
Underground Economy Benchmark Report

*Fiscal Year (FY) 2025 Annual Report to the
Legislature*

December 2025

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Executive Summary

Introduction

The Department of Labor & Industries (L&I), Department of Revenue (DOR), and the Employment Security Department (ESD) present the fiscal year (FY) 2025 report on underground economy benchmarks, as required by Chapter 18.27.800 RCW. The three agencies share data and collaborate to uncover and take action against participation in the underground economy — such as tax misreporting and other forms of fraud — to protect law-abiding consumers, workers, and employers.

Engrossed Substitute Senate Bill (ESSB) 5167 (Chapter 424, Laws 2025) Section 917 also established the Underground Economy in Construction Taskforce to recommend what, if any, policy changes are needed to address the underground economy in construction.

Progress and achievements in FY 2025

In FY 2025 (July 1, 2024, through June 30, 2025), the departments shared information on contractor registration, taxes, and other data to discover and hold accountable hundreds of bad actors in the underground economy. In general, this work included education, detection, focused audit selection, prosecution, and debt collection. The agencies also collaborated on prevailing wage requirements and activities.

Together, L&I, DOR, and ESD uncovered more than 2,000 unregistered businesses; assessed over \$298.2 million in unpaid taxes, premiums, penalties, and interest; and informed unregistered employers about payment options, requirements, and interest/penalty waivers.

L&I:

- educated and trained nearly 300 construction contractors offering in-person training events across the state and offering online training options;
- reminded consumers how to hire smart and verify a contractor through the “Protect My Home” campaign;
- issued more than 1,000 infractions to unregistered contractors;
- assessed over \$118.2 million in premiums, penalties, and interest to both registered and unregistered businesses;
- registered and assessed premiums for over 570 noncompliant businesses;
- collected \$350.7 million in delinquent funds; and
- received 15 referrals and completed four investigations involving contractor fraud, misrepresentation, and other criminal activity by unregistered, revoked, or suspended businesses.

DOR:

- provided online outreach and assistance to consumers through SuspectFraud.com, and led discussions with stakeholders on new and relevant ways to find leads in the underground economy;
- registered over 342 noncompliant businesses;
- assessed taxes totaling more than \$180 million from over 1,050 registered and unregistered businesses;
- collected over \$39 million through its Tax Discovery Program, including collections on assessments from prior years; and
- recovered more than \$14,000 in fraud-related dollars.

ESD:

- found over 1,100 unreported or misclassified workers through audits.

Introduction

The underground economy is the loose network of businesses and individuals that fail to register or report a significant part of their business activities with authorities, as required by law. They not only neglect to pay their fair share of taxes, workers' compensation premiums, and unemployment insurance contributions, they gain an unfair advantage over competitors. Consumers are also at risk because there may be no bond or insurance to protect them from these bad actors.

Together, L&I, DOR, and ESD share data and collaborate in other areas to uncover and take action on tax misreporting and other forms of fraud that contribute to the underground economy. This report provides updated information about how hundreds of businesses in the underground economy are discovered and held accountable through shared information on contractor registration and taxes, and other electronic data. The agencies remain committed to working together and sharing information to prevent fraud and reduce the effects of the underground economy.

One important subset of this work is the Underground Economy in Construction Taskforce. This taskforce is composed of three members from the Legislature; four members representing the construction business; four members representing construction workers; and the Attorney General's office. L&I, DOR, and ESD are nonvoting members on the taskforce. The taskforce has reviewed the Washington Institute for Public Policy's 2023 report on the underground economy, along with other presentations from the three agencies, local government, labor, and business partners. The task force also discussed what, if any, policy changes are needed to address the underground economy in construction. Originally scheduled to conclude its work by June 2025, the taskforce, under a revised budget proviso, will report its findings to the Legislature by Dec. 31, 2025.

Progress and Achievements in FY 2025

This section describes each partner agency's progress and achievements in working together to prevent fraud and reduce effects of the underground economy in Washington.

DEPARTMENT OF LABOR & INDUSTRIES HIGHLIGHTS

L&I protects the safety, health, and financial security of Washington's workers and residents. As part of this responsibility, the department is committed to helping honest workers and businesses through education and outreach, and by cracking down on dishonest ones.

