



Factsheet on undeclared work – GERMANY

March 2023

¹ This is an update of the [2017 factsheet](#)



The authors would like to thank all of the stakeholders consulted for their input into the [paper / study – adapt or remove].
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1.0 Nature and estimated scale of undeclared work

1.1 Legal definition

In Germany, undeclared work is defined in the legal framework by the 2004 Act to Combat Undeclared Work and Unlawful Employment (last amendment 2021) (*Schwarzarbeitsbekämpfungsgesetz*; SchwarzArbG²). The Act applies to services or work performed which the employer, entrepreneur or self-employed has not declared to the social security authority, has not paid contributions and has not met record-keeping obligations. The definition of undeclared work also encompasses services and work in instances when a taxable person does not meet their tax obligations. The law also explicitly mentions social benefit recipients who do not declare their income from services or work to the relevant social security authority. In addition, the law applies to people who have not declared their economic activities according to the Trade, Commerce and Industry Regulation Act (paragraphs 14 and 55 of the *Gewerbeordnung*³) and if applicable, are not registered in the Skilled Trade Register (paragraph 1 Crafts Code).

Services and work provided to family members or for helping neighbours or for self-subsistence according to the Housing Act are excluded if they are not profit-oriented and are performed for low remuneration. Forms of illegal employment include the violation of the Act on Mandatory Working Conditions for Workers Posted Across Borders and for Workers Regularly Employed in Germany (*Arbeitnehmer-Entsendegesetz*⁴; *AEntG*), of the Act on Temporary Agency Work (*Arbeitnehmerüberlassungsgesetz*⁵; *AÜG*), of the Act Regulating a General Minimum Wage (*Mindestlohngesetz*⁶; *MiLoG*) as well as the illegal employment of foreigners.

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 methodologies⁷.

It is still impossible to measure the scope of and trends in undeclared work and unlawful employment and to provide robust evidence of how it relates to the official gross domestic product (GDP). As a part of the shadow economy, this type of work or employment is, by its very nature, generally carried out clandestinely and thus escapes direct statistical measurement.

² See [SchwarzArbG - nichtamtliches Inhaltsverzeichnis \(gesetze-im-internet.de\)](#), accessed 24 November 2022.

³ See [GewO - nichtamtliches Inhaltsverzeichnis \(gesetze-im-internet.de\)](#), accessed 2 December 2022.

⁴ See [AEntG - nichtamtliches Inhaltsverzeichnis \(gesetze-im-internet.de\)](#), accessed 2 December 2022.

⁵ See [AÜG - Gesetz zur Regelung der Arbeitnehmerüberlassung \(gesetze-im-internet.de\)](#), accessed 2 December 2022.

⁶ See [MiLoG - Gesetz zur Regelung eines allgemeinen Mindestlohns \(gesetze-im-internet.de\)](#), accessed 2 December 2022.

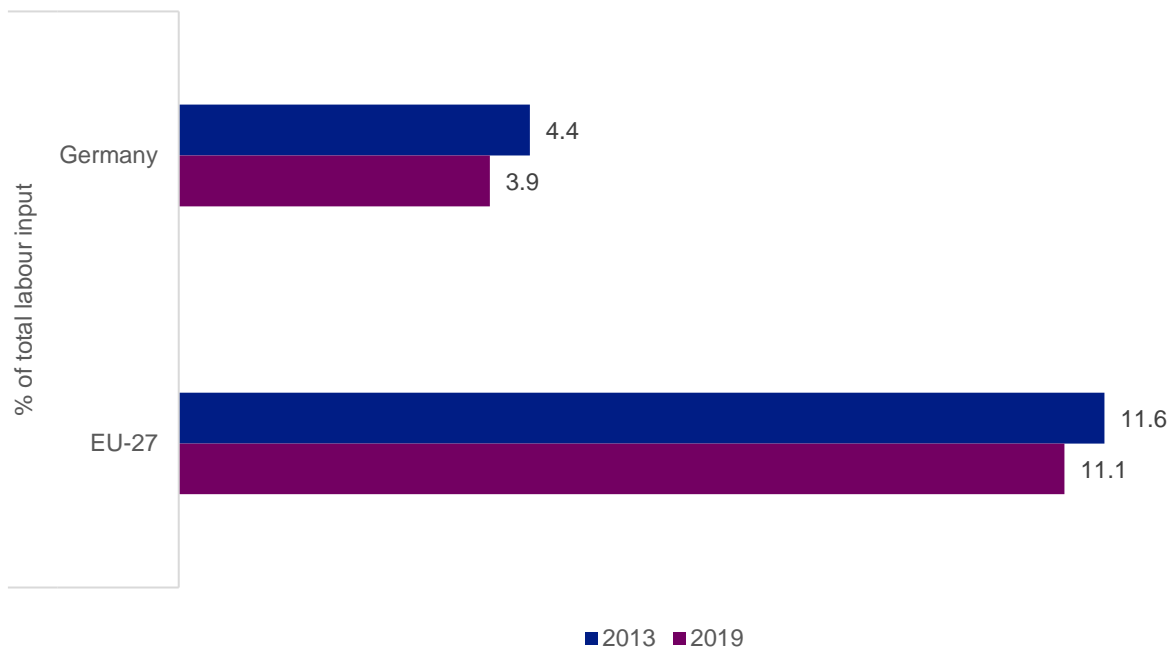
⁷ Undeclared work can be measured both directly and indirectly. Indirect methods are based on the comparison of macroeconomic aggregates (such as national accounts). Direct methods, on the contrary, are based on statistical surveys and have advantages in terms of comparability and detail, but tend to 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.



