



MARYLAND STATE & D.C. AFL-CIO

AFFILIATED WITH NATIONAL AFL-CIO

7 School Street • Annapolis, Maryland 21401-2096

Balto. (410) 269-1940 • Fax (410) 280-2956

President

Donna S. Edwards

Secretary-Treasurer

Gerald W. Jackson

**SB 436 - Workplace Fraud and Prevailing Wage - Violations - Penalties and Referrals
Senate Finance Committee
February 15, 2024**

SUPPORT

**Donna S. Edwards
President**

Maryland State and DC AFL-CIO

Madame Chair and members of the Committee, thank you for the opportunity to provide testimony in support of SB 436. My name is Donna S. Edwards, and I am the President of the Maryland State and DC AFL-CIO. On behalf of the 300,000 union members in the state of Maryland, I offer the following comments.

Worker misclassification is a crime. It is fraud. By illegally classifying workers as independent contractors, employers cheat the federal, state, and local governments of taxes and revenues. SB 436 imposes real penalties by labeling workplace fraud as a misdemeanor, subject to \$5,000 and potentially 60 days imprisonment for each violation. By requiring the Commissioner of Labor and Industry to refer clear and convincing evidence of workplace fraud violations to the Comptroller, the state can seek to reclaim the money that it is owed.

Wage theft is the largest form of theft in this country.¹ The Northwestern Institute for Policy Research found that stricter state laws lead to less wage theft, even when controlling for demographic, economic, and political factors.² The same study found that victims of wage theft were disproportionately, “low-wage workers, especially women, minorities, non-U.S. citizens, and nonunion workers.” One study found that Minnesota, a state with a comparable population size to Maryland, lost, “\$136 million in state tax revenues due to construction payroll fraud— including \$65 million in income taxes, \$13 million in unemployment insurance contributions, and \$58 million in workers’ compensation premiums.”³

Wage theft and misclassification robs our state unemployment and workers compensation systems. Current state penalties fail to dissuade some contractors from committing wage theft and misclassification. With only 15 wage and hour enforcement officials for the entire state, unscrupulous companies can price in the cost and risk of current penalties if they are caught and still continue with

¹ Brady Meixell and Ross Eisenbrey. “Wage Theft is a Much Bigger Problem Than Other Forms of Theft—But Workers Remain Mostly Unprotected.” Economic Policy Institute.

² Daniel Galvin, “Policies to Protect Workers from Wage Theft.” Northwestern Institute for Policy Research. Policy Research Brief: July 2017.

³ Nathaniel Goodell and Frank Manzo IV. “The Costs of Wage Theft and Payroll Fraud in the Construction Industries of Wisconsin, Minnesota, and Illinois.” Midwest Economic Policy Institute. January 2021.

their wage theft practices.⁴ This is workplace fraud and the state must intervene to allow contractors that play by the rules to have a fair and equitable business environment.

Failing to treat wage theft for the crime that it is, with stiff financial penalties and even threats of imprisonment, continues to reward unscrupulous businesses at the cost of good businesses and workers. We urge a favorable report for SB 436.

⁴ CBS News, Maryland workers say they're owed millions in unpaid overtime and benefits as WJZ investigates wage theft." January 25, 2023.