



## UNITED BROTHERHOOD OF CARPENTERS AND JOINERS OF AMERICA

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### **Construction Industry Employer Tax Fraud Dramatically Reduces Government Revenue and Undermines the American Dream**

The gross tax gap between what U.S. taxpayers pay to the federal government and what they should pay for tax 2022 was \$696 billion.<sup>1</sup> Our country is being starved of resources that can help build schools and reduce class sizes, improve infrastructure, increase funding for first responders, and help veterans without adding anything more to the deficit.

The construction industry has been exposed as a major contributor to tax losses—responsible for a conservative estimated loss of \$10 billion a year in state and federal income taxes, unemployment insurance contributions and Social Security and Medicare taxes.<sup>2</sup> Those losses are the result of a staggering 1.1 to 2.1 million construction workers being paid off the books or misclassified as independent contractors.<sup>3</sup> That is 10 to 19 percent of the construction workforce.<sup>4</sup> Contractors who break the law offload as much as \$5.1 billion in federal employment taxes they are obligated to pay onto the backs of their workers and their families.<sup>5</sup> In addition, workers' compensation insurance carriers are cheated out of \$5 billion in premiums.<sup>6</sup> Those fraud losses result in law-abiding contractors paying 16 percent more in premiums.<sup>7</sup>

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<sup>1</sup> *IRS: The tax gap*, Internal Revenue Service, accessed Feb. 4, 2026, available at <https://www.irs.gov/statistics/irs-the-tax-gap>.

<sup>2</sup> Laura Gutierrez, Russel Ormiston, Dale Belman and Jody Calemine, *Up to 2.1 Million U.S. Construction Workers are Illegally Misclassified or Paid off the Books*, The Century Foundation, 6 (November 12, 2023), available at <https://tcf.org/content/report/up-to-2-1-million-u-s-construction-workers-are-illegally-misclassified-or-paid-off-the-books/>.

<sup>3</sup> *Id.*

<sup>4</sup> *Id.*

<sup>5</sup> *Id.* at 9.

<sup>6</sup> *Id.*

<sup>7</sup> Russell Ormiston, *A Race to the Bottom: Workers' Compensation Insurance Premium Rates and Employer Fraud*, Institute for Construction Employment Research (2026), available at <https://iceres.org/wp-content/uploads/2026/01/Ormiston-The-Effect-of-Workers-Compensation-Insurance-Premium-Rates-on-Payroll-Fraud-in-California-Final.pdf>

Construction workers and their families are cheated out of \$1.9 billion a year in overtime pay.<sup>8</sup> As a consequence, a construction worker misclassified as an independent contractor or paid off the books loses as much as \$19,526 in wages and job benefits in a year.<sup>9</sup> These are conservative estimates. All told, criminal contractors shave as much as \$12 billion in costs by breaking the law.<sup>10</sup> Moreover, as has been seen in various state reports, the construction industry leads the pack with off-the-books payments more common than misclassification by more than two to one.<sup>11</sup> Simply put, these practices amount to tax fraud, and in construction, and it is not a small-job thing—it happens frequently on large commercial projects. Our investigations have revealed cases involving hundreds of workers. We have seen tax fraud on construction projects at schools, military bases, veterans hospitals,<sup>12</sup> universities, convention centers, hotels and condominium towers. Many suffer because of these illegal practices, including workers, honest contractors and taxpayers.

The losses are not isolated to tax revenues and wages. Illegal and low-road employment practices in the construction industry have forced 39 percent of construction worker families to rely on social safety net programs to make ends meet.<sup>13</sup> That cost is a staggering \$28 billion a year.<sup>14</sup> Simply put, taxpayers are subsidizing contractors' abuse of the workforce.

It is obvious that voluntary compliance with our nation's employment and tax laws is evaporating within the construction industry. It is the industry's duty to become a good citizen by changing its destructive course. But lack of effective civil and criminal enforcement is also a major contributor to the crisis. Clearly, it is the duty of our government, at all levels, to protect law-abiding employers, their employees and taxpayers by collecting taxes owed.

Indeed, the situation has become so alarming that the U.S. Department of the Treasury's Financial Crimes Enforcement Network has issued a notice to banks and other financial institutions directing them to report instances of suspected fraudulent transactions of contractors

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<sup>8</sup> Gutierrez, *supra*, note 2 at 9.