However, various institutions and researchers have conducted studies to try to estimate the total scope of the shadow economy and undeclared work. These studies were neither commissioned by the German government nor by the customs administration.

For example, Williams et al. (2017) and Franic et al. (2022) employed the Labour Input Method (LIM) to evaluate the scale of undeclared work in the EU for the years 2013 and 2019, respectively. Franic et al. (2022) estimate that in 2019, 3.9 % of total labour input in the private sector in Germany is undeclared (4.4 % in 2013). The extent of undeclared work in Germany is lower compared with the EU-27 average (see Figure 1 below).

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



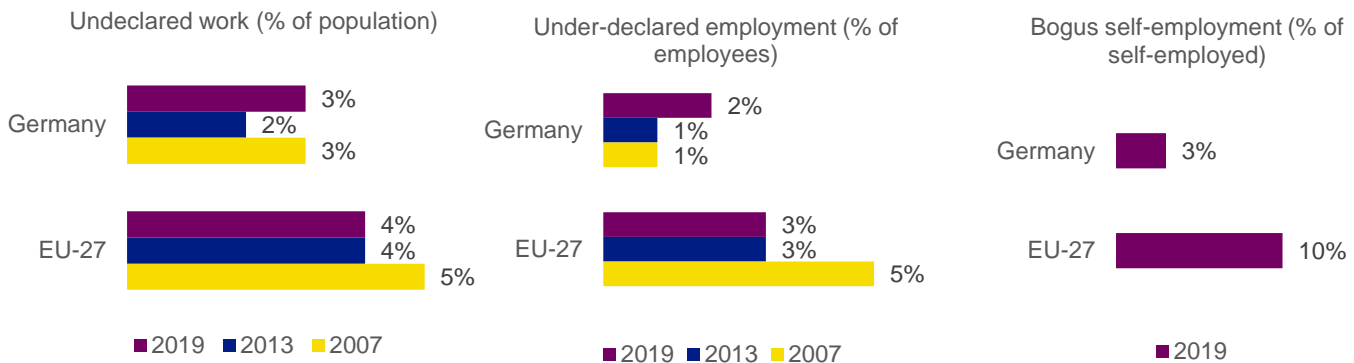
Source: Franic, J., Horodnic, I.A. and Williams, C.C. (2022), Extent of undeclared work in the European Union, European Platform tackling undeclared work. Figures 3 and 6. Retrieved on 30 November 2022.

The different types of undeclared work measured through the waves of Eurobarometer surveys in 2007, 2013 and 2019 are lower in Germany compared with the EU-27 average (see Figure 2 below). 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 relationships⁸

⁸ 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.



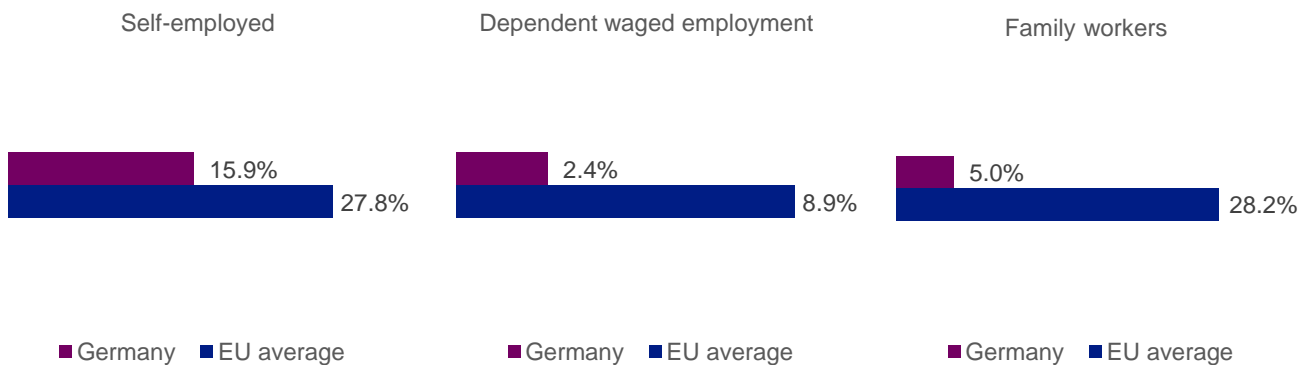
Figure 21. Composition of undeclared work, Germany and EU-27, 2007, 2013, 2019



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 3 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) estimates⁹ in Germany, 2.4 % of waged employment is undeclared measured as a share of total labour input, the proportion of self-employment that is undeclared is 15.9 % (measured as a share of their total labour input) and the proportion of family work that is undeclared is 5.0 %¹⁰. Again, these levels are lower than the EU-27 average.

