Is Gig Work Changing the Labor Market? Key Lessons from Tax Data

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Measuring the Prevalence of Contract and Gig Work is Important

The New York Times
How Freelancing Is Changing Work

Forbes
Why The Gig Economy Will Drive The Future Of Employment

Los Angeles Times
New California labor law AB 5 is already changing how businesses treat workers

BOSTON.com
Should gig economy workers be employees or independent contractors?
A proposed ballot question could have voters decide.

NEWS
U.S. Labor Secretary says most gig workers should be classified as employees
The Department's decision could have far-reaching implications on ride-hailing services such as Uber, Lyft and food delivery apps such as Grubhub Doordash and Postmates.
Measuring the prevalence of contract and “gig” work is important
- Major policy debates about definition of an “employee"
- Important implications for tax administration

Key questions:
- How common is contract-based work? As main job? As a supplemental income source?
- Is contract work becoming more prevalent? Are trends driven by gig work on apps and online platforms?
- Who does contract work, how much do they earn, and what do they do?
Our Work

▶ **Problem:** Wide range of estimates from different sources, surveys very sensitive to question asked

▶ **Useful feature of tax data:** *firms* directly report payments to contract and platform workers on 1099 forms

▶ **Today:** Discuss the use of firm-reported returns for measurement of gig/freelance work, highlight important lessons from the data
  
  ▶ Draw on insights from recent and ongoing studies (Jackson, Looney, Ramnath 2017; Collins et al. 2019; Lim et al. 2019; Garin, Koustas, Jackson 2022; Garin, Koustas, Jackson, Miller *ongoing*)
1. Measuring Contract Work in Tax Data

2. Key Findings 1: Understanding the Trend

3. Key Findings 2: What Work are People Doing?

4. Takeaways
Using Tax Returns to Measure Contract and Gig Work

Draw on the universe of individual tax filings and information returns from 2000-2018

- Observe non-employee compensation payments by firms to self-employed independent contractors (1099 MISC Box 7 / new 1099-NEC)
  - Unique feature of IRS data
  - Following Collins et al (2019), break out labor payments from online platforms including reporting on 1099-K

- Link to self-reported self-employment receipts, expenses, and industry classifications on Schedule C and Schedule SE

- Link to wages (W2) and household structure and other income sources from other filings (Form 1040)
**1099-MISC**, Miscellaneous Income, is filed for each person to whom there was cash paid from a notional contract, etc. The threshold is set at $600.

**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. The threshold is set at $20,000 with 200 transactions but often doesn’t bind.
**IRS Tax Data: What are the relevant tax forms?**

**Worker Classification**
- **Employee**
  - **W-2**
  - **Form 1040** (Wages/Salary)
- **Independent Contractor**
  - **1099-MISC**
  - **Form 1040**
    + **Sched. C (Business Income)**
    + **Sched. SE (Soc Sec Tax)**
    - No Withholding; Deduct Expenses
- **Other Self-Employed**
  - **1099-K**
  - **Form 1040**
    - No Withholding; Deduct Expenses

**Information Report**
- Provided by employer to worker and IRS

**Income Tax Return**
- Filled out by taxpayer and sent to IRS

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Trends in 1099-based Work

Total Share with Contract/Freelance Work on 1099

Since 2005:

* Workforce = Individuals with W-2, Schedule SE or Contract $ Reported on 1099-MISC/K + 1040
No Recent Increase in Contracting as Main Job

Since 2005:
- Increase mostly among workers with main W2 job

* Workforce = Individuals with W-2, Schedule SE or Contract $ Reported on 1099-MISC/K + 1040
Only Increase is Supplemental Platform Work

Since 2005:
- Increase mostly among workers with main W2 job
- All increase from Platform Economy

* Workforce = Individuals with W-2, Schedule SE or Contract $ Reported on 1099-MISC/K + 1040
Even Less Growth Focusing on Full-Time Workers ($W2 + SE > 15,000$)

- Since 2005:
  - Increase mostly among workers with main W2 job
  - All increase from Platform Economy

- Restricting to full-time employed (Over $15,000 W2+SE$)
  - No increase except supplemental platform work

