



European Platform  
tackling undeclared work

# **Tackling undeclared work in the tourism sector**

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## EXECUTIVE SUMMARY

This report evaluates undeclared work in the tourism sector in the EU and how this can be tackled.<sup>1</sup> To do so, the prevalence and character of undeclared work in the tourism sector is analysed using data from the European Working Conditions Survey (EWCS), European Labour Force Survey (EU-LFS) and Eurobarometer surveys on undeclared work, as well as desk-based research to identify the multifarious types of undeclared work in the diverse industries comprising the tourism sector. Based on this detailed understanding, the report considers how undeclared work can be tackled in this sector.

### Undeclared work in the tourism sector

- In 2016, **1 in 10 enterprises** (2.4 million) in the European non-financial business economy were in tourism industries, employing 13.6 million persons (**9.5 % of the EU workforce**). The majority of these workers (8 out of 10) are in food and beverage serving activities (58.7 % of all employment in the tourism sector) and the accommodation sector (19.7 %).
- **14 % of workers in the accommodation and food services sector are in unregistered employment** (compared with 5 % of the overall EU workforce). 12 % of all unregistered employment in the EU is in this sector.
- **2 % of workers in the accommodation and food services sector are in bogus self-employment** (compared with 4 % of all employment in the EU).
- **6 % (1 in 17) of employees in hotels and restaurants receive envelope wages** (compared with 5 % of all employees in the EU).
- Unregistered enterprises and formal enterprises under-declaring transactions and/or employing unregistered and under-employed workers, and the bogus self-employed, prevail across **all sub-sectors of the tourism economy**. These include: accommodation services, food and beverage serving activities; railway, road, water and air passenger transport; transport equipment rental; travel agencies and other reservation services; cultural activities, and sports and recreational activities.

### Tackling undeclared work in the tourism sector

To tackle undeclared work in the tourism sector, not only are deterrence measures required to increase the costs of undeclared work ('sticks') and incentive measures to make declared work more beneficial and easier ('carrots') but also education and awareness raising initiatives.

**Deterrence measures** that could be used include:

- **Workplace inspections**, including announced inspections, and joint and concerted inspections to tackle cross-border undeclared work. Introducing ID cards can improve their effectiveness and experimenting with social partner involvement in inspections, akin to Iceland, is one way forward.
- **Data mining** to identify risky tourist businesses (i.e., 'outliers') can use various indicators: higher than average expenses; higher ratios of credit card to cash payments; lower wage levels, and lower numbers of registered employees for turnover. Using dynamic benchmarking to identify 'outlier' tourist enterprises can further improve the effectiveness of data mining in detecting undeclared work.

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<sup>1</sup> This report was undertaken (i) prior to the exit of the UK from the European Union, so UK examples are used, and (ii) before the coronavirus pandemic which has strongly impacted the tourism sector, although it has not changed the structural problems related to undeclared work in the tourism sector discussed in this report.

- Data mining can also better identify the targets for **notification letters**, as exemplified by Estonia and Spain, but also Canada where notification letters have encouraged the full declaration of tips by hospitality workers.
- Introducing **registration** such as a **written contract (by the first day of work)** is a pre-requisite for effective detection. This, however, does not cover all forms of employment in tourism. Other forms of worker registration are therefore required, such as registration of service providers on online platforms.
- Other deterrence initiatives to improve detection of undeclared work in the tourism sector include: the introduction of **certified cash registers**; and supply chain due diligence initiatives, such as a **voluntary supply chain responsibility initiative**, which larger tourism businesses could introduce as part of their corporate social responsibility (CSR) strategies.

**Incentive measures** that could be used include:

- **Simplifying compliance** to make it easier for employers and the self-employed, as well as workers, to operate on a declared basis. Initiatives could include: simplified regulations for smaller and seasonal jobs in tourism (exemplified by the 2010 Simplified Employment Act in Hungary); introducing threshold amounts for workers to earn from own-account activities (e.g., UK), such as to address private home restaurants and 'meal sharing'; and using tax and social security incentives, exemplified by 'flexi-jobs' in the hotel and catering sector in Belgium.
- Social partners can provide **social security incentives** to operate on a declared basis in the tourism industry. For example, the Builders Social House (*Casa Socială a Constructorilor*, CSC) scheme in Romania could be replicated in various tourism sub-sectors, where work is seasonal, and in other Member States.
- Social partners can also offer other incentives, such as in Greece where an employer federation (ESEE) provides **free marketing** to compliant tourist businesses via 'business walking routes' pamphlets distributed to tourists. To do so, a 'white list' of compliant tourist businesses is a pre-requisite.
- Participants in the undeclared economy could be offered the opportunity to **voluntarily disclose** their previous non-compliance. This could be targeted at many tourist industries (e.g., pop-up restaurants, home restaurants, short-term holiday rental sphere).
- Initiatives to encourage tourists to purchase on a declared basis could be used, including: **holiday vouchers** to promote the use of registered tourist accommodation and reduce undeclared earnings in the accommodation sector; **encouraging tourists to ask for receipts** so that transactions are recorded by firstly, making it a statutory responsibility for restaurant menus to include on the front page that it is compulsory to issue a receipt and if not produced, the purchaser has the right not to pay, and secondly, by encouraging tourist participation in national receipt lotteries by hosting the 'receipts lotto' draw in different tourist resorts during vacation periods.

**Education and awareness raising initiatives** include:

- Developing education and awareness raising materials to elicit tourist behaviour change, exemplified by the Greek campaign '**receipts please**' targeted at tourists, and the Portugal educational campaign to inform motorhome users of official motorhome sites.
- Using campaign messages that **overcome the neutralisation techniques** (NTs) employers, workers and tourists use to rationalise their deviant behaviours.
- Developing **a social labelling initiative** which provides compliant tourist enterprises (i.e., on a 'white/compliance list') with a social label that they respect

fair working conditions, to help tourists make appropriate choices when purchasing goods and services.

## 1 INTRODUCTION

This report evaluates undeclared work in the tourism sector in the EU and how this can be tackled. There is recognition that undeclared work is more prevalent in the tourism sector than in other sectors of the economy. This means that legitimate tourism enterprises suffer from higher levels of unfair competition and tourism workers more likely to suffer from poor working conditions due to the prevalence of undeclared work.

Therefore, the aim of this report is to evaluate the prevalence and characteristics of undeclared work in the tourism sector across the EU and how to tackle it. The specific objectives are to answer the following two questions:

- What is the prevalence and characteristics of undeclared work in the tourism sector?
- How can undeclared work in the tourism sector be tackled?

To achieve this, section 2 will evaluate the magnitude and trends of the tourism sector along with the characteristics of the tourism labour market. Section 3 then reviews the extent of undeclared work in the EU tourism sector, including the extent of unregistered employment, under-declared employment, undeclared self-employment and bogus self-employment. This is followed in section 4 by a qualitative review of unregistered enterprises and formal enterprises under-declaring transactions and/or employing unregistered and under-employed workers, and the bogus self-employed, in the heterogeneous sub-sectors and industries that comprise the tourism sector. Having reviewed undeclared work in the tourism sector, section 5 then introduces the policy approaches for tackling undeclared work in this sector and reviews deterrents, incentives that make participating in declared work in tourism easier and more beneficial, and education and awareness raising initiatives tailored to tackling undeclared work in tourism. Section 6 then synthesises the findings and makes recommendations for addressing undeclared work in the tourism industry.

## 2 EMPLOYMENT IN THE TOURISM SECTOR

### 2.1 Size and trends

Tourism refers to travel but not all travel is tourism. For travel to belong to tourism, three criteria must be met<sup>2</sup>:

- The travel must involve a displacement outside the usual environment;
- Type of purpose: the travel must occur for any purpose different from being remunerated from within the place visited. Tourism in the past was restricted to recreation and visiting family and friends. This has now expanded to include a much wider array of purposes;
- Duration: only a maximal duration is mentioned, not a minimal. Tourism displacement can be with or without an overnight stay.

In the EU, Regulation (EU) No 692/2011 of 6 July 2011 uses these three criteria to define tourism as **the activity of visitors taking a trip to a main destination outside their usual environment<sup>3</sup>, for less than a year, for any main purpose, including business, leisure or other personal purpose, other than to be employed by a resident entity in the place visited.**

Based on this definition, Member States produce harmonised statistics on tourism supply and demand. To measure tourism supply, data on rented accommodation is used (i.e., capacity and occupancy of tourist accommodation establishments<sup>4</sup> in the reporting

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<sup>2</sup> <http://www.tugberkugurlu.com/archive/definintion-of-tourism-unwto-definition-of-tourism-what-is-tourism>

<sup>3</sup> [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Usual\\_environment](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Usual_environment)

<sup>4</sup> [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Tourist\\_accommodation\\_establishment](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Tourist_accommodation_establishment)

country, including resident<sup>5</sup> and non-resident<sup>6</sup> guests). To measure tourism demand, meanwhile, three types of data are used: data on participation in tourism of the residents of the reporting country; data on the characteristics of tourism trips made by the residents of the reporting country, and data on the characteristics of same-day visits made by the residents of the reporting country.

As Tables 1 and 2 display, in 2016, **1 in 10 enterprises** (2.4 million) in the non-financial business economy in the EU belonged to the tourism industries<sup>7</sup>. These enterprises **employed an estimated 13.6 million persons** (9.5 % of total EU employment). However, despite tourism amounting to one-tenth of enterprises and employment in the EU, the tourism industry accounts for only 3.9 % of turnover and 5.8 % of the value added in the non-financial business economy. These lower figures are in part due to the relatively higher share of micro-, small- and medium-sized enterprises in the tourism sector and the higher level of part-time employment in the sector.

**Table 1. Key economic indicators for the tourism industries (EU-28, 2016)**

	NACE Rev.2	Number of enterprises	Turnover (million EUR)	Value added at factor cost (m EUR)	Number of persons employed
<b>Total non-financial business economy (1)</b>		<b>24,425,954</b>	<b>27,346,551</b>	<b>7,183,983</b>	<b>142,243,831</b>
<b>Total services (2)</b>		<b>12,266,757</b>	<b>6,619,998</b>	<b>2,997,584</b>	<b>62,505,670</b>
<b>Total tourism industries (3)</b>		<b>2,444,841</b>	<b>1,078,481</b>	<b>418,358</b>	<b>13,573,998</b>
<b>Tourism industries (mainly tourism) (4)</b>		404,938	473,653	150,594	3,457,392
<b>Tourism industries (partially tourism) (5)</b>		2,039,903	604,828	267,764	10,116,606
<b>Transport related (total)</b>		<b>389,307</b>	<b>280,256</b>	<b>107,321</b>	<b>2,186,260</b>
Land transport		374,828	122,639	65,399	1,728,717
<i>Passenger rail transport, interurban</i>	H4910	287	61,496	32,676	525,578
<i>Taxi operation</i>	H4932	323,020	24,016	13,528	663,749
<i>Other passenger land transport n.e.c.</i>	H4939	51,521	37,127	19,194	539,390
Water transport		10,320	24,247	8,962	113,242
<i>Sea and coastal passenger water transport</i>	H5010	6,320	21,916	7,975	91,692
<i>Inland passenger water transport</i>	H5030	4,000	2,331	987	21,550
Passenger air transport	H5110	4,159	133,370	32,961	344,301
<b>Accommodation (scope of Reg 692/2011)</b>		<b>323,462</b>	<b>181,677</b>	<b>87,633</b>	<b>2,673,197</b>
<i>Hotels and similar accommodation</i>	I5510	154,627	150,930	74,159	2,195,939
<i>Holiday and other short-stay accommodation</i>	I5520	152,438	20,930	8,783	371,440
<i>Camping grounds, recreational vehicle and trailer parks</i>	I5530	16,397	9,817	4,692	105,818
<b>Food and beverage (total)</b>		<b>1,565,410</b>	<b>362,446</b>	<b>148,702</b>	<b>7,971,489</b>
<i>Restaurants and mobile food service activities</i>	I5610	961,094	272,292	113,628	5,763,614
<i>Beverage serving activities</i>	I5630	604,316	90,154	35,074	2,207,875
<b>Car and other rental (total)</b>		<b>57,074</b>	<b>82,614</b>	<b>41,247</b>	<b>221,669</b>
<i>Renting and leasing of cars and trucks</i>	N7710	42,307	80,000	40,000	190,000
<i>Renting and leasing of recreational and sports goods</i>	N7721	14,767	2,614	1,247	31,669
<b>Travel agency, tour operator reservation service and related activities (total)</b>		<b>109,590</b>	<b>171,488</b>	<b>33,455</b>	<b>521,384</b>
<i>Travel agency and tour operator activities</i>	N7910	77,317	158,606	30,000	439,894
<i>Other reservation service and related activities</i>	N7990	32,271	12,882	3,455	81,489

(1) NACE sections: B-N\_S95\_X\_K (Total business economy; repair of computers, personal and household goods; except financial and insurance activities).

(2) NACE sections: H, I, J, L, M, N, S95.

(3) NACE classes: H491, H4932, H4939, H501, H503, H511, I551, I552, I553, I561, I563, N771, N7721 and division N79.

(4) NACE classes: H511, I551, I552, I553 and N791.

(5) NACE classes: H491, H4932, H4939, H501, H503, I561, I563, N771, N7721 and N799.

Source: Eurostat (2019a) – Available at: [https://ec.europa.eu/eurostat/statistics-explained/index.php/Tourism\\_industries\\_-\\_economic\\_analysis](https://ec.europa.eu/eurostat/statistics-explained/index.php/Tourism_industries_-_economic_analysis)

<sup>5</sup> <https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Resident>

<sup>6</sup> <https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Non-resident>

<sup>7</sup> [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Tourism\\_industries\\_-\\_economic\\_analysis](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Tourism_industries_-_economic_analysis)

However, not all tourism industries serve only tourists. Some serve 'mainly tourism' and others 'partially tourism' (e.g., restaurants where the customers are likely to be a mix of tourists and non-tourists). As Tables 1 and 2 reveal, one-quarter of employment in the tourism industry is in establishments serving 'mainly tourism' and three-quarters in establishments serving 'partially tourism'. Between 2012 and 2016, the 'mainly tourism' industry grew faster than the rest of the economy. The value added grew by 28 %, the number of enterprises by 19 %, turnover by 13 % and the number of persons employed by 10 % (for the total economy, these figures were 16 %, 9 %, 5 % and 6 % respectively).

**Table 2. Key economic indicators for the tourism industries (percentages, EU-28, 2016)**

	NACE Rev.2	Number of enterprises	Turnover	Value added at factor cost	Number of persons employed
<b>Total tourism industries as share of total non-financial business economy<sup>(1)</sup></b>		<b>10.0%</b>	<b>3.9%</b>	<b>5.8%</b>	<b>9.5%</b>
<b>Total tourism industries as share of total Services<sup>(2)</sup></b>		<b>19.9%</b>	<b>16.3%</b>	<b>14.0%</b>	<b>21.7%</b>
<i>Total tourism industries<sup>(3)</sup>, of which:</i>		<i>100.0%</i>	<i>100.0%</i>	<i>100.0%</i>	<i>100.0%</i>
<b>Tourism industries (mainly tourism)<sup>(4)</sup></b>		<b>16.6%</b>	<b>43.9%</b>	<b>36.0%</b>	<b>25.5%</b>
<b>Tourism industries (partially tourism)<sup>(5)</sup></b>		<b>83.4%</b>	<b>56.1%</b>	<b>64.0%</b>	<b>74.5%</b>
<i>Total tourism industries, of which:</i>		<i>100.0%</i>	<i>100.0%</i>	<i>100.0%</i>	<i>100.0%</i>
<b>Transport related (total)</b>		<b>15.9%</b>	<b>26.0%</b>	<b>25.7%</b>	<b>16.1%</b>
Land transport		15.3%	11.4%	15.6%	12.7%
<i>Passenger rail transport, interurban</i>	H4910	<0.5%	5.7%	7.8%	3.9%
<i>Taxi operation</i>	H4932	13.2%	2.2%	3.2%	4.9%
<i>Other passenger land transport n.e.c.</i>	H4939	2.1%	3.4%	4.6%	4.0%
Water transport		<0.5%	2.2%	2.1%	0.8%
<i>Sea and coastal passenger water transport</i>	H5010	<0.5%	2.0%	1.9%	0.7%
<i>Inland passenger water transport</i>	H5030	<0.5%	<0.5%	<0.5%	<0.5%
Air transport	H5110	<0.5%	12.4%	7.9%	2.5%
<b>Accommodation (scope of Reg 692/2011)</b>		<b>13.2%</b>	<b>16.8%</b>	<b>20.9%</b>	<b>19.7%</b>
<i>Hotels and similar accommodation</i>	I5510	6.3%	14.0%	17.7%	16.2%
<i>Holiday and other short-stay accommodation</i>	I5520	6.2%	1.9%	2.1%	2.7%
<i>Camping grounds, recreational vehicle parks and trailer parks</i>	I5530	0.7%	0.9%	1.1%	0.8%
<b>Food and beverage (total)</b>		<b>64.0%</b>	<b>33.6%</b>	<b>35.5%</b>	<b>58.7%</b>
<i>Restaurants and mobile food service activities</i>	I5610	39.3%	25.2%	27.2%	42.5%
<i>Beverage serving activities</i>	I5630	24.7%	8.4%	8.4%	16.3%
<b>Car and other rental (total)</b>		<b>2.3%</b>	<b>7.7%</b>	<b>9.9%</b>	<b>1.6%</b>
<i>Renting and leasing of cars and trucks</i>	N7710	1.7%	7.4%	9.6%	1.4%
<i>Renting and leasing of recreational and sports goods</i>	N7721	0.6%	<0.5%	<0.5%	<0.5%
<b>Travel agency, tour operator reservation service and related activities (total)</b>		<b>4.5%</b>	<b>15.9%</b>	<b>8.0%</b>	<b>3.8%</b>
<i>Travel agency and tour operator activities</i>	N7910	3.2%	14.7%	7.2%	3.2%
<i>Other reservation service and related activities</i>	N7990	1.3%	1.2%	0.8%	0.6%

(1) NACE sections: B-N\_S95\_X\_K (Total business economy; repair of computers, personal and household goods; except financial and insurance activities).

(2) NACE sections: H, I, J, L, M, N, S95.

