

WHAT IS 1099 MISCLASSIFICATION?

Tax and Insurance Fraud: Construction employers call their workers “independent contractors” to avoid taxes, insurance costs, and payroll deductions. They pay in lump sums and claim they will report workers’ annual earnings on IRS Form 1099, “Miscellaneous Income.”

Gaming the System: Contractors say they don’t have to pay taxes or insurance—including workers’ comp—on these “1099 subcontractors.” But nearly all such workers meet the legal definitions of being *employees*.

WHY DO CONTRACTORS MISCLASSIFY?

Illegal Profits: The 1099 scheme lets companies avoid normal payrolls, so they don’t pay Social Security or Medicare, workers’ comp or unemployment insurance, or overtime—all of which are required by law.

Rigged Bids: These criminals illegally save 30% or more on labor costs—and win more contracts because they can underbid honest, law-abiding, tax-paying competitors.

No Taxes, No Records: Scam companies say they will send individuals their 1099 forms, but most don’t even do that; the lack of any sort of paper trail can help them hide their tax fraud as well as other crimes.

IS THIS CRIME OR CONFUSION?

Unchallenged Crime: This is lawlessness, not confusion over IRS definitions. These people know what they’re doing—and think that they can get away with it.

Nationwide: Misclassification occurs in all 50 states and in residential, commercial, and public construction projects of all sizes.

Common: 1099 fraud is construction’s “dirty secret.” Nearly all the industry knows about it, and so far officials and honest contractors haven’t been able to stop it.

WHO SHOULD CARE?

- Government officials at all levels
- Responsible contractors
- Taxpayers and revenue officials
- Law enforcement/regulatory agencies
- Users of construction services
- Workers and their families
- Insurance companies
- Medical providers & hospitals

WHY DOES IT MATTER?

Unfair to Honest Businesses: Responsible, law-abiding employers are at a competitive disadvantage; many must choose between staying afloat or breaking the law.

Billions in Lost Revenue: Federal, state, and local governments are cheated out of many kinds of revenue—billions of dollars every year.

Higher Insurance Costs: Hospitals are obligated to provide care for all, so workers’ comp and health insurers must raise premiums to make up for the uncovered workers who are injured on the job.

Higher Taxes on Honest Citizens: Tax and insurance cheats force others to pay higher premiums and taxes—or to cut back schools, public safety, roads, and other programs.

Corrupt Firms Gain Influence: Construction is a multi-billion-dollar industry, and 1099 abusers have an unfair advantage to win more work and capture new markets.

Major Crimes: 1099 abuse involves many crimes: tax evasion, mail and insurance fraud, grand theft, wage-and-hour violations, money laundering, and racketeering/RICO activity.

Growing Underground Economy: In many places and market sectors, the construction industry has fallen into a cash-only business, often spurring other kinds of crime.

WHAT CAN WE DO? WHAT WILL IT COST?

ENFORCE THE LAW—AND STRENGTHEN IT.

Give enforcement agencies the resources and tools they need to tackle the problem.

INVEST A LITTLE, GAIN MUCH MORE.

Even small increases in enforcement reap large, ongoing returns—in revenue, fairness for honest businesses, and respect for law.

SUPPORT POLITICAL LEADERS WHO ACT.

Support officials and candidates who are prepared to take action and enforce laws.

PROSECUTE w/ASSET FORFEITURE TO PRESSURE & FUND.

Prosecutors and agencies can leverage civil forfeiture to help settle cases and to create highly visible, self-funding enforcement efforts.

For policy resources, studies, media coverage, and video, please visit www.Carpenters.org/Misclassification.