



Factsheet on undeclared work – MALTA

March 2023

¹ This is an update of the [2016 factsheet](#)



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1.0 Nature and estimated scale of undeclared work

1.1 Legal definition

In the Maltese legal framework, legal definitions apply to the various facets of undeclared work, as each facet has a different legal treatment. Thus, Maltese legislation establishes the legal meaning of ‘undeclared or under-declared social security contributions’,² ‘under-declared wages’ or ‘undeclared working time’³ and ‘cross-border undeclared work’ involving ‘letter box companies’.⁴

Maltese legislation also defines the undeclared work of migrants without a work permit.⁵ National legislation incorporating [Directive 2009/52/EC](#)⁶ provides for minimum levels of sanctions and measures against employers of nationals from a third country staying illegally in Malta, and lists harsh penalties for employers found guilty of the offence, including fines, disqualification from public funds and public contracts, and even the possible revocation of their trade licence or the closure of their business. The proper enforcement of these sanctions, coupled with more awareness among all employers, aims at a drastic reduction in the illegal employment of third-country nationals.⁷

As regards bogus self-employment, labour legislation in Malta contains a general legal presumption of the status of employee when certain criteria are met, with the main aim to bring further clarity and reduce possible misclassification.⁸ In particular, the Employment Status Order reviews the employment status of individuals who are self-employed and defines a number of criteria which indicate the existence of an employment relationship. If at least five of the following criteria are met, a presumption of an employment relationship is applied:

“

(a) [The individual depends] on one single person for whom the service is provided for at least 75 % of their income for one year; (b) [the individual depends] on the person for whom the service is provided to determine what work is to be done and where and how the assigned work is to be carried out; (c) [the individual performs] the work using equipment, tools or materials provided by the person for whom the service is provided; (d) [the individual is] subject to a working time schedule or minimum work periods established by the person for whom the service is provided; (e) [the individual] cannot sub-contract [their] work to other individuals to substitute [themselves] when carrying out work; (f) [the individual is] integrated in the structure of the production process, the work organisation or the company’s or other organisation’s hierarchy; (g) the person’s activity is a core element in the organisation and pursuit of the objectives of the person for whom the service is provided; and (h) the individual carries out similar tasks

² Articles 116 et seq. Social Security Act, consolidated version. Available at: <https://legislation.mt/eli/cap/318/eng/pdf>, accessed 7 December 2022.

³ Article 45. Employment and Industrial Relations Act, consolidated version. Available at: <https://legislation.mt/eli/cap/452/eng/pdf>, accessed 7 December 2022.

⁴ Article 4. Posting of workers in Malta [S.L.452.821]. Subsidiary legislation 452.82. Posting of workers in Malta regulations., consolidated version. Available at <https://legislation.mt/eli/sl/452.82/eng>, accessed 7 December 2022.

⁵ Article 3. Minimum standards on sanctions and measures against employers of illegally staying third-country nationals Regulations. Legal notice 432 of 2011. Subsidiary Legislation 217.14, consolidated version. Available at <https://legislation.mt/eli/sl/217.14/eng/pdf>, accessed 7 December 2022.

⁶ [EUR-Lex - 32009L0052 - EN - EUR-Lex \(europa.eu\)](#)

⁷ This was pointed out as early as 2012 by Debono, M., in *Malta Update 2012*, European Employment Observatory Undeclared Work. Available at:

https://www.um.edu.mt/library/oar/bitstream/123456789/21896/1/resources_reports_UndeclaredWorkUpdate-Malta.pdf, accessed 7 December 2022.

⁸ Williams, C.C., Llobera, M., Horodnic I.A., (2020), *Tackling undeclared work in the collaborative economy and bogus self-employment*. European Platform tackling undeclared work, March 2020, p. 53.



to existing employees, or, in the case when work is outsourced, the he/she performs tasks similar to those formerly undertaken by employees.⁹

The employer shall be obliged to grant a person who is considered to be his employee, according to such criteria, the same conditions of employment as those enjoyed by a comparable employee or, where there is no such comparable employee, to the applicable minimum conditions of employment in terms of the Act and the regulations or orders made thereunder.¹⁰

In addition, the Employment and Industrial Relations Act establishes a definition of 'employee' that complements the criteria contained in the Employment Status Order. According to that definition, an employee is 'any person who has entered into or works under a contract of service, or any person who has undertaken personally to execute any work or service for, and under the immediate direction and control of another person...'.¹¹ This provision is a restatement of the principle of "primacy of facts", whereby the substance must prevail over form in determining employment status.

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 methodologies¹².

The extent of undeclared work in the totals for all employment and self-employment in Malta is higher than the EU-27 average (see Figure 4 below). Examining the extent of undeclared work based on LIM estimates from 2019,¹³ 17.9 % of total labour input in the private sector in Malta was undeclared (estimates could not be produced for Malta in 2013). Therefore, the extent of undeclared work in Malta was higher than the EU-27 average (see Figure 1 below).

According to the 2019 Eurobarometer, 37 % of Malta's citizens stated that they personally knew someone who works without declaring all or part of their income (the EU average is 33 %).¹⁴ The proportion of respondents answering this way had increased by 17 percentage points since the previous survey (2013). Moreover, 21 % of respondents stated that all their paid activity was undeclared and 74 % that they carried out undeclared activity outside their main job and on their own initiative.¹⁵

⁹ Article 3. Employment Status National Standard (S.L.452.108). Subsidiary Legislation 452.108. Employment Status National Standard Order, consolidated version. Available at <https://legislation.mt/eli/sl/452.108/eng/pdf>, accessed 7 December 2022.

