"Misclassification of Workers" - Not identifying an employee's status correctly for the purposes of safety protections, workers' benefits, and taxes is termed "Misclassification of Workers" in current high-profile national and state efforts to manage the problem. This practice is recognized by businesses, labor, and government as especially damaging in the construction industry.

Misclassification usually involves employers wrongly identifying employees as independent contractors or independent contractors collecting pay without accurately accounting for taxes or government service fees. While sometimes this is inadvertent, usually it is done knowingly to gain a financial advantage

The problem has multiple edges:
- Employees may not be rightly covered by standard safety regulations and may not be enrolled in unemployment and worker's compensation programs that they should be eligible for.
- Identifying workers as independent contractors instead of employees can significantly reduce an organization’s labor costs, creating unfair business advantage compared to honest employers.
- Huge amounts of money due government agencies to support services fraudulently are not paid. Not only is it illegal, it is unfair to all other taxpayers (for example, businesses supporting the unemployment system).

The Safety and Buildings Division of the Wisconsin Department of Commerce does not classify employees and businesses for purposes of othe agencies, but it does make information available to those agencies about who does or does not hold a Building Contractor Registration.

The Minnesota Office of Legislative Audit did a study in 2007 that found misclassification of employees as independent contractors is major a problem in Minnesota. The study said an estimated 14 percent of Minnesota employers subject to unemployment insurance taxes - or 1 in 7 - misclassified at least one worker in 2005. See report, http://www.auditor.leg.state.mn.us/PED/2007/misclass.htm.

According to a study conducted by the University of Missouri-Kansas City, from 2001 to 2005, the state of Illinois lost an estimated $124.7 million in income tax annually - $8.9 million of it in the construction sector.[1]

A 2007 Cornell University study, which focused on the misclassification of workers in New York state, found that approximately 10 percent of the state's workers were misclassified.[2]

On February 11, 2008, the New York Department of Labor announced that in four months through December 2007, staff conducted 15 audits focusing on the restaurant and construction industries and found more than $19 million in unreported wages, approximately $3 million in minimum and overtime wages owed to workers, and the agency assessed more than $1.2 million in taxes and penalties to noncompliant employers.

The U.S. federal Internal Revenue Service provides this Web site about employee classification.

[1] The Economic Cost of Employee Misclassification in the State of Illinois, *Michael P. Kelsay, et. al., University of Missouri-Kansas City, December 2006.*

[2] The Cost of Worker Misclassification in New York State, *Linda H. Donahue, et. al., Cornell University, February 2007.*