



Regional Cooperation Council

**Western Balkan Network tackling undeclared work**

**A HANDBOOK OF PREVENTATIVE  
APPROACHES TOWARDS  
UNDECLARED WORK**

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## Executive Summary

The current focus of state authorities is still heavily upon “detering” undeclared work using measures that improve the probability of detection and the penalties imposed on those caught. However, this only deals with undeclared work once it has occurred. It is also important to prevent undeclared work from occurring in the first place. The aim of this handbook is to provide a compendium of the range of preventative approaches for tackling undeclared work available to economies. Four types of preventative policy measure are reviewed, namely: supply-side incentives; demand-side incentives; education and awareness raising; and modernising formal institutions.

### Supply-side incentives

Supply-side incentives transform undeclared work into declared work by making the conduct of declared work beneficial and easier for employers and workers. Such measures include: simplifying compliance; society-wide amnesties; individual-level amnesties for voluntary disclosure; formalisation support to start-ups; formalisation support and advice to businesses; direct tax and social security incentives; indirect tax incentives, and help with record-keeping. Good practice examples of these supply-side measures are provided.

### Demand-side incentives

Demand-side incentives target purchasers of undeclared goods and services with rewards for using declared goods and services. These measures include: targeting purchasers with direct tax incentives; targeted indirect tax incentives; service vouchers; incentives for electronic payments and deterring cash payments, and incentives for customers to request receipts. Good practice examples of these demand-side measures are provided.

### Education and awareness raising

Education and awareness raising measures range from the provision of advisory services to employers and workers through to marketing campaigns targeting either suppliers (employers or workers) or purchasers of undeclared work about either the benefits of declared work or costs of undeclared work. Good practice examples are provided.

### Modernising formal institutions

The norms, values and beliefs of employers, workers and citizens are often not aligned with the laws and regulations because of a lack of trust in government. How this can be resolved through the modernisation of governance and addressing the structural economic and social conditions associated with higher levels of undeclared work is highlighted.

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The outcome is a series of recommendations for the Western Balkan economies:

- There should be a shift away from resolving undeclared work after it has occurred and towards **preventing** undeclared work from occurring in the first place.
- Consideration should be given to conducting **pilot** initiatives of various preventative measures (e.g., in a sector or geographical area) to evaluate their effectiveness.
- Using such pilot initiatives, a “**test, learn and adapt**” evidence-based approach could be adopted. After a pilot (e.g., in a locality or sector), the results can be analysed, and lessons learned. The follow-up initiative can then use what has been found to work in the pilot. This can again be analysed, lessons learned, and adaptations made to make it even more effective.

## 1. Introduction

There has been recognition by economies across the world that rather than simply eradicate undeclared work, the goal is to transform undeclared work into declared work. This is reflected in recommendation 204 of the ILO on the transition to formality (ILO, 2015) and article 1 of Decision (EU) 2016/3441 establishing the European Platform Tackling Undeclared Work, which states “‘tackling’, in relation to undeclared work, means preventing, deterring and combating undeclared work as well as promoting the declaration of undeclared work” (European Commission, 2016).

The outcome is that there has been shift towards firstly, “preventing” undeclared work rather than curing it after it has happened, and secondly, “promoting” declared work rather than detecting and punishing undeclared work. Relying primarily on deterrence measures which seek to penalise offenders and improve the probability of their detection, economies simply deal with the effects. They do not deal with the causes of undeclared work, and neither do they facilitate the shift of work from the undeclared to the declared economy (Williams, 2018a,b).

Complementing deterrence measures with preventative measures, therefore, is a requirement if undeclared work is to be tackled. Until now, nevertheless, there has been a limited uptake of preventative measures across economies. Firstly, this is because the types of organisation responsible for tackling undeclared work (e.g., enforcement authorities) have conventionally been given the competence and responsibility of detecting and punishing non-compliance, rather than preventing non-compliance from happening (although this is starting to change, especially in tax administrations who are being given responsibility for preventative initiatives to make compliance easier and more beneficial). Secondly, and importantly, the limited uptake of preventative measures is because deterrence measures are perceived to be more effective at tackling undeclared work and preventative measures viewed as a long-term approach which does not provide the “quick wins” required, and this therefore constrains the resources devoted to them. And thirdly, there has been relatively little evaluation of preventative measures, which has hindered their adoption, and little information has been made available on what works and what does not.

The aim of this handbook is to provide a compendium of the range of preventative approaches for tackling undeclared work available to economies.

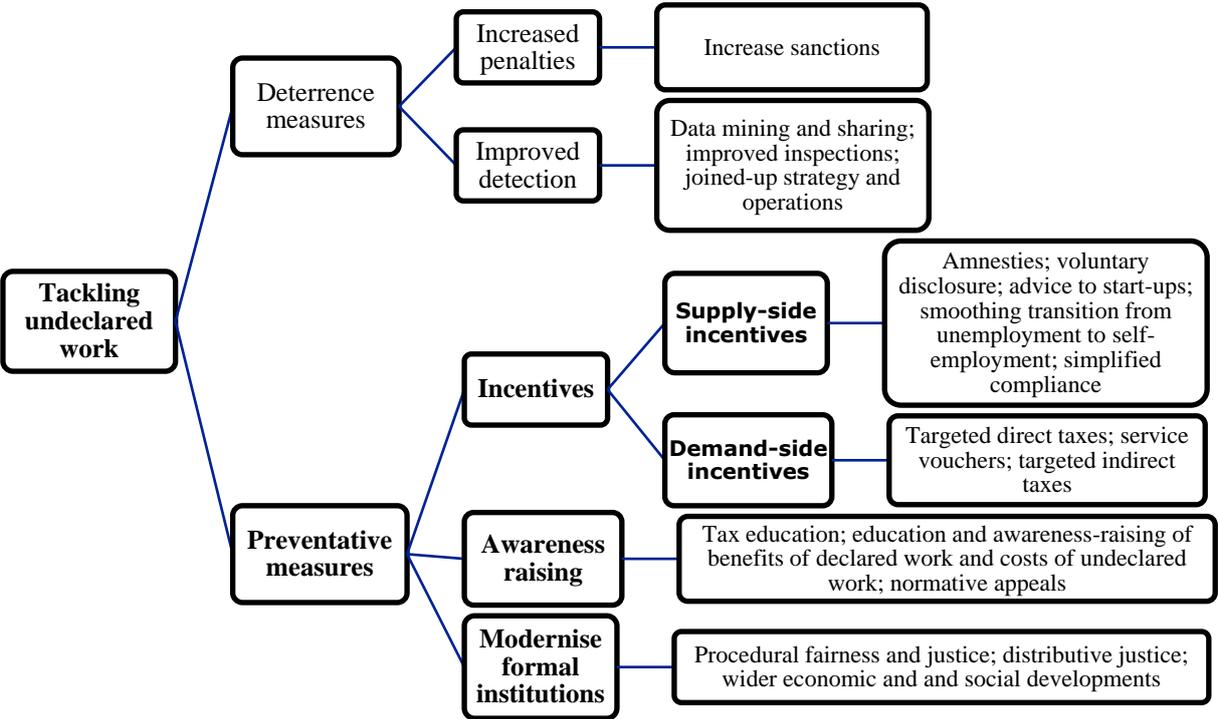
In section 2, therefore, the four types of preventative policy measure are reviewed, namely: supply-side incentives; demand-side incentives; education and awareness raising; and modernising formal institutions. Each is then considered in turn. Section 3 provides a compendium of **supply-side incentives** that transform undeclared work into declared work by making the conduct of declared work beneficial and easier for employers and workers. Section 4 evaluates the range of **demand-side incentives** available that target purchasers of undeclared goods and services with rewards for using declared goods and services. Section 5 then evaluates the range of **education and awareness raising initiatives** available which change citizens, workers and employers’ norms, values and beliefs regarding the acceptability of undeclared work. Section 6 reviews the fourth and final type of preventative measure focused upon the modernisation of formal institutions. Section 7 then draws conclusions and makes recommendations.

The outcome will be a compendium of the full range of preventative policy measures for tackling undeclared work, including examples in different Western Balkan and European Union economies.

