THE BROOKINGS INSTITUTION

TAXING THE GIG ECONOMY

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Welcome and introduction

MARK MAZUR
Robert C. Pozen Director, Urban-Brookings Tax Policy Center

Panel 1: The Size And Scope Of The Gig Economy

Panelists:

MODERATOR: JANET NOVACK
DC Bureau Chief, Forbes

ADAM LOONEY
Senior Fellow, Urban-Brookings Tax Policy Center

ELAINE MAAG
Senior Research Associate, Urban-Brookings Tax Policy Center

MIKE UDELL
Member, District Economics Group

Panel 2: Tax Administration And The Gig Economy

Panelists:

MODERATOR: HOWARD GLECKMAN
Senior Fellow, Urban-Brookings Tax Policy Center

CAROLINE BRUCKNER
Managing Director, Kogod Tax Policy Center

POOJA KONDABOLU
SENIOR TAX Policy Manager, Airbnb, Inc.

NINA OLSON
National Taxpayer Advocate, Internal Revenue Service

DAVID WILLIAMS
Chief Tax Officer and Executive Director, Intuit Tax and Financial Center

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P R O C E E D I N G S

MR. MAZUR: Good morning, everybody. I want to welcome everybody to today's event, Taxing the Gig Economy, sponsored by the Urban-Brookings Tax Policy Center. I'm Mark Mazur, the Robert C. Pozen Director of the Tax Policy Center. It's my pleasure to kick things off here today.

We have two excellent sets of panelists today to discuss how tax policy should be modified to address changes in the workforce of today and tomorrow. And this is not a new issue. As Jen Novack, one of our moderators, pointed out in the 1990s BLS did a report on the contingent workforce. And so this is an issue that's been with us for decades, but one that's important to address for now and for the future.

Our first panel is going to feature three different but complementary views on what is often referred to as the gig or platform economy. And our panelists will discuss the size of this economy, the scope, and how things may have changed over time, giving us a sense of the underlying trends with this section of the economy.

And then our second panel will focus more on the policy and administrative responses that are appropriate to deal with this changing business landscape. We have four panelists who deal with the administrative and compliance side of the tax system from distinct perspectives. And they're going to share those perspectives with us on the second panel. I'm hoping for a spirited discussion of the alternatives of what can be pursued and what should be pursued.

Let me take a moment to acknowledge our on line audience today, people who are watching from afar. I would encourage all of you, both on line and the people here in person, to share your thoughts and observations on social media using the hashtag #TaxingGig. And for on line viewers, using this hashtag is a way to get your comments and questions into the discussion when we head to the Q & A portion of the program.

For those of you here in the audience, when it's time for Q & A I think we'll have a microphone come around to get you to ask your questions. Please use the microphone. It makes it a whole lot easier for people in the on line audience to hear what you're asking.

Finally, let me offer a big thank you to the events team who organized today's discussion, Ann Clevin from the Tax Policy Center, Anna Dawson and the rest of the Brookings Institution staff who pulled all this together today for us.

And now what I want to do is invite up the first panel to the stage. Our first panel will be moderated by Janet Novack, DC Bureau Chief for Forbes and a long-term chronic learner observer of tax policy. She'll kick of a substantive discussion with Mike Udell from District Economics, Adam Looney from Brookings, and Elaine Maag from the Tax Policy Center.

MS. NOVACK: So we have a terrific panel today, and we're going to start with Mike Udell, who is the founder and managing member of the District Economics Group. And Mike started his career at the IRS studying the tax DAP, the TCMP, and he spent many years on the Hill in the Joint Committee on Taxation. And I think what he's going to tell us about today is his analysis of the new Bureau of Labor Statistics report that came out in June, which suggested that we shouldn't all be here today because the gig economy is not really growing.

Mike, you want to?

MR. UDELL: Great. So I want to thank Brookings for asking me to come.

First of all, we don't have a client in this space, so I don't have a dog in the hunt. I think that's a useful disclosure here. We really haven't studied the issue much. We come at it from two different directions. First, the SOI asked us to think a little bit about it and we asked them to tabulate some information on it for us. And second, in a previous life I was part of the team that wrote the statute, wrote 6050W, that has created probably the reason we're in the room today. So I have a little bit of just paternal linkage to the issues.

So what the SOI asked us to do was first say, look, we have this new census report, it's trying to measure self-employment, and how can you square it with our numbers. So what we decided to do was to take two perspectives. We first wanted to say, well, jeez, does the census data align with anything in the tax data. And I think the first slide is going to say it probably does. But it doesn't capture a lot what's in the tax data. And the second thing, which we'll do in the next slide, is we're going to say well over the last 20 years have things really changed in the self-employment space. So we decided to look at this problem with two different age groups, the youngsters, the people entering the labor force -- we're going to look at them -- and then the -- I used to call them the older folks, but now I'm told that they're the more experienced people (laughter). So on this slide, the right hand column is the recent data from the new BLS survey on contingent workers. And we compared it with the most recent SOI data, which is two years earlier. But these are two different surveys trying to measure the same thing. And what you can see in the two right most columns is that the BLS survey isn't really all that far off from what the SOI says. Are self-employed people whose predominant income is self-employment, the youngsters BLS says 1.6 million, SOI says 1.7 million. That's pretty close. The more experienced folks, BLS says 2.4 million and SOI says 2.3 million. That's pretty close too.

The odd thing, though, is the first column, the one on the left, and that's the number of folks who report some self-employment income, but it's not the primary source. And this is what the BLS survey doesn't really pick up. So you can see these are big numbers. There's 4.2 million youngsters that aren't reporting as self-employed in the BLS data, but they show up on the SOI. And they only show up because they filed a Schedule C. So that's a problem because I think one of the discussions today is going to be well, jeez, maybe a lot of the people aren't even filing a Schedule C who are self-employed.

So this is just a quick snapshot to say, yeah, SOI and BLS are on the same page if you're looking at your primary source of income. Below this, there were a bunch of issues, and we won't talk about them because we're cut for time, but the bottom one, number three, there are a number of tax code sections that are really relevant that created this reason we're having a conference. I hope the tax administration folks will talk about it. 6050W is the information reporting provision. 6721 and 22 are tax penalties, and they turn out to have a really big impact on why companies are doing what they're doing in this space.

We left off section 3406, which is back up withholding, and that's another serious problem for platform or gig economy companies. So hopefully those provisions will get shown up in the discussion. So which way forward.

So now we just wanted to say, jeez, have things changed much over the last 20 years for youngsters and for people with more experience. And so this is just a frequency count of how many times a Schedule C shows up on a tax return. So in the left most column, in 1995 the top gray bar says 2.9 percent -- 2.9 percent of youngsters in 1995 had their income predominantly from self-employment. And you'll see that over the 20 years that grew. And that's actually the one thing that really is changing on this whole slide is that the proportion of youngsters who are predominantly self-employed has grown quite a bit, 2.9 percent to 4.6 percent of returns filed by these people. That's pretty good growth.

You'll see the maroon bars below it, those are people who are showing self-employment income, but it's not their predominant self-employment income. And you see there's really not much growth there. For the experienced folks, the gray bar at the top from 1995 to 2015, there's really not much growth there. It's the same proportion of experienced folks who are filing whether they were in 1995, when they were 56-65 or 2015, when they were 56-65. Same proportion filing predominantly Schedule C.

So the takeaway from this slide is, yeah, there is growth of predominantly self-employed people amongst youngsters. And this is to 2015, which really predates the most important moment in the platform space, which happened in 2016. So this may become exacerbated in more recent tax return filings.

So then we said, okay, how much has income changed for these folks. And one of the odd things is if we look on the left side for the young kids, self-employment income as a share of their total income is flat, even though there were more youngsters being predominantly self-employed as a share of total income of this cohort. And there's obviously a lot of stuff going on here, but as a share of total income it hasn't changed at all. And I think this sort of jives with one of the things that the Census Bureau was showing in their data, which is that the average earnings for self-employed people have actually been falling. And so this kind of bears that out, that as a share of income it's not growing, but as a share of people with self-employment income, it's growing. So it has to be that the average is falling.

For the more experienced folks it grew. That's the best you can say. And finally we said, well has this changed on a per capita basis. Same snapshot. For youngsters in 1995 -- these are in real dollars -- we sort of scaled everything -- they made $14,000 per return of self-employment income. And in 2015, $15,000. It's not really much of a growth over 20 years. For the experienced people there was substantial growth, although it happened pretty much before the Great Recession. And that's, as Diane pointed out I think in a blog post that she wrote for District Economics, this is just showing kind of a life cycle of fact, that experienced people are monetizing their experience by becoming self-employed.

So those were the key pictures that we wanted to show, which says so far at least through 2015 we don't see any earthquakes happening in the self-employment space on tax returns.

We were then asked to quickly think about well, are we really measuring this stuff. And our last comment, the comment we left the SOI meeting with, was this is probably the wrong place to look. If you want to figure out how big the gig economy is, it's probably the wrong place. You probably don't want to look at individual income tax returns. What we think you'd want to do is you want to look at the corporate tax returns. These platform companies are corporations, the expenditure for the sell side, which is the Uber driver or the Ebay seller, that expense is probably one of their largest single expenditures. It's going to be on their corporate tax return. And it could be a miscellaneous deduction, but if it is, it's going to be itemized. So our suggestion was if you really wanted to sort of gauge the size of this issue space, what you really want to do is take the 100 largest platform companies that are corporations, have the SOI do their editing, and then you want to compare that number, the deduction that Lyft took or Etsy took, the deduction that they took to pay their sellers. You want to go back and compare that to the information returns that they filed. So we know their information returns, the all have a corporate EIN, it's sitting on the 1099s. So if there's this big discrepancy between what we see on the

1099s and what the companies took as a deduction for payments, then that's a pretty strong indicator that the information reporting system is not tracking on the individual side this issue. And that's how we left it. We were raising our hand to tell the SOI we'd be glad to do that project with them. So far they've demurred.

And that's just what I wanted to talk about.

MS. NOVACK: Okay. Our next speaker is Adam Looney, who is now back at Brookings as the Director on the Center of Regulation and Markets, but for our purposes what's crucial is that he was at Treasury as the Deputy Assistant Secretary for the Office of Tax analysis. And even more relevant, in 2007 he produced a really in depth look at the gig economy and what some of the regulatory and policy issues were, as well as how big is it really.

So I think he'll talk to us about some of those findings.

MR. LOONEY: Yes. Well, thank you very much. Good to be here. I wanted to talk a bit about self-employment in general and in the gig economy in particular. I wanted to start with self-employment in part because I think a lot of the issues related to the gig economy are ultimately issues about self-employment. And a lot of the long standing tax policy labor regulation compliance benefit coverage issues that we'll talk about on the second panel are issues that are long standing and have been issues that related to self-employment for a long time.

I also thought it might be useful to start off very briefly just in terms of my study, which was about tax returns and analysis of tax returns. Might be useful to have a brief primer on how gig economy workers and self-employed in general are supposed to file their returns.

So to provide a little color on that, if, for instance, you work for a ride sharing company like Uber or Lyft, they're supposed to issue you a 1099K often for the payments for the services that you provide to your clients. In practice the threshold for when those companies have to issue those forms is quite high. So it's 200 transactions or $20,000, the greater of those two. In practice, for many years most companies had issued 1099Ks to almost all or all of their ride sharing partners. I know that not from looking at the tax data, but from reading Turbo Tax on line forums and Reddit threads maintained by ride sharing partners who clearly state that like I got this 1099K, what do I do with it. Well, what you're supposed to do with it is you're supposed to take the information about how much you received in gross receipts from Uber, you're supposed to plug it into your Schedule C when you file your income tax return. On Schedule C that reports your net income from your sole proprietorship. So you put down the receipts that you received from them, you subtract any expenses, things like the cost to maintain your car or the standard mileage rate, any other costs associated with providing your service. Like if you offered water bottles for you clients, for instance, you would take a deduction for those. And then only if you earned $400 in net income from your Schedule C do you file Schedule SC, which reporting self-employment income. And so that's a long winded way to say that the translation from the number of people who drove a car or participated in the gig economy to those that file and report self-employment income, might be a big gap between those two. And, indeed, that will be something I think we can come back to as well.

So in our paper we observed that in 2014 there were about 19 million people who had reported income from self-employment. That was up from about 15 million in the year 2000, so a 25 percent increase. A much larger share of people in 2014 had filed Schedule C, so about 25 million people had filed Schedule C, reporting some activity as a sole proprietorship. And so the gap between 25 million and the roughly 19 million who had income means that there were a lot of people who did not earn enough income to either earn a profit or to earn at least $400 and, therefore, did not file a Schedule SC and have income. And so that's a very big gap. And I think that we'll come back to that because it turns out that there are a lot of people who participate in the gig economy who don't earn quite that much money.

And so a substantial amount of growth over time. I think as Mike's presentation suggested, a lot of that growth is not among people for whom self-employment activities is their primary activity, it was a secondary activity and so it's relatively smaller and secondary to their primary job as a W2 employee.

Another thing to say is that our study only went through 2014. That's because that's the data that we had in hand at that time. Since that time I think that there has been substantial growth beyond that, especially in the gig economy. And I guess I should pause for a second to say in 2014 when we looked at self-employment, obviously the number of activities that people participate in is quite varied. So there are people who report self-employment earnings from being a partner in a big law firm to people to report self-employment income from being a babysitter or from mowing lawns in the neighborhood or being a contractor. So there's a wide range of activities. Of that the gig economy is a small share. So in 2014 when we looked, we saw that there were only about 100,000 people who had reported net income and filed Schedule SC reporting self-employment earnings from being a gig worker. So, again, 100,000 people at that time is on the order of 0.1 percent of the U.S. workforce. That was also a time when I think that if you looked at some ride sharing companies, public statements that they were saying that there were 600,000 people who were partners in their platform. So a very large difference between the number of people who are participating to some extent and the number of people who are then filing a return and reporting at least $400 of net income.

