

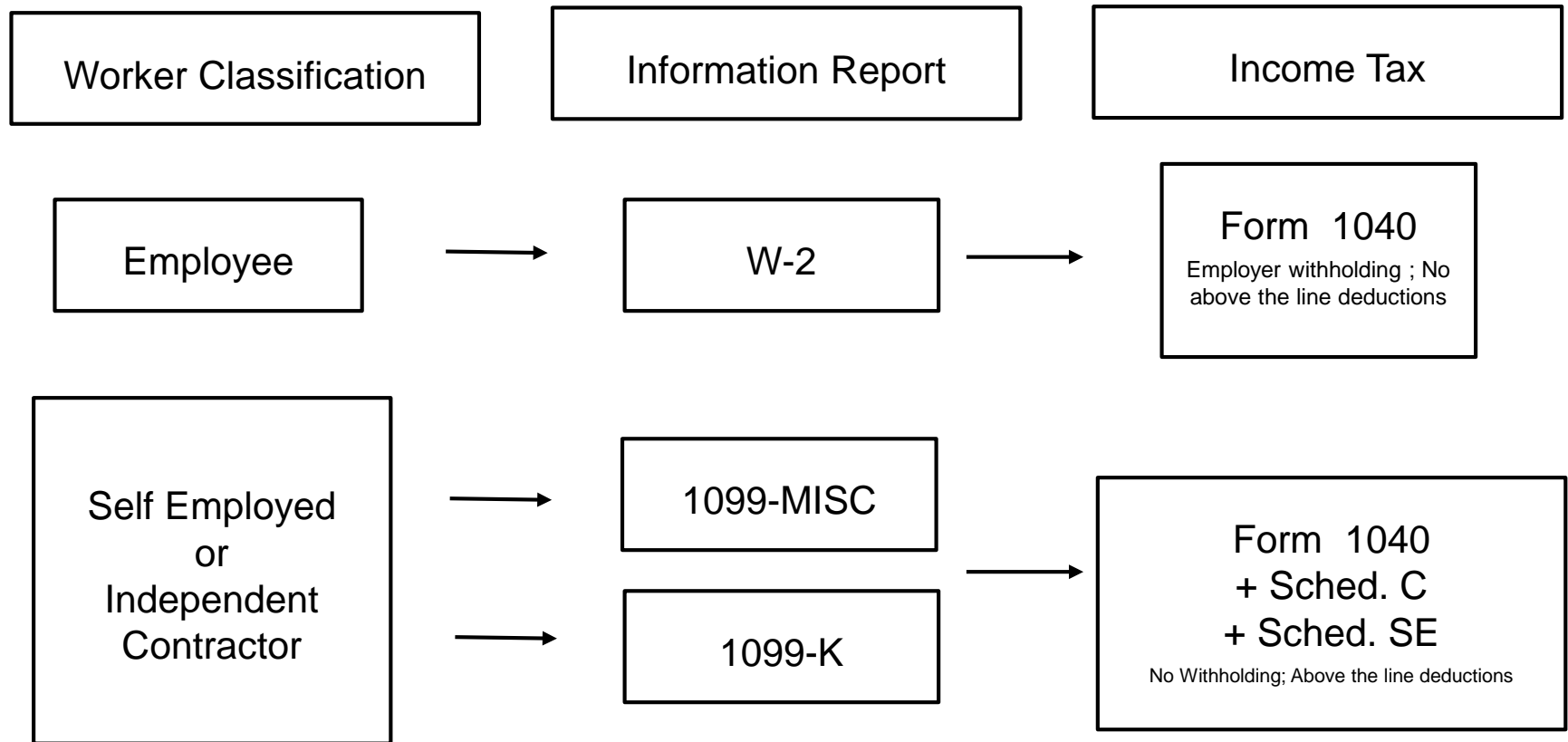


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CONTINGENT WORKFORCE AND WORKER CLASSIFICATION: USING TAX DATA FOR ASSESSING TRENDS AND IMPACTS

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Types of Employer Relationships and Tax Forms



1099-MISC, Miscellaneous Income, is filed for each person to whom there was cash paid from a notional contract, etc.

