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Joint Enforcement Strike Force

*On the Underground Economy*

**2024  
REPORT**



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April 28, 2026

The Honorable Members of the California State Legislature  
California State Senate and Assembly  
State Capitol  
Sacramento, CA 95814

Dear Members of the California State Legislature:

Executive Order W-66-93 established the Joint Enforcement Strike Force (JESF) to combat the underground economy by pooling resources and sharing data among the state agencies charged with enforcing licensing, labor, and payroll tax laws. On January 1, 1995, Section 329 was added to the California Unemployment Insurance Code, which placed the provisions of the Executive Order into law. This section contains a provision requiring the strike force to report to the Governor and the Legislature annually regarding its activities. This letter satisfies Section 9795(a) of the Government Code, which requires each legislative mandated report to include a summary of its contents not to exceed one-page in length, distributed to each member of the Legislature.

This JESF Report provides an annual summary of JESF-related activities and outcomes combating the underground economy, in accordance with Section 329 of the California Unemployment Insurance Code. Highlights for 2024 include:

- 5,175 payroll tax audits/investigations and \$213.5 million in assessments.
- 142 criminal cases under investigation with a tax liability estimated at \$111.5 million.
- \$19.5 million recovered from delinquent license holders through suspensions.

Printed copies of this report are available to any legislative member upon request. The report can also be viewed online at [www.edd.ca.gov/About\\_EDD/EDD\\_Legislative\\_Reports.htm](http://www.edd.ca.gov/About_EDD/EDD_Legislative_Reports.htm).

Sincerely,

/s/ NANCY FARIAS  
Director

## **JOINT ENFORCEMENT STRIKE FORCE OVERVIEW AND MEMBERS**

This legislatively mandated report provides the annual summary of activities and outcomes from the Joint Enforcement Strike Force (JESF) on the Underground Economy in accordance with Section 329 of the California Unemployment Insurance Code. In October 1993, Executive Order W-66-93 established the JESF to combat the underground economy by pooling resources and sharing data among the state agencies charged with enforcing tax, labor, and licensing laws.

On January 1, 1995, Section 329 was added to the California Unemployment Insurance Code, which placed the provisions of the Executive Order into law. The Employment Development Department (EDD) is the designated lead agency of the JESF, and the EDD Director or designee serves as its chair. Additional JESF members include but are not limited to the following:

### **Department of Consumer Affairs, including**

**Contractors State License Board (CSLB), Bureau of Automotive Repair (BAR), and Bureau of Security and Investigative Services**

### **Department of Industrial Relations (DIR), including**

**Division of Labor Standards Enforcement (DLSE) and Division of Occupational Safety and Health (Cal/OSHA)**

### **California Department of Insurance (CDI)**

### **Franchise Tax Board (FTB)**

### **California Department of Tax and Fee Administration (CDTFA)**

### **California Department of Justice (DOJ)**

### **California Department of Alcoholic Beverage Control (ABC)**

### **U.S. Department of Labor (DOL)**

### **Internal Revenue Service (IRS)**

Attachment A contains descriptions of JESF's participating entities.

## **JOINT ENFORCEMENT STRIKE FORCE AND UNDERGROUND ECONOMY INFORMATION**

### **Joint Enforcement Strike Force**

The JESF's goals are to support economic stability, to improve working conditions, and consumer and worker protections in the state. Specifically, JESF works to:

- Eliminate unfair business competition.
- Protect workers by ensuring that they receive all compensation, benefits, and worker protections they are entitled to by law relating to their employment.
- Protect consumers by ensuring that all businesses are properly licensed and that they adhere to the state's consumer protection regulations.
- Reduce the burden on law-abiding citizens and businesses by ensuring that all businesses and individuals comply with the state's licensing, regulatory, and tax laws.

- Reduce the tax gap by increasing voluntary compliance with the state’s tax laws to maximize the state’s General and Special Funds.

Additional information, including the JESF’s legal authority, links to JESF Reports for the two most recent years, and links to three JESF outreach publications, can be found on the JESF webpage at:

[https://edd.ca.gov/Payroll\\_Taxes/Joint\\_Enforcement\\_Strike\\_Force.htm](https://edd.ca.gov/Payroll_Taxes/Joint_Enforcement_Strike_Force.htm).

## **The Underground Economy**

According to the California Little Hoover Commission’s report, the underground economy robs the state of an estimated \$8.5 to \$10 billion annually in uncollected tax revenue, money that could fund education, law enforcement, infrastructure investments, or reduce taxes for the majority of Californians.

This report defines underground economy as any activity that an individual or business tries to hide from government licensing, regulatory, tax, and law enforcement agencies. Entrepreneurs who avoid paying their taxes, providing adequate insurance, and who skim off their employees’ paychecks are part of the underground economy.

California’s well-being depends on the success of its businesses competing on a level playing field. California’s rules and regulations ensure fairness; however, business owners who cheat by illegally underpaying employees or not paying taxes—allowing them to undercut prices of law-abiding businesses—impacts compliant businesses and California workers alike. Lawfully operating businesses are burdened with paying higher taxes and expenses by businesses that do not comply with labor, licensing, and payroll tax laws. When a business forgoes obtaining the required licenses for their occupations or providing workers’ compensation coverage, it undercuts compliant businesses by creating an unfair competitive advantage, while creating a downward economic spiral.

Employees working within this illegal business model, particularly those in labor intensive industries such as those who clean buildings, wash cars, wait on customers, pack and ship goods in warehouses, or harvest the food Californians eat—often suffer the greatest harm. Some employers short their paychecks or intentionally misclassify them as independent contractors to evade payroll taxes. These employees may also be subject to working conditions that do not meet labor standards, their wages may be less than required by law, and benefits they’re entitled to are often denied or delayed due to improperly reported wages.

