



Economic differences between legal activities and the informal economy

based on IPAG and UNGC/ reports

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Grey zone (informal economy, informal sector)

- It is a term used to describe the conduct of business outside the official circulation subject to state control. The term informal economy, shadow economy, shadow economy, grey economy or hidden economy is also used interchangeably.
- In the nomenclature of national accounts, as recommended by ESA 2010, the name 'unobserved economy' is used. This term is also used by the Central Statistical Office in its publications.
- The non-observed economy consists of three basic elements:
 - illegal activities where both parties are voluntary partners in economic transactions,
 - disguised activities where transactions in themselves are not illegal but are not reported in order to avoid administrative procedures,
 - activities referred to as 'informal', usually where no records are kept.



Source of the grey market

- The most important factors shaping the size of the informal economy are tax, labour costs and legislation in general, including labour law and labour supply. High employment costs and complexity of regulations are easier to bear by larger companies, small ones run away from troubles in the grey market (...)
- Simplification of the law, including labour law and reduction of formalities related to hiring a new employee, is another method of reducing the grey market, according to the respondents.

Ministry of Labour and Social Policy, 2008

Important factors favouring the emergence of the grey market

- Low quality of public services,
- Low legal culture of public administration,
- Excessive regulation and high costs of doing business.
- These factors, on the one hand, reduce the risk of punishment for running a non-registered business and, on the other hand, limit the benefits of running it under the protection of law.
- The shadow economy also translates into lower tax revenues and higher inflation.

CO KRĘCI SZARĄ STREFĘ

Podatki i moralność decydują o wielkości szarej strefy – twierdzą ekonomiści.

Czynniki wpływające na wzrost szarej strefy
(znaczenie czynnika w proc.)

wysoki poziom podatków i składek
na ubezpieczenie społeczne

35-38

niska moralność podatkowa

22-25

niska jakość instytucji państwa

10-12

restrykcyjne regulacje rynku pracy

7-9

niska jakość usług publicznych

5-7

ZRÓDŁO: FRIEDRICH SCHNEIDER, UNIWERSYTET W LINZU

The impact of the grey market on the economy

- The most important negative aspect of the shadow economy is the distortion of competitive mechanisms in the economy.
- The negative macroeconomic aspect is related to the fact that the shadow economy is depleting tax revenues of the state.
- Negative consequences of the grey market for employees who find employment in it.



Size of the phenomenon

- The share of the grey market in the Polish GDP is estimated by Paweł Wójcik at 25%, the European average is 15%.
- In 2012, PKPP Lewiatan surveys showed that 33.2% of companies employed workers in the grey market (compared to 28.9% in 2011).
- According to the Central Statistical Office (GUS), in 2010 the share of employees in the "grey market" amounted to 4.9% of the total number of employees, and as a share in GDP - 13.1% in 2009.
- Losses for the State Treasury are estimated at about PLN 6 billion annually.
- CBOS research conducted in 2013 showed that 47% of respondents know people employed illegally, 25% know people who unduly receive benefits from social assistance, 17% know a person who defrauds a pension.
- In 2015, EY estimated the size of the grey market at 12.4% of Poland's total GDP, while in some sectors, such as tobacco and fuel, it reached 23%.

Estimates of the share of the unobserved economy in the creation of GDP in 2012-2015 (per cent)

Sekcje PKD	2012	2013	2014	2015
Przemysł	1,0	1,2	1,3	1,4
Budownictwo	2,3	2,1	2,3	2,5
Handel i naprawa pojazdów samochodowych, zakwaterowanie i gastronomia	5,3	5,6	5,3	5,0
Transport i gospodarka magazynowa	0,6	1,0	0,9	1,0
Obsługa rynku nieruchomości	1,3	1,4	1,3	1,7
Pozostałe sekcje	1,7	1,7	1,6	1,6
Gospodarka nieobserwowana	13,0	13,8	13,3	13,5
PKB	100,0	100,0	100,0	100,0

Źródło: Rachunki narodowe według sektorów i podsektorów instytucjonalnych 2012-2015, Główny Urząd Statystyczny, Warszawa, sierpień 2017

Estimates of the size of the grey market (in terms of GUS) in GDP in 2014-2018

	2014	2015	2016	2017	2018
PKB (mld PLN) (GUS do 2017, rok 2018 - szacunki IPAG)	1 719	1 799	1 859	1 982	2 100
Gospodarka nieobserwowana (mld PLN) (GUS do 2015, od 2016 szacunki IPAG)	229	243	253	262	271
Udział szarej strefy (GUS do 2013, od 2016 szacunki IPAG)	13,3%	13,5%	13,6%	13,2%	12,9%

