

Tax Data and Contingent Workers

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Rise in Alternative Work Arrangements?

- Recent policy interest has focused on people earning income in the “gig” or “on demand” economy.
 - These jobs are through app-based technology (e.g. Uber/Lyft AirBnB).
- Not great information on the number or characteristics of those in the “gig” economy.
 - Small in number but growing.
 - JP Morgan (2016): about 2.5 million in any given month. Similar figures from Katz and Kruger (2016) and Harris and Kruger (2015). About 0.5 percent of the workforce.
 - Increased 47 fold between 2012 and 2015 (JP Morgan (2016)).

Rise in Alternative Work Arrangements?

- Gig workers are part of a broader class of workers engaged in alternative work arrangements
 - Includes temporary help agency workers, on-call workers, contract company workers, independent contractors, and freelancers
- Difficult to measure the size/growth of the alternative workforce
 - Contingent Worker Survey (BLS) stopped in 2005.
 - Updated by Katz and Kruger (2016). Between 2005 and 2015 the share of the labor force in alternative work arrangements rose from about 10 percent to about 16 percent. Share approximately constant for 1995-2005.
- What can we learn from tax data?
 - Look at the larger group, not “gig” workers.
 - Not yet possible to separate out “gig” workers in tax data.

Why Do We Care? Federal Tax Issues

- Background: 41% of the gross \$458b tax gap is related to self-employment. So tax administration/enforcement is a potential issue.
- With information reporting (e.g., 1099-Misc, 1099-K).
 - Fewer concerns about failure to report taxable receipts.
 - The workers might be confused about reporting income and paying taxes (income and payroll).
 - Gig workers are new to self employment.
 - Only earn a little from gig work.
 - Multiple forms can be confusing (Misc & K).
 - Estimated taxes. No employer w/h. Workers might be hit with penalties and might not have the cash to pay all the tax at once.

Why Do We Care? Federal Tax Issues

- Deductions. Which to take? Documentation? Underclaim? Overclaim?
- Without information reporting.
 - Same problems as above, plus underreported receipts.
- Gaps in information reporting
 - 1099 reporting is the main source for information reporting for contingent workers.
 - Gaps even if the rules are followed properly.

Why Do We Care? Federal Tax Issues

- 1099-Misc is supposed to be provided whenever payments to the recipient exceed \$600.
- Only business to business. Lot left out.
- And, some gig economy workers report that they don't get a 1099 even though they should. Owe tax w/o a 1099?
- 1099-Misc not used to report credit card payments or third party network transactions.
- 1099-K is to report credit card or third-party network transactions.
 - De-minimus rule: less than 200 transactions or less than \$20,000 in transactions, no reporting requirement.
 - But, some companies report that they send 1099-Ks to all of their service providers (e.g., Uber says this).
 - Some firms send both a 1099-Misc & a 1099-K. Confusing.

Why Do We Care? Worker Classification

- Unclear in many cases whether a worker is an employee or an independent contractor.
 - Longstanding problem.
 - Recent cases: Federal Express (settled for \$228 m) and Uber (settled for \$100 m).
- Worker classification can affect tax and nontax issues.
- Federal tax issues: withholding for income and payroll taxes; unemployment insurance taxes and benefits; required health care or pay penalty (business); deductibility of expenses.

Why Do We Care? Worker Classification Issues

- Other issues: Workers entitled to worker's compensation, minimum wage protection, OSHA protections, discrimination protection, and benefits (retirement, paid vacation, paid sick leave, life insurance, health insurance). Independent contractors are not.
 - Tax dimension because of tax subsidies (e.g., retirement, health).
 - Self-employed were twice as likely to be uninsured compared to wage/salary workers in 2011 (Fronstin, 2012)
 - Private sector wage/salary workers four times more likely to have a sponsored retirement plan compared to self-employed in 2011 (Saad-Lessler, Ghilarducci, and Bahn 2015)
 - ACA helped with health insurance. Better plans, deduct premiums, tax credit.
- Do firms benefit from using contractors? Flexibility? Lower costs? Offsetting wage adjustments? Some tax subsidies reduced.

What Can We Learn About the Self-Employed from Administrative Tax Data?