1099-K, Payment Card and Third Party Network Transactions, is used to report payments from merchants or credit card companies as well as third party networks

Tax Administration Considerations

- Analyses show compliance is higher when amounts are subject to information reporting and even higher when also subject to withholding
- Increases in self employment (or non-withholding) arrangements can increase noncompliance and the tax gap
- Two events that may motivate increases in self-employment and/or use of independent contractors (IC):
 - Worker misclassification and size-based regulations
 - Misclassification = labeling and treating employees as contractors instead of employees (impacts withholding, benefits, etc.)
 - Rise of the “Gig” economy
 - BLS: Gig describes a single project or task for which a worker is hired, often through a digital marketplace, to work on demand.

Academic Partnerships

Independent contractor or employee? The changing relationship between firms and their workforce and potential consequences for the U.S. income tax

- Katherine Lim, Office of Tax Analysis, US Dept. of the Treasury
- Alicia Miller, Internal Revenue Service
- Max Risch, University of Michigan
- Eleanor Wilking, Northwestern University

Academic Partnerships

Causes and Consequences of the “Gig Economy” Growth: Evidence from US Tax Data

- Emilie Jackson, Stanford University

New Statistics to Understand the Sources of America’s Rise in Contingent Work

- David Card, University of California, Berkeley
- Brett Collins, IRS
- Andrew Garin, NBER
- Larry Katz, Harvard University
- Dmitri Koustas, University of Chicago
- J. Mark Payne, IRS

TRENDS FOR INDEPENDENT CONTRACTORS AND WORKER MISCLASSIFICATION

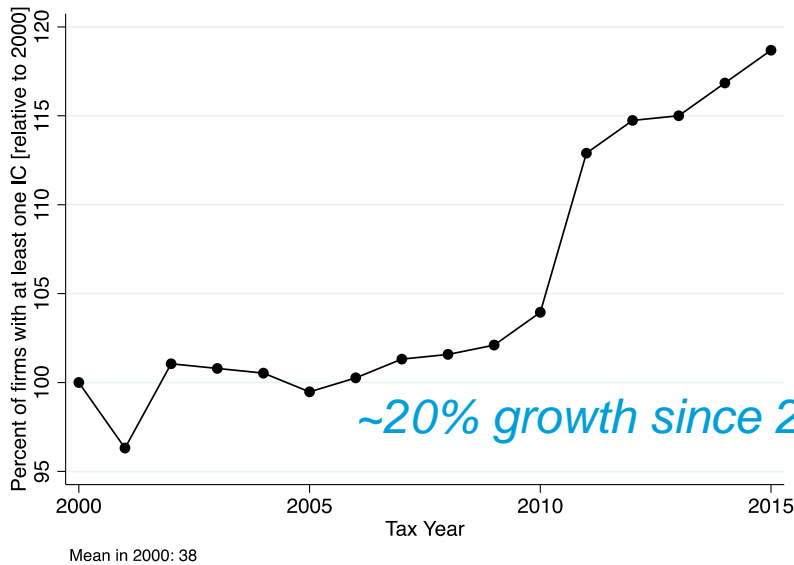
Number of Independent Contractors has grown rapidly

