

SF2360 - 1E - Annual Worker Misclassification Report Required

Chief Author: **Clare Oumou Verbeten**
 Committee: **Labor**
 Date Completed: **4/8/2025 1:44:37 PM**
 Lead Agency: **Labor and Industry Dept**
 Other Agencies:
 Employment and Economic Dvlpmnt Revenue Dept

State Fiscal Impact	Yes	No
Expenditures	X	
Fee/Departmental Earnings		X
Tax Revenue	X	
Information Technology		X
Local Fiscal Impact		X

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions shown in the parentheses.

State Cost (Savings) Dollars in Thousands	Biennium		Biennium		
	FY2025	FY2026	FY2027	FY2028	FY2029
Employment and Economic Dvlpmnt					
General Fund					
Labor and Industry Dept					
Workforce Development					
State Total	-	460	160	160	160
General Fund	-	-	-	-	-
Workforce Development	-	460	160	160	160
Total	-	460	160	160	160
		Biennial Total		620	320

Full Time Equivalent Positions (FTE)	Biennium		Biennium		
	FY2025	FY2026	FY2027	FY2028	FY2029
Employment and Economic Dvlpmnt					
General Fund					
Labor and Industry Dept					
Workforce Development					
Total	-	1	1	1	1
		Total		1.13	1.13

Lead LBO Analyst's Comment

I have reviewed this fiscal note for reasonableness of content and consistency with the LBO's Uniform Standards and Procedures.

LBO Signature: Karl Palm **Date:** 4/8/2025 1:44:37 PM
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State Cost (Savings) Calculation Details

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions are shown in parentheses.

*Transfers In/Out and Absorbed Costs are only displayed when reported.

State Cost (Savings) = 1-2 Dollars in Thousands	Biennium		Biennium		
	FY2025	FY2026	FY2027	FY2028	FY2029
Employment and Economic Dvlpmnt	-	-	-	-	-
General Fund	-	-	-	-	-
Labor and Industry Dept					
Workforce Development	-	460	160	160	160
Total	-	460	160	160	160
Biennial Total		620		320	
1 - Expenditures, Absorbed Costs*, Transfers Out*					
Employment and Economic Dvlpmnt	-	-	-	-	-
General Fund	-	25	25	25	25
Labor and Industry Dept					
Workforce Development	-	460	160	160	160
Total	-	485	185	185	185
Biennial Total		670		370	
2 - Revenues, Transfers In*					
Employment and Economic Dvlpmnt	-	-	-	-	-
General Fund					
Revenues	-	-	-	-	-
Transfers In	-	25	25	25	25
Labor and Industry Dept					
Workforce Development	-	-	-	-	-
Total	-	25	25	25	25
Biennial Total		50		50	

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 Committee: **Labor**
 Date Completed: **4/8/2025 1:44:37 PM**
 Agency: **Labor and Industry Dept**

State Fiscal Impact	Yes	No
Expenditures	X	
Fee/Departmental Earnings		X
Tax Revenue		X
Information Technology		X
Local Fiscal Impact		X

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative.
 Reductions shown in the parentheses.

Dollars in Thousands	Biennium				
	FY2025	FY2026	FY2027	FY2028	FY2029
Workforce Development	-	460	160	160	160
Total	-	460	160	160	160
Biennial Total			620		320

	Biennium				
	FY2025	FY2026	FY2027	FY2028	FY2029
Workforce Development	-	1	1	1	1
Total	-	1	1	1	1

LBO Analyst's Comment

I have reviewed this fiscal note for reasonableness of content and consistency with the LBO's Uniform Standards and Procedures.

LBO Signature: Karl Palm **Date:** 4/8/2025 12:14:32 PM
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State Cost (Savings) Calculation Details

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions are shown in parentheses.

*Transfers In/Out and Absorbed Costs are only displayed when reported.

State Cost (Savings) = 1-2 Dollars in Thousands			Biennium		Biennium	
	FY2025	FY2026	FY2027	FY2028	FY2029	
Workforce Development	-	460	160	160	160	160
Total	-	460	160	160	160	160
		Biennial Total		620		320
1 - Expenditures, Absorbed Costs*, Transfers Out*						
Workforce Development	-	460	160	160	160	160
Total	-	460	160	160	160	160
		Biennial Total		620		320
2 - Revenues, Transfers In*						
Workforce Development	-	-	-	-	-	-
Total	-	-	-	-	-	-
		Biennial Total		-		-

Bill Description

This bill adds reporting requirements every two years for the commissioners of revenue (DOR), employment and economic development (DEED), and labor and industry (DLI). 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.
- (4) an estimate of the impact to the unemployment insurance trust fund; family and medical benefit insurance account; state income tax collection; the workers' compensation fund; and the workforce development fund.

Sect. 1(b) establishes the deadline for the report as January 15 of odd-numbered years beginning in 2027 and allows DLI to contract with a third party to complete the requirements.

Sect. 1(d) establishes data sharing requirements among the entities.

