

# THE COSTS OF WAGE THEFT AND PAYROLL FRAUD IN WISCONSIN'S CONSTRUCTION INDUSTRY

January 21, 2021

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# WHY THIS STUDY? AND WHY NOW?

1. Illinois: **-\$3.9 billion**

2. Minnesota: **-\$1.3 billion**

3. Wisconsin: **-\$1.5 billion**

**Does this sound like a good deal?**

Shoring up budget deficits *without* raising taxes or cutting spending

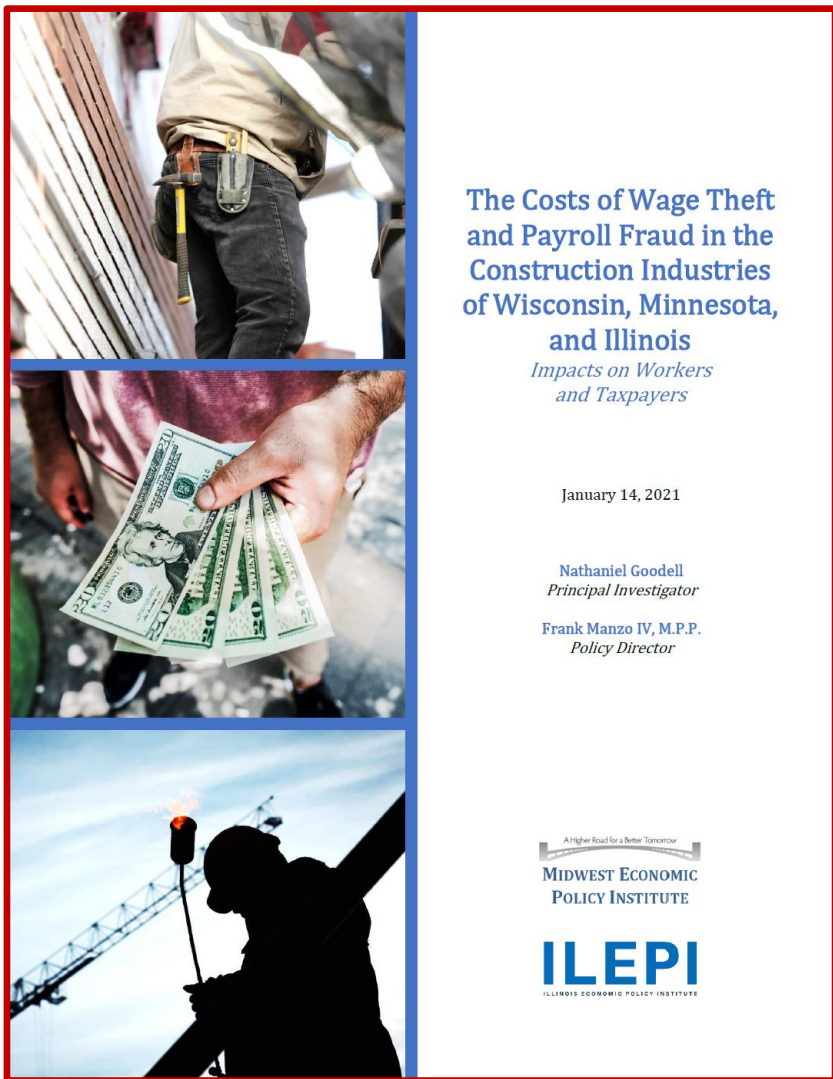
# WHAT DO WE MEAN BY WAGE THEFT?

- ✓ Misclassification: When workers are classified as 1099 “independent contractors” instead of W-2 employees
- ✓ Illegal employment: When workers are paid “under-the-table” or “off-the-books” in cash
- ✗ Other forms: Not paying minimum wage, tip-sharing or tip-pooling, uncompensated breaks, etc. are not included in study

# WAGE THEFT AND CONSTRUCTION

- ✓ Low-bid model: By flouting the law, fraudulent contractors pay less in labor costs and put law-abiding competitors at a disadvantage.
- ✓ Lax enforcement: Governments lack resources to enforce laws on the books and levy only small “slap on the wrist” penalties
- ✓ Task Force report: **\$2,567 average penalty** (Worker’s Compensation Division)
  - Compare to petty theft (“street crime”) where stealing \$5,000 in property is a Class I Felony punishable by jail time and/or a fine of up to **\$10,000**

# NEW JANUARY 14, 2021 STUDY



## Methodology

Compare *household data* from the U.S. Census Bureau data with *payroll records* submitted to state unemployment insurance programs

- Current Population Survey (CPS) vs. Quarterly Census of Employment and Wages (QCEW)
- American Community Survey (ACS) vs. Bureau of Economic Analysis (BEA) data

# TOPLINE FINDINGS



## WAGE THEFT & PAYROLL FRAUD IN CONSTRUCTION



A CONSTRUCTION WORKFORCE CASE STUDY IN ILLINOIS, MINNESOTA, & WISCONSIN

**\$362 million**

Cost to taxpayers from wage theft,  
misclassification, and payroll fraud in construction.



