Summary of the Survey on Construction Industry

Construction industry not only affects the economic growth and creation of work places, but its grey economy has an impact on both safety at work and on the people's social guarantee (non) existence and it may also have direct, unplanned impact on people’s lives not directly linked to construction industry.

According to the data of the Central Statistical Bureau (CSB), in 2014 the construction sector accounted for 7% of the Latvian GDP and employed 7.4% of the country's employees. In 2013 the construction sector created added value of GDP at the amount of 1,320 million EUR.

In first eight months of 2015 construction industry employed 63.5 thousand workers, which accounts for 8.0% of the employees in the country. Compared to the corresponding period of 2014, employment in the sector declined by 5.4%.

In eight months of 2015 5,937 employers worked in the construction industry sector (or 7.5% of all employers in the country), which is by 1.0% less than in the corresponding period of 2014.

In ten months of 2015 budget revenues from the construction industry tax payers administered by the State Revenue Service (SRS) are 212.12 million EUR demonstrating an increase of 8.56 million EUR more than in 2014 year. Despite the reduction in the amount of taxes paid, still the sub-sector of civil engineering accounts for the largest part of tax payers with 115.06 million EUR of taxes, or 54.2% of total construction industry tax payments. Amount of taxes paid (compulsory social security contributions and personal income tax) has increased in the specialized construction sector and the construction of buildings.

In 2013 basic tax duties (VAT, state compulsory social insurance contributions, personal income tax, corporate income tax) payments accounted for 5.9% of the construction sector’s turnover, which in 2014, mainly due to reverse VAT payment arrangements, have fallen to 4.9% of the sector's turnover.

Since 2011 the measures implemented by the State Revenue Services to restrict transactions with fictive firms have brought results – the value of fictive transactions has decreased 3.5 times and the presence of participating tax payers has decreased by 2.7 times, whereas in 2014 only 456 taxpayers with the following characteristics are detected with the transaction value of 48.06 million EUR.

But it has to be admitted that in recent years there is an increasing number and value of transactions when the SRS finds undeclared or incompletely declared VAT transaction value (the difference between the buyer’s purchase value and the seller’s sales value).

In eight months of 2015 the average monthly gross income of an employed in the sector was 722 EUR (600 EUR in building construction, civil engineering 972 EUR and 541 EUR in specialized works subsector), compared to the corresponding period of 2014 there has been an increase of 8.1%, which is 1.1 percentage points more than the national average.

Comparing the situation in the Baltic countries, we must conclude that the Latvian and Lithuanian gross wages in the construction sector tend to be slightly (4-10 percentage points) below the national average gross salary, while in Estonia the average wage in the construction exceeds the national average by 4-5 percentage points. It should be noted that the difference tends to decline both in Lithuania and Latvia.
Average gross salary in Baltic countries 2010 – 2014, EUR

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<th>National economy, Total</th>
<th>Construction industry (F)</th>
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<td>LT</td>
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<td>2010</td>
<td>576</td>
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<td>2011</td>
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<td>2012</td>
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<td>2013</td>
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<td>2014</td>
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Source: Statistical Bureaus of Latvia, Lithuania, Estonia

Although the level of shadow economy in the construction industry has strongly decreased in recent years, it is still significantly higher than in the national economy as a whole. Calculation of the Central Statistical Bureau shows that the shadow economy in construction in the period of 2011 - 2013 has declined more rapidly than in the national economy as a whole, while the results of the study by the researcher A. Sauka confirming the trend of reduction of the shadow economy in 2011 - 2012 also show the growth of shadow economy in 2013 and in 2014, reaching 48.9% in construction industry compared to the overall economic performance of 23.5%. A. Sauka indicates that the shadow economy consists of three main components: "envelope salaries", illegal employees and profit concealment.

According to the data by the State Revenue Service in eight months of 2015 80% of workers in the construction sector have been working part-time or less than 152 hours per month.

When analysing the information from employers' reports in eight months of 2015, the analysis identified 44 natural persons who were working more than 336 hours a month or 16 hours a day. The leader was a person who received a payment for 512 hours a month, or an average of 23 hours 15 minutes a day in June 2015 from the same employer and a person with two employers (one of which is a municipal company) altogether received payment for 30 h 10 min a day.

Incorrect working time accounting, fragmented structure of the companies, as well as a large number of persons involved in the construction of one facility, which complicates traceability of cash flow and liability creating a favourable environment for avoiding payment of taxes and participation in VAT fraudulent schemes are some of the major causes that can be mentioned for high shadow economy level in construction industry.

In the consolidated draft action plan of state authorities prepared by the Ministry of Finance for limiting the shadow economy in 2016 – 2020, the following measures are included in the section of construction industry addressing elimination of reasons promoting shadow economy and will further discussed in the Council led by Prime Minister L. Straujuma:

1. Electronic registration of employed persons in the construction site and tracking their movements on site;
2. Review of duties of the main contractor in the construction process;
3. Revision and expanding of the application of administrative responsibility in construction;
4. The joint and several liability (complete chain of responsibility) in the construction sector with regard to the payment of taxes if the subcontracted part of the contract exceeds a certain amount;
5. Improvement of the construction sector accounting;