## 2. Types of Preventative Measure

When tackling undeclared work, enforcement authorities have traditionally relied on “**deterrence**” **policy measures** that increase the costs of undeclared work by raising the penalties and risks of detection (“sticks”). These seek to cure the problem of undeclared work once it has occurred. However, in recent years, a more **preventative approach** has emerged seeking to prevent undeclared work from happening in the first place. Figure 1 outlines the preventative approaches that can be used alongside the conventional deterrence policy measures.

**Figure 1: Policy approaches for tackling undeclared work**



This reveals that preventative measures are of four broad types:

- **Supply-side incentives** that transform undeclared work into declared work by making the conduct of declared work more beneficial and easier for employers and workers.
- **Demand-side incentives** that target purchasers of undeclared goods and services with rewards for using declared goods and services.
- **Education and awareness raising** which change norms, values and beliefs regarding the acceptability of undeclared work.
- **Modernising formal institutions** which are the cause of norms, values and beliefs not aligning with the laws and regulations. These policy initiatives seek to not only modernise governance but also address the structural economic and social conditions associated with a higher prevalence of undeclared work.

This handbook evaluates each of these sets of preventative measure in turn.

### 3. Supply-Side Incentives

Supply-side incentives transform undeclared work into declared work by making the conduct of declared work more beneficial and easier for employers and workers. Here, a compendium of these measures is provided by evaluating each of the following in turn: simplifying compliance; society-wide amnesties; individual-level amnesties for voluntary disclosure; formalisation support to start-ups; formalisation support and advice to businesses; direct tax and social security incentives; indirect tax incentives, and help with record-keeping

#### **Simplifying compliance**

Simplifying compliance is perhaps the most common way economies make it easier and more beneficial for employers and the self-employed to operate on a declared basis. Those operating in the undeclared economy might intentionally do so but may also unintentionally not comply, such as due to the complexity of the legislation and/or processes that they are required to undertake to operate legitimately.

One solution, especially for those who unintentionally engage in undeclared work, is to provide better advice and information on how to comply (see section 5). Another solution is to simplify compliance. This involves simplifying the administrative framework (e.g., easier registration procedures, simplified self-assessment) but may also involve increasing the benefits of compliance (e.g., access to buyers, more favourable credit, legal protection).

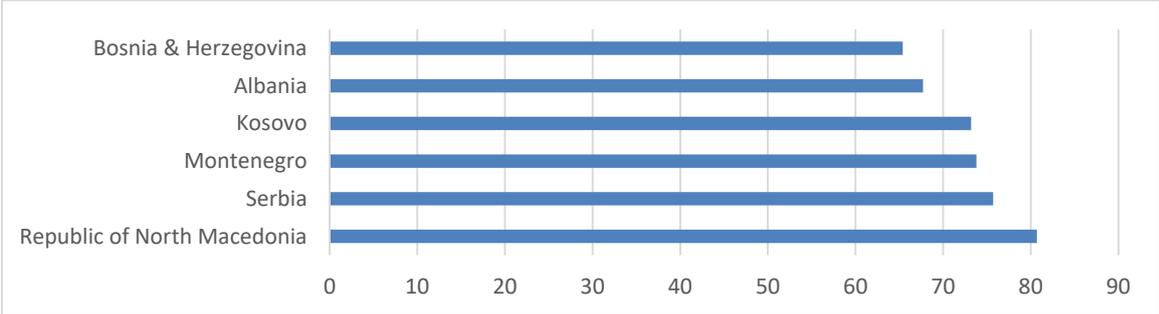
Simplifying compliance is important because not only does complexity increase the likelihood of misreporting (Alstadsæter and Jacob, 2013), but also because when the costs of full administrative compliance are higher, compliance rates are lower (Adams and Webley, 2001; Matthews and Lloyd-Williams, 2001). Indeed, examining 45 economies, Richardson (2006) reveals that regulatory complexity is the most important determinant of non-compliance. Overall, his regression results display that the lower the level of regulatory complexity, the greater is the level of compliance.

As such, simplifying compliance has a key role to play in tackling undeclared work. Simplifying compliance, however, is not the same as reducing regulations (i.e., de-regulation). Simplifying compliance is about pursuing good governance, not de-regulation. The World Bank Doing Business Survey, conducted annually in 190 economies, provides a “proxy” measure by assessing the ease of doing business (see Figure 2 below). This evaluates the effectiveness of legislation in 11 different areas: starting a business, paying taxes, dealing with construction permits, registering property, getting electricity, getting credit, protecting investors, trading across borders, enforcing contracts, resolving insolvency and employing workers. Out of the 190 economies covered in 2020, the Republic of North Macedonia was ranked 17<sup>th</sup> easiest to do business, Serbia 44<sup>th</sup>, Montenegro 50<sup>th</sup>, Kosovo\*<sup>1</sup> 57<sup>th</sup>, Albania 82<sup>nd</sup> and Bosnia and Herzegovina 90<sup>th</sup>. All Western Balkan economies, therefore, were in the top half of economies globally on the ease of doing business. There is nevertheless room for improvement.

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<sup>1</sup> \* This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo declaration of independence

**Figure 2: How Western Balkan economies rank on the ease of doing business, 2020**



Source: World Bank (2020)

One way forward often used is to implement Regulatory Impact Assessment (RIA) tests for all proposed formal regulations and to even extend this to include an “undeclared work impact assessment” test. However, and as Hart *et al.* (2005) reveal, RIAs vary in: the clarity with which the policy objectives are stated; their assessment of the risks; the use of stakeholder engagement; consideration of non-regulatory alternatives; estimates of the expected costs and benefits of the proposed regulations; and discussion of the sanctions for non-compliance.

Simplifying the number of procedures and forms is another way forward. An example is **pre-filling tax returns**. Denmark was the first economy to pre-populate tax returns in 1998. Since then, pre-filling has become a significant component of the e-services and e-government strategy of many revenue agencies (Jensen and Wöhlbier, 2012). Pre-filling involves tax administrations using information available to them (e.g., third-party reports of labour and savings income, using wage data from employers, positive and negative interest income, dividends and returns on shares) to populate fields on tax returns, which are then made available to taxpayers to complete and validate. As such, pre-filling tax returns is a potentially useful method for simplifying compliance, reducing fraud and error, and making it easier for taxpayers to comply (see Kleven *et al.*, 2011).

However, simplifying compliance can also involve larger changes. An example is a **standard deduction for the self-employed**. A “standard deduction” is an overall deduction from the income of the self-employed to take account of their expenses (Elffers and Hessing, 1997; Slemrod and Yitzhaki, 1994). This can be either a fixed amount or a percentage of gross income. It decreases the complexity of the tax system by eradicating the process of deductible items, and the need to keep and log receipts of expenditures. The disadvantage of such a measure is that it is unfair towards those taxpayers who have high costs. This could be overcome by allowing taxpayers to opt for either the overall standard deduction or to continue with the current process. The higher the standard deduction, the more likely they will select this option. The level of standard deduction, so that it is revenue-neutral, could be calculated by auditing existing tax returns across various sectors and occupations for the mean or median deductions claimed. It could then be either universally applied (which would be simplest for the tax filer) or applied in the first instance only to those sectors and/or occupations where the undeclared economy is rife.

Another measure is to **simplify business start-up procedures**. The “*On the Spot*” firm (*Empresa na Hora*) in Portugal reduces the procedures to set up a new business venture. This enables a company to be created in a single office in a single day. Upon completion, the definitive legal person identification card is provided, the social security number, and the company immediately receives its memorandum and articles of association and an extract of the entry in the commercial register. Compliance is ensured by having all the details sent to

the tax authorities. The average time taken is 1h14m and the average cost of setting up a company is €360 (Williams, 2014).

A further measure to simplify compliance is to allow smaller jobs 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 odd jobs**. In the UK, individuals earning less than £1,000 gross per annum from occasional work and property rentals can retain the income without declaring it for tax purposes (Heyes and Newsome, 2017). Box 1 reports another simplification of regulations for odd jobs used in Hungary.

