

Factsheet on Undeclared Work – SWEDEN

1.1 Nature and Estimated Scale of Undeclared Work

1.1.1 Definition of undeclared work

The term “undeclared work” (UDW) is defined as “any paid activities that are lawful as regards their nature but not declared to the public authorities”.¹ In Sweden the term “svartarbete” (“black work”) is also used frequently, and should be interpreted as a synonym to UDW.

Key organisations with an interest in UDW in Sweden, namely the Swedish National Audit Office (*Riksrevisionen*) and the Swedish Tax Agency (*Skatteverket*), use UDW as a concept distinct from tax avoidance of income from unlawful activities such as smuggling, prostitution and trafficking/trade in stolen goods.

1.1.2 Characteristics of undeclared work

The Swedish Tax Agency divides UDW (or black work) into two broad categories: (1) Undeclared income from employment and (2) undeclared income from self-employment.² The form of undeclared payment in these two categories can be separated into four distinct groups:

- Employees receiving undeclared pay in money or in kind from employers
- Self-employed individuals obtaining undeclared compensation for work or sales of goods
- Employers paying the employee’s private expenses (goods, travel, loan of equipment) and not recording it as a taxable salary benefit
- The firm’s business account being loaded with private expenses that reduce taxable profits.

In a survey conducted by the Swedish Tax Agency (2006), UDW was most frequently found in the sectors covering fishing, agriculture, forestry, restaurants, hairdressers, taxis, car servicing, and cleaning of business premises and other personal services. In these sectors UDW was estimated to be above 15 per cent of total income. The sectors where the income from UDW was between 5 and 15 per cent of total income included education and health care (excluding the public sector), construction industry, rental and company services, road transport of goods, grocery stores, other wholesale and retail, and hotel, camping sites, etc. Because of the large size of these sectors, the greatest amount of income from UDW in absolute figures were found in rental and company service companies, retail stores and in the construction industry.³

Income from UDW in registered companies was estimated by the tax authority to be EUR 7.9 billion, where the main sectors were company service (EUR 1.5 billion), retail stores (EUR 0.9 billion) and the construction industry (EUR 0.7 billion).⁴ Income from registered and unregistered companies that cannot be tax audited were estimated to EUR 0.6 billion. Based on a survey by the Swedish Tax agency in 2005, 30% of this income originated from work in restaurants, 13% from sales, cashiers and shop, and 8% from construction, painting, demolition etc.⁵ Furthermore, households’ purchase of

¹ Anxo, D. (2007), Update of thematic article on “undeclared Work” Sweden, European Employment Observatory, May 2007,

Storrie, D. (2004), Undeclared work in Sweden, in *European Employment Observatory Review, Autumn 2004*, Fighting the immeasurable? Addressing the phenomenon of undeclared work in the European Union, Employment and Social affairs, European Commission, Brussels.

² The Swedish Tax Agency (2006), Purchasing and performing undeclared work in Sweden, Part 1: Results from various studies, Report 2006:4B

³ op. cit.

⁴ op. cit.

⁵ The estimations were based on 2,232 telephone interviews of a random selection of individuals 18-74 years old. (The Swedish Tax Authority, 2006)

UDW was estimated to EUR 1.1 billion (EUR 0.6 billion from work on homes and EUR 0.5 billion on other household work than on homes). Some UDW can be derived from purchase of goods (EUR 0.3 billion), where beverages (13.5%), agricultural products (15.5%) and building materials (3.3%) constituted the largest shares. The Swedish Tax Agency estimated that there was EUR 2.8 – 3.3 billion of income from UDW with unknown origin.

According to the same report by the Swedish Tax Agency,, 85 per cent of the income from UDW originated from small companies with annual wage costs of less than SEK 1 million (EUR 110,000), 11 per cent from limited companies with total wages between SEK 1 and 5 million (EUR 110,000 – 560,000), and larger limited companies and other sectors accounted for 4 per cent.