**1 in 5 construction workers**

are affected by these illegal abuses & lose  
access to basic labor protections, like  
overtime pay & unemployment insurance.

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# CONSTRUCTION WAGE THEFT IN WISCONSIN

- ✓ Total industry employment (reported): 138,718
- ✗ Total industry employment on payrolls: 124,199
- ✗ Misclassified and illegally employed workers: 14,519
- ✗ Share of construction workforce: 10%

# IMPACT ON WORKER EARNINGS


Difference in Construction Worker Earnings in Wisconsin	Legally Employed Construction Worker	Illegally Employed Construction Worker	Difference Due to Payroll Fraud
Total Compensation	\$75,591	\$52,114	-31%
Wages and Salaries	\$51,490	\$43,199	-16%
Total Benefits	\$24,101	\$8,915	-63%
Paid Leave	\$4,522	\$0	-100%
Supplemental Pay	\$2,390	\$0	-100%
Insurance (Voluntary)	\$6,766	\$5,676	-16%
Retirement and Savings (Voluntary)	\$3,860	\$3,238	-16%
Social Security and Medicare	\$4,376	\$0	-100%
Federal Unemployment Insurance	\$67	\$0	-100%
State Unemployment Insurance	\$393	\$0	-100%
Workers' Compensation	\$1,762	\$0	-100%



# IMPACT ON TAXPAYERS


Impact of Construction Payroll Fraud on State Tax Revenues in Wisconsin	Workers Misclassified As Independent Contractors	Workers Paid Off the Books in Cash	Total Workers Suffering from Payroll Fraud
Estimated Workers Suffering from Payroll Fraud	13,143	1,376	14,519
Lost Income Subject to Income Tax (Average)	\$8,290*	\$51,490	\$12,384
Net Total Taxable Wages	\$108,959,939	\$70,849,635	\$179,809,573
Lost Income Tax Per Worker (4.62% effective rate)	\$383	\$2,379	\$572
Lost Unemployment Insurance Per Worker	\$393	\$393	\$393
Lost Workers' Compensation Per Worker	\$1,762	\$1,762	\$1,762
Lost Income Tax Contributions	\$5,033,949	\$3,273,253	\$8,307,202
Lost Unemployment Insurance Contributions	\$5,161,354	\$540,365	\$5,701,720
Lost Workers' Compensation Contributions	\$23,152,361	\$2,423,925	\$25,576,286

