This staff analysis is provided to address various administrative, cost, revenue and policy issues; it is not to be construed to reflect or suggest the BOE’s formal position.
This staff analysis is provided to address various administrative, cost, revenue and policy issues; it is not to be construed to reflect or suggest the BOE’s formal position.
the underground economy will, in turn, further aid the state in its progress toward preventing human trafficking.

The provisions of this statute would sunset on January 1, 2018.

**IN GENERAL**

The underground economy is a threat to the health of California’s economy, its business community, workers, and consumers, and the stability and fairness of the tax base. While there are several different entities and task forces currently working on various aspects of the underground economy, no one entity is responsible for coordinating these efforts. As a result, there is a lack of synergy in the collection and analysis of data and in the development of strategic and focused investigation and prosecution efforts.

A collaborative, strategic, and focused effort to comprehensively analyze available data and resources to combat the underground economy will create a synergy among the various enforcement agencies and address issues of impacted California industries. This collaborative effort will significantly increase the State’s efficiency and effectiveness in recapturing revenue lost to businesses operating illegally in the State of California, thereby contributing to a more robust legitimate economy.

**COMMENTS**

1. **Sponsor and Purpose.** This bill is sponsored by the BOE to create the CIP to combat the illegal underground economy by creating a centralized intake center for the collection, review, and analysis of information related to complaints, prosecutions, and arrests pertaining to illegal underground operations, and require that the participating agencies share pertinent information and data with each other.

2. **The May 29, 2012, amendments:**
   - Limit the partnership agencies to the BOE, FTB and EDD;
   - Identify the CIP as a pilot program;
   - Allow other specified agencies to voluntarily participate in the pilot program in an advisory capacity;
   - Require the other specified agencies to refer violations which would result in increased tax revenue to the CIP;
   - Add the applicable non-disclosure code sections for the other specified agencies;
   - Change the due date for the report of the pilot project to the Legislature to December 1, 2016; and
   - Change the sunset date of the legislation to January 1, 2018.

3. **The underground economy hurts all Californians.** Tax revenues to support government services are lost, workers are forced to go without basic employment protections, and legitimate businesses are confronted with unfair competition. Furthermore, the presence of the underground economy allows human traffickers to operate and victimize individuals who are trapped into forced labor conditions.

4. **Illegal underground activities span across multiple jurisdictions.** Many collaborative efforts are already under-way, in which investigators periodically meet to discuss current investigations, team up to conduct sting operations, and collaborate on best practices. However, despite these significant efforts, California continues to lose revenue due to the underground economy.
5. **The CIP will focus on criminal prosecution.** Businesses that are in compliance with our state employment, safety, licensing, and tax laws that are found to have committed minor or inadvertent violations of existing law are to be addressed through other administrative procedures.

**COST ESTIMATE**

The CIP would incur estimated costs of approximately $245,000 in FY 12-13, $584,000 in FY 13-14 and $679,000 in ongoing fiscal years to fund the central intake center.

**REVENUE ESTIMATE**

The implementation of the CIP will enhance the efficiencies for all agencies participating, including the BOE. Moreover, our research indicates that cooperative enforcement activities allow the leveraging of resources such that the BOE could expand its capabilities to larger cases that provide higher recovery per investigative hour. Under a proof of concept plan, BOE investigators reviewed EDD employment data for one industry group for several geographic areas in California. In addition to identifying potentially fraudulent activity, the data provided new high value leads for administrative audit and collection activities. Pursuing these high value administrative leads will allow the BOE to achieve new revenue in the first and second years of the CIP, with revenue from criminal investigations in the third year. Accordingly, we estimate that the revenue associated with sales and use tax will increase by approximately $550,000 in FY 12-13, $1.1 million in FY 13-14, and up to $15 million annually once fully implemented.

---

*Analysis prepared by:* Larry Bergkamp  916-322-7281  6/27/12  
*Revenue estimate by:* Robert Ingenito  916-445-0840  
*Contact:* Robert Ingenito  916-445-0840  

*This staff analysis is provided to address various administrative, cost, revenue and policy issues; it is not to be construed to reflect or suggest the BOE’s formal position.*