¹⁰ Ibid. Article 5.

¹¹ Article 2. Employment and Industrial Relations Act, consolidated version. Available at <https://legislation.mt/eli/cap/452/eng/pdf>, accessed 7 December 2022.

¹² 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.

¹³ 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.

¹⁴ Special Eurobarometer 498, op.cit., p. 35.

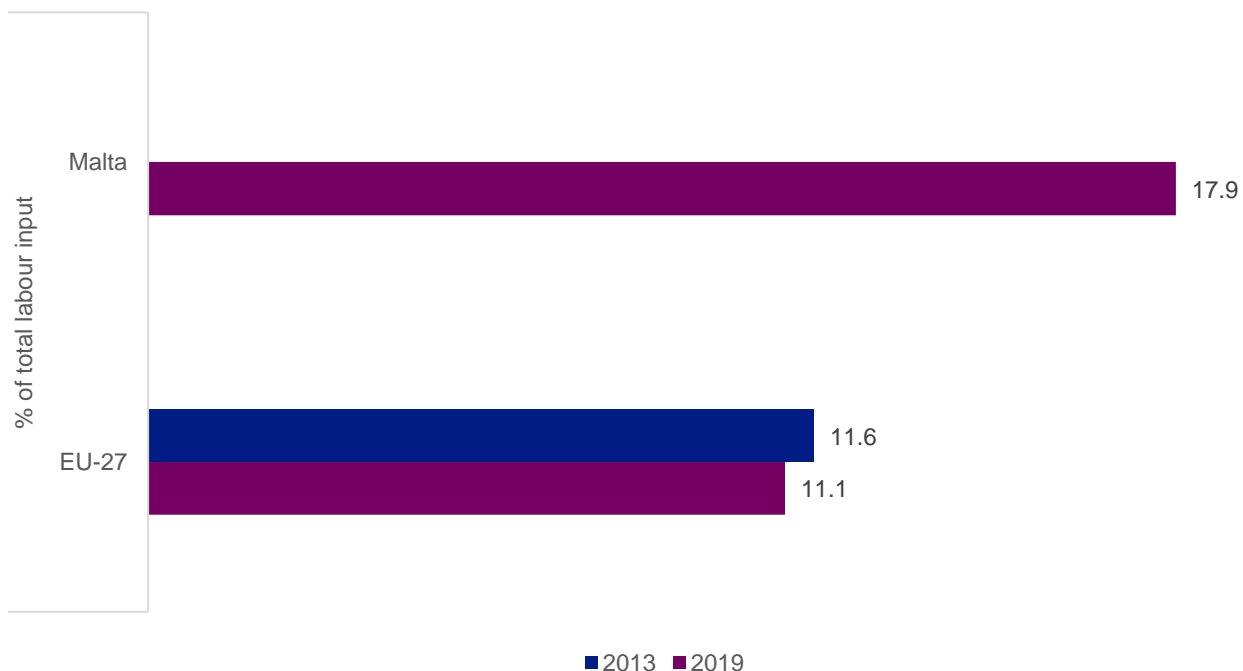
¹⁵ Ibid. QD22., p. T39.



Applying two commonly used methods to estimate developments in the shadow economy (the Currency Demand Approach and the Multiple Indicator Multiple Causes model, MIMIC) produces estimates which both show that in the last 10 years the size of the shadow economy in Malta has been quite stable, with the MIMIC measure showing a slight downward trend. The size of the shadow economy in Malta seems to have stabilised at just below 21 % of overall economic activity in recent years, close to the levels measured in Baltic countries and somewhat lower than other Southern European countries.¹⁶

Other sources estimate the size of Malta's informal economy at 27.7 %, which represents approximately EUR 7.58 billion of GDP PPP (Gross Domestic Product based on Purchasing Power Parity) levels in 2021.¹⁷ However, the onset of the COVID-19 pandemic as well as the support mechanisms launched, including a wage supplement, resulted in a significant decline in undeclared work as workers moved into registered employment in order to benefit from the wage supplement scheme.¹⁸

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

¹⁶ Abela, G., Gauci, T., Rapa, N., 'An Analysis of The Shadow Economy in Malta: A Currency Demand and MIMIC Model Approach', *International Journal of Economics and Financial Issues*, 2022, 12(1), 41-50.