FY 2025 highlights include:

- **Education** — L&I focused on guiding contractors to voluntary compliance through in-person Contractor Training Days held throughout the year across the state, along with some online training options. Additionally, L&I engaged with consumers to improve their understanding of compliance when working with contractors by attending public events and collaborating at consumer protection events that offer valuable tools to verify their contractors online.
- **Audit selection** — About 75% of employers that are referred for audits are found to owe premiums. L&I keeps this percentage consistent by screening and refining referrals and focusing resources on those businesses most likely to be found out of compliance in an audit, while limiting the number of audits of businesses typically in compliance.

- **Collections** — Collections staff collected \$350.2 million in delinquent employer premiums for workers' compensation insurance, though not all of this can be attributed to the underground economy. Employer premiums account for the vast majority of dollars identified as owing to the department, totaling 99% of the total \$350.7 million collected in FY 2025. Of the total collected, over \$521,000 account for contractor infractions during this reporting period.
- **Prevailing Wage Program** — L&I held 12 workshops for more than 790 participants to educate contractors about prevailing wage requirements. In enforcement, L&I issued more than 1,100 "strikes", or notice of violation, and debarred 170 companies, which results in barring them from bidding on public works contracts for a period of time.
- **Prosecutions** — Fourteen cases involving employer, provider, and worker fraud were referred to the Office of the Attorney General, the Thurston County Prosecutor's Office, and the Cowlitz County Prosecutor's Office for potential prosecution. Two additional cases remain under review for criminal proceedings.

Educating employers and consumers

L&I is committed to making it easy to do business with the department by providing training focused on contractor registration, such as the *Employer's Introduction to L&I* workshops and *Contractor Training Days* with over 300 attendees in FY 2025. Instructions and explanations of laws and rules are also offered online. For consumers, L&I conducts an ongoing awareness campaign, [Protect My Home](#), that provides education through paid advertising and public outreach events, including how to hire legitimate contractors and be aware of common scams using the [Hire Smart Step-by-Step](#) tools.

Detecting dishonest business practices in construction registration

The most easily recognizable dishonest activities happen in construction. Contractors in the underground economy are typically either unregistered or underreport workers' compensation obligations. This enables them to avoid paying their fair share of premiums. Unregistered contractors put consumers at risk and gain an unfair advantage over competitors that play by the rules.

L&I registers contractors, ensuring they get their required level of bonding and insurance coverage. This helps provide some financial recourse for homeowners and suppliers who encounter fraudulent or incompetent contractors. House Bill 1534 (Chapter 213, 2023 Laws) was passed in 2023, allowing for the agency to increase bond amounts for the first time since 2001. The higher bond requirement went into effect July 1, 2024.

All contractors must also have a valid Unified Business Identifier (UBI) number before applying to L&I and paying a registration fee.

Figure 1 shows the number of contractor registrations from fiscal years 2014 to 2025. In FY 2025, there were more than 66,000 registered contractors in Washington, which is a reduction from prior years.

Figure 1: Active contractor registrations, 2014-2025, as of June 30, 2025

Fiscal Year	Contractors with UBI
2014	52,755
2015	54,529
2016	56,652
2017	58,553
2018	63,300
2019	64,808
2020	63,200
2021	65,023
2022	66,838
2023	67,500
2024	68,027
2025	66,940

Source: Department of Labor & Industries

Contractor penalties

L&I tracks companies that violate registration laws, misrepresent payroll or employee hours, or conduct business without an L&I certificate of coverage for workers' compensation insurance. In FY 2025, L&I's Construction Compliance Program issued more than 1,000 infractions to unregistered contractors. This program also penalizes up to \$10,000 those who submit false information in a contractor application. The program issued nine such penalties in FY 2025.

L&I denies or suspends contractor registration for not complying with registration laws and rules. A contractor may have their registration suspended for days or weeks, sometimes multiple times per year. During FY 2025, L&I suspended more than 24,000 registrations. The information below highlights some of the reasons:

- More than 2,300 canceled their insurance.
- More than 5,500 canceled their bond.
- More than 760 had unsatisfied judgments against their bond.
- 48 had impaired bonds.
- 61 had outstanding contractor registration infractions.