(3) NACE classes: H491, H4932, H4939, H501, H503, H511, I551, I552, I553, I561, I563, N771, N7721 and division N79.

(4) NACE classes: H511, I551, I552, I553 and N791.

(5) NACE classes: H491, H4932, H4939, H501, H503, I561, I563, N771, N7721 and N799.

Source: Eurostat (2019a) – Available at: [https://ec.europa.eu/eurostat/statistics-explained/index.php/Tourism\\_industries\\_-\\_economic\\_analysis](https://ec.europa.eu/eurostat/statistics-explained/index.php/Tourism_industries_-_economic_analysis)

Tourism employment, nevertheless, is concentrated in particular sectors. Nearly eight out of ten persons employed in the tourism industries in the EU operated in accommodation (19.7 %) or food and beverage serving (58.7 %) activities in 2016 and more than three-quarters (77.2 %) of all tourist industry enterprises were in these two sectors. It is therefore unsurprising that accommodation and food and beverage serving

activities are the focus when discussing the tourism industry. Nevertheless, these are not the only tourism industries in which undeclared work is found (see section 4).

**Table 3. Number of persons employed in tourism industries, by EU Member State, 2016**

	Total non-financial business economy <sup>(1)</sup>	Services <sup>(2)</sup>	Tourism industries (total) <sup>(3)</sup>	Transport (total) <sup>(4)</sup>	Accommodation (scope of Reg. 692/2011) <sup>(5)</sup>	Food and beverage (total) <sup>(6)</sup>	Car and other rental (total) <sup>(7)</sup>	Travel agency, tour operators (total) <sup>(8)</sup>	Selected tourism industries <sup>(9)</sup>
EU-28	142,243,831	62,495,935	13,366,068	1,981,960	2,672,671	7,970,702	219,394	521,341	3,612,944
Belgium	2,802,427	1,327,553	220,507	52,775	23,781	131,538	4,165	8,248	37,958
Bulgaria	1,961,520	671,077	163,280	19,289	41,058	94,228	2,481	6,224	50,507
Czechia	3,661,872	1,176,099	195,904	27,435	33,459	120,176	2,239	12,595	51,017
Denmark	1,714,856	760,628	146,965	25,958	22,377	90,857	1,955	5,818	33,788
Germany	29,086,416	12,636,633	2,452,086	297,070	569,418	1,444,706	35,896	104,996	747,207
Estonia	421,502	160,327	29,232	3,827	7,208	15,793	820	1,584	8,946
Ireland	1,381,788	670,038	183,513	7,640	59,262	108,344	2,496	5,771	73,130
Greece	2,366,199	1,149,694	566,599	68,626	133,827	342,190	5,851	16,105	154,470
Spain	11,713,717	5,427,742	1,435,465	99,171	279,341	980,925	21,269	54,759	368,789
France	15,619,439	7,209,877	1,138,243	146,698	206,381	715,779	27,177	42,208	:
Croatia	997,335	363,044	121,945	15,273	32,519	65,842	1,896	6,415	40,806
Italy	14,547,328	5,876,137	1,498,798	178,802	266,431	989,852	15,562	48,151	335,979
Cyprus	229,292	109,360	46,645	2,222	19,179	22,647	807	1,790	21,030
Latvia	634,957	270,100	44,221	7,727	6,905	25,365	1,781	2,443	10,882
Lithuania	954,639	350,602	52,909	7,352	8,250	31,852	2,331	3,124	12,120
Luxembourg	265,037	133,592	21,247	3,361	3,609	13,270	436	571	:
Hungary	2,672,445	1,076,385	184,162	51,698	27,323	94,760	4,027	6,354	36,386
Malta	142,606	71,372	21,778	3,205	7,719	8,617	798	1,439	10,810
Netherlands	5,598,998	2,916,095	492,011	61,102	83,138	314,638	9,209	23,924	132,518
Austria	2,778,445	1,143,321	352,023	48,465	112,025	175,927	3,964	11,642	134,323
Poland	9,009,673	2,825,658	366,957	101,415	72,984	160,237	10,967	21,354	99,674
Portugal	3,115,885	1,324,944	352,778	37,190	79,865	218,297	5,347	12,079	103,710
Romania	3,978,093	1,292,035	234,556	60,283	44,079	116,202	3,435	10,557	64,307
Slovenia	604,234	211,149	40,727	4,236	10,366	23,496	503	2,126	13,630
Slovakia	1,526,626	507,555	65,818	8,797	10,430	41,917	1,505	3,169	16,934
Finland	1,460,061	616,225	93,033	26,184	11,052	49,606	1,447	4,744	21,059
Sweden	3,203,909	1,474,042	271,490	55,551	53,249	147,493	3,167	12,030	71,169
United Kingdom	19,794,532	10,744,651	2,294,678	282,110	447,436	1,426,148	47,863	91,121	632,464
Iceland	:	58,350	25,535	5,245	6,158	9,299	1,044	3,789	13,443
Norway	1,598,176	667,356	157,567	42,949	35,454	70,472	1,908	6,784	49,200

**Notes:** Tourism aggregates estimated using available data and including 2015 data for some countries. Due to unreliable data at country level, the use of 2015 data instead, and rounding, deviations can occur between total and subtotals.

(1) NACE sections: B-N\_S95\_X\_K (Total business economy; repair of computers, personal and household goods; except financial and insurance activities).

(2) NACE sections: H-J, L-N and NACE division S95.

(3) NACE classes: H491, H4932, H4939, H501, H503, H511, I551, I552, I553, I561, I563, N771, N7721 and division N79

(4) NACE classes: H491, H4932, H4939, H501, H503 and H511. BE: Not including NACE classes H501 and H503. BG, DE, EL: Not including NACE H491. DK, NL: Not including NACE H491 and including NACE H51 instead of H511. EE: Not including H491 and H503 and including H51 instead of H511. IE: Not including H491, H4939 and H503 and including H51 instead of H511. ES: Not including H4932. FR: Not including H491 and H511. LU: including only H4939. PT: Not including H491, H501 and H503. SI: Not including H503 and including H51 instead of H511. FI: Not including H491 and H4939. CH: Not including 4932 and 4939. MK: Not including 491, 503 and including H51 instead of H511. BA: Not including H503.

(5) NACE classes: I551, I552 and I553. AT: 2015 data. EE, IE, CY, LU, NL, MK and BA: including NACE class I559.

(6) NACE classes: I561 and I563. MT: includes 2015 data for NACE class I563.

(7) NACE classes: N771 and N7721. EE, LU, MT, CH and BA: not including class N7721. IE: includes 2015 data for N7721. AT: 2015 data; (8) NACE division N79. LU: NACE class N791 instead of NACE division N79. MT: 2015 data.

(9) NACE divisions: H51, I55 and N79. Full description of economic activities covered, see under "Data sources".

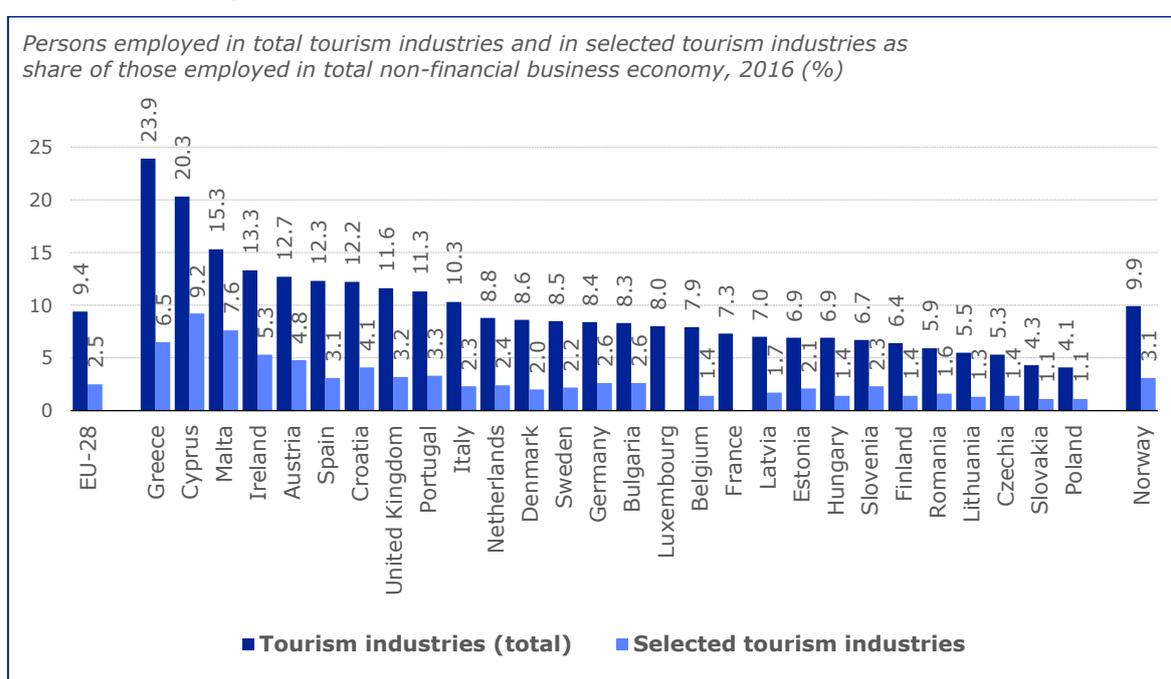
": Aggregate not available due to one or more unreliable components at NACE 3 or 4 digit level.

**Source:** Eurostat (2019b) – Available at: [https://ec.europa.eu/eurostat/statistics-explained/index.php/Tourism\\_industries\\_-\\_employment](https://ec.europa.eu/eurostat/statistics-explained/index.php/Tourism_industries_-_employment)

The importance of the tourism sector (in terms of the numbers and proportions employed) also significantly varies across EU Member States. As Table 3 reveals, in 2016, although over 13 million people were employed in the tourism industries in the EU, representing 9.5 % of total EU employment, there are marked differences across Member States. In terms of absolute numbers, Germany had the highest numbers employed in the tourism industries (2.5 million people), followed by the United Kingdom (2.3 million), Italy (1.5 million), Spain (1.4 million) and France (1.1 million). These five Member States account for 66 % of total EU employment in the tourism sector.

In terms of the proportion of total employment in each Member State which is in the tourism industry, meanwhile, and as Figure 1 displays, it is Greece which records the highest share (23.9 % of total employment) followed by Cyprus and Malta with respectively one in five and nearly one in six people in employment working in the tourism sector.

**Figure 1. Proportion of total employment in the tourism industries: by Member State, 2016**



**Notes:**

(1) Total tourism industries: NACE classes: H491, H4932, H4939, H501, H503, H511, I551, I552, I553, I561, I563, N771, N7721 and division N79.

(2) Selected tourism industries: NACE divisions: H51, I55 and N79. FR and SE: include class H511 instead of division H51.

(3) Non-financial business economy: NACE sections: B-N\_S95\_X\_K (Total business economy; repair of computers, personal and household goods; except financial and insurance activities). IE, EL and FI: 2012 data.

Full description of economic activities covered, see under "Data sources".

Source: Eurostat (2019b) – Available at: [https://ec.europa.eu/eurostat/statistics-explained/index.php/Tourism\\_industries\\_-\\_employment](https://ec.europa.eu/eurostat/statistics-explained/index.php/Tourism_industries_-_employment)

In consequence, tackling undeclared work in the tourism industries will be more important in some Member States than others. For Member States such as Greece, Cyprus and Malta, where tourism is a major employer, a focus upon this sector is more important than in other Member States where a smaller proportion of the workforce are in this sector.

**2.2 Characteristics of the labour market**

Given that the peaks and troughs in labour demand are greater in tourism than in the wider labour market, it might be expected that the characteristics of employment in the tourist industry will differ to the wider EU economy with fewer permanent full-time jobs, and so too will the socio-demographic characteristics of the labour force.

Table 4 reports the characteristics of the labour market in the three sub-sectors of the tourist industry that serve 'mainly tourism', namely air transport, accommodation and travel agencies and tour operators. These are the sub-sectors that are most reliant on tourists. This reveals the following characteristics of the tourism labour market:

- **Part-time employment is significantly higher in the tourism sector** (24 % of total employment) than in the total non-financial business economy (17 %) and is comparable to the services sector as a whole (22 %). Part-time employment is highest in the accommodation sector (26 % of total employment), followed by travel agencies and tour operators (22 %). In air transport, 18 % of staff work on a part-time basis.
- **Temporary employment is more prevalent in tourism** than in the total non-financial business economy (23% versus 14 % of people employed). In the accommodation sector, more than one in four people employed do not have a permanent contract, reflecting the seasonal nature of employment in tourism.
- The likelihood of an employee **holding their current job for less than one year** is significantly higher in tourism than in the non-financial business economy as a whole (23 % versus 15 %), again reflecting the seasonal nature of employment in tourism. In the economy on average, 75 % have worked with the same employer for two years or more, while in tourism this is the case for 65 %. Air transport tends to offer more stable jobs, with only 12 % of employees having a job for less than one year, compared with 26 % in accommodation and 14 % for people employed by travel agencies or tour operators.

**Table 4. Characteristics of tourism labour market, EU-28, 2017 (%)**

	Non financial business economy <sup>(1)</sup>	Services <sup>(2)</sup>	Selected tourism industries <sup>(3)</sup>	Air transport <sup>(4)</sup>	Accommodation <sup>(5)</sup>	Travel agency, tour operator <sup>(6)</sup>
Share of employees with temporary contract	13.9	15.2	22.8	9.0	27.5	12.2
Share of persons employed part-time	16.6	21.8	24.0	17.6	25.5	21.7
Share of employees having had their job for less than one year	15.1	17.4	22.6	12.3	26.2	14.4
Share of women employed	35.8	40.9	59.4	41.3	61.2	63.8
Share of persons employed aged 15-24	9.3	9.3	12.6	6.4	14.5	8.6
Share of persons employed with lower educational attainment level	19.8	18.1	20.5	7.4	25.8	7.0
Share of foreign persons employed	8.9	10.9	15.7	8.3	18.2	10.1

(1) NACE sections: B-N\_S95\_X\_K (Total business economy; repair of computers, personal and household goods; except financial and insurance activities).

(2) NACE sections: H-J, L-N and NACE division S95.

(3) NACE divisions: H51, I55 and N79.

(4) NACE division H51.

(5) NACE division I55.

(6) NACE division N79.

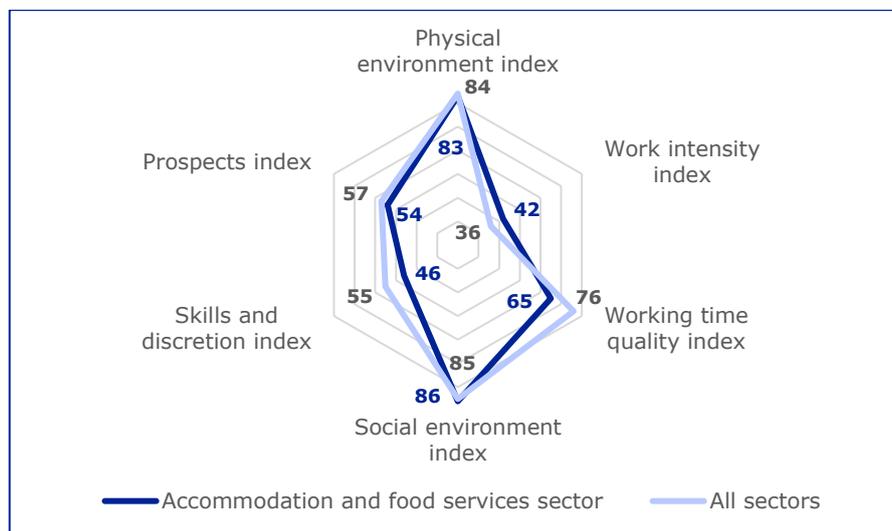
Source: Eurostat (2019b) – Available at: [https://ec.europa.eu/eurostat/statistics-explained/index.php/Tourism\\_industries\\_-\\_employment](https://ec.europa.eu/eurostat/statistics-explained/index.php/Tourism_industries_-_employment)

Tourism is therefore characterised by more part-time and temporary employment than the wider economy. So too do the socio-demographic characteristics of the tourism sector labour force differ:

- Tourism is a **major employer of women**, with women forming 59% of the labour force. The share of women in the workforce is even higher in accommodation (61 %), and in travel agencies and tour operators (64 %).
- The **labour force is younger** in the tourism industries. 13 % of workers are aged 15 to 24 compared with 9 % for services and the non-financial business economy. In the EU accommodation sector, the proportion of young workers stands at 15 %.
- **The tourist accommodation sector gives more opportunities to lower educated workers.** People with a lower educational level (those who have not finished upper secondary schooling) are equally represented on the labour market as a whole and in the tourism sector (around 20 % for both). However, in the subsector of accommodation, one in four people employed has a lower educational level.
- **Nearly one in six (16 %) employed in tourism are foreign citizens** (of which 9 % are from other EU Member States and 7 % are from non-EU countries). In the services sector as a whole, the proportion of foreign citizens employed is 11 %, and in the total non-financial business economy it is 9 %. Foreign workers are 8 % of the workforce in air transport and 10 % in travel agencies or tour operators, but 18% of the workforce in accommodation.

**Working conditions are also worse in the tourism sector than in the rest of the economy.** Examining the 2015 European Working Conditions Survey (EWCS), Figure 2 compares work in the accommodation and food services sector with work in the rest of the economy. This reveals that **job quality in the accommodation and food services sector is poorer compared with the rest of the economy**, with the exception of the social environment which is better than in the rest of the economy. It is therefore necessary not only to tackle undeclared work in this sector, but also to raise working conditions onto the same level as the wider economy.