Figure 3. Prevalence of undeclared work in the private sector by type of employment relationship, Germany, 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 Germany in 2019 using the LIM estimates (see Figure 3),¹¹ the proportion of undeclared labour input that is waged employment is 53.0 % (62.9 % in the EU-27), 46.8 % of undeclared labour input is self-employment (36.3 % in the EU-27) and the proportion of undeclared labour input

⁹ Franic, J., Horodnic, I.A. and Williams, C.C. (2022), Extent of undeclared work in the European Union, European Platform tackling undeclared work..

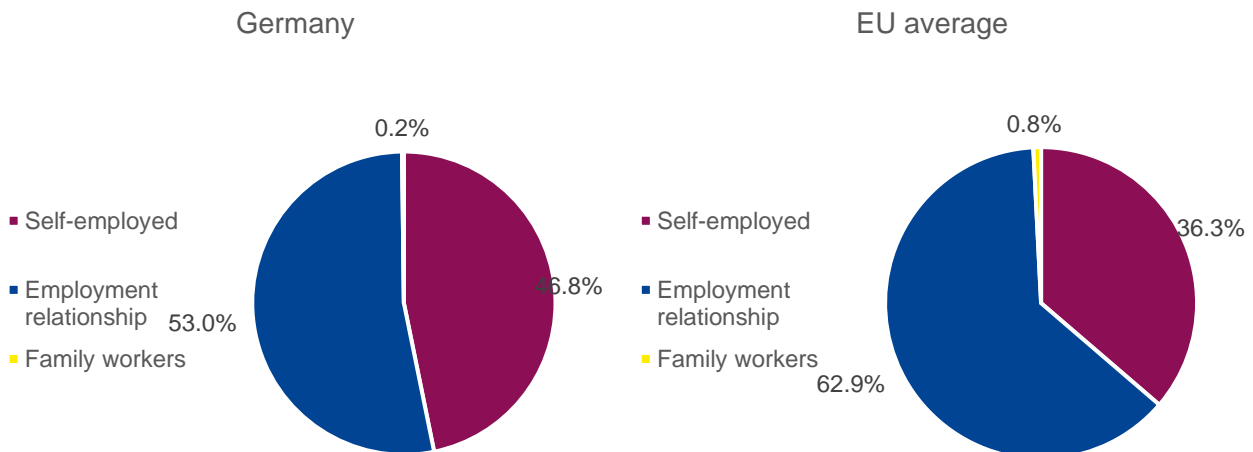
¹⁰ This data (taken from the labour force survey), is based on a small sample, which might affect its statistical reliability.

¹¹ Franic, J., Horodnic, I.A. and Williams, C.C. (2022).



that is family work is 0.2 % (0.8 % in the EU-27). Therefore, compared with the EU-27, waged employment is a smaller proportion of undeclared work and self-employment a larger share.

Figure 4. Structure of the undeclared labour market in the private sector, Germany 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.

Depending on the sector and the type of employment, undeclared work in Germany can take several forms¹²:

- ▶ Violations of the trade, business and crafts registration obligation including not only cases of non-registration but also of false registration (for example, mis-reporting job skills required by law).
- ▶ Bogus self-employed workers (*Scheinselbstständigkeit*). This is common among both national and foreign workers particularly in the construction, hospitality, shipping, transport, and logistics industries.
- ▶ Declaration only of part of the income from self-employment to the tax and the social security institutions (undeclared work).
- ▶ Splitting the pay of an employee across several fictitious employees to make use of simplified and reduced tax and social security requirements, for example in the context of mini-jobs. A common violation consists in the declaration of a mini-job where in reality more hours are worked and paid than is reported. In addition, cases are reported where separate companies were created or used by the employer of an undeclared worker and then bogus companies issue invoices as subcontractors for activities which were never carried out and were not paid. The volume of the fictitious invoices is used to pay the wage of the undeclared workers. Thus, the employer can deduct the wages as costs from their taxes (*Abdeckrechnungen*).
- ▶ Violations of the Act on Mandatory Working Conditions for Workers Posted Across Borders and for Workers Regularly Employed in Germany, with paid wages below the collective wage agreements on minimum wages in several sectors. Other infringements relate to non-compliance concerning minimum standards of working

¹² See [Zoll online - Aufgaben und Befugnisse](#), accessed 24 November 2022.



conditions (e.g., holiday pay, vacation allowance, working time, safety at the workplace). Incorrect recording of worked hours is commonly reported.