#### **Box 1. Simplification of employment for seasonal workers, Hungary**

The *2010 Simplified Employment Act (Egyszerűsített foglalkoztatási törvény)* in Hungary was introduced to make it easier for seasonal and temporary employment to be conducted in the declared economy. Before this Act, employers had to complete in duplicate an official attendance sheet with 18 pieces of information for every seasonal worker in a “Temporary Work Booklet”. This booklet was a breeding ground for labour infringements because employers engaged in the erasing and rewriting of contracts, such as by using special inks that could be erased using heat on the paper.

From 2010, the Simplified Employment Act introduced electronic registration stating the exact data and time of registration. Since 2017, a mobile app has been used. This enables the 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/>). All obligations are fulfilled by entering two codes into the text message or into the Client Gate System.

This makes declared labour relations much easier, and workers can be easily unregistered if they do not turn up. There is also a database for inspectors making it easy to detect infringements.

Further information: <https://ec.europa.eu/social/BlobServlet?docId=21457&langId=en>

#### **Amnesties**

A further supply-side incentive to transform undeclared work into declared work is to offer amnesties to those engaged in undeclared work. Most studies on their effectiveness have focused upon tax amnesties. Baer and LeBorgne (2008: 5) define a tax amnesty as “a limited-time offer by the government to a specified group of taxpayers to pay a defined amount, in exchange for forgiveness of a tax liability (including interest and penalties) relating to a previous tax period(s), as well as freedom from legal prosecution”. Amnesties therefore enable the non-compliant not to incur the sanctions normally imposed.

When using amnesties, authorities need to strike a balance between revenue collection and fairness. An amnesty collects revenue that might not otherwise be forthcoming, but fairness concerns may affect the efficiency of future revenue collection. Honest taxpayers often see amnesties as a special deal for evaders and as unfair. Luitel and Sobel (2007) find that offering frequent amnesties reduces revenue collection. However, Alm et al. (1990) find that if an amnesty is a “one-time event” and coupled with new tougher enforcement measures, it does not have negative effects on future revenue collection. As Mikesell and Ross (2012) conclude, nevertheless, the evidence is that amnesties decrease long-run revenues.

Despite this, tax authorities may offer amnesties because they want increased revenue in the shorter-term (e.g., to raise revenue to pay for public expenditure during the coronavirus pandemic). In such situations, some types of amnesty are more lucrative in producing short-term revenue than others. As Mikesell and Ross (2012) reveal, the level of return is influenced by: the length of the amnesty period; the quarter in which the amnesty is held; the time since the last amnesty, and whether there are accompanying measures. The highest revenue is generated when an amnesty is kept open less than 60 days, is held in the third quarter of the year, and the length of time since the last amnesty is greater, and sanctions are increased for those not coming forward.

Until now, amnesties have largely been used by tax administrations. Labour inspectorates have not widely used them for those violating labour laws. They could be used, for example, to allow employers to register workers.

### **Individual-level voluntary disclosure**

The emergent tendency has been to use a specific type of amnesty, namely individual-level voluntary disclosure. As the Western Balkan Network tackling undeclared work study on COVID-19 and undeclared work revealed (Williams, 2020b), voluntary disclosure initiatives enable those who voluntarily disclose to the state authorities their past undeclared work to have the penalties waived (or reduced) that would have applied, if they are compliant in the future. There are several options for such a voluntary disclosure scheme:

- Disclosure could be with or without penalty for past non-compliance.
  - If penalties are used, the level of the penalty could be on a sliding-scale reduced by set amounts depending on whether the employer agrees to employ the undeclared or under-declared worker on a (full-time) declared basis for at least 3, 6 or 12 months.
- The scheme could be universal, or it could be targeted at:
  - specific sectors, such as:
    - Tourism industries;
    - Construction sector;
    - Personal and household services, or
    - Agriculture.
  - specific population groups or types of undeclared work, such as:
    - Undocumented migrant workers;
    - Seasonal workers;
    - Unregistered employed;
    - Undeclared self-employed workers;
    - Online platform economy service providers, or
    - The bogus self-employed
- Access to the temporary financial support could be offered as an incentive to come out of the shadows, or not offered.
  - Access to such short-term support could be conditional on the business offering the undeclared workers voluntarily disclosed a declared contract (or the under-declared worker a full-time contract) for at least x months, or not.

Voluntary disclosure has been widely used, albeit mostly by tax authorities (for a review, see Williams, 2020b). Box 2 presents a voluntary disclosure initiative offered in Kosovo\* during the current pandemic.

#### **Box 2. Voluntary disclosure initiative, Kosovo\***

**Aim:** To transform undeclared work into declared work, employers who voluntarily disclose

that they previously employed unregistered employees are provided with access the short-financial financial assistance available during the 2020 coronavirus pandemic, if they employ the workers on a declared contract for at least one year.

**Description:** In Kosovo\*, a cross-government group established an operational plan with 15 measures. Measure 14 of this operational plan provides financial support of €130 per month per employee for two consecutive months providing businesses put workers on contracts of at least one year. The Kosovo tax authority has offered businesses access to this short-term support if they voluntarily disclose that they employed unregistered workers, and they then employ the workers on declared contracts for at least one year.

**Evaluation:** On May 6, the Finance Minister Besnik Belsemi reported that 10,597 new employees have so far registered, which is an increase of 2.6% in total official employment (Bami, 2020). This provides a tentative indication of the potential impacts and effectiveness of this voluntary disclosure scheme.

### **Formalisation support to start-ups**

Very few entrepreneurs with a business idea start up a fully legitimate business before trading. Instead, they often “test trade” their business idea fully or partially in the undeclared economy before fully formalising. Indeed, recent studies reveal that two-thirds of all enterprises are unregistered at start up (Autio and Fu, 2015; Williams, 2017). One preventative measure is therefore to provide formalisation support to new ventures. Box 3 provides an example from Germany.

#### **Box 3. Start-up premium (*Gründungszuschuss*, GZ), Germany**

**Aim:** In many economies, to make the transition legitimately from unemployment benefits to self-employment, a person would have to withdraw from receiving their unemployment benefit before test-trading their business venture. In Germany, a scheme was developed so that people could legitimately and easily make this transition from unemployment to self-employment.

**Description:** The start-up premium (*Gründungszuschuss*, GZ) introduced in 2006 provides those receiving unemployment benefit who want to start a business to receive in addition to their unemployment benefit a monthly grant of €300 for the first six months after starting-up a business. If after six months the business is deemed to be trading successfully, an additional €300 is received for another nine months. Potential recipients must provide evidence of the economic viability of their business plan (e.g., by statements from the local chamber of commerce and industry, the chamber of skilled crafts or a bank).

**Evaluation:** Bernhard and Wolff (2011) report that between 119,000 and 147,000 recipients of unemployment benefit enrolled annually in the GZ scheme between 2007 and 2010. Caliendo et al (2011) find that 19 months after their start-up, 75-84% of former GZ recipients were still in business. This scheme therefore appears to help smooth the transition from unemployment to self-employment (see Baas, 2012).

Another recent example of an initiative to smooth the transition from unemployment to self-employment was introduced in Croatia at the municipal level (see Box 4)

#### **Box 4. Work cleanly-be employed initiative, Croatia**

**Aim:** To help the unemployed move into self-employment, a scheme was developed so that people could legitimately and easily make this transition from unemployment to self-employment as cleaners.

**Description:** In 2017, the City Office of the municipality of Zagreb launched a project “Work cleanly–be employed”. Analysis revealed that 90% of cleaning jobs are in the undeclared economy. This initiative for the unemployed registered at the Croatian Employment Service enables them to start their own cleaning business by providing non-refundable support to start the activities of cleaning and maintaining the landscape. The grant is up to HRK 20,000 (€2,700) and covers the costs of registration of the trade, social contribution payments for 12 months, payment of book-keeping services and fiscal cash registers.

**Evaluation:** This pilot project for smoothing the transition from unemployment to self-employment has not been evaluated so far as is known. If effective in transitioning people from unemployment to legitimate self-employment, it could be not only replicated in other sectors where undeclared work is prevalent, but also in other economies.

