



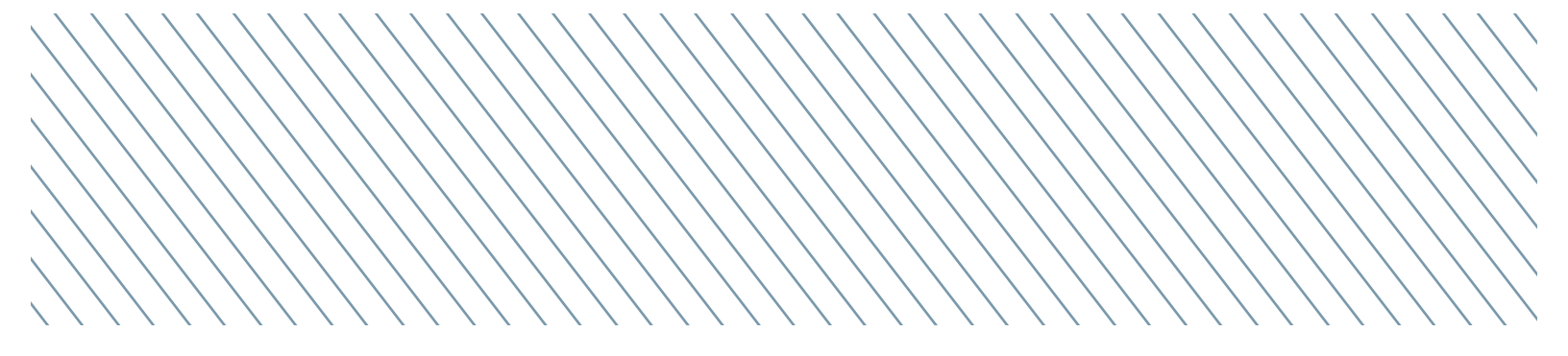
NEBRASKA EMPLOYEE CLASSIFICATION ACT **ANNUAL REPORT**

JULY 1, 2012 –
JUNE 30, 2013



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I. Background and Purpose

The Nebraska Department of Labor's (NDOL) Contractor Registration/Employee Classification Unit staff and Unemployment Insurance (UI) Tax field representatives educate businesses and workers about the dangers of misclassification and take appropriate enforcement action to protect Nebraska's workers and law-abiding businesses. Our Contractor Registration and investigative programs determine if workers are being appropriately classified as "employees" or "independent contractors." We make referrals to Nebraska Department of Revenue (NDOR), Workers Compensation Court (WCC), and appropriate prosecuting authority; the outcome of such referrals ensure the collection of required taxes, interest and penalties, and afford employees the protections of law.

NDOL has longstanding corrective practices and regularly assesses misclassification initiatives. The federal government's emphasis on employee misclassification prevention is underscored by new audit measures outlined in the Unemployment Insurance Program Letter (UIPL) 30-10 from the United States Department of Labor (USDOL), requiring state unemployment insurance agencies to align federal and state practices by conducting audit and investigative programs to detect employers that mis-classify or fail to properly report compensation to workers with the effect of excluding employees from protections of law. NDOL efforts enforce and deter labor violations that result in the misclassification of employees as "independent contractors." Investigations are particularly directed at industries that have higher rates of violations, such as construction, child care, home health care, grocery stores, janitorial, business services, poultry and meat processing, and landscaping.

To determine proper classification of workers as an employee or independent contractor, the Internal Revenue Service (IRS) and state tax agencies apply common law criteria and controlling state statute to examine the degree of control a company has over that worker. Proper classification entitles "employees" to the protections of wage and hour laws, employment discrimination laws, and unemployment and worker's compensation insurance. The focus on proper classification is also recognized as a revenue-generating measure for federal and state governments. Employers who abide by the law and report quarterly wages and pay unemployment insurance and other taxes owed are put at a competitive tax disadvantage by employers who mis-classify workers as "independent contractors."