- ▶ Wages paid below the national minimum wage level (since 2015).
- ▶ Cases of illegal temporary agency work have been reported, where the temporary work agency did not have a valid permit from the Federal Employment Agency (*Bundesagentur für Arbeit; BA*¹³). In some cases, temporary agency workers declared themselves as self-employed.
- ▶ Illegal employment of foreigners.
- ▶ Abuse of social benefits, in particular citizen's benefit (*Bürgergeld*). Undeclared work occurs when the claimant is working more hours and getting more pay than has been explicitly allowed by the BA (in case of unemployment benefit receipt).

Undeclared work and unlawful employment affect almost all sectors of the economy. The experience made by the responsible inspection and monitoring authorities and by the sections of the economy concerned shows that undeclared work and unlawful employment frequently affects sectors listed in section 2a (1) of the Act to Combat Undeclared Work and Unlawful Employment (*SchwarzArbG*) and section 28a (4) sentence 1 of Book IV of the Social Code (*Sozialgesetzbuch (SGB) Viertes Buch (IV)*).

Section 28a (4) of Book IV of the Social Code stipulates that, for the sectors listed therein, employers have an obligation to register employees immediately (at the latest from first day of work) with the Data Processing Centre of Germany's Pension Funds (*Datenstelle der Träger der Rentenversicherung, DSRV*). In addition, workers in these sectors need to carry their identity cards or passports with them (section 2a (1) Act to Combat Undeclared Work and Unlawful Employment).

The incidence of undeclared work is also high in the domestic and household services industry. According to data of the German Socio-economic Panel from 2010, 95 % of the 4.5 million private households who are employing a maid or a housekeeper, do not declare the worker. This has improved by 2020, when 88 % of private households did not declare such a worker.¹⁴

According to the employers' associations and the crafts associations, the high labour costs and tax levels are the main motivating reasons for undeclared work. The employers' associations also see the restriction in the labour access for immigrants as an important driver for undeclared work and illegal employment. The acceptance of low wages and below average working conditions by some foreign workers and the gains that can be made by some companies because of this situation also lead to undeclared work.

¹³ See [Startseite | Bundesagentur für Arbeit \(arbeitsagentur.de\)](https://www.arbeitsagentur.de), accessed 2 December 2022.

¹⁴ See [Haushaltshilfen: Verbreitung von Schwarzarbeit wird deutlich unterschätzt - Institut der deutschen Wirtschaft \(IW\) \(iwkoeln.de\)](https://www.iwkoeln.de), retrieved on 24 November 2022.



2.0 Institutional framework

2.1 Responsibilities for addressing undeclared work

Table 1. Overview of key institutional features in Germany

Key institutional feature	Existence
A high-level coordinating body in the country	No ¹⁵
A national strategy for tackling undeclared work	No ¹⁶
Common cross-government strategic objectives and KPIs/targets for tackling undeclared work	No

- ▶ Prior to the establishment of the Financial Control of Undeclared Work Unit (Finanzkontrolle Schwarzarbeit; FKS) in 2004, both the labour inspectorates of the Federal Employment Agency (Bundesagentur für Arbeit; BA) and the Customs Administration shared responsibility for tackling undeclared work. The Act to Combat Undeclared Work and Unlawful Employment (Schwarzarbeitsbekämpfungsgesetz; SchwarzArbG) (2004) pooled those responsibilities in the FKS and gave the FKS extended authority and an important role in the fight against undeclared work and unlawful employment. The FKS's legal mandate to carry out checks and inspections is based on section 2 (1), sentence 1 of the SchwarzArbG, according to which the customs authorities check whether:
 - ▶ Obligations in connection with the provision of work or services as set out in section 28a of Book IV of the SGB are being fulfilled or were fulfilled
 - ▶ Social benefits on the basis of Books II and III of the SGB are being claimed unlawfully in connection with work or services or the faking of work or services
 - ▶ The information submitted by the employer to obtain benefits pursuant to Books II and III of the SGB was corroborated with sufficient proof
 - ▶ Foreign nationals are or were being employed or commissioned to carry out work or
 - ▶ Services in contradiction of section 4 (3) sentences 1 and 2 of the AufenthG or are or were being employed in contradiction of section 284 (1) of Book III of the SGB
 - ▶ Workers without the permit required under section 1 (1) of the AÜG are or were being supplied or leased and are or were being supplied or leased in contradiction of the provisions set out in section 1 (1) sentences 5 and 6, section 1a or 1b of the AÜG
 - ▶ Working conditions pursuant to the MiLoG, the AEntG and section 8 of the AÜG in
 - ▶ combination with a statutory instrument pursuant to section 3a (2) sentence 1 of the AÜG are or were observed

¹⁵ Under the federal structure of the Federal Republic of Germany, various actors are working together in the field of tackling undeclared work and illegal employment at federal, regional and local level. The customs authorities are only responsible for the tasks referred to in Section 2(1) of the Act to Combat Undeclared Work and Unlawful Employment (SchwarzArbG).

