



**European Platform Undeclared Work**

**Elements of a preventative approach  
towards undeclared work:  
an evaluation of service vouchers and  
awareness raising campaigns**

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## EXECUTIVE SUMMARY

### 1. INTRODUCTION

The aim of this study is to review the range of preventative approaches for tackling undeclared work available to Member States, and to focus upon two types of preventative measure, namely service vouchers and the use of awareness raising campaigns.

### 2. RATIONALES FOR A PREVENTATIVE APPROACH

- The rationale for a preventative approach is to shift away from resolving problems after they have occurred towards preventing non-compliance in the first place.
- Article 1 of Decision (EU) 2016/3441, establishing the Platform, explicitly encourages such a preventative approach. It states that “tackling”, in relation to undeclared work, means preventing, deterring and combating undeclared work as well as promoting the declaration of undeclared work’.

### 3. USE, IMPORTANCE AND EFFECTIVENESS OF PREVENTATIVE APPROACHES IN THE EU

- The 2017 survey of Platform members<sup>1</sup> provides a baseline assessment of the progress made towards such a preventative approach in EU Member States. This reveals that the current focus of Member States is still heavily upon ‘detering’ undeclared work using measures that increase the penalties and risks of detection. Initiatives to ‘prevent’ non-compliance, and ‘promote the declaration of undeclared work’, are less common and seen as less important than deterrence measures.
- Preventative measures are currently perceived as less effective at tackling undeclared work than deterrence measures. However, this is not an evidence-based belief. There is currently little ex-ante and ex-post evaluation of either deterrence or preventative policy measures in EU Member States, and a marked lack of pilot studies.
- This lack of evidence on what works and what does not, discourages change.
- The lack of priority accorded to preventative measures is not simply because Member States prefer to continue with the deterrence measures with which they are familiar, in the absence of evidence on what works and what does not. It is also due to the lack of a holistic strategic coordinated approach in Member States and the persistence of a fragmented departmental ‘silos’ approach, with many enforcement authorities not adopting strategic objectives related to preventing undeclared work and transforming undeclared work into declared work.

### 4. TYPES OF PREVENTATIVE MEASURE

To prevent undeclared work and transform undeclared work into declared work, four types of preventative policy measure are available:

- (1) **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. These 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;

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<sup>1</sup> Williams, C.C. and Puts, E. (2017) *2017 Platform Survey Report: organisational characteristics of enforcement bodies, measures adopted to tackle undeclared work, and the use of databases and digital tools*, European Commission, Brussels. Internet:

<http://ec.europa.eu/social/main.jsp?catId=1299&intPageld=4875&langId=en>

- (2) **Demand-side incentives** that target purchasers of undeclared goods and services with rewards for using declared goods and services. These demand-side incentives include: targeting purchasers with direct tax incentives; targeted indirect tax incentives; service vouchers; incentivising electronic payments and deterring cash payments, and incentives for customers to request receipts;
- (3) **Awareness raising campaigns** which change norms, values and beliefs regarding the acceptability of non-compliance;
- (4) **Resolving the formal institutional imperfections** which lead to norms, values and beliefs not aligning with the laws and regulations. These measures seek to not only modernise governance (e.g., improving procedural and redistributive fairness and justice) but also address the structural economic and social conditions associated with a higher prevalence of undeclared work (e.g., lower levels of social expenditure, lower levels of expenditure on active labour market policies, ineffective social transfer systems; greater income inequality).

## 5. AN EVALUATION OF SERVICE VOUCHER SCHEMES

- 26% of Member States responding to the 2017 Annual Survey use service voucher schemes, namely Austria, Belgium, France, Greece, Lithuania and Sweden. In Austria, France, Greece and Sweden, the institution responsible was a social insurance/social security institution, but the tax revenue administration was responsible in Lithuania and federal ministries in Belgium.
- Overall, such demand-side incentive measures have a low take-up across Member States and are perceived as one of the least effective types of measure for tackling undeclared work.
- Service voucher schemes are not all the same, and there are significant differences between the schemes used in different Member States. It is necessary to differentiate between enterprise voucher (EV) schemes used by companies, and social voucher (SV) schemes used by households.
- The emergent good practice is that Social Voucher (SV) schemes should be used to: pay for regular and occasional labour; to formalise household services (including caring services), with service vouchers limited to the specific tasks where undeclared work is prevalent in each Member State, and 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, meanwhile, should: only be used to pay for occasional labour; and 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; be based on prior research to decide the price of service voucher for a user (and level of subsidy required), so that they are competitively priced compared with using undeclared work; and 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, and ex-ante and ex-post evaluations should be conducted of the extent to which service vouchers reduce undeclared work, and whether they substitute for permanent formal employment contracts.
- Although service voucher schemes are an investment by the state (rather than a cost to the state) to transform undeclared work into declared work, with the return

on the investment being higher levels of declared work, their wider adoption in the EU is limited by budget constraints.

## 6. AN EVALUATION OF AWARENESS RAISING CAMPAIGNS

- An awareness raising campaign is an organised communication activity that aims to create awareness on a topic (in this case undeclared work), and thus behavioural change.
- The most common type used across the EU is that which informs suppliers of the risks and costs of working undeclared (used by 83% of Member States responding). Other types that either inform suppliers of the benefits of declared work, or else target users by either marketing the costs of purchasing from the undeclared economy or the benefits of using the declared economy, are less common (with each used by around half of Member States responding).
- Awareness raising campaigns vary in their effectiveness in influencing people's beliefs and changing behaviour. Given the lack of detailed evaluations in the field of tackling undeclared work, lessons can be learned from other related thematic areas, where more detailed analysis and evaluation has occurred of the key features of successful awareness raising campaigns.
- In the field of occupational safety and health (OSH), the European Agency for Safety and Health at Work (EU-OSHA) have produced detailed practical advice on how to plan and run campaigns to help Member States (see <http://toolkit.osha.europa.eu/tools/>). This provides firstly, a step-by-step guide to planning an awareness raising campaign and secondly, templates, as well as exemplars of good practice, of dissemination tools that can be used and tailored to the national context.
- A similar toolkit on how to prepare and run successful awareness raising campaigns on tackling undeclared work could be developed to help Member States in this regard.

## 7. RECOMMENDATIONS

The report provides a series of recommendations for Member States and the Platform.

### Recommendations for Member States

- Governments should shift away from resolving undeclared work after it has occurred and towards preventing non-compliance in the first place.
- Governments should engage in ex-ante and ex-post evaluation of both deterrence and preventative policy measures, as well as pilot studies, to develop an evidence-base on what works and what does not.
- Governments should consider conducting pilot initiatives using some variant of voucher schemes and evaluate its effectiveness at tackling undeclared work.
- Government and social partners should pilot and experiment with different types of awareness raising campaign, drawing upon good practices developed in other Member States but tailored to their specific context, and should actively contribute examples and evaluations of good practice to enable the Platform to develop a repository of good practice as part of its Online Toolkit (see below).

### Recommendations for the Platform

- The Platform should further facilitate a holistic coordinated strategic approach at Member State level, as per the legal decision establishing the Platform, not least through mutual learning. This will speed up the process of modernisation and shift beyond a fragmented departmental 'silos' approach, which results in many enforcement authorities remaining focused upon deterrents and not adopting strategic objectives related to preventing undeclared work.

- The Platform could support the use of evaluation and 'pilot exercises' to identify which preventative measures are most effective and in what circumstances, to foster a culture of evidence-based practice.
- The Platform could adopt as a future activity in its work programme the development of an **Online Undeclared Work Awareness Raising Campaign Toolkit**. This would provide practical advice on how to prepare and run successful awareness raising campaigns and practical examples of various communication tools with tips for their use.
- The Platform should consider the feasibility of planning, developing and executing an EU-wide awareness raising campaign on tackling undeclared work, perhaps based on a 'hub and spoke' model with a generic EU-wide campaign running alongside coordinated more 'tailored' Member State and social partner campaigns.

## 1. INTRODUCTION

The aim of this study is to provide a comprehensive review of the range of preventative approaches available to Member States when tackling undeclared work, and to focus upon two types of preventative measure, namely the demand-side incentive measure of service vouchers and the use of awareness raising campaigns. The specific objectives of the study are to answer the following questions:

- **What types of preventative approach are available to Member States?** What is the rationale for using preventative approaches? How commonly used are various preventative measures in the EU28? What importance is accorded to the various preventative approaches when tackling undeclared work? How effective are they seen to be in tackling undeclared work relative to deterrence measures?
- **What is known about the use of service vouchers as a demand-side incentive measure?** Which Member States currently use service vouchers, what importance is attached to such demand-side incentive measures, and how effective are they seen to be in tackling undeclared work relative to other types of policy measure? Have any evaluations been conducted of these service voucher schemes and what are their findings in relation to tackling undeclared work? What, if anything, are the lessons for using service vouchers in other Member States?
- **What is known about the use of awareness raising campaigns?** What different types of awareness raising campaign have been conducted? How commonly used are each of the types of awareness raising campaign across the EU? What importance is attached to the use of awareness raising campaigns when tackling undeclared work? How effective are they seen to be relative to other types of policy measure? Have any evaluations been conducted, and what are their findings in relation to tackling undeclared work? What, if anything, are the lessons for establishing awareness raising campaigns in other Member States?

In section 2, therefore, the rationales for a preventative approach are outlined, followed in section 3 by an evaluation of the results of the 2017 Platform members' survey<sup>2</sup> on the extent to which these preventative measures are used across the 28 Member States and their perceived importance and effectiveness when tackling undeclared work. Section 4 then reviews the wide-ranging types of preventative measure that are available for tackling undeclared work, section 5 focuses upon evaluating a specific preventative measure, namely service voucher schemes, whilst section 6 provides an evaluation of awareness raising campaigns – with the aim of starting to outline some of the potential options available to Member States for preventing undeclared work. Section 7 provides the study conclusions and recommendations.

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<sup>2</sup> Williams, C.C. and Puts, E. (2017) *2017 Platform Survey Report: organisational characteristics of enforcement bodies, measures adopted to tackle undeclared work, and the use of databases and digital tools*, European Commission, Brussels. Internet: <http://ec.europa.eu/social/main.jsp?catId=1299&intPageld=4875&langId=en>

## 2. RATIONALES FOR A PREVENTATIVE APPROACH

### The question addressed in this section is:

What is the rationale for using preventative approaches?

### Key findings:

Article 1 of Decision (EU) 2016/3441 establishing the Platform states that ‘‘tackling’’, in relation to undeclared work, means preventing, deterring and combating undeclared work as well as promoting the declaration of undeclared work’.

This encourages a more strategic approach towards tackling undeclared work by shifting the balance towards firstly, ‘preventing’ non-compliance rather than curing it once it has occurred, and secondly, ‘promoting’ declared work rather than detecting and punishing undeclared work. The goal, therefore, is to shift away from resolving problems after they have occurred and towards promoting compliance, such as by making it easier to comply and preventing the problems arising in the first place.

There has been recognition by governments across the world that rather than simply eradicate undeclared work, the goal is more to transform undeclared work into declared work, as reflected in recommendation 204 of the ILO (ILO, 2015). At the level of the European Union, this shift is reflected in the legal decision establishing the Platform. In article 1 of Decision (EU) 2016/3441 establishing the Platform, it is stated ‘‘tackling’’, in relation to undeclared work, means preventing, deterring and combating undeclared work as well as promoting the declaration of undeclared work’.

The rationale for this legal decision is that a more strategic approach towards tackling undeclared work is being sought by shifting the balance towards firstly, ‘preventing’ non-compliance rather than curing it after it has happened, and secondly, ‘promoting’ declared work rather than detecting and punishing undeclared work. The intention, therefore, is to shift away from resolving problems after they have occurred and towards promoting compliance, such as by making it easier to comply and preventing the problems arising in the first place.

This is based on a recognition that until now, the focus of enforcement authorities has been narrowly upon combatting undeclared work once the problem has occurred and deterring undeclared work by detecting and punishing non-compliance, rather than ‘preventing’ undeclared work from happening and ‘promoting the declaration of declared work’. Indeed, the 2017 annual survey of Platform members reveals that many Member States do not use the full range of preventative measures.<sup>3</sup>

The problem that has therefore arisen is that, by relying primarily on deterrence measures which seek to penalise offenders and improve their risk of detection to eradicate undeclared work, Member States are simply dealing 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.

Indeed, this need to move beyond purely a deterrence approach is recognised in paragraph 12 of the decision (EU) 2016/3441 which states, that ‘Tackling the complex problem of undeclared work requires a holistic approach’. This was defined at the first event held by the Platform as meaning an approach which ‘uses in a strategic and coordinated manner the full range of both the direct and indirect policy approaches and measures available to increase the power of, and trust in, authorities respectively’.<sup>4</sup>

<sup>3</sup> Williams, C.C. and Puts, E. (2017) *2017 Platform Survey Report: organisational characteristics of enforcement bodies, measures adopted to tackle undeclared work, and the use of databases and digital tools*, European Commission, Brussels. Internet: <http://ec.europa.eu/social/main.jsp?catId=1299&intPageId=4875&langId=en>

<sup>4</sup> Williams, C.C. (2017) *Developing a Holistic Approach towards Undeclared Work*, European Commission, Brussels.

Combining deterrence measures with preventative measures, therefore, is a requirement to implement the legal decision of the Platform that tackling undeclared work means not only deterring but also 'preventing' undeclared work. It is also necessary to enable a shift towards 'promoting the declaration of declared work' and the adoption of a 'holistic approach'.

Until now, nevertheless, there has been a limited uptake of preventative measures across Member States. Firstly, this is because the type of organisations responsible for tackling undeclared work (e.g., enforcement authorities) have conventionally viewed their core function to be detecting and punishing non-compliance, rather than preventing non-compliance from happening (although this is starting to change, especially in tax administrations who are recognising the value of preventative initiatives to make compliance easier and more beneficial). Secondly, and importantly, the limited uptake of preventative measures is because, as will be shown in section 3, deterrence measures are perceived to be more effective at tackling undeclared work. And thirdly, it might also be because there has been relatively little information and evidence available on the range of preventative measures that can be pursued along with what works and what does not.

Fourth and finally, it is also perhaps in major part due to the lack of a holistic, strategic and coordinated approach in many Member States and instead, the existence of fragmented departmental 'silos'. In three-quarters of Member States, no single central body is responsible for the formulation, implementation and monitoring of a coordinated holistic strategic approach<sup>5</sup>, which could develop broader strategic objectives related to both deterring and preventing undeclared work, as well as allocate such responsibilities across government departments and involve social partners. The result is that many enforcement authorities appear to have not yet adopted strategic objectives which recognise that the intention is to transform undeclared work into declared work. Instead, their strategic objectives remain focused largely upon eradicating undeclared work, and therefore detecting and punishing non-compliance.

In a context where there is little information on the range of preventative measures available, no apparent evidence of what works and what does not, enforcement authorities view their core function as detecting and punishing non-compliance, and no single central unit exists to take responsibility for a coordinated holistic strategic approach, it is perhaps of little surprise that enforcement authorities in many Member States prefer to persist with what they are familiar with, namely the deterrence approach.

To begin to make progress in facilitating a shift towards preventative measures, and therefore a holistic approach that seeks to transform undeclared work into declared work as per the legal decision establishing the Platform, this report will provide an overview of the use, perceived importance and effectiveness of different types of preventative approach. Following this, each type of preventative policy measure will be reviewed, before attention turns to an evaluation of two types of preventative measure, namely service vouchers and awareness raising campaigns.

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<sup>5</sup> Williams, C.C. and Puts, E. (2017) *2017 Platform Survey Report: organisational characteristics of enforcement bodies, measures adopted to tackle undeclared work, and the use of databases and digital tools*, European Commission, Brussels. Internet: <http://ec.europa.eu/social/main.jsp?catId=1299&intPageId=4875&langId=en>

### 3. USE, IMPORTANCE AND EFFECTIVENESS OF PREVENTATIVE APPROACHES IN THE EUROPEAN UNION

#### Key questions addressed in this section include:

How commonly used are various preventative measures in the EU28?

What importance is accorded to the various preventative approaches when tackling undeclared work?

How effective are they seen to be in tackling undeclared work relative to deterrence measures?

#### Key findings:

The 2017 survey of Platform members provides a baseline assessment of the progress made towards the adoption of a preventative approach. This reveals that the current focus of Member States is still heavily upon 'deterring' undeclared work using measures that increase the penalties and risks of detection. Approaches to 'prevent' it or 'promote the declaration of declared work' using either (supply- or demand-side) incentives to operate on a declared basis, or indirect measures to align norms and beliefs about engaging in undeclared work with national laws and regulations, are less commonly used.

Across the EU, deterrence measures are not only the most important type of measure but also perceived as the most effective at 'tackling' undeclared work. The survey, however, reveals that this is not an evidence-based finding. There is currently little ex-ante and ex-post evaluation of either deterrence or preventative policy measures in EU Member States, and an absence of pilot studies. This lack of evidence on what works and what does not, discourages a modernisation of policy approaches.

This persistence of a deterrence approach is not simply because Member States continue with what they are familiar. It is also due to the lack of a holistic strategic coordinated approach and the persistence of a fragmented departmental 'silos' approach. Many enforcement authorities appear to have not yet adopted strategic objectives which recognise that the intention is to prevent undeclared work and transform it into declared work.

In the first annual survey in 2017 of the European Platform Tackling Undeclared Work, members were asked to identify the measures used to tackle undeclared work in their Member States, as well as which were most important and perceived as most effective (see Williams and Puts, 2017). Here, the results are reported regarding the use, importance and perceived effectiveness of preventative measures by Platform members.

#### 3.1 Commonality of use of preventative policy measures in the EU

A holistic approach towards tackling undeclared work is defined as one that uses, in a strategic and coordinated manner, the full range of both direct and indirect policy approaches and measures available to increase the power of, and trust in, authorities respectively. This approach includes on the one hand, '**deterrence' policy measures** that increase the costs of undeclared work by raising the penalties and risks of detection ('sticks'), and on the other hand, '**preventative approaches** ('carrots'). As Figure 1 below reveals, preventative measures are of four broad types:

- (1) **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. These 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.

- (2) **Demand-side incentives** that target purchasers of undeclared goods and services with rewards for using declared goods and services. These demand-side incentives include: targeting purchasers with direct tax incentives; targeted indirect tax incentives; service vouchers; incentivising electronic payments and deterring cash payments, and incentives for customers to request receipts.
- (3) **Awareness raising campaigns** which change norms, values and beliefs regarding the acceptability of non-compliance. These recognise that undeclared work is not purely the result of a rational economic decision (based on a calculation of the costs and benefits), but arises when norms, values and beliefs do not align with the laws and regulations, for example due to a lack of trust in the state and what it is seeking to achieve. Awareness raising campaigns therefore seek to change norms, values and beliefs regarding the acceptability of undeclared work, so that they are in symmetry with the laws and regulations.
- (4) **Resolving the formal institutional imperfections** which lead to norms, values and beliefs not aligning with the laws and regulations. These measures seek to not only modernise governance (e.g., improving procedural and redistributive fairness and justice) but also address the structural economic and social conditions associated with a higher prevalence of undeclared work (e.g., lower levels of social expenditure, lower levels of expenditure on active labour market policies, in effective social transfer systems; greater income inequality).

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

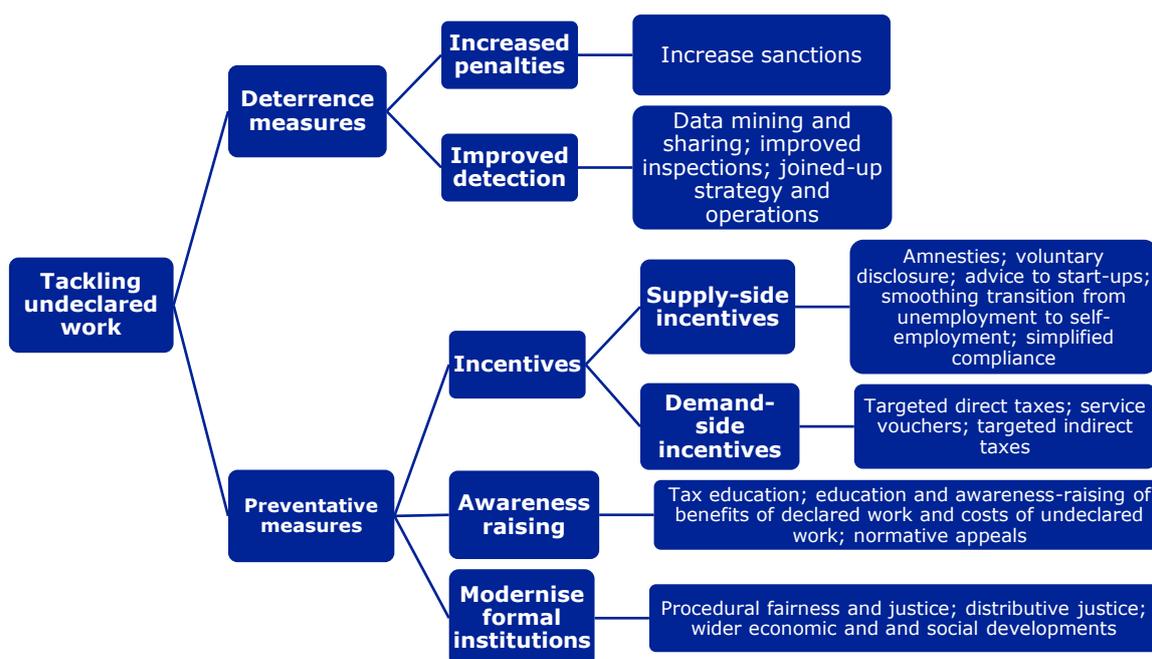


Table 1 below reports the extent to which each of these preventative policy measures are used in the EU. Unlike deterrence measures, such as using penalties and increasing the risk of detection through workplace inspections, and data matching and sharing, which are near enough universally used in all Member States, preventative measures are less commonly adopted.<sup>6</sup>

<sup>6</sup> Williams, C.C. and Puts, E. (2017) *2017 Platform Survey Report: organisational characteristics of enforcement bodies, measures adopted to tackle undeclared work, and the use of databases and digital tools*, European Commission, Brussels. Internet: <http://ec.europa.eu/social/main.jsp?catId=1299&intPageId=4875&langId=en>

**Table 1. Use of Preventative Policy Measures: % of Member States using each policy measure, 2017**

POLICY MEASURE	EU-28	Western Europe	Nordic	East-Central Europe	Southern Europe
	(N=23)	(N=7)	(N=3)	(N=9)	(N=4)
<b>Supply-side incentives</b>					
Simplify procedures for complying to existing regulations	78%	86%	100%	56%	100%
Society-wide amnesties	17%	14%	0%	22%	25%
Individual-level amnesties for voluntarily disclosing undeclared activity	17%	29%	0%	11%	25%
'Formalisation' advice to start-ups	65%	86%	100%	56%	25%
'Formalisation' support services to existing businesses	61%	86%	100%	44%	25%
Direct tax incentives (e.g., exemptions, deductions)	65%	71%	67%	67%	50%
Targeted VAT reductions	43%	43%	67%	44%	25%
Provide free record-keeping software to businesses	9%	14%	33%	0%	0%
Provide fact sheets on record-keeping requirements	43%	43%	100%	44%	0%
Provide free advice/training on record-keeping	48%	57%	33%	44%	50%
<b>Demand-side incentives</b>					
Service vouchers	26%	43%	33%	11%	25%
Targeted direct tax incentives (e.g., income tax reduction/subsidy)	35%	43%	67%	33%	0%
Targeted indirect taxes (e.g., VAT reductions)	30%	43%	33%	22%	25%
Initiatives for customers to request receipts (e.g., Lottery for receipts)	26%	14%	33%	33%	25%
<b>Awareness raising campaigns</b>					
Campaigns to inform suppliers of undeclared work of the risks and costs of working undeclared	83%	86%	100%	78%	75%
Campaigns to inform suppliers of undeclared work of the benefits of formalising their work (e.g., informing them where their taxes are spent)	52%	29%	67%	67%	50%
Campaigns to inform users of undeclared work of the problems of purchasing goods and services from the undeclared economy	57%	57%	100%	56%	25%
Campaigns to inform users of undeclared work of the benefits of declared work (e.g., informing citizens of the public goods/ services they receive with the taxes collected)	61%	43%	100%	67%	50%
<b>Modernising formal institutions</b>					
Normative appeals to businesses to operate on a declared basis	48%	57%	67%	33%	50%
Measures to improve the degree to which customers of enforcement agencies believe they have been treated in a respectful, impartial and responsible manner	48%	57%	100%	33%	25%
Measures to improve tax/social contributions/labour law knowledge	78%	86%	100%	67%	75%

\* East-Central Europe (Czech Republic, Poland, Slovenia, Estonia, Hungary, Slovak Rep., Romania, Lithuania, Bulgaria, Croatia, Latvia), Western Europe (UK, Ireland, Germany, France, Belgium, Luxembourg, Austria, Netherlands), Southern Europe (Malta, Cyprus, Italy, Portugal, Spain and Greece) and Nordic Nations (Finland, Sweden and Denmark).