Growth of ICs vs. Non-ICs

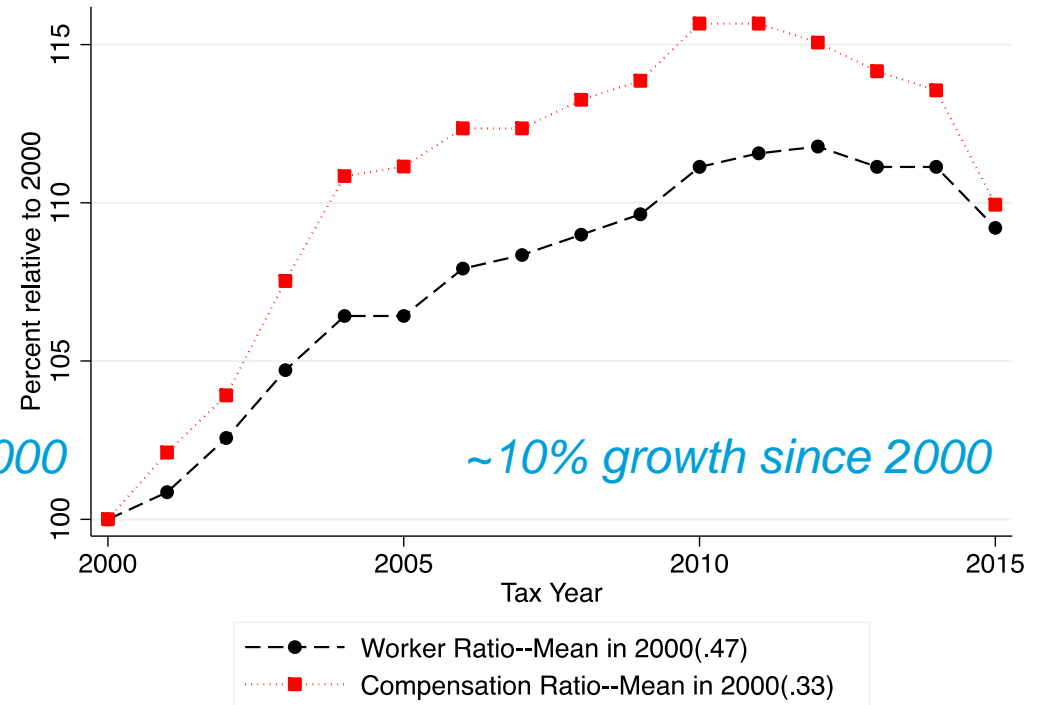


Share of firms with ICs and the proportion of workforce comprised of ICs has grown

Share of firms with any ICs (Extensive margin)



Firms IC share of workforce (Intensive margin)



IC defined as 1099-MISC recipient with <5K Sched. C expenses (Knittel et al., 2011) to remove likely sole proprietors, who are less likely to be misclassified

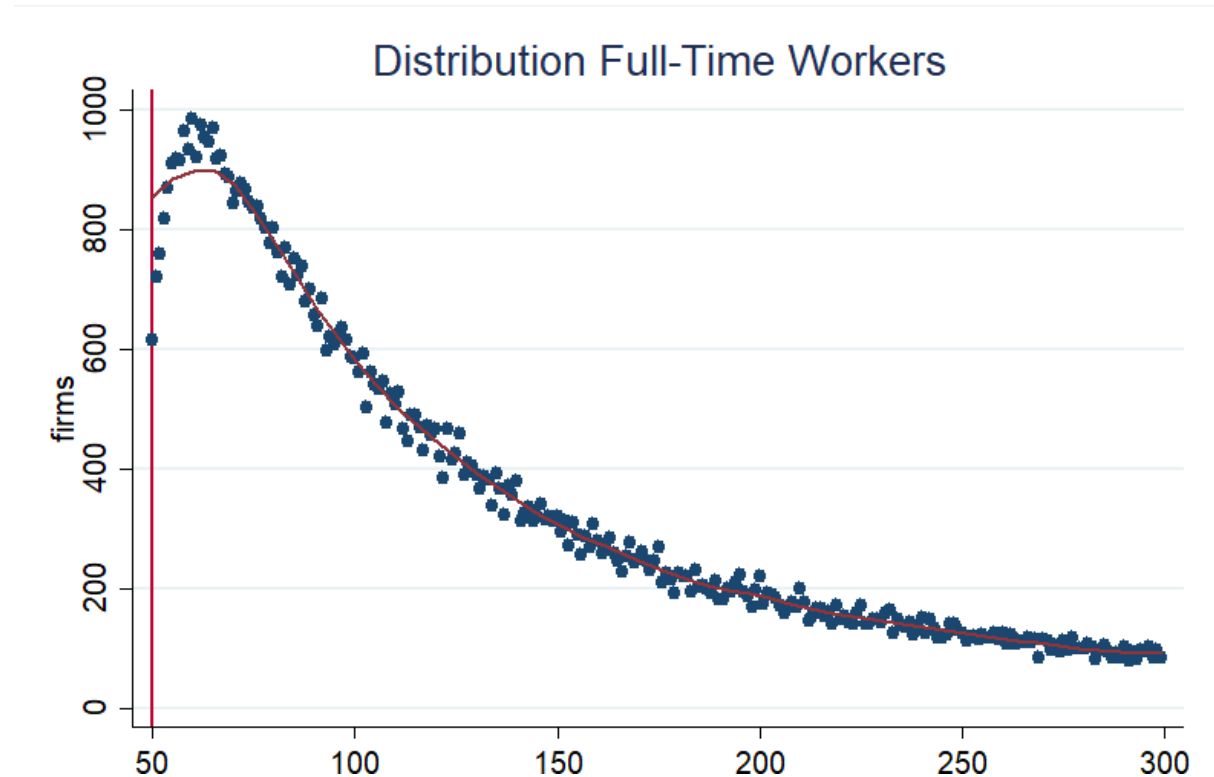
Response to ACA indicates potential for bunching and misclassification