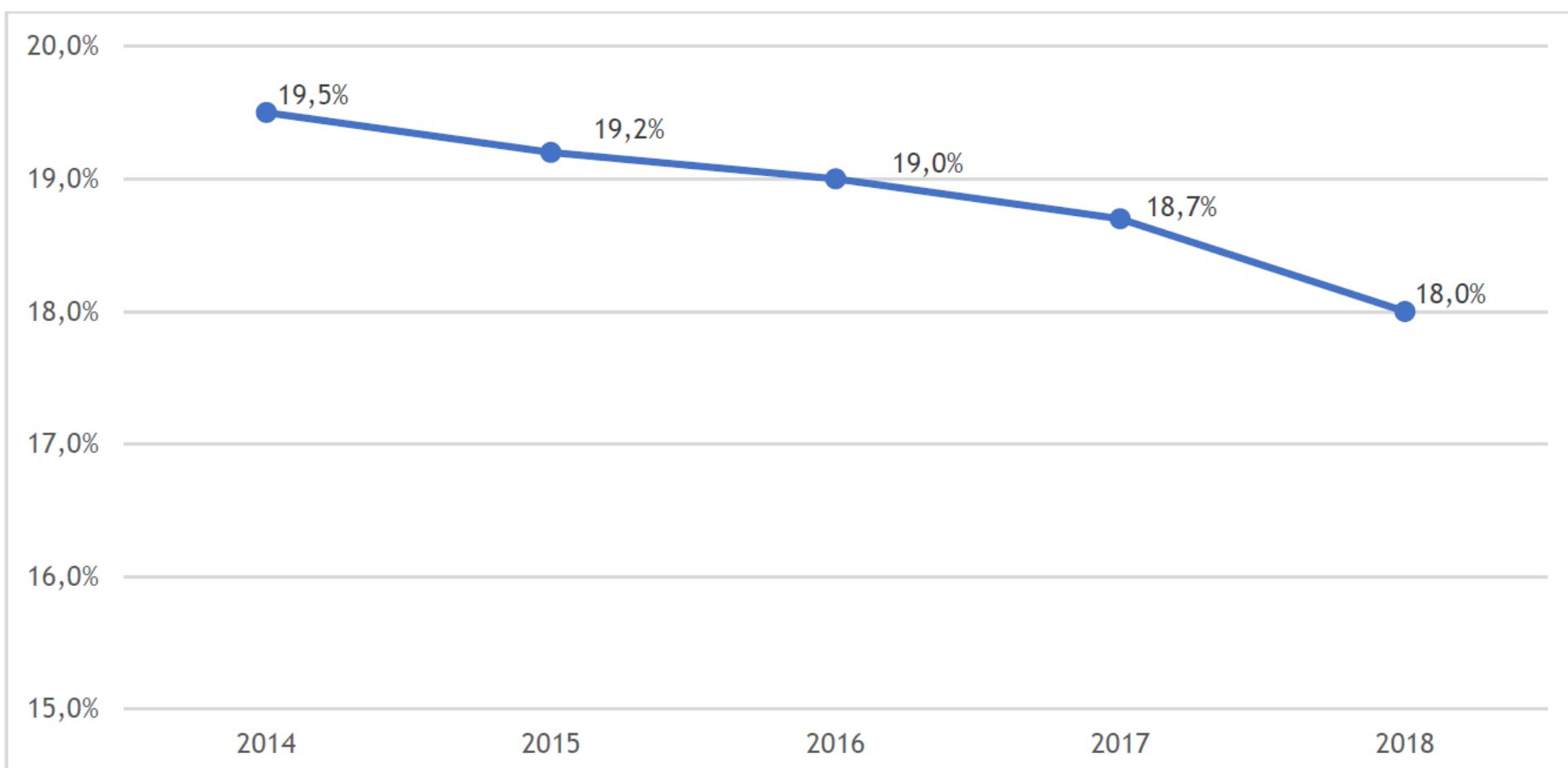
Źródło: GUS, szacunki IPAG

Estimates of the size of the grey economy (in terms of IPAG) in the Polish economy in 2014-2018 (PLN billion)