Misclassification investigations are conducted within two program areas in NDOL:

1. The Employee Classification Unit within the Contractor Registration (CR) Program conducts investigations on reported violations derived from the hotline, website, random work site visits, and tips received as a result of investigative inquiries.
2. The UI Tax program Field Representatives conduct employer wage verification audits. Data from the 1099 extract files for targeted industries identifies potential employers for misclassification audit purposes.

MISCLASSIFICATION INVESTIGATIVE PROGRAMS:

The purpose of misclassification investigative programs is to determine if workers are being appropriately classified as “employees” or “independent contractors,” and if there are related tax obligations. Proper classification also affords employees the protections of law. NDOL investigates misclassification in two program areas – CR and UI Tax.

1. Eighteen UI Tax field representatives conduct employer audits utilizing a web-based audit process that loads 1099 extract information into an audit application. The 1099 data identifies employers who issued between one and 50 1099s. Data can be refined to identify specific trades within North American Industry Classification System (NAICS) codes. Particular emphasis is placed on industries that have high employee misclassification violation rates, such as transportation and construction trades.

The UI Tax division also investigates UI benefit claims that lack wage credits as a means of identifying misclassified workers.

2. The Employee Classification Unit in the CR program investigates possible ECA violations. A misclassification investigation is initiated when workers, businesses, or government agencies provide tips, referrals, or leads. The Employee Classification Unit creates and assigns a file for every valid tip, referral, and lead received. Assigned files are not prioritized and their completion depends upon the complexity of the issues, the level of evidence gathered, and the cooperation of the worker and employer. The investigative determination is based on all available evidence. The employer ultimately receives a determination letter in the mail advising them if workers have been misclassified and if any unemployment insurance taxes, related penalties and interest are owed.

NDOL receives tips, referrals, or leads through the online application on the website, hotline, and as a result of general telephone or walk-in inquiries regarding the law. We also conduct employer and worker interviews during random work site visits.

II. ACCOMPLISHMENTS

The success of proper employee classification is grounded in the careful, detailed investigation and audit process of the Contractor Registration/Classification Unit and UI Tax field representative staff. The investigators are thorough in their observations at the work site, including their interviews with workers and management. Field representatives are diligent in their review of often voluminous and complex financial records. The goal is to gather evidence from all interested parties to ensure a complete picture of the business operation and relationships between the employer and workers.

OUTREACH AND EDUCATION:

Through the ECA, CR and UI Tax programs, NDOL staff conduct field audits, random work site visits and interviews, and provide educational information on ECA and the penalty for violation to employers and workers. Informational materials have been developed and distributed statewide.

WEBSITE AND HOTLINE:

The ECA requires NDOL to maintain a website providing general information regarding ECA, narrative of the law, links to required postings (English and Spanish versions), and the ECA Report Form, allowing for the confidential reporting of suspected violations of employee classification. The website was implemented in July 2010 and is located on the NDOL website at

<http://www.dol.nebraska.gov/center.cfm?PRICAT=3&SUBCAT=5M>. The website provides staff contact information to allow employers and workers direct access to Contractor Registration and Classification Unit program staff. A 1-800 Hotline was established to allow for reporting suspected violations of the ECA. The website features links to sources of information regarding worker misclassification, including contractor registration, the WCC, NDOR, and the IRS (SS-8 Determination of Status Form).

BROCHURES AND NOTICES:

More than 5,000 Contractor Registration/Employee Classification Act brochures were distributed statewide. The brochures include:

- Basic information on contractor registration
- Instructions for reporting suspected violations of the ECA
- UI and IRS contact information

The Employee Classification Act Notice is required to be posted at all job sites. More than 10,000 notices, in English and Spanish, have been distributed to date. All brochures and notices are available online at <http://www.dol.nebraska.gov/center.cfm?PRICAT=3&SUBCAT=5M> and have been provided to employers and workers at six presentations and 415 onsite inspections this past year.

THE EMPLOYEE CLASSIFICATION ACT REPORT FORM:

The ECA Report Form allows individuals to report suspected misclassification violations. The individual or entity completing the form may remain anonymous. The form requires the reporting individual to provide contact information, a description of the suspected violation, the name of the business and job site location. The form is located at <http://www.dol.nebraska.gov/center.cfm?PRICAT=3&SUBCAT=5M>.

