



Misclassification fraud impact report

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Misclassification fraud impact report statute

Minnesota Statutes section 181.725, subdivision 4b: “The commissioners of revenue, employment and economic development, and labor and industry must coordinate to conduct an analysis of the costs of misclassification to illustrate how misclassification impacts misclassified workers, government programs, and tax collections ... [the] report must provide:

- (1) an estimate of the number of workers experiencing misclassification in Minnesota;
- (2) an estimate of the cost of misclassification to impacted workers;
- (3) an estimate of the prevalence of misclassification by industry; and
- (4) an estimate of the impact to:
 - (i) the unemployment insurance trust fund;
 - (ii) the family and medical benefit insurance account;
 - (iii) state income tax collection;
 - (iv) the workers’ compensation fund; and
 - (v) the workforce development fund.”

Misclassification fraud impact report deadline

Report deadline

- The report deadline is Jan. 15, 2027, and every six years thereafter, subject to available appropriations.

Report replicability

- We are thoroughly documenting the process for this initial report to ensure it is replicable in the future.
- Our methodology on the initial study takes into account feasibility for future replication.
- The aggressive timeline of the first report may not allow for all components, but we will have a documented process for future studies (for example, a survey to estimate misclassification in the cash economy).

Request for proposals

- Two-tier professional or technical request for proposals including an interview and reference requirement
- Posted Aug. 20; proposals were due Sept. 17
- Four proposals received; two top-scoring proposals invited for one-hour interviews
- Key consideration was demonstrated experience with research on this topic
 - Work plan, proposed methodology, qualifications, experience, work sample and cost
- All applicants were notified of decision Oct. 10
- Contract fully executed Nov. 14 and work began in earnest immediately

Research methodology

Publicly available data

Contrast how many people say they work in an industry or occupation with how many are in employer payroll data.

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

Legitimate independent contractors accounted for by comparing those who say they are self-employed in federal surveys with those in *Nonemployer Statistics*.

The remaining gap is the share of workers who are misclassified or paid “off-the-books.”

Limitation: Indirect method, does not directly ask workers about their status, cannot distinguish between misclassified and off-the-books, and may undercount true rates of illegal employment.

Randomized audits of UI data

Involves using unemployment insurance (UI) audit data from the Department of Employment and Economic Development (DEED)

Goal: To estimate the prevalence of misclassification among employers that treat at least one worker as an employee

Model: 2024 Office of the Legislative Auditor (OLA) report

Limitation: Leaves out two key sources of misclassification fraud

- Off-the-books workers (paid under the table in cash, absent from payrolls)
- Employers that treat **all** of their workers as independent contractors (and, therefore, did not submit anything for UI)

Targeted audits of tax filings

Involves using tax filing data from the Department of Revenue (DOR)

Goal: To estimate prevalence of misclassification among employers that classify **all** of their workers as independent contractors

Advantage: Audit of all tax filings not necessary; just this smaller group

Limitation: DEED and DOR data does **not** capture off-the-books workers

- If not addressed, leads to significant underestimates of the extent of payroll fraud

Qualitative research

Goals

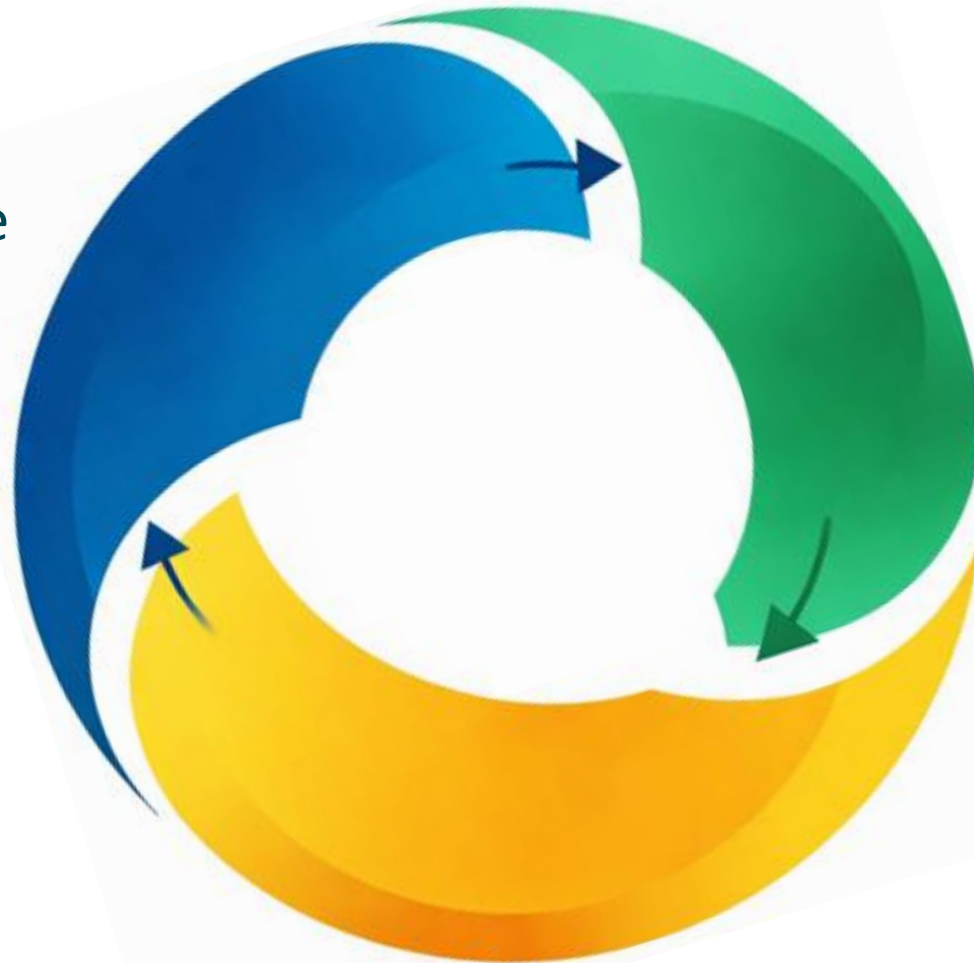
- Highlight the lived experience of misclassification
- Illuminate the mechanics of misclassification
- Explain the business dynamics driving misclassification
- Identify gaps in policy to inform recommendations

Methods

- Conduct new semi-structured interviews
 - Misclassified workers
 - Compliant employers
 - Community partners
 - State staff members working on misclassification
- Review existing qualitative data
 - Testimony (legislative hearings, attorney general taskforce)
 - State case files

Bringing it all together

Publicly available data
Strength: Large coverage



State data
Strength: Direct measures

Qualitative data
Strength: Centers human impact

Timeline

Winter 2026	Literature review, methodology, overview of state programs
Spring 2026	Data collection – public, state, interviews
Summer 2026	Data analysis, synthesize results
Fall 2026	Compile, review and finalize report Document methodology sufficient for future replication
Jan. 15, 2027	Legislative deadline
Winter 2027	Presentations, as requested

Thank you!

For questions or follow up about the study, please reach out.

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