



European Platform
tackling undeclared work

Factsheet on undeclared work – ESTONIA

March 2023

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



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1.0 Nature and estimated scale of undeclared work

1.1 Legal definition

In Estonia, there is no official definition of undeclared work. The legislation stipulates rights and obligations regarding work and services and indirectly designates practices whereby workers, employees, service providers, employers avoid employment law, labour market regulations, tax and social security regulations and contributions.

While the labour law enforcement institution, the Estonian Labour Inspectorate (ELI)², focuses on regulation of labour market; the Estonian Tax and Customs Board (ETCB)³ as an institution that collects and administers tax and social security contribution, focuses on tax law.

In principle the same definition is followed by different institutions: work is undeclared if employment of a natural person is not registered in the employment register of the ETCB, employee has not been informed of the working conditions, and earned wages are not declared, withheld or paid taxes that would provide necessary social guarantees, such as the right to health insurance, pension, as well as the necessary guarantees in case of unemployment.⁴

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 methodologies⁵.

Examining the extent of undeclared work based on Labour Input Method (LIM) estimates,⁶ in 2019, 12.2 % of total labour input in the private sector in the EU was undeclared (14.8 % in 2013). Therefore, between 2013 and 2019, there has been a decline in undeclared work. This displays the progress in tackling undeclared work. The extent of undeclared work in Estonia was higher compared to the EU-27 average (see Figure 1 below).

² See <https://www.ti.ee>, contact: ti@ti.ee or ppa@politsei.ee or <mailto:emta@emta.ee>, accessed 25 November 2022.

³ See <https://www.emta.ee>, contact: emta@emta.ee, accessed 25 November 2022.

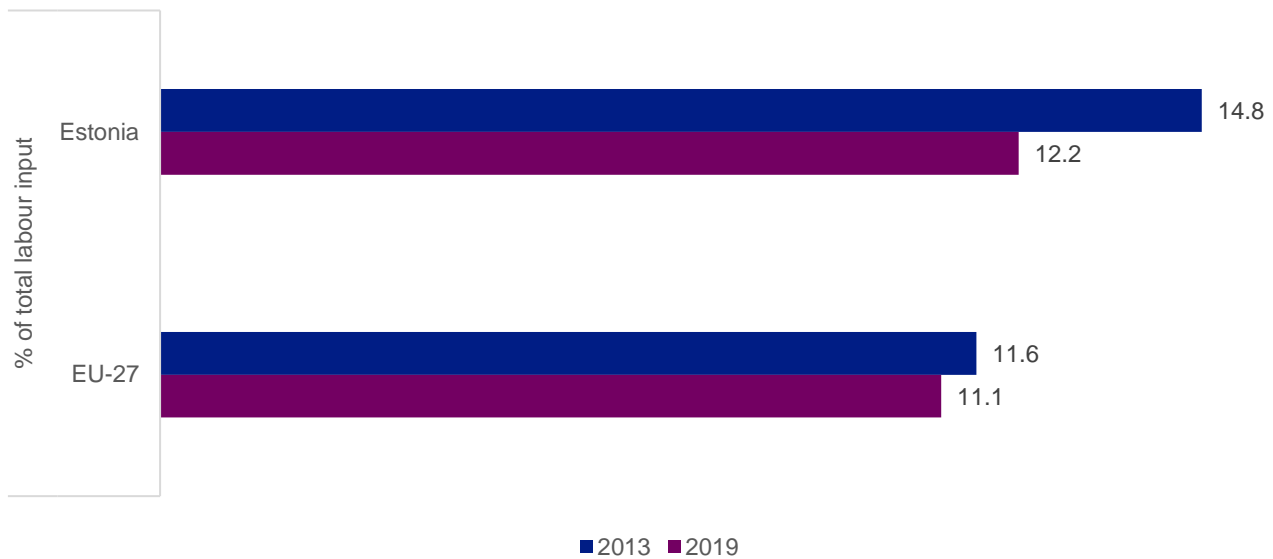
⁴ Available at <https://www.ti.ee/riiklik-ja-haldusjarelevalve/oiglane-ja-deklareeritud-tootamine>, accessed 30 November 2022.

⁵ 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.

⁶ 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.



Figure 1. The scale of undeclared work in the private sector in Estonia 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.

During 2016-2020, the Estonian Tax and Customs Board (ETCB)⁷ has conducted a survey on envelope wages (in 2020, there were 205 respondents, in 2019 – 200). Most respondents (51 % in 2020) perceive that the share of envelope salary is under 5 %. The typical envelope wage earner is a male of 18-29 years old with high school or secondary education who earns between EUR 500 -1200.⁸

In terms of sectors, the share of envelope wages is the highest in construction, accommodation and catering, art and entertainment, agriculture and fishing, and wholesale and retail trade. In the case of construction, 38 % of the respondents believed that the envelope share is greater than 20 % of total pay-outs.