EMPLOYEE CLASSIFICATION / CONTRACTOR REGISTRATION UNIT:

Each Contractor Registration/ Employee Classification investigator is required to perform a minimum of 100 on-site inspections annually. Contractor registration investigators conducted 415 on-site construction inspections and 501 business visits in FY 2012-2013. They also conducted interviews with 535 walk-in customers regarding the law. Each work site was checked and employers and workers were interviewed for possible misclassification violations. Many times employers found to be misclassifying workers provide the names of other employers who are engaged in the same illegal practice. Tips also come from businesses that are underbid by competitors whom they suspect of being engaged in misclassification.

The Employee Classification / Contractor Registration Units yielded 36 misclassification inquiries through the online ECA application process and another 41 from the Minimum Wage Complaint Form. Nebraska's CRA requires that eligible contractors provide proof of workers' compensation insurance and provide a valid unemployment insurance tax ID number when they register or renew.

Each registration or renewal is checked for compliance with unemployment insurance tax law. Staff works with the new employer to educate them about correct wage reporting, payment of unemployment insurance taxes, and proper employee classification. This activity puts the employer on the right path from the start and discourages improper classification of employees.

Since January 1, 2010 ECA/CRA staff worked with 370 contractors to bring them into compliance with the Nebraska Employee Classification and Contractor Registration Acts, unemployment insurance and workers' compensation. These contractors were found to have employees through their contractor registrations, while not reporting any employees to unemployment insurance. These contractors are now reporting more than 1,000 employees and paying unemployment taxes not being paid previously. These contractors all now have valid workers' compensation coverage on their workers, which was not provided before. In addition, \$442.23 in interest and \$455.61 in penalties was assessed and collected from these contractors.

Quarter	# of Contractors	# of Employees Reported to CRA	# of Employees Reported to UI	UI Tax Paid
1 st Q 2010	13	21	30	\$15,421.64
2 nd Q 2010	7	39	14	\$12,626.77
3 rd Q 2010	5	7	6	\$9,120.79
4 th Q 2010	9	20	17	\$10,142.22
1 st Q 2011	6	66	12	\$31,608.70
2 nd Q 2011	7	13	13	\$15,341.74
3 rd Q 2011	15	112	66	\$64,071.83
4 th Q 2011	16	79	34	\$37,888.75
1 st Q 2012	23	253	147	\$64,466.14
2 nd Q 2012	38	106	58	\$37,999.38
3 rd Q 2012	21	556	51	\$15,714.62
4 th Q 2012	12	39	17	\$5,219.86
1 st Q 2013	48	63	141	\$48,127.26
2 nd Q 2013	47	649	134	\$45,175.35
3 rd Q 2013	14	56	41	\$9,353.57
4 th Q 2013	86	1,323	225	\$40,297.68
Total:	367	3,402	1,006	\$463,581.72

A total of six presentations have been given during FY 2012-2013, with up to 25 participants at each event. Participants include construction contractors, UNL and Metro Community College construction management students, accountants, payroll processors, human resource professionals, attorneys, and employers and workers in various industries and organizations. Outreach is a shared venture with the NDOR. Presentations focus on emphasizing the fact that it is a violation of the ECA to designate an individual as an independent contractor who would be properly classified as an employee. Fines and penalties are reviewed. Each presentation encourages questions and includes how to confidentially report suspected misclassification.

For the reporting period of July 1, 2012 through June 30, 2013, the Contractor Registration/Employee Classification Unit received 77 online misclassification complaints resulting in 57 inquiries. Staff received nearly 720 telephone inquiries regarding the law. Investigators within the Contractor Registration/Employee Classification Unit created 40 leads from random work site visits resulting in an additional 31 inquiries. There are currently 68 open investigations including 42 cases with hearings/citations pending. The 42 cases pending citation involved 268 total individuals, 134 of which were found to be legitimate contractors and 148 who were determined to be employed in violation of the Act.

