

Independent Contracting, Self-Employment, and Gig Work: Evidence from California Tax Data

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Motivation

- Little rigorous evidence about the prevalence of independent contracting exists
- Puzzling and contradicting evidence
 - Anecdotes and non-representative samples indicate increases in freelance work (Freelancers Union, Upwork, and Edelman Intelligence 2016)
 - Major labor force surveys tend to show negligible increases in independent contracting or self-employment since 2000 (Katz and Krueger 2019, Abraham et al. 2021)
- Issues with existing employer surveys and administrative data
 - Designed to measure traditional work
 - Independent contractors may not perceive themselves as such or do side jobs not well-captured by standard surveys (Katz and Krueger 2019)
- Tax data can help reconcile the contradicting evidence and can be crucial to understanding the modern labor market

This paper

Setting, Data and Partnership

- California, the fifth largest economy in the world
- The California Policy Lab (CPL) developed a partnership with California tax agency, the Franchise Tax Board (FTB)
- Universe of CA tax-filers, 2012-2017
- Use self-reported Schedule C and 1099 information returns to classify IC workers

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Questions:

- What is the prevalence of independent contracting among tax-filers?
- How does independent contracting interact with traditional employment and the labor market more broadly?
- Who and where are the independent contractors?

Advantages and disadvantages of tax data for measuring IC











Advantages

- Universe of tax-filers with both employer- and self-reported earnings
- Capture information on both primary and auxiliary work that surveys commonly miss
- Less reliance on self-reports for OPE work

Disadvantages

- Individuals have incentives to be strategic in reporting
- Earnings sources subject to transitory changes
- Likely to miss lowest-earning workers
- Cannot observe earnings not reported to tax authorities

Data

Form	Filing level	Relevant data	Type of resident	E-filers	Paper filers
Header	DLN (filing unit) and SSN	Primary and spouse SSN, age, zip code, filing method	Full-time + part/non-residents		
CA 540 & 540 2 EZ	DLN	Filing status, dependents, Federal AGI	Full time residents only		
1040, 1040 EZ & 1040A	DLN	EITC, UI benefits, retirement income, etc.	Full-time + part/non-residents		
W2	SSN	EIN, wage & salary earnings, NAICS code*	Full-time + part/non-residents		
Schedule C and Schedule C EZ	SSN	Gross receipts, gross income, net profit, NAICS code, expenses	Full-time + part/non-residents		Flag for households who paper filed
1099-MISC	SSN	EIN, non-employee compensation, NAICS code	IRS Transfer		
1099-K	SSN	EIN, gross amount payment card/TPN transactions, NAICS code	IRS Transfer		

Data

- **Universe**

- Primarily e-filers (87% of all filers)
- Ages 18-64
- Exclude non-resident/part-year-resident returns

Data

- **Universe**

- **CA Form-540**

- CA analog to IRS Form 1040

- Tax-unit level

- Information about family structure, age, and total family income

Data

- **Universe**
- **CA Form-540**
- **W2**
 - Information returns filed by employers
 - Information about earnings from traditional jobs

Data

- **Universe**
- **CA Form-540**
- **W2**
- **Schedule C**
 - Detailed information about self-employment income, expense, and profits
 - Impose restrictions to avoid counting businesses

Data

- **Universe**
- **CA Form-540**
- **W2**
- **Schedule C**
- **1099-K**
 - Information return used by many online platforms
 - Used to report payments processed through platforms
 - Limit to 1099-K from 55 OPE firms we tag

Data

- **Universe**
- **CA Form-540**
- **W2**
- **Schedule C**
- **1099-K**
- **1099-MISC**
 - Used and reported for most independent contracting exceeding \$600 in payments
 - Limit to 1099-MISCs with positive *non-employee compensation*

Traditional Worker, IC, and OPE Definition

Traditional Worker

- Individuals receiving at least one W2 with positive earnings

Independent Contractor (IC)

- IC Gross Receipts = $\max \{ \text{Schedule C Receipts}, 1099 \text{ earnings} \}$
- IC Expenses = Schedule C Expenses
- IC Earnings = IC Gross Receipts - IC Expenses
- IC = $1 \{ \text{IC Earnings} > 0 \}$