Again, that was for 2014. I think since 2014 there's been very rapid growth. So I think that there are researchers at Harvard, Berkeley, University of Illinois, and University of Chicago who are working on these issues, and I think that if you ask them they would find that the number of gig workers who were reporting self-employment earnings has gone up to something like 600,000 by 2016. So a very rapid growth. But again, probably a growth that is in secondary employment, not their primary employment.

When we looked at the people who are participating it was younger people, it was more likely to be men, less likely to be married, they had relatively low earnings. I don't think that's attributable to the gig economy per se, but just from the fact that they were often using their gig economy work to supplement either having too few hours on their primary job or being between jobs, using it for consumption smooth, for instance, between activities.

In terms of their net income, when we looked at how much in 2014 these workers were earning, we saw that they earned only about $6,000 from their activity. And that was contingent on having reported positive net income. So kind of relatively small amounts of money, even conditional on having earned any. And then I think if you looked at the number of people who engage in the activity, a very large share don't earn enough to be required to file. So something on the order of 44 percent of gig economy workers seem to have sufficient expenses or have such small levels of participation that they aren't required to file a return.

In terms of other characteristics, they were otherwise quite similar to other self-employed workers. So, for instance, they had relatively lower rates of coverage from health insurance, about the same rate, 75 percent, as workers who are self-employed versus a 90 percent health insurance coverage rate of primarily W2 workers. Similarly, they were much less likely to contribute to a retirement account. So in the year that we studied, 2014, about 19 percent of gig economy workers had contributed to any retirement account versus about 45 percent of workers who had a formal W2 job. And that's a little bit higher than other self-employed workers, but otherwise quite comparable.

And so that's a quick overview of the population. I look forward to our conversation.

MS. NOVACK: Next is Elaine Maag. She is a Senior Research Associate at Urban-Brookings Tax Policy Center. But what is relevant today is she has some new research she's just now crunching the numbers on, which is very intriguing because she's using the longitudinal study of youth and Mike has just said that we may have seen some increase in full-time self-employment among youth. So she's going to fill us in and give us a preview of what her research is showing.

MS. MAAG: Thank you. This morning when I left my house my very fashion conscious 11 year old daughter said, mom, you look exactly like a serious business woman (laughter). And I can see, except for the blue shirt, I have nailed it. (Laughter) So next time I'm going to be even closer.

The work that I'm going to talk about I did with Liz Peters, Dan Berger, and Cary Lou, who are all at the Urban Institute and it's sort of been an ongoing project where we have looked at this in a couple of phases. So the gig economy gets a lot of attention, as we all know.

And in some ways it's really made self-employment more visible and more accessible. And that's why it becomes an issue for us. So we've always had people babysitting, paying others for rides, performing odd jobs. But utilizing platforms, such as Lyft, Uber, Task Rabbit, and more, have meant that people who would have made these connections in small communities, neighborhoods, churches, friend networks, can now make these arrangements more broadly with people they potentially have no connection to. And it's that interaction that I think defines the gig economy. And as it becomes more visible it's natural to think it's a really important thing that's going on and something we should be thinking about. But yet there's a data that's saying it's really not that big yet, but maybe it's growing.

But beyond potentially making the gig economy bigger, the platforms have also potentially driven activity that used to be sort of underground and informal into the above ground economy. So because I like to think about tax administration a little bit, that's probably good news for the IRS. At least someone has some data out there, and the question is can they get it. So once the gig economy became more visible it raised the issues that Adam and Mike have already talked about, and they have to do with which laws does everyone have to follow. And the ones I'm most interested in are not the labor laws necessarily, but the tax side of it.

So to sort of understand where the tax side is coming from we want to understand if we've seen this big increase in the gig economy, or if it's becoming more prominent, do we think that's going to continue. Because if it's a temporary phenomenon it's not a big issue for the IRS. They might have already passed it. But if we think it's going to continue, then it's something they should start to be really concerned about. My argument would be that from earlier work I think it's going to continue, and that's because of phenomenon that a lot of people are talking about, which is income volatility. So there was some work done here at Brookings that shows that over time incomes have become much more volatile year over year. And then work that I did with my colleagues at Urban show that even over the course of the year incomes are very volatile. And of course the gig economy provides an answer to that volatility. It's a very low entry way to do some income smoothing. So to just sort of scale the issue, half of all working-age adults, and almost two-thirds of low-income working-age adults, have at least one month in the year when their income spikes or dips 25 percent above or below their average. So this is a big change that's happening. And nearly 40 percent of low-income workers have hustled income that's doing the spiking or dipping in 6 months of the year. So people are just experiencing a tremendous amount of volatility and it's natural that they would look for ways to sort of smooth this.

What we tried to tease out is self-employment smoothing that volatility or is it the reason for that volatility. And we do find that people who rely on self-employment income have the most volatile incomes. They're the ones whose incomes are just bouncing around sometimes every month. It's very difficult to predict what's happening. But in the case where people get about a quarter of their income from self-employment, the story is very different. Their incomes are still more volatile than your wage earner, someone who is relying exclusively on wages, but it's not that much of a difference. So in some ways the gig economy is working as we expect it to. When you mix wages and self-employment, your income is smoother.

So then what we wanted to look at in our current project is look at workers who were surveyed starting in 1979 compared to workers who were surveyed starting in 1997, and we break them up into two groups. We look at young workers, which kind of overlap Mike's definition, these 23-27 year old types, but them we have mid-career workers also who are 30-34. We don't have older workers than that because our --

MR. UDELL: Experienced.

MS. MAAG: Well, I'm under 55, so. (Laughter)

MS. NOVACK: Experienced.

MS. MAAG: We don't have that piece of the pie because the folks who started getting interviewed in 1997 simply haven't reached that point in their career.

So we find several things that I want to talk about. The first is that people who are self-employed in one year, or receive some income from self-employment, are extremely likely to receive self-employment income in another year. And that's important for tax administration because there's some sense of if the IRS can find you once and teach you how to fill out these forms and you're likely to have that obligation year over year, then that's something the IRS can work with and people can learn how to comply with the tax law. So that's probably good news.

So it used to be in my older group, the ones that started being interviewed in 1979, about half of them would report self-employment year over year. And then when they're at the age, those numbers increase. But by the time we're a little bit more current -- so my 1997 cohorts -- again, about half of my young people report year over year self-employment, but almost three-quarters of this older group. So they're really settling into some sort of self-employment that's going to be coming into the household every year.

Men are more likely to be self-employed, and if they're self-employed in one year, they're really likely to be self-employed in another year. And this is important because of compliance.

And then the final issue is that if you mix self-employment income we also observe that if you're in this older group you're really likely to be mixing it in a second year.

So coupled with the fact that these platforms have some information and that people are experiencing these same sorts of income types year over year, I think that's potentially good news for the IRS.

So the other thing we find is that there's a lot of differences in women and men who are self-employed, and one is that women who are self-employed tend to have children, they tend to be mid-career, and they tend to have quite low incomes. And this looks like other populations the IRS deals with, and those are folks claiming the earned income tax credit and child tax credits. And so here's an opportunity for the IRS to be thinking about a group that they're touching with one program potentially touching from another angle. So I think that's also some good news for the IRS.

Overall my sense is we're just really starting to get a handle on what's going on in this new gig economy. We're kind of having old issues come the front, but I think that to the extent that these platforms are going to serve the function of being consolidators of people's labor, then it's probably something that hopefully the IRS can find a way to work with them and figure out the compliance side.

MS. NOVACK: Those are very interesting presentations which tell us a lot and also how much we don't know. So after listening to the three of you and reading the work you've produced, there are three things that jump out at me. One is that the gig economy is larger than the BLS would tell us, but a lot smaller than the media hype from us and other people would suggest, that it's growing and, you know, we push it. The second is that most of the policy concerns, health and retirement benefits and tax compliance, are not new. They've been around and they were studied back in the Clinton Administration. And the third is that a lot of the platform work that we now call gig work is really producing, particularly on an after expense basis, if you think of the Ubers of the world. Very small amounts of income.

So if I take those one, two, three points, then the question I'm left with is if much of the growth in self-employment is moonlighting, setting aside this younger cohort that a greater percentage are now working as self-employed, are there really any new issues we need to worry about, or are they the same old issues of benefits coverage and misclassification of workers, which I believe, Adam, your paper said a lot of the growth you believe to be misclassification. But what new issues, or is it just the same issues with maybe a little bit of more hype and reason to pay attention because of the potential of the gig economy.

And I wanted you all to address that.

MR. LOONEY: So I guess the first thing to say is the employer-employee relationship is very important for a wide variety of employer provided benefits, for tax compliance, and for labor regulations. So the fact that either your employer gives you a W2 and withholds taxes makes you much more likely to file a return, makes you much more likely to be compliant with the tax system, and makes you much more likely to file the taxes that you're due. Similarly, we provide a lot of employer benefits, like health insurance coverage, 401K retirement coverage through the employer-employee relationship. And so that is a primary delivery mechanism for those benefits. And then, finally, there are a whole number of ancillary other issues that we address through the employer-employee relationship. Those are things like the minimum wage, health and safety regulations, anti-discrimination rules. And so it is an important institution and the long-standing policy battle has been about how to define that relationship and how to deal with cases where the employer-employee relationship is ambiguous or where employers or employees want to divest themselves from that relationship.

And so those are in some ways long-standing issues. I think that their importance is increasing and shrunk over time. It seems like a time today where the availability of on line platforms has made it easier to kind of divest from the traditional relationship.

It's an issue that I think that is important for federal policy makers, but it's also one that's being litigated in a wide variety of areas. So, you know, internationally I think the gig economy and certain cities have taken on this relationship and suggested that ride sharing drivers, for instance, are employees. That's an issue that's being litigated in cities and states across America as well to some degree. So I think it is an important issue and it's very central to how we offer all these types of benefits and monitor compliance with the rules.

MS. NOVACK: So you're suggesting that the platforms make it easier to divest the employee relationship, but Elaine is suggesting that the platforms may also make it easier for us to track who is doing this unsavory divestment and to perhaps require them to help us with tax compliance.

MR. UDELL: So let me chime in. So that's a yin and a yang, okay. And so the yin is, as Elaine says, look, the platforms have reduced transactions costs so that people can jump into economic activities with much, much less expense. You can one minute be on a couch and the next minute you can be in your car as a transportation driver, whether you're delivering for Amazon or you're driving for Uber, or what. So the transactions cost that the platforms have created is just so low that people are now being pulled onto the platforms to do the job. That's the yin. I guess that's the good news.

The yang is that the tax system has a flaw in it -- I'm part of the flaw -- and that is that conventionally these people would -- everyone working on a platform would fall under a tax code provision that said if you're paid $600 or more in a year, whoever is paying you, in this case the platform, would write you a 1099. I write a 1099 to my landlord, I write a 1099 to my accountant. 6050W has this giant safe harbor sitting in there. It says, nah, it's $20,000 and 200 transactions. And so this $600 threshold and this $20,000 threshold are really the entire tension. And the platforms everyone is driving into the $20,000 safe harbor because there's a letter ruling that came out in 2016 that said yes, go ahead, if you're a platform business the people you're paying, if they're not employees, they get this special $20,000 safe harbor. So what's happened -- or we think it's happening, because we don't know quite yet, is that these people simply aren't getting any information that shows up at the IRS. They're getting information from the platform about what they did and very detailed information, which is quite an opportunity for tax administration. But that information isn't necessarily getting to the treasury because it' snot hitting the $20,000 threshold. That's a serious compliance problem, not only for the income tax, but it's also really the payroll tax, it's really shortchanging the people who are providing labor on the platforms because they're not contributing to the payroll tax system, let along unemployment, et cetera, the other traditional employer things, the cost the employers take. This payroll tax system is probably being really shortchanged here. That's an opinion, I don't know if it's a fact.

So I think you have these two forces going on that are in tension and the $20,000 threshold, the safe harbor, is really something that needs to be resolved. It can't sit on the tax code next to a $600 reporting threshold. There's an inconsistency there that needs to be addressed.

MS. MAAG: Right, but if you do take the opportunity to address it, the information is all there and available. It's not going to be more burdensome for any of these companies to produce the information. So it seems like we're at least a legislative stone's throw away from fixing the issue instead of being completely in the dark, like we used to be with self-employment.

MR. LOONEY: No, that's right. I think the platforms that -- you know, some of the breakthrough in the platforms is they've got all the content on all the information, so they've reduced -- not only have they reduced the transactions costs for people to provide labor into the economy, which is a huge plus, but they've also reduced the transactions cost of what used to be traditional HR functions. It's all in the back room. If I'm going to drive on Uber, I don't go anywhere. I do it all on the platform. The entire HR function is on the platform. And if the platforms are evolving that way and -- for example, Handy does a lot of background checks on their platform, the platforms are actually capable of providing a tremendous tax administration -- I would call it an agency relationship. They have the information, it's electronic.

MS. NOVACK: But they don't have the information about your expenses if you're an Uber driver, which is part of the problem.

MR. UDELL: It's a stone's throw for the transportation companies to actually populate a Schedule C. It's just a stone's throw because we -- the service has a mileage charge, the platforms know exactly how much miles you drove. It may not be net income at the end of the day, because of other expenses that they can't see through, but this is really much -- this is so much closer to net income than gross proceeds reporting. And that has been the big evolution in tax information reporting, going from gross proceeds down to net income. So, when we did 6050W, it's a gross proceeds reporting mechanism. But the platforms have a lot of information -- not all of them -- about the deductions that ought to flow.

MS. NOVACK: So what we would need -- I mean information reporting generally only gets passed within the context of a deficit reduction package, right, because it's not popular. So we would need some kind of package where it gets slipped in.

MR. UDELL: That's right. They need revenue. That's right. So just --

MS. NOVACK: And since we have big deficits that's positive, right?