The underground economy can also affect consumers. The DOJ’s, [Tax Recovery in the Underground Economy Criminal Enforcement Program](#), includes examples of the underground economy affecting consumers who purchase counterfeit goods. Purchasing forged merchandise supports those who steal designer’s ideas and takes jobs from workers who manufacture legitimate consumer products. Counterfeit merchandise is often inferior to the original product. When consumers pay for services “under the table,” they may also be supporting human trafficking. Consumers can also

be affected when contracting with unlicensed businesses. Licensing provisions are designed to ensure sufficient skill and knowledge to protect consumers.

## **The Tax Gap**

One contributing factor of the underground economy is the tax gap, which is the difference between taxes reported and taxes legally owed. According to the IRS, the gross tax gap is the amount of true tax liability not paid voluntarily and timely. The tax gap and associated concepts are a way to define and analyze compliance and noncompliance based on tax year liability. The tax gap provides a rough gauge of overall noncompliance and voluntary compliance.

The IRS periodically estimates the tax gap to measure overall historical compliance of all types of taxpayers and their federal tax obligations. The estimates consider federal taxes due as well as refundable and non-refundable tax credits.

In general, the tax gap estimates dating back decades consistently show the United States has a relatively high and stable voluntary tax compliance rate. Sustaining and improving taxpayer compliance is important because small declines in compliance cost the nation billions of dollars in lost revenue, while shifting the tax burden onto those who pay their fair share. Understanding the elements of the tax gap enables policymakers and tax administrators to make better decisions regarding how to allocate resources used to administer the tax code. All initiatives by the IRS to improve tax collection are intended to narrow the tax gap and increase compliance. The estimates also inform policymakers of potential areas that need to be addressed in other ways.

Per the IRS, the tax gap is comprised of three main components: non-filing, underreporting, and underpayment:

- The non-filing tax gap is the tax not paid on time by those who do not file the required returns on time.
- The underreporting tax gap is the net understatement of tax on timely filed returns.
- The underpayment tax gap is the amount of tax reported on timely filed returns that is not paid on time.

According to the IRS's Tax Gap Projections for 2022, released on October 10, 2024, the projected annual gross tax gap for tax year 2022 increased to \$696 billion.

## **Recent Legislation**

On September 26, 2024, Assembly Bill 1888 was signed by Governor Gavin Newsom and chaptered by the Secretary of State. The bill established within the Department of Justice, the Labor Trafficking Unit requiring the coordination with various departments and law enforcement agencies, including EDD, to refer complaints or reports of labor trafficking for investigation, prosecution, or other remedies.

## STRATEGIC APPROACH TO COMBATING THE UNDERGROUND ECONOMY

JESF partners use a strategic approach to combat the underground economy, including education and outreach, administrative enforcement, and criminal prosecution.

### Education and Outreach

JESF partners use diverse outreach and education strategies, including publications, webinars, in-person seminars, community outreach, social media, and websites – all readily accessible to employers, employees, tax professionals, business groups, and the public to promote voluntary compliance.

#### Seminars and Presentations

In 2024, EDD continued expanding and enhancing its outreach program. A key strategy in this effort is offering no-cost payroll tax webinars, serving as valuable resources for employers, promoting voluntary compliance, and helping businesses understand their payroll tax obligations. EDD conducted 85 online seminars on a variety of payroll tax topics, with a total of 4,627 attendees.

Two notable collaborative seminars were the Federal/State Basic Payroll Tax Seminar and the State Labor Law and Payroll Tax Seminar, which were both held in partnership with the IRS and Department of Industrial Relations. These seminars integrate the requirements of both agencies, providing attendees with comprehensive insights into the similarities and differences between federal and state regulations. In 2024, EDD partnered with the IRS to host joint online seminars in Spanish and Chinese, effectively expanding outreach to a more diverse audience, encouraging voluntary compliance across a broader spectrum of employers and business owners.

Additionally, EDD sponsored various standalone seminars to meet the diverse needs of California businesses. Recognizing the importance of preparing businesses for potential challenges, EDD introduced a new seminar titled "Preparing for an Employment Tax Audit" in 2024. This seminar provided the necessary information to assist employers navigate the employment tax audit process.

#### Publications and Outreach Materials

- JESF partners share publications when appropriate. For example, the Contractors State License Board provides EDD publications about the requirement to report employees and payroll taxes at their contractor testing centers, and in mailings to newly licensed contractors.
- The following JESF publications are available on EDD's website and can be ordered, viewed online, downloaded, and/or printed.
  - *Joint Enforcement Strike Force Booklet* ([DE 663](#))
  - *Joint Enforcement Strike Force Informational Sheet* ([DE 664](#))
  - *Joint Enforcement Strike Force Brochure* ([DE 665](#))

## Websites

- The [Underground Economy Operations](#) webpage provides access to prior reports, program, and operation information. EDD's website also has a page dedicated to [general information on fraud and the underground economy](#).
- The [JESF webpage](#) provides links to JESF partner websites. Each of the JESF partners includes educational and outreach information on their website. For example, the Contractors State License Board provides information warning consumers about the dangers of hiring unlicensed contractors.

## Other Collaborative Outreach

- The Small Business Employer Advisory Committee is a group of business professionals representing California's small business community. The committee has partnered with EDD to provide input into helping combat the underground economy, looking out for consumers, workers, and businesses. The committee has also shared recommendations with EDD on how to better serve California's small businesses and disseminates outreach information to their respective members.
- EDD continues to look for innovative ways to expand its education and outreach efforts. EDD utilizes various forms of social media to reach employers and the general public.

## Future Education and Outreach

In 2025, EDD remains dedicated to advancing its outreach goals by continuing to host online payroll tax seminars, ensuring that these resources remain accessible to a wider audience. A total of 92 online seminars and 6 special outreach events are scheduled. Interested individuals can register online for these seminars on EDD's [Payroll Tax Seminars](#) webpage.