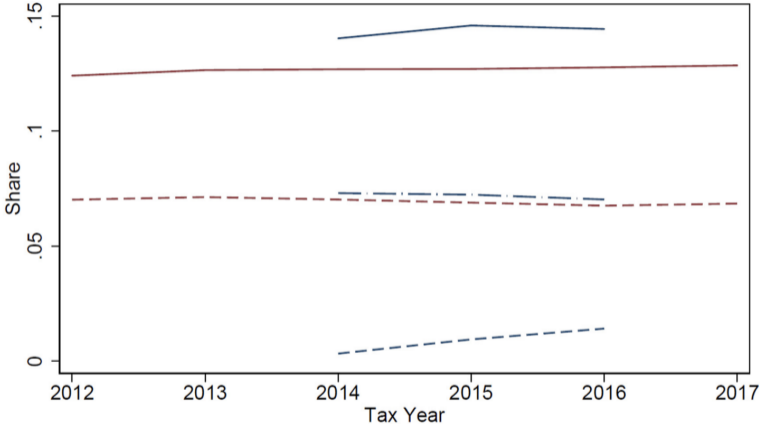
Online Platform Economy (OPE)

- IC with 1099 from at least one OPE firm

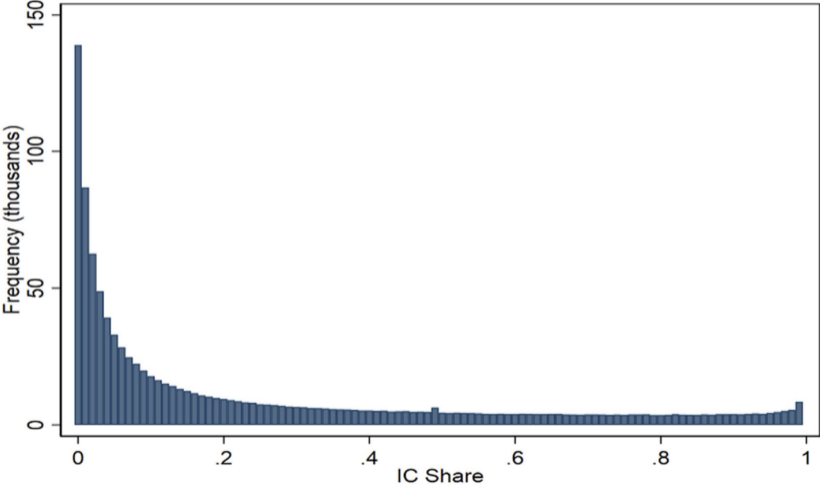
Prevalence of IC in CA

	<i>All filers</i>		<i>Filers with earned income</i>		
	<i>N (1,000s)</i>	<i>%</i>	<i>Total %</i>	<i>No OPE %</i>	<i>With OPE %</i>
<i>Earned income source</i>	<i>(1)</i>	<i>(2)</i>	<i>(3)</i>	<i>(4)</i>	<i>(5)</i>
No earned income	2,698	16.2	—		
W-2 only	11,912	71.7	85.6	85.6	
W-2 and IC	1,032	6.2	7.4	6.3	1.1
IC only	979	5.9	7.0	6.7	0.3
Total	16,621	100.0	100.0	98.6	1.4

Prevalence of IC in CA



Most IC earnings are supplemental to traditional employment earnings



Year-to-year stability of IC status

<i>2015 status</i> (row %)	<i>2016 status</i>						
	<i>W-2 only</i> (%)	<i>Primarily W-2 (> 85 %)</i> (%)	<i>Mixed W-2 and IC</i> (%)	<i>Primarily IC (> 85 %)</i> (%)	<i>IC only</i> (%)	<i>No earnings</i> (%)	<i>Total</i> (1,000s)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
W-2 only	93	3	1	0	0	3	8,628
Primarily W-2	51	37	7	1	2	1	417
Mixed	34	13	34	4	13	3	265
Primarily IC	18	4	19	22	32	5	47
IC only	5	1	5	2	75	13	704
No earnings	10	0	0	0	4	85	1,957

Who are the independent contractors?