Contractors cited for failing to register may reduce their penalty if they voluntarily register and get a bond and insurance within 10 days after the date of the citation. In FY 2025, 190 unregistered contractors took advantage of this option.

Auditing businesses

Construction is the most visible industry regarding unregistered businesses; however, this also occurs in other industries. L&I audits employers in construction and elsewhere that have workers covered by workers' compensation, focusing on industries with a high injury rate. During FY 2025, L&I

performed more than 570 audits of unregistered businesses and assessed over \$9.9 million in premiums and penalties. Approximately 59% were in construction, followed by 28% in service industries.

Identifying and collecting debt resulting from violations

Inspectors in the Contractor Compliance program are L&I's eyes and ears in the field for all types of violations they discover through spot checks of construction worksites and inspection of contractors based on referrals. They confirm worker counts, compare them with reported numbers, and refer cases to auditors. They refer potential violations of workers' compensation, prevailing wage, and DOR rules and laws to the appropriate staff or agencies.

Figure 2 shows the number of underground economy violations issued, contractors referred to collections, and contractors referred for auditing from FY 2019 to FY 2025. After dipping during COVID, each of these categories appears to be stabilizing.

Figure 2: Contractor Compliance Program results

Compliance Action	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Underground Economy Violations Issued	2,420	2,092	1,832	1,998	2,497	2,256	2,053
Contractors Referred to Collections Program	1,919	1,504	1,395	1,248	1,279	1,279	1,204
Contractors Referred to Audit Program	1,775	1,243	1,080	1,021	1,282	1,194	1,009

Source: L&I Contractor Registration Program

Prevailing Wage Program

L&I's Prevailing Wage program is important to ensure fairness for contractors and employees on projects paid for with public funds. Prevailing wage is the minimum hourly rate for wages, benefits, and overtime that contractors must pay workers on public projects. It ensures workers on public works projects receive a standard rate of wages and benefits for their trade or occupation in the county in which they work and that all contractors competing for public works projects pay at least minimum rates.

Education and outreach

L&I focuses on improving compliance by educating employers and workers. In FY 2025, the Prevailing Wage program conducted 31 workshops online and around the state, reaching more than 2,000 awarding agencies, contractors, businesses, and workers.

Violations, strikes, and debarments

When contractors commit certain violations, the Prevailing Wage program can issue fines and strikes. If a fine is not paid, or additional strikes are received, the company may be debarred, which prevents them from participating in public contracts.

A contractor can be debarred for one or any combination of the following:

- violating contractor registration law;
- misrepresenting hours/premiums or failing to obtain a certificate of coverage for industrial

insurance; or

- violating apprenticeship law.

Strikes are reported under the law in which the violation occurred. For contractor registration and workers' compensation insurance, strikes are cumulative. For example, contractors may receive strikes under the prevailing wage law for violating contractor registration law (Chapter 18.27 RCW); industrial insurance law (RCW 51.48.020(1) or RCW 51.48.103); or apprenticeship law (Chapter 49.04 RCW). Any combination of two strikes under these laws results in a one-year debarment.

For prevailing wage law, only violations of the same type count toward debarment. Violations of public contracts laws stand alone and are not combined with other violations: Two strikes for paperwork violations under RCW 39.12.050 result in a one-year debarment. Two strikes for failure to pay the prevailing rate of wage under RCW 39.12.065 result in a two-year debarment.

As shown in Figure 3, L&I issued 1,184 strikes and debarred 170 contractors in FY 2025.

Figure 3: Prevailing wage strikes and debarments

	FY 2022		FY 2023		FY 2024		FY 2025	
Violation	Strikes	Debarments	Strikes	Debarments	Strikes	Debarments	Strikes	Debarments
Contractor Registration	401	48	675	59	602	50	573	48
Industrial Insurance	208	11	491	7	393	3	335	5
Contractor Registration and Industrial Insurance*	N/A	67	N/A	101	N/A	87	0	71
Prevailing Wage: Failing to File Wage Report/False Filing	22	5	17	15	25	17	7	4
Prevailing Wage: Failing to Pay Prevailing Wage	10	1	7	3	5	N/A	0	0
Electrical Contractor Violation							2	27
Plumber Contractor Violation							267	15
Elevator Contractor Violation							0	0
Total	641	132	1,190	185	1,025	157	1,184	170

*Strikes are reported in each category violated but may result in debarment.

