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

Andrew Garin\(^1\), Emilie Jackson\(^2\), Dmitri Koustas\(^3\)

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\(^1\)UIUC, \(^2\)MSU, \(^3\)UChicago

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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.
Overview

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)
What Work is Reported on 1099s?

**Employment Income**

**W2**

*Employee Compensation by Firms*

- **Employees** subject to minimum wage, FLSA, etc.
  - Short-term and long-term
  - Part-time and full-time
  - Includes bonuses & commissions

**1099-MISC (Box 7)**

*Non-Employee Compensation by Firms*

- **Independent contractors and freelancers**, including:
  - Expert consultants
  - Freelance IT work
  - Self-employed janitors
  - Online Platform-Mediated Work
    - (Sometimes 1099-K)

**Self-Reported Income from Individual Customers**

- **Self-employed not getting paid by firms**, including:
  - Home plumbing/gardening
  - Independent restaurant owners
  - Small jobs found in classifieds

**Self-Employment Income**
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
- Independent Contractor
- Other Self-Employed

**Information Report**
- 1099-MISC
- 1099-K

**Income Tax Return**
- Form 1040 (Wages/Salary)
  - + Sched. C (Business Income)
  - + Sched. SE (Soc Sec Tax)
  - No Withholding; Deduct Expenses

**Details**

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Key Methodological Issues

Several important methodological considerations when using 1099s

1. Thresholds: $600 for 1099-MISC/NEC, $20,000 for 1099-K
   - Most 1099-K reporting firms voluntarily report at all levels until 2016
   - Use 2017–2018 MA and VT data subject to lower $600 threshold
   - Project national trends based on 2016 levels and 2017-2018 growth in MA/VT
The 1099-K “Gap”

1099-K Distribution in MA: State vs. Federal Returns

![Graph showing distribution of Gross Amount for State and Federal returns in Massachusetts. The graph displays two distributions: one for Federal returns and another for State returns. The Federal distribution is shown in a darker shade, while the State distribution is in a lighter shade. The x-axis represents the Gross Amount ranging from 0 to 100,000, and the y-axis represents the count (N) ranging from 0 to 25,000.](image-url)
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2. 1099s report gross receipts not earnings
   ▶ Includes expenses, not directly comparable to W2 income
   ▶ Observe expenses and net profits on Sched C (pooled across activities)
   ▶ 1099 contractors expense 30-40 %, similar to other Schedule C filers; platform workers expense 50-60%
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3. Many workers with contract/gig income reported on 1099s do not file C/SE, even if they file 1040
   - Particularly in platform economy
   - Possible that net earnings would be negligible after expenses
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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

- **Main Job is Wage/Salary**
- **Primarily Self-Employed**

### The Online Platform Economy

- **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
The Rise of the Platform Economy

▶ Dramatic rise in platform work since 2013
▶ Federal data impacted by reporting thresholds after 2016
▶ MA/VT data show continued trend

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Almost Entirely Driving-Based Work, Small Amounts Dominate

- Dramatic rise in platform work since 2013
  - Federal data impacted by reporting thresholds after 2016
  - MA/VT data show continued trend

- 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.
Post-2005 expansion of freelance/contract work mainly OPE
▶ Vast majority of OPE work is small and supplements a main W2 job

We also find:
▶ No change in distribution of receipts of non-platform contractors
▶ Fewer than 20% of 1099 recipients are primarily self-employed and work full-time
▶ Of those, majority only get 1099 from only one firm

Importantly, trends in 1099s do not line up with trends in C/SE filing
Between 2000-2018:

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

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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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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
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
Contract Work Prevalence by Age

- Contract work more common among older workers
- ...conditional on working

* 2016 Workforce shares are within age
But Platform Workers Are Younger

Contract work more common among older workers
  - conditional on working

But platform workers are much younger
  - Especially when doing as a side gig

* 2016 Workforce shares are within age
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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, Kouistas 2022)