Compared with smoothing the transition from unemployment to self-employment, fewer initiatives ease the legitimate transition from employment to self-employment. However, the numbers of newly self-employed who make the transition from employment are far greater than those making the transition from unemployment, and many of them “test trade” the viability of their start-up on an unregistered and undeclared basis (Williams and Martinez-Perez, 2014a,b). This lack of schemes to smooth the transition from employment to legitimate self-employment is a major gap that needs to be addressed to prevent entrepreneurs engaging in undeclared work when they start-up.

### **Formalisation support and advice to businesses**

Preventative approaches can also make it easier and provide incentives for established businesses to make the transition to legitimacy by offering formalization support and advice. The business advice and support needed to help businesses formalize differs to that given to a formal start-up or growth businesses (Caianello and Voltura, 2003; Copisarow, 2004; Copisarow and Barbour, 2004; Meldolesi and Ruvolo, 2003; Williams, 2005). Box 5 provides an example of a formalisation service provided by a non-governmental organisation.

#### **Box 5. Street (UK) formalisation service, UK**

**Aim:** To help businesses make the transition to formality by providing a formalisation support service.

**Description:** Street (UK) was established in 2000 to offer loans, advice and business support to self-employed people and micro-enterprises making the transition to formalisation ([www.street-uk.com](http://www.street-uk.com)). Their approach is to monitor progression of clients in 12 areas:

- Moving from part-time to full-time work;
- Moving from home to business premises;
- Keeping basic level records;
- Keeping higher-level accounts;
- Purchasing public liability and employer liability insurance;
- Hiring employees on a PAYE basis;
- Using a bank account for their business transactions and/or opening a separate business bank account;
- Obtaining the required licenses and permits to operate the business (e.g., health and safety inspection certificates, driver instructor license);
- Graduating off all non-work benefits;
- Graduating from majority cash revenues to majority invoiced revenues;
- Incurring formal business tax liability; and

- Becoming VAT registered.

Street (UK) attempts to ensure that in any 12-month period at least three steps are taken with each client, although the order in which they are taken is tailored to the specific business.

**Evaluation:** No formal evaluation has been conducted.

A similar scheme is the **CUORE Initiative** which originated in Naples, Italy. CUORE (*Centri Operativi per la Riqualificazione Economica*), or Operative Urban Centre for Economic Upgrading, started in 1999 (Bàculo, 2006). Following a request by an enterprise operating in the undeclared economy, CUORE operators devise custom-made regularisation pathways. Besides advice and support, incentives are also provided. Business consortia have established promotional aid, training, trade fairs, protection for the originality of their labels, and aid with the internationalization of their markets. This provides additional incentives for formalisation by helping entrepreneurs to compete on grounds other than labour cost.

A further example of an initiative that provides incentives to encourage businesses to formalise is the “**Business walking routes**” initiative in Greece of the Hellenic Confederation of Commerce and Entrepreneurship (ESEE), co-financed by Greek and EU funds. This provides maps to citizens and visitors of six walking routes in the city centre of Athens, each themed for specific goods. Only businesses are included which are registered with no compliance issues outstanding. This provides an incentive for businesses to be formal by providing them with free marketing for their business. This is transferable to other economies (see ILO, 2016).

### **Direct tax and social security incentives**

A common assumption is that reducing tax rates is a principal way of tackling the undeclared economy. However, a more nuanced approach is required for two reasons. On the one hand, there is no evidence that decreasing tax rates reduces the size of the undeclared economy. Indeed, the opposite is the case. Undeclared work is higher in economies with lower tax rates, not least because such economies have a lower trust in government (Bird and Zolt, 2008; Vanderseyen et al., 2013; Williams, 2013, 2014a,b; Williams and Horodnic, 2017). Secondly, the problem with using general tax reforms to tackle undeclared work is that they have broader impacts. For this reason, targeted measures are often developed. Box 6 provides an example of such a targeted tax measure in the Netherlands.

#### **Box 6. Venture and Start-up Capital tax rules scheme, Netherlands**

**Aim:** Many start-up businesses use informal loans from family, friends and acquaintances. This can encourage informal arrangements. By providing tax incentives for such loans, this helps formalise these arrangements and for businesses to start-up on a formal basis.

**Description:** Many start-up ventures obtain their venture capital from informal sources such as family, friends and acquaintances. A resulting problem is that the loans are often relatively informal, which may contribute to an attitude from the outset that informal practices are part of the culture of the enterprise being established. To overcome this in the Netherlands, a scheme called the *Tante Agaath-Regeling* (“Rich Aunt Agatha Arrangement”) was introduced, later renamed the Venture and Start-up Capital tax rules scheme. This provides an incentive to those making loans to declare them by exempting them from certain taxes. This helps prevent firms adopting an attitude of being engaged in informal arrangements, which might well carry over into everyday trading practices (Williams, 2014). The loan minimum was €2,269 and maximum was €50,000.

**Evaluation:** There has been no formal evaluation of this initiative.

Tax and social security incentives to prevent undeclared work do not always have to be organised by the state authorities. **Social partners** can also lead on such initiatives. Box 7 provides an example of social partners providing social security benefits to workers as an incentive to operate in the declared economy.

#### **Box 7. Builders Social House (*Casa Socială a Constructorilor, CSC*), Romania**

**Aim:** To provide an incentive for construction workers to operate in the declared economy, employers and trade unions collect a social contribution and provide welfare payments during the winter months.

**Description:** The Builders Social House (*Casa Socială a Constructorilor, CSC*) scheme in Romania, organised by ARACO (employer's association) and FGS\_FAMILIA (trade union), estimated that some one-third of the construction workforce are in the undeclared economy. The CSC incentivises declared work. It was established in 1998 as a privately-run welfare organisation, to which the representative trade unions and employer organisations in the construction and building materials sector contribute in equal measure. It provides welfare payments during the cold season (1 November - 31 March), when the construction sector slumbers, to workers in registered declared employment. Corporate contributors pay 1.5% of their turnover into the CSC scheme, and employees contribute 1% of their gross base salary. Allowances represent 75% of the average gross salary of the worker for up to 90 calendar days.

**Evaluation:** From 1998 to 2015, more than 412,286 employees of the member companies benefited from social protection with a total amount of 296.55 million RON (c. €65 million). In 2020, the scheme began for the first time to be explicitly marketed as an initiative to prevent undeclared work.

This is potentially transferable both to other economic sectors where work is largely seasonal, such as agriculture and tourism, and other economies. Importantly moreover, it shows what can be achieved by employer and employee representative organisations working together, and without reliance on governments, to prevent undeclared work.

#### **Targeted indirect tax reductions**

Another supply-side incentive is to reduce value-added tax (VAT) on specific goods and services where undeclared work is widespread, such as the household repair, maintenance and improvement (RMI) sector (Capital Economics, 2003). However, given the lack of evidence that VAT reductions prevent undeclared work, the emphasis is more commonly on tackling VAT fraud rather than VAT reductions.

One preventative measure has been to use **reverse charges for VAT** whereby the buyer, not seller, must file and pay the VAT. In Sweden, for example, a company selling construction services must pay VAT for its sub-contractors. If the purchaser is not a construction company, the vendor adds VAT to the invoice. If the purchaser is a construction company, the vendor does not add VAT to the invoice. Instead, the purchaser is responsible for reporting the output VAT. Reverse VAT liability does not apply to sales which consist solely of materials. According to the Swedish Tax Agency (2011), around 39% of the surveyed companies believed that the reverse charge reduced the level of undeclared work in the construction sector.

#### **Help with record-keeping**

To make it easier to comply and incentivise compliance, businesses can be offered help with record keeping. This can include the provision of free record-keeping software to businesses,

the provision of fact sheets on record keeping and/or free advice or training such as telephone hotlines or educational courses.

Indeed, Alm (2011) investigates the effects on compliance levels of services that allow taxpayers to calculate their tax liabilities. The results indicate that uncertainty reduces both the level of filing as well as the degree of compliance. The clear lesson is that reducing uncertainty on tax liabilities by providing a service to enable businesses to calculate their liabilities reduces non-compliance.