<sup>9</sup> Adewale A. Maye, Daniel Perez, and Magaret Poydock, Misclassifying workers as independent contractors is costly for workers and states, Economic Policy Institute (January 22, 2025), [https://www.epi.org/publication/misclassifying-workers-2025-update/?utm\\_source=Economic+Policy+Institute&utm\\_campaign=4a2c6b74eb-RSS\\_EMAIL\\_CAMPAIGN&utm\\_medium=email&utm\\_term=0\\_e7c5826c50-1f8c280810-60321377&mc\\_cid=4a2c6b74eb&mc\\_eid=632dce4457](https://www.epi.org/publication/misclassifying-workers-2025-update/?utm_source=Economic+Policy+Institute&utm_campaign=4a2c6b74eb-RSS_EMAIL_CAMPAIGN&utm_medium=email&utm_term=0_e7c5826c50-1f8c280810-60321377&mc_cid=4a2c6b74eb&mc_eid=632dce4457).

<sup>10</sup> Gutierrez, *supra* note 2 at 2.

<sup>11</sup> See, Contract to Cheat, McClatchy, September 2014. This multi-part series explored fraud in construction, principally on tax-payer funded projects, in eight states ; Yvonne Yen Liu and Daniel Flaming, Sinking Underground; The Growing Informal Economy in California Construction, 1,2, 7 (2014) ; Dale Belman and Richard Block, *The Social and Economic Costs of Employee Misclassification in the Michigan Construction Industry*, School of Labor and Industrial Relations, Michigan State University, 9 (2008). Both available at StopTaxFraud.net.

<sup>12</sup> See, e.g., Sally Dworak-Fisher, *Workers Persevere to Hold Construction Contractors Accountable*, Shriver Center (2014)(Detailing allegations of workers misclassified as independent contractors at Walter Reed and John Hopkins hospitals).

<sup>13</sup> Ken Jacobs, Kuichih Huang, Jenifer MacGillvary and Enrique Lopezlira, *The Public Cost of Low-Wage Jobs in the US Construction Industry*, UC Berkeley Labor Center (January 2022), available at <https://laborcenter.berkeley.edu/the-public-cost-of-low-wage-jobs-in-the-us-construction-industry/>.

<sup>14</sup> *Id.*

who are account holders.<sup>15</sup> In its notice, *FinCEN Calls Attention to Payroll Tax Evasion and Workers' Compensation Fraud in the Construction Sector*, FinCEN wrote:

The Financial Crimes Enforcement Network (FinCEN) is issuing this Notice to call financial institutions' attention to what law enforcement has identified as a concerning increase in state and federal payroll tax evasion and workers' compensation insurance fraud in the U.S. residential and commercial real estate construction industries.

Every year across the United States, state and federal tax authorities lose hundreds of millions of dollars to these schemes, which are perpetrated by illicit actors primarily through banks and check cashers. As described in this Notice, many payroll tax evasion and workers' compensation fraud schemes involve networks of individuals and the use of shell companies and fraudulent documents. These schemes further affect the local and national construction job markets, and put legitimate construction contractors and their employees at a competitive disadvantage.<sup>16</sup>

### **Billions in tax dollars are stolen every year**

Contractors engaged in employer tax fraud evade paying federal, state and local employment taxes, overtime and workers' compensation premiums, and they shirk safety precautions.<sup>17</sup> These illegal savings allow scofflaws to underbid law-abiding employers. Because of the fiercely competitive nature of the industry, tax fraud has led to a downward spiral. Employers in many markets are faced with either joining in or going out of business.

The intentionality of the conduct is unmistakable. Non-reporting overshadows misclassification, and a growing number of large construction companies use crooked subcontractors or law-breaking labor brokers, shell companies, shady bank accounts and check cashing stores in their schemes.<sup>18</sup> Their violations of basic labor and employment tax laws gain them a competitive edge while they use their subcontract relationship with labor brokers or crooked subcontractors as a shield against liability.<sup>19</sup>

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<sup>15</sup> *FinCEN Notice: FinCEN Calls Attention to Payroll Tax Evasion and Workers' Compensation Fraud in the Construction Sector*, FIN-2023-NTC1, 1 (August 15, 2023), available at [https://www.fincen.gov/sites/default/files/shared/FinCEN\\_Notice\\_Payroll\\_Tax\\_Evasion\\_and\\_Workers\\_Comp\\_508%20FINAL.pdf](https://www.fincen.gov/sites/default/files/shared/FinCEN_Notice_Payroll_Tax_Evasion_and_Workers_Comp_508%20FINAL.pdf).

