Factsheet on Undeclared Work – IRELAND

1.1 Nature and Estimated Scale of Undeclared Work

1.1.1 Definition of undeclared work

Undeclared work (UDW) is neither defined in Irish Law nor specifically targeted and measured by the Irish administration.[1] The Office of the Revenue Commissioners define the 'shadow economy' as "activity in respect of which businesses (including professions) and individuals engage in inappropriate practices with the aim of not complying with their legal obligations relating to matters such as taxes & duties, PRSI, licenses and employment. Shadow economy activity includes not declaring, or under-declaring, a source of income (for example, not declaring or under-declaring 'cash jobs') so as to avoid tax and other liabilities; employers paying employees in cash under an 'off the books' arrangement so as to evade tax and PRSI liabilities; 'working and signing' - working or running a business whilst at the same time falsely claiming job-seekers benefit from the Department of Social Protection (DSP); non-operation of the VAT system; tobacco smuggling including the sale of illegal tobacco products; oil laundering including the sale of washed diesel. Most of the shadow economy activity takes place within that which is referred to as the 'cash economy' (i.e. the payment for goods and services by way of cash)."[2]

1.1.2 Characteristics of undeclared work

The main types of UDW in Ireland, as outlined by the Office of the Revenue Commissioners Annual Report 2014, include activities such as paying employees 'off the books' and individuals doing 'nixers'[3] either in addition to their normal employment or while also claiming DSP payments.[4]

Another issue, highlighted through the Revenue Commissioners' strategy on tax evasion, was evidence of employers classifying workers as self-employed ('bogus self-employment') which increases the likelihood of undeclared work.

The main sectors in Ireland that are affected by undeclared work are those that are labour-intensive and where cost competition is strong, such as, construction, domestic services, hotel and catering, agriculture, retail and the food and drink industry (Eurofound, 2013).[5] According to the Revenue Commissions Annual Report 2014, their audit and assurance activity placed a particular focus on sectors of the economy that traditionally have been susceptible to shadow activity, specifically cash businesses such as the hospitality sector, including bars, nightclubs, fast-food restaurants and entertainment, and white collar such as doctors, dentists, solicitors, accountants, and engineers.[6]

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[1] Cronin, Maedhbh (2013). *The Role of the Irish National Inspection System (National Employment Rights Authority – NERA) as part of a strategic policy response to undeclared work*. Geneva: ILO. Internet:
http://www.ilo.org/wcmsp5/groups/public/@ed_dialogue/@lab_admin/documents/genericdocument/wcms_224583.pdf

[2] Internet: http://www.revenue.ie/en/business/shadow-economy/index.html

[3] According to the Revenue Commissioners "The term 'nixer' generally refers to part-time work that an individual undertakes and the income from which is not reported to relevant authorities such as the Revenue Commissioners." Internet: http://www.revenue.ie/en/business/shadow-economy/nixers.html#section1):

[4] Revenue Commissioners (2015a). *Annual Report 2014.* Revenue Commissioners: Dublin. Internet: http://www.revenue.ie/en/about/publications/annual-reports.html

[5] Internet: https://www.eurofound.europa.eu/observatories/emcc/case-studies/tackling-undeclared-work-in-europe/labour-inspectorate-controls-ireland

[6] Revenue, 2015a. Internet: http://www.revenue.ie/en/about/publications/annual-reports/2014/downloads.html

The presence of numerous small and medium-sized businesses in the Irish economy is quoted as a factor for undeclared work (Eurofound, 2013).[7] The principal reason for engaging in UDW in Ireland is in order to avoid payment of tax and/or remain below certain income thresholds in order to qualify for welfare benefits. Schneider (2011) states that the higher the tax burden, measured by personal income tax, payroll taxes, and/or indirect taxes, the larger the shadow economy.[8] The tax burden in Ireland has increased substantially since the beginning of the financial crises. Successive budgets have widened the tax net to include workers on relatively modest pay levels with the introduction of the Universal Social Charge (USC)[9] and had the effect of reducing take home pay for the majority of workers. The introduction of other taxes, such as property and water charges, have also had an impact on earnings of both employees and the self-employed.

1.1.3 Estimated scale of undeclared work

The DSP, Revenue, and the National Employment Rights Authority (NERA) [now the Workplace Relations Commission (WRC)] collect data specific to their own areas of responsibility but there are no specific data relating to UDW collected at national level. Cronin (2013) estimated that UDW represents two-thirds of the shadow economy which equates to approximately 8 % of GDP (EUR 14 billion in 2013). In 2012, the Irish Construction Industry Federation (CIF) estimated the value of the shadow economy at EUR 19.97 billion and Irish Business and Employers Confederation (IBEC) estimated the value at EUR 21 billion.