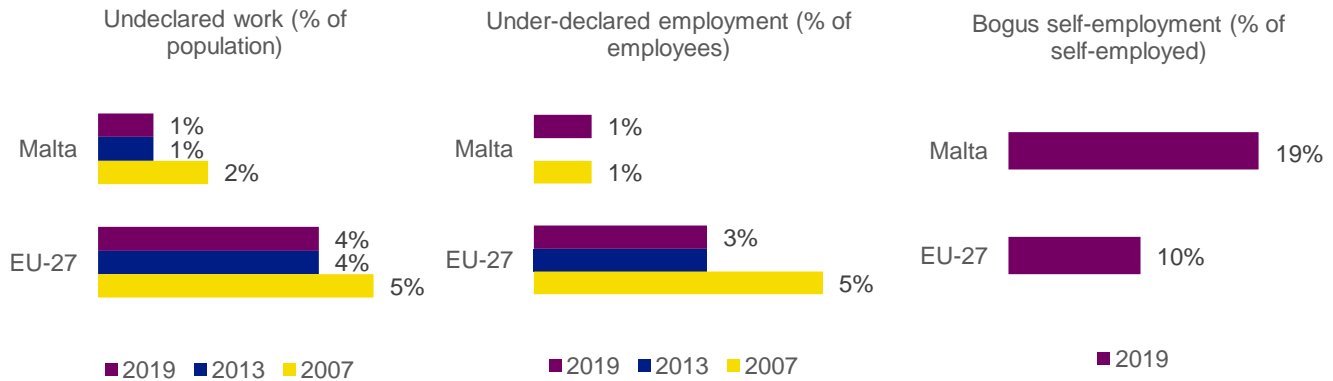
¹⁷ Quarterly Informal Economy Survey (QIES) by World Economics, London, 2022. Available at: <https://worldeconomics.com/National-Statistics/Informal-Economy/Malta.aspx>, accessed 7 December 2022.

¹⁸ The National Employment Policy 2021-2030, op.cit., p. 136.



characterised by small-scale one-off acts of baby-sitting or home repairs and in others such work may be more regular wage employment relationships¹⁹.

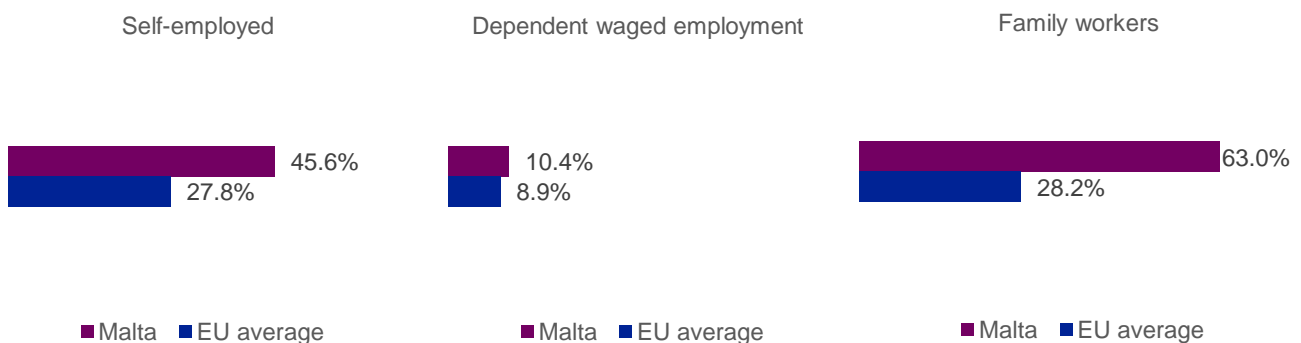
Figure 2. Composition of undeclared work, Malta and EU-27, 2007, 2013, 2019



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 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. The estimates given in the 2019 Labour Input Method (LIM)²⁰ show that in Malta measured as a share of total labour input 10.4 % of waged employment is undeclared, measured as a share of total labour input the proportion of self-employment that is undeclared is 45.6 %, and the proportion of family work that is undeclared is 63.0 %²¹.

Figure 2. Prevalence of undeclared work in the private sector by type of employment relationship, in Malta, 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.

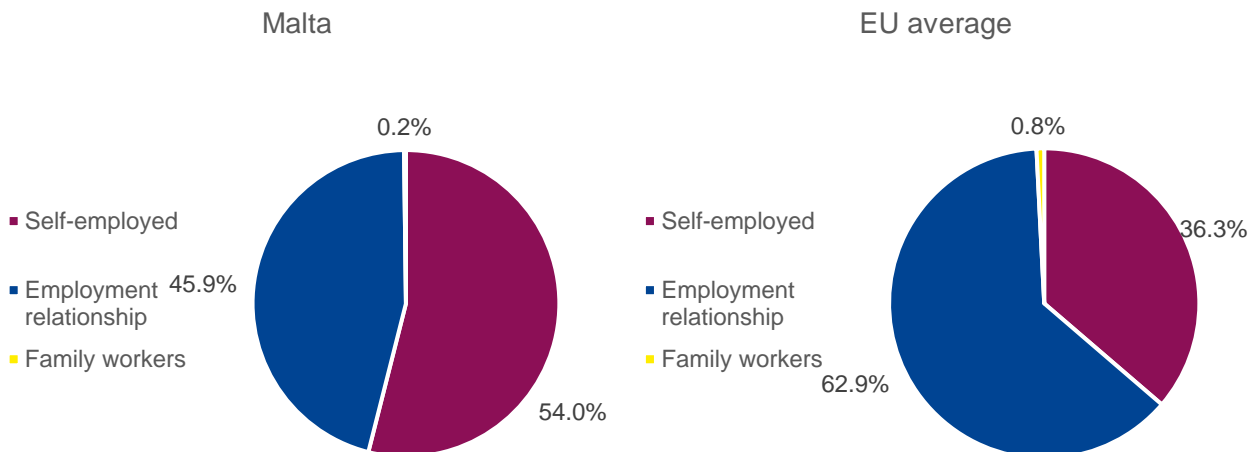
¹⁹ Williams, C.C and Horodnic I.A. (2020). Trends in the undeclared economy and policy approaches Evidence from the 2007, 2013 and 2019 Eurobarometer surveys, European Platform tackling undeclared work. Figure 10. Retrieved on 28 September 2022.