According to this survey, the most preferred measure to be taken to reduce the payment of envelope wages was the publication of more data (e.g., disclosure of salaries or minimum and maximum salaries of companies), which was supported by 43 % of the respondents. In fact, the dynamics over the years demonstrates that there is less and less support for closer cooperation with entrepreneurs and business organizations and increasing control activities.

In the first six months of 2020, the ETCB contacted or checked 1 168 companies that were more likely to pay envelope wages. After being contacted by the ETCB, one third of the companies changed their tax behaviour.

According to the survey on the shadow economy in Estonia in 2021 (1200 respondents in the sample), the attitude towards envelope wages has become increasingly disapproving both in society as a whole, and among its recipients. Moreover, the envelope share of the salary has continued to decrease: while in 2017, 34 % of Estonian residents knew envelope wage earners in their circle of acquaintances (including 10 % knew many), by 2021 this has dropped to 24 % (including 3 % knew many). In 2018, 13 % of the population considered this practice as acceptable, in 2021 only 7 % believe so.

⁷ See [Business client | Estonian Tax and Customs Board \(emta.ee\)](https://www.emta.ee), contact: emta@emta.ee, accessed 1 December.

⁸ Presentation available at <https://www.emta.ee/ari klient/amet-uudised-ja-kontakt/uudised-pressiinfo-statistika/pressimaterjalid>, accessed 1 December 2022.



In 2021, envelope wages were paid primarily in smaller companies (1-19 employees) and in the sectors of catering, industry, construction and trade.

The payment of envelope wages is primarily justified by the excessive tax burden on employees and companies, the desire to receive higher wages and their economic situation. The biggest disadvantage of envelope salaries is the lack of various insurance coverages.⁹

Two thirds of the respondents would be ready to stop cooperation with the partner that pays envelope wages to its employees. This fact is supported by another survey, according to which Estonia seems to have the highest tax morale of all Baltic states¹⁰ (in this study, tax morale is understood through “adherence of the population to the codified laws and regulations of formal institutions”). In addition, the lower the tax morale, the higher is the likelihood of participation in the shadow economy in the country. (More information on tax morale in Table 4).

A recent survey of the Estonian Tax and Customs Board (ETCB) on the willingness to pay taxes demonstrates that 93 % of Estonian residents always pay taxes correctly and 96 % always pay them on time. Moreover, 88 % of people know how to pay taxes and what taxes must be paid and 90 % of the respondents know that services are received from the state in return for taxes. Overall, 91 % of people in Estonia feel that paying taxes is an important civic duty.¹¹

The main features that link to undeclared work are working without a formal binding employment contract, envelope wages, and partially undeclared work in the form of replacing employment contracts with providing services via self-employment or a company. The last category points to dependent or false self-employment, ‘para-subordinate workers’ in contrast to genuine, real self-employment or entrepreneurship.

The figures below indicate the current state and development of undeclared and under-declared work and bogus self-employment between 2007 and 2019 for Estonia, 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 relationships¹².

⁹ Report available at <https://www.emta.ee/ariklient/amet-uudised-ja-kontakt/uudised-pressiinfo-statistika/pressimaterjalid>, accessed 1 December 2022.

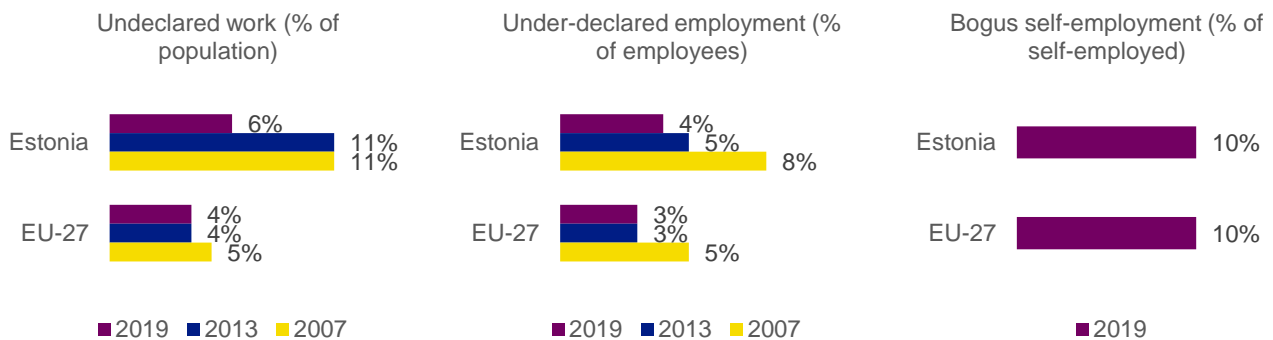
¹⁰ Williams, C.C. and Horodnic, I.A. (2015) Explaining and tackling the shadow economy in Estonia, Latvia and Lithuania: a tax morale approach. *Journal of Baltic Economics*, Vol. 15, No. 2, pp. 81-98.

¹¹ See <https://www.emta.ee/en/news/willingness-pay-taxes-high-estonia>, accessed 11 December 2022.

