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# Tackling undeclared work in the construction industry

## Policy Report

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### What's the ISSUE?

Although no official **definition** of undeclared work exists in the EU, it is understood to mean

'any paid activities that are lawful as regards their nature, but are not declared to the public authorities, taking into account the differences in the regulatory systems of the Member States'<sup>1</sup>.

The three major reasons paid activities are not declared to the authorities is:

- i. to evade payment of income, value added or other taxes;
- ii. to evade payment of social security contributions, and
- iii. to evade certain labour standards (e.g., minimum wages, maximum hours).

The result is that different institutions are responsible for different aspects of undeclared work. Labour law violations are mostly the responsibility of labour inspectorates, tax non-compliance responsibility is under the tax administration, and social security and insurance fraud violations under social insurance bodies.

### Who engages in undeclared work in the construction sector?

- *On the one hand*, there are **unregistered enterprises**. These are likely to be mostly self-employed sole traders and micro-enterprises.
- *On the other hand*, there are **registered businesses who do not declare all their transactions**, or who use **unregistered employment** or **under-declared employment** (i.e., with part of the wage being paid officially, and part off the record as an 'envelope wage'). Such businesses may also use **bogus self-employment** to undertake work.

### IMPACTS OF UNDECLARED WORK

Undeclared work, through its various forms, impacts us all. Employers who actively participate in undeclared work put businesses, employees and public services at a disadvantage by:

- Distorting competition which affects both the economy and trade;
- Leaving workers without necessary insurance, benefits and pensions;
- Evading taxes and social security contributions – which undermines the sustainability of public finances and puts essential services at risk.

To understand undeclared work and how to tackle it, this report is structured as follows. Section 2 looks at the prevalence of undeclared work in the construction sector followed by how it can be tackled. This will include an outline of the policy initiatives being pursued as a result of the TUVIC (Tackling undeclared work in the construction industry) project. This EU-funded project brought together construction employer federations, trade unions and enforcement authorities in seven countries.

<sup>1</sup> European Commission Communication 'Stepping up the fight against undeclared work', p. 2 COM (2007) 628



European Federation  
of Building  
and Woodworkers



## UNDECLARED WORK IN THE CONSTRUCTION SECTOR

Comparing the 2007, 2013 and 2019 Eurobarometer surveys (each comprising over 27,000 face-to-face interviews in all European Union Member States), the finding is that the proportion of all undeclared work that is in the European construction industry has increased over time. In 2007, 16% of all undeclared jobs were in the construction sector but 19% in 2013 and 21% in 2019. Over 1 in 5 undeclared jobs are now in the European construction industry.

However, this varies across European regions. In 2019, in the Nordic nations and East-Central Europe, nearly one-third (30%) of all undeclared work is in the construction sector but only one-fifth (20%) in Western Europe and only one in seven undeclared jobs (15%) in Southern Europe. Nevertheless, the proportion of undeclared work that is in construction activities has grown across all European regions.

**Table 1.** Percent of all undeclared jobs in the construction sector: by European region

	2007 (%)	2013 (%)	2019 (%)
All 28 countries	16	19	21
Nordic	27	24	30
Western Europe	16	17	20
East-Central Europe	19	26	30
Southern Europe	3	12	15

Source: Eurobarometer surveys 2007, 2013 & 2019

There are also significant cross-national variations. Although in 2019 45% of all undeclared work in Slovakia is in the construction sector, 41% in Bulgaria, 38% in Estonia and 36% in Latvia, its share of all undeclared work is just 14% in Italy and the Netherlands, 13% in Spain and 11% in Luxembourg. Therefore, a focus upon the construction sector when tackling undeclared work is more important in some European regions and countries than others.