Data

- Applicable Large Employers (ALE, 50+ FTE) submit 1094-C (Health Insurance Coverage) and report # of employees

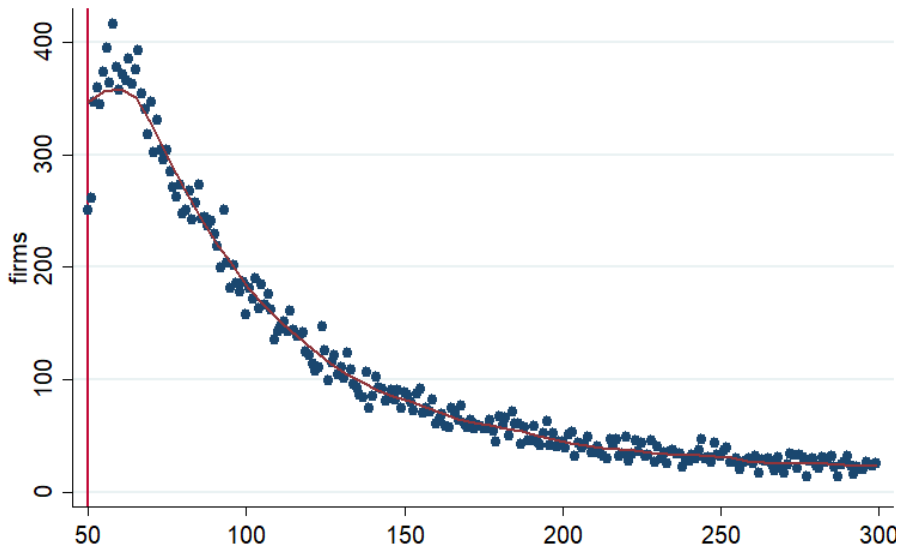
Limitations

- No reporting for non-ALEs
- Did all ALEs file?
- Firm reported # of employees does not show full time equivalent



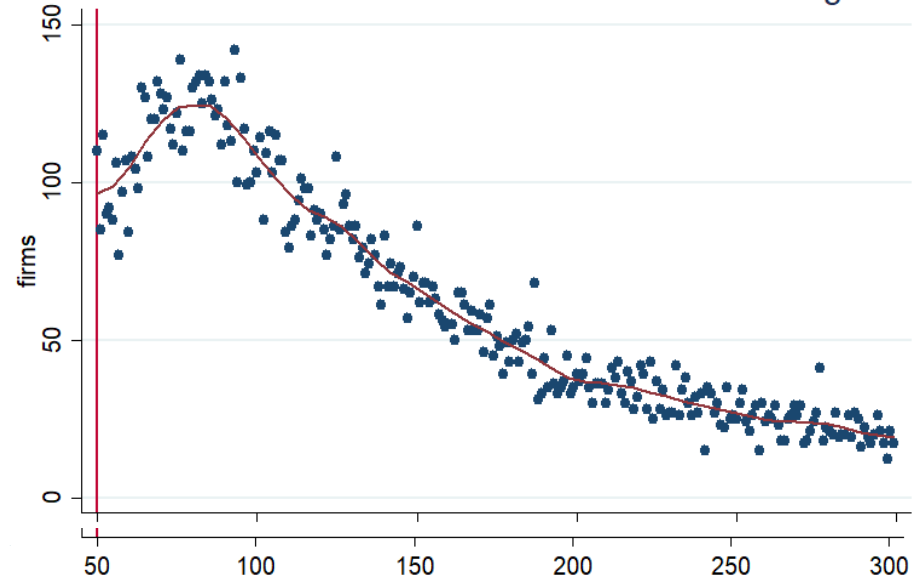
Stronger potential for bunching with lower-wage firms, for whom ACA likely had more “bite”