The main motivators for undeclared work in Sweden varied by individual. A survey by the Swedish National Audit Office found that students, self-employed and blue-collar workers are performing most of the UDW. ⁶ Students have a strong incentive to hide their extra earnings as their public subsidised study-loans are conditioned on a low income from work. As expected, self-employed and blue-collar workers have a significant higher share of UDW than white-collar workers, as incomes from UDW are mainly found in construction and other services.

A common type of UDW is where self-employed individuals obtain undeclared compensation for work performed in households, to avoid the tax wedges created by the households' payroll taxation.

Increasing labour migration also creates a substantial risk of UDW, in particular in the construction sector. The Swedish National Council for Crime Prevention (*Bråttförebyggande rådet - Brå*) states that UDW is common among subcontractors in the construction sector, where employers avoid paying social security contributions and payroll taxes, and false invoices hide payments in cash.

1.1.3 Estimated scale of undeclared work

An indirect method to measure UDW is the use of Discrepancy methods, where Statistics Sweden estimates Gross Domestic Product (GDP) based on total consumption, investment and exports. The difference between this calculation of GDP and the calculation of GDP which is based on the total reported national incomes provides an estimate of how much of the national incomes that are not reported in the tax declarations of households and firms. This difference provides an overall picture on the total amount of UDW, which is estimated to be around 5 per cent of the Swedish GDP.

1.2 Institutional Framework

1.2.1 Responsibilities for addressing undeclared work

The Swedish Tax Agency (*Skatteverket*) is the central government authority that administers the Swedish tax system. It is accountable to the government, but operates as an autonomous public authority. If a taxation crime is detected, the case will be transferred to The Swedish Economic Crime Authority (*Ekobrottsmyndigheten*) which has the exclusive mandate to investigate and prosecute tax and bookkeeping crimes. The Social Insurance Agency (*Försäkringskassan*) controls the rights to obtain social benefits and reports suspected UDW amongst people receiving social benefits. The work against crimes is supported by the Swedish National Council for Crime Prevention (*Brottsförebyggande rådet - Brå*) which also is responsible for the official crime statistics.

⁶ The Swedish National Audit Office (1998), *Illicit work in Sweden, a report on a welfare state dilemma*, Riksrevisionsverket RRV 1998:61, Stockholm

Branch organisations and trade unions in various sectors of the economy, in particular construction, also have a role to play and co-operate with the authorities to raise awareness of UDW.

The Swedish Work Environment Authority (*Arbetsmiljöverket*) is an authority mandated by the government and the Swedish Parliament to control laws about the work environment and working hours are followed by companies and organisations.

The Swedish National Audit Office (*Riksrevisionen*) is part of the central control power of the Swedish Parliament (*Riksdagen*). The authority ensures that the Parliament receives a coordinated and independent audit of the state finances, and is the only body that can audit the entire state finances.

Specific responsibilities held by each organisation regarding UDW are set out below. The Minister of Finance decides on the political priorities regarding the taxation system and delegates authority to individual agencies. The government thus set out the tasks and goals for the agencies, as well as their budgets and how the resources are allocated between different activities. It should, however, be noted that the Swedish constitution does not allow ministers in the Swedish government to intervene in an agency's decisions in specific matters relating to the application of the law or the due exercise of its authority.

The Swedish Tax Agency audits the tax declarations of both private individuals and legal entities, and analyses and reports to the government on the function and performance of the Swedish Taxation system. A large part of the received knowledge about UDW in Sweden is produced by the Swedish Tax Agency.

The Swedish Economic Crime Authority investigates and prosecutes tax crime and bookkeeping crime. The authority also takes the initiative in promoting cooperation between authorities, and proposes changes in statutes to make the fight against economic crime easier and more effective.

The Swedish National Council for Crime Prevention is a government agency that works to reduce crime and increase safety in society by producing data and disseminating knowledge on crime and crime prevention. The agency also produces the official crime statistics, evaluates reforms, conducts research to develop new knowledge and supports local crime prevention work.

The Social Insurance Agency administers the Swedish social insurance system and pays social benefits to families with children, and to people with sicknesses and disabilities. They also control the person's entitlements to social benefits.

