



STATE OF CALIFORNIA  
**Franchise Tax Board**

# What is the Gig Economy

Understanding Independent Contracting and  
Gig Work in California

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Background:

The confusion about gig work

nano jobs  
self-employed  
peer platforms  
freelancers  
low-wage work  
gig economy  
contingent work  
supply chains  
sharing economy  
domestic outsourcing  
on-demand economy  
temps  
digital platforms  
independent contractors  
unpredictable schedules  
augmented workforce  
fissured workplace  
precarious work  
distributed workforce  
on-call workers  
subcontracting  
franchising  
crowdsourcing  
flexibility  
misclassification

How many gig workers are there in the U.S.?



**600,000?**

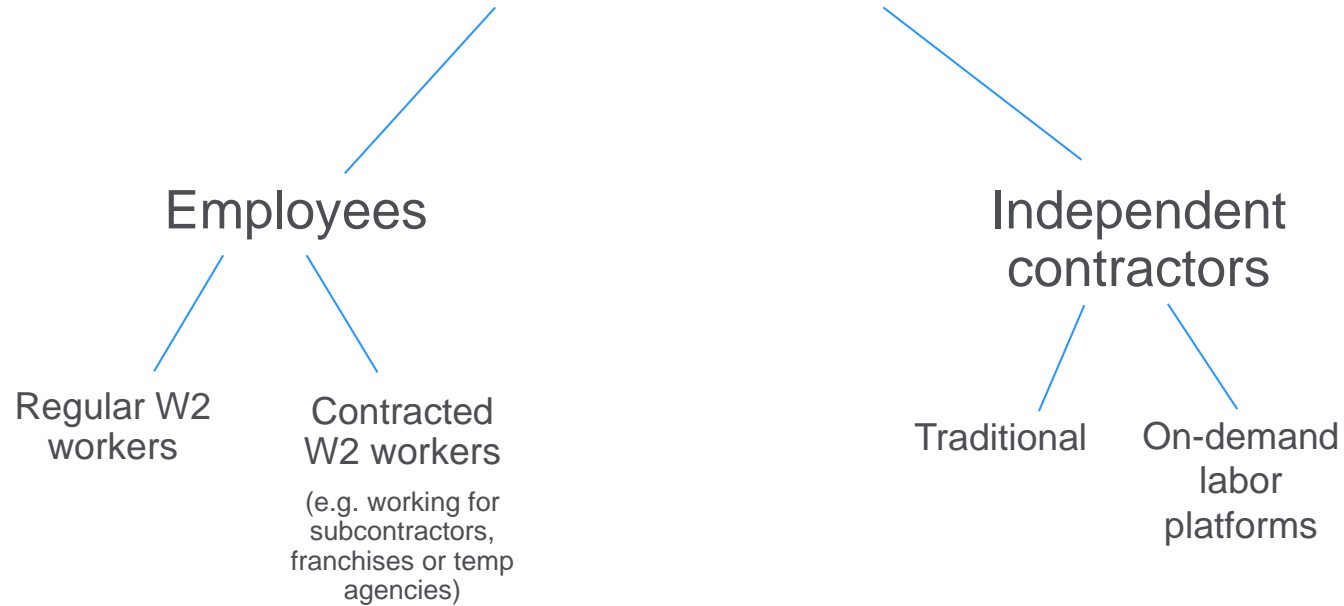


**55 million?**

# Two sources of confusion:

1. Conflating different types of work
2. Conflating different ways that workers use independent contracting

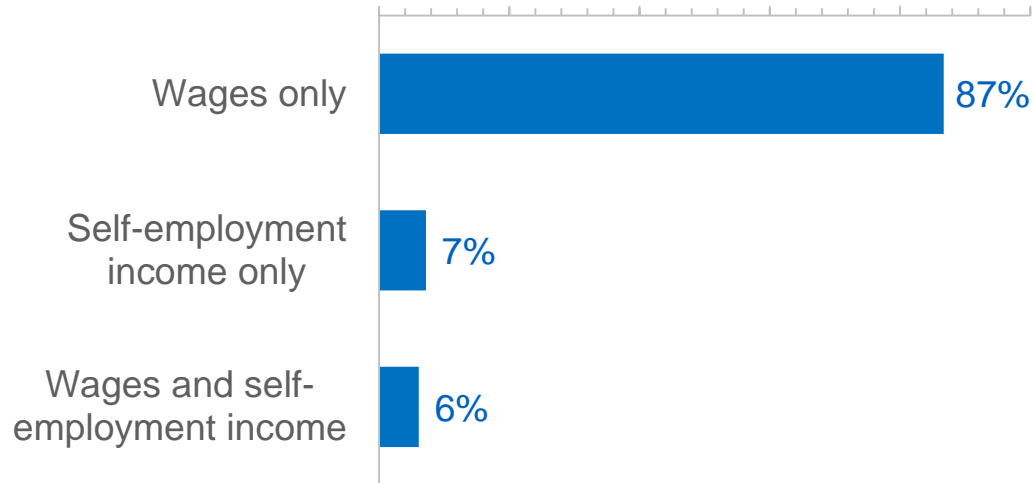
# TYPES OF PAID WORK



## Upshot:

Focus on understanding the full universe of independent contractors, including but not limited to platform workers

# Workers' income sources across all jobs in the U.S., 2014





## Upshot:

Focus on all the ways that workers generate income, not just on their main job

# What we think we know:

## The basics

# 1. Independent contractors do lots of different types of work, for a wide range of earnings



## 2. On-demand labor platforms = small percent of workforce

- In a given month in the U.S, about 1 percent of workers use an on-demand labor platform; the large majority are in transportation
- About two-thirds of users are active 3 months or less
- Labor platform income = about 20% of annual income
  - But during active months, platform income is about half of earnings

### 3. Independent contracting is not replacing W2 jobs

Figure 2: The 1099 Gig Economy, as a Share of the Tax Workforce, 2000-2016



# Better data and research are needed

- Better data on **prevalence** and **trends over time**, including tax data and company administrative data
- Better understanding of how and why workers use gig work as **supplemental income**
