



Chairman Jerome Horton | 4th District

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The Underground Economy Initiative

The underground economy, also called the shadow, informal, or parallel economy, includes not only illegal activities but also unreported income from the production of legal goods and services, either from monetary or barter transactions. The underground economy includes all economic activities that would generally be taxable, if they were reported by tax authorities, as required by law.

To address this concern, the Board of Equalization created an Intergovernmental Entity with real authority to substantially increase state revenue from the Underground Economy.

Estimating the size of the underground economy is difficult. People engaged in underground activities do their best to avoid detection. At the same time, policymakers and government administrators need information about how many people are active in the shadow economy, how often underground activities occur, and the size of these activities, so that they can make appropriate decisions on resource allocation. Thus, economists and government statisticians have made a variety of calculations to attempt to measure the size of the shadow economy. According to research published by the International Monetary Fund, we can reasonably assume that the underground economy, in a well-organized state, is 14 to 16 percent of its gross domestic product.

Applying that formula to California would yield an estimate of about \$27 billion in unpaid taxes (1.85 trillion x 14% x 10.5% taxation--all sources). Making even a small improvement in state revenues from the underground economy would substantially improve the state's fiscal situation. There are other estimates derived in a variety of means. However, all of their conclusions reveal that there are billions of dollars that evade taxes, go undiscovered, and remain uncollected.

Numerous reports have documented the adverse effects of the underground economy on legitimate businesses, workers, consumers, and government services. California agencies, responsible for the collection of taxes and enforcement of labor laws, have statutory authority to collect unpaid taxes and apply penalties for tax evasion. They also have the authority to share information and make coordinated efforts to collect the broad range of revenue, they are entitled to collect. California legislators have created "task forces" to require coordination of tax and wage recovery efforts. But, there is no statutory requirement to prioritize these efforts to obtain revenue, and no one is responsible for specifically increasing revenue from tax evaders. As a result, the state's efforts to assess the underground economy have neither organization nor focus. Furthermore, the hardest work in tax collection is the last priority of every responsible collection agency. At the same time, responses from all investigators in all enforcement agencies are unanimous in acknowledging that they are only 'getting the tip of the iceberg.'

Creating a type of "Central Intelligence Partnership," which uses computer data analysis, SCOP-style field information, and other available data, would create and prioritize revenue increase strategies and have the authority to redirect interdepartmental resources to obtain the desired result, more effectively than current "coordination" efforts.

- Head of illegal marijuana dispensary ring sentenced to 21 years
- CA man gets prison for tainted enhancement pills

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