High Wage



Distribution of Full Time Workers
>75% Percentile Wages

Low Wage



Distribution of Full Time Workers
<25% Percentile Wages

GROWTH OF GIG WORK

Gig Economy

Labor Platforms

- Participants perform discrete tasks
- E.g. Uber or TaskRabbit

Capital Platforms

- Participants sell goods or rent assets (peer-to-peer)
- E.g. Airbnb or Etsy

Source: JP Morgan Chase & Co. Institute 2016

Gig Economy

Labor Platforms

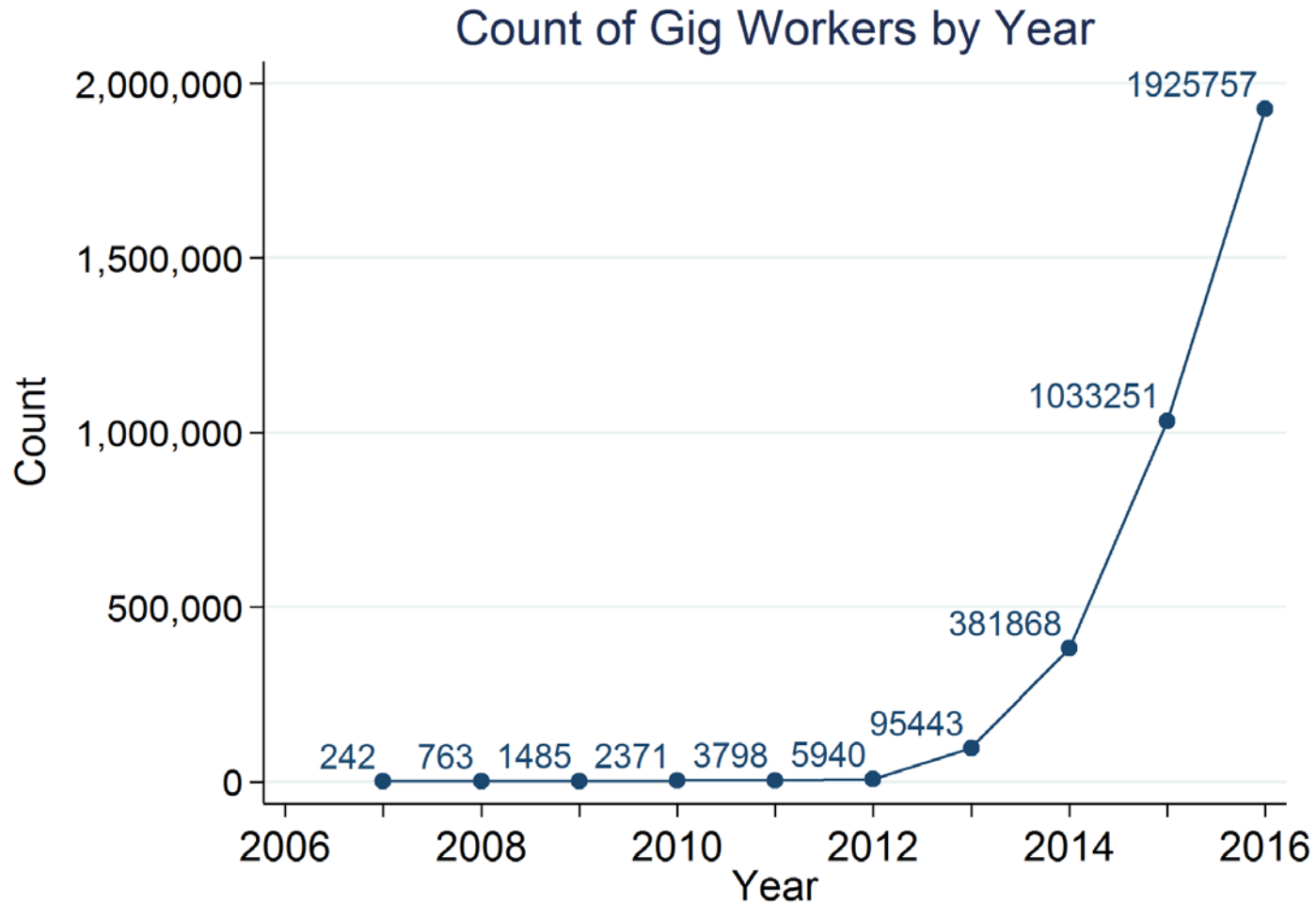
- **Participants perform discrete tasks**
- **E.g. Uber or TaskRabbit**

Capital Platforms

- Participants sell goods or rent assets (peer-to-peer)
- E.g. Airbnb or Etsy

Source: JP Morgan Chase & Co. Institute 2016

Number of individuals has increased dramatically



Note: Gig companies identified by searching individual Sched C. for relevant text descriptions and associating with EINs