Sect. 2(a) appropriates money from the workforce development fund to DLI.

Sect. 2(b) provides DLI the ability to enter into interagency agreements with DEED and DOR to cover the costs associated with the report.

Assumptions

Because current agency staff do not have the expertise required for this study, the initial report would be conducted using external contract researchers with expertise in labor economics and worker misclassification. They would develop the methodology, data collection and analysis procedure, in addition to writing the first legislative report. Based on prior studies conducted by external researchers for DLI, we estimate the contract to cost \$300,000 for the first report.

Because of the size and complexity of the study, DLI would hire an economist (Research Scientist 3) at the department to pull data internally, coordinate with the other agencies to provide data for the study, and review progress drafts. This ongoing position would be responsible for replicating the study as designed by the external researchers in future years. This position would also be responsible for identifying improvements to the data collection, data cleaning, consulting with misclassification staff internally and at other agencies, and refining the research methodology to address questions as

needed over time. Based on similarly complex workers' compensation analysis completed at the department, 1 Research Scientist FTE is required beginning in FY26 and ongoing.

DEED, DOR and DLI will establish designated contacts to assist the external researchers with methodology, guidance around data utilization, and any information necessary to complete the study. DLI may enter into interagency agreements with DEED and DOR for their costs to supply data and consulting expertise for the study. DEED estimates their cost at 0.125 FTE per year at \$25,000, however, DOR anticipates no fiscal impact as a result of this bill.

Expenditure and/or Revenue Formula

Expenditures	2026	2027	2028	2029
Research Scientist 3 (MAPE 18L)	134,513	134,513	134,513	134,513
Contractor Research and Report	300,000	-	-	-
DEED Interagency	25,000	25,000	25,000	25,000
Total	459,513	159,513	159,513	159,513

Long-Term Fiscal Considerations

Local Fiscal Impact

References/Sources

Agency Contact: Nicole Blissenbach (651-284-5005)

Agency Fiscal Note Coordinator Signature: Jacob Gaub

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SF2360 - 1E - Annual Worker Misclassification Report Required

Chief Author: **Clare Oumou Verbeten**
 Committee: **Labor**
 Date Completed: **4/8/2025 1:44:37 PM**
 Agency: **Employment and Economic Dvlpmnt**

State Fiscal Impact	Yes	No
Expenditures	X	
Fee/Departmental Earnings		X
Tax Revenue		X
Information Technology		X
Local Fiscal Impact		X

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 Reductions shown in the parentheses.

Dollars in Thousands	Biennium		Biennium		
	FY2025	FY2026	FY2027	FY2028	FY2029
General Fund					
Total	-	-	-	-	-
Biennial Total			-	-	-

Full Time Equivalent Positions (FTE)	Biennium		Biennium		
	FY2025	FY2026	FY2027	FY2028	FY2029
General Fund	-	.13	.13	.13	.13
Total	-	.13	.13	.13	.13

LBO Analyst's Comment

I have reviewed this fiscal note for reasonableness of content and consistency with the LBO's Uniform Standards and Procedures.

LBO Signature: Karl Palm **Date:** 4/8/2025 1:44:11 PM
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State Cost (Savings) Calculation Details

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions are shown in parentheses.

*Transfers In/Out and Absorbed Costs are only displayed when reported.

State Cost (Savings) = 1-2 Dollars in Thousands	Biennium		Biennium		
	FY2025	FY2026	FY2027	FY2028	FY2029
General Fund	-	-	-	-	-
Total	-	-	-	-	-
Biennial Total					
1 - Expenditures, Absorbed Costs*, Transfers Out*					
General Fund	-	25	25	25	25
Total	-	25	25	25	25
Biennial Total		50		50	
2 - Revenues, Transfers In*					
General Fund					
Revenues	-	-	-	-	-
Transfers In	-	25	25	25	25
Total	-	25	25	25	25
Biennial Total		50		50	

Bill Description

This bill requires reports of worker misclassification. The bill requires that every two years, 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 Department of Employment and Economic development is expected to provide data relevant to the unemployment trust fund, the family and medical benefit insurance account, unemployment insurance program audits and findings and the workforce development fund.

Assumptions

Appropriations, if any, would be provided to the commissioner of labor and industry, who may enter into interagency agreements with the commissioner of employment and economic environment and the commissioner of revenue to transfer funds appropriated to cover costs associated with the misclassification fraud impact report.

Therefore, there would be no net cost to DEED. DEED estimates this cost at approximately \$50,000 every other year.

Expenditure and/or Revenue Formula

DEED estimates that \$50,000 every other year would support costs associated with reviewing, analyzing, and sending data related to this bill to the Department of Labor and Industry.