Source: Williams and Puts, 2017

Examining the different types of preventative measure, Table 1 reveals that **supply-side incentives** (especially the simplification of procedures) are more commonly adopted than **demand-side incentives** (which are only used by a quarter to one third of the Member States responding to the survey). Meanwhile, **awareness raising** about the costs of undeclared work and benefits of declared work are quite common across the EU. However, greater emphasis is put on campaigns which highlight the costs of undeclared work. Fewer emphasise the benefits of declared work. Measures to **modernise formal institutions** in terms of the degree to which customers believe they have been treated in a respectful, impartial and responsible manner are currently pursued by less than half of all Member States.

There are also variations in the use of preventative policy measures across different EU regions. Table 1 reveals that **West European and Nordic nations more commonly use supply- and demand-side incentives than Southern and East-Central European nations**. This is exemplified by the widespread use of formalisation advice to start-ups and formalisation support services to existing businesses in Western Europe and Nordic nations, which are far less common in Southern and East-Central Europe. This suggests that Southern and East-Central European Member States might consider using a wider range of supply- and demand-side incentives. Meanwhile, **awareness raising campaigns are very common in Nordic nations but less so in Southern and Western European countries**, and when used, focus upon the costs of undeclared work rather than the benefits of declared work (with only 29% of West European Member States for example informing suppliers of undeclared work of the benefits of declared work, e.g., informing them where their taxes are spent). **Modernising enforcement authorities by treating customers in a respectful, impartial and responsible manner is more common in Western Europe and Nordic nations than in Southern and East-Central Europe**.

### 3.2 Most important policy measures

Table 1 only shows whether each policy measure is used. It does not capture which are deemed most important when tackling undeclared work, and are heavily relied upon with greater resources devoted to them, and which measures are used but are not central and heavily resourced. To understand this, Platform members were asked to rank the most important measures used to tackle undeclared work in their Member State (see Table 2).

**Table 2. Platform members' views of the relative importance attached to different types of policy measures in their Member State: from most dominant (1st) to least dominant (6th)**

Type of policy measure	EU-28	Western Europe	Nordic nations	East-Central Europe	Southern Europe
Deterrence: Penalties	1	1	2	1	1
Deterrence: Measures to improve detection	2	2	1	6	1
Incentives to operate in the declared economy: supply-side	3	4	3	4	4
Incentives to operate in the declared economy: demand-side	5	6	4	5	5
Indirect measures: awareness raising campaigns	4	3	5	3	3
Indirect measures: changing formal institutions	6	4	6	2	6

Source: Williams and Puts, 2017

Table 2 shows that across the EU, deterrence measures in the form of penalties are ranked the most important measure, followed by measures to improve detection. Preventative measures are accorded less importance. Of all the preventative measures, the use of **supply-side incentives is ranked 3<sup>rd</sup>, and awareness raising campaigns ranked 4<sup>th</sup>. Demand-side incentives are ranked 5<sup>th</sup> and measures to change the formal institutions are viewed as least important.**

However, there are differences between EU regions. **Awareness raising campaigns** are ranked 3<sup>rd</sup> most important in Western Europe, East-Central Europe and Southern Europe but only 5<sup>th</sup> most important in Nordic nations.

Meanwhile, **supply-side incentives** are ranked 4<sup>th</sup> most important in Western Europe, East-Central Europe and Southern Europe, but are 3<sup>rd</sup> most important in Nordic nations.

**Demand-side incentives**, however, although ranked 4<sup>th</sup> most important in Nordic nations, are ranked 5<sup>th</sup> most important in East-Central Europe and Southern Europe and least important (6<sup>th</sup>) in Western Europe.

Interestingly, **modernising formal institutions**, although ranked least important as a way of tackling undeclared work in the EU, is ranked 2<sup>nd</sup> most important in East-Central Europe, 4<sup>th</sup> most important in Western Europe but least important (6<sup>th</sup>) in Nordic nations and Southern Europe. Indeed, far greater emphasis in East-Central Europe is put on indirect measures including both awareness raising campaigns to change norms, values and beliefs and the modernisation of formal institutions, than elsewhere in the EU.

### 3.3 Perceived effectiveness of policy measures

Not only are deterrence measures deemed to be more important than preventative measures, they are also deemed more effective. As Table 3 shows, across the EU, Nordic nations rank penalties as most effective and measures to improve detection 2<sup>nd</sup> most effective. Among the preventative measures, **awareness raising is perceived as 3<sup>rd</sup> most effective, supply-side incentives 4<sup>th</sup>, demand-side incentives 5<sup>th</sup> and changing formal institutions least effective.**

**Table 3. Type of policy measures Platform members view as most and least effective in their Member State: rank order from most effective (1st) to least effective (6th)**

Type of policy measure	EU28	Western Europe	Nordic nations	East-Central Europe	Southern Europe
Deterrence: Penalties	1	2	1	3	2
Deterrence: Measures to improve detection	2	1	2	4	1
Incentives to operate in the declared economy: supply-side	4	5	2	5	3
Incentives to operate in the declared economy: demand-side	5	5	4	5	5
Indirect measures: awareness raising campaigns	3	3	5	2	4
Indirect measures: changing formal institutions	6	4	6	1	6

Source: Williams and Puts, 2017

There are, however, again differences between EU regions in the perceived effectiveness of preventative measures. **Awareness raising campaigns** are ranked 2<sup>nd</sup> most effective in East-Central Europe, 3<sup>rd</sup> most effective in Western Europe, 4<sup>th</sup> most effective in Southern Europe but only 5<sup>th</sup> most effective in Nordic nations. Meanwhile, **supply-side incentives** are ranked 2<sup>nd</sup> most effective in Nordic nations, 3<sup>rd</sup> most effective in Southern Europe but only 5<sup>th</sup> most effective in Western Europe and East-Central Europe. Although **demand-side incentives** are ranked 5<sup>th</sup> most effective in all regions, except

Nordic nations where they are ranked 4<sup>th</sup>, it is the **modernisation of formal institutions** where stark differences exist. In East-Central Europe, it is deemed the most (1<sup>st</sup>) effective measure for tackling undeclared work, but in Western Europe it is ranked 4<sup>th</sup> most effective and in Nordic nations and Southern Europe the least (6<sup>th</sup>) effective measure.

### 3.4 Implications of findings

The clear finding is that despite widespread recognition of the need to shift from eradicating undeclared work to transforming undeclared work into declared work, many Member States do not see the importance of preventative measures and remain entrenched in a deterrence approach that seeks to stamp out undeclared work. Less importance is attached to preventative measures that transfer undeclared work into the declared economy. The relative lack of importance attached to the use of preventative measures, and their perceived ineffectiveness, suggests that even if there is wider recognition that undeclared work needs to be transferred into the declared realm, this does not appear to have yet translated into the policy approaches and measures of enforcement authorities.

At the December 2016 seminar of the European Platform, on the topic of 'Developing a holistic approach to tackling undeclared work', the consensus of the participants was that deterrence measures continue to dominate for two major reasons. On the one hand, there was a strong view among Platform members and observers that preventative measures are a more long-term approach and do not provide the 'quick wins' required, and that this therefore constrained the resources devoted to them. On the other hand, the issue was raised that there was a lack of evaluation of these preventative measures, and this acted as a barrier to their adoption. Although evaluations of deterrence measures show that they can either reduce, have no effect, or even increase, undeclared work, at least there are some evaluations, even if they are often relatively out-of-date. There was thus a view that the lack of evaluation of the effectiveness of preventative policy measures hindered the adaptation and redirecting of approaches towards these non-deterrence measures.<sup>7</sup>

It is also because no single central body exists in three-quarters of Member States. This hinders the development of a coordinated holistic strategic approach to transform undeclared work into declared work, rather than simply stop undeclared work, and to prevent undeclared work as well as resolve it once it has occurred.

However, **to fully understand the reason for governments allocating responsibility for tackling undeclared work to enforcement authorities with a focus upon detecting and punishing non-compliance, not prevention**, a longer-term historical view is needed. The focus upon detecting and punishing non-compliance has its origins in classic utilitarian theory. Bentham (1788: 399) claimed, 'the profit of the crime is the force which urges a man [sic] to delinquency: the pain of the punishment is the force employed to restrain him [sic] from it. If the first ... be the greater, the crime will be committed'. Grounded in this view, governments have perceived the non-compliant as rational actors to be deterred by making the costs outweigh the benefits. The alternative is to view criminals as a product of their 'social environment'. Georg von Schanz (1890) using this 'social actor' approach argued that the breakdown of the social (tax) contract between the state and its citizens is the cause of non-compliance. In the 1950s, this was popularised by the German 'Cologne school of tax psychology'. However, this approach went into abeyance from the late 1960s when Becker (1968) re-popularised the view of criminals as rational economic actors and Allingham and Sandmo (1972) applied this to tax non-compliance. The result is the current focus upon detecting and punishing non-compliance.<sup>8</sup>

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<sup>7</sup> Williams, C.C. (2017) *Developing a Holistic Approach for Tackling Undeclared Work: a learning resource*, European Commission, Brussels

<sup>8</sup> The use of awareness raising campaigns to align citizens' views with the formal rules, however, marks a re-emergence of the social actor approach to improve the social contract between citizens and the state.

## 4. TYPES OF PREVENTATIVE APPROACH

### Key question addressed in this section:

What types of preventative approach are available to Member States?

### Key findings:

Four types of preventative policy measure exist:

- (1) **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. These 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.
- (2) **demand-side incentives** that target purchasers of undeclared goods and services with rewards for using declared goods and services. These demand-side incentives include: targeting purchasers with direct tax incentives; targeted indirect tax incentives; service vouchers; incentivising electronic payments and deterring cash payments, and incentives for customers to request receipts.
- (3) **Awareness raising campaigns** which change norms, values and beliefs regarding the acceptability of non-compliance. These recognise that undeclared work is not purely the result of a rational economic decision (based on a calculation of the costs and benefits), but arises when norms, values and beliefs do not align with the laws and regulations, for example due to a lack of trust in the state and what it is seeking to achieve. Awareness raising campaigns therefore seek to change norms, values and beliefs regarding the acceptability of undeclared work, so that they are in symmetry with the laws and regulations.
- (4) **Resolving the formal institutional imperfections** which lead to norms, values and beliefs not aligning with the laws and regulations. These measures seek to not only modernise governance (e.g., improving procedural and redistributive fairness and justice) but also address the structural economic and social conditions associated with a higher prevalence of undeclared work (e.g., lower levels of social expenditure, lower levels of expenditure on active labour market policies, in effective social transfer systems; greater income inequality).

Reviewing the full range of preventative policy measures for tackling undeclared work, interesting examples are provided of each preventative policy measure in different Member States, and importantly, the current lack of ex-post and ex-ante evaluations of these preventative policy measures is highlighted.

To review the range of preventative policy measures at the disposal of Member States, this section evaluates, firstly, **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. These 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. Secondly, **demand-side incentives** are evaluated that target purchasers of undeclared goods and services with rewards for using declared goods and services. These demand-side incentives include: targeting purchasers with direct tax incentives; targeted indirect tax incentives; service vouchers; incentivising electronic payments and deterring cash payments, and incentives for customers to request receipts. Thirdly, the range of **awareness raising campaigns** available to Member States are briefly introduced which change citizens, workers and employers' norms, values and beliefs regarding the acceptability of non-compliance. And fourth and finally, the preventative approach is reviewed that seeks to **resolve the formal institutional imperfections** that lead to a lack of alignment

between the norms, values and beliefs of the population, and the laws and regulations. These include not only measures to modernise governance (e.g., improving procedural and redistributive fairness and justice) but also addressing the structural economic and social conditions that are associated with a greater prevalence of undeclared work (e.g., lower levels of social expenditure, lower levels of expenditure on active labour market policies, ineffective social transfer systems; greater income inequality).

The outcome will be a review of the full range of preventative policy measures for tackling undeclared work used in different Member States. This will reveal not only examples of each of these preventative policy measures in different Member States but also, and importantly, the current lack of ex-post and ex-ante evaluations of these policy measures.

## **4.1 Incentives: supply-side**

### **4.1.1 Simplifying compliance**

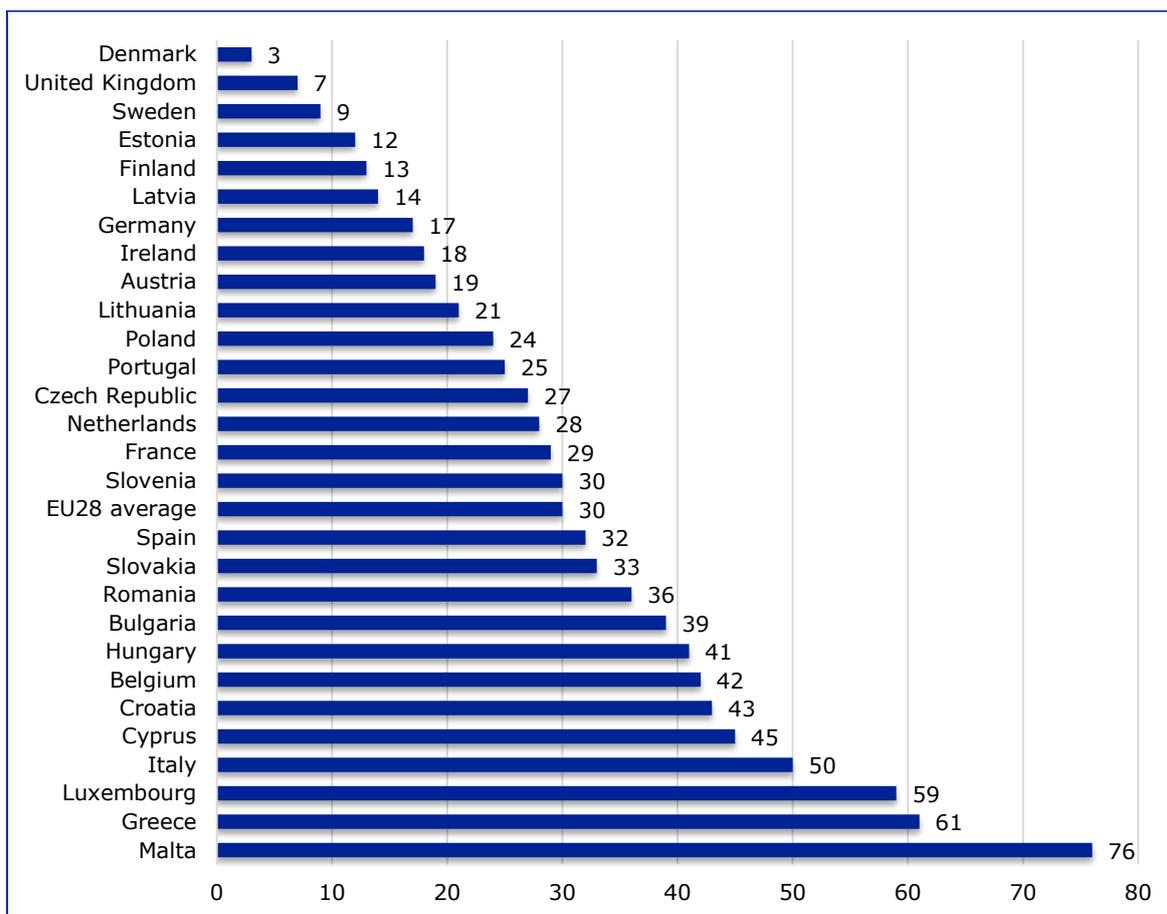
In the 2017 Annual Platform Survey, simplifying the procedures for complying with existing regulations was the most commonly adopted incentive measure. Some 18 of the 23 Member States responding (78%) had sought to simplify compliance to tackle undeclared work, although there were variations across EU regions. Simplifying compliance had been used in all Nordic and Southern European Member States responding, 86% of West European Member States, but only 56% of East-Central European Member States.

Simplifying compliance is a key way of governments making it easier and more beneficial for employers and the self-employed to operate on a declared basis. Those operating in the undeclared economy might be intentionally non-compliant but may also unintentionally not comply. For both groups, but particularly for the latter, one option is to provide better advice on how to comply. Another option is to simplify compliance. This might involve simplifying the administrative framework (e.g., easier registration procedures, simplified self-assessment) but can also include increasing the benefits of compliance (e.g., access to buyers, more favourable credit, legal protection).

Those Member States simplifying compliance recognise not only that complexity increases the likelihood of misreporting (Alstadsæter and Jacob, 2013), but also that when the costs of full administrative compliance are higher, compliance is lower (Adams and Webley, 2001; Matthews and Lloyd-Williams, 2001). Indeed, examining 45 countries, 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 lower is the level of tax non-compliance.

As such, simplifying compliance has a key role to play in reducing non-compliance. Simplifying compliance, however, is not the same as reducing regulations (i.e., deregulation). Simplifying compliance is about pursuing good governance, not deregulation. The World Bank Doing Business Survey, conducted annually in 189 countries, provides a 'proxy' measure by assessing the ease of doing business (see Figure 2 below).

**Figure 2: How EU Member States rank on the ease of doing business**



Source: Based on World Bank (2017)

This evaluates the effectiveness of national 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. Figure 2 ranks the EU-28 according to the ease of doing business. This reveals that it is easiest to do business in Denmark (ranked 3<sup>rd</sup> out of the 189 countries surveyed), the UK (ranked 7<sup>th</sup>) and Sweden (9<sup>th</sup>) and worst in Luxembourg (59<sup>th</sup>), Greece (61<sup>st</sup>) and Malta (76<sup>th</sup>).

Often, the measures used to simplify compliance involve relatively minor changes, such as simplifying the number of procedures and forms. An example is **pre-filing tax returns**. Denmark was the first country to pre-populate tax returns in 1998. Since then, pre-filing has become a significant component of the e-services and e-government strategy of revenue agencies in many Member States (Jensen and Wöhlbier, 2012). Pre-filing 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 many of the fields in tax returns, which are then made available to taxpayers to complete and validate. In the Nordic nations for example, tax administrations now produce fully completed personal income tax returns for most taxpayers required to file tax returns, namely 84% of taxpayers in Denmark, 94% in Finland and 60% in Sweden, with the remaining taxpayers receiving a partly pre-filled tax return ready for completion (OECD, 2011). Substantial pre-filing of tax returns also occurs in Belgium, Estonia, France, Lithuania, Malta, the Netherlands, Portugal, Slovenia and Spain. The overarching intention is to reduce fraud and error on tax returns, and to make it easier for taxpayers to comply and pay their taxes.

Evaluating its effectiveness, Kleven *et al.* (2011) in Denmark find that while over 90% of all personal income can be pre-filled on tax returns using reports by third parties, for the self-employed less than 10% of their income can be pre-filled on tax returns from reports by third parties. The result is that while only 2% of individuals receiving personal earnings (e.g., wages, transfers) report too low incomes, and just over 4% of those with deductions, tax non-compliance prevails for 40% of individuals with self-employment income. As such, pre-filling tax returns is a potentially useful method for simplifying compliance to reduce fraud and error, as well as making it easier for taxpayers to comply.

However, simplifying compliance can also involve more fundamental changes. One example is to use a **standard deduction for the self-employed**. A great deal of staff resource in revenue administrations is currently spent assessing taxes owed, and the self-employed complete detailed self-assessed tax returns requiring a great deal of time and effort, as well as psychological stress. A 'standard deduction' simplifies compliance so that it is easier, with fewer opportunities for non-compliance (Elffers and Helsing, 1997; Slemrod and Yitzhaki, 1994). A simple standard deduction based on their reported income prevents appeals and allows a more efficient use of resources in the tax administration. This is not simply a fixed deduction on specific standard tax-deductible items but an overall standard deduction that the self-employed person would deduct from their income to take account of their expenses. This could be either a fixed amount or a percentage of gross income. If implemented, it would eradicate the whole process of deductible items, the keeping and logging of receipts from expenditures, and significantly decrease the complexity of the tax system. The usual argument against such a measure is either that it will not work or that it is unfair towards those taxpayers who really do have high costs. The latter could be overcome by allowing taxpayers not wishing to opt for the overall standard deduction to retain the right to continue with the current process if they so wish. The advantage for the taxpayer of applying this overall deduction, which has operated in the US federal income tax system for many years, is that: it is a safe and certain option; it saves time and trouble; there is no need to pay for a tax advisor; and it reduces uncertainty. The higher the standard deduction, the greater is the chance that they will select this option.

Indeed, evidence that this is an attractive option for taxpayers is its take-up in countries where introduced. Gross (1990) reports that in the US in 1990, 71% of taxpayers opted for the standard deduction, in the form of a fixed amount. Meanwhile, for tax authorities, from the revenue-to-costs viewpoint, it is wholly ineffective to check deductible items claimed on each self-assessment form; it is a matter of small sums of money, which takes tax officials much time to check, let alone discuss and correct. If there were fewer claims with deductible items, this would make an enormous difference to the workload of tax offices. It would also release time either to check those specifying deductible items in more depth or for shifting resources towards enabling compliance rather than detecting non-compliance.

Various options exist for implementing this overall standard deduction. One option is to start by applying it to those filing self-employment tax returns. To estimate the effects on revenue collected under a standard deduction system, three variables require consideration. Firstly, there are the revenues lost or gained by introducing the standard deduction. Secondly, there is the number of taxpayers opting for the overall standard deduction, and third and finally, there is the reduction of work involved for the tax administration. The level of this standard deduction, either a fixed amount or percentage of gross income, so that it is revenue-neutral, could be calculated by auditing existing tax returns across various industries 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.

A further variant which seeks tax simplification for the self-employed relates to the collaborative economy. In Belgium, a standard 10% tax rate has been applied to service

providers operating through a digital platform and earning less than €5,000 per year. In the UK, meanwhile, individuals earning less than £1,000 gross per annum from occasional work and property lets can retain the income without declaring it for tax purposes (Heyes and Newsome, 2017). These initiatives by tax administrations reduce undeclared work by simplifying the tax rules.

