Episode 21 – On the Gig Economy

This document provides resources for educators looking for ways to incorporate current events into their curriculum. Each podcast episode is approximately 20 minutes long and available on all major podcast outlets for free. This document provides opportunities for either short-answer/essay-style questions or discussion questions to delve further into topics. Email taxnerds@gmail.com for an answer key.

In this episode, we discuss the tax implications of the gig economy for workers, the companies that use gig workers' services, and the U.S. government.

Concepts covered

- Independent contractor vs. employee classification
- Self-employment tax issues
- Third-party reporting

Multiple choice and True/False questions

1. According to the podcast, what is the estimated percentage of the workforce participating in the gig economy?
    a. <20%
    b. 25-30%
    c. 50%
    d. 80%

2. True or False: According to a study by Mastercard, the U.S. may have more gig workers than non-gig workers by 2027
    a. True
    b. False

3. True or False: According to the podcast it is generally less complicated from a tax perspective to be a gig-worder than a more "traditional" employee.
    a. True
    b. False

4. The IRS generally considers two classifications of workers. Select the two classifications from the list below.
    a. Employees
    b. Independent contractors
    c. Temporary workers
    d. Seasonal employees
    e. Freelance employees

5. Which of the following is/are true? Select all that apply.
    a. Both independent contractors and employees must report all of their business income to the IRS.
    b. Both independent contractors and employees can deduct business-related expenditures on their tax returns.
    c. Employees share their employment tax obligations with their employers.
    d. Independent contractors may have to file quarterly employment tax reports (and remit quarterly tax payments).

6. True or false: All amounts that a gig worker spends to help them perform their gig work is tax deductible.
    a. True
    b. False

7. In general, which type of worker classification do workers prefer?
    a. Employee
    b. Independent contractor

8. In general, which type of worker classification do companies prefer?
    a. Employee
    b. Independent contractor

9. Which of the following companies does the podcast discuss as having settled lawsuits related to worker misclassification?
    a. FedEx
    b. Lyft
    c. UPS
    d. Uber

10. Which party is responsible for classifying workers?
    a. The IRS
    b. State workforce agencies
    c. The company
    d. The worker

11. If a worker is misclassified, which of the following is true?
    a. Workers remain liable for any income or employment taxes they erroneously paid.

b. The IRS will automatically change the classification based off of information it obtains from public employment contracts.
c. The company is liable for employment taxes erroneously paid by workers.
d. The company will be subject to federal penalties of up to $100 per misclassified worker.

12. What are the common law rules that the IRS says should be considered when classifying workers? Select all that apply.
    a. Behavioral control
    b. Financial control
    c. Occupational control
    d. Type of relationship

13. Which of the following is/are true? Select all that apply.
    a. It is harder for employees to evade taxes because of third-party reporting of their wages to the IRS.
    b. Every individual who uses gig workers' services during the year (e.g., you order dinner on Uber Eats) is required to report payments to the IRS on Form 8222.
    c. Starting in 2021, third party settlement providers (e.g., PayPal) must report amounts received by gig workers If total gross payments exceed $600.
    d. Gig workers must register with the IRS so that electronic payments for their services are automatically reported to the IRS.

14. True or False: Gig workers are not required to report cash payments as income; only those payments received via third-party settlement providers (e.g., PayPal) are taxable.
    a. True
    b. False

<u>Short answer/essay or in-class discussion questions</u>

1. [ETHICS] A friend of yours is a gig worker. They recently heard that Zelle is exempt from the new third-party reporting requirements and is considering using that platform exclusively to accept payments so that the IRS will not know about their income. What advice would you give your friend?

2. In your own words, summarize why workers generally prefer to be classified as employees. Can you think of any situations where a worker might prefer to be classified as an independent contractor?

3. In your own words, summarize why companies generally prefer to classify workers as independent contractors. Can you think of any situations company might prefer to classify workers as employees?

4. Using the IRS' three common law rules, determine whether you think Lyft/Uber workers should be classified as employees or as independent contractors.

Data analysis/visualization

Individuals likely report income from gig work as "business or profession net income". Using data from here (Table 1.3), plot the average amount reported on this line per person over time. Also plot the average amount reported as "salaries and wages". What patterns do you observe? Do you observe any evidence consistent with a shift from employee to independent contractor classification over time?