²⁰ Franic, J., Horodnic, I.A. and Williams, C.C. (2022), Extent of undeclared work in the European Union, European Platform tackling undeclared work.

²¹ This data (taken from the labour force survey), is based on a small sample, which might affect its statistical reliability.

According to LIM estimates (See Figure 3),²² the structure of the undeclared labour market in Malta in 2019 breaks down to show that 45.9 % of undeclared labour input is waged employment (62.9 % in the EU-27), 54 % of undeclared labour input is self-employment (36.3 % in the EU-27) and 0.2 % of undeclared labour input is family work (0.8 % in the EU-27). Therefore, compared with the EU-27, waged employment accounts for a smaller proportion of undeclared work while self-employment accounts for a larger share.

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

According to Special Eurobarometer no. 498 (2019) undeclared employment varies by sector, amounting to 5 % in construction, 21 % in personal services (childcare / care of the elderly / cleaning), 21 % in retail and repair services (e.g., electronics, car maintenance), and 73 % in other sectors.²³ Respondents also admit to having carried out specific undeclared activities, in particular, cleaning or ironing (21 %), repairs or renovations (21 %), helping move house (43 %), or selling other goods or services (31 %).²⁴ Moreover, 31 % of these undeclared activities have been carried out in the collaborative economy.²⁵

Of the EU Member States with a large tourism industry, Malta has one of the highest percentages of total workers in the tourism sector, accounting for one in six people in employment.²⁶ And while 14 % of employees in accommodation and food service activities are in unregistered employment in the EU as a whole, 37 % of all employees in this sector are in unregistered employment in Malta.²⁷

Turning to the main drivers for undeclared work, respondents to the Eurobarometer survey (2019),²⁸ point both to the social perception that undeclared work is a common practice – whether in a given region or sector of activity (57 %), or among friends, neighbours or relatives (43 %) – and also to the impossibility of finding a regular job (27

²² Franic, J., Horodnic, I.A. and Williams, C.C. (2022).

²³ Special Eurobarometer 498 – September 2019. *Undeclared Work in the European Union*. Report. QD17, p. T32.

²⁴ Ibid. QD18, p. T33-T34.

²⁵ Ibid. QD19, p. T35.

²⁶ Williams, C.C. and Horodnic, I.A. (2020), *Tackling undeclared work in the tourism sector*. European Platform tackling undeclared work. June 2020, p. 7.

²⁷ Ibid., p. 12.

²⁸ Special Eurobarometer 498, op.cit., QD21, p. T37.



%) as being of key significance. Other respondents cited the benefit to both parties as the most important reason for engaging in undeclared work (27 %), or viewed taxes and social security contributions as unaffordable (5 %).²⁹

In Malta, the perceived risk of being caught when engaging in undeclared work is one of lowest in the EU-27 and was lower in 2019 than in 2007, while the trend in most EU countries is in the other direction. In 2019 only 18 % of the surveyed population found the risk of detection fairly high or very high,³⁰ though penalties were perceived as higher in 2019 than they were in 2007.³¹ Besides, the level of horizontal trust has worsened over time, as it was lower in 2019 than in 2007 (i.e., the percentage of people having acquaintances who were engaged in undeclared work was higher in 2019 than 2007). Therefore, action to improve horizontal trust is probably required.³² However, between 2007 and 2019 it became less acceptable for Maltese citizens to engage in undeclared work.³³

2.0 Institutional framework

2.1 Responsibilities and characteristics of organisations involved in tackling undeclared work

Table 1. Overview of key institutional features in Malta

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: Government of Malta. Ministry for Finance and Employment. October 2021. Retrieved on 15 December 2022.

In Malta, several authorities are responsible for identifying, tackling, and preventing undeclared work:

- ▶ The **Law Compliance Unit (LCU)** — within the Maltese Public Employment Service, also called Jobsplus takes action against the following:³⁴
 - Jobseekers who are registering for unemployment benefit whilst working;
 - Employers who fail to notify Jobsplus of a new employee;
 - Employers who employ persons of compulsory school age;
 - Foreigners (from outside the EU) working without the necessary employment licences.

²⁹ Ibid., Q21, p. T38.

³⁰ 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, p. 39.

³¹ Ibid., p. 38.

³² Ibid., p. 41.

³³ Ibid., p. 40.

³⁴ Compliance Unit Efforts. Available at: <https://jobsplus.gov.mt/forms/compliance-unit-efforts>, accessed 7 December 2022.



The LCU derives its legal mandate to perform its functions through the Employment and Training Services Act, precisely in the articles found in Part V and VI of the said Act (Chapter 594 of the Laws of Malta). Infringements of the Act concern the following:³⁵

- Employment not registered – Maltese, EU, EEA, Swiss and TCN employees who are not registered by their employer or are registered as self-employed, be it full-time, part-time or casual employment;
 - Underage employment – employment of minors who are still of compulsory school age;
 - Employment of employees who are citizens of countries outside the EU;
 - Strike offs - employment of persons who are seeking active employment;
 - Employers who do not cooperate with an inspector's legitimate request (e.g., disclosing of information);
 - False declarations (e.g., false identities).
 - Termination Not Endorsed
- The **Department for Industrial and Employment Relations** (DIER)³⁶ – the labour inspectorate - is responsible for inspecting the conditions of employment.³⁷ In 2021 DIER inspectors carried out 1 431 investigative procedures, which included investigations on under-declared wages, under-declared working time, and posting of workers.³⁸
- The **Benefit Compliance Unit**, within the Income Support and Compliance Division³⁹, investigates reports of alleged abuse of social security benefits, including that relating to unemployment;⁴⁰

The Office of the Commissioner for Revenue includes a Compliance & Investigations Directorate the functions of which are specifically aimed at addressing direct and indirect tax evasion and tax fraud. This is done primarily by collecting and analysing information and data from various sources, analysing it and using this intelligence for tax audits. This helps to maintain the integrity of the tax system and ensures that everyone contributes to their fair share of tax.

