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For Immediate Release:

March 27, 2026

Op-Ed: End the Poisonous Cheating That Dominates Construction

By Douglas J. McCarron

It's tax time, which means American families are doing what they reliably do every year—filing their returns and paying what they owe.

But it's not that simple when it comes to many of those who employ construction workers. They're caught up in an epidemic of lawbreaking that has become woven into the way many in the industry do business.

Everyone pays for it; not just the workers and honest contractors who are directly affected. The poison from the criminal cheating that infects all of construction extends to our communities and our pocketbooks, in the form of employer tax fraud.

Fraud is found on all kinds of construction sites, including large housing developments, universities, hospitals, airports, office buildings, factories, military bases and schools. And it costs all of us billions of dollars every year when construction employers operate using the "tax fraud playbook."

Employers such as general contractors and subcontractors hire shady "brokers" to supply crews of workers who do everything from concrete foundation work, drywall and metal stud installation, wood framing, and floor laying.

The brokers routinely skip out on their payroll tax and other obligations by illegally misclassifying workers as "independent contractors" or, more often, paying them off the books. That means employers do not withhold taxes or offer basic workplace protections. At the end of the year, workers get a 1099 instead of a W2, or they get nothing at all. This tax fraud amounts to \$10 billion in lost revenue. The slashing of the IRS budget has only made the problem worse.

The brokers' rock-bottom labor costs allow these employers to underbid their law-abiding counterparts, win jobs and expand their businesses. It is fundamentally unfair.

About [2.1 million](#) workers are misclassified or paid off the books every year. Crooked employers who misclassify leave it to workers and their families to pay billions in federal employment taxes that their employers should be paying. It is a tax increase on the backs of working families.

According to a [study](#) by the Economic Policy Institute, a typical construction worker who is paid as an independent contractor can expect to lose as much as \$19,526 per year in income and benefits compared with what they would have earned as a W-2 employee.

Due to wage theft alone, construction workers lose \$1.9 billion every year.

And it costs state and federal taxpayers a whopping \$28 billion a year because the illegal practices and low pay mean that about 39 percent of U.S. construction worker families [have to rely on public assistance programs](#) like food stamps to make ends meet.

And then there are the yearly costs to the programs we all rely on. Those who commit tax fraud rob the Social Security and Medicare systems, state unemployment insurance funds and federal and state income tax coffers.

The fraud playbook is used within the workers' compensation field as well, to the tune of [some \\$5 billion lost](#) due to employer premium fraud. Many workers who have been cheated out of wages also suffer injuries when lawbreaking contractors operate unsafe jobsites. Employers who have cheated on their workers' compensation premium obligations routinely leave it to injured workers to pay for their own medical treatment—or the costs are passed along to the rest of us.

We need systemic changes to restore integrity to our construction industry.

Ten states and the District of Columbia have enacted “upper-tier” contractor liability laws so that general contractors, owners and others can be held responsible for the wage theft of their subcontractors, including low-road labor brokers. We need more states to join this list.

District attorneys, attorneys general and law enforcement agencies can break apart labor-broker fraud schemes by holding those upper-tier contractors criminally liable as well.

Insurance commissioners and legislatures can reform the workers' compensation system to reform the insurer practices that enable premium fraud.

Working people and all who faithfully pay their taxes want fairness. Eliminating fraudulent schemes in construction is a critical step in the right direction.

Construction workers will be educating policymakers and the public across the U.S. and Canada during Tax Fraud Days of Action, April 6 – 18.

Visit <https://stoptaxfraud.net/standup/> to learn more.

Douglas J. McCarron is General President of the United Brotherhood of Carpenters and Joiners of America, which represents over 500,000 skilled workers throughout North America.