average, bogus self-employment is somewhat higher than the EU average (Figure 1 above). Challenges to tackling this include a lack of national strategy to tackle undeclared work, and no common cross-government strategic objectives and KPIs/targets for tackling undeclared work. This may create barriers to developing a coordinated approach at national level and across borders. While a wide range of deterrence policy measures are used, a narrower range of preventative measures exist to make undeclared work easier and beneficial and to modernise the formal institutions.

In the Czech Republic, the citizens' perceptions of tax morale and trust to labour inspectorate is lower than on average in the EU while horizontal trust and trust to tax authority are higher. This can be considered among the key drivers of participation in undeclared work (see Table 4).

**Table 4 Level of tax morale, horizontal and vertical trust, the Czech Republic and the EU**

	Tax morale*	Horizontal trust**	Vertical trust: Tend to trust tax authority***	Vertical trust: Tend to trust labour inspectorate***
Czech Republic	7.54	38 %	51 %	48 %
EU-27 average	8.55	36 %	49 %	49 %

Source: Williams, C.C and Horodnic I.A. (2020). [Trends in the undeclared economy and policy approaches Evidence from the 2007, 2013 and 2019 Eurobarometer surveys](#), European Platform tackling undeclared work. Figures 35, 36 and 37. Retrieved on 28 October 2022

\*Tax morale is an index where respondents were asked to rank five different types of undeclared work on a scale of 1 to 10 (recoded here as 1 representing 'totally acceptable' behaviour and 10 representing 'totally unacceptable' behaviour).

\*\*Horizontal trust was measured as the percentage of respondents who personally know people engaged in undeclared work.

\*\*\*Vertical trust was measured as the percentage of respondents who tend to trust the main state institutions tackling undeclared work.

Additional macro-economic and structural conditions of institutions affecting the prevalence of undeclared work in the Czech Republic are provided in Annex 2.



# Annex 1: Approaches used to tackle undeclared work

**Table A.1. Approaches used to tackle undeclared work**

Approaches used	Existence
<b>PENALTIES</b>	
Use of penalties and fines to prevent participation in undeclared work	Yes
Use of penalties to transform undeclared work into declared work	Yes
Penalties for people or businesses who buy undeclared work	Yes
Reclassifying false employment relationships (e.g., bogus self-employment)	Yes
Use of non-compliance lists ('blacklists')	No
Previous non-compliance excludes firms from bidding for public procurement contracts	No
'Naming and shaming' lists	No
<b>RISK OF DETECTION</b>	
Workplace inspections	Yes
Online/desk-based inspections	No
Joint inspections with other national inspectorates	Yes
Announced inspections	Yes
Cross-border inspections	Yes
Registration of workers prior to first day at work	No
Data matching and sharing to identify risky businesses	Yes
Use data mining to determine risky businesses for inspection	Yes
Coordination of data mining and sharing across government departments	Yes
Coordination of strategy on undeclared work across government departments	Yes
Use of complaint reporting tools (e.g. telephone hotlines) <sup>31</sup>	Yes
Certification of business, certifying payments of social contributions and taxes	No
Notification letters	No

<sup>31</sup> [Information and tools for working declared | European Labour Authority \(europa.eu\)](https://european-labour-authority.europa.eu/information-and-tools-for-working-declared)





Mandatory ID in the workplace	Yes
Supply chain responsibility (e.g., joint and several liability, due diligence)	Yes
<b>INCENTIVES</b>	
<b>Supply-side measures (i.e., to stimulate suppliers to operate declared)</b>	
Simplify procedures for complying to existing regulations (e.g., easier registration procedures; simplify forms; reduce duplication)	Yes
Compliance lists	No
Society-wide amnesties	No
Individual-level amnesties for voluntarily disclosing undeclared activity	No
'Formalisation' advice to start-ups	No
'Formalisation' support services to existing businesses	No
Targeted VAT reductions	No
Provide free record-keeping software to businesses	No
Provide fact sheets on record-keeping requirements	No
Provide free advice/training on record-keeping	No
Gradual formalisation schemes	No
Initiatives to ease transition from unemployment into self-employment	Yes
Initiatives to ease transition from employment into self-employment	No
Access to free marketing	No
<b>Demand-side measures (i.e., to encourage purchasers to buy declared goods and services)</b>	
Service vouchers	No
Targeted direct tax incentives (e.g., income tax reduction/subsidy)	No
Targeted indirect taxes (e.g., VAT reductions)	No
Initiatives for customers to request receipts (e.g., Lottery for receipts)	No
<b>FOSTERING COMMITMENT TO OPERATE DECLARED</b>	
Campaigns to inform suppliers of undeclared work of the risks and costs of working undeclared	Yes
Campaigns to inform suppliers of undeclared work of the benefits of formalising their work (e.g., informing them where their taxes are spent)	No
Campaigns to inform users of undeclared work of the problems of purchasing goods and services from the undeclared economy	No
Campaigns to inform users of undeclared work of the benefits of declared work (e.g., informing citizens of the public goods and services they receive with the taxes collected)	No





Normative appeals to businesses to operate on a declared basis	Yes
Measures to improve the degree to which customers of the enforcement agencies believe they have been treated in a respectful, impartial and responsible manner	Yes
Measures to improve labour, tax and/or social security law knowledge	Yes
Public information on the work and achievements of the enforcement authorities	Yes

Sources: Williams, C.C. and Horodnic, I.A. (2022). [Progress of national authorities towards a holistic approach. Study using a common assessment framework May 2022](#). European Platform tackling undeclared work.