¹² 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.



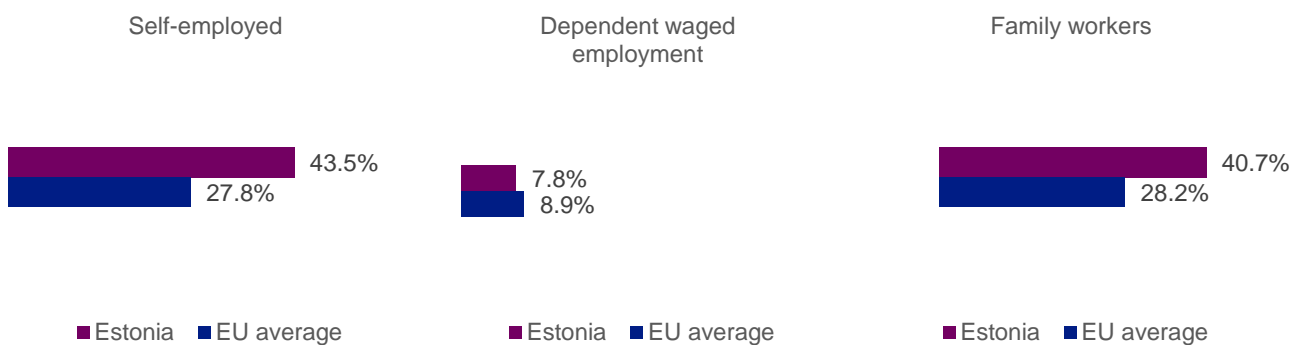
Figure 2. Composition of undeclared work, Estonia and EU-27, 2007, 2013, 2019



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.

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) estimates¹³, in Estonia, 7.8 % of dependent waged employment is undeclared measured as a share of total labour input, the proportion of self-employment that is undeclared is 43.5 % (measured as a share of their total labour input) and the proportion of family work that is undeclared is 40.7 %¹⁴.

Figure 3. Prevalence of undeclared work in the private sector by type of employment relationship, Estonia, 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 Estonia in 2019 using the LIM estimates (see Figure 4),¹⁵ the proportion of undeclared labour input that is dependent waged employment is 56.3 % (62.9 % in the EU-27), 43.6 % 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 0.1 % (0.8 % in the EU-27). Therefore, compared with the EU-27, dependent waged employment makes up a smaller proportion of undeclared work and self-employment a higher share.

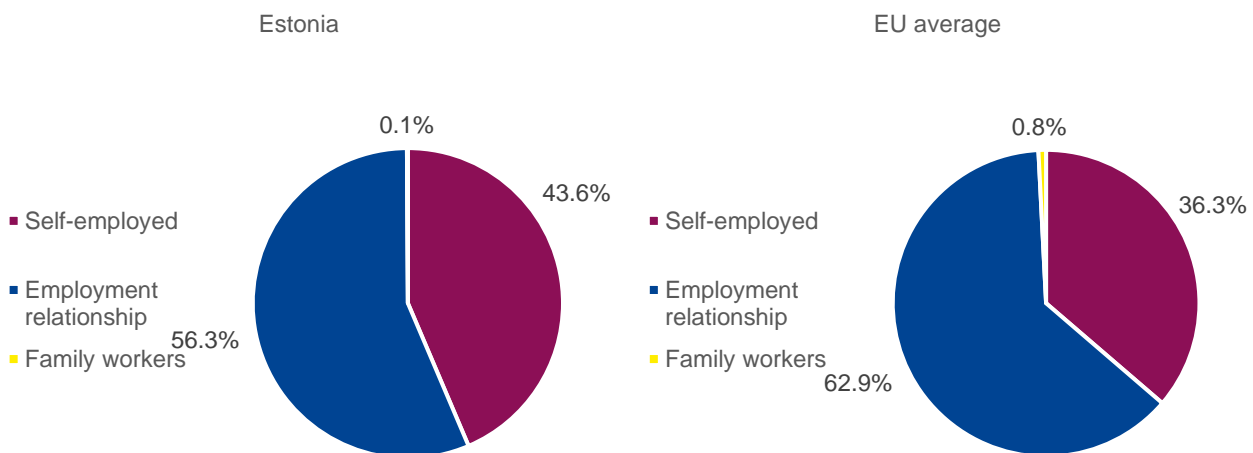
¹³ Franic, J., Horodnic, I.A. and Williams, C.C. (2022), Extent of undeclared work in the European Union, European Platform tackling undeclared work.

¹⁴ This data (taken from the labour force survey), is based on a small sample, which might affect its statistical reliability.

¹⁵ Franic, J., Horodnic, I.A. and Williams, C.C. (2022).



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

2.0 Institutional framework

2.1 Responsibilities and characteristics of organisations involved in tackling undeclared work

Table 1. Overview of key institutional features in Estonia

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

Source: www.ti.ee and www.emta.ee, Retrieved on 25 November 2022.

