



ICERES & THE UMASS LABOR CENTER PRESENT:

PAYROLL FRAUD IN THE MASSACHUSETTS CONSTRUCTION INDUSTRY

TOM JURAVICH

UNIV. OF MASSACHUSETTS

RUSS ORMISTON

ALLEGHENY COLLEGE

DALE BELMAN

MICHIGAN STATE UNIV.

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UMASS / ICERES STUDY:

TWO PARTS



QUALITATIVE

EXTENSIVE INTERVIEWS WITH 60+ WORKERS, LABOR BROKERS, CONTRACTORS, ORGANIZERS; FOCUS ON RESIDENTIAL DRYWALL.



QUANTITATIVE

UNPRECEDENTED ACCESS TO STATE DATA VIA THREE AGENCIES; ALSO APPLIED AN INDIRECT APPROACH TO MEASURE EXTENT AND ECONOMIC COSTS.

QUALITATIVE CHAPTER:

DOCUMENTING THE INDUSTRY

SECTION 1

**CASE STUDY: HOW
“LEGIT” CONTRACTORS
EXPLOIT WORKERS &
EVADE DETECTION.**

SECTION 2

**LABOR BROKERS,
WAGE THEFT, CASH
PAYMENTS, AND THE
DECLINE OF A “GOOD”
EMPLOYER.**

SECTION 3

**INJURIES AND LACK OF
SAFETY EQUIPMENT BY
SUBCONTRACTORS &
BROKERS.**

SECTION 4

**HOW DEVELOPERS
AND GCS EMBRACE
AND COMPEL THESE
PRACTICES.**

QUANTITATIVE SECTION:
A FOCUS ON STATE DATA
(A “SMOKING GUN”)

DEPT. OF UNEMPLOYMENT ASSISTANCE:
UI AUDIT DATA, 2017-19

EXTENT OF MISCLASSIFICATION: UI AUDITS, 2017-19

% OF
CONTRACTORS
MISCLASSIFYING

% OF INDUSTRY
EMPLOYEES

ALL CONSTRUCTION

RANDOM AUDITS ONLY

16.8%

6.6%

ALL CONSTRUCTION

RANDOM & TARGETED AUDITS

17.9%

7.6%

ALL INDUSTRIES

RANDOM AUDITS ONLY

15.3%

6.2%

ALL INDUSTRIES

RANDOM & TARGETED AUDITS

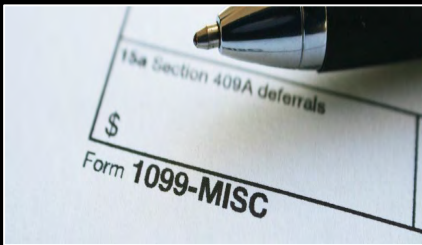
16.5%

9.4%

DUA AUDITS IN CONSTRUCTION: **A LOWER-BOUND FOR MISCLASSIFICATION**



NO LABOR BROKERS: DUA ONLY
AUDITS EMPLOYERS IN SYSTEM.



CASH-ONLY EMPLOYMENT: MUCH
HARDER TO DETECT THAN 1099S.



SMALL EMPLOYERS: BETTER ABLE
TO EVADE AUDITORS.

EXTENT OF MISCLASSIFICATION: UI AUDITS, 2017-19

RANDOM AUDITS ONLY	% OF CONTRACTORS MISCLASSIFYING	% OF INDUSTRY EMPLOYEES
<i>ALL CONSTRUCTION</i>	16.8%	6.6%
<i>RESIDENTIAL BUILDING</i> (<i>HOMEBUILDERS</i>) (<i>NAICS = 2361XX</i>)	19.7%	14.3%
<i>STRUCTURE & EXTERIOR</i> (<i>CONCRETE, FRAMING, ROOFING</i>) (<i>NAICS = 2381XX</i>)	12.8%	3.4%
<i>BUILDING EQUIPMENT</i> (<i>ELECTRICAL, PLUMBING</i>) (<i>NAICS = 2382XX</i>)	12.2%	2.0%
<i>BUILDING FINISHING</i> (<i>DRYWALL, PAINTING, FLOORING</i>) (<i>NAICS = 2383XX</i>)	26.6%	16.6%

EXTENT OF MISCLASSIFICATION: UI AUDITS, 2001-03 vs. 2017-19

RANDOM AUDITS ONLY	% OF CONTRACTORS MISCLASSIFYING	% OF A CONTRACTOR'S WORKFORCE
2001-03	14%	40%
2017-19	16.8%	17.9%

OUR HYPOTHESIS

THE DECLINE IN # OF WORKERS REFLECTS A MOVE FROM 1099S TO CASH-ONLY.