MR. LOONEY: I don't know if that's going to solve that problem.

MS. NOVACK: Let me ask you something that is going to sort of be contrarian. I mean we traditionally have looked at self-employment and we've said well some people want to do it but other people are pushed into it. I'm wondering whether the percentage of people who want to do it may be rising for a couple of reasons. One is that with the demise of defined benefit pensions -- well, all you get anyway is a 401K and you can save for yourself with a 401K. The second is if the Affordable Care Act survives, there's a way to get health insurance. And the third, of course, is with the new tax law, Section 199A, there is a real tax advantage to being self-employed. Plus there is a different -- I think -- I have all of these millennial writers who work for me -- a different attitude toward employers versus self-employment.

So do you see any evidence or do you have any thoughts on whether the desirability of self-employment may be rising and that that could in fact mean we'll have more of it?

MR. LOONEY: I agree with everything you said and I do think it becomes more attractive over time. So the Affordable Care Act in particular, by decoupling health insurance benefits to some degree, to a large degree from the employer relationship was very important. And so in the work that I quoted from earlier, it looked like 11 percent of gig workers in 2014, the first year of the ACA, were being covered by marketplace coverage. I think that that number has probably doubled just because overall marketplace coverage more than doubled in the subsequent year. So I think a very large share of gig economy workers are using the marketplace and benefitting from that. I think that is an important way of providing coverage to that group. I think it makes it more attractive to engage in a non-traditional employment activity like self-employment.

We've kind of already done a lot of that for retirement coverage where people can, if they want to, go out and sign up with Fidelity or some brokerage to have an IRA or something like that.

And then I think certainly 199A makes it more attractive to be self-employed rather than being an employee just because you get a very large exclusion from your income for that.

And then I wish I could speak to the attitudes and impressions of the millennials. (Laughter) I don't know that I'm well positioned to do that, but I do think that there is some flexibility offered by this and people enjoy that.

And then I guess the other thing to say is it certainly is growing quickly, and so there are a lot more people who participate in these platforms and who use them to supplement their other income. So it is clearly a very active area and growing quickly.

MS. NOVACK: Although as we've been saying, the platforms may be consolidating the kind of informal work people were doing before, right?

MR. LOONEY: Yeah. And I think they're also expanding their --

MS. NOVACK: Yeah, definitely.

MR. LOONEY: You know, if it used to be your kind of local groups and the network that you can drive yourself, suddenly there's a whole city or a local area that's available to you to market to in effect.

MS. NOVACK: Mm-hmm. I apologize, I'm a news person, this is an on the news question. When we talk about the policy failings, Adam, we talk a lot about retirement. And yesterday the Department of Labor came out with a suggestion that they would let independent contractors join these multi employer organizations for the purposes of 401Ks. And I was left with the question of why. We have IRAs, we have SEPs, we have solo 401Ks. What we don't have is automatic enrollment or maybe the spare cash to contribute. Do you think that this makes any difference? Is this a policy solution or is it just window dressing?

MR. LOONEY: I mean so my impression is that a lot of the challenge that people have saving for retirement is having the cash to save and a nudge perhaps from their employer to encourage it. So I think that there is something to having an employer that automatically enrolls you or that provides you a nudge to enroll. And you don't necessarily get that from being self-employed and beyond a nudge you have to kind of very actively seek out a provider. So I could see that being a barrier.

But at the end of the day, I think a lot of the problems we have with retirement coverage are not about people -- I think they're about people not having the income to save and the pocket money. So in some ways I think that those types of efforts to make them more available or to nudge people are intrinsically limited.

MS. NOVACK: Elaine and Mike, both of your research seems to suggest that more of the younger cohort are persisting in self-employment. So the question is could that be an artifact of the Great Recession or are your numbers from such years that it is not that?

MS. MAAG: So the years that we're looking at right now, we specifically avoided the recession years because we were concerned that we would get an artificially high number. I think that absolutely it had to have happened, right. When the regular jobs go away you still need income, you still have expenses. I think it's natural you would look to places to plug those holes.

MR. UDELL: Yeah, I would agree. So we just got very lucky in our data. 1995, 2005, and 2015. If you think about where they are in the business cycle, all three of those years are in the upswing part of the business cycle. So we were just lucky that we were able to use those kind of years. So I don't think we have the Great Recession effect, although there is a Great Recession effect in terms of income of the experienced people. It simply flat-lined between 2005 and 2015 from self-employment activities. So the Great Recession clearly has changed earnings quite a bit, but at least in our data we got good data points because they're in a similar part of the business cycle.

I do want to go back to the individual and the 401K or the SEP, IRA problem. One of the things that happened in the tax code is originally for self-employed persons we would pay our -- and I'm self-employed -- we would pay our estimated taxes quarterly. Our employees, they get their estimated taxes paid with every paycheck. And originally that structure was set up because it's burdensome for the self-employed person. Well, we know from tax compliance that self-employed people have pretty poor tax compliance. It shouldn't be lost on people that with the platforms we could actually flip a lot of this problem on its head and solve it. It is administratively burdensome for the self-employed to do these activities because they have to do them themselves. We have to pay our estimated taxes, we have to put away money, and we have to do it in a lumpy way.

To the extent that self-employed people are now earning their labor income on platforms, there's no reason that a platform could not do all those activities. They have all the information. And so from a tax compliance burden perspective the platforms actually offer a tremendous opportunity to address some of the noncompliance problems of the self-employed. The platforms can withhold. They've got the money, they've got the data. The platforms could contribute to some kind of a savings plan. They have all the money. We don't have a client in this space, so I'm not -- I'm just saying that in the older days all that burden sat on the sole proprietor. I had to do it and I'm terrible at filling out a quarterly estimated tax payment because it's scary because it gets so large. But for my employees, they don't even notice it because it comes out like every paycheck. Maybe they do notice it, but it comes out every paycheck. So I'm doing their compliance burden. In a sense we've got the tax administration system sort of upside down with respect to self-employed. They are the burdened group right now.

MS. NOVACK: I think we should be going to the audience for questions. Anybody? Yes.

MS. FITZPATRICK: Hi, my name is Christina Fitzpatrick from AARP. I had a question about data. We are trying to get a grasp on what we are talking about here, the gig economy, how big it is, how much it's growing. We have IRS data, we have current population survey data, and I'm wondering what we know on the individual survey side about how people who are self-employed, who are doing this gig work, how they identify. So when you ask them are you self-employed, what do they say? And for all these other questions. As researchers we have to interpret what they're saying and we don't know -- I don't know -- what they're thinking about and how they respond to these questions.

So is somebody looking at that and what do you know about it?

MS. MAAG: So I think there was a paper that came out pretty recently that says people aren't really good at reporting their self-employment on these surveys. So it seems like we're most certainly undercounting.

MR. LOONEY: Yeah, I mean I agree. So I think that there are different kind of errors that people make. So I think there are some people who interpret their relationship as an employer-employee relationship and so they -- even if a ride sharing company suggests that they're self-employed, they might still put down their income as wages or report that they are an employee. And so that certainly happens. And I think there are also people who make the mistake the other way, although the primary way is to think that you're an employee even if you're filing as self-employed.

And so that's part of the divergence. You see a divergence between the tax records and the CPS in terms of the number of people who report being self-employed. There is more self-employed tax filers than there are respondents who say that they are self-employed.

MS. NOVACK: Didn't Katharine Abraham's paper kind of look at this and find that some of the people who tell the surveyors that they're employees really probably are, but they're employers don't treat them as such, therefore they have one source of income on that Schedule C and they don't necessarily have a lot of employee expenses. So, you know, they're going to work and they're told what to do, so they don't consider themselves self-employed, but for tax purposes they're treated as self-employed.

MR. LOONEY: Yes, that's right. And, again, it's complicated. I don't remember how many questions are in the test of whether you're an employee or a contractor, but it is a very long facts and circumstance test. And the IRS has not been able to issue guidance since the '70s.

MS. NOVACK: '78, yes. They were told don't do anything new on this.

MR. SIMONSON: Ken Simonson Associated General Contractors. Very interesting data and analysis of it. I'd like to see this three years from now because I'm wondering, is this a phenomenon of the business cycle, and specifically the level of employment or of age groups? Are these 25-35 year olds likely to transition out of doing gig work, are the people in the 55-65 age class, as they leave paid employment, are they likely to do more gig work themselves? And, also, a wages or compensation start to accelerate, as we seem to be seeing in the last few months, will that draw more people away from doing gig work and in to wage paid work? So I wonder if any of you want to speculate on those things.

MS. MAAG: So I think those are really interesting questions, and that's one of the reasons we're using the national longitudinal survey, because we can look over someone's entire career and we have a pretty long horizon. We're not going to be able to answer for 2018 because we don't have those data. But that's the next step in the research. So we've sort of got the data, so we can look year over year and now we're going to daisy chain it all together so we can look over someone's entire career. So that's a great suggestion and it will be in the paper.

MS. NOVACK: Anyone else? Yes?

MS. RUEBEN: Kim Rueben, Tax Policy Center. And this might be a question that is better served in the next panel, but I at least want to push you guys a little bit on it.

So I believe all your conversations about why it is easy for platforms to collect this information and give it to the IRS, but I am also guessing that the platforms really don't want to do it. Like there is a reason why they like having a $20,000 limit and the safe harbor views.

Can you give your perspectives on both why you think that this is something that is not onerous on them and also what reasons you think they would give for why they shouldn't have this responsibility? And then we'll ask it again in the next panel.

MR. UDELL: So let's give a little background here. So the statute was written in 2007, right when the iPhone came out but before the app store came out. So we didn't have platforms, but we had Ebay. And so the entire reason that the $20,000 safe harbor is in there is the following: if you go to a flea market, if you were the IRS and you started walking around a flea market and said I want to see that income reported on your tax return. The IRS doesn't do that. But if you actually said I want to see that income and the person sat down and calculated what they earned in the flea market and then they subtracted cost of goods sold, in most cases the net income would be zero. So when people are emptying out their attic and they're selling it in the flea market, there's no income there for the tax system.

So along comes Ebay and it was a nationwide flea market. I mean that's the way to think about it. Yes, there were a bunch of big overstock sellers selling their computers, but at the lower tail end where the bulk of the participants were, it was a nationwide flea market. And so we realized very quickly that if we required 6041 cap A reporting, $600 of gross proceeds for people who were selling stuff on Ebay, and if we flooded the system with those 1099 documents and the IRS put that into a document matching program, which is the entire reason to have an information return, they would be overwhelmed with what we would call false positives. They would see a gross proceeds on a 1099, they would shoot out a nasty gram, some CP notice that says you owe us $1,000 X your tax rate, pay up. And in fact there was no income at all.

So we realized that if that were to happen what the IRS would do is they would pull the plug on that form 1099. They would not set that system up. The 1099s would end up on a transcript and if you were audited it would show up there, but it would be useless to the system.

So the $20,000 safe harbor came in as a rough justice to figure out how to prevent the tax administrator from being overwhelmed with really bad information. And so $20,000 was sort of the threshold where we thought, yeah, you're in a trade or business above that and you're emptying out your attic below that. That's how the safe harbor came about. So it was for the sale of goods.

When we wrote the statute, the words "and services" showed up because goods and services never are separated, they're like twins in the tax code. So you don't have a statute that says just "goods". So in drafting it was goods and services. This is before the app store showed up. Now all the services came on the platform and they said well, we fit that, and there's now a letter ruling out there that says, yeah, you do. And so everyone is driving through that $20,000 safe harbor. But for labor services, there's income. It may not be very big, but there's income.

And so this is the problem that got created.

MR. LOONEY: Can I say one other thing?

MS. NOVACK: Yes, please.

MR. LOONEY: So I mean I think that the ultimate challenge in tax compliance is that you're spending real resources to affect a transfer from the tax payer to the government. The question is how much of the pie are you burning by trying to promote compliance. And so in this case it seems like the -- unlike other cases of general contractors, for instance, where it might be very costly to require reporting of how much you paid somebody, here it seems like it's maintained in a database. It's fairly accessible it's inexpensive to provide this information. The companies have for many years already provided it for every person on their platform, down to like small dollar amounts. And they also provide it to their employees in their reporting. So a lot of information is already available.

I think on the other side of it, though, that the IRS I think hasn't got a good sense of how they can use the information. I think there are some people who do get the CP notices saying like I see that you have $8,000 of gross receipts, you owe me $5,000 or something with penalties. I think that's a surprise to the clients of these companies. I think it's a waste of time when ultimately they do file a return saying we didn't actually -- I was a driver and I didn't have that much income. So I think there's some sorting out. I don't know that the optimal level of reporting is zero or necessarily even $600. But I imagine they can probably do a better job providing information.

MS. MAAG: And then the platforms are resistant to doing this because they don't want to be considered employers, because they don't want to pay the employer taxes and that side.

MS. NOVACK: And maybe because they can get away with paying people less net if those people aren't reporting and don't have tax allocations. That's a factor.

I think we have a really interesting question that came in on line about the bifurcation of the self-employment market. Because, Mike, your numbers show that among the 55-65 year old, the older people with their human capital, their earnings per self-employed person are actually going up, whereas we see in the younger self-employed group, who may be doing some of the Task Rabbit or pick up work, that their average earnings seem to be going down. So are we seeing a bifurcation in this self-employment market between high skilled knowledge workers and people who are just responding to what the platform asks of them for that hour? And do we need to have different policy or tax approaches based on that?