## **Administrative Enforcement**

The JESF partners use administrative enforcement activities such as site inspections, audits, and involuntary collection of tax amounts due to address noncompliance. Data and information are shared between JESF partner agencies where permitted, to maximize enforcement results.

## Information Sharing and Collaboration

Businesses that operate in the underground economy continually develop new schemes to avoid detection of their illegal activities. As these new schemes are identified by JESF members, information regarding the schemes is shared with member agencies, business associations, and labor organizations. Memoranda of Understanding have been developed to facilitate the sharing of information and data between JESF partners and to enhance collaboration and joint enforcement of tax, labor, and licensing laws.

The following examples demonstrate how JESF partners share information and collaborate:

- To help combat California's underground economy and protect workers' rights, EDD and the Department of Industrial Relations have joined efforts through their respective enforcement programs. EDD is the lead agency within JESF. The Department of Industrial Relations leads the Labor Enforcement Task Force whose mission is to combat the underground economy to ensure safe working conditions and proper payment of wages to workers; to create an environment in which legitimate businesses can thrive; and to support the collection of all California taxes, fees, and penalties due from employers. The JESF/ Labor Enforcement Task Force Collaborative Enforcement Partnership merges best practices and draws upon both programs' respective strengths through training, refinement of targeting methods, etc.
- There is an ongoing need for JESF staff to be aware of the various types of schemes used in industries prone to underground economy activity. This knowledge transfer facilitates the development of detection and enforcement techniques necessary to deter and stop illegal activities. Information is shared as follows:
  - On-the-job.
  - Informal ad-hoc joint management meetings.
  - Quarterly meetings with member agencies.
- Joint statewide JESF/ Labor Enforcement Task Force training sessions are periodically held based on operational needs.

#### Informant Contacts

JESF receives allegations of non-compliance from the IRS, Department of Labor, and other JESF partners, as well as from the public. Allegations of noncompliance with payroll tax, labor, and licensing laws may be reported by the following methods:

- By telephone to EDD's Payroll Tax Fraud Hotline at 1-800-528-1783.
- By submitting a fraud report:
  - online via the [EDD website](#)
  - via e-mail to [ueo@edd.ca.gov](mailto:ueo@edd.ca.gov)
  - via correspondence by fax to 1-916-227-2772
- By completing and mailing an *Underground Economy Operations Lead Referral/Complaint Form*, available in English ([DE 660](#)) and Spanish ([DE 660/S](#)).

EDD receives allegations of noncompliance by several methods. The following table provides a breakdown of the number of contacts received during the last three years:

Method Received	Number of Contacts Received and Processed		
	2022	2023	2024
Telephone Call to Payroll Tax Fraud Hotline	969	1,024	978
Online Submission (EDD Website or Email)	2,619	4,185	2,436
Correspondence (Fax or Mail)	197	82	136
Total	3,785	5,291	3,550

Of the 3,550 overall contacts in 2024:

- 1,254 were allegations of potential payroll tax violations.
- 175 calls and emails were received with reports of potential Unemployment Insurance (UI) benefit fraud schemes. These reports were promptly screened and forwarded to EDD’s UI Branch and the Investigation Division for further investigation.
- 134 contacts inquired about UI and/or Pandemic Unemployment Assistance claims and were provided to the UI Branch for review and resolution.
- 1,987 contacts were either requests for general information or inquiries that were intended for other agencies. The misrouted items were forwarded to the appropriate agency contact for review and action.

### Site Inspections

EDD works with JESF partner agencies to conduct unannounced, joint on-site business inspections. This multi-agency compliance approach is a united effort between the federal and state agencies working together to enforce tax laws.

- JESF concentrates on industries known for high levels of noncompliance with payroll tax, labor, and licensing laws. In 2024, the primary industries for site inspections were construction, massage, cannabis, and restaurant.
- During site inspections, task force members interview owners, managers, and workers to identify employers operating in the underground economy. The primary goal is to identify and bring into compliance individuals and businesses that are in violation of payroll tax, labor, and licensing laws.
- Site inspections also serve as educational and outreach opportunities. Business owners and managers receive compliance materials and industry regulations information, as well as information on where to find additional resources.
- Joint site business inspections may result in the following: follow-up audits; payroll tax assessments and citations or Stop Orders for unsafe working conditions; citation for lack of workers’ compensation insurance; and discovery of violations of labor laws or failure to be properly licensed.
- EDD holds regular strategic and working meetings with its partners to review the latest underground economy schemes, develop special operations, and discuss

impacted industries and available resources. JESF partners held virtual meetings in 2024 to continue their collaboration. Additionally, JESF partner entities are invited to participate in inspections when there is a potential violation of the laws they administer.

The following table shows the number of business inspections that partner entities participated in during the last three years.

Partner Entity	Calendar Year		
	2022	2023	2024
EDD	708	659	668
DLSE	167	149	104
CSLB	502	490	523
Local Police	18	47	68
District Attorney	31	41	91
ABC	4	3	3
CDTFA	0	25	21
BAR	3	0	3
CDI	17	12	4
Cal/OSHA	1	7	5
DCC	0	37	21
DOL	0	4	0
UCETF	N/A	N/A	20
Other	11	31	29

EDD is the lead partner within JESF and participates in all JESF inspections as shown in the table above. The Contractors State License Board participates in the second most JESF inspections each year due to the high percentage of noncompliance allegations that are received involving the construction industry.