Source: Prevailing Wage Program

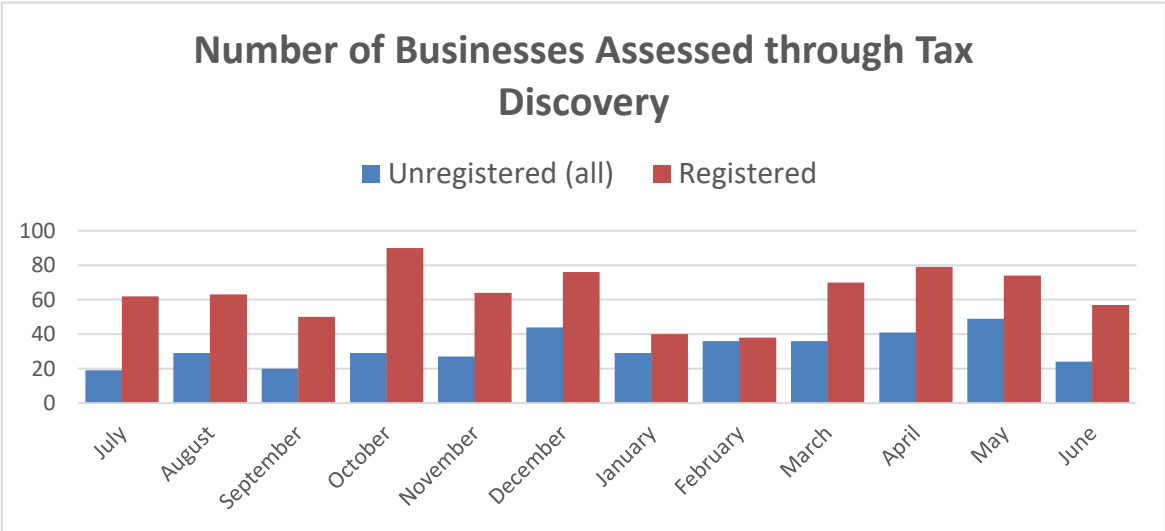
DEPARTMENT OF REVENUE HIGHLIGHTS

Coming out of the pandemic, DOR's Compliance and Audit divisions resumed their focus on investigating, assessing, and registering both in-state and out-of-state businesses and ultimately enforcing collection of unpaid taxes.

In FY 2025, with new staff that has less experience in collections, the department focused its underground economy work not just on assessing businesses, but on training and developing staff to enforce collection on accounts that had failed to pay assessed amounts.

