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Undeclared work: frequently asked questions

(see also [IP/14/387](#) and [MEMO/14/271](#))

What is undeclared work?

Member States define undeclared work very differently. Sometimes there is not even a definition. At EU level, undeclared work is defined as "any paid activities that are lawful as regards their nature but not declared to public authorities, taking account differences in the regulatory systems of the Member States"¹. This means that only legal activities are covered and illicit practices, such as corruption and drug trafficking are not considered to be undeclared work. This EU definition aims at creating a common basis for discussions and cooperation at EU level.

The most common type of undeclared work is work carried out in a formal undertaking and can be partially or fully undeclared. It can take place in various workplaces from offices to factories.

Partially undeclared work is sometimes also called "under-declared work", "envelope wages" or "cash-in-hand". In these cases only part of the employee's salary, usually the minimum salary, is paid officially, while the rest is given to the employee directly "tax free". It also covers situations where an employee is declared to work part-time, but in reality works full-time.

The most detrimental form is fully undeclared work, meaning that no taxes or contributions are paid from the salary and often no employment contract is concluded between the employer and the employee.

Another type is undeclared "own account" or self-employed work, where a self-employed person provides services either to a formal enterprise or other clients, such as households.

Finally, undeclared work is often carried out in sectors like construction, renovation or repair works, cleaning, provision of childcare or care for the elderly..

¹ "Stepping up the fight against undeclared work" COM(2007)628, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52007DC0628:EN:HTML>

Some hypothetical examples of typical undeclared work

Undeclared work occurs in all kind of economic sectors, both within countries and across borders.

For example, an IT specialist works in a big company. According to his payslip, he earns the minimum salary. However, in addition to that minimum salary, he gets a similar amount by his employer "cash-in-hand".

A security guard is hired to work for a company on an ad hoc basis, without signing any contract. This would be a case of fully undeclared work and, in the event of an accident, it might have serious consequences for the worker, since he lacks any kind of insurances or social protection.

A care assistant for elderly people provides her services completely undeclared. She/he is not interested in declaring her work, because in this way she/he can actually earn more than by paying taxes and social security contributions from her earnings. However, as a result, i.e. she/he would not cumulate any pension rights.

Situations can be more difficult to trace when happening across different countries. A self-employed graphic-designer moves to a different Member State to provide services, but he actually works only for one company. This means that he is economically dependent on one employer and he should be registered as a worker in the country where he is active. Therefore, in practice he is a false self-employed worker.

There can be cases of false postings too. For instance, a worker is allegedly posted in the framework of temporary provision of services. According to the Posting of Workers Directive, core employment conditions in the receiving country should be applicable to him. Social security contributions from his salary will be paid in the sending country. However, the reality is that he works normally already in the supposedly receiving country. Therefore, he wouldn't fulfil the conditions of a posted worker and should be declared as a national worker, paying social security contributions and taxes there.

These are just some hypothetical situations involving undeclared work and the list of examples could be countless, but all cases often share similar negative effects.

What impact does undeclared work have on workers?

Often, it may seem that there are benefits to earning money "in the black" as it can happen that the employee actually earns more than would be the case if the salary was officially declared. In the long run, however, these employees whose work has been only partially declared will have decreased pension rights as less contributions will have been paid for or by them. For the same reason they could also lose out on other benefits that are calculated on the basis of their declared salary.

In cases where work is fully undeclared, the consequences can be much more severe:

- these workers face a very high risk of having poorer working conditions
- the health and safety obligations at their workplace are often neglected
- employment rights, such as the right to paid annual leave and limits to working time, might not be respected
- they can have less employment security, as they might not have a right to redundancy payments and unemployment benefits
- their training needs are not taken into account
- their access to healthcare is also limited as no healthcare contributions have been paid and as a consequence they could face higher medical costs.

In case of undeclared self-employed work, the consequences are similar to those described above.

What negative impact does undeclared work have on employers and on the states?

Workers are not the only ones who suffer the consequences; undeclared work takes its toll also on employers and on the state as a whole. Employers who are not declaring the work done by their workers are creating unfair competition as they can provide cheaper goods and services than companies respecting the rules, such as health and safety obligations, payment of social security contributions and working conditions.

For the state, undeclared work means first and foremost unpaid taxes and social security contributions. As a consequence, the state has less money to provide quality services, such as childcare, healthcare and services targeted at the unemployed or elderly. Undeclared work also has implications on the quality of the labour force, as people whose work is undeclared do not have opportunities to upgrade their skills or participate in life-long learning.

What is the extent of undeclared work?