**Figure 2. Comparison of working conditions in accommodation and food services with all sectors (EU28, 2015)**



Source: Authors' own work based on EWCS (2015)

This 2015 European Working Conditions Survey (EWCS) also allows a comparison of employment relationships in the accommodation and food services sector compared with the whole EU economy (see Figure 3). This firstly reveals that due to demand fluctuations both over the working week and seasonally, the 'standard employment relationship' (SER) of formal, full-time and permanent waged employment is less common in this sector than others. Only half of workers in the accommodation and food services sector have an indefinite contract compared with two-thirds in the economy as

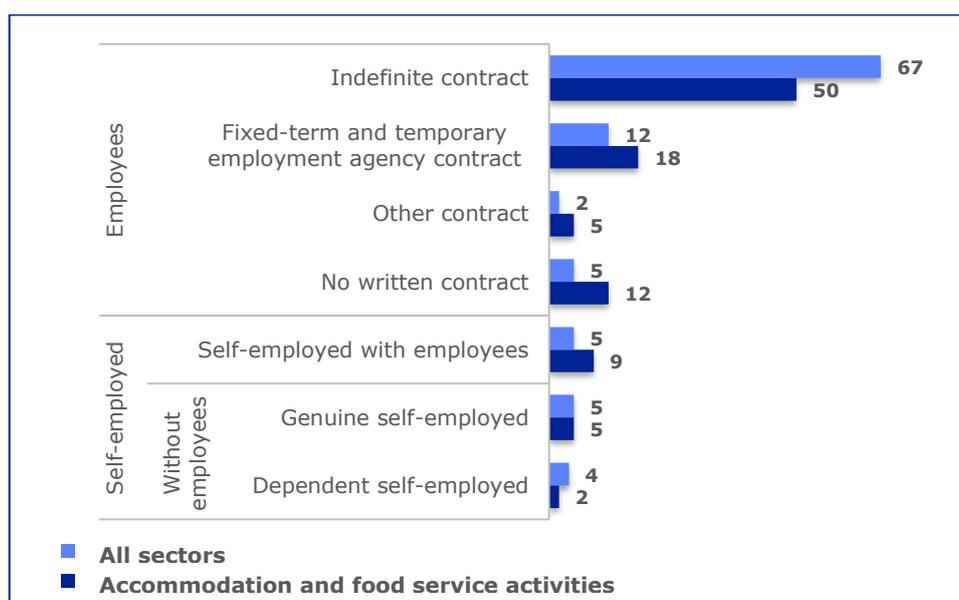
a whole. Fixed-term and temporary employment agency work, however, is higher (18 % compared with 12 %).

Interestingly, moreover, the 2015 EWCS reveals that **12 % of the workforce in accommodation and food service activities report that they are employees with no written contract (compared with just 5 % in the economy as a whole).**

Self-employment, meanwhile, is more common in accommodation and food service activities (16 % of all employment compared with 12 % for all sectors). Examining the characteristics of the self-employed, it is nevertheless the case that **bogus self-employment is less common in accommodation and food service activities (2 % of all employment) compared with 4 % in the economy as a whole.** Instead, genuine self-employment is more prevalent in the accommodation and food service activities than in the economy as a whole, particularly genuine self-employment with employees, who constitute 9 % of the workforce in accommodation and food services compared with 5 % in the economy as a whole.

In sum, these EWCS findings intimate that unregistered employment (i.e., work with no written contract or terms of employment and remuneration is most probably undeclared in nature) is more prevalent in the tourism industry than in the wider economy, and that bogus self-employment is less prevalent. Given this, attention now turns towards a more complete understanding of these different types of undeclared work in the tourism sector.

**Figure 3. Types of employment relationship in the accommodation and food services sector, EU28 (% , 2015)**



*Note: 2015 EWCS interviewed 1,882 respondents employed in accommodation and food services activities, with 238 self-reporting themselves as having no written contract and 34 as bogus self-employed.*

*Source: Authors' own work based on EWCS (2015)*

### 3 TYPES OF UNDECLARED WORK IN THE TOURISM SECTOR

Undeclared work is by definition hidden from the view of the state enforcement authorities. It is therefore difficult to detect and estimate its size. This is particularly the case in tourism because: (i) tourism is often in rural, island, mountain and remote areas; (ii) many tourist businesses are small-scale businesses (e.g. handicraft producers) and individuals (e.g. family accommodation service providers); (iii) customer to business (C2B) transactions in tourism are often for small amounts (e.g. taxi ride) and in cash (including tips), without an invoice for the product (e.g. bottled water) or service (e.g. a food item); and (iv) a large fluctuation of customers (e.g. short stay), supported by high seasonality (e.g. during the summer), makes detection difficult for enforcement authorities.

What types of undeclared work, therefore, are found in the tourism sector? On the one hand, **unregistered enterprises** are likely to be mostly sole traders and small businesses such as beach sellers, unlicensed tour guides, private accommodation providers or small guesthouses, restaurants or 'pop up' shops. In many cases, they require little starting capital and can be family or kinship based and operated (Gladstone, 2005; Guttentag, 2015; Lynch, McIntosh and Tucker, 2009; Sigala, 2017; Tussyadiah and Pesonen, 2018; Wahnschafft, 1982). With technological developments, these can source their customers online via collaborative platforms, making it easier to access market opportunities (Choi et al., 2015; Heo, 2016; Jull, 2015; Zekanović-Korona, 2014).

On the other hand, there are **registered businesses who do not declare all their transactions** (e.g., not declaring all of the nights that accommodation has been rented or all food supplied to their guests, not recording transactions in restaurants and bars), or who use **unregistered employment** or **under-declared employment** (i.e., 'envelope wage' payments to their employees, such as chefs). Such businesses may also use **bogus self-employment** to undertake work. Below, each of these types of undeclared work are considered in turn.

Before doing so, however, it is important to state that the data available on undeclared work refers to accommodation and food service activities, not the tourism industry as a whole, as defined above. This is because the datasets used to analyse the prevalence of undeclared work (e.g., EWCS, Eurobarometer) do not collect data on the full NACE Rev. 2 sector categories needed to analyse the tourism industry as a whole.

Before reviewing each type of undeclared work, it is important to briefly draw attention to the **cross-border dimension** of undeclared work. Given that 16 % of the official labour force in the tourism sector are foreign workers (of which 9 % are from other EU Member States and 7 % are from non-EU countries), it is likely that a significant proportion of undeclared workers in the tourism industry are also foreign workers (i.e., residing and conducting undeclared work in another country, not the one they originate from). Such undeclared foreign workers may operate as frontier workers (i.e., commuting daily or weekly between two Member States) or as seasonal workers (i.e., citizens of one country who come to work in a Member state for a limited time). The work of these foreign workers can be fully undeclared, under-declared work where envelope wages are received, undeclared self-employment, or bogus self-employment. Each type is now considered in turn.

#### 3.1 Unregistered employment

Unregistered employment is an employment relationship not registered with the authorities when it should be registered. Such employees often do not have written contracts or terms of employment and their remuneration is most probably undeclared in nature. In the tourism industries, to meet peaks in demand, employers may supplement their declared workforce with unregistered employees, such as in housekeeping, cleaning and catering.

As the first column of Table 5 displays, **14 % of employees in accommodation and food services are in unregistered employment** (compared with 5 % of employees in the EU economy overall). The only sectors exceeding this are the household services sector (where 52 % of employees have no written contract of employment), agriculture (32 %), and arts, entertainment and recreation (16 %). The outcome, as the second column of Table 5 shows, is that **12 % of all unregistered employment in the EU28 is in accommodation and food service activities**.

**Table 5. Participation in unregistered employment: by sector, 2015**

Sector	Unregistered employment	
	Share of all employees (%)	Of which:
Agriculture, forestry and fishing	32	12
Industry (except construction)	2	5
Construction	9	7
Wholesale and retail trade; repair of motors	4	10
Transportation and storage	2	2
Accommodation and food service activities	14	12
Information and communication	3	1
Financial and insurance/ real estate activities	1	1
Professional, scientific, technical + administrative	4	7
Defence, education, human health, social work	3	15
Arts, entertainment and recreation + others	16	13
Activities of households as employers	52	15

Source: Williams and Horodnic (2018)

As Table 6 shows, however, the proportion of all employees in unregistered employment in accommodation and food service activities varies across Member States. Although 14 % of employees are in unregistered employment in accommodation and food service activities in the EU as a whole, **50 % of all employees in accommodation and food service activities are in unregistered employment in Cyprus, 37 % in Malta and Ireland, and 33 % in Greece**. In stark contrast, just 2 % of employees are in unregistered employment in accommodation and food service activities in Luxembourg, 3 % in Estonia and 4 % in Belgium and Hungary.

When the different sizes of the labour force in accommodation and food services is taken into account, however, over **two-thirds (69.7 %) of all unregistered employment in accommodation and food service activities in the EU is in just 4 Member States**: United Kingdom (29.7 %), Italy (16.4 %), Germany (12.5 %) and Spain (11.1 %).

**Table 6. Cross-national variations in the prevalence of unregistered employment in the accommodation and food services sector (EU-28, 2015)**

Country	Unregistered employment	
	Share of all employees (%)	Of which:
Austria	20	3.2
Belgium	4	0.4
Bulgaria	6	0.5
Croatia	5	0.4
Cyprus	50	1.2
Czech Republic	7	1.2
Denmark	12	0.7
Estonia	3	0.0
Finland	9	0.6
Germany	13	12.5
Greece	33	7.7
Hungary	4	0.5
Ireland	37	4.1
Italy	19	16.4
Latvia	10	0.2
Luxembourg	2	0.0
Malta	37	0.4
Poland	8	2.9
Portugal	24	4.0
Slovakia	8	0.7
Slovenia	17	0.7
Spain	10	11.1
Sweden	7	0.9
United Kingdom	29	29.7

*Note: In France, Lithuania, Netherlands and Romania no unregistered employment in the accommodation and food services sector was identified.*

*Source: Authors' own work based on EWCS (2015)*

Who, therefore, engages in unregistered employment in accommodation and food service activities in the EU? Table 7 reveals that 53 % are women, and that they are more likely to be from younger age groups, with lower levels of education, living in larger households, be born in the country, working in the private sector and in part-time employment, and to be working in small and medium-sized businesses.

**Table 7. Who engages in unregistered employment in the accommodation and food services sector? (EU-28, 2015)**

Socio-demographic and economic characteristics	Unregistered employment	
	Share of all employees	Of which:
<i>Gender</i>		
Male	15	47
Female	13	53
<i>Age</i>		
Under 35 years	17	63
35 - 49 years	8	18
50 years and over	15	19
<i>Education</i>		
Up to Lower secondary education	16	28
Upper secondary	14	55
Post-secondary/ non-tertiary	8	4
Short-cycle tertiary	8	3
Bachelor/Master/Doctorate or equivalent	14	10
<i>Respondent and their parents born in the country</i>		
No	17	24
Yes	13	76
<i>Household size</i>		
One	9	10
Two	10	19
Three	15	31
Four and more	18	40
<i>Household ability to make ends meet</i>		
Very easily/ easy	15	23
Fairly easily	11	25
With some difficulty	11	26
With difficulty/ great difficulty	22	26
<i>Sector</i>		
The private sector	14	97
The public sector	2	1
A joint private-public organisation or company/ the not-for-profit sector or an NGO/ Other	14	2
<i>Type of job</i>		
Part-time	21	70
Full-time	5	30
<i>Company size (no. of employees)</i>		
1 employee	48	4
2-9 employees	17	58
10+ employees	10	38

Source: Authors' own work based on EWCS (2015)

### 3.2 Under-declared employment

Under-declared employment is the illegal practice whereby formal employers pay their formal employees two salaries: an official declared salary and an additional undeclared ('envelope') wage which is verbally agreed and hidden from the authorities, to reduce their tax and social security costs (Williams and Horodnic, 2017).

This verbal agreement may simply stipulate that the employee will be paid more for their regular employment than is in the formal written contract (e.g., a practice used by restaurants to retain the services of chefs in some Member States). More commonly, conditions may be attached to this additional salary, such as not taking their full

entitlement to annual leave, working more hours per week than is in the written formal contract (which takes the employee over the hours stipulated in any working hours directive and/or results in them being paid below the minimum hourly wage) or to undertake a different job content to that stated in the formal contract (Horodnic, 2016; Williams and Horodnic, 2016; Williams and Horodnic, 2015). In the tourism sector where employment is seasonal and/or there are demand-fluctuations, envelope wages might be paid some months when demand is high and employees work additional hours or do a wider array of tasks to that specified in their formal contract.

The only available evidence on the level of under-declared employment in the tourism sector is a 2007 special Eurobarometer survey (i.e., the more recent 2013 special Eurobarometer survey does not examine sectors and the 2019 special Eurobarometer does not examine sectors for under-declared employment). As Table 8 reveals, **6 % of employees in the hotel and restaurant sector receive envelope wages (compared with 5 % of all employees in the EU)**. Overall, therefore, under-employment is only slightly higher in this sector than the labour market in general.

**Table 8. Prevalence of under-declared employment in EU, by sector**

	Share of employees receiving envelope wages	Average gross salary received as envelope wage	Envelope wages paid for:				
			Regular work	Overtime / extra work	Both regular & overtime work	Refusal/ don't know	
	(%)	(%)	(%)	(%)	(%)	(%)	
2019	EU-28	3	-	25	44	28	3
	EU-27	3	-	25	43	28	4
2007	EU-27	5	1-20	30	28	34	8
	Construction	10	1-20	39	28	27	6
	Agriculture	9	81-100	60	12	28	0
	Hotel and restaurant	6	1-20	19	68	10	3
	Repair services	6	1-20	18	29	51	2
	Retail	6	1-20	29	36	32	3
	Transport	6	81-100	18	26	50	6
	Industry	5	81-100	29	22	38	11
	Personal services	4	1-20	33	29	28	10
	Household services	2	1-20	23	15	51	11
	Other	2	81-100	21	20	44	15

Source: Williams and Horodnic (2018; based on data from Special Eurobarometer 284, 2007) and authors' own work based on Special Eurobarometer 498, 2019

Breaking this down, 19 % of the hotel and restaurant employees paid an envelope wage received this for their regular employment, 68 % for overtime/extra work conducted and 10 % for both their regular and overtime work. Compared with the wider economy, therefore, envelope wages in the hotel and restaurant sector are more likely to be paid for extra work/overtime conducted. For example, a chef who works longer hours than in their contract may receive envelope wages as compensation for the longer hours worked.

### 3.3 Undeclared self-employment and bogus self-employment

Undeclared work in the tourism industry is also conducted by the self-employed. Self-employed street vendors and tour guides, through musicians working in restaurants and hotels, to handicraft micro-enterprises selling to tourists, may conduct a portion or all their activities on an undeclared basis. However, until now, no survey examines

undeclared self-employment in the tourist industry. For the moment, therefore, the prevalence of undeclared self-employment in the tourism industry cannot be estimated, and neither can the characteristics of the self-employed operating on an undeclared basis in the tourism industry. The only evidence available is qualitative and anecdotal (see section 4 below).

However, evidence is available on the prevalence of bogus self-employment in the tourism sector. Bogus self-employment, as previous Platform reports highlight (Heyes and Hastings, 2017; Heyes and Newsome, 2017), refers to workers who are classified as self-employed but possess the characteristics of dependent employees because they do not have either more than one client, the authority to hire staff, and/or the authority to make important strategic decisions about how to run the business (Eurofound, 2013, 2016a, b).

In the 2015 European Working Conditions Survey (EWCS), the bogus self-employed are identified using five questions:

- Are you working as an employee or are you self-employed?
- Regarding your business, do you: a) Have employees – (working for you); b) Have the authority to hire or dismiss employees; c) Have more than one client or customer.
- To what extent do you agree or disagree with the following statement - I make the most important decisions on how the business is run.

The bogus self-employed are those reporting themselves as self-employed, who do not have employees, and comply with two or more of the following three criteria: (1) they have only one client, (2) they have no authority to hire staff, and/or (3) they have no authority to make important strategic decisions.

As Table 9 reveals, **2 % of all employment in accommodation and food service activities is bogus self-employment** (compared with 4.3 % of total employment in the EU28). Indeed, just 1 % of all bogus self-employment in the EU is in the accommodation and food services sector. Moreover, just 10 % of those reporting themselves as self-employed in the accommodation and food service sector are bogus self-employed. Overall, therefore, bogus self-employment is less of a problem in the accommodation and food services sector than in the EU labour market as a whole.

**Table 9. Participation in bogus self-employment in EU-28: by sector, 2015**

Sector	Dependent self-employed		
	Percent of:		Of which:
	All employment	Self-employed	
Agriculture, forestry and fishing	27	51	22
Industry (except construction)	2	25	7
Construction	7	28	9
Wholesale and retail trade; repair of motors	3	18	10
Transportation and storage	4	44	5
Accommodation and food service activities	2	10	1
Information and communication	5	32	3
Financial and insurance/ real estate activities	3	22	3
Professional, scientific, technical + administrative	5	26	11
Defence, education, human health, social work	2	33	10
Arts, entertainment and recreation + others	11	42	14
Activities of households as employers	13	84	5

Source: Williams and Lapeyre (2017)

This tentative assertion that bogus self-employment is not so prevalent in accommodation and food services is reinforced in other previous studies. Reviewing the literature on bogus self-employment, Eichhorst et al. (2013) does not identify this sector as one in which bogus self-employment is concentrated, and neither do other studies (e.g., Williams and Horodnic, 2019; Williams and Lapeyre, 2017).

In sum, this evaluation of the types of undeclared work in the tourism sector has revealed that 14 % of workers in the accommodation and food services sector are in unregistered employment (compared with 5 % for the overall EU workforce), 2 % of workers in the accommodation and food services sector are in bogus self-employment (compared with 4 % of all employment in the EU) and 6 % (1 in 17) of employees in the hotels and restaurants sector receive envelope wages (compared with 5 % of all employees in the EU). This intimates that compared with the wider EU economy, **in the tourism industries, the problem of undeclared work is largely one of unregistered employment, and to some extent one of under-declared employment, but that bogus self-employment is not a significant issue.**

## 4 UNDECLARED WORK IN TOURISM INDUSTRIES

In order to provide a qualitative review of the heterogeneous types of undeclared work in the tourism sector, this section takes each of the industries in the tourism sector in turn and reviews the forms of undeclared work (see Table 10). This uses the slightly wider definition of the tourism sector (than the Eurostat definition) used by the United Nations World Tourism Organisation (UNWTO). The intention is to bring to light the wide variety of types of undeclared work across the tourism industry widely defined, and in doing so, to encourage consideration of a wider variety of undeclared work in tourism than might otherwise be the case.

