

# GREY ECONOMY IN THE CONSTRUCTION INDUSTRY



Bachelor's thesis

HAMK Valkeakoski, International Business

Autumn 2020

Hannele Kerkkänen

Bachelor of Business Administration  
Valkeakoski

---

<b>Author</b>	Hannele Kerkkänen	<b>Year</b> 2020
<b>Title</b>	Grey Economy in the Construction Industry	
<b>Supervisor(s)</b>	Dawn Aarnio / Ricardo Galiot	

---

#### TIIVISTELMÄ

Tämä lopputyö käsittelee harmaata taloutta Suomessa ja sitä, miten pienet yritykset rakennusalailla kokevat harmaan talouden torjunnan. Pitkien urakkaketjujen ja rakennustyömaiden monimuotoisuuden vuoksi rakennusala on yksi niistä aloista, joilla harmaata taloutta harjoitetaan eniten. Harmaata taloutta harjoitetaan monin eri tavoin, mutta on myös tehokkaita keinoja, joilla viranomaiset ja rakennustyömaat voivat taistella sitä vastaan. Tutkimuksessa käytetty metodi on kvalitatiivinen ja kirjoittaja haastatteli muutamaa pienyritystä harmaan talouden eri näkökulmista. Johtopäätöksenä voi sanoa, että pienet yritykset kokevat harmaan talouden torjumisen positiivisena asiana ja he näkevät sen osana työtään. He kuitenkin ovat myös sitä mieltä, että harmaan talouden torjumiseen pitäisi olla enemmän resursseja, etenkin pienten työmaiden valvontaan.

**Avainsanat** Pimeä työ, ALV, veronkierto, petos

**Sivut** 37 sivua, joita liitteitä 1 sivu

Bachelor of Business Administration  
Valkeakoski

---

<b>Author</b>	Hannele Kerkkänen	<b>Year</b> 2020
<b>Subject</b>	Grey Economy in the Construction Industry	
<b>Supervisor(s)</b>	Dawn Aarnio / Ricardo Galiot	

---

ABSTRACT

This final thesis is about the grey economy in Finland and how small companies in the construction industry experience preventing it. Due to the long contractor chains and the diversity of sites the construction field is among the fields where the grey economy is operated the most. There are many ways to operate the grey economy but also efficient techniques how different authorities and construction sites can fight against it. The method used in the research is qualitative and the author interviewed some small companies about different aspects of the grey economy. As a conclusion, small companies feel positive about preventing the grey economy and they see it as a part of their work. However, in their opinion there should be more resources for controlling the small construction sites.

**Keywords** Undeclared work, VAT, tax avoidance, fraud

**Pages** 37 pages including appendices 1 page

# CONTENTS

1	INTRODUCTION .....	1
2	WAYS TO OPERATE THE GREY ECONOMY IN THE CONSTRUCTION INDUSTRY.....	2
2.1	Undeclared work.....	3
2.2	Tax returns with wrong information and applying for unjustified VAT refunds.	5
2.3	Public procurement and other crimes related to the grey economy .....	5
2.4	The ways how companies can be used as “tools” in frauds .....	8
3	PREVENTING THE GREY ECONOMY .....	9
3.1	Vastuu Group .....	9
3.2	Services of Vastuu Group .....	10
3.3	Ways that construction companies can use to prevent the grey economy .....	11
4	AUTHORITIES PREVENTING THE GREY ECONOMY .....	12
4.1	Finnish grey economy related institutions.....	12
4.2	VAT reverse charge .....	17
4.3	The Income Register.....	18
4.4	Tax evasion form and government actions.....	19
5	INTERNATIONAL COOPERATION .....	20
5.1	European Labour Authority.....	21
5.2	EU platform .....	22
5.3	#EU4FairWork campaign.....	22
6	RESEARCH AND ANALYSIS .....	23
6.1	Research method and planning the research .....	23
6.2	Analysis.....	26
6.3	Evaluation of the research .....	28
7	RECOMMENDATIONS .....	29
8	CONCLUSION .....	30
	REFERENCES.....	32

## Appendices

### Appendix 1 Interview questions

## 1 INTRODUCTION

This final thesis is about preventing the grey economy in the construction business in Finland. The author works at a construction site as a project assistant and wanted to link the research topic to her work, however, through work it became apparent that the grey economy seems to be a sensitive topic and that is why forming the research question and planning the research was crucial. As a topic, the grey economy is very important, and it extends not only to the construction business but also to all business fields and the whole society.

The grey economy is a broad concept that often includes other forms of crime and it is sometimes difficult to recognize. The construction business is one of the critical fields where the grey economy is operated, mainly since the contract chains may be long and especially small sites are not controlled very tightly. There are many techniques which can be used to prevent the grey economy by the authorities, companies or entrepreneurs and construction sites. They are explained further in the chapters 3 and 4. The grey economy (also called informal sector or black economy) means economic activities that occur outside the country's rules and regulations and that are not monitored in any way by the government. Usually in Finland a company that operates within the grey economy fails to pay taxes or other mandatory payments. The grey economy also includes abusing social benefits. Since the Finnish society is highly run by taxes – for example public health care, schools and maintaining roads are financed by them – operating within the grey economy means that there are less taxes available for the public functions. As a result, other people and companies need to pay more taxes and dishonest companies engaging in the grey economy might get a competitive advantage of even millions of euros. There are consequences also for the employees: undeclared work does not accumulate a pension, the employees are not insured against an accident and employee's training possibilities are also poor. Therefore, the grey economy causes problems for both individuals and society. There are various estimations of how much society loses taxes every year because of the grey economy, but it is stated that the loss is about 500 million euros per year only because of the grey economy in the construction business. Penalties given for engaging in the grey economy are not significant comparing to that. (Verokampus, n.d.; Investopedia, n.d.; Rakennusteollisuus RT, n.d.; Yle, 2014)

The company that the author works in is one of the biggest construction companies in Finland and through her tasks the author has become familiar with big company's ways of preventing the grey economy. That is why she is now interested in how small construction companies experience preventing the grey economy in Finland. Therefore, the

research question is: “How do small companies experience preventing the grey economy in the construction business?” In this research, small company means a company with less than ten employees.

The method used in this research is qualitative and the author interviewed some small companies. The topic is broad and the idea of using a qualitative method was to create conversation and give the interviewees a possibility to tell about their own experiences. The reactions of the interviewees might also tell something and therefore quantitative method could have probably been too narrow for this kind of topic. The author created some interview questions to keep the interview on general level so that the interviewees did not feel that she was asking if they pay taxes or not.

This thesis starts with a theory part, which gives background of the many forms of the grey economy, for example frauds, receipt trade and undeclared work. The author also presents ways that authorities, companies, and entrepreneurs use to prevent it and what is the role of Vastuu Group in helping companies to become reliable partners. The grey economy phenomena are universal, so the theory part also gives an international point of view on how authorities in the EU area fight against the grey economy and corruption through mutual projects, campaigns, and exchange of officials. After the theory part there is the research part which goes through the challenges in planning the research, conducting it, the interview questions, and the interviewees’ responses. The analysis part reflects the answers to the theory part. The recommendation part follows the analysis and gives suggestions what should be done in the construction business and in general in the society to make preventing the grey economy more efficient and effective. The final part is the conclusion.

## **2 WAYS TO OPERATE THE GREY ECONOMY IN THE CONSTRUCTION INDUSTRY**

There are several ways to operate the grey economy. Some of the cases are revealed in tax audits conducted by tax authorities and the most severe cases might end in consideration of a criminal report. Every year there are approximately 1800-2000 criminal reports filed for financial crimes. It seems that the well-functioning economy causes less reports and vice versa. In the construction industry, it is very typical to use many subcontractors (chaining the contracts) and foreign workforce. This is why the construction industry is a typical field for the grey economy. (Verohallinto, n.d.; Ministry of the Interior, n.d.)

## 2.1 Undeclared work

The European Commission has defined undeclared work as “any paid activities that are lawful as regards their nature but not declared to public authorities, taking account differences in the regulatory systems of the Member States”. (European Commission, 2014). This definition includes all the legal work and therefore for instance, drug trafficking is cut out. The European Commission has formed this definition to enable discussion and actions in all the EU countries since the grey economy is a problem everywhere and can occur in any industry. (European Commission, 2014)

Work can be partially undeclared (sometimes called “under-declared work” or “cash-in-hand”) or fully undeclared. In the case of partially undeclared work, the employer can pay only a part – often a very small part – of the salary officially and the rest under the table. In this case the employees might make more money than fully declared work, but their pension does not get accumulated to the extent that it should. (European Commission, 2014)

If work is fully undeclared, it means that the employer does not pay any taxes or contributions from the salary, nor have the parties signed an employment contract. It is also possible that for example, a construction entrepreneur makes undeclared “own account” work and sells services for households or companies. A self-employed person can always influence on working conditions but especially employees making fully undeclared work might face many negative consequences. Since the employees do not officially exist, their safety and working conditions might not be taken care of and they might have limited rights to annual holidays. There might not be required healthcare available or it is poorly arranged, and their training possibilities can be neglected. (European Commission, 2014)

Due to unpaid taxes and for example social security payments, the company can keep the prices of their goods and services low. This means that undeclared work creates unfair competition. As mentioned above, unpaid taxes might decrease the quality of public services, for instance childcare or services targeted at older people. Employees making undeclared work do not have good promotion possibilities and usually their employer does not invest in their life-long learning. This results in poor skills of the workforce. (European Commission, 2014)

Free movement within the EU area has made undeclared work in Finland more common. Most often foreign workforce comes to Finland from Baltic countries, Ukraine, and former Soviet Union countries. Also, recently increased number of refugees and asylum seekers has brought more people without identity papers to Finland. Increased use of foreign

workforce enables non-Finnish entrepreneurs to hire their countrymen and probably to take advantage of them. In these cases, it might feel natural to agree on salary and other work conditions based on the rules of their home country – even though they may conflict with the Finnish ones. Underpayment of non-Finnish employees seems to be an issue that comes to light only seldom. There are three main reasons for this: first, there are different interpretations of law and the law does not state any clear preventive actions for this. Second, very few underpayment cases end up in court and there are no strict punishments given. The last reason is that the authorities are lacking the means to intervene in underpayment cases. One potential way to reveal underpayment cases could be conducting occupational safety and tax audit to the company at the same time. (Grey economy & economic Crime, 2020)

Grey economy & economic crime (Harmaa Talous & Talousrikollisuus) website is a joint project of authorities who fight against the grey economy in Finland. They give a good example of undeclared work (and tax avoidance) in the following story on their webpage. The story is fictional, and the company mentioned in it does not exist.