<sup>16</sup> *Id* at 1.

<sup>17</sup> See, e.g., *Adding Inequality to Injury: The Costs of Failing to Protect Workers on the Job*, Occupational Safety & Health Admin., U.S. Department of Labor, 2, 6 and 8 (2015) (discussing how widespread misclassification of employees increases the likelihood of injuries).

<sup>18</sup> See, e.g., David Borum and Geoffrey Branch, *Shell games: How construction cons steal workers-comp premiums*, *Journal of Insurance Fraud in America*, February 2017, reprinted by *Property Casualty 360 at*, <https://www.propertycasualty360.com/2017/04/25/how-construction-cons-steal-workers-comp-premiums> (describing the use of shell company identities by construction contractors in workers' compensation premium fraud schemes).

<sup>19</sup> Demetria Kalodimos, *Some contractors avoid workers' comp to win low construction bids*, WSMV, February 17, 2016; and Michael Riley, *Labor brokers cut costs, corners: Fast-growing firms exploit immigrants to feed construction industry*, *Denver Post*, February 16, 2003.

The latest study by the IRS of taxes lost to misclassification was in 1984. Even then, the study disclosed, 15 percent of all employers misclassified their workforces, while the construction industry was the worst violator, at 19.8 percent.<sup>20</sup>

A sampling of state tax losses also demonstrates the severity of the problem:<sup>21</sup>

- New York \$179.4 million,
- Pennsylvania \$82.3 million,
- Texas, \$76.4 million,
- Georgia \$68.1 million,
- Connecticut \$38.8 million,
- Alabama \$28.5 million, and
- Iowa \$28.4 million.

The United States is not the only country facing this negative trend. Construction industry employer tax fraud is a serious problem in Canada as well. The underground economy in Canada accounted for \$72.4 billion of economic activity in 2023.<sup>22</sup> The largest slice of illegal activity came from the residential construction industry, amounting to 32.7 percent of the total, or \$23.7 billion, of the underground economy.<sup>23</sup> That is a \$7.7 billion increase from 2018.<sup>24</sup> A 2019 study of Ontario's underground construction economy put the annual losses in federal and provincial tax revenue up to \$3.1 billion.<sup>25</sup> The revenue losses in Quebec due to fraud in the construction sector amount to \$1.5 billion.<sup>26</sup> In British Columbia the losses come to \$308 million when accounting for taxes that go unpaid by independent operators.<sup>27</sup>

### **Workers, honest contractors and voters want to see an end to tax fraud**

Construction workers' and their families lose significant earnings because of fraud. Unreported employees earn just 52 cents for every dollar paid to payroll employees, and misclassified

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<sup>20</sup> *Employers do not Always Follow Internal Revenue Service Worker Determination Rulings*, Treasury Inspector General for Tax Administration, June 14, 2013, 1, available at, <https://www.treasury.gov/tigta/auditreports/2013reports/201330058fr.pdf>; and Natwar Gandhi, *Tax Administration: Issues in Classifying Workers as Employees or Independent Contractors*, GAO/T-GGD-196-130, 1, 13 (June 20, 1996).

<sup>21</sup> Ormiston, *supra* note 2, spreadsheet of state losses, available at <https://docs.google.com/spreadsheets/d/102H18Tg90o279WGeoHS2AILZRJosAURO/edit#gid=1340986834>.

<sup>22</sup> *The Underground Economy in Canada, 2023*, Statistics Canada, available at, <https://www150.statcan.gc.ca/n1/daily-quotidien/250318/dq250318c-eng.htm>

<sup>23</sup> *Id.*

<sup>24</sup> *The Underground Economy in Canada, 2018*, Statistics Canada, available at, <https://www150.statcan.gc.ca/n1/daily-quotidien/201023/dq201023a-eng.htm>.

