

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

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UIUC Future of Work Symposium

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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

 **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.

BOSTON 

**Should gig economy workers be
employees or independent
contractors?**

A proposed ballot question could have voters decide.

- ▶ 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?

- ▶ **Problem:** Wide range of estimates from different source, 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 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*)

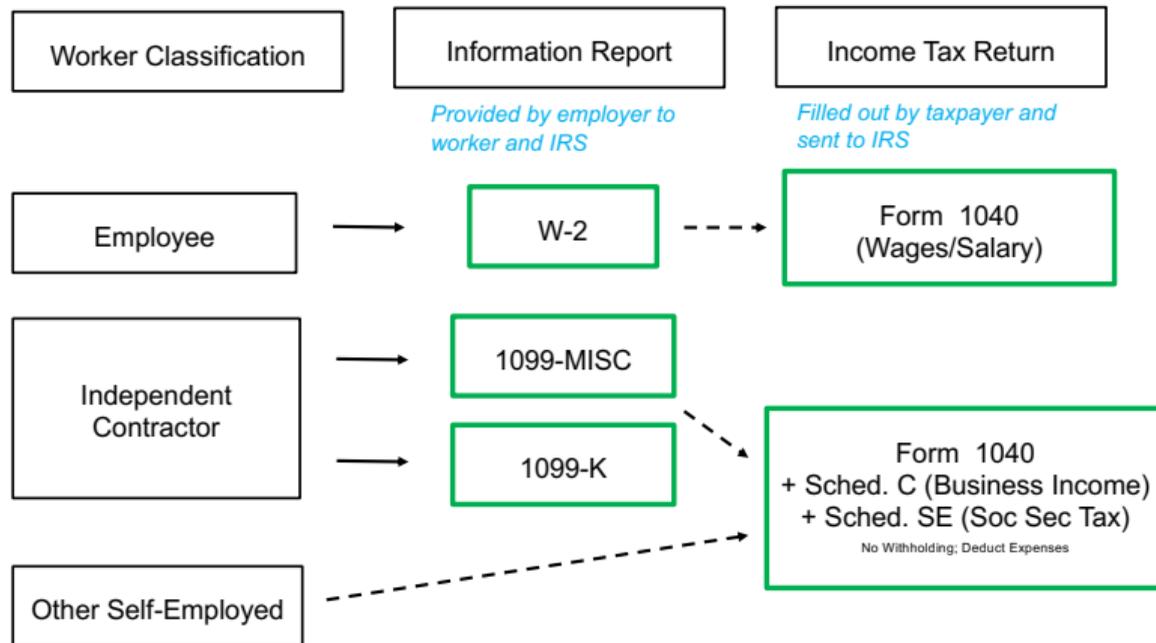
1. Measuring Contract Work in Tax Data
2. Key Findings 1: Understanding the Trend
3. Key Findings 2: What Work are People Doing?
4. Takeaways

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)

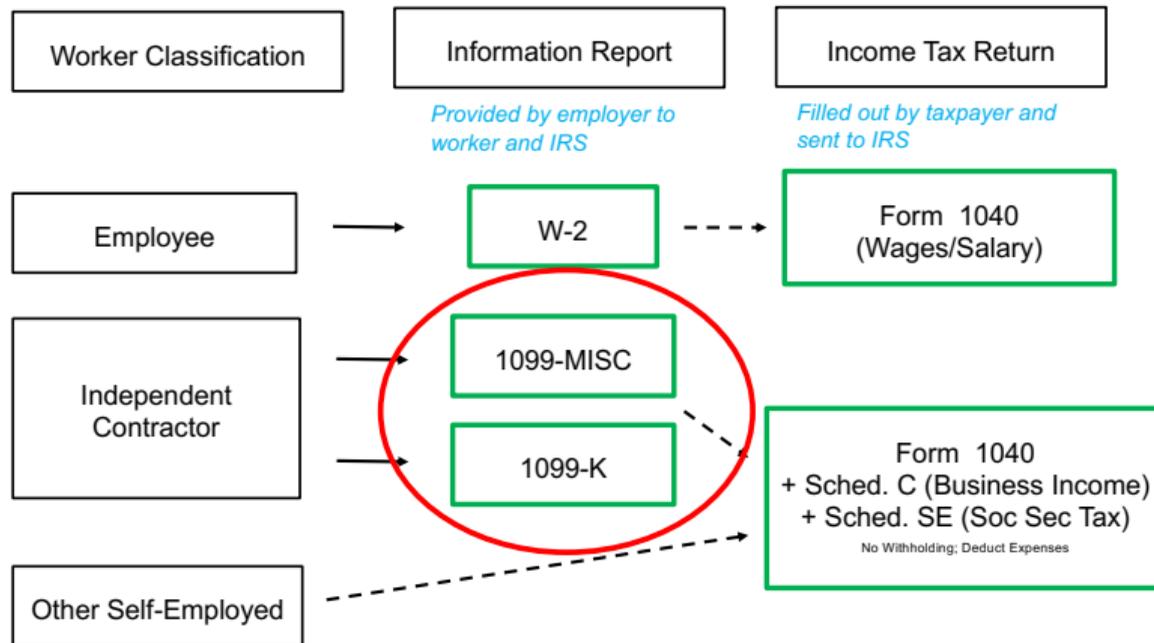
IRS Tax Data: What are the relevant tax forms?



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

IRS Tax Data: What are the relevant tax forms?

