

Gig Economy

Cross References

- TIGTA Report Dated February 14, 2019

The gig economy is one term used to describe self-employed taxpayers engaged in businesses using delivery apps, such as Uber, Lyft, Uber Eats, and Door Dash. The Treasury Inspector General for Tax Administration (TIGTA) recently released a report on the self-employment tax compliance of taxpayers in the gig economy.

The IRS last estimated the self-employment portion of the annual Tax Gap at \$69 billion. The Tax Gap is the difference between true tax liability for a given tax year and the amount that is paid on time. It is comprised of the non-filing gap, the underreporting gap, and the underpayment, or remittance gap.

The gig economy has since emerged and grown considerably, with thousands of new taxpayers each year being responsible for self-employment taxes. The TIGTA audit was initiated to evaluate the self-employment tax compliance of taxpayers who earn income in the gig economy and assess the IRS's processes and controls that identify and address noncompliance with self-employment tax requirements.

TIGTA reviewed cases in the IRS' Automated Underreporter (AUR) program for taxpayers who work in the gig economy and who have discrepancies between what is reported on their income tax returns and payments reported to the IRS on Tax Years 2012 through 2015 Forms 1099-K, *Payment Card and Third Party Network Transactions*, by payers. The review was limited to nine commonly recognized gig economy payer companies and identified 264,346 cases with potentially underreported payments included on Form 1099-K. The number of discrepancies involving Forms 1099-K from these gig economy payers increased 237% from 2012 to 2015.

Like other types of AUR inventory, many cases were not selected to be worked by the AUR program due to the large volume of discrepancies that were identified. Specifically, 59% of taxpayers were not selected to be worked by the AUR. This includes 2,817 taxpayers with potential underreporting of their Form 1099-K income in all four tax years, involving \$2.7 billion in potentially underreported payments included on Form 1099-K.

AUR employees removed thousands of cases from inventory without justification or with justification that was inaccurate. Many of the cases that were worked included errors by IRS examiners. Also, AUR employees rarely refer questionable deductions claimed by taxpayers on amended returns filed in response to receiving a notice from the AUR program to the Examination function.

Treasury Regulations do not require certain gig economy businesses to issue Form 1099-K unless workers earn at least \$20,000 and engage in at least 200 transactions annually. Consequently, many taxpayers who earn income in the gig economy do not receive

a Form 1099-K. As a result, their income is not reported to the IRS. When income is not reported to the IRS, taxpayers are more likely to be noncompliant.

TIGTA recommended that the IRS take several corrective actions to improve how the AUR program addresses self-employment tax noncompliance, selects cases, and conducts quality reviews. Additionally, TIGTA recommended that the IRS Office of Chief Counsel develop and issue guidance to help clarify current third-party reporting regulations and work with the Department of the Treasury Office of Tax Policy to pursue regulatory or legislative change to reduce the information reporting gap.