<sup>25</sup> *The Underground Economy in Ontario's Construction Industry: Estimates of the Revenue Losses to Governments*, Prism Economics and Analysis, 4 (2019) available at [StopTaxFraud.net/reports](http://StopTaxFraud.net/reports).

<sup>26</sup> Revenu Quebec, *Tax Evasion in the Construction Sector*, <https://www.revenuquebec.ca/en/one-mission-concrete-actions/ensuring-tax-compliance/tax-evasion/construction-sector/>.

<sup>27</sup> Prism Economics and Analysis, *Estimating the Size of the Underground Economy in the British Columbia Construction Industry*, 1 and 2 (November 2021).

workers earn only 64 cents.<sup>28</sup> (That is, when they are paid at all; the construction industry is also a leader in the heinous practice of wage theft.)<sup>29</sup> On top of it all, “self-employed” workers are expected to pay their income and employment taxes, their employers’ employment taxes and shoulder the burden of injury and unemployment. Undoubtedly, the loss of wages<sup>30</sup> and safety net protections due to tax fraud is making the American dream for construction-worker families just that—a dream.

Worker advocates are not alone in calling for more rigorous law enforcement. Many employers in the industry want it as well.<sup>31</sup> Law-abiding contractors are tired of losing work to outlaws and seeing their taxes and workers’ compensation insurance costs rise while their unlawful competitors prosper.

The desire to clamp down on employment abuses is supported by Democrat, Republican and Independent voters.<sup>32</sup> Seventy percent of voters believe that the increase in the use of subcontracted labor is bad for workers and 84 percent said it was a serious problem.<sup>33</sup> An overwhelming 71 percent of voters (67 percent among Republicans) want to see upper-tier companies held liable for their subcontractors’ unpaid wages, unemployment insurance contributions, workers’ compensation and Social Security taxes.<sup>34</sup> Clearly, workforce abuses are seen by voters as a threat to their economic well-being, and they want something done about it.

### **Stopping employer tax fraud is challenging for law enforcement**

Stopping employer tax fraud in the construction industry is challenging for law enforcement. The growth of illegal activity coexists with an Internal Revenue Service that has been hobbled. Cases of egregious employment tax violations have tripled.<sup>35</sup> Under the Inflation Reduction Act, funding for IRS enforcement had been increased, but that increase is being slashed by Congress.<sup>36</sup> Consequently, those who violate employment-tax laws feel emboldened. Many employers do not correct their behavior, even after receiving an SS-8 determination from the IRS

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<sup>28</sup> Yvonne Yen Liu, Daniel Flaming, and Partick Burns, *Sinking Underground: The Growing Informal Economy in California Construction*, Economic Roundtable, 2, 11, and 12 (2014).

<sup>29</sup> Tom Juravich, Essie Ablavsky and Jake Williams, *The Epidemic of Wage Theft in Residential Construction in Massachusetts*, UMass Amherst Labor Center, 1-2 (May 11, 2015)

<sup>30</sup> Alejandro Cancino, *A growing way to cut pay: Companies treating workers as contractors*, Chicago Tribune, June 24, 2015.

<sup>31</sup> Doug Burton, *To help NC businesses, end the misclassification fraud*, News & Observer (Op-Ed), June 3, 2015, available at [StopTaxFraud.net/news](http://StopTaxFraud.net/news); David Schecter, *Contractors slash bids by avoiding taxes, state lacks enforcement*, WFAA.Com, July 12, 2011.

<sup>32</sup> Hart Research Associates, *Contracted Out: Finding from a National Voter Survey* (October 19, 2016), available at <http://www.nelp.org/content/uploads/Contracted-Out-NELP-National-Voter-Survey-Findings.pdf>.

<sup>33</sup> *Id.* at 4 and 6.

<sup>34</sup> *Id.* at 7.

<sup>35</sup> A More Focused Strategy is Needed to Effectively Address Egregious Employment Tax Crimes, Treasury Inspector General for Tax Administration, March 21, 2017, available at <https://www.treasury.gov/tigta/iereports/2017reports/2017IER004fr.pdf>.