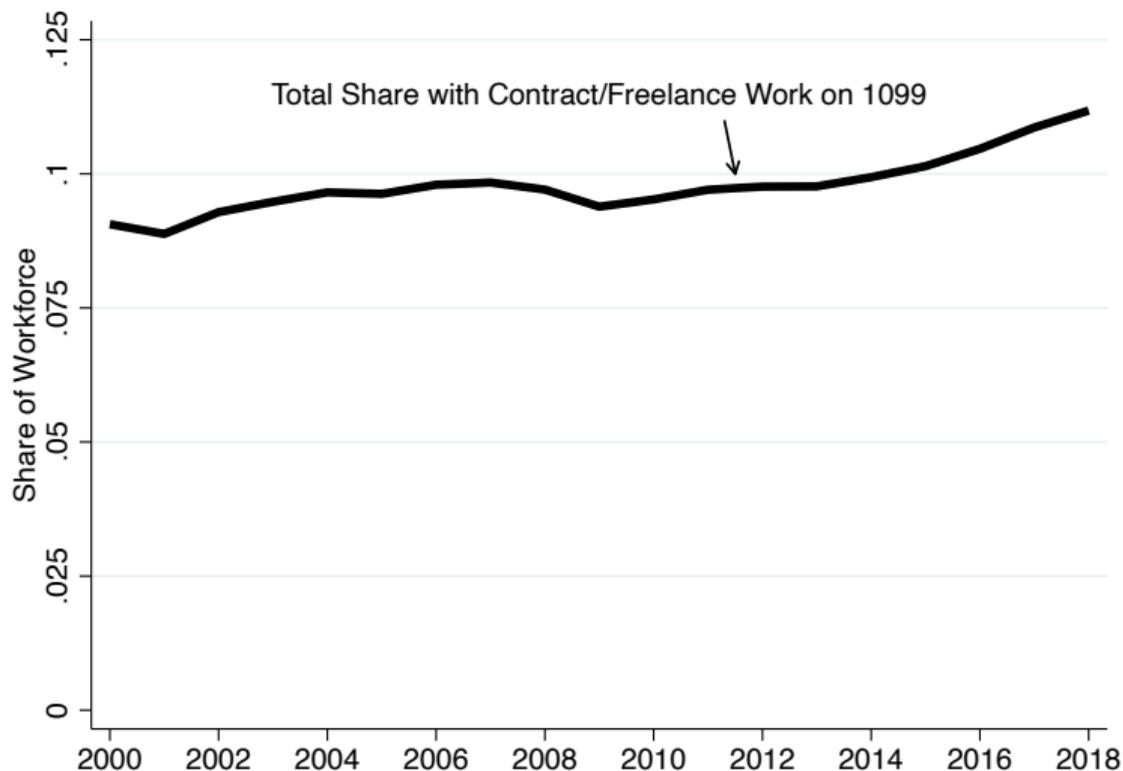


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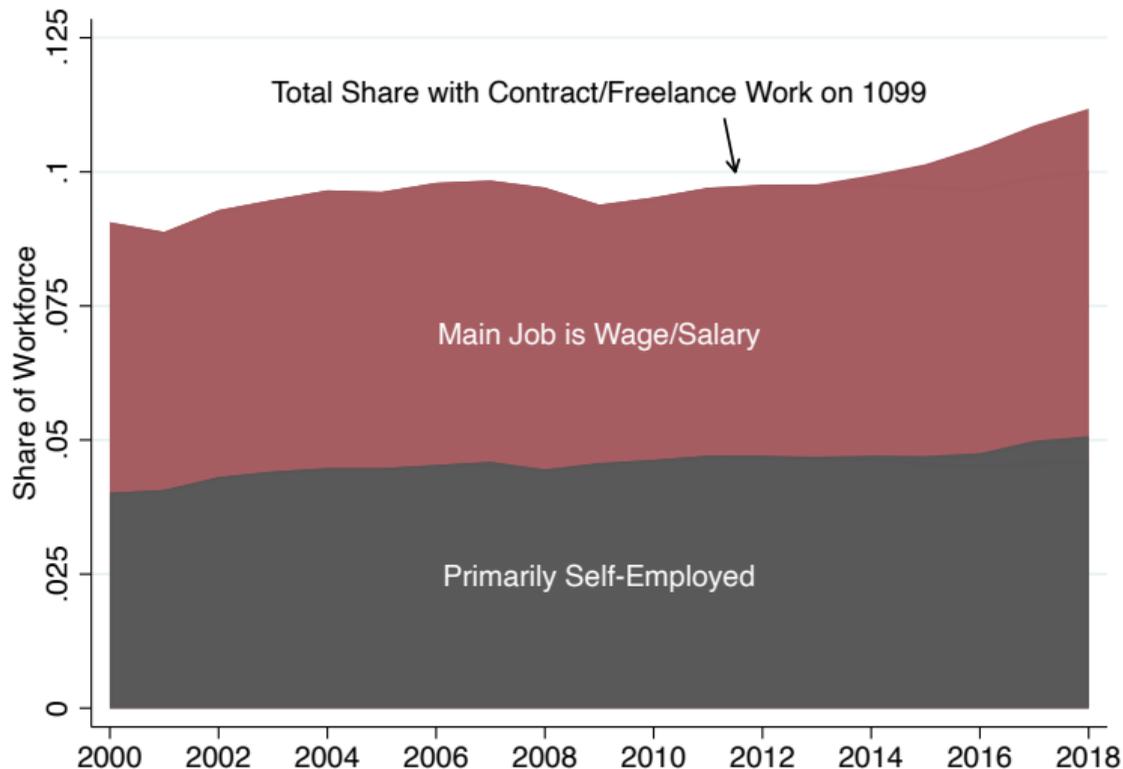
Trends in 1099-based Work



► Since 2005:

