

EMPLOYMENT DEVELOPMENT DEPARTMENT UNDERGROUND ECONOMY OPERATIONS

Background

The underground economy imposes significant burdens on the State of California, on businesses that comply with the law, and on workers who lose benefits and other protections provided by State law. The ultimate impact of the underground economy is erosion of the economic stability and working conditions in this State.

Businesses operating in the underground economy gain an unfair competitive advantage over businesses that comply with the law. Employees of the businesses that do not comply are also impacted. Their working conditions may not meet legal requirements, which can put them in danger. Their wages may be less than required by law and benefits could be denied or delayed because their wages are not properly reported.

Consumers can also be affected by businesses operating in the underground economy as oftentimes these businesses don't comply with State licensing provisions which are designed to ensure levels of skill and knowledge to protect the consumer.

Underground Economy Operations

In 1993, the Employment Development Department (EDD) formed the Underground Economy Operations (UEO). The UEO enforcement efforts are a strategic blend of education, partnerships, and investigative activities. The UEO staff make presentations to employer groups, trade associations, labor organizations, government agencies, and others to discuss the impact the underground economy has on tax revenues, law abiding businesses, and employees. To maximize resources and increase overall program efficiency, UEO has developed partnerships with various federal, State, and local agencies, as well as trade and labor organizations to work collaboratively to identify underground economy activity and to take appropriate enforcement action.

Joint Enforcement Strike Force

Also in 1993, the Joint Enforcement Strike Force (JESF) was established by Executive Order. The JESF was later enacted into law by addition of Section 329 of the

California Unemployment Insurance Code (CUIC). The purpose of the JESF is to develop and share information necessary to combat the underground economy; to improve the coordination of enforcement activities; and to develop methods to pool, focus, and target the enforcement resources of all JESF members in support of the enforcement activities of individual agencies. Members of the JESF include EDD, Department of Industrial Relations (DIR), Department of Consumer Affairs (DCA), and the Department of Insurance. Other agencies such as the Franchise Tax Board and the Board of Equalization also participate. The EDD was designated as the lead agency for the JESF. The JESF is empowered to form joint enforcement teams to utilize the collective investigative and enforcement capabilities of the participating members. Through the formation of JESF, a joint agency operation called the Employment Enforcement Task Force was created.

Employment Enforcement Task Force (EETF)

The EETF is the first joint enforcement project created by the JESF. Participating agencies include EDD and DIR with strong support from the Contractors' State License Board and the Bureau of Automotive Repair within DCA. The EETF agents from participating agencies jointly conduct on-site investigations of businesses by interviewing owners, managers, and workers to determine if businesses are in compliance with payroll tax, labor, and licensing laws. To minimize the disruption of compliant businesses, EETF conducts investigations only if there is reasonable belief that there are violations of the CUIC, Labor Code, and/or the Business and Professions Code.

The EETF has focused on numerous industries over time including construction, automotive repair, garment manufacturing, bars, restaurants, nightclubs, furniture manufacturers, adult entertainment establishments, bakeries, produce markets, car washes, pallet repair businesses, cabinet manufacturers, as well as janitorial and building maintenance providers. Although EETF focuses on industries known to have a high degree of noncompliance, investigations of businesses not included in the target groups are also investigated when underground economy activity is suspected.

Economic and Employment Enforcement Coalition (EEEC)

The EEEEC was created as a multi-agency enforcement program consisting of investigators from EDD, DIR (Division of Labor Standards Enforcement and Cal/OSHA), Contractors' State License Board, and the U.S. Department of Labor. The EEEEC partnering agencies conduct field compliance inspections on targeted industries within designated geographic areas to determine the existence of noncompliance and/or underground economy activities.

Tax Enforcement Group

The EDD's UEO Tax Enforcement staff conduct investigations in situations where traditional on-site investigations are not practical or effective in detecting employment tax evasion. Staff utilize techniques such as revenue-to-labor ratios typical for certain industries, various internal and external database analysis, income tax return analysis, discussions with workers, and other techniques to determine the existence of noncompliance and underground economy activities.

Summary

The EDD's UEO program, in collaboration with its partners, has had a significant impact on the

underground economy in California as it relates to employment, employee safety, and labor laws. These efforts send a strong message to the employer community on the financial risks of participating in the underground economy and aid in supporting fair competition for employers within this State.

For More Information

If you would like additional information regarding this program or to report suspected underground economy activity, please contact EDD's Underground Economy Operations at (916) 227-2730 or toll free at (800) 528-1783, or visit our Web site at www.edd.ca.gov/Payroll_Taxes/Underground_Economy_Operations.htm. You may also e-mail information to [UEO at ued@edd.ca.gov](mailto:UEO@uedd.ca.gov), send a FAX to (916) 227-2772, or mail to:

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Underground Economy Operations
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