Finland has two calculators available that are actively used by workers and employers – the Gross Income Calculator and Tax Percentage Calculator. They are intended to encourage taxpayers to learn the process of correct tax calculation and raise their awareness on workers and employers' obligations. The Gross Income Calculator, launched in June 2013, is used in situations where the employer and the employee have agreed on the net amount of wages, but they need an estimate of the correct gross income in order for the employee to obtain a tax card, and for the employer to prepare correctly their annual payroll report. The Tax Percentage Calculator, launched in December 2002, can be used to estimate whether a person needs a change in the withheld tax percentage rate in case there have been changes in the labour status or circumstances – e.g. if the person is no longer employed or has recently started working. The Finnish Tax Administration is constantly receiving suggestions for improvements, including requests for more features for the calculators, although even the current calculators cover the most common situations exhaustively.

#### **4. Demand-Side Incentives**

Besides making it easier and/or beneficial for suppliers of undeclared work to operate in the declared economy, preventative approaches can also make it easier or more beneficial for purchasers to acquire their products and services from the declared economy. Such measures can include: service vouchers; targeted direct tax measures and wage costs subsidies; targeted indirect tax incentives; discouraging cash payments and incentivising electronic payments; and initiatives for customers to request receipts.

##### **Service Vouchers**

A service voucher is a means of payment, subsidised by government, which allows a private user to pay an employee for conducting tasks (e.g., household cleaning, elder- or child-care services). By the authorities providing service vouchers to those employing labour, which pays a portion of the fee given to the worker, the intention is to encourage the buyer to purchase services on a declared rather than undeclared basis (Michalopoulos, 2017).

Service voucher schemes have various advantages, both for domestic workers and for their employers:

- The domestic workers have access to social security benefits (pensions, health insurance, accident cover etc.);
- These schemes are easy to join and use, both for the worker and for the employer;
- Administrative formalities are simplified for the employer;
- The worker is guaranteed at least the legal minimum wage;
- The worker is certain of being properly declared, as the risk of administrative errors due to the inexperience of an individual private employer is eliminated;
- In the case of a problem with the employment relationship or questions about the legislation, both the employee and the employer have somebody from whom they can seek advice; and
- The schemes enable mainly low-qualified people to find declared employment.

Service voucher schemes are not all the same. It is necessary to differentiate between **enterprise voucher (EV)** schemes used by companies and **social voucher (SV)** schemes used by households.

The European Platform tackling undeclared work have concluded from a review of services vouchers the following lessons (Williams, 2019a).

- Social Voucher (SV) schemes should:
  - Be used to pay for regular and occasional labour.
  - Be used to formalise household services (including caring services), with service vouchers limited to the specific tasks where undeclared work is prevalent. This will vary by economy.
  - Allow the direct employment of a private individual by a household, as well as establish authorised provider organisations which employ service voucher workers.
- Enterprise voucher (EV) schemes should:
  - only be used to pay for occasional labour.
  - Target the agricultural sector and only be used in other sectors if they protect workers' rights.
- Both Social Voucher (SV) and Enterprise Voucher (EV) schemes should:
  - Be targeted only at spheres where undeclared work is prevalent.
  - Target spheres where labour inspection is difficult (e.g., households).
  - Set a limit on the number of service vouchers an employer can purchase, not on the level of income of a service voucher worker.
  - Allow users to acquire and submit vouchers online.
  - The price of a service voucher should be the minimum price an employer pays for one hour's work.
  - Conduct prior research to decide price of service voucher for a user (and level of subsidy required), so that they are competitively priced compared with using undeclared work.
  - Enable workers to gain access to key social security benefits comparable to those held by people employed, and cover unemployment benefits, accident insurance, pension benefits, sickness benefits, maternity leave and health benefits.

When implementing service voucher schemes, moreover, pilot initiatives should be used in particular localities, or for specific tasks/sectors where undeclared work is prevalent, and ex-ante and ex-post evaluations should be conducted.

The two key indicators of the success of a service voucher scheme should be:

- The extent to which the service voucher scheme reduces undeclared work/transforms undeclared work into declared work.
- That they do not substitute for permanent formal employment contracts.

The key obstacle preventing the wider adoption of service vouchers is budget constraints; they are viewed as a cost to the state. However, there is perhaps a need to see them as an

investment by the state. The “return on investment” is that voucher schemes transform undeclared work into declared work/higher levels of declared work and increase tax and social contribution levels. However, if attempts are made to implement them too cheaply, by not pricing vouchers at/below price of undeclared work, service voucher schemes will fail. Therefore, it is better to limit the spheres covered.

One variant of the voucher system is an initiative used in Romania to make it easier and/or beneficial for tourists to purchase holiday accommodation on a declared basis (see Box 8).

#### **Box 8. 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:**

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## Targeting purchasers with direct tax incentives

In other economies, rather than provide service vouchers, consumers have been provided with income tax relief, claimed on (self-assessed) tax returns, for using declared labour to do specific household tasks (e.g., roof maintenance, outside painting, household cleaning) where undeclared work is prevalent. Box 9 provides an example of such a scheme in Sweden and Box 10 in Denmark.

### **Box 9. Tax rebates for purchasers in Sweden: ROT and RUT tax deductions, Sweden**

**Aim:** To prevent the use of undeclared labour by citizens, tax incentives have been provided for them to use declared labour when purchasing home renovation, conversion and extension services (ROT) and household services (RUT) including cleaning, laundry, basic gardening and babysitting.

**Description:** In Sweden, two tax deductions exist for consumers: the RUT (Cleaning, Maintenance and Laundry) deduction has been in existence since 2007 and seeks to tackle undeclared work mainly in the household services sector, and applies to household cleaning, maintenance and laundry. It allows a deduction of 50% of the labour cost up to EUR 2 500 /year and can be used by everyone over 18 years old.

The ROT (Repairs, Conversion, Extension) deduction commenced in 2008 and was originally a stimulation package for the construction industry during a time where many companies were going bankrupt. It allows a deduction of 30% of the labour costs up to EUR 5 000 /year for repairs, conversions and extensions, and can again be used by everyone who owns a household or apartment and is over 18 years old.

**Evaluation:** Around 5 million applications a year are made with a total amount of around EUR 1.5 billion annually paid out to businesses by the Tax Agency. The customer gets the deduction on their income tax return.

### **Box 10. Tax rebates in Denmark: *BoligJob* - plan**

**Aim:** To prevent the use of undeclared labour by citizens, tax rebates are provided for using declared labour.

**Description:** In Denmark, the “private family residence/job” initiative (*BoligJob – plan*) allows a private individual (i.e. registered tax-payers with residence) to receive a tax rebate as a deduction on their taxable income (self-assessment) for expenses related to services in the private household, such as house cleaning, child-care, garden work, home repair, maintenance or amelioration work (only in private residence).

This initiative started as a pilot in 2011 as a response to the crisis in the construction sector, increasing unemployment, and a greater prevalence of undeclared work.

The reduction is limited to the 26% of the value of the wages – not material costs (e.g. expense of EUR 800 gives back approx. EUR 210) - and can only be applied if the company is registered in Denmark. The beneficiary is obliged to use electronic payments (and store the bill) and to report electronically to the tax authority (by self- assessment).

**Evaluation:** The scheme proved to be popular, with the number of people using it increasing from 360,000 in 2011, to 570,000 in 2015, whilst the costs of reimbursing the 26% of the costs increased from EUR 147 million in 2011, to EUR 213 million in 2015.

In 2015, new conditions were introduced with a focus upon green refurbishments (e.g. new

windows, roof insulation) and broadband/Wi-Fi and alarm installation. The deduction was reduced to a maximum per annum of EUR 800 for services (e.g. house cleaning, baby-care, garden work) and EUR 1 650 for home maintenance and improvement, but still with 26% of the costs being reimbursed.

The result was that in both 2016 and 2017, 425,000 have used the scheme with EUR 106 million reimbursed each year.

As the European Platform tackling undeclared work conclude (Williams, 2019b), effective tax rebate schemes have three important characteristics:

- They focus on sectors where undeclared work is prevalent such as household cleaning, home repair, maintenance and improvement, and caring functions.
- The level of the tax rebate is sufficiently high to ensure that engaging in declared transactions outweighs the benefits of sourcing from the undeclared economy, to make it interesting to the individual to use it.
- The systems in place to report the transaction to the enforcement authorities, as well as the management tools used by authorities, are made as easy as possible to use (e.g., by using digital solutions and self-declarations).

