



UNION EUROPEENNE DE L'ARTISANAT ET DES PETITES ET MOYENNES ENTREPRISES  
EUROPÄISCHE UNION DES HANDWERKS UND DER KLEIN- UND MITTELBETRIEBE  
EUROPEAN ASSOCIATION OF CRAFT, SMALL AND MEDIUM-SIZED ENTERPRISES  
UNIONE EUROPEA DELL' ARTIGIANATO E DELLE PICCOLE E MEDIE IMPRESE

## **UEAPME position paper on the EC Communication COM (2007) 628 final Stepping up the fight against undeclared work**

UEAPME welcomes the recent initiative of the European Commission to reactivate the debate at EU level on undeclared work.

Undeclared work is a worrying phenomenon which creates severe distortions of competition for small companies, in particular for the ones with intensive labour activities, deprives social protection systems and governments from financial resources, namely social security contributions and taxes, and puts workers in insecure working conditions.

As rightly pointed out by the European Commission, undeclared work is the main source of social dumping and sometimes even social fraud.

Craft and SMEs, as local players, have a strong and legitimate interest in seriously addressing this problem. This is why for UEAPME the fight against undeclared work is an urgent priority for the sake of fair competition and for the European economy as a whole if we want to achieve the objectives of the Lisbon Strategy for growth and jobs.

### Definition of undeclared work:

Undeclared work has been defined in 1998 by the Commission as “*any paid activities that are lawful as regard their nature but not declared to public authorities, taking into account differences in the regulatory system of Member State*”.

UEAPME would like to underline the importance to clearly distinguish between lawful activities which are not declared and criminal activities which have to be classified as illicit activities and not as “undeclared work”. In that sense UEAPME is fully supporting the current proposed definition.

### Evidence on undeclared work:

By nature, undeclared work is difficult to evaluate and therefore to eradicate. Nevertheless it is a significant phenomenon and a topical issue in relation to economic and employment policies, in particular for SMEs because of the numerous consequences of unfair competition in labour intensive sectors.

As by definition this type of activities is not declared, it is very difficult to have a precise evaluation of the scope of undeclared work. The new attempt from the Commission to use different sources through direct and indirect methods including a special Eurobarometer survey is welcome. Even if the importance of undeclared work differs in the Member States, the fact that it represents 20% of GDP in some Member States and that it is still on the rise in several Member States easily justify the necessity for strong actions.

### Drivers of undeclared work:

If we want to reach some tangible results against undeclared work, it is essential to identify the possible drivers of undeclared work.

Hence we fully agree that high tax levels, administrative burdens and the reduction of working time are among the main drivers for undeclared work, we do not share the views of the Commission that the growing demand for household and care services is a driver of undeclared work. Of course, it is well known that this type of activities used by individuals is very often non declared, but this is more a consequence of high labour costs in particular of non wage labour costs and of tax levels than a driver of undeclared work.

The same applies for self-employment and more generally flexible contracts. UEAPME strongly disagrees with the deliberate affirmation that they can be considered as drivers of undeclared work. On the contrary, the possibility to have recourse to various flexible contracts and to temporary agency work fully contributes to avoiding a wider spreading of undeclared work. This type of statement contributes to give a wrong image of self-employment and of flexible contracts, which both are necessary for a good functioning of the labour markets and the increase of growth and jobs.

Moreover it is in contradiction with the European principles on flexicurity<sup>1</sup> and the flexicurity concept defines in the Joint Labour Market Analysis of the European Social Partners which among others relies on “flexible and reliable contractual arrangements” and on “effective active labour market policies” including strong support for job creation, start ups and entrepreneurship<sup>2</sup>.

#### Characteristics and forms of undeclared work

Undeclared work seems to have a clear sectoral dimension notably in household services and in the construction sector. Therefore policies should contain a good policy mix of general measures as well as more targeted measures for the sectors concerned.

#### Policies to reduce undeclared work

Undeclared work is very often considered as an easy way to supplement revenues beside social benefits or a regular activity. Undeclared work is a complex phenomenon resulting from an interaction of multiple causes such as high levels of taxation, too heavy social and fiscal regulations, unequal regional development, a failure of delivery of the administration and of public services and the limited issuing of work permits.