The Swedish Work Environment Authority is in charge of monitoring whether the provisions in the Work Environment Act are respected. The Swedish Work Environment Authority produces legally binding provisions, inspects workplaces and disseminate information about work environment regulations.

The Swedish National Audit Office is tasked with controlling and evaluating how government policies, including those to decrease UDW, have been executed and to evaluate the results. The authority publish reports that are publicly available and which critically and independently analyse the performance of the government bodies.

1.2.2 Characteristics of the responsible organisations

The Swedish Tax Agency has 10,370 employees distributed across seven regional offices, and administers matters pertaining to public records, property tax and estate inventories. They also undertake criminal investigations and issue ID cards. During 2014, the authority conducted 5,792 inspections of staff registers, 13,799 inspections of cash registers, and conducted 23,583 other company visits.⁷

⁷ Annual data from the Tax Statistical Yearbook of Sweden

The Swedish Economic Crime Authority is organised into ten public prosecution offices and five regional police operational units. The police operational units deal with criminal intelligence, investigation and reconnaissance as well as the analysis of crimes within the IT sector. Approximately 560 people work at the agency, comprising approximately 100 prosecutors, 70 civilian investigators, 60 administrators and 230 police officers. In 2015, the number of reported crimes related to tax regulation was 14,458 (where 29% lead to prosecution). Fraud against social insurance and unemployment benefits was reported 8,726 times (46% prosecution of fraud against social insurance and 33% prosecution of fraud against unemployment benefits). Accounting offences were reported 14,641 times (48% prosecution).⁸

The Swedish National Council for Crime Prevention is situated in Stockholm with approximately 100 employees including criminologists and lawyers, statisticians and software developers.

The Social Insurance Agency, with approximately 13,400 employees, is one of the largest Swedish government agencies. The agency has the mandate to investigate, decide and pay grants and social insurance benefits. The agency is organised into 60 local insurance centres and 20 regional centres.

During 2015 the Swedish Work Environment Authority inspected more than 13 500 work places. They are based in 11 offices across Sweden, with a central head-office based in Stockholm, and have almost 550 employees.

The Swedish National Audit Office was formed in 2003 after a constitutional change to establish a coherent audit authority for the parliament. The agency has around 340 employees.

1.2.3 Cooperation and collaboration between authorities and cross-border authorities

The Swedish Economic Crime Authority targets its preventive work mainly on three groups: school children, entrepreneurs and new groups in the labor market, and often participates in events and conferences that involve these groups. The cooperation has also involved branch organisations and trade unions in various sectors of the economy, in particular the construction sector.

The Construction Industry in Collaboration (*Byggbranschen i Samverkan*), a joint organisation featuring employers and trade unions in the construction sector, are running a project "Clean Construction Industry". The target groups for this project are students / teachers in secondary schools' vocational programmes, college and universities, as well as the industry and the public. This campaign aims to change attitudes towards UDW in the construction sector. The Swedish Economic Crime Authority and the Swedish Tax agency have contributed to this project by participating in a film designed to combat illegal work in the construction industry.⁹

In terms of data exchange between agencies, the Swedish Economic Crime authority, in cooperation with other authorities (Åklagarmyndigheten, Rikspolisstyrelsen, Tullverket, Skattemyndigheten, and Kronofogdemyndigheten) has formed a joint-national authority specialist function on exchanging information related to economic crime (*Myndighetsgemensam nationell specialistfunktion för brottsutbytesfrågor*). However, there is no available evidence of the effectiveness of cooperation around information exchange.

For the period 2015-2018, the Government has instructed the Swedish Work Environment Authority to increase its monitoring and control of companies that are violating health and safety regulations to gain competitive advantage. This mandate

⁸ The Swedish National Council for Crime Prevention (*Bråttförebyggande rådet - Brå*), annual data.

⁹ Available at www.renbyggbransch.nu/ny-film-sa-far-vi-en-ren-byggbransch__70

also includes increased collaboration with other Swedish agencies, as well as consultations with the social partners, in order to develop information campaigns specifically targeted at sectors and companies with high rates of UDW.