Approximately 36 reports of possible misclassification were received in 2013 that did not fall under the legal requirements of the ECA.

All misclassification reports were forwarded to the NDOL UI Tax Division and the NDOR, and all closed files to the WCC.

The Contractor Registration/Employee Classification Unit received 14 referrals from the NDOL UI Tax field representatives.

During the reporting period, 10 cases were set for hearings. Eight contractors, involving 154 violations and \$18,000 in penalties have either settled, paid their citations or are in settlement negotiations at this time. Two cases have hearings scheduled. Five additional cases were resolved without hearings or penalties. An additional 30 investigations have been completed and added to the schedule for hearings.

During the reporting period, 78 (\$500) and three (\$5,000) Contractor Registration citations were issued. Eight were paid in full (\$8,500), 13 were paid at reduced rates (\$6,300), eight were withdrawn, and 49 are pending further collection action. Two appeals were filed on the citations issued.

UNEMPLOYMENT TAX FIELD REPRESENTATIVE AUDIT PROGRAM:

The field tax representatives in NDOL's UI Tax division provide education and services to more than 57,920 employers who report wages quarterly and pay related unemployment insurance taxes. Field representatives also work with new employers to ensure they get unemployment insurance accounts set up correctly when they start a business and understand their quarterly reporting and unemployment insurance tax payment obligations. The correct classification of workers is discussed with employers when the new unemployment accounts are set up. Similarly, if an employer attempts to inactivate their unemployment account, field representatives ask the necessary questions to determine if the employer downsized their business or is attempting to mis-classify workers as independent contractors.

In addition, field representatives also assist contractors who are registering for a contractor registration certificate, taking the time during the application process to educate employers on the differences between an independent contractor and an employee.

The UI Tax field representatives conduct two kinds of audits that may lead to discovery of misclassification – “1099 extract audits” and “obstructed claim investigations.” The “1099 extract audits” target employers who are registered in the unemployment insurance system but also issue 1099s. “Obstructed claim investigations” occur when a worker files for unemployment benefits and it is discovered the worker’s alleged employer did not report wages and pay corresponding unemployment taxes related to the worker, and other workers in the same classification, because he or she was an alleged “independent contractor.”

From July 1, 2012 – June 30, 2013, UI Tax field representatives completed 1142 audits and missing wage investigations. Of those, 1067 field audits targeted high violation industries identified in the 1099 data extract file as described above, resulting in 1365 misclassified workers and additional tax collections of \$94,421.01.

The table below shows quarterly audit results from 1099 extracts from July 1, 2012 – June 30, 2013:

Reporting Period 7-1-12 to 6-30-13	# of Audits from 1099s	Misclassified Workers	Additional Tax Collected
3 rd Q 2012	222	302	\$20,264.30
4 th Q 2012	165	261	\$10,599.78
1 st Q 2013	217	286	\$12,575.91
2 nd Q 2013	363	516	\$50,981.02
Total:	1067	1365	\$94,421.01

Numbers are consistent with previous reporting periods. See next page for historical data.

Regarding obstructed claim investigations (UI benefit claims that have no wage credits), UI Tax field representatives identified 214 misclassified workers, resulting in \$21,569 in tax collections.

The UI Tax collections unit works with employers to collect the unpaid taxes and sets up payment plans as appropriate.