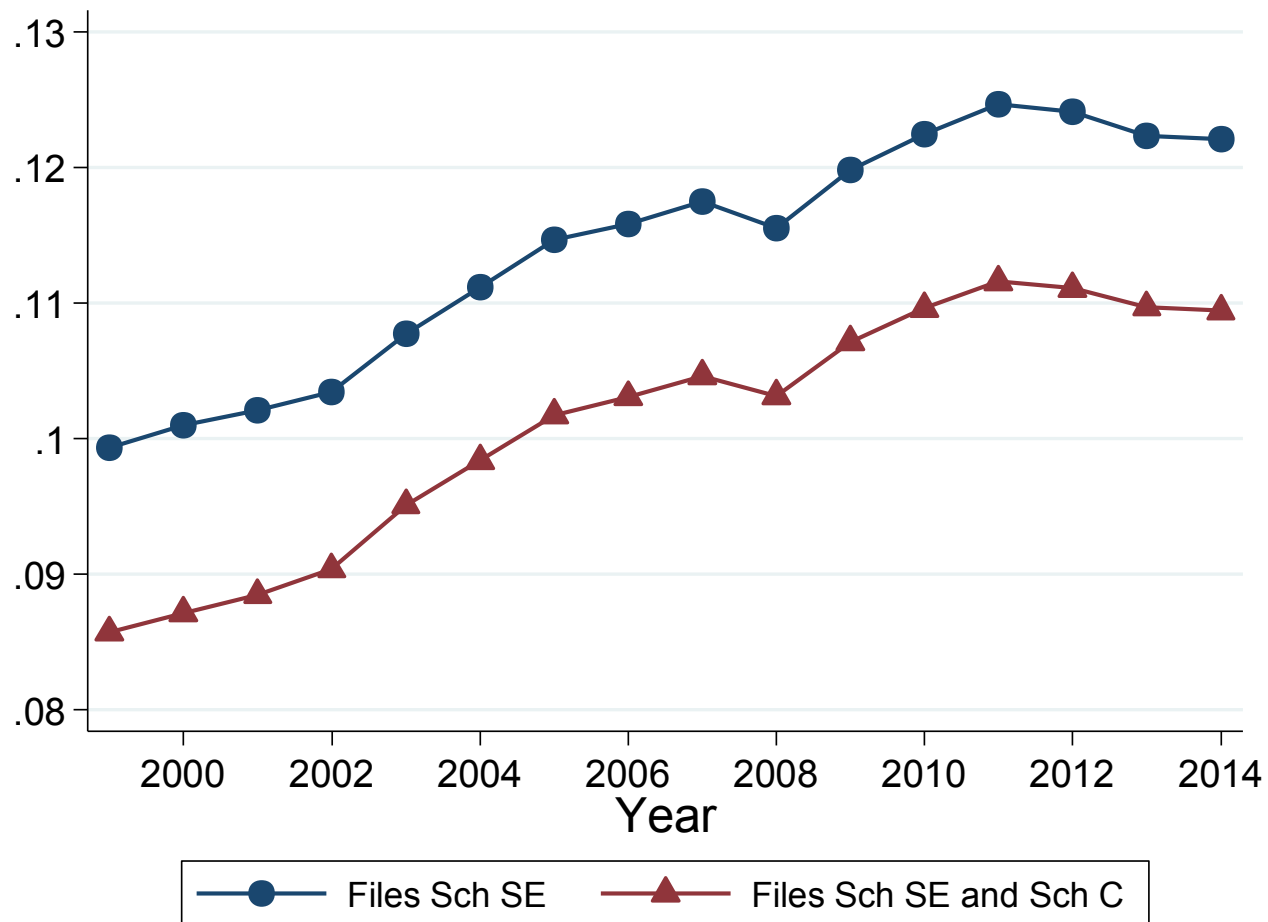
Who Files Schedule C and Schedule SE?

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- Schedule SE is used to collect self-employment tax from sole proprietors, general partners, and farmers.
- Schedule C is used to report the profit or loss from sole proprietorships
 - About 12.5 percent of individuals who pay self-employment tax do not file Schedule C (mostly general partners).

Growth in Self-Employed

- Fraction of people with income from self-employment grew by roughly 25% between 2000 and 2014



Schedule C Filers are a heterogeneous population

Rank	Self-Reported Schedule C Descriptions
1	Consulting
2	Construction
3	Sales
4	Service
5	Real Estate
6	Cleaning/Janitorial Services
7	Hair Stylist
8	Child Care
9	Landscaping
10	Trucking

Approach

- Focus on Schedule SE/Schedule C filers and classify them by characteristics of their business activities and sources of income
- Divide Schedule SE& C filers into three groups:
 - Business Owners
 - Independent Contractors/Misclassified worker
 - Mostly Wage Earners
- Look at how groups have changed over time
- Examine implications for tax-related issues like benefit coverage

Taxonomy

- Create set of rules to classify Schedule SE/C Filers

Sch C Classification	Rules
Business Owner	Total Deductions > \$10K AND Any of the following: (a) Cost of goods sold > 20% of receipts (b) Depreciation expenses > \$5K (c) Sch C wage expenses > \$35K
Independent Contractor (Misclassified Worker)	Total Deductions <= \$10K and SE income > 25 % total earnings OR Total Deductions > \$10K and fails all three business tests
Mostly Wage Earner	Total Deductions <= \$10k and SE income <= 25% total earnings