During these last years, the Benefits Compliance Unit within the Income Support and Compliance Division introduced desk-based investigations. Such desk-based investigations are conducted on samples of various benefits/assistance/pensions paid under the Social Security Act (Chapter 318 of the Laws of Malta). The internal data, together with the data gathered from various Departments across the Maltese Government, allows for the completion of such area of investigation. Moreover, investigations are also performed through physical inspections. During 2022, the Benefits Compliance Unit conducted 541 on-site inspections. Following investigations, 1,059 cases were concluded. The estimated annual savings for 2022 totalled € 4,903,989.

- The **Malta Police Force** (MPF)⁴¹ carries out various activities related to the identification and tackling of undeclared work. The Financial Crimes Investigations Department investigates cases of fraud, misappropriation, customs-related cases, and money laundering, among others. During the year 2020 the

³⁵ Ibid.

³⁶ Information for employers and employees and a freephone number is available at <https://jobsplus.gov.mt/employers-mt-MT-en-GB/employment-laws>, accessed 7 December 2022.

³⁷ Overview on responsibilities, inspection competences, and legal frameworks in Member States, op.cit.

³⁸ *Dipartiment tar-Relazzjonijiet Industrijali u tal-Impieg. Rapport Annwali 2021*. Department for Industrial and Employment Relations (DIER). Annual Report 2021. Available at: <https://dier.gov.mt/en/About-DIER/Archives/DIER%20Annual%20Reports/Pages/DIER%20Annual%20Reports.aspx>, accessed 7 December 2022.

³⁹ Benefits Compliance. Available at: <https://socialsecurity.gov.mt/en/benefits-compliance/>, accessed 7 December 2022.

⁴⁰ See Departments and Entities - Family.

⁴¹ Malta Police Force.



Financial Crimes Investigations Department (FCID) underwent significant changes and today it is the largest investigative unit within the Malta Police Force with around 100 members.⁴²

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
Department of Industrial and Employment relations (DIER)	Chapter 452 of the Laws of Malta – Employment and Industrial Relations Act, 452, articles 43 et seq. ⁴³
Department of Social Security – Income Support and Compliance Division	Chapter 318 of the Laws of Malta – Social Security Act, article 113. ⁴⁴
National Public Employment Services (Jobsplus)	Chapter 594 of the Laws of Malta – The Employment and Training Services Act. ⁴⁵
The Compliance & Investigations Directorate within the Office of the Commissioner for Revenue	Commissioner for Revenue Act Cap. 517

Source: 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 Malta

To tackle undeclared work, the Law Compliance Unit (LCU) collaborates with the Department of Industrial and Employment Relations (DIER), Benefits Compliance Unit⁴⁶ within the Department of Social Security,⁴⁷ the Office of the Commissioner for Revenue,⁴⁸ as well as the Police Force.⁴⁹ Both Jobsplus and the Benefits Compliance Unit are responsible for inspections to ensure that registered jobseekers are not working irregularly and are

⁴² Financial Crimes Investigations Department. Available at: <https://pulizija.gov.mt/en/police-force/police-sections/Pages/Economic-Crimes-Unit.aspx>, accessed 7 December 2022.

⁴³ Employment and Industrial Relations Act, consolidated version. Available at: <https://legislation.mt/eli/cap/452/eng/pdf>, accessed 7 December 2022.

⁴⁴ Social Security Act, consolidated version. Available at: <https://legislation.mt/eli/cap/318/eng/pdf>, accessed 7 December 2022.

⁴⁵ Employment and Training Services Act, consolidated version. Available at: <https://legislation.mt/eli/cap/594/eng>, accessed 7 December 2022.

⁴⁶ <https://socialsecurity.gov.mt/en/fraud-prevention-and-reporting/>

⁴⁷ Address: 38, Ordnance Street, Valletta VLT1021. Email: social.security@gov.mt

⁴⁸ The Commissioner for Revenue. Available at: <https://cfr.gov.mt/en/Pages/Home.aspx>, accessed 7 December 2022.

⁴⁹ Compliance Unit Efforts. Available at: <https://jobsplus.gov.mt/forms/compliance-unit-efforts>, accessed 7 December 2022.



deriving benefits at the same time. Jobsplus also perform joint inspections with the immigration police (in line with the Sanctions Directive (Directive 2009/52/EC of the European Parliament and of the Council of 18 June 2009), to ensure that third-country nationals in employment are covered by a residence/employment permit and their employment is duly registered.⁵⁰

2.2.3 Cooperation with other Member States

Maltese law does not provide for the possibility of visiting inspectors participating in inspections in Maltese territory⁵¹ as no legal framework for cross-border joint inspections exists.⁵² However, some cooperation activities are carried out with Portugal.⁵³ Similarly, if evidence is gathered during an inspection conducted in another Member State, it cannot be used in administrative proceedings in Malta⁵⁴ or before a Court unless the foreign inspector who gathered the evidence testifies. In that case, the general principle that applies is that the best evidence must be produced.⁵⁵

3.0 Policy focus and measures

3.1 Policy approach

The 2022 holistic approaches study⁵⁶ indicates that four predominant types of measures are commonly used in Malta to tackle undeclared work and include the following:

- ▶ 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.

