

Around the globe, and especially in transition economies, a non-negligible number of companies reduce their tax and social contribution payments by using so-called “envelope wage” arrangements. This practice refers to those situations when an employer pays an employee their wage in two parts: i) one part based on the formal working contract which is declared to the tax or social security authorities and ii) one part as cash-in-hand without declaring it to authorities, based on an informal mutual agreement between the employer and the employee. This practice represents one form of undeclared work and results in negative consequences for the employee such as: reduced social protection (e.g., lower or no unemployment benefits, lower pension entitlements) and reduced access to credits or mortgages. Considering that young people are more likely to accept “envelope wages” from the employer, this project aimed to identify the reasons underlying this decision among young people. Thus, in this project two focus groups have been organized, a survey based on a questionnaire has been applied (1,059 students from all state universities in the city of Iași), four mobilities for research/documentation and eight scientific and/or intra-sectoral events (round tables, conferences, seminars) have been attended. The results were included in four scientific articles (three accepted for publication and one under review) and a policy brief. The finding of the survey is that 31% of employed students from public universities in Iasi receive or have received envelope wages during the time as a student. The students are more likely to receive, willing to accept or even to prefer envelope wages if they display a low trust that other citizens are being compliant (i.e., if they know other people engaged in undeclared activities or if they perceive that a high share of population within their country is engaged in undeclared activities). Furthermore, trust in institutions also plays an important role when envelope wage arrangements are analysed, alongside with the trust in other citizens. The results reported reveal that, when comparing students receiving envelope wages with those not receiving such payments, the percentage of students who tend not to trust any of the analysed institutions is always higher. Furthermore, the students receiving envelope wages have a lower tax morality (higher acceptability of undeclared activities) than those not receiving such payments, as have students willing to accept envelope wages a lower tax morality than those not willing to accept such payments. The most important result is the understanding of the different effect of the two components of fiscal morality. Although the Self-Determination Theory has been applied in other areas of tax evasion, it has not been used in the field of undeclared work. The results show that when fiscal morality is analyzed in terms of two components, internalized motivation and extrinsic motivation, it is internalized motivation that explains acceptability and participation in the informal economy (by accepting envelope wages). In this context, internalized motivation refers to reasons such as fairness, participation to the common good, the duty to be fair, the shame of cheating the state and so on.