AUDIT ACTIVITY 2003 - 2013

Quarter/Year	# of Audits From 1099's	# Of Workers Misclassified	Additional Tax Collected
3-Apr	25	45	\$1,727.29
4-Jan	111	95	\$7,210.55
4-Feb	39	15	\$2,495.20
4-Mar	347	15	\$1,634.55
4-Apr	125	155	\$9,136.74
5-Jan	102	134	\$3,271.51
5-Feb	9	39	\$286.92
5-Mar	57	115	\$1,169.12
5-Apr	67	90	\$3,666.00
6-Jan	184	177	\$11,701.64
6-Feb	23	58	\$2,227.16
6-Mar	51	41	\$1,421.30
6-Apr	64	31	\$2,198.02
7-Jan	162	76	\$8,006.03
7-Feb	75	160	\$2,538.08
7-Mar	37	31	\$396.66
7-Apr	115	98	\$9,065.08
8-Jan	146	125	\$11,951.93
8-Feb	75	84	\$2,729.65
8-Mar	66	114	\$1,752.41
8-Apr	137	75	\$3,456.45
9-Jan	157	206	\$10,160.91
9-Feb	93	74	\$3,019.88
9-Mar	46	228	\$4,886.67
9-Apr	122	252	\$10,169.65
10-Jan	53	110	\$4,449.21
10-Feb	77	95	\$4,904.16
10-Mar	62	94	\$5,440.58
10-Apr	129	227	\$7,233.67
11-Jan	231	473	\$17,649.00
11-Feb	247	245	\$12,235.99
11-Mar	223	299	\$13,278.09
11-Apr	23	10	\$707.88
12-Jan	222	311	\$16,423.54
12-Feb	259	327	\$14,416.57
12-Mar	222	302	\$20,264.30
12-Apr	265	261	\$10,599.78
13-Jan	217	286	\$12,575.91
13-Feb	363	516	\$50,981.02
Totals	5,028	6,089	\$307,439.10

III. COLLABORATION WITH STATE AND FEDERAL AGENCIES

The Contractor Registration/Employee Classification Unit staff works cooperatively with other agencies/divisions, including the NDOL UI Tax Division, NDOR and WCC, Homeland Security, and Occupational Safety and Health (OSHA). Staff has also on occasion collaborated with the Iowa Department of Labor's Misclassification Unit, and USDOL.

NEBRASKA DEPARTMENT OF LABOR – CONTRACTOR REGISTRATION:

Nebraska law requires that all contractors seeking registration with NDOL provide proof of workers' compensation insurance, if they have employees. Employers are also asked to provide their valid unemployment tax ID at the time of registration. A \$40 fee must be submitted with the contractor registration application, unless the contractor meets fee exemption requirements. There are 15,322 registered contractors in our database, more than 3,200 of which are claiming to be fee exempt with "0" employees.

Contractor Registration/Employee Classification Unit staff and UI Tax field representatives play a critical role in processing contractor registration applications by reviewing the submitted applications to determine if the contractor is obligated to report quarterly wages and pay unemployment taxes. The purpose is to inform all contractors of wage reporting and unemployment tax obligations up front.

NEBRASKA WORKERS' COMPENSATION COURT:

NDOL Contractor Registration/Employee Classification Unit and UI field representatives provide the WCC with information about employers who have been found to have engaged in misclassification. The WCC reviews the information and takes appropriate steps to determine if the employer is providing workers' compensation coverage as required under Nebraska law. The WCC report is attached as Addendum I.

NEBRASKA DEPARTMENT OF REVENUE:

After NDOL has completed misclassification investigations, audits, and findings, cases are referred to the NDOR and WCC for investigation and collection of any income tax not withheld plus interest and penalties. Referrals of violations reasonably believed to be civil or criminal of the Employment Security Law, The Nebraska Revenue Act of 1967, and the Nebraska Workers' Compensation Act, or another law, are made to the appropriate prosecuting authority for appropriate action. Similarly, those entities share information with NDOL. NDOL has an agreement with the IRS that allows for the transfer of 1099 data related to misclassification. The NDOR report is attached as Addendum II.

INTERNAL REVENUE SERVICE:

The UI Tax division has a Questionable Employment Tax Practices (QETP) agreement in place with the IRS that allows for data-sharing of misclassification cases. The agreement allows NDOL to receive copies of IRS audit findings of Nebraska businesses that reflect potential misclassification of workers for state unemployment tax purposes. Each quarter, NDOL submits QETP data back to the IRS reporting on all audits that were generated by the 1099 extract program, the results of the audits, and the number of misclassified workers that were reclassified as employees.