	2014	2015	2016	2017	2018
Gospodarka nieobserwowana (GUS) (1)	229	243	253	262	271
Doszacowania IPAG (2)	132	127	124	134	131
Szara strefa (ujęcie IPAG) (1+2)	361	370	377	396	402
PKB skorygowany o szarą strefę w ujęciu IPAG	1 851	1 926	1 983	2 116	2 231
Udział szarej strefy w skorygowanym PKB	19,5%	19,2%	19,0%	18,7%	18,0%

Źródło: GUS, szacunki IPAG

Share of the grey market (in terms of IPAG) in the Polish economy in 2014-2018

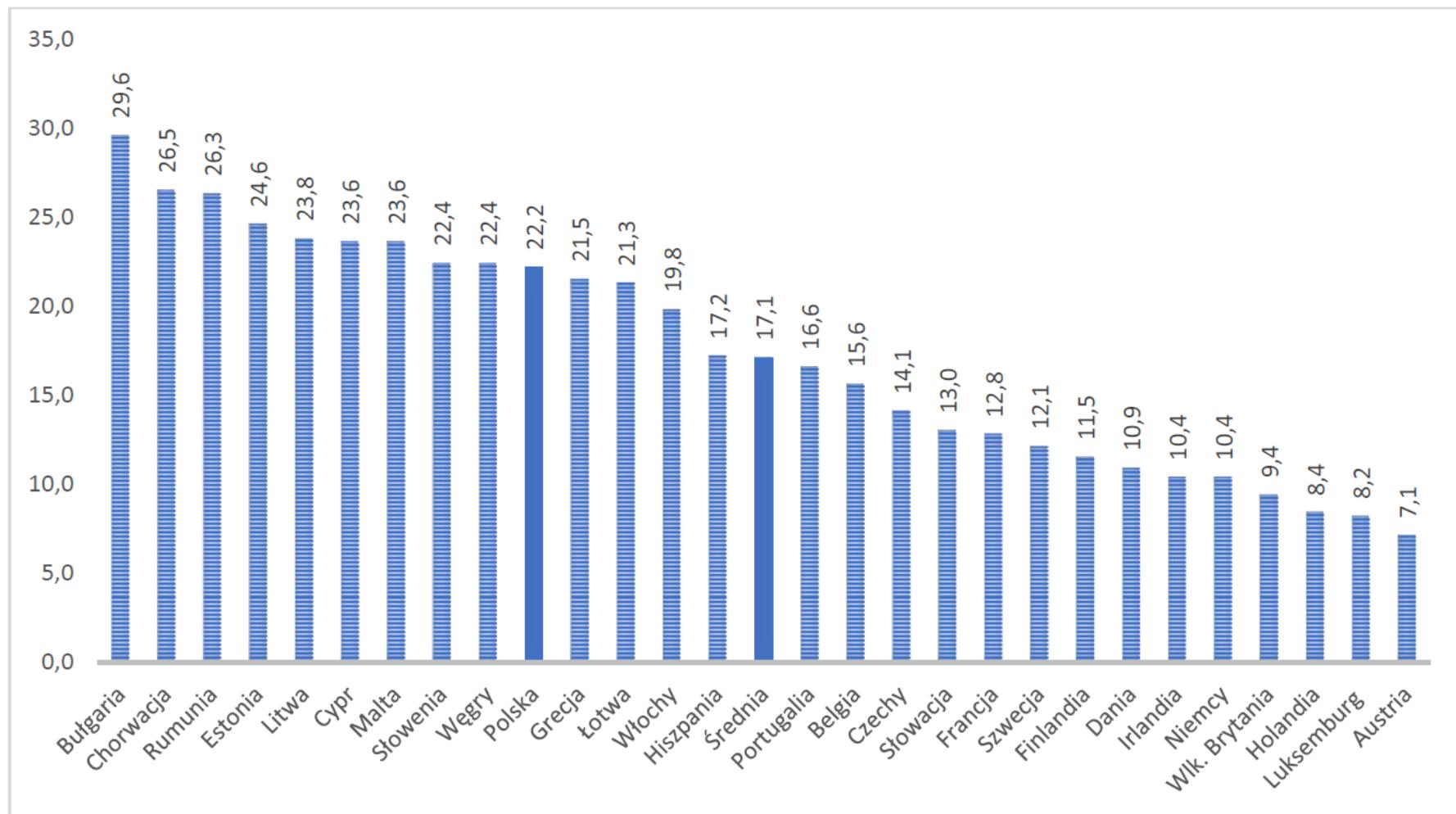


Źródło: Szacunki IPAG

Major activities not or not fully included in the official IPAG estimates

	Sekcja	Rodzaj aktywności
A	Rolnictwo, leśnictwo, łowiectwo i rybactwo	<ul style="list-style-type: none"> sezonowe prace w rolnictwie nielegalna wycinka i sprzedaż drzew sprzedaż runa leśnego klusownictwo
B	Górnictwo i wydobywanie	<ul style="list-style-type: none"> dzikie kopalnie węgla wydobywanie piasku i żwiru
C	Przetwórstwo przemysłowe	<ul style="list-style-type: none"> produkcja alkoholu i wyrobów tytoniowych produkcja odzieży
E	Dostawa wody; gospodarowanie ściekami i odpadami; rekultywacja	<ul style="list-style-type: none"> nielegalne gospodarowanie odpadami obrót zużytym olejem silnikowym
F	Budownictwo	<ul style="list-style-type: none"> nierejestrowane prace budowlane
G	Handel; naprawa pojazdów samochodowych	<ul style="list-style-type: none"> nielegalny handel bronią nieopodatkowany handel uliczny niepodatkowany handel elektroniczny handel paliwami z różnych źródeł, w tym z przemytu naprawy i serwis pojazdów handel przygraniczny usługi komisowe oszukańcza sprzedaż w internecie
H	Transport i gospodarka magazynowa	<ul style="list-style-type: none"> nielicencjonowany transport osobowy (tzw. przewóz osób) zawyżanie opłat
