

# Romania launches a system of service vouchers to bring domestic workers into the formal economy

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*With a significant informal economic sector, dominated by workers in agriculture and domestic activities, Romania, in April 2022, adopted a law to launch a ticket payment system (service vouchers) in order to tax the income of domestic workers and increase their social protection. The law puts in place a series of incentives for both providers (workers) and beneficiaries of domestic work (clients). However, the effectiveness of the scheme will depend on the adequacy and fine-tuning of its incentive structure and on the implementation procedures, so as to prevent greater bureaucracy for workers and clients.*

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## Description

In April 2022 Romania passed a law that regulates domestic activities, such as housekeeping, gardening, cooking, small repairs etc. (Law No. 111/2022 [see also Governmental Decision No. 822/2022 for details on implementing norms]). The effectiveness of a legal framework regulating a variety of domestic economic activities resides in its ability to address the need to both increase fiscal revenues and grant workers in non-standard work access to social protection benefits. The newly adopted law, expected to take effect in January 2024, supports the objectives set by the government in its strategic documents, i.e. to reduce the informal sector and increase social protection of workers.

The law stipulates the payment of domestic workers by domestic activity tickets (service vouchers), similar to the Belgian and French schemes. Tickets, with a value of 15 Lei (€3) per ticket, are printed out by the National employment agency, and made available on paper or electronically. To stimulate the purchase of the tickets, the law provides two categories of incentives, one to the worker and one to the beneficiary of the service.

Workers are encouraged to require payment by tickets, by being rewarded with free healthcare insurance against the redemption of a minimum of 85 tickets per month (i.e. a value of 1,275 Lei [€259]). In addition, a 50% tax exemption is applied to the actual gross income earned via the tickets; meaning that both the personal income tax (10%) and the social contributions to the public pension system (25%) are due on only 50% of the earned

income. In addition, income from domestic activities is not taken into account when assessing eligibility for unemployment benefits or for the minimum income guarantee. Beneficiaries of the services (individual households) are incentivised to use tickets by being given 75 free tickets annually (i.e. a value of 1,125 Lei [€228]) if purchasing and using at least 600 tickets per year (i.e. a value of 9,000 Lei [€1,828]). Employees can also receive tickets from their employer, as a form of bonus.



## Outlook and commentary

A law to regulate domestic activities was first drafted in 2014, by MPs of the National Liberal Party. The main reasons for proposing the law were budgetary losses due to a high proportion of the labour force working informally in agriculture and domestic activities (estimated, in 2014, at between 1.5 and 3.5 million persons, representing between 16% and 38% of the total active population). The statement of reasons estimated, in 2014, that the law will bring in additional income to the budget of 0.09% to 0.15% of the 2014 GDP. The draft law was approved in 2015 by the Senate but was rejected by the government, the Commission for finance and budget and the Commission for work and social protection. In 2018, the draft law was rejected by the Chamber of Deputies, based on legal issues.

In November 2021, the Ministry of Labour and Social Solidarity (MLSS) proposed a new draft law, very similar to the 2014 version. The statement of reasons for the 2021 draft law refers, again, to the need to reduce informal economic activity, in the context of a diversification of non-standard

work forms and a series of structural disparities between rural and urban labour markets. The law was adopted as part of the Romanian National Recovery and Resilience Plan. According to the set targets, 60 thousand persons recorded as unemployed or inactive are expected to become domestic workers by 2026 (GD No. 822/2022).

While in Romania the proportion of employees in standard work forms is higher than at the EU level (Pop, 2021), there has been an increase in various forms of non-standard work forms during the last decade. The number of workers in non-professional services has increased especially rapidly (Pesole et al., 2018).

Furthermore, scarce employment opportunities in rural areas and low geographical mobility of the workforce have resulted in a high inactivity rate and underemployment in these areas. A significant proportion of the inactive population represents a potential additional workforce, which is prone to be involved in informal activities, especially in agricultural and domestic work. The MLSS estimated that 2% of the inactive population were an additional potential work force and 2% of the employed population were currently underemployed (MLSS, 2021).

Romania has a significant informal sector, estimated at about 30% of the GDP (the second highest in the EU, according to the European Bank for Reconstruction and Development [EBRD, 2020]). This is also one of the reasons why the collection rate for taxes, including social contributions, has been the lowest across Europe for the last decade, at 26% of GDP, compared to an EU average of 40% (Romanian Fiscal Council, 2022). The high degree of informality of the Romanian economy has consequences for both public

finances and social protection of workers.

In this context, a law regulating domestic activities is particularly welcome. However, the success of the new law depends on the fine-tuning of the incentive structure and its implementation procedures.

The incentives related to access to health insurance apply only to those who are not already covered by health insurance, either directly (e.g. pensioners, unemployed or those in part-time employment, or, simply, by voluntary insurance), or indirectly through their spouses or other family members. Currently, this incentive is open, then, to a rather low number of workers. Indeed, in Romania, one of the main problems of the healthcare insurance system is that fewer than 40% of all those insured are paying contributions (since many are insured "by default"). Furthermore, the 50% reduction in the tax base could potentially be a significant incentive, if the law did not specify a minimum contribution level to acquire pension rights, corresponding to an earned income equivalent to a minimum statutory gross wage (i.e. 25% of the statutory minimum gross wage). Workers using the ticket payment system will most likely earn an average monthly income below the statutory minimum wage, so the payment of this minimum social contribution will rather put them at a disadvantage (as their fiscal burden will be higher than for those earning more than the minimum wage).

Finally, the use of a ticket system imposes significant costs on both beneficiaries and providers of domestic services (transportation to employment offices to buy/redeem tickets, associated risks of losing money due to lost or deteriorated tickets, digital proficiency etc.). Most of the schemes previously using a ticket system (vacation tickets,

kindergarten tickets, gift tickets etc.) have recently shifted to an improved system based on special rechargeable bank cards (as part of the administrative reforms of public institutions aiming at de-bureaucratisation, digitalisation and simplification of access to social benefits); however, the law in its current form does not adopt such a system and runs the risk of increasing bureaucracy, thus reducing incentives for both beneficiaries and providers of domestic activities to use the ticket system.

## Further reading

EBRD (2020), [Strategia de țară a României 2020-2025](#)

European Commission (2017), [Semestrul European – Fișă tematică. Munca nedecarată](#)

Pesole A., Urzì Brancati M. C., Fernández-Macías E., Biagi F. and González Vázquez I. (2018), [Platform workers in Europe, Evidence from the COLLEEM Survey, JRC Science for Policy Report](#), Brussels, European Commission

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Romanian Parliament (2014), [Draft law on domestic activities \(2014\), Statement of reasons](#)

Romanian Fiscal Council (2022), [Consolidarea Bugetară și Creșterea Veniturilor Fiscale – necesitate vitală pentru stabilitatea și securitatea economică a României](#)

Romanian Ministry of Labour and Social Solidarity (MLSS) (2021), [Statement of Reasons for the legislative proposal on domestic work](#)

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