Key elements that pilot experiments should address include:

- Ensure strong political and public opinion support (which can be difficult to attain). For instance, wide discussions should be engaged in about equity aspects and a participatory approach pursued to agree who will benefit from the scheme, when planning/designing the pilot.
- Ensure that sustainability is thought about at the beginning, to ensure a sufficient return on investment, such as by targeting sectors where undeclared work is prevalent, so as to significantly increase tax income.
- Take into account the specific regulatory situation in each economy when deciding how the tax deduction is claimed.
- Simplify administration of the scheme by having one agency and dedicated staff responsible for the initiative. For instance, in Sweden, there is one agency with 120 dedicated staff dealing with the tax rebates.
- Anticipate risks of abuse and identify mitigation methods.

### **Targeted indirect taxes**

One of the few studies to evaluate the impacts of using indirect tax incentives to transform undeclared work into declared work is a study evaluating the impacts of reducing VAT on undeclared work in the UK household repair, maintenance and improvement (RMI) sector (Capital Economics, 2003). This evaluated the implications of reducing VAT to 5% on the RMI sector. Since a lower VAT rate encourages consumers to move into the declared realm, they argue that a reduction could boost VAT revenue. Their argument was that reducing the VAT rate at the time from 17.5 to 5% would reduce the price differential between declared and undeclared economy prices for customers. To evaluate the impacts on government revenue following a VAT reduction to 5%, and assuming no change in the level of RMI work in response to this change, they find this would result in a loss of £1.6bn in net government tax revenue. Examining the impact on VAT receipts if 10%, 50%, 75% or 100% of work currently undertaken in the undeclared economy shifts into the declared economy, at best, this reduces the revenue loss to

£1.3bn. However, when one takes account of the extra revenue received in the form of income tax and social security contributions resulting from different proportions of the estimated 282,000 construction workers currently working undeclared moving into the declared economy, a different figure is attained. Using the average tax paid by a full-time male worker, it is revealed that if 100% of all undeclared work shifted into the declared economy, and including the increase in tax and social contributions, HM Treasury would receive £400m more in tax receipts despite the reduction in the rate of VAT.

### **Incentivising electronic payment systems and deterring cash payments**

Given that undeclared transactions are often, albeit not exclusively, paid in cash, deterring cash payments and incentivising electronic payments is another demand-side preventative measure. This is being actively encouraged at present by the large global corporations involved in electronic payment systems. Box 11 summarises the options available for doing so.

#### **Box 11. Incentivising electronic payment systems and deterring cash payments**

**Aim:** to transfer from cash to electronic payments to prevent the use of undeclared work.

**Description:** several options exist for economies pursuing this demonetisation approach:

- Introduce a ceiling for cash transactions;
- Make point-of-sale (POS) terminals available across all sectors, such as bars and taxis. Introducing them can reduce the use of cash;
- For governments to shift more fully towards electronic payments;
- Discourage easy access to cash. The presence of no-fee automated teller machines (ATMs) provides uninhibited access to cash and subsequent cash payment at the point-of-sale; and
- Provide incentives for using cards at the point-of-sale. Many day-to-day transactions, especially those worth less than €15, remain cash based. Developing incentives for individuals to use cards is a way forward. Argentina for example, offers a 5% VAT discount on debit card transactions and 3% on credit card purchases.

**Evaluation:** In Greece, the Foundation for Economic & Industrial Research (2015) estimate that the tax revenues increase by 0.24 percentage points for every percentage point growth of the use of payment cards (see ILO, 2016 for an in-depth review).

Another example of a consumer incentive to promote the transition to formality is found in Saudi Arabia. In this economy, regulations have been introduced making e-payments compulsory in sectors covering 70% of establishments in the retail sector (e.g., gas stations, car and spare parts workshops, laundries, hairdressing and beauty salons, grocery and supply stores, restaurants and cafes). For the remaining 30% of establishments, electronic payments must be made available as an option. Under the National Program for Combating Commercial Concealment, there are penalties up to a 5-year jail term and a fine of ST5 million for violators. Consumers who act as whistleblowers notifying the Ministry of violations receive a reward of 30% of the fine collected from the violators after the issuance of the judgment.<sup>2</sup>

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<sup>2</sup> <https://saudigazette.com.sa/article/596885/SAUDI-ARABIA/E-payment-compulsory-from-Aug-25-30-reward-for-whistleblowers>

## Initiatives for customers to request receipts

Another demand-side option is to encourage purchasers to ask for receipts so that transactions are recorded. When combined with the use of certified cash registers, 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 economies.

The idea of a **receipt lottery** is to reduce the undeclared economy by limiting unreported exchanges through the greater issue of receipts in business-to-consumer transactions. Consumers have an incentive to ask for a receipt because it acts as a free-of-charge ticket to enter lotteries, therefore giving its holder who has requested it a chance to win a lottery prize. As such, in the longer-term, this measure aims to encourage consumers to get in the habit of asking for fiscal receipts. The assumption is that after a time, citizens will develop this habit (e.g. by making asking for receipts socially acceptable and desirable, or by raising awareness of the benefits of combating the undeclared economy) and will therefore continue to ask for fiscal receipts even if there is no additional monetary incentive. Box 12 reports such a receipts lottery in Romania, Box 13 an initiative in Croatia to encourage customers to request receipts and Box 14 a very similar initiative in Greece.

### Box 12. Receipts lottery, Romania

**Aim:** to encourage purchasers to ask for receipts so that (“black box”) cash registers record all transactions.

**Description:** In Romania at the beginning of 2015, the National Agency for Fiscal Administration (ANAF) launched a toll-free telephone number where customers can report cases where they have not received a receipt for their purchases. The receipts lottery measure builds on this measure by encouraging consumers to ask for receipts.

**Evaluation:** A press release by ANAF (September 2015) reveals an increase in declared VAT of 5.85% in the cumulative seven months in 2015 compared with the same period in 2014, prior to the lottery. Moreover, “The consumption of paper rolls for cash registers has increased by 80% since the Receipts Lottery began. So, there are almost two times more receipts being printed” (press release by MasterCard director for Romania, Cosmin Vladimirescu, quoted by Mediafax, October 2015).

### Box 13. “Can I have a receipt please?”, Croatia

**Aim:** to encourage purchasers to ask for receipts so that fiscal cash registers record all transactions.

**Description:** The Croatian Tax Administration (Ministry of Finance) launched a prize competition “Can I have the receipt, please?” (1 August until 2 October 2015). The competition aimed to encourage foreign customers to ask for receipts. Specifically, it offered foreigners the chance to win a paid summer vacation for two in 2016. For this they needed to post to the Tax Administration 20 receipts for purchases made in Croatia.

The lottery-like initiative is behaviourally inspired as it leverages on individuals' *overweighting of small probabilities*. Moreover, in communicating the prize competition, the Croatian Tax Administration relied on behavioural levers, such as *framing* (“Every receipt

you take is an assurance of a more organised society and a more secure future") and social norms (i.e. "call us at our toll-free number and report the fiscalization subject who doesn't respect the rules, in contrast to a large majority of others").

**Source:** "Can I have the receipt please?," *Croatian Tax Administration*. [Online]. Available: [Http://www.poreznauprava.hr/en/Documents/LetakEng20150804.pdf](http://www.poreznauprava.hr/en/Documents/LetakEng20150804.pdf). [Accessed: 15-Dec-2018].

#### **Box 14. 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/>

An example of how conventional deterrence measures can be modified in a way that provides incentives for consumers to purchase from the declared economy is found in Slovenia (see Box 15).

#### **Box 15. Encouraging consumers to check invoices have been declared, Slovenia**

**Aim:** to encourage consumers to check invoices have been declared to the tax authorities.

**Description:** In Slovenia, a conventional deterrent measure has been designed so that purchasers are incentivised to purchase in the declared economy. Similar to other economies, certified cash registers which automatically report transactions to the tax administration have been introduced. In 2018, 54,213 taxpayers were using fiscal cash registers, that issued 1,019,669,639 invoices (2.8 million per day).