¹⁶ Due to the federal structure of the Federal Republic of Germany, there is no overarching national strategy for tackling undeclared work and illegal employment.



- ▶ Workers are or were employed under exploitative working conditions
- ▶ Labour is being or has been offered, or demand is being or has been created for labour, in a public space in violation of section 5a, and
- ▶ in violation of section 6a or section 7 (1) of the Act to Secure Workers' Rights in the Meat Industry,
 - a) a business or an overarching organisation where slaughtering is carried out, carcasses are cut up or meat is processed, is not or has not been operated by a single owner,
 - b) another party is or has been wholly or partially allowed to use a business or an overarching organisation where slaughtering is carried out, carcasses are cut up or meat is processed, or
 - c) persons are working or have worked in the area of slaughter, including the cutting up of carcasses, and in the area of meat processing.

The customs authorities also check, whether there are indications that taxpayers have not fulfilled their tax obligations in connection with the provision of work or services and whether there are indications that recipients of child benefit payments are not fulfilling their obligations to cooperate.

In order to fulfil this task, the FKS carries out inspections on the basis of the SchwarzArbG. In the course of conducting inspections, customs authorities are therefore, among other things, authorised to enter property and business premises, to collect information, to stop vehicles, to examine business documents and other documents, to check the ID of persons encountered during these investigations and to check the residence permits of foreign nationals (sections 3, 4, and 5 in combination with section 2 of the SchwarzArbG).

Furthermore, section 14 of the SchwarzArbG gives the FKS the same powers in the prosecution of criminal and administrative offences directly related to one of the issues listed in section 2 (1) of the SchwarzArbG as police authorities have pursuant to the Code of Criminal Procedure (Strafprozessordnung; StPO) and the Administrative Offences Act (Gesetz über Ordnungswidrigkeiten; OWiG). In this regard, FKS officials act as investigators for the public prosecution service.

The Act to Combat Unlawful Employment and Benefit Fraud (Gesetz gegen illegale Beschäftigung und Sozialleistungsmissbrauch), which entered into force on 18 July 2019, significantly expanded the competencies of the FKS and increased its powers as a central authority for conducting inspections and investigations in key areas of labour law and social law. As a result of the legislation, the FKS is, among other things, entitled to take action in combating undeclared work at the point of initiation, e.g. at "day labourer markets" or on online service platforms, as well as in cases where employment relationships or self-employment have been faked, e.g. for the purposes of illegally claiming social benefits. Under this legislation, the FKS is also able to provide assistance to family benefits agencies in fighting child abuse. Furthermore, the Act has given the FKS the necessary inspection and investigative powers to take action against exploitative working conditions (especially human trafficking in connection with employment, forced labour and labour exploitation).

The Central Customs Authority (Generalzolldirektion; GZD) is a higher federal authority under the remit of the Federal Ministry of Finance. It implements the strategic guidelines laid down by the Federal Ministry of Finance and is responsible for the operational management of the customs administration. Directorate VII of the GZD is responsible for the FKS's tasks and carries out legal and technical supervision at the local level (main customs offices).



2.2 Characteristics of the responsible organisations

The main organisation carrying out controls and on-the-spot visits to employer’s premises is the FKS¹⁷.

In addition, other institutions are responsible for tracking undeclared work and for claiming reimbursement of damages: the main institution responsible for detecting social security contributions fraud is the pension institution through the *Prüfdienst der Rentenversicherungsträger*. Detecting tax fraud is the responsibility of the fiscal authorities of the *Länder*. Tracking welfare benefit abuse (according to the Second and Third Social Code) is the responsibility of the Federal Employment Agency (*Bundesagentur für Arbeit; BA*). *Länder* authorities are responsible for detecting offences regarding registration of business, trades and crafts. Data are exchanged between the registry of (means-tested) unemployment benefit recipients and declared work periods by employers. In cases where misuse is suspected, the Federal Employment Agency informs the FKS, which conducts further investigations.