- Better understanding of how workers use gig work **throughout the life cycle**, including into retirement
- Better data on **earnings** that accurately take into account costs, e.g. TNC drivers
- Research to document **variation in job quality** outcomes, *especially **misclassification***

# The state of current research

# CPL project: unique partnership with CA Franchise Tax Board

**Goal:** Analyze individual taxpayer data to shed light on independent contracting in California, including on-demand platform work

**Data:** Individual taxpayer data for the years 2012-2017, including information on wages and salaries; 1099 income; and other sole proprietor income.



# Phase 1 questions

1. How many independent contractors are there in California? Have their numbers increased over time?
2. How do workers combine independent contracting (IC) with regular work? Is IC work for supplemental income or main employment?
3. What is the income, demographic, and industry profile of independent contractors?
4. Which industries rely the most on independent contracting? Where have we seen the biggest increases, if at all?

# The problem of non- and under-reporting of sole proprietor income

- IRS audits show significant non-reporting and under-reporting of income by sole proprietors
- Some estimates using Collins et al. (2019) data for California:
  - 13% of 1099 recipients in 2016 didn't file taxes
  - Of 1099 recipients who filed taxes in 2016, 38% didn't file a Schedule SE
- Our data:
  - We don't yet have complete 1099 data, so all of our results to date are incomplete (we're only relying on Schedule C to measure independent contracting).

# How many independent contractors were there in California in 2016?

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## CPL study

Incomplete - does not yet include 1099 data

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	Percent
W2 only	85.7
Schedule C only	7.9
W2 and Schedule C	6.4
Total	100.0

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Source: CPL analysis of CA taxpayer data

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## Using Collins (2019) California data