**Table 10. UNWTO classification of industries in the tourism sector**

UNWTO tourism industries	ISIC Rev.4 <sup>(1)</sup>	NACE Rev.2 <sup>(2)</sup>	Description (NACE Rev.2)
1. Accommodation for visitors	5510	5510	Hotels and similar accommodation
		5520	Holiday and other short-stay accommodation
	5520	5530	Camping grounds, recreational vehicle parks and trailer parks
	5590	5590	Other accommodation (*)
	6810	6810	Buying and selling of own real estate (*)
		6820	Renting and operating of own or leased real estate (*)
		6831	Real estate agencies (*)
	6832	Management of real estate on a fee or contract basis (*)	
2. Food and beverage serving activities	5610	5610	Restaurants and mobile food service activities
		5629	Other food service activities (*)
	5630	5630	Beverage serving activities
3. Railway passenger transport	4911	4910	Passenger rail transport, interurban
4. Road passenger transport	4922	4932	Taxi operation
		4939	Other passenger land transport n.e.c.
5. Water passenger transport	5011	5010	Sea and coastal passenger water transport
	5021	5030	Inland passenger water transport
6. Air passenger transport	5110	5110	Passenger air transport
7. Transport equipment rental	7710	7711	Renting and leasing of cars and light motor vehicles
		7712	Renting and leasing of trucks
8. Travel agencies and other reservation services activities	7911	7911	Travel agency activities
		7912	Tour operator activities
		7990	Other reservation service and related activities
9. Cultural activities	9000	9001	Performing arts (*)
		9002	Support activities to performing arts (*)
		9003	Artistic creation (*)
		9004	Operation of arts facilities (*)
	9102	9102	Museums activities (*)
		9103	Operation of historical sites and buildings and similar visitor attractions (*)
9103	9104	Botanical and zoological gardens and nature reserves activities (*)	
10. Sports and recreational activities	7721	7721	Renting and leasing of recreational and sports goods
	9200	9200	Gambling and betting activities (*)

	9311	9311	Operation of sports facilities (*)
		9313	Fitness facilities (*)
	9321	9321	Activities of amusement parks and theme parks (*)
	9329	9329	Other amusement and recreation activities (*)
11.	Retail trade of country-specific tourism characteristic goods	-	
12.	Other country-specific tourism characteristic activities	-	

#### Notes:

(<sup>1</sup>) Source: IRTS 2008 - Annex 3, p. 111 ([https://unstats.un.org/unsd/publication/seriesm/seriesm\\_83rev1e.pdf](https://unstats.un.org/unsd/publication/seriesm/seriesm_83rev1e.pdf))

(<sup>2</sup>) Source: conversion table ISIC Rev.4 - NACE Rev.2

([https://ec.europa.eu/eurostat/ramon/rerelations/index.cfm?TargetUrl=LST\\_LINK&StrNomRelCode=ISIC%20REV.%204%20-%20NACE%20REV.%202&StrLanguageCode=EN](https://ec.europa.eu/eurostat/ramon/rerelations/index.cfm?TargetUrl=LST_LINK&StrNomRelCode=ISIC%20REV.%204%20-%20NACE%20REV.%202&StrLanguageCode=EN))"

(\*) Activities omitted in the current article.

Source: Eurostat (2019a) – Available at: [https://ec.europa.eu/eurostat/statistics-explained/index.php/Tourism\\_industries\\_-\\_economic\\_analysis](https://ec.europa.eu/eurostat/statistics-explained/index.php/Tourism_industries_-_economic_analysis)

### 4.1 Accommodation for visitors

This sub-sector of the tourist industry includes: hotels and similar accommodation; holiday and other short-stay accommodation; camping grounds, recreational vehicle parks and trailer parks; other accommodation; buying and selling of own real estate; renting and operating of own or leased real estate; real estate agencies, and management of real estate on a fee or contract basis.

In the EU, based on the Eurostat definition, and as Tables 1 and 2 above displayed, the accommodation for visitors sector is composed of 323 462 enterprises (13.2 % of all tourist enterprises), turnover amounts to 181 677 million EUR (16.8 % of total tourism turnover) and 2 673 197 are employed in this sub-sector (19.7 % of all employment in tourism). These, however, are the official figures. They do not include undeclared work.

Breaking down this sector into its sub-industries, the **hotels and similar accommodation sector** is composed of 151 627 enterprises (6.3 % of all tourist enterprises), turnover amounts to 150 930 million EUR (14.0 % of total tourism turnover) and 2 195 939 are employed in this industry (16.2 % of all employment in tourism). These, again, are official figures. Various country-level studies indicate the prevalence of undeclared work in the hotels and similar accommodation sector. In Croatia for example, Ivandić and Radnić (1997) find that 12.6 % of total nights in Croatia were unregistered and that 22 % of the total spend in the hotels sector is undeclared, whilst Lovrinčević et al. (2006) estimate that in 2002, 33.7 % of the total spend in hotels was undeclared, signalling high levels of tax non-compliance.

Evaluating the types of undeclared work in the hotels and similar accommodation sector, there are firstly, unregistered or unlicensed hotels (see Afonso Dias et al., 2014) and secondly, registered hotels that conduct a portion of their trade on an undeclared basis.

To evaluate whether registered hotels (and restaurants) compete against unregistered or informal hotels (and restaurants), a recent study reports data from the Business Environment and Enterprise Performance Survey (BEEPS) conducted by the World Bank and the European Bank for Reconstruction and Development in 11 countries in Eastern Europe in 2013 (Horodnic et al., 2016). The finding is that 19 % compete against unregistered or informal firms in these 11 Member States (see Table 11). However, there are significant cross-national variations ranging from 41 % of hotel and restaurants competing against unregistered or informal businesses in Bulgaria and 40 % in Croatia to just 10 % in Romania and 8 % in Hungary.

**Table 11. Hotels and restaurants competing against unregistered or informal firms in 11 Member States (% , by Member State)**

Country	Hotels and restaurants (%)
Bulgaria	41
Croatia	40
Poland	38
Slovakia	25
Lithuania	17
Latvia	16
Slovenia	15
Czech Republic	13
Estonia	11
Romania	11
Hungary	8
ALL 11 Member States	19

Source: *abridged version of Horodnic et al. (2016, Table 1)*

An example of how hotels and similar accommodation under-declare their income is to be found in Rome where following an extensive investigation, it was discovered that around 8.5 million EUR in tourist tax<sup>8</sup> was not received by the city authorities in the first six months of 2019. The audit uncovered hotels, B&Bs and room-rental landlords, mainly in the historic centre of the capital, were either not collecting or not passing on the nightly tax paid by tourists to the authorities.

The non- or under-declaration of income is not the only way in which hotels and similar accommodation engage in the undeclared economy. They also employ undeclared labour. As section 3 reveals, 14 % (1 in 7) of employees in accommodation and food services in the EU are in unregistered employment, 2 % (1 in 50) are bogus self-employed and 6 % (1 in 17) of employees in hotels and restaurants receive envelope wages.

Take, for example, unregistered employment. Belešová et al. (2016) interviewed 74 managers of hospitality businesses in the Czech Republic and according to respondents, unregistered employment is used by 62 % of small hotels, and 80 % of other accommodation establishments. There is also the payment of envelope wages and bogus self-employment, as indicated in section 3 above.

A second sub-industry is the **holiday and other short-stay accommodation sector**. Across the EU, this is composed of 152 438 enterprises (6.2 % of all tourist enterprises), turnover amounts to 20 930 million EUR (1.9 % of total tourism turnover) and 371 440 are employed in this industry (2.7 % of all employment in tourism). These of course, are official figures. This is perhaps an industry where undeclared work is more prevalent than in the hotel and similar accommodation sector. Reviewing this industry, examples of possible undeclared work include:

- Unregistered holiday letting and registered holiday lets who under-declare their earnings, such as those using online platforms and do not declare the income earned, and agricultural landholders not declaring income from renting farm accommodation to green tourists;
- Employing unregistered cleaners for holiday and other short-stay accommodation to clean the accommodation between lets;
- Employing unregistered chefs and cooks to provide meals to those in holiday and other short-term accommodation (e.g., bed and breakfast accommodation);

<sup>8</sup> <https://www.wantedinrome.com/news/85-million-evaded-in-rome-tourist-tax.html>

- Owners of holiday and short-stay accommodation providing meals to clients and not declaring the additional revenue or not declaring visitors who pay in cash (i.e., undeclared self-employment).

Recently, the use of online platforms by providers of holiday and short-stay accommodation to seek tourist clients has grown. Indeed, in a sectoral analysis of the collaborative economy, the accommodation sector, including vacation rental and home swapping, is one of the largest by revenue, and some 35 % of all service providers operating on platforms sell services in the accommodation sector (Andriotis and Agiomirgianakis, 2014; Vaughan and Daverio, 2016; Williams and Horodnic, 2019; Williams and Lapeyre, 2017).

There is accumulating evidence that many of these providers are operating on an undeclared basis. Kesar and Čuić (2017) suggest that the undeclared economy in the accommodation sector in **Croatia** is concentrated in privately owned rooms, apartments and houses, and estimate that in 2016, these comprised 58 % of all commercial-based tourist accommodation facilities. During the 2000-2016 period, they identify a substantial growth of capacity in privately owned rooms, apartments and houses (+144 %, measured by number of beds), followed by campsites (+20 %) and hotels (+9.2 %). Yet the declared occupancy rate in these privately-owned units was only 8.3 % in 2000 and 14.6 % in 2016. This tentatively intimates the prevalence and growth of undeclared earnings in the short-stay accommodation sector.

In **Greece**, the Independent Authority for Public Revenues (IAPR), using a 'web-scraping' programme, found 20 000 short-term rental properties on a particular accommodation platform were not registered in IAPR register record with a property registration number. To put this in context, 70 000 short-term rental properties have been registered on the IAPR register. Indeed, although tourism's total contribution (direct and indirect) to the Greek economy has been estimated as 18.6 % of total GDP and 23.4 % of total employment (WTTC, 2017), these figures ignore undeclared earnings from tourism, estimated to be as high as 28–50 % of the official GDP (Andriotis, 2003; SETE 2014).

In a further Hellenic tax authority initiative<sup>9</sup>, IAPR collected detailed information of bookings from the VAT Information Exchange System (VIES) for 2015 and 2016, which lists the commissions that a well-known on-line holiday accommodation rental platform had charged Greek service providers for the guests it had brought them. The charges were used to estimate the revenues of the accommodation units. These were then compared with the actual tax declarations made in the same period. This electronic cross-checking of over 17 000 enterprises across Greece showed that more than 1 000 of them presented discrepancies between estimated and declared revenues each year. In around 90 the difference exceeded 50 000 EUR and their total undeclared taxable revenues for the period 2015 to 2017 were circa 8 million EUR.

In **Romania**, the National Agency of Travel Agencies estimates that over 20 % of all accommodation services provided on the Romanian seaside are in the undeclared economy, such as in unregistered accommodation in private homes, or based on providing undeclared services without invoices (Jaliu and Răvar, 2019).

In **Slovenia**, similarly, the Financial Administration (FURS) in 2018 asked those renting accommodation to tourists to register. The response was poor at first, with only 374 owners registering by the deadline, but the number started to grow as inspections began. In the first six months, FURS inspectors carried out inspections at some 450 locations, launching minor offence proceedings against 227 owners in relation to a total of 427 violations, most of them relating to undeclared work and illegal advertising. They issued a total of EUR 237 000 in fines and 56 warnings by the end of August and charged an additional EUR 230 000 in tax to owners. Between the beginning of February and the

<sup>9</sup> <http://www.ekathimerini.com/232420/article/ekathimerini/business/online-accommodation-booking-data-reveal-extent-of-tax-evasion>

end of April 2018, an additional 973 homeowners registered their services. In the first eight months of the year, a total of 2 154 owners registered, which is 30 % more than in the same period in 2017 and 53 % more than in 2016 (STA, 2018).

Such findings have resulted in HOTREC (2019) drawing attention to the problem of accommodation rentals via online platforms. Indeed, HOTREC and EFFAT have published a joint statement on the sharing economy, 'For a level playing field and fair competition in hospitality and tourism' (November 2019). In this joint statement, both social partners call upon the public authorities to collect more coherent data about the scope and the impact of the 'sharing economy' on businesses and employment in the hospitality and tourism sector, and to guarantee that legislation is fully respected by and enforced upon all providers of hospitality and tourism services (HOTREC and EFFAT, 2019).

A third sub-industry is **camping grounds, recreational vehicle parks and trailer parks**. Across the EU, this is composed of 16 397 enterprises (0.7 % of all tourist enterprises), turnover amounts to 9 817 million EUR (0.9 % of total tourism turnover) and 105 818 are employed in this industry (0.8 % of all employment in tourism). These of course, are official figures. Reviewing this industry, examples of possible undeclared work include:

- Unregistered and/or unlicensed camping grounds and recreational vehicle or trailer parks, such as on agricultural holdings.
- Employing unregistered workers on camping grounds and recreational vehicle and trailer parks (e.g., as temporary seasonal attendants and cleaners and maintenance staff);
- Employing under-declared workers who are asked to work longer hours than are in their formal contract;
- Undeclared self-employment by owners of agricultural holdings who operate unlicensed camping sites or recreational vehicle parks.

Other sub-industries in the accommodation for visitors sector include: other accommodation; buying and selling of own real estate; renting and operating of own or leased real estate; real estate agencies, and management of real estate on a fee or contract basis. Examples of possible undeclared work in these sub-spheres include: employing unregistered workers to clean short-stay accommodation between visitors; employing under-declared workers; bogus self-employment; and undeclared self-employment and unregistered enterprises who manage the renting and operating of real estate on a fee or contract basis.

## 4.2 Food and beverage serving activities

This sub-sector of the tourist industry includes: restaurants and mobile food service activities, and beverage serving activities. In addition to these industries included in the Eurostat definition, the UNWTO also includes other food serving activities.

In the EU, based on the Eurostat definition, the food and beverage serving sector is composed of 1 565 410 enterprises (64 % of all tourist enterprises), turnover amounts to 362 446 million EUR (33.6 % of total tourism turnover) and 7 971 489 are employed in this sub-sector (58.7 % of all employment in tourism). Again, these are official figures. As section 3 reveals, 14 % (1 in 7) of employees in accommodation and food services are in unregistered employment, 2 % (1 in 50) are bogus self-employed and 6 % (1 in 17) of employees receive envelope wages.

Breaking this down into its sub-industries, **restaurants and mobile food service activities** (I5610) is composed of 961 094 enterprises (39.3 % of all tourist enterprises), turnover amounts to 272 292 million EUR (25.2 % of total tourism turnover) and 5 763 614 are employed in this sub-sector (42.5 % of all employment in tourism). Examples of undeclared work in these sectors could include:

- Unregistered restaurants and mobile food service activities, including undeclared self-employment. Examples include not only traditional mobile food vendors (e.g., on roadsides, beaches and at festivals) but also more recently, 'pop up' and home restaurants.
- Formal restaurants and mobile food service businesses who under-declare their earnings. Indeed, in Norway, Skalpe (2007) found that restaurants in Norway used two different cash registers (official and unofficial), do not declare the extra income from hosting special events to the tax authorities, and support the trade of illegal alcoholic drinks. In the Danish restaurant sector, meanwhile, Hjalager (2008) highlighted the existence of tax fiddles, employment of illegal/undeclared labour, and the illegal import of supplies. Milić (2014) in Montenegro highlights the absence of cash registers in catering facilities, non-invoicing, and unregistered workers. These practices, therefore, appear to be widespread in the industry across Europe. Indeed, evidence that the restaurant sector remains today one of the principal sectors in which there is under-declaration of income is that in the UK, 26 % of the businesses 'named and shamed' by HMRC since the black list of 'deliberate tax defaulters' was created in 2017 have been restaurants and takeaways<sup>10</sup>.
- Unregistered workers in restaurants, especially to meet peaks in demand, appears a prevalent practice. Belešová et al. (2016), in interviews with 74 managers of hospitality businesses in the Czech Republic identified that respondents asserted that unregistered employment is used by 50 % of small restaurants and 45 % of small bars. Meanwhile, a study of undeclared work in the Indian restaurant sector in Birmingham in the UK reveals the widespread use of unregistered workers and how these are normally close or wider family who help out in times of peak demand (Ram et al., 2002). An English Localities Survey on undeclared work similarly reveals that it is mostly the employers' friends, acquaintances or family who supply such labour (Williams and Windebank, 2004).
- Under-declared employment in the restaurant and mobile food service sector. This takes various forms depending on the occupation. Whilst unskilled kitchen staff may simply work longer hours than is in their formal contract with no additional remuneration, more highly skilled staff such as chefs may receive envelope wages in addition to their declared salary as compensation for their long working hours.
- There is also the issue of restaurant staff (e.g., wait staff) not fully declaring their tips. Indeed, for many years, the word-of-mouth industry-standard was to declare an additional 10 % of one's salary as tips, not least because this is the rate at which customer's tip. However, tipping constitutes far more than this relative to their salary.

#### 4.3 Railway, road, water and air passenger transport

This sub-sector of the tourist industry includes: railway passenger transport; road passenger transport; water passenger transport, and air passenger transport. In the EU, based on the Eurostat definition, the railway, road, water and air passenger transport sector is composed of 389 307 enterprises (15.9 % of all tourist enterprises), turnover amounts to 280 256 million EUR (26.0 % of total tourism turnover) and 2 186 260 are employed in this sub-sector (16.1 % of all employment in tourism). Again, these are official figures.

Breaking this down into its sub-industries, **railway passenger transport, interurban** is composed of 287 enterprises (<0.5 % of all tourist enterprises),

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<sup>10</sup> <https://www.bighospitality.co.uk/Article/2019/05/20/Industry-warned-HMRC-will-continue-to-target-restaurants-over-tax-evasion>

turnover amounts to 61 496 million EUR (5.7 % of total tourism turnover) and 525 578 are employed in this sub-sector (3.9 % of all employment in tourism). It might be assumed that undeclared work is not prevalent in this sector. However, Onoschenko (2012) describes how in the early stages of transition in some Eastern European countries, train passengers often did not buy inter-urban train tickets in advance of boarding the train but instead, paid the train conductor a cash-in-hand fee for the train journey whilst on the train. Whether this continues is not currently known.