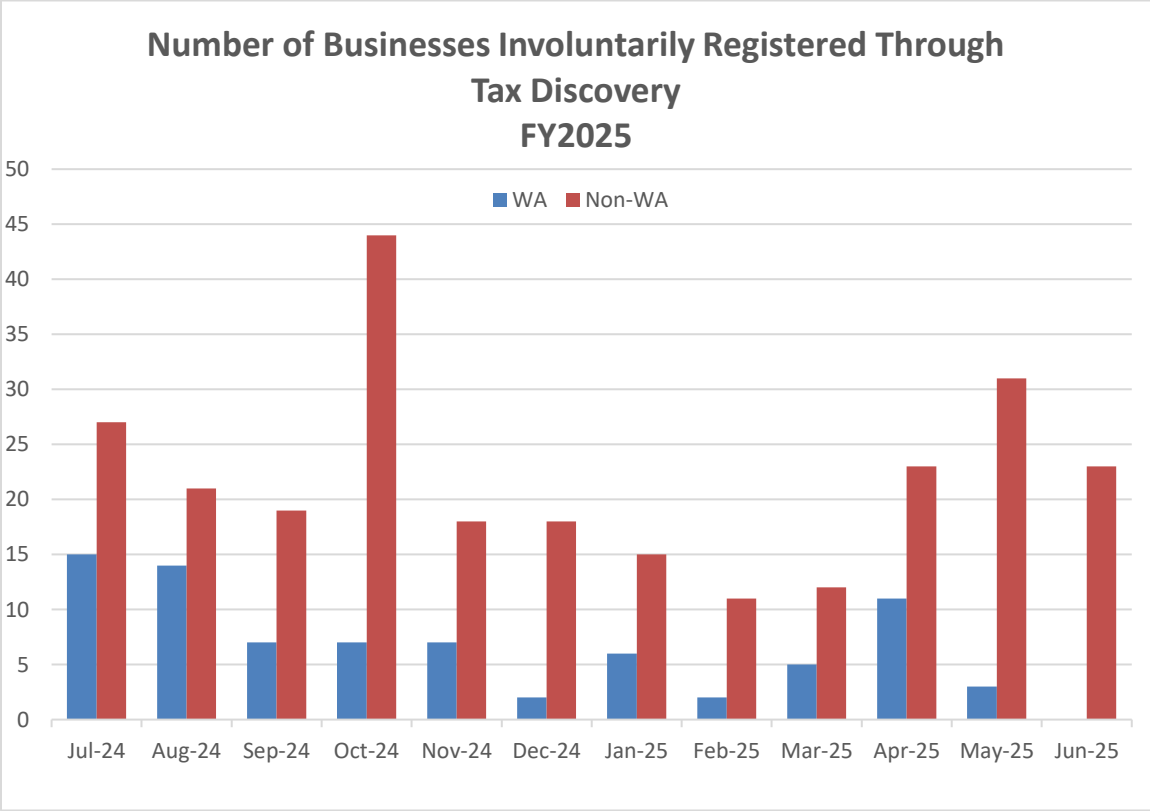
DOR investigated more than 3,700 businesses in FY 2025 through the agency’s Tax Discovery programs. Investigations led to the assessment of 1,051 businesses with the total amount assessed at over \$188 million.

Figure 4: Number of Businesses Registered through Tax Discovery in FY 2025



Of those Tax Discovery cases, 341 businesses were involuntarily registered with the majority of cases being out-of-state businesses. These are two separate numbers not one as part of the other. We track assessments that were issued where we registered the business involuntarily, and then assessments where the businesses voluntarily registered.

Figure 5: Number of Businesses Involuntarily Registered in FY 2025



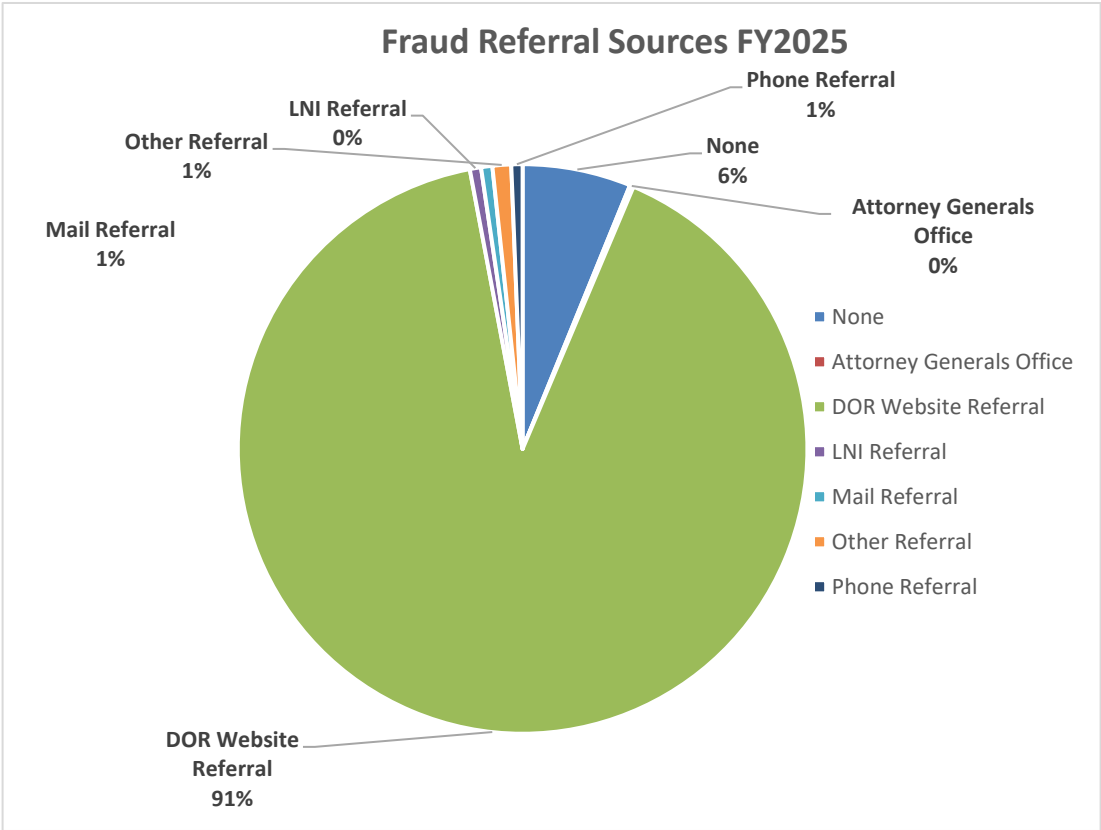
The Compliance Division investigates unlicensed vehicles, vessels, and airplanes. DOR continues to focus on education and enforcement to reduce noncompliance and ensure a local presence is maintained.

