



European Platform  
tackling undeclared work

**Notification letters and follow-up inspections  
in the hotel and catering sectors**

Estonia

	<p><b>Summary</b></p> <p>Notification letters and follow-up inspections were measures introduced by the Estonian Tax and Customs Board (ETCB) to encourage the declaration of undeclared work in the hotel and catering sector (HORECA). Notification letters were sent to businesses identified as potentially at risk, in order to give them the opportunity to revise their accounting and tax-related information without penalty. Follow-up inspections have been conducted afterwards.</p>
<p><b>Title of the practice in original language</b></p>	<p><i>n/a</i></p>
<p><b>Name(s) of authorities/bodies/ organisations involved</b></p>	<ul style="list-style-type: none"> <li>• Estonian Tax and Customs Board - ETCB (<i>Maksu-ja Tolliamet - MTA</i>).</li> </ul>
<p><b>Sectors</b></p>	<p>Hotel restaurant and catering</p>
<p><b>Target groups</b></p>	<ul style="list-style-type: none"> <li>• Employers in the HORECA industry (directly targeted);</li> <li>• Workers involved in undeclared work (indirectly targeted);</li> <li>• Purchasers (indirectly targeted).</li> </ul>
<p><b>Purpose of measure</b></p>	<p>Changing attitudes: commitment to tax morality</p>

	<p><b>Aims and objectives</b></p> <p>This initiative aimed to encourage full declaration of undeclared wages and to tackle fraud in the hotel, restaurant and catering sectors. It aimed to encourage businesses at risk of non-compliance to be fully compliant and to prevent further non-compliance, ultimately aiming to avoid the need for legal action and enforcement.</p>
<p><b>Background context</b></p>	<ul style="list-style-type: none"> <li>• The action was introduced against the background of a high proportion of tax loss due to non-</li> </ul>



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	<p>compliance and a lack of cooperation from the HORECA sector;</p> <ul style="list-style-type: none"> <li>• At the time of the issue of notification letters, 8 % of employees in Estonia received salaries that were at least in part undeclared;</li> <li>• Businesses were increasingly not fully abiding by tax laws and regulations;</li> <li>• Estimates suggested over EUR 100 million was lost in tax income in 2011 alone.</li> </ul>
<p><b>Key objectives of the measure</b></p>	<p><b>General Objective:</b></p> <ul style="list-style-type: none"> <li>• To encourage compliance and full declaration of employees in the HORECA sectors;</li> <li>• To decrease the loss of revenue through non-compliance and undeclared work;</li> <li>• To create a fairer competition environment for businesses through the decreasing of tax fraud.</li> </ul> <p><b>Specific Objectives:</b></p> <ul style="list-style-type: none"> <li>• To avoid the use of burdensome and resource-intensive measures such as tax audits, sanctions and legal proceedings;</li> <li>• To grant businesses the opportunity to correct declarations and avoid legal repercussions.</li> </ul>
<p><b>Main activities</b></p>	<p>The ETCB sent out notification letters to 1 300 companies asking them to revise their accounting and tax-related information and to give feedback to the tax authority on the results of their business activities during 2011. They then sent 1 000 letters to workers whose average wages in the company were considerably lower compared than the economic sector and regional average.</p> <p>The ETCB undertook a risk-assessment to highlight businesses that may be hiding turnover or using fictitious invoices and sent a further 300 letters following this assessment. In February 2012, site visits were conducted at 500 companies including those that did not change their declarations following the letters, or those with insufficient reasoning for the results of their business activities.</p> <p>Tax officials visited 159 accommodation and catering companies in March and April 2012 to find out the reasons why economic indicators, particularly declared wages, were considerably different to averages of the region and to confirm actual numbers of employees. Following the inspections, 20 accommodation and catering companies did not change their tax behaviour, leading the ETCB to undertake additional controls in May and June 2012.</p>



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	<p>The control measures activity included interviews with management board members, interviews with employees, documentation checks and observation of business activities in real time. These measures were selected dependent on the specific risks of the company and company willingness to comply with the tax officials.</p>
<p><b>Funding/organisational resources</b></p>	<ul style="list-style-type: none"> <li>The ETCB hired 90 additional tax officials to undertake the investigations at the end of 2011. Employment of new officials was necessary as previously staff were unable to contact less than one fifth of companies suspected of non-compliance.</li> </ul>