MR. UDELL: I think that these are the Tale of Two Cities. For the experienced folks, I don't think they're really that much on the platforms. I could be wrong. But when you're earning average $39,000 self-employment income, that's not typical platform kind of net income. The experienced folks are monetizing their life cycle effects, they're monetizing their professional experience. The younger folks -- this is actually the census -- Katharine Abraham's paper is really good at this -- what we think is happening is that there's just an increasing number of young people moving onto the platforms and what's happening is that they're sort of moving down the supply curve and they're earning less and less and less. And so average earnings are falling just because they're adding more and more people who are only working 10 a month. And that's because the beauty of the platforms is the transaction costs are so low, so it's easy to hop in. And I think that the average earnings numbers can be a bit of a misnomer because it's belying the distributional change that's going on. It's not that all the sudden people are earning less, it could be that the hard -- if there's such a word as a hardcore Uber or Lyft driver, someone who is really working at it, they're earnings may even be going up. It's just that because transaction costs have reduced, access to the platforms is encouraging people to join and we're getting a big tail of people working a little bit.

MS. MAAG: And we see in the NLSY, our older group of workers in the more recent data, men to be earning more, women seem to be -- you know, that 25th percentile tail is getting smaller and smaller. So low earners are earning even less if you're a woman.

MS. NOVACK: Did you have something you wanted to add?

MR. LOONEY: No, I think they covered it.

MS. NOVACK: Well, we're almost out of time, so I'm going to ask if any of you had something you wanted to add that I kind of glossed over or that has come up in our discussion.

MR. LOONEY: I'm good.

MS. NOVACK: Is there anyone with a burning question? Okay. We have time for one burning question.

QUESTIONER: Gerald Chandler. I'm not sure it's burning, but I'm not sure of your definitions. Gig economy and platform economy are not exactly the same. And if we look at the traditional gig and people which are doctors and lawyers, are you including them?

MR. LOONEY: I mean so I'm thinking primarily of those who are on the on line platforms. And I mean I feel like they're -- and even more than that, I'm usually thinking of people who are providing services through the platform, so like drivers and workers, not necessarily even like the Air BNB or VRBO types. And then the original -- that term has been expropriated from I think the gig economy of before where it was kind of a much broader class of workers.

MR. UDELL: I think Katharine Abraham actually had a really nice little comment in one of her papers that she thinks -- I'm going to trust her -- that gig game from a gig, from a session musician showing up and a gig was a one off, a one piece. You did one job, you did one product and you handed it and that was done, you were done with that relationship.

I really think gig is a misnomer here. The whole discussion is about platforms. Everything is really about platforms.

QUESTIONER: In your initial data of self income, does it include doctors and lawyers?

MS. MAAG: So our does in the NLSY. We have some very wealthy people and we have thought about should we be treating them differently in the analysis. Right now we sort of look at people at different points in the income distribution because we think the issues are probably a little bit different for someone making $4,000 a year versus $90,000 a year.

MS. NOVACK: Well, thank you very much. That was very interesting.

(Applause)

MR. MAZUR: Okay, we're going to have a quick little change over to our second panel and get them mic'd up. I just want to remind people who are watching on line to use the hashtag #TaxingGig to get your questions and comments in and also to participate in the ongoing discussion. We had a couple of good questions from the on line audience in the last session, I'd like to see that go ahead on this session too.

(Recess)

MR. GLECKMAN: Okay, everybody, are we all set? Welcome to the second panel, where we're going to discuss "Tax Administration" specifically, as it relates to the gig economy.

I'm Howard Gleckman. I'm a Senior Fellow at the Tax Policy Center, and the Editor of our blog TaxVox. I'll briefly introduce everyone else.

David Williams, to my left, is Chief Tax Officer, Executive Director of Intuit. Next to him is Caroline Bruckner, who is the Managing Director of the Kogod Tax Policy Center of American University. Next to her is Pooja Kondabolu, who is the Senior Tax Policy Manager at Airbnb. And finally, Nina Olson, whom I guess everyone knows; who is the National Taxpayer Advocate at the IRS.

We have a range of perspectives here, from the private market. Pooja, I know we're going to put her on the spot, who is at the first panel, and everybody was asking: why don't the platforms do this, why don't they do that? So, we'll find out what the platforms really do do.

But I'd like to start actually with David, because Intuit has actually done some surveys, and he can do some level setting and give us a sense of what they found in terms of gig taxpayers. David?

MR. WILLIAMS: Thanks, Howard. It's a pleasure to be here. The views I'm expressing are mostly my own, but occasionally I'll represent something, but the key that I wanted to bring to assist is that we engage with taxpayers and business people, self-employed or otherwise, in a variety of ways. The two major ones, our two lines of business, are tax preparation, obviously, and then online accounting. And that will become important, I think, later as we talk about how one actually invests gig economy or self-employed workers with the knowledge to actually comply with their taxes.

We heard earlier the panel discussions about how the platforms could do this, but we also heard Adam describe the process for tax compliance for self-employed workers, and I noted a number of the experts in the audience were scribbling notes.

And if you think about that, think about the average worker trying to understand what those compliance challenges are, what you'll see is what reflected in our data, and one of the key points and takeaways, which is that most people do not even know what they don't know.

And I'll give you just a bit of an example of that, because I think that's relevant here, and more broadly with regard to whether people understand the consequences or changes that the recent tax law will have on them.

We do have a number of surveys, but one that I think is somewhat interesting with regard to tax reform and tax cuts specifically, only a third of the self-employed people we surveyed through our platforms had any sense of whether they benefited financially or not. Most of them decided that if they did they would put some in savings, some in health insurance, and some in retirement, but they weren't quite sure what.

That was only a third. The other two-thirds hadn't seen any impact at all, and they're sure something is going to happen, but they're not sure what it's going to be.

These are folks, by the way, many of whom may or not also have a W-2 source of income, but they're completely in the dark essentially about the impact of tax reform.

More to the point, they're confused about how to comply. And that brings me to the second point. We heard a lot about the potential of the platforms to describe or disclose information about income, because as Mike said, they have most of it, it's only a stone's throw, I think that was Elaine's comment that Mike appropriated, but that they may be able to touch that side.

I think the reality is, and what we see with our customers is that they leave money on the table. In other words, they don't actually understand what is deductible, how to think about that in the context of themselves as a business. Many of them are used to W-2 income, and when they step into the gig economy, or frankly self-employment in general, concepts like saving money to cover their own tax obligations, as self-employers don't exist, withholding doesn't exist.

And if any of you have done a statistically valid survey of Uber drivers that you've been with, you'll know what I mean, because many of them will say things like, yeah, yeah, I know something about that, but we're not sure what.

We're also noting that there is no evolving -- there's no consensus about what this looks like, and you can hear that on the panel, I think the whole point of the first panel was a discussion about different perspectives on what's happening.

We have ours in which we're seeing growth, and interestingly enough if you think about it as barbell, folks over 100,000 who are gig economy, or self-employed seem to be increasing. Folks who are making a fairly small amount of money, at the lower end those side giggers seem to be increasing, and those in the middle, at least initially, do not seem to be growing as the class of folks.

We'll see whether that holds true over time, but I think the notion of higher-skilled workers who are making over 100,000, and I think Mike referred to them as monetizing what they built in terms of human capital. It's something that we've actually seen in some of our data.

We also, and I think I'll close with this point, coming back to this notion of not knowing what you don't know. We did do a survey of self-employed workers and found about 36 percent of them report not paying taxes, and 46 percent, and this is the stat I'll close with, 46 percent of our respondents who are between, who are that younger cohort, or whatever word we want to use for it, say they’ve been audited, which we thought was quite interesting.

Now, as you can imagine, for us as a company that's trying to serve, enable people to comply with their financial obligations including their taxes, that's a subject of concern.

And so I think the last point I'll close with is, I think it's worth a discussion, once we've figured out what the tax administration consequences are, which I think we'll hear about from the panel; it's really worth thinking about how does one enable a self-employed worker or a gig economy worker, in general, to understand and therefore be able to comply with her or his tax obligations.

And I would submit to you, having two lines of business, one of which is episodic, which is the moment in time in which one prepares ones taxes, or ongoing, which would be the accounting engagement that we try to build in the ongoing engagement with our customers, that it is probably not the episodic moment that is probably best for educating and enabling people to comply with their tax obligations.

And for those of you who are currently employed with a W-2 or remember it, I'd ask you to think back to that moment when you signed up, started your job, and maybe were handed a piece of paper that told you what to do with your taxes, filled out your W-4, if you could understand that.

Then I'd ask: how long you remembered that? How long does that stay in your mind? And how long -- and did you remember that when you were thinking about your tax allocations and compliance?

I'd submit to you, and our data suggest that most folks do not have that top of mind in their day-to-day lives, and therefore are probably not as prepared as they might be to comply with obligations when they're self-employed. Let me stop there.

MR. GLECKMAN: So, David, before you move on, I have to ask you, of that nearly half of people who thought they had been audited, were you able to explore a little bit and find out what their interaction actually was with the IRS?

MR. WILLIAMS: It's interesting. I got that stat over the weekend, and it sent my eyebrows up, so I've asked. I want more data about it, but I don't have it right now. The bottom line is they think they've been audited, which means they've got in contact with the IRS, asking them to validate something on the return, period.

MR. GLECKMAN: Interesting. In the first panel there was a brief mention, I think from Mike, about self-employment taxes, and asking about what was going on there, and as it turns out we have somebody on the panel who can answer the question. Caroline has actually done a paper looking at the effects of self-employment taxes in the gig economy. So, tell us a little bit about what you found?

MS. BRUCKNER: Absolutely! Thanks, Howard, so much for having me. My name is Caroline Bruckner. I'm a Tax Professor on the Faculty of American University Kogod

School of Business. I took over for Dave Kautter as Managing Director of the Kogod Tax Policy Center.

And just this month we released a paper entitled Failure to Contribute, which is an estimate of the consequences of the non and underpayment of self-employment tax by a population of independent contractors and on-demand workers.

This follows our 2016 research which we produced in a report titled Short-Changed, which was essentially a survey of experienced self-employed workers that were doing work in the on-demand platform economy, and how they interacted with their tax compliance obligations.

And our latest research build on our prior research, and has three primary takeaways that you should consider when it comes to understanding tax compliance and on-demand workers.

First and foremost the numbers, we identified a population of independent contractors and on-demand workers, not just platform workers, but people working both on and off platform, and we estimated that there is about $7.3 billion of self-employment tax that didn’t get paid for 2014, and that translates to about $6 billion of Social Security contributions that weren't made by these workers, and that matters.

This is just one year, and this is a population that when you look closer at the demographics, and you look at the nature of who's actually doing on-demand work generally, and specifically platform work, these are people that tend to have a greater reliance on Social Security as their primary retirement vehicle.

And so we looked a little bit deeper into the demographics of the specific census data that we looked at. We were lucky enough to get to work with some great experts from Census who are here today, super excited to see you, thanks so much for coming, on our Census data, and our data is a little bit different from other work that's been out there, because we found that there actually a few more women that were doing this work, but we looked more broadly at on-demand work than just platform work.

But the second takeaway from our paper is that the reason that most of these people, a major factor that most of these people aren't paying their self-employment taxes is because they're not getting a 1099 from the platforms that they work with, and it's because the thresholds for furnishing a 1099 are just simply too high.

And as the first panel indicated, those rules were never contemplated to encompass the on-demand platform that we see today, and they're inadequate, frankly, for these populations of people that are identifying customers, and providing services and goods through platforms that are processing payments.

There are millions of these workers out there, and very few of them are hitting that $20,000 threshold, they tend to cycle in and out of the on-demand platform work, and they do it as a supplemental, secondary source of income, not their primary source of income, and rarely do they exceed $20,000 in their annual earnings.

And for those that do, those on Airbnb, for example, tend to make more money, but it's not often that see more than 200 transactions during Airbnb.

So, a lot of these people aren't getting any 1099, and the IRS has, you know, established tax gap data that shows you that when there is no employer withholding or information reporting in place, you have a 63 percent chance of misreporting your income. That's going on. And we looked at it specifically with respect to self-employment income.

The third takeaway that we found from this work is that what the gig economy looks like today is not going to be what the gig economy looks like in five years.

Yesterday *The Post* reported that Ford is test-driving autonomous vehicles on the streets of D.C., they plan to be commercially viable by 2021. If you look at the data on the on-demand economy it is in fact the transportation sector, and this is the JPMorgan Chase Institute data, that's driving the bulk of the work in earnings that's going on with on-demand platform work today; driverless cars, is going to change the nature of that five years from now.

But when look a little bit deeper into the data, and you talk to the folks at JPMorgan Chase, and you say, what are the other areas of growth that you see with on-demand economy? They say that it's other services, and in particular care work.

And when you think about our 18 demographics and you think about the reality that 10,000 Baby Boomers retire every day, and will continue to do so between now and 2030, there is going to be a greater demand for care work. And it's not necessarily, at least obvious to me, that you're going to be able to have automation replace that kind of work, but what you will see is that kind of work migrating onto platform work.

It might have been typical cash economy work in prior decades, but now platforms are starting to experiment with that and other types of temporary staffing work.

Uber just announced Uber Works, its fielding test on a new platform service in Chicago right now on temporary staffing services, and care work is going to become a bigger part of the on-demand platform work that see.

And the last thing that we really learned about through doing this research is that when you look at on-demand work generally, not just platform work, the major trend that we see that really shows the inadequacy of our current information reporting rules, is that you're seeing a digitizing of the cash economy.

And let me give you a really good example. Last week, I was approached by a freshman on campus who came to me and said, I've got this business, I'm running out of my dorm room. She's become so successful, she's 18 years old, has been on campus for two months, has been so successful she has an online booking service.

And she said, I need help, you're a tax professor, I need help, you know, trying to figure out my tax obligations. I said: okay, well, how are you getting paid? Oh, it's all cash. I said, oh, really. She said, yes, it's all cash. How are you getting paid? Venmo! All of her friends are paying her via Venmo.

And when you talk to people, and you talk to students and you ask, how do you pay for goods and services? I just did a random survey last night at my class, all of them raise their hand when I said, do you use PayPal or Venmo, and have you ever used that to pay for goods and services online? Every single of them raised their hands.

So these are the trends that we have to keep in mind when we're talking about the tax compliance challenges of these populations, not just where we are in this moment, but where we're going.