Does include 1099 data

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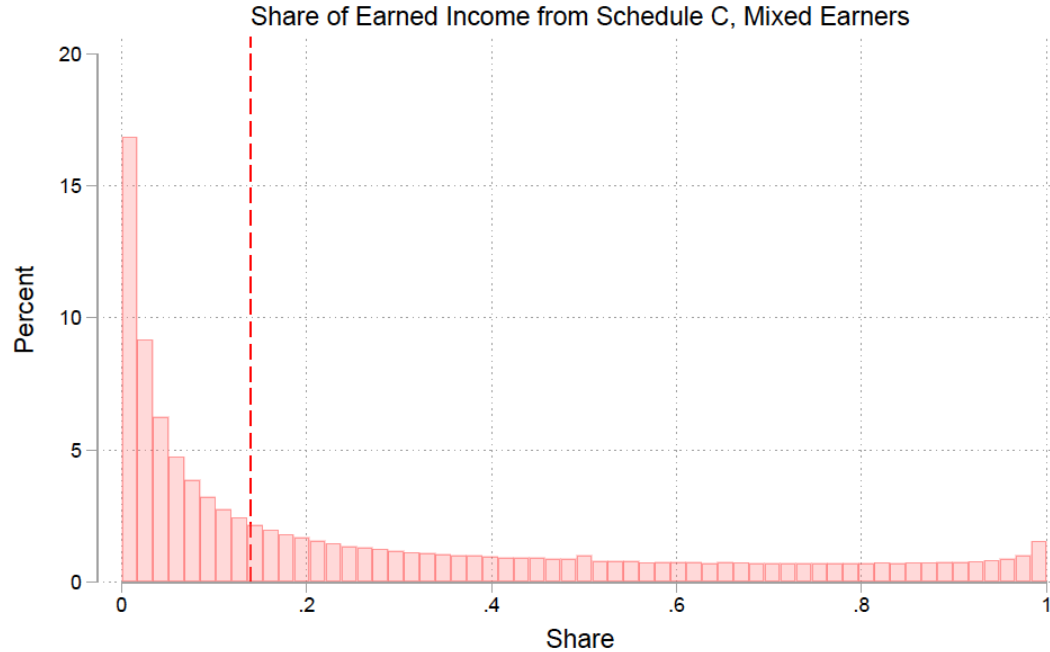
	Percent
W2 only	79.5
Self-employment income only	10.1
Mix of W2 and self-employment	10.4
Total	100.0

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Source: CPL analysis of California data reported in Collins et al. (2019)

# How do workers mix independent contracting and W-2 jobs?

Incomplete -  
does not yet  
include 1099  
data



N = 894,000.00 individuals who filed both W2 and Schedule C with >0 net profit in tax year 2016. Dashed line marks the median = 0.14.

# Sources of workers' earnings, 2016

Incomplete - does not yet include 1099 data

Total earnings decile	Row %			Schedule C median share of total earnings (among mixers)
	W2 only	Schedule C only	W2 and Schedule C	
1 (\$1-\$7,641)	71.7	23.2	5.0	.40
2 (\$7,641-\$14,020)	75.8	15.8	8.3	.40
3 (\$14,020-\$20,558)	80.2	12.1	7.7	.31
4 (\$20,558-\$27,595)	87.0	7.0	6.0	.17
5 (\$27,595-\$35,834)	89.1	5.1	5.7	.12
6 (\$35,834-\$45,896)	90.6	3.8	5.6	.08
7 (\$45,896-\$59,253)	91.2	3.0	5.7	.06
8 (\$59,253-\$78,901)	91.4	2.6	6.0	.05
9 (\$78,901-\$115,795)	91.2	2.4	6.4	.05
10 (\$115,795+)	88.8	3.4	7.8	.06

# Data on platform workers in California

- In a given month in California, ~1.3% of workers use an on-demand labor platform; the large majority are in transportation (Farrell, Greig, and Hamoudi 2018)
- This estimate is in line with other studies
- 1099 data are needed to get actual counts of workers

# Questions?

## Sources:

Bernhardt, Annette and Sarah Thomason. 2017. *What Do We Know About Gig Work in California? An Analysis of Independent Contracting*. UC Berkeley Labor Center.

Collins, Brett, Andrew Garin, Emilie Jackson, Dmitri Koustas, and Mark Payne. 2019. “Is Gig Work Replacing Traditional Employment? Evidence from Two Decades of Tax Returns.” IRS SOI Working Paper.

Farrell, Diana, Fiona Greig, and Amar Hamoudi. 2018. *The Online Platform Economy in 2018: Drivers, Workers, Sellers, and Lessors*. JPMorgan Chase Institute.

Jackson, Emilie, Adam Looney, and Shanthi Ramnath. 2017. “The Rise of Alternative Work Arrangements: Evidence and Implications for Tax Filing and Benefit Coverage.” Working Paper 114. Department of the Treasury, Office of Tax Analysis.





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