

The California Underground Economy

It undermines legitimate pool and spa industry businesses and jeopardizes their future.

While the overall economy is struggling, the underground economy is surging. As much as \$2.25 trillion in income has gone unreported nationally, creating for the federal government an unpaid tax liability of more than \$600 billion.

Currently, California is suffering a major budget deficit of about \$18.6 million annually and can point a finger at the Underground Economy. The Berkley Study, published in 2007 reports that in **2002, the California Department of Labor declared unreported labor in the state to be more than \$100 billion. While no recent study has been completed, current estimates are that unreported labor is up to at least more than \$200 billion.** And you are underwriting from your own pocket what these underreporters won't pay.

The bustling underground economy, "where folks are paid in cash and taxes aren't paid at all" is putting homeowners at risk and legitimate business people out of business.

The main source of this underreporting is the construction industry. How does this harm pool and spa industry professionals and customers?

- Dishonest contractors gain a 20 to 25% advantage over the honest contractors. By reducing their overhead, they substantially underbid on projects. This means **honest industry professionals like you lose market share and profits, compromising future business opportunities.**
- These unqualified, often unlicensed and dishonest contractors and employees leave the consumer with substandard construction projects and unfulfilled warranties.
- The result is dissatisfied, disgusted and dismayed homeowners who avoid doing future business with even well-reputed, honest pool and spa industry professionals. One bad experience turns into 10 stories of the bad experience, further draining possibility of future referrals. It's just plain bad for the industry, let alone your own business.
- Uncollected taxes has, in part, led to an enormous state budget deficit that is putting California government on the fast track to bankruptcy. For example, in 2007, the Los Angeles Business Journal reported that with 66 employees and a \$6.5 million budget, the Economic and Employment Enforcement Coalition (EEEC) had inspected nearly 3,000 businesses, issued more than 9000 citations, identified \$109 million in hidden wages for workers and uncovered \$17 million in unpaid unemployment taxes.
- Our cash-strapped state is making attempts to find these dishonest people, but the reality is, most of them have escaped being caught. The state is increasing taxes and fee assessments to make up the huge loss. Higher taxes and fee assessments are thrust upon legitimate business and taxpayers – The honest are subsidizing the costs of doing business for the dishonest.



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How does the cash economy work?

Estimates indicate that more than 50% of contractors in California are paying employees in cash thereby reducing, even eliminating, their costs of doing business. They evade income, social security, and unemployment taxes and avoiding workers' compensation insurance premiums, in addition to other suspect cost-cutting methods. The result is that honest, hardworking businesses are bearing the burden of higher taxes and insurance premiums as they struggle to compete for projects awarded to the dishonest contractors who have little or no overhead.

Who works in the cash environment?

The greedy; desperate people struggling to survive through any means necessary; those who are trying to avoid wage garnishments imposed by the courts or IRS. The problem of **Deadbeat Dads** can be tracked to the underground economy. This is the environment where they can hide and let you and me take care of their problems. **Their dependants struggle to live on welfare and other programs that you and I pay for through our taxes and charities.**

How can you defeat these people?

Share the SPEC CONSUMER FACT SHEET with prospects and customers. Encourage them to pass a copy along to neighbors and friends. Provide a copy to your local newspapers, radio talk shows, news agencies, Chamber of Commerce and business groups. Meet with your State, Federal and local officials and candidates. Write commentaries for local media. Enlist all of these groups in raising awareness.

SPEC is actively advocating for these bills on behalf of the industry.

- [SB 1254 \(Leno\)](#): Contractors: workers' compensation coverage
This bill would authorize the registrar of contractors within the Contractors State License Board to issue a stop order to any licensed or unlicensed contractor who has failed to secure workers' compensation insurance coverage for his or her employees. The bill would make a failure to comply with the stop order a misdemeanor punishable by imprisonment in the county jail not exceeding 60 days or by a fine not exceeding ten thousand dollars (\$10,000), or both. Furthermore, the bill would authorize the director of the Department of Consumer Affairs to designate 12 persons (currently law provides for 3) as peace officers for assignment to the CSLB special investigations unit of the board.
- [AB 2332 \(Eng\)](#): Contractors: licenses
Existing law provides that the Contractors State License Board may refuse to issue, reinstate, reactivate, or renew a license, or may suspend a license for the failure of a licensee to resolve all outstanding financial liabilities, which include taxes, additions to tax, penalties, interest, and any fees that may be assessed by the board, the Department of Industrial Relations, the Employment Development Department, or the Franchise Tax Board. This bill would also authorize the board to take the actions specified above for a licensee's failure to resolve outstanding financial liabilities assessed by the Board of Equalization.