

Factsheet on Undeclared Work – NETHERLANDS

1.1 Nature and Estimated Scale of Undeclared Work

1.1.1 Definition of undeclared work

The **Central Bureau for Statistics** (CBS) uses the definition to “work legally as such, but without registration for income tax and social security”. The **Dutch tax authority** describes undeclared work as work that is not reported to the tax authority, usually paid in cash. This definition is also common in the Dutch society where often the payment in cash is associated with undeclared work. **The Labour Inspectorate** and other controlling authorities use the definition of the CBS and make clear differences between undeclared work and criminal activities. Though the definition of the tax authority seems very broad they also make a clear distinction between undeclared work and criminal activities. Money earned through hobbies and for family or friends without profit are most of the times tax-free and do therefore not need declaration. Most common examples given on information websites about undeclared work are those in the sectors of housekeeping, construction, hospitality and agriculture. There is relatively little information available on under-declared work however the tax authority emphasises that employees should be aware of the out of work income that they need to declare to the authorities.

1.1.2 Characteristics of undeclared work

Undeclared work in the Netherlands is most commonly found in the construction, household, agriculture and hospitality services. In the **construction sector** most undeclared work is done during the building or the renewal of a private house. People pay part(s) of the construction in cash because the constructor is willing to work for less when they are not paying taxes. Because of this, jobs like painting or paving are frequently undeclared. There are also concerns of the exploitation of immigrants in the construction sector.¹ To be able to control these exploitations the European inspections should work closer together according to the Minister of Social Affairs and Employment, Mr. Asscher. It was one of his main tasks during the Dutch chairmanship of the European Union in Spring 2016.

In **agriculture** most undeclared work is done by immigrants or young people working during their studies. Students prefer to receive more salary in cash (undeclared) instead of legally where they will have to pay social premiums and other labour costs. However a lot of students are not aware that by working undeclared they are not entitled to an 8% holiday payment and are not insured. There have been some incidents with Eastern-Europe immigrants and third country nationals working for Dutch farms in very poor conditions. In 2009 the police discovered an extreme situation where immigrant workers were working in conditions described as close to slavery on a Dutch farm.² In 2015 some Polish workers mentioned that an employer was withholding social premiums from their salaries but did not pay these premiums to the insurance authorities. In the same news item Minister Asscher promised changes in legislation to tackle these problems as more and more stakeholders were addressing their concerns about the working conditions in the agricultural sector.³ These will be elaborated in section 1.3.

¹ Cobouw. (2016, February 9). *Aanpak van uitbuiting leeuw of lam (Addressing of exploitation, lion or lamb)*. Internet: <http://www.cobouw.nl/artikel/1617181-aanpak-van-uitbuiting-leeuw-lam>

² Trouw. (2010, March 10). *Duistere praktijk achter blanke asperges*. Internet: <http://www.trouw.nl/tr/nl/4324/Nieuws/article/detail/1585611/2010/03/10/Duistere-praktijk-achter-blanke-asperges.dhtml>

³ Omroep Brabant. (2015, February 9). *Minister Asscher belooft maatregelen tegen uitbuiting Oost-Europeanen in land- en tuinbouw (Minister Asscher promises action against exploitation of Eastern Europeans in agriculture)*. Internet:

There have been a couple of incidents in the media of undeclared work in the **hospitality sector**. Examples are the exploitations of mostly Asian employees by restaurants⁴ and the systematic undeclared work done by cleaning companies in fast-food restaurants⁵. Cleaners claim that they are working 7 nights a week, not all worked hours are compensated and employees are not receiving holiday payments. Besides this cleaners are ordered to wait until the morning for the fast-food personnel to control their cleaning work. These hours are not compensated. These findings were results of a series of inspections carried out on some fast food restaurant's cleaning companies on the basis of rumours of undeclared work. The Inspectorate SZW intensified the workplace inspections in 2016 at fast-food restaurants together with the Dutch tax authority, the UWV (the Employee Insurance Agency), the IND (the Immigration and Naturalisation Service) and municipalities and put pressure on fast-food restaurants to stop hiring malicious cleaning companies. Companies such as fast-food restaurants and hotels are stimulated to use certified cleaning companies or employ cleaning personnel themselves.ⁱ

In 2012 the Dutch tax authority published a report indicating that almost 20% of all driving schools are suspected of engaging in undeclared work. The tax authority warns that they are going to put more time and effort into this area in order to control potential undeclared work.⁶

Other 'typical' undeclared jobs in the Netherlands are hairdressers, car mechanics and taxis. Work undertaken and not declared in these areas is usually carried out by someone from the customer's network making it difficult to detect and tackle.