What is innovative in Slovenia is that the purchasers can electronically check whether the invoice has been verified, using a "Check the invoice" app by scanning the code on the invoice. To incentivise purchasers, those doing so are automatically entered into a receipts lottery with a prize fund which pays up to 25,000 euros.

**Evaluation:** The outcome is that the number of offences detected have increased from 1,978 in 2016 to 3,135 in 2018, resulting in fines totalling 2.9 million euros in 2016 and 5.9 million euros in 2018.

## **5. Education and Awareness Raising**

Until now, all the preventative measures discussed have sought to make it easier to engage in, and increasing the benefits of, declared work. However, the decision to engage in undeclared work is not always solely a rational economic decision. Non-compliance is also often a result of 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., a lack “horizontal” trust).

To tackle undeclared work, the root causes that lead to the values, norms and beliefs of citizens not being aligned with the laws and regulations, need to be tackled. This is what education and awareness raising seeks to achieve. Awareness raising campaigns can be defined as organised communication activities which aim to create awareness about an issue (e.g., undeclared work) and thus lead to behavioural change.

The advantage of pursuing voluntary co-operation, rather than enforced compliance, is that this is potentially a cheaper, more effective and sustainable means of tackling violations of tax, social security and labour law related to undeclared work than having an army of inspectors to police non-compliant behaviour and using incentives to effectively “bribe” the population to operate on a declared basis.

Here, the use of education and awareness raising to facilitate voluntary cooperation is considered. Below each type of campaign is reviewed to evaluate the types of campaign used and, wherever feasible, their effectiveness at tackling undeclared work.

### **Informing suppliers of the risks and costs of undeclared work**

When using awareness campaigns informing suppliers of the risks and costs of undeclared work, a key issue is to persuade the target audience to see the campaign as being about them. This is because such suppliers often rationalise their behaviour in ways that lead them to view such campaigns as being about others rather than them, and they also neutralise their guilt, such as by seeing themselves as small players with little impact compared with the big players. If an awareness-raising campaign focuses upon the risks and costs of undeclared work, therefore, it needs to ensure that the messaging is appropriate, for example by advertising the average level of non-compliance so that people will not view their own activity as “minor” compared with others.

Indeed, Thurman *et al.* (1984) highlight the various rationalisations suppliers of undeclared work use to neutralise their guilt, and which thus reduce the effectiveness of campaigns focused upon the costs and risks of participating in undeclared work:

- ***Denial of responsibility.*** Suppliers of undeclared work can interpret the publicity about the negative impacts of undeclared work to be the result of others, who could be bigger players than him/her, rather than a result of their own actions. This means that campaigns should advertise the extent of non-compliance among the average supplier of undeclared work (in the realm being targeted) and how this aggregates into a sizeable amount;
- ***Denial of injury.*** 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 require examples of the common ways in which customers suffer by purchasing undeclared rather than declared goods and services;
- ***Denial of victim.*** 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;
- ***Condemnation of condemners.*** 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 s/he has 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;

- ***Appeal to higher loyalties.*** The supplier of undeclared work may justify his/her actions in terms of some alternative set of loyalties or social order, believing that this justifies his/her 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 his/her family, can be also negatively affected by those supplying undeclared work;
- ***Metaphor of the ledger.*** The supplier of undeclared work may believe that their actions, although bad, do not reflect their true and good nature as a person, and regard these actions as temporary deviations from what is otherwise good behaviour. This may require examples of how a person who has a true and good nature would respond when confronted by opportunities to engage in undeclared work, such as how they should react to a customer who says, “how much for cash?”;
- ***Defence of necessity.*** 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.

Awareness raising campaigns targeted at suppliers of undeclared work therefore need to ensure that the above possibilities are not open to participants by pursuing the campaign tactics mentioned. Although campaigns informing suppliers of the risks and costs of undeclared work are the most widely used type of awareness raising campaign in relation to tackling undeclared work, they are not the only type of campaign that can be organised.

### **Informing suppliers of the benefits of declaring their work**

The reason for pursuing campaigns on the benefits of declared work is that many people do not fully understand why they pay their taxes and/or what these taxes are used for by governments, and nor do they fully understand the rationales for abiding to labour laws and social insurance rules. Put another way, they do not fully make the connection between the public goods and services that they receive (e.g., hospitals, schools, transport infrastructure) and the taxes that they pay. Indeed, until now, most state authorities have generally undertaken little marketing (e.g., in the form of awareness raising campaigns) to help citizens make this connection. However, if the norms, values and beliefs of many in the population are to become better aligned with the laws and regulations and a commitment to paying taxes and social insurance, and not violating labour law, is to ensue, educating citizens about such matters is important. As Erikson and Fallan (1996, p. 399) assert specifically in relation to paying taxes, “a successful means of preventing tax evasion is to provide more tax knowledge to larger segments of society to improve tax ethics and people’s conception of the fairness of the tax system”.

To achieve this, two broad forms of tax education are required. On the one hand, and to prevent unintentional evasion, citizens need to be educated and informed about what the current system requires of them. This requires the provision of easily understood information regarding their responsibilities regarding the rules. A large body of research is critical of the complexity of tax systems for instance and the problems this poses for achieving high rates of compliance (e.g., Natrah, 2013). A significant portion of non-compliance is unintentional, arising from a lack of knowledge, misunderstanding and ambiguous interpretation of the law

(Hasseldine and Li, 1999). In consequence, providing easily understood information is a solution (Internal Revenue Service, 2007; Vossler et al., 2011). Another way forward is to simplify compliance to make it easier to comply, as already discussed in section 3.

On the other hand, and more broadly, citizens need to be educated about the benefits and value of adhering to the rules, not least by educating them about what their taxes are used for, to develop their intrinsic motivation to do so and facilitate greater self-regulation. If citizens are informed and knowledgeable about the current and potential public goods and services which they are receiving for their money, and the benefits of adhering to the rules, they may be more willing to do so (Bird et al., 2006; Saeed and Shah, 2011). One direct way of doing this, as has occurred in the UK, is to provide information to taxpayers regarding where their taxes are being spent and how much they are contributing to which activities of government. Another simple way of doing this is to use signals at the point-of-receipt of public goods and services, such as “your taxes are paying for this” on public construction projects (e.g., new roads), on ambulances, in doctor’s waiting rooms, in hospitals and schools. This conveys a clear message to the public that the taxes they pay are being used to pay for these public goods and services.

An interesting practice in this regard is a student competition organised by the Free Trade Union Confederation of Latvia, which sought to improve awareness of the benefits of operating in the declared economy (see Box 16).

#### **Box 16. SMARTS student competition, Latvia**

**Aim:** In 2011, the Free Trade Union Confederation of Latvia (*Latvijas Brīvo arodbiedrību savienība*, LBAS) launched a competition, “SMARTS – A game for those who are in education”, aimed at increasing students awareness about labour rights and safety at work issues, to help them acquire other skills useful to establishing a successful career (e.g., teamwork and self-presentation skills) and facilitate recognition of trade unions among young people.

**Description:** Started in 2011 and then extended into 2012, “SMARTS – A game for those who are in education” was funded by the European Social Fund within the project, “Practical application of normative acts of labour relations and safety at work in sectors and undertakings”. Students at grades 10-12 were invited to participate in the competition, organised in three rounds, with participants composed of a team representing a particular school. In the first round participants were invited to answer 45 online questions regarding labour rights, safety at work, social dialogue and the role of trade unions. Each category included 15 questions: six on employment legal issues, six on safety at work issues and three on social dialogue and trade union issues.

After the first round, the five best schools from the capital city Riga and one school from each of four regions – Vidzeme, Zemgale, Kurzeme and Latgale – were invited to participate in the second round, a regional semi-final competition. In the semi-final the teams were reduced to the 10 best students who had obtained the highest grades in round one. The regional semi-final competitions consisted of three parts – homework, a quiz and practical exercises for each team. All participants were provided with training in labour rights and safety at work issues; 90 minutes on average for each team.