# TWO ITEMS WORTH MENTIONING

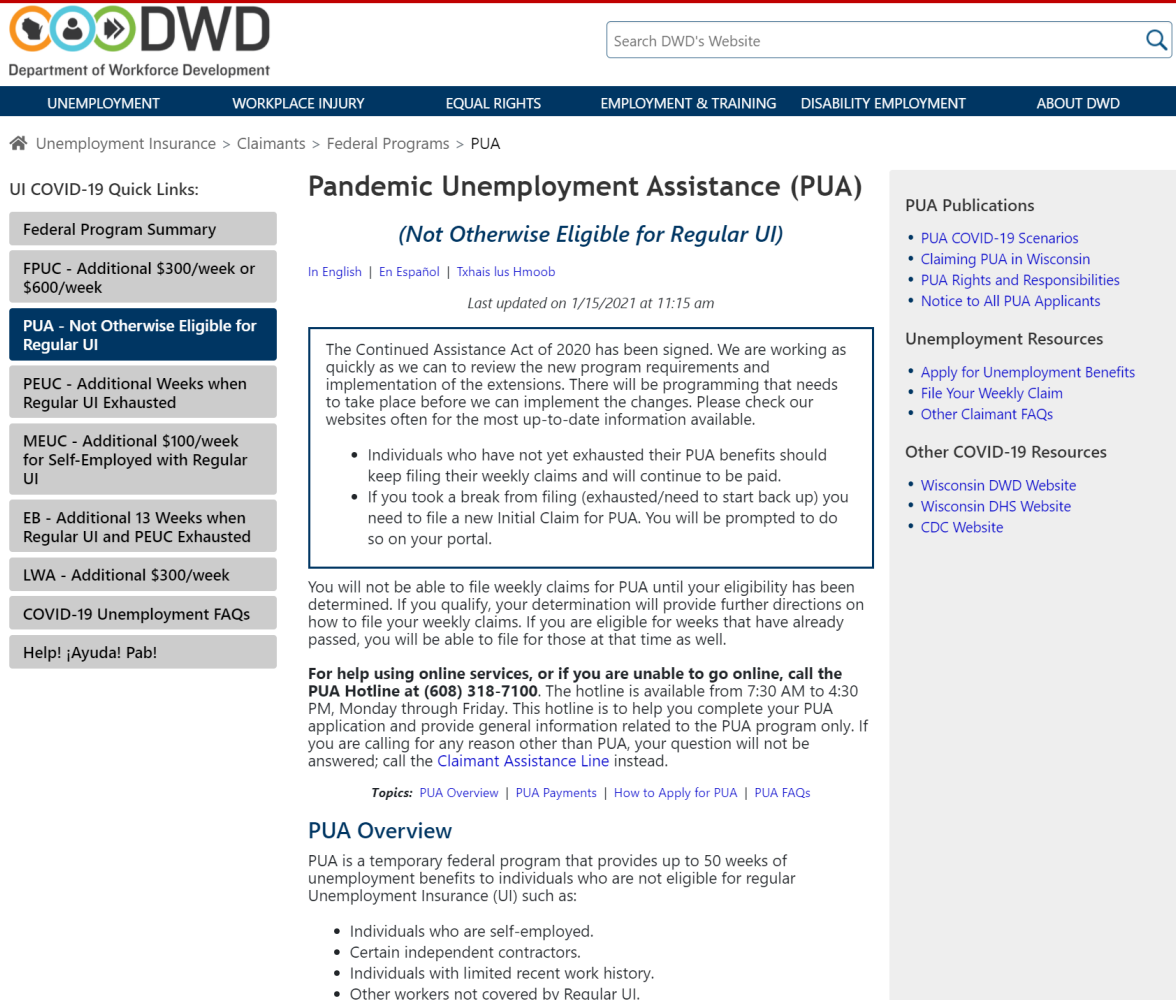



TASK FORCE ON  
**PAYROLL FRAUD AND  
WORKER MISCLASSIFICATION  
REPORT**

2020

**STATE OF WISCONSIN**  
  
Department of Workforce Development

SEC-18760-P (N.03/2020)



 **DWD**  
Department of Workforce Development

Search DWD's Website

UNEMPLOYMENT    WORKPLACE INJURY    EQUAL RIGHTS    EMPLOYMENT & TRAINING    DISABILITY EMPLOYMENT    ABOUT DWD

Unemployment Insurance > Claimants > Federal Programs > PUA

UI COVID-19 Quick Links:

- Federal Program Summary
- FPUC - Additional \$300/week or \$600/week
- PUA - Not Otherwise Eligible for Regular UI**
- PEUC - Additional Weeks when Regular UI Exhausted
- MEUC - Additional \$100/week for Self-Employed with Regular UI
- EB - Additional 13 Weeks when Regular UI and PEUC Exhausted
- LWA - Additional \$300/week
- COVID-19 Unemployment FAQs
- Help! ¡Ayuda! Pab!

## Pandemic Unemployment Assistance (PUA)

*(Not Otherwise Eligible for Regular UI)*

[In English](#) | [En Español](#) | [Txhais lus Hmoob](#)

Last updated on 1/15/2021 at 11:15 am

The Continued Assistance Act of 2020 has been signed. We are working as quickly as we can to review the new program requirements and implementation of the extensions. There will be programming that needs to take place before we can implement the changes. Please check our websites often for the most up-to-date information available.

- Individuals who have not yet exhausted their PUA benefits should keep filing their weekly claims and will continue to be paid.
- If you took a break from filing (exhausted/need to start back up) you need to file a new Initial Claim for PUA. You will be prompted to do so on your portal.

You will not be able to file weekly claims for PUA until your eligibility has been determined. If you qualify, your determination will provide further directions on how to file your weekly claims. If you are eligible for weeks that have already passed, you will be able to file for those at that time as well.