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

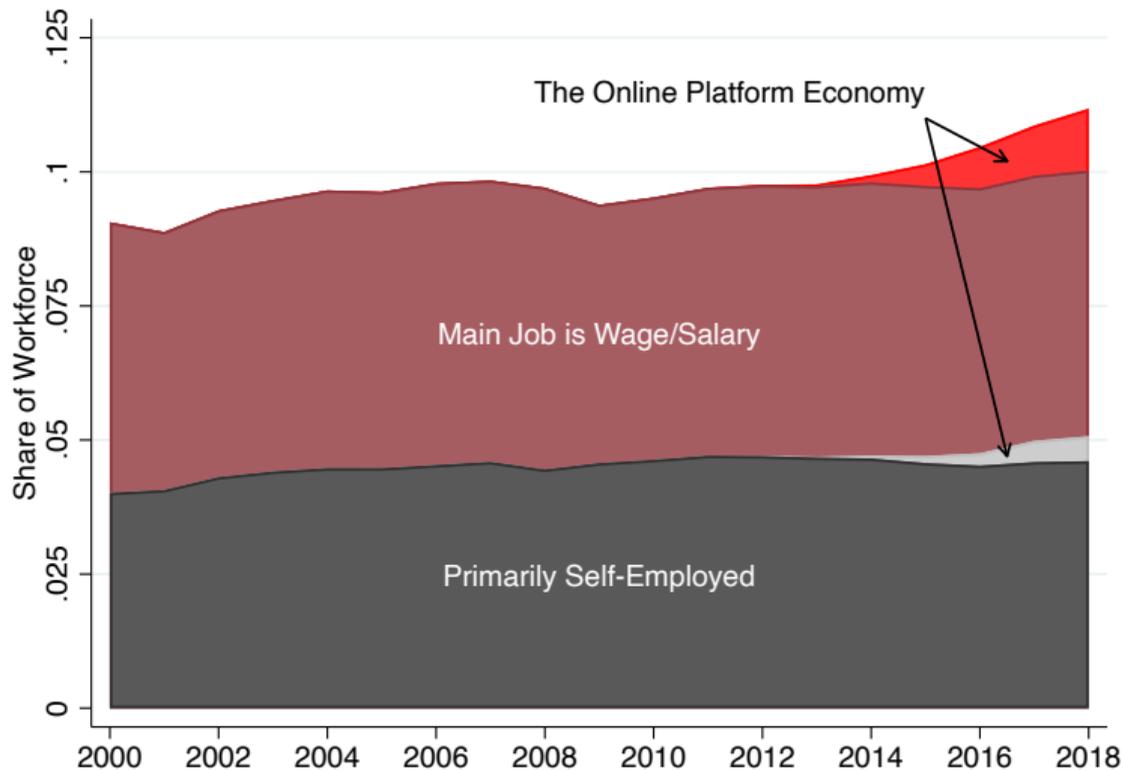
No Recent Increase in Contracting as Main Job



- ▶ 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

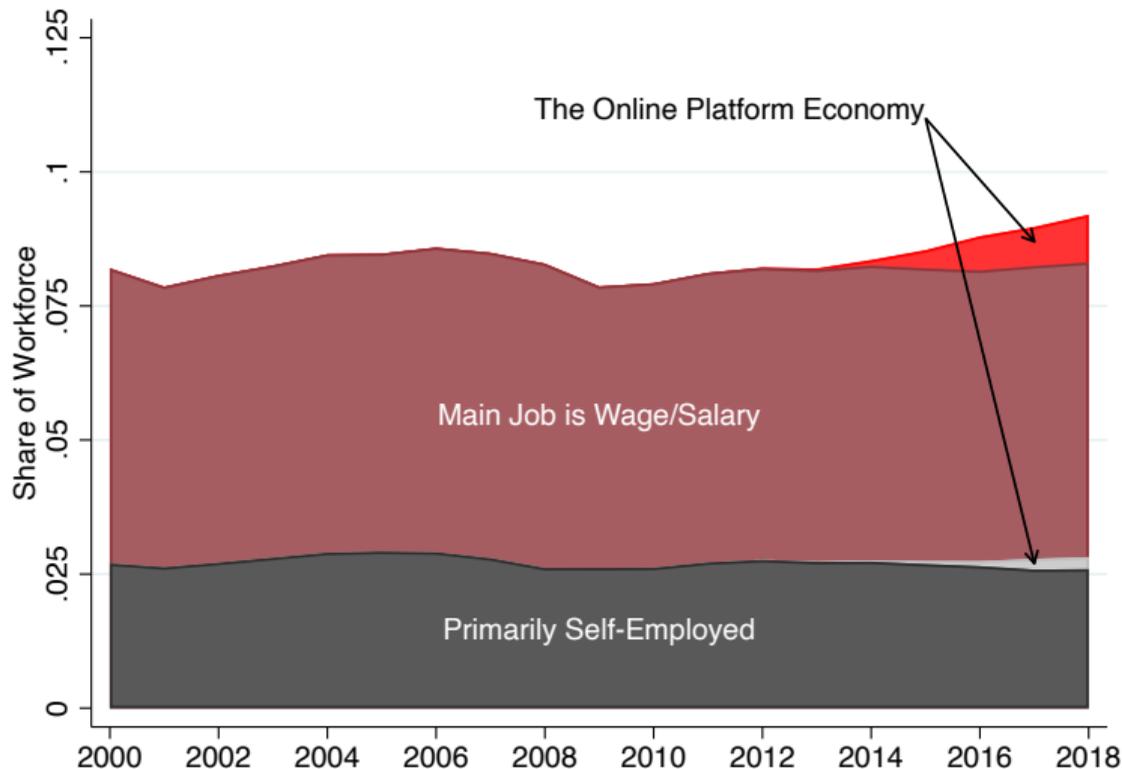


▶ Since 2005:

- ▶ Increase mostly among workers with main W2 job
- ▶ All increase from Platform Economy