I	Zakwaterowanie i gastronomia	<ul style="list-style-type: none"> nierejestrowane usługi noclegowe i catering napiwki
J	Informacja i komunikacja	<ul style="list-style-type: none"> nierejestrowane usługi informatyczne nielegalne kopianie i rozpowszechnianie treści objętych prawami autorskimi (piractwo komputerowe, odpłatne udostępnianie nielegalnych kopii filmów i muzyki, kserowanie książek)
K	Działalność finansowa i ubezpieczeniowa	<ul style="list-style-type: none"> lichwiarstwo handel walutami
L	Obsługa rynku nieruchomości	<ul style="list-style-type: none"> wynajem nieruchomości i pomieszczeń dzierżawa gruntów
M	Działalność profesjonalna, naukowa i techniczna	<ul style="list-style-type: none"> usługi prawnicze (porady prawne)
N	Administrowanie i działalność wspierająca	<ul style="list-style-type: none"> usługi finansowe (np. odpłatne wypełnienie PIT-u) usługi doradcze, pośrednictwo (np. przy sprzedaży auta, poza komisem)
P	Edukacja	<ul style="list-style-type: none"> korepetycje pisanie prac dyplomowych
Q	Opieka zdrowotna i pomoc społeczna	<ul style="list-style-type: none"> znachorzy, kręgarze
R	Działalność związana z kulturą, rozrywką i rekreacją	<ul style="list-style-type: none"> nierejestrowany/nielegalny hazard, zakłady wzajemne przez internet handel biletami (rynek wtórny)
S	Pozostała działalność usługowa	<ul style="list-style-type: none"> nielegalne parkingi i nieuprawnione pobieranie opłat za parkowanie
T	Gosp. domowe zatrudniające pracowników, gosp. domowe produkujące wyroby i świadczące usługi na własne potrzeby	<ul style="list-style-type: none"> opieka nad dziećmi, osobami starszymi i niepełnosprawnymi pomoc domowa odpłatna pomoc sąsiedzka

Size of the grey market in the EU -28 in 2017 (as a percentage of official GDP)