* Workforce = Individuals with W-2, Schedule SE or Contract $\$ Reported on 1099-MISC/K + 1040
Platforms Almost Entirely Driving-Based Work, Small Amounts Dominate

- Dramatic rise in platform work since 2013
- Overwhelming majority is driving tasks (note scales!)
- Most earn small amounts of receipts
  - Before 50-60% expensing

* 2017–2018 1099-K amounts under $20,000 imputed from MA and VT. Graphs on different scales.
Discussion: Trends

- Since 2005, expansion of freelance/contract work mainly OPE transportation work
  - Vast majority is small and supplements a main W2 job

- Importantly, trends in 1099s do not line up with rise in Schedule C/SE filing
### Schedule SE Trends

<table>
<thead>
<tr>
<th>Year</th>
<th>Share of Overall Workforce</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td></td>
</tr>
<tr>
<td>2003</td>
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<td>2006</td>
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<td>2009</td>
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<td>2012</td>
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<tr>
<td>2015</td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td></td>
</tr>
</tbody>
</table>

**Between 2000-2018:**

* Workforce = Individuals with W-2, Schedule SE or Contract $ Reported on 1099-MISC/K + 1040
Between 2003-2013:

- **SE Growth:** 2.0 p.p.
- **1099 Growth:** 0.8 p.p.

* Workforce = Individuals with W-2, Schedule SE or Contract $ Reported on 1099-MISC/K + 1040
SE v. 1099 Contracting Trends

- SE filing and 1099 diverge between 2003-2013
  - SE Growth: 14%
  - 1099 Growth: 3%

* Workforce = Individuals with W-2, Schedule SE or Contract $ Reported on 1099-MISC/K + 1040
Platform Work Does Not Explain SE/C Filings

- SE filing and 1099 diverge between 2003-2013
  - SE Growth: 14%
  - 1099 Growth: 3%
- Online platform work drives 1099s ↑ post 2014, but not SE filings (few OPE workers file SE)
- Garin, Jackson, Koustas (2022) show SE growth driven by EITC-related reporting incentives

* Workforce = Individuals with W-2, Schedule SE or Contract $ Reported on 1099-MISC/K + 1040
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Who Does Contract Work and What Do They Do?

- Extensive debate over appropriate classification of workers
  - Does contract work look like full-time employment or side gigs?
  - Do contractors look like skilled consultants or laborers?
  - Does it look the same for high earners and low earnings?

- Draw on self-reported activity codes on Schedule C of 1099 recipients to examine distribution of activity
  - Examine 2018 distributions within personal earnings bins (W-2 + Schedule SE)
2018 Distribution of Contract Work

Most common at top and bottom
More likely to be side inc at top

- Workforce shares are within earnings bins; percentiles rounded to nearest $100 for confidentiality
2018 Distribution of Platform Work

- Most common at top and bottom
  - More likely to be side inc at top
  - Platform work more common at bottom

* Workforce shares are within earnings bins, OPE not adjusted for thresholds
2018 Schedule C Industry Distribution

- Most common at top and bottom
  - More likely to be side inc at top
  - Platform work more common at bottom

- Clear difference between high end and low end
  - Low end: "Manual" tasks, main earnings source
  - High end: skilled jobs, supplements W-2

* Activity distribution of C recipients with 1099s within bin; percentiles rounded to nearest $100
Zooming in on Top Earners

Most common at top and bottom
  ▶ More likely to be side inc at top
  ▶ Platform work more common at bottom

Clear difference between high end and low end
  ▶ Low end: "Manual" tasks, main earnings source
  ▶ High end: skilled jobs, supplements W-2
  ▶ Especially at very top

* Activity distribution of C recipients with 1099s within bin; percentiles rounded to nearest $100
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Key Findings:

1. Since 2005, all increase in contract work is platform-based driving, almost entirely supplemental to annual W-2 earnings

2. No trend in “full-time” contract work, vast majority of which remains outside platform economy

3. Important difference between “high-end” and “low-end” contract work
   - High-end: skilled freelancing, usually side consulting
   - Low-end: Admin/personal service work, transportation/warehousing, construction, usually main source of income

4. Trends in Schedule C/SE filing not related to platform trends (Garin, Jackson, Koustas 2022)