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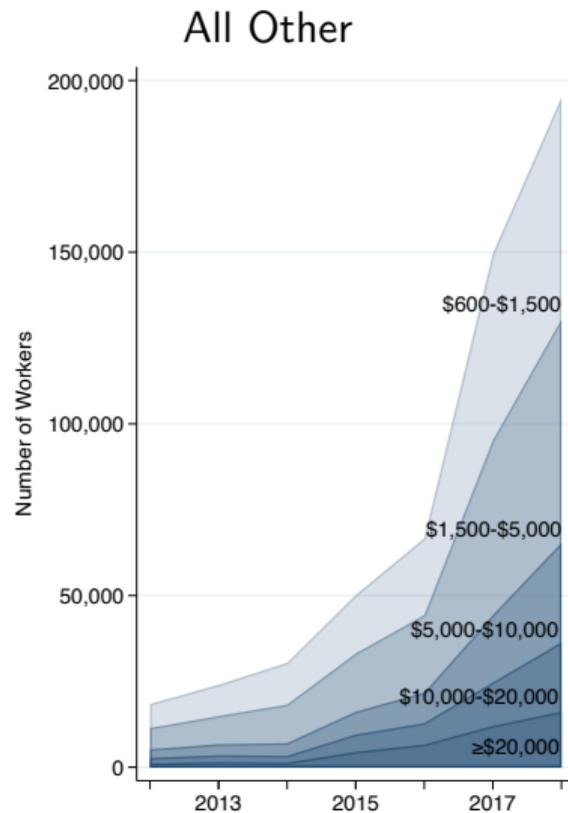
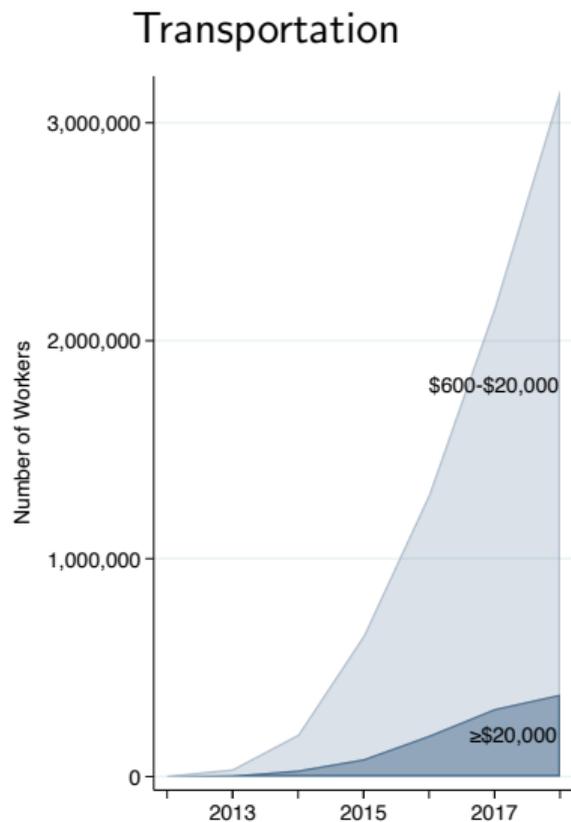
Even Less Growth Focusing on Full-Time Workers (W2 + SE > 15,000)



- ▶ 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



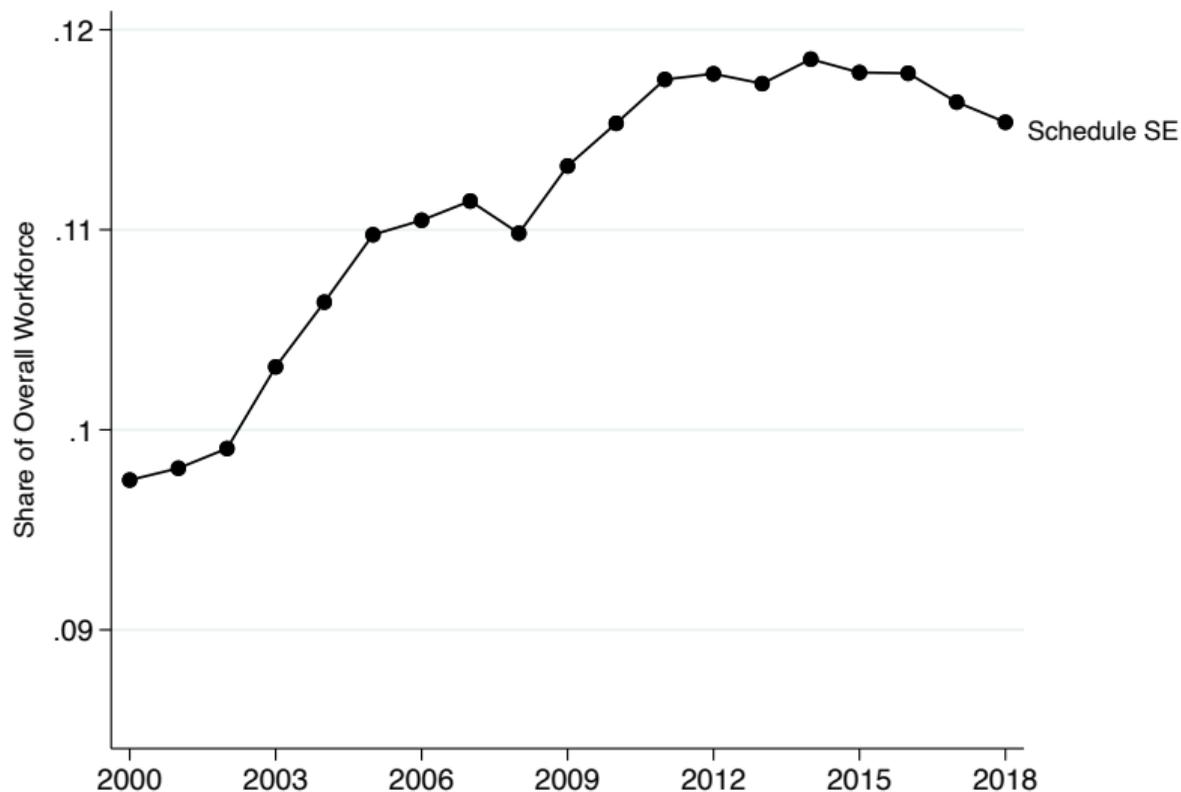
- ▶ Dramatic rise in platform work since 2013
- ▶ Overwhelming majority is driving tasks (**note scales!**)
- ▶ Most earn small amounts of receipts
 - ▶ *Before* 50-60 % expensing