In addition to finding and addressing unregistered businesses, DOR’s Compliance and Audit divisions refer and investigate fraud cases. DOR provides a variety of methods for making fraud referrals, which enable private citizens and other agencies to report cases in which they believe fraud is being committed.

In FY 2025, DOR assessed over \$400,000 from fraud referrals and collected more than \$17,000 from fraud assessments.

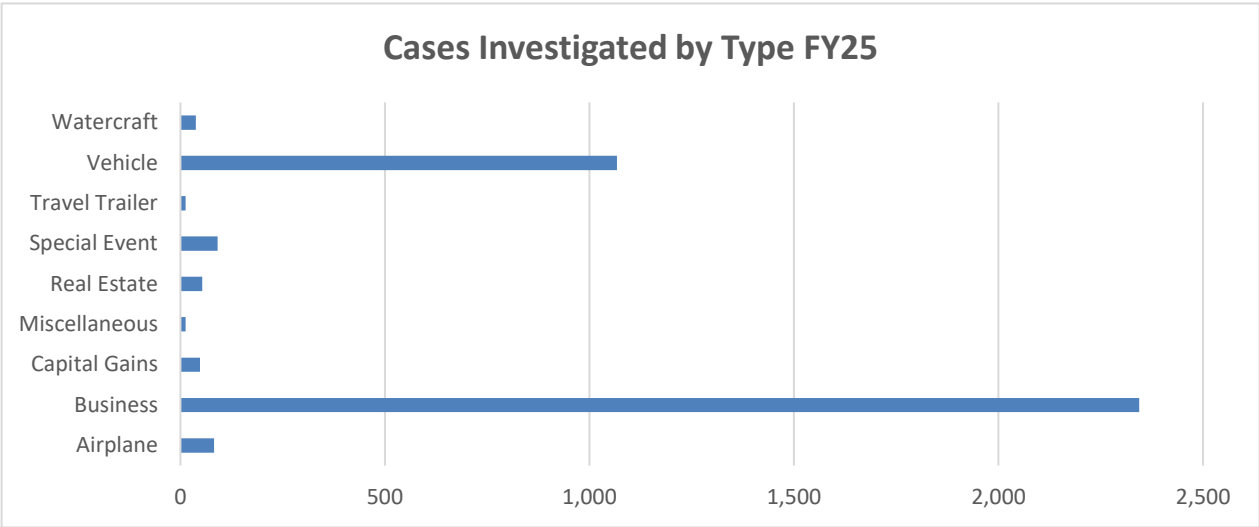
The bulk of fraud referrals continues to be received via the internet through the Suspect Fraud website. In FY 2025, more than 91% of fraud referrals were made via the website. Combined agency efforts are underway to update and improve the fraud referral website so that the public will be able to access it through a wa.gov site. As DOR proceeds through planning, fine-tuning the information, and educating customers on how to use the website to make fraud complaints, the agency should make the process more intuitive and more efficient, and provide better information to work these referrals for its own as well as other state agencies. DOR recognizes the importance and popularity of using this method to report suspected fraud cases. Making the webpage easier for the public to use will help them and the agency.