Addressing undeclared work is the focus of two main institutions in Estonia:

- ▶ The Estonian Labour Inspectorate (ELI)¹⁶,
- ▶ The Estonian Tax and Customs Board (ETCB)¹⁷.

¹⁶ [Labour Inspectorate of Estonia \(Tööinspeksioon\) | National focal points | Campaign partners \(healthy-workplaces.eu\)](https://www.ti.ee), contact: Contact us | Healthy Workplaces LIGHTEN THE LOAD 2020-22 (healthy-workplaces.eu), accessed 11 December 2022.

¹⁷ See [Estonian Tax and Customs Board \(emta.ee\)](http://www.emta.ee), contact: emta@emta.ee, accessed 1 December 2022



The former focuses on making employment rights effective, including tackling undeclared work; the latter is responsible for collecting tax revenues.

The Estonian Labour Inspectorate (ELI) shares information with the Estonian Tax and Customs Board (ETCB) on a case-by-case basis where establishments/employers are suspected of infringing employment and tax law.

The ELI is a government institution operating under the Ministry of Social Affairs¹⁸. The latter supervises and applies state coercion on the basis and to the extent prescribed by law. Among others, the main tasks of ELI are to implement the work environment policy, supervise compliance with legal requirements on labour relations, ensure occupational safety and health, provide fulfilment of the requirements and restrictions of business economic activities of companies providing employment and mediating temporary labour. As of 31 December 2021, 100 people worked in the ELI.

To help the parties of employment relationships to behave consciously in line with labour legislation, to encourage law-abiding behaviour in employment relationships, and to avoid or reduce violations of respective legislation, the ELI provides counselling service on questions arising from the implementation of legislation supervised by the ELI free of charge. Such issues may be related to employment contract, working and rest time, vacation, salary and other questions related to employment relationship.¹⁹

The ETCB administers state revenues, implements national tax and customs policy and protects society and legal economic activity. The ETCB is the sole organisation responsible for the collection of taxes (including social tax²⁰). The ETCB is accountable to the Minister of Finance²¹ who directs and coordinates its activities and exercises supervisory control over it. The ETCB has the following Departments: Administration Department, Legal Department, Audit Department, Tax Department, Personnel Department, Internal Control Department, Intelligence Department, Service Department, Customs Department, Revenue Department, and Investigation Department. The ETCB has its central office in Tallinn, and regional offices across the country.

In Estonia, all tax residents must declare to the ETCB all their income, including income earned in other countries, whereas non-residents of Estonia must declare only income earned in the country.

Since 2018, the ETCB has been providing counselling support to the companies where there is a suspicion of undeclared wages.

¹⁸See [Front page | Sotsiaalministeerium \(sm.ee\)](#), contact: info@sm.ee, accessed 1 December 2022.

¹⁹See <https://www.ti.ee/ennetus-ja-teave/teavitustegevus/tooinspektsiooni-noustamisteenus>, contact: jurist@ti.ee, accessed 1 December 2022.

²⁰ Social tax is paid on employment payments to obtain income that is necessary for state pension and health insurance.

²¹ See [Avaleht | Rahandusministeerium \(fin.ee\)](#), info@rahandusministeerium.ee, accessed 1 December 2022.



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

| Authority | Legal framework |
|--------------------------------|---|
| Estonian Labour Inspectorate | Employment Contracts Act ²² , Article 115(2) Law Enforcement Act ²³ Labour Market Services and Benefits Act ²⁴ |
| Estonian Tax and Customs Board | Taxation Act ²⁵ |

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

According to Employment Contracts Act, state and administrative supervision over the fulfilment of employment conditions, including the minimum wage, is exercised by the Estonian Labour Inspectorate (ELI).

According to Labour Market Services and Benefits Act, state supervision over compliance with the requirements of job mediation and temporary work agencies is exercised by the ELI.

The Taxation Act regulates the obligations of taxable person to co-operate (Article 56), submission of things and documents (Article 62), making copies of documents and removal of documents and things (Article 65), the right, in order to conduct inspections, to have access to plots of land, buildings and premises where the business or professional activities of a taxable person are carried out (Article 72), establishment of identity (Article 721).

According to Law Enforcement Act, if the ascertainment and countering of a threat or the elimination of a disturbance is not within the competence of any other law enforcement agency, it is within the competence of the police. In addition to regulation from the Law Enforcement Act, to the Police and Border Guard Board (PBGB)²⁶ has the right to stop a vehicle (Article 45) and also to use direct coercion (Article 74) by using physical force, special equipment or a weapon.

2.2.2 Cooperation between authorities in Estonia

The Estonian Labour Inspectorate (ELI) fights against undeclared work by checking compliance with the terms of the Employment Contract Act and informing both employers and employees about the risks associated with undeclared work. To achieve the goals, cooperation is carried out with the Estonian Tax and Customs Board

²² Available at <https://www.riigiteataja.ee/en/eli/516122021005/consolide>, accessed 25 November 2022.