MR. GLECKMAN: Caroline, let me just ask you, to close the circle on the payroll tax issue. So, they're not paying the payroll tax, so who is hurt by the fact that they're not paying the payroll tax?

MS. BRUCKNER: So, when you look at the demographics of these populations, my data is a little bit different than what other people have looked at, because we looked at a very specific census data -- survey, and we found that the majority of people that were doing independent contract work, or on-demand work, were either Generation X or Baby Boomers, and they were older.

And we also had a slight difference in that we had more women versus men doing it, and that's hugely problematic because women over their lifetimes have a greater dependency on Social Security, because they live longer and they have higher health care costs than men do. But over the course of their lives, because they tend to take time in and out of the workforce, their Social Security earnings are generally lower.

So, when they're not paying in, even on this kind of work that they're doing, which is supplemental work, they're disadvantaging themselves because over the long scheme of things they're not including those types of their earnings for their calculation on their ultimate Social Security benefits.

Now it's really hard to extrapolate out how a gig economy earnings for one year would affect a lifetime of earnings. And that would be disingenuous to say that, you know, we could do that kind calculation.

But what we can do is, you know, point out the obvious, these people are not paying self-employment tax on the front end, and on the back end, these people are more likely to be lower income, and that they're going to have less Social Security benefits as a result of it, because they're not crediting their accounts.

MR. GLECKMAN: Pooja, before we ask about, you more about what the platforms could do, talk to us a little bit about what they do, do. We've heard about the $600 threshold, we've heard about the 20,200-transaction threshold. But tell us, first of all, what Airbnb does, but also give us a sense of what you hear in the industry, about how this really works? How this works in the real world?

MS. KONDABOLU: Sure. And for those of you who aren't familiar with Airbnb, I'll quickly walk you through our business model. Basically, we're a marketplace, a facilitator, on the home side we allow a host to set up their own profile, take pictures of their listings, and upload that onto our platform.

We don't ask them a lot of questions, basically name, basic information, and their payment details. On the guest side, similarly, just basic profile, we do verify their identify, and we ask basic questions for background checking purposes. And that's about it.

We recently launched another tier of our business called Experiences, where we allow hosts to basically list their hosting experience that they're a professional or a subject matter expert at. So think, if you're going to Peru, someone who knows the ins and outs of Machu Picchu can take you on their own self-guided tour.

And the reality of the situation, this came up in a previous panel, and I'll just speak based on my experience working on Airbnb over the last two-plus years, we don't collect a lot of information. We're a technology company, first, right, so we collect the basic information that we need for payment processing, and we don't know information such as: what percentage of our host are posting or listing on different platforms, what percentage of our hosts used income that is earned on their platform as their primary source of income.

We are also a global company, we pretty much operate in every country that has internet access, and has a stable government. And as you can imagine a lot of what my day-to-day includes is speaking to different governments about what we do, and what we can help in terms of increasing our host's tax compliance.

That conversation is very different in Russia than it is in Estonia or Denmark.

And currently on the host income tax side, this is previously discussed, so we report in the U.S. based on the current threshold of 200 transactions, and $20,000 of income earned on the platform, and as you can imagine that's not a large percentage of our hosts.

We have publicly supported last year, and Senator Newton, came out with a Gig Economy Act Bill, that would lower that threshold, and we are in support of it. We understand that the Bill was contemplated at a different time when the gig economy wasn't nearly as big as it is today.

And so, also in the U.S., that's the only country in the world who are currently withholding, and actually from and operational and product perspective, it's very difficult to withhold. Also as a payment processor and kind of, you know, the holder of money for a period of time, there's just a lot of legal liability, and consumer protection issues that we're cognizant of.

We also report in Ireland based on our entity there, but as you can imagine, more and more countries across the world, especially in Europe, are really interested in this discussion. And what I tell them is, we want to make this easier for them, and we want our host to be compliant.

But given the fact that we are a global company, we need simplicity, we need reasonable rules that capture the entire industry. As you can image you're Airbnb is the face of home-sharing, but we're not the only home-sharing company, and we sometimes, you know, find that rules are just, kind of capture our business models and our competitors.

We also, you know, given that we -- how do I put this delicately -- being a disruptive technology company, regulations, the regulatory issues are huge. And data is the name of the game, and we understand that, but we also don't necessarily want to be an enforcement vehicle against our hosts on the regulatory side.

So the tax compliance side, we completely understand that, you know, this is a must, but if that information is used to -- you know, to understand what our hosts are doing on their regulatory side, whether they have the business licenses, whether or not they're zoned properly, that's something we take into consideration.

And a lot of what I spend my time on is actually not on the income side, it's on the indirect side. So, Airbnb, our business model, I guess, is similar to that of hotels and many of our hosts have the obligation of remitting hotel occupancy, taxes are similar type taxes.

And many times they don't necessarily understand or have the bandwidth to comply with these complicated laws, so we think we're uniquely positioned to kind of step into their shoes, and basically be the collection agent and remit it directly to the tax jurisdiction. So, we're doing that in over 350 jurisdictions in the U.S., and over 23,000 in Europe. So, I'll pause there.

MR. GLECKMAN: We'll talk a lot more about this, but let me just pursue two things. You said that very few of your hosts reached the 200 transaction, 200,000, what percent would you say it is?

MS. KONDABOLU: I'd say under 5 percent currently.

MR. GLECKMAN: Under 5 percent?

MS. KONDABOLU: Yeah. The other thing I wanted to ask about is; those kinds of intermediate steps between doing nothing and paying withholding. Do you provide just general information to your hosts about what their tax obligations may be?

MS. KONDABOLU: Great question. Yes. So, every year we use -- I believe, yes, it's Ernst & Young to publish kind of robust tax guidance for hosts in the U.S. on their income tax obligations, what deductions and expenses they can report on. We also partner with H&R Block, and basically the hosts get email notifications, and we have a robust mobilization team that basically incentivizes them through a discount to seek tax advice.

We also have, you know, designated pages, it's called a Responsible Hosting Page, that outlines their tax obligations as it relates to income taxes, and other type taxes. What we've also found is when the tax administration a pretty simplified webpage, we'll link to that webpage, and we find that compliance rates are higher when there is that parallel information that's streamlined.

MR. GLECKMAN: Do you do Chats on taxes?

MS. KONDABOLU: No. We don't do Chats, but we have a designated customer service line that specializes in tax and legal help.

MR. GLECKMAN: Great Thanks. Okay, Nina, so let's talk about little bit about the IRS, and what it is doing, and maybe a little bit about what it could be doing? And I'll explore that a little more as the discussions moves on.

MS. OLSON: I have to start my comments by saying, I don't speak for the IRS, I don't speak for Treasury, I speak only or myself, who happens to be the National Taxpayer Advocate, so I speak for her.

We've looked at this issue for quite some time, but I have to mention that back in 2002 or so, I recommended that the Congress authorize the IRS to enter into voluntary withholding agreements for self-employed persons. And this came about because we were approached by trade associations such as the hair salons, and also by the travel agencies, who had independent contractors, that hair salons had people renting booths, but they were having a high turnover because of people they felt, because people were getting into tax trouble and they move on from one place to another.

They already had an employee like their receptionist on payroll, and they felt just being able to do some withholding on the independent contractors would really be good for their business, bring stability, and that sort of temporarily went somewhere in a Board of provision, but we had done the data finding that, just to cover Social Security the self-employment tax on all Schedule Cs that we pulled for the year.

I think it might have been 2000 or something, 1999 or 2000, if you had cost of goods and you withheld 3 percent against their growth receipts, you would cover their self-employment tax. And if there were no cost of goods, if you withheld 5 percent of the gross receipts, you would cover their self-employment tax.

And I continue to harp on that issue, because I think that helps us, regardless of what platform. The issue with compliance, again, I want to say I sort of view from a very practical matter, which is that, although the digital economy or the platforms are 21st Century, this is a problem that has bedeviled tax administrators around the world since there were taxes is, you know, dealing with the self-employed in some variety of a cash economy, whether it's a digital cash economy or other.

And so the problem-solving is really sort of the same, and it's a stepped problem solving, you know, one is education. And so listening to you talk about, you know, what you're making available. I have recommended that the IRS actually, you know, participate in Reddit chats and conversations on these things to answer questions that people would have.

We are actually working in the Taxpayer Advocate Service on wizard for people to -- because I think some of what the data has shown is the lifecycle of work, and so when you're focusing on the young workers versus the more experienced I would say, people of a certain age, say someone who just applied or Medicare this week; that, you know, you move through different stages of your business, and if you can see yourself, if you can -- you may not be making right now, but you may get the self-employment bug and decide that that's where you want to continue to move

And a wizard, and an education based on life cycle, really would make sense there, and address the particular concerns that people have. I thing that, you know, information reporting is obviously key, and I support, you know, we definitely think not only that the 20,000 should be lowered to 1,000, but what I liked about the Thune Bill was also raised to $600, to $1,000 as a threshold, because that hadn't been changed, you know, for cost of -- you know, for the effects of inflation, and things like that.

But I would point out this, you know, that just getting the information is not going to be helpful completely because for rental income, you know, if you have rented out your home less than 15 days, there are no tax consequences, you don't report the income and you don't report the deductions.

So we get a number, if we don't know the 14 days, we're going to false positives right there. So it's much more subtle than just simply getting the dollar amount, and I think we need to think about that as we do -- as we think about -- as we go forward in the information reporting.

The last thing I would say, or maybe not the last thing, but I was reading last night, for a completely different reason, the Coinbase summons appellate case, where the IRS issued a John Doe summons to Coinbase which is a Bitcoin processor or, you know, digital currency processor, to get every single participant that it's in Coinbase all the information possible.

The District Court and the Appellate Court, over a period of rulings, narrowed that but allowed that summons to go forward, and if I were some of the platforms I'd be very nervous because the IRS' summons authority to get data is very powerful, and they could do a summons just saying anybody that makes over $600 and under 20,000, this is a John Doe Summons, give us everything you know about them.

So, I think that thinking that IRS can't get information is sort of lulling yourself into a false security. Now they haven't paid attention to that, but they have the legal enforcement authority right now, today, to do that.

Sorry, I didn't want to --

MS. KONDABOLU: Yes. You're absolutely right.

MS. OLSON: Yeah. So, I guess, again I'll just close with -- this is a new variation of an old theme, and one of the things I've been thinking about is, as we go through this discussion and we look at the categories of workers, we've always thought of this as a binary choice wage earner, and independent contractor, and I do think that maybe what we're seeing in this economy is -- in the 21st Century -- is that there's a third category of worker.

So what you're putting on the platforms or whether they're -- or whatever kind of platform they are, you know, you're looking maybe at, well, you don't have the obligation to cover these people for your retirement benefits or health care, but you have to provide vehicles for them to get that, and you have to also provide the vehicle for withholding so they don't get into trouble.

So, there's Opt-Out Retirement Savings, there's with voluntary withholding or maybe Opt-Out withholding on this third category of worker. And I'll just throw that out as a thought.

MR. GLECKMAN: So, Nina, you have -- Pooja mentioned other countries and some of the issues there -- I know you've looked at what other countries are doing, and you suggested to me that some of them may be a little ahead of the United States in terms of doing.

MS. OLSON: Right.

MR. GLECKMAN: Just give us some examples.

MS. OLSON: Yes. So there are two things -- some researchers at University of Exeter they did a really interesting study a while ago, where they looked at some of the online, you know, the Reddit strings, and the online chats about -- and they were focusing on, actually interestingly, graphic design, there are a whole bunch of graphic designers that were independent contractors, but were getting jobs from various platforms.

And people would be posting, well, I just got paid, what do I do, what do I do with taxes. And the community would weigh in, and they really did an interesting study to watch, you know, what the community was saying, and did they ultimately get to the right to the answer for this person, this taxpayer, and they didn't.

There was a whole range of: they'll never find you, so you don't need to report anything, (laughter) to, you know, you have to do everything absolutely right, and here is what you have to do. And of course they don't know what this person who posed the question did.

But that's led me, you know, that led U.K. to start thinking about, we need to participate in these chat rooms, or at least sponsor chat rooms their selves even come in anonymously and ask us questions and find out.

In Chile what they have done, and this goes back to my lifecycle thing, they have created amazing online accounts. And I will just say that the online account that I saw, was shown to me, the Chilean tax agent, he was a Senior Official in this Chilean tax agency, and he opened up his wife's online account which was a dog-breeding business, and I thought, have you told your wife you're showing us her financials. Okay, never mind.

But anyway the online account, it was geared to what business you were doing, and then whatever guidance, not only could you see, you could do your filing, you could see your past history, you could see all sorts of stuff. But whenever the agency issued something that they thought might be -- some guidance that might be remotely helpful to you, or relevant to your work, they would send you a little notice saying, we just posted this, here's the link, you can look at this.

And so the online account, to David's point, about going in regularly, rather than episodic. You know, it was some place that you checked because it had information that you could use that was relevant to you, or was salient.

You know, that I thought was really the way to have a positive influence, rather than relying on traditional tools like, audits, and things like that, which are so far after the fact, and in a gotcha environment.

MR. GLECKMAN: Sure.

MR. WILLIAMS: Can follow up on that?

MR. GLECKMAN: Yes. I'll just say, I just to say, I just want to ask one thing. Did they translate the guidance into language that ordinary taxpayers would understand?

MS. OLSON: Well sometimes -- well, I mean, sometimes, and I will say that the initial, like email it might say, this is why this important, you know, and here's the summary of it, yes. And then you had the link to the actual legal, lawyered official guidance; and that isn't art but it can be done.

I mean, I will just point out that for Airbnb posters a 24-page IRS publication, and for Uber and Lyft drivers the publication is 50 pages on -- and that's just impossible. That's something we've said to the IRS, you know, make a publication or a one page, that's just as very high level for people, to just get them thinking.

MR. GLECKMAN: Yes. David?