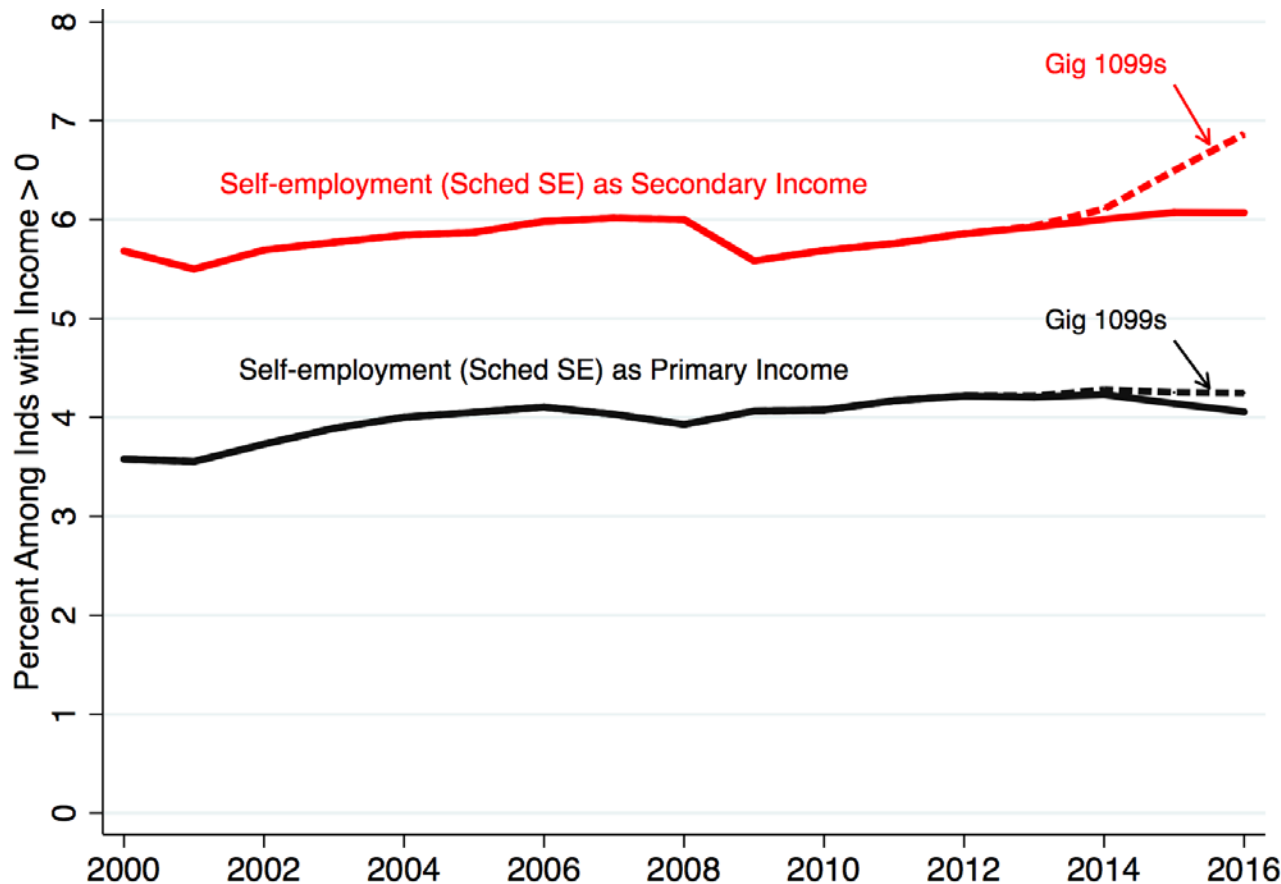
Gig workers are younger



Characteristics of Tax Filers Associated with Gig Firms

	Gig Participants	Wage Earners
	Mean (1)	Mean (2)
Receive 1099-K	91%	0%
Receive 1099-Misc	36%	10%
File Schedule C	60%	13%
Receive W-2	72%	100%
% With Multiple Jobs	33%	30%
# of Jobs	1.3	1.4
Student	14%	12%