²³ Available at <https://www.riigiteataja.ee/en/eli/503032021004/consolide>, accessed 25 November 2022.

²⁴ Available at <https://www.riigiteataja.ee/en/eli/516112021005/consolide>, accessed 25 November 2022.

²⁵ Available at <https://www.riigiteataja.ee/en/eli/505012022008/consolide>, accessed 25 November 2022.

²⁶ See [Police and Border Guard Board \(politsei.ee\)](https://www.politsei.ee), contact: ppa@politsei.ee or emta@emta.ee, accessed 29 November 2022.



(ETCB), Police and Border Guard Board (PBGB), Social Insurance Board (SIB)²⁷ and Estonian Unemployment Insurance Fund (EUIF)²⁸.

In cooperation with the PBGB and the ETCB, ELI checks persons who work undeclared and illegally. The ELI can assess whether the posting of workers is genuine and thus give an input to the PBGB for examining whether the foreigner is employed in Estonia legally. A citizen of a third country must be registered with the police, posted as an employee in the ELI or in the register of employment as an employee of an Estonian company.

The ELI and PBGB cooperate by carrying out joint inspections based on a cooperation agreement and plan for detection of illegal employment and cases of labour exploitation (e.g., trafficking). The PBGB also inspects whether foreigners are legally employed in Estonia. The PBGB also exercises supervision over the employment conditions set for legal employment in Estonia (for example, whether the salary criterion is met).

The Estonian Unemployment Insurance Fund (EUIF)²⁹ is, among other things, responsible for unemployment insurance benefit and unemployment allowance.

The EUIF is a quasi-governmental organisation, and a legal person in public law. It performs its activities independently from government, but on the basis of a mission and of operational rules defined by law.

According to Estonian legislation, trafficking in human beings also covers the situation where a person is forced to work under unusual conditions if such act is performed through deprivation of liberty, violence, deceit, threatening to harm or take advantage of anyone in vulnerable situations. The body investigating the (potential) cases of trafficking in human beings is the PBGB. The central contact for services intended for victims of trafficking in human beings is the Social Insurance Board (SIB)³⁰.

2.2.3 Cooperation with other Member States

Cooperation with other Member States is mostly based on data sharing. The Estonian Tax and Customs Board (ETCB) shares data with other tax authorities based on the Council Directive 2011/16/EU and Council Regulation 904/2010/EC on administrative cooperation in the field of direct taxation. There are also a number of bilateral agreements to tackle fiscal evasion with respect to taxes on income and capital³¹. These regulations stipulate both automatic exchange of information and case by case exchange of information on possible employment relations and tax obligations.

Additionally, the Estonian Labour Inspectorate (ELI) cooperates with other Member State authorities in case the undeclared work is related to posting of workers in the framework of the provision of services as stipulated in the Directive 96/71/EC. In these cases, the ELI shares the available administrative data or additionally carries out inspection to gather evidence.

Estonia is also part of the Nordic Baltic Working Group which shares knowledge and experience on sharing the risks and effects of combating undeclared work.³² The group includes the Nordic countries (Finland, Denmark,

²⁷ See [Home | Government installation profile \(sotsiaalkindlustusamet.ee\)](#), info@sotsiaalkindlustusamet.ee, accessed 25 November 2022.

²⁸ See [The Estonian Unemployment Insurance Fund can help you find a job | Töötukassa \(tootukassa.ee\)](#), accessed 25 November 2022.

²⁹ See: <https://www.tootukassa.ee>, contact: info@tootukassa.ee, accessed on 25 November 2022.

³⁰ See: <https://sotsiaalkindlustusamet.ee/en>, contact: tallinn.oa@sotsiaalkindlustusamet.ee, accessed 25 November 2022.

³¹ Available at <https://www.fin.ee/riigi-rahandus-ja-maksud/maksu-ja-tollipoliitika/topeltmaksustamise-valtimise-lepingud>, accessed on 1 December 2022.

³² Combating Undeclared Work: Recommendations, Procedures and challenges, Report to Nordic-Baltic Working Group 2020. Available at: [Combating Undeclared Work: Recommendations, Procedures and Challenges \(vinnumalastofnun.is\)](#)



Sweden, Norway, and Iceland) as well as Latvia and Estonia. The Nordic-Baltic initiative is “to strengthen already established co-operation within each country through cross-border inspection and mutual learning activities – and by bringing together, highlighting and sharing good practices.”³³ A bilateral agreement with Finland has also been in place since 2014 for cross-border joint inspections.^{34,35}

The cooperation agreement with Poland is focused on the exchange of information (Agreement on bilateral cooperation and information exchange from 22.04.2017 in compliance with Directive 96/71/EC and Directive 2014/67/EU). A visiting inspector may participate in a joint inspection conducted in Estonia but only as an observer. If evidence is gathered during an inspection conducted in another Member State, it can be used as evidence before a court. More specifically, evidence collected by the competent authority of a foreign state is also considered to be evidence when implementing liability under Working Conditions of Employees Posted to Estonia Act. In Estonia the fines are not dealt by court unless employers challenge the fine given by the ELI.