Long-Term Fiscal Considerations**Local Fiscal Impact**

References/Sources

Agency Contact:

Agency Fiscal Note Coordinator Signature: Matthew Dobratz

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SF2360 - 1E - Annual Worker Misclassification Report Required

Chief Author: **Clare Oumou Verbeten**
 Committee: **Labor**
 Date Completed: **4/8/2025 1:44:37 PM**
 Agency: **Revenue Dept**

State Fiscal Impact	Yes	No
Expenditures		X
Fee/Departmental Earnings		X
Tax Revenue		X
Information Technology		X
Local Fiscal Impact		X

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative.
 Reductions shown in the parentheses.

Dollars in Thousands	State Cost (Savings)		Biennium		Biennium	
	FY2025	FY2026	FY2027	FY2028	FY2029	
Total	-	-	-	-	-	-
Biennial Total						
Full Time Equivalent Positions (FTE)		Biennium		Biennium		
	FY2025	FY2026	FY2027	FY2028	FY2029	
Total	-	-	-	-	-	-

LBO Analyst's Comment

I have reviewed this fiscal note for reasonableness of content and consistency with the LBO's Uniform Standards and Procedures.

LBO Signature: Joel Enders **Date:** 4/3/2025 2:26:24 PM
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State Cost (Savings) Calculation Details

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions are shown in parentheses.

*Transfers In/Out and Absorbed Costs are only displayed when reported.

State Cost (Savings) = 1-2 Dollars in Thousands	Biennium		Biennium		
	FY2025	FY2026	FY2027	FY2028	FY2029
Total	-	-	-	-	-
Biennial Total					
1 - Expenditures, Absorbed Costs*, Transfers Out*					
Total	-	-	-	-	-
Biennial Total					
2 - Revenues, Transfers In*					
Total	-	-	-	-	-
Biennial Total					

Bill Description

Section 1 of this bill requires the Department of Revenue (Revenue), the Department of Employment and Economic Development (DEED), and the Department of Labor and Industry (DLI) to conduct an analysis of the costs of misclassification to illustrate how misclassification impacts misclassified workers, government programs, and tax collections.

Beginning January 15, 2027 and every odd number year afterward, DLI must provide a misclassification fraud impact report to the committees with jurisdiction over taxes, workforce, and labor. DLI must coordinate with Revenue and DEED to provide data and information relevant to misclassification, including:

- An estimate of the number of workers experiencing misclassification in Minnesota;
- An estimate of the cost of misclassification to impacted workers;
- An estimate of the prevalence of misclassification by industry; and
- An estimate of the impact to:
 - the unemployment insurance trust fund;
 - the family and medical benefit insurance account;
 - state income tax collection;
 - the workers compensation fund; and
 - the workforce development fund.

Revenue must also provide information and data relevant to misclassification tax audits and findings, income tax collection, and 1099 filings to DLI.

Section 2(a) has a blank appropriation in FY26 from the workforce development fund to the commissioner of labor and industry for the misclassification fraud impact report and for legal, technical, and clerical staff support for the report. This appropriation is available until June 30, 2027.

Section 2(b) states the commissioner of labor and industry may enter into interagency agreements with the commissioner of employment and economic development the commissioner of revenue to transfer funds appropriated under section 2(a) to cover costs associated with the report.

Assumptions

The Department of Revenue (Revenue) assumes it will not be able to provide information and data relevant to 1099 filings as required by this legislation if that information is provided to Revenue by the IRS rather than the taxpayer. Revenue's data sharing agreement with the IRS prevents the sharing of this information. Revenue will only be able to provide 1099 data submitted directly by the taxpayer, but these 1099s are only required to be submitted to Revenue if state income tax is withheld.

The available 1099 data would be limited and would likely be of only nominal use in determining overall misclassification estimates. Although Revenue would likely be able to provide tax return and audit data in aggregate, there may be concerns with providing taxpayer specific data and it is unclear if Revenue could share this data without significant redactions.

The Department of Revenue assumes it will make system changes to provide the data that is required within the report. Revenue will provide resources to hold this data and provide it when requested. Revenue assumes the cost to do this is nominal.

The Income Tax and Withholding Division (ITW) assumes ongoing relevant technical support as needed and that they will hold the data and provide it when requested. ITW does not assume any costs for this work.

The Appeals, Legal Services, and Disclosure Division (ALSD) assumes that in FY26, it will negotiate, draft, and execute a data sharing agreement memorializing what data will be shared and how it will be shared. ALSD further assumes that beginning in FY27 and ongoing, it will oversee negotiations for amendments to the data sharing agreement, renewals of the agreement, and any legal disclosure questions that may come in. This work will be completed by existing staff.

The Tax Research Division assumes that ITW will initially use and provide us with relevant historical data regarding audit results, and that they will prepare any microdata required by the study. Tax Research assumes that current staff would provide technical assistance to DLI in conducting the study.

MNIT assumes some development time in FY26 in audit program and reporting areas, as well as ongoing support beginning in FY27. All work will be completed by existing staff.

Expenditure and/or Revenue Formula

N/A

Long-Term Fiscal Considerations

N/A

Local Fiscal Impact

N/A

References/Sources

Agency staff provided information for this fiscal note.

Agency Contact:

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