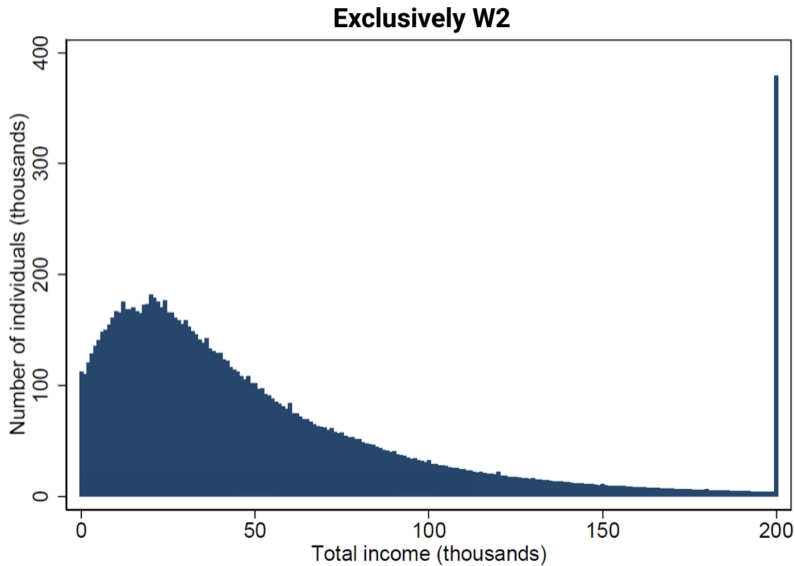
Age

- Larger representations of IC workers in older age groups
 - 17.7% of 56-64 year olds have IC earnings compared to 9.4% of 18-24 group
- OPE work more common among younger works
 - 4% of 26-40 year olds with OPE earnings compared to 0.6% of the 56-64 group

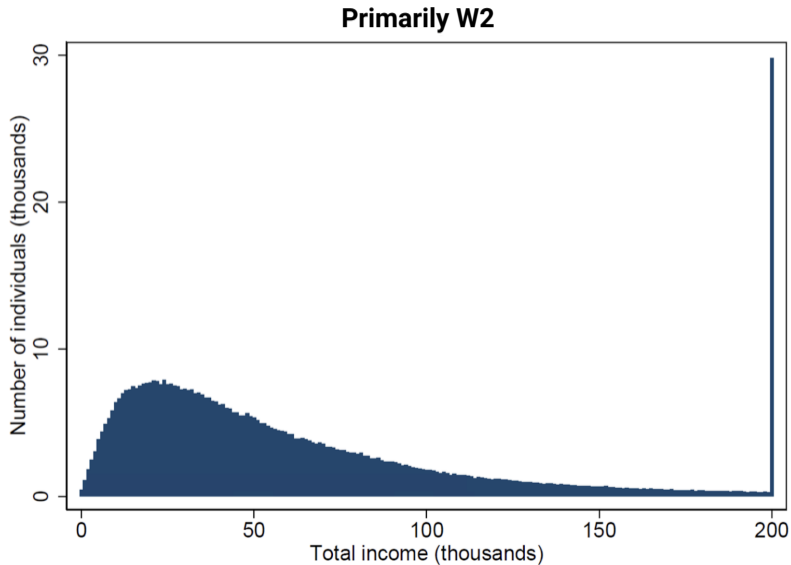
Individual- and Neighborhood-level earnings representation

- IC work more prevalent in lower regions of the earnings distribution
 - 26.5% of workers in lower quartile have IC earnings compared to 9.6% in the top quartile
 - 2.4% of workers in lower quartile have OPE earnings compared to 0.4% in the top quartile
- IC work more prevalent in wealthier neighborhoods
 - 16.8% of workers in the top mean AGI zip quartile have IC earnings compared to 13.9% in bottom quartile

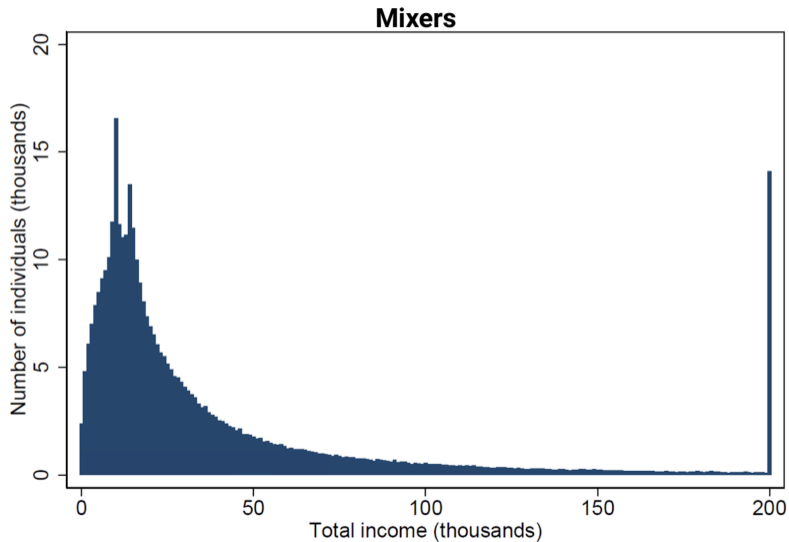
Interactions with broader labor market: Earnings