Research undertaken by the CBS in 2011 asking people about their experiences and thoughts of undeclared work resulted in an overview of the Dutch informal economy. However, the research is based on a small group of respondents and should therefore be interpreted cautiously.⁷ The survey combined internet distributed questionnaires with face-to-face conversations in order to get the most reliable data. The research shows that approximately 9.1% of the total Dutch population between 15-64 years of age has done undeclared work in 2011. From this portion most of the respondents are between 15-34 years (69%) suggesting that most undeclared work is accounted for by young

<http://www.omroepbrabant.nl/?news/224434732/Minister+Asscher+belooft+maatregelen+tegen+uitbuiting+Oost-Europeanen+in+land-+en+tuinbouw.aspx>

⁴ Telegraaf. (2010, September 17). *Kok restaurant veroordeeld voor uitbuiting (Chef restaurant sentenced for exploitation)*. Internet: http://www.telegraaf.nl/binnenland/20344033/__Kok_restaurant_veroordeeld__.html, and

NOS. (2013, March 18). *Celstraffen voor uitbuiting kok (Prison sentences for exploitation chef)*. Internet: <http://nos.nl/artikel/485949-celstraffen-voor-uitbuiting-kok.html>

⁵ Metro. (2016, February 16). *Nog veel mis bij schoonmaakbedrijven in de fastfood (Still a lot of problems at cleaning businesses in fastfood)*. Internet: <http://www.metronieuws.nl/nieuws/binnenland/2016/02/nog-veel-mis-bij-schoonmaakbedrijven-in-de-fastfood>

⁶ AD (2012, November 16). *'Eén op de vijf rij scholen geeft zwart rijles'* (Undeclared work in one out of five driving schools).. Internet: <http://www.ad.nl/ad/nl/1012/Nederland/article/detail/3348778/2012/11/16/Een-op-de-vijf-rij-scholen-geeft-zwart-rijles.dhtml>

⁷ CBS. (2012). *Een onderzoek naar zwartwerk onder uitkeringsgerechtigden en de totale bevolking in 2011* (An investigation into undeclared work among welfare recipients and the total population in 2011). The Hague: Centraal Bureau voor de Statistiek.

people. The percentage of undeclared work engaged in by people who receive a benefit is lower than the total (between 2.4% and 5%).

The main motivators found in the survey are money-related or related to the (high) regulation of declared work. Some are motivated solely by the fact that undeclared work has a higher pay-out while others said they need the extra money to be able to pay for basic needs. Also, some people use the money to save for something special. A different report on behalf of the ILO, placed the emphasis on the presence of fraudulent temporary work agencies.⁸

1.1.3 Estimated scale of undeclared work

The research of Schneider (2012)⁹ estimates the Dutch shadow economy to be 9.8% of GDP making it one of the smallest in Europe (19.2% average). In 2008 around 12,000 temp agencies were registered at the Dutch Chamber of Commerce. It was estimated that between 5,000 and 6,000 of these were contravening the law. In 2012 19,000 agencies were registered of which 11% were members of one of the employers' organisations. This 11% represents 80% of the total sector turnover suggesting that the unregistered organisations are often small. The high number of these agencies is related to the liberation of the market and the increased demand for Eastern and Central European workers. Practices that occurred include: illegal employment, bogus self-employment, non-payment of taxes and fees, underpayment and deductions from salary under the claim of e.g. unlawful costs of administration or disproportionate fines. These agencies are mostly active in sectors where the margins are small and a lot of SMEs are found like agriculture, meat industry, construction, cleaning industry and transport. The Dutch minister of Social Affairs and Employment has acknowledged this problem but says the problem is hard to tackle because of the nature of these organisations which are mostly complex and not registered anywhere, also the financial profits for all parties involved can amount to high numbers.

1.2 Institutional Framework

1.2.1 Responsibilities for addressing undeclared work

On behalf of the International Labour Office, Regioplan¹⁰ has conducted research on the Labour Inspection Strategies for Combating Undeclared Work in Europe with a focus on the Netherlands. This research shows a clear overview of the Dutch organisations responsible for addressing undeclared work.

In the Netherlands there are three main organisations responsible for addressing undeclared work: Inspectorate SZW (Social Affairs and Employment), Tax Authority and the UWV (PES). Other important players are the municipalities, International Fraud Information Bureau (IBF), the Social Insurance Bank (SVB), the Netherlands Bureau for Information Exchange within the Work and Income Sector (BKWI), Labour Unions and Employers' associations.

