The purpose of my paper is to analyze the experience of European Union Member States in their attempt to solve the problem of shadow economy and to identify measures that can reduce its size and can be effectively used by Ukrainian government. The shadow economy includes economic activities and the income that avoid government regulation or taxation. A large share of the shadow economy is undeclared work which refers to the wages that workers and business do not declare to avoid taxes or market regulation. The rest is represented by business underreporting income to avoid taxation.

Preventing and retaining undeclared work are primarily tasks of the EU Member States. They apply a mix of preventive and detection measures targeted at the reduction of the attractiveness of undeclared work, administrative reform and strengthening the surveillance and sanction mechanisms. However, currently there is no obvious approach on EU level to prevent undeclared work and tax fraud. To these ends the European Commission has launched several initiatives. Firstly, the Commission has adopted an Action Plan setting out over 30 measures to protect Member States' tax revenues against aggressive tax planning, tax havens and unfair competition. The priorities now are for Member States to make the necessary improvements to their national tax administrations and systems, to make full use of the existing European instruments and to agree on new rules where appropriate. Secondly, in line with 2012 Employment Package an initiative on enhancing cooperation at EU level between all enforcement bodies, such as labour inspectorates, social security, tax and migration authorities, whose aim is to prevent and sanction undeclared work has been launched in 2013. Finally, The Commission is ready to provide targeted support and technical assistance to any Member State that needs to strengthen its tax system against evasion and improve tax collection.

On this basis, the measures that can reduce the size of the shadow economy in Ukraine can include the following: reducing the financial attractiveness of undeclared work through better design of tax and benefit systems; strict controls in the social protection system; administrative reform in compliance with local regulations; strengthening the surveillance and sanction mechanisms which rely on the involvement of labour inspectorates, tax offices and social partners; trans-national cooperation with Member States; awareness raising activities.