



Department of Commerce

Independent Contractor Study

*Interim Report per ESSB 6032
(Chapter 299, Laws of 2018, Section 127)*

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Report to the Legislature
Brian Bonlender, Director

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Washington State Department of Commerce

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Executive Summary

Overview

The Washington Legislature charged the Department of Commerce (hereafter “Commerce”) with delivering a study by June 1, 2019, on independent contractor employment.ⁱ The Legislature requires this interim report to provide a “substantive update” from the contractor hired for the project. Commerce does not expect the contractor to be able to perform this task until after initial consultation and research begins in early November. Therefore, the interim report is provided by Commerce to describe the project’s scope of work and progress to date.

The project aims to assess the limitations of existing data sources, identify information gaps, and provide baseline information through research and analysis, as the Legislature requested. This effort is designed to build knowledge for the state about a difficult-to-identify dynamic segment of the labor force.

The project faces some key challenges:

- An absence of state-level income tax data limits data collection methods.
- Existing public data sources (that is, federal household surveys) do not collect information about how, when and why labor force participants supplement their income or earnings.
- Mounting evidence shows significant discrepancies between administrative tax records and what is self-reported on household surveys.^{ii,iii}
- Independent contract work occurs across industries and occupational groups, creating meaningful differences in labor force characteristics and job conditions.^{iv,v,vi}

In consideration of the key challenges noted above, the final study will include options for continuing research efforts about unknown segments of the state’s labor force.

A brief analysis on self-employment in Washington state using publicly available data is provided in Appendix A, including a discussion of known data sources and limitations.

A Request for Proposals was issued Aug. 27, 2018, to solicit needed expertise and resources to produce the final study. The firm hired will provide subject-matter expertise in labor market research and analysis, including the following services:

- Consultation and co-facilitation
- Collaborative research design
- Primary and secondary research and analysis

See Appendix B for the full scope of work.

Scope of Work

The Washington Legislature provided a general fund appropriation for a contract to study and report on independent contractor employment in the state as follows:

The contractor report shall be provided to the department by June 1, 2019. The report must include information on the needs of workers earning income as independent contractors including sources of income, the amount of their income derived from independent work, and a discussion of the benefits provided to such workers.^{vii}

Commerce must convene an advisory committee to provide assistance with the development of the study. The advisory committee must comprise:

- Individuals from public and private sectors with expertise in labor law
- Representatives of labor unions
- Representatives from nonprofit organizations promoting economic security and educational opportunity
- Individuals from business and industry

For purposes of this project, the term “worker” used in the proviso language is defined broadly to include all labor force participants regardless of employment status.

The advisory committee met for the first time Aug. 13, 2018, and will meet a minimum of three more times through May 2019. At the first meeting, advisory members provided feedback on study objectives and strategies. They also selected members to participate in a competitive procurement subcommittee.^{viii}

The final study will focus primarily on an analysis of the research results obtained through primary data collection and secondary research and analysis performed by the firm hired for the project. The analysis will respond to research questions advisory members finalize to identify and address specific information gaps.

Committee members agreed that policy recommendations are outside the scope of this project. To help advisory members, stakeholders and legislators continue their conversations on the topic of independent contractor employment, Commerce will work to identify and gather any additional resources as needed or as the committee identifies.

Key Challenges

Washington state does not currently collect data about independent contractor employment. Federal household survey data alone is an insufficient source for purposes of the project. See Appendix A for more detailed information about known data sources and limitations.

Acknowledging the absence of existing data, the project aims to produce baseline information that is comparable to national statistics and that can be verified through alternative methods and replicated over time.

An important value of primary data collection (for example, surveys, interviews and focus groups) for this project will be to develop and test strategies to obtain information from a diverse and difficult-to-identify population. Independent contract work occurs across all industries and occupations and does not follow a standardized definition or set of criteria. The findings will be used to develop options for continuing research efforts.

The purpose of research recommendations in the final study will be twofold:

1. To describe data collection systems that would allow the state to establish trends to build knowledge about unknown segments of the labor force over time
2. To deepen understanding of alternative forms of work unique to Washington state

Objectives and Strategies

At the first advisory committee meeting Aug. 13, 2018, members deliberated on a number of topics, including the Open Public Meetings Act, group objectives, and project methods and milestones.