Similarly, evidence collected by the competent authority of a foreign state is also considered to be evidence when implementing liability under Working Conditions of Employees Posted to Estonia Act, in case of administrative proceedings. Such evidence should be provided through the IMI³⁶ system to follow data protection rules.

Estonia established its first automatic exchange of information between national tax administrations with Finland. Data on labour and social tax information as well as VAT information is exchanged via X-Road. This novelty will improve the investigation of cross-border tax offenses and will promote more effective cooperation between two countries.

3.0 Policy focus and measures

3.1 Policy approach

The 2022 holistic approaches study³⁷ indicates that four types of measures are commonly used in Estonia 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.

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

³³ See ‘Nordic-Baltic project fighting undeclared work: Denmark, Iceland, Finland, Norway, Estonia, Latvia and Sweden: 1.2.2019- 3.4.2021- Inspection activities’, available at <https://www.vinnumalastofnun.is/media/3014/nordbalt-udw-final-inspection-report.pdf>, accessed 10 November 2022.

³⁴ ELA (2020) Guidelines for concerted and joint inspections, Annex 4. Available at: https://www.ela.europa.eu/sites/default/files/2021-02/Item01_Guidelines-for-concerted-and-joint-inspections.pdf, Accessed 6 December 2022

³⁵ Agreement on Cooperation between the Labour Inspectorate of Estonia and the Division of Occupational Health and Safety of the Regional State Administrative Agency for Southern Finland. Available at: <https://ec.europa.eu/social/ajax/BlobServlet?docId=19451&langId=en>, Accessed 6 December 2022

³⁶ The Internal Market Information System of the European Commission.

³⁷ 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.



3.2 Main policy measures

The Estonian Tax and Customs Board (ETCB) introduced a tax behaviour assessment e-service with the aim to help entrepreneurs keep their tax affairs in order and inform the entrepreneur how the company is observed by the tax administration. This service demonstrates to the user if any data is missing of its records. As well, guidelines help correct deficiencies.

To help detect tax fraud in construction such as the payment of envelope wages and incorrect registration of employment and working time on construction sites, from 1 October 2023, all employees in major construction sites will have to register with a special smart card when arriving at or leaving from work. This solution will be developed by two Estonian companies, Wisercat and Helmes, and will allow the ETCB to identify problematic construction locations and inspect them.

Estonia has successes in tackling undeclared work in the collaborative economy. This has been done by improving cooperation between tax authorities and digital platforms. New legislation initiatives were introduced which facilitate platform workers to pay their taxes in a simplified way. Based on an agreement between the tax authorities and the platform business, the latter transfers data on transactions and the income of platform workers to the tax authorities. Based on this tax information, the tax authorities issue pre-filled income tax declarations for the individual platform worker.

In Estonia, legislation on taxi services was amended to ride-hailing apps to enter the market. To be more precise, in 2017, the requirements to have a taximeter or to have professional training for taxi drivers were abolished. Amendments regulating the taxi sector allowed the inclusion of ridesharing services, stipulating that if a ride is ordered and priced through an online platform, the price calculation of a ride is done online without the requirement of a taximeter. Online platforms (such as Taxify and Uber) are not obliged to comply with the requirement of price restriction set by municipalities for taxi services, because online platforms display the price of a ride before the trip itself takes place.³⁸

Another useful and complementary measure for workers is the Work Life portal.³⁹ The Labour Inspectorate also provides information to workers through this portal about their rights, for example, information on when a job should include a labour contract etc., with answers to questions related to the working environment, labour relations, and tips for creating a safe and health-preserving working environment. Through this link, it is possible to connect to the self-service environment, where workers can manage their working environment information and activities themselves.

3.3 Good practices⁴⁰

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 Estonia:

- ▶ [Tax behaviour rating e-service](#) (2022). The Estonian Tax and Customs Board (ETCB) launched a “tax behaviour ratings” e-service tool to provide feedback and information to companies about their tax behaviour. It helps companies to keep tax matters in order and immediately correct any tax deficiencies, thus preventing them from becoming subject to tax control.
- ▶ [Tax compliance support for platform workers](#) (2021). The ETCB has formed agreements with various digital platforms (e.g., with AirBnB) enabling platform workers to voluntarily report earnings to the tax authorities via a

³⁸ Report available at https://www.ela.europa.eu/sites/default/files/2021-12/Learning-resource-paper_TRW_collaborative_economy.2021_EN.pdf. Accessed on 30 November 2022.

³⁹ Available at <https://www.toelu.ee/et>, accessed 1 December 2022.

⁴⁰ [Virtual library | European Labour Authority \(europa.eu\)](#)



digital platform. Annual income tax returns are pre-filled based on workers' earnings declarations. The purpose is to increase tax compliance through a simple, clear, and user-friendly method based on cooperation.