### Payroll Tax Audits

EDD’s Audit Program conducts follow-up audits and investigations on JESF inspections, as well as using leads from other sources to bring businesses into compliance with state payroll tax and employee reporting requirements. Audits of businesses are initiated based on a variety of sources, including but not limited to, leads from other governmental agencies, as well as UI and Disability Insurance (DI) claims that become obstructed because the claimants’ wages weren’t properly reported to EDD. During an EDD audit, the auditor verifies that the employer’s acknowledged payroll is properly reported, and that Personal Income Tax is being properly withheld and reported on employee wages. The auditor also determines the appropriate classification of workers the business considers independent contractors. The Audit Program issues assessments for payroll taxes due, including any applicable penalties and interest. This is the case for in and out-of-state employers with California employees.

For the 2024 calendar year, the Audit Program, which includes JESF cases, conducted 5,175 audits and investigations, resulting in assessments totaling approximately

\$213 million and identified approximately 77,000 misclassified workers or unreported employees. In addition to administrative enforcement, EDD auditors educate business owners and their representatives regarding California payroll tax reporting requirements during examinations. They provide information on the proper classification of workers, reporting and deposit requirements, and how to obtain additional resources from EDD.

Below are EDD’s Audit Program results for the last three years for cases initiated from all sources:

<b>Audit Program Results</b>	<b>2022<sup>1</sup></b>	<b>2023<sup>2</sup></b>	<b>2024</b>
Payroll Tax Audits/Investigations	5,345	5,584	5,175
Payroll Tax Assessments	\$554,479,365	\$1,790,329,881	\$213,554,357
Misclassified/Unreported Workers	170,726	3,434,857	77,173

The Questionable Employment Tax Practices Program (QETP) was initiated in 2007 as a collaborative effort between EDD and the IRS. A Memoranda of Understanding was created to allow for exchange of case information. These IRS cases are excellent audit leads for EDD, as they only include cases in which the employers concurred with IRS’s findings regarding unreported wages and/or misclassified workers.

These referrals generally result in liability audits for EDD:

<b>QETP Audit Results</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>
Payroll Tax Audits	18	7	1
Payroll Tax Assessments	\$2,440,275	\$432,241	\$0
Misclassified/Unreported Workers	204	47	0

## **Employment Development Department**

### **Joint Enforcement Strike Force Results**

EDD’s results from administrative activities specific to the JESF are as follows:

<b>JESF Enforcement Results</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>
Joint Inspections	714	636	666
Audit Referrals	497	305	424
Payroll Tax Audits Completed	442	510	338
Payroll Tax Assessments	\$19,018,759	\$25,142,407	\$21,959,539
Misclassified/Unreported Workers	4,983	6,316	4,941

<sup>1</sup> In Calendar Year 2022, four large audits were completed that resulted in aggregate assessments totaling over \$343 million. These audits revealed over 31,000 previously misclassified employees.

<sup>2</sup> In Calendar Year 2023, six large audits were completed that resulted in aggregate assessments totaling over \$1.5 billion. These six audits revealed over 3.3 million previously misclassified employees.

When EDD determines that an employer’s failure to report employees and their wages is due to fraud or intent to evade, a fraud penalty is added to the assessment in addition to the taxes due on the unreported wages.

The following information results from the cases above in which a fraud penalty was assessed:

<b>Audits Involving Fraud</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>
Payroll Tax Audits with Fraud Penalty Assessed (included in figures in previous table)	4	4	1
Payroll Tax Assessments on Fraud Audits (included in figures in previous table)	\$726,417	\$828,139	\$301,760
Misclassified/Unreported Workers on Fraud Audits (included in figures in previous table)	43	130	27

JESF partner results shown in the tables on the pages that follow were compiled and provided by partner agencies.

**Division of Labor Standards Enforcement**

The following are the JESF inspection results for the Division of Labor Standards Enforcement, organized by industry type for the last three calendar years.

<b>Type of Industry</b>	<b>Number of Inspections</b>			<b>Number of Citations</b>		
	2022	2023	2024	2022	2023	2024
Agriculture	2	1	1	5	1	0
Automotive	10	6	0	26	9	0
Bar/Nightclub	0	0	0	0	2	0
Car Wash	0	2	0	0	1	0
Construction	0	0	1	0	0	0
Garment	0	0	1	0	0	0
Hotel	1	1	0	0	0	0
Janitorial	0	0	2	0	0	1
Nail Salon	10	10	0	16	12	0
Other	51	51	48	100	74	35
Residential Care	0	0	0	1	2	0
Restaurant	70	48	20	86	56	17
Retail	22	16	3	33	27	2
Warehouse	1	0	0	0	0	0
<b>Total</b>	<b>167</b>	<b>136</b>	<b>76</b>	<b>267</b>	<b>189</b>	<b>55</b>

Type of Industry	Total Dollar Amount of Penalties Assessed			Total Dollar Amount of Wages Assessed		
	2022	2023	2024	2022	2023	2024
Agriculture	\$177,833	\$60,252	\$0	\$14,250	\$0	\$0
Automotive	\$194,664	\$27,360	\$0	\$82,900	\$17,050	\$0
Bar/Night-club	\$0	\$3,000	\$0	\$0	\$0	\$0
Car Wash	\$0	\$10,000	\$0	\$0	\$0	\$0
Construction	\$0	\$0	\$0	\$0	\$0	\$0
Janitorial	\$0	\$0	\$10,000	\$0	\$0	\$0
Nail Salon	\$82,835	\$33,000	\$0	\$0	\$0	\$0
Other	\$812,166	\$475,659	\$162,727	\$241,810	\$40,750	\$550
Residential Care	\$22,500	\$39,000	\$0	\$0	\$0	\$0
Restaurant	\$824,300	\$498,409	\$79,200	\$23,700	\$89,300	\$0
Retail	\$98,179	\$179,441	\$2,250	\$6,700	\$700,058	\$0
Transportation	\$0	\$72,915	\$0	\$0	\$0	\$0
Total	\$2,212,477	\$1,399,036	\$254,177	\$369,360	\$847,158	\$550

**Contractors State License Board**

The Contractors State License Board has a Statewide Investigative Fraud Team that is comprised of special investigators who enforce license and workers’ compensation insurance requirements at active jobsites, respond to leads, and conduct enforcement sweeps and undercover sting operations targeting unlicensed contractors.