Commerce requested feedback on a list of proposed objectives and strategies for the final study. The list below represents ideal outcomes for the project and incorporates member feedback. The project will:

- Produce baseline information about the prevalence and types of independent contract work performed in the state, including sources of income and benefits, benefits coverage, and number of hours worked using federal administrative tax records, census household survey data and state administrative records on the number of sole proprietorship filings
- Define the survey population
- Identify and implement research methods to capture differences in labor force characteristics
- Use existing state definitions of independent contract work to inform research processes and design, as determined by advisory members
- Compile information on the current state of research and policy initiatives regarding classification of labor force participants and portability of benefits, including a crosswalk comparison of state-level classification tests

Advisory committee members requested a meeting to review known data sources and limitations in more depth, so they could knowledgeably weigh the pros and cons of different research methods. That meeting took place Sept. 28, 2018.

Definitions and Issues

Independent Contract Work

Varied definitions, tests, and ways of measuring independent contract work based on different purposes exist, such as classification of labor force participants, tax reporting, and behavioral and financial studies.^{ix, x, xi}

This project uses the Bureau of Labor Statistics' (BLS) definition for independent contractors from the Contingent Worker Supplement (CWS): "Last week, were you working as an independent contractor, an independent consultant, or a freelance worker? That is, someone who obtains customers on their own to provide a product or service."^{xii}

According to BLS' 2017 CWS, the most recent data available, independent contractors remain the largest subset of four alternative employment arrangements. The other three subsets include "on-call workers, temporary help agency workers, and workers provided by contract firms."^{xiii, xiv}

Although the CWS measures alternative employment arrangements, terms used to describe work conditions, such as "contingent work" and "gig work," are not synonymous with independent contractor work.^{xv} Independent contract work can be full-time, part-time or intermittent; temporary or permanent; and performed by self-employed individuals or combined with other types of employment.

Independent contractors measured by BLS represent the number of labor force participants who self-identify as earning wages or a salary primarily from independent contract work. This measure does not count the number of jobs performed. And it excludes wage and salary earners who perform independent contract work on a part-time or intermittent basis to supplement their income.

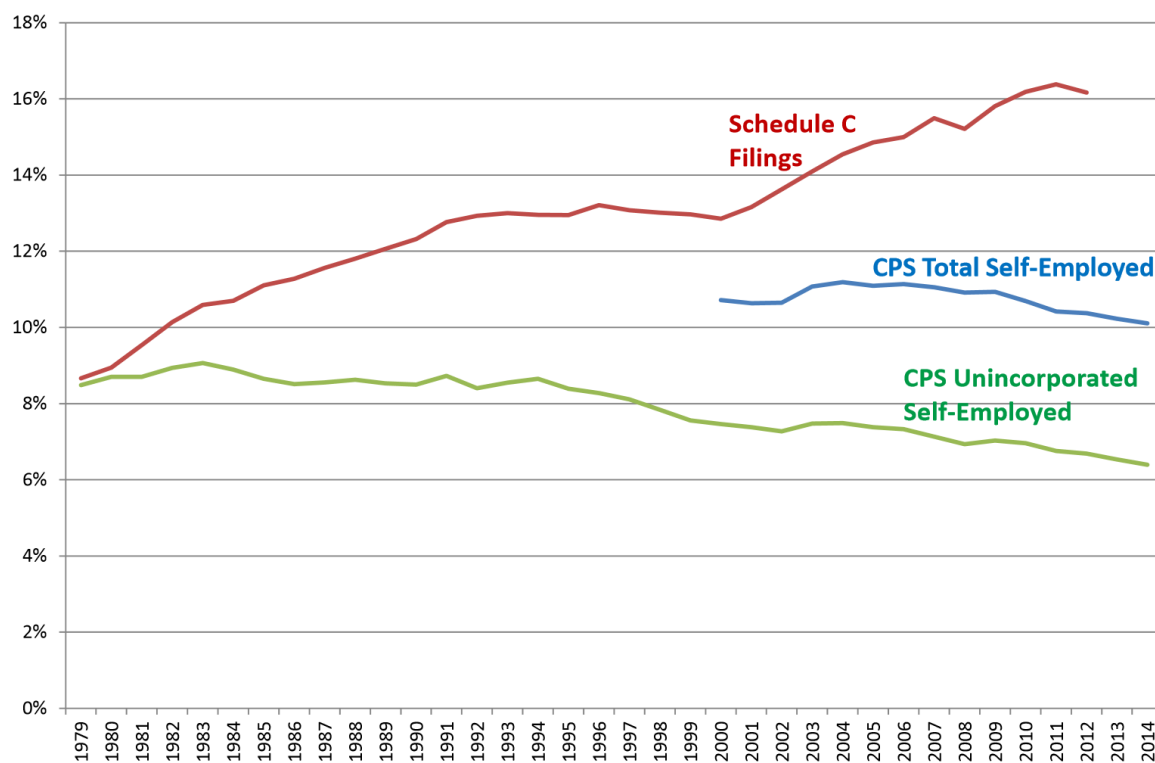
Given the limitations of how BLS counts independent contractors, this project needs to address how the state can obtain data about labor force participants who perform independent contract work routinely both as primary and supplemental forms of employment.