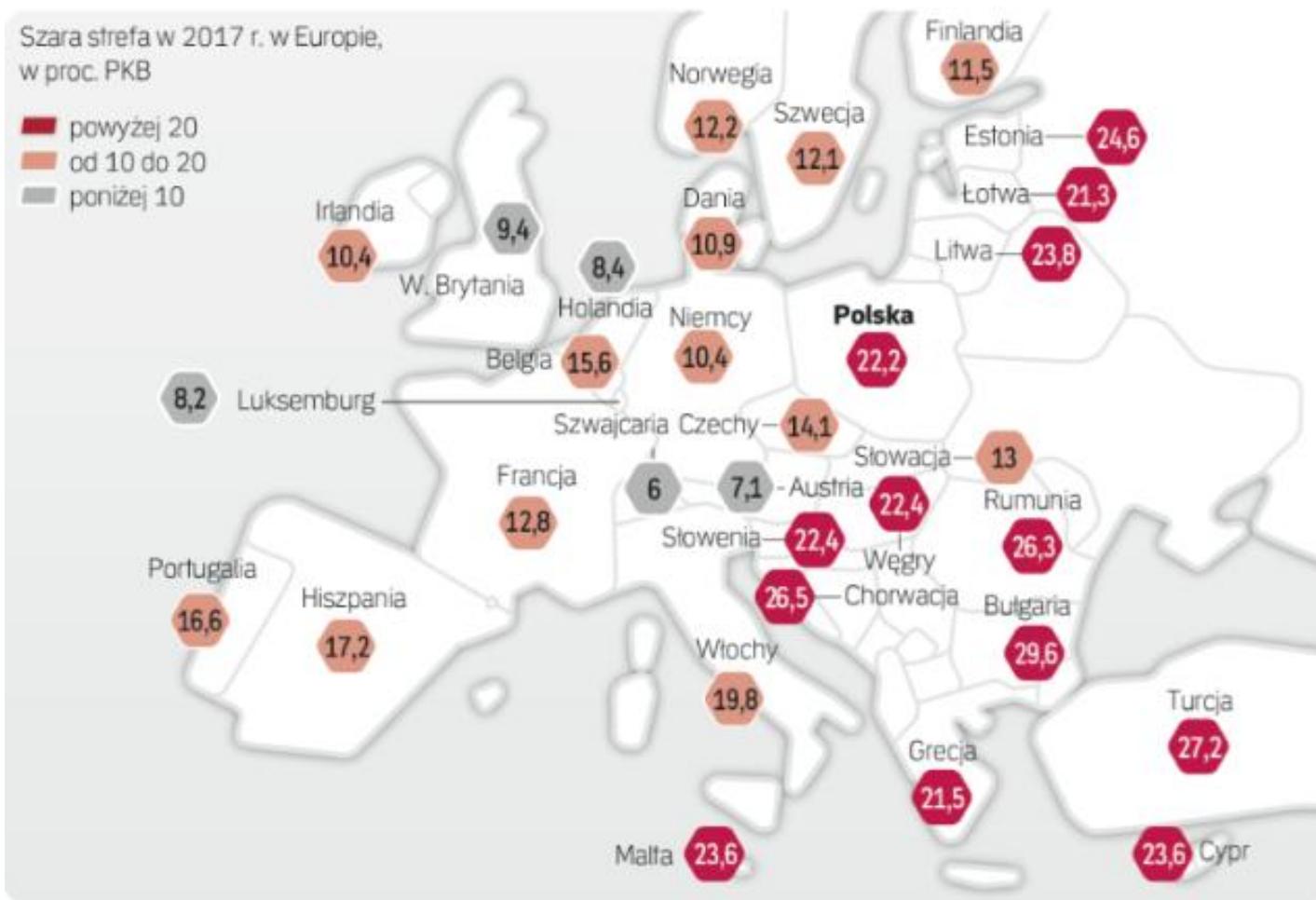


Źródło: F.Schneider, *Implausible Large Differences of the Size of the Underground Economies in Highly Developed European Countries? A Comparison of Different Estimation Methods*

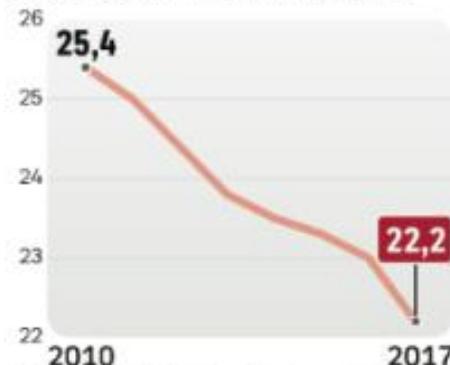
http://www.econ.jku.at/members/Schneider/files/publications/2017/EstShadEc_OECDCountries.pdf