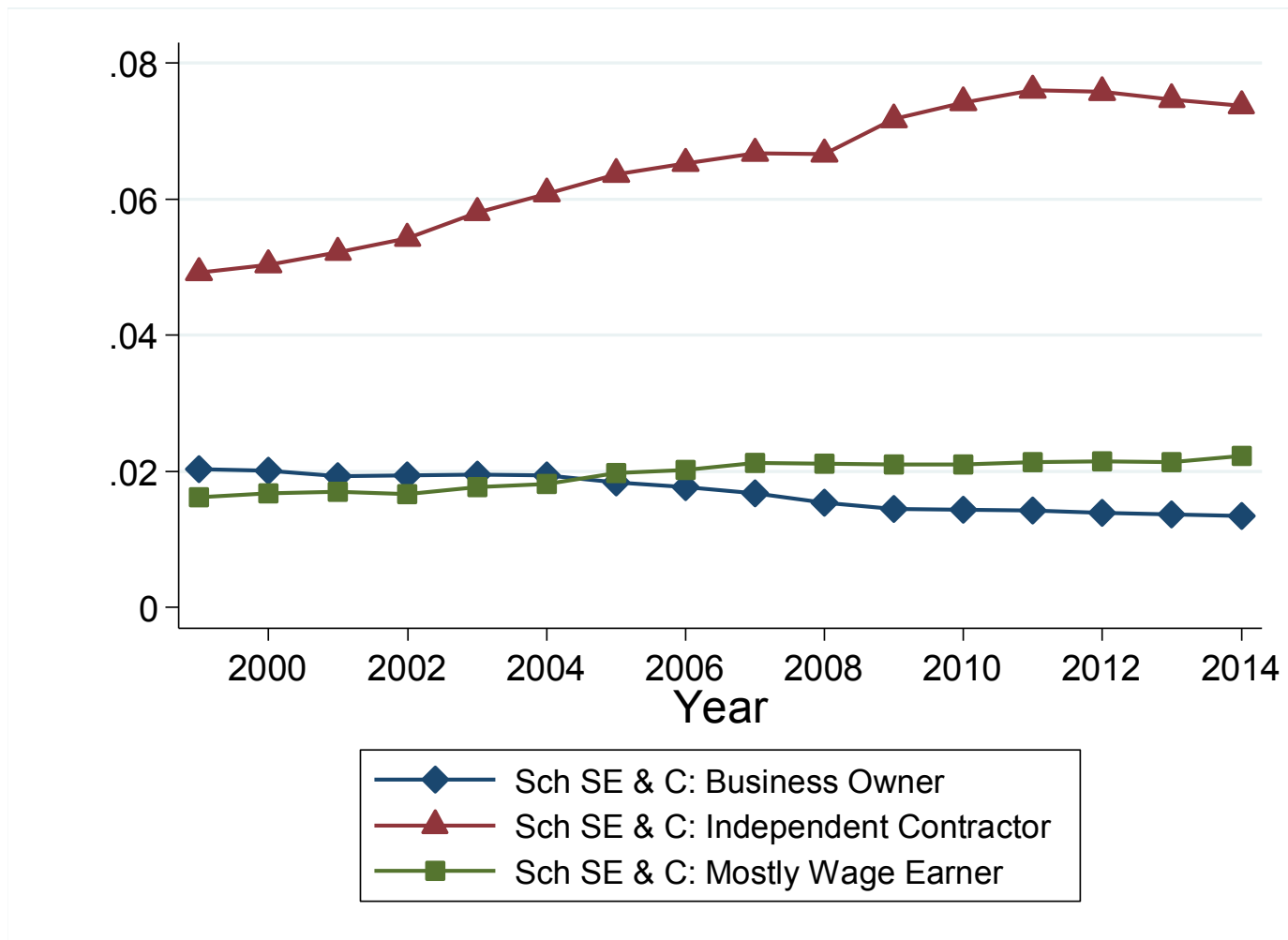
Taxonomy in 2014

SE Earners who File Schedule C	Count	% Sched C Filers
1. Business Owner	2,359,010	12.1%
Large (>100K Total Ded)	718,850	30.5%
Medium (25-100K Total Ded)	977,650	41.4%
Small (10-25K Total Ded)	662,510	28.1%
2. Independent Contractor	13,461,410	69.3%
Large (>100K Total Ded)	320,720	2.4%
Medium (10-100K Total Ded)	4,252,860	31.6%
Small (<10K Total Ded)	8,887,830	66.0%
3. Mostly Wage Earner	3,596,690	18.5%

Time Trends

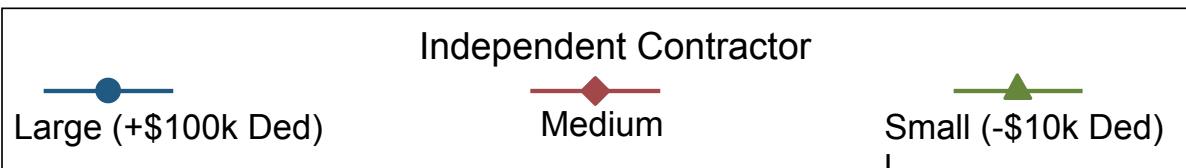
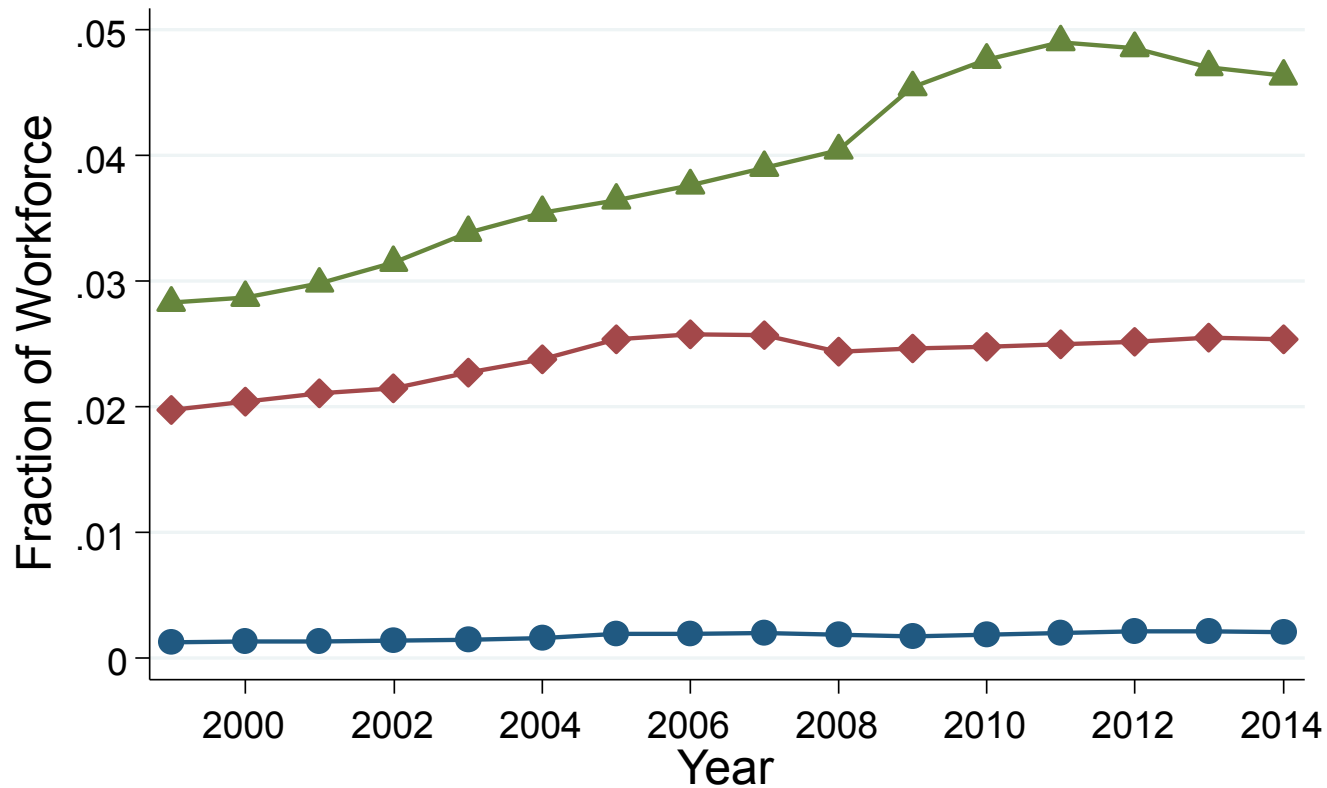
Changes in Schedule C Filers, 2000-2014