The **taxi operation sector** is composed of 323 020 enterprises (13.2 % of all tourist enterprises), turnover amounts to 24 016 million EUR (2.2 % of total tourism turnover) and 663 749 are employed in this industry (4.9 % of all employment in tourism). These are the official figures. This is an industry where undeclared work is prevalent and takes various forms:

- There are unlicensed taxis, which are not duly licensed or permitted by the jurisdiction in which they operate. Most places require taxis to be licensed, safety-inspected, insured as for-hire vehicles and to use taximeters, and there may also be requirements that the taxi driver be registered or accredited. However, many unlicensed taxis are in operation, especially in places which operate medallion systems<sup>11</sup> that restrict the number of legal taxis in operation. There are also wholly unlicensed taxi drivers as displayed by the prosecution of a UK taxi operator<sup>12</sup> for allowing an unlicensed driver and vehicle to be used for hundreds of bookings. In some jurisdictions, moreover, taxis associated with major online car sharing platforms have also been classified as illegal.
- There is under-declaration of income by taxi drivers. One way this occurs is where taxi drivers do not turn on the meter for a journey. Another method is that a taxi driver agrees with the client (where the client is claiming the journey on expenses) an invoice for the journey which is above the meter fare (e.g., 40 EUR for a 30 EUR journey), and the passenger pays 35 EUR, meaning that both parties benefit. Yet another method is to ask for a higher fee from the passenger and in return the taxi driver provides the passenger with multiple blank receipts that they can use to claim expenses at future points in time. A measure of the prevalence of violations in the taxi sector is that in Greece, IAPR issued a per-sector list for tax violations in June 2019 which showed that 81 % of taxi drivers<sup>13</sup> violated tax laws during that month, topping the sectors with tax violations.
- Bogus self-employment is also potentially prevalent in the taxi operating sector, especially where taxi drivers work for online ride sharing platforms (see Williams and Horodnic, 2020);
- There are also wholly unregistered taxi micro-enterprises, using unlicensed vehicles, often conducted on an undeclared self-employment basis. Unregistered taxi enterprises may offer airport or cruise ship transfer services, as well as operate for hotels to transfer clients to the airport or railway stations.

The **water transport sector** is composed of both sea and coastal passenger water transport and inland water passenger transport. The **sea and coastal passenger water transport** industry is composed of 6 320 enterprises (<0.5 % of all tourist enterprises), turnover amounts to 21 916 million EUR (2.0 % of total tourism turnover) and 91 692 are employed in this industry (0.7 % of all employment in

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<sup>11</sup> [https://en.m.wikipedia.org/wiki/Medallion\\_system](https://en.m.wikipedia.org/wiki/Medallion_system)

<sup>12</sup> [https://www.rotherhamadvertiser.co.uk/news/view,rotherham-taxi-operator-charged-1350-by-court-over-unlicensed-driver\\_33858.htm](https://www.rotherhamadvertiser.co.uk/news/view,rotherham-taxi-operator-charged-1350-by-court-over-unlicensed-driver_33858.htm)

<sup>13</sup> <https://greece.greekreporter.com/2019/07/26/greek-taz-inspectors-discover-widespread-violations-for-month-of-june/>

tourism). These are the official figures. Examples of undeclared work in this industry include:

- Unlicensed and unregistered sea and coastal passenger water transport, as exemplified by unregistered vessels being used to transport passengers.
- Unlicensed skippers of sea and coastal passenger vessels, exemplified by a tourist whale-watching vessel's skipper being unlicensed<sup>14</sup>.
- Unregistered and under-declared workers operating on these sea and coastal passenger vessels. The labour laws that apply on these vessels depend on the national 'flag of convenience' under which the vessel operates. Whether labour inspections are ever conducted by the national enforcement authority under which the vessel sails is open to question. Similarly, in the EU, there are no known instances of cross-border initiatives for joint and concerted inspections between EU member state labour inspectorates and the third country governments under which these vessels (e.g., cruise ships) operate when they dock in EU member states. Given the number of reported incidents of labour abuse on such vessels, exemplified by cruise ships<sup>15</sup>, this is perhaps a cross-border dimension that could be further explored in relation to *cross-border joint and concerted inspections*.

The **inland water passenger transport** industry is composed of 4 000 enterprises (<0.5 % of all tourist enterprises), turnover amounts to 2 331 million EUR (<0.5 % of total tourism turnover) and 21 550 are employed in this industry (<0.5 % of all employment in tourism). These are the official figures. Examples of undeclared work in this industry include:

- Unlicensed and unregistered inland water transport vessels, as exemplified in the UK on the River Medway<sup>16</sup>.
- Unlicensed skippers of inland water passenger transport vessels, exemplified by the River Thames tourist cruise liner crash<sup>17</sup> where the helmsman did not have a licence.
- Unregistered and under-declared workers operating on these vessels. The labour laws that apply depend on the national 'flag of convenience' under which the vessel operates. For example, one potentially interesting object for *cross-border joint and concerted labour inspections* might be the Rhine cruise ships and other cross-border inland water passenger transport vehicles in the EU. Whether national enforcement agencies conduct labour inspections, or joint inspections, of these vessels, could be investigated and if not, joint or concerted inspections could be organised.

Finally, there is **passenger air transport**. This is composed of 4 159 enterprises (<0.5 % of all tourist enterprises), turnover amounts to 133 370 million EUR (12.4 % of total tourism turnover) and 344 301 are employed in this industry (2.5 % of all employment in tourism). These are the official figures. This is an industry where undeclared work is prevalent and takes various forms:

- The most prominent current topic is the issue of bogus self-employment among passenger air transport workers, as discussed and reported at the recent European Platform tackling undeclared work seminar on this issue (Turnbull, 2020).

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<sup>14</sup> <https://www.abc.net.au/news/2019-10-29/whale-tour-operator-facing-investigation-lacking-licence/11642920>

<sup>15</sup> <https://www.businessinsider.com/cruise-ship-workers-describe-grueling-conditions-job-2019-11?r=US&IR=T>

<sup>16</sup> <https://www.ybw.com/news-from-yachting-boating-world/kent-boaters-fined-for-evading-registration-fees-10109>

<sup>17</sup> <https://www.standard.co.uk/news/london/crashed-thames-cruise-boat-had-steering-problems-at-unlicensed-helmsman-official-report-finds-10325068.html>

#### 4.4 Transport equipment rental

This sector includes the renting and leasing of cars and light motor vehicles, and renting and leasing of trucks. In the EU, based on the Eurostat definition, the **renting and leasing of cars and trucks** is composed of 42 307 enterprises (1.7 % of all tourist enterprises), turnover amounts to 80 000 million EUR (7.4 % of total tourism turnover) and 190 000 are employed in this sub-sector (1.4 % of all employment in tourism). Again, these are official figures. Undeclared work in this sub-sector can include:

- Unlicensed enterprises renting and leasing cars and trucks.
- Under-declaration of income from those enterprises renting and leasing cars and trucks.
- Labour law violations associated with employment in this industry, such as using unregistered workers to collect and return to base the rented and leased cars and trucks.

#### 4.5 Travel agencies and other reservation service activities

This sub-sector of the tourist industry includes: travel agency and tour operator activities, and other reservation services and related activities.

In the EU, based on the Eurostat definition, the **travel agency and tour operator industry** is composed of 77 137 enterprises (3.2 % of all tourist enterprises), turnover amounts to 158 606 million EUR (14.7 % of total tourism turnover) and 439 894 are employed in this sub-sector (3.2 % of all employment in tourism). Again, these are official figures. A tour operator is a person or company that develops ideas for holidays, researches the ideas, designs the holiday itinerary and content, contracts the services needed for the holiday, accommodation, transport, guides, tour leaders or resort reps etc and then markets the resultant package. They sell the package either directly to the consumer or use the services of a travel agent to do so. A tour operator sells the product that they themselves create. They do not sell anybody else's packages. They sell only their own creations. A travel agent, meanwhile, offers the consumer a range of holiday packages that have been put together by various tour operators. Undeclared work in this sub-sector can include:

- Unlicensed and unregistered tour operators. This is perhaps especially the case in relation to specialist tours (e.g., to attend sporting or music events) where unregistered tour operators (i.e., mostly individuals operating on an undeclared self-employed basis) organise coach travel, accommodation, etc for fellow fans. Unregistered tour operators acting on an undeclared self-employed basis might also organise short-term specialist activities within tourist destinations which are then sold to tourists, ranging from wine-tasting tours, through walking guided tours, to safaris and pleasure boat cruises and picnics.
- Under-declaration of income from those enterprises operating as travel agencies and tour operators.
- Labour law violations associated with employment in this industry, such as tour operators using unregistered workers to act as tour guides, and long hours being worked by tour guides on overnight and longer tours resulting in less than the minimum wage being paid.

Meanwhile, the **other reservation service and related activities industry** is composed of 32 271 enterprises (1.3 % of all tourist enterprises), turnover amounts to 12 882 million EUR (1.2 % of total tourism turnover) and 81 489 are employed in this sub-sector (0.6 % of all employment in tourism). These are official figures. Undeclared work in this sub-sector can include:

- Unregistered workers operating reservation services, such as sellers of short-term tours on streets.
- Under-declaration of income from those enterprises operating as a reservation service, especially where the reservation services sold tend to be mostly cash payments.
- Labour law violations, particularly in relation to the use of unregistered workers to sell tickets for events, often on the street, and to tout for customers for tours.

#### 4.6 Cultural activities

The UNWTO includes a wider definition of the industries involved in tourism than the Eurostat definition. They include: performing arts; support activities to the performing arts; artistic creation; operation of arts facilities; museum activities; operation of historical sites and buildings and similar visitor attractions, and botanical and zoological gardens and nature reserve activities.

Various forms of undeclared work are prevalent across such cultural activities:

- Bogus self-employment among artists, such as actors.
- Street performers might often not only be unregistered and unlicensed but also operate on a wholly undeclared self-employed basis.
- Musicians are often paid cash-in-hand for gigs which may or may not be declared. Examples include receiving cash payments for busking as well as for performing in restaurants, hotels, bars and other venues.
- Tour guides of historical sites and building, museums and other visitor attractions might often operate on a wholly or partially undeclared self-employed basis. Exemplifying this is a call by the Association of Guides in Bulgaria<sup>18</sup> to check if the guides on Bulgarian history have the necessary licenses due to concerns that many foreign tour guides accompanying tourists are not licensed in Bulgaria.

#### 4.7 Sports and recreational activities

The UNWTO include a wider definition of the industries involved in tourism than the Eurostat definition. They include: renting and leasing of recreational and sports goods, akin to the Eurostat definition, but also gambling and betting activities, operation of sports facilities, fitness facilities, activities of amusement parks and theme parks, and other amusement and recreation activities.

The **renting and leasing of recreational and sports goods** is composed of 14 767 enterprises (0.6 % of all tourist enterprises), turnover amounts to 2 614 million EUR (<0.5 % of total tourism turnover) and 31 669 are employed in this sub-sector (<0.5 % of all employment in tourism). These are official figures. Undeclared work in this sub-sector can include:

- Unlicensed enterprises renting and leasing recreational and sports goods, such as bicycles, canoes, pedalos, ski equipment, and quad bikes.
- Under-declaration of income from those enterprises renting and leasing recreational and sports goods, since this is often a cash-heavy industry.
- Labour law violations associated with employment in this industry, such as using unregistered workers to rent and lease recreational and sports goods. This is exemplified in Tenerife where civil guard officers found unregistered workers in inspections of a number of diving schools<sup>19</sup>.

<sup>18</sup> <https://travelbulgaria.news/guides-insisting-tourist-police/>

<sup>19</sup> <https://divernet.com/2019/02/16/british-diver-dies-in-tenerife/>

**Gambling and betting activities** is a sphere which there is no legislation or regulation that standardizes betting and gaming throughout the EU. Instead, there are marked variations in what is legal across Member States. In Cyprus, for example, the 2012 Betting Law governs most Cypriot gambling. Slot and other terminal-based gaming is permitted, up to a maximum of 50 machines, but under the 2015 Casino Law, land-based table games are allowed at a single casino, the Melco Cyprus Resort. Sports betting is the only form of gambling allowed online. In Poland, meanwhile, like several other EU member states, land-based and online gambling have historically been legal but controlled by a strict government monopoly and gambling with offshore operators is technically permitted but unregulated. The 2009 Act on Gambling has seen several amendments. New regulations for online gambling were introduced in 2017, requiring international operators to apply for sports betting licences. All other online gambling and casino games are legally provided by the country's designated gambling monopoly only. This is also a realm where various types of undeclared work prevail:

- Unlicensed betting is prevalent in many Member States. This can include betting on illegal activities such as dog fighting and cockerel fighting, exemplified by a case in Bulgaria where 58 persons were arrested during a raid on an illegal dogfighting<sup>20</sup> ring near Sofia. Bulgarian law provides for jail terms of up to five years and fines from 1,000 to 10,000 leva (500 to 5,000 euros, \$580 to 5,800), for organizing or participating in dogfights and also for raising, training and supplying canines for illegal fights.
- Under-declaration of income from betting enterprises, especially turf accountants.
- Labour law violations associated with employment in this industry, such as using unregistered workers to act as turf accountants and under-declared employment due to the long hours worked in the industry.

The **operation of sports facilities** is a realm where superficially, it might be assumed that undeclared work is not so prevalent. However, this is not necessarily the case. Many personal trainers for instance, use parks as their sports facilities, which can require a license to run commercial operations in them. In London, for instance, a personal trainer<sup>21</sup> was prosecuted for carrying out fitness sessions in one of London's royal parks without a licence. Personal trainers are required to pay up to £600 a year to use the royal parks.

The **fitness facilities** industry is a sphere where undeclared work can prevail. Fitness instructors, including personal trainers, often operate on a self-employed basis and due to the cash-heavy nature of the industry, may often under-declare their total earnings. They may also be wholly unregistered workers or operating unregistered enterprises. They may alternatively be bogus self-employed working for one employer (e.g., in a gym of a hotel) with the majority of their income coming from this employer but be employed on a self-employed basis, as highlighted recently in the case of trainers of a gym company<sup>22</sup> working as 'self-employed' but who must allegedly give notice of holidays, wear a uniform at all times, work to specific shift patterns, are restricted with regard to setting prices and must give notice of the termination of the agreement.

The **activities of amusement parks and theme parks** and other amusement and recreation activities is a realm where undeclared work is particularly prevalent. Take, for example, mobile fairgrounds. In the UK, fairground workers<sup>23</sup> complained

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<sup>20</sup> <https://news.mb.com.ph/2019/04/17/bulgarian-police-arrest-58-in-dogfight-raid/>

<sup>21</sup> <https://www.dailymail.co.uk/news/article-2557964/Personal-trainer-PROSECUTED-exercising-clients-without-licence-one-Londons-royal-parks.html>

<sup>22</sup> <https://www.independent.co.uk/news/business/news/gym-group-may-have-legal-questions-to-answer-over-contracts-says-gig-economy-law-firm-that-a8036346.html>

<sup>23</sup> <https://www.hulldailymail.co.uk/news/hull-east-yorkshire-news/slave-labour-workers-fun-fair-3132243>

of low pay below the minimum wage. However, the owner of the company that operates the fairground asserted that the employees were aware of the arrangement beforehand:

'It's cash in hand but that's between us and them. If they're happy to do it with it being cash in hand that's it, there's nothing else really I can say about it.'

In other words, for the fairground owner, the workers were self-employed, not employees, paid on a cash-in-hand basis, despite only having one employer and the characteristics of their work being akin to dependent employment.

### **Undeclared work in the tourism sector: prevalence and characteristics – Summary**

- In 2016, 1 in 10 enterprises in the European non-financial business economy were in tourism industries (2.4 million enterprises), employing 13.6 million persons (9.5 % of the EU workforce).
- Some 8 out of 10 persons employed in the tourism sector work in accommodation (19.7 % of all employment in the tourist sector) and food and beverage serving (58.7 %).
- 14 % of workers in the accommodation and food services sector are in unregistered employment (compared with 5 % for the overall EU workforce). 12 % of all unregistered employment in the EU is in this sector.
- 2 % of workers in the accommodation and food services sector are in dependent self-employment (compared with 4 % of all employment in the EU).
- 6 % (1 in 17) of employees in the hotels and restaurants sector receive envelope wages (compared with 5 % of all employees in the EU).
- Job quality is overall significantly poorer in the accommodation and food services sector compared with employment in the rest of the economy.
- Unregistered and unlicensed enterprises as well as formal enterprises under-declaring transactions and employing unregistered and under-employed workers, and the bogus self-employed, prevail across all the sub-sectors of the tourism economy, including. These include accommodation services, food and beverage serving activities; railway, road, water and air passenger transport; transport equipment rental; travel agencies and other reservation services; cultural activities, and sports and recreational activities.

## **5 POLICY APPROACHES FOR TACKLING UNDECLARED WORK IN THE TOURISM SECTOR**

To identify policy measures for tackling undeclared work in the tourism sector, a comprehensive review of the academic and practitioner literature on the tourism sector has been undertaken, as well as a detailed review of all previous materials produced by the Platform in its virtual library.<sup>24</sup>

<sup>24</sup> <https://ec.europa.eu/social/main.jsp?catId=1495&langId=en>

Similar to the other sectoral studies of the European Platform tackling undeclared work, such as on construction (Cremers et al., 2017) and agriculture (Williams, 2019), a **holistic approach** has been adopted towards tackling undeclared work. This is where national governments use a whole government approach to tackle undeclared work, by joining-up on the level of both strategy and operations the policy fields of labour, tax and social security law, and involve and cooperate with social partners and other stakeholders. Furthermore, it uses the full range of policy measures available. The aim is to transform undeclared work into declared work.

Rather than apply a uniform approach to all sectors, the Platform has recognised that **sector-specific approaches** are required. The Platform's 'glossary of terms' defines this as an approach where the direct and indirect policy measures are specifically designed and targeted at one sector whose characteristics in terms of undeclared work are different from other sectors and whose problems and risk factors require a specific approach. Depending on the specific problems of the sector and its unique risk factors, greater priority is therefore given to some policy measures than others, and each policy measure is tailored to address the specific and unique characteristics of the sector being targeted.

As Table 12 displays, various policy tools are available. On the one hand, there are '**direct**' tools that transform undeclared work into declared work by ensuring that the benefits of declared work outweigh the benefits of undeclared work. This is accomplished either by using deterrence measures to increase the costs of undeclared work ('sticks') and/or by making declared work more beneficial and easier using incentives ('carrots'). On the other hand, there are '**indirect**' tools. These seek either to change the norms, values and beliefs regarding the acceptability of undeclared work, so that they are in symmetry with the laws and regulations (e.g. using awareness raising campaigns and educational initiatives), and/or to change the formal institutional imperfections.