Raimon Raksa Oy is a Finnish company, whose owner Raimo thinks that their business is not doing well enough. Competition is hard, and due to all the mandatory payments, he does not make as much money as he likes. Raimo decides to declare only a part of the salaries he pays to his employees; they are all fine with this.

In addition to this, Raimo buys two Estonian companies. The companies are fully owned by him, but he pays good money to two Estonian men so that they give their names to the official documents. It looks like these Estonian companies are invoicing Raimo's Finnish company and Raimo is paying them. However, later the money is passed on from the Estonian account to Raimo's Finnish ones.

The trick begins to be revealed when one of Raimo's employee has second thoughts and he declares his full salary from Raimon Raksa Oy. Even though Raimo makes up an explanation to the tax authorities who are investigating this ambiguity, it does not help, and the authorities get crucial information from Estonia about these two companies that in reality have not had any business activities together.

In the end, Raimo's company is ordered to make the payments he has not made, and all the neglects are reported for example to Kela, Regional State Administrative Agency, Accident Insurance Center and Finnish Centre for Pensions. The company is also subjected to tax increase and Tax Administration also reports the case to the police. (Harmaa Talous & Talousrikollisuus, 2019)



## 2.2 Tax returns with wrong information and applying for unjustified VAT refunds

Companies might try to get value added tax (VAT) refunds by giving false information about their business. VAT refunds frauds include for example giving information about business that does not exist or tax returns with incorrect information. (Taloustaito, 2019)

Especially in the construction industry it is highly important that the companies know their business partners and their financial situation. If someone in the trading chain tries to avoid VAT, it is possible to get involved in the fraud unintentionally. Usually a company who has participated in the fraudulent actions by accident is not held responsible if they have taken the normal precautions and checked their business partner's credibility beforehand. (Grey economy & economic Crime, 2019)

A good example case would be a normal, honest entrepreneur who wants to extent his business and therefore sends requests for quotation. Surprisingly, he gets a quotation from a company that is new in the market. The price in their quotation is very tempting and since their website seems to be fine, the entrepreneur decides to go for it. When he later tries to contact this new company again, their name and contact details have changed. This is quite a clear sign that the company is not making honest business, because setting up a limited liability company is easy and quick and so is quitting it. Since the companies of dishonest operators are only temporary, they can make quotations that sound too good to be true. The entrepreneur in this example has acted in good faith, but if he has not checked the background of the new company carefully enough, there might be consequences for him too. (Taloustaito, 2020)

There are several signs that tell that a new market operator might have a fake business. These signs are for example too good quotations, company's insufficient knowledge about their products and changes in the contact details. The seller might also demand cash payment, payment to a foreign bank account or several bank accounts. (Taloustaito, 2020)

## 2.3 Public procurement and other crimes related to the grey economy

Public procurement creates a favourable base for the grey economy. Direct procurement means that there is no public tender, but only negotiations between the buyer and a possible supplier. Often these cases are justified with hurry or the supplier's strong capability of doing the job. Persons or organizations doing public procurement are vulnerable to get corrupted by a supplier candidate. The reason behind corruption might be for example an "old boys' network" or avoiding competition. The supplier candidates might also avoid taxes and therefore make under-priced offers. In the public procurement the grey economy is often closely related to receipt trade and VAT frauds. (Grey economy & economic Crime, 2019)

In Finland, the Ministry of Justice coordinates the project against corruption, which is a part of the program of preventing the grey economy. As a part of this program in 2016-2019 the Ministry of Justice has published articles that suggest improvements and new ways to prevent corruption and the grey economy. According to these articles, the most important is that the risks are identified, money transactions are as transparent as possible and there is enough information and training available. For example, strengthening the know-how of the people making public procurement and making prevention of corruption a part of internal supervision would help to prevent and identify potential corruption cases. The articles also list suggestions how authorities' work against corruption could be improved: the amount of training should be increased, especially to those authorities who have capabilities to perceive corruption on an early stage, authorities' cooperation should be increased and there should be more clear and safe ways to report possible cases. Identifying and preventing corruption is highly important because as mentioned above, it might reveal other crimes too, and only a small portion of all the corruption cases come to light. In addition to Ministry of Justice, for example Ministry of the Interior and Ministry for Foreign Affairs have key roles in preventing corruption too. Finland also participates in international corruption prevention in many networks: Ministry of Justice works together with European Union, the United Nations and the Organisation for Economic Co-operation and Development (OECD). (Keino, 2019; Ministry of Justice, n.d.)

There are several ways companies can do to hide their questionable actions. Companies can nominate a "front man", who gives his name to use in the business functions against a financial compensation. However, sometimes these "front men" do not even know that their names have been used in illegal actions. Usually the "front men" are needed to establish a company and arrange the money transactions. Very often companies that operate within the grey economy engage also in money laundering and receipt trade. The latter one means that a company buys receipts from other company about non-existing purchase. Everyone involving in receipt trade – the ones who order the receipts, the ones who receive them and the ones making them – commits a crime. Receipt trade enables a company to cover undeclared work and reduce the amount of VAT. (Grey economy & economic crime, 2020; Musta tulevaisuus, n.d.; Uusi Suomi, 2009)

Corruption is often revealed when investigating tax crimes. In the construction industry bribing people who are responsible for making contracts creates a favorable environment for other forms of the grey economy, for example money laundering. Corruption also influences the competition and might prevent newcomers from entering the market. Corruption has many forms but especially some of them show in the construction industry. Conflict of interest means that an organization or an

individual has several interests that might make a person's or organization's decision-making, or motives corrupted. A person can also have a dual role which means that he participates both in competitive tender and the decision-making. Also, favoring some company or individual can occur. (Grey economy & economic crime, 2020)

Environmental crimes are closely related to the grey economy. Companies executing illegal business often ignore regulations and rules for protecting environment and it has many negative consequences, for instance neglect of waste management, inappropriate handling and storing of hazardous waste and improper disposal of construction and demolition waste. Especially in the construction industry there is a high risk that environmental crimes become a form of organized criminality. Environmental crimes are often very difficult to recognize, since authorities often need to know what they are looking for, for example undetectable emission. Also, environmental crimes often have long-term impacts, so they cannot be noticed right away. If a person committing an environmental crime achieves significant profit, it is counted as an economic crime. However, Finnish authorities get relatively little information about environmental crimes, even though people are nowadays very interested in nature and aware of potential abuses against it. (Musta tulevaisuus, n.d.; Haaste, 2013, Uusitalo, 2015, p. 41-42)

Frauds might also include identity crimes. Other person's identity can be used to make purchases, open bank accounts, and take loans. In Finnish tax frauds identity thief can cheat at least tax authorities, insurance companies and Kela. In identity crimes the pattern often remains the same: make financial profit, transfer the money abroad and disappear. It is very hard for the victims to get their money back once they are out of country. Criminals commit identity crimes also to get unjustified VAT refunds, for example by making a counterfeit announcement of change of bank account number. In so called "CEO frauds" the criminals impersonate the managers of the company and convince the finance department to pay them huge amount of money. The criminals use many several ways to get a person's or company's contact details: official business register, social media like LinkedIn or for example company's websites. According to the Chamber of Commerce the number of identity crimes has increased within the past few years: in 2017 they made criminal security survey (Yritysten rikosturvallisuus 2017) and 8% of all the respondents said that identity of the company was stolen or was tried to be stolen within the past three years. The number was much higher than in 2012 when it was only 3%. The survey also revealed that big companies seem to be victims of identity crimes more often than small companies. (Grey economy & economic crime, 2020; Rahkonen & Varde, 2019, p. 24-25)

Especially identity crimes require careful planning and knowing the victim thoroughly. Very often people operating within the grey economy are the ones who already have criminal background and they might be a part of

organized crime with international network. (Grey economy & economic crime, 2020)

#### 2.4 The ways how companies can be used as “tools” in frauds

As explained above, there are many ways to operate the grey economy. Companies can act alone (for example hire people to do undeclared work), they can cooperate with other companies (selling and buying receipts) and criminals can use honest companies illegally as “tools” to make profit. Very often this is done by professional organized criminals. According to Grey economy & economic crime (2020), there are four ways companies can be used in frauds:

- 1) The first way is to establish a new company only for a fraudulent purpose. The founders make it look like a real, business making company with professional-looking website, that no one would doubt. “Front men” are nominated to the management and the company starts doing business as much and fast as they can. The idea is to make many contracts and buy or sell material but leave the invoices unpaid or the goods undelivered. The company cannot keep doing this kind of “business” very long without getting caught, so usually the company disappears in a month or two.
- 2) The second way is to find a company that is doing bad and is close to the bankruptcy. The criminals buy the company which usually is at that point very cheap and which already has a nominal management and starts selling or buying the same way as in the first case. The rest is also the same: goods or money are collected, costs are ignored and the criminals are usually gone before legal authorities start to suspect anything. A small company is a potential victim, especially if the criminals buy goods and then disappear with them.
- 3) The third way is more arrogant than the first two ones. In this case a normal, fully functioning company is taken over and its management is changed in the trade register. New management is formed by the “front men”, who might not even know what is going on. The frauds (making false contracts and cheat money for example) must be done fast because this kind of crimes are usually revealed soon. The criminals take off as fast as they came, and the victims are left behind to sort out the harm they were caused.
- 4) The last way is to use the name and reputation of an honest company. Criminals order goods for the victimized company, but to the exceptional delivery address. The goods are received by the criminals pretending to be the employees of the company and the invoice has been sent to the company’s accounts receivable. The criminals are shortly gone with the goods. These cases are quite easy to prevent if

the company's customer service is aware of the risk and doublechecks the delivery address for example with the sales representative beforehand. This kind of fraud is usually possible only in a big company which has many employees and delivery addresses.