- ▶ [Agreement on Cooperation between ELI and the Division of Occupational Health and Safety of the Regional State Administrative Agency for Southern Finland](#) (2021). On 3 December 2014 the heads of the ELI and the Division of Occupational Health and Safety of the Regional State Administrative Agency for Southern Finland concluded an Agreement on Cooperation, aimed at ensuring rights and equal treatment in the labour market of Estonian workers posted to work in Southern Finland.
- ▶ [Register of employment](#) (2021). Employers are required to register their employees in the electronic Employment Register before the employee starts work. The Register contains up-to-date data on employment in one place. It creates efficiencies for the public sector stakeholders which use the data as well as making it easier for employers, who can input and track their details in one single registration system.
- ▶ [Notification letters and follow-up inspections in the hotel and catering sectors](#) (2021). Notification letters and follow-up inspections were measures introduced by the ETCB to encourage the declaration of undeclared work in the hotel and catering sector (HORECA). Notification letters were sent to businesses identified as potentially at risk, in order to give them the opportunity to revise their accounting and tax-related information without penalty. Follow-up inspections have been conducted afterwards.
- ▶ [“Thank you for paying taxes” awareness raising campaign](#) (2020). The information campaign “Thank you for paying taxes” is an initiative from the ETCB against envelope wages, thanking taxpayers and highlighting how paying taxes benefits a variety of systems in Estonia such as education, health, social security and pensions.

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

3.4 Challenges and barriers

Various aspects of undeclared work in Estonia between 2007 and 2019 are higher when compared with the EU-27 average, except for bogus self-employment (Figure 1 above). In Estonia, there is effective cooperation between authorities (ELI, ETCB, PBGB, SIB and EUIF) to address undeclared work. This is proven by the fact that the attitude towards envelope wages has become increasingly disapproving in the society in recent years. The payment of envelope wages is explained by the excessive tax burden on employees and companies, the desire to receive higher wages and their economic situation. Challenges on tackling undeclared work may arise from the fact that there is no official definition of undeclared work in the legal framework, as well as no national strategy and no common cross-government strategic objectives and KPIs/targets for tackling this phenomenon.

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



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

| | Tax morale* | Horizontal trust** | Vertical trust: Tend to trust tax authority *** | Tend to trust labour inspectorate |
|---------------|-------------|--------------------|---|---|
| Estonia | 8.09 | 27 % | 76 % | 69 % |
| 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 Estonia 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 |
|--|----------------------|
| PENALTIES | |
| 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 | No |
| 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 | Yes/No ⁴¹ |
| 'Naming and shaming' lists | No |
| RISK OF DETECTION | |
| Workplace inspections | Yes |
| Online/desk-based inspections | Yes |
| Joint inspections with other national inspectorates | Yes |
| Announced inspections | Yes |
| Cross-border inspections | Yes |
| Registration of workers prior to first day at work | Yes |
| Data matching and sharing to identify risky businesses | Yes |
| Use data mining to determine risky businesses for inspection | No |
| Coordination of data mining and sharing across government departments | No |
| Coordination of strategy on undeclared work across government departments | No |
| Use of complaint reporting tools (e.g., telephone hotlines) ⁴² | Yes |
| Certification of business, certifying payments of social contributions and taxes | No |
| Notification letters | Yes |

⁴¹ Depends on the non-compliance and procurement contract.

⁴² [Information and tools for working declared | European Labour Authority \(europa.eu\)](https://europeanlabourauthority.europa.eu/information-and-tools-for-working-declared)



| | |
|---|-----|
| Mandatory ID in the workplace | No |
| Supply chain responsibility (e.g., joint and several liability, due diligence) | No |
| INCENTIVES | |
| Supply-side measures (i.e., to stimulate suppliers to operate declared) | |
| Simplify procedures for complying to existing regulations (e.g., easier registration procedures; simplify forms; reduce duplication) | Yes |
| Compliance lists | Yes |
| Society-wide amnesties | Yes |
| Individual-level amnesties for voluntarily disclosing undeclared activity | Yes |
| 'Formalisation' advice to start-ups | No |
| 'Formalisation' support services to existing businesses | Yes |
| Targeted VAT reductions | Yes |
| 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 | No |
| Initiatives to ease transition from employment into self-employment | Yes |
| Access to free marketing | No |
| Demand-side measures (i.e., to encourage purchasers to buy declared goods and services) | |
| Service vouchers | Yes |
| Targeted direct tax incentives (e.g., income tax reduction/subsidy) | Yes |
| Targeted indirect taxes (e.g., VAT reductions) | Yes |
| Initiatives for customers to request receipts (e.g., Lottery for receipts) | No |
| FOSTERING COMMITMENT TO OPERATE DECLARED | |
| 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) | Yes |
| Campaigns to inform users of undeclared work of the problems of purchasing goods and services from the undeclared economy | Yes |
| 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) | Yes |



| | |
|--|-----|
| 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 |

Source: Platform members



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 undeclared work. The trends in each driver display whether it improved ('green') or worsened ('red') in Estonia. 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