Szara strefa w 2017 r. w Europie,
w proc. PKB

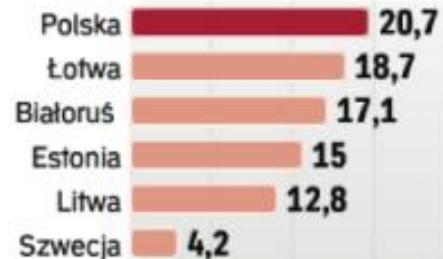
- powyżej 20
- od 10 do 20
- poniżej 10



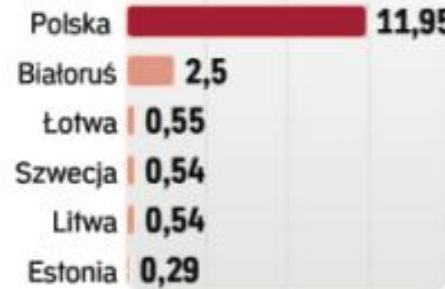
Szara strefa w Polsce, w proc. PKB



Nierejestrowany czas pracy
jako proc. normalnego czasu pracy



Nierejestrowane godziny pracy, w mld
rocznie





And something positive?

- In economics is often used the term that the grey zone "oil economy". The point is that the grey market makes it possible to carry out economic activity and gainful activity in certain areas and situations where this activity could not be carried out within the framework of the official economy.
- Employment of people with low or no qualifications, who would not have a chance to work legally. Such people earn their income in the shadow economy, thanks to which, firstly, they do not burden social assistance funds and, secondly, they spend the money they earn, for the most part, already in the legal economy.
- There is a group of consumers who, for example for financial reasons, would not buy and use certain services offered by companies operating in the official sphere.
- Therefore, the grey market makes it possible to sell these products and provide these services, which has a positive impact on the creation of GDP.



Restrictive measures to be taken

- The Single Audit File was introduced under Article 193a of the Tax Code. Pursuant to it, as of July 1, 2016, the NPK is introduced for the largest enterprises, i.e. those employing more than 250 employees or generating more than EUR 50 million and whose total assets exceed EUR 43 million in the balance sheet.
- On 1 January 2017, the so-called "Big Amendment to the VAT Act" came into force. The amendment extends the existing reverse charge mechanism to include construction services. The reverse charge mechanism was introduced by Article 199 of the Reverse charge Directive 2006/112/EC2 .
- On 18 April 2017, the Transport Package, i.e. the Act on the system for monitoring road transport of goods, came into force. It is a comprehensive package aimed at sealing VAT receipts, as well as receipts from excise duty on lubricating and heating oils. The transport package includes fuels, alcoholic products and dried tobacco. The Act on Road Freight Transport Monitoring System requires digital registration of transported goods and electronic surveillance by means of satellite systems.
- The receipt lottery is effective from 1 October 2015. The aim of the lottery is to support fiscalisation and to encourage consumers to collect receipts when shopping. The lottery is directed primarily towards industries where the "grey market" is developing.

Restrictive measures to be taken

- On 1 January 2017, the Act of 13 April 2016 amending the Personal Income Tax Act, the Corporate Income Tax Act and the Freedom of Economic Activity Act - Restrictions on cash payments entered into force.
- The mechanism of joint and several liability, like in many EU countries, was introduced in Poland on 1st October 2013. As of 1 January 2017, the catalogue of goods covered by joint and several liability of the purchaser and the entity making the delivery was extended.
- In the fight against economic crime, depriving criminals of assets acquired as a result of illegal activities is an important factor influencing the efficiency of the judiciary. So far, time has worked to the disadvantage of law enforcement agencies - during the entire administrative process, the perpetrator could effectively conceal assets. An additional way of hiding property was to transcribe it on close ones not directly related to illegal activity - Extended confiscation.
- The introduction of the National Tax Administration¹ as of 1 March 2017 implemented many changes, however, the majority of them remained unchanged from the perspective of controlled entities. First of all, the structure of the organization has changed. The control system remains unchanged and the taxpayer's powers vis-à-vis the control body remain unchanged.

Additional measures

- ICT System of the Clearing House (STIR) - is a system aimed at tracking and preventing criminals from using assets derived from illegal activities accumulated in bank accounts.
- Online fiscal cash registers - The mechanism will operate on the principle of collecting direct data from transactions. All fiscal cash registers will be directly connected to the network and will provide digital information about booked transactions - whether they concern fiscal receipts or invoices, as well as receipts and cancelled invoices.
- Split payment is a mechanism to prevent tax fraud involving the misappropriation of VAT by fraudulent taxable persons. The idea is to divide the gross amount into two separate payment streams - the net amount due to the seller and the amount of tax transferred to a special bank account.
- The Central Invoice Register is a nationwide repository of knowledge next to the Single Control File as an electronic register based on changes in the Tax Ordinance. The implementation of the Central Invoice Register is the responsibility of the Critical Applications company.