**Stings and Sweeps**

The following are the stings and sweep performed by the Contractors State License Board for the last three calendar years:

Calendar Year	2022	2023	2024
Stings	20	32	38
Sweeps	364	376	407

The sting operations targeted unlicensed offenders and wanted individuals who work in the construction industry. The stings involved the Contractors State License Board’s Statewide Investigative Fraud Team inviting the individuals to a home or commercial business to place bids on construction projects.

Construction site inspections or sweeps are also an effective way the Contractors State License Board ensures contractor compliance with California’s licensing and workers’ compensation insurance requirements. Investigators with the Contractors State License Board’s Statewide Investigative Fraud Team stagger their visits throughout the year with investigators from partner agencies, arriving unannounced at active construction sites to check for appropriate licenses, permits, workers’ compensation insurance for employees, and adherence to safety rules.

### Stop Orders

A Stop Order is a legal demand to cease all employee labor at a job site due to a violation of state laws. When the Contractors State License Board issues a Stop Order, the contractor must immediately stop using employee labor until an appropriate workers' compensation insurance policy has been secured and written proof provided.

The number of Stop Orders served on construction employers by the Statewide Investigative Fraud Team is illustrated below.

<b>Calendar Year</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>
Licensee Stop Orders Issued	152	98	135
Unlicensed Operator Stop Orders Issued	184	130	163
Total Stop Orders Issued	336	228	298
Policies Obtained	150	74	157
Licenses Suspended	8	8	13

### Legal Actions

The Contractors State License Board conducted stings, sweeps, and responded to leads, which resulted in 1,067 legal actions for the calendar year 2024. As a result of the 521 licensee and non-licensee citations in 2024, the Contractors State License Board assessed \$635,800 in civil penalties.

<b>Calendar Year</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>
Accusations	6	6	14
Administrative Licensee Citations	197	112	169
Administrative Non-Licensee Citations	380	290	338
Criminal Referrals – Licensee	68	38	45
Criminal Referrals – Non-Licensee	288	295	352
Letters of Admonishment	126	99	149
Total Legal Actions	1,065	840	1,067

### California Department of Insurance

The California Department of Insurance participated in 14 contractor stings with the Contractors State License Board and local District Attorneys in Kern, Ventura, and Sutter Counties during 2024. The results are summarized as follows:

- 19 citations were issued for willful failure to secure workers' compensation insurance per Section 3700.5 of the Labor Code (LC).
- 25 citations for acting in the capacity of a contractor without a license per Section 7028(a) of the Business & Professions Code (BPC).
- 14 citations for illegal advertising as a contractor without a license per Section 7027.1(a) of the Business & Professions Code.

## U.S. Department of Labor

The tables below provide data on investigations conducted by the Wage and Hour Division of the U.S. Department of Labor in the garment and recycling industries in California, for federal fiscal years, 2022, 2023, and 2024. It includes the amounts of back wages, the number of workers, and the amounts of penalties assessed.

<b>Federal Fiscal Year</b>	<b>State</b>	<b>Industry</b>	<b>Cases</b>	<b>Back Wages</b>	<b>Employees with Back Wages</b>	<b>Civil Money Penalties</b>
2022	California	Garment	99	\$978,747	348	\$38,708
2023	California	Garment	43	\$486,540	116	\$6,970
2024	California	Garment	39	\$508,040	159	\$1,743

<b>Federal Fiscal Year</b>	<b>State</b>	<b>Industry</b>	<b>Cases</b>	<b>Back Wages</b>	<b>Employees</b>	<b>Civil Money Penalties</b>
2022	California	Recycling	1	\$283	1	\$0
2023	California	Recycling	1	\$11,774	9	\$0
2024	California	Recycling	3	\$10,109	3	\$1,330

### Collection Efforts

#### License Suspensions/Holds Requested

- The California Business & Professions Code and California Unemployment Insurance Code authorize state agencies to suspend/hold a license needed to legally operate certain types of businesses in this state. This is a valuable collection tool for resolving delinquent tax liabilities and for compelling corrective action. There are three types of licenses that EDD can request other state agencies to suspend/hold if the licensee is delinquent in paying amounts due to EDD:
  - **Contractor License Hold:** Once the Contractors State License Board receives a request from EDD to place a license hold, they will search their database for all licenses with the same personnel record and suspend those licenses as well. The licenses remain suspended until the delinquency that led to the suspension has been resolved, or arrangements have been made to pay for it.
  - **Liquor License Hold:** EDD may request the Alcoholic Beverage Control to place a hold on certain types of liquor licenses. A hold establishes a priority for EDD to any monies received from the sale of the liquor license and prevents the transfer of a liquor license from the seller to a buyer until the conditions of the hold have been met.
  - **Farm Labor Contractor License Hold:** EDD is authorized to notify the Labor Commissioner (of the Division of Labor Standards Enforcement) in writing that a

Farm Labor Contractor is delinquent in payment of worker contributions. Once notified, the Labor Commissioner has the authority to refuse to issue or renew any license until the licensee has fully paid the amount of the delinquency.

The following table illustrates the ending inventory of license holds requested by EDD for the past three calendar years.

Type of Hold	2022	2023	2024
CSLB	499	334	425
ABC	36	29	27
FLC	8	3	5

Contractors State License Board

License Suspensions

A license can be suspended by the Contractors State License Board if the licensee is delinquent in paying amounts due to the Contractors State License Board or other state agencies. The table below summarizes amounts due to state agencies that were collected or resolved during the last three years to avoid a license suspension or to have a suspended license reinstated.