According to the Multiple Indicator and Multiple Courses (MIMIC) used by Schneider, in 2011,[10] Ireland's shadow economy was reported at 12.7 % of GDP. So based on that report and on the 2015 GDP figure from the Central Statistics Office (CSO) of EUR 204 billion, the shadow economy could possibly have been in the region of EUR 26 billion in 2015. The World Bank's research on informal workers, including those working without contract, informal self-employment and unpaid family work found that Ireland had a high level of informal economy at 33 % of the labour force in 2011.[11]

Since 2003 the DSP has been undertaking periodic surveys to determine the level of benefit fraud across the various welfare schemes[12]. In aggregate it is estimated that fraud and error[13] account for between 2.4 and 4.1 % of the annual welfare spend, however, undeclared work represents only a component of this. Nevertheless, the issue of undeclared work is considered a major problem in Ireland due to the revenue lost in fraudulent claims for both Jobseekers Allowance and Jobseekers Benefit[14]. Payments to jobseekers (both Jobseekers Allowance and Jobseekers Benefit) stood at EUR 3.7 billion

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[7] Internet: https://www.eurofound.europa.eu/observatories/emcc/case-studies/tackling-undeclared-work-in-europe/labour-inspectorate-controls-ireland

[8] Schneider, F., (2011). *The Shadow Economy and Shadow Economy Labor Force: What Do We (Not) Know?* ,IZA Discussion Papers 5769, Institute for the Study of Labor (IZA).

[9] The Universal Social Charge is a tax payable on gross income, including notional pay, after any relief for certain capital allowances, but before pension contributions. Internet: http://www.revenue.ie/en/tax/usc/ for more information.

[10] Internet: http://www.economics.uni-linz.ac.at/members/Schneider/files/publications/2012/ShadEcEurope31.pdf

[11] World Bank´s research working paper 5912 on "Informal Workers across Europe": Michails Hazans, December 2011; for measurement issues see Section 2.1 and Table 3, p.33; Internet: http://ftp.iza.org/dp5871.pdf.

[12] These surveys involve inspectors reviewing a random selection of claims from each benefit area to assess the underlying level of fraud and error to identify the scale of any excess payments.

[13] Error describes the situation where an excess payment is made from unintentional errors either through errors related to the administration of the benefit or incorrect information from the claimant.

[14] Jobseekers benefit is time limited and based on social insurance contributions whereas jobseekers allowance is means tested and has no duration limit for claiming. Claimants can migrate from jobseekers benefit to jobseekers allowance provided they meet the relevant criteria.

in 2013 declining somewhat to EUR 3.3 billion in 2014. Survey based estimates suggest that fraud accounts for approximately 1.4 % of total expenditure for jobseekers allowance[15]. While no figure is available for excess payments in Jobseekers Benefit, if we apply the 1.4 % rate to total payments of Jobseekers Allowance and Jobseekers Benefit the data implies that eliminating fraud in this area, primarily due to undeclared work, could potentially save the Irish exchequer up to EUR 46 million per annum.

1.2 Institutional Framework

1.2.1 Responsibilities for addressing Undeclared Work

The **Department of Social Protection (DSP)** concentrates on reducing welfare fraud through its Fraud Initiative. The **Office of the Revenue Commissioners** (Revenue) aims to maximise the government's tax take by focussing on the shadow economy. The aim of the **Workplace Relations Commission** (WRC) established on 1 October 2015 is to maintain good workplace relations and promote compliance with relevant workplace legislation.

1.2.2 Characteristics of the responsible organisations:

The **DSP** supports the Minister for Social Protection in the discharge of governmental, parliamentary and departmental duties.[16] The Mission Statement of the DSP is to promote active participation in society through the provision of income supports, employment services and other services. Their main functions are to advise government and formulate appropriate social protection and social inclusion policies and to develop and deliver effective and cost efficient income supports, activation and employment services to clients. The DSP has over 6 700 staff.[17] The delivery of local services is organised on a regional basis with 3 regional and 13 divisional offices supporting a nationwide network of some 125 social welfare local and branch offices.

The **Office of the Revenue Commissioner's** Mission Statement is to serve the community by fairly and efficiently collecting taxes and duties and implementing customs controls.[18] Their core role is the assessment and collection of taxes and duties and their mandate derives from obligations imposed by statute and by government and as a result of Ireland's membership of the European Union. Their main functions are to assess, collect and manage taxes and duties that account for over 93 % of exchequer revenue. They also administer the customs regime for the control of imports and exports and collection of duties and levies on behalf of the EU and work in co-operation with other state agencies in the fight against drugs and in other cross departmental initiatives. There are over 110 Revenue offices countrywide with just over 5 700 staff.