MR. WILLIAMS: Just a couple of comments. I think as a general matter, institutional publications whether they be from Airbnb or from the IRS --

MS. OLSON: Be careful, I do publications.

MR. WILLIAMS: And you write amazing stuff. I'm not kidding. I just don't think the average reader will read your average publication, Nina. As a general matter to think about, the question is whether it's push or pull, and whether the tax agency is likely to be most effective at convincing workers in the gig economy, or homeowners in the gig economy, or others in the gig economy to pay attention to complex tax versions.

And whether there might be -- and again, obviously it's from a business perspective, but when I think about, we have ongoing engagement with folks with regard to their accounting practices, and an opportunity to partner with the IRS, and frankly with state departments of revenue, depending on their tax practices, to prompt people at the moment, when they're in the midst of their business transactions or whatever, in ways that they understand.

And I actually believe there's a huge opportunity here to avoid the 25-pager, even though -- and Nina, I kid you not, anything that you write will be great, I just don't know that people will consume it. And so it's figuring out at that moment how we really get their heads around that.

MS. OLSON: And I think Pooja's point about where there is a simplified tax agency page linking to that is very important. I don't think the IRS should step out of this dialogue, it needs to translate how it is interacting with this dialogue, and provide things that can be used by third parties to share. Because I agree, but I also say, you're talking about other countries.

There are other countries in the world, shocking as it might sound, that their tax agency is actually the most highly government agency that they have, and it's viewed as something to help people. And it's viewed as supporting small business, rather than placing burden it.

Now, that's different from the United States, but hope springs eternal that we might be able to be helpful, and be viewed as a reliable and, by the way, accurate source of information that's readable.

MS. BRUCKNER: I have one point, really quick. I think that there are some platforms that are doing innovative work exactly in this space, and Lyft is one of those platforms.

They have taken the initiative to go ahead and give all of their drivers, regardless of the fact that, you know, they're not legally required to give a 1099-K until their drivers hit the 20,300 threshold.

They give their drivers a 1099-K at the $600 threshold. They also are really good about pushing out notices to remind drivers to file quarterly estimated payments. They really go and do what they can to help prompt and actively try to be a source not unlike Airbnb with the EY Report, I cited it in my work, because it really is a good report.

And rental income is tricky, it's different than typical Schedule C income, and there is self-employment taxes that aren't necessarily, those issues aren't necessarily involved with rental income, and the platforms are doing some of that work, but I think it also begs the question of, if there's one or two platforms that are doing a lot of this work, why can't we create an industry standard.

And, you know, if we can see that Lyft can give everyone a 1099 at the $600 threshold regardless of whether or it's on or off platform work. And now some states, like Massachusetts and Vermont, are already requiring the platforms to issue 1099-Ks at the $600 threshold. You know, it just needs to become more of an industry norm and the Federal Rule should be updated for that.

MR. GLECKMAN: Pooja, what would it take, what do you need from the government in order or you to lower the threshold and file 1099s for more people?

MS. KONDABOLU: We would just -- we would need a law in place. I think what we really look for is equity across the industry, you know, we are reporting in Vermont and in Massachusetts, I think, you know, we are the first in a lot, and on the indirect side, but it does come at a cost to the company.

Like I said, we are a technology company first, to kind of give you an idea of our internal tax house, we have a mighty team of about 20 people, and two people sitting in this room are from the Tax Policy Team, and we have 3,000 employees globally. Yeah, there's only so much we can do proactively, I think.

MR. GLECKMAN: Be more specific, you say more accurately, you mentioned the Thune Bill, but more specifically what would be in the legislation?

MS. KONDABOLU: Okay.

MR. GLECKMAN: For you to say, okay, this is now doable?

MS. KONDABOLU: That's a good question. I mean, we haven't really done a robust study of the numbers, and our business model and the hosts that are coming on to the platform are more professional, that's what we're seeing, and we're seeing more of the casual hosts who rent a couple of times a year drop off.

On average we have, in the U.S., an average host rents 42 times a year, and makes just over $7,000 a year. So, I think we would definitely lower the threshold, and to kind of see where our average hosts in the U.S. kind of falls.

I think, honestly, what I had said before, withholding is tricky for us, you know, if we can remit payments instead of withhold or -- sorry -- report payments instead of withhold, I think that would be something that we would definitely support.

MR. WILLIAMS: With all due respect, I think you're missing half the equation here. I think one part of the equation is, what can the platforms do to enable folks to comply with what they know? But our data suggest using our products that our folks in the self-employed area are discovering thousands of dollars of deductions they didn't know about.

And so, while it's great to provide the non-employer information that you're providing, I think it's also important how you enable folks to identify expenses and deductions that they may actually take, and it I think there's a huge gap there, depending on sophistication of the people that we're talking about and the amount of education they've had.

MR. GLECKMAN: So, how do you close that gap?

MR. WILLIAMS: Well, I think Nina has got a part of it. The way I'd put it, it's an "and" not an "or". Certainly tax administrators and agencies need to provide communications that are understandable. I see nothing wrong with linking to one-pagers and so on, but I think you need to go where people live and work, and where their -- you know, when is the mind, what is that point where you can capture their understanding, and it's generally around the time the transaction is occurring.

When you're sitting in your car filling the tank with gas, may be a better time to capture that expense.

MR. GLECKMAN: Right.

MR. WILLIAMS: Than at the end of year when you sit down to do your taxes, and realize, oh, I didn’t capture all of that; and find out at that point. So I think I would, obviously, I'm going to argue for partnering with industry so that you have both, not an "or" and "and".

You have education that comes from tax administrators, that comes from the platforms to the extent people sit on a platform, and you look at the products in ways people actually do their work, and see if there are ways you can leverage those products and services to enable people to comply as well.

MS. OLSON: And that's what people are doing. I talk to a gig worker just this morning who said, yeah, I have QuickBooks, and I do real-time expensing through that product. Like the private sector can help with the prompting of that expensing, because as you know, from my 2016 research people are getting short-changed because they're absolutely not aware of how they can properly claim and report their expenses, and that's even more important today with 199A.

If they're going to get the full benefit of that deduction, they really have to properly report and can't just throw up their hands, and decide they're not going to file altogether, which is oftentimes what happens when people fall behind on the quarterly estimated payments. And then they go in April to pay, and then they realize they haven't reported for the entire year, or even the prior year, and then they just give up and walk away.

You know, how I see it, and how I see the role of the tax agency, it's like somebody starts driving or starts selling something on Etsy or eBay, or wherever. They need to get a Federal ID number, you know, an employer number, that's where they come in to the Federal Government. And so they should be entering into a page that is dedicated just for them, that is a wizard that walks them through, and they get say, well, this is what I'm doing. I'm driving, or I'm Airbnb, or whatever.

And that takes you down a tree that -- friendly, and not deep into the details, but you should know the following things, once you get your EIN, now you're in the Airbnb world. Here are some very simple rules about the 14 days under -- you know, equal or over. You know, maybe linking to that 24-page publication, but if you have a one-pager that's great too.

But then the other things that you need to think about, like your estimate taxes, you can sign up for emails or text reminders about your estimated taxes, do that here, et cetera. Would you like to create an online account? Do you want to create a way of making those -- having those deposits come out quarterly, or even monthly, from your account so that you don't have to worry about it.

That is what a tax agency can and should do, that is, and then all the other products that are out there, you know, the software products that feed into your tax return and things like that, that's great, but those core things we should do and platforms should link to that, as a starting place.

You need to get your EIN, go there, you know, and that gets you off on the right foot. And then you can even say, you know, create this online account if you want more updates on your particular area that you are a craft seller, or whatever.

And it doesn’t have to be super-detailed, but detailed enough, you know, in the buckets that people can see themselves. That is, we're not there, we are not even remotely close to that, although there are other countries that are doing that.

MR. WILLIAMS: Totally.

MS. KONDABOLU: And just one thing, sorry. That's a really point, Nina. We can collect all the information, hypothetically, that a tax agency wants, what's tricky is verifying that information, right. So, to actually have information on our website where the host knows exactly where to get their EIN if they have it, or their Social Security Number, is huge. Because a lot of times we find that when they don't know it, they just make it up, and we have no way of verifying it.

MS. OLSON: And the other thing for site is then is then you can say to people, we're having a webinar, you know, like sign in, we have this -- you know. And have IRS experts so people could ask them questions, and that is as helpful to the IRS to hear from people directly about what they're facing, that leads to better guidance and information, long-term and helps everybody.

MR. GLECKMAN: I want to ask Caroline about the self-employment tax, and you talked a lot about what you found. Can you talk a little about why people don't pay the self-employment tax? Is it because they don't know, or because they're cheating?

MR. WILLIAMS: Yes. (Laughter)

MS. BRUCKNER: That's a good question. I think on average, people under-report their income, and I think that that's what Treasury data shows, when you look specifically at their audit reports on self-employment tax, if you do the averages on what little work has been done by data on this, people underreport their self-employment income by $1,500, give or take.

And I think that it's not helpful when you have an entire population of people that's not getting any 1099, and they know that the IRS isn't either. And that's the world that we're operating in now.

And what you're seeing with the digitizing of the cash economy is, you're seeing people recognize that they don't have to file a 1099-MISC if they go ahead and do an electronic payment, and they can somehow fall under the 1099-K rules. People are now exercising -- there are some great law professors who have coined this term "tax opportunism" with respect to the on-demand platform economy, and I think that that's what you're seeing happening.

And, you know, again, to Nina's point, this is not new. I work with a guy named Jim White, and he was Head of Tax Research for GAO for gazillion years, and he and I have been looking at these issues together for a long time, and when I sent him my latest paper, he immediately wrote me back and said, you're numbers are too low, they're way too conservative.

Because he literally wrote the report for GAO that 61 percent of sole proprietors under-report their income back in response to the Tax Gap Report that was issued in 2007.

And I said, Jim, I want to be really conservative, and this is what we can, you know, substantiate with the data out there but, you know, we use an average under-reporting rate of 44 percent, which he would tell you that that's too low. I mean this is just how people operate today, but it doesn't have to be that way, at the very least, we could at least give these people a 1099 and let them know that the IRS is getting this information too, and prompt them to report.

MS. OLSON: Several years ago, again, part of this 2002 thing, because we did a piece on how to address the cash economy. One of the things we suggested was on the sole proprietorship schedule, under Schedule C, rather than just asking gross receipts you break it down to two lines. What are your gross receipts per your 1099s, and what are your other gross receipts?

And that's a small nudge, but whether it's then the software companies pick that up as two questions, you know, your enter your 1099s, and now what's your other gross receipts?

You're converting somebody's active omission into an active commission. To ask that, to answer that question and your other gross receipts, you're going to have to lie as opposed to just low gross receipts, you know, here's mine. Here's what I got 1099-ed on.

You're making it more visible, and that is where, you know, again, the agency really thinking about human behavior, and how to use that word "nudge" human beings into being more compliant in a very non-enforcement way. And then the private sector and others picking up on that; that is not a trivial thing.

MR. GLECKMAN: Pooja, I want to come back to you. I'll ask what may be a sensitive question, but I'll try it anyway. How much of your unwillingness to provide the 1099s is kind of an administrative issue, or a cost issue? And how much of it is because you don't want to be considered an employer?

MS. KONDABOLU: That's a good question. I don't know. I honestly, I can't really speak to that. I think, honestly, looking at the facts, you know, I think Adam brought this up. There's a recent California Supreme Court case decision that spoke to this. We don't really have any relationship with our host. It's very different from the ride-sharing platforms that you see.

And so I would say that it's the former, it's the administrative aspects on this. It's honestly not ever the cost, it's really just, we want a level playing field. So, to Caroline's point, if there is an industry standard, we're totally onboard, but it's the unwillingness, I wouldn't use the term unwillingness, it's just that we see this day in and day out, that legislation hasn't caught up. So, once it does, we're on board.

MR. GLECKMAN: Caroline?

MS. BRUCKNER: The 1099-K argument, administrative burden, doesn't really hold water in this context when it comes to platforms. It very well might be a real issue for smaller businesses, but when you have some platforms that do give 1099s, and you have some platforms that don't at the $600 threshold, and you have some platforms that are actually doing collection of hotel and state and local occupancy taxes.

I don't think it's an administrative burden issue that's going to cause Congress too much heartburn, right. Where I think it gets more complicated, is when you try to more broadly require 1099 reporting to capture the digitizing of the cash economy.

I testified a couple weeks ago before the Senate Small Business Committee, and one Senator who was asking questions about this, very strongly pointed out that she had been on the receiving end of small business hire after increased information reporting was included as part of Affordable Care Act, and how they had to repeal it, and how it was just a failure across the board. And that was the first hint that I had had, that members are very reluctant to wage into the 1099 information reporting waters.

MR. GLECKMAN: Could somebody, can we talk about what the Thune Bill, does somebody want to describe what the SIM Bill actually does, what the GIG Act does? Could you, Nina?

MS. OLSON: Sure. Yeah, I have.

MR. GLECKMAN: Can you briefly describe it?

MS. OLSON: Yeah. Basically it would lower the reporting thresholds the $200 -- sorry -- the 200 transactions per year and the $20,000 transaction -- sorry -- 20,000 per year with, I think eliminating both transactions. I think also it increases the $600 standard deduction to 1,000.

MS. BRUCKNER: Initially as filing and then it also includes that Safe Harbor.

MS. OLSON: Yes.

MS. BRUCKNER: For certain platforms that are overtly concerned with misclassification issues. And it's not just the alignment of the 1099-K with the 1099 Miscellaneous, it goes even further, and I think allows some platforms to include in believe some voluntary withholding agreements if they choose to, but it also creates the Safe Harbor.

And that Safe Harbor provision is effectively a poison pill, politically, in contrast to the Chabot Bill which was introduced on the House side, which just does -- it just focuses primarily on the alignment of the 1099-K and the 1099 Miscellaneous thresholds.