| ESTONIA | | | | |
|---|--------|--------|--------------------------------------|---------------------|
| INDICATOR | YEAR: | | TREND 2009 vs. 2019 | EU-27, 2019 **** |
| | 2009 | 2019 | | |
| A. FORMAL INSTITUTIONS | | | | |
| I. FORMAL INSTITUTIONAL RESOURCE MISALLOCATIONS AND INEFFICIENCIES | | | | |
| 1. Level of modernisation of government | | | | |
| Government effectiveness (-2.5 to 2.5 (strong performance)) | 1.00 | 1.17 | ■ | - |
| 2. Formal institutions acting in a corrupt manner | | | | |
| Corruption Perceptions Index (CPI) (0-100 (very clean)) * | 64 | 74 | ■ | - |
| Control of corruption (-2.5 to 2.5 (strong performance)) | 1.00 | 1.56 | ■ | - |
| II. FORMAL INSTITUTIONAL VOIDS AND WEAKNESSES | | | | |
| 1. Modernisation Explanation - Level of 'development' | | | | |
| GDP (current prices, euro per capita) | 10 140 | 19 940 | ■ | 31 300 |
| Human Development Index (HDI) (0-1 (highest development)) | 0.856 | 0.896 | ■ | - |
| Social Progress Index (SPI) (0-100 (high)) ** | 81.98 | 85.29 | ■ | - |
| Self-employment (% of total employment) | 8.2 | 10.6 | ■ | 13.4 |
| 2. State intervention | | | | |
| Burden of government regulation (1-7 (best)) | 4.5 | 4.1 | ■ | - |
| Business flexibility index (0-10 (high)) | 7.90 | 8.22 | ■ | - |
| Expense of government (% of GDP) | 40.7 | 36.2 | ■ | 36.6 |
| Research & Development expenditure (% of GDP) | 1.40 | 1.63 | ■ | 2.23 |
| Tax revenue (% of GDP) | 21.5 | 21.3 | ■ | 19.7 |
| Social contributions (% of revenue) | 31.9 | 32.3 | ■ | 33.0 |
| Impact of social transfers on poverty reduction (%) | 23.94 | 28.15 | ■ | 32.38 |
| Labour market policy (LMP) expenditure (% of GDP) | 1.58 | 0.96 | ■ | 1.65 |
| Unemployment rate (% of active population) | 13.5 | 4.5 | ■ | 6.8 |
| People at risk of poverty/social exclusion (% of total population) | 23.4 | 24.3 | ■ | 20.9 |
| Severe material deprivation rate (% of total population) | 6.2 | 3.3 | ■ | 5.5 |
| Inequality of income distribution (income quintile share ratio) | 5.01 | 5.08 | ■ | 4.99 |
| Gini coefficient (0-100 (perfect inequality)) | 31.4 | 30.5 | ■ | 30.2 |
| Labour productivity (% change on previous period) | -4.9 | 2.4 | ■ | 0.7 |
| III. FORMAL INSTITUTIONAL POWERLESSNESS | | | | |
| Reliability of police services (1-7 (best)) | 5.5 | 6.0 | ■ | - |
| Judicial independence (1-7 (best)) | 5.5 | 5.4 | ■ | - |
| Rule of law (-2.5 to 2.5 (strong performance)) | 1.12 | 1.27 | ■ | - |
| Regulatory quality (-2.5 to 2.5 (strong performance)) | 1.39 | 1.59 | ■ | - |
| Voice and accountability (-2.5 to 2.5 (strong performance)) | 1.09 | 1.18 | ■ | - |
| Trust in Government (% tend to trust) | 47 | 43 | ■ | 35 |
| Trust in Parliament (% tend to trust) | 38 | 40 | ■ | 34 |
| IV. FORMAL INSTITUTIONAL INSTABILITY AND UNCERTAINTY | | | | |
| Democracy Index (0-10 (full democracy)) *** | 7.68 | 7.90 | ■ | - |
| Political stability (-2.5 to 2.5 (strong performance)) | 0.57 | 0.63 | ■ | - |
| B. INFORMAL INSTITUTIONS | | | | |
| Social capital (0-100 (high)) | 51.5 | 56.6 | ■ | - |
| Tax compliance (0-10 (high)) | 9.09 | 9.44 | ■ | - |
| | Year: | 2013 | 2019 | |



Acceptability of undeclared work (% total 'unacceptable')

| | | | | |
|--|----|----|---|----|
| Firm hires worker on undeclared basis | 74 | 78 | ■ | 82 |
| Undeclared work by firm for firm | 82 | 82 | ■ | 85 |
| Undeclared work by individual for private household | 38 | 39 | ■ | 67 |
| Undeclared work by firm for private household | 77 | 73 | ■ | 82 |
| Someone partially or completely conceals their income | 74 | 73 | ■ | 78 |
| <i>Personally know people engaged in undeclared work (% 'yes')</i> | 33 | 27 | ■ | 36 |

TREND (2009-2019): ■ = 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.