# Annex 2: Dashboard: overview of key indicators relevant to undeclared work

The dashboard below provides an overview of the key structural conditions that are associated with the extent of undeclared work. The trends in each driver display whether it improved (“green”) or worsened (“red”) in the Czech Republic. For comparative purposes, the trends in each driver of undeclared work are also presented for the EU-27.

**Table A.2. Trends in key structural drivers of undeclared work**

<b>CZECH REPUBLIC</b>				
INDICATOR	YEAR:		TREND 2009 vs. 2019	EU-27, 2019 ****
	2009	2018		
<b>A. FORMAL INSTITUTIONS</b>				
<b>I. FORMAL INSTITUTIONAL RESOURCE MISALLOCATIONS AND INEFFICIENCIES</b>				
<b>1. Level of modernisation of government</b>				
Government effectiveness (-2.5 to 2.5 (strong performance))	0.88	0.95		-
<b>2. Formal institutions acting in a corrupt manner</b>				
Corruption Perceptions Index (CPI) (0-100 (very clean)) *	49	56		-
Control of corruption (-2.5 to 2.5 (strong performance))	0.38	0.56		-
<b>II. FORMAL INSTITUTIONAL VOIDS AND WEAKNESSES</b>				
<b>1. Modernisation Explanation - Level of ‘development’</b>				
GDP (current prices, euro per capita)	14 260	21 150		31 300
Human Development Index (HDI) (0-1 (highest development))	0.865	0.897		-
Social Progress Index (SPI) (0-100 (high)) **	82.29	84.48		-
Self-employment (% of total employment)	15.9	15.7		13.4
<b>2. State intervention</b>				
Burden of government regulation (1-7 (best))	2.7	2.7		-
Business flexibility index (0-10 (high))	7.57	8.31		-
Expense of government (% of GDP)	35.0	32.6		36.6
Research & Development expenditure (% of GDP)	1.29	1.93		2.23
Tax revenue (% of GDP)	13.6	14.8		19.7
Social contributions (% of revenue)	45.7	47.2		33.0
Impact of social transfers on poverty reduction (%)	51.96	39.16		32.38
Labour market policy (LMP) expenditure (% of GDP)	0.67	0.43		1.65
Unemployment rate (% of active population)	6.7	2.0		6.8
People at risk of poverty/social exclusion (% of total population)	14.0	12.5		20.9
Severe material deprivation rate (% of total population)	6.1	2.7		5.5
Inequality of income distribution (income quintile share ratio)	3.47	3.34		4.99
Gini coefficient (0-100 (perfect inequality))	25.1	24.0		30.2
Labour productivity (% change on previous period)	-2.9	2.8		0.7
<b>III. FORMAL INSTITUTIONAL POWERLESSNESS</b>				
Reliability of police services (1-7 (best))	3.9	5.0		-
Judicial independence (1-7 (best))	4.0	4.5		-
Rule of law (-2.5 to 2.5 (strong performance))	0.96	1.05		-
Regulatory quality (-2.5 to 2.5 (strong performance))	1.31	1.24		-
Voice and accountability (-2.5 to 2.5 (strong performance))	1.03	0.84		-
Trust in Government (% tend to trust)	37	40		35
Trust in Parliament (% tend to trust)	15	25		34
<b>IV. FORMAL INSTITUTIONAL INSTABILITY AND UNCERTAINTY</b>				
Democracy Index (0-10 (full democracy)) ***	8.19	7.69		-
Political stability (-2.5 to 2.5 (strong performance))	0.91	0.94		-
<b>B. INFORMAL INSTITUTIONS</b>				
Social capital (0-100 (high))	44.2	46.8		-
Tax compliance (0-10 (high))	3.76	7.42		-



	Year:	2013	2019		
<i>Acceptability of undeclared work (% total 'unacceptable')</i>					
Firm hires worker on undeclared basis		66	66		82
Undeclared work by firm for firm		72	70		85
Undeclared work by individual for private household		49	48		67
Undeclared work by firm for private household		68	65		82
Someone partially or completely conceals their income		69	62		78
<i>Personally know people engaged in undeclared work (% 'yes')</i>		33	38		36
<b>TREND (2009-2019):</b>  = positive  = unchanged  = negative					

Notes: \* 2009 data not available; 2012 data used instead; \*\* 2009 data not available; 2014 data used instead; \*\*\* 2009 data not available; 2010 data used instead; \*\*\*\* EU-28 average for Expense of government (% of GDP); Tax revenue (% of GDP) and Social contributions (% of revenue)

Source of methodology: 2022 update by Horodnic, I.A. of the study by Williams, C.C. and Horodnic, I.A. (2020). [Horizon scanning: early warning signals of future trends in undeclared work](#), European Platform tackling undeclared work. Extraction date: 30 October 2022.