New Gig Work or Changes in Reporting? Understanding Self-Employment Trends in Tax Data

Based on BFI Working Paper 2022-67, “New Gig Work or Changes in Reporting? Understanding Self-Employment Trends in Tax Data,” by Andrew Garin, University of Illinois; Emilie Jackson, Michigan State University; and Dmitri Koustas, Harris School of Public Policy, UChicago

New types of online platform work, or “gig” work, cannot explain increasing trends in self-employment in administrative data; rather, a substantial portion of the growth is driven by strategic reporting behavior.

The rise of new gig economy platforms like Uber and Lyft has led many observers to assume that self-employment is also increasing. However, major labor force surveys like the Current Population Survey (CPS) show no increase in the self-employment rate since 2000. How can this be? One plausible explanation is that many gig workers do not perceive themselves as contractors; likewise, such work is not well-captured by standard questionnaires.

At first glance, tax records appear to tell a different story. In sharp contrast to trends in the CPS, the percent of individuals reporting self-employment income to the Internal Revenue Service (IRS) on their tax returns rose dramatically between 2000 and 2014. (See Figure 1.) Is the administrative data collected by the IRS detecting a deep change in the labor market that major surveys currently miss? This key question motivates this new research into the gig economy’s impact on labor markets.

To address this phenomenon, the authors draw directly on the IRS information returns issued by firms to self-employed independent contractors (of which online-platform-based, or “gig” workers are a subset) to find:

- Unlike in survey data, the authors find that millions of new workers have entered the gig economy since 2012, representing over 1 percent of the workforce by 2018. This growth comes primarily from new online platforms that were not present before 2012.
- However, most platform workers only make small amounts after expenses that supplement
their earnings from traditional jobs. As a result, many platform workers do not report that income on their tax returns at all.

- Why, then, are more taxpayers reporting self-employment income on their tax returns over time? The authors find that changes in strategic reporting behavior play a key role. Unlike in confidential surveys, individuals have strategic incentives when reporting tax filings, and those incentives and reporting decisions may change over time. This is particularly true in the case of self-employment earnings which, unlike employment income, can be purely self-reported without any third-party verification.

- More precisely, the authors find that the rise in self-employment reporting is concentrated among low-wage individuals with children who face negative tax rates on the margin due to refundable tax credits like the Earned Income Tax Credit (EITC).

- Do these increases in reported self-employment among credit-eligible workers reflect a real change in labor supply or a pure reporting response? To answer this, the authors study a natural experiment that quasi-randomly changes eligibility for refundable credits at the end of the tax year—once labor supply decisions are sunk—depending on the precise timing of the births of individual’s first children. They find evidence of a pure reporting response to tax code incentives that is large and has grown over time as knowledge of those incentives has spread.

- When the authors consider counterfactual scenarios in which reporting behavior remained constant at the 2000 level, they find that as much as 59 percent of the increase in self-employment rates since 2000 can be attributed to pure reporting changes. The remaining increase can be explained by observed increases in firm-reported freelance work in the early 2000s and the aging of the workforce.

While the authors caution against trusting trends in administrative data over trends in survey data by default, their work shows that tax data can be a powerful tool for measuring labor-market trends so long as reporting incentives are kept in mind. To that end, the authors’ new self-employment series adjusted for reporting trends, as well as their new series on third-party-reported gig work, should prove valuable to other researchers in this area.