* 2017–2018 1099-K amounts under \$20,000 Imputed From MA and VT. Graphs on Different Scales.

- ▶ **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**

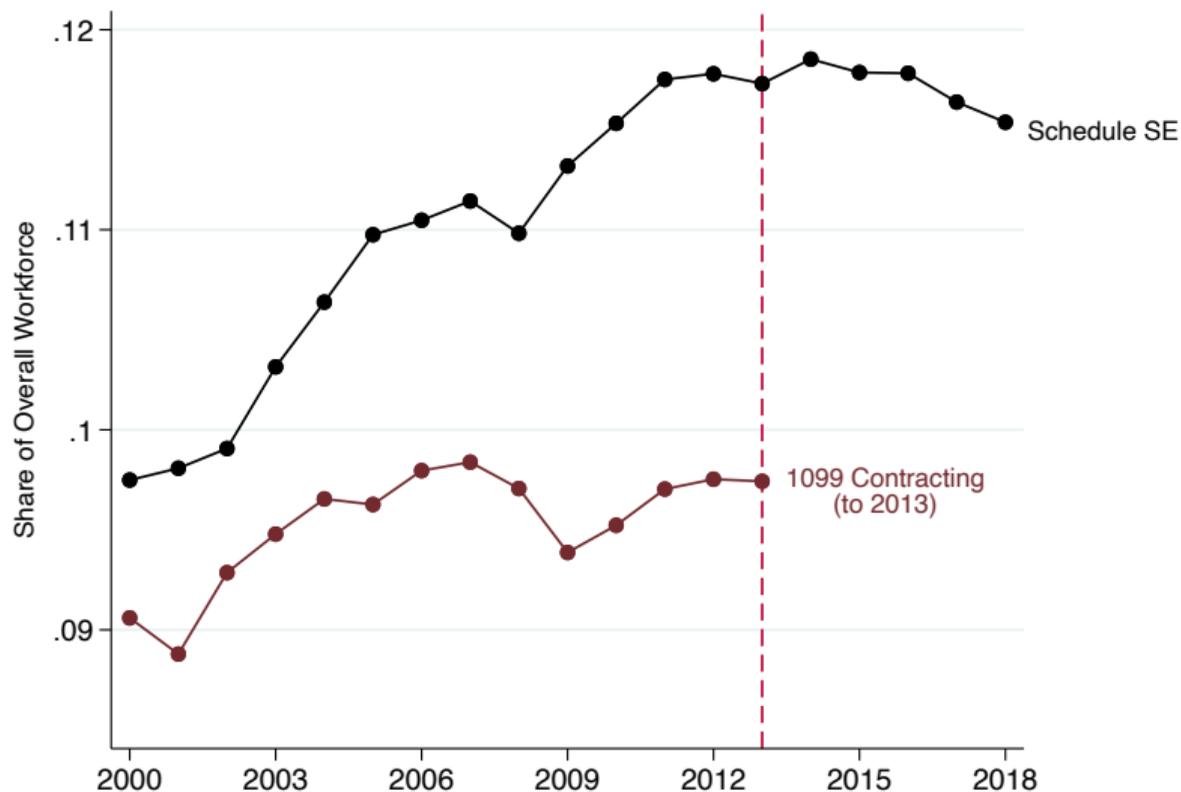
SE v. 1099 Contracting Trends



- ▶ Between 2000-2018:
- ▶ SE Growth: 2.0 p.p.

