



Final report
June 2007

**Promoting vocational integration,
entrepreneurial spirit and access to finance**



**Equal Community Initiative
II Phase**

*Transnational Cooperation
Agreement 4355*

Sunrise

**Working Group # 3
Shadow Economy**



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Shadow Economy

1. INTRODUCTION. SHADOW ECONOMY DEFINITION

Also called the underground, informal, or parallel economy, the shadow economy includes unreported income from the production of legal goods and services, either from monetary or barter transactions. The definition can include also the illegal activity.

At the same time, the European Commission definitions distinguish also the unreported legal work in informal self – employment and irregular salaried work.

Types of Underground Economic Activities				
Type of Activity	Monetary Transactions		Non monetary Transactions	
<u>LEGAL ACTIVITIES</u>	Tax Evasion	Tax Avoidance	Tax Evasion	Tax Avoidance
	Unreported income from self-employment. Wages, salaries, and assets from unreported work related to legal services and goods	Employee discounts, fringe benefits	Barter of legal services and goods	All do-it-yourself work and neighbour help.
<u>ILLEGAL ACTIVITIES</u>	Trade in stolen goods; drug dealing and manufacturing; prostitution; gambling; smuggling; fraud.		Barter of drugs, stolen, or smuggled goods. Producing or growing drugs for own use. Theft for own use	
Structure of table from Lippert and Walker, <i>The Underground Economy: Global Evidence of its Size and Impact</i> . Vancouver, B.C., The Frazer Institute, 1997.				

The (Spanish) Economic and Social Council definition (Governments advisory committee) regarding shadow economy is “**productive and market service provision activities that evade both tax regulations as well as any type of economic matter, between which we find the labour regulations and others such as those referring to environment, technical rules, security, etc**”.

A precise definition of the shadow economy, however, is quite difficult because the shadow economy develops all the time, adjusting to changes in taxation and regulations.

1.1 SHADOW WORKERS DEFINITION

At the same time people that work in the informal economy can be:

- Workers, under a formal contract of employment, but paid for a small period of time than put in.
- Workers undeclared working in regular companies with a portion of declared employees, inferior than the number of actually employed
- Completely shadow workers.

1.2 MEASURING THE SHADOW ECONOMY