

ATA

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Drivers and Impact of the Shadow Economy

Andrew Minto

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Key Drivers and Impacts of the Shadow Economy

Key Drivers

- Rates of taxation and social security contributions.
- Tax Policy
 - Complex laws
 - Perceptions of fairness
- Underdeveloped legal frameworks
 - Both in terms of tax and general regulations e.g. Labour regulations
- Underdeveloped public sector institutions and services
- Tax Morale
- Competitive advantage and lack of transparency.

Key Drivers

- Compliance Costs

Average time require to complete key business processes				
	Paying Taxes		Starting a Business	
	Number of Payments required per year	Time required to comply (annual hours)	Number of procedures required	Time required to comply (days)
East Asia & Pacific	19.5	168.1	6.1	22.8
Latin America & Caribbean	27.5	316.5	8.1	28.1
OECD members	10.1	161.4	5.0	9.1
Middle East & North Africa	16.0	204.0	6.3	19.5
South Asia	26.7	273.5	7.1	14.6
Sub-Saharan Africa	36.6	280.6	7.5	21.5
Europe & Central Asia	12.7	179.3	5.3	11.8

Source: World Bank Doing Business 2019

Key Drivers

- Illegal Activities
- Political instability and lack of representation.
 - Absence of perception of Public Good.
 - Social contract, between Government and citizens, compromised.
- Poor education and information
 - Rights, obligations and consequences.
- Historical factors relevant to each country cannot be overlooked.
 - Societal culture of compliance and attitudes to taxation.
- Digitisation provides greater opportunities for the shadow economy to grow across borders.

Key Impacts

- Governments inability to provide services to citizens.
 - E.g. Health. education. infrastructure

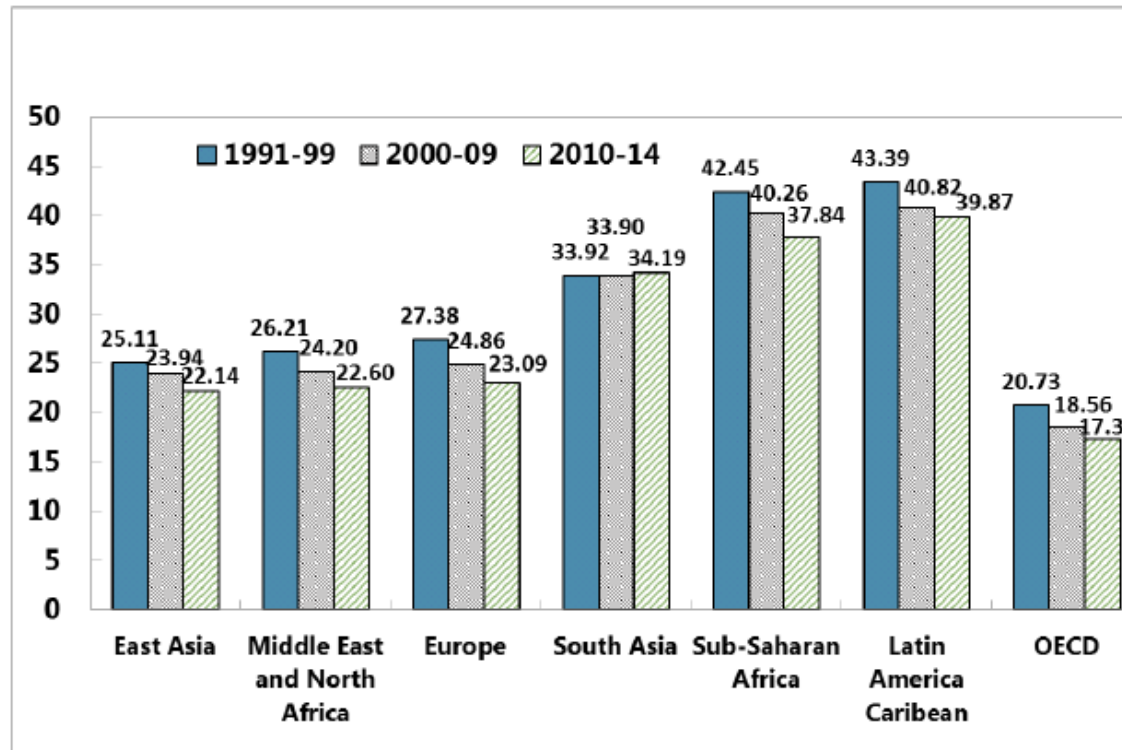


Figure 4: Informal Economy by Region (average, percent of GDP). Source: Medina and Schneider (2017).

Key Impacts

- Benefit fraud and avoidance of employment legislation
 - E.g. minimum wage, health and safety, exploitation.
- Honest business suffers – unfair competition through uneven playing field.
 - Penalises businesses for doing the right thing.
 - Leads to administrations “bleeding the compliant” especially in underdeveloped administrations.
- Increased burden on Government and social services.
- Employee protection compromised.
- Customers do not get guarantees under the law for poor work.
- General erosion of good governance.
 - Corruption can flourish – driven by the shadow economy.
 - Attempts to avoid detection.

Key Impacts

- Illegal activity and corruption grow.
 - As participants become wealthy and powerful the issues become more difficult to address.
 - Compounding problem.

Summary

- Drivers are many and varied.
- Impacts are considerable
 - revenue and quality of life.
- Focus on the drivers rather than the symptoms.
- The shadow economy is manifestly unfair
 - Penalises government, businesses, employees, consumers and citizens.
 - Allows some to play by their own rules.
 - Vulnerable workers are exploited, criminal groups flourish and social capital and trust are undermined.
 - The shadow economy is not standing still - rapidly shifting and evolving in step with wider economic, technological and social changes.

Summary

- Only a holistic and concerted multi agency response together with international cooperation will minimise the issue of the shadow economy.
- If not we will be engaged in a “race to the bottom”.
- *‘Digitalisation and globalisation of the economy is resulting in new ways of conducting business and obtaining goods and services. Just as traditional business models have been disrupted so too have traditional governance models.’*
- Chartered Accountants Australia and New Zealand

THANK YOU