Another very different policy measure to simplify compliance is to **simplify business start-up procedures**. The 'On the Spot' firm (*Empresa na Hora*) in Portugal, introduced in 2005 under the Simplex programme of administrative and legislative simplification, 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, 2014a). Whether such administrative simplification has prevented new businesses from starting-up and operating in the undeclared economy has not been directly evaluated.

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**. For many years in Germany, for example, the government effectively ignored that people undertake small jobs that they do not declare to the authorities. Unlike other countries however, the German government decided to address this issue by creating a new '*mini-jobs*' category of employment, which encourages people to undertake these small jobs on a legitimate basis and would have been impossible beforehand (see Baumann and Wienges, 2003; Schneider, 2008).

Another example of bringing mini-jobs into the declared economy that would otherwise be conducted on an undeclared basis is the *2010 Simplified Employment Act* (*Egyszerűsített foglalkoztatási törvény*) in Hungary. This Act made it easier for seasonal and temporary employment to be conducted on a declared basis. Before this Act, it was necessary to complete in duplicate an official attendance sheet with 18 pieces of information for every seasonal worker. This Act enables the mutually agreed simplified work contract to be notified either by: a simple text message (SMS) or electronically via the Client Gate System after they are registered and in the system. It distinguishes two categories of simplified employment: seasonal agricultural work, including seasonal tourism services, and other casual/temporary work (i.e., domestic work). In the first case the employer pays taxes of HUF 500 (€1.75), in the second case HUF 1000 (€3.50) daily. All obligations are fulfilled by entering two codes into the text message or into the Client Gate System. According to data from the Hungarian National Tax and Customs Administration, between 1 August 2010 and 31 December 2011, around 12.5 million working days were registered across these 17 months and HUF 8 billion (€28 million) flowed into the state's treasury (Rindt and Krén, 2013).

#### **4.1.2 Society-wide amnesties**

In the 2017 Annual Platform Survey, four of the 23 responding Member States had used society-wide amnesties, namely Bulgaria, Cyprus, Estonia and the UK.

Most of the studies on the effectiveness of this policy measure 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'. An amnesty therefore enables the non-compliant not to incur sanctions that the failure to pay on a timely basis would ordinarily incur.

Tax administrations need to strike a balance between revenue collection and fairness in how revenue is collected. With an amnesty, revenue is collected that might not otherwise be forthcoming, but there are fairness concerns which may impact on the efficiency of revenue collection in the future. Amnesties are often seen by honest taxpayers as a special deal for evaders and as violating principles of fairness. Indeed, Luitel and Sobel (2007) find that the repeated offering of amnesties reduces state revenue collection. However, Alm et al. (1990) find that if an amnesty is a 'one-time event' and coupled with new enforcement measures, the negative effects on future revenue collection can be offset. Overall however, and as Mikesell and Ross (2012) reveal, the evidence is that amnesties do not increase long-run revenues. Rather, amnesties decrease long-run revenue.

Despite this, tax administrations sometimes offer amnesties because they want short-term windfalls. Some types of amnesty are more lucrative in terms of short-term revenue than others. As Mikesell and Ross (2012) reveal, the features influencing the level of return are: 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. Keeping an amnesty open less than 60 days, holding it in the third quarter of the year, and not operating a voluntary disclosure scheme result in higher revenue rates. However, revenue declines with each successive amnesty and increase with the amount of time since the last amnesty. Indeed, amnesties, if used, must be coupled with increased sanctions to ensure that future compliance is not affected. Amnesties have largely been used by tax administrations. Labour inspectorates do not widely use such an approach for those violating labour laws.

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

Amnesties can also be offered on an individual basis to those voluntarily disclosing their previous undeclared work. In the 2017 Annual Platform Survey, four of the 23 responding Member States had used individual-level amnesties for voluntarily disclosing undeclared activity. These were Cyprus, France, Slovenia and the UK.

The UK **VAT short-term incentive** scheme reveals how this can operate in practice. This offered businesses the opportunity to regularize their VAT situation. From April to September 2003, businesses that should have registered for VAT but had not were offered the opportunity to do so. Penalties were waived if businesses continued to comply for 12 months. The scheme cost £500,000 in advertising costs and an estimated £2.7 million in penalties foregone from businesses which would have registered anyway. Her Majesty's Customs and Excise (which later merged with the Inland Revenue to become Her Majesty's Revenue and Customs, HMRC) forecast that 6,300 businesses would come forward and raise £11 million in additional VAT and interest. When the scheme closed, the department had received 3,000 registrations raising £11.4 million in tax and interest, or an average of £3800 per case. Around 55% of businesses taking advantage of the scheme subsequently failed to submit a VAT return causing the department to impose £2.5 million in penalties. This had a return-to-cost ratio of 23:1 compared with 4.5:1 overall for all hidden economy compliance activity in the UK at the time (National Audit Office, 2008).

There are also lessons to be learned from failed voluntary disclosure initiatives. Following the publication of a Small Business Council (2004) report calling for a formalization service to enable small businesses working in the undeclared economy to legitimize their activities, the Chancellor of the Exchequer's Autumn Budget statement included a request for the HMRC to establish such a scheme. HMRC established a pilot voluntary disclosure scheme in the city of Hartlepool in 2005. From April 2005 to March 2006, public sector organizations including HMRC, One NorthEast (the local regional development agency), Business Link, the Department for Work and Pensions and Hartlepool Borough Council, developed an initiative to target individuals currently operating in the undeclared economy and encourage them to legitimize and then develop their businesses. The project planned to provide, through intermediaries,

confidential advice to people on help available to them and on the amount of tax they owed. The plan was that the intermediary would gather information from the person. The information would then be submitted to the government departments without revealing the person's identity. The offer to the applicant would include details on their entitlement to benefits and tax credits. It would also include the amount of tax owed and the payment options available. However, only one person asked for help in assessing how much tax they owed but decided not to make a voluntary disclosure to HMRC. The evaluation of the project found that the availability of a confidential assessment for businesses in the undeclared economy was largely unknown within the Hartlepool area due to a lack of advertising. The subsequent evaluation found a lack of knowledge of the scheme, low levels of trust between the target group and the authorities, the wording of the campaign unappealing, and a failure to use an independent body for people to approach such as the local Citizens Advice Bureau (Centre for Economic and Social Inclusion, 2006).

To see how a voluntary disclosure programme can be announced to the public more successfully, Box 1 below provides the transcript of a video used by the Canadian Revenue Service. This could be replicated in other countries.

**Box 1. Transcript of Video: 'Make Things Right' voluntary disclosure initiative, Canada**

Second chances don't often happen in life, but if you have ever made a tax mistake, or left out details about income you reported on your tax return, the Canada Revenue Agency is offering you a second chance.

You can correct your tax affairs now—through the CRA's Voluntary Disclosures Program.

This is your opportunity to come forward and make things right.

It's so easy to do and it lifts a great weight off your shoulders.

You don't need anyone, you can do it all yourself.

Anyone can take part in the Voluntary Disclosures Program, but you have to file your application with us, before you become aware that the Canada Revenue Agency is taking action against you.

The mistake or omission you want to correct must be at least one year overdue, it has to be a mistake or omission that could be subject to a penalty, and you have to include details about it when you report it to us.

Coming clean is an easy way to achieve peace of mind.

By making a valid disclosure you may avoid penalties and prosecution.

And, in some cases, the Canada Revenue Agency might reduce the interest you owe.

The vast majority of Canadians pay their taxes in full. That means we all benefit from government-funded services and programs that make our lives better.

More and more Canadians are coming forward to correct their tax affairs, why not you?

Second chances don't come along every day.

Take advantage of this one through the Voluntary Disclosures Program.

Make things right and have peace of mind.

For more information: [www.cra.gc.ca/voluntarydisclosures](http://www.cra.gc.ca/voluntarydisclosures)

Video available at: <https://www.canada.ca/en/revenue-agency/news/cra-multimedia-library/businesses-video-gallery.html#vdp>

Voluntary disclosure schemes, therefore, might be generic schemes (exemplified by the above Canadian Revenue Service programme), or can be more targeted campaigns, as displayed by the UK example. They can also be implemented in many other sectors, such as the real estate rental sphere associated with collaborative economy rentals, using information obtained from collaborative economy platforms, to contact potentially non-compliant individuals to consider taking advantage of a voluntary disclosure option. The latter could learn lessons from previous experiences in using appeals and notification letters (see section 4.3). They have also largely been used by tax administrations. There is no reason why labour inspectorates could not widely use such an approach for those violating labour laws.

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

Very few entrepreneurs with an idea for a new venture start up a fully legitimate business before trading. Instead, they often 'test trade' their new ventures fully or partially in the undeclared economy before fully formalising; they make a gradual transition from employment or unemployment to self-employment. Indeed, a recent study reveals that two-thirds of all enterprises are unregistered at start up (Autio and Fu, 2015; Williams et al., 2017a). One preventative measure is therefore to provide formalisation support to new ventures.

In the 2017 Annual Platform Survey, two-thirds (65%) of Member States responding asserted that they used formalisation advice to business start-ups as a means of preventing undeclared work, although there were variations across EU regions. All Nordic nations provided formalisation advice to new business ventures and 86% of West European Member States responding, but just 56% did so in East-Central Europe and 25% in Southern Europe.

An example of the provision of formalisation support, which reflects the shift towards active welfare policies, is the **start-up premium (Gründungszuschuss, GZ)** in Germany, which eases the transition from unemployment to self-employment. In 2002, the Commission on 'Modern services in the labour market' (known as the Hartz Commission), presented a proposal for a new public subsidy for business start-ups (*Existenzgründungszuschuss*). The subsidy, introduced in 2003, known as the 'Ich-AG', was criticised for performing the same function as a second existing scheme, the 'bridging grant' (*Überbrückungsgeld*). The eventual outcome was that the German federal government fused the two labour market instruments. On 1 August 2006, the 'start-up premium' (*Gründungszuschuss*) came into effect. Available to recipients of unemployment benefit wanting to start up their own business, such persons receive in addition to their unemployment benefit a monthly grant of €300 for the first six months. If after six months the recipient can prove intense business activity and initial success, an additional €300 is received for another nine months. Recipients must fulfil certain prerequisites to take part in the scheme. Firstly, they must still be entitled to 150 days of unemployment benefit on the day of the company's foundation. Secondly, they must prove themselves capable of self-employed work. Part-time self-employed work is not supported. Thirdly, they 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).

Bernhard and Wolff (2011) studied the GZ before its reform at the end of 2011. In interviews, recipients confirmed that the new instrument was easy to handle and transparent. The evaluation shows that the new scheme does not attract as broad a clientele as the two earlier instruments. More women, for example, applied for 'Ich-AG' funds (Bernhard and Wolff, 2011). Caliendo et al. (2011) also show that GZ participants are older and have higher educational qualifications compared with participants in the two earlier schemes. As Bernhard and Wolff (2011) note, between 119,000 and 147,000 recipients of unemployment benefit enrolled annually in the GZ scheme between 2007 and 2010. The research does not present any evidence on the scheme's effectiveness in reducing undeclared work. Caliendo et al (2011) nevertheless do present some

evidence on the survival rate of GZ participants' businesses: 19 months after their start-up, 75-84% of former GZ recipients were still in business. This scheme, therefore, does appear to help smooth the transition from unemployment to self-employment (for a detailed evaluation, see Baas, 2012). Without it, there would be no legitimate way of making this transition; the unemployed person would have to withdraw from benefits before even test-trading their business venture.

Other examples of initiatives to smooth the transition to self-employment include: the business start-up programme for the unemployed in Austria; JobYourself in Belgium; business start-up grants in Estonia; comprehensive support for self-employment in Finland, and the New Enterprise Allowance in the UK (for an evaluation of these initiatives, see Naticchioni et al., 2012).

A recent example of an initiative to smooth the transition from unemployment to self-employment was introduced in 2017 by the municipality of Zagreb. The City office launched a project '**Work cleanly-be employed**'. Analysis revealed that some 90% of cleaning jobs are in the undeclared economy. This initiative for unemployed persons (registered at the Croatian Employment Service) enables them to start their own 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 trades, social contribution payments for 12 months, payment of book-keeping services and fiscal cash registers (see Williams et al., 2017b). This pilot project for smoothing the transition from unemployment to self-employment requires evaluation. If successful in transitioning people from unemployment to self-employment, it could be not only replicated in other sectors where undeclared work is rife, such as wider home improvement, maintenance and repair work, but also in areas beyond Zagreb and in other Member States.

Compared with smoothing the transition from unemployment to self-employment, fewer initiatives ease the transition from employment to self-employment. However, the numbers of newly self-employed making the transition from employment are far more numerous than those making the transition from unemployment, and many 'test trade' the viability of their start-up on an unregistered and undeclared basis in the first instance (Williams and Martinez-Perez, 2014a,b). This dearth of policy initiatives to smooth the transition from employment to legitimate self-employment is therefore a major gap that needs addressing to prevent entrepreneurs engaging in undeclared work at the outset of operations.

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

Besides encouraging legitimate business start-ups, preventative approaches can also make it easier to, or incentivise, established businesses to operate on a declared basis by offering bespoke formalization support and advice. The type of business advice and support required to formalise business ventures differs from that required by formal start-up or growth businesses (Caianello and Voltura, 2003; Copisarow, 2004; Copisarow and Barbour, 2004; Meldolesi and Ruvolo, 2003; Williams, 2005).

In the 2017 Annual Platform Survey, 61% of Member States responding asserted that they provide formalisation support services to existing businesses, although there are variations between EU regions. Although all Nordic nations and 86% of West European Member States responding provided formalisation support services to existing businesses, just 44% did so in East-Central Europe and 25% in Southern Europe.

An example of a 'formalisation service' is **Street (UK)**, established in 2000 to offer loans, advice and business support to self-employed people and micro-enterprises wishing to undergo a transition to formalisation ([www.street-uk.com](http://www.street-uk.com)). Their approach is to monitor progression of clients in each of the following twelve 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. This third sector small-scale community development finance initiative (CDFI) therefore provides loans, support and advice to help businesses make the transition from the undeclared to the declared economy.

Another example of a formalization advice and support service 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 with an agreement between the municipality of Naples and the University Federico II to research the local business environment. This research revealed that the principal local labour market problem in Naples was not unemployment but the undeclared economy. CUORE then developed into a network of neighbourhood service centres for entrepreneurs and would-be entrepreneurs. Each local CUORE centre services a low-income neighbourhood, and their target group is small and micro-sized businesses in the undeclared economy with the potential for growth. Once the businesses are identified, CUORE centres offer information and advice to aid formalisation (Bàculo, 2006). Following a request by an enterprise operating in the undeclared economy, CUORE operators devise custom-made regularisation pathways. The project workers monitor each step in the process to ensure that the entrepreneur follows the agreed path towards regularisation and that it still suits the needs of the enterprise. Project workers tend to be familiar with the neighbourhood. 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 formal registered with no compliance issues outstanding. This provides an incentive for businesses to be formal by providing them with free marketing for their business, and could be significantly extended to other countries and applied to various districts and sectors (see ILO, 2016).

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

In the 2017 Annual Platform Members Survey, 65% of Member States responding asserted that they provide direct tax incentives (e.g., exemptions, deductions), although there are variations across EU regions. Although 71% of West European Member States

provide direct tax incentives, and 67% of Nordic nations and East-Central European Member States, just 50% of Southern European Member States responding do so.

A popular assumption is that the most basic way to tackle the undeclared economy is to reduce overall tax rates. However, a more nuanced approach is required for two reasons. Firstly, there is no evidence that lowering overall tax rates reduces the size of the undeclared economy. Indeed, quite the opposite is the case. Undeclared work is generally higher in countries with lower tax rates, not least because such Member States 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.

One example is in relation to **venture and start-up capital tax rules** in the **Netherlands**. Many starting-up ventures secure venture capital not from formal but 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, and in doing so help those using personal loans from family and friends to start-up legitimately. By exempting private moneylenders from certain taxes, such loans and businesses are put onto the radar screen of the tax authorities, making it more likely to encourage businesses to start-up on a more formal basis rather than seeing themselves as being engaged in informal arrangements, which might well carry over into everyday trading practices (Williams, 2014a). The loan had to be for a minimum of €2,269 and a maximum of €50,000. There has been no formal evaluation of this initiative.

In **Italy** in 2006, meanwhile, the government implemented in accordance with decree law no. 296 of 27 December 2006, subsections 1192 to 1201, a **regularisation initiative** for employers. Employers applying for regularisation to the National Social Security Institute (*Istituto Nazionale per la Previdenza Sociale*, Inps) were exempt for one year (from the date when the application was submitted) from inspections and controls regarding their compliance with the regulations on social security and insurance payments. The exemption did not apply to compliance with workplace health and safety regulations (art. 11 of law no. 123, 3 August 2007). Employers first came to an agreement with the unions on a local level. One of the obligations in these agreements is that they guarantee employment for at least two years to regularised workers. Applications to this scheme were examined by a board comprising the provincial labour directorate, the social security office and workplace accident authorities. After one year, some 10,000 workers were regularised by means of these 'regularization' contracts (Williams, 2014a).

Tax and social security incentives to exit the undeclared economy, however, do not always have to be state-led. Social partners can also lead on such initiatives. An example of where social partners have taken the lead in providing social security incentives is the **Builders Social House (Casa Socială a Constructorilor, CSC)** scheme in Romania. 'The Construction Sector Social Agreement for 2007-2009' (*Acordul Social Sectorial Pentru Construcții 2007-2009*) by the main sectoral social partners in Romania, namely ARACO (employer's association) and FGS\_FAMILIA (trade union), estimated that some one-third of the active workforce operates in the undeclared economy. The CSC incentivises such work to take place in the declared rather than undeclared economy. 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, and in doing so provides an incentive for workers to be in the declared rather than the undeclared economy in the construction

and building materials sector. CSC members are construction companies and manufacturers of building materials. Entitlement to welfare payments during these winter months is only available to declared employees, that is, those with employment contracts recorded with the local labour inspectorates, and whose social security contributions due by both the employer and employee have been paid. Corporate contributors pay 1.5% of their turnover into the CSC scheme, and employees contribute 1% of their gross base salary. Allowances represent an amount equal to 75% of the average gross salary for the last three months of the worker and can be granted for up to 90 calendar days. In 2008, CSC had 573-member organisations accounting for 40% of all declared employment in the construction and building materials industries. 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).

This is potentially transferable both to other economic sectors where work is largely seasonal, such as agriculture and forestry, and other countries. Importantly moreover, it shows what can be achieved by employer and employee representative organisations working together, and without reliance on governments, so far as implementing preventative measures to tackle the undeclared economy is concerned.

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

In the 2017 Annual Platform Survey, 43% of Member States responding asserted that they used targeted VAT reductions to tackle undeclared work, although there are regional variations; 67% of Nordic nations do so, 43% of West European and East-Central European Member States, but just 25% of Southern European Member States responding.

One way of encouraging businesses to use declared rather than undeclared work is to reduce value-added tax (VAT) on specific goods and services where undeclared work is widespread; this could include areas such as the household repair, maintenance and improvement (RMI) sector (see Capital Economics, 2003). However, whether VAT reductions lead to the increased declaration of undeclared work is open to debate. Although early research argued that the introduction of VAT had little effect on the size of the undeclared economy (Bhattacharya, 1990; Feige, 1990), there have been few contemporary evaluations. Given the lack of an evidence base, the European Commission COM (2016) 148 is focusing upon directly tackling VAT fraud more than using VAT reductions to reduce the overall size of the undeclared economy.

A further popular preventative measure has been to use **reverse charges for VAT** whereby the buyer, not seller, must file and pay the VAT. Until now, reverse charges have been introduced in the construction industry in several EU Member States. To tackle VAT fraud and undeclared work in the sector, the Swedish government introduced a law on reverse charges for VAT effective from 1 July 2007. A company selling construction services more than on a temporary basis 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. The Swedish Tax Agency does not find support for this argument when investigating a possible increase in reported payroll taxes. However, it does not preclude that the measure may have affected the prevalence of the undeclared economy, concluding that the reverse charge has had positive effects in terms of increased reporting of output tax in the construction sector at SEK 700 million (€82.3 million) in 2008 (Swedish Tax Agency, 2011).

In April 2011, Finland similarly introduced reverse VAT where VAT is paid by the buyer (main contractor) rather than seller (subcontractors). This was deemed effective because the tax liability does not as easily disappear into the subcontracting chain and

the main contractors tend to be large, established and reputable companies. Subcontractors do not charge VAT to the main responsible party. If there is a chain of subcontracting, as is typical, all invoicing excludes VAT, which is only disbursed at the top of the chain. The reverse system only applies to construction services, not materials, and private individuals as buyers are excluded. The tax administration estimated that during the first three years the reverse system would annually require 60 work-years to implement, followed by 30 work-years in each subsequent year. In the legislative proposal, the increase in VAT revenue was estimated at €80-120 million. The disbursement of VAT has been shifting towards the main contractors as intended. Information from tax audits have uncovered both honest mistakes and suspicious activity. There are no reports, however, of suspected appearances of 'front' organizations as fraudulent main contractors.

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

A further way of making it easier to comply and incentivise compliance is to offer businesses 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. A 2010 survey revealed that 13% of European countries offered free record-keeping software to business (of whom 50% of the stakeholders interviewed saw this as an effective measure for tackling undeclared work), 22% offered businesses fact sheets on record keeping (of whom 57% viewed it as an effective measure) and 22% of European countries offered free advice or training on record keeping (of whom 43% viewed this as effective).

In the 2017 Annual Platform Survey, meanwhile, 9% of EU Member States responding asserted that they provide free record-keeping software to businesses (compared with 13% of European countries in 2010), but 43% provide fact sheets on record-keeping requirements (compared with 22% in 2010) and 48% provide free advice/training on record-keeping (compared with 22% in 2010). Those stating that they provide free record-keeping software to businesses are the UK and Denmark, whilst those providing fact sheets on record-keeping requirements are Denmark, Estonia, Finland, France, Hungary, Ireland, Slovakia, Slovenia, Sweden and the UK, and those providing free advice/training on record-keeping are Austria, Estonia, Finland, France, Greece, Hungary, Ireland, Portugal, Slovakia, Slovenia, and the UK. These initiatives are therefore more common in Nordic nations and West European Member States than in East-Central Europe and Southern Europe.

Indeed, Alm (2011) investigates the effects on the level of compliance of the provision 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, therefore, is that reducing uncertainty on tax liabilities by providing a service to enable businesses to calculate their liabilities reduces non-compliance.

## **4.2 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 use the declared rather than undeclared economy to source goods and services. Measures that aim to encourage purchasers to acquire goods and services on a declared basis include: targeted direct tax measures and wage costs subsidies; targeted indirect tax incentives; discouraging cash payments and incentivising electronic payments; initiatives for customers to request receipts; and service vouchers. Section 5 will focus upon service voucher schemes. Here, each of the other demand-side incentives are considered.

#### 4.2.1 Targeting purchasers with direct tax incentives

In the 2017 Annual Platform Survey, just 35% of Member States responding asserted that they provide targeted direct tax incentives (e.g., income tax reductions or subsidies) to purchasers of declared goods and services to tackle undeclared work. This was more common in Nordic nations (67% of those responding, namely Sweden and Denmark) and West European Member States (43% of those responding, namely Belgium France and the Netherlands) than in East-Central Europe (where only 33% of those responding adopted such a measure, namely Croatia, Hungary, Slovakia) and Southern Europe where none of the Member States responding stated that they adopted such a measure.

