



Independent Contracting in California: An Analysis of Trends and Characteristics Using Tax Data

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SUMMARY

On-demand platforms like Uber or TaskRabbit have caught the attention of policymakers planning for the future of work in California. But how rapidly has the ‘gig economy’ grown? Is independent contracting replacing traditional wage work? To date, policymakers have lacked reliable information about independent contracting, its growth, or its effect on employment trends. Most studies rely on worker surveys and unemployment insurance records, which are oriented toward traditional jobs and make it difficult to truly understand who California’s independent contractors are. In light of AB5 and the COVID-19 pandemic, having an accurate understanding of who participates in independent contracting in California is essential to analyzing who might be excluded from key workplace protections.

We use tax data to shed new light on the prevalence and characteristics of independent contracting in California. Our research stems from a unique partnership between the California Franchise Tax Board, the California Policy Lab at UC Berkeley, and the UC Berkeley Labor Center. This partnership enabled us to access (fully anonymized) individual tax filing data for California residents for the years 2014 to 2016. These data allow us to observe who earned income from independent contracting based on the tax forms they received and filed, including work for on-demand labor platforms (however, the data do not allow us to identify misclassified independent contractors). Our analysis centers on California residents who e-filed their taxes and had positive earned income.

This fact sheet summarizes findings from two more in-depth publications focused on this data, a policy report, [*Independent Contracting in California: An Analysis of Trends and Characteristics Using Tax Data*](#) and a working paper: [*The ‘Gig Economy’ and Independent Contracting: Evidence from California Tax Data*](#).

MAJOR TAKEAWAYS

Traditional wage (W2) work remained the most common way that workers earned a living in California. In 2016, around 82% of California workers held a traditional W2 job and did not participate in any independent contracting. Around 18% of California workers participated in some amount of independent contracting.

Of the 18% of Californians that participated in some form of independent contracting, around half used independent contracting to supplement their W2 earnings, often in small amounts relative to their W2 income. The other half (9% of California workers) worked only as independent contractors.

When workers used independent contracting to supplement their W2 earnings, it was often transitory. For example, over a third of individuals who combined W-2 and independent contracting earnings in 2015 transitioned to holding only a W2 job in 2016.

The percent of Californians who participated in independent contracting did not change dramatically over the period we studied. The total proportion of workers with independent contracting earnings increased only slightly, from 17.8 percent in 2014 to 18.3 percent in 2016. That growth was the result of a slight increase in the proportion of workers combining W2 and independent contracting work. In analysis over a longer period of 2013 to 2017, we also find little evidence of rapid growth in independent contracting, similar to other research in this area.

Work for on-demand labor platforms - often called 'gig' work – made up a small share of all independent contracting. In 2016, 1.4% of California workers reported earnings from an on-demand labor platform company, such as Uber, TaskRabbit, or Lyft. The majority of these workers got most of their earnings from W2 jobs, supplementing it with their platform earnings. The one in five platform workers that relied solely on platform work in 2016 accounted for just over half of all on-demand labor platform earnings

Two thirds of workers who reported some kind of independent contracting work did not receive a 1099 form (used by firms to denote the payment of non-employee compensation). These are workers who provided services directly to consumers rather than firms, or sold goods to business or consumers. These workers make up 12% of California workers. "Traditional" independent contractors who provided services to non-platform businesses and received a 1099 make up 5% of California workers.

Workers who relied exclusively on independent contracting for their income were likely to be older, married, and live in lower-income households, compared to other workers, and had low earnings on average. Around half lived in a household with an adjusted gross income in the lowest quartile -- double the rate of workers who only rely on traditional W2 work and workers who combine traditional W2 and independent contracting work. We estimate that roughly half of independent contracting-only workers earned less than \$13,000 in 2016; however, caution is warranted because our measures of independent contracting income are likely biased by some amount of overreporting of expenses and underreporting of independent contracting revenue in the tax data.

Independent contractors worked in a wide range of industries, spanning professional and technical jobs to front-line service jobs. Relative to W2 work, independent contracting was over-represented in construction; transportation and warehousing; real estate; professional services; arts, entertainment, and recreation; repair and maintenance personal services; child day care services; janitorial and landscaping services; and direct selling establishments in retail. While the industry distribution of independent contracting did not change significantly between 2014 and 2016, the share of independent contracting work in transportation nearly doubled during this time.

Tax data can and should continue to be used by the State of California to measure trends in independent contracting. Due to limitations in data availability, we were only able to analyze data through 2017. However, the world has changed since then – including the introduction of new laws and the COVID-19 pandemic. Further research using tax data can help shed light on how independent contracting, and work for on-demand platforms in particular, may have changed since 2017, especially during the course of the pandemic.

Note: Because these reports use slightly different population bases, prevalence estimates vary slightly across reports. However, overall findings and trends are consistent. The statistics here are drawn from our analysis of California workers aged 18-80 years old.

For more findings and analysis, refer to:

[Independent Contracting in California: An Analysis of Trends and Characteristics Using Tax Data](#) that presents a broad set of findings on the characteristics of independent contracting in California, for workers age 18-80.

[The “Gig Economy” and Independent Contracting: Evidence from California Tax Data](#) for a detailed explanation of the definitions, data, and methodology used, alongside an analysis of the prevalence and trends of independent contracting. This report is focused on California residents and workers aged 18-64.

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