

From the National Employment Law Project

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Obama Budget Reaps \$7 Billion by Expanding State Models to Curb Independent Contractor Misclassification

Tax Day Letter Urges Congress to Target Employer Abuse, Aiding Workers and the Economy

Washington, DC –A [letter to Congress](#) today from the National Employment Law Project and two-dozen worker and civil rights, faith-based and other interested groups urges support for an Obama Administration budget proposal to generate over \$7 billion in federal tax revenues by clamping down on employers who misclassify their employees as independent contractors. The initiative parallels efforts of a growing number of states that have generated hundreds of millions of dollars in revenues by targeting independent contractor abuses.

“Independent contractor misclassification robs federal and state treasuries of billions in needed revenues, disadvantages law-abiding employers, and denies wages, benefits and workplace protections to huge numbers of workers. More workers are falling prey to this kind of exploitation, and it puts a drag on the whole economy,” said **Christine Owens, Executive Director of the National Employment Law Project**.

“As Tax Day reminds us, millions of working families and law-abiding employers support our economy by paying the taxes they owe. Ending independent contractor misclassification, as the Administration proposes, will make sure everyone follows these rules – a win-win for workers and the economy alike,” said Owens.

At the modest cost of only \$25 million, the budget initiative would give the Departments of Labor and Treasury increased resources to end worker misclassification, coordinate with state agencies, and reward states for collecting unpaid unemployment insurance taxes. Specifically it proposes:

- \$12 million to hire 90 employees to create 4,700 more investigations in industries that routinely misclassify workers as independent contractors.
- \$11.25 million in grants to state unemployment insurance (UI) agencies, and two new federal staff, to collect hundreds of millions in unpaid federal and state UI taxes.
- \$1.6 million for the Solicitor of Labor to enforce existing federal laws in high impact cases, including in multi-state litigation and coordinated enforcement with federal and state officials.
- \$150,000 for stronger OSHA training and guidelines for federal investigators to identify employee misclassification and better coordinate enforcement with the Wage and Hour Division.
- A necessary fix to the outdated 1978 federal “Safe Harbor” tax law, which bars the IRS from prospectively reclassifying misclassified workers as “employees” and from issuing guidelines.

Although genuine independent contractors are a small fraction of the American workforce – by definition, an “independent contractor” operates a business – the number of misclassified workers is large and growing. According to the Government Accountability Office, 15 percent of employers misclassify their workers as independent contractors, denying worker protections and benefits to at least 3.5 million workers a year.

Because payroll tax requirements and basic workplace standards do not apply to independent contractors, misclassifying employers evade employment laws and cut payroll costs by up to 30 percent. The effect on

workers is devastating, as they are denied minimum wage and overtime pay, unemployment insurance, workers' compensation, health and retirement coverage, paid leave, and such basic guarantees as the right to a safe and healthy work place. Misclassified employees must also shoulder the employer-side taxes for their Social Security and Medicare contributions.

"Rampant independent contractor misclassification drags down working conditions and robs communities of funds to pump back into the economy. Misclassification hits workers in every earnings bracket and especially affects low-wage earners in industries like construction, package and freight delivery, and home care. Ending independent contractor misclassification will help create good jobs and help shore up the economy by reclaiming revenues unlawfully withheld from the government," said Owens.

The organizations supporting the President's initiative in today's letter to Congress are: American Rights at Work, Americans for Democratic Action, Campaign for America's Future, Campaign for Community Change (CCC), Center for American Progress, Center for Law and Social Policy, Citizens' for Tax Justice, Coalition on Human Needs, Direct Care Alliance, Inc., Every Child Matters Education Fund, Interfaith Worker Justice, The Leadership Conference on Civil and Human Rights, Mon Valley Unemployed Committee, National Council of Jewish Women, National Council of La Raza, National Employment Law Project, National Employment Lawyers Association, National Organization for Women, National Partnership for Women and Families, National Women's Law Center, NETWORK - A National Catholic Social Justice Lobby, OMB Watch, The Partnership for Working Families, Progressive States Network, Sugar Law Center for Economic and Social Justice, United Church of Christ, Justice and Witness Ministries.

View the letter here: <http://www.nelp.org/page/-/Justice/2010/ICBudgetLetter.pdf?nocdn=1>

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