State Agency	Amounts Collected or Resolved		
	2022	2023	2024
CSLB	\$104,507	\$100,190	\$108,848
EDD	\$13,280,832	\$10,485,549	\$10,897,189
DIR-Cal/OSHA	\$243,066	\$493,104	\$697,638
DIR-DLSE	\$5,217,626	\$4,620,847	\$3,116,644
FTB	\$4,024,936	\$5,344,249	\$4,768,829
Totals	\$22,870,967	\$21,043,939	\$19,589,147

**Blatant Violator Investigation Cases:**

Blatant violation cases detected by JESF include the most flagrant cases where schemes were used by businesses to avoid payroll tax, labor, insurance, and licensing laws.

EDD provided the following example to illustrate one of the schemes.

- EDD and Contractors State License Board conducted an inspection of a construction job site at a single-family home. The contractor was operating as a corporation, held a general Contractors State License Board license, and specialized in residential home construction. The contractor also held a valid workers' compensation policy. At the time of the inspection, there were workers on site providing construction services. The business was registered with EDD. It was found that these workers interviewed on-site were not reported to EDD. A subsequent audit revealed the corporate officer paid workers from his personal account to conceal information and evade the payroll tax requirements. A fraud penalty was charged under Section 1128(a) and (b) of the California Unemployment Insurance Code for intent to evade

and failure to reflect all payments made to workers on W-2 Forms. The corporation was assessed \$302,237 for unpaid payroll taxes, penalties, and interest.

The California Department of Insurance provided the following examples of blatant violator investigation cases:

- California Department of Insurance, Solano County District Attorney's Office, and EDD conducted a joint investigation of a large contractor. The allegation stated the business owner was underreporting payroll to illegally save on workers' compensation insurance and taxes. The joint investigation began after one of the contractor's employees sustained a work-related injury and contacted the State Compensation Insurance Fund. From 2010 to 2019, this company reported zero payroll to the State Compensation Insurance Fund. Based on information received, the State Compensation Insurance Fund contacted the Contractors State License Board which used this information as the basis for conducting a site inspection of the business. The results from the joint investigation determined the contractor had underreported payroll by almost a million dollars. The failure to report employee payroll resulted in a reduction of approximately \$380 thousand in premiums that were owed to the State Compensation Insurance Fund. The underreported payroll also resulted in a payroll tax liability to EDD of approximately \$350 thousand. The business owner was arraigned in criminal court and plead guilty to six charges of insurance fraud and grand theft.
- The Central Valley Workers' Compensation Fraud Task Force comprised of members from the California Department of Insurance, District Attorney staff from Fresno, Tulare, Kings, Kern, Merced, Madera, and San Luis Obispo County offices, along with EDD and the Franchise Tax Board conducted an investigation on the owner of a trucking company. The investigation was a result of an allegation the company was underreporting payroll to illegally save on workers' compensation insurance. The investigation was led by the Fresno County District Attorney's Office and initiated after they discovered that an employee had been found deceased in a company owned truck. The insurer found that prior to their death, the employee had been classified as a company salesperson, and not a truck driver. Twenty-five days after the death, the trucking company amended the employee's job classification to truck driver even though the employee had worked for the company as a truck driver for 15 years. An audit by the California Department of Insurance, as part of the task force investigation, revealed that between December 2018 and December 2021, the trucking company had workers' compensation insurance coverage and reported approximately \$875 thousand in employee payroll, however, the company had \$3.2 million in payroll. The underreported payroll was \$2.3 million, resulting in insurance premiums of approximately \$480 thousand owed to the trucking company's insurer. The case is being prosecuted by the Fresno County District Attorney's office and the company owner has been arraigned on three felony counts of workers' compensation fraud and is scheduled to appear in court in February 2025.
- Two Kings County farm labor contracting companies were investigated for underreporting payroll for multiple businesses to illegally save on workers'

compensation insurance premium and taxes. The investigation was conducted by the Central Valley Workers' Compensation Fraud Task Force. The task force found that the business owner of one of the companies underreported \$7.6 million in employee payroll to his workers' compensation insurance carrier from September 2019 through August 2020. This underreporting resulted in a premium loss of \$1.7 million. The investigation also revealed the owner created another farm labor contracting company. He recruited an associate to help shift payroll between the two companies to avoid an increased insurance premium. Together, they underreported \$8.8 million in employee payroll for the period from December 2019 through December 2021, resulting in an additional premium loss of \$1.8 million. Additionally, the investigation found the business owner underreported \$12.8 million in employee payroll to EDD. This underreporting resulted in a combined loss of approximately \$3 million for unpaid tax liability, penalties, and interest. This business owner and his associate's fraud scheme defrauded their insurance carriers, EDD, and the Franchise Tax Board out of over \$6.5 million. The business owner has been charged with eight felony counts, including workers' compensation insurance fraud, grand theft, unemployment insurance fraud, and tax fraud. His associate has been charged with three felony counts of workers' compensation insurance fraud and one felony count of grand theft. This case is being prosecuted by the Kings County District Attorney's office and the defendants' next court appearance is scheduled for March 2025. Moreover, during the investigation, it was discovered the business owner had fraudulently obtained a COVID-19 Paycheck Protection Program loan. The Federal Bureau of Investigation led an investigation resulting in the business owner pleading guilty and was sentenced to one year in prison and is facing additional felony charges for his role in an earlier workers' compensation insurance fraud scheme.

## **Criminal Prosecutions**

JESF partners pursue criminal prosecution when individuals knowingly and willfully evade tax, labor, and licensing laws. Criminal conviction comes with the real possibility of jail time for the perpetrator as well as the requirement to pay restitution.