MR. GLECKMAN: Why would anyone say Safe Harbor is a poison pill?

MS. BRUCKNER: Because of outstanding questions on these classifications. I mean, these classification questions have long, divided political parties, and trying to resolve those questions with a legislative solution is rarely successful. I mean that's why the Revenue Act of 1978 has not been touched.

Like this is -- these misclassification issues tend to really divide Dems and ours and, you know, the Chabot Bill on the House side, is when I worked on it, was then on with the majority staff in putting that together, and I strongly advised them to stay from the Safe Harbor issues, just focus on the alignment because this should just be a compliance issue.

And because they did that, it's a bipartisan bill, the leadership of the House Small Business Committee introduced that bill. And, you know, although the thing though, I believe has some "Dems" it's going to be really hard to push that through the Senate overall.

MR. GLECKMAN: So, let's get to the bottom here, so if something like the Chabot Bill passed, do you think that would sufficiently address the concerns of the platforms that we could make some progress there, and that they --

MS. BRUCKNER: I think that there is not a particular harsh administrative burden from requiring platforms. I'm not saying all businesses, but platforms specifically for giving 1099-Ks at $1,000 threshold. At the same time, the 1099-Miscellaneous level of $600 threshold has been in the tax code since it was instituted in 1954.

If you adjust after inflation, as Nina suggested, that would be over $5,000, and I think having alignment so you limit tax opportunism, is where we really need to be to start to make progress on this issue for tax compliance purposes.

Now it doesn’t get to really the looming issues of how the gig economy is going to change, or the digitizing of the cash economy, but it's certainly a step in the right direction. And we know, based on the score that JCT did of the June Bill during the November Tax Reform Debate, that it raises at least $3.6 billion.

My numbers are almost double that, so I think that there's more work that needs to be done by JCT, and considering the entire landscape of this population to up those numbers. So, it it's a big motivator.

MS. OLSON: And, you know, just coming back to it, I think that the importance of voluntary withholding agreements can't be overemphasized.

MS. BRUCKNER: Right.

MS. OLSON: It puts it back into the marketplace like, you're willing to offer this to your employees, so that may make you more desirable, because you're helping them stay out of trouble. Others may want the cash and run.

But the point is that having that authorized in the bill, makes it possible and gets us closer to that third category of worker, and sidesteps the worker classification binary choice.

Now, there are all sorts of public policy reasons for not doing that, you know, retirement, income security, et cetera, but I'm a tax administrator, and I need to get the revenue in. I mean, I personally don't, but the IRS as the tax administrator does.

On the other hand, I want them to do it right, and I want them to do it well. And that goes back to why we recommended the 3 percent or the 5 percent, because our data showed how many people were sole proprietors who were marginal. So many of the sole proprietors, and your data from the first panel is showing this over and over and over again, that many of them are not even -- they're not even required to file returns but for the self-employment tax.

So, you don't want some large percent engine focusing on the self-employment tax, addresses some of your concerns that people aren't paying that into the system. You know, with a 3 percent or 5 percent -- percentage, depending on cost f goods, you would be able to get that into the system.

MR. GLECKMAN: Mm-hmm. Okay.

MS. KONDABOLU: And just a quick comment on the whole voluntary withholding agreements, from an industry perspective what we've seen in other countries for businesses that actually partaking it, it's some kind of incentive for either the corporation or their host, and in terms of tax-free thresholds, greater withholding thresholds, and so forth. Denmark is one of the first movers and shakers in this arena.

MS. OLSON: And you see that on the VAT side. You know, when countries have value added, you know, there's a threshold, like gross receipts, like U.K., I think it's £15,000, we don't care about you, now there's bunching around that. But the point is it's a recognition you're too small to have to deal with this, and that goes to some of the burden that people are feeling.

MR. GLECKMAN: Nina, do you think that the move to the platform economy, whatever it is, as well as 199A are going to discourage more people from the cash economy? Are we going to get people making the shift at least, or the incentive is still not enough?

MS. OLSON: I don't think so. I think there will be always the true cash economy. I mean, I travel the country, I go to so many places that most people have never in the United States talking to taxpayers, and they're not on digital platforms. You know, some may be in the community, but others are just doing transactions and they've always done transactions, and so I think what the platforms have done in the digitizing of commerce, in a way, has added a wrinkle, but sort of in the same way that coins did back in the, what, First Century BC.

I mean, it just had the same effect, and we're just seeing it. And I don't mean -- I'm not being Luddite, I'm just saying that human beings are: life in all its fullness, is how they undertake their commerce.

MS. KONDABOLU: Okay. I agree with that.

MR. GLECKMAN: But?

MS. KONDABOLU: However, there's the really great research done on the ubiquity of smartphones.

MS. OLSON: Yeah. Sure.

MS. KONDABOLU: This is how lower-income communities primarily access the Internet

MS. OLSON: So there's an opportunity, but I don't think it's going to -- I don't think it's going to get away from the cash economy operating.

MS. KONDABOLU: That's true. But I mean, I will say that when you look at some of the great work that Pew Research has done on smartphones, and I think the report that they did in 2015 or 2016 said that 88 percent of Americans use smartphones, and that for something like 60 percent or more or lower-income households, that's their primary access to the Internet. Smartphones are what is going to be driving this in a way that's different.

MS. OLSON: Right, but you also have to look at how they use it, and our research has shown that the low-income and elderly, for example, do email once a week. They use their smartphones for texting and things like that, but they're not using it for more sophisticated stuff. They're actually, a lot of them are using it for Skype.

MS. KONDABOLU: Right.

MS. OLSON: And Face to Face, and things. So those are all opportunities, and there are even opportunities for the tax administration. Imagine, you know, calling up the tax administration with a question, and being able to see the person who's assisting you, and the person, and more importantly the person who's assisting you, be able to see you and be able to see that you're confused, you don't understand what they're saying to you, and that prompts a better conversation. Those are real opportunities.

MR. GLECKMAN: David, what do you think about this, this cash economy thing? Are we going to see some sort of qualitative shift away? Or is this just always going to be with us?

MR. WILLIAMS: So, I'm actually intrigued by Caroline's argument that folks are beginning to use digital currency, use Venmo, ZEL, whatever it might be, to make payments. I don't actually believe the cash economy is going away any time soon, because I think -- this is me speaking not my company -- but I think that people, where there's a will there's a way to find opportunities.

And we see that, you know, the author of the last tax cut study may be in the room, I don't know if it's last one, but close to it. And it has always been thus, the lack of verifiable data with the tax administration agency leaves people with opportunity.

What we've just talked about, ways of closing that opportunity on one side, which is: require the platforms to report something. But we still haven't got on the other side which I'm still interested in, which is: what is the expense deduction? What are the other opportunities people have?

I would suggest that we continue to struggle with this, I believe that Nina's point about nudges and prompting provide opportunity, but there isn't a silver bullet, it is a set of things that goes through, and at the end of the day we will still have a long tail of residual opportunities that will occupy rooms like this for years to come, so, with people like this.

MS. KONDABOLU: I think that's right, but I think that there's not a silver bullet, but one of the things that Nina has talked about, and it's something that I picked up when we were together, and I testified in July, it's look, if you could do such simple things as changing the deadline for quarterly estimated payments for the second third and quarters --

MS. OLSON: Right, yeah. Yeah.

MS. KONDABOLU: -- so that those deadlines fall after the quarters; that might really help increase tax compliance. Lowering the 1099-K threshold, or as Nina has suggested, if you created some sort of informational toolkit that platforms could provide their workers as part of the onboarding process.

MR. WILLIAMS: I actually have to say, I think that's great, but that is not going to solve tax compliance by giving workers a handout when they join the platform. I think that's actually a great thing to do, but I think it's naïve to believe that that is ever going to result in much tax compliance.

MS. OLSON: You see, where I think it is, is that they have to come in to get an EIN, you know, I mean they don't all have to, but some of them do; so when they come in and have an EIN that's when we get them down that road.

MR. WILLIAMS: Absolutely!

MS. OLSON: That's just to -- that is just, here are the issues, you know, do you want emails, things like that. If they don't come in, well then, you know.

MR. WILLIAMS: I'm not saying we shouldn't do that.

MS. OLSON: Right, I know. I agree with you that it's just, as with all compliance work in any area, there's the whole continuum of activity that you need to do, and different kinds of touches, and thinking that, you know, information reporting is going to be the end-all, be-all, it's important, but then what does the agency do what information, and how does it use it.

And to Pooja's point, you know, the Court decisions say that if the IRS just went in and said, you owe this tax because of this 1099, the IRS bears the burden of the proof, because that information may be wrong. You know, it's not based on the taxpayers' books and records; it's some third party sending this thing out.

MR. WILLIAMS: Yes.

MS. OLSON: And so we have to be very careful thinking that that's going to be the answer to everything, it's part of the solution.

MR. GLECKMAN: Sure.

MR. WILLIAMS: Just two comments, one is, I think you've probably got folks attention when you said that the IRS could with the John Doe summons obtain all of the data.

MS. OLSON: I just thought I'd throw that in.

MR. WILLIAMS: And I think that's true, there are many things the IRS could do with resources, capabilities and time, none of which are in excess supply with the IRS at the moment. So, I think the reality is: what is the most effective way to enable compliance for those who wish to, reserving the IRS' more draconian tools for those who don't? So that's a part.

The other thing I'd say is, having moved to the private sector after 30 years in government in various aspects, I had the privilege of watching how, at least my company does cognitive research, and it's done -- it's evolved over the years and it's become incredibly sophisticated, and I was privileged to watch a customer proceed through completing his tax return at home, with his wife who is out in the background and then shouting at him from the kitchen.

But he talked through the way he was thinking about the things, and there is nothing more powerful than realizing that people don't see these things the way you see them. And the "you" in that sentence, is people like us, maybe not all of you, but who come with biases, education, years of understanding, that is not the customer experience necessarily.

And it is only when you step back and watch, and watch where their eyes go, and how they talk, and what the wife says to the husband, and then takes over part of it, because he doesn’t get it, that you realize things that we think are simple, are really complicated for folks, because they don't engage in them, and they don't know what these words mean, let alone what to do with them.

And so that, I think is the next part of engaging, and something I think tax administration will hopefully get to, I'd love to bring it back. But I think that's why this is not a single solution; it's a variety of things to recognize where these folks in the gig economy really are.

MS. KONDABOLU: I think that, to follow up on your point though, I had a conversation with Dave Cotter, he's been really good about coming back to AU, and we had a conversation in May about the future of tax work, and I specifically asked him about this 1099 question, and what his expectations were for the IRS or Treasury.

And he really emphasized to me that he had really hope that there will be private sector solutions, and I think that that was something that I was not anticipating, but that I think it was something that should be noted, that that's a little bit of insight as to what they're thinking.

MS. OLSON: Well, that's where -- with all due respect that's one branch. I think that there are others thinking otherwise, and when you have the self-employment, the incorporated business, component of the tax gap having I think the last time I saw it, it was a 43 percent correct -- is it a correct reporting percentage, something like that.

That's a stunning number, and the IRS' failure to play in that sandbox repeatedly is inexcusable. And so say that the private sector is going to do something about that and solve that is ridiculous, it is the tax agency, it is the tax administrator, and it has a role to play, and that role doesn’t have to be all audits.

You know, my deepest dream is that people would respect the IRS, and look to it as a source of information that's understandable, and that would be the launching-off point to consulting with your tax experts, your preparer, whatever.

But to just walk away from the self-employed sector, and the version of the digital -- you know, the newest flavor which is the gig economy, or whatever we want to call it, it's just not acceptable for a tax agency in the 21st Century.

MR. WILLIAMS: Let me throw one --

MR. GLECKMAN: Go ahead.

MR. WILLIAMS: Just one thing. I actually agree with Nina, amazingly, on this point, which is that --

QUESTIONER: Oh, my! (Laughter)

MR. WILLIAMS: The nothing that the private sector is somehow going to be the compliance and enforcement mechanism for the IRS, is a bit naïve.

MS. OLSON: Right.

MR. WILLIAMS: I think there are places where that can occur, because is sort of the Venn diagram of the intersection of interest, because our interest is enabling our customers to meet their obligations, and so we can in that space, be a partner in helping. But we are not an enforcement arm, and our customers wouldn't be our customers if they thought the first we were going to do, is to tell the IRS what they're doing wrong.

MS. OLSON: Right.

MR. WILLIAMS: So, it's a component again of an overall approach to thinking about this, and the agency has clearly a role to play, so does industry, but there is an intersection in the middle where we really can partner together, because it is in the interest of the taxpayers, and the tax administration system.

MR. GLECKMAN: I just want to throw out one other thought.

MR. WILLIAMS: And world peace. Did I mention world (crosstalk)?

MS. OLSON: And world peace.

MR. GLECKMAN: I just want to go back to what Caroline said at the very beginning of this conversation about home-caring workers, and there's also a kind of -- I think an important issue on the customer side, the demand side of this. If I can hire a homecare worker for $10 an hour, off the books, instead of having to pay $20 an hour if I hire somebody through an agency; which am I going to do? So, I think there's a whole set of other issues that we have to think about when we think about compliance.

MS. BRUCKNER: Right, but what if that homecare worker is like my babysitters and ask to be paid by PayPal, right? Like, I pay all of my babysitters, I've got a 4-year-old and a 5-year-old, my husband and I both work full-time, you know, our home economic questions definitely revolve around care, right, for our children.

And, you know, in the last two years, our steady supply of babysitters has all been asked that we pay via Venmo or PayPal, none of them want cash.

MR. GLECKMAN: But what they're planning to do, because they don't want to pay tax?

MR. WILLIAMS: But Caroline, if that happened and they suddenly discovered that if I use Venmo or PayPal the IRS is going to get it, or find out about it --

MS. BRUCKNER: They might switch back.

MR. WILLIAMS: -- don't you think that might change their behavior?