2.3 Cooperation and collaboration between authorities and cross-border authorities

2.3.1 The legal basis

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

Table 2. Key authorities and their legal basis to tackle undeclared work

Authority	Legal framework
<i>Finanzkontrolle Schwarzarbeit</i> (FKS) of the Federal Customs Administration	The Schwarzarbeitsbekämpfungsgesetz (SchwarzArbG) [Act to Combat Undeclared Work and Unlawful Employment]
The Bundesagentur für Arbeit (BA) [Federal Employment Agency] ¹⁸	SGB III or the General Social Code Books (SGB I, SGB X); Arbeitnehmerüberlassungsgesetz (AÜG) [Act on Temporary Agency Work] - to combat the misuse of benefits.
Joint institutions and approved municipal authorities	SGB II and the General Social Code Books (SGB I, SGB X) - for audits of the employer's obligation to pay contributions as well as the employer's obligation to provide information during audits.
Pension insurance institutions	Fourth Book of the Social Code (SGB IV) as well as the General Social Code Books (SGB I, SGB X) and the Beitragsverfahrensverordnung [Contribution Procedure Ordinance]
Immigration authorities	The Aufenthaltsgesetz (AufenthG) [Residence Act]
Bundesamt für Logistik und Mobilität (BALM) [Federal Logistics and Mobility Office]	The Güterkraftverkehrsgesetz (GüKG) [Road Haulage Act]
Occupational health and safety authorities	The Arbeitsschutzgesetz [Occupational Safety and Health Act], the Arbeitszeitgesetz [Working Hours Act] and the Gefahrgutbeförderungsgesetz (GGBG) [Transport of Dangerous Goods Act]

¹⁷ See Zoll online - Aufgaben und Befugnisse, accessed 2 December 2022.

¹⁸ See [Admission to the German labour market Bundesagentur für Arbeit \(arbeitsagentur.de\)](https://www.arbeitsagentur.de), [Contact form - Federal Employment Agency \(arbeitsagentur.de\)](https://www.arbeitsagentur.de), accessed 2 December 2022.



Länder authorities

With the Act to Strengthen the Fight Against Undeclared Work and Unlawful Employment (Gesetz zur Stärkung der Bekämpfung der Schwarzarbeit und illegalen Beschäftigung), which entered into force on March 2017, the powers of local-authority regulatory bodies have been extended. The authorities responsible under Land legislation for combating undeclared work in the trade and skilled crafts sector are authorized to carry out inspections.

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

2.3.2 Cooperation between authorities in Germany

The FKS undertakes inspections on-the-spot, or at the request of other institutions affected by the consequences of undeclared work. The FKS notifies cases of undeclared work to the institutions that might claim for contributions and taxes (e.g., tax office, social security institutions). Large-scale inspections have been organised by the FKS within Germany. These are done within specific sectors (see above). In addition, the FKS keeps a central database from which customs, tax offices of the *Länder*, the prosecution and police authorities are allowed to receive information on request. Beyond information and file sharing, cooperation is fostered between the relevant institutions.

FKS cooperate intensively with other national authorities to combat undeclared work and illegal employment. The cooperation has been laid down in the respective legal provisions (in sections 2 and 6 of the *SchwarzArbG*) and has been substantiated by cooperation agreements with other institutions. Depending on the type of cooperation, this ranges from information exchange to joint inspections and mutual assistance through expert opinion and assessments. Tackling undeclared work has led to wide cooperation between various agencies and institutions:

- ▶ The Federal Customs Administration¹⁹;
- ▶ Pensions and accident insurances agencies;
- ▶ Social assistance and collecting agencies for social security contributions, labour offices and tax offices;
- ▶ *Länder* offices for workplace safety;
- ▶ *Länder* police;
- ▶ The relevant institutions in charge of foreigners and asylum seekers;
- ▶ The Federal Network Agency²⁰;
- ▶ Federal Logistics and Mobility Office²¹;
- ▶ The *Länder* offices in charge of tracking undeclared work as a violation of the trades and crafts laws; and
- ▶ Other institutions, e.g. The welfare fund (*Sozialkasse*) of the construction industry, the residence registration offices and the business and trade registration offices.

Common guidelines and principles are elaborated in collaboration with these institutions. Whenever one of the institutions uncovers instances of undeclared work, all other institutions are informed and thus able to recover contributions and taxes that were withheld through the activity. At the regional and local level, personal contacts between staff of the different institutions is an important success factor. Cooperation is fostered by sharing

¹⁹ See Customs online - Homepage ([zoll.de](https://www.zoll.de)), contact: servicedesk@zoll.bund.de, accessed 2 December 2022.

²⁰ See Bundesnetzagentur - Homepage, contact: info@bnetza.de, accessed 2 December 2022

²¹ See Startseite - Bundesamt für _Logistik und Mobilität, contact: poststelle@balm.bund.de, accessed 2 December 2022.



information, common training, mutual learning, mutual visits, developing common principles and regular experience exchange at all levels. At *Länder* and regional levels, many coordination groups between the different institutions have been formed.

The specific issue of irregular migration and the related issues of illegal employment of foreigners has been addressed by cooperation between the Federal Police²², the Federal Customs Administration, the Federal Office for Migration and Refugees²³, the General Intelligence Office²⁴, the Domestic Intelligence Service²⁵, and the Federal Foreign Office²⁶. This cooperation has led to a joint centre, called GASIM (*Gemeinsames Analyse- und Strategiezentrum illegale Migration*)²⁷ which was founded in 2006.

A public initiative against undeclared work was started which led to social partner and enforcement authority alliances against undeclared work in 13 sectors (starting in the construction and transport sectors). A memorandum of understanding was signed by the social partners and the Federal Ministry of Finance²⁸. It included a general declaration against undeclared work and specific measures to be undertaken by the partners. Cooperation is maintained in the construction industry, cleaning services, transport and logistics sector, textile cleaning services, electronics, painting, varnishing and decorating, the meat industry and the hairdressing sector. 13 regional alliances followed the activities at the federal level.