EDD's Tax Branch, the Investigation Division, and local District Attorneys' leverage resources, share best practices, and work together to combat the underground economy. The Investigation Division has a specialized law enforcement unit which investigates criminal violations of the California Unemployment Insurance Code, the Penal Code, and the United States Code for federal prosecution. They conduct criminal investigations involving employer collusion in the underground economy, failure to register and report wages paid to employees, and collaborate on workers' compensation insurance investigations. EDD works with prosecutors and local District Attorneys to convict individuals who commit employment tax fraud. The conviction itself and the collection of the tax liabilities play an integral part in deterring the underground economy.

## Criminal Tax Enforcement Results

Below are EDD Investigation Division's Criminal Tax Enforcement results for the last three years:

<b>Calendar Year</b>	<b>2022</b>		<b>2023</b>		<b>2024</b>	
Type of Action	# of Cases	Amount of Tax Liability	# of Cases	Amount of Tax Liability	# of Cases	Amount of Tax Liability
Cases Under Investigation	125	\$86,402,897	162	\$117,419,165	142	\$111,559,937
EDD Criminal Complaints Filed	5	\$853,631	7	\$608,331	5	\$16,328,440
EDD Criminal Prosecutions Completed	10	\$5,004,539	9	\$7,775,057	3	\$2,271,711

All Investigation Division case numbers are approximate due to the continued development of the case management system used to track the data.

## Criminal Restitution Cases

When a court orders restitution to EDD as part of the sentencing during criminal prosecutions, EDD monitors these cases to ensure that the restitution is made. The cases are also monitored by the Collection Division's Support Program until the convicted party is no longer on probation. If there is a restitution balance remaining at the end of probation, the case is transferred to Collection Division's Field Operations Program for collection action. The following table illustrates data for criminal restitution cases for the last three years:

<b>Calendar Year</b>	<b>2022</b>	<b>2023</b>	<b>2024<sup>3</sup></b>
Restitution Cases Monitored	88	89	47
Beginning Restitution Accounts Receivable	\$33,099,724	\$19,627,344	\$13,803,260
Restitution Amounts Ordered	\$5,602,628	\$2,918,372	\$1,064,230
Payments Received During the Year	\$2,949,223	\$2,803,446	\$1,630,580
Transfers <sup>4</sup>	\$16,125,785	\$5,939,010	\$2,310,667
Ending Restitution Accounts Receivable <sup>5</sup>	\$19,627,344	\$13,803,260	\$10,926,243

<sup>3</sup> In 2024, the Special Procedures Section (SPS) found discrepancies in the Restitution in the 2022 & 2023 inventories that required adjustments.

<sup>4</sup> Transfers are restitution collection cases transferred to the Collection Division Field Operations for collection action due to non-payment of restitution and expiration of probation. The dollar amount shown in the table above is the unpaid restitution liability only.

<sup>5</sup> Inventory at the end of the calendar year.

## **Recommendations for Statutory Changes**

No additional legislation is recommended at this time.

## **DESCRIPTIONS OF JOINT ENFORCEMENT STRIKE FORCE MEMBERS' PARTICIPATING ENTITIES**

**EDD – Tax Branch** works with employers to collect California's payroll taxes and data to support the employment security, child support, and personal income tax programs. The Tax Branch ensures the integrity of the employment tax program by collaborating with our customers to provide efficient, responsive, and innovative services. The Tax Branch is responsible for coordinating EDD's efforts at combating the underground economy and is also responsible for leading and coordinating the activities of the JESF.

**EDD – Investigation Division Criminal Tax Enforcement** conducts criminal investigations at the county, state, and federal levels and seeks prosecutions of employers who commit payroll tax fraud against EDD. Tax fraud includes an employer's failure to register with EDD as an employing unit, failure to report or underreport wages paid to employees, and failure to remit tax contributions to EDD. The Investigation Division also seeks restitution that includes recovery of benefit overpayments, tax liabilities, penalties, interest, and investigation costs.

**Department of Consumer Affairs** protects and serves California consumers and ensures a competitive and fair marketplace. The Department of Consumer Affairs helps consumers learn how to protect themselves from unscrupulous and unqualified individuals and protects professionals from unfair competition by identifying unlicensed practitioners.

**Department of Consumer Affairs – Contractors State License Board** protects consumers by licensing and regulating California's construction industry. In addition to consumer education on contractor and construction law, their activities includes administering prospective licensee examinations; issuing licenses; investigating complaints against licensed and unlicensed contractors; issuing citations; suspending or revoking licenses; and seeking administrative, criminal, and civil sanctions against violators. The Statewide Investigative Fraud Team is set up to monitor and combat illegal activity.

**Department of Consumer Affairs – Bureau of Automotive Repair** protects consumers through licensing and regulating the automotive repair and Smog Check industry. The Bureau of Automotive Repair investigates violations of the Automotive Repair Act and related laws and regulations governing automotive repair and the Smog Check Program. In addition, the Bureau of Automotive Repair mediates consumer complaints that arise from automotive repair and Smog Check service transactions, resulting in millions of dollars of rework, refunds, and adjustments for consumers each year.

**Department of Consumer Affairs – Bureau of Security and Investigative Services** protects consumers by licensing and regulating the following industries: alarm company operators and alarm company employees, locksmith companies and locksmith company employees, private investigators, private patrol operators and security guards, proprietary private security employers and officers, repossession agencies and repossession agency employees, and training facilities and training instructors. As part of its mission, the Bureau of Security and Investigative Services actively investigates complaints against its licensees and works to punish unlicensed business operations. This includes the suspension and revocation of licenses and seeking administrative, criminal, and civil sanctions against violators.

**Department of Industrial Relations – Division of Labor Standards Enforcement's, Bureau of Field Enforcement** is responsible for the investigation and enforcement of statutes covering workers' compensation insurance coverage, child labor, cash pay, unlicensed contractors, Industrial Welfare Commission orders, and group claims involving minimum wage and overtime claims. The Bureau of Field Enforcement also handles criminal investigations involving these group claims.