DEPARTMENT OF REVENUE:
1099-MISC FILINGS, 2016-19
(ONLY A FRACTION OF ALL 1099-MISCs)

CONSTRUCTION INDUSTRY: 1099-MISC DATA, 2016-19

OF 1099-MISCs ISSUED BY
MASSACHUSETTS CONTRACTORS TO
MA RESIDENTS & FILED WITH DOR **24,387**

ISSUED TO SOCIAL SECURITY
NUMBERS NOT FOUND IN INDIVIDUAL
TAX RETURNS THAT YEAR **7,867**

% OF 1099-MISCs NOT MATCHED TO
TAX-PAYING SSNs **32.2%**

Q: DOES THIS PROVE TAX FRAUD?

A: YES AND NO.

% OF 1099-MISCs NOT MATCHED TO
TAX-PAYING SSNs

32.2%

ISSUE #1: WORKERS EARNING LESS THAN
\$8,000 NEED NOT FILE.

ISSUE #2: SOME BUSINESSES TAKE ON WORK
USING 1099-MISC WITH A SSN THAT DOESN'T
APPEAR IN INDIVIDUAL RETURNS.

DEPARTMENT OF REVENUE:
SOLE PROPRIETOR DATA, 2016-19
(INCLUDES ALL SOLE PROPRIETORS)

SOLE PROPRIETORSHIPS: SCHEDULE C DATA, 2016-19

Boxes must be filled in completely. Example:  If any line shows a loss, mark an X in box at left of the line.

Schedule C Massachusetts Profit or Loss from Business

9	a. Commissions and fees	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	0	0	
	b. Contract Labor	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	0	0	
		a + b = 9									<input type="text"/>	<input type="text"/>
25	Wages (before U.S. jobs credit)	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	0	0	

GOAL

COMPARE CONTRACT
LABOR EXPENSES TO
WAGES BY TO GAUGE
MISCLASSIFICATION BY
SUBINDUSTRY.



SOLE PROPRIETORSHIPS: SCHEDULE C DATA, 2016-19

(IN \$ MILLIONS)

Industry	# of Firms	Gross Receipts	Contract Labor	Wages	Ratio: Contract Labor-to-Wages
<i>Group 1: High Contract Labor Usage</i>					
Siding Contractors	450	\$43.07	\$4.55	\$0.87	5.25
Framing Contractors	1,565	\$134.53	\$9.03	\$4.77	1.89
Finish Carpentry Contractors	5,895	\$498.15	\$29.50	\$16.59	1.78
Painting and Wall Covering Contractors	7,295	\$424.12	\$29.59	\$17.38	1.70
Drywall and Insulation Contractors	1,079	\$119.99	\$12.40	\$7.67	1.62
Flooring Contractors	1,986	\$180.80	\$10.00	\$6.67	1.50
Roofing Contractors	831	\$119.99	\$7.08	\$5.70	1.24
Tile and Terrazzo Contractors	597	\$48.80	\$2.22	\$2.03	1.10
<i>Group 2: Low Contract Labor Usage</i>					
Poured Concrete Foundation/Structure	231	\$45.53	\$2.29	\$3.81	0.60
Masonry Contractors	1,441	\$151.64	\$4.94	\$11.41	0.43
Glass and Glazing Contractors	113	\$15.75	\$0.30	\$1.61	0.19
Site Preparation Contractors	511	\$96.17	\$1.45	\$7.96	0.18
Plumbing, Heating and AC Contractors	3,994	\$605.14	\$8.66	\$51.80	0.17
Electrical Contractors	4,319	\$520.87	\$7.97	\$63.10	0.13
<i>Other Specialty Trades Contractors</i>					
Specialty Trades Contractors, Undefined	12,503	\$1,387.01	\$51.12	\$83.35	0.61