2.3.3 Cooperation with other Member States

Germany does not have a specific legal framework for cross-border joint inspections.²⁹ In Germany, a visiting inspector from another Member State will have limited competence - corresponding to an observer role. Evidence gathered during an inspection conducted in another Member State can be presented before a court (with limitations). Similarly, the evidence from other Member State in domestic administrative proceedings in Germany can be used (with some limitations).

Pursuant to Article 4 of the Posted Workers Directive, the Member States designate liaison offices or competent national bodies. The German national liaison office is the Directorate VII – Financial Control of Undeclared Work Unit – of the Central Customs Authority (*Generalzolldirektion, Direktion VII, Finanzkontrolle Schwarzarbeit*).³⁰ Since 2011, the Directorate VII, as the German national liaison office, is participating in the European “Internal market Information system” (IMI) in the context of the Posted Workers Directive.

The Directorate VII is also the competent authority for operating outbound requests for administrative assistance (based on regulation (EC) 883/04 and (EC) 987/09).

Bilateral cooperation agreements have been concluded with France, Bulgaria, the Czech Republic, Austria and the Netherlands³¹. The purpose of these agreements is to intensify cooperation in combating social security

²² See [BMI - Federal Police \(bund.de\)](#), contact: [BMI - Public Enquiry Service \(bund.de\)](#), accessed 24 November 2022.

²³ See [BAMF – Bundesamt für Migration und Flüchtlinge – Homepage](#), accessed 24 November 2022.

²⁴ See [Homepage | BND \(bund.de\)](#), contact: [zentrale@bnd.bund.de](#), accessed 24 November 2022,

²⁵ See [Bundesamt für Verfassungsschutz - The German domestic intelligence services](#), accessed 24 November 2022.

²⁶ See [German Federal Foreign Office – Federal Foreign Office \(auswaertiges-amt.de\)](#), accessed 24 November 2022.

²⁷ See [GASIM | Polizeiabkürzungen \(polizeiabkuerzungen.de\)](#), accessed 24 November 2022.

²⁸ See [Federal Ministry of Finance - Homepage \(bundesfinanzministerium.de\)](#), contact: [poststelle\(at\)bmf.bund.de](#), accessed 24 November 2022.

²⁹ ELA (2020) Guidelines for concerted and joint inspections, Annex 4. https://www.ela.europa.eu/sites/default/files/2021-02/Item01_Guidelines-for-concerted-and-joint-inspections.pdf, accessed 2 December 2022.

³⁰ See [Zoll online - Internationale Zusammenarbeit](#) The German Health Insurance liaison office - international service - [Deutsche Verbindungsstelle Krankenversicherung - Ausland (DVKA)] can provide the relevant information for postings from Germany to other Member States, see [Willkommen bei der DVKA - GKV-Spitzenverband, DVKA](#), accessed 2 December 2022.

³¹ For the texts of agreements, see [Zoll online - Internationale Zusammenarbeit](#), accessed 24 November 2022



contribution and benefit fraud in employment and in unregistered employment, and the illegal transnational supply of workers.

3.0 Policy focus and measures

3.1 Policy approach

The 2022 holistic approaches study³² indicates that four types of measures are commonly used in Germany to tackle undeclared work - predominantly the use of:

- ▶ Penalty measures;
- ▶ Initiatives to increase the risk of 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.

The main policy approaches relate to control of companies and workers and in setting deterrent measures through fines, penalties and imprisonment.³³ The severity of the consequences depends on whether there is an administrative offence or a criminal offence, e.g. withholding of employers' social insurance will be pursued as a criminal offence, while other offences are treated as administrative offences. Administrative fines for offences related to undeclared work can rise to EUR 500 000 e.g., for irregular employment of foreigners or remuneration below the minimum wage. Other fines are lower e.g., for violation of registration of business or trades and craft legislation.

The conditions for temporary agency work became stricter in 2011. A wage floor and the right of the FKS to control this and to issue fines have been taken up in the Act on the Provision of Temporary Workers. In 2015 a nationwide minimum wage of EUR 8.50 was introduced. From 1 October 2022 onwards, the minimum pay amounts to gross EUR 12 per hour worked.³⁴

Preventative measures include simplifying access to the labour market for asylum seekers and refugees by shortening the waiting time during which they are not allowed to work. Another preventative measure has been to increase the incentive to declare work by widening the application of a 'mini-jobs' scheme, which was introduced in 2003. 'Mini-jobs' are typically used to formalise part-time or low-wage informal or irregular work. Mini-jobs are employment contracts with an upper wage ceiling of EUR 520³⁵ and require a lump sum payment by employers of taxes and social security contributions. To promote registered mini-jobs and prevent illegal employment, a household voucher scheme (*Haushaltscheckverfahren*) was established.³⁶ This procedure is a simplification of registration and social security contributions.³⁷ Private households benefit from paying less social insurance contributions for these 'minor employed' people than commercial employers. In addition, the introduction of a tax bonus for domestic services (e.g. repair) according to Article 35a (3) of the Income Tax Act is perceived by the