As undeclared work is not observed or registered, and is defined differently in national legislation, it is difficult to obtain reliable estimates of how widespread it is across Member States. As a result, estimations of undeclared work vary widely (see Table 1).

According to the latest [Eurobarometer survey](#), 4% of the respondents admitted that they had performed undeclared work, but variations exist between countries. It was highest in Latvia, The Netherlands and Estonia (11% in each), and lowest in Malta (1%) and Ireland, Italy, Cyprus, Portugal and Germany (2% in each) ([see IP/14/298](#)).

11% of the respondents admitted that they had purchased goods or services in the previous year where they had good reasons to believe it involved undeclared work. There are considerable variations across the EU. The Member States with particularly high numbers include Greece (30%), The Netherlands (29%) and Latvia (28%). The Member States with the lowest proportions of purchasers were Poland (5%), Germany (7%), Spain and the UK (8% in each).

When looking at these numbers, it has to be taken into account that the Eurobarometer survey was based on face-to-face interviews with European citizens. That means that awareness of the problems, national legislative framework and trust in the interviewer (for example that they would not report to the authorities) were important factors for citizens enabling them to indicate that they had performed undeclared work.

The incidence and policies to address undeclared work are analysed in more detail in the [Employment and Social Developments in Europe 2013](#) review.

What are Member States doing to fight undeclared work?

The fight against undeclared work relies mostly on three types of enforcement bodies: (a) labour inspectorates to address abusive behaviour regarding working conditions and/or health and safety norms, (b) social security inspectorates fighting fraud on social insurance contributions, and (c) tax authorities to deal with tax evasion.

Usually, one of these authorities is leading the fight against undeclared work.

Table: Leading authorities in the Member States

Labour Inspectorate	Social Security Inspectorate	Tax Authority
Bulgaria, Cyprus, Czech Republic, France, Greece, Hungary, Ireland, Luxembourg, Italy, Latvia, Lithuania, Netherlands, Portugal, Poland, Romania, Slovakia, Slovenia	Belgium, Spain	Austria, Denmark, Estonia, Finland, Germany, Sweden, UK

In addition, social partners (trade unions and employers' organisations), customs authorities, migration bodies, the police and the public prosecutor's office are also involved.

All Member States have in the last ten years introduced measures to step up their efforts in the fight against undeclared work, given its negative consequences. All Member States have made use of the deterrence measures to influence people's behaviour with stricter sanctions or focussing on more effective inspections. In addition, Member States are using preventive measures, such as tax incentives, amnesties and awareness raising, to decrease the incidence of undeclared work and facilitate compliance with the existing rules.

Table of policy approaches to tackle undeclared work

Approach	Method	Measures
Deterrence	Improve detection	Data matching and sharing
	Penalties	Joining up strategy Joining up operations Increase penalties for evasion
Enabling compliance	Preventative	Simplification of compliance Direct and indirect tax incentives Smooth transition into self-employment Introducing new categories of work Micro-enterprise development
	Curative	Purchaser incentives: - service vouchers - targeted direct taxes - targeted indirect taxes Supplier incentives: - society-wide amnesties - voluntary disclosure - business advisory and support services
	Fostering commitment	Promoting benefits of declared work Education Peer-to-peer surveillance Tax fairness Procedural justice Redistributive justice

Source: "Tackling undeclared work in 27 European Union Member States and Norway: Approaches and measures since 2008", 2013 Eurofound

How is the cross-border aspect of undeclared work tackled?

Cross-border aspects of undeclared work occur when workers move across borders to work in other Member States.

When addressing cross-border situations and trying to identify the employment relationship of workers from other countries, the inspection authorities are faced by specific challenges, such as communication difficulties due to different languages, lack of knowledge and means of enforcement to address the situation adequately. To a large extent this is caused by the fact that national mechanisms are designed to tackle mostly domestic aspects of undeclared work.

Why do Member States need the support of the EU?

Member States could benefit from the support of the EU in strengthening their efforts to fight undeclared work because:

- undeclared work is a challenge to all Member States and despite their efforts it still persists
- preventing and deterring undeclared work contributes to better enforcement of the EU and national law
- challenges posed by undeclared work, such as problems with the identification and sanctioning of abusive behaviour, negative consequences and difficulties with cross-border aspects of undeclared work are common to all Member States.

How can the EU help Member States?

At EU level there is no formal mechanism in place that could be used by all relevant authorities of different Member States to address issues related to undeclared work in a holistic way.

Here, the EU can help. It can provide for a common forum at EU level where enforcement authorities from all Member States, such as labour inspectorates, social security and tax authorities, could meet with their counterparts and exchange information and best practice, develop knowledge and engage in more operational cooperation in order to fight undeclared work more effectively and efficiently. For example, by sharing experience, money could be saved by implementing measures to tackle undeclared work which have already proven to be successful in other Member States. Thus saving Member States from "reinventing the wheel".