**Table 12. Policy approaches for tackling undeclared work in the tourism sector**

Approach	Tools	Example initiatives in tourism sector
Direct approach: deterrents	Improved detection	Improved workplace inspections Better data mining, analysis and sharing Joint operations Supply-chain due diligence Written contract by first day of work
	Improved penalties	Proportionate sanctions Black lists
Direct approach: incentives	For suppliers	Simplification of compliance Simplified contracts for employing seasonal workers Notification letters Formalisation support and advice White lists
	For customers	Holiday vouchers Labelling initiatives, Targeted direct or indirect tax incentives to purchase declared goods
Indirect approach	Change employers, workers & consumers attitudes	Education Normative appeals Awareness raising of benefits of declared work and costs of undeclared work

The emergent recognition is that tackling undeclared work is most effective when direct and indirect policy approaches are combined (Williams, 2014a, 2017a,b). Here, therefore, a review is undertaken across the full range of policy measures available and suggestions are made that are tailored to the sector-specific characteristics of the tourism sector and the types of undeclared work that prevail in this sector identified above.

## 5.1 Deterrents

One prominent way of tackling undeclared work in tourist industries is to deter such work by increasing the perceived or actual costs of engaging in undeclared work. This is achieved by improving the perceived or actual penalties and risks of detection.

To ensure that the benefits of participating in undeclared work are outweighed by the costs, a first approach is to increase the perceived or actual penalties for those caught. However, studies conducted on applying higher penalties do not provide conclusive evidence that this is effective at transforming undeclared work into declared work (for a review, see Williams, 2014a, 2018). The tentative intimation arising out of this scholarship is that penalties should not be used as a threat wielded towards all. To do so breaks the social contract between the authorities and citizens, workers and employers (Ayres and Braithwaite, 1992), which leads to greater non-compliance (Murphy and Harris, 2007) and the opposite behaviour to that sought. Instead, the evidence is that increasing penalties only works when individual ethics are weak. Where social norms are strongly in favour of compliance, sanction severity increases non-compliance (Braithwaite, 2003; Job et al., 2007; Wenzel, 2004).

'**Naming and shaming**' tourist industries is another sanction used. Although this is usually applied by enforcement authorities (e.g., 'black'/non-compliance lists), some civil society groups have also used this approach in the tourism sector. One such civil society 'naming and shaming' initiative is in the city of Bologna in Italy where a 2017 government report<sup>25</sup> identified that 72.6 % of jobs in the city's food and hotel sector were in the undeclared economy. In response, a civil society organisation has taken direct action staging protests outside the premises of 37 businesses. Shaming, however, is of two types: shaming to stigmatise the offender (such as by putting them on public 'blacklists'), or shaming followed by forgiveness and reintegration. Coricelli et al. (2014) show that shaming with no opportunity for reintegration leads to a greater likelihood of future non-compliance than when shaming is coupled with opportunities for reintegration.

Besides increasing sanctions, another way to increase the costs of participating in undeclared work in the tourism sector is to increase the perceived and/or actual risk of detection. The most prominent means of achieving this is **inspections**.

Indeed, a focus upon the tourism industry for inspections can be a fruitful approach. Table 13 reports the records of inspections in an anonymous labour inspectorate between 2016 and 2019. The proportion of all inspections conducted in the accommodation and restaurant sector steadily increased from 12.2 % to 18.3 % of all inspections. This increase was a rational decision because the number of detected instances of undeclared work per inspection was higher in the accommodation and restaurant sector. In 2018, although 13.4 % of inspections were conducted in the restaurant sector, 19.6 % of all identified instances of working without a labour contract, 25.7 % of all infringements related to working hours and 14.3 % of infringements related to labour remuneration were in this sector. Between 2016 and 2019, moreover, the proportion of all instances of undeclared work detected during inspections that are in the accommodation and restaurants sectors has increased.

Inspections in the tourism sector, however, face specific problems. Take, for example, the short-term accommodation rental sector, including those accessing customers through online platforms. The fact that private homes are involved may create complications for inspectors who may be **prohibited by national law from entering homes**. This displays the need for Member States to develop **a clear definition of what is commercial and non-commercial activity**, especially in relation to service provision via online platforms.

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<sup>25</sup> <http://www.bolognatoday.it/economia/lavoro-nero-bologna-emilia-romagna-2017.html>

**Table 13. Number of inspections and detection of undeclared work in an anonymous labour inspectorate, by sector, 2016-2019**

	2016		2017		2018		2019 (first 6 months)	
	No.	%	No.	%	No.	%	No.	%
<b>Inspections</b>								
All sectors	48 053	100	45 645	100	43 958	100	20 548	100
Accommodation	827	1.7	1 068	2.3	1 262	2.9	634	3.1
Restaurants	5 035	10.5	5 459	12.0	5 914	13.4	3 131	15.2
<b>Violations</b>								
<i>Work without a labour contract</i>								
All sectors	3 132	100	3 149	100	2 505	100	1 496	100
Accommodation	N/A	-	N/A	-	N/A	-	N/A	-
Restaurants	590	18.8	550	17.5	492	19.6	248	16.6
<i>Infringements related to working hours</i>								
All sectors	12 353	100	11 176	100	12 635	100	5 982	100
Accommodation	321	2.6	427	3.8	622	4.9	297	5.0
Restaurants	2378	19.3	2 507	22.4	3 250	25.7	1 715	28.7
<i>Infringements related to labour remuneration</i>								
All sectors	33 315	100	22 012	100	21 356	100	11 845	100
Accommodation	N/A	-	N/A	-	N/A	-	N/A	-
Restaurants	2 545	7.6	2 947	13.4	3 054	14.3	1771	14.9

Source: authors' analysis of data from an anonymous labour inspectorate

Conducting **announced inspections** in tourism industries is another potential way forward. Belgium has experimented with announced joint inspections ('flash controls'), announced on the Ministry website and communicated to social partners. The goal is not only to encourage declaration through advanced notification but also to provide advice and support to trigger a compliance mentality among businesses targeted. Such announced inspections could be piloted by Member States in tourist areas and specific industries such as the restaurant sector during high season in order to evaluate their effectiveness. The lesson from Belgium, however, is that unless they are well-publicised among the target group, the effectiveness of announced 'flash controls' are reduced (see Williams, 2019b).

Another way in which inspections might become more effective in the tourism sector is by introducing **workplace ID cards**. In Iceland since 2010 in the hotel and restaurant sector among others, the **social partners have been granted the authority to appoint inspectors** to perform inspections in relation to Workplace ID Cards. These inspectors send the information on the Workplace ID Cards to various state authorities, who then check whether the employer and/or the employees comply with all relevant regulations. This is an initiative potentially transferable to other Member States.

One of the main ways of improving the effectiveness of inspections, however, is to enhance the ability of enforcement authorities to identify 'risky businesses' in the tourism sector using better **data mining and risk assessment**. Although the data available to enforcement authorities differs significantly across Member States, one simple initiative might be to use a proxy indicator such as the **minimum staff required** for different types of tourist business (e.g., a restaurant). A data mining exercise to identify risky tourist businesses might also seek to identify tourist businesses that are 'outliers' on other indicators, including those:

- Who have higher than average expenses;
- Higher ratios of credit card to cash payments compared with other similar businesses;
- Lower than average wage levels, or
- A relatively low number of registered employees for their turnover.

Indeed, this outlier approach has been further extended in some inspectorates (e.g., Belgium, UK). **Dynamic benchmarking** is used to identify risky businesses. This allows the data to dynamically determine what the norm is, and this changing norm is used to identify outliers.

An example is the **hotel sector** in the UK where **turnover to credit card transaction ratios** have been used to identify outlier hotels where turnover to total credit card transactions deviates from the norm. This dynamic benchmarking of the hotel sector occurs on an individual city level or for a particular type of accommodation provider (e.g., small hotels), since credit card to turnover ratios are higher in cities and larger hotels than in smaller hotels and in smaller towns. A too high share of payments by credit cards in total declared turnover, in comparison to the benchmark determined for the specific area, results in an alarm. This initiative requires that third party data is available from **banks on credit card transactions**, which can be compared with reported turnover on tax returns, to identify 'outlier' hotels who deviate from the norm. This could also be similarly applied in the restaurant sector to identify '**outlier restaurant businesses**' and many other tourist industries (e.g., tour guides, tour operators) who appear to have turnover to total credit card transactions that deviate from the norm.

The evidence is that improved data mining leads to more efficient inspections. De Wispelaere and Pacolet (2017) report that the additional tax identified in the UK by HMRC using their *Connect* data system is far greater than the cost of the data mining tool. In Belgium, the FPS Social Security report that by using data mining tools, twice as many cases of undeclared work are discovered compared with random selected audits (see De Wispelaere and Pacolet, 2017). So too do the Fiscal Administration of the Republic of Slovenia reveal that in 8 out of 10 of the audits selected via data mining, undeclared work is found by the inspector, which is much higher than randomly selected audits (see De Wispelaere and Pacolet, 2017).

When using data mining and risk assessment to improve the targeting and efficiency of inspections, however, there is a need to train inspectors in their usage. One good practice in this regard is **Greece** where a pilot initiative has trained labour inspectors in three regional inspectorates to use the ERGANI system during a three-hour training session when the inspectors learn how to use the system in real time while they are carrying out the inspection. Data mining and risk assessment can be used not only to improve the detection of businesses but also to identify targets for preventative activities such awareness raising and notification letters.

**Notification letters** are postal or email communications from enforcement agencies to companies or workers, giving information on applicable legal obligations and systems of control in place. Although this has been most widely applied to tax compliance (Beeby, 2017; Hasseldine et al., 2007), notification letters have also recently been used by labour inspectorates (see Williams, 2019).

To highlight their use in tackling undeclared work in the tourism sector, Box 1 highlights the use of notification letters and follow-up inspections targeted at the hotel and catering sector in Estonia, Box 2 the use of notification letters to encourage the full declaration of tips received by hospitality workers in Canada and Box 3 the use of notification letters to service providers on accommodation platforms in Spain.

### **Box 1. Notification letters and follow-up inspections in the hotel and catering sectors, Estonia**

**Aim:** To use notification letters and follow-up inspections to encourage full declaration in the hotel and catering sectors.

**Description:** On 24 November 2011, the Estonian Tax and Customs Board (ETCB) started sending out notification letters to 1 300 companies, asking them to revise their accounting and tax-related information and give feedback to the tax authority on the results of their business activities. In addition, 1 000 letters were sent to people

whose average wages in the company were considerably lower compared to the average of the region and economic sector. According to the ETCB, an estimated EUR 30.2 million in tax income was owed by these 1 300 companies. As a result of these notification letters, additional control was initiated in 500 companies who did not change their declarations.

The ETCB visited company sites to inspect business activities and the actual number of employees working. In March and April 2012, tax officials visited 150 accommodation and catering companies to find out the reasons why declared wages were considerably below the average wages in the region. The main measures of control included interviews with the members of the management board and employees, checking documentation, observing business activities and controls in real time. In the 20 accommodation and catering companies not changing their tax behaviour after the inspections, the ETCB undertook additional controls in May and June 2012.

**Evaluation:** The companies receiving notification letters in November 2011 were requested to revise their declarations for December. By January 2012, almost 800 of the 1 300 companies had reacted to the notification letters and changed their declarations accordingly.

As a result of the control visits, 22 catering and 25 accommodation companies improved their tax behaviour. Before the controls, the average declared salary in the catering companies was EUR 277 and EUR 308 in the catering and accommodation companies. After the control visits, the average declared salary increased to EUR 325 (by 17.3 %) in catering and EUR 348 (by 13 %) in accommodation companies. The number of employees increased in 13 catering companies (by a total of 35 employees) and in six accommodation companies (by a total of eight employees). However, 69 companies did not make any significant changes in their tax behaviour or did not present their tax declarations on time.

Source: <https://www.eurofound.europa.eu/data/tackling-undeclared-work-in-europe/database/targeted-control-of-enterprises-for-undeclared-work-estonia>

## **Box 2. Using notification letters to encourage the full declaration of tips received by hospitality workers, Canada**

**Aim:** To use notification letters to encourage the full declaration of tips by hospitality workers.

**Description:** When tips were mostly paid in cash, the level of tip income was difficult to confirm. However, with widespread debit and credit-card payments, exact tip figures can now be traced using point-of-sales-machine records.

A Canada Revenue Agency (CRA) audit of income earned by 145 wait staff in St. Catharines, Ont., revealed C\$ 1.7 million in unreported tips and gratuities. On average, this amounts to C\$ 12 000 in unreported income per person audited, and the audit uncovered that wait staff were only reporting between zero and 10 % of their tip income, whilst actual tip income was between 100 and 200 % of wage income. That is, wait staff earn up to double their wage income in tips. These assumptions led the CRA to estimate that undeclared income from tips by wait staff amounted to between C\$ 2.7 - 6 billion.

One result was that in January 2018, 200 employees of the Murphy Hospitality Group on Prince Edward Island were sent notification letters by the CRA notifying them of potential underreporting of their tips earned in 2014 and 2015. The letter noted that the CRA was considering the imposition of penalties up to 50 % of the taxes owed.

An intention of the notification letters was to address a decades-old informal guideline used in the hospitality sector that service staff should declare circa 10 % of their

official income as gratuities on their tax returns. Murphy Hospitality Group had advised their employees to adopt this informal guideline. The notification letters sought to educate wait staff about the tax system, their obligations and the penalties for under-reporting income.

**Evaluation:** No known evaluation is available of the increased declaration of tips by wait staff resulting from the notification letters. However, debate has ensued about the accuracy of using debit and credit card transactions of point-of-sale (POS) machines to calculate individual tip income.

On the one hand, wait staff argued that tip income is lower than suggested by the use of POS transactions because this ignores 'tipping out' (i.e. dividing any tips earned during a shift with kitchen and other staff).

On the other hand, the CRA has argued that tip income and under-reporting could be higher than POS transactions suggest. This is for two reasons. Firstly, this audit method does not include cash tips received. Secondly, 'zapping devices' are sometimes used to eliminate transactions (including cash tips) from POS systems. This is a software programme, often run from a USB flash drive that accesses the POS system records and allows the owner to alter the records to make it appear that there have been fewer transactions than is actually the case.

Whatever the accuracy of using POS to calculate individual tip income, the intention of these notification letters to educate hospitality staff to declare their full tip income (rather than use the decades-old informal guideline of 10 % of their income) was effective. These notification letters generated widespread media coverage, therefore educating the wider population of hospitality staff about their tax obligations.

Sources:

<https://www.feigenbaumlaw.com/personal-tax-planning/canada-revenue-agency-focusing-undeclared-tips-hospitality-industry/>

<https://www.theglobeandmail.com/report-on-business/economy/economy-lab/tipping-point-ottawa-loses-billions-in-undeclared-income/article4418504/>

<https://www.theglobeandmail.com/report-on-business/small-business/talent/cra-cracks-down-on-undeclared-tips-for-restaurant-and-bar-staff/article38025478/>

### **Box 3. Notification letters to service providers on accommodation platforms, Spain**

**Aim:** To use notification letters to inform accommodation service providers operating through accommodation platforms that they need to declare the income received.

**Description:** 95 000 service providers identified as earning more than EUR 500 from renting accommodation through digital platforms received a notification letter from the tax agency (AEAT) stating that the agency has noticed that they had been actively renting out their property. This letter advised them to declare the income received from flat rentals and informed them that failure to do so may lead to an inspection and if tax evasion is uncovered, a fine could result.

**Evaluation:** No known evaluation exists of the increased declaration of rental income that resulted from these notification letters. This could be applied in many other Member States. This initiative could be even more effective if enforcement authorities required collaborative platforms to provide them with information on service providers and their incomes received through the platform.

Source: Heyes and Newsome (2017)

When applying notification letters to tourism industries, the 2019 Platform seminar on preventative approaches (see Williams, 2019b) highlighted that for notification letters to be effective:

- The letter should make it easy for the recipient to comply, such as by providing a hyperlink or stating what is the next step they need to take;
- The letter should highlight the key messages, namely the important information or actions required upfront;
- Personalised letters and language should be used so that people understand why the message or process is relevant to them;
- Letters should inform them about the positive compliant behaviour of others (e.g. '9 out of 10 firms pay their tax on time') and references in the letter to the situation in their specific locality increases effectiveness;
- Letters should highlight the risks and impact of non-compliance (e.g. the wider impacts on public services and the personal impacts on them such as their increased risk of inspections and the consequences for them of being caught).

Another pre-requisite for effective detection is **registration by the first day of commencing work**. If not, employers can claim to inspectors that the worker is on their first day of work. This, however, does not cover all forms of employment relationship. Other forms of registration are therefore also required. One example is the **registration of service providers on collaborative platforms**. The 2019 annual Platform survey finds that enforcement authorities in 43 % of countries responding have introduced licensing/authorisation of service providers. In most cases, however, licensing or official authorisation for platform service providers applies mostly to online transport services. There are currently fewer instances of registration or licensing of service providers in online activities associated with the tourism industry, such as accommodation and catering services. Examples include Ireland and Iceland where short-term home rentals must be registered. Meanwhile, in Greece, all online service providers need to be registered through the IAPR's webpage of the tax administration (IAPR) and to get a single/unique registration number in order to participate in economic activities on collaborative platforms.

Another deterrence initiative is the introduction of **certified cash registers** (Williams, 2018). A certified cash register consists of two parts: a cash register with a manufacturer declaration and a special control unit, a black box, connected to the cash register. Box 4 provides an example of certified cash registers being introduced in the tourism sector in Belgium.

#### **Box 4. Black box cash registers in the hospitality industry, Belgium**

**Aim:** The objective was to reduce undeclared transactions.

**Description:** Belgium implemented in 2015 a 'black box' cash register which records every transaction. As compensation for this mandatory black box cash register, some assistive measures were granted to the hospitality sector. One of those measures was the introduction of 'flexi-jobs', available to workers that already work at least 4/5 days of a full-time contract elsewhere. If those workers start a side-job in the HORECA sector, the HORECA employer only pays 25 % in social and fiscal charges. Another measure was 'cheap overtime'. For employers that use the compulsory black box cash register, overtime (for full-time staff only) is free of any charges up to a maximum of 360 hours per year per employee: every euro paid by the employer goes to the employee. In this way undeclared work was fought and the hospitality sector compensated for the introduction of black box cash registers.