The Swedish Work Environment Authority will also be Sweden's representative at the EU forums on undeclared work. The authority has been involved in a collaborative project funded by the Commission regarding the exchange of experience of the implementation of the Posting of Workers Directive. It is hoped that this, as well as other future collaborations, should increase knowledge on UDW in the communities, and how UDW is dangerous for both individuals and the society as a whole. In terms of cooperation and collaboration between other Member States, the Swedish Council for the protection of the European Union's financial interests, also known as the SEFI Council, is responsible for coordinating measures in Sweden to combat fraud and other improper use of EU-related funds.

The European Anti-Fraud Office, OLAF, work to protect the EU's financial interests against unlawful activities. The Office may carry out administrative investigations in EU member states and also in countries outside the EU, as well as internal investigations within EU institutions and bodies. OLAF investigates EU fraud, prepares legislation to protect the Community's financial interests and represents the European Commission in anti-fraud matters.

The Swedish Economic Crime Authority is part of the Advisory Committee for the Coordination of Fraud Prevention (COCOLAF) along with the Ministry of Finance and, like Swedish Customs, is the Swedish contact authority for OLAF. The Swedish Economic Crime Authority has national responsibility for cases of fraud if the act relates to the EU's financial interests and the improper use of subsidies.

1.3 Policy Focus and Measures

1.3.1 Policy approach

Concerted efforts to raise social awareness of UDW have been undertaken through joint information campaigns by the tax authorities and the Economic Crime Authority (*Ekobrottsmyndigheten*). This co-operation has also involved branch organisations and trade unions in various sectors of the economy, in particular the construction sector.

In recent years, greater attention has been paid to the incentive structure of the labour market in explaining the relative deficit of employment growth in Sweden, in particular in personal services. Social transfers, taxes and non-labour costs may, either separately or jointly, raise barriers and disincentives affecting the growth of service activities, in particular personal services. It has been argued that a high tax wedge restricts consumer demand for household related services, limiting job creation, favouring UDW and leading to inefficient resource allocation within the household and in the whole economy.

One central measure in this context is the "ROT" tax deduction, introduced between April 2004 and June 2005 to address the issue of UDW related to the repair of dwellings. The tax deduction applied to those who build or repair their dwelling. A further step was taken in 2007, when the government announced a tax deduction for household related services ("RUT"), related to, for example, cleaning, care of children, elderly and disabled individuals, and gardening. The tax deduction allows a reduction of 50% of labour cost up to a ceiling of 50,000 SEK per year and household.

A regulation on reversed charges of value added tax (VAT) for the construction sector was introduced in 2007, with the explicit aim of reducing tax evasion. In Sweden VAT is normally paid by the seller of commodities and services and included as a part of the market price. From 1 July 2007 reverse VAT was introduced in the construction sector to impede fraud where buyers of services make a deduction of VAT, but where the seller does not pay the VAT to the State. The seller is often a subcontractor that supplies untaxed labour by charging labour costs as a cost of material.

The Government has also emphasised the need for reforms stimulating and facilitating entrepreneurship and business development. This is especially regarding SMEs for which the present rules and regulations, including those related to the tax system, are described as too complicated and present significant obstacles to the creation and development of small scale firms.

Concerning preventive actions against UDW, from 1 January 2007, employers in high-risk sectors (restaurants and hairdressers) are required to keep a register of their staff. From April 1, 2013 laundries, and from 1 January 2016 the construction industry, are also included. As of 1 January 2010, businesses selling goods and services in return for cash payments must have a certified cash register. Statistics from the Swedish Tax Agency do, however, show that the reported VAT for restaurants rose by 7% and 11% in the hairdressing industry in 2010.¹⁰

1.3.2 Measures to tackle UDW

The current regulations regarding tax deductions from services related to building and repair of dwellings (ROT) and household services (RUT) was changed 1 January 2016. The current ROT allows 30 per cent of labour costs to be deducted from taxation to a maximum of SEK 50,000 per year, while the RUT deduction allows 50 per cent of the labour costs to be tax deductible to a maximum of SEK 25,000 per year (For persons 65 years or older, the maximum amount is SEK 50,000). Furthermore, the sum of tax deductions in ROT and RUT cannot exceed SEK 50,000 per year. The supplier of services directly deducts labour costs on the bill to the customer, and then applies for a payment to the tax authority.