**For help using online services, or if you are unable to go online, call the PUA Hotline at (608) 318-7100.** The hotline is available from 7:30 AM to 4:30 PM, Monday through Friday. This hotline is to help you complete your PUA application and provide general information related to the PUA program only. If you are calling for any reason other than PUA, your question will not be answered; call the [Claimant Assistance Line](#) instead.

**Topics:** [PUA Overview](#) | [PUA Payments](#) | [How to Apply for PUA](#) | [PUA FAQs](#)

### PUA Overview

PUA is a temporary federal program that provides up to 50 weeks of unemployment benefits to individuals who are not eligible for regular Unemployment Insurance (UI) such as:

- Individuals who are self-employed.
- Certain independent contractors.
- Individuals with limited recent work history.
- Other workers not covered by Regular UI.

**PUA Publications**

- [PUA COVID-19 Scenarios](#)
- [Claiming PUA in Wisconsin](#)
- [PUA Rights and Responsibilities](#)
- [Notice to All PUA Applicants](#)

**Unemployment Resources**

- [Apply for Unemployment Benefits](#)
- [File Your Weekly Claim](#)
- [Other Claimant FAQs](#)

**Other COVID-19 Resources**

- [Wisconsin DWD Website](#)
- [Wisconsin DHS Website](#)
- [CDC Website](#)

# WISCONSIN IS NOT ALONE

Authors of Study (Year)	Geography	Misclassification Results
Ormiston, Belman & Erlich (2020)	United States	12%-21% estimated illegal employment rate nationally
Xu and Erlich (2019)	Washington	19% estimated misclassification by employers in construction
Yen Liu, Flaming, & Burns (2014)	California	16% of construction workers not reported or misclassified
Kelsay and Sturgeon (2011)	Kentucky	8% of construction employees misclassified
Kelsay and Sturgeon (2010)	Indiana	15% of construction employees misclassified

# ILLINOIS AND MINNESOTA

## WAGE THEFT & PAYROLL FRAUD IN CONSTRUCTION

A CONSTRUCTION WORKFORCE CASE STUDY IN ILLINOIS

20% of  
construction  
workers  
experience some  
form of wage theft.



These workers  
receive 29%  
less in wages  
and benefits  
on average.

Wage theft and  
payroll fraud costs  
Illinois taxpayers  
\$186 million  
**EVERY YEAR.**



Wage theft is  
a crime that  
can be  
stopped.

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## WAGE THEFT & PAYROLL FRAUD IN CONSTRUCTION

A CONSTRUCTION WORKFORCE CASE STUDY IN MINNESOTA

23% of  
construction  
workers  
experience some  
form of wage theft.



These workers  
receive 36%  
less in wages  
and benefits  
on average.

Wage theft and  
payroll fraud costs  
Minnesota taxpayers  
\$136 million  
**EVERY YEAR.**



Wage theft is  
a crime that  
can be  
stopped.

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# WISCONSIN HAS FEWER IMMIGRANTS

≡ SECTIONS



The Charlotte Observer

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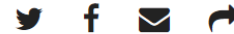