**Evaluation:** Social security department figures show an extra 22 000 jobs in the Belgian hospitality industry. Industry body Horeca Vlaanderen confirms the jobs are not new, but are formerly undeclared jobs which have now been booked as flexi-jobs, often second jobs.

Source: [https://www.vrt.be/vrtnws/en/2017/07/23/black\\_economy\\_ontheropesinhospitalityindustry-1-3031120/](https://www.vrt.be/vrtnws/en/2017/07/23/black_economy_ontheropesinhospitalityindustry-1-3031120/)

Improving detection does not have to be solely a responsibility of state enforcement authorities. Social partners can also play a role in detecting undeclared work. One means of doing so is through a supply chain due diligence initiative in the tourism industry, such as a **voluntary supply chain responsibility initiative**. Businesses in the tourism industry (e.g., larger hotel chains) could perhaps view this as a core component of their corporate social responsibility (CSR) strategy. As the ILO (2016) recommend, a voluntary employer-led initiative to rid the supply-chain of undeclared work could be implemented. Either the employer at the top of the supply-chain could take responsibility or an initiative based on joint liability could be adopted. This is recommended for a selection of large tourism businesses to provide a demonstration effect to other smaller tourist businesses that they are serious about tackling undeclared work. It would involve larger employers detecting and eradicating undeclared work in the supply chain, providing a clear incentive for smaller businesses lower in the supply chain to be compliant so that they receive contracts from larger firms. In this ILO (2016) recommendation for a voluntary employer-led initiative, firms would be requested to show that they comply with tax and social security obligations, such as by displaying the absence of wage, tax and social insurance arrears and sanctions imposed in recent years. This would shift detection of undeclared work beyond solely a state responsibility by involving private businesses in the active detection of undeclared work.

## 5.2 Incentives

Besides using deterrence measures to increase the costs of undeclared work ('sticks'), enforcement authorities can also make declared work more beneficial and easier using incentives ('carrots'). On the one hand, these can target suppliers and on the other hand, purchasers of undeclared goods and services in the tourism sector.

**Simplifying compliance** can make it easier for employers and the self-employed, as well as workers, in the tourist industry to operate on a declared basis. Those engaging in undeclared work might be intentionally non-compliant but may also unintentionally not comply. For both groups, but especially the latter, one option is to provide better advice on how to comply (see section 5.3 below). Another option is to simplify compliance. This might involve simplifying the administrative framework (e.g., easier registration procedures, simplified self-assessment) but can also include increasing the benefits of compliance (e.g., access to buyers, more favourable credit, legal protection).

One measure to simplify compliance in the tourist industry, so as to transform undeclared work into declared work, is to allow smaller or seasonal jobs in tourism which are currently conducted undeclared, often out of necessity because of the complex compliance required to declare them, to move into the declared realm by introducing **simplified regulations for smaller and seasonal jobs** in tourism. An example of such an initiative is the 2010 Simplified Employment Act (*Egyszerűsített foglalkoztatási törvény*) in Hungary. This Act enables the mutually agreed simplified work contract to be notified either by: a simple text message (SMS) or electronically via the Client Gate System after they are registered and in the system (<https://ugyfelkapu.magyarorszag.hu/>). According to data from the Hungarian National Tax and Customs Administration, at the outset of this initiative between April and May 2010, 6 393 simplified employment cases for seasonal tourism employment were registered (Rindt and Krén, 2013).

Another simplification of compliance is that from 2017 in the UK, individuals are **allowed to earn a gross income of up to GBP 1 000 per annum tax free** from own-account activities. They do not have to register as self-employed or complete a self-assessment tax return. In doing so, the UK has brought into the declared economy small-scale occasional work that was before usually undertaken as undeclared work. This could be replicated in other Member States in relation to for example, casual restaurant and cafe workers, busking, and temporary hotel staff.

A further simplification initiative introduced since 2015 in Belgium is '**flexi-jobs**' in the **hotel and catering sector**. The law of 16 November 2015 enabled employees who

already have a principal occupation with one or more employer(s) of at least 4/5 working days a week, to take up a complementary job with another employer (i.e., a 'flexi-job'). Initially, this flexi-job system only applied to employees and employers in the hotel and catering sector. The main objective was to support the labour-intensive Horeca sector and tackle undeclared work. Employees in a flexi-job benefit from a flexi-salary of a minimum of EUR 9.18 net per hour and a flexi-holiday allowance of 7.67 % of the flexi-salary, i.e. a minimum of EUR 0.70 per hour (2017 figures). This flexi-salary and flexi-holiday allowance are subject to a 25 % employer special social security contribution (i.e., there is no employee social security contribution) and is exempt from taxes. Moreover, the flexi-salary, the flexi-holiday allowance and the 25 % employer's contribution constitute deductible expenses for the employer.

Tax and social security incentives to tackle undeclared work, moreover, do not have to be state-led. Social partners can also provide such incentives, as exemplified by the Construction Workers Leave and Severance Pay Fund (BUAK) in Austria and the Builders Social House (*Casa Socială a Constructorilor*, CSC) scheme in Romania. This latter social partner initiative in Romania provides welfare payments during the winter months, when the construction sector is inactive, to workers in registered declared employment, which provides an incentive for workers to be declared. Corporate contributors pay 1.5 % of their turnover into the CSC scheme, and employees contribute 1 % of their gross base salary. Allowances are 75 % of the average gross salary for the last three months of the worker, and are paid for up to 90 calendar days. From 1998 to 2015, more than 412 286 employees benefited from such social protection valued at 296.5 million RON (c. EUR 65 million). This is potentially transferable to various sub-sectors of the **tourism industry**, where work is also seasonal, and also to other Member States. It shows what social partners can achieve in developing preventative measures to tackle undeclared work.

Another simplification of compliance, again in **Belgium**, relates to bringing small self-employed service providers in the collaborative economy into the declared economy. In Belgium, a **standard 10 % tax rate has been applied to service providers in the collaborative economy earning less than EUR 5 000 per year** (Heyes and Newsome, 2017). It is the platform's responsibility to administer the tax contributions – workers register on the platform and provide their tax ID, then the platform transmits the tax contributions to the tax authorities. It means the government knows who is working in the sector and how much they earn.

In the hospitality sector in Belgium, for example, a collaborative economy platform, enables chefs to offer takeaway meals which they cook at home. The new tax system in Belgium described above means that they can use the platform to try out and develop their skills as a chef, because they can carry out the work without having to set up as a freelancer (which can be complicated). Indeed, some chefs have gone on to set up their own restaurant. Of the chefs operating on this platform, 10-15 % are freelance chefs supplying services on the collaborative platform to earn extra income; some 50 % are working as 'hobby chefs' (with a turnover of less than EUR 1 000 per year), and some 35 % use the platform to test-trade their business with the aim of reaching the EUR 5 000 threshold and becoming freelancers in the near future.

These tax simplifications in the UK and Belgium are a potential solution for other Member States seeking to address the issue of **private home restaurants and 'meal sharing'**. One of the largest home restaurant platforms claims 20 000 hosts, and 150 000 guests with 5 000 foodie experiences on a daily basis across 130 countries. It also provides all hosts and guests with a EUR 5 million guarantee, which is suggested to cover all cases where liability is called into question.

As HOTREC (2018a, 2018b) point out, European restaurant businesses, which have to follow strict food safety and hygiene rules in order to ensure the health of guests and have to comply with fiscal obligations, are facing unfair competition by these new food business operators. The on-demand supply of food and drink through online platforms that connect home restaurants with consumers seeking food and drink-related activities,

such as privately-hosted meals, dinner parties, special diets, beverage trails and tastings or cooking classes, represent a potential threat to standard restaurants where different standards apply. 'Meal sharing' platforms tend to connect travellers with local hosts. Potential guests explore a variety of menus and proposed dining experiences suggested by local hosts, before they make their meal bookings and visit the host. The business model of these platforms relies on a service fee of 15 %-20 % of the dining experience fee the guests pay to the host. Despite this fee, in 2015, 45 % of members of the Italian Federation of Public and Tourist Operators reported in a survey that the price gap between the services provided by home restaurants and regulated enterprises was higher than 20 % (HOTREC, 2018b).

By offering service providers on such platforms tax simplifications such as those used in the UK (offering no registration for those earning up to GBP 1 000 per year) and Belgium (10 % tax rate for those earning under EUR 5 000), this would be a potential solution for other Member States seeking to address undeclared work on these home restaurant platforms.

In the **Netherlands**, a different approach has been adopted to home restaurants. In 2017, a hospitality association (Koninklijke Horeca Nederland, KHN) communicated the industry's concerns for hygiene and safety conditions in home restaurants. For KHN, compulsory registration of home cooks is required. It also published in January 2018 an opinion paper for both short-term rentals and home restaurants including policy recommendations, such as **compulsory host registration, obligation for platforms to share data with state authorities, and the use of thresholds**. In doing so, it would become clearer whether hosts are declaring income generated from home-restaurant activity to the tax authorities (HOTREC, 2018a)

Tax simplification for small-scale and occasional activities in the tourism sector, therefore, is one way of providing an incentive for suppliers to make the transition from undeclared to declared work in the tourism economy. Another incentive is to offer participants the opportunity to **voluntarily disclose** their previous non-compliance (see OECD, 2017). These can be generic schemes or targeted such as at restaurants or hotels. They involve an enforcement authority offering a limited-time offer to suppliers to put their affairs in order, and if they do, they will not be subject to any penalties. Once this limited time-period ends, they might be informed that those detected as non-compliant will be subject to the full force of the law. Notification letters might be used to announce such a voluntary disclosure initiative. This offers enterprises that have been non-compliant a means of putting their affairs in order and becoming legitimate in a manner whereby they do not fear being penalised. It thus acts as a limited-time incentive to become legitimate.

Voluntary disclosure schemes could be targeted at many industries in the tourism sector, such as pop-up restaurants, home restaurants, and the short-term holiday rental sphere. When the services are provided via collaborative economy platforms, the voluntary disclosure scheme could use information obtained from platforms to contact potentially non-compliant individuals to consider taking advantage of such a voluntary disclosure option. This would provide those operating on an unregistered or (wholly or partially) undeclared basis with a limited-time offer to legitimise their activity without fear of penalty. An example is New Zealand where in October 2019 a voluntary disclosure initiative was launched targeting the hospitality sector including restaurants, cafés, bakeries, takeaway shops and liquor outlets <sup>26</sup>.

Another example of how **social partners can offer incentives** is found in Greece. The Hellenic Confederation of Commerce and Entrepreneurship (ESEE), co-financed by Greek and EU funds, pursued the '**Business walking routes**' marketing initiative. This

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<sup>26</sup> <https://www.interest.co.nz/personal-finance/101987/ird-launches-hidden-economy-campaign-targeting-hospitality-sector-saying-it>

provides maps to tourists of six walking routes in the city centre of Athens, each themed for buying specific goods. These include:

- Let's go for a gift walk (Plaka area);
- Let's go for a books and music walk (Exarcheia area);
- Let's go for a footwear and leather walk (Ermou street);
- Let's go for a shopping walk (Kolonaki area);
- Let's go for a tasty walk (Omonia Square area);
- Let's go for a Pattision Street walk.

Only businesses are included on these pamphlets which are formally registered with no compliance issues outstanding (see ILO, 2016). This provides an incentive for businesses to be formal by providing them with free marketing for their business. This could be replicated in many other Member States, and across many different sectors of the tourist industry. It provides an incentive for businesses to operate legitimately, using the 'carrot' of free advertising and marketing. To implement it, a pilot study could be conducted in a specific locality and/or sector of the tourist industry (e.g., restaurants) to evaluate its feasibility. A more modern approach might be to develop a **smartphone app for tourists** of these tourist routes, which could be developed by university students as a competition for the best app with a small prize awarded. To do this, a 'white list' of compliant businesses is required.

Besides making it easier and/or beneficial for businesses and workers in the tourist industry to operate in the declared economy, **tourists can also be encouraged to purchase on a declared basis** to encourage businesses to be compliant. One interesting example described in Box 5 is the use of holiday vouchers in Romania (Banes et al., 2019; Eurofound, 2014; Romanian Insider, 2019).

#### **Box 5. Holiday voucher scheme, Romania**

**Aim:** To provide holiday vouchers to public sector workers in order to promote the usage of registered tourist accommodation and to reduce undeclared earnings in the accommodation sector.

**Description:** Prior to the introduction of holiday vouchers, there was a widespread perception that many accommodation providers were not registered with the state and did not declare their earnings. To tackle this, vacation vouchers have been issued to public employees since 2015. The maximum value in law of vacation vouchers that can be granted in one fiscal year is RON 5 400 (EUR 1 219), equivalent to six basic minimum gross salaries, currently RON 900 (EUR 203).

In 2018, almost 1.2 million Romanians received such vouchers worth RON 1 450 (EUR 305). Any public sector worker is eligible for vacation vouchers; they are not issued for performance but they might be limited by a particular institution's budget.

These vouchers can be granted and managed only to licensed operators, authorized by the Tourism Ministry. Travel agencies cannot charge more than 10 % commission on packages sold to people using vacation vouchers. No change from them can be given in cash. Licensed operators cannot sell package holidays that differ from those available to other clients. If they do, the fine is between RON 5 000 and RON 10 000 (EUR 1 125–2 250) and the loss of their status as a licensed operator. A similar fine is imposed if they provide change in cash from a payment of vacation vouchers.

**Evaluation:** In 2018, there was an increase of almost 60 % in the number of tourism operators applying for a license, and in the first quarter of 2019, a growth of almost 65 % compared with 2018. It is believed that this registration of tourist accommodation providers will have led to a reduction in undeclared earnings in this sector.

*Sources:*

<http://m.ziuanews.ro/dezvaluiri-investigatii/scandalul-voucherelor-de-vacanta-smecherie-prin-discriminare-132600>

<http://www.fslg.ro/legea-privind-acordarea-de-tichete-de-vacanta/>

<http://www.evz.ro/exclusiv-evz-o-noua-promisiune-amanata-romanii-raman-fara-vouchere-de-vacanta-in-2014.html>  
<https://www.romania-insider.com/holiday-vouchers-shadow-economy-2019>  
<https://www.eurofound.europa.eu/tr/publications/article/2014/romania-vacation-vouchers-for-public-sector-employees>  
<https://business-review.eu/money/over-one-million-romanians-used-holiday-cards-and-vouchers-turist-pass-in-2018-198407>

This **holiday vouchers** initiative is potentially transferable to many other Member States. The key problem is that the public authorities paying for these vouchers are not the same public authorities that benefit from the transformation of undeclared work into declared work, and increased tax and social contribution levels. They are thus seen as a 'cost' by the public authorities issuing them, even if they provide a 'return on investment' and benefit to the overall state budget. This therefore requires consideration of the level of subsidies provided to public bodies issuing holiday vouchers, given the overall return on investment.

Another demand-side option is to encourage tourists to ask for receipts so that transactions are recorded. When combined with the use of certified cash registers (discussed above), then it allows a higher proportion of transactions to be recorded and reported. A very simple initiative in this regard is that in restaurants in **Romania**, it is a statutory responsibility for restaurant menus to include on their front page a statement that it is **compulsory for the restaurant to issue a till receipt for the price of the meal**. If this is not produced, then the purchaser has the right not to pay for the meal. Indeed, this initiative could be transferred easily to many other Member States.

Another way of encouraging receipts is to provide tourists with a reason to ask for receipts. If they can say to the supplier that they wish 'to win the lottery', then this does so. This is the idea underpinning a **receipt lottery**. Consumers have the incentive to ask for a receipt because it acts as a free-of-charge ticket to enter the lottery and win a prize. To encourage tourists to ask for receipts, their participation in the receipts lottery could be encouraged by publicising and **hosting a 'receipts lotto' in different tourist resorts each week during the vacation season** so as to encourage the involvement of tourists as well as the wider host population. This would encourage tourists to request receipts whilst on vacation, which might otherwise not be the case.

### 5.3. Education and awareness raising initiatives

Until now, all the policy measures considered have viewed participants in undeclared work in the tourism sector as rational economic actors and sought either to deter undeclared work by increasing the costs, or to make it easier and more beneficial to participate in declared work. However, participation in undeclared work is not always solely a rational economic decision. Non-compliance often results from either a lack trust in the state and/or not understanding or believing in what the state is seeking to achieve (i.e., a lack 'vertical' trust), or a belief that many others are operating on an undeclared basis, so they see no reason to operate on a declared basis themselves (i.e., there is a lack of 'horizontal' trust).

Education and awareness raising seeks to elicit voluntary co-operation, rather than enforced compliance. This is potentially far cheaper, more effective and a more sustainable means of tackling violations of tax, social security and labour law related to undeclared work than using inspections to detect non-compliant behaviour and incentives to effectively 'bribe' those in the tourism sector to operate on a declared basis.

A recent report for the Platform on a preventative approach towards undeclared work has dealt with this broader issue of awareness raising in some depth (Williams, 2018a). There is therefore no need to rehearse again the issues involved. Until now, however, there appear to have been few education and awareness raising initiatives targeting the tourist industry, whether employers, workers or consumers (i.e., tourists). One exception is a campaign informing tourists to ask for a receipt in Greece (see Box 6).

### Box 6. Receipt (*Apódixi*) Please, Greece

**Aim:** To encourage tourists to ask for receipts.

**Description:** The consumer in Greece is not obliged to pay, either in cash or by card, if he or she is not provided with a valid payment receipt ('*apódixi*' in Greek). The Greek Independent Authority for Public Revenue decided to launch a campaign to educate tourists of this fact. The intention was to reduce tax evasion, which is particularly high in tourist destinations. Tourists were informed that all businesses are obliged to have electronic cash registers and they are not allowed to issue receipts that are handwritten or printed on regular paper.