<sup>36</sup>Maureen Leddy, *After Further Cuts, Experts Discuss the Future of IRS Enforcement*, Thomson Reuters, January 27, 2026, available at <https://tax.thomsonreuters.com/news/after-further-cuts-experts-discuss-the-future-of-irs-enforcement>.

stating that they have misclassified employees as independent contractors.<sup>37</sup> Misclassification and off-the-books employment further compound the tax losses that already occur among sole proprietors, who have been found to pay significantly less of their tax obligations than they should.<sup>38</sup>

A primary law-enforcement flaw is law enforcement agencies frequently operating in “silos.” That is, they fail to share critical information or coordinate their investigations. For instance, a 2009 report from the Government Accountability Office criticized the Occupational Safety and Health Administration and the Wage and Hour Division, both within the U.S. Department of Labor (USDOL), for not sharing information and working together.<sup>39</sup> Some states have gotten the message and formed task forces to break out of the silo mentality.<sup>40</sup> There is an attempt at better coordination within the federal government as well. The

Another significant problem is that law enforcement frequently focuses solely on crooked subcontractors or labor brokers, because they are low-hanging fruit and easier to pursue. But contractors can readily replace them. Accordingly, for enforcement to be effective, agencies must hold contractors who hire law-breakers accountable, either through conspiracy charges, joint employer findings or joint and several liability. Lawmakers in California, Delaware, the District of Columbia, Maryland, New York, Illinois, Minnesota, Oregon and other states have met this challenge by making upper-tier contractors automatically liable for the wage theft committed by their subcontractors.<sup>41</sup>

### **We all benefit when we fight construction industry employer tax fraud**

The construction industry has been corrupted by an epidemic level of unlawful business practices that have ballooned to claim a wide swath of victims. Billions in federal, state and local taxes are going uncollected. Workers, honest businesses and taxpayers deserve protection.

An array of measures need to be taken. Law enforcement agencies need to be given the resources to do their jobs effectively, and they need to break out of their silos and work together.

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<sup>37</sup> *Employers do not Always Follow*, *supra* note 6, and *Understanding the Federal Tax Gap*, *supra* note 1.

<sup>38</sup> U.S. Gov’t Accountability Office, GAO-07-1014, *Tax Gap: A Strategy for Reducing the Gap Should Include Options for Addressing Sole Proprietor Noncompliance*, 3 & 9-10 (2007); and Natwar Gandhi, U.S. Gov’t Accountability Office, GAO/T-GGD-96-130, *Testimony Before the Subcommittee on Oversight Committee on Ways and Means; Tax Administration: Issues in Classifying Workers As Employees or Independent Contractors*, at 1 & 7 (1996).

<sup>39</sup> *Improved Coordination, Outreach, and Targeting Could Better Ensure Detection and Prevention*, U.S. Government Accountability Office, 17 and 21 (August, 2009).

<sup>40</sup> *See, e.g.,* Andre Burvant, *GAME ON: Louisiana Department of Revenue and Other State Agencies Look to Even the Score on Employee Misclassification*, Jones Walker Announcements, Tax News, March 7, 2018 (describing the Louisiana GAMEON task force), reprinted at, <https://www.cookingwithsaltlaw.com/2018/03/game-on-louisiana-department-of-revenue-and-other-state-agencies-look-to-even-the-score-on-employee-misclassification/>; Exec. Order No. 17, N.Y. (2007) and Exec. Order No. 159, N.Y. (2016); and *Joint Task Force on Worker Exploitation and Employee Misclassification* (2018)(New York State misclassification web site), available at, <https://www.ny.gov/end-worker-exploitation/task-force-combat-worker-exploitation>. Other states with task forces include Colorado, New Jersey and Massachusetts.

<sup>41</sup> *See, e.g.,* Cal. Lab. Code §218.7; D.C. Code §32-1301, and Minn. Stat. §181.165..

Immigration reform is needed so workers will not fear standing up for their rights. Upper-tier contractors must be held accountable to incentivize them to hire honest subcontractors. Workers' compensation insurers need to change their practices that enable employer premium fraud. The economic advantage for contractors who hire law-breakers must be taken away. Otherwise, employer tax fraud will continue to grow and billions will continue to be lost—billions of tax dollars that could improve our security, reduce the deficit, rebuild our crumbling infrastructure, build schools and secure the American dream for our children.