Misgivings of Misclassification of Workers: Tax Gaps

Paul F. McGee, Salem State University
David A. Goodof, Salem State University
Jayanti Bandyopadhyay, Salem State University
Andrew Christensen, Salem State University

ABSTRACT

The magnitude and extent of misclassification of employees as independent contractors throughout all states and across industries have come to the forefront of discussions in the past decade. Loss of employee rights and benefits such as unemployment and health insurance and the resulting gap in tax revenue are the major costs of misclassification. However, the benefits accrued to employers in terms of significant cost savings in avoiding payroll taxes offer considerable competitive advantage. This paper offers a progress report on misgivings of misclassification with an emphasis on loss of tax revenues. The need for standardizing a myriad of diverse tests used in determining a worker's status and developing better databases for tracking is heightened. Several opportunities for future research are identified.

Keywords: Independent Contractors, Misclassification, Loss of Tax Revenue, Competitiveness, Temporary Employment