### 3 PREVENTING THE GREY ECONOMY

#### 3.1 Vastuu Group

Vastuu Group is a partner especially in the construction industry that helps companies with everything that society or law requires. Earlier – when the name of the company was Suomen Tilaajavastuu – their focus was to support all the construction companies. Nowadays that is still one of their goals, but they also have several services for clients' different businesses and situations and they also focus on developing digitalization in the construction field. By collecting data through their services and sharing it publicly they want to support their clients and partners to become better and more responsible builders, decision-makers and consumers. Vastuu Group is owned by several unions, for instance Rakennusliitto RT and Talonrakennusteollisuus Ry. (Vastuu Group, n.d.)

The law states that the client must make sure that the supplier has fulfilled their prescribed responsibilities, this is called the Act on the Contractor's Obligation and Liability when Work is Contracted out. Therefore, the supplier must deliver the liability data to the client before the contract can be signed and the supplier is also required to keep the data up to date. The liability data includes many documents, for example an extract from the Trade Register, certificates for the pension insurances and mandatory accident insurance and a document that shows how the occupational healthcare is arranged. The documents may not be more than three months old. The purpose of this Act is to prevent the grey economy and contribute the health and fair competition. Vastuu Group is helping the companies to comply with this Act. (Vastuu Group, n.d.)

According to Grey economy & economic crime (2020) in the case of client abusing the obligation to check their partner's liability, it might result in a negligence fee. There are three different cases where a negligence fee might be imposed:

- 1) The client has ignored their obligation to check their partner's liability.
- 2) The client has made a contract with an entrepreneur (or company) who has been prohibited from engaging in any business.

- 3) The client has made a contract with a partner even though it is known that the other party does not fulfil their obligations as an employer or a contracting party for example by ignoring mandatory payments.

There are many documents involved in complying with this Act and one of the services of Vastuu Group is that they gather all the data needed from different sources and keep it up to date. Using this service means that the client is a Reliable partner and get an access to Reliable Partner material (logo, stickers), which can be used in their marketing to show that the company is an honest and reliable partner. Reliable Partner is a well-known concept in Finland, and it has an excellent reputation. (Vastuu Group, n.d.)

### 3.2 Services of Vastuu Group

Probably the most visible and best-known service of Vastuu Group is Valtticard. All the employees working on construction sites need to have an ID card that shows the employees' name, photo, tax number and employer. Valtticard is an electronic card that contains all that information and in addition to that, it can be used as an access card to the site and if employee's competences have been uploaded to Taito Competence Register, the card shows them too. This is very useful since earlier the employees needed to carry various cards with them to show their qualifications for example for occupational safety and first aid. Now, there are almost half a million Valtticards in Finland and the detailed instruction for ordering one can be found in Vastuu Group websites. (Vastuu Group, n.d.)



Figure 1: Picture of Valttikortti  
(Vastuu Group, n.d.)

The other service of Vastuu Group is called Valvoja. If the client is using many subcontractors, Valvoja helps to monitor them and save time. If the client's supplier is registered in Reliable Partner Register, the client gets access to their documents automatically by using Valvoja tool. If the suppliers are not in the register, they can be recommended to join it; they benefit from it too. Valvoja keeps an eye on the documents and informs the client if there are any changes in them. Valvoja also helps the user to make purchases from responsible suppliers since the service also shows their credit rating information. There are also available videos, instruction, and free webinars for the user of Valvoja tool (Vastuu Group, n.d.)

The Building Site Register is also a tool provided by Vastuu Group and it helps to forward information to the Tax Administration. The Tax Procedure Act requires that sites send them information every month about the employees and contractors working on the site and contract prices. In the subcontractor chains every client is responsible for providing information about their contractors. The Building Site Register service collects data, and the client can easily send the summary to the Tax Administration. The service also works as a managing tool since it for example collects a list of persons who currently have a valid access to the site. The Building Site Register is available with different licenses so that the sites can link different programs (for example financial management system) to the service if they like. By doing this the service works as an electronic archive and reduces paperwork. (Vastuu Group, n.d.; Verohallinto, 2018)

### **3.3 Ways that construction companies can use to prevent the grey economy**

In addition to the ways Vastuu Group and Tax Administration can use to prevent the grey economy, construction companies and actual sites can also set different rules that apply to everyone working on the site.

The main contractor can demand the necessary documents from all the companies in the subcontractor chain. This means that the main contractor wants to be fully aware not only how their contractors are doing, but also how their subcontractors are doing and how their financial situation is. The main contractor can also limit the number of subcontractors in the subcontractor chain. This makes it for example easier to manage all the documents. The third rule the main contractor can set is to demand a right to accept separately every subcontractor that the contractors are using. If the subcontractor seems unstable regarding their financial situation or supply capability, they can be shut out before the construction process is in a critical phase. (Verohallinto, 2017)

The sites are also using a lot of electronic systems to take care of the obligations and help with project management. Self-control, for example access control, can be also monitored via electronic systems. In 2014 the

Safety at Work Act changed, and this resulted in the main contractor being responsible for keeping a list of everyone working on the site. The list needs to tell several details of the employees: full name, date of birth, tax number, start day and end day of work and employer's name and business ID. If an employee is normally working in some other country but he has been sent to Finland for example as leased work force the list of workers has to tell also who represent the employee in Finland and their contact details. Maintaining a list of workers is supervised by Regional State Administrative Agency and neglecting access control might result in a penalty fee. The list needs to be maintained for the whole construction period and six years after it has been finished. If the building under construction is going to be in private use, there is no need to keep any list of workers. (Verohallinto, 2017; Rakennusteollisuus RT, n.d.; Iso-Oja, 2014, p. 10, 12)

Even though the access control was electronically managed, it is not 100% secure. There are occasions when the headcount on the site is actually much higher than the list of workers says. These situations can be for instance letting intentionally or unintentionally in people who are not working there or who are arriving to the site in a car and just forget to log in. Paying attention to the proper site-fencing, keeping the gates closed and reminding the workers of the rules makes it easier to manage the actual headcount on the site. (Spectron, n.d.)

Even households need to send some information to the Tax Administration of their construction work. If a consumer wants to renovate a house or build something new, it is important to check if building permit is needed. If it is, then Tax Administration requires the consumer to submit a report of the construction work. The report must include all the contracts and invoices and it needs to be submitted before the building inspector makes a visit to the site. At the end of the project, all the invoices paid must be submitted. In these cases, there is not much room for practicing the grey economy, but it is still possible in the household renovations that do not require building permits. (Verohallinto, 2019)

## **4 AUTHORITIES PREVENTING THE GREY ECONOMY**

### **4.1 Finnish grey economy related institutions**

Regional State Administrative Agencies is a national bureau in Finland, and they cooperate closely with other authorities, They have six regional offices and many responsibilities, for example giving guidelines and supervising social services, alcohol policies, early childhood education and environmental protection. One of the responsibilities of Regional State



Administrative Agencies that applies closely to construction business is supervising health and safety at work. (Aluehallintovirasto, 2020)

The most effective way to supervise health and safety at work is to make workplace inspections: in 2016 there were made almost 30 000 of them in Finland. Other ways are for instance granting of permits and giving statements to other authorities. When supervising health and safety at workplaces, there are four tasks the Regional State Administrative Agencies has. First, they investigate severe accidents that occur at workplaces and the roots and causes of occupational diseases. They also take actions to prevent them. Second, they supervise product quality, for example safety clothing like helmets and safety shoes. Third, they are responsible for handling initiatives that the customers or other authorities take. And fourth, if they perceive any crimes occurring at work, they participate in investigating them. (Aluehallintovirasto, 2020; Työsuojelutarkastus, 2018)

Regional State Administrative Agency supervises closely foreign employees working in Finland. In 2019, they made 847 immigration control operations in Southern Finland and 29% of these in the construction business. These inspections are conducted to monitor foreign employees' rights to work (if they have valid work permits) and if their employment meets the minimum requirements according to the Finnish legislation. Regional State Administrative Agency receives every year tips related to immigration control and in 2019 in Southern Finland they received over 440 useful tips, which was almost double compared to the year before. The number of the tips regarding immigration control in the construction industry almost tripled. The most tips are coming from other authorities who work with non-Finnish employees. In 20% of immigration control cases in Southern Finland Regional State Administrative Agency revealed at least one person who did not have a valid work permit. When looking only at the construction business, the percentage is even higher. The inspections also revealed many shortcomings regarding compliance with minimum employment requirements, for example paying sufficient basic wage and various supplements. These kinds of shortcomings were found in 68% of cases in the construction industry in 2019. Another big challenge is supervising non-Finnish employees' real working time: almost half of the cases included issues related to their working hour records. If there are any ambiguity in unclear working hours, it is difficult to make conclusions if they have been paid correctly or not. (Grey economy & economic crime, 2020; Rakennuslehti, 2019)

In the construction business there were approximately 7 000 inspections made in 2016. Inspections are often made in the business fields that have high risk of accidents and plenty of foreign workforce (like the construction industry), but sometimes the authorities have also a "theme year" when the inspections are focused on a particular industry. Usually authorities inform the company before their visit and tell which documents they

would like to see and which aspects they are going to concentrate on. When the labour inspector arrives, he usually asks about the accident insurance, if there is a health and safety representative at the workplace and if he has been trained for the job and how the workers are oriented at the site. The inspector makes a report of his visit and if something needs to be fixed, he gives guidelines to that. If there is something seriously wrong, the company is obligated to fix that immediately and neglecting it might result in a penalty fee. (Työsuojelutarkastus, 2018)

Finnish Centre for Pensions is an expert in organizing pension provision in Finland and its clients are for example private and public sectors, decision-makers, and education institutes. Doing research and providing register services are included in its functions too. Finnish Centre for Pensions also supervises companies and according to the customer classification conducted by the Grey Economy Information Unit of the Tax Administration its most typical supervised customer is a construction company that has been operating in Uusimaa region for over ten years. It also seems that if a company has shortcomings in pension insurance matters, they also have other problems, for instance tax debts or debt recovery issues. (Finnish Centre for Pensions, 2019 & n.d.)