This has involved providing income tax relief, claimed on (self-assessed) tax returns, to customers using declared labour to do specific household tasks (e.g., roof maintenance, outside painting, household cleaning) where undeclared work is prevalent. As the European Commission (1998: 14) concludes in relation to such initiatives:

*'tax-deductions and subsidies for refurbishing and improvements of houses have been particularly successful in encouraging more people to use the opportunity to repair their houses legally, and had the effect of moving work which might have been done informally to the formal and registered sector'.*

Other domestic services (e.g., household cleaning, gardening), meanwhile, have seen similar targeted direct (tax) measures introduced to encourage such activities to be carried out in the declared rather than undeclared economy.

In **Sweden**, since 8 December 2008, citizens have been able to apply for a tax deduction amounting to 50% of the labour cost for the renovation, conversion and extension of homes (ROT), and for household services (RUT) including cleaning, laundry, basic gardening and babysitting. The maximum annual tax deduction that can be applied is SEK 50,000 (€6,000). In the government bill from 2007 where the RUT deduction was proposed, the measure was estimated to cost SEK 1.3 billion per year (€155 million). The ROT-deduction was in the spring budget bill in 2009 and was calculated to cost SEK 13.5 billion per year (€416 million) (Swedish Tax Agency, 2011). As of 1 July 2009, companies performing household services charge the customer the costs of materials and half the labour costs, including VAT. The company performing the work then requests the outstanding sum from the Swedish Tax Agency. As a result, the customers only pay half of the labour cost at the point of purchase of the service. Evaluating this policy initiative, and comparing data from 2005 and 2011, the Swedish Tax Agency (2011) claim that **undeclared work has decreased by about 10% within the activities covered by the ROT- and RUT-deduction**. In the autumn of 2011, the Swedish Federation of Business Owners (*Företagarna*) conducted a survey of 2,447 construction companies. The results show that nearly 90% felt that the ROT-deduction had a positive impact on reducing undeclared work in the sector compared with 78% in 2009. In 2010, 1.1 million people bought household services with a tax deduction (RUT and ROT) and the Swedish Tax Agency paid out SEK 1.4 billion (€166 million) in RUT deductions and SEK 13.5 billion (€1.6 billion) in ROT-deductions. This means that around 7.6 million hours of cleaning and household (ROT) services and 53 million hours of renovation work (ROT) were performed using these schemes (Brunk, 2013c).

In **Denmark**, there has been a similar initiative to use direct tax incentives to bring domestic services provided in the undeclared economy into the declared realm. Since 1 June 2011 until the end of 2013, it was possible under a pilot scheme for each member of a household over 18 years of age to deduct up to DKK 15,000 (€2,000) from their taxes for the costs of employing craftspeople and domestic helpers under a pilot project called '**Home-Job Plan**' (*Bolig-Jobplan*). The major difference compared with the Swedish scheme was that whilst Sweden has a maximum tax deduction of €6,600, the cap was €2,000 in Denmark. The activities covered include cleaning, indoor-outdoor maintenance of the house, gardening and babysitting. The cost to the government is

estimated to be DKK 1 billion (€134 million) in 2011 and around DKK 1.75 billion (€234 million) in 2012 and 2013. The expenses and the company involved is informed digitally by the buyer of the services to the tax authorities in a special template, who then deduct 15% of the amount in the yearly tax or fiscal income. The action involved for the buyer of these services resembles an ordinary payment transfer, and the system does the rest. Evaluating this scheme, relative to expectations, the pilot project has been a success. Some 270,000 citizens used the deduction in 2011 and most of the work involved home improvement, maintenance and repair. They have on average reported deductions of DKK 9,800 (€1,315) per person. In total, the deductions reported constitute DKK 2.7 billion (€362 million). The tax value of those deductions is around DKK 900 million (€121 million) (Jørgensen, 2013).

In **Finland**, since 2001, there has been again a similar demand-side incentive that uses direct tax incentives to bring household services in the undeclared economy into the declared economy. Here, 20% of the wage paid, including social security contributions, or 50% of the work compensation paid to an entrepreneur or enterprise, is tax deductible. The maximum amount that is tax deductible is €2,400 in 2018 (but was €900 in 2003 and €3,000 in 2009). This deduction is personal. The deduction can therefore be received by both spouses in couple-households. The own risk for the deducted costs is 100 euro. Since the beginning of 2009, this tax deduction has also applied to the installation, maintenance, and user support of IT and telecommunications technology in the home, including hardware, software, data security, and network connections.

In 2004, 155,802 households (6.6% of all households) applied for this tax deduction for household services, and the tax deductions amounted to €111.3 million. 90% of these households had purchased the deductible service from a firm, 73% of households had purchased repairs, and 25% had purchased cleaning services. Of the households applying for the deduction, only 4% had purchased human care services or child care services, and around 3% had purchased gardening services. The introduced possibility of buying services for parents and grandparents was used by only 2% of the households applying for the tax deduction. During 2004, the total volume of household services that were purchased applying the tax deduction was €457 million. Of this total, over 90% was for repairs. The estimated effect of the deduction in terms of employment amounted to about 10,000 work years (around 12,100 jobs) in 2004, and the estimated net effect (cases where the deduction had a decisive effect on the purchase of the service) amounted to over 3,500 work years (around 4,600 jobs). 84% of the total net work years corresponded to household repairs (70% of jobs), and 14% to cleaning services (26% of jobs). The jobs that have been created as a result of the tax deduction system are market-regulated, and do not have an overriding effect on other jobs.

The use of this tax deduction has steadily grown. In 2006, there were 243,000 users of the tax deduction, with the total amount of tax deduction amounting to €165 million. By 2016, there were 406,500 users, with the total amount of tax deduction amounting to €393,000 million. Awareness of the advantages of this tax deduction system has increased and the deduction has been used more widely over time (see <https://www.veronmaksajat.fi/luvut/Tilastot/Tuloerot/Kotitalousvahennys/>).

Using direct tax incentives to bring domestic services provided in the undeclared economy into the declared realm however, has not always proven successful. In **Poland** in November 2005, the government introduced new regulations whereby a household wishing to hire a housekeeper could do so and employers could claim tax deductions, while the domestic workers themselves were able to benefit from social and health insurance contributions. A person wishing to take advantage of such outsourcing of domestic services, such as housekeepers, babysitters or gardeners, was to notify the District Labour Office (*Powiatowy Urząd Pracy, PUP*) of his or her plans. To hire an unemployed person, a prospective employer then made an 'activation employment contract' with the domestic worker and submitted a copy to the local employment office. The regulations laid down several conditions for the prospective employer:

1. Only unemployed persons could be hired for an 'activation employment contract';
2. While employed as a domestic worker by a household, such a worker was not allowed to enter into another contract of this type with anyone else;
3. Close relatives (e.g. aunt or brother-in-law) could not be employed under this type of contract;
4. Pensioners and persons drawing disability benefits could not be hired under this type of contract;
5. The contract was to be made for at least a year; and
6. Only people registered with the fiscal authorities as personal income tax (PIT) payers could employ another person under this type of contract. Self-employed individuals who had chosen to pay corporate income tax (CIT) were excluded.

Once completed, the employer deducted from his or her income tax all documented expenses with respect to the domestic worker's social and health insurance contributions. This scheme did not work. The major obstacle was the complicated conditions for both sides of the employment relationship, along with little gain to justify the effort. For households the bureaucratic burden was a major hindrance and domestic workers preferred to collect their wages undeclared, which met with understanding on the part of households. Furthermore, the exclusion of specific social groups, such as pensioners who often work for households as housekeepers or babysitters, assorted relatives and cousins, did not help the popularity of this scheme. It ended less than a year after it came into force (Czarzasty, 2009).

#### **4.2.2 Targeted indirect taxes**

In the 2017 Annual Platform Survey, 30% of Member States responding asserted that they provide targeted indirect tax incentives (e.g., VAT reductions) to purchasers of declared goods and services to tackle undeclared work. This was more common in West European Member States (43% of those responding, namely Belgium, France and the Netherlands) and Nordic nations (33%, namely Sweden) than in East-Central Europe (where only 22% adopted such a measure, namely Croatia, Slovakia) and Southern Europe where just 25% of the Member States responding stated that they adopted such a measure, namely Portugal.

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 national insurance contributions, HM Treasury would receive £400m more in tax receipts despite the reduction in the rate of VAT.

### **4.2.3 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 multinational corporations involved in electronic payment systems. To transfer from cash to electronic payments, several options exist for countries pursuing this demonetisation approach:

1. Introduce a ceiling for cash transactions;
2. Make point-of-sale (POS) terminals available across all sectors, such as bars and taxis. Introducing them can reduce the use of cash;
3. For governments to shift more fully towards electronic payments;
4. 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
5. 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.

Evaluations have been conducted in several Member States of the impacts on undeclared work of pursuing such an approach. 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). An international consulting company has produced an evaluation of the positive impacts of moving towards cashless transactions on the undeclared economy both in Croatia in particular<sup>9</sup>, and for other countries in central and south-eastern Europe.<sup>10</sup>

A further example is the prohibition of the payment of wages in cash in the meat industry in Belgium since 1<sup>st</sup> October 2016 following legislation. It is now the case that a cashless payment system must be used to pay wages (see European Platform, 2017). In addition, there has been increased usage of: ceilings on cash transactions in many Member States; the introduction of point-of-sale terminals and 'black box' cash registers across many sectors across EU member states; and shifts by the public sector more fully towards making only electronic payments. However, no evaluation has yet been undertaken of the realms where this has not yet happened where undeclared work is rife.

### **4.2.4 Initiatives for customers to request receipts**

In the 2017 Annual Platform Survey, 26% of Member States responding have developed initiatives for customers to request receipts (e.g., a lottery for receipts) to tackle undeclared work, including Belgium, Bulgaria, Croatia, Portugal, Slovenia and Sweden. Romania has also used this policy measure.

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

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<sup>9</sup>[http://www.ey.com/Publication/vwLUAssets/Report\\_Shadow\\_Economy/\\$FILE/REPORT\\_ShadowEconomy\\_FI\\_NAL\\_17.pdf](http://www.ey.com/Publication/vwLUAssets/Report_Shadow_Economy/$FILE/REPORT_ShadowEconomy_FI_NAL_17.pdf)

<sup>10</sup> For Croatia:

[http://www.ey.com/Publication/vwLUAssets/Reducing\\_the\\_Shadow\\_Economy\\_through\\_Electronic\\_Payments\\_Croatia/\\$FILE/REPORT\\_ShadowEconomy\\_CROATIA.pdf](http://www.ey.com/Publication/vwLUAssets/Reducing_the_Shadow_Economy_through_Electronic_Payments_Croatia/$FILE/REPORT_ShadowEconomy_CROATIA.pdf)

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.

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. There is currently limited evidence of the impact of this ongoing initiative. However, 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).

Moreover, and in parallel with the introduction of certified cash registers, the Croatian Tax Administration launched a national competition in collaboration with the Croatian Lottery. Every individual who sent 20 fiscal receipts issued after 1 January 2013 could win valuable money prizes in four rounds organised during 2013. The main objective of this contest, named 'It doesn't count without a receipt' was to increase awareness among Croatian citizens about the importance of asking for a receipt. As explained in the description of the competition, 'it is not fair that some people pay all their liabilities towards the Government, while the others cheat and actually live at the expense of honest and diligent ones' (Croatian Tax Administration, 2013).

### **4.3 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 awareness raising seeks to achieve. Many citizens do not fully understand why they should comply and/or what taxes are used for by governments; they do not fully make the connection between the public goods and services they receive (e.g., hospitals, schools, transport infrastructure) and the taxes they pay. Until now, governments have generally undertaken very little marketing 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 codified laws and regulations of formal institutions and voluntary co-operation is to ensue, educating citizens about this is important.

The advantage of pursuing voluntary co-operation, rather than enforced compliance, is that this is potentially a far 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. To achieve such voluntary co-operation, awareness raising campaigns have been proposed to change the values, norms and beliefs, and therefore behaviours, of the population. Section 5 will address the use of campaigns in greater depth. Here, the focus is upon some of the elements required for an awareness raising campaign to be effective.

A key requirement is that it must use tailored advertisements. These will need to vary in form and content depending on the audience targeted. The language, media used, word style and slogans that will be effective for one population group such as younger

people, will not be for another group such as the elderly. Similarly, effective media for one target group, such as newspaper adverts for older people, will not be for the internet-oriented younger generation.

There are also lessons to be learned from the advertising industry more broadly. Politicians, commercial advertisers and charities for example know that celebrity endorsement can be an effective tool for advertising campaigns. Tax and labour administrations could similarly use celebrities and/or opinion leaders for their own marketing campaigns. In the USA in 2007 for example, the Internal Revenue Service made use of the internet via YouTube during the tax filing season, sponsoring a rap video contest, with an award of \$25,000 for the best tax video. The contest was introduced in a rap video called Turbo Tax Mojo by Vanilla Ice (available at <http://www.youtube.com/watch?v=eMudXTz4NuQ>), which urged people to pay their taxes on time and to use Turbo Tax to do so.

If such celebrities and/or opinion leaders are used when organising campaigns, then as Lessing and Park (1978) identify, it is necessary to differentiate three types of campaign. These are:

- **Information campaigns** where citizens lacking knowledge refer to opinion leaders for information, such as highly respected economic experts via television commercials, talk shows and newspaper articles;
- **Utilitarian campaigns** where citizens are motivated by hearing about others rewarded or punished, such as when names are published of those who pay taxes and do not; and
- **Value-expressive campaigns** where citizens are encouraged to associate themselves with positive role models, such as by publicising the tax payments of famous television and movie stars, athletes, scientists, politicians and business tycoons, holding them up as role models for the law-abiding citizen to follow.

For example, if the self-employed or entrepreneurs are targeted, and given that the entrepreneur is often portrayed as an ideal-type heroic figure, then value-expressive campaigns might well be employed using positive role models of entrepreneurs who act legitimately. Such value-expressive campaigns can publicise the legitimate entrepreneurship of famous entrepreneurs and business tycoons who can act as role models and heroic figureheads for these others who may be operating partially or fully undeclared.

The state does not always have to lead awareness raising campaigns. Indeed, social partners have led campaigns or produced them in cooperation with the state. Examples are the campaigns in Sweden to tackle undeclared work in the construction industry and the taxi-driving sector. In Germany, public alliances have been established between government and the social partners in construction and transport, who have pursued public information campaigns, whilst in France a 'good practice charter' agreed by sector representatives has been implemented in the construction sector. In Bulgaria, meanwhile, the Bulgarian Industrial Association has run an 'In the Light' ([www.nasvetlo.net](http://www.nasvetlo.net)) campaign since 2007, and through joint initiatives, publications and information, they tried to provoke a large public discussion to overcome the existing problems. In Canada, a national awareness advertising campaign, 'Get it in Writing', to inform purchasers of undeclared work of the risks involved in dealing with home repair and maintenance contractors has been developed in partnership between the tax authority and the Canadian Home Builders' Association, who have assisted them in advertising and promoting this message to consumers. A key recommendation, therefore, is that awareness raising is not solely the responsibility of governments. **Social partners have a key role to play in leading awareness raising campaigns to tackle undeclared work.**

Until now, however, the effectiveness of campaigns organised both by governments and/or social partners has not been evaluated. Nevertheless, the little evidence available

shows that awareness raising campaigns appear to be effective and cost efficient. In the UK, an evaluation of the advertising campaigns run by HMRC reveals that as a result, some 8,300 additional people registered to pay tax who would not have otherwise done so, paying tax of £38 million over three years, providing a return of 19:1 on the expenditure of £2 million. This compares with an overall return of 4.5:1 on the £41 million a year spent on all its compliance work in 2006-07 (National Audit Office, 2008).

The problem with comparing the effectiveness of different policy initiatives using yield/cost ratios, nevertheless, is that it ignores any distortion costs and compliance costs induced. If the ratio of distortion and compliance costs to administrative costs varies across policies, then ranking policy measures by their administrative costs will lead to misallocation. Focusing on yield/cost ratios also risks obscuring that the additional yield is a transfer from private citizens while administrative costs are a real resource cost. Even if marginal ratios can be inferred from the averages presented, and distortion and compliance costs are negligible, it is not optimal from society's perspective to expand costs up to the point where the ratios are equal to one (Shaw et al., 2008).

Section 6 provides an in-depth evaluation of the various types of awareness raising campaign. Here, therefore, a brief review is provided of another measure associated with changing norms, values and beliefs. This relates to the use of **normative appeals**. In the 2017 Annual Platform Survey, 48% of Member States responding assert that they had used normative appeals to businesses to operate on a legitimate basis. This was more common in Nordic nations (67% had used this measure, namely Denmark and Sweden) and Western Europe (57% of responding Member States had done so) than in Southern Europe (50% of Member States) and East-Central Europe where just 33% had used normative appeals.

Their effectiveness however, depends in part on the nature of the normative appeal. Chung and Trivedi (2003) examine the impact of normative appeals on a friendly persuasion group who were required to both generate and read a list of reasons why they should comply fully and were compared with a control group not asked to do so. Participants earned \$30 by filling in two questionnaires. The friendly persuasion group were required firstly to generate and secondly to read a list of reasons why they should comply fully and were compared with a control group not asked to do so. Participants in both groups were asked to report the income they earned and pay tax on the reported income. The results show a significant difference between the friendly persuasion and control group on income reported. The participants in the friendly persuasion group report higher earnings than the control group. Hasseldine *et al.* (2007), meanwhile, examine 7,300 sole proprietors in the UK. Comparing the effect of five different letters ranging from a simple offer of assistance to a letter advising that his/her tax return had been already pre-selected for audit, they find that letters threatening sanctions were more effective than normative appeals to do the right thing. A thorough review of the evidence on the effectiveness of different types of normative appeal and/or notification letter would be a useful future exercise for the Platform.

#### **4.4 Changing the formal institutions**

Besides changing norms, values and beliefs to align them with the formal rules, policy can also seek to modernise 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 (European Commission, 2014), when the population do not believe that they receive back from government what they expect, or when formal institutional voids and weaknesses reduce the benefits of formalisation so much that the actual and perceived benefits of formalisation are outweighed by the costs. Two types of change are required so far as formal institutions are concerned. Firstly, there is often a need to change internal *processes* in the formal institutions to improve the perception of the population that there is procedural and redistributive justice and fairness. Secondly, there is often a need to change the *products* of formal institutions by pursuing wider economic and social developments.

#### 4.4.1 Modernising governance

Citizens often do not adhere to the formal rules, and there is thus a breakdown in the social contract between government and its citizens, due to a low level of trust in government. A modernisation of governance is thus one way forward. To address what are perceived as formal institutional resource misallocations and inefficiencies, at least three institutional reforms are required:

- **Procedural justice** must be improved, which here refers to the authorities treating citizens in a respectful, impartial and responsible manner and thus shifting away from a 'cops and robbers' approach and towards a service-oriented approach;
- **Procedural fairness** must be enhanced, which refers to citizens believing that they pay their fair share compared with others; and
- **Redistributive justice** needs improving, which relates to whether citizens believe that they receive the goods and services they deserve given the taxes they pay.

In the 2017 Annual Platform Survey, 48% of Member States responding asserted that they had taken measures to improve the degree to which customers of enforcement agencies believe they have been treated in a respectful, impartial and responsible manner. All Nordic nations had pursued this policy approach, but only 57% of West European, 33% of East-Central European and just 25% of Southern European Member States responding.

##### 4.4.1.1 Improving procedural justice

Procedural justice refers to whether citizens view the government as dealing with them in a respectful, impartial and responsible manner (Murphy, 2005). If citizens view government institutions as treating them in a poor manner, the evidence is that they are more likely to engage in non-compliant behaviour (Murphy *et al.*, 2009). Leventhal (1980) thus proposed the following six rules for how governments should interact with citizens to improve the perceived level of procedural justice:

- The consistency rule - procedures should be consistently applied across all people and over time; nobody should be more favoured, or disadvantaged compared with others;
- Bias suppression rule - egoistic intentions and prejudice on the part of the decision-makers must be avoided;
- Accuracy rule - all relevant sources of information should be exhausted, in order that decisions are based on well-founded evidence and information;
- Correctability rule - the possibility that decisions made can be adjusted or revised in the light of evidence;
- Representativeness rule - the interests and opinions of all stakeholders and individuals involved should be considered; and
- Ethicality rule - procedures should be in accord with the prevailing moral and ethical values.

Others additionally consider the importance of interpersonal interactions. Compliance rates are significantly higher when people are treated politely, with respect and dignity, are given a say, and have genuine respect shown for their rights and social status (Gangl *et al.*, 2013).

However, if they believe that they are being treated unfairly or unreasonably, such as by inspectors showing disrespect for them, or they believe that taxes are collected and being used to support the interests of powerful private interests who have captured the state, this results in a lack of trust and lower compliance rates (Murphy, 2008).

There is thus a need for enforcement authorities to treat citizens with respect and dignity. The overarching goal is to improve the trust and confidence of citizens in public administrations.

#### *4.4.1.2 Improving procedural fairness*

Procedural fairness refers to whether citizens feel that they are being treated in a fair manner relative to others and that they pay their fair share compared with others. Those who perceive that they receive procedurally fair treatment are more likely to trust the authorities and to adhere to the formal rules (Murphy, 2005). The fairness of the tax system is one of the most important determinants of whether they do so (Molero and Pujol, 2012).

Conversely, if they perceive that they are not receiving fair treatment, non-compliance increases (Bird *et al.*, 2006). As Molero and Pujol (2012) find, where there is grievance either in absolute terms (e.g., they feel taxes are too high or public money wasted) or grievances in relative terms (e.g., there is a lack of horizontal trust and a belief that others are cheating), non-compliance is the outcome. Indeed, they justify their non-compliance using their perceptions of the activities of others. If undeclared work is viewed as widespread, this justifies their non-compliant behaviour. This has important implications. **If governments publicise that undeclared work is rife, they create the conditions for widespread grievance and thus even wider participation in undeclared work** by those who might not otherwise have done so.

#### *4.4.1.3 Improving redistributive justice*

Redistributive justice refers to whether the population believe they receive the goods and services deserved given the taxes that they pay (Richardson and Sawyer, 2001). Taxes are the price the population pays for the public goods and services that government provide. The question is whether the price corresponds to the perceived value of these goods and services (i.e., whether it is 'just'). The less the tax system is seen as just, the more likely they will be to operate undeclared and to break the social contract with the state. To improve compliance therefore, the compliance system must be just. **Governments thus need to educate the population about where their taxes are spent and why social security and labour laws prevail.** When they do not know, or do not fully understand what public goods and services are provided with their taxes, compliance is lower. In recent years therefore, many governments have begun to pursue education and awareness raising initiatives.

#### **4.4.2 Wider economic and social developments**

To tackle undeclared work, it is also necessary to deal with other formal institutional failures that lead to norms, values and beliefs not aligning with the formal rules. This requires wider economic and social developments to be pursued. Until now, there have been three theoretical standpoints regarding the specific broader economic and social developments required to tackle undeclared work. Firstly, the 'modernisation' thesis purports that undeclared work decreases as economies modernise and develop and therefore that economic development and growth, along with the modernisation of governance, is required to tackle undeclared work. Secondly, the 'state over-interference' thesis asserts that the prevalence of undeclared work is a direct result of high taxes, public sector corruption and state interference in the free market and therefore that tax reductions and reducing the regulatory burden are required. Third and finally, the 'state under-intervention' thesis asserts that undeclared work results from inadequate levels of state intervention in work and welfare and consequently, that greater social protection, reducing inequality and pursuing labour market interventions to help vulnerable groups are required.