Figure 6: FY 2025 Fraud Referral Sources



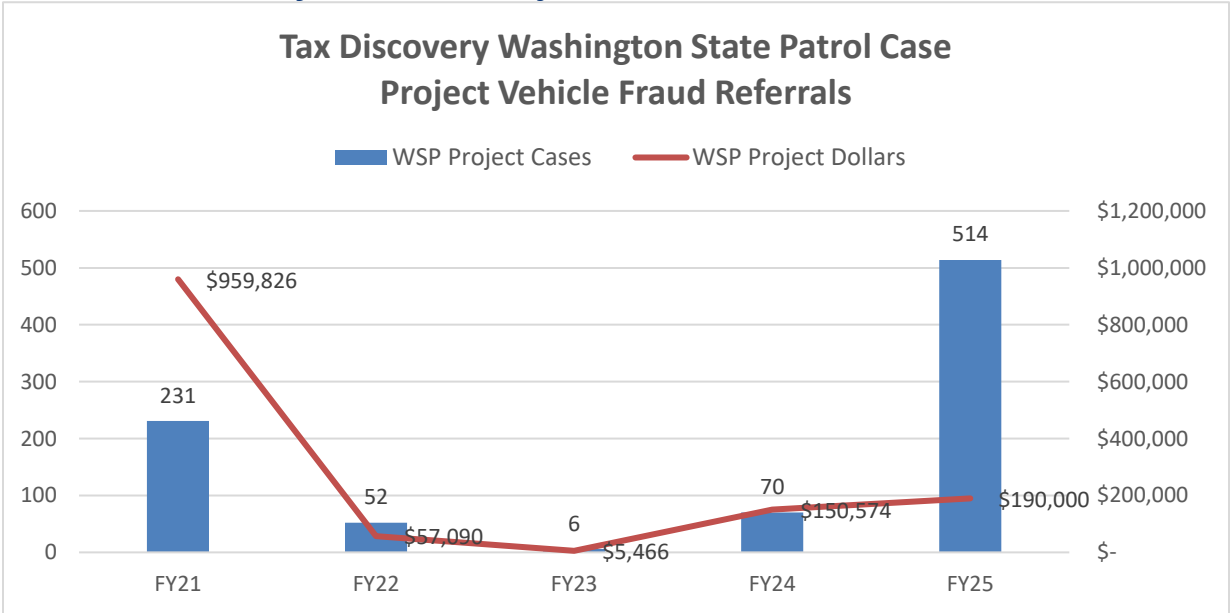
Referrals for cases from the underground economy come from investigations, shared information with other agencies, and fraud complaints. Unregistered businesses continue to be the largest portion of the tax discovery cases. It is important to note that, as resources are dedicated to projects, referrals and collections increase.

Figure 7: Tax Discovery Case Type



The Washington State Patrol (WSP) refers cases for investigation related to vehicle fraud, such as registering a vehicle out of state to avoid paying sales or use tax. In FY 2025, a total of 514 cases were investigated, resulting in over \$190,000 in assessments. Agents work each of these cases; however, their investigations do not always lead to a tax liability.

Figure 8: Tax Discovery WSP Case Project Vehicle Fraud Referrals, FY 2021-2025



EMPLOYMENT SECURITY DEPARTMENT HIGHLIGHTS

ESD continued identifying employers that failed to report or underreport employees for unemployment insurance. ESD dedicated up to five full-time employees in five audit regions for this purpose.

Underground economy auditors also assisted with benefits fraud.

Underground economy compared to other audits with misclassified employees

Underground economy audits were consistently more productive than other ESD audits in locating misclassified employees. Underground economy audits found about 13.9 misclassified employees per audit, compared to 4.4 misclassified employees per audit for all other audits.

Figure 9: Underground Economy Audits

Quarter	Audits with Misclassified Employees**	Misclassified Employees	Employees Per Audit
Q3 2024	27	271	10
Q4 2024	19	274	14.4
Q1 2025	21	327	15.6
Q2 2025	13	236	18.2
Total	80	1,108	13.9*

*Number of employees per audit equals the number of misclassified employees divided by the number of audits with misclassified employees found.