Finnish Centre for Pensions cooperates a lot with other authorities. Regional State Administrative Agencies give them information about potential negligence in occupational pension insurances and together with police Finnish Centre for Pensions investigates frauds related to pension insurance payments. The authorities also make visits together to the construction sites, in 2018 there were altogether 220 of them. (Eläketurvakeskus, n.d.)

Finnish Tax Administration has several ways to prevent the grey economy. They support other legal authorities in their investigations, conduct tax inspections, study the phenomena of the grey economy and guide companies and individuals in the process of taxation. Tax Administration has staff who are skilled especially in tax frauds. Together in close cooperation with other authorities and risk analysts the staff aims at perceiving the companies that need monitoring and possible need to be removed from the market. If Tax Administration observes illegal actions, they report them to the police. Tax Administration also participates in the construction industry forums, where existing procedures can be developed, and new risks discussed. (Verohallinto, 2012 & 2017)

Tax inspection is the most powerful way Tax Administration can use to prevent the grey economy. Very often the tax inspection is also the only actual way to investigate the company and impose the right taxes. However, Tax Administration tries to find and monitor risky companies at the earliest possible stage so that for example unjustified VAT refunds could be prevented from happening. Tax Administration has also arranged training together with Finnish Competition and Consumer Authority to

raise awareness of inappropriate partners. Training to recognize the grey economy phenomena have been arranged also in banks and for accountants. Nowadays it is common that many kinds of crimes are somehow combined. Therefore, it is highly important that not only Tax Administration is investigating the cases but also other authorities. Tax Administration participates in many kinds of cases, for example it is responsible for trying to prevent financing of money laundering and terrorism. Current grey economy phenomena must be approached comprehensively, so it is very crucial that when something important is found out, the information reaches everyone investigating the case. In 2019, 93 grey economy cases were investigated together with the Customs and the most severe cases also with police. (Verohallinto, 2012; Grey economy & economic crime, 2020)

Since the tax inspections are conducted to check if the company's taxation has been carried out in accordance with the Finnish law, the main focus is on company's bookkeeping. In addition, for example contract agreements and bills of sales might be checked to make sure that they match the reality and if everything has been declared to Tax Administration correctly. There are always tax inspectors involved in the tax inspection. At the beginning of the inspection they talk with the company owner and ask about possible branch offices and storages, number of employees and the bookkeeping system, The inspectors write a tax inspection document after the inspection and deliver it to the company as soon as possible. The document includes everything perceived that affect taxation and possible improvement suggestions. The tax inspection can be conducted fully or partially. Partial tax inspection means that the inspection is limited, for example to exact accounting period or type of tax, like VAT. In full inspection there are no limitations, and all tax types are included. If there are negligence noticed, the consequence might be a tax increase or surtax. (Verotarkastus.fi, n.d.)

Everyone working on a construction site needs to have a tax number before starting to work. This applies to those sites which have more than one employer's employees or more than one entrepreneur working. Tax number is a number series with 12 characters that cannot identify its holders gender, age or date of birth, Requiring a tax number makes sure that every construction employee is in Tax Administration register to monitor the obligations related to employer and employee. If the employee changes site or workplace, the tax number remains the same, and so is it not tied to any exact place. Getting a tax number requires having a Finnish ID code, so the non-Finnish workers need to get their personal data submitted to the Population Register System and after this they can get a Finnish ID code. Tax number is confidential information so it can be passed on only to those who are entitled to have it. (Verohallinto, 2018)

Every employee working at a site needs to have an identity card visible. The identity card shows employee's name, photo, tax number and employer's details. This rule applies also to those who are not working on the actual site, for example office workers, cleaning staff, trainees, and guards. Tax number or an ID card is not required from a person, who is only for instance delivering goods to the site. (Verohallinto, 2018)

Tax Administration manages a Tax Number register which is open for everyone. By using an employee's whole name and a tax number one can check if the employee is in that register. The register tells only if the employee is there or not, other information is not available. Having a tax number does not mean that the employee is in the register, this happens only upon a request by an employee or an employer. In some cases, the employee is added to the register automatically by Tax Administration. If employee's employment is terminated and he does not work in the construction industry anymore, he can make a request to remove his name from the register. This can be done by the employee only. If the employee needs to be added to the register again later, he gets the same tax number as previously. (Verohallinto, 2018)

Employment Fund is an institution in Finland that cooperates with Tax Administration and Finnish Centre for Pensions. One of their tasks is to monitor unemployment insurance payments the companies make and if the declared information about salaries is correct. As a preventive action against the grey economy Employment Fund has increased the number of monitored companies. In most cases the reason for negligence is unawareness and Employment Fund has a role in advising the companies. Figure 2 presents that the number of monitored cases has increased significantly (green bar) and the number of cases that led to consequences has first decreased and then remained quite the same, so there are relatively much fewer cases with consequences. (Employment Fund, 2019)

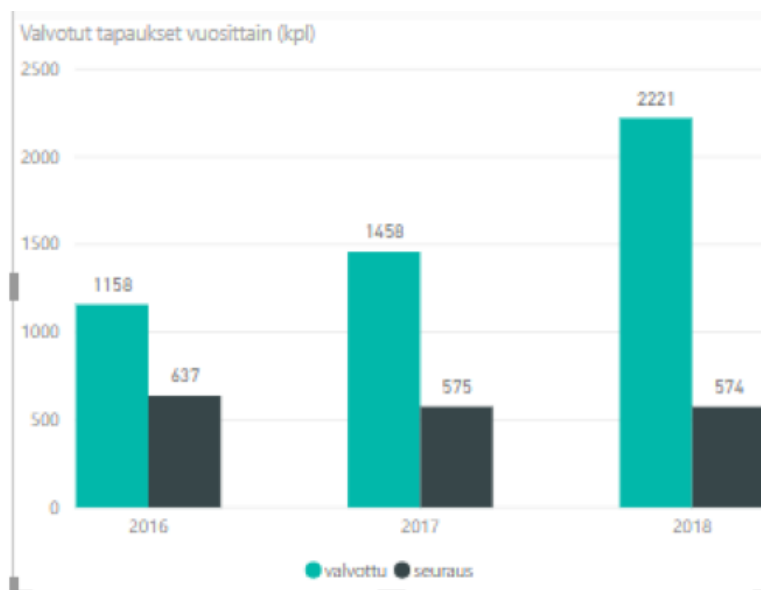


Figure 2: Monitored cases annually  
(Employment Fund, 2019)

#### 4.2 VAT reverse charge

In a normal situation the seller is obliged to pay the VAT. It means that VAT is added to the price of the product and the seller pays it later to the state by taxes. In the construction industry VAT reverse charge was put into use in 2011. Compared to a normal VAT situation it is vice versa, meaning that the buyer pays the VAT: The reason for VAT reverse charge was preventing the grey economy and making sure that VAT would be paid also in the long subcontractor chain. There are three conditions that need to be met so that the VAT reverse charge can be applied: the seller is selling construction services or leased workforce for construction services, the buyer is a trader that sells construction services or leases workforce for this cause and the transaction takes place in Finland. It is the seller's responsible to make sure if the buyer meets all the requirements needed to apply VAT reverse charge, if it is unclear whether the requirements are met or not, the buyer needs to give clarification of their field of work. If the buyer meets all the conditions, the seller sends them an invoice without VAT. The invoice must include all the usual billing elements and it has to state why VAT reverse charge is applied. VAT reverse charge is used only in selling and buying between companies or entrepreneurs so when the buyer is a private person, normal VAT is applied. VAT reverse charge does not affect the buyer's right to deduct VAT if they fulfil the general conditions of the right to deduct and the buyer has made the proper tax declaration. (Verohallinto, 2017; Rakennusteollisuus RT, n.d.)

There are many cases where VAT reverse charge is applied and where it is not. Usually it can be applied to construction services that relate for example to foundation work, building, renovation, and demolition, finishing work and leasing of construction machinery. The cases where VAT

reverse charge cannot be applied may be for instance planting of green areas, architect services, project management, sanitation, delivery services and waste services. Usually there is a contract agreement between the buyer and seller. VAT reverse charge can be applied only to selling construction services, not materials. However, if the seller is selling them both, they are seen as a “package” and VAT reverse charge can be applied. (Rakennusteollisuus RT, n.d.)

### 4.3 The Income Register

The Income Register is an electronic database that is also helping to prevent the grey economy. The Finnish Ministry of the Interior has listed tools and projects to prevent the grey economy for years 2016-2020 and the Income Register is one of the implemented ones. When it was first launched in Finland in 2019, the employers needed to declare in the register salaries, perks and other earnings paid. As of 2021 also pensions and benefits need to be declared. In addition to employers, also different authorities, like Tax Administration, Kela, unemployment funds, municipalities and occupational safety and health authorities use the register for different supervisory purposes. For example, occupational safety and health authorities are supervising use of foreign workforce and compliance with the Act on the Contractor’s Obligations and Liability and the register gives a lot of useful information for this purpose. The register itself does not monitor the information submitted. The same information declared in the register goes to all the user authorities, but users do not have access to all the information, only to the ones they have rights to. The information in the register is very accurate, since the declaring is subject to payment and declaration needs to be done within five days since the payment. Individuals have also the access to the Income Register and they can check whether their employer has declared right information on time. (Harmaa Talous & talousrikollisuus, 2020)

Figure 3 shows how the data is submitted to the Income Register by the employer and benefit payer and all the data users who might need that information.

