Study: Increase in taxpayers reporting self-employment earnings cannot be attributed to increase in gig work

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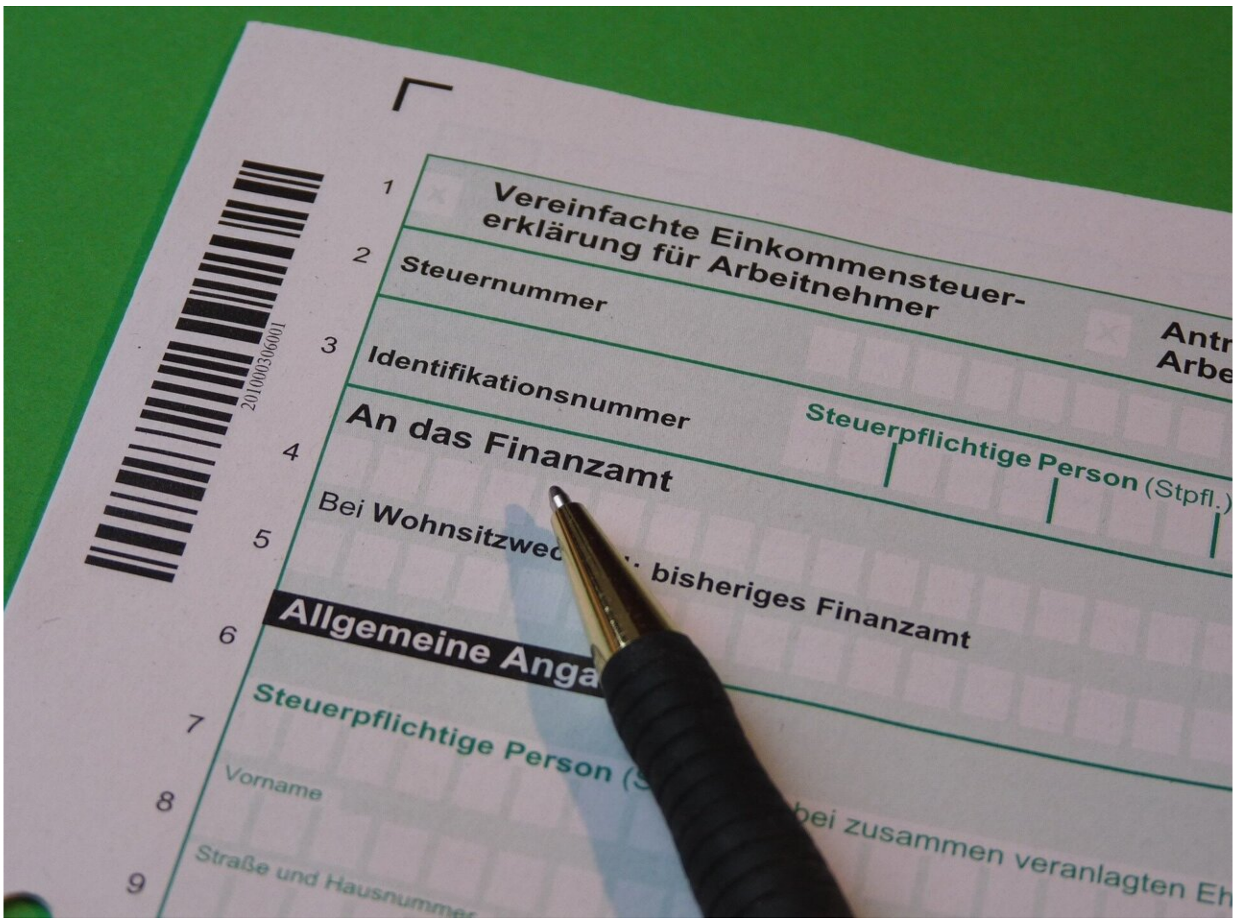

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The emergence over the past decade of new institutions and technologies that have made it easier for firms to obtain labor from self-employed contract workers instead of employees has spurred widespread speculation that the U.S. labor market is transitioning to a gig economy. But labor force surveys show no rise in the rate of self-employment since 2000, while the share of individuals reporting self-employment income on their tax returns increased dramatically from 2000 through 2018.

In a new study, researchers set out to determine whether income tax returns were picking up on a big change in the labor market that major surveys missed. They examined third-party reporting by online gig platforms and found that a growing number of workers have had payments from gig economy apps since 2014 but the amounts earned were small and mostly limited to occasional driving work. They concluded that the rise of gig economy platforms cannot explain the growing share of individuals reporting self-employment income to the Internal Revenue Service. Rather, the researchers found that the increase was driven by self-reported earnings of individuals who would benefit from refundable tax credits by reporting additional income.

The study, by researchers at Carnegie Mellon University, Michigan State University, and the University of Chicago, is released as an NBER working paper.

"Our study shows that the increase in the share of taxpayers reporting self-employment earnings since 2000 cannot be attributed to the recent rise of platform-mediated gig work," explains Andrew Garin, assistant professor of economics at Carnegie Mellon's Heinz College, who led the study. "Rather, our findings show that individuals have become more likely to report self-employment earnings on tax returns when the tax code incentivizes them to do so—even when underlying labor supply does not change—and that changes in reporting behavior are an important driver of observed trends."

Researchers examined whether these self-employment trends might have been driven by changes in what taxpayers chose to report rather than changes in the work they did. To isolate pure reporting responses from real labor supply responses, the study examined workers with births of first children around an end-of-year cutoff for children to qualify for generous Earned Income Tax Credit benefits. This approach compares individuals who have completed the same work over the course of the year but have received different benefits from reporting additional self-employment income on tax day.

Individuals were more likely to report self-employment income on their tax returns when they had an incentive to do so, even conditional on the actual work they did over the previous year, the study found. Consistent with pure strategic reporting behavior, there was no impact on reporting by taxpayers with no incentive to report additional income and no effects on firm-reported payments of any kind. The study also found that these reporting responses have grown over time as knowledge of tax incentives has become widespread.

"Changes in taxpayers' reporting behavior are a major driver of discrepancies between the self-employment trends we see in self-reported information on individual tax returns and the trends in data reported directly to the IRS by firms," notes Garin. "Our findings caution against trusting trends in administrative data over trends in survey data without careful consideration of the process by which the data are generated."

More information: Andrew Garin et al, New Gig Work or Changes in Reporting? Understanding Self-Employment Trends in Tax Data, (2024). DOI: 10.3386/w32368

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