**For you, however, these are instruments
of prevention....**

...and for legitimate businesses it is...

Additional costs!





Our playground



- According to the Act on Recycling of End-of-Life Vehicles, an entrepreneur running disassembly stations may not charge any fee for the management of this waste - hazardous waste, this is the qualification.
- Regardless of the condition and completeness of the transferred vehicle, the operator of the station is to reach, respectively, the levels calculated from the weight entered in the register certificate of registration 85 % of recycling and 95 % of recovery. The vehicle can weigh 70% by weight and we have to reach 95%.
- Regardless of whether we have the possibility or not, we have to accept and dispose of every part of the passenger car that is waste - no need for the driver.

Our playground



- Car manufacturers and importers are obliged to set up a vehicle collection network - 3 points in each of the voivodships - a total of 48 - running disassembly stations in Poland is 1,050 - a distortion of competition - manufacturers currently support about 150 companies.
- The grey zone covers about 50% of the market, i.e. 500,000 out of 1 million vehicle deregistered in the grey zone.
- Grey zone - there are two types of this one without a signboard and the one with a signboard. I.e. it has a permit for this type of activity but it operates like a grey market, does not pay VAT, is employed on the black market, etc. It is not allowed to work on the black market.
- More than 10 million used parts are available on the Allegro portal - only a few of them have the indicated origin (170 thousand). Half is offered without bill, part with VAT invoice margin and a small quantity with full VAT.



Amendments to the Act on waste and other acts

- Waste may be stored if the necessity of storage results from technological or organisational processes and does not exceed the deadlines justified by the use of these processes, however, not longer than for 1 year.
- The holder of waste obliged to obtain a waste collection permit or a waste treatment permit, a waste generation permit including waste collection or treatment or an integrated permit including waste collection or treatment, the waste storage facility operator or the waste landfill manager is obliged to operate a visual control system for the place of waste storage or storage.

Amendments to the Act on waste and other acts

- The video image of the waste control system shall be stored for a period of one month from the date of recording. A visual control system for the place where waste is stored or stored shall be carried out with the use of technical devices ensuring 24/7 recording of the image and identification of the persons present at the place.
- The holder of waste obliged to obtain a waste collection permit or a waste processing permit, a waste generation permit including waste collection or processing or an integrated permit including waste collection or processing, the operator of waste storage or the manager of a waste storage facility is obliged to properly store and secure the visual image record of the waste storage or storage control system against unauthorized access and loss, in particular due to destruction or theft.

Amendments to the Act on waste and other acts

- Waste management, consisting in the collection of hazardous waste, waste recovery by filling in disadvantaged areas, collection or treatment of municipal waste or waste from municipal waste treatment, requiring a waste collection permit, a waste treatment permit, a waste generation permit including waste collection or treatment or an integrated permit including waste collection or treatment, **takes place exclusively on real estate owned, perpetual usufructuary, user or tenant of which is the waste management holder.**

Amendments to the Act on waste and other acts

- The holder of waste obliged to obtain a waste collection permit or a waste treatment permit, except for the waste landfill manager, is obliged to establish a security for claims in the amount enabling coverage of the costs of substitute execution (...), including removal of waste and its management, including waste constituting residues from extinguishing action or removal of negative environmental effects or damage to the environment (...) and their repair as part of the activity consisting in collection or processing of waste.
- The amount of the claim security shall be calculated as the product of the largest mass of waste that could be stored in the installation, the construction facility or its part or waste storage place, taking into account the dimensions of the construction facility or its part or another waste storage place, and the claims security rate.
- Claims can be secured by a deposit, bank guarantee, insurance guarantee or insurance policy.

Summary of changes



- PSP as WIOS;
- A year for storage and monitoring;
- Bat for garbage recidivists;
- Storage of waste only on your own plot;
- A wolf ticket for garbage truckers-and-recidivists;
- Imports of garbage under greater control;
- More inspectors and night inspections.



Pushed into the grey market....

- Disproportionate burden for micro, SMEs and large companies (storage up to 50Mg);
- Additional costs of monitoring, financial security of claims, firefighting operation, adaptation of plants to new fire-fighting requirements, shortening of storage time....;
- 23%VAT, approx. 40% ZUS, 2 % PCC, real estate tax, perpetual usufruct 3%, 19% income tax (if any);

Pushed into the grey market....