- Rise in independent contractors and mostly wage earners and decline in business owners

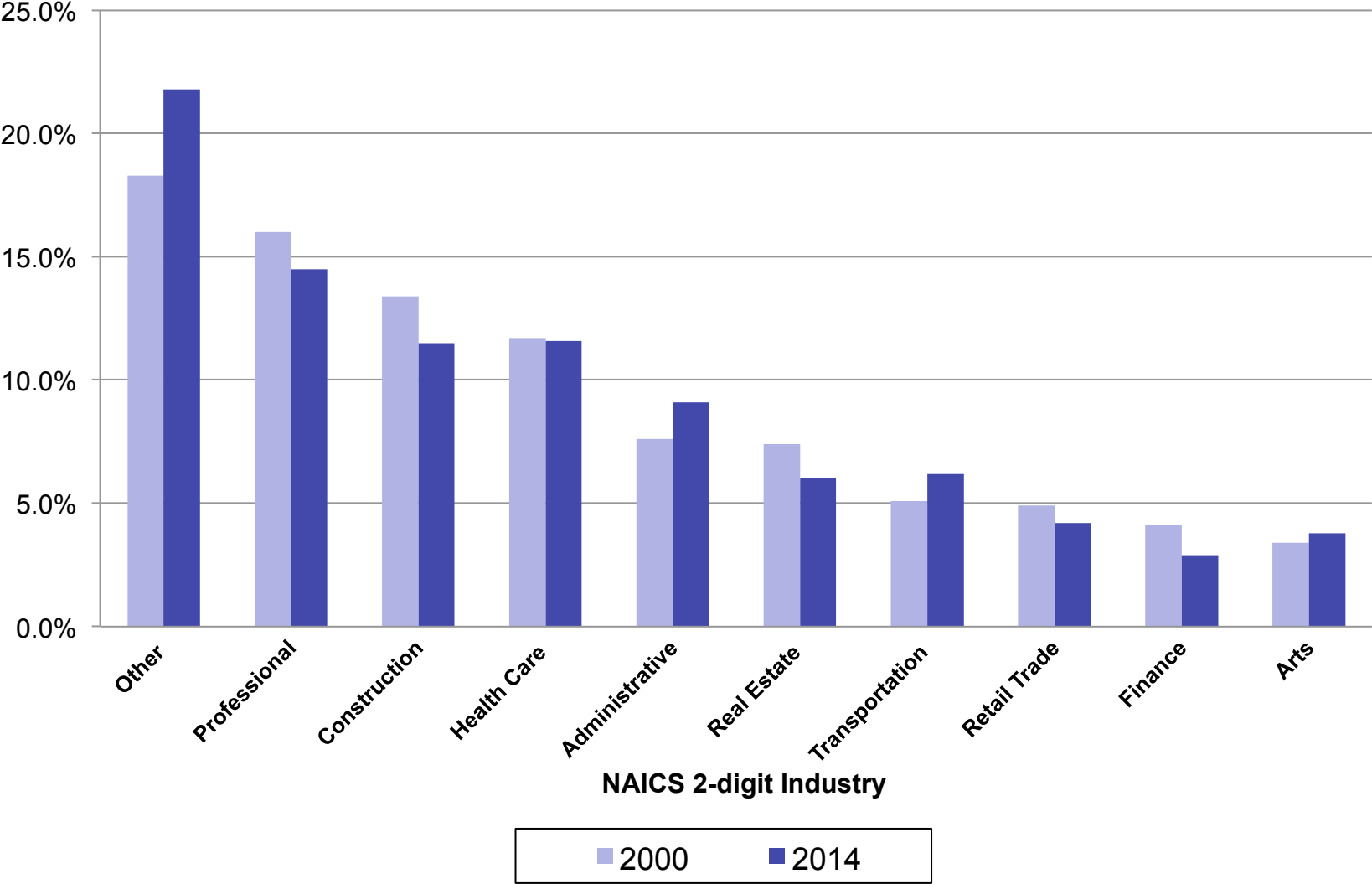


Rise in Small Independent Contractors

- Growth in independent contractors appears to be driven by those with less than \$10K in total deductions