**Table 2.** Supply of undeclared work: % in construction sector

Region/ country	Supplying undeclared work (%)	Of which, repair or renovations (%)
28 European countries	3	21
East-Central Europe	2	30
Slovakia	3	45
Bulgaria	5	41
Latvia	6	36
Romania	2	33
Slovenia	5	33
Croatia	3	30
Lithuania	3	24
Czech Republic	4	24
Poland	1	23
Hungary	4	19
Estonia	6	38
Nordic nations	6	30
Sweden	7	31
Denmark	8	30
Finland	3	21
Western Europe	4	20
France	4	24
Belgium	6	24
Germany	3	21
Austria	4	20
United Kingdom	1	20
Ireland	5	16
Netherlands	10	14
Luxembourg	7	11
Southern Europe	3	15
Cyprus	1	31
Portugal	3	30
Malta	1	21
Greece	3	21
Italy	3	14
Spain	4	13

Source: 2019 special Eurobarometer survey on undeclared work

Examining the purchase of undeclared goods and services, meanwhile, Table 3 reveals that 10% of citizens across the 28 countries had knowingly purchased goods and services from the undeclared economy in the 12 months prior to the interview (11% in 2013 and 16% in 2007). Of all undeclared purchases, 30% (29% in 2013) were in the home repair, maintenance or improvement realm.

**Table 3.** Percent of citizens purchasing undeclared repair and maintenance services

	2007 (%)	2013 (%)	2019 (%)
<i>EU</i>	16	11	10
Nordic	30	17	14
Western Europe	18	10	9
East-Central Europe	17	11	10
Southern Europe	9	12	13

Source: Eurobarometer surveys 2007, 2013 & 2019

There are again variations across EU regions. The proportion of citizens purchasing undeclared repair and maintenance services is declining in all European regions with the exception of Southern Europe, where there has been a slight growth.

Of all undeclared purchases, and as Table 4 reveals, 31% were for repairs and renovations in East-Central Europe and Southern Europe, 28% in Western Europe and 25% in Nordic nations.

There are also significant cross-national variations. Although in 2019 44% of all undeclared purchases were for repairs and renovations in Greece, 42% in Bulgaria, and 41% in Slovakia, its share of all undeclared purchases is just 22% in Austria, Lithuania and Portugal, 19% in Germany and Romania and 14 % in Finland.

**Table 4.** Purchase of goods & services in undeclared economy: % from construction sector

Region/ country	Purchasing undeclared goods or services (%)	Of which, Repairs or Renovations (%)
<i>28 European countries</i>	10	30
<i>East-Central Europe</i>	10	31
Bulgaria	17	42
Slovakia	12	41
Czech Republic	16	34
Hungary	15	33
Poland	5	32
Croatia	18	28
Slovenia	11	28
Estonia	13	26
Latvia	21	23
Lithuania	16	22
Romania	7	19
<i>Western Europe</i>	9	28
United Kingdom	5	39
Ireland	14	35
Belgium	16	34
France	8	31
Netherlands	27	28
Luxembourg	13	24
Austria	12	22
Germany	7	19
<i>Southern Europe</i>	13	31
Greece	27	44
Malta	30	36
Spain	9	32
Italy	12	28
Cyprus	16	27
Portugal	16	22
<i>Nordic nations</i>	14	25
Denmark	16	36
Sweden	13	24
Finland	14	14

Source: 2019 Eurobarometer survey on undeclared work

## WORKING TOGETHER – COLLABORATION IS ESSENTIAL

In most European countries, responsibility for tackling undeclared work is fragmented across different ministries responsible for tax, social security and labour law compliance. This can result in a 'silo' mentality and a lack of a coordinated strategic approach. The extent to which Member States involve social partners can be often limited to mutual exchange and consultation.

A **holistic approach** pursues a joined-up and coordinated approach at the level of both strategy and operations of the fields of labour, tax and social security law, and the full involvement

and cooperation of social partners and other stakeholders.

The aim is to transform undeclared work into declared work. It is not simply to eradicate undeclared work. In developed economies, two-thirds of all business start-up unregistered or trading partially undeclared. To pursue the eradication of such business would result in one hand of government eradicating precisely the entrepreneurship and enterprise culture that other hands of government wish to legitimise in order to pursue economic development and growth.

