



EVALUATION of the Action Plan of Combating Shadow Economy and Improving Fair Competition 2010.-2013.

Riga, 2010



Content

- > Characteristics of the evaluation
- > Evaluation of the activities according to the directions of action:
 - Tax policy measures;
 - Measures to reduce administrative burden;
 - Support to loyal enterprises and facilitation of transfer to legal economy;
 - Ensuring the capacity of control institutions;
 - Elaboration of legislation;
 - Penal policy;
 - Society information;
 - Reduction of shadow economy in particular industries.
- > Proposals



Characteristics of the evaluation

Analysis of the research papers in the field of shadow economy		Identification of other countries experience	
Evaluation of combat measures against the shadow economy			
Economics	Entrepreneurship	Administration	Society behaviour
Confirmity with theoretical findings		Comparison with other countries experience	
Proposals			



Tax policy measures

EVALUATION OF EXPECTED IMPACT			
ECONOMICS	ENTREPRENEURSHIP	ADMINISTRATION	SOCIETY BEHAVIOUR
+/-	+ / N	+ / N	+

- > Theoretic findings approve the simplification of the tax system, transfer of the tax burden from labour to capital as well as adaptation of justified and transparent tax reductions;
- > In practice the improvements of tax and social security systems tend to be among the most successful measures and are gaining broader application.



Measures to reduce administrative burden

EVALUATION OF EXPECTED IMPACT			
ECONOMICS	ENTREPRENEURSHIP	ADMINISTRATION	SOCIETY BEHAVIOUR
+	+	+	+ / N

- > Theory confirms that there is a direct correlation between the administrative burden and shadow economy and reduction of the administrative burden is favouring the reduction of shadow economy;
- > International experience testifies the positive impact of the administrative burden reduction.

Single stop enterprise Portugal



Support to loyal enterprises and facilitation of transfer to legal economy

EVALUATION OF EXPECTED IMPACT			
ECONOMICS	ENTREPRENEURSHIP	ADMINISTRATION	SOCIETY BEHAVIOUR
+/-	+/-	+/-/N	+/N

- > According to the theory proposed activities include the measures to improve the entrepreneurial environment and contribute to the improvements of the social field thus reducing shadow economy.
- > Measures implemented in other countries foresee activities limiting the participation of in-compliant entrepreneurs in public procurements and reducing state support, but activities related to creation of the list of positive entrepreneurs have not been considered. Tax amnesties are widely used as a measure to reduce shadow economy.

Notification letters campaign Estonia



Ensuring the capacity of control institutions

EVALUATION OF EXPECTED IMPACT			
ECONOMICS	ENTREPRENEURSHIP	ADMINISTRATION	SOCIETY BEHAVIOUR
+	+/-/N	+/-/N	+/-/N

- > Insurance of the capacity of control institutions from the theoretic point of view has a positive impact on the fulfilment of the control and penal functions by the state, which facilitates the combating of shadow economy.
- > In reality almost all the states are continuously implementing measures to increase the efficiency of controls, improve the exchange of the information, promote cooperation and reduce corruption.

Information system Belgium



Elaboration of legislation

EVALUATION OF EXPECTED IMPACT			
ECONOMICS	ENTREPRENEURSHIP	ADMINISTRATION	SOCIETY BEHAVIOUR
+	+	+	+

- > Simplification of the legislation and rising of the understanding on legislative matters corresponds to theoretical findings as well as international experience, serving as one of the factors able to reduce shadow economy.



Penal policy

EVALUATION OF EXPECTED IMPACT			
ECONOMICS	ENTREPRENEURSHIP	ADMINISTRATION	SOCIETY BEHAVIOUR
+	+/-/N	+/-/N	+/-/N

- > Penal policy activities are accordant to the theory that criminal part of the shadow economy must be punished;
- > Other countries tend to introduce measures to improve the conformity of the tax system, which increases the trust to the legislative system in society and reduces shadow economy.

Law on General Entrepreneurs Responsibility Finland



Society information

EVALUATION OF EXPECTED IMPACT			
ECONOMICS	ENTREPRENEURSHIP	ADMINISTRATION	SOCIETY BEHAVIOUR
+	+	N	+

- > Society information and awareness rising activities are in conformity with theoretical findings on the reduction of shadow economy, creating the society, which perceives the compliance as a regular activity instead of imposed;
- > Many countries are implementing different information campaigns often in combination with other measures combating shadow economy.