**Number of audits may vary depending on ESD staffing levels at any given time. Source: ESD

Figure 10: All Other Audits

Quarter	Number of Audits with Employees Found	Number of Misclassified Employees	Employees Per Audit
Q3 2024	136	798	5.9
Q4 2024	126	393	3.1
Q1 2025	132	594	4.5
Q2 2025	111	437	3.9
Total	505	2,222	4.4*

*Number of employees per audit equals the number of misclassified employees divided by the number of audits with misclassified employees found.

Source: ESD

Electronic reporting

ESD encourages employers to file quarterly unemployment tax reports electronically. Employers have two options to file electronically. Each is tailored to a business's specific needs.

Identifying unregistered employers

ESD's underground economy auditors are not currently traveling and searching for unregistered employers. In addition to receiving tips from other state agencies, the auditors use a variety of tools to identify fraudulent employers, including:

- a toll-free fraud hotline;
- an online fraud reporting tool;
- in-house special investigations; and
- benefit redetermination units that investigate and resolve issues about benefit claims.

Employer education

As in previous years, ESD looks for opportunities to educate employers on tax liability issues and tax reporting requirements. One of the educational tools the agency uses is the ESD voluntary audit program, which enables employers to request an audit (and education) from ESD on correct tax reporting procedures. If the audit results in any findings, ESD waives any penalties associated with the audit.

COMBINED AGENCY HIGHLIGHTS

Representatives of L&I, DOR, and ESD, along with business, labor, and consumer representatives, comprise the Construction Underground Economy Advisory Committee. However, the committee stopped meeting during the COVID-19 pandemic and has not yet been resumed.

As the legislative taskforce concludes its work, there is a recognized need to maintain momentum and continue fostering collaboration with key stakeholders. While the specific structure has not been determined, there is an interest in exploring options for ongoing, meaningful engagement, particularly with regulatory partners and affected interested parties. Whether through periodic meetings, an advisory forum, or another model, the intent is to keep key partners informed and involved as related efforts move forward. This continued engagement will help ensure transparency, alignment, and responsiveness beyond the formal lifespan of the taskforce.

Results from auditing unregistered businesses

In FY 2025, DOR, ESD, and L&I found and audited over 2,000 unregistered or previously registered businesses. In these cases, the agencies “involuntarily registered” the businesses as part of the auditing process. The three agencies assessed over \$298.2 million in taxes, penalties, and interest on the previously unregistered firms. Due to differences in the three agencies’ regulatory authority, each agency audits different types of businesses.

During FY 2025, L&I, DOR, and ESD shared information on contractor registration, taxes, and other data to discover and hold accountable hundreds of businesses and individuals that do not comply with the law. In addition to protecting consumers, workers, and employers through this activity, the agencies assist construction contractors and other business owners in meeting state requirements.

In addition to increasing compliance, enforcing state laws, and providing education and assistance, the three agencies will continue to work together and with their stakeholders to provide meaningful information and data to identify new or ongoing problems and focus future efforts to address those issues.

- DOR may audit all businesses in the state, regardless of whether they have workers. DOR also has a much stronger role in auditing out-of-state businesses in Washington.
- Both L&I and ESD audit only employers with workers covered by workers’ compensation or unemployment insurance.
- L&I tends to focus on industries with a high injury rate and has specific additional regulatory authority in the construction industry.
- ESD tends to focus on industries with higher unemployment rates.

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In addition to increasing compliance, enforcing state laws, and providing education and assistance, the three agencies will continue to work together and with their stakeholders to provide meaningful information and data to identify new or ongoing problems and focus future efforts to address those issues.

Conclusion

CONTINUING THE PARTNERSHIP

During FY 2025, L&I, DOR, and ESD shared information on contractor registration, taxes, and other data to discover and hold accountable hundreds of businesses and individuals that do not comply with the law. In addition to protecting consumers, workers, and employers through this activity, the agencies assist construction contractors and other business owners in meeting state requirements.

In addition to increasing compliance, enforcing state laws, and providing education and assistance, the three agencies will continue to work together and with their stakeholders to provide meaningful information and data to identify new or ongoing problems and focus future efforts to address those issues.