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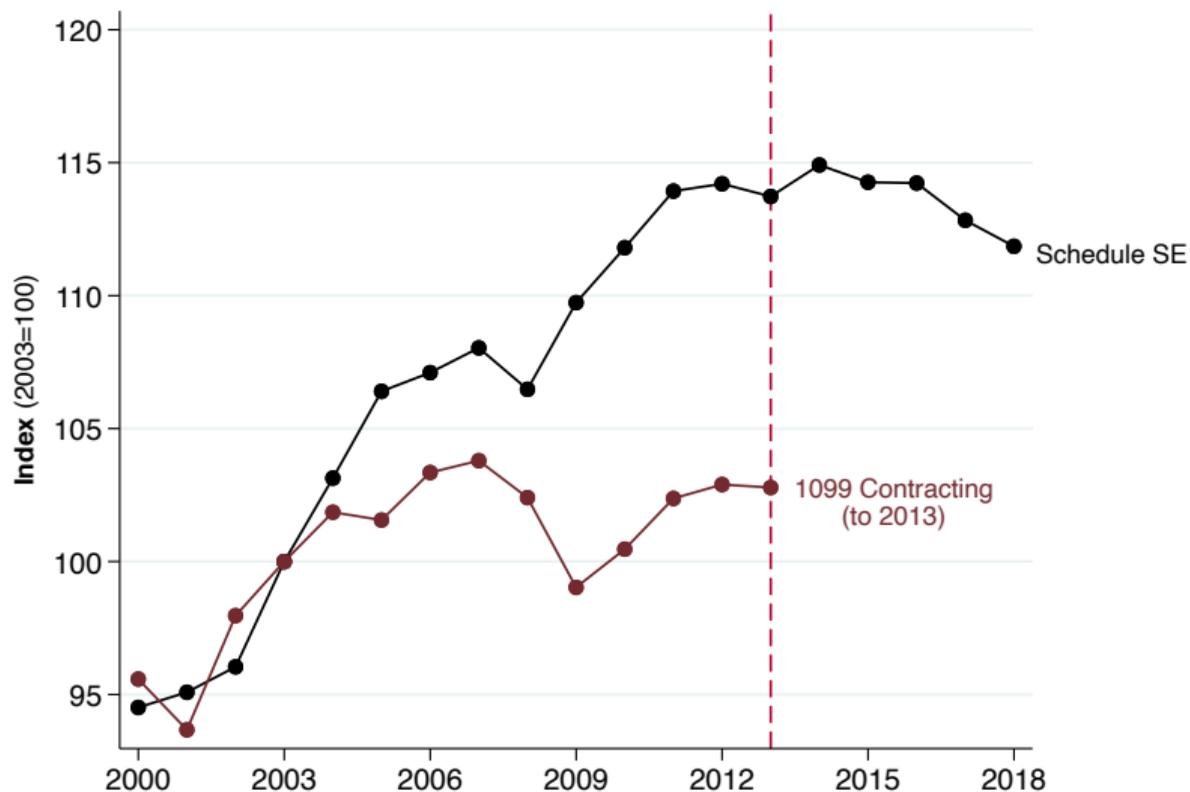
SE v. 1099 Contracting Trends



- ▶ Between 2003-2013:
 - ▶ SE Growth: 2.0 p.p.
 - ▶ 1099 Growth: 0.8 p.p.

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SE v. 1099 Contracting Trends