The **WRC**, established on 1 October 2015, assumes the roles and functions previously carried out by the National Employment Rights Authority (NERA) [now the WRC], Equality Tribunal (ET), Labour Relations Commission (LRC), Rights Commissioners Service (RCS), and the first-instance (Complaints and Referrals) functions of the Employment Appeals Tribunal (EAT). Staff of the Workplace Relations Commission, are employees of the Department of Jobs, Enterprise and Innovation and its finances are administered through the department's budget and form part of the department's accounts. At the end of 2014 NERA [now the WRC], had 100 staff, including 57 inspectors spread over 5 regions and 30 staff trained as information officers.[19]

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[15] Internet: https://www.welfare.ie/en/downloads/JASurvey_14.pdf, page 6.

[16] Internet: https://www.welfare.ie/en/Pages/The-Department.aspx

[17] Internet: https://www.welfare.ie/en/Pages/Overview%20of%20the%20Department.aspx

[18] Internet: http://www.revenue.ie/en/about/index.html

[19] National Employment Rights Authority (2015). *Review of 2014*. NERA: Dublin. Internet: https://www.workplacerelations.ie/en/Publications_Forms/NERA-Review-2014.pdf

1.2.3 Cooperation and collaboration between authorities and cross-border authorities

Special Investigation Unit (SIU) – Set up by the DSP in 1978 to detect and prevent social welfare fraud. In 1990 the SIU and Revenue Commissioners combined expertise and resources to set up Joint Investigation Units (JIUs) to investigate social welfare fraud and tax and PRSI evasion.[20] These specialist units also work in collaboration with An Garda Síochána (Irish police force) and Labour Inspectors of the WRC. The multi-agency JIUs identify and target sectors where UDW and shadow economic activity are common.

The Hidden Economy Monitoring Group - this is a multi-agency group which advances ideas and initiatives to combat UDW and shadow economic activity in Ireland. The group is chaired by Revenue and consists of representatives from government agencies including the DSP, the Department of Jobs, Enterprise and Innovation and the Workplace Relations Commission. There are also representatives from employer groups including the Irish Business and Employers Confederation, Retail Ireland, Small Firms Association, Construction Industry Federation as well as representatives from the Irish Congress of Trade Unions.

High Level Group – this group involves the senior executives from DSP and Revenue. Their aim is to ensure that collaboration is targeted at specific issues including social welfare fraud and tax evasion. In terms of collaboration with social partners, the Irish Business and Employer's Confederation (IBEC), the Small Firms Association (SFA), Services Industrial Professional and Technical Union (SIPTU) and the Irish Congress of Trade Unions (ICTU) submit policy proposals to government in order to educate employers and workers on their rights and obligations and in some cases pursue claims on behalf of the latter.[21]

Cross Border Operational Forum – this group comprises of senior fraud managers from the DSP, the Department for Work and Pensions and the Northern Ireland Social Security Agency of the Department for Social Development. The Forum's remit is to liaise at operational level and ensure that measures are in place to ensure effective co-operation, prevention and detection of fraud. Case by case data-matching takes places between the DSP and the Department of Social Development (DSD) in Northern Ireland on cases where social welfare fraud or abuse is occurring. In 2011, 4 288 checks were carried out by the DSD on behalf of the DSP. Similarly, 2 716 checks were carried out by the DSP on behalf of the DSD for the same year.[22]

Furthermore, **a Memorandum of Understanding between the Government of Ireland, the Government of the United Kingdom of Great Britain and Northern Ireland** is in place to ensure Co-operation and Mutual Assistance in the Administration of Social Security Programmes in matters of mutual interest in the areas of fraud in their respective social security systems and an annual summer school is run jointly by the DSP and the DSD, Northern Ireland to explore issues of social policy facing their departments and their societies in general.

The DSP carries out data matching with external agencies to help detect fraud. The Irish government has legislated for the sharing of data among agencies for the purpose of fraud detection and control.[23] DSP aims to utilise this data effectively by employing predictive analytics to better detect potential fraud.