BUSINESS

## Immigrants are most susceptible to worker misclassification

BY FRANCO ORDONEZ AND MANDY LOCKE - MCCLATCHY WASHINGTON BUREAU

SEPTEMBER 05, 2014 04:33 PM, UPDATED SEPTEMBER 05, 2014 03:51 PM



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14:34

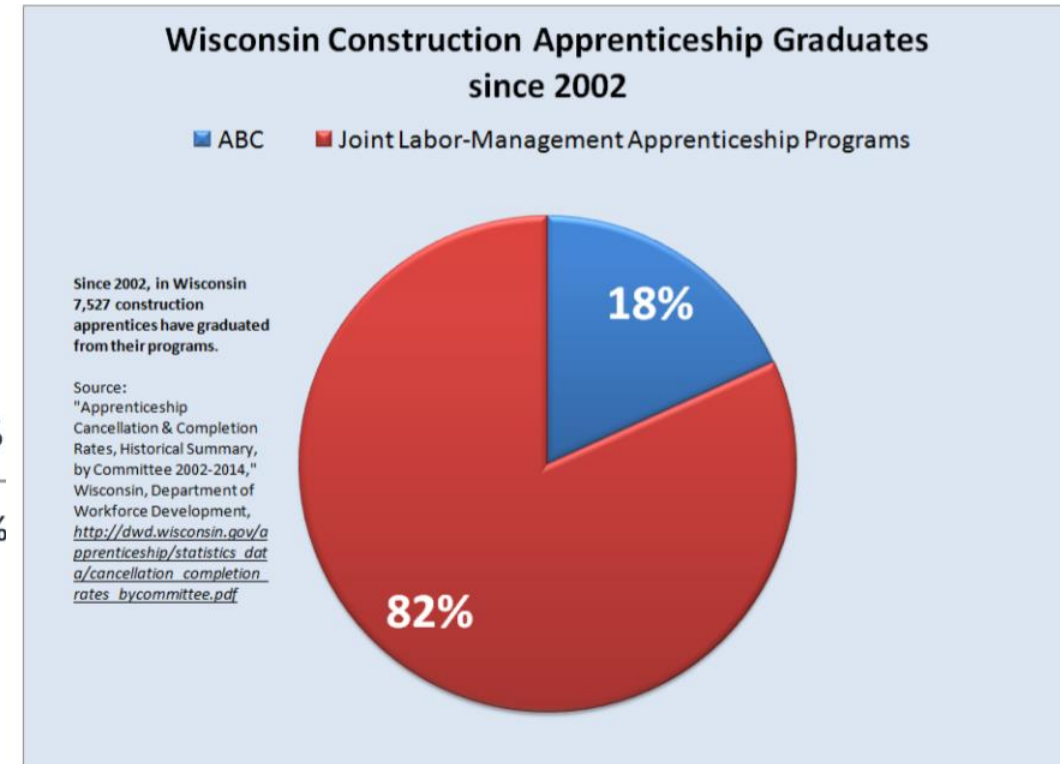
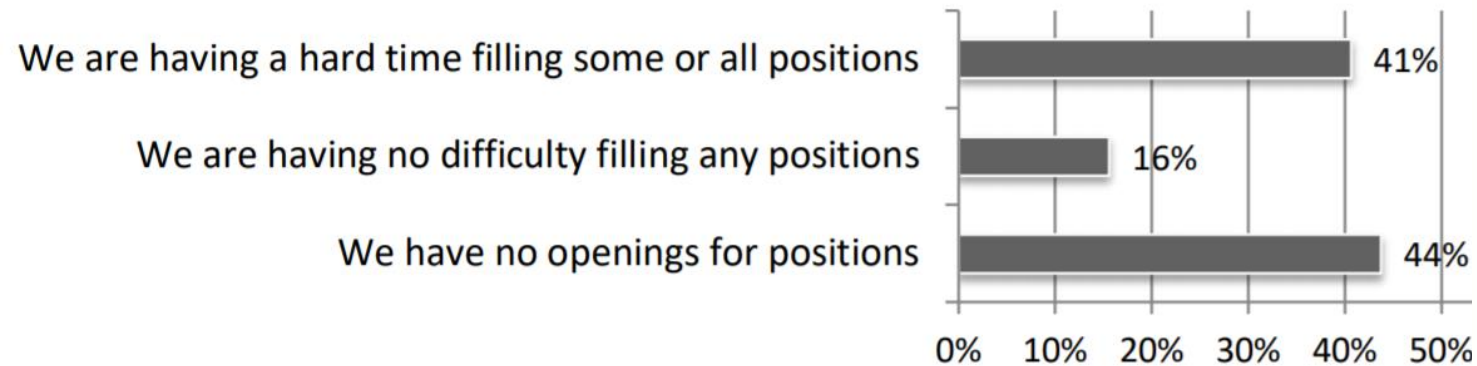
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Week after week, Alfredo Barreda carried a paycheck from his construction job to the bank, where he waited in line for a teller and then stuffed two wads of cash into the front pockets of his pants, he said.

The money in the left pocket went home, to his partner, Denise Alejandre, and their three children. The roll of bills in the right, he said, went back to his boss.

It wasn't the life he'd imagined as a young man, when he hoped that wiring and plumbing work would lead him to the success his own parents had envisioned years ago when they brought young Alfredo and his siblings across the Mexico-U.S. border.

