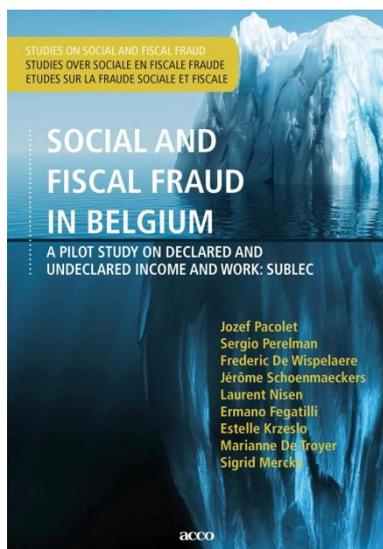


SOCIAL AND FISCAL FRAUD IN BELGIUM

A pilot study on declared and undeclared income and work: SUBLEC

SUMMARY



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Foreword

‘Tussen droom en daad staan wetten en praktische bezwaren’ (‘Between dream and reality there are laws and practical objections’) is a well known quote of the Flemish writer Willem Elsschot. The dreams and ambitions of the FPS Social Security, PPS Science Policy and the researchers to organize a ‘full-blown’ survey on the size and scope of undeclared work and income, social and fiscal fraud has only be realized partially in this project because of the limited size of the sample. This makes detailed analysis and interpretation premature. But we do have the feeling that the instrument for obtaining this information and the methodology has been improved. The first analysis seduces to tentative and perhaps also speculative conclusions. But we should reverse them in research hypotheses for such a full-blown roll-out of the survey in the future. Since the survey turned out a pilot study on methodology and potential use of the results, this report does not provide the final answers but, on the contrary, opens many new hypotheses and questions that could have been answered by this type of research. But many times we could not resist in making tentative and probably speculative interpretations. They are meant as a challenging teaser for further work on this unfinished project. But perhaps also as an inspiring trigger for further policy already now. Since it opens, not with complete certainty, but will that ever be possible on the underground economy that wants to stay uncovered, but enough convincing to think about further actions and targets. This report also includes suggestions for further improvement of the methodology and the survey instrument, including new hypotheses to be verified.

The questionnaire was not only inspired by obtaining a broad and exhaustive overview of all kind of forms of social and fiscal fraud, its occurrence, its determinants, and its volume. Besides exhaustiveness and accurateness, it was also intended to create a sound database for empirical verification of the theory about compliance and non-compliance. At the same time it reflects in many items that the problem of fraud and the fight against it is an actual topic.

The project could be organized within an agreeable context of mutual understanding of the research teams at the KU Leuven (HIVA), the ULg (CREPP) and ULB (METICES). It benefited from the financial support of the PPS Science Policy and the FPS Social Security within the context of the AGORA-programme and the financing of the field work by the FPS Social Security. We especially owe gratitude to Aziz Naji of BELSPO and Didier Verbeke and Koen Vleminckx of the FPS Social Security for their stimulating support and leading engagement to further develop the research on the undeclared economy in Belgium. The CBSS, the Sectoral Committee of Social Security of the Privacy Commission and SMALS made this

survey possible by providing us their principal agreement and practical help and support in defining and contacting the sample population. Here Chris Brys of the CBSS was our guide on this road between scientific dreams and laws and practical obstacles. A steering committee of the representative stakeholders in the fight against fraud further accompanied us with comments and feedback during the preparatory work.

The survey departments of respectively HIVA and CREPP, their enthusiastic collaborators and interviewers made the roll-out of the survey less of an adventure but more of a learning tour between our respondents. It is finally the willingness of the respondents to answer that gives this report content and body. From the individual stories and points of view of those respondents, the real life, we hopefully reconstructed somewhat of a realistic although preliminary picture of this real economy with this report. Errors and misunderstandings and too speculative jumps to conclusions are the sole responsibility of the researchers. They hope to share their enthusiasm in the search for a scientific view on these phenomena in the societal debate on fraud and the ways how to reduce it.

Chapter 9

Summary and conclusions

The pilot study on declared and undeclared work and income was organized in the summer of 2010. It was the end of a long preparatory road of assessing the desirability and feasibility of a direct methodology to describe the size, structure and determinants of undeclared work and income. The preparatory road included stock taking of international experience on this direct methodology, identifying the scope of the survey and identifying the optimal methodology in as well sampling and defining the questionnaire, preparing and discussing the needed agreements, not in the least to guarantee privacy rules and the financing of a larger scale survey and finally informing and mobilizing the stakeholders.