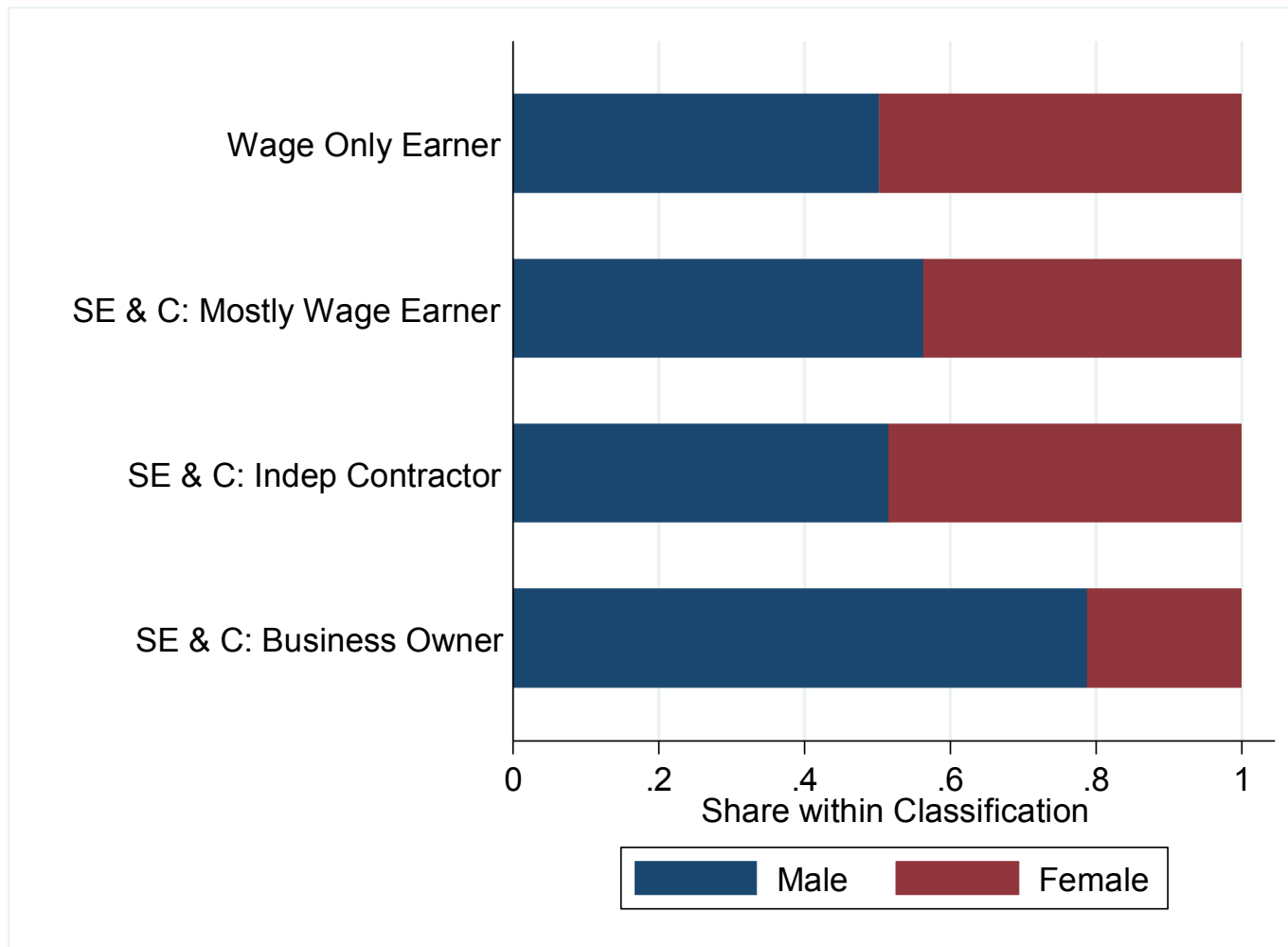
Industry Composition of Independent Contractors