Evaluations of these competing perspectives reveal that the modernisation and state under-intervention theses are positively confirmed, and the state over-interference is refuted (Vanderseypen *et al.*, 2013; Williams, 2013, 2014a,b,c,d, 2015, 2017; Williams

*et al.*, 2013; Williams and Horodnic, 2016, 2017b). In other words, the finding is that undeclared work is more prevalent in Member States where there is:

- Lower GDP/capita in personal purchasing power standards;
- Poorer quality governance, including greater levels of public sector corruption;
- Higher income inequality;
- Higher levels of severe material deprivation;
- Lower levels of expenditure on active labour market policies to help vulnerable groups; and
- Less effective policies of redistribution via social transfers to protect workers from poverty.

## 5. AN EVALUATION OF SERVICE VOUCHER SCHEMES

### **Key questions addressed in this section include:**

Which Member States currently use service vouchers as a demand-side incentive measure?

What importance is attached to such demand-side incentive measures and how effective are they seen to be in tackling undeclared work relative to other types of policy measure?

Have any evaluations been conducted of these service voucher schemes and what are their findings in relation to tackling undeclared work?

What, if anything, are the lessons for using service vouchers in other Member States?

### **Key Findings:**

In the 2017 Annual Platform Survey, 26% of responding Member States were using service vouchers, namely Austria, Belgium, France, Greece, Lithuania and Sweden. In Austria, France, Greece and Sweden, the institution responsible was a social insurance/social security institution, but the tax revenue administration in Lithuania and federal ministries in Belgium. 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 emergent good practice is that Social Voucher (SV) schemes should be used to: pay for regular and occasional labour; to formalise household services (including caring services), with service vouchers limited to the specific tasks where undeclared work is prevalent in each Member State, and 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, meanwhile, should: only be used to pay for occasional labour; and 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; be based on prior research to decide the price of service voucher for a user (and level of subsidy required), so that they are competitively priced compared with using undeclared work; and 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, and ex-ante and ex-post evaluations should be conducted of the extent to which service vouchers reduce undeclared work, and whether they substitute for permanent formal employment contracts.

Although service voucher schemes are an investment by the state (rather than a cost to the state) to transform undeclared work into declared work, with the return on the investment being higher levels of declared work, budget constraints are likely to be a limiting factor, as is the level of development of a market for domestic services. Some Member States, particularly in Southern Europe, have little or no tradition of domestic services being conducted for payment by people outside the family, and thus the utility of a service voucher scheme is minimal. However, in such Member States, it is also possible to widen the scope of activities covered by such a scheme to activities where the undeclared economy is rife, such as home repair and maintenance.

In 2013, a special Eurobarometer survey on undeclared work was conducted in the EU28. Some 11% of respondents in the EU-28 reported buying goods or services in the undeclared economy in the past year. Of these, 29% paid on an undeclared basis for repairs or renovations to the home, 15% for cleaning the home, 10% for gardening services, 5% for babysitting at home and 3% for ironing services.

Service vouchers are a demand-side incentive measure which targets purchasers of goods and services in the undeclared economy with the intention of moving undeclared work into the declared economy. A service voucher is a means of payment, subsidised by government, which allows a private user to pay an employee for conducting tasks. By providing service vouchers to those employing labour, which pays a portion of the fee given to the worker, the intention is to encourage them to purchase services on a declared rather than undeclared basis.

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.

In a 2010 survey of European Economic Area (EEA) countries conducted as part of the feasibility study for the European Platform Tackling Undeclared Work, 26% of EEA countries reported adopting service voucher schemes. In the countries using service vouchers, 58% of the expert stakeholders interviewed viewed this as an effective means of tackling the undeclared economy, whilst 42% viewed service vouchers in neutral terms as neither effective nor ineffective. No stakeholders viewed this instrument as ineffective (Dekker et al., 2010).

In the 2017 Annual Platform Survey, meanwhile, it was again the case that 26% of Member States were using service vouchers although there were variations across EU regions, with service vouchers being used in 43% of West European Member States, 33% of Nordic nations, 25% of Southern European Member States but just 11% of East-Central European Member States responding to the survey. Of these, the Member States who in 2017 stated that they used service vouchers were Austria, Belgium and France in Western Europe, Sweden in the Nordic nations, Lithuania in East-Central Europe, and Greece in Southern Europe. In Austria, France, Greece and Sweden, the institution responsible was a social insurance/social security institution, but the tax revenue administration in Lithuania and federal ministries in Belgium.

Of the six Member States using service vouchers who responded, Belgium and France have perhaps the longest and most extensive experience of their use. Each is here considered in turn.

## **5.1 Service Vouchers in Belgium**

In **Belgium**, service vouchers were introduced in 2004, and are used to pay for everyday personal services. Each voucher costs €9.00. An individual can buy 500 vouchers each year or 1000 vouchers for each family (although single parents or mothers returning to work with young children can buy more). Each year, Sodexo (the

contractor delivering the scheme) sends users a tax certificate that they can use to claim a 30% tax deduction on the cost of their vouchers. Low income users who do not pay taxes enjoy this benefit through a reimbursable tax credit.

The service voucher system has several goals:

- To create new jobs, especially for low-skilled workers;
- To provide incentives to transform undeclared work into declared work;
- To offer the unemployed the opportunity to move towards a regulated employee status; and
- To improve the work-life balance for users by making it easier to outsource domestic work.

Every voucher pays for an hour of work from certified companies that hire unemployed people to do this work. At first, the company can hire the unemployed person on a part-time temporary contract. After three months of fixed-term employment, the company has to offer the worker a permanent employment contract for at least half-time employment if the person was previously registered as unemployed.

The company then assigns them to offer services to users, but the users are solely clients, not their employers. For every voucher a company receives they could claim a payment equalling €22.04 in 2013. This amount is made up of the price paid by the user (€8.50 or €9.00) and a subsidy from the regions (€13.54 or €12.54). The value of the tax deduction varies from one region to another. In Wallonia, the deduction amounts to 0.90 euro for each voucher, in Flanders and Brussels region the deduction goes up to 30% of the value of the voucher but is limited to €1,400 per person per year.

An employee of a certified company can carry out the following activities: in-house cleaning and ironing; preparing meals; external ironing services; transport for disabled person; and a shopping service. The customer pays using the vouchers. The total cost of the service voucher scheme to the government in 2011 was some €500m. Per employee net costs amounted to €3,520 in 2011 (€2,793 in 2010) (Gerard et al., 2012).

In 2016, there were some 3,500 companies active in the system (Willems, 2018). These included: commercial entities (49%); private employment agencies (1%); 'insertion' companies (a special form of supported employment) (4%); not-for-profit organisations (11%); municipalities and local agencies (11%); ALE for the long-term unemployed (10%) and physical persons (13%).

Although early studies found that **customers previously sourced some 44% of the work conducted using service vouchers from the undeclared economy**, recent evaluations find that only **25% reported that they would have purchased these services in the undeclared economy if there had been no vouchers**. One interpretation is that, in its early days, the scheme acted as a tool for transferring undeclared work into the declared economy, but it is now becoming more of a **means for moving unpaid self-provisioning activities into declared employment**. At the end of 2011, for example, there were 2,754 companies involved, 830,000 users, 108,663,966 vouchers were sold, and around 150,000 persons employed. Although only 4.6% (10.2% in Brussels) of employees stated they started working in the voucher system to avoid working in the undeclared economy, this ignores the fact that without it, many customers would doubtless source these services in the undeclared economy if the service voucher scheme did not exist (Ajzen, 2013).

In 2016, there were some 130,000 workers, or circa 100,000 full-time equivalent workers, employed in the system (Willems, 2016). A significant share of these workers (35%) were unemployed before entering the system. It has been estimated that only around 5% of these jobs existed before (substitution of regular labour through the service voucher system).

Examining the labour force employed in the service voucher system, the finding is that it is mainly women (97% of all employees), 50% are older than 40 years old while 23% are over 50 years old, and 54% are low-skilled workers while 4% are highly qualified. This profile is growing stronger over time; the proportion aged 50 and over is growing, as are the proportion that are non-Belgian nationals; some 20% of all voucher workers (55% in Brussels) are non-Belgian EU nationals and a further 10% are from outside the EU (Ajzen, 2013). Examining the working conditions, in 2013, 30.5% of new contracted workers received a permanent contract; the average hourly wage amounted to €11.06 in 2013; 26.6% received training and before entering the system, 35% were previously unemployed.

In 2016, 11% of Belgians used service vouchers (some 1 million households) who bought 129 million vouchers from Sodexo. A 2010 survey of users reveals that service vouchers allow them to work more hours or to start/continue working. Some 10.6% of clients stated that they were able to increase their working time (of whom 60% stated that it enabled them to work at least one additional day per week), and 0.6% of clients stated that they enter the labour market as they can do a paid job instead of domestic work. Some 10.8% of clients stated that without service vouchers, they would be obliged to reduce their working time. In consequence, it was estimated that service vouchers enabled all clients (and their partners) to work an additional 5 million days per annum, which represented 23,000 additional full-time equivalent jobs.

Entering the service voucher system allows workers to gain key social security benefits which are comparable to those held by people employed, and covers unemployment benefits, pension benefits, sickness benefits, maternity leave and health benefits. Access to social security is one of the key motivations for workers entering the service voucher system: 87% of workers reported that the ability to gain social benefits was a key reason for entering the system.

In 2013, the total public costs of the Belgian service voucher system was €1,930 million (see <http://impact-phs.eu/national-practices/belgium-the-service-voucher-system/>) (IMPact, 2016). This included:

- Government subsidy for the vouchers: €1,637 million. For every voucher received, a company could claim an amount equalling €22.04 in 2013;
- A tax deduction for users of €278.2 million; and
- Operational cost of the system: €15.6 million.

Given that 97,156 full-time equivalent workers were employed in the system; the outcome is that each FTE job created in the service voucher system cost circa €19,864.

This figure ignores, however, the following direct earn-back effects related to savings in unemployment benefits and surpluses in the social contributions and personal income tax:

- Savings in unemployment benefits: €217 million;
- Increase in social contributions: €395.2 million; and
- Increase in personal income: €178.4 million.

There are also the following indirect earn-back effects of the first order through the creation of new companies or activities (which leads to additional revenues for companies' taxes) and the creation of indirect management jobs (which also generates surpluses in the social contributions, personal income tax and savings in unemployment benefits of previously unemployed persons):

- Increase in companies' taxes: €17.7 million;
- Contributions and taxes due to additional employment (company staff): €40.8 million; and
- Reduction in unemployment benefit: €8.3 million.

Finally, there are other indirect effects (of the second order) related to the decrease in unemployment due to replacement of workers who left their previous jobs to enter the system, the increase in consumption of persons entering the system and earning higher incomes than previously, and the increase in hours worked by users). These effects are less exact but have been calculated as:

- Savings through replacement of service voucher workers in previous jobs: €106.3 – €212.5 million;
- Savings through the replacement of company staff in previous jobs: €7.7-15.5 million;
- Increase in VAT revenue: €10-34.9 million; and
- Increase in income tax due to users (re)entering employment: €297.9 million.

Including public costs and first order earn back effects, the total costs of the service voucher system in 2013 was €1,073,201,769 (which equates to €11,046 per FTE job created). When the second order earn-back effects are also included, **the total cost of the service voucher system was €584,245,134 (which equates to €6,013 per FTE job created or €3,901 per worker).**

Evaluating its impacts on undeclared work, **5% of service voucher workers in 2011 admitted having previously worked in the undeclared economy, and 17% of clients in 2010 admitted to using the undeclared economy before. Moreover, 45.8% of service voucher workers consider that working in the service voucher system is a way out of the undeclared economy** (IMPact, 2016a; Idea Consult, 2011, 2012). Some 25% of users say they would use undeclared work if the system did not exist (Willems, 2016).

## **5.2 Service vouchers in France**

In France, two different types of service voucher scheme exist, namely *Chèque Emploi Service Universel* (CESU) and *Titre Emploi Service Entreprise* (TESE). Each is considered in turn.

### **5.2.1 *Chèque Emploi Service Universel* (CESU), France**

In the past in **France**, the administrative processes required under French law to employ and pay a domestic worker meant that many households employed domestic workers in the undeclared economy. Since the start of the 1990s, successive French governments have sought to simplify the procedures for, and subsidise the cost of, employing a declared domestic worker. The various schemes introduced by the French government over the past two decades include the *Chèque Emploi Service* (CES) scheme in 1993, the *Titre Emploi Service* (TES) scheme in 1996 and replacing both these schemes, the *Chèque Emploi Service Universel* (CESU) in January 2006 (Windebank, 2004, 2006, 2007).

The intention of the earlier CES and TES schemes, as well as the CESU scheme replacing them, has been to combat undeclared work in the domestic services sphere and provide declared employment by simplifying the process for hiring and paying domestic and temporary workers, part-time help and casual labour around the home and garden. In 1991, the French government introduced the first policy measure to bring these services out of the undeclared economy and into the declared economy. Tax reductions for domestic services were offered to any household employing someone either directly or through an association. This was the forerunner of the *Chèque Emploi Service* (CES) and *Titre Emploi Service* (TES) schemes. In 1993, the CES scheme was introduced for individuals employing someone for eight hours or fewer per week in their household. The aim was to simplify the process of hiring, paying and making social security contributions for a domestic worker by paying his or her salary using a system of cheques, purchased at the local bank. The employer could claim an income tax reduction of 50% of the sum spent on purchasing the cheques. The employee benefited meanwhile, because the salary paid could not be less than the national minimum wage,

plus a 10% indemnity for paid leave (for reviews, see Adjerad, 2003, 2005; Finger, 1997; Labruyere, 1997; Le Feuvre, 2000; Marbot, 2008).

In 1996 a similar scheme to the CES was created, namely the *Titre Emploi-Service* (TES). The key difference was that in the TES scheme, the domestic worker must be employed through a private agency or association. Workers received the TES voucher, akin to a luncheon voucher, from their employer as part of their salary, from regional or local authorities or from associations to pay for domestic services in their home. Being limited to purchasing domestic services from organisations rather than individuals, this system was viewed as offering better guarantees both to workers (who receive support from an organisation) and users (who are guaranteed better quality since the organisations that provide services are subject to government approval). The scheme thus structured the unorganised supply of paid domestic labour in which one of the principal barriers to expansion was the difficulty of matching supply with demand.

In January 2006, the *Chèque Emploi Service Universel* (CESU) scheme replaced both the CES and TES schemes. An employer first registers with their local branch of Agencies for the Collection of Social Security and Family Allowance Contributions (*Unions de Recouvrement des Cotisations de Sécurité Sociale et d'Allocations Familiales*, URSSAF) in the *Chèque Emploi Service* department via an application at the bank or post office that manages their account. Individuals meanwhile, purchase cheques from their local bank and are eligible for the same tax reductions available under the old CES scheme but can use the vouchers not only for domestic services but also for child care. For individuals employing a domestic worker directly, the CESU is akin to the CES in that it keeps the bureaucratic procedures simple and reduces the employers' costs, with employers being able to claim an income tax reduction of 50% of the sum spent on purchasing the cheques to a maximum of €1,830. The principal innovation in CESU is that it gives companies the possibility of contributing to their employees' costs of purchasing these cheques. Companies can claim a tax reduction of 25% on this expenditure. Previously, they could subsidise domestic service work for their employees only when provided by agencies and associations under the TES scheme. The attempt by the French state to make users of domestic services purchase them from organisations rather than individuals has therefore been abandoned, due no doubt to the limited take-up of the old TES scheme. Companies are now also able to use the scheme to contribute to their employees' childcare costs when provided by a nanny or child-minder.

The bodies (employers/social institutions) which (co-)finance the fixed-value vouchers can receive a tax credit on profits equal to 25% of the amount paid for the vouchers for their employees or dependents, up to a maximum of €500,000 per year. The employers are also exempt from social contributions on aid paid through vouchers to their employees up to €1,830 per employee per calendar year.

The approved companies and associations providing care and household services receive implicit state support through the partial or full exemption of social contributions, making their labour much cheaper. They also benefit from a reduced VAT rate of 10% as of 2013 (up from 5.5%).

The range of services which can be paid for through the CESU voucher system is extensive. These can either be services within the home of the user or outside the home. The services inside the home include services such as cleaning, ironing, small maintenance tasks, yard work, childcare in the home, study help, ICT or administrative assistance, assistance to the elderly, assistance to the disabled, childcare for sick children, etc. The services outside the home include the preparation of meals, delivery of meals and groceries, laundry collection, transport for the disabled, company for elderly or disabled and care for domestic animals.

Under CESU, therefore, there are two sorts of cheques, depending on whether the employer of the domestic worker is paying for the service him/herself, or whether this is being funded by a third party. For the former, there are **CESU bancaire**, akin to the old

CES vouchers, available from banks, which households use to employ somebody. A book of 20 cheques with 20 declaration forms (*volets sociaux*) and a set of pre-addressed envelopes for return to URSSAF's CESU centre is issued. When one pays someone with a cheque, the next page in the cheque book is then a form called the *volet social*; one fills in the name, address and social security number of the person paid, the date and the number of hours they worked, and the salary they were paid. The *volet social* is then sent to CESU using the self-addressed envelopes provided. This enables all payroll records, deductions and social charges to be calculated by URSSAF. The same cheque book can be used for several employees.

For the latter, there are **CESU préfinancé**, like the old TES vouchers, issued by companies, associations, pension providers or regional or local authorities, to pay for the full range of services coming under the auspices of the scheme. For example, for a job valued at €20, the employer can contribute €10 and of the remaining €10, 50% can be recovered in the form of a tax credit. For employers, meanwhile, the benefits of *CESU préfinancé* are that they offer exemption from social security contributions of up to €1,830 per employee per year and employers can claim tax credits of up to 25% of the management costs of the CESU. *CESU préfinancé* are available from Sodexo, Domiserve, Cheque Domicile, Accor Services France and la Banque Postale.

The proportion of all private individual employers who use the CESU to pay their home employees has continuously increased. By mid-2010, it had reached 78% (as against 76% in mid-2009 and 56% in mid-2002). Some 2.15m private individuals were employers at that time (DARES, 2012). By 2017, some 1.9 million people employ some 600,000 CESU workers and in the third quarter of 2017, 119 million hours were worked amounting to a total of €1.2 billion. On average, therefore, employers purchase 62 hours on CESU and spend €624 (Darnaud, 2018). Three types of employment relationship exist.

Firstly, in 2010, 918,990 employees were in the **direct employment of a private individual**, with 587 million hours paid for in the year to these workers directly employed by private individuals in their homes. That is the equivalent of 282,000 full-time jobs (assuming a 40-hour week) and represents 66% of the remunerated hours of service to individuals within private home (DARES, 2012).

Secondly, there is **employment by an association or firm**. In 2010, this involved 385,280 employees, the great majority of them (88%) part-time. They put in more hours than those who are directly employed by private individuals (530 hours, as against 417 hours for those in direct employment). About three-quarters of these workers are on permanent contracts, 93% of them are women, and 28% of the paid service hours are for housework. The biggest job category in this form of employment relationship is assistance to older people or those with disabilities (58% of the hours) (DARES, 2012).

Thirdly, some 168,222 employees in 2010 were in **direct employment by a private individual with the assistance of a placement structure**. Here, the private individual uses an organisation that places a worker in the person's home and takes care of the formalities (hiring, social insurance and tax declarations etc.). In return, the placement body receives a payment to cover administrative costs. The private individual is thus the employer of the domestic worker, even though the placement body is supposed to remind the employer of the responsibilities arising from this situation. In 2010, such workers undertook 81 million hours in all, a drop of almost 10% from the 2009 figure (a decline that has been constant). Some 56% of the hours were for assistance to older people, 24% for housework and 8% for child-minding.

There have been evaluations of whether these schemes have reduced the undeclared economy in the domestic services sector. One analysis of the CES scheme via tax returns coupled with information from the Household Expenditure survey from 1989-2005, concludes that **two-thirds of the increase in the number of households using the CES over the period 1996-2005 is accounted for by households moving undeclared work into the declared realm**, and that **the proportion of domestic work conducted in the undeclared economy fell from 50% of all domestic service**

**provision in 1996 to around 30% in 2005** (Marbot, 2008), **and some 20% in 2010** (IMPact, 2016b). Another study by Wyman (2012) reports not the proportion of all domestic work that is in the undeclared economy but the proportion of all domestic workers who operate undeclared. The finding is that the **proportion of paid domestic workers who are undeclared labour has gone down from 40% in 2005 to 30% in 2010**, a decrease of 10 percentage points. However, and as Darnaud (2018) highlights, there is no consensus. A 2011 DARES study for the Ministry of Labour suggests that there is 25% less undeclared work, but 40% less according to a 2013 TNS SOFRES survey and 20% less according to a 2015 CREDOC survey for the Ministry of Economy and Finance.

Whatever the results, there exists further potential to increase declared employment and fiscal returns by bringing the remaining domestic work in the undeclared economy and undeclared domestic workers into the regular labour market (IMPact, 2016b). There is also a very significant opportunity to shift more unpaid self-provisioning into the declared market economy. According to ORSEU (2014), one third of new users of service vouchers are using domestic services for the first time, while **two-thirds of new users of service vouchers were formerly employing persons on an undeclared basis** (IMPact 2016b).

Despite the apparent simplification of previous procedures to employ domestic workers on a declared basis, CESU, and especially *CESU préfinancé*, remain relatively cumbersome vehicles that have gathered more 'red tape' as the scheme has developed and grown. Indeed, a 2006 IFOP survey finds that an average of 14 hours of a person's time was still being taken in France to employ a domestic worker, not least due to the difficulty of finding somebody. In other words, there is a supply-side problem. This is because in the domestic services sector in France, provision is fragmented with few organised businesses in this sector. Furthermore, the impact of tax relief on payments to domestic workers has had a relatively limited effect in France, because only the top 50% of earners pay any income tax at all. However, to address this issue, in 2008 tax deductions were replaced by tax credits available to economically active households (i.e., not the retired) regardless of whether they are liable to income tax or not.

There is no doubt that CESU and its forerunners have been successful in increasing declared employment in the domestic services sector in France, both by creating new declared jobs and bringing undeclared work into the declared economy. However, it is not clear whether this is a policy that would be transferable to other countries, particularly those countries in which procedures and costs of hiring employees are not as onerous as in France. It is nevertheless a scheme which could also be used for subsidiary purposes other than purely transforming undeclared work into declared work. During the economic crisis for example, the French government used this scheme to help stimulate demand in the French economy by offering €200 of CESU vouchers to 1.5 million French households to stimulate economic activity.

To evaluate the CESU, a study published in 2012 by the Oliver Wyman consultancy and commissioned by the FESP (Federation of Enterprises Providing Services to Individuals) emphasised that the development of personal and household services to individuals (e.g., reduced VAT rates, income tax exemption/reduction, support to voucher system) has been and continues to be strongly supported by the French state but generates substantial profits that contribute more than €2.6bn to the public purse. The direct gains are social insurance contributions (€4.9bn), VAT and direct taxation (€70m), and lower pay-outs of unemployment benefit and active solidarity incomes (€181m). According to the study, these sums are in themselves sufficient to cover two-thirds of the public financing. The indirect benefits, put at €3.875bn, are mainly a reduction in the costs of supporting dependent people, minding young children and assisting with school work; the individual services firms' spending, which is passed on to other enterprises; and cost-saving through a reduction in the number of repeat school years, thanks to assistance with school work (as mentioned, the coverage of the French service voucher system extends far beyond housework alone). The main costs identified in the study are

the reduced social and employer contributions (€6.3bn in 2010). However, these figures relate to all personal and household services, not solely CESU (Olivier Wyman, 2013).