The tax deduction of services in the household (RUT) and building and repair of dwelling (ROT) is estimated to have reduced the purchase of UDW in cleaning services by 11 – 12 per cent¹¹. (This could be an underestimation, since it is based on a survey where buyers of “white” services answer that they have previously bought “black” services. As pointed out in the report, households that did not buy cleaning services before, could have hired “black” services if there was no RUT).

The Swedish Tax Agency attempted to establish the degree of price sensitivity for renovation work by asking ROT buyers how they would have behaved if the tax deduction was not in place. 56% said they would have bought the service to the same extent, 21% would have done the job themselves, 19% had let the work to be undone, 9% would have used help from friends and relatives and only 6% would have bought black work.¹² There are obviously major methodological problems associated with this type of research, but the responses suggest that a large part of the services purchased with the ROT-deduction would not have come about without the tax deduction.

1.3.3 Good practice

The Swedish policies to reduce households’ incentives to use UDW seem to have been successful:

- High tax wedges and low risks of detection have established a norm among Swedish households to use UDW in home repair and renovation. The introduction of the tax deduction for the labour costs for repair and renovation (ROT) has decreased the use of UDW and benefited the employment rate in the conventional (white) sector.
- By extending the tax deduction to the sector of other household services (RUT), the use of UDW has further diminished and supported the creation of jobs in the household service sector.

¹⁰ Eurofound (2013), Tackling undeclared work in 27 European Union Member States and Norway: Approaches and measures since 2008, Eurofound, Dublin.

¹¹ The Swedish Tax Agency (2011), “Om RUT och ROT och VITT och SVART”, Rapport 2011:1

¹² The Swedish Tax Agency (2011), “Om RUT och ROT och VITT och SVART”, Rapport 2011:1

1.3.4 Challenges and barriers

A part of the market for UDW features very low prices and is performed by illegal immigrants, so in this market segment there are other incentives than tax evasion. The illegal immigrants include three different categories of people: (1) Persons who come to Sweden as asylum seekers, but do not leave the country after a deportation notice; (2) Persons who come to Sweden with tourist or student visas and remain in the country after their visa has expired; and (3) Persons whose entry and stay in the country is completely unknown to the authorities. These people are usually living hidden in Sweden and are without social protection and access to medical care. Consequently, they are dependent on UDW, often with extremely low wages and poor working conditions. Qualitative studies based on interviews with illegal immigrants suggest that salaries can vary between SEK 20 and 74 (EUR 2 and 8) per hour, significantly lower than other groups participating in 'black labour'. The Swedish Tax Authority concluded that there could be at least 10 – 20,000 illegal immigrants in Sweden, with the majority earning their livelihood by UDW. A simple calculation results in an undeclared income of about SEK 0.7 – 1.4 billion (EUR 78 – 156 million) per year. As a comparison, total UDW is estimated to around SEK 200 billion (EUR 23 billion) per year (5 per cent of GDP).¹³

Steps taken to address these challenges include, in April 2016, government proposals to invest over SEK 500 million (EUR 56 million) in measures to help immigrants better integrate into Swedish society. Resources are also added to improve the skills mapping and validation of foreign qualifications to employment agencies, so employers can more easily get a picture of the individual's knowledge. A new fast track system for newly arrived entrepreneurs has also been launched.

Outstanding challenges include the influence of criminal activities related to UDW. UDW is often found in labour-intensive industries such as building, cleaning, catering and transport, and several authorities have paid attention to criminal actors within these industries and procurement by organised criminal networks. The Swedish Economic Crime Authority points out that there is a high and continued risk that foreign labour and vulnerable people are increasingly used as UDW by these criminal networks.¹⁴

¹³ op. cit.

¹⁴ The Swedish Economic Crime Authority (2014), "Ekobrottsmyndighetens lägesbild 2014", September 2014, Ekobrottskansliet, EBM A-2014/0435