# UNDERMINING THE APPRENTICESHIP SYSTEM



Sources: Associated General Contractors' (AGC) 2021 survey and University of Utah economist Peter Philips, Ph.D. 2015 report on Wisconsin's prevailing wage law

# WHAT CAN BE DONE? THREE APPROACHES

**1. Increase enforcement:** Conduct more UI audits

**2. Expand punitive actions:** Fines, penalties, & debar contractors

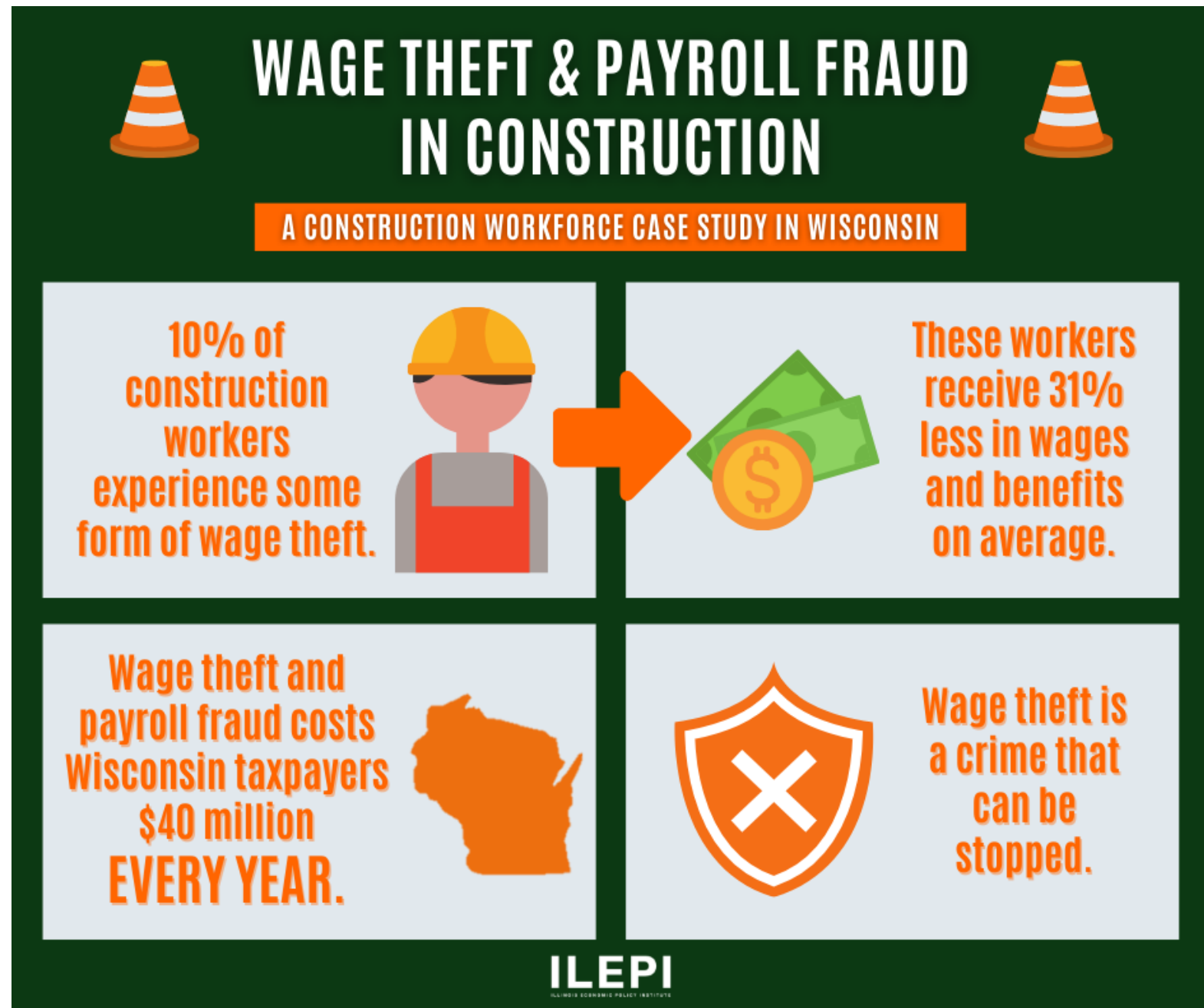
**3. Local procurement policies:** Berkeley (CA) & Columbus (OH)

## **Minnesota's February 2019 Law**

Penalties up to 20 years imprisonment and up to \$100,000 in fines

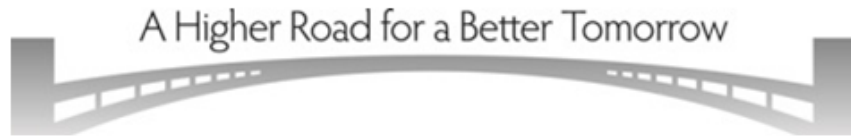


**FINAL  
THOUGHT**





# THANK YOU!



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