**Department of Industrial Relations – Division of Occupational Safety and Health Enforcement Branch**, has the power, jurisdiction, and supervision over every employment situation and place of employment in California, which is necessary to adequately enforce and administer all occupational safety and health standards and regulations. The Division of Occupational Safety and Health investigates and inspects California workplaces in response to a report of an industrial accident, injury, or illness, a complaint about an occupational safety and health hazard, or as part of an inspection program targeting industries, which have a high rate of occupational hazards, fatalities, injuries, or illnesses.

**California Department of Insurance** ensures that consumers are protected; the insurance marketplace is fostered to be vibrant and stable; the regulatory process is maintained as open and equitable; and the law is enforced fairly and impartially. The Fraud Division is charged with investigating insurance fraud, which includes the crimes of intentional misrepresentation of payroll and employee staffing to obtain lower rates for workers' compensation insurance. Studies suggest that the aggressive anti-fraud campaign by the California Department of Insurance, the district attorneys, the insurance industry, and California employers continue to play a substantial role in reducing crime and helping lower workers' compensation insurance premiums for employers statewide.

**Franchise Tax Board** administers the California Revenue and Taxation Code. Elected officials determine the tax policy for raising revenue. Under the direction of Franchise Tax Board's Chief Law Enforcement Officer, the Criminal Investigation Bureau enforces the criminal provisions of the Revenue and Taxation Code. The Criminal Investigation Bureau's principal mission is to identify, investigate, prosecute, and deter tax evasion and fraud, and encourage compliance with California income tax laws while maintaining the public's trust through publicity. Special agents with full peace officer powers

## ATTACHMENT A (Continued)

investigate alleged criminal violations of the Revenue and Taxation Code, principally income tax fraud and evasion, and assist in prosecuting non-compliant individuals. The special agents' efforts are supported by forensic auditors, collectors, analysts, and support staff. The Criminal Investigation Bureau also relies on a strong collaborative enterprise to accomplish their mission.

**California Department of Tax and Fee Administration** administers sales and use tax, special tax, and fee programs. These tax and fee programs were administered by the Board of Equalization prior to July 1, 2017. The California Department of Tax and Fee Administration's Investigations Division plans, organizes, directs, and oversees all criminal investigative activities for the various programs administered by the California Department of Tax and Fee Administration. Its goals are to identify tax evasion and new fraud schemes and actively investigate and assist in the prosecution of individuals who are violating the laws administered by the California Department of Tax and Fee Administration.

**Department of Justice – Attorney General** works to protect California's workers, legitimate businesses, and taxpayers through the Underground Economy Unit. The Underground Economy Unit brings civil and criminal actions against persons engaged in the underground economy. These enforcement efforts deter underground economy violations, recapture lost revenues and protect workers and legitimate businesses from illegal and predatory enterprises. The Underground Economy Unit has prosecuted cases involving wage, tax, and insurance issues, including the theft of wages, unpaid overtime, denial of breaks, payroll tax evasion, and misclassification of employees as independent contractors; patterns of safety violations leading to fatal workplace injuries; workers' compensation insurance premium fraud; and the illegal avoidance of workers' compensation coverage for employees.

**California Department of Alcoholic Beverage Control's** agents are empowered to investigate and make arrests for violations of the California Business and Professions Code that occur on or about licensed premises. Agents are further empowered to enforce any penal provisions of the law in the state. Licensees who violate state laws or local ordinances are subject to disciplinary action and may have their licenses suspended or revoked.

**U.S. Department of Labor's** mission is to foster, promote, and develop the welfare of the wage earners, job seekers, and retirees of the United States; improve working conditions; advance opportunities for profitable employment; and assure work-related benefits and rights. The Fair Labor Standards Act prescribes standards for wages and overtime pay, which affect most private and public employment. The act is administered by the Wage and Hour Division. It requires employers to pay covered employees who are not otherwise exempt, at least the federal minimum wage and overtime pay of one and one-half times the regular rate of pay. It restricts the hours that children under age 16 can work and forbids the employment of children under age 18 in certain jobs deemed too dangerous. The Wage and Hour Division also enforces the labor standards provisions of the Immigration and Nationality Act that apply to aliens authorized to work

ATTACHMENT A (Continued)

in the United States under certain non-immigrant visa programs (H-1B, H-1B1, H-1C, H2A).

**Internal Revenue Service** is to provide America's taxpayers quality service by helping them understand and meet their tax responsibilities and enforce the law with integrity and fairness. The IRS provides EDD with leads that are used for various JESF activities, including investigating employers with unreported wages and/or misclassified workers.

## ATTACHMENT B

### ACRONYMS

ABC	California Department of Alcoholic Beverage Control
BAR	(DCA) Bureau of Automotive Repair
Cal/OSHA	(DIR) Division of Occupational Safety and Health
CDI	California Department of Insurance
CDTFA	California Department of Tax and Fee Administration
CSLB	(DCA) Contractors State License Board
DCA	Department of Consumer Affairs
DCC	Department of Cannabis Control
DIR	Department of Industrial Relations
DLSE	(DIR) Division of Labor Standards Enforcement
DOJ	(California) Department of Justice
DOL	U.S. Department of Labor
EDD	Employment Development Department
FLC	Farm Labor Contractor
FTB	Franchise Tax Board
IRS	Internal Revenue Service
JESF	Joint Enforcement Strike Force
QETP	Questionable Employment Tax Practices
UCETF	Unified Cannabis Enforcement Taskforce



**STATE OF CALIFORNIA**

**LABOR AND WORKFORCE DEVELOPMENT AGENCY**

**EMPLOYMENT DEVELOPMENT DEPARTMENT**

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