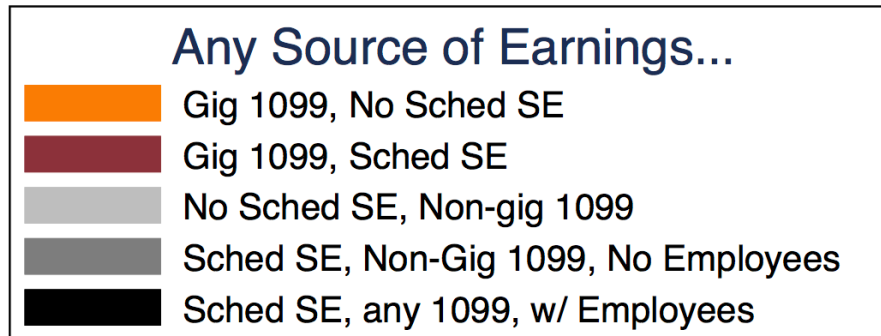
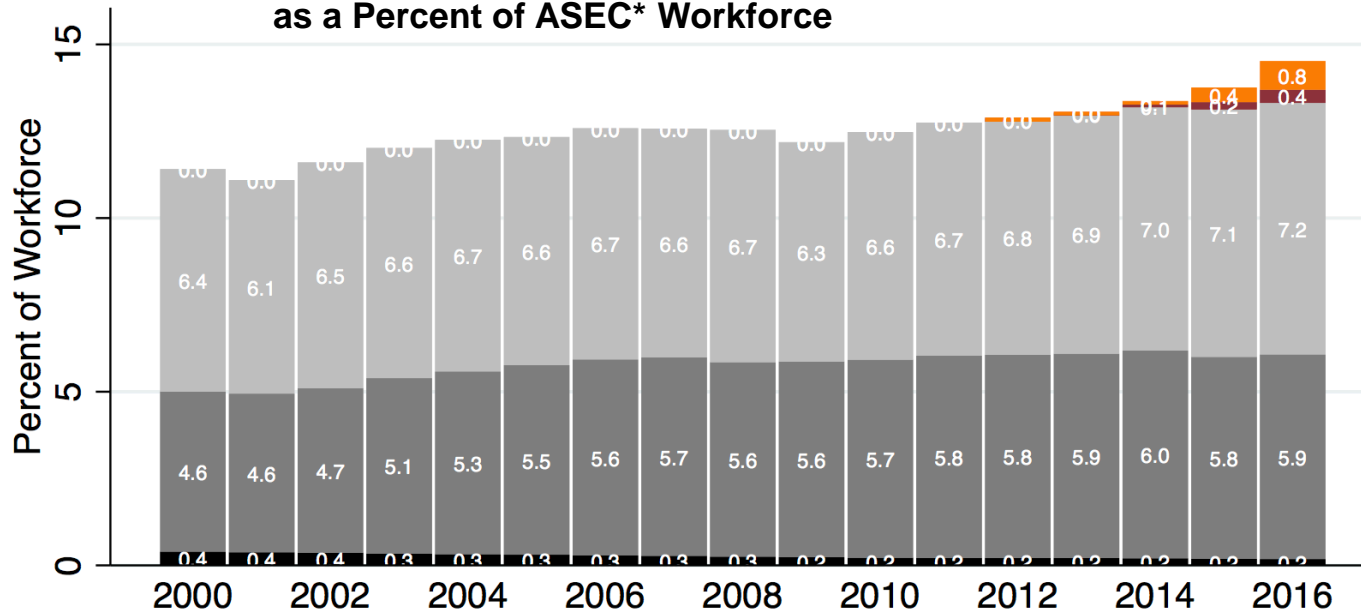
Growth in 1099 income is primarily supplemental to a main W2 job, and supplemental gig jobs account for nearly all 1099 growth



Note: Gig companies identified by searching individual Sched C. for relevant text descriptions and associating with EINs; analysis includes 10 most frequent EINs.

More 1099s, but often not reported as “self-employed” earnings

Figure: Count of Individuals with Form 1099 income as a Percent of ASEC* Workforce



*American Social and Economic Supplement (ASEC)

Data limitations and Open Issues

1099-MISC does not reflect only labor income

Nuances for worker misclassification

- Methodology for distinguishing between ICs and Sole Proprietors (which are less likely to be misclassified)
- Tax data does not collect FTE or sufficient data to create FTE conversions to look at ratio changes over time

“Gig” work

- No clear indicators, though employers can be identified by searching Schedule C business activity descriptions (“ride share,” “Uber” etc.)
- Merchants report all transactions, but may miss some income from third party networks (Payment Transaction Entities must file after processing over 200 transactions and over \$20,000)