MS. BRUCKNER: They might switch back. But when you talk to them, just how they use -- at least the ones that I've talked to, right, the college students that I interact with every day, and that I talk to on campus, this generation, they use Venmo, and they think it's cash.

MS. KONDABOLU: I use Venmo to pay my rent, I used to, (crosstalk). I mean, it is a different way, and it really is going to challenge our understanding on how we get data, because the JPMorgan Chase Institute data is the best data out there about the on-demand economy, and it's all connected to a bank account.

But your PayPal or your Venmo, doesn't necessarily have to be connected to a bank account. It could be connected to a credit card or a debit card, that's not necessarily connected to a bank account.

MS. OLSON: Well, the IRS has the authority to summons credit card accounts, and it has. I'll just remind -- you know, I mean -- and to David's point, you know, are we going to -- or is it going to do that? You know, no. But it could decide to do an initiative as it's done with the offshore credit cards back in 2001 and 2002, which was very effective.

And so, it's possible, and the point is why -- to me, for the tax agency, I'll come back to that word, there's a continuum of its activity, and so if we put the tax agency in a position, where all it's going to do is the enforcement side of it, you have a tax agency that's going to breed even more noncompliance than we've got now in that sector.

So, you have to have the tax agency thinking about, as part of this overarching strategy which includes treating the private sector as our true partners in this, in the appropriate places, you know, how do you touch that taxpayer, at different points in time, to get them maximum compliance and change noncompliant behavior to compliant behavior when you identify it.

And that's how you have to frame everything that you do in tax administration, or all you're going to do is just go to the quick and dirty, you know, we're going to do X, we're going to do this audit, we're going to do this, and you're not going to have the change in compliance behavior that you need to get. Your numbers will always look the same.

MR. GLECKMAN: We have about 15 minutes. I'd like to get some questions from audience, so I'll on in the back.

QUESTIONER: Thanks, Howard. My name is John Doe, (laughter), I'm a taxpayer, and I'm a small-time contractor, and my income is not the majority of my household income. I've been trying -- and maybe because of my own clumsiness, but I think there's a lack of coordination between Social Security, which I'm glad you brought up, that if you pay -- you know, report taxes you don't get credit for Social Security.

So I noticed on the Social Security record, of my earnings, there was a missed small check, a 1099 from a few years ago, and then last year's earnings were a weird number, and it should have been a round number, and I missed several thousand dollars.

So, I called up Social Security, and they said you need to send us the 1099s, and I did. And then I got a letter from the local office, and they said I sent the wrong information; you need to send to send your tax returns.

So, I interpreted that as John Doe, go away. And to get the tax returns, I need to get my wife to give me the tax returns, but anyhow I don't know what -- how do they coordinate on this? In my particular case I need -- I'd rather pay the taxes and to get the credit for the Social Security.

MS. OLSON: I would say two things about this. One is, if you want to come up to -- well, where is Chris, Chris I saw you. If you want to give your information to him, we'll get a case advocate to help you reach out to Social Security and try to get those records fixed. So that's the first thing, that's what the Taxpayer Advocate Service does, one of the things.

But the W-2 information goes from employers directly to Social Security, and then Social Security sort of perfects it, and make sure that names and numbers match and stuff, and sends it over to the IRS for us to put into records. That's different from the 1099s. The 1099s come from the payers directly to the Internal Revenue Service, and then what Social

Security gets from us, are your net self-employment earnings from the income tax return.

So the 1099s themselves wouldn't show up in your Social Security earnings, it would be your W-2 plus whatever your Schedule C net profit is that you're reporting on your Schedule SE.

You know, but we can look at to make sure that that's on record, and if not, we could figure out a way to get that information over to Social Security. But the Social Security and the IRS have an exchange agreement for that SE income.

MR. GLECKMAN: Are there other questions? Yes, ma'am, hold on a second for the mic.

QUESTIONER: Hi. A point and then a question; this is really helpful. I'm Lindy Rizer, I've done a lot of work internationally as well as here. Given harangues on civil servants by certain political figures, this must impact the way people see government agencies. I'll just leave that there.

On the more positive side, Nina, if you could say a little bit more about those countries for whom the tax authorities, if not beloved, at least esteemed, I was quite intrigued with. Are these largely Nordic countries, or not?

MS. OLSON: Yes. Most of them are Nordic countries, and so you do have to look at that, you know, they have some of the highest tax rates, if not the highest tax rates on individuals in the world, but they have a culture of relying -- you know, getting services and goods from the government.

You know, higher education is free, you have six months paternity leave, six months maternity leave, the health care in those countries. So, there's a sense of what you get for your tax dollars, that I think there's a disconnect here in this country, we don't understand what our tax dollars go to. We don't really have a very good understanding of our tax rates, or our tax system as David was noting.

You know, we just don't have that understanding, we certainly don't have a connection between what taxation does and gives you.

In U.K. there was a point, and I don't know whether it's still up on their website, but on their online account, for individual taxpayers, you could go on and see what you paid in income taxes over the last year, and where it went. It was really sort of cute because it had, like, you know, you paid for a one-eighth of a teacher's salary, and so there was a little teacher with one-eighth of, you know, colored in or something.

You know, there's a little gun and that was for defense or something like that, but it was -- you could actually see your own little pie chart, of not just the larger pie chart but how yours did.

I have proposed for many years -- and threatened to do this myself, and may do it this year -- doing a survey with people where, you know, they could color in their own pie chart, of where they wanted their tax dollars to go.

On the assumption that maybe if you added up all that pie chart, it might end up where we actually are as a country, you know, like some people would everything into the arts, other people would put it all into -- you know, foreign aid, other people would spread it out to Military, Defense, whatever.

But maybe you would find that blended, you end up where we are. Or maybe you would find that blended, you end up where we are. Or maybe you wouldn't, but that would be a very interesting thing, and I've thought that if people got a tax receipt that told them, this is where your money is going this year, and you get to color in where it is for next year, and we'll just report it. It's not going to have any binding effect, but it might get more participation and awareness of the system.

MR. WILLIAMS: I wonder if I could just follow up on that. I Chaired the OECD Taxpayer Services for three years. So, that's composed of, essentially between 40 and 46 depending on the year, tax administrators from around the world. I saw the Chilean personal account in its naked glory when the Chilean representative put it up on the overhead, for all 43 countries to look at; it was his own.

You know, they had compiled not only his federal taxes, but his state, his property, it was The Full Monty, if you will, with regard to that person's government interactions. I've dealt with the Nordic countries, the Germanic countries, Asian, and what I would tell you is that culturally they are very different places.

QUESTIONER: Very different.

MR. WILLIAMS: I've lived in Scandinavia, and I can tell you, there's a different attitude about government and its engagement with its citizens, and so while it is instructive and interesting to learn from those countries about how they're thinking about tax administration, it's often difficult to translate those lessons into our culture and our country. And in today's fragmented society, even more difficult than one might have assumed it used to be.

MS. OLSON: But, you know, that goes back to, I won't seed ground that.

MR. WILLIAMS: Of course not.

MS. OLSON: That I do not think that that means we should not try to educate the United States taxpayers about what our tax system is, et cetera, and to try to get more engagement. It will look very different, and I've thought deeply about this, it will look very different from all the other countries. And that's fine. But for us not to even try that's a problem.

MR. GLECKMAN: A couple more questions. Yes, sir.

MR. TUMULTY: I'm Brian Tumulty from The Bond Buyer. My question is for Caroline Bruckner, about Massachusetts and Vermont, and their lower threshold for 1099s.

MS. BRUCKNER: Mm-hmm. Yes.

MR. TUMULTY: So, what has been the taxpayer reaction and what has been the revenue increase for state governments, and are other states considering doing that, and might that influence Congress some day if it goes over well in the states?

MS. BRUCKNER: I haven't talked to tax authorities in either Vermont or Massachusetts, you might have.

MS. OLSON: We haven't.

MS. BRUCKNER: But I have talked to some of the firms that do 1099-K preparation, and I did that in preparing some testimony that I gave to the Senate Finance

Committee in July, and they told me that it has catapulted, reporting by over 100 percent, and informally, I looked at chat boards in Reddits in January and February, and all of these Uber drivers and Etsy shop owners, were complaining: I suddenly got a 1099 because I'd never had one before.

So they were certainly the first wave of surprise. But that's what I've understood informally. What I think you should know is that California is on State Tax Franchise Board, just put out a presentation on the on-demand economy and how it's playing out in California, and they noted in that presentation that of the top 100 platforms less than 12 percent gave 1099-Ks to their workers.

And, you know, states are starting to become very cognizant of this issue, and Vermont and Massachusetts are first movers, but New York and California are not far behind.

And once you have the states requiring the alignment of the 1099 Miscellaneous and K thresholds, the Federal Government will be soon to follow, because that information is already getting reported anyway is my suspicion.

MR. GLECKMAN: Pooja, actually, is an interesting, if you get New York and California doing this, does the Federal Government have to do anything? Or at that point do you just do it for everybody, just because you're doing it for such a large fraction of the population anyway?

MS. KONDABOLU: Yes. I mean from and administrative standpoint, we don't mind, we would just need the Federal Government to, again, pass a law that would require us to do so.

MS. OLSON: We think it's somewhere if you get, you know, like half and half, and then that becomes a burden that you have to keep track of, okay, this state, this state. So, that's where you have pressure, or cover for the Federal Government to do it then you're simply making it the norm for every state, rather than on the Federal level, and then the states can piggyback and get hat information.

MR. GLECKMAN: Then it changes the politics, because from the platform point of view, they don't have to comply with 50 different set of state rules, and this point.

MS. KONDABOLU: Exactly.

MS. OLSON: Right.

MR. GLECKMAN: One or two more questions. Eric?

QUESTIONER: Thank you. Great panel! You've been talking about various tax administration issues, and I was wondering if there were any policy recommendations that might make the system easier to administer for independent contract workers and put them on a more level playing field for the employees.

Dave mentioned you should keep track of when you buy gas, and it occurred to me, well, if you're using the standard mileage deduction, and you actually don't need to do that because the company will. So, could be there be a standard deduction for expenses generally, or something of that sort?

MS. BRUCKNER: People have thrown that, you know, we have this small business, sort of the home office standard deduction, I thought that was a very important piece to eliminate some of that, sort of record keeping, and things like that. I think that that would be something that you could look at the data and see what percentage cost of goods is for these kinds of businesses by industry codes, and maybe come out saying, you know, if you want to play it safe, you could take this percent.

I know that there are countries around the world that in trying to look at, am I going to look at this entity for an audit? You know, whether it's in a VAT or somewhere else, you know, they're using that kind of big data to do it on their compliant and their case selection side, but nobody has brought that into the policy side, except where you see exclusions for VAT.

You know, like we're not going to mess with you. We don't want to get the smallest of the small sucked into this program.

MR. GLECKMAN: Let me get some other answer to that question. Could you go ahead?

MS. KONDABOLU: Sure. Just from a platform perspective, right, given the fact that we're global and we're operating in over 180 countries around the world, simplicity, I think in terms of the voluntary nature incentives, right, and then also from the individual's perspective, they don't feel bought in, they're not receiving any benefits. So, a standard deduction, or some kind of tax-free allowance would be wonderful.

Also, I think platforms generally do like the voluntary nature of withholding or reporting and, yeah, with 1099 reporting, or just if you think our business model for a second, we're taxed at every single. The guest is taxed, our hosts are taxed, the corporation is taxed, we're talking about indirect tax and sales tax.

And in the U.S., our business is very staid and local and, you know, we're not investing on the tax professional compliant side, as much as we're on the technology side. So to keep things streamlined, it would be hugely beneficial for also platform compliance.

MS. OLSON: I've thought about this question, because people have asked me, shouldn't there be a small business deduction for gig workers regularly? And my response to that is, we just spent $415 billion on 199A, why don't we see how that works first, right?

Like, how are you going to get the political appetite for people to go back to that well, when they just fought to get 199A, and I don't know a standard deduction, in lieu of or addition to 199A, how that would look. And I would suspect that it would be a harder hill to climb.

QUESTIONER: What is 199A?

MS. BRUCKNER: 199 (cap) A, is a tax incentive that was included in the tax reform, and it's an up to 20 percent deduction for individuals with business income. As part of tax reform they reduced the corporate rate from 35 percent down to 21 percent to create more of a level tax cut for the majority of businesses, which are small businesses, and individuals with business income. They included this brand new, 20 percent deduction that people that aren't incorporated, that so long as they're not in services above a certain threshold, can take up to 20 percent of their income.

Now, there's some complications around how you calculate it -- there's some complications around how you calculate it, once get above certain income thresholds, and that's about $350,000for a married couple, and beyond that, if you actually make more than that, and you are in services, you're phased out of it altogether.

But that generally is not going to impact this population because the majority of on-demand workers are not making in excess of the income thresholds for the 199A deduction.

MS. OLSON: Do you know what might be interesting, is over the years --

QUESTIONER: The deduction being in lieu of the (inaudible)?

MS. OLSON: Right. But over the years you could look at the 199A data and sort of say --

MS. BRUCKNER: You see if it works.

MS. OLSON: -- you know, really should we do a standard deduction instead? That would be very interesting, looking at the incidence of it, and the distribution, and things like that.

MS. BRUCKNER: But from a budget perspective, it's a lot of money that they just dumped into this, right?

MS. OLSON: Right. Yeah.

MS. BRUCKNER: Like, how are they going to --

MS. OLSON: If you've already had the (crosstalk) --

MR. WILLIAMS: The certainly need to clarify all the rules around it, which is one of the things we're struggling with, which is they're a huge -- notwithstanding the 184 pages of guidance, they are just a questions --

MS. OLSON: It used to be 261, so count your blessings. (Laughter)

MR. WILLIAMS: Will you cut some more?

MR. GLECKMAN: Okay. I think we are out of time. Let me thank our panelists, Dave, Caroline, Pooja and Nina, for a really good panel, great discussion. Thank you. (Applause)

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