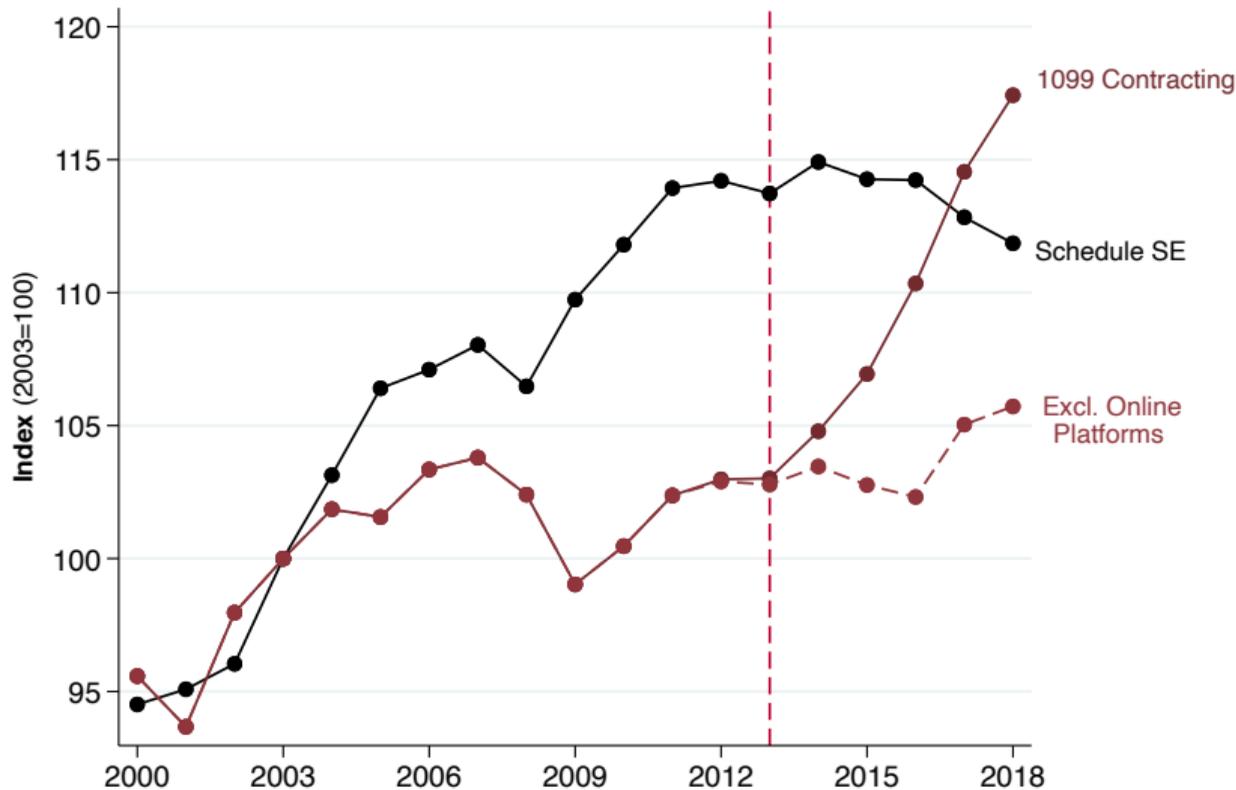


▶ SE filing and 1099
diverge between
2003-2013

- ▶ 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

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Road Map

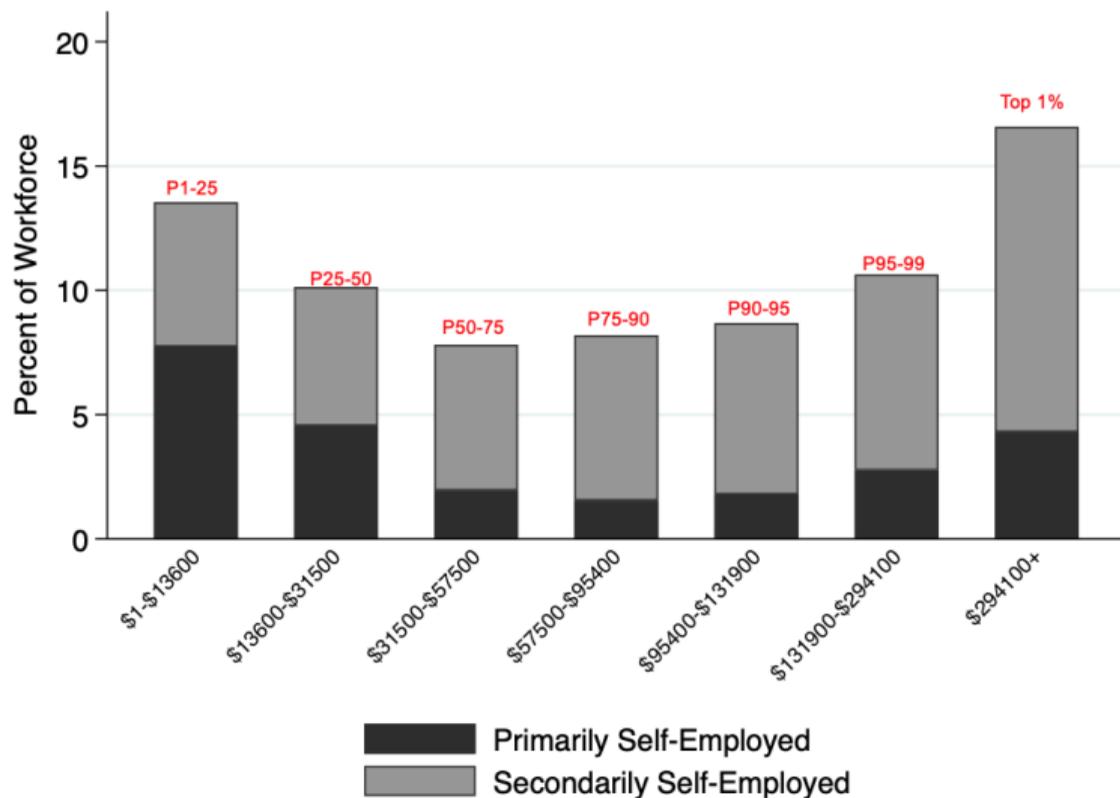
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Who Does Contract Work and What Do They Do?

- ▶ 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)