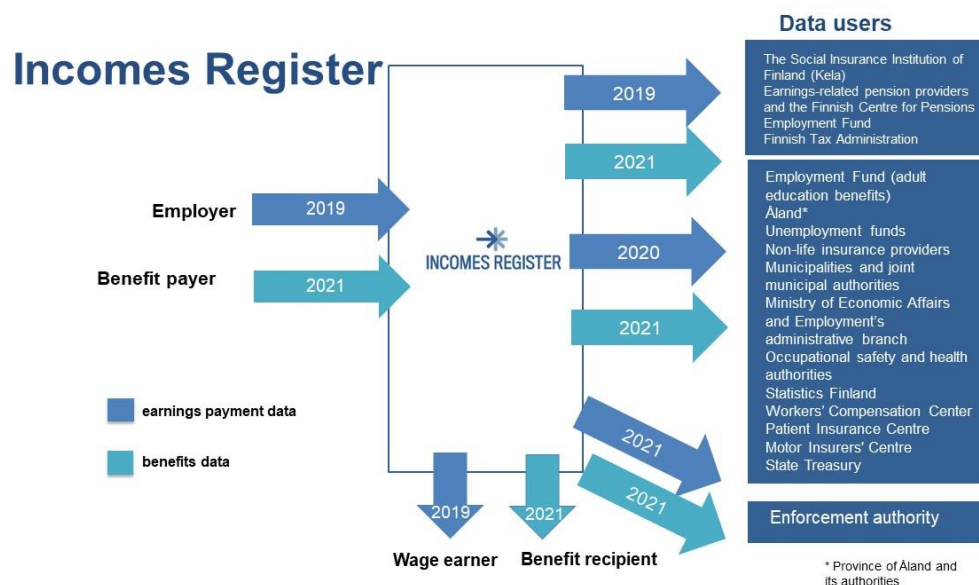


Figure 3: Incomes Register  
(Verohallinto, 2020)

Previously, authority inspections were made based on the preceding year's taxation but now the action can be taken much faster in real time. For example, if abuses of benefits are noticed, the payments can be stopped immediately, and insufficient declaring come up in many authority's supervision. (Harmaa Talous & Talousrikollisuus, 2020)

#### 4.4 Tax evasion form and government actions

Since the grey economy phenomena have become "normal" in Finland and all over the world, it is important that everyone – individuals, companies, and authorities – fight against it and try to change general attitudes. Anyone can get involved in fraudulent business, even as an honest entrepreneur and even when acting in good faith. If an entrepreneur has fulfilled all the obligations related to checking the business partner's documents and financial situation, there is no penalty. When purchasing something, as an individual or an entrepreneur, there are some points that should be considered: does the offer sound too good to be true, is the trader new in the market and if there is commercial history available, does the traders seem unprofessional and does not know enough about the products or services they are offering, does the trader require cash payment and do the payment arrangements seem very complex. Not any of these is a clear sign of the grey economy, but if there is anything that does not feel right, the buyer should remain vigilant. (Grey economy & economic crime, 2019)

If facing any suspicious actions, an individual or a company can give Tax Administration a tip. Gathering the tips about tax abuses is an important way Tax Administration can prevent the grey economy because the tips might include valuable information that Tax Administration does not have. The Tax Administration should be informed about suspicious business through a tax evasion report form that was launched in 2015. It is filled anonymously, and it is important to explain in the form how the observed actions are related to taxation. The form asks if the case is related to for example salary, undeclared work, VAT or giving wrong information to the tax authorities. Next, the form asks the contact details of the suspected entrepreneur or company and possible other persons or companies who might have something to do with the case. Other needed information is a description of the case, start and end year, how the case was noticed and how it can be verified. Tax Administration convinces that it is not possible to use the form to bully someone since sending the form does not automatically result in an audit or inspection in the reported company, but the Tax Administration must examine the case further before taking any actions. Some of the sent forms are unnecessary and are rejected right away without any further investigation. Usually the forms are kept for six years. (Grey economy & economic crime, 2019; Verohallinto, 2015 & 2017)

In June 2020, the Finnish Government approved a new program of preventing the grey economy in Finland in 2020-2023. This program of 15 million euros focuses on cooperation between authorities and information flow and it consists of numerous projects and actions. These actions are for example finding new ways to interfere with paying salaries under minimum requirements and corruption in public procurements. Creating new operating models helps authorities to reveal undeclared work and identity crimes and environmental crimes can be prevented more easily with new risk profiling model. In addition, the program has campaigns targeted at young adults and immigrants that remind of attitudes of responsible employees and employers. (Valtioneuvosto, 2020)

## 5 INTERNATIONAL COOPERATION

According to the Eurobarometer survey 33% of European respondents know someone who has done undeclared work. Still, only 3% of the respondents say that they have not done it within the last year. This means that the grey economy really is an international issue. (Grey economy & economic crime, 2019)

According to survey conducted by Eurobarometer (Figure 2) the biggest reason to undeclared work within EU member states is because it benefits both parties. The second reason is because the employee could not find a



regular job and the third reason is bureaucracy. All these reasons are linked to mutual agreement between the employer and employee, lack of knowledge and perhaps the experience of being treated unequally. Probably raising awareness through campaigns and education could help, but it does not change the different employment situations in the member states. Also, the fact remains that especially short-term employment contracts make it tempting to agree on undeclared work. The European Commission has presented some tools they use to fight against the grey economy. (Eurobarometer, 2013; Grey economy & economic crime, 2019)

**Kaavio 3: Pimeän työn tekemisen syyt EU:n 27 jäsenvaltiossa**

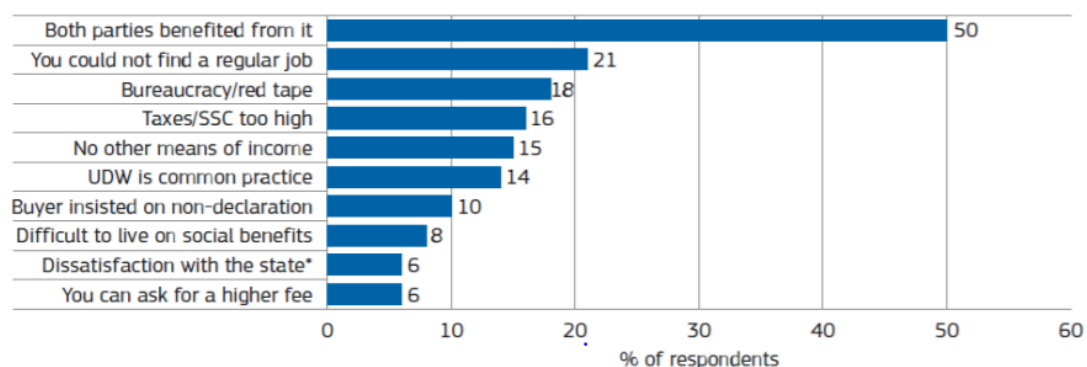


Figure 4: Reasons to make undeclared work (Eurobarometer, 2013)

### 5.1 European Labour Authority

The European Commission established a new authority, European Labour Authority (ELA) in Brussels in July 2019 and it is supposed to be in full operation in 2024. ELA consists of a Management Board, an Executive Director and Stakeholders Group. The main purpose of ELA is to enable free movement and make sure that employees and citizens within the EU area are treated equally. These purposes are very important since currently there are 17 million European citizens working or living in other EU member state than their home country. There are three goals set for ELA: improving accessibility of information about rights and obligations of employees and employers, supporting cooperation between member states and mediating cross-border disputes, and solving these cases as promptly as possible. Basically, ELA would be operating between employees, employers, and the member states and by supporting all parties it would ensure compliance with social rights and prevent abuses and frauds. Finland has supported establishing ELA and see it as a good way to foster free movement if it does not diminish powers of national authorities. (Grey economy & economic crime, 2019; European Labour Authority, n.d.)

## 5.2 EU platform

The grey economy is also prevented by the EU level platform set up by the European Commission. The purpose of this platform is purely fighting against the grey economy since the authorities of the member states have limited capabilities to get involved in cross-border cases. Therefore, this forum is supporting the cooperation between members, making it possible to learn from other members' good procedures and practices and increasing the knowledge. Authorities, like health and safety authorities, tax authorities, police, and border guards, should cooperate not only nationally but also internationally and the EU platform is there to help with this. (Grey economy & economic crime, 2019)

The EU platform has arranged many events to raise awareness and increase knowledge about the grey economy. It has also gathered good example cases from the member states so that the others can apply them. In addition, the platform has conducted surveys and research and produces material about different aspects of the grey economy. The EU platform is doing a lot to support the EU countries, but good results demand of course activity from its members and authorities. In Finland, the EU platform is supported by National cooperation network that spreads information about new phenomena and best practices to all authorities. (Grey economy & economic crime, 2019)

The EU platform focuses each year on specific aspect and phenomena, for example in 2017 on actions in the construction business and international cooperation agreements and in 2018 risk assessment of authorities and new forms of work. Program for 2019-2020 includes developing authorities' risk assessment, cross-border inspections, and penalties. The new program still highlights learning from others. The grey economy has different forms in different members states, so it is important to learn how others are handling the issues. Through the Mutual Assistance Project (MAP-project) the authorities can visit other members and participate in exchange of officials. This opens a practical way to learn about the grey economy. (Grey economy & economic crime, 2019)

## 5.3 #EU4FairWork campaign

#EU4FairWork is a campaign (Figure 4) implemented in the EU area to raise awareness of undeclared work and increase knowledge of employees, employers and authorities' rights and obligations. It is implemented mostly in the social media and the participants are authorities and organizations. There are many participants from Finland, for instance the Ministry of Economic Affairs and Employment of Finland, the Ministry of Justice, Immigration Office, Tax Administration, and many organizations. The campaign takes place in March 2020 – October 2020 and it includes a week

of action when different events are organized in the EU member states. (Grey economy & economic crime, 2020; Ministry of Economic Affairs and Employment of Finland, n.d.)