### **5.2.2 Enterprise service employment voucher (*Titre Emploi Service Entreprise, TESE*), France**

The aim of the Enterprise service employment voucher (*Titre Emploi Service Entreprise, TESE*), introduced in April 2009, is to simplify the formalities for companies wishing to hire temporary or casual staff and to reduce the levels of undeclared work. The scheme combines two previous initiatives, which came into effect in 2005.

The rationale for its introduction was that the work people undertake as casual labourers for small enterprises sometimes ends up being conducted on an undeclared basis. This situation frequently arose in France due to the amount of bureaucracy involved in registering the worker, and registering as a worker, when only working a few hours.

To tackle this, the French government has made it easier for small companies to employ casual labour. The French state modified the 'Universal service employment cheque' (*Chèque Emploi Service Universel, CESU*), which enables households to pay domestic workers using cheques that simplify the hiring procedure, making it possible for companies to pay casual workers using a similar system of service cheques. This avoids the normal bureaucracy involved in employing a worker and aims to reduce the temptation for the employer and/or employee to work undeclared.

Until April 2009, two separate policy measures were used in France to simplify the declaration obligations of small enterprises when hiring an employee, in the hope that this would encourage companies and employees to work on a declared rather than undeclared basis.

The '**Employment cheque for very small enterprises**' (*Chèque Emploi Très Petites Entreprises, CE-TPE*) scheme came into operation on 1 September 2005 under Ordinance No. 2005-903 of 2 August 2005 and Decree No. 2005-1041 of 26 August 2005. This measure was designed to simplify the declaration obligations of very small enterprises when hiring an employee. It was applicable to all companies with fewer than five full-time employees. Similar to the CESU, it allowed occasional employees to be paid their wages using a system of Very Small Enterprise (VSE) employment cheques; these were then sent to the relevant authorities, which calculated the taxes to be paid and provided all of the necessary documentation to the employer and employee.

This simple process of completing one form enabled very small enterprises to avoid the dozen different declarative statements previously required when employing a person, such as hiring declaration statements and the statements that had to be filed with social organisations – for example, the Agencies for the Collection of Social Security and Family Allowance Contributions (*Unions de Recouvrement des Cotisations de Sécurité Sociale et d'Allocations Familiales, URSSAF*), the Association for Employment in Industry and Trade (*Association pour l'emploi dans l'industrie et le commerce, ASSEDIC*), the General Association of Pension Institutions for Managers (*Association générale des institutions de retraite des cadres, AGIRC*) and the Association for the Supplementary Retirement Scheme for Salaried Employees (*Association pour le régime de retraite complémentaire des salariés, ARRCO*).

Under the system of VSE employment cheques, the employer simply obtains a cheque book and pays the employee using these employment cheques, just as a household does when employing a domestic worker under the CESU. The 'Unique Declaration of Employment' (*Déclaration Unique d'Embauche, DUE*) was a combined employee declaration and an employment contract form completed for each staff member and sent to the CE-TPE centre. The latter then handled the calculations of social security contributions, and issues the pay slip, annual social declarations and the tax certificate of the employees. The employee pays URSSAF all obligatory social contributions. The employer is refunded 50% of the total bill.

The second policy measure was the '**Enterprise employment voucher**' (*Titre Emploi Entreprise, TEE*), which became operational on 10 August 2005 under Article 5 of Ordinance No. 2003-1213 of 18 December 2003 and Decree No. 2005-983 of 10 August 2005. Companies with over five full-time employees could use this scheme to offer simplified employment contracts and employee registration processes, provided that the employee does not work for more than 100 days or 700 hours a year at the same enterprise. Similar to the CE-TPE, the TEE enabled entrepreneurs to replace a dozen different declaration statements and forms with one single form. When an employer used the TEE system, this single form was legally binding as an employment contract and exempted the company from the obligation of drawing up a payslip and calculating the social contributions and levies owed.

Thus, until April 2009, companies had two instruments to make it easier to employ casual employees. From 1 April 2009, however, the CE-TPE and the TEE have been replaced with one single scheme, the '**Enterprise Service Employment Voucher**' (*Titre Emploi Service Entreprise, TESE*). This was established by Article 55 of Law No. 2008-776 on 4 August 2008. The TESE is relevant to a greater range of companies as it at first applied to enterprises with up to nine employees and is applicable to all employees. Moreover, its use is possible, regardless of the size of the company, for the hiring of casual employees where this employment does not exceed the limit of 100 days or 700 hours in a calendar year (Article L1273-1 of the Labour Code). In June 2015, availability was enlarged to enterprises with less than 20 employees. The rationale was again that work when small enterprises hire casual labourers this often ends up being undeclared labour due to the formalities involved, so this initiative seeks to reduce the likelihood of this happening by simplifying the formalities.

The user receives a credit up to 50% of the cost, which includes salary and social contributions, up to a ceiling of €12,000 which translates into an actual credit of €6,000. For people with children or other dependents the ceiling is €15,000 and it reaches €20,000 for persons with a disability of at least 80%. Only persons with a professional activity or who have been listed as a jobseeker for at least three months can receive full tax credit. Other taxpayers can receive a tax deduction, but this deduction can never translate into a credit which exceeds the amount of taxes paid.

The objective remains the same, that is, to relieve companies of a number of declarative obligations. Similar to the previous measures, employers are deemed to have satisfied all necessary formalities when they send the required information on remuneration, hours worked and the job to the TESE agency empowered to collect taxes and social security contributions. The agency then calculates the payroll taxes owed by the employer and issues the payslip. It also prepares all the paperwork, including the declaration of recruitment, employment contract and employment certificate. In addition, it calculates the wages, calculates and reports payroll taxes and social security declarations, and provides the annual payslip and tax certificate for employees. To enrol is simply a matter of stating the relevant sector of economic activity and the TESE centre then issues a receipt of membership, a practical guide and a booklet of cheques and the associated employee identification form.

No evaluations have been conducted on whether the TESE scheme is achieving its objectives. Neither were there evaluations, insofar as is known, on whether the CE-TPE or TEE schemes achieved their aims. Nor have evaluations been carried out on the obstacles and problems confronted by the French state when implementing these schemes, so that lessons might be learned by those seeking to replicate them elsewhere. Although no formal evaluations have been conducted, this initiative does reveal that – even in a country known for its bureaucracy – it is wholly feasible to implement schemes to simplify the formalities for companies wishing to employ temporary or casual staff.

On 1 May 2006, 30,000 subscribers were enrolled in the CE-TPE employment cheques system and 40,000 subscribers in the TEE system. No information is currently available about the TESE on the number of companies and employees involved. The degree to

which the CE-TPE, TEE or TESE have reduced undeclared work in France remains unknown.

### 5.3 Service vouchers in Italy

In **Italy**, *Buoni lavoro* (labour vouchers) were created in 2003, in the context of a larger labour market reform law (known as the “Biagi Law”), with the aim of promoting inclusion in the labour market and tackling undeclared work. Article 4 of the Biagi Law provided for the implementation of vouchers aimed at **regulating occasional and accessory labour**. Its initial objective was to provide a form of regulation of wage payments to seasonal agricultural workers and occasional work in family businesses, especially in the grape- and apple-growing regions in the northeast of the country. For example, employers could buy vouchers, via the post, and provide them to workers as payment. Workers could get 75% in cash while the rest was for social security. Successive government reforms of the scheme resulted in it expanding to other sectors, including domestic services. In its first wording in 2003, the decree identified personal services as the main area of interest. Later, the scope was extended to a much wider set of activities (e.g. agricultural services, commerce, tourism, sports or cultural events, trade fairs, door to door newspaper delivery, services carried out within stables and riding schools).

In contrast to **Belgium** and **France**, the goal of this voucher system was not as much **to formalise domestic service provision** but more to **better regulate occasional work**. All activities, therefore, unlike in France and Belgium, had to be carried out on an **occasional and discontinuous basis**. Moreover, there is a strict definition of the persons who are entitled to work under the voucher system: long-term unemployed, house persons, students and retired people, disabled and people in rehabilitation centres, and non-EU citizens, if legally resident in Italy and within six months from the beginning of unemployment (Tiraboschi, 2008).

In **Italy**, furthermore, the choice was made to promote **only direct employment** with no role for intermediaries. In comparison, Belgium only supports services provided by an organisation while in France, the system is broader using either organisations or direct employment. Another important difference is that non-profit organisations can also use the voucher, in addition to private households. The initial measure in 2003 only identified families, public authorities and volunteer organisations (but only for emergency and solidarity works) as beneficiaries of the voucher system. Some amendments later opened the market to local authorities, family enterprises (with an annual limit of €10,000) and agricultural entrepreneurs (provided that their annual turnover does not exceed €7,000).

In 2010, **the face value of vouchers was set at €10**. After the payment of social security and insurance contributions, the **net value for the worker is €7.50**. A voucher is not necessarily associated to a working hour, since the user and the worker can define a different hourly price, but should be considered instead the minimum compensation for each working hour. Concerning limits or ceilings in the use of the voucher system, a peculiarity of the Italian system is that **the limit is put on the worker’s income, not on the user’s level of purchases**. In 2003, this upper limit was €3,000 per annum. The 2003 decree also provided for a time criterion: the supply of accessory labour per worker could not exceed 30 days per year. However, the precise interpretation of this limit was rather difficult, and the criterion was then eliminated. These limits were subsequently amended. In 2010, they stood at €5,000 (net) per year per worker per single user, with some few exceptions. In 2012 a new change occurred. Law No. 92 of June 28, 2012 changed the rules amending Articles 70 and 72 of D. Decree no. 276/2003. The limit was €5,000 but this was considered as a total of all the contractors used by the worker and not related to the individual customer. In the case of services provided, the limit for each customer was fixed at €2,000. As Sansoni (2012) comments, compared with Belgium and France, the limit relates directly to a worker’s income, and not the maximum number of vouchers that can be purchased by users. The outcome is that the profile of individual users is not considered in the design of the

system, whereas in the Belgian and in the French cases vulnerable users have the right to purchase a higher number of vouchers to meet their daily needs, and are consequently entitled to higher social and fiscal incentives. The 2015 Jobs Act raised this cap to €7,000, though workers earning income through the voucher system continue to be classified as unemployed, pay no income tax, and receive no workplace rights or benefits.

Moreover, instead of using this scheme to employ workers on an occasional basis, Italian employers made regular use of it and in some cases, employers used the voucher system instead of providing their short-term workers with legal employment contracts. Indeed, their usage significantly increased from around a half million vouchers in 2008, 1.5 million in 2011, and 115 million in 2015. According to a study by the Italian Labour Union, more than 1.7 million workers received some form of voucher payment in 2015, representing 8% of all working Italians (<http://www.cnbc.com/2016/03/11/reuters-america-italy-pushes-labor-flexibility-to-limit-with-job-vouchers.html>).

This rapid growth suggests that work previously conducted by permanent workers was increasingly being paid using vouchers. The problem was that **workers paid in vouchers have access to almost no workplace rights compared with workers with permanent employment contracts. Vouchers confer no ability to bargain collectively, earn sick or holiday pay, or earn unemployment benefits.**

The Italian Confederation of Labour (CGIL), the largest union in the country, thus gathered three million signatures and asked for a referendum to abolish voucher payment. The vote was due on 28 May 2017, but bowing to pressure, the government issued a decree on 17 March 2017 which **imposed a total ban on the scheme** with a transitional period until the end of the year.

In June 2017, the Italian Parliament approved the *Law-decree* n. 50/2017 to introduce new provisions governing voucher-based work. It now covers only **occasional work**. Firstly, there is *libretto famiglia* (*family booklet*) for private individuals to pay workers for domestic services (included gardening), care services and private teaching, and for sport clubs to pay stewards for sports stadiums. Secondly, there is the *contratto di prestazione occasionale* (occasional work contract) tailored to self-employed workers, professionals, entrepreneurs, associations and non-governmental organizations and public administrations, for occasional work activities. New income limits have been introduced. Each worker can receive income no more than €5,000 annually from all their employers. Each employer can pay wages no more than €5,000 annually to the totality of their workers. Each worker can receive from the same employer no more than €2,500 annually. Exclusions include employers with more than 5 permanent workers, construction and extractive companies, and public procurement on works and services. The sectors included are also limited. Public administrations can use occasional employment only for the specific temporary and exceptional circumstances and agricultural employers with no more than 5 workers can use occasional work only with specific categories of workers (i.e., students under 25 years old retirees; unemployed people; beneficiaries of income support). Unlike the previous system, workers' rights are now better guaranteed with: insurance against accidents at work; social security contributions; a rest break for working day longer than six hours; minimum daily rest period; maximum weekly working time; and a minimum wage (€10 for family booklet and €9 for occasional work). If the employer exceeds the payment limit of €2,500, the employment must be converted into an open-ended full-time contract, and there are administrative fines from €500 to €2,500 for each daily work violation (De Camillis, 2018).

#### **5.4 Service vouchers in other countries**

In **Croatia**, akin to Italy, to reduce undeclared work in agriculture, the government introduced a voucher scheme in 2012 for seasonal and occasional work in this sector (Croatian Official Gazette, 2012). This is targeted at agricultural employers as

purchasers with the objective of reducing undeclared work in seasonal and occasional work in agriculture. Prior to this scheme, employing seasonal and occasional workers on a declared basis in agriculture was expensive for employers because they were generally required to pay for a full month's work, while the number of actual working days was only a few days (e.g., 5 days). The result was that employers used undeclared work. To simplify temporary and casual employment in agriculture (day work), vouchers were therefore introduced to pay seasonal workers.

This scheme entitles the unemployed and pensioners to work up to 90 days per year on various jobs in agriculture. Some workers' rights are attached to voucher work. The workday can be no longer than 12 hours and the worker is entitled to a minimum 30-minute break in each workday, if the work is more than 6 hours per day, and an uninterrupted daily rest period of not less than 12 consecutive hours in each 24-hour period, and an uninterrupted weekly rest period of not less than 24 consecutive hours in each seven-day period. A minimum daily wage paid by an employer to a seasonal worker who performs temporary or casual work in agriculture in 2018 may not be lower than 83.19 KN (€11.24). The price of a voucher also includes social contributions, since the value of the daily voucher includes pension insurance contributions, health and safety at work contributions and employment contributions in 2018 of 23.74 KN (€3.20).

The penalties for violating the provisions of the relevant Act are up to HRK 50,000 for legal persons and between HRK 10,000 and HRK 30,000 for individuals. To be a seasonal worker in agriculture, individuals can be unemployed and registered with the Croatian Employment Service (CES) as unemployed; becoming a seasonal worker does not cause these individuals to be removed from such records. Other eligible categories include people who are unemployed and not registered, senior citizens and other job seekers who are not employed or are not employed on a full-time basis.

Liabilities concerning social contributions for individual employees depend on the number of daily vouchers they receive. This is a significant change to the previous situation where social contributions had to be paid for the whole month, regardless of the number of days the seasonal employee worked. The price of the daily voucher covering all taxes and contributions for a seasonal worker is HRK 20.82 (€2.82), thus the implicit taxation on agriculture seasonal worker is 28% at most.

**Unlike voucher systems in other Member States, in this case no public subvention on the labour cost is provided.** In 2012, a total of 325,295 vouchers were sold to 3,363 legal entities (large employers 27.3%, small and medium employers 72.7%), of which 98.6% were for work in the field of crop production, 1% fisheries and 0.4% animal husbandry. By 2016, a total of 406,595 vouchers were sold to 2,059 legal entities (large employers 25.3%, small and medium employers 74.7%), of which 90,8% were for work in the field of crop production, 6.5% fisheries and 2.7% animal husbandry.

Markota (2018) reports that the perceived outcome has been a drop in undeclared work in agriculture, measured by the reduction in the number of complaints received by those working in this sector. Williams et al (2017b), nevertheless, report that stakeholder interviews suggest that the reduction in the use of seasonal vouchers in the past couple of years is due to a shift of such work back into the undeclared economy. This is due to a low-perceived risk of being caught since the agricultural high-season coincides with the tourist season where labour inspections are primarily aimed.

There was also a plan to extend the voucher scheme in Croatia to all occasional and part-time jobs. However, after strong protests from the trade union movement, in December 2013, the government decided to postpone this scheme. Trade unions argued that it would result in employers shifting a portion of regular jobs into service vouchers, as was proven to be the case in Italy (see above).

**Finland** in the late 1990s also experimented with service vouchers but only 24,000 households used the scheme, perhaps because the incentive was set at an insufficient level to entice consumers to make the transition to the declared economy (Cancedda, 2001). In 2004, moreover, municipalities responsible for financing and providing social

and health care services introduced service vouchers to provide support to elderly people to enable them to live longer at home. The voucher purchased privately-provided home care services (e.g., home help, home-nursing services) with the value of the voucher determined by a formula based on household size and income (but its value is not regulated). The users paid the difference between the value of the voucher and the full price of the service. Municipalities provided a list of private providers allowed to offer voucher-purchased services and monitored the quality of the providers. In 2006, a quarter of Finnish municipalities used these service voucher and some 4,000 beneficiaries in total purchased home help, cleaning services, and respite care services. However, this low use of service vouchers is because since 2001, Finland has incentivised declared rather than undeclared work in the household services sphere through a widely-used tax deduction scheme, rather than service vouchers (see section 4.2.1 above).

In **Germany**, meanwhile, various experiments have also taken place with service vouchers. The federal state of Saarland adopted a scheme akin to the French CESU system. The major difference was that only service agencies employed workers, and private households could not be employers. Consumers pay at least €12.10 per hour. Total cost estimates for the federal government in the case of 1,000 jobs amounted to €3.7 million to €5.4 million. On the other hand, benefits/returns via tax payments and social security contributions were estimated to amount to €4.7 million to €4.9 million. Hence, according to a study by McKinsey, this voucher scheme would be cost neutral or even have a positive economy-wide effect. Experiences in the first two years were promising. In nine agencies, 129 persons were employed, most of them as part-time workers. They supplied 549 private households. Moreover, the hours of services demanded increased from 2,400 in October 2005 to 6,600 in June 2006 and most customers' demand housework help on a regular basis. The AhA (the agency for household services) characterise that most employees were liable for social security payments, they received a minimum hourly wage in line with the NGG-collective agreement, and employment at the agency was dependent on previous unemployment (Görner, 2006).

A more recent local experiment with service voucher schemes took place in south-west Germany. Two towns in Baden-Wuerttemberg are running a pilot scheme whereby employees working extra hours are to receive vouchers to help with housework such as cleaning and ironing. Employees covered by social insurance get a subsidy of €8 an hour for additional time worked. The vouchers can be exchanged at agencies supplying domestic services. Launched in March 2017, the pilot scheme is due to run until February 2019. Employment agencies issue vouchers to eligible employees in the towns of Aalen and Heilbronn. The vouchers can then be redeemed by service agencies whose staff have social insurance. It is estimated that between 77-83% of helpers employed in German households are undeclared.

In the **Netherlands**, in some local authorities (e.g., Tilburg, Breda, Oisterwijk, Gorinchem), voucher systems are being experimented with under the name of *Alpha cheques* since the beginning of 2010. Municipalities distribute these vouchers to elderly or disabled people entitled to home care services. According to the personal situation of the beneficiary, the municipality determines the hours and vouchers to which the beneficiary is entitled. The 'personal budget' granted is directly transferred to the beneficiary's bank account. With these vouchers, beneficiaries can employ an *Alpha worker* of their choice. One voucher of €12.80 can be exchanged against one hour of domestic work. This amount already includes the holiday payment and the paid leave. The beneficiaries may need to pay a contribution per voucher according to their level of income. Alpha-workers can perform care to elderly or disabled people for a maximum of three days per week. They are subject to the Domestic Work regulation of 2007. They do not receive the benefits attached to standard labour contracts, such as participation in pension funds, unemployment benefits and insurance for unfitness to work. However, Alpha workers do not benefit from regular rights and benefits, such as social security when employed through these vouchers (DGCIS, 2011). As elderly people were often

unaware of the obligations associated with being an employer, the alpha workers scheme is now only considered appropriate for people able to take on the role of employer.

Another initiative is the WZSW project (*Wonen, Zorg en Service in de Wijk* - Housing, Care and Service in the District) initiated in 2003 in the city of Tilburg with different local partners. Provided services are gardening, homework, shopping etc. The price of the voucher is 22 EUR and corresponds to one hour of work. People over 65 or people with disabilities can benefit from lower prices (6 or 11 EUR for one voucher) (Farvaque, 2013). This system differs from the Alpha Cheque because here there is no need to be entitled to care grants. This project is more associated with promoting an active labour market to help people to get back into employment (Farvaque, 2013).

Finally, in **Austria**, a 2005 Household Service Cheque Act (*Dienstleistungsscheckgesetz, DLSG*) was introduced which, similar to Belgium and France, enables households to pay for everyday personal and household services (e.g. cleaning, babysitting, gardening). It targets voucher workers on low incomes paid not above the €438.50 monthly marginal income threshold (plus holiday compensation and special payment). With the additional income from vouchers, they can earn up to €600. They tend to be workers aged over 45 years old. When it commenced in 2006, it was a paper-only system. It has been an online system since 2011. The value of the voucher can be individually selected up to a maximum of €100 per cheque. The purchase price is 2% higher than the value; this covers casualty insurance and an administration fee.

In 2006, just under 60,000 vouchers were sold. By 2017, this had risen to 337,000 vouchers. The value of the vouchers sold has increased from €900,000 in 2006 to €10m in 2017, with a sharp increase after it was changed into an online system in 2011 (Brunner, 2018).

## 5.5 Synthesis

Service voucher schemes, therefore, differ across Member States in terms of: their objectives; the users; the providers; the types of employment model used; the range of services provided; the price; and the level of public sector subsidy provided. Table 4 compares the service voucher schemes in France, Belgium and Italy to reveal the differences and similarities.

The European Federation for Services to Individuals (EFSI), which represents stakeholders involved in the development of personal and household services (PHS), believes there is a need to recognise the differences between the service voucher schemes in different Member States. Their argument is that the Italian service voucher schemes should not undermine the multilevel benefits of 'social vouchers' as implemented in countries like France and Belgium. In other words, the EFSI argues for a clear distinction to be made among different vouchers' schemes. Social vouchers, it is asserted, should not be confused with other systems, also termed 'vouchers'.

Table 4: Comparing the service voucher schemes in France, Belgium and Italy

	CESU (FR)	Titres services (BE)	Buoni Lavoro (IT)
<b>Main objective</b>	Simplified labour contract	Subsidising the housework sector	Regulate occasional work
<b>End-user service</b>	Individuals/ households only	Individuals/ households only	Also enterprises and organisations
<b>Providers</b>	Private workers: anyone. Companies: submitted to authorisation.	Only authorised provider organisations	Initially limited to some specific categories of worker (the goal being to regulate occasional work)
<b>Type of employment model</b>	Either direct employment or provider organisations,	Triangular relationships.	Direct employment

	but direct employment more often used	Direct employment (households as employers) is not authorised	
<b>Type of services</b>	Personal services provided at home, including care	Personal services provided at home, excluding care	Very wide as defined against the framework of occasional activities (also includes agricultural activities for instance). Housework services represent less than 1%
<b>Price</b>	Price is flexible	Fixed price of voucher	Fixed price of voucher
<b>Public help and limitations</b>	Tax deduction (50%): based on the beneficiaries' income	Tax deduction (30%) Maximum number of vouchers/year	Based on the employees' incomes and limit. Not related to the individual customer

Source: abridged from Farvaque (2013: 39)

Social vouchers are coupons usually granted as a 'reward' by employers or public authorities to citizens, providing them with access to predetermined goods or services. They can usually only be used within a limited network of merchants who are contractually linked to the issuer. The supporters of social vouchers such as EFSI claim that the working environment is improved, that the system is transparent, and that these social vouchers help governments to tackle undeclared work. According to the EFSI, therefore, social vouchers are beneficial and should be supported, but they do not believe that vouchers akin to the *buoni lavoro* scheme should be supported (see Michalopoulos, 2017).