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[20] Internet: http://www.welfare.ie/en/Pages/SWI---Powers-of-Social-Welfare-Inspectors.aspx
[21] Internet:
http://digitalcommons.ilr.cornell.edu/cgi/viewcontent.cgi?article=1280&context=intl
[22] Internet: https://www.kildarestreet.com/wrans/?id=2012-11-06a.1353
[23]   Internet:
http://www.oireachtas.ie/parliament/media/committees/pac/correspondence/2014-

The Revenue authority examines electronic systems of businesses, copies and downloads electronic data for further analysis with use of computer-assisted intelligence automated techniques. Revenue also places a strong emphasis on the value of third party information in detecting UDW and shadow economic activity. This is facilitated through the anonymous reporting of suspected UDW by members of the public using an online form on the Revenue website. A similar form is provided by the DSP for reporting individuals suspected of fraudulently claiming welfare payments while working. The DSP also has a dedicated phone number for reporting suspected fraudulent claims.

In 2014, Revenue analysed 2.8 million PAYE transactions of which 10 721 were stopped for further investigation yielding EUR 1.4 million.[24] As of April 2014 the data sharing and data matching initiatives outlined in Section 1.3.2 led to 941 investigations resulting in the disallowance of EUR 25.7 million in social welfare payments.

At a wider EU level, NERA (now the Workplace Relations Commission) was directly involved in multilateral projects under the auspices of the EU and the International Labour Organisation (ILO) as follows:

- The joint ILO and European Commission project on strengthening the role of Labour Inspectorates in combating undeclared work.
- The exchange of best practices conducted through the 2012 Mutual Learning Programme peer review in the Czech Republic on "Upgrading of mechanisms to monitor undeclared work".
- PROGRESS – Posting of Workers: enhanced administrative cooperation & access to information. There are 14 Member States collaborating in an exchange of information on legislative and administrative practices.

1.3   Policy Focus and Measures

1.3.1 Policy approach

Ireland employs a multi-agency approach to tackle UDW. As outlined above the main agencies involved are the **Revenue Commissioners, Department of Social Protection (DSP), Workplace Relations Commission (WRC)**. Other collaborative work among different agencies includes, Special Investigation Unit (SIU), the Hidden Economy Monitoring Group and High Level Group discussed in the section above.

1.3.2 Measures to tackle UDW

Deterrence Measures: Revenue places a strong emphasis on the value of third party information in detecting UDW and shadow economic activity as discussed in section 1.2.3 above through anonymous online reporting. The JIUs take a sectoral approach with a focus on high risk sectors including construction, trade suppliers, the taxi sector, white collar sectors engaged in cash transactions, casual traders, couriers, clothes recycling, car valeting, solid fuel merchants, hairdressers, security sector and haulage.[25] Streetscape Projects are strategies used by JIUs where an inspection is carried out in all cash businesses in a street, small town or village.

The DSP carries out data matching with external agencies to help detect fraud. The Irish government has legislated for the sharing of data among agencies for the purpose of fraud detection and control.[26] DSP aims to utilise this data effectively by employing predictive analytics to better detect potential fraud.

meeting12415/[PAC-R-1362]-Correspondence-3C.2---Dept-of-Social-Protection-Anti-Fraud-Strategy.pdf

[24] Revenue, 2015a

[25] Department of Social Protection (2011). *Department of Social Protection Fraud Initiative 2011-2013.* Dublin: Department of Social Protection.

[26] Department of Social Protection (2014). *Compliance & Anti-Fraud Strategy 2014-2018.* Dublin: Department of Social Protection.

Revenue undertakes compliance interventions on individuals suspected of non-compliance. This typically begins with a telephone conversation and may escalate to a full audit. A range of potential sanctions exist depending on the severity of non-compliance.[27]

Enabling Measures: Preventative approaches are used in Ireland to stop UDW from happening in the first instance. The first step to prevent UDW from occurring is to provide information on employment options to jobseekers and employers.[28] The National Employment and Entitlements Service (NEES) and Public Employment Services (PES) are part of this approach through engagement with jobseekers. Reforms in 2012 (*Intreo* and *Jobpath* reforms) are designed to lead to more active engagement.

The introduction of the Home Renovation Incentive (HRI) Scheme in October 2013 provides for tax relief on home renovation and repair works carried out by qualifying contractors. This incentivises homeowners to use legitimate, tax-compliant contractors thereby limiting UDW in the construction sector.

During the first two years of NERA [now the WRC] multiple awareness campaigns were carried out across different sectors, including, hospitality, fishing and construction. The DSP has also used advertising campaigns to highlight the negative effects of social welfare fraud. NERA developed a Code of Practice and a Guide to Inspections document for employers, both available on their website. A code of practice for determining employment or self-employment status of individuals, prepared under the Programme for Prosperity and Fairness and updated by the Hidden Economy Monitoring Group in 2007 intends to eliminate misconceptions on who is a self-employed or a dependant worker.