- Prohibition to collect fees for waste management services such as end-of-life vehicles (entrepreneurs running disassembly stations or end-of-life vehicle acceptance points) - potentially hidden loss in business, as the cost of waste management is higher than the revenue from sales;
- Commitment to achieve 95% recovery and 85% recycling, failure to achieve the level of additional charges (10% of companies have the support of vehicle manufacturers and importers as part of the obligation to provide the network, but 90% of entities do not have support mechanisms);
- Reducing the time of waste storage to a year on the market of high seasonal changes in raw material prices?

Conclusion



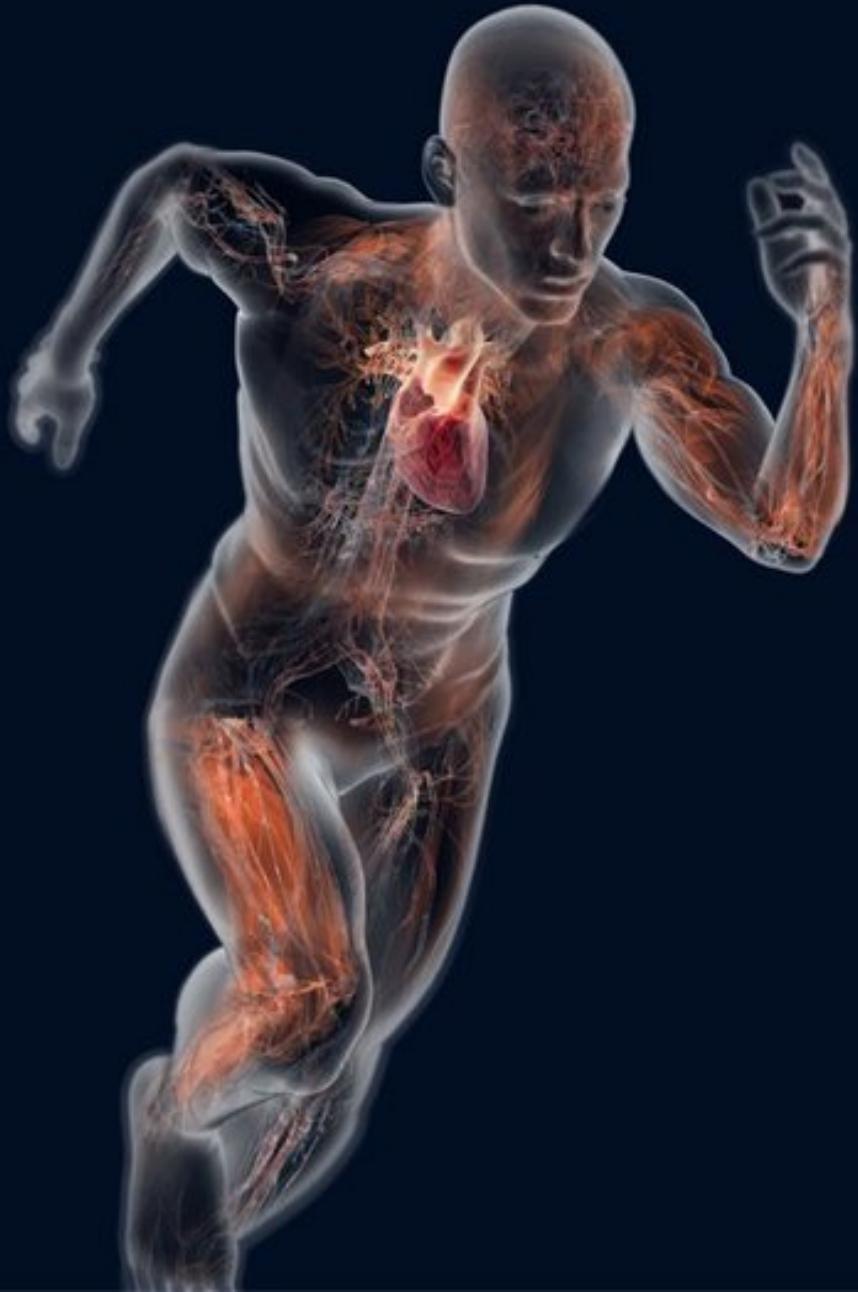
It is a total distortion of
competitiveness within the legal
market and activation of the grey
market!











**"A man who
doesn't make
mistakes usually
doesn't do
anything."**

**Edward John
Phelps**

Thank you for your attention!

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