



June 17, 2021

WHAT YOU NEED TO KNOW ABOUT

Taxes And the Gig Economy

PRO POINTS

- **Millions of people who make money as independent contractors** working through online platform technology companies will soon be getting paperwork to track that income and help them correctly calculate their taxes. Federal officials hope that will combat under-reporting of income by gig workers, which could be costing the federal government billions of dollars in revenue.
- **They'll get the income forms starting next year** if they make \$600 or more from on-demand work and rental income, a major change from the current threshold of \$20,000 or more from 200 or more transactions.
- **Platform companies such as Uber, Lyft, Airbnb, and many more** will send the additional documents to the workers and the IRS, an increase in reporting requirements that should boost taxes paid.

HOW WE GOT HERE

Ample evidence indicates that tax compliance plummets on misreported income, which can be common among so-called gig economy workers since they don't have an employer withholding income or reporting their earnings. The IRS defines these workers as performing on-demand services such as driving cars for booked rides or deliveries, renting out property, selling goods online or working as freelancers, often connecting with their customers via digital platforms through an app or website.

Earnings from such work generally counts as taxable income, yet most gig workers haven't had clear accounting on money they made. The platforms through which they book their work haven't been required to tab things up unless they met a high bar — an income of \$20,000 or more from 200 or more transactions. But tax experts say that standard was established more than a decade ago to help minimize paperwork burdens for small-scale sales through e-Bay, before anyone contemplated the explosion of gig economy work through apps and online platforms.

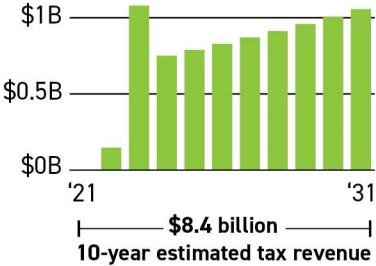
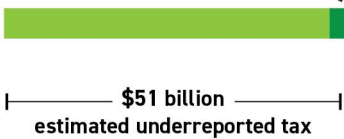
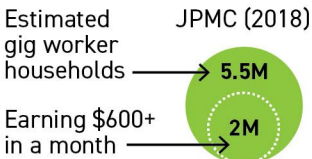
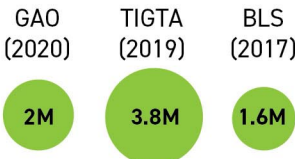
Government, academic and industry data vary widely on how much the gig economy workforce has grown in recent years. The J.P. Morgan Chase Institute estimates that in 2018 about 2 million households had online gig work earnings of more than \$600 in a month, on average. But they probably didn't exceed \$20,000 for the year.

The federal government could be losing billions of dollars a year in revenue from gig workers who under-report their income, according to a 2019 report by the Treasury Inspector General for Tax Administration, though it didn't cite an exact figure.



Income thresholds changed to increase tax of gig workers

The American Rescue Plan passed by Congress in March lowered income and transaction thresholds of gig workers to increase tax compliance. The lower reporting requirement threshold means at least a couple of millions of people will now get income documents for their tax returns they didn't previously receive from online platform companies with which they work. Here's a before and after comparison of how the new law changes gig economy taxation.

	AFTER NEW LAW	BEFORE NEW LAW
Criteria for gig workers to receive employer paperwork enabling correct calculation of taxes owed	Gig income that totals more than \$600 per year, with no limit on the number of transactions involved. \$600+ 1+ gig income annually gig income transactions	Gig income that totaled \$20,000 or more annually and involved at least 200 transactions. \$20,000+ 200+ gig income annually gig income transactions
Estimated tax revenue from gig workers	The new provision in the American Rescue Plan is estimated to raise \$8.4 billion in revenue from gig workers 2021-2031. 	An IRS analysis in 2019 revealed at least \$45 billion in under-reporting and another \$6 billion of non-filing of self-employment tax every year; online platform workers account for a share of those totals, estimated at about 5 percent. Gig workers' share: \$2.55B 
Estimated number of people increased income reporting could target	According to online platform economy data published by the JPMorgan Chase Institute in 2018, based on people receiving payments from designated online platforms, about 5.5 million households had online gig work earnings during the year. Some 2 million households had online gig work earnings averaging more than \$600 in a month. 	A GAO report last year said the population of platform workers numbered between 1.5 million to 2 million in recent years, based on a variety of estimates, which also suggest that the platform workforce may be growing. The Bureau of Labor Statistics in 2017 put the figure at 1.6 million, while the Treasury Inspector General for Tax Administration in 2019 estimated 3.8 million. 

Sources: Joint Committee on Taxation, POLITICO staff reports



WHAT'S NEXT

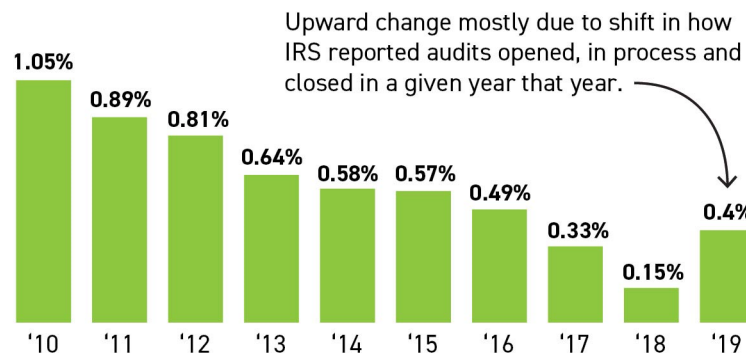
Lowering the threshold for information reporting requirements by gig workers should help compliance and revenue collections, since the IRS says there's a 63 percent chance of misreporting income when there's no withholding or information reporting.

The new requirement was included in economic aid legislation that passed in March, and Congress' official scorekeepers estimated the change would raise \$8.4 billion in tax revenue through 2031.

It takes effect next year, prompting some worry that a lack of transition will catch many gig economy workers off guard.

Tracking IRS audits of filed tax returns

The percentage of individual income tax returns examined by the IRS has declined in the past decade. Gig workers could be inviting tax audits if they do not comply with new IRS income reporting requirements regarding gig work.



Source: IRS

POWER PLAYERS

- **Chuck Rettig, IRS Commissioner:** He regularly points out that overall tax compliance hovers between 82 percent and 84 percent, year over year, and cites data indicating that compliance is far higher when reported amounts are subject to third-party information reporting or withholding. He believes the increased reporting requirements for gig economy workers will help. Under his direction, the IRS launched an online Gig Economy Tax Center to explain workers' obligations and help them calculate taxes.
- **Sen. John Thune (R-S.D.):** For years before the reporting requirement change, Thune introduced bills in Congress to reduce the threshold to \$1,000 for gig economy transactions, down from \$20,000 for online commerce. His legislation also proposed to increase the threshold for traditional independent contractor and vendor relationships to \$1,000 from \$600.
- **Rep. Tom Rice (R-S.C.):** He has introduced companion legislation to Thune's bills. Their measures also included distinctions between contractors and employees, which wasn't included in the provision that dropped the information reporting threshold to \$600.