The above case studies of service voucher schemes clearly display that there are two broad types of scheme: **social vouchers (SV)** which are used by households (Belgium, France, Austria and the new *libretto famiglia* in Italy)<sup>11</sup> and **enterprise vouchers (EV)** used by companies (Croatia, the old Italian system and the new *contratto di prestazione occasionale* in Italy).<sup>12</sup>

The lessons from this evaluation, therefore, are that Member States considering the introduction of service voucher schemes to tackle undeclared work need to differentiate between social vouchers (SV) and enterprise vouchers (EV) when considering what constitutes good practice.

- 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 Member State.
  - 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.

<sup>11</sup> The Social Vouchers International Association defines social vouchers as instruments valid only in a single State provided at the request of an undertaking or a public sector entity and regulated by a national or regional public authority for specific social or tax purposes to acquire specific goods or services from suppliers having a commercial agreement with the issuer. It thus defines social vouchers more widely to include meal vouchers, sport and culture vouchers, service vouchers, etc.

<sup>12</sup> The term enterprise vouchers (EV) is controversial; the Social Vouchers International Association suggests that these EV are better termed "Remuneration mechanisms for occasional workers".

- 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 in Member States 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.

## 6. AN EVALUATION OF AWARENESS RAISING CAMPAIGNS

### Key questions addressed in this section include:

What different types of awareness raising campaign have been conducted?

How commonly used are each of the types of awareness raising campaign across the EU?

What importance is attached to the use of awareness raising campaigns when tackling undeclared work?

How effective are they seen to be relative to other types of policy measure?

Have any evaluations been conducted of awareness raising campaigns and what are their findings in relation to tackling undeclared work?

What, if anything, are the lessons for establishing awareness raising campaigns in other Member States?

### Key Findings:

An awareness raising campaign is an organised communication activity that aims to create awareness on a topic (in this case undeclared work), and thus behavioural change. Messages can be conveyed through many different channels, such as mass media (television, radio), social media, public relations events, talks, demonstrations, tours and leaflets.

The 2017 Annual Survey of Platform members' reveals that the most common type of campaign used across the EU is that which informs suppliers of the risks and costs of working undeclared (used by 83% of all Member States responding). Other types of campaign that either inform suppliers of the benefits of declared work, or else target users by either marketing the costs of purchasing from the undeclared economy or the benefits of using the declared economy, are less common (with each used by just over a half of Member States responding).

Awareness raising campaigns vary in their effectiveness in influencing people's beliefs and changing their behaviour. Given the lack of detailed evaluations of awareness raising campaigns in the field of tackling undeclared work, lessons can be learned from other related thematic areas, where more detailed analysis and evaluation has occurred of the key features of successful awareness raising campaigns.

In the field of occupational safety and health (OSH), the European Agency for Safety and Health at Work (EU-OSHA) have produced detailed practical advice on how to plan and run campaigns to help Member States (see <http://toolkit.osha.europa.eu/tools/>). This provides firstly, a step-by-step guide to planning an awareness raising campaign and secondly, templates, as well as exemplars of good practice, of dissemination tools that can be used and tailored to the national context.

Practical, user-friendly communications materials and toolkits could be developed as part of the Platform's work programme. The materials developed by EU-OSHA can serve as an example of good practice for such development work.

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. Messages can be conveyed through many different channels, such as mass media (television, radio), social media, public relations events, talks, demonstrations, tours and leaflets. Awareness raising campaigns are widely recognised as an efficient and effective means of communicating information. However, not all are equally effective in terms of influencing people's beliefs and changing their behaviour. Therefore, to establish and develop a successful awareness-raising campaign for tackling undeclared work, it is crucial to know the features of successful campaigns.

Firstly, therefore, this section reviews the past campaigns that seek to raise awareness on undeclared work and secondly, following this, highlights the features of successful campaigns.

## 6.1 Awareness raising campaigns on undeclared work

In the 2010 survey of European Economic Area countries as part of the feasibility study for a European Platform Tackling Undeclared Work, the finding was that more countries had used campaigns to inform either undeclared suppliers of the risks and costs of working undeclared (61%) or users of the risks and costs associated with purchasing undeclared work (61%). Fewer countries had more positively informed undeclared suppliers of the benefits of declared work (51%) or users of the benefits of purchasing declared goods and services (52%). Examining stakeholders' opinions in the countries adopting these campaigns, the belief was that informing suppliers and users of the risks and costs of undeclared work was more effective; 64% and 50% of stakeholders viewed such campaigns aimed at suppliers and users respectively as effective. Meanwhile, fewer viewed campaigns outlining the benefits to suppliers and users of engaging in the declared economy as effective; 43% and 35% respectively.

As Table 5 displays, the 2017 Annual Survey of Platform members' reveals that the most common type of campaign across the EU, and in every EU region, is still that which informs suppliers of the risks and costs of working undeclared (used by 83% of all Member States responding). The remaining types of campaign that either inform suppliers of the benefits of declared work, or target users by either marketing the costs of purchasing from the undeclared economy or the benefits of using the declared economy, are less common (with each used by just over a half of Member States responding).

**Table 5. Use of awareness raising campaigns: % of Member States, 2017**

Type of awareness raising campaign	EU 28 (N=23)	Western Europe (N=7)	Nordic (N=3)	East-Central Europe (N=9)	Southern Europe (N=4)
Campaigns to inform suppliers of undeclared work of the risks and costs of working undeclared	83%	86%	100%	78%	75%
Campaigns to inform suppliers of undeclared work of the benefits of formalising their work (e.g., informing them where their taxes are spent)	52%	29%	67%	67%	50%
Campaigns to inform users of undeclared work of the problems of purchasing goods and services from the undeclared economy	57%	57%	100%	56%	25%
Campaigns to inform users of undeclared work of the benefits of declared work (e.g., informing citizens of the public goods and services they receive with the taxes collected)	61%	43%	100%	67%	50%

Below each type of campaign is reviewed to evaluate the types of campaign used and, wherever feasible, their effectiveness at tackling undeclared work.

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

Of those responding to the 2017 Platform Survey, 83% had used campaigns informing suppliers of undeclared work of the risks and costs of working undeclared. All Nordic countries had used such campaigns, 86% of Western European, 78% of East-Central European and 75% of Southern European Member States. Of those responding to the

survey, this type of campaign was used by Austria, Belgium, Bulgaria, Croatia, Cyprus, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Latvia, Lithuania, Portugal Slovenia, Sweden, and the UK, but was not used in the Netherlands, and no response was given by the Czech Republic, Slovakia and Spain.

Below, four examples are provided of awareness raising campaigns focused upon informing suppliers of the risks and costs of undeclared work, namely the "Let's stop undeclared work" in Slovenia (Box 2), the awareness raising campaign on undeclared and unhealthy work of the Swedish Work Environment Authority (Box 3), the electricians tax safe plan in the United Kingdom (Box 4). To show that awareness raising campaigns do not always have to be state-run campaigns, an employer-led awareness raising campaign about the risks and costs of undeclared work in Latvia is provided (Box 5).

### **Box 2. 'Let's stop undeclared work', Slovenia**

**Aim:** The aim of the 'Let's stop undeclared work' public campaign in Slovenia was to inform and raise public awareness that the risks and negative consequences of undeclared work are considerable for employers, employees and for the welfare state, property and safety of people and the environment.

**Description:** The campaign was launched on 31 August 2010 by the Ministry of Labour, Family and Social Affairs, in cooperation with the relevant supervisory authorities and with the support of the social partners. The campaign lasted until the end of 2010. It targeted the public, especially enterprises, workers and consumers, and set out to:

- Inform people about the risks and negative consequences undeclared work causes to the welfare state, the economy and citizen, and reduces public services, such as free education, health care, childcare, social assistance and unemployment benefits, and other public services, such as libraries and public kindergartens;
- Raise awareness regarding the negative effects for the consumers (i.e. no invoice = no warranty);
- Underline the negative effects of undeclared work that leads to unfair market competition: business entities that are operating in accordance with the regulations are disadvantaged as they cannot compete with those engaged in undeclared work; and
- Promote a positive image of compliance with employment and social security regulation, and to emphasise the importance and purpose of the payment of social security contributions and taxes. It is important that all citizens respect the rules, as it is the only way to maintain the welfare state and to provide citizens with services that are in the public interest.

Posters and leaflets were aimed at the public and available at all regional offices of the Employment Service of Slovenia, at social work centres, local administrative units, at the tax office, and social partners participating in the campaign. Promotional materials were available also at various trade fairs, and were posted on the state administration, supervisory authority and e-government websites. Ads were published in various magazines aimed at entrepreneurs and craftspeople as well as broadcast on the radio. The promotional materials included:

- Hoardings and rental of poster sites at 60 different locations;
- 30,000 leaflets;
- 700 B2 size posters;
- Radio ads on radio stations VAL 202 and Radio Center (ads played for one week);
- Ads in the journals *Craftsman (Obrtnik)*, *Entrepreneur (Podjetnik)*, and in the gazette of Slovenian Chamber of Commerce; and

- Campaign banners and logos on the websites of ministries, supervisory authorities and participant institutions.

There were no television ads and there was no use of social media. The total cost to create and implement the campaign was €40,470.

**Evaluation:** There has been no evaluation of the results. The rate of violations detected during inspections by the Market Inspectorate in the years 2009, 2010 and in the first half of 2011 did not change significantly and remained constant at circa 43% of inspections. However, the Labour Inspectorate detected through inspections an increase in illegal employment violations from 495 in 2010 to 574 in 2011, although this cannot be entirely attributed to the campaign.

Source: <https://www.eurofound.europa.eu/data/tackling-undeclared-work-in-europe/database/lets-stop-undeclared-work-campaign-slovenia>

A second example of a campaign mostly focusing upon raising awareness among suppliers of the costs and risks of undeclared work is from Sweden, where the Swedish Work Environment Authority (SWEA) in 2015 launched an awareness raising campaign on undeclared and unhealthy work.

### **Box 3. Awareness raising campaign on undeclared and unhealthy work, Swedish Work Environment Authority (SWEA)**

**Aims:** The aim of this 2015-2018 campaign is to make employers reflect on why they are stretching the law, to highlight the effects on the work environment, and to prevent workers from accepting work such conditions. The key objectives are:

- To spread information and raise awareness of undeclared and unhealthy competition, and to combat these practices and help to change unfair behaviour in the labour market;
- To show that **unhealthy competition causes work environment risks and work-related injuries and ill-health**, as well as market disturbances that undermine legitimate companies and may even force them to close;
- To approach employers stretching the law, to make them reflect over their choices and the social effects of their behaviour, and thus encourage them to act legally;
- To spread general information about SWEA; and
- To inform pupils in vocational schools, as well as other young workers, about the work environment risks implied in unhealthy competition, to inform them of their legal rights and obligations as employees, and to encourage them to claim these rights.

The overall aim is that people in the target group shall:

- **Know** that unhealthy competition causes labour abuse and human suffering, as well as market disturbances;
- **Feel** that this is something they want to combat;
- **Realise** that the problem needs to be made visible, and understand why SWEA has raised the issue and works actively to spread knowledge about it;
- **Act** in accordance with these insights and think twice before violating labour market related laws and regulations. The aim is that members of the target group shall internalize a clear limit for what is legal action or not, "this is my limit".

**Description.** The project team at the Department for Communication at SWEA started planning the programme in summer 2015 and by the end of 2016 they had a coherent strategy and working plan. During 2017, the work focused on production, with several launches during the fourth quartile of 2017 and first half of 2018. The communication strategy is centred around the question: '**where is your limit?**' The communication methods are to a large extent audio-visual and web-based. Short films are published on the SWEA website and on social media with concrete examples of

unhealthy competition, and what it may lead to in terms of work environment risks, accidents and ill-health. An innovative aspect is that some films are produced in the Virtual-Reality Technic, which allows the viewer to 'visit' different work environments within four industries. Another important pedagogical strategy is that there is interactive learning through face-to-face communication, including for example role-plays.

Examples of current activities are:

*Activity 1: 'The Boss'.* The Boss aims to expose people in the target group to dilemmas, which they shall tackle by asking themselves, 'where is my limit?'. The Game is spread through campaigns and advertisement on Facebook and other social media. The purpose is not to show what is right or wrong, but to raise awareness of unhealthy competition, and to communicate this problem especially with young people approaching the labour market.

*Activity 2: 'Young people entering working life'.* This is a training day initially at two vocational schools. SWEA have found that work environment in general, and unhealthy competition, is a 'non-issue' for many young persons. Therefore, SWEA visit vocational schools in the prioritized industries, namely construction and restaurants, not to lecture, but to inspire and provoke pupils to discuss and reflect on what working conditions they are prepared to accept – which is in line with the programme's central idea 'where is my limit. By for example improvising short plays, the leaders create concrete situations/dilemmas which they discuss with the pupils, encouraging self-reflexive learning. Labour inspectors participate to illuminate and concretize work environment problems, as well as to answer questions asked by the pupils. The activities include three short SWEA-produced films.

**Evaluation:** The objectives of the communication activities will be evaluated in a major follow-up study after the programme is completed (and all measures in the programme are evaluated continuously as well). For example, 'the Boss' will be measured using commercial tools, such as visitor numbers and 'clicks' at relevant links on the SWEA website, as well as by purchased material produced within the programme. Moreover, SWEA will collate media statistics on downloads in App Store and Google Play, as well as statistics over keywords, phrases, hashtags etc. It can then be seen when, where and how the topic/campaign is mentioned and discussed. SWEA will also gather data from web-based papers, blogs and other social channels.

The pilot projects and current activities have illustrated the value of interactive communication and use of digital tools to spread information on unhealthy competition and how to combat it. The programme has also revealed that many workers are not aware of their rights set out in labour market laws and regulations. Moreover, employers, especially in small companies, are not always aware of their legal duties as employers.

*Source:* European Platform good practice fiche. Available at: <http://ec.europa.eu/social/main.jsp?catId=1299&intPageId=4875&langId=en>

The evaluation of this Swedish campaign, which draws upon cutting-edge pedagogy that recognises the value of self-reflexive interactive learning as an effective tool for embedding knowledge and understanding, will be important. It will display what works and what does not, providing lessons for many other Member States on how best to raise awareness. However, that such self-reflexive interactive learning is not currently adopted in education systems everywhere in the EU. Therefore, the lessons from this initiative will be more relevant in Member States where educational systems similarly adopt interactive self-reflexive learning, but less relevant and applicable in those Member States which do not pursue such a pedagogical approach.

Awareness raising campaigns, to be effective, are often combined and sequenced with other policy measures. Box 4 provides an example from the UK where a campaign to

raise awareness about the risks and costs of undeclared work has been combined with a voluntary disclosure scheme and system of sanctions, to improve its effectiveness.

#### **Box 4. HMRC Electricians Tax Safe Plan (ETSP), United Kingdom**

**Aim.** The overarching aim was to improve voluntary compliance among sole trader electricians. The objectives were to achieve:

- Short-term financial return;
- Long term behaviour changes by improving electricians' general awareness of HMRC's sustained determination to reduce tax evasion; and
- An improvement in electricians' underlying attitudes towards tax evasion.

**Description.** In 2012, sole trader electricians were sent a letter about voluntary disclosure, and notices placed in national trade journals, on outdoor posters and on the radio. The voluntary notification and disclosure period ran from 14 February to the end of August 2012. More lenient terms were offered as an incentive to disclose. Following this, HMRC undertook targeted investigations among those it suspected should have disclosed but did not, as well as investigating the information provided by disclosers.

The intended impact of this campaign thus included:

- Maintaining the compliance of the already compliant because they see HMRC being even handed;
- Helping those who need help get things right;
- Giving the opportunity to put past mistakes right in a straightforward way; and
- Coming down hard on those who continue to choose not to comply either through a lack of care or from deliberate actions.

**Evaluation.** To evaluate the effectiveness of the campaign, pre- and post-campaign surveys were undertaken to:

- Consider electricians' views about HMRC, the tax collection system and whether attitudes towards tax evasion have shifted, and if this is particularly true of certain sub-groups; and
- Explore whether any such shifts seem to be associated with claimed awareness of the campaign publicity.

The evidence generated by the research was to:

- Help HMRC to assess the persuasiveness of the publicity messaging and the effectiveness of the publicity media used in reaching the target audience;
- Refine what sort of behavioural, demographic or attitudinal groups it is most fruitful to target; and
- Inform the design of future campaigns.

2,000 interviews were conducted with a randomly selected sample of SME businesses providing electrician services in January-February 2012 prior to the start of the campaign. The same number of interviews was then conducted among a separate sample in November-December 2012 after the end of the disclosure period. This allowed an assessment of its possible impact on views and attitudes relating to tax evasion.

Some of the key findings were:

- **Awareness** (post-campaign) of the ETSP campaign was **55%**. When including electricians who did not recall any publicity but said they had received a letter from HMRC regarding the campaign, awareness rises to **66%**.
- Prior to the ETSP campaign, by far the most commonly recalled message of HMRC publicity concerned prosecution (30% of those recalling any publicity). After the campaign, electricians were more likely to recall the **voluntary disclosure** message (32% of those recalling publicity for electricians) and less likely to recall a prosecution message (17%).
- 83% that saw the campaign believed its message. Among the minority who did not, the most common reason was cynicism about successful action being taken against evaders.
- Around three-quarters of electricians agreed that HMRC treats their business fairly (74% at the post stage). Post-campaign ratings of HMRC fairness were higher among those aware of the ETSP campaign compared to those not aware (76% vs. 71%).
- Most electricians said that tax evasion is always unacceptable, and this did not alter pre- to post-campaign (79% pre-campaign; 80% post-campaign).
- The most commonly cited reasons for not regularly evading tax were the penalties/consequences of being caught (19% pre-campaign) and the probability of being caught (18%). Post-campaign there was a **drop of four percentage points in the proportion citing probability of being caught**. Other motivations were centred on morality, legality and fairness to others.
- Six in ten electricians felt that electricians who regularly evade paying tax were **likely to get caught**, with no change post campaign.
- A much higher proportion of nine in ten felt that their business was likely to be caught if they evaded tax regularly, and this showed no change post campaign. The perceived **personal risk** is clearly much higher than the general risk, but the campaign did not appear to have influenced this belief.
- However, the proportion of electricians who thought that electricians who evade tax were more likely than other businesses to get caught rose from 27% pre-campaign to 37% post-campaign.
- Most electricians thought that it is more likely nowadays those electricians who regularly evade tax will be caught compared to a couple of years ago. This proportion increased from 68% pre-campaign to 73% post-campaign.
- There was no change in the perception of the consequences of tax evasion pre- to post-campaign: financial penalties dominated (mentioned by 42% at the post-campaign research), and loss of reputation (27%) and a prison sentence (21%) were also mentioned.

In sum, the ETSP campaign was noticed and believed by its target audience, driven primarily by the HMRC letter. Voluntary disclosure was the most commonly perceived message of the ETSP campaign, displacing a previous message about prosecution. Changing deeply held attitudes is a long-term aim, and already strongly held beliefs that HMRC is fair, and that evasion is always unacceptable, will be challenging to increase further. These have not changed post-campaign but there is clear evidence that the campaign increased beliefs that electricians are more likely to be caught than other businesses, and more likely to be caught than a few years ago. Fear of the personal risk of being caught seems much greater than general belief in the risk to any electrician of being caught. This strengthens the evidence that a personal letter is an effective means of communicating the message. Future campaign messages that may resonate at this personal level include the (financial) penalties of non-compliance together, potentially, with issues of fairness and morality.

Source: HMRC (2013) *HMRC Tax safe plan: research report 260*, HMRC, London

Another example of an awareness campaign focused upon informing suppliers of the risks of undeclared work is in Portugal organised under the slogan "Undeclared work: It's bad for you, harmful for all" (see <http://ec.europa.eu/social/main.jsp?catId=1299&langId=en>). Other such campaign "slogans" suggested at the September 2017 Platform Dissemination seminar include:

- "Declare it all, or risk everything"
- "Not good for me, not good for (insert country)"
- "You pay for it later"
- "Little gain, lot of pain"
- "You get what you pay for"
- "We are watching you"
- "Don't do it"
- "Avoid future taxes, make payments now"
- "You deserve it all"
- "Don't sell your future"
- "Short-term gain, long-term pain"

It does not always have to be the state who operate awareness raising campaigns. **Social partners can also lead awareness raising campaigns.** An example of a successful awareness-raising campaign organised by a social partner is found in Latvia, where the employers' representative body organised a campaign against undeclared work based on highlighting the risks and costs of undeclared work (see Box 5).

#### **Box 5. Employers' campaign against undeclared work, Latvia**

**Aim.** To combat the shadow economy, including undeclared work, and stop unfair competition.

**Description.** On 3 October 2011 the Latvian Employers' Confederation (*Latvijas Darba Devēju konfederācija, LDDK*) launched a national level campaign 'Against the shadow economy – for fair competition'. The campaign included six parts: an advertising campaign with the slogan 'I spit on it' (*Man uzspļaut*); an online tool – a test for measuring an individual's 'shadow'; actions involving white envelopes; a discussion with business representatives on fair competition; analysis of the results of an online test and the elaboration of conclusions and proposals; and a discussion in the Latvian Parliament on combating the shadow economy in Latvia.

The campaign started with anonymous advertisements in the streets and on the main TV channels showing the words 'I spit on it' in yellow letters on black tape crossing a white background. Then the white background was changed to three types of picture, showing a child, pregnant women, and grandparents. At the third stage, the advertisement was supplemented with the texts 'Happy childhood?', 'Young families?', and 'Well provided old days?' respectively. The idea of the advertisement was to demonstrate the impact of the shadow economy on social provision.

On 10 October 2011, LDDK revealed its ownership of the advertisement and launched the campaign officially, as well as introducing an online tool – a test for measuring an individual's 'shadow', on [www.manaena.lv](http://www.manaena.lv). Answering 11 questions in the test, individuals could discover the extent of their 'shadow' behaviour in shops, markets and communication with service providers (taking or leaving receipts on purchases), in hospitals (extra payments to doctors), transport (extra payments to police officers), employment (working with or without an employment contract, undeclared income from work – 'envelope wages') and their total impact on the amount of the shadow economy in Latvia. Participants were then advised how to reduce their own 'shadow', namely to pay the official price for service, to require receipt in shops and other shopping places, to ensure that taxi-meters were working, to use only certified fuel in cars. Among these measures there was advice to ensure that employment contracts

met the requirements of the labour law, for instance, and that the contract agrees the full salary, not only part of it.

On 17 November 2011, in the central square in Riga, LDDK offered passers-by white empty envelopes. With this action, LDDK stressed the fact that in surveys, 54.7% of Latvia's population said they would rather receive more money this way as undeclared pay ('in envelope') than pay taxes, and invited the population to use the envelopes for better purposes than paying and receiving undeclared salaries. For instance, envelopes might be used to congratulate Latvia on its birthday on 18 November.

From 26 October 2011 to 15 November 2011, LDDK also had a discussion phase on the shadow economy with business representatives from different sectors. In addition to the population oriented issues covered, business representatives added analysis of the shadow economy from the business perspective. Discussions were held on the following topics: 'purchases without receipt', 'envelope salaries', 'working without employment contract', 'public procurements' and 'smuggling'.

The results of the online tests, online comments and business discussion were summarised in LDDK proposals to the government and deputies of the Latvian Saeima (parliament).