## USING THE FULL RANGE OF POLICY LEVERS

To transform undeclared work into declared work, there are a wide range of *direct* and *indirect* policy measures available.

**Direct approaches** aim to reduce the costs and increase the benefits of operating on a declared basis – and increase the costs and reduce the benefits of operating undeclared. Viewing those participating or considering participation in undeclared work in the construction sector as rational economic actors, who weigh up whether the pay-off is greater than the expected cost of detection and punishment, the objective is to alter the cost/benefit ratio confronting them.

To achieve this, **deterrence measures** are used to increase the costs. This can be achieved by *raising the penalties and sanctions for those caught* (e.g. besides fines, innovative forms of sanction are emerging in many countries, such as the use of ‘non-compliance lists’ which prohibit offenders from applying for public support programmes or public procurement tenders, or ‘naming and shaming’ initiatives where the names of offenders are made public).

The costs of undeclared work can also be increased by *increasing the perceived or actual likelihood of detection* (e.g. using workplace inspections; ICT systems to enable data matching; worker registration initiatives prior to starting work or on their first day of work; ID cards in the workplace; coordinated data sharing initiatives across government; joint inspections; and the use of peer-to-peer surveillance such as telephone hotlines).

This focus upon increasing the costs of undeclared work was appropriate when the objective was to eradicate undeclared work. However, to transform undeclared work into declared work, making it **easier and beneficial to operate on a declared basis** is also required. Less emphasis is currently put on this.

Firstly, there are **supply-side incentives** (e.g. simplifying compliance, society-wide amnesties,

individual-level voluntary disclosure schemes, and advisory and support services to those wishing to move from the undeclared into the declared realm).

Secondly, there are **demand-side incentives** targeting the customers of home repair, maintenance and improvement work with rewards for using declared goods and services (e.g. granting income tax deductions on the costs of using declared services; issuing vouchers so that consumers only pay a proportion of the hourly wage rate, leaving the remaining part to be covered by the state; and the use of indirect tax deductions).

**Indirect approaches** recognise that citizens and construction businesses are not just rational economic actors (purely calculating the costs and benefits). They are also social actors who engage in undeclared work because their 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.

To align them, two approaches are pursued. On the one hand, indirect policy approaches seek to **change the norms, values and beliefs** regarding the acceptability of participating in undeclared work, so that these are in symmetry with the laws and regulations (e.g. using awareness raising campaigns and educational initiatives).

On the other hand, indirect policy approaches also seek to **change the formal institutions**. This can involve *changing the internal processes of formal institutions to improve the perception amongst citizens and businesses that there is procedural and distributive fairness and justice*, so as to improve trust in government.

There is both evidence and a consensus that using both direct and indirect measures produce the most effective and efficient way to tackle undeclared work<sup>2</sup>.