SOLE PROPRIETORSHIPS: SCHEDULE C DATA, 2016-19

CONTRACT LABOR: HIGHER IN RESIDENTIAL

**THE SEVEN SPECIALTY TRADES THAT
ARE MOST ACTIVE IN RESIDENTIAL
(QCEW) ARE ALL IN GROUP 1.**



RATIO: CL-TO-WAGES

(EXCLUDES SPECIALTY TRADES)

**1.80 – RESIDENTIAL BUILDERS
0.70 – NON-RESIDENTIAL BUILDERS
0.28 – HEAVY & CIVIL ENGINEERING**

DEPARTMENT OF INDUSTRIAL ACCIDENTS:
WORKERS' COMPENSATION
TRUST FUND CASES, 2016-20

*(STATE PROVIDES BENEFITS FOR WORKERS WITH APPROVED CLAIMS
WHILE WORKING FOR UNINSURED EMPLOYERS)*

WORKERS' COMPENSATION CLAIMS: MASSACHUSETTS CONSTRUCTION

**CONSTRUCTION
AS % OF
ALL CLAIMS**

**PRIVATE-SECTOR CLAIMS MADE VIA
INSURANCE POLICIES, 2014-16**

9.4%

**APPROVED CLAIMS PAID OUT BY
WCTF, 2016-20**

47.3%
(220 OF 465)

CONCLUSION

**WIDESPREAD FAILURE OF CONSTRUCTION
EMPLOYERS TO HAVE LEGITIMATE WORKERS'
COMPENSATION INSURANCE POLICY.**

RESEARCH QUESTION:

**WHAT IS THE FULL EXTENT OF
WORKER MISCLASSIFICATION?**

FULL EXTENT OF MISCLASSIFICATION: INDIRECT DATA ANALYSES, 2019

MASS., 2019

**ESTIMATED NUMBER OF WORKERS
MISCLASSIFIED**

**22,146
TO 36,719**

**ESTIMATED PROPORTION OF
WORKERS MISCLASSIFIED**

**9.5%
TO 15.8%**

EMPLOYERS' COST SAVINGS

**\$140M
TO \$280M**

HYPOTHESIS

**THESE ESTIMATES ARE CONSERVATIVE
(METHODOLOGY, SURVEYS OF JOB SITES).**

FULL EXTENT OF MISCLASSIFICATION: INDIRECT DATA ANALYSES, 2019

Occupation	Worker Survey (ACS)	Employer Survey (OES)	Difference	Difference as % of Workers
<i>Group 1: High "Self-Employment"</i>				
Painters & Paperhangers	13,036	4,304	8,732	67.0%
Roofers	3,328	1,500	1,828	54.9%
Laborers	31,455	15,230	16,225	51.6%
Carpenters	29,408	15,580	13,828	47.0%
<i>Group 2: Low "Self-Employment"</i>				
Masons, Ironworkers & Sheet Metal Electricians	10,756	8,740	2,016	18.7%
Electricians	16,085	13,600	2,485	15.4%
Plumbers, Pipefitters & Pipelayers	12,631	11,500	1,131	9.0%
Construction Equipment Operators	5,277	4,970	257	4.9%
<i>Others</i>				
Drywall and Ceiling Tile Installers	1,578	2,500	-923	
Construction Helpers	359	4,380	-4,021	
First-Line Supervisors	14,221	10,950	3,271	

PAYROLL FRAUD IN MASSACHUSETTS: KEY TAKEAWAYS

**ALL SIGNS POINT TO EXTENSIVE PAYROLL FRAUD
(UI AUDITS, TAX DATA, WORKERS' COMP, INDIRECT).**

**DOR DATA OFFERS A PROVABLE DATA POINT ON
SSN AND TAX FRAUD.**

**DOR DATA PROVIDES NEW INSIGHT ON STRUCTURE
OF DIFFERENT SUBINDUSTRIES.**

**MISCLASSIFICATION IS FAR MORE EXTENSIVE IN
RESIDENTIAL & UNLICENSED TRADES
(CARPENTERS, PAINTERS, ROOFERS, LABORERS)**