The main measures adopted by Malta focus on encouraging more people to enter the formal economy. These initiatives are coupled with inspections carried out by the Law Compliance Unit within Jobsplus and the Benefit Compliance Unit (BCU)⁵⁷. Malta recently increased the number of inspections and penalties for employers that do not comply with labour and social security requirements. Income tax rates have also decreased to encourage

⁵⁰ Overview on responsibilities, inspection competences and legal frameworks in Member States, op.cit.

⁵¹ European Labour Authority, *Guidelines for concerted and joint inspections*, December 2020, ELA/MB/2020/057, p. 44, p. 46; Williams, C. (2018). European Platform Undeclared Work Survey Report: obstacles to tackling undeclared work at the cross-border and national levels, bilateral and national agreements, and complaint reporting tools, May 2018, p. 45, p. 52.

⁵² For possible bilateral queries related to undeclared work should be directed to: Jobsplus Head of Division, Compliance, Migration and Public Sector Employment Services. Address: Triq Birzebbuga Hal-Far, BBG 3000. Overview on responsibilities, inspection competences and legal frameworks in Member States, op.cit.

⁵³ Stefanov, R./ Mineva, D./ Terziev, P. Vitosha Research EOOD (Center for the Study of Democracy Group) in collaboration with ICF. *Cross-border actions tackling undeclared work*, European Platform tackling undeclared work, 2019, p. 28.

⁵⁴ Ibid. p.42, p. 50.

⁵⁵ Ibid. p. 48.

⁵⁶ 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.

⁵⁷ Compliance Unit Efforts. Available at: <https://jobsplus.gov.mt/forms/compliance-unit-efforts>, accessed 7 December 2022.



the uptake of formal employment. The introduction of itemised payslips in 2019 aimed to reduce fraud and abuse, particularly for social security contributions. Reduced rates have been introduced on part time work and overtime and this fact encourages disclosure of such income. Furthermore, since 2022, the Commissioner for Revenue has embarked on major projects implementing in an effective way the merger such that the main objective of collecting all taxes in line with the mission statement is secure. These projects include the implementation of an integrated IT system both as regards collection of taxes and handling of risks related to tax avoidance, fraud, evasion and money laundering.

3.1.1 Main policy measures

Jobsplus adopts a risk-based approach and risk-based matrix as a method to tackle undeclared work and monitor individuals who require an employment licence to work in Malta. The following categories of the matrix are those identified as having the highest risks:⁵⁸

- ▶ The nature of work (the highest being construction and entertainment, such as hospitality);
- ▶ The age bracket of potential employees (most of the risk takers would be under the age of 35);
- ▶ The area (or locality) within which the illegal employment is occurring (highest risk being tourist areas);
- ▶ The time of the offence i.e., the time when employment occurs, with early mornings and late evenings being a higher risk.

Based upon this matrix Jobsplus has tailored two inspections: (a) specific and routine inspection by Jobsplus Inspectors (who work on flexi-time and outside office hours in order to target the areas with highest infringement risks); and (b) joint inspections with the Immigration Police, in compliance with the Employers' Sanctions Directive, which may occur on a weekly basis and focus on information and intelligence gathered by Jobsplus regarding possible breaches.⁵⁹

When it comes to ensuring that preventive measures are in place, the LCU takes a proactive stance by means of continuous inspections and reaching out to defaulters. Jobsplus provides complainants with the following means to reach out:

- ▶ Freephone 800 76501;
- ▶ An online reporting system which can be accessed through the website <https://jobsplus.gov.mt/forms>
- ▶ Internal referrals (such as Government Entities);
- ▶ Email: compliance.jobsplus@gov.mt.

The LCU adopts a proactive stance and investigates all leads that are provided. All information is treated with confidentiality. In 2018, 5 041 investigative procedures were carried out in the following sectors: construction (284), hospitality (1 678), manufacture/industry (518), sales (1 313), services (702), and transport (546). These procedures resulted in the detection of 3 404 infringements in the following sectors: construction (208), hospitality (1 771), manufacture/industry (183), sales (304), services (802), and transport (136).⁶⁰

⁵⁸ Ibid.

⁵⁹ Ibid.

⁶⁰ Ibid.



In the period between 2015 and 2018 a number of inspections took place on companies operating in the collaborative economy, particularly those related to taxi and delivery services, to ensure that they were abiding by national employment law and to ensure that there was no bogus self-employment.