On 16 December 2011 these results were discussed at a conference entitled 'Fair entrepreneurship against shadow economy. Management of human resources and role of tax policy in ensuring fair competition'. Joint action with Saeima was based on the 'Protocol on fair entrepreneurship against the shadow economy – the role of tax policy in ensuring fair competition', that was signed by the management of LDDK and Saeima's speaker Solvita Āboltiņa on 21 December.

**Evaluation.** The campaign coincided with government's efforts in implementing of the 'Action plan for combating shadow economy and ensuring fair competition, 2010–2013'. However, it is difficult to distinguish the impact of this LDDK campaign, and each measure, on tackling undeclared work.

From its opening on 10 October 2011 until 7 November 2011, 12,657 individuals completed the test at [www.manaena.lv](http://www.manaena.lv).

The whole campaign attracted the population's attention and provided involvement. The 'I spit on it' advertisement was widely discussed almost as soon as it appeared. Discussions covered issues such as the reasons for and consequences of evading tax, the quality of public services and the efficiency of state management. The low efficiency of public spending and low level of public services was often mentioned as a reason for tax evasion, but individuals' own habits were also critically assessed.

In case the audience did not support the campaign, and in order to secure its reputation, the LDDK had developed a crisis communication plan for the campaign aimed at explaining the motivation to undertake it. Indeed, it proved difficult to agree on having a campaign internally in the LDDK; a large share of SMEs disagreed on the usefulness of the campaign because, for many, avoiding taxes seemed to be the only way to survive.

The results of the campaign were summarised into seven reasons for the shadow economy, four general strategic directions of activity in combating the shadow economy and six strategic proposals for immediate discussion and implementation.

Other lessons learned were that:

- Companies, including media companies, that in terms of the Latvian anti-shadow policy might be characterised as 'white companies', supported the campaign more than those who operated in the 'grey economy' or close to it;
- Such campaigns should have financial support from the state or EU funds, because it is a national-scale measure focused on changing attitudes and behaviour of individuals in the entire society; and

- In by-passing conservative communications and using provocative advertisement slogans and methods, LDDK attracted a wide audience and was able to determine to some extent the government's action plan in fighting the shadow economy.

Source: Karnite, R. (2013). *Employers campaign against the shadow economy*. Available at: <https://www.eurofound.europa.eu/data/tackling-undeclared-work-in-europe/database/employers%2592-campaign-against-the-shadow-economy-latvia>

When using these awareness campaigns targeted at the suppliers of undeclared work and which focus upon 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.

Given these different ways in which suppliers can neutralise their guilt, awareness raising campaigns targeted at suppliers of undeclared work need to ensure that the above possibilities are not open to participants by pursuing the campaign tactics mentioned. For example, to prevent a denial of responsibility, it may be that the average level of evasion among the non-compliant is made public so that suppliers do not see themselves as a 'small fish' engaged in minor discrepancies relative to others.

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 in the EU, they are not the only type of campaign that can be organised.

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

Of those responding to the 2017 Platform members survey, 52% had used campaigns that informed suppliers of undeclared work of the benefits of declaring their work (e.g., informing them where their taxes are spent). 67% of Nordic countries and East-Central European Member States responding had used such campaigns, 50% of Southern European but only 29% of West European Member States. Of those responding to the survey, this type of campaign was used by Belgium, Bulgaria, Estonia, Finland, Greece, Hungary, Latvia, Lithuania, Portugal, Slovenia, Sweden and the UK, but was not used in Austria, Croatia, France, Ireland, and the Netherlands, and no response was given by the Cyprus, the Czech Republic, Denmark, Germany, Slovakia, and Spain.

The reason for pursuing such 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, it might also be asserted that until now, most governments have generally undertaken very 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 codified laws and regulations of formal institutions 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. 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.

The first type of education 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, one way forward is to provide greater information (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.

The second and perhaps more important type of education is that which seeks to educate citizens about the benefits and value of adhering to the rules. In many countries some citizens make substantial voluntary donations to private charities but often these same citizens remain steadfastly opposed to paying what they view as high taxes, despite these private charities often having parallel missions to those of government. This is doubtless because they know the activities on which their voluntary donations are being spent when making donations to private charities and are committed to funding the activities in which these charities are engaged. However, they are perhaps not provided with clear information regarding the activities on which their money is being spent when donating to government in the form of taxes (Li et al., 2011), and are also perhaps less committed to some of the activities on which the money is being spent.

One potential and partial remedy, therefore, is to educate citizens. 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 tax payers 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.

In Canada for example, the Tax System Learning Unit provides information about the tax system as well as how the government spends the tax dollars collected. This Unit until now has targeted junior and high school students to educate them before they start participating in the tax system. While the initiative has enjoyed success in getting participation from education institutions, its impact on compliance has not been measured, since there is no mechanism to track the compliance behaviour of those taking the modules against a control group who have not. Austria has adopted a similar initiative targeted at schools whereby tax officials provide training on future responsibilities for compliance, as have the Internal Revenue Service in the USA (Internal Revenue Service, 2007).

Nevertheless, even if citizens are informed about the public goods and services received for their taxes, they may still disagree with some of the activities on which governments spend their taxes. One option might be to 'hypothecate' taxes in the sense of giving citizens some choices over where their taxes are spent. Another option is to ' earmark' tax revenues stating the precise activities on which it is going to be spent. While little systematic research exists on this issue of whether explicit earmarking (compared with overall transparency of public expenditure) builds stronger self-regulation, a recent study by Jibao and Prichard (2013) found that in Sierra Leone, Bo City Council built support for local tax collection not only by communicating revenue and expenditure information to the public, but also informally linking revenue increases to specific public expenditures. Earmarking, however, has the disadvantage of reducing budget flexibility and creating expectations that taxes should function on a fee-for-service basis.

To provide some interesting examples of how this type of awareness raising campaign has operated in practice in the EU, Box 6 provides a case study of an "Unpaid taxes will leave their mark" campaign in Estonia, Box 7 reports a student competition organised by the Free Trade Union Confederation of Latvia, and Box 8 a Norwegian government campaign targeting foreign lorry drivers and their employers in Norway.

## **Box 6. 'Unpaid taxes will leave a mark', Estonia**

**Aim.** The aim of this information campaign was to raise awareness of how taxpayers' money is being used by the state. The campaign explained why it is important to pay taxes and what each citizen receives in return.

**Description.** Following a 2009 survey which revealed that 26% of respondents did not know what kind of services they receive from the state, and 11% said that they get nothing from the state (Lillemets, 2009), in 2010 and 2011, information campaigns were instigated by the Estonian Tax and Customs Board to raise awareness among the population as to how taxpayers' money is being used by the state (Estonian Tax and Customs Board, 2010, 2011a, b).

The information campaign, 'Unpaid Taxes Will Leave a Mark', was implemented in two stages. Stage 1 was conducted in nine Estonian cities during January and February 2010. The main message was: 'Unpaid taxes will leave a mark. You like highways in order, ambulances, efficient work of rescue workers and the police. So do we.' For instance, a message was shown on the back of buses together with a picture of rescue workers: 'Should we take the trolley bus to an emergency call-out? This can happen if you do not pay your taxes.' In addition, a thank you message was attached to rescue cars in Tallinn, Harju and Virumaa counties and ambulance cars in Tallinn saying that these cars had been bought with taxpayers' money. The aim was to raise awareness of the objects that are financed from tax income and to bring forward the services that the citizens receive for their tax payments.

Stage 2 was conducted in eight cities across Estonia during October 2011. The follow-up campaign kept the same main message, 'Unpaid taxes will leave a mark', although the sub-messages were geared towards social and cultural issues. In addition, TV and radio commercials were added. For instance, in relation to the 100th anniversary of the Estonian film industry, a TV commercial was published stating that on account of the current tax arrears, 722 domestic films a year could be made instead of the current three films. Radio commercials concentrated on the number of computers that could be bought for children, and outdoor commercials that 295 new kindergartens could be built. The messages were thus socially relevant and related to the Estonian context – the lack of childcare opportunities and kindergarten places is an acute problem, especially in the capital, Tallinn.

**Evaluation.** It is difficult to measure any change in behaviour resulting from the campaign. However, the visibility of the campaign was measured as well as how people remembered the messages and their assessment of the campaign. The campaign was regarded as successful – it was relatively well noticed and the average score was good compared to other state and educational campaigns. The follow-up campaign was also effective in reinforcing the campaign message and making people think about why we pay taxes and raised understanding that paying taxes helps the state to function and provide social guarantees to people (Estonian Tax and Customs Board, 2011b).

The visibility of both parts of the campaign was measured by JCDecaux. The first part of the campaign was best received by 31–50 year-old men, of whom 62% remembered the campaign in the capital, Tallinn, mainly based on posters on the street. In addition, men of ethnic minorities and managers and specialists remembered the campaign better than average. The second part of the campaign was noticed by 59% of respondents aged 15–74. Considering that the average share for campaigns in general is 45%, the results are relatively good. The largest share of people who noticed the campaign was among 51–59-year-olds who use the public transport system. 78% of all people who use public transport remembered the campaign. The share was also higher among ethnic minorities (62%). Compared with the first part of the campaign, the share of respondents who remembered the campaign had increased in almost all groups.

The respondents considered the main message of the campaign to be that the maintenance of the state is the responsibility of all citizens. 65% of the respondents found that the commercial was suitable for increasing awareness of unpaid taxes. The messages of the campaign were found most suitable by Estonians (79%) and the 60–74 age group (83%).

It is transferrable to other contexts. To achieve impact, a lesson is that the messages used must be context-specific and relevant to the audiences.

*Source:* Nurmela, K. (2013) Information campaign on tax compliance, Estonia. Available at: <https://www.eurofound.europa.eu/data/tackling-undeclared-work-in-europe/database/information-campaign-on-tax-compliance-estonia>

As earlier stated, information campaigns do not always have to be state-led. They can be also organised by social partners. 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 7).

### **Box 7. 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>

A further example of an awareness raising campaign that focuses upon the benefits of operating in the declared economy is found in Norway where a campaign has very specifically targeted foreign lorry drivers and their employers (see Box 8).

### **Box 8. The truck driver's mother, Norway**

**Aim.** The aim of this campaign is to increase knowledge among foreign lorry drivers and their employers of the road safety regulations applicable in Norway, and the driving conditions encountered on the Norwegian roads.

**Description.** Over 3000 HGVs cross the border into Norway everyday, many originating from Eastern Europe. Foreign lorry drivers are not used to Norway's challenging driving conditions, and are three times more likely to be involved in a road traffic accident. Many of these drivers are also underpaid because they are not aware of their rights as employees. The Norwegian authorities have struggled to engage in dialogue with these drivers. To tackle this, a tripartite project group was established involving the Ministry of Labour and Social Affairs, the Norwegian Labour Inspection Authorities, the Norwegian Public Roads Administration and the social partners in the transport sector.

They worked together with a contractor to develop and implement a campaign. This campaign included a film (4 minutes and a shorter version of 60 seconds), a website with short and relevant information about Norwegian legislation, Facebook-ads and content marketing. For the first time, foreign workers were targeted in their home country. Using the mother as the spokesperson was the innovation, and proved very successful. A public awareness film, "The Truck Driver's Mother" ([www.motherpresents.org](http://www.motherpresents.org)), was produced targeting foreign truck drivers working in Norway. Paid articles (content marketing) were also placed in many Eastern European online newspapers.

**Evaluation:** By September 2017:

- 30 million have been exposed to the messages of the campaign;
- 6 million viewings of the film; and
- 40,000 actively engaged on Facebook (sharing, liking, commenting).

The film was nominated to and won European/International awards both on communication and on prevention:

- Nominated for Gulltaggen (Norwegian communications award)
- Won gold in Sabre awards (European communications award)
- Nominated for an award at The International Media Festival for Prevention

Source: European Platform good practice fiche. Available at: <http://ec.europa.eu/social/main.jsp?catId=1299&intPageId=4875&langId=en>

### **6.1.3 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 towards educating consumers is to show them that their choices have unintended negative consequences, including legal and financial risks, when they purchase goods and services in the undeclared economy.

Of those Member States responding to the 2017 Platform Survey, 57% had used awareness raising campaigns that informed users of undeclared work of the problems of purchasing goods and services in the undeclared economy. All Nordic countries responding had used such campaigns, 57% of West European and 56% of East-Central European, but only 25% of Southern European Member States. Of those responding to the survey, this type of campaign was used by Austria, Belgium, Croatia, Denmark, Estonia, Finland, France, Hungary, Ireland, Lithuania, Portugal, Slovenia and Sweden, but was not used in Bulgaria, Greece, Latvia, the Netherlands and the UK, and no response was given for Cyprus, the Czech Republic, Germany, Slovakia and Spain.

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 9).

#### **Box 9. '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!*” national 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.hiringacontractor.com](http://www.hiringacontractor.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.

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

Of those Member States responding to the 2017 Platform Survey, 61% had used campaigns that informed users of undeclared work of the benefits of declared work, such as informing citizens of the public goods and services they receive with the taxes collected. All Nordic countries responding had used such campaigns, 67% of East-Central European Member States, 50% of Southern European Member States and 43% of West European Member States. Of those responding to the survey, this type of campaign was used by Belgium, Bulgaria, Denmark, Estonia, Finland, France, Hungary, Ireland, Latvia, Lithuania, Slovenia and Sweden, but was not used in Austria, Croatia, Cyprus, Greece, the Netherlands, Portugal and the UK, and no response was given by the Czech Republic, Germany, Slovakia and Spain.

To an extent, many awareness raising campaigns do not clearly delineate whether their focus is upon raising awareness of the benefits of declared work or risks of undeclared work, and neither do they always clearly delineate whether it is users or suppliers they are targeting, and which users and which suppliers. Many of the above campaigns, therefore, include some focus upon outlining the benefits to purchasers of acquiring goods and services in the declared economy. For example, the ‘*Get it in Writing!*’ campaign by default highlights to purchasers of home repair and renovation services the benefits of acquiring these services in the declared economy.

## **6.2 Key features of successful awareness raising campaigns**

Until now, despite the growing popularity of using awareness raising campaigns to tackle undeclared work, few attempts have been made to describe the key features of successful campaigns. Given the lack of detailed evaluations of awareness raising campaigns in the field of tackling undeclared work, it is therefore perhaps necessary to identify the key features of successful awareness raising campaigns by learning lessons from other related thematic areas where more detailed analysis and evaluation has occurred.

One very useful field in this regard is occupational safety and health (OSH). Indeed, the **European Agency for Safety and Health at Work (EU-OSHA)** have produced detailed guidelines to help any Member State wishing to develop an awareness raising campaign in the field of occupational safety and health at work. Given the lack of support and advice currently available to Member States when designing awareness raising

campaigns tailored to their context, it is therefore **recommended that a future activity of the Platform work programme might be to develop practical, user-friendly communications materials and toolkits on how to plan and run campaigns, using the EU-OSHA materials as an example of good practice.** This could provide firstly, a step-by-step guide to developing an awareness raising campaign and secondly, templates, as well as exemplars of good practice, of dissemination tools that can be used and tailored to the national context. Step 1, therefore, would be to produce a step-by-step guide for developing an awareness raising campaign. Box 10 provides an example from the EU-OSHA website in the field of safety and health at work.

#### **Box 10. Planning an awareness raising campaign: a step-by-step guide**

1. **Deciding objectives.** Before you develop the specific message of your campaign, and the necessary supporting arguments, you need to have a clear goal in mind. [Read more](#)
2. **Choosing a title.** To have a chance at making an impact on the people you want to reach, your title should be as short and simple as possible and relevant to your target audience. [Read more](#)
3. **Selecting the audience.** Knowing your target audience and age range will determine your campaign and the tools needed. [Read more](#)
4. **Timing.** Timing is a key factor in any campaign, both in terms of when to launch the campaign and the campaign duration. [Read more](#)
5. **Geographic area.** Choose which sectors or geographic area will be included. [Read more](#)
6. **Message.** Think carefully about the main campaign message and what you are trying to communicate through your campaign. [Read more](#)
7. **Branding your campaign.** A catchy slogan, a striking logo and campaign branding can be used to grab your audience's attention. [Read more](#)
8. **Reaching your audiences.** Most campaigns involve several media, from press releases and magazine articles to posters and direct mail shots. [Read more](#)
9. **Define** your expected results. Communication is most effective when it is related to something practical and tangible.

Source: <http://toolkit.osha.europa.eu/how-to-run-a-campaign/plan-your-campaign/>

Step 2 would then provide templates, as well as exemplars of good practice, of dissemination tools that can be used and tailored to the national context. These templates and good practice tools would ideally cover all the following:

- Media communication tools - press releases, press conferences, press trips, press kits, interview articles, advertorial surveys/poll, media partnerships;
- Events - training events, networking events, exhibitions, awards, competitions, events for stakeholders;
- Promotional materials - leaflets/brochures, posters, newsletters, presentations, gadgets, photos, videos;
- Web/mobile - websites, online banners, email signatures, mobile marketing;
- Social media - Facebook, twitter, blog, LinkedIn, YouTube, Wikipedia, Viral spots, vlogs;
- TV/radio - news packages, stock shots, spots, radio, talking heads; and
- Advertising - print advertising, advertising online.

EU-OSHA at <http://toolkit.osha.europa.eu/tools/> provides a good practice example of such a web-based toolkit.

A similar website and toolkit could be developed by the Platform in relation to tackling undeclared work to help Member States design awareness raising campaigns. The objective, therefore, would be to develop an **Online Undeclared Work Awareness Raising Campaign Toolkit** which provides practical advice on how to prepare and run successful awareness raising campaigns and provides practical examples of various communication tools with tips for their use.

Once this toolkit has been developed, the Platform might consider the feasibility of planning, developing and executing an EU-wide awareness raising campaign on tackling undeclared work. This could perhaps use a 'hub and spoke' model. This would have a generic EU-wide campaign but then pursue a coordinated approach and have more 'tailored' Member State and social partner campaigns that use the same messages but in ways that are tailored to their Member State context.

## 7. CONCLUSIONS AND RECOMMENDATIONS

This section provides the conclusions and recommendations of the study, with the conclusions structured to reflect the key research questions, and recommendations provided for Member States and enforcement bodies and for the Platform.

### 7.1 Conclusions

The aim of this study has been to provide a comprehensive review of the range of preventative approaches for tackling undeclared work available to Member States, and to focus upon two types of preventative measure, namely the demand-side incentive measure of service vouchers, and the use of awareness raising campaigns. 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, by making it easier and beneficial to comply.
- Approaches to 'prevent' it or 'promote the declaration of declared work' using either (supply- or demand-side) incentives to operate on a declared basis, or indirect measures to align norms and beliefs about engaging in undeclared work with national laws and regulations, are less commonly used.
- Preventative measures are currently perceived as less effective at tackling undeclared work than deterrence measures. However, this is not an evidence-based finding. There is currently little ex-ante and ex-post evaluation of either deterrence or preventative policy measures in EU Member States.
- This lack of emphasis on preventative measures is not simply because Member States prefer to continue with the deterrence measures with which they are familiar, but also due to the lack of a holistic strategic coordinated approach and the persistence of a fragmented departmental 'silos' approach, with many enforcement authorities not adopting strategic objectives related to preventing undeclared work and transforming undeclared work into declared work.
- Tax administrations have until now more commonly adopted preventative measures than labour inspectorates. However, there is no reason why labour inspectorates could not similarly apply preventative measures at the same level to stop labour law violations.

#### Service vouchers

- 26% of Member States responding to the 2017 Annual Survey use service voucher schemes, namely Austria, Belgium, France, Greece, Lithuania and Sweden. In Austria, France, Greece and Sweden, the institution responsible was a social insurance/social security institution, but the tax revenue administration in Lithuania and federal ministries in Belgium.
- Overall, such demand-side incentive measures have a low take-up across Member States and are perceived as one of the least effective types of measure for tackling undeclared work.
- Service voucher schemes are not all the same, and there are significant differences between the schemes used in different Member States. It is necessary to differentiate between enterprise voucher (EV) schemes used by companies, and social voucher (SV) schemes used by households.
- The emergent good practice is that Social Voucher (SV) schemes should be used to: pay for regular and occasional labour; to formalise household services (including caring services), with service vouchers limited to the specific tasks where undeclared work is prevalent in each Member State, and 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, meanwhile, should: only be used to pay for occasional labour; and 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; be based on prior research to decide the price of service voucher for a user (and level of subsidy required), so that they are competitively priced compared with using undeclared work; and 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, and ex-ante and ex-post evaluations should be conducted of the extent to which service vouchers reduce undeclared work, and whether they substitute for permanent formal employment contracts
- Although service voucher schemes are an investment by the state (rather than a cost to the state) to transform undeclared work into declared work, with the return on the investment being higher levels of declared work, the wider adoption of social voucher schemes in the EU is limited by firstly, budget constraints, and secondly, whether there is a tradition of domestic services being conducted for payment by people outside the family. However, in the latter Member States, it is also possible to widen the scope of activities covered by such a scheme to activities where the undeclared economy is rife, such as home repair and maintenance.

### **Awareness raising campaigns**

- An awareness raising campaign is an organised communication activity that aims to create awareness on a topic (in this case undeclared work), and thus behavioural change.
- The most common type used across the EU is that which informs suppliers of the risks and costs of working undeclared (used by 83% of Member States responding). Other types that either inform suppliers of the benefits of declared work, or else target users by either marketing the costs of purchasing from the undeclared economy or the benefits of using the declared economy, are less common (with each used by around half of Member States responding).
- Awareness raising campaigns vary in their effectiveness in influencing people's beliefs and changing their behaviour. Given the lack of detailed evaluations in the field of tackling undeclared work, lessons can be learned from other related thematic areas, where more detailed analysis and evaluation has occurred of the key features of successful awareness raising campaigns.

## **7.2 Recommendations**

The report provides a series of recommendations for Member States and the Platform.

### **Recommendations for Member States**

- Governments should shift away from resolving undeclared work after it has occurred and towards preventing non-compliance in the first place, by making it easier and beneficial to comply.
- Governments should engage in ex-ante and ex-post evaluation of both deterrence and preventative policy measures, as well as pilot studies, to develop an evidence-base on what works and what does not.

- Governments should consider conducting pilot studies of some variant of voucher schemes and conduct an ex-ante and ex-post evaluation of its effectiveness at tackling undeclared work.
- Social partners could take the lead on developing awareness raising campaigns tailored to their needs.
- Government and social partners should both (either separately and/or together) pilot and experiment with different types of awareness raising campaign, drawing upon good practices developed in other contexts but tailored to their specific needs, and should actively contribute examples and evaluations of good practice to enable the Platform to develop a repository of good practice as part of its Online Toolkit (see below).

### **Recommendations for the Platform**

- The Platform should continue to encourage a holistic coordinated strategic approach, as per the legal decision establishing the Platform, not least through mutual learning. This will enable a shift beyond a fragmented departmental 'silos' approach, which results in many enforcement authorities not adopting strategic objectives related to preventing undeclared work.
- The Platform could support the use of evaluation and 'pilot exercises' to identify which preventative measures are most effective and in what circumstances, to foster a culture of evidence-based practice.
- The Platform could adopt as a future activity in its work programme the development of an **Online Undeclared Work Awareness Raising Campaign Toolkit**. This would provide practical advice on how to prepare and run successful awareness raising campaigns and practical examples of various communication tools with tips for their use.
- The Platform should consider the feasibility of planning, developing and executing an EU-wide awareness raising campaign on tackling undeclared work, perhaps based on a 'hub and spoke' model with a generic EU-wide campaign running alongside coordinated more 'tailored' Member State and social partner campaigns.

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