The third round – a national final competition – was represented by one school from each of four regions and Riga. The final consisted of two parts, a quiz and practical exercises for each team. The regional semi-finals and national final were recorded and broadcast on TV in six programmes on LTV1 – the main state owned TV channel, giving regional schools and students the opportunity to demonstrate their skills at national level. All winners of the

competition received a Nokia 500 smartphone. The winning school received a portable projector, while the other four schools in the final received €213 for their library funds.

In parallel with the competition, both in 2011 and 2012, intensive advertising was conducted. Animation clips on labour rights issues were shown in cinema and on TV. LBAS organised the measure in cooperation with the Ministry of Education and Science, supported by the Ministry of Welfare, the VDI and, in 2012, also the employers federation, LDDK.

**Evaluation:** In 2011, 42 classes from 30 schools (circa 1,000 students) participated in the first round of the competition. In 2012, 77 classes from 47 general education schools (circa 2,000 students) participated. In sum, 119 classes in 77 general education schools, and 3,000 students in total, participated in the competition.

After the first year of implementation the president of LBAS Pēteris Krīgers mentioned that participants in the competition had become aware about their rights and obligations at work. He was convinced that participants were prepared to ensure fair relations with future employers. On 13 March 2012, when the 2012 competition was finished, Krīgers stressed that participants had demonstrated perfect knowledge of labour law and almost perfect knowledge on safety at work issues. The competition had been a good long-term investment for future employees. Also schools had recognised that the competition had been useful for young people. The increasing number of participants evidenced a growing interest.

The first lesson is that such a competition would be better if it was ongoing. During the first year, a lot of effort was spent developing the resources and launching the competition. In the second year, when it gained traction, more schools participated. The second lesson is that effective study materials are useful. The third lesson concerns interactivity and how the students involved enjoyed informing their contemporaries and being involved in active ways, such as in disseminating the videos.

*Source:* Karnite, R. (2013) SMARTS student competition, Latvia. Available at: <https://www.eurofound.europa.eu/data/tackling-undeclared-work-in-europe/database/smarts-student-competition-latvia>

### **Informing users of the risks and costs of purchasing in the undeclared economy**

Without demand, there is no supply. If consumers only buy products and services in the declared economy from reputable and legitimate businesses, suppliers will have no choice but to stop participating in undeclared work. This is the reason why campaigns seek to educate consumers about the undeclared economy. One approach is to show consumers that their choices have unintended negative consequences, including legal and financial risks, when they purchase goods and services in the undeclared economy.

A prominent awareness raising campaign that seeks to persuade users of undeclared work of the risks and costs of undeclared work is the “Get it in Writing!” campaign in Canada (see Box 17).

#### **Box 17. “Get it in Writing!” campaign, Canada**

**Aim:** To inform the purchasers of users of undeclared labour in the home repair and maintenance sphere of the risks involved in purchasing in the undeclared economy.

**Description:** This “Get it in Writing” campaign was developed in partnership between the tax administration (Canadian Revenue Service) and the Canadian Home Builders’ Association. The campaign focuses on the importance of getting a written contract for renovation projects, so the consumer has control over the cost and other aspects of the work

and is protected from serious risks, including liability and injury, of having work done undeclared. The key message of the campaign is “The underground economy hurts everyone” and for consumers that “the underground economy is risky business” and that one should “deal with businesses that play by the rules”.

There have been successive waves of this “*Get it in Writing!*” consumer awareness campaign carried out by the Canadian Home Builders Association (CHBA) in partnership with the Canada Revenue Agency. The campaign first operated through the period 2003 to 2005. And was then extended. The second “*Get it in Writing!*” campaign was launched in March 2015 and ends in 2018, and the Canadian Revenue Agency has provided C\$745,000.

For some years, therefore, the *Get it in Writing!* campaign has provided homeowners with sound information on how to avoid risks when hiring a contractor for their home projects. With the support of Canada Mortgage and Housing Corporation (CMHC), the *Get it in Writing!* campaign hosts information on their website, [www.hiringcontractor.com](http://www.hiringcontractor.com). The site offers a wealth of advice to help consumers do it right, with downloadable worksheets and information from both the CHBA and CMHC.

The key message is “Don’t accept offers for cash deals without a receipt. Paying under the table is no deal – it can leave you with no warranty, no recourse for poor workmanship and no liability insurance if an injury takes place on your property.”

***Evaluation:*** There has been no known evaluation of this awareness raising campaign focused on informing users of the risks and costs of using undeclared labour in the realm of home repair and renovation.

### **Campaigns informing users of undeclared work of the benefits of declared work**

This type of campaign that focuses upon informing users of undeclared work of the benefits of declared work is exemplified by educational campaigns targeting potential future users. An example is Austria where the Federal Ministry of Finance is carrying out a pilot project on tax education using educational videos made available in a dedicated video portal. One example is the “what happens with the tax-euro” video, which not only how taxpayers' money is used, but also how it contributes to the common good of the society (Austrian Federal Ministry of Finance, 2015). In collaboration with the Austrian School Administration, there is also a tax education project in schools where tax inspectors undertake classroom training, explaining to students why taxes are charged, how they are used and their role in supporting citizens and society as a whole (Elmecker, 2015).

## **6. Changing Formal Institutions**

Besides changing norms, values and beliefs to align them with the formal rules, preventative policies can also focus upon modernising the formal institutions. This is particularly important in societies in which there is a lack of trust in state institutions, such as due to public sector corruption, when the population do not believe that they receive back from government what they expect, or when formal institutional weaknesses reduce the benefits of formalisation so much that the actual and perceived benefits of formalisation are outweighed by the costs.

Two types of modernisation can occur to prevent undeclared work. Firstly, the internal *processes* of the formal institutions can be improved by enhancing procedural and redistributive justice and fairness. Secondly, wider structural economic and social developments can occur that are associated with lower levels of undeclared work.

Both these types of preventative measure were reviewed in the Holistic toolkit produced for the Western Balkan network tackling undeclared work (Williams, 2020a). Therefore, the reader is referred to this toolkit for further information on this type of preventative measure.

## 7. Conclusions and Recommendations

The aim of this handbook has been to provide a review of the range of preventative approaches for tackling undeclared work available to Western Balkan economies. The findings are as follows:

- The rationale for a preventative approach is to shift away from resolving problems after they have occurred and towards preventing non-compliance in the first place.
- Preventative approaches use either (supply- or demand-side) incentives to operate on a declared basis by making it easier or beneficial to comply, or indirect measures to align norms and beliefs about engaging in undeclared work with laws and regulations.
- Tax administrations have until now more commonly adopted preventative measures than labour inspectorates. However, there is no reason why labour inspectorates could not similarly further develop their use of preventative measures to the same level to stop labour law violations.

### Recommendations

The outcome is a series of recommendations for Western Balkan economies.

- Governments and social partners should shift away from resolving undeclared work after it has occurred and towards preventing undeclared work from occurring in the first place.
- Governments and social partners should consider conducting pilot initiatives of various preventative measures (e.g., in a sector or geographical area) to evaluate their effectiveness in tackling undeclared work in their economy.
- Using such pilot initiatives, a “test, learn and adapt” evidence-based approach could be adopted by enforcement authorities. After a pilot (e.g., in a geographical area or sector), the results can be analysed, and lessons learned. The follow-up initiative can then use what has been found to work in the pilot experiment. This can again be analysed, lessons learned, and adaptations made to make it even more effective.

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## List of Abbreviations

- EU** – European Union
- GLAA** – Gangmasters and Labour Abuse Authority
- GEIU** – Grey Economy Information Unit (GEIU),
- GDP** – Gross Domestic Product
- HMRC** – Her Majesty's Revenue and Customs
- ID** – Identity Card
- ILO** – International Labour Organisation
- JoFITs** – Joint Fashion Industry Teams
- JoSETs** – Joint Shadow Economy Teams
- KPIs** – Key Performance Indicators
- MAP** – Mutual Assistance Project (MAP)
- OECD** – Organisation for Economic Cooperation and Development
- SMART** – Specific, Measurable in a generally accepted manner, Achievable, Realistic and Time bound
- VAT** – Value-Added Tax
- WCSUW** – Working Committee for Suppression of Undeclared Work