

# Report reviews work status

■ Michigan and other states are working with the IRS to track down businesses that are illegally misclassifying workers to avoid paying taxes.

By Kathy Barks Hoffman  
Associated Press

LANSING — Michigan has a significant number of workers who are being misclassified as independent contractors, hurting tax revenues and breaking state laws, according to a report to be given today to Gov. Jennifer Granholm.

A draft copy of the report was obtained Monday by the Associated Press.

In it, the Interagency Task Force on Employee Misclassification said workers who are being listed wrongly by businesses as independent contractors rather than employees aren't being covered by unemployment insurance or prevailing wage laws.

Taxpayers are being hurt because businesses who misclassify workers aren't paying the taxes they should, it said, and some mis-

classified workers aren't paying the income taxes they owe.

Michigan is among states working with the Internal Revenue Service to track down employers who are illegally misclassifying employees as a way to dodge paying unemployment and other taxes. Penalties for not paying taxes through fraud can include fines and possible other penalties.

"The misclassification of employees impacts employers, workers and government. Misclassified employees may not qualify for certain benefits; tax-abiding employers are placed at a competitive disadvantage, while government loses important tax revenues," the report said.

An audit by the state looking at IRS forms Michigan businesses use to report payments to independent contractors turned up more than \$23.3 million in wages had been misclassified from 2003 through part of 2007, the report said.

The Unemployment Insurance Agency did 478 audits of 1099-Misc. forms for 2006, the last year for which data is complete, and found 455 misclassified independent contractors and 749 misclassified casual laborers, who were paid a combined \$7.9 million in mis-

classified wages.

The audit of 2005 forms found 687 misclassified independent contractors and 570 misclassified casual laborers, for a combined \$9.3 million in misclassified wages.

The report didn't have a total for the amount of wages misclassified in Michigan. But it noted that the Government Accountability Office reports that employee misclassification on the federal level accounted for the underpayment of an estimated \$2.72 billion in Social Security taxes, unemployment insurance taxes and income taxes in 2006.

"In Michigan, the state's UI (Unemployment Insurance) Trust Fund has suffered significant losses due to unpaid UI taxes, while the state has lost important revenues because of employee misclassification," the report said.

The report said understated taxes means less state revenue for K-12 education, local governments, health and social programs, colleges and police and fire protection.

Michigan started taking action in 2004 on the misclassification problem and has joined with other agencies around the country to find employers that are inappropriately classifying workers as independent contractors.