Testimony on AB 227

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Study: Payroll Fraud in Nevada's Construction Industry: Extent and Fiscal Impact

- The Institute for Construction Economic Research (ICERES) supports high quality, non-partisan research on the construction industry

- Researchers:
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What was our Objective?

- To investigate the *extent* and *fiscal cost* associated with **mis-classification** of construction workers in Nevada.

- **Misclassification** takes three forms:
  - Occurs when workers *who meet the definition of an employee* are misclassified as independent contractors
  - The second type occurs when workers *who meet the definition of an employee* are simply paid off-the-books.
  - A third type occurs when workers on public construction projects are misclassified from high paying skill categories to low-paying skill categories.

How Much Do *Employers* Save by Misclassifying?

- A Legal Employer pays a worker between 18.4% and 38.3% more compared to employer who engages in misclassification-based payroll fraud.

  - Total employment costs of a legal worker   **$47,486**
  - Total employment costs of a misclassified worker   **$34,331** to **$40,110**

- Consequence: Un-level playing field and competitive ***disadvantage*** for law abiding employers.

How Did We Measure the Amount of Misclassification?

- Researchers have developed a method to estimate the extent to which misclassification occurs

- We compare:
  - What **workers** report about their employment to government surveyors
    - American Community Survey (ACS)

  with

  - What **employers** report about their payrolls (submitted for UI purposes)
    - U.S. Bureau of Economic Analysis

  - The difference represents workers who report being employed in the construction industry but don't show up on payrolls.

What did we Find for Nevada Based on Data from 2018?

- We found that:

  - **111,228** workers reported they worked in the construction industry.
    and that only
  - **91,358** workers were on construction contractors' payrolls.

- The difference (**111,228 – 91,359 = 19,870)** represents an estimate of independent contractors and off-the-books workers.

- We estimated that 64% of these workers were illegally misclassified
  (**0.64*(19,870) = 12,717)** based on a 2016 IRS study.

How Much Does *Nevada* Lose per Misclassified Worker?

- We found that for a construction worker at the 25th percentile in the wage distribution, an employer would pay:

Unemployment Insurance	*$927*
Workers Compensation Ins.	*$2,445*
Modified Business Tax	*$518*
Total	***$3,890***

How Much Does *Nevada* Lose in Total?

- Multiply the amounts for an individual worker by the 12,717 misclassified workers

Unemployment Insurance	*$927*12,717 =*	*$11,788,659*
Workers Compensation Ins.	*$2,445*12,717 =*	*$31,093,065*
Modified Business Tax	*$518*12,717 =*	*$6,587,406*
Total		***$49,469,130***

- Consequence: Weakened underfunded safety net, revenue losses.

Conclusions

- Our study is consistent with other research around the country on employee misclassification in construction (Texas, Southern States, LA County)

- We estimate that **12,717** construction workers were misclassified in 2018

- Each misclassified worker costs the state **$3,890** in UI, WC, and MBT revenue

- The total yearly cost to the state is **$49.5 million**