Addendum 1: Nebraska Workers' Compensation Court: Nebraska Employee Classification Act

INTRODUCTION

LB 563 from the 2010 session of the Nebraska Legislature provides that the Commissioner of Labor shall share any violations of the Employee Classification Act with the Nebraska Workers' Compensation Court. The compensation court shall then refer any such violation reasonably believed to be a violation of the Nebraska Workers' Compensation Act to the appropriate prosecuting authority for appropriate action. (See LB 563, Sec. 8, which is codified at Neb. Rev. Stat. §48-2908.)

The Department of Labor shall also provide an annual report to the Legislature regarding compliance with and enforcement of the Act, to include the number of referrals to the compensation court, and the appropriate prosecuting authority, and the outcome of such referrals. (See LB 563, Sec. 9, which is codified at Neb. Rev. Stat. §48-2909.)

In order to explain the outcome of referrals from the commissioner to the compensation court it is first necessary to understand the role of the court with regard to misrepresentation issues.

BACKGROUND

Under section 48-145 of the Nebraska Workers' Compensation Act most employers are required to provide workers' compensation insurance coverage for their employees. Independent contractors are not entitled to benefits under the Act, and in a disputed case a judge of the court will decide the status of a worker as an employee or independent contractor. This decision is based on factors established by Nebraska appellate case law, as there are no statutory criteria under the Workers' Compensation Act governing what constitutes an employee versus an independent contractor.

If a worker is ultimately determined to be an employee rather than an independent contractor, the employer or its workers' compensation insurer is obligated to provide benefits under the Workers' Compensation Act. This is true regardless of whether the worker was initially classified as an independent contractor, and regardless of whether an insurance premium was collected for coverage of the worker. (It is our understanding that the insurer will typically go back and collect the additional premium retroactively.)

Therefore, the primary concern of the Workers' Compensation Court is whether insurance coverage is in place for the employer. Misclassification itself is not a violation of the Workers' Compensation Act. Section 48-145.01 provides for injunctions, fines, and criminal penalties for failure to provide coverage, and the Attorney General is charged with representing the state in any action pursuant to that section.

Section 48-145.02 also allows the court to administratively require information from an employer regarding its employees and the nature of their work, the identity of its workers' compensation insurer, and information on its workers' compensation insurance policy.

Given this authority, the court has assigned administrative staff to investigate inquiries and complaints regarding lack of coverage. Such reports come from a variety of sources, including workers, attorneys, competitors, and state agencies. The staff also monitors all new corporation filings with the Secretary of State to insure that necessary coverage is in place, and reviews reports of cancellation or non-renewal of existing policies to verify that coverage is no longer required. Because the concern is with coverage, the cases investigated by the court staff may or may not involve a misclassification issue, and may or may not involve a contractor or delivery service.

Investigation by the staff ends if coverage is found to be in place, even though there may still be workers who are classified as independent contractors who could ultimately be determined to be employees. If no coverage is in place, a decision is made regarding whether the case should be referred to the Attorney General. If a case is referred to the Attorney General, that office will make its own determination as to whether to seek an injunction, monetary fines, or criminal penalties under section 48-145.01.

OUTCOME OF NDOL REFERRALS

The court has received one referral from the Department of Labor since the last report. An investigation of the employer revealed that the employer did have workers' compensation insurance coverage.

Additionally, for calendar year 2013, the court has, on its own, conducted an investigation of 19 employers involving independent contractor issues. Here is the status of those 19 cases:

- Seventeen appeared to be an appropriate use of independent contractors.
- Two remain open pending a final determination.

The court did provide education regarding independent contractor issues with each employer that was contacted.

Lastly, for calendar year 2013 the court has referred 32 employers to the Attorney General's office after a court investigation determined there was an apparent need for workers' compensation coverage. A majority of the cases referred to the Attorney General's office are still pending resolution.

