



Action Plan to Reduce Shadow Economy and Promote Fair Competition 2010-2013

Operating Officially Is More Beneficial

Riga 2010

Working group



- Established by the Prime Minister
- Aim – to develop and submit to the Cabinet of Ministers conceptual solutions to reduce shadow economy

Working Group Members



- Social partners (FTUCL, LCCI, FP un ECL)
- Public administration MoE, MoF, MoJ, MoA, MoT, MoW, SC, MoH, SP, SRS, CPCB and experts from BoL and CSB

Action Plan Development



12 weeks:

- 9 working group meetings
- 6 subgroups by sector
- Meetings with other field experts

Action Plan



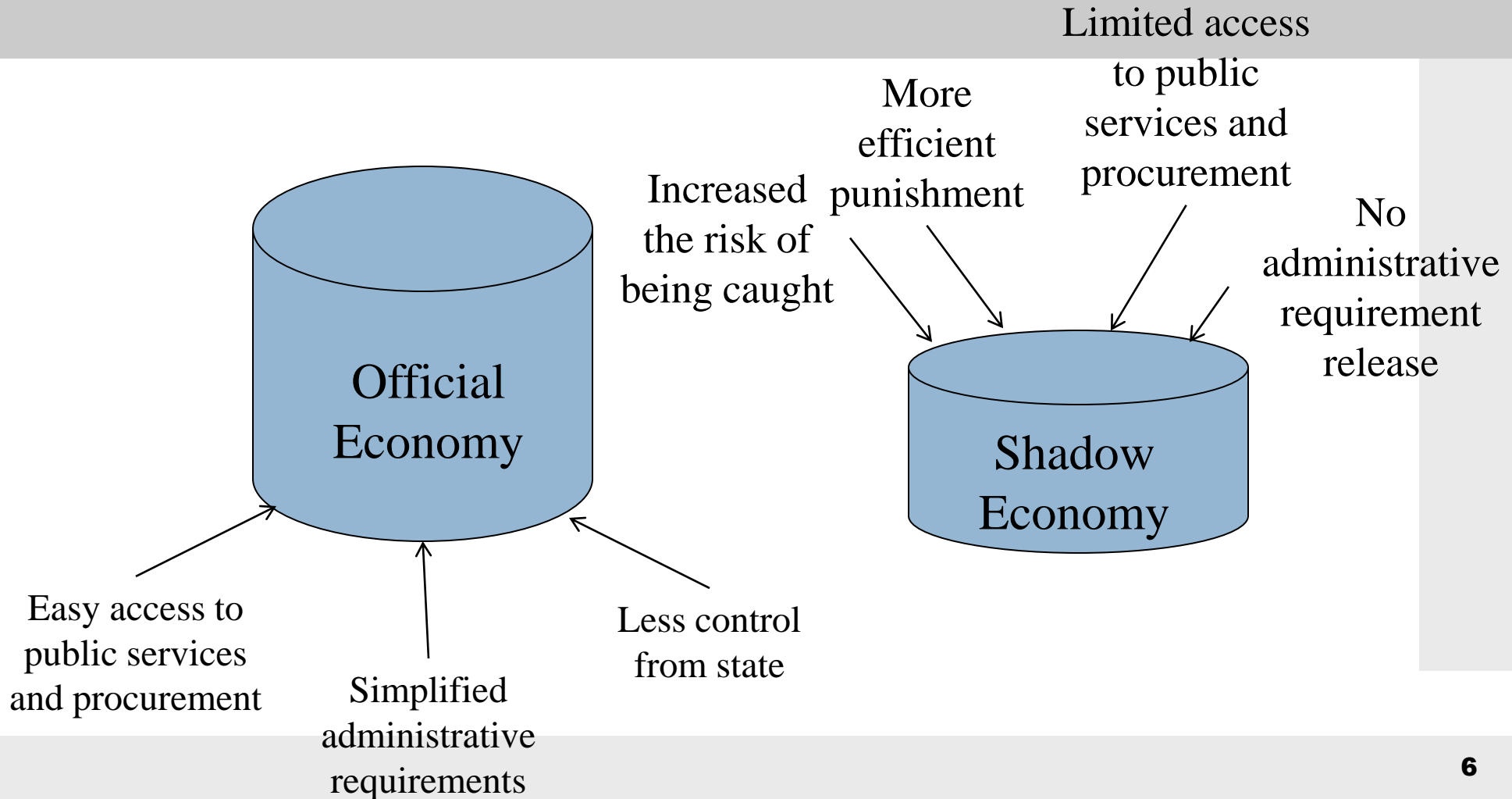
61 supported activities:

- Tax Policy
- Reduction of Administrative Burden
- Facilitating the Transition into Official Economy
- Capacity Building for the Controlling Authorities
- Development of Regulations
- Policy of Punishment
- Public Opinion and Information
- Sector Specific Proposals

17 unsupported activities

The Base Principle:

Official Economy More Beneficial, Shadow Economy More Disadvantageous



Benefits for Operating in the Registered Sector of Economy



- The “White List”:
 - Defined criteria for inclusion
 - Entrepreneurs agree to disclose extra information about their business
 - Easier access to state procurement and EU funded projects
 - Simplified administrative requirements
 - Good reputation
 - Less control
- “Authorized Economic Operator” scheme in customs area
 - Entrepreneurs may gradually acquire an increasing degree of reliability
 - Greater privileges when settling customs issues
 - Lower level of risk for control purposes

Support for Companies in Short-term Difficulties



- One-off measure to wave fines and overdue payment penalties for entrepreneurs who pay the tax debt within a certain time
- For a fixed period abolish overdue payment penalty when the tax payment due date is extended or tax payment is split into instalments.

“X” Day – Opportunity to Transfer to Registered Economy



Simultaneous implementation of one-off measure package:

- To introduce a zero declaration
- To offer an opportunity to declare savings acquired from unregistered economic activity after payment of certain tax
- To wave fines and overdue payment penalties if the tax debt is paid within a certain time

Capacity Building of Controlling Authorities



- Giving additional rights
- Providing access to additional information
- Optimizing the functions and tasks
- Providing additional funding

Policy of Punishment



- Punishment is appropriate to offence
- Similar punishments for similar offences
- Cancellation of permits and licenses, if significant and systematic irregularities are found

Efficient Tax Policy



- Shifting the tax burden to the areas with lower avoidance risk (from labour force taxes to real estate and consumption)
- Reducing the number of allowances and exceptions
- Changing payment policy (for example, reverse VAT for scrap-iron, PIT for gambling winnings)
- Revision of current requirements (for example, to decrease tax for online games)

Communication



- Communication of positive and negative examples
- Making information publicly available about the use of taxes paid to the state budget and about the link of public service quality with the amount of taxes paid

Summary



- Better Conditions for Entrepreneurs who Comply with Regulations
- Support for Companies in Short-term Difficulties
- One-off Opportunity to Transfer to Registered Economy
- Capacity Building for Controlling Authorities
- Efficient Punishment
- Fair Tax Policy
- Improved Communication and Transparency

Further Action



- The Action Plan is accepted by the Cabinet of Ministers on 10th August 2010
- Working group will:
 - Follow-up the implementation of the Action Plan,,
 - Develop new proposals, if necessary
- During next three years every six months the Working Group will report to the Cabinet of Ministers about progress



**Thank You for Your
Attention!**