Reduction of shadow economy in particular industries

INDUSTRY	EVALUATION OF EXPECTED IMPACT			
	ECONOMICS	ENTREPRENEURSHIP	ADMINISTRATION	SOCIETY BEHAVIOUR
Construction	+	+/-	+/-	N
Lotteries and Gambling	+/-/N	+/-/N	+/N	+/N
Transport	+	+	+/N	N
Agriculture, Fisheries	+	+/-	+/N	+/N
Retail	+	-/N	+/N	N
Metal Industry	+	+	N	+/N

- > Activities are not completely accordant to theoretical findings and other countries experience, planned activities in some industries are not satisfactory and not all the industries having high potential of the shadow economy have been included.

Employee registration system in hotel and beauty industries Sweden



Proposals

1. Tax policy measures

1. Assess the possibility to introduce additional changes in tax system by transferring the tax burden from the labour to capital.
2. Assess the possibility to apply simplified and at the same time reduced tax regimes to low wage employments;
3. Evaluate the efficiency of the measures combating shadow economy in relation to tax policy and overall tax rates changes.



2. Measures to reduce administrative burden

1. Focus the measures to administrative activities, which are creating the most relevant administrative burden to entrepreneurs as well as individuals.
2. Assess the possibility of the simplification of administrative processes to certain categories (small enterprises, self-employed, business start-ups), whose administrative expenses tend to be relatively higher.



3. Support to loyal enterprises and facilitation of transfer to legal economy

1. While implementing the measures to support compliant enterprises, assure that the administrative burden is not increased, or significant benefits for enterprises, overbalancing additional administrative tasks.
2. Implement additional activities together with tax amnesties in order to increase their efficiency, such as, tax reduction during amnesty period and increased controls or penalties afterwards;
3. Together with limitations for incompliant enterprises to take part in public procurement or receive EU support, assess the possibility of implementing voluntary disclosure activities at various levels, suggesting the voluntary dropout from shadow economy.



4. Ensuring the capacity of control institutions

1. Evaluate the additional administrative burden and expenses imposed by activities foreseen, in relation to expected improvements and additional tax revenues.
2. Facilitate the use of electronic systems in the everyday work of control institutions, synchronisation and new ways of application, e.g. in order to identify the possible shadow economy activities or assess potential risks.

5. Elaboration of legislation

1. Foresee the possibility to simplify and consolidate the existing legislation;



6. Penal policy

1. Foresee the possibility to introduce the changes in overall tax policy, increasing the penalties for the offences with the highest share of the shadow economy (e.g. illegal employment, incomplete income declaration etc.)
2. Evaluate the application of penalties in relation to other activities combating shadow economy (e.g. amnesties), thus increasing the expected efficiency of these activities.

7. Society information

1. Evaluate the possibility to implement society information activities in relation to other measures combating shadow economy.



8. Reduction of shadow economy in particular industries

1. Foresee the possibility to introduce additional measures in industries with the high level of shadow economy, that are not included in the action plan:
 - > wood industry
 - > medicine
 - > security services
 - > hotels and restaurants
 - > public services such as cleaning and catering
 - > manufacturing and processing industries
 - > wholesales
 - > communications
2. Increase the number of activities foreseen in the most significant (in respect to shadow economy) already included in the action plan:
 - > construction
 - > agriculture, fisheries, forestry



9. Other

1. Evaluate the set of measures combating shadow economy and improving fair competition at the level of the state economic development strategies;
2. Pay attention to the social and employment policies when setting up measures to combat shadow economy, as this is one of the most important reasons causing shadow economy in Latvia;
3. Consider cooperation measures in combating shadow economy with social partners and among institutions involved on national and international levels on a regular basis.
4. Pay particular attention to the causes of shadow economy in Latvia and foresee the possibility to implement broader set of measures in order to prevent the causes;
5. Review the planned activities which have insignificant impact on the shadow economy;
6. Foresee the possibility to create the sets of continuous and complementary measures to solve particular problems.



Thank You!

Baltic Consulting

Vilandes 6-1, Riga, LV 1010, Latvia

Phone.: (+371) 7338804

Fax.: (+371) 7338848

www.balticconsulting.com

