

Employee Misclassification

Tax Evading Employers Costing Taxpayers, Busting Government Budgets

Unscrupulous employers are evading state and federal taxes by incorrectly classifying employees as independent contractors – leaving millions of workers without protections and benefits and taking needed revenue from state and federal coffers.

Employee misclassification is rampant and costs states and the federal government billions of dollars, which taxpayers must make up.

- In its last comprehensive review, the IRS estimated that about 15 percent of employers misclassified a total of 3.4 million employees as independent contractors, resulting in an estimated revenue loss of \$1.6 billion.
- The U.S. Department of Labor has found that 10-30 percent of employers audited had misclassified employees.
- Illegal misclassification costs states millions of dollars in lost unemployment insurance revenue. Just in Illinois, for example, the National Alliance for Fair Contracting estimates that the unemployment insurance system lost an average of \$39.2 million every year from 2001 to 2005 in unemployment insurance taxes.

Misclassification hurts law-abiding employers.

- Employers who evade taxes through misclassification can bid for work with 15-30 percent lower payroll costs.
- Misclassification shifts the burden of paying for workers' compensation premiums to employers who do play by the rules.
- Employers who provide healthcare benefits to employees are at even greater disadvantage.

Misclassified workers are denied many workplace protections and benefits that honest, law-abiding employers provide.

- Misclassified employees must pay self-employment taxes on top of their personal income taxes.
- If a misclassified employee is injured on the job, the worker may have difficulty accessing workers' compensation and laid-off workers may not be eligible for unemployment compensation.
- Misclassified workers do not have overtime wage and hour protections.
- Misclassified employees do not receive benefits such as health insurance or paid holidays.

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