It requires measures combining an adaptation of labour law towards more employment friendly legislation, a simplification of administrative obligations, a modernisation of social protection systems in order to make work pay, consistent wage policies, fiscal incentives, improvement of public infrastructure and cost-effective public services but also controls and proportionate and dissuasive sanctions.

Therefore UEAPME fully supports the broad approach proposed by the EU Commission in terms of policies:

- **Reducing the financial attractiveness of undeclared work through a better design of tax benefit systems and of social protection systems**

A thorough revision of benefit criteria of social protection systems and better controls are unavoidable in order to encourage people to look for an official job and avoid social security fraud. This should be done in coordination with an adapted tax policy and reduction of non

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<sup>1</sup> COM (2007) 359 final - Towards common principles of flexicurity: more and better jobs through flexibility and security.

<sup>2</sup> Key Challenges facing European Labour Markets : a Joint Analysis of European Social Partners – October 2007- p. 23

wage labour costs on low wages. However this approach will only function if there are also sufficient jobs which can be taken up by the people. Therefore reforms of social protection systems must be part of an integrated approach which coordinates social protection policy with fiscal and economic policy. The reduction of taxation should aim to increase the financial benefits of work for low-income households as well as an overall reduction of non-wage labour costs for low-wage work so that job creation is more attractive for employers.

A large part of undeclared work is carried out by people who are only partly in the shadow economy because taxation systems penalise them for taking a second official activity. Marginal rates of taxation must therefore be reduced in order to contribute to tackle undeclared work. The reduction of non wage labour costs on the lower segment of the labour market, especially in the labour intensive sectors, and wage differentiation in line with productivity would also help to address this problem.

Furthermore the reduction of VAT rates on labour intensive workforce activities can have a major impact in transforming undeclared work into legal activity. Its efficiency has been proven in the construction sector in the Member States which decided to reduce VAT for building renovation and maintenance like in France.

- **Simplifying and reforming administration with a view to reducing cost of compliance**

Simplification of legislation and simplification of administrative procedures are key to prevent the use of undeclared work. In this context there is an urgent need to introduce regulatory impact assessments of all regulations and in particular how they affect small businesses. Therefore all initiatives such as simplified systems for registration of workers (temporary or permanent work) or service vouchers are essential.

- **Strengthening surveillance and sanctions mechanisms**

Undeclared work can only effectively be combated if all levels are strongly committed to it. Combating undeclared is a shared responsibility of public authorities and social partners, therefore strengthening the surveillance and sanction mechanism with the involvement of labour inspectorates, tax offices and social partners is the right way forward. An improvement of the monitoring and control capacity of labour inspectorates and different government agencies is essential. Moreover social partners can play a decisive role at sectoral level to achieve a better surveillance.

- **Transnational cooperation between Member States** is becoming more and more relevant in the context of a good functioning of the internal market, in particular in the case of posting of workers. The creation of a high level committee to assist Member States in identifying and exchanging good practices as regards controls and enforcement of legislation for posted workers is largely welcome. In the same way, increased cooperation and sharing of information between Member States for investigating undeclared activities is highly desirable. Moreover the issue of penalties and enforcement of fines is a real problem particularly in the case of undeclared work done by a company not settled down in the country where the illegal activity takes place.

The framework decision of the Council 2005/214/JHA on the application of mutual recognition to financial penalties would help to improve the situation. However this would only be in the mid term run, as the decision gives the possibility for Member States to limit its application concerning financial penalties until March 2010.

- **Awareness raising activities** is crucial in order to make all citizens aware of the risks of working undeclared and of the negative effects of undeclared work in general. Several initiatives of this type are already taking place at national level with a strong involvement of social partners particularly in the construction sector.

In addition to what has been proposed UEAPME would like to insist on the fiscal incentives for avoiding undeclared work in activities with high labour intensity.

Conclusions:

UEAPME fully recognises the difficulty of adequately fighting undeclared work. First and foremost the responsibility relies with public authorities but social partners can have an important complementary role to play in combating undeclared work. It is one of the topics mentioned in the EU social dialogue work programme 2006-2008. It has been integrated in our current “Joint labour market Analysis” with some recommendations at EU and national levels. Nevertheless UEAPME considers it necessary to go further and fully integrate this topic in the EU social partners’ future actions.

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