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Steps urged to prevent misclassification of workers

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BY [FRANCINE KNOWLES](#) Business Reporter

Beefed up enforcement and greater tax reporting requirements are needed to stop rogue employers from misclassifying workers as independent contractors -- an illegal practice that costs state and local governments billions of dollars and harms workers, a U.S. House subcommittee was told Tuesday.

The General Accounting Office has estimated that misclassification reduces federal income tax revenues up to \$4.7 billion. Meanwhile workers are denied overtime pay, workers compensation coverage, unemployment insurance and Social Security and Medicaid payment credits, Catherine K. Ruckelshaus of the National Employment Law Project said in her testimony.

The hearing took place as state and federal agencies in Illinois are investigating allegations that some Chicago area construction companies are misclassifying workers as "independent contractors" or free-lancers instead of employees, and as legislation addressing the problem is working its way through the state House.

"It is clear that this is a national problem with implications for federal laws and our federal coffers, a problem we must solve," said U.S. Rep. Lynn Woolsey, (D-Calif.) chairwoman of the U.S. House Committee on Education and Labor's Subcommittee on Workforce Protections, which called the hearing.

To address the problem, Ruckelshaus recommended that the U.S. Department of Labor:

- Conduct proactive audits of problem industries with persistent violators, and share data with the unemployment insurance arm of the department.
- Be required to share information on independent contractor problems, and coordinate with the Internal Revenue Service.
- Mandate seizing goods produced under substandard conditions and where misclassification has taken place.

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Any congressional action should be designed "to ensure that good, honest, hard-working businesses and their workers are not overrun with increased and costly regulatory requirements," said Rich Shavell, speaking for the Associated Builders and Contractors, a national trade association representing 24,000 contractors, subcontractors and related companies.

He called for increased tax reporting requirements for employers who classify workers as independent contractors, for greater IRS enforcement and for clarification and simplification of the 20-factor IRS rules used by employers in determining whether to classify a worker as an employee or independent contractor.

Cliff Horn, president of A. Horn Inc., a Barrington -based commercial mason contractor, told the committee misclassification hurts law-abiding businesses.

"Businesses that misclassify employees as independent contractors can expect to reduce their labor costs by between 15 and 30 percent," he said. "This places contractors like myself at a competitive disadvantage."

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