This report can now present the temporary endpoint of this road. For many reasons the roll-out was different than originally planned so that instead of a large scale population survey it had to be reduced to a nevertheless also already reasonable size, a decent pilot study on the methodology of organizing a survey on undeclared work and income in Belgium. It ended up with a large definition of supply of and demand for undeclared activities, social and fiscal fraud and benefit fraud and a broad overview of the characteristics and possible determinants, within an almost complete sample of the Belgian population between 18 and 75, differentiated along social-economic categories.

This project had the ambition to organize a survey about the underground economy. This was not limited to only undeclared work but also integrated social benefit fraud and different other forms of fiscal fraud. Due to the small number of respondents this study has to be considered as a pilot study. This report is partial, tentative and sometimes maybe even speculative. It is certainly not to be considered as definitive. It has been a validation of the feasibility of such a survey, the instrument, and the relevance. For some elements we could verify some of the answers with the results in the Special Eurobarometer No. 284 from 2007, for other elements, further external validation was warranted but we refrained from it because of the size of the sample.

The survey on undeclared work and income was organized to inform policy makers on the size of these phenomena, and provide recommendations for policy makers to better fight undeclared work and income. Because of the size of the survey the observations that can be made now are rather recommendations on how to proceed further, and not the definitive answers (as far as research ever provides definitive answers) on size, structure and how to fight it better.

The observations are to be read as tentative, sometime counterintuitive, sometimes challenging existing evidence and opinion, and worth to be used as hypotheses for further verification

and research. Many times however the relevance of the collected information for the debate on undeclared work and income has been given. Within this large questionnaire and population sample sub-questionnaires and subsamples were defined, so that one SUBLEC survey embedded many partial surveys on all the considered phenomena of social and fiscal fraud.

Below, we describe the strengths and weaknesses of the design and roll-out of our survey, some tentative results and finally some illustrations of the use in the policy debate, and a final recommendation to continue along the road we took.

1. Strengths and weaknesses of the present pilot study

We presented here a quasi detailed analysis as if we had a full scale database. This was worthwhile since it could reveal some of the inconsistencies in the questions or the answers, but at the same time it already revealed the relevance of the collected information. At the same time we limited our reporting since going in further detail did not make sense since a larger sample was needed for analyzing along those lines of detail.

2. Some summary of first tentative results

38.8% of the Belgian respondents bought an undeclared good or service during the last 12 months. This percentage of demand for undeclared work is much higher than in the Eurobarometer for Belgium and for the EU27. But not only the percentage of people who are asking for undeclared work is important, the amount of this undeclared work is of a great importance too. During the last 12 months an average amount of € 1,553 was spent on the most expensive undeclared goods or services. This amount is higher than the results in the Eurobarometer (Belgium: € 1,050 and EU27: € 1,028).

Table 9.1. Size of undeclared work.

	SUBLEC	Eurobarometer: Belgium	Eurobarometer: EU27
<i>Demand for undeclared work: services/goods</i>			
General	38.8%		11%
– Services	35.2%	15%	9%
– Goods	14.1%	8%	6%
Average amount (€)	1,553	1,050	1,028
% GDP	1.9%	0.6%	0.5%
<i>Supply of undeclared work: services/goods</i>			
General	14.1%	6%	5%
Average amount (€)	1,332	1,000	1,119
% GDP	0.6%	0.2%	0.2%

Source: Own calculations based on SUBLEC data; EC, 2007.

Also the percentage of supply of undeclared work (14.1%) is higher in the SUBLEC survey than in the Eurobarometer for Belgium (6%) and for the EU27 (5%). The average amount received for the undeclared work during the last 12 months is € 1,332, which is somewhat higher than the results in the Eurobarometer (Belgium: € 1,000 and EU27: € 1,119).

The frequency and volume of undeclared work can be translated in a percentage of the GDP. 1.9% of the GDP is spent on undeclared goods and services and 0.6% of the GDP is lost by carrying out undeclared work. Normally the demand for and the supply of undeclared work should be equal to each other. Questions about the demand for undeclared work and the extent of it can be considered as less sensitive than the supply of undeclared work. The volume of the supply of undeclared work will be an underestimation. Probably this will also be the case for the demand for undeclared work. These figures are also higher than the results from the Eurobarometer.

On the basis of a probit analysis it was possible to verify which independent variables had an influence on the demand for and the supply of undeclared work and on fiscal fraud. None of the independent variables are significant for all the three dependent variables.

Table 9.2. Probit analysis.

Parameter	Variable	Demand for undeclared work		Supply of undeclared work		Fiscal fraud	
		Estimation	Pr > Khi ²	Estimation	Pr > Khi ²	Estimation	Pr > Khi ²
Intercept		-0.3613	0.3172	-2.1466	0.0001***	0.5952	0.0752*
Sex	<i>Man</i>	-0.0331	0.8543	0.6068	0.013**	0.0162	0.9305
Region	<i>French-speaking</i>	-0.0896	0.6217	0.424	0.087*	-0.2762	0.1495
Socio-economic category	<i>Self-employed</i>	0.8488	0.0327**	0.1701	0.6884	0.1999	0.6179
	<i>Benefits recipient</i>	-0.4383	0.0248**	-0.7391	0.0094***	0.3426	0.0932*
	<i>Inactive</i>	-0.4079	0.2298	0.3395	0.3443	0.0457	0.8858
Know someone (demand)	<i>Yes</i>	0.8468	0.0006***				
Know someone (supply)				1.1406	0.0106**		
Know someone (fiscal fraud)						-0.0152	0.9379
Income (1)	<i>Difficult</i>	-0.3393	0.0710*	0.1508	0.5495	0.0667	0.7337
Morality (2)	<i>Totally agree</i>	-0.5279	0.0661*	-0.652	0.0575*	0.3207	0.271
	<i>Rather agree</i>	0.261	0.3768	-0.5856	0.0847*	-0.0158	0.9571
	<i>Disagree</i>	-0.1914	0.6261	-0.23	0.6265	-0.1203	0.7575

Note: *, **, and *** indicate significance at the 10%, 5% and 1% level, respectively.

1 Get by on their monthly income?

2 The tax burden is too high in Belgium?

Source: Own calculations based on SUBLEC data.

Knowing persons who are asking for or carrying out undeclared work has a positive influence on doing this also. The impact of information about others' behavior on the decision

to commit fraud was also recently observed by laboratory experiments about tax evasion and welfare fraud (Lefebvre, Pestieau, Riedl and Villeval, 2011). The sex has no influence on the decision to buy undeclared goods or services. This is not the case for the supply of undeclared work, where men are more likely to do undeclared work. Being a benefit recipient has a negative influence on the decision to ask for undeclared work or to carry out undeclared work. Self-employed persons appear to ask for undeclared goods and services more frequently. Those results alone need a further research since they challenge the usual opinions on those matters to a large degree.

It was our intention to draw a detailed picture of the underground economy in Belgium. Due to the lack of respondents this was not fully possible. Nevertheless we have obtained indications of the size of different aspects of the underground economy. In the table below we have listed the frequency, the volume and the number of people who know someone committed this fraud for each of the different aspects.

Table 9.3. Summary of the Belgian underground economy.

	Frequency (% of people)	Volume (% of total amount)	Know someone
Demand for undeclared work	38.8%		79.2%
Supply of undeclared work	14.1%		78.5%
Envelope wage	2.0%		
Social benefit fraud	5.6%		52.1%
Benefit cumulated with undeclared work	4.3%		
Tax return not completely correct	24.1%	2.3%*	
Capital revenues	3.5%	6.6%	33.6%
Real estate income	0.3%	30%	27.3%
Inheritance	5.5%	49.7%	41.3%
Registration fee	1.9%	11.2%	40.3%

* Asked to all respondents.

Source: Own calculations based on SUBLEC data.

3. Relevance for policy making and how to continue

The observations are to be read as tentative, sometimes counterintuitive, sometimes challenging existing evidence and opinion, and worth to be used as hypothesis for further verification and research. Many times however the relevance of the collected information for the societal debate on undeclared work and income has been given. The comments we made on some of the observations are sometimes not even tentative but risk being speculative, and should be read as such. Examples are about the groups more or less at risk for fraud, about the determinants for fraud (fiscal pressure, lack of control, bad examples, morality), about the appropriate ways to tackle it (fiscal pressure, perseverance in control since it could have a deterrence effect, awareness campaigns).

By using a large and exhaustive definition of social and fiscal fraud (only tax avoidance is not included since it can be collected, but has not been done up until now, from registered information) the survey can be used for many policy makers and subcategories of the population.

A population survey needs a certain size to guarantee representativeness and allow more detailed analyses. This one was exhaustive and moderately intensive (we know more intensive population surveys), so that it is time consuming and costly. It can provide figures about the underground structure of our economy and economic behavior, so that it takes place on a regular, but not permanent basis. There are even good reasons to repeat it with a certain time gap.