	<p><b>Outcomes</b></p> <p>Most companies that were targeted improved their tax behaviours. This included increased declaration of number of employees, wages, and increased wage levels of employees. However, several companies did not change their behaviours and required further controls despite the initiative.</p>
<p><b>Achievement of objectives</b></p>	<ul style="list-style-type: none"> <li>The success of the practice is directly associated with the improved tax behaviours of the companies contacted by letter or visited by ETCB staff;</li> <li>It was estimated by the ETCB that the 1 300 companies contacted owed EUR 30.2 million in tax. Of the 1 300 companies that received notification letters in November 2011, almost 800 had changed their declaration by January 2012;</li> <li>Following the control visits, 22 catering and 25 accommodation companies improved their tax behaviour. Prior to the controls, the average declared salary in the catering companies was EUR 277 and that of the accommodation companies was EUR 308. Following the control visits, the average declared salary increased by 17.3 % to EUR 325 in the catering and by 13 % to EUR 348 in the accommodation companies;</li> <li>In 13 catering companies and 6 accommodation companies the number of employees increased by 35 and 8 respectively;</li> <li>The investment in new workforce at the ETCB translated to an additional EUR 11 million in tax income in 2012 and EUR 20 million per year since 2012 in recovery of lost revenue;</li> </ul>



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	<ul style="list-style-type: none"><li>By 2020, just 3 % of employees in the accommodation and food service industries have unregistered employment in Estonia.</li></ul>
<b>Lessons learnt and success factors</b>	While many companies did improve their tax declaration due to the initiative described, there were still exceptions (69 of 1 300 companies made no significant changes to their declaration). The ETCB recognise that this work needs to happen alongside with other initiatives such as legislative change.
<b>Transferability</b>	This practice is easily adaptable to other member states and/or sectors. However, this is dependent on the capacity of the member state government to take on additional labour-intensive controls. This needs to be considered alongside the potential increase in receipts from compliance.

<b>Further information</b>	
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<b>Useful sources and resources</b>	Estonian Institute of Economic Research website, available at <a href="http://www.ki.ee/en/index.html">http://www.ki.ee/en/index.html</a> Estonian Tax and Customs Board, (2019), <i>Strategic Development Plan 2019</i> , available at <a href="https://www.emta.ee/sites/default/files/contacts-about-ETCB/structure-tasks-strategy/arengukava_2019_loplik_inglise.pdf">https://www.emta.ee/sites/default/files/contacts-about-ETCB/structure-tasks-strategy/arengukava_2019_loplik_inglise.pdf</a> Nurmela, K (2013), <i>Targeted control of enterprises for undeclared work, Estonia</i> , available at <a href="https://www.eurofound.europa.eu/data/tackling-undeclared-work-in-europe/database/targeted-control-of-enterprises-for-undeclared-work-estonia">https://www.eurofound.europa.eu/data/tackling-undeclared-work-in-europe/database/targeted-control-of-enterprises-for-undeclared-work-estonia</a> Kruusmaa, S (2012), <i>Maksuameti kontrollid töstsid palka ja suurendasid töötajate arvu</i> [The controls of Tax and Customs Board raised salaries and the number of employees], Äripäev, 21 June, available at <a href="http://ap3.ee/article/2012/6/21/maksuameti-kontrollid-tostsid-palka-ja-suurendasid-tootajate-arvu">http://ap3.ee/article/2012/6/21/maksuameti-kontrollid-tostsid-palka-ja-suurendasid-tootajate-arvu</a> Ärileht.ee (2012), 'Maksuamet palkas 90 uut maksuametnikku' ['Tax and Customs Board hired 90 new tax officials'], 1 March, available at



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<http://www.epl.ee/news/majandus/maksuamet-palkas-90-uut-maksuametnikku.d?id=63997247>

Williams, C. C. and Horodnic, I. A. (2020), '*Tackling undeclared work in the tourism sector*', European Platform tackling undeclared work, available at <https://effat.org/wp-content/uploads/2020/09/5D-EU-UDW-Platform-Report-Tackling-undeclared-work-in-the-tourism-sector-2020.pdf>