Addendum 2: Nebraska Department of Revenue Report: Nebraska Employee Classification Act

SUMMARY

For the reporting period of July 1, 2012 – June 30, 2013, the Nebraska Department of Revenue (NDOR) received 341 misclassification referrals from NDOL. The referrals included both businesses and misclassified employees. The average business referral included only one to three misclassified employees, which resulted in a minimal income tax withholding liability of less than \$100 per employee. In addition, the average employee referral resulted in a minimal income tax liability of less than \$25, which, in most cases, had either been reported by the misclassified employee before the investigation by NDOL, or reported immediately thereafter. As of October 31, 2013, NDOR has completed 35 examinations of businesses and the employees associated with those businesses; the examinations resulted in total income tax collections of \$22,697.

The referrals suggest a limited compliance issue for purposes of state income tax, and the staff allocated to the project would be better utilized in other compliance programs with demonstrated higher rates of non-compliance and potential for more tax collection.

NEBRASKA INCOME TAX WITHHOLDING REQUIREMENTS

Neb. Rev. Stat. § 77-2753 requires every employer making payment of any taxable wages under the Nebraska Revenue Act of 1967, and subject to withholding under the Internal Revenue Code, to withhold from these wages the amount of individual income tax reasonably estimated to be due for the year as the result of the employee's wages. Similarly, every individual or business making payments exceeding \$600 to a nonresident individual for personal services or making total payments exceeding \$5,000 must also withhold income tax from these payments.

INCOME TAX WITHHOLDING REPORTING REQUIREMENTS

Neb. Rev. Stat. § 77-2756 requires every employer or payor to remit all income tax withholding collected during the prior reporting period (month, quarter, or year) on the last day of the following month. An employer or payor must also file a copy of each Federal Form W-2 or 1099 furnished by the employer or payor to each employee or payee with respect to taxes withheld on wages or payments subject to withholding by February 1st of the following year.

INCOME TAX WITHHOLDING PENALTIES

The Nebraska Revenue Act imposes a variety of penalties on employers and payors for failing to withhold income tax on wages paid to employees or payees. The amount of the penalty (5% to 100%) is based upon a percentage of the income tax withholding due and the reason for failing to withhold and remit on an employee's or payee's wages, i.e., negligence or fraud. In addition, the Revenue Act authorizes the imposition of an additional penalty (not exceeding \$1,000) for cases involving fraud. Neb. Rev. Stat. § 77-2790.

INVESTIGATIVE PROCESS

Upon receiving a referral from NDOL, the Compliance Division in NDOR performs a preliminary review of each referral to identify the business or employees included in each referral. If the referral provides insufficient information for purposes of identifying the employer or employee, the investigation does not go forward.

If NDOR can identify an employer or employee, the wages paid and potential income tax liability are evaluated before pursuing an enforcement action against the employer or employee due to resources and staff allocation required for a secondary review of the referral. For example, approximately 60% of NDOL referrals included less than three misclassified employees. Typically, NDOR would not conduct an investigation in this situation absent other compelling factors because the potential income tax liability does not warrant the time and resources dedicated to the enforcement action. For example, a single review of a business includes at least two staff members – a Fiscal Compliance Analyst (or Examiner) and a Supervisor – and approximately five hours' worth of work in total. If an assessment is issued, an Attorney will also be assigned to the case.

COMPLETED EXAMINATIONS

- ***Employer Referrals***

Of the employer-related investigations completed, the majority of employer-related referrals did not result in any additional income tax withholding liability for the employer because the wage payments made to the employee did not meet the statutory withholding thresholds under § 77-2756.

- ***Employee Referrals***

Of the employee-related investigations completed, the majority of employee-related referrals did not result in any additional income tax liability for the employee because the employee reported the income on his or her annual Nebraska Individual Income Tax Return, Form 1040N.

CONCLUSION

In total, the average return on the 35 completed NDOL-referred examinations is approximately \$670 per investigation, while the average return for NDOR general enforcement activities, which already include a review of potential misclassification issues, is approximately \$8,600 per investigation. The results of the investigations of NDOL referrals to date do not warrant an independent enforcement effort beyond the current enforcement activities of NDOR because of the minimal amounts of unreported wages included in the referrals and the small number of employees misclassified under the Employee Classification Act per referral.