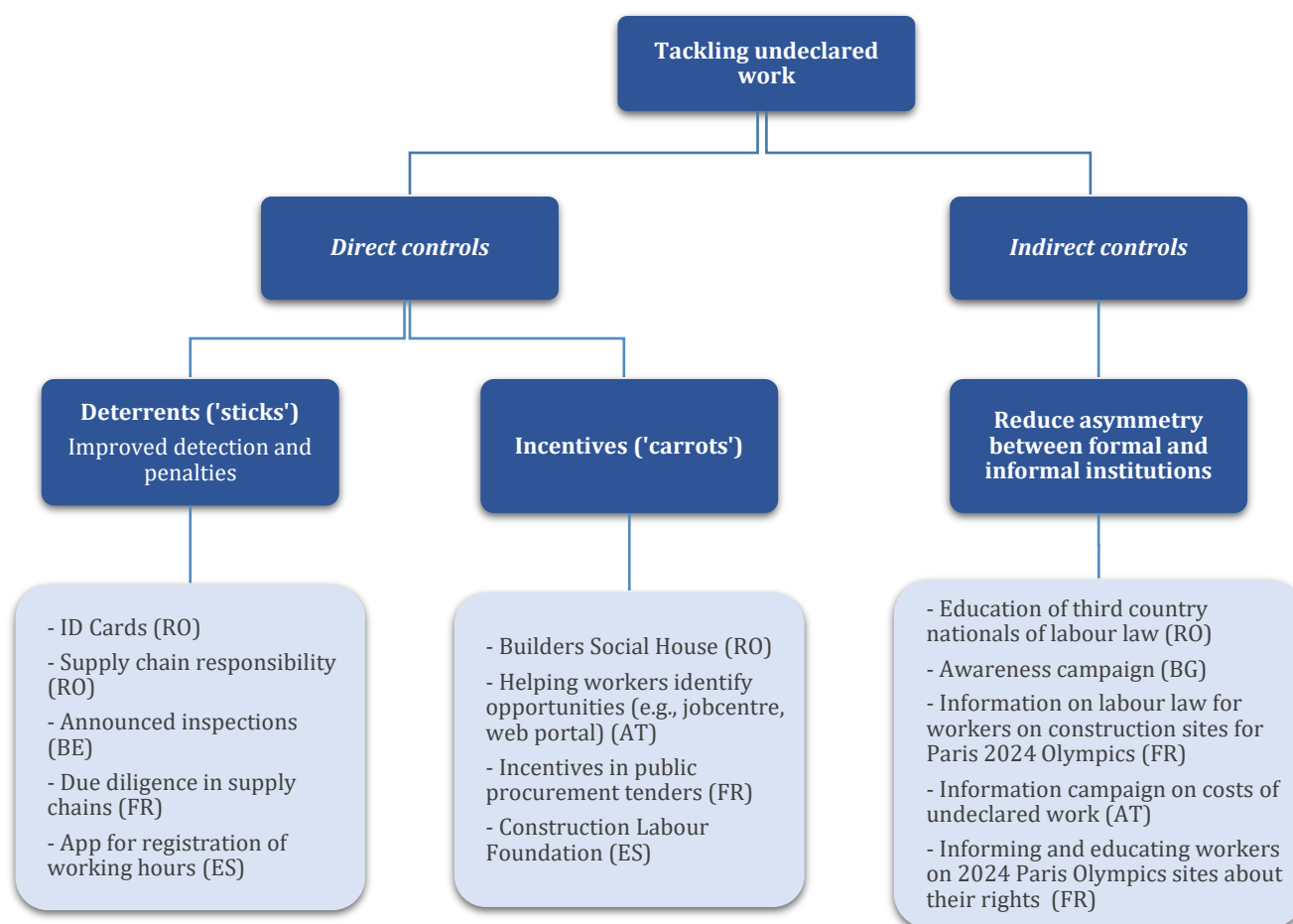
<sup>2</sup> Williams, C.C. (2017). *Developing a holistic approach towards undeclared work*. European Commission, Brussels.

## The TUVIC Initiatives

To facilitate the implementation of this holistic approach in the construction sector, the EU-funded TUVIC project has worked with seven Member States. In each Member State, construction trade unions, employer federations and enforcement authorities have worked together to develop a range of policy initiatives from across the full spectrum of what is available

to tackle undeclared work in the construction sector. These initiatives are summarised in Figure 1. This TUVIC project exemplifies what can be achieved through tripartite cooperation and how social partners can play a lead role in transforming undeclared work into declared work.

**Figure 1.** TUVIC policy measures for transforming undeclared work into declared work in the construction sector



Given that over 1 in 5 undeclared jobs (21%) in Europe are in the construction sector, taking forward these TUVIC policy initiatives will have a significant impact on the European undeclared economy.

They will also have a demonstration effect, displaying the powerful benefits gained when social partners and enforcement authorities work together.