**Evaluation:** No known evaluation has been undertaken of the impacts of this campaign.

Source: <https://greece.greekreporter.com/2019/08/17/apodixi-please-greeces-campaign-to-inform-tourists-about-tax-evasion/>

Another education and awareness raising initiative aimed at tourists is a 2015 campaign in the Algarve region of Portugal targeted at motorhome owners, so as to reduce the use of unlicensed campsites and wild camping by informing them that this can result in fines. The Algarve Motorhome Support Network (RAARA) was launched as a joint venture by the Algarve Regional Development and Coordination Commission (CCDR Algarve), the Algarve Tourism Board (Região de Turismo do Algarve), the Algarve Tourism Association (ATA) and the Algarve Inter-municipal Community (AMAL). To reduce the use of unlicensed campsites and wild camping, it lists and promotes the official camping sites and secure motorhome servicing areas where motorhome owners can stop and spend the night. This is a straightforward educational initiative with information placed on [visitalgarve.pt](http://visitalgarve.pt).

The tourism sector, nevertheless, has been used as a case study to advance understanding of **effective messaging in education and awareness raising campaigns** on undeclared work. A key issue is to persuade the target audience to see the campaign as being about them. Apostolidis and Haeussler (2018) have undertaken a survey of **tourists' attitudes towards the acceptability of engaging in undeclared transactions** to understand the various rationales they use to justify their purchases of undeclared goods and services. This builds on a long-standing literature of how those engaged in deviant behaviour justify their actions (Cromwell and Thurman 2003; Eckhardt, Belk and Devinney, 2010; Sykes and Matza, 1957). Sykes and Matza (1957) in a seminal paper proposed five **neutralisation techniques (NTs)** which people apply to rationalise their deviant behaviours: *denial of responsibility, denial of injury, denial of victim, condemning the condemners* and *appeal to higher loyalties*. This list has since been extended. Henry (1990), for instance, added *claim of normalcy, denial of negative intent* and *claim of relative acceptability* to the list of NTs (see Table 14).

**Table 14. Examples of neutralisation techniques used by those engaged in deviant behaviour to justify their actions**

Technique	Definition	Author
Denial of responsibility	The individual is not personally accountable for the actions but some external factors outside their control.	
Denial of injury	Deviant behaviour is justified as no party has directly suffered because of it.	
Denial of victim	Behaviour resulted in injuries but the violated parties deserved what happened to them.	Sykes and Matza (1957)
Appeal to higher loyalties	Deviant behaviour is necessary to actualise a higher order ideal or value.	
Condemning the condemners	Deviant behaviour is deflected as individuals who condemn the behaviour engage in similar disapproved activities.	
Defence of necessity	Behaviour was necessary as individuals had no choice under the circumstances.	Minor (1981)
Claim of normalcy	Behaviour cannot be perceived as wrong because everybody engages in such activities.	
Denial of negative intent	The behaviour is justified as it was not supposed to cause any harm to anyone.	Henry (1990)
Claim of relative acceptability	Blame is deflected as other people are much worse.	
Denial of the necessity of the law	Individuals engage in illegal activities because the laws are unfair and unjust.	
Claim of entitlement	Individuals have the right to engage in any desired behaviour and gain the benefits of it.	Cromwell and Thurman (2003)
Justification by comparison	The behaviour is still preferable to even worse behaviours the individual could engage in.	
Justification of Postponement	Individuals suspend the assessment of morally questionable behaviour to a later time	
One-Time Usage	The individual intends to use the product only in a single occasion and therefore behaviour is acceptable.	Rosenbaum, Kuntze and Wooldridge (2011)
First-Time, Only-Time Crime	This is the first and only time that the individual engages in the specific deviant behaviour.	
Outsmart the System	The individual feels pride for outsmarting the system.	

Source: Apostolidis and Haeussler (2018: Table 1)

Campaigns seeking to transform undeclared work into declared work need to overcome these neutralisation techniques (or rationalisations) that those engaged in this deviant behaviour use to justify their actions and neutralise their guilt (Apostolidis and Haeussler, 2018; McKercher, Weber and du Cros, 2008). If they do not, then the campaigns will not be effective in eliciting behaviour change.

For example, the **denial of responsibility** rationale is apparent among suppliers of undeclared work when they interpret the publicity about the negative impacts of undeclared work to be directed at others, who could be bigger players than them, rather than them. This means that campaigns should advertise the extent of non-compliance among the average supplier of undeclared work (in the realm being targeted) so that people will not view their own activity as 'minor' compared with others.

Similarly, there is the **denial of injury** rationale. The suppliers can deny that their undeclared work has had negative impacts on others and rationalise their non-compliant behaviour by asserting that without them participating in undeclared transactions, customers would have had to pay a higher price or would have been unable to afford to receive the services provided. This may therefore require examples of the common ways in which customers suffer by purchasing undeclared rather than declared goods and services.

There is also the **denial of victim** neutralisation technique. The suppliers may accept the negative impacts of their undeclared work but believe that the victims deserve it. This may require that campaigns provide human stories of individual victims.

Alternatively, there can be an **appeal to higher loyalties**. The supplier of undeclared work may justify their actions in terms of some alternative set of loyalties or social order, believing that this justifies their actions, such as that they are doing it for the benefit of

their own family rather than society. This can be countered by showing how these 'higher loyalties', such as their family, can be also negatively affected by those supplying undeclared work.

Related to this, there is the **condemnation of condemners** mind-set. The suppliers of undeclared work may assert that the law, the lawmakers and law enforcers are to blame for an unjust system, and believe that the community to which they have a sense of belonging should not succumb to these formal rules and that this makes undeclared work a socially legitimate activity. To tackle this requires for example stories of the 'progress' being made towards a 'just' system and the significant benefits of them operating on a declared basis to be highlighted.

A final example is the **defence of necessity** normalisation method. The supplier of undeclared work may justify their actions to be the outcome of personal circumstances, such as that they cannot access fully declared employment, or that they engage in self-employment in the undeclared economy out of necessity and as a survival practice. This may require for example that information is provided to such suppliers on any organisations, resources and/or procedures that they can access so that they do not have to engage in undeclared work out of necessity.

Given these different ways in which those engaged in non-compliant behaviour rationalise their actions, awareness raising campaigns need to ensure that these possibilities are not open to participants by pursuing the campaign messaging tactics mentioned.

To evaluate which of these rationales/neutralisation techniques are commonly used among tourists in relation to undeclared transactions, Apostolidis and Haeussler (2018) conducted a survey of Greek, UK and German tourists on holiday in Greece (see Box 7).

#### **Box 7. Tourists attitudes towards the acceptability of engaging in undeclared transactions in the Greek tourist economy**

To study tourists' attitudes towards engaging in undeclared transactions in the Greek tourist economy, in-depth interviews with tourists from Greece, UK and Germany were undertaken. Various nationalities were interviewed because the neutralisation techniques used by tourists may be influenced by their culture and nationality (Cohn and Vaccaro, 2006; Gruber and Schlegelmilch, 2014; Harris and Dumas 2009).

All the neutralisation techniques discussed above were shown to be present among the tourists when justifying their engagement in undeclared transactions.

For British and German respondents, the main neutralisation technique used was the *denial of responsibility*. Greek respondents drew on a more multifarious range of neutralisation techniques to justify the acceptability of their actions. For example, more than half of the Greek respondents argued that hotel owners have also benefited from the current situation through tax evasion and unethical practices for a long time (*condemning the condemners*), while many also claimed that no one directly suffers as a result, as the economy does not lose from such activities (*denial of injury*).

To a lesser extent, some Greek respondents claimed *appeal to higher loyalties*, stating that the positive consequences of undeclared transactions (e.g. supporting the local economy or encouraging healthy competition) outweigh the potentially negative ones. Limited reference was also made to *denial of victim*, with respondents stating that any negative impact of undeclared transactions is related to market competition and there are no victims, to explain their acceptance of it.

Finally, in addition to the five neutralisation techniques suggested by Sykes and Matza (1957), one more technique was identified as quite prevalent during the analysis of the interviews from respondents from all three countries (but mainly from Greece), which resembles arguments labelled by Henry (1990) as *claim of normalcy*.

Respondents claim that accepting undeclared tourist services is not wrong, as many people are doing the same thing

Five broad themes emerge to explain these tourists' acceptance of undeclared work in the tourist economy (or what the researchers term 'shadow hospitality'): economic benefits; domesticity; supporting local communities; seeking authentic experiences, and uniqueness.

Perceived quality, penalties and shame negatively influence their acceptance of such undeclared transactions.

Although the tourists interviewed appear aware of the issues associated with undeclared transactions, all the above neutralization techniques were used to justify its acceptability and avoid (self-)blame.

*Source: Apostolidis and Haeussler (2018)*

In sum, education and awareness campaigns need to overcome these rationalisations that suppliers and purchasers of undeclared work in the tourism sector use to justify their actions and neutralise their guilt. If they do not, then the campaigns will not be effective in eliciting behaviour change. On the supply-side, this requires messages that: advertise the extent of non-compliance among the average supplier of undeclared work (in the sphere being targeted) so that people will not view their own activity as 'minor' compared with others; display how customers suffer through human stories of individual victims; show how their family might be negatively affected by others supplying undeclared work; reveal the significant benefits of everybody operating on a declared basis, and provide advice to undeclared workers about where they can make complaints and seek support.

On the demand-side, meanwhile, education and awareness campaigns need to address three specific rationales when developing their messages to encourage tourists to not engage in undeclared transactions. Firstly, the denial of responsibility needs to be addressed, by showing tourists in messages how their small actions (e.g., paying unlicensed tour guides) when added up, have major negative consequences. Secondly, messages need to show that they can say no to undeclared transactions and that blaming others (e.g., accommodation providers) is not an excuse. And third and finally, messages need to tackle the 'denial of injury' excuse by using human stories of individuals displaying how they suffer as a direct result of tourists' actions (e.g., local waiters and waitresses).

A final education and awareness raising initiative that might help tourists make appropriate choices when purchasing goods and services is to use a **social labelling initiative** whereby tourist enterprises who are compliant (i.e., on a 'white list') receive some social label that they respect workers' rights.

### **Tackling undeclared work in the tourism sector: policy recommendations**

- Workplace inspections to identify undeclared work in tourism economy can be improved using: announced inspections; joint and concerted inspections to tackle cross-border undeclared work, and ID cards.
- Data mining to identify risky tourist businesses can improve not only the effectiveness of inspections but also target notification letters and awareness raising campaigns.
- Introducing a written contract (by the first day of work) is a pre-requisite for effective detection, as is the registration of service providers on collaborative platforms.
- Detection of undeclared work can be improved using certified cash registers, and supply chain due diligence initiatives.
- Simplifying compliance is necessary, such as: simplified regulations for smaller and seasonal jobs (Hungary); thresholds for tax exempt own-account earnings (UK); and tax and social security incentives (e.g., 'flexi jobs' in Belgium).
- Social partners can provide social security incentives to operate declared.
- Offering tourist enterprises the opportunity to voluntarily disclose previous non-compliance is another way forward.
- To encourage tourists to purchase on a declared basis, initiatives include: holiday vouchers to use registered accommodation; making it compulsory for restaurants to issue receipts and publicise on menus the purchasers right not to pay if not issued, and hosting receipt lottery draws in resorts in vacation periods.
- Developing education and awareness raising materials to change behaviour, exemplified by the Greek tourist campaign 'receipts please', and Portuguese campaign to inform motorhome users of official motorhome sites.
- Introducing a social label initiative where compliant tourist enterprises receive a social label that they respect workers' rights.

## 6 CONCLUSIONS AND RECOMMENDATIONS

Undeclared work, especially unregistered employment, is more prevalent across the tourism industries than in other sectors of the EU economy. There is therefore a strong rationale for an emphasis on this sector when tackling undeclared work. Here, recommendations for action by Member State enforcement authorities and social partners are outlined.

### Enforcement authorities

Reviewing the range of policy measures available, the following conclusions are reached:

- **Workplace inspections** in the tourism sector could potentially more effectively transform undeclared work into declared work if announced inspections were used and evaluated, there were joint and concerted inspections to tackle cross-border undeclared work (e.g., targeting sea and inland water passenger vessels), workplace ID cards were widely implemented, and data mining was improved to more effectively identify risky tourist businesses.
- **Data mining** to identify risky tourist businesses might identify 'outliers' using dynamic benchmarking by analysing those: who have higher than average expenses; higher ratios of credit card to cash payments compared with other similar businesses; lower than average wage levels, or a relatively low number of registered employees for their turnover.
- Data mining can also identify better the targets for **notification letters**, as exemplified by Estonia and Spain, but also Canada where notification letters have targeted the full declaration of tips by hospitality workers.
- Introducing **registration** such as a **written contract (by the first day of work)** is a pre-requisite for effective detection. This, however, does not cover all forms of employment relationship in the tourism sector. Other forms of worker registration are therefore also required, such as the registration of service providers on collaborative platforms.
- The introduction of **certified cash registers** across the tourism industries is a further deterrent initiative to improve detection of undeclared work.
- **Simplifying compliance** makes it easier for employers and the self-employed, as well as workers, in the tourist industry to operate on a declared basis. Simplifications could include:
  - simplified regulations for smaller and seasonal jobs (exemplified by the 2010 Simplified Employment Act in Hungary);
  - introducing threshold amounts for workers to tax exempt own-account activities, which could be used to address the issue of private home restaurants and 'meal sharing' for example, and
  - tax and social security incentives, exemplified by 'flexi-jobs' in the hotel and catering sector in Belgium.
- Offering participants in the undeclared economy the opportunity to **voluntarily disclose** previous non-compliance is another way forward. Such schemes could be targeted at many tourist industries, such as pop-up restaurants, home restaurants, and the short-term holiday rental sphere.
- To encourage tourists to purchase on a declared basis, initiatives that could be pursued include:
  - the use of **holiday vouchers** to promote the usage of registered tourist accommodation and to reduce undeclared earnings in the accommodation sector;

- **encouraging tourists to ask for receipts** so that transactions are recorded, such as by making it a statutory responsibility for restaurant menus to include on the front page that it is compulsory for the restaurant to issue a receipt for the meal and if not produced, the purchaser has the right not to pay for the meal, and
- by encouraging tourist participation in national receipt lotteries by different tourist resorts hosting the 'receipts lotto' each week during vacation periods
- Developing education and awareness raising materials to elicit behaviour change, exemplified by the Greek campaign 'receipts please' targeted at tourists, Education and awareness raising campaigns need to evaluate whether the messaging used overcomes the neutralisation techniques (NTs) employers, workers and tourists use to rationalise their deviant behaviours.

### Social partners

- Introducing Workplace ID cards and encouraging experimentation with social partner involvement in monitoring their presence, akin to Iceland, can improve detection of undeclared work.
- Social partners can also provide **social security incentives** to operate on a declared basis in the tourism industry. An example would be to transfer the Construction Workers Leave and Severance Pay Fund (BUAK) in Austria and/or Builders Social House (*Casa Socială a Constructorilor*, CSC) scheme in Romania to various sub-sectors of the tourism industry, where work is also seasonal, and to other Member States.
- A further example of how social partners can offer incentives is found in Greece where an employer federation (ESEE) provided **free marketing** to compliant tourist businesses via 'business walking routes' pamphlets for tourists. Developing a smartphone app for tourists, could be useful. To achieve this, a 'white list' of compliant tourist businesses is a pre-requisite.
- An education and awareness raising initiative that might help tourists make appropriate choices when purchasing goods and services is for social partners to implement a certification of quality, namely a **social labelling initiative**, whereby tourist enterprises who are compliant (i.e., on a 'white list') receive some social label that they respect workers' rights.
- A supply chain due diligence initiative social partners could implement is a **voluntary supply chain responsibility initiative**. This could be introduced as part of their corporate social responsibility (CSR) strategy.
- **Education and awareness raising campaigns** about the benefits of declared work and costs of undeclared work in tourism could be developed which target employers, workers and tourists, exemplified by the educational campaign in Portugal to inform motorhome users of official motorhome sites.

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## APPENDIX

### Methodological details

In the report, three main databases are used:

#### **1) Structural Business Statistics and European Union Labour Force Survey**

Structural business statistics (SBS), describe the structure, activity, competitiveness and performance of economic activities within the business economy down to the detailed level of several hundred sectors. SBS cover industry, construction, distributive trades and services and data are presented according to the NACE activity classification.

The European Union Labour Force Survey (EU LFS) is conducted in the 28 Member States of the European Union. The EU LFS is a large household sample survey providing quarterly results on labour participation of people aged 15 and over as well as on persons outside the labour force. All definitions apply to persons aged 15 years and over living in private households. Persons carrying out obligatory military or community service are not included in the target group of the survey, as is also the case for persons in institutions/collective households.

The data collection covers the years from 1983 onwards. In general, data for individual countries are available depending on their accession date. The Labour Force Surveys are conducted by the national statistical institutes across Europe and are centrally processed by Eurostat. The national statistical institutes are responsible for selecting the sample, preparing the questionnaires, conducting the direct interviews among households, and forwarding the results to Eurostat. Thus, it is possible to make available harmonised data at European level:

- Using the same concepts and definitions;
- Following International Labour Organisation guidelines;
- Using common classifications (NACE, ISCO, ISCED, NUTS);
- Recording the same set of characteristics in each country.

In 2016, the quarterly LFS sample size across the EU was about 1.5 million individuals. The EU-LFS covers all industries and occupations.

In this report, the analysis was carried out based on the NACE Rev. 2 classification of sectors and ISCO-08 classification of occupations.

#### **2) European Working Conditions Survey, 2015**

The European Working Conditions Survey (EWCS) is conducted in the 28 member states of the European Union (EU28). The sample in the EWCS is representative of those aged 15 and over (16 and over in Bulgaria, Norway, Spain and the UK) living in private households and in employment who did at least one hour of work for pay or profit during the week preceding the interview. The sample in each country is stratified by region (NUTS 2 or equivalent) and the degree of urbanisation. The sixth edition of the EWCS conducted in 2015 interviewed 35 765 in the 28 EU Member States.

#### **3) Special Eurobarometer 284 on undeclared work, 2007**

Special Eurobarometer No. 284 (*Undeclared work in the European Union*) was conducted as part of wave 67.3 of the 2007 Eurobarometer survey. Similar to other Eurobarometer surveys, this used a multi-stage random (probability) sampling method in every member state. 26 659 participants were surveyed.

This survey asked respondents to name in which of the following sectors of activity they were currently working:

- 1 Construction
- 2 Industry

- 3 Household services (incl. gardening, child and elderly care)
- 4 Transport
- 5 Personal services
- 6 Retail
- 7 Repair services
- 8 Hotel, restaurant, cafes
- 9 Agriculture
- 10 Refusal (SPONTANEOUS)
- 11 Other (SPONTANEOUS)