The **Inspectorate SZW** is the most important authority concerning tackling undeclared work in the Netherlands. As part of the Ministry of Social Affairs and Employment, the focus of the inspectorate is not necessarily on undeclared work as such, but on the broader concept of 'decent' work. This concept includes fair, healthy and safe working conditions and socio-economic security for everyone. Related to undeclared work the inspectorate, in their annual plan, predicts the risks of the occurrence of illegal employment, underpayment, tax/benefit fraud and bogus employment. Besides these risks the inspectorate also focuses on unsafe working conditions, both physical and

⁸ Renooy, P. (2013). *Labour Inspection Strategies for Combating Undeclared Work in Europe: the Netherlands*. Amsterdam: Regioplan.

⁹ Schneider, F. (2012). *Size and Development of the Shadow Economy of 31 European and 5 other OECD Countries from 2003 to 2012: Some New Facts*.

¹⁰ Renooy, 2013

mentally.¹¹ The inspectorate is expecting an increase of 'indecent' work related to the immigration of Eastern-European workers. The inspectorate writes in its multiannual plan 2015-2018 that because of the free access to the Dutch labour market for EU members more Eastern-European workers move (temporarily) to the Netherlands because wages are higher. The inspectorate is concerned that the immigrants are willing to work for less compensation and/or under worse circumstances, as it has noticed in the recent years.¹²

Related to undeclared work, the **Dutch Tax Authority** (*Belastingdienst*) focuses on tax/benefit fraud. They are responsible for the collecting of taxes, and with that the inspection on fiscal, economic and financial fraud. Also they are responsible for income-related benefits for childcare, housing and care. On this aspect undeclared work can cause the offender to receive an unfair (amount of) benefit.

The **UWV** is responsible for, among others, the unemployment benefits and reintegration of job seekers. In this role the UWV is responsible for inspecting the legitimacy of social benefits. If someone decides not to declare their work then they are able to claim benefits like an unemployment benefit as long as the responsible authorities are not aware.

Municipalities are responsible for providing recipients with a benefit on minimum level (*bijstand*) and activation towards work. Because municipalities have their own annual budget it is important for them to find fraudulent benefit receivers in order to decrease costs.

In collaboration with the Inspectorate SZW, the **Social Insurance Bank** (SVB) ensures that benefits being received are being done so lawfully. The bank is responsible for social insurance schemes like the General Old Age Pensions Act, General Surviving Relatives Act and the General Child Benefit Act and therefore also for the verification of the compliance with the rules.

Besides the governmental institutes the **Labour Unions** and **Employers' Associations** try to address undeclared work because of the possible exploitation of employees and the unfair competition on the market via the insertion of strict rules in the Collective Labour Agreements (CAOs).

1.2.2 The characteristics of the responsible organisations

This topic is covered in section 1.2.1 above. The Labour Inspectorate of Ministry, the Dutch Tax Authority and the UWV have a national coverage. All these organisations have an internal organisational structure that is generally recognised in many public bureaucracies, with a division of staff and line positions. As a general rule, these organisations are well staffed, and the author knows of no effective public debate occurring regarding their 'staff to works'-ratio etc. When the current government entered office, some additional resources were devoted to strengthening the Labour Inspectorate.

1.2.3 Cooperation and collaboration between authorities and cross-border authorities

To enhance the cooperation of the different organisations the Netherlands has created the Bureau for Information Exchange within the Work and Income Sector (**BKWI**). "BKWI aims to facilitate cooperation between municipal authorities, UWV and the SVB,

¹¹ <https://www.inspectieszw.nl/publicaties/jaarplannen/2016/jaarplan-2017/jaarplan-2017/jaarplan-2017>

Internet: <http://www.nu.nl/voorpagina/3403723/aantal-zwartwerkers-onveranderd-10-procent.html>

¹² Inspectie SZW. (2014). *Meerjarenplan 2015-2018 (Multi-annual plan 2015-2018)*. Utrecht: Ministry of Social Affairs and Employment.

and other organisations which are responsible for work and income. BKWI provides solutions for efficient and reliable information exchange between these organisations. Therefore, BKWI manages the combined register Suwinet with personal data from (among others) the municipalities, registers of the Tax Authority and social security registers. The appropriate use and privacy protection of these data are safeguarded by means of participation protocols, strict authorisations and rules regarding conduct.”¹³ Although the network is effective there are concerns for the privacy. The Inspectorate SZW has found that multiple municipals were neglecting the rules concerning the privacy within the system. After taking a sample the results were so poor that the inspectorate decided to inspect all municipals. They have already noticed that the biggest municipal, Amsterdam, has neglected the safety of privacy on a great scale.¹⁴

Part of the department Enforcement of the UWV is the **International Fraud Information Bureau (IBF)**. The bureau focuses on the international exchange of data and prevention and detection of abuse of benefits outside the Netherlands. The data from IBF is also used by municipals for national and international data. The Ministry of Social Affairs and Employment has appointed the IBF as the coordination spot for cross border exchange of fraud-information. Besides the UWV, municipals, SVB and social security organisations in other countries can make use of the services of the IBF as well. Principals can request information for control and verification on a person’s right to a benefit. Sometimes the IBF independently conducts research by asking for data from foreign organisations and sometimes the research is conducted by an embassy through the Ministry of Foreign Affairs.