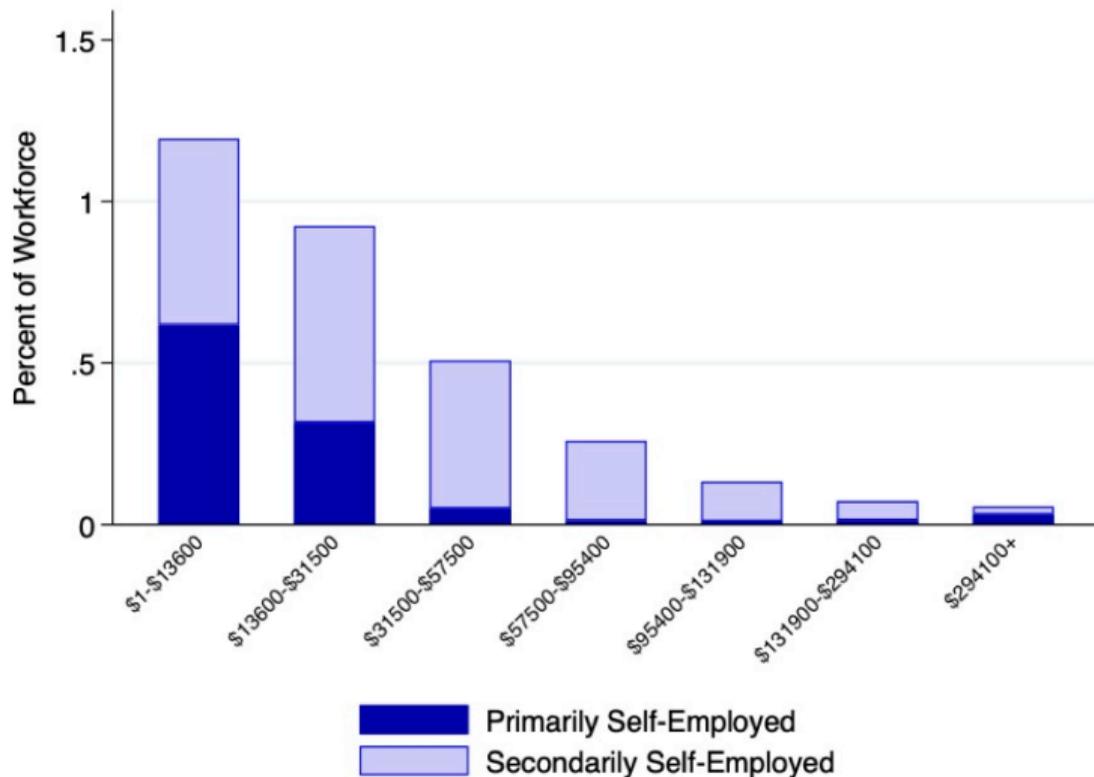
2018 Distribution of Contract Work



- ▶ 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

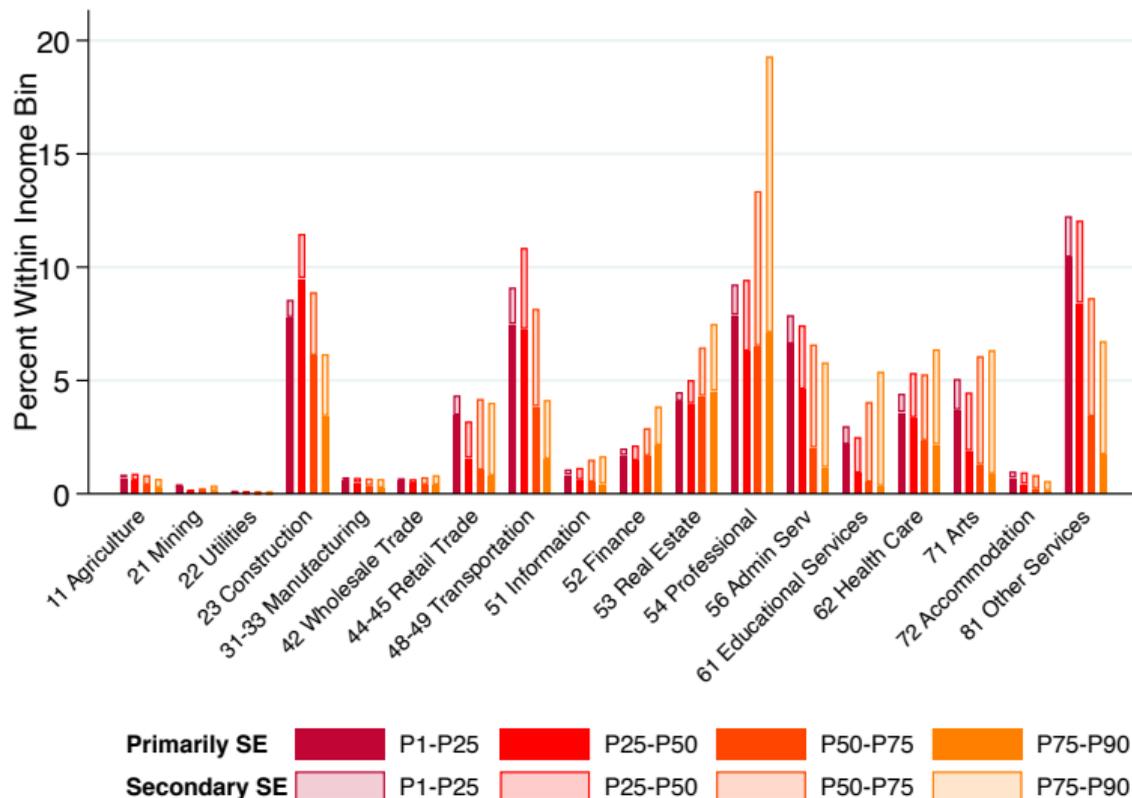
2018 Distribution of Platform Work



- ▶ 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

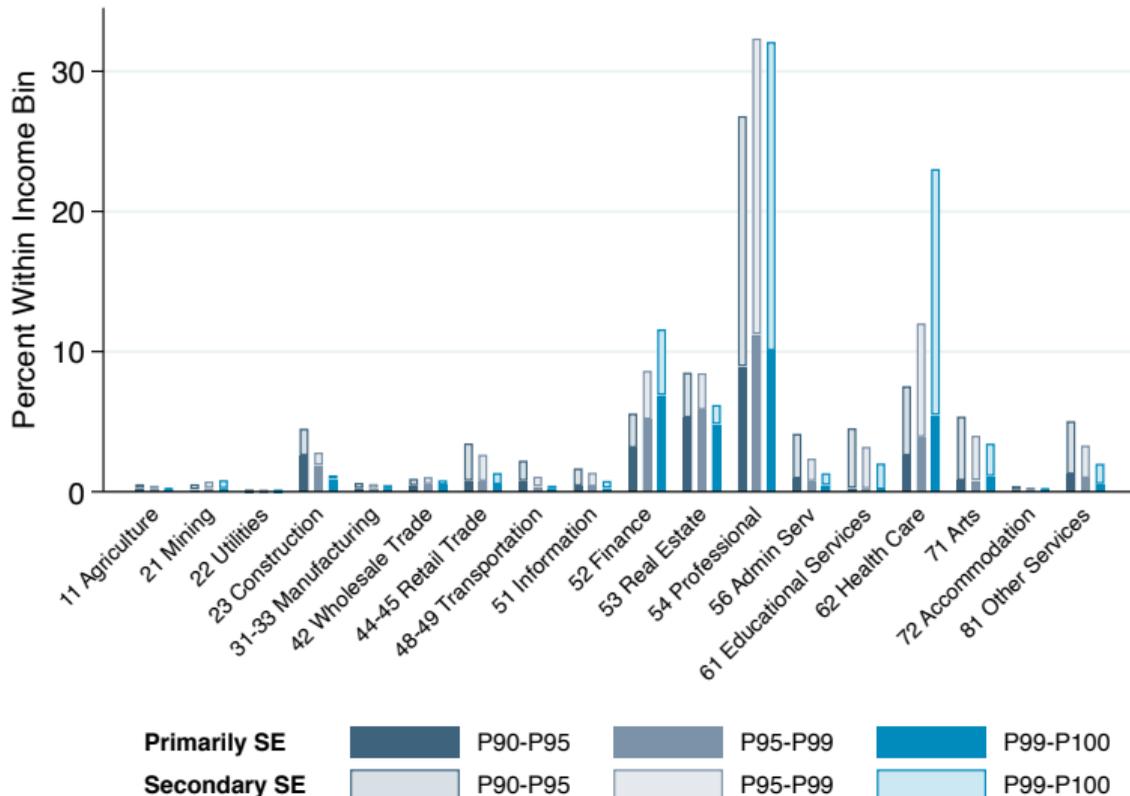


- ▶ Most common at top and bottom
 - ▶ More likely to be side inc at top
 - ▶ Platform work more common at bottom

- ▶ 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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Takeaways

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)**