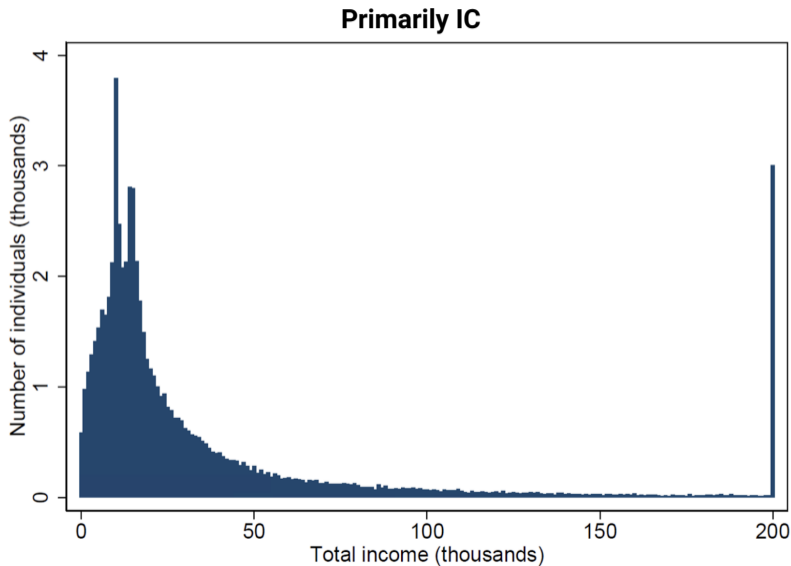
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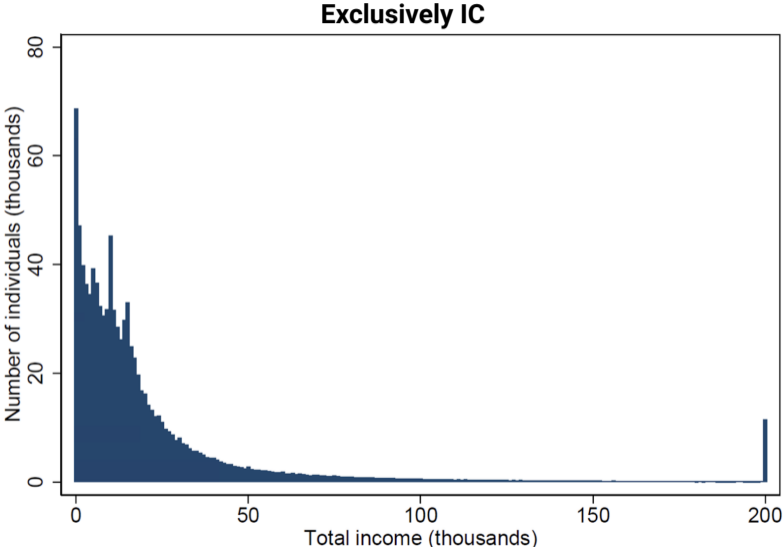
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Interactions with broader labor market: Earnings