In addition, reducing undeclared work requires more coordinated steps on the part of enforcement authorities of the Member States. It would be helpful, for example, to develop more structured cooperation between different enforcement authorities also at national level by joining forces for inspection activities, sharing information and data etc.

Also here, the EU can help by supporting Member States' efforts to reinforce the capacity of their national authorities and to ensure good governance on how undeclared work is tackled in a Member State.

Improved cooperation at EU level will lead to a more effective fight against undeclared work, which can be expected to reduce undeclared work.

Furthermore, the transformation of informal or undeclared work into regular employment could have a positive impact on the creation of formal jobs, thus contributing to achieve the employment targets set in the [Europe 2020 Strategy](#).

Table 1: Estimated size of the shadow economy and undeclared work in the EU

Country	Size of shadow economy (in % of GDP), 2012 ¹	Undeclared work (% of GDP), 1992–2006 ²	Country data or estimations ³ (% of GDP)	World Bank research ⁴ (% of extended labour force)	Demand of UDW ⁵ (% of respondents to Eurobarometer Survey 2013)	Supply of UDW ⁶ (% of respondents to Eurobarometer Survey 2013)	Envelope wages ⁷ (% of respondents to Eurobarometer Survey 2013)
Austria	7.6	1,5 (1995)	No data	19.7	14	5	2
Belgium	16.8	6-20	No data	10.5	15	4	4
Bulgaria	31.9	22-30 (2002)	20 (2011)	13.2	16	5	6
Cyprus	25.6	10 (2007)	19.1 (2012)	53.0	16	2	2
Croatia	29.0	No data	No data	No data	17	7	8
Czech Republic	16.0	9-10 (1998)	No data	12.5	19	4	5
Denmark	13.4	3 (2005)	No data	11.5	23	9	2
Estonia	28.2	7-8 (2007)	8 (2011)	9.8	12	11	5
Finland	13.3	4.2 (1992)	No data	11.2	11	3	1
France	10.8	4-6.5 (1998)	No data	10.3	9	5	1
Germany	13.3	7 (2007)	No data	11.9	7	2	1
Greece	24.0	24-30 (2007)	36.3 (2012)	46.7	30	3	7
Hungary	22.5	18 (1998)	16-17 (2006)	9.4	11	4	6
Ireland	12.7	8 (2002)	No data	33.0	10	2	2
Italy	21.6	6,4 (2006)	12.1 (2011)	22.4	12	2	2
Latvia	26.1	16-18 (2007)	No data	8.0	28	11	11
Lithuania	28.5	15-19 (2003)	No data	6.4	14	8	6
Luxembourg	8.2	No data	No data	No data	14	5	3
Malta	25.3	25 (1998)	No data	No data	23	1	0
Netherlands	9.5	2 (1995)	No data	12.6	29	11	3
Poland	24.4	12-15 (2007)	4.6 (2010)	21.6	5	3	5
Portugal	19.4	15-37 (2004)		22.4	10	2	3
Romania	29.1	16-21 (2007)	31.4	11.8	10	3	7
Slovakia	15.5	13-15 (200)	No data	12.2	17	5	7
Slovenia	23.6	17 (2003)	No data	14.1	22	7	4
Spain	19.2	12,3 (2006)	17 (2011)	18.8	8	5	5
Sweden	14.3	5 (2006)	No data	8.2	16	7	1
United Kingdom	10.1	2 (2000)	No data	21.7	8	3	2

Sources:

1. Schneider, F. (2012), "Size and development of the Shadow Economy from 2003 to 2012: some new facts",
2. European Commission (2004, 2007), European Employment Observatory Review, Spring 2004 and Spring 2007,
3. EUROFOUND (2012), EU MS and Norway fact sheets on estimates and approaches to measure undeclared work.
4. World Bank's research working paper 5912 on "Informal Workers across Europe": Mihails Hazans, December 2011
5. Eurobarometer 2013, Replies to the question "Have you in the last 12 months paid for any goods or services of which you had a good reason to assume that they included undeclared work (e.g. because there was no invoice or VAT receipt)?"
6. Eurobarometer 2013, Replies to the question "Apart from a regular employment, have you yourself carried out any undeclared paid activities in the last 12 months?"
7. Eurobarometer 2013, Replies to the question "Sometimes employers prefer to pay all or part of the salary or the remuneration (for extra work, overtime hours or the part above a legal minimum) in cash and without declaring it to tax or social security authorities. Has your employer paid you any of your income in the last 12 months this way?"