Separately, the project will examine best practices for gathering information about labor force participants who perform independent contract work on an ad-hoc basis.

Research Issues

Recent research shows underreporting of self-employment on federal household surveys.^{xvi} The Current Population Survey (CPS), a monthly survey of U.S. households administered jointly by the Census Bureau and the Bureau of Labor Statistics, collects data about the labor force.^{xvii} CPS trends on self-employment show a decline since 1979, while IRS records show a clear increase.

Percent of Self-Employment Based on IRS Schedule C Filings and CPS Data, 1979-2014



Source: Katz and Krueger. "The Rise and Nature of Alternative Work Arrangements in the United States, 1995-2015." March 2016.

This is problematic when it comes to accurately measuring and understanding current labor market trends. Discrepancies in reporting are not fully understood. Reasons could include differences in how labor force participants understand definitions of self-employment or misclassification of employees. Work is underway to narrow the gap between how labor force participants self-identify on household surveys and report income for tax purposes.^{xviii}

In addition to differences in reporting, various frameworks exist for relating independent contract work to other forms of employment. For example, the Census Bureau identifies independent contractors as "non-incorporated self-employed" separately from small business owners or "incorporated self-employed." BLS identifies independent contractors as part of a larger group of alternative work arrangements as noted above.

For illustrative purposes, the Federal Reserve Board of Governors' Enterprising and Informal Work Activities (EIWA) Survey provides another approach.^{xix} EIWA respondents are asked to identify their work based on whether it occurred exclusively offline, online or as a combination of both. Roles for respondents under the EIWA include freelancers, contractors, contingent workers, temporary workers, consultants, solopreneurs and self-employed.

To determine the best possible approach, the project will consider pros and cons of different frameworks in collaboration with advisory members, the consulting firm and academic experts in the field.

Project Schedule

The project is structured to ensure timely completion, applied research design and delivery of substantive research results.

Phase 1: July through September 2018

- Commerce interviews advisory members and academic experts and performs preliminary research and project scoping.
- Commerce facilitates the first advisory committee meeting. Members provide input on the proposed charter and deliberate on study objectives and strategies, methods, and milestones. Procurement team members are selected.
- Procurement team members meet to finalize a Request for Proposals (RFP). Commerce issues and coordinates the RFP. After the winning bidder is announced, Commerce begins contract negotiations.
- Commerce hosts a data work session so advisory members can discuss availability and limitations of existing data sources.

Phase 2: October through December 2018

- Commerce completes the RFP contract negotiations and executes the final contract. The agency begins preparation work with the consultant.
- Commerce and the consultant co-facilitate a third advisory committee meeting. Members provide input on research question development and design.
- The consultant concludes the research design, using advisory member review and input. Commerce provides the final approval.
- The consultant begins data collection. Commerce vets the final approach with academic experts.

Phase 3: January through March 2019

- The consultant concludes data collection and begins analysis.
- The consultant provides periodic updates to Commerce and advisory committee members throughout the data collection process.
- Commerce and the consultant co-facilitate a fourth advisory committee meeting, providing members with the preliminary research results. Continuing research options are identified and discussed.

Phase 4: April through June 2019

- The consultant concludes research and analysis and begins report writing. The consultant provides periodic updates to Commerce and the advisory committee.
- Commerce completes the first draft of the final