Demographic Characteristics of Independent Contractors

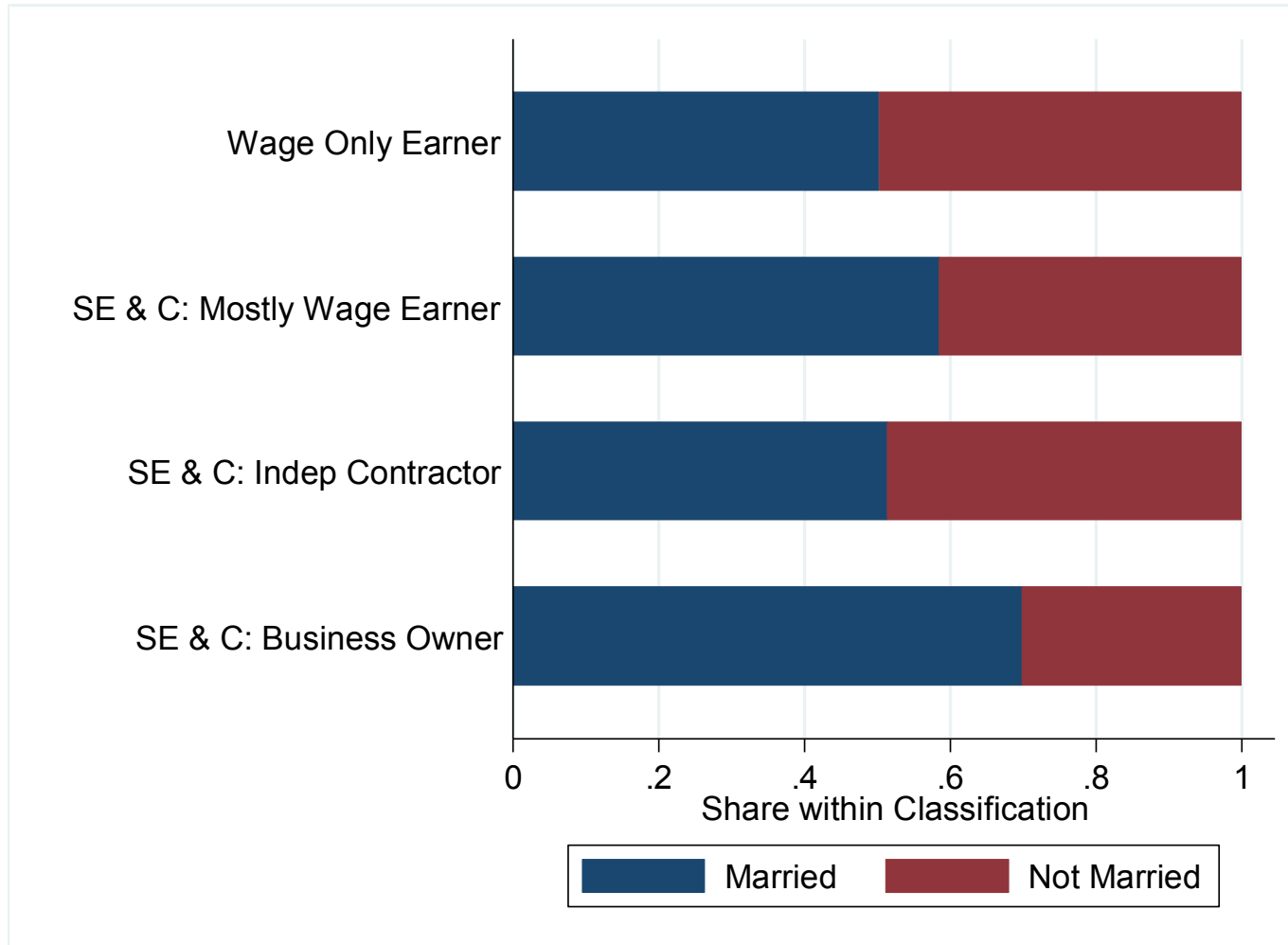
Gender

- Contractors are similar to wage earners in gender composition and more likely to be female than business owners



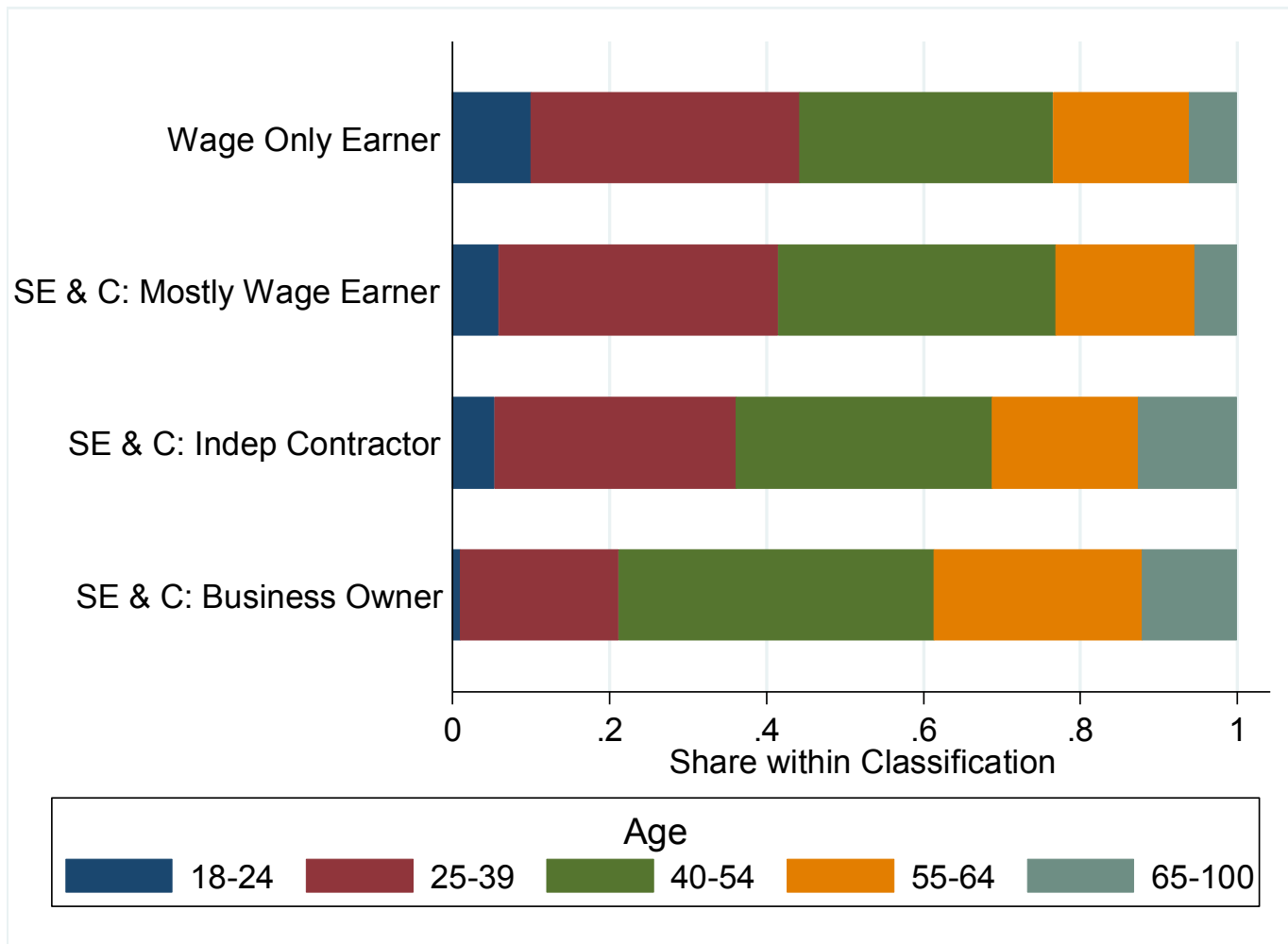
Marital Status

- Contractors are just as likely to be married compared to wage earners, less likely than business owners