³² 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

³³ See [Zoll online - Aufgaben und Befugnisse](#), accessed 24 November 2022

³⁴ [BMAS - Gesetzlicher Mindestlohn steigt ab 1. Oktober 2022 auf 12 Euro](#), accessed 24 November 2022

³⁵ [Minijob-Zentrale - Startseite](#), accessed 24 November 2022

³⁶ Internet: <http://dip21.bundestag.de/dip21/btd/15/000/1500026.pdf>

³⁷ Internet: https://www.minijob-zentrale.de/DE/home/home_node.html, accessed 24 November 2022



crafts association as a successful policy approach, as demand for these services increased. Nevertheless, it is estimated that undeclared work in domestic households is still high.

3.2 Main policy measures

The main measures are controls and inspections carried out by the FKS and other relevant institutions. In 2021, 48 064 companies were controlled by FKS, 120 345 criminal investigation procedures completed, and 32 525 investigations for administrative offences completed. The total amount of imposed fines and penalties equalled EUR 34.4 million administrative fines plus EUR 34.1 million monetary penalties and 1 624 years of imprisonment. According to the Länder tax authorities, as a result of the FKS control and inspection activities the amount of taxes lost due to undeclared work activities, amounted to EUR 55 million. The sum of discovered damages amounted to EUR 789.7 million.³⁸

3.3 Good practices³⁹

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 Germany:

- ▶ [Work and Life - Counselling Service](#) The Work and Life counselling service has 18 single points of contact across Germany to support EU mobile workers exploited through irregular employment practices. It targets sectors where undeclared work is high (agriculture, construction, social care) and empowers EU mobile workers to obtain regular employment, housing, and social rights. The Information Centre Labour Mobility in Hamburg is particularly active.
- ▶ [The Financial Control of Undeclared Work Unit](#) The Federal Customs Administration's Financial Control of Undeclared Work Unit was given extended authority in the 2004 'Act to Combat Undeclared Work and Unlawful Employment'. FKS checks company compliance with labour law, taxes and social security contributions as well as with migration law. One important activity is to carry out on-the spot inspections at enterprise sites and workplaces.
- ▶ [Act to Combat Unlawful Employment and Benefit Fraud](#) The 2019 'Act to Combat Unlawful Employment and Benefit Fraud' aims to address undeclared work, illegal employment and the misuse of benefits more consistently and effectively. To enforce compliance with this act, the German Financial Control of Undeclared Work Unit (Finanzkontrolle Schwarzarbeit, FKS) has been provided further investigative powers, the mandate to increase cooperation with other authorities and additional staff.
- ▶ [Measures of the Minijob-Zentrale \(mini-job centre\) to respond to the increasing importance of online-platforms in the household service sector](#) The Minijob-Zentrale (mini-job centre) is the authority responsible for registering minor employment. It implemented an online household service platform that also provides employment registration advice. It also plans to simplify the mini-job registration process to react to the rising importance of online job placement. For this, the Minijob-Zentrale also cooperates with private household service platforms (e.g. [betreut.de](#)).
- ▶ [Action alliances against undeclared work and illegal employment between the Federal Ministry of Finance and the social partners](#) The Action Alliances comprise representatives of the Federal Ministry of Finance (BMF), the Central Customs Authority and social partners (employers' associations and trade unions). Their aim is to

³⁸ Central Customs Authority - The Federal Customs Administration. Yearly statistics 2021 (Der Zoll. Jahresstatistik 2021), Zoll online - Broschüren - Zolljahresstatistik 2021, accessed 2 December 2022.

³⁹ [Virtual library | European Labour Authority \(europa.eu\)](#), accessed 2 December 2022.



raise awareness about the negative impact of undeclared work and illegal employment amongst employers and employees, and to work to prevent it occurring.

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

3.4 Challenges and barriers

The prevalence of undeclared work and under-declared work in Germany is consistently lower than the EU average whilst bogus self-employment is also significantly lower than the EU average (Figure 1 above). In Germany, undeclared work is defined in the legal framework and there are solid legal bases for the cooperation between authorities as well as a high-level coordinating authority to tackle undeclared work.

In Germany, citizens' perceptions of tax morale, horizontal trust and vertical trust is higher than on average in the EU (see Table 3).

Table 3. Level of tax morale, horizontal and vertical trust, Germany and the EU

	Tax morale*	Horizontal trust**	Vertical trust: Tend to trust tax authority ***	Tend to trust labour inspectorate
Germany	8.93	28 %	55 %	55 %
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 proportion 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 Germany are provided in Annex 2.