Malta has adopted measures to facilitate compliance such as simplifying the number of procedures and forms, including pre-filing tax returns.⁶¹ A labour regulation also came into force in January 2019, which requires employers to issue payslips to employees on a monthly basis.⁶² Payslips should include the number of hours worked, the number of hours worked at overtime rates, and leave balances. The new law will facilitate the collection of data by national enforcement bodies, mainly the police and the DIER, and will facilitate the enforcement of workers' rights.⁶³

During the past two years fiscal policies were key to softening the economic blow of the crisis and have contributed to protecting thousands of jobs in Malta. Sizeable fiscal measures were announced to support firms and households through the wage supplement scheme, the tax deferral scheme, financial assistance to businesses, and social measures. Total government expenditure related to COVID-19 measures is estimated to amount to EUR 660.4 million in 2021.⁶⁴

Government support measures proved to be effective at cushioning the impact of the crisis on the labour market and in capturing undeclared economic activity from employment following the Wage Supplement Scheme.⁶⁵ This was also partly reflected in higher-than-expected revenue from social contributions of EUR 55 million in 2021.⁶⁶

Other measures encourage people to enter the formal economy, strengthening the employability prospects of certain target groups. Malta's National Employment Policy for the period 2021-2030 (NEP)⁶⁷ includes measures aimed at increasing the participation rate in the formal economy of specific groups, particularly women.

Harsh sanctions are also imposed on persons who illegally employ third-country nationals. However, these will not solve the needs of employers for more human resources or immigrants' needs to earn money. For some time, the government shied away from developing a comprehensive integration policy to facilitate the absorption of third-country nationals into Maltese society.⁶⁸ Jobplus administers the Job Brokerage Scheme, which has the objective of eliminating precarious and undeclared work among refugees, asylum seekers, individuals with subsidiary protection status and individuals with temporary humanitarian status and beneficiaries of temporary protection status, and a legislative process to establish a licensing regime for temporary work agencies. Other measures are aimed at making it easier for migrant workers to organise with other workers to join unions and other worker organisations that can collectively bargain with employers, and to integrate unions and worker organisations into the governance processes of temporary labour migration programmes. Actually, unions and worker organisations can improve labour migration governance processes by providing critical insights on the workforce's needs and the current situations in various industries and occupations.⁶⁹

⁶¹ European Platform Undeclared Work, *Elements of a preventative approach towards undeclared work: an evaluation of service vouchers and awareness raising campaigns*, May, 2018. Available at: <https://www.ela.europa.eu/en/undeclared-work/virtual-library>, p. 16.

⁶² Subsidiary Legislation 452.116 – Itemised Payslip Regulations. Legal Notice n° 274 of 2018, as amended by Legal Notice 439 of 2018. Available at: <https://legislation.mt/eli/sl/452.116/eng/pdf>, accessed 7 December 2022.

⁶³ European Committee of Social Rights Conclusions 2020 Malta. European Social Charter. March 2021. Available at: <https://www.coe.int/en/web/european-social-charter/malta#previous>, accessed 7 December 2022.

⁶⁴ 2021 Jobplus Annual Report, p. 19. Available at: <https://jobsplus.gov.mt/resources/publication-statistics-mt-mt-en-gb/publications/annual-reports>, accessed 7 December 2022.

⁶⁵ Malta Employer's Association. COVID-19 Wage Supplement. Available at: <https://www.maltaemployers.com/covid-wage-supplement/>, accessed 7 December 2022.

⁶⁶ Government of Malta. Ministry for Finance and Employment. Update of Stability Programme 2022-2025. April 2022, p.30. Available at: https://commission.europa.eu/content/archive-european-semester-documents-malta_en, accessed 7 December 2022.

⁶⁷ The National Employment Policy 2021-2030, op.cit.

⁶⁸ This was pointed out, by Debono, op.cit.

⁶⁹ The National Employment Policy 2021-2030, op.cit.



Currently there is no regulatory framework for temporary work agencies (TWA) and this has contributed to abuse and to an increase of undeclared work. Thus, very often TWA are involved in illegal practices, including undeclared work. If not properly regulated such agencies can exploit workers – mainly migrant workers – and can also create wage pressures due to their bargaining power with their user firms. For this reason, the government will embark on a consultative process to establish a licensing regime for these agencies. The licence will focus very much on regulating the relationship between the worker and the agency as well as parameters on the commercial contract between the agency and their user firms.⁷⁰ Additionally, to support businesses to retain their seasonal workers during the year, the government will be crediting in full both employer and employee national insurance contributions during the off-peak season (equating to 4 months in a year). These measures are particularly focused on Gozo region's labour market, which has often suffered from seasonality.⁷¹

Finally, in the personal and household services (PHS) sector formalisation is promoted through the Carer at Home Scheme. The Maltese Government financially supports those senior citizens (over 60) who employ a carer of their choice to assist them in their daily needs, provided that they employ a carer with a recognised qualification on the basis of a regular employment contract.⁷²

3.2 Good practices⁷³

A Job Brokerage Scheme has been put in place by Jobsplus – Malta's national employment agency – with the objective of eliminating precarious and undeclared work among refugees, asylum seekers, individuals with subsidiary protection status, individuals with temporary humanitarian status and individuals with temporary protection. The Job Brokerage Scheme is intended to change the practice, whereby migrants seek undeclared employment. Through the Job Brokerage Scheme, eligible individuals wishing to enter the labour market are offered initial ad-hoc short work placement opportunities. These placements can be followed by a 3-week Work Exposure Scheme, giving the employer the necessary time for the application of the migrant's employment licence. Participants on the scheme will receive an allowance of €4.57 per hour.

3.3 Challenges and barriers

The prevalence of undeclared work and under-declared work in Malta is higher than the EU average. Challenges may arise from the absence of a national strategy or high-level coordinating body in the country, and from the absence of common cross-government strategic objectives and KPIs/targets for tackling undeclared work.