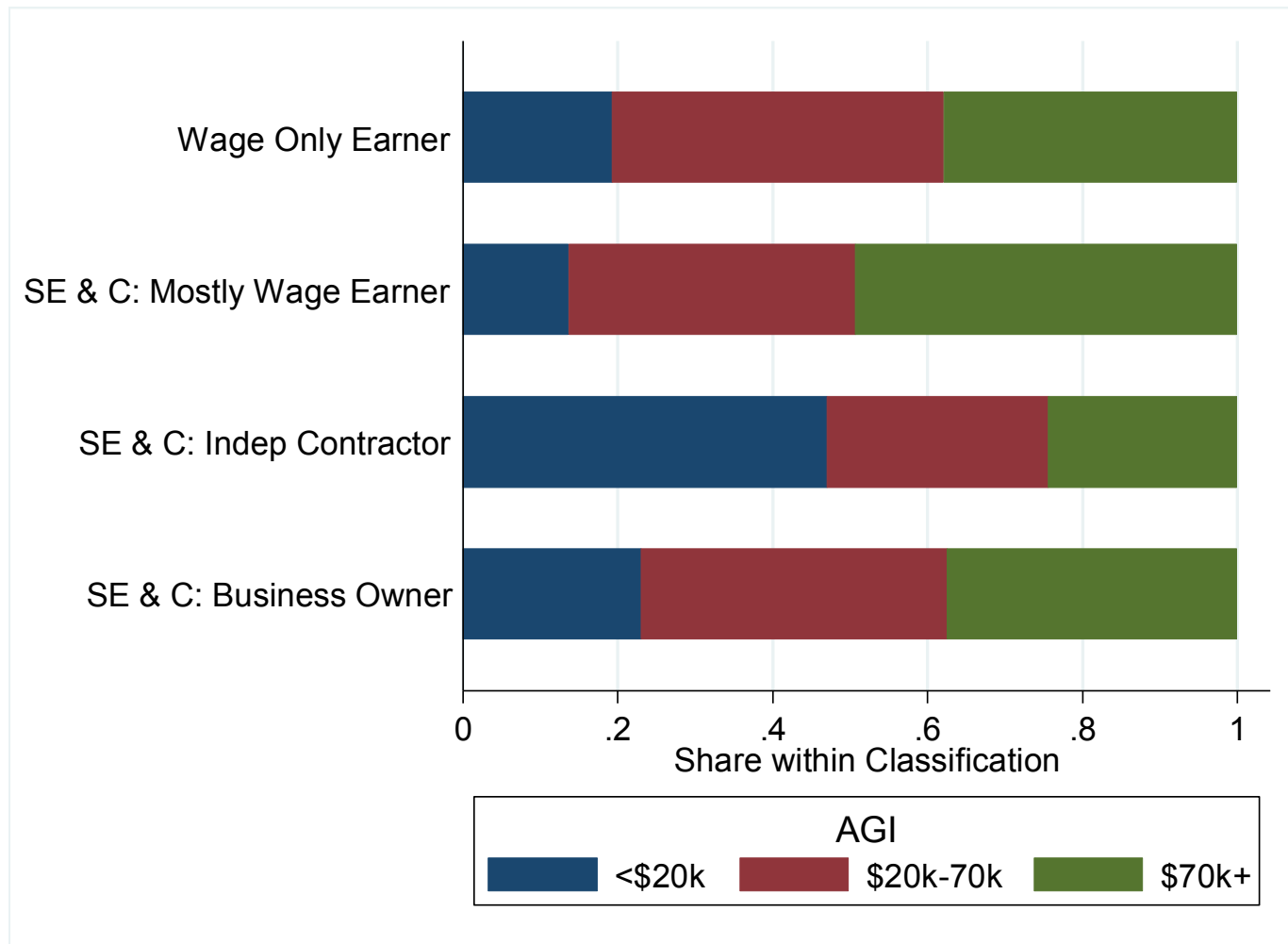
Age

- Contractors are generally older than wage earners but younger than business owners



Adjusted Gross Income

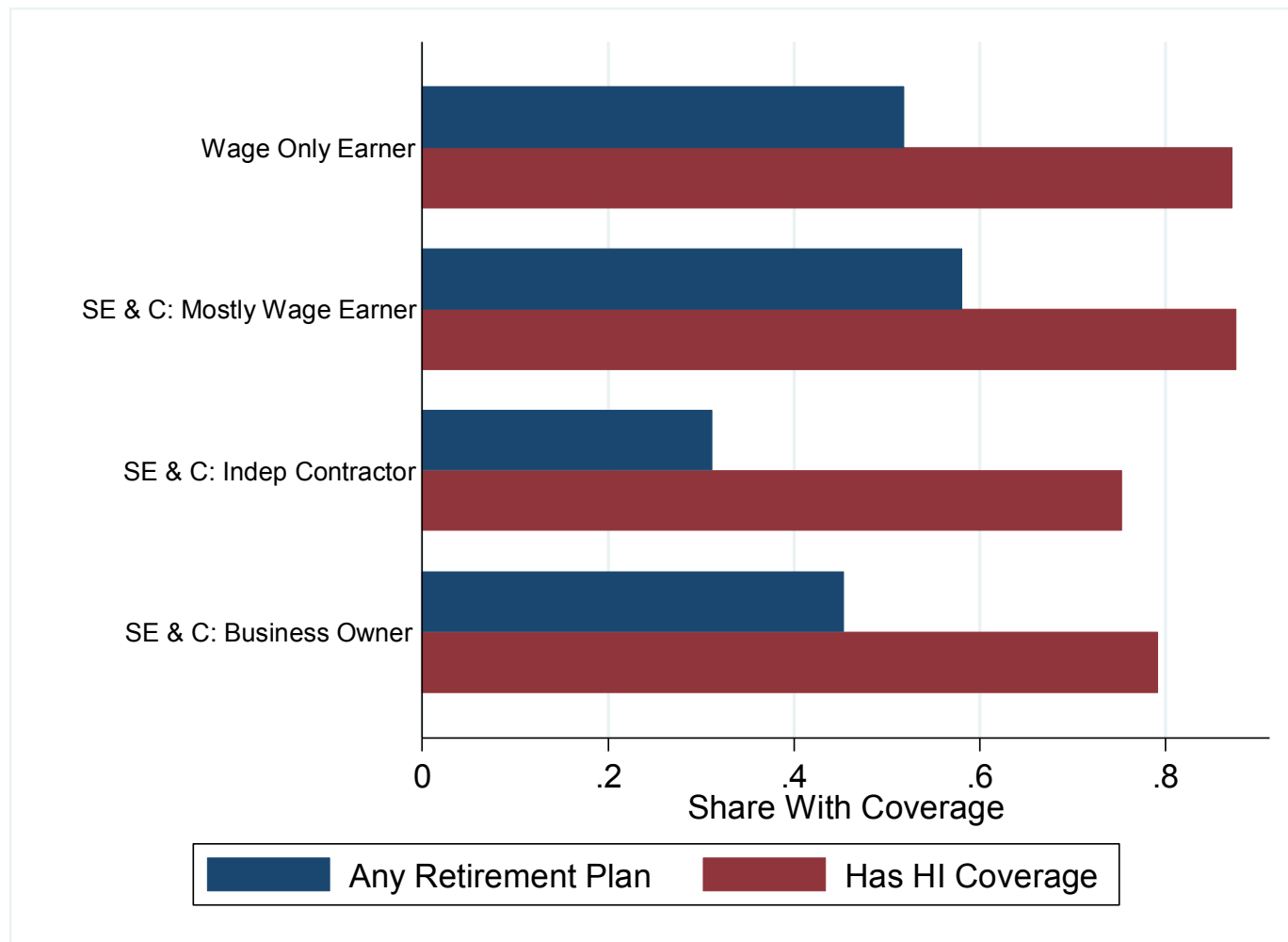
- Contractors generally have lower AGI's compared to both wage and business owners