Curative approaches are used to allow individuals engaging in UDW to legitimise their activities. Revenue allows a taxpayer to self-correct an error due to carelessness or non-recurring deliberate action without incurring a penalty. The taxpayer must notify Revenue in writing within twelve months of the due date for the tax return for the year in which the correction applies. If self-correction or innocent error does not apply then the taxpayer can make a qualifying disclosure before or during the compliance intervention.

Data availability on the effectiveness of measures associated with UDW is very limited in addition to precise measures of the extent of UDW in general.

In 2015 Revenue conducted 41 368 PAYE compliance checks which yielded EUR 21.6 million. There were 664 convictions secured for non-filing of Income Tax, Corporation Tax and Relevant Contracts Tax with EUR 1.7 million in fines. In 2015, 1 257 individuals were 'named and shamed' as tax defaulters with a court imposed fine/penalty. There were 160 settlements for tax avoidance which yielded EUR 42 million and 2 063 summary convictions for non-filers were obtained yielding EUR 6.4 million in fines.[29]

Audits focus on sectors susceptible to UDW and shadow economic activity. Revenue conducted 3 343 audits in the construction, retail, rental, wholesale, pubs, fast-food, doctors, accounting and legal sectors which yielded EUR 119 million in 2014.[30]

In 2014 SIUs generated fraud and control savings of EUR 64.5 million.[31] In 2014 the DSP recovered EUR 83 million in overpayments and over 315 cases were submitted for

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[27] Revenue Commissioners (2015b). *Compliance Code for PAYE Taxpayers.* Revenue Commissioners: Dublin.

[28] Mutual Learning Programme (MLP) Case Study (2012). *The Irish Approach to Tackle Undeclared Work.* EU 2020 Strategy Study.

[29] Revenue Commissioners (2016). *Revenue Commissioners Headline Results for 2015.* Revenue Commissioners: Dublin.

[30] Revenue, 2015a

[31] Internet: https://www.welfare.ie/en/pressoffice/Pages/pr091214.aspx

prosecution.[32]The number of calls to the DSP's dedicated phone number for reporting fraudulent claims increased from 17 000 in 2011 to 24 720 in 2013.[33] From 2011-2013 over EUR 1.9 billion in control savings was achieved through anti-fraud measures by the DSP.[34]

In 2014, NERA [now the WRC] carried out 5 591 workplace inspections involving 82 468 employees. The amount of unpaid wages recovered was EUR 861 416 in 2014. The overall rate of compliance was reported at 57 %. NERA also detected 600 possible breaches of the Employment Permits Acts in 2014 with 63 employers successfully prosecuted.[35]

1.3.3 Good practice

The sharing of data among agencies and the use of data analytics has made the detection and prevention of UDW more efficient. DSP is committed to the widespread implementation of predictive data analytics models to make detection more efficient.

An example of good practice involving the multi-agency approach relates to a case in 2014 where DSP, Revenue and NERA [WRC] officials carried out an inspection on a construction site having received intelligence relating to possible fraud. Of the 48 employees interviewed on the construction site, 11 were found to have current social welfare claims. Savings of EUR 197 000 were made resulting from the cessation of claims and recovery of overpayments.[36] Awareness campaigns and reporting facilities also represent good practice. The number of anonymous tip-offs to the DSP has increased from 16 917 in 2011 to 24 720 in 2013. This indicates a low tolerance for undeclared work and welfare fraud in Ireland.

1.3.4 Challenges and barriers

UDW and shadow economic activity tend to increase during recessions and periods of high unemployment. While unemployment in Ireland has been decreasing since 2012, it remains relatively high at 8.8 %.[37] The amount of data available in the integrated multi-agency system is difficult to analyse. There may also be data protection issues. The government has introduced specific legislation for the sharing of data. The DSP is working on improved data analytics models for analysing such data. Construction activity is increasing in Ireland. This is one of the main areas susceptible to UDW and government agencies must be vigilant in ensuring work is carried out by tax-compliant contractors. The Home Renovation Incentive Scheme incentivises homeowners to use tax-compliant contractors.

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[32] Department of Social Protection (2015). *Department of Social Protection Compliance & Anti-Fraud Strategy 2014-2018.* Dublin: Department of Social Protection.

[33] DSP, 2015

[34] DSP, 2015

[35] National Employment Rights Authority (2015).

[36] DSP, 2014

[37] Monthly unemployment rate for February 2016, Central Statistics Office (CSO).