1.3 Policy Focus and Measures

1.3.1 Policy approach

The policy of the Dutch government on tackling undeclared work is written down in the Fraud bill (Fraudewet) and has been developed in 2013 with fiercer penalties and more possibilities for the inspectorate to control. This shows that the government is taking undeclared work more seriously. This is needed because with the opening of the border for all EU members (especially Eastern and Central European countries) the occurrence of undeclared work has increased. The difference between this type of undeclared work and the type that was already present in the Netherlands is substantial. The undeclared work engaged in by Dutch citizens was often family related or people working to earn a little bit extra on top of their net salary. With the flow of labour immigrants to the Netherlands other, more serious, problems arise. Bogus temporary labour agencies have been on the rise offering jobs for immigrants in the Netherlands for less than the minimum wage to earn extra profit themselves. These practices do not only effect incomes and taxes but also the working/living conditions which are often poor. In order to address this specific problem the government has introduced the bill Bogus Constructions (Wet Schijnconstructies). With this Act the Minister of Social Affairs and Employment, Mr.Asscher, wants to tackle all kinds of bogus labour relations misusing the law to lower labour costs which can result in lowering social security and compensation to workers. It is difficult to tackle this problem, however, as many people are willing to accept substandard working conditions if it means they will not be unemployed. The effectiveness of the new bill still has to be proven because it has only recently been implemented.

¹³ Renooy, 2013

¹⁴ Het Parool. (2016, March 9). *Belofte: Snel veiliger opslag data Amsterdammers (Promise: Fast safer storage for data of people from Amsterdam)*. Internet: <http://www.parool.nl/amsterdam/belofte-snel-veiliger-opslag-data-amsterdammers~a4259990/>

1.3.2 Measures to tackle UDW

The most important measures are taken by the inspectorate SZW and the tax authority. Based on risk analyses the organisations are able to pinpoint high-risk companies and they will inspect them on compliance with regulations. The tax authority however has no authority to enter private buildings so they are only able to find fraudulent cases by comparing their data and trying to find missing or ambiguous cash flows that can indicate fraud. The focus of the government lies with big cases and not necessary with the smaller cases like underdeclared work as these are harder to prove and have less impact on the economy and society. Also some undeclared work is permitted, for example, work for family and friends or as a hobby, within certain profit margins. Also, paid house chores like cleaning, cooking or gardening are permitted for three days a week at most.

1.3.3 Good practice

As undeclared work never has been a substantial problem in the Netherlands there have not been a lot of extensive measures. CBS research has shown that the level of undeclared work has remained stable for the past 25 years, however because of the changes in the economy and society it can be stated that the situation has improved. Also, there has been a decrease in the portion of people doing undeclared work while receiving a benefit. This is proof of the success of the more thorough controls of the inspections.¹⁵ The problem now moves to Eastern and Central European Immigrants and whether or not the Dutch government is able to handle this problem can only be known in the future.

1.3.4 Challenges and barriers

The Dutch government is aware of the changing nature of the economy. It is commonly known that tax-payers sometimes evade tax-contributions, but the size of non- and under-declaration seems to be relatively moderate in the Netherlands in comparison with other EU-countries. Digitalisation of tax payments is likely to help in this process. The current key challenge of the Dutch government is to control the labour conditions of the labour immigrants as mentioned before. Sometimes migrants are not registered in the Netherlands, which makes it difficult to control their economic contribution. They appear to be willing to work for lower wages because the minimum wage in their own country is usually even lower. Also, ambiguous temporary labour agencies are taking advantage of the fragile situation of immigrants. It is believed that these organisations try to make the immigrant dependent upon the agency with, for example, a high commission or high housing prices. It has been suggested that in this way the immigrants are unable to stop working and to continue working longer days. To address this problem the government already implemented new regulation, however, it is felt that it needs to address this problem with even greater focus.

ⁱ Jaarverslag 2016 Inspectie SZW
(<https://www.inspectieszw.nl/publicaties/jaarverslagen/2017/17/17/jaarverslag-2016>)

¹⁵ nu.nl. (2013, April 22). *Aantal zwartwerkers onveranderd op 10 procent (Number of undeclared workers unchanged at 10 percent)*.