Benefit Coverage of Independent Contractors

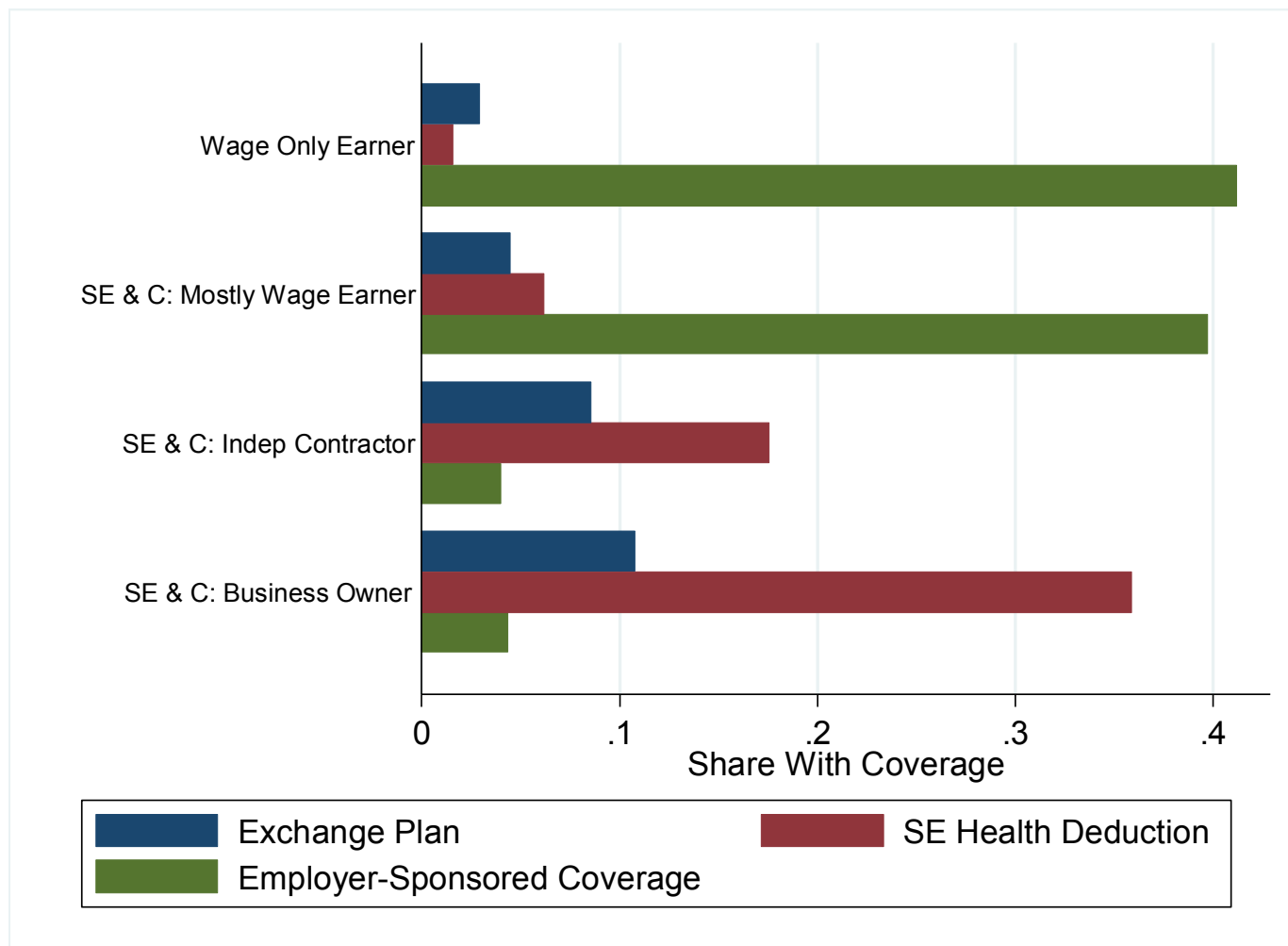
Benefit Coverage, 2014

- Contractors less likely to have any retirement plan or health insurance coverage



Detailed Health Insurance Coverage, 2014

- Contractors (along with all other forms of self-employment) are more likely than wage earners to have exchange coverage



Summary/Conclusion

- Fraction of business owners remained relatively flat between 2000 and 2014
- The increase in Schedule C filings appears to be driven mostly by independent contractors with few expenses
 - Results consistent with Katz and Krueger (2016)
- Independent contractors look similar to wage earners in terms of marital status and gender, but are less likely to have health coverage/retirement plan and have lower AGI's
- Next steps
 - Use additional information returns to distinguish between independent contractors and misclassified workers
 - Eg. 1099MISCs from one EIN vs. multiple EINS
 - Look at those employed by “gig” firms.