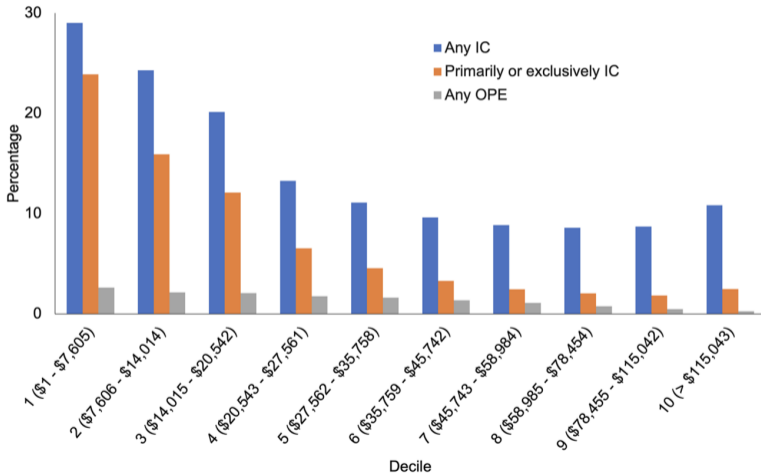


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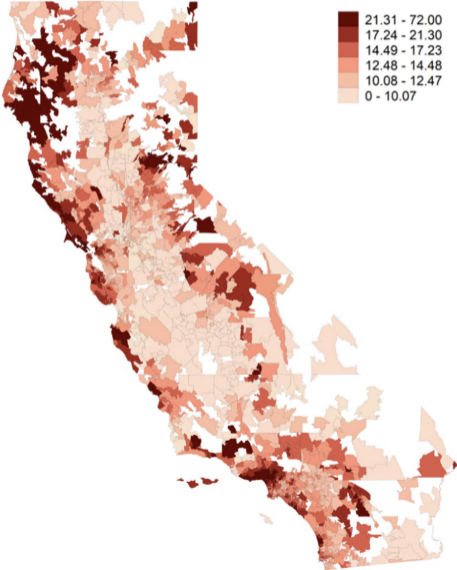


Interactions with broader labor market: Earnings

IC Representation by Earnings Decile

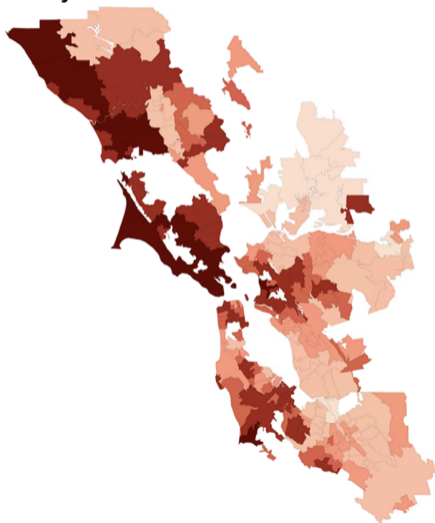


Interactions with broader labor market: Geography

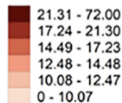
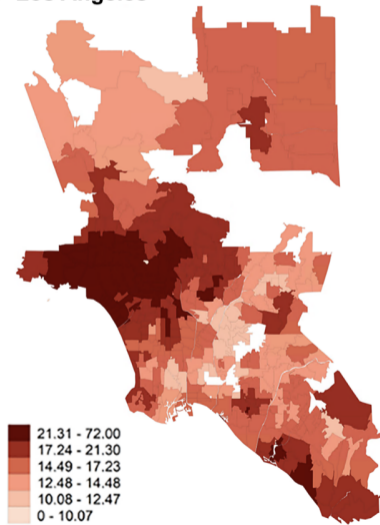


Interactions with broader labor market: Geography

A Bay Area



B Los Angeles



Interactions with broader labor market: Industry

Assign industry based on Schedule C if available; otherwise issuer of largest 1099.

- Professional services, personal and laundry services, administrative services, transportation, and health care and social assistance
 - Over half of IC workers
 - Less than one third of W2 workers
- 41.7% of OPE workers are in NAICS 48-49 (Transportation and Warehousing), vs. 3.0% of W2 workers and 9.9% of IC workers.
- OPE workers also overrepresented in:
 - NAICS 51: Information (7.1% of OPE, 2.6% of W2, 2.8% of IC)
 - NAICS 812: Personal and laundry services (4.0% of OPE, 0.9% of W2, 12.0% of IC)
- Note: 37% of OPE workers are not matched to industries.

Conclusion

- Growth in IC work threatens to undermine many labor market arrangements made for traditional work . But how fast is it growing?
- We use tax data to shed light about IC work in CA
 - 14% of California tax-filers earn IC income and 7% are exclusively IC workers
 - 1.4% have OPE earnings, and just 0.3% are exclusively IC
 - Negligible trends in overall IC prevalence between 2012-2017
 - OPE work rose from 2014-2016
- Tax data can be a central and important source of information for policymakers responding to changes in the organization of work, but data quality issues still loom