In Malta policy options include many preventative measures to encourage people to enter the formal economy, strengthening the employability prospects of target groups. Thus, the Maltese approach includes a wide range of supply-side measures to stimulate workers and suppliers to operate in the declared economy. However, demand-side measures (i.e., those to encourage purchasers to buy declared goods and services) are rather scarce, and there are not many activities to raise awareness and to foster commitment to declared work. Educational initiatives and awareness-raising campaigns could play a key role in tackling undeclared work. Very often citizens engage in undeclared work when there is a lack of trust in government and a lack of understanding of the benefits of compliance.

⁷⁰ Ibid.

⁷¹ Ibid.

⁷² Advancing Personal and Household Services. *Malta Country Report*. Project funded by the European Union (Ad PHS VS/2018/0344). Available at: https://ad-phs.eu/ht8ag2/uploads/2021/08/country-report-malta_en.pdf, accessed 7 December 2022, p. 4.

⁷³ [Virtual library | European Labour Authority \(europa.eu\)](https://virtual-library.europa.eu)



In Malta, 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, Malta and the EU

	Tax morale*	Horizontal trust**	Vertical trust: tend to trust tax authority ***	Tend to trust labour inspectorate
Malta	9.59	37 %	44 %	39 %
EU-27 average	8.55	36 %	49 %	49 %

Source: Williams, C.C. and I.A. Horodnic, (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 Malta 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
'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	No
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) ⁷⁴	Yes
Certification of business, certifying payments of social contributions and taxes	Yes
Notification letters	Yes
Mandatory ID in the workplace	No
Supply chain responsibility (e.g., joint and several liability, due diligence)	Yes
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	No
Society-wide amnesties	Yes
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	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	Yes

⁷⁴ [Information and tools for working declared | European Labour Authority \(europa.eu\)](https://european-labour-authority.europa.eu/information-and-tools-for-working-declared)



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)	No
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	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

Source: Government of Malta. Ministry for Finance and Employment. The National Employment Policy 2021-2030.



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 Malta. 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

MALTA				
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))	1.17	0.85	■	-
2. Formal institutions acting in a corrupt manner				
Corruption Perceptions Index (CPI) (0-100 (very clean)) *	57	54	■	-
Control of corruption (-2.5 to 2.5 (strong performance))	0.77	0.24	■	-
II. FORMAL INSTITUTIONAL VOIDS AND WEAKNESSES				
1. Modernisation Explanation - Level of 'development'				
GDP (current prices, euro per capita)	15 180	27 830	■	31 300
Human Development Index (HDI) (0-1 (highest development))	0.847	0.915	■	-
Social Progress Index (SPI) (0-100 (high)) **	80.57	83.23	■	-
Self-employment (% of total employment)	13.6	15.0	■	13.4
2. State intervention				
Burden of government regulation (1-7 (best))	3.0	3.9	■	-
Business flexibility index (0-10 (high))	7.26	8.43	■	-
Expense of government (% of GDP)	41.1	33.5	■	36.6
Research & Development expenditure (% of GDP)	0.51	0.57	■	2.23
Tax revenue (% of GDP)	26.0	24.7	■	19.7
Social contributions (% of revenue)	18.5	15.9	■	33.0
Impact of social transfers on poverty reduction (%)	34.93	26.29	■	32.38
Labour market policy (LMP) expenditure (% of GDP)	0.48	0.31	■	1.65
Unemployment rate (% of active population)	6.9	3.6	■	6.8
People at risk of poverty/social exclusion (% of total population)	20.3	20.1	■	20.9
Severe material deprivation rate (% of total population)	5.0	3.6	■	5.5
Inequality of income distribution (income quintile share ratio)	3.99	4.18	■	4.99
Gini coefficient (0-100 (perfect inequality))	27.4	28.0	■	30.2
Labour productivity (% change on previous period)	-1.2	0.2	■	0.7
III. FORMAL INSTITUTIONAL POWERLESSNESS				
Reliability of police services (1-7 (best))	5.5	4.2	■	-
Judicial independence (1-7 (best))	5.1	4.0	■	-
Rule of law (-2.5 to 2.5 (strong performance))	1.47	0.95	■	-
Regulatory quality (-2.5 to 2.5 (strong performance))	1.36	0.95	■	-
Voice and accountability (-2.5 to 2.5 (strong performance))	1.15	1.08	■	-
Trust in Government (% tend to trust)	36	51	■	35
Trust in Parliament (% tend to trust)	41	44	■	34
IV. FORMAL INSTITUTIONAL INSTABILITY AND UNCERTAINTY				
Democracy Index (0-10 (full democracy)) ***	8.28	7.95	■	-
Political stability (-2.5 to 2.5 (strong performance))	1.25	1.02	■	-
B. INFORMAL INSTITUTIONS				
Social capital (0-100 (high))	63.9	64.6	■	-
Tax compliance (0-10 (high))	8.44 ¹⁾	8.44	■	-
	Year:	2013	2019	
Acceptability of undeclared work (% total 'unacceptable')				
Firm hires worker on undeclared basis	88	89		82



			■	
Undeclared work by firm for firm	89	89	■	85
Undeclared work by individual for private household	81	87	■	67
Undeclared work by firm for private household	87	87	■	82
Someone partially or completely conceals their income	90	88	■	78
<i>Personally know people engaged in undeclared work (% 'yes')</i>	20	37	■	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.