Figure 5: #EU4FairWork campaign picture (Grey economy & economic crime, 2020)

## 6 RESEARCH AND ANALYSIS

### 6.1 Research method and planning the research

Even though the topic of this thesis was quite clear right from the beginning, it was not that effortless to form the research question. Due to the sensitivity the topic the author needed to considerate a few different questions and evaluate beforehand how willing the interviewees would be to answer to them. After a careful planning, the research question “How do small companies experience preventing the grey economy in the construction business?” was decided and the author could start planning approaching the interview candidates and the interview questions. Qualitative research method felt very natural and comparing to quantitative method it gives more room for open conversation and does not narrow down interviewee’s responses.

The author chose to ask three companies for an interview, and the analyse was made based on their responses. All the interviewees have their own businesses with some employees. However, the companies are very small, and all the interviewees’ daily tasks vary from invoicing to the actual work on the construction sites. Since the respondents have experience both in practical and administrative tasks, they seemed reliable and credible respondents. These three companies were chosen because they seemed easy to approach and they have been working in the construction field for several years (not just entering the market). The number of respondents

could have probably been higher, but three respondents' answers already give an idea what small companies think when it comes to preventing the grey economy.

The interviewees were first approached via email. In her message the author presented the research topic and the questions and let the interviewees choose if they wanted to be interviewed via phone or face to face. The author tried to make the first email very relaxed but still very informative about where and how the responses would be used so that the respondents did not feel that they have to participate or else it sounds like they have something to hide. The author emphasized that the responses would be handled completely anonymously so that the respondents would answer as honestly as possible. Even though it would have been easy and convenient to arrange the interviews face to face, probably due to Covid-19 virus all the respondents wanted to be interviewed via phone. It would have been ideal to interview them face to face so that the interview situation would have felt more informal and relaxed, but all in all the interviews went well and the respondents gave good point of views.

The research consists of seven questions about preventing the grey economy (appendix 1). The questions are quite neutral and address the topic on a general level so that the author would get an overall picture how the companies feel about the topic. In the planning phase, the author was a little worried about the questions and if they were neutral enough; At work she has learned that not every company feels comfortable when talking about the grey economy. The author wanted to make sure that the respondents do not misunderstand the interview and they would get a proper explanation of the background. That is why the interviewees were approached first via email so that the author got a chance to explain for what purpose the responses are used and how. However, all the interviewees were very open and eager to answer the questions. The author refers to the respondents as Company A, Company B and Company C.

The first question is if there are any laborious obligations that preventing the grey economy requires. With this question the author wanted to figure out if preventing the grey economy is a part of respondents' daily jobs or if it is seen as a separate, time-consuming task. Companies A and B answered "no" straight away, but Company C mentioned that there is not really anything laborious, but bookkeeping, keeping up with the costs and all the administrative stuff sometimes took time outside the official working hours.

Question two is does preventing the grey economy cause too high costs for a small company. The question is an important one since the whole grey economy seems to be trying to make more money or avoiding costs. All the respondents answered no, but one of them specified that he is so

accustomed to paying all the required costs that he does not really think if something costs “little” or “much”, he just thinks it is something mandatory and has to get done.

The third question is how does preventing the grey economy affect the respondent's company. All the respondents thought that preventing the grey economy is more like routine procedure, for example making sure that documents for Vastuu Group are fine and they have access to the site they are currently working at. All the respondents mentioned Vastuu Group in their answers. Company C also mentioned that if preventing the grey economy is handled properly on time and with all the necessary documents, it does not affect the company that much. But if something is forgotten or has to be corrected, it might take even one whole day to get it fixed and that time could have been spent at work, making money.

As the fourth question the author asked what would encourage small companies to prevent the grey economy. Companies A and B could not say any specific incentives, but Company C answered immediately that there should not be any differences in prices between Finnish and non-Finnish workers. He hoped that there were standards set and the competition was fair for everyone, because companies run by one person cannot compete with cheap non-Finnish workers from a bigger company who charge probably half of what he does. If the competitive situation in the construction business was better, maybe the small companies would pay more attention to preventing the grey economy or would not even consider committing questionable actions.

The fifth question is “Have you noticed that small construction companies in Finland are supervising each other regarding preventing the grey economy?” By this question, the author means if the companies have noticed that other companies are watching each other's work-related activities and actions. Basically, the author wanted to know if small companies are interested in keeping an eye on if other companies are doing right or wrong. Company A answered that he has run into this phenomenon, but he did not want to specify how. Companies B and C had not experienced this by themselves, but they had heard about this kind of cases and were well aware that this happens in Finland, perhaps not only in the construction industry but among all the small companies.

Question six asks what the biggest reasons are why the grey economy is practiced. All the respondents answered that money is the biggest reason. Company A also mentions that if a company or an entrepreneur is working at big construction sites it is very hard to engage in the grey economy. In addition, as Company C says, pension costs are relatively much higher for an entrepreneur than an employee and that might drive someone to do some undeclared work along with normal, declared work.

The last, seventh, question is if the grey economy is prevented enough in Finland (for example by the tax authorities). All the companies answered yes, but two of them gave some additional comments. Company B said that at bigger construction sites the preventing procedures make it almost impossible to practice the grey economy so it is the smaller sites where preventive actions should be taken more actively. Company C states that the direction is right and the visits of the Regional State Administrative Agencies and different unions to the sites make it clear that preventing the grey economy is a continuous project. However, he says that even though there are many actions taken, there is still work left, and there should be more resources targeted to the fight against the grey economy.

## 6.2 Analysis

What the author noticed first when started to interview the respondents was that the attitudes of them all were very positive towards preventing the grey economy. The topic seemed pleasant and important and actually made the author think that probably authorities do not (often) ask companies' opinion or suggestions when it comes to the grey economy.

All the respondents feel that preventing the grey economy is not a burden but more like a solid part of their work. The respondents have been running their companies for several years, so they understand that for example paying all the compulsory payments is just part of every company's work and everyone benefits from it. The author believes that before starting their own businesses the respondents found so much information about running a business that they knew what it would be like and they were aware and prepared for all the obligations. When all the work done is done for one's own business, the motivation to be flexible with the working hours must be high and during the years the respondents have got used to it. Vastuu Group seems to be every company's best friend and plays a key role since it makes the companies reliable partners and ensures that there are no issues when it comes to the mandatory documents. Even though every company is responsible for their actions of preventing the grey economy, thanks to Vastuu Group they are not alone with it.

The respondents do not think that preventing the grey economy causes too high costs for a small company, and actually they seemed having not even thought about that. They think that when they are paying for something, it is something they need for their work and it is worth paying. When the business has become profitable and the company owners have some idea about how much money they can realistically do, it might be easier to separate the mandatory costs from the income because they repeat regularly.

Even though the respondents do not think that preventing the grey economy is expensive, in their opinion the money is the biggest reason why some people still practice it. Probably it feels easier and more acceptable if a company is doing everything mostly right and according to the law and only some of their activities are actually operating the grey economy. It might feel right to justify for example tax avoidance with high pension payments and explain it as a “a phase”. If a company owner has agreed for instance on undeclared work with his employees, he might get a feeling that his activities are approved, and he is doing so for a greater good. The financial situation of the society might also affect how much or little there is work available and therefore affect how many desperate actions are taken by companies. If the situation is bad due to something unexpected, like Covid-19 virus, does it make operating the grey economy feel more acceptable?

When asking the respondents what would encourage small companies to prevent the grey economy, two of them seemed a little bit surprised and at first, they could not say anything. After they had thought about this for a moment, they still could not give any good suggestions to this. The author thinks that they felt weird that someone would need encouragement to do something mandatory and something they have surely been aware of when setting up a company. Their confusion might also tell that they have never noticed that someone would experience preventing the grey economy laborious and therefore feel that there is not any need for encouragement. One of the respondents answered that if the competition were fair between Finnish and non-Finnish workers, it would encourage everyone in the field. This is probably true, though most likely it would have other consequences too.

The author was interested to hear if the respondents have faced any supervision (being “too” interested in/checking their business actions) by other companies. None of the respondents told any personal experience of this but they all have heard about some cases. In one example, a company was reported to Tax Administration because the company owner had bought expensive machinery and he was keeping it on his home yard. The one who reported it was sure that the company owner had bought the machinery for personal use but made it look like it was for the business purposes. Finnish envy is a well-known joke, but the author believes that it is the biggest reason why people keep an eye on each other, especially when it comes to money or property. The other reason to this might be that in the construction business companies want to know each other well since having reliable partners is the condition for succeeding in the market. For example, in Pirkanmaa area in Finland big construction companies know quite well which companies they would like to have working at their sites, because they have a certain reputation and there have been no problems in cooperating with them. If a small company ruins their reputation by having problems with documents or having practiced questionable business, it is not welcome to a bigger construction site

anymore. After all, the author believes that every small company wants to keep the option to work at any size of a construction site.

The respondents were satisfied how authorities handle preventing the grey economy in Finland. They all have worked both in smaller and bigger construction sites and they also mentioned that at the big sites it is almost impossible to commit anything illegal, but there should be more done to prevent the grey economy at smaller sites. It is very good that big sites have managed to create an environment where the grey economy cannot be practiced and if it were, it would be noticed quickly and there would be consequences. It also looks like authorities have succeeded in making the fight against the grey economy a clearly visible and continuous project and it does not take place in some hidden place somewhere. Visits to sites by for example Regional State Administrative Agencies are a strong action that shows that especially the construction business is under control. In addition, when preventing the grey economy is visible, it most likely makes the honest companies feel proud that they are doing right and prevents them even considering committing it.

### 6.3 Evaluation of the research

Forming the research question was a little bit tricky in the beginning due to the sensitive topic and the question was changed in an early stage. However, probably the sensitivity of the topic makes it more interesting to the author. When the research question was formed and the author felt confident about it, the planning was quite effortless. The interview questions were chosen when writing the theory part and the author had a clear vision of the respondent candidates. There may would have been problems if the respondents would have said no to the interview since it probably would have taken some time to find new ones. Arranging the interviews and finding time for them was easy and it was interesting to gather all the responses together and start analysing them. The author thinks that three respondents were enough, but they turned out to be very similar when it comes to the size of the sites they have been working at and how long they have been running their companies. However, perhaps the long experience at different sites gives their responses more reliability and credibility.



## 7 RECOMMENDATIONS

According to the research the situation regarding small companies is good in Finland. The attitudes are positive and preventing the grey economy seems to be normal and taken for granted. This should be strengthened if possible. For example, schools and universities that have programs for entrepreneurship could invest more on courses and modules that highlight the forms and influences of the grey economy. This would be useful especially in the fields where the students high likely will work as entrepreneurs, but in author's opinion knowledge about the grey economy would be necessary for everyone, at least from consumer's perspective.

Big construction sites should keep doing good work. For example, at the site where the author is working, the company has Days of Preventing the Grey Economy. That means that those days there is someone going around the site and asking randomly chosen 20-30 workers to show their IDs. By using a phone application, it is possible to check if the worker has logged in to the site and if the mandatory documents are fine. The company creates statistics according to the finding and shares them via intranet. Therefore, it is possible to see where to put the focus in the future and plan the upcoming Days of Preventing the Grey Economy. Other big construction companies might already have something like this, and it is definitely something that all the construction companies should consider, at least to some extent.

The interviewees mentioned Vastuu Group in their answers and find it very useful in their work. However, if something is for example forgotten, it might take relatively much time to be corrected. In the company where the author works in there is a person whose task is to check continuously if all the contractors' documents are fine. However, it is also crucial that other positions like accounts receivable and project assistants know how to check them so that for example invoices are kept in hold if something is wrong with the invoicing company's documents. All companies could arrange trainings for their staff on where to pay attention in order to prevent the grey economy because it is everyone's business.

Authorities are doing a lot to prevent the grey economy and during different campaigns and visits to sites preventing the grey economy is strongly visible phenomenon. However, the resources are limited, and they probably are targeted to the big sites but if it was possible, the visits to the sites could be extended to the smaller sites too.

Since the small sites seem to be the problematic aspect in preventing the grey economy, consumers should be informed more about the grey economy. If people knew better what buying undeclared work causes, they may think twice before paying for it. Nevertheless, even if people must

know about if, money is a strong motive and thinking that “this is just one time” might be too tempting.

## 8 CONCLUSION

There are many forms of the grey economy, for example undeclared work, receipt trade and unjustified VAT refunds. Companies might be used as tools in frauds and criminals can cause a lot of harm by doing fake business in company's name and then disappear with the money earned. There are also other crimes – like environmental crimes – that might be linked to the grey economy. Companies should always carefully check their partners' background and financial situation because if the partner practices the grey economy, there might be consequences for the honest company too, even if acting in good faith. However, the grey economy does not occur only between companies, but consumers can get involved in it too by buying undeclared work for instance for their home renovation. Everyone should keep in mind that if something sounds too good to be true, if the seller does not know about his products or services or if there is anything suspicious with the payment arrangements, probably it would be good to think twice before the purchase.

The grey economy affects both individuals and society. Due to lost taxes the quality of public services may be poorer and since the companies operating the grey economy can set lower prices, the general price level is distorted. There might be also fewer jobs available. From employee's perspective, making undeclared work might first seem a good idea, but there are many downsides: the employee is not insured against an accident, and his pension does not get accumulated. There are usually not training possibilities, the employer does not invest in employee's life-long learning and therefore employees cannot develop their skills and their promotion possibilities are not good.

To fight against the grey economy, there are many actions taken in Finland. The construction sites use for example access control and maintain a list of the workers on the site. Authorities' actions like visits to the sites, tax inspections and implementing tax numbers are signs of continuous work and cooperation together with construction sites has clearly paid off. It has become almost impossible to operate the grey economy at the big construction sites, and the companies should keep doing good work. Small sites are the ones that still need more controlling, because there is not any access control, and for example employees' working hours are not monitored and it is hard to say if they have been paid correctly. Also, money seems to be a strong incentive for people to make mutual agreements on undeclared work.

The grey economy is a universal problem and developing international cooperation is important, also because there are people working outside their home countries more than ever. International actions, for example platforms, projects and campaigns of EU are important to raise awareness and enabling authorities to learn from each other. They also give the employees in EU area message that the grey economy is recognized everywhere. Corruption, environmental crises, and frauds are closely related to the grey economy and therefore it is important that all authorities are committed to prevent it.

The results of the research were very pleasing. All the respondents were at least quite happy about how the grey economy is prevented in Finland and they all agreed that small construction sites are pretty much the only places where it most likely might be operated. Respondents saw preventing the grey economy as a part of their daily tasks. These are the most important findings in the research: preventing the grey economy is a normal task for small construction companies and they do not experience that they are paying too much for it. They think that authorities are already doing a lot to prevent the grey economy but there should be even more resources for it, especially for controlling the smaller sites. It is important to know that small companies experience the fight against the grey economy as positive, probably because there will not be work available with bad reputation and because all the prevention tasks have been self-evident for them right from the start. For example, with education and info packages for new or potential entrepreneurs this can be supported also in the future.

## REFERENCES

Aluehallintovirasto. (2020). Työsuojelu. Retrieved 11 April 2020 from <https://www.avi.fi/web/avi/tyosuojelu>

Eläketurvakeskus. (n.d.). Harmaan talouden torjunta. Retrieved 29 July 2020 from [https://www.etk.fi/palvelut-asiantuntijoille/tyoelakevakuuttamisen-valvonta/harmaan\\_talouden-torjunta/](https://www.etk.fi/palvelut-asiantuntijoille/tyoelakevakuuttamisen-valvonta/harmaan_talouden-torjunta/)

Employment Fund. (2019). Harmaan talouden valvonta tehostunut merkittävästi Tyllisyysrahastossa. Retrieved 1 November 2020 from <https://www.tyollisyysrahasto.fi/uutiset/harmaan-talouden-valvonta-tehostunut-merkittavasti/>

Eurobarotemer. (2013). Kaavio 3: Pimeän työn tekemisen syyt EU:n 27 jäsenvaltiossa. Retrieved 31 October 2020 from [https://ec.europa.eu/info/sites/info/files/file\\_import/european-semester-thematic-factsheet-undeclared-work-fi.pdf](https://ec.europa.eu/info/sites/info/files/file_import/european-semester-thematic-factsheet-undeclared-work-fi.pdf)

European Commission. (2014). Undeclared work: frequently asked questions. Retrieved 9 April 2020 from [https://ec.europa.eu/commission/presscorner/detail/en/MEMO\\_14\\_2727](https://ec.europa.eu/commission/presscorner/detail/en/MEMO_14_2727)

European Labour Authority. (n.d.) European Labour Authority. Retrieved 29 July 2020 from <https://www.ela.europa.eu/>

European Labour Authority. (n.d.). Governance. Retrieved 29 July 2020 from <https://www.ela.europa.eu/governance.html>

Finnish Centre for Pensions. (n.d.). Responsibilities. Retrieved 24 July 2020 from <https://www.etk.fi/en/about-us/responsibilities/>

Finnish Centre for Pensions. (2019). Construction firms typical customers of out supervisory department. Retrieved 24 July 2020 from <https://www.etk.fi/en/topical-issues/construction-firms-typical-customer-of-our-supervisory-department/>

Grey economy & economic crime. (2020). #EU4FairWork campaign. Retrieved 1 November 2020 from <https://www.vero.fi/en/grey-economy-crime-prevention-international-cooperation/eu4fairwork-campaign/>

Grey economy & economic crime. (2020). Employers and contractor's obligations. Retrieved 10 April 2020 from <https://www.vero.fi/en/grey-economy-crime/prevention/employers-and-contractors-obligations/>

Grey economy & economic crime. (2019). Fraud using companies. Retrieved 10 April 2020 from <https://www.vero.fi/en/grey-economy-crime/prevention/international-cooperation/>

Grey economy & economic crime. (2019). International cooperation. Retrieved 25 April 2020 from <https://www.vero.fi/en/grey-economy-crime/prevention/international-cooperation/>

Grey economy & economic crime. (2019). Is your company involved in a VAT fraud? Retrieved 10 April 2020 from <https://www.vero.fi/en/grey-economy-crime/how-to-act/prevent-vat-fraud/>

Grey economy & economic crime. (2019). Public procurement. Retrieved 10 April 2020 from <https://www.vero.fi/en/grey-economy-crime/phenomena/public-procurement/>

Grey economy & economic crime. (2020). Studies on the shadow economy. Retrieved 1 November 2020 from <https://www.vero.fi/en/grey-economy-crime/scope/studies-on-the-shadow-economy/>

Grey economy & economic crime. (2018). Users of undeclared workers conceal work to avoid employer obligations. Retrieved 10 April 2020 from <https://www.vero.fi/en/grey-economy-crime/phenomena/undeclared-labour/>

Haaste. (2013). Ympäristörikollisuus talousrikollisuuden muotona. Retrieved 10 April 2020 from <https://www.haaste.om.fi/fi/index/lehtiarkisto/haaste32013/ymparistorikollisuustalousrikollisuudenmuotona.html>

Harmaa Talous & Talousrikollisuus. (2019). Esimerkki: Pimeä työ käy teettäjänsä kalliiksi. Retrieved 26 July from <https://www.vero.fi/harmaa-talous-rikollisuus/ilmi%C3%B6t/pime%C3%A4-ty%C3%B6voima/esimerkki-pime%C3%A4-ty%C3%B6-k%C3%A4y-teett%C3%A4j%C3%A4ns%C3%A4-kalliiksi/>

Harmaa Talous & Talousrikollisuus. (2020). Hankkeet ja valvonta 2019. Retrieved 10 April 2020 from <https://www.vero.fi/harmaa-talous-rikollisuus/torjunta/hankkeet-ja-valvonta/hankkeet-ja-valvonta-2019/>

Investopedia. (2018) Black Economy. Retrieved 8 April 2020 from <https://www.investopedia.com/terms/b/black-economy.asp>

Iso-Oja, J-H. (2014). *Sähköinen kulunvalvonta rakennustyömaalle*. Dissertation. Oulu University of Applied Sciences. Retrieved 27 July 2020 from [https://www.theseus.fi/bitstream/handle/10024/97838/Iso-Oja\\_Juho-Heikki.pdf?sequence=1&isAllowed=y](https://www.theseus.fi/bitstream/handle/10024/97838/Iso-Oja_Juho-Heikki.pdf?sequence=1&isAllowed=y)

Keino. (2019). Oikeusministeriön raportit listaavat keinoja väärinkäytösten ja korruption torjumiseksi julkisissa hankinnoissa. Retrieved 26 July 2020 from <https://www.hankintakeino.fi/fi/ajankohtaista/uutiset-artikkelit/oikeusministerion-raportit-listaavat-keinoja-vaarinkaytosten-ja>

Ministry of Economic Affairs and Employment of Finland. (n.d.). #EU4FairWork campaign. Retrieved 25 April 2020 from <https://tem.fi/en/eu4fairwork-campaign>

Ministry of the Interior. (n.d.) Tax fraud is the most common economic crime. Retrieved 24 July 2020 from <https://intermin.fi/en/police/economic-crime-and-the-shadow-economy>

Ministry of Justice. (n.d.). Anti-corruption efforts. Retrieved 1 November 2020 from <https://oikeusministerio.fi/en/anti-corruption-activities>

Musta Tulevaisuus. (n.d.) Harmaa talous rakennusalalla. Retrieved 9 April 2020 from <https://www.mustatulevaisuus.fi/fi/ilmiot/harmaa-talous-rakennusalalla/>

Occupational Safety and Health Administration in Finland. (2020). List of workers. Retrieved 24 July 2020 from <https://www.tyosuojelu.fi/web/en/grey-economy/list-of-workers>

Rahkonen, A. & Varde, A. (2019). *Yritykseen kohdistuvat huijaukset*. Dissertation. Haaga-Helia University of Applied Sciences. Retrieved 26 July from <https://www.theseus.fi/bitstream/handle/10024/227931/ONT%20Yrityksiin%20kohdistuvat%20huijaukset.pdf?sequence=2&isAllowed=y>

Rakennuslehti. (2019). Alipalkatut ulkomaiset työntekijät ovat arkipäivää rakentamisessa, AVI:n tarkastukset paljastavat. Retrieved 24 July 2020 from <https://www.rakennuslehti.fi/2019/09/karu-valvontatulos-moni-ulkomailta-lahetetty-tyontekija-tekee-toita-liian-pienella-palkalla/>

Rakennusteollisuus RT. (n.d.). Harmaan talouden torjunta, perustietoa. Retrieved 8 April 2020 from <https://www.rakennusteollisuus.fi/Tietoa-alasta/harmaan-talouden-torjunta/Harmaan-talouden-torjunta-perustietoa/>

Rakennusteollisuus RT. (n.d.). Kulunseuranta. Retrieved 20 April 2020 from <https://www.rakennusteollisuus.fi/Tietoa-alasta/Harmaan-talouden-torjunta/Kulunseuranta/>

Rakennusteollisuus RT. (n.d.). Veron ilmoittaminen käännettyssä verovelvollisuudessa. Retrieved 10 April 2020 from <https://www.rakennusteollisuus.fi/Tietoa-alasta/Harmaan-talouden-torjunta/Kaannetty-arvonlisaverovelvollisuus/Veron-ilmoittaminen/>

Spectron. (n.d.). Porteilla suljettu työmaa. Retrieved 27 July 2020 from <https://www.spectron.fi/cms/ratkaisut/kulunhallinnan-ratkaisut/porteilla-suljettu-tyomaa-sahkoinen-kulunvalvonta>

Taloustaito. (2020). Alv-petos: Yrittäjä, varo verohuijareita! Retrieved 26 July 2020 from <https://www.taloustaito.fi/Vero/alv-petos-yrittaja-varo-verohuijareita/#00fe19b6>

Taloustaito. (2019). Perusteettomiin alv-palautuksiin holahtanut 30 miljoonaa euroa vuodessa. Retrieved 10 April 2020 from <https://www.taloustaito.fi/Vero/perusteettomiin-alv-palautuksiin-holahtanut-30-miljoonaa-euroa-vuodessa/#ebcd8d80>

Työsuojelutarkastus. (2018). Suomessa tehtiin vuonna 2016 lähes 30000 työsuojelutarkastusta, joista puolet alle 10 hengen työpaikoille. Retrieved 14 April 2020 from <https://www.tyosuojelutarkastus.fi/>

Uusi Suomi. (2009). Suomen laajin kuittikauppa: 44 sai vankeutta, korvauksia 5,6 miljoonaa. Retrieved 20 April from <https://www.uusisuomi.fi/uutiset/suomen-laajin-kuittikauppa-44-sai-vankeutta-korvauksia-5-6-miljoonaa/c13d3681-7d19-3e19-837a-71627edf3f4f>

Uusitalo, J. (2015). *Rakennusalalla vilpillisesti toimivat yritykset ja vilpillisen toiminnan vaikutukset Satakunnan alueella*. Dissertation. Satakunta University of Applied Sciences. Retrieved 27 July from [https://www.theseus.fi/bitstream/handle/10024/99233/uusitalo\\_jussi.pdf?sequence=1](https://www.theseus.fi/bitstream/handle/10024/99233/uusitalo_jussi.pdf?sequence=1)

Valtioneuvosto. (2020). Hallitus torjuu harmaata taloutta laajalla toimenpideohjelmalla. Retrieved 24 July 2020 from <https://valtioneuvosto.fi/-/1410877/hallitus-torjuu-harmaata-taloutta-laajalla-toimenpideohjelmalla>

Vastuu Group. (n.d.). Building the Future. Retrieved 10 April 2020 from <https://www.vastuugroup.fi/fi-en/about-us>

Vastuu Group. (n.d.). Services for Clients. Retrieved 10 April 2020 from <https://www.vastuugroup.fi/fi-en/our-services/for-clients>

Vastuu Group. (n.d.). Services for Entrepreneurs. Retrieved 10 April 2020 from <https://www.vastuugroup.fi/fi-en/our-services/for-entrepreneurs>

Verohallinto. (2015). About the Reporting suspected tax evasion form. Retrieved 25 April 2020 from <https://www.vero.fi/en/businesses-and-corporations/about-corporate-taxes/tax-auditing-and-shadow-economy/about-the-reporting-suspected-tax-evasi/>

Verohallinto. (2018). Individual tax numbers and the public Tax Number Register. Retrieved 10 April 2020 from <https://www.vero.fi/en/detailed-guidance/guidance/48791/individual-tax-numbers-and-the-public-tax-number-register/>

Verohallinto. (2020). Information on the Incomes Register. Retrieved 1 November 2020 from <https://www.vero.fi/en/incomes-register/about-us/>

Verohallinto. (2012). Miten Verohallinto torjuu harmaata taloutta. Retrieved 10 April 2020 from [https://www.vero.fi/yritykset-ja-yhteisot/tietoa-yritysverotuksesta/verotarkastus/verotarkastukset\\_harmaan\\_talouden\\_torju/](https://www.vero.fi/yritykset-ja-yhteisot/tietoa-yritysverotuksesta/verotarkastus/verotarkastukset_harmaan_talouden_torju/)

Verohallinto. (2017). Rakennusalan harmaan talouden torjunta. Retrieved 12 April 2020 from [https://www.vero.fi/yritykset-ja-yhteisot/tietoa-yritysverotuksesta/verotarkastus/verotarkastukset\\_harmaan\\_talouden\\_torju/rakennusalan\\_harmaan\\_talouden\\_torjunt/](https://www.vero.fi/yritykset-ja-yhteisot/tietoa-yritysverotuksesta/verotarkastus/verotarkastukset_harmaan_talouden_torju/rakennusalan_harmaan_talouden_torjunt/)

Verohallinto. (2017). Reporting suspected tax evasion. Retrieved 25 April 2020 from <https://www.vero.fi/en/About-us/contact-us/efil/reporting-suspected-tax-evasion/>

Verohallinto. (2019). Report on construction work – households. Retrieved 1 November 2020 from [https://www.vero.fi/en/individuals/housing/construction\\_work\\_reports/](https://www.vero.fi/en/individuals/housing/construction_work_reports/)

Verokampus. (n.d.). Harmaa talous. Retrieved 8 April 2020 from <https://www.verokampus.fi/opettajille/harmaa-talous/>

Verotarkastus.fi. (n.d.). Kaikki, mitä sinun tarvitsee tietää verotarkastuksesta. Retrieved 29 July 2020 from <https://www.verotarkastus.fi>

Yle. (2014). Harmaa talous ei valkene. Retrieved 24 July 2020 from <https://yle.fi/aihe/artikkeli/2012/05/25/harmaa-talous-ei-valkene>



## INTERVIEW QUESTIONS

1. Preventing the grey economy imposes obligations on companies. Are there any obligations that are laborious to follow?
  2. Does preventing the grey economy cause too high costs for a small company?
  3. How does preventing the grey economy affect your company?
  4. In your opinion, are there anything that would encourage small companies to prevent the grey economy?
  5. Have you noticed that small companies in Finland would “supervise” each other when it comes to preventing the grey economy?
  6. In your opinion, which are the biggest reasons why the grey economy is operated?
  7. In your opinion, are authorities doing enough to prevent the grey economy in Finland?
- 
1. Harmaan talouden torjunta aiheuttaa yrityksille erilaisia velvollisuuksia. Onko sellaisia velvollisuuksia, joita yrityksen on työlästä noudattaa?
  2. Aiheuttaako harmaan talouden torjunta pienille yrityksille suhteettoman suuria kustannuksia?
  3. Miten harmaan talouden torjunta vaikuttaa yritykseesi?
  4. Osaatko sanoa mikä kannustaisi pienyrityksiä harmaan talouden torjuntaan?
  5. Oletko huomannut, että Suomessa pienyritykset ”kyttäisivät” toisiaan harmaan talouden torjuntaan liittyen?
  6. Mikä/mitkä ovat mielestäsi suurimmat syyt harmaan talouden harjoittamiseen?
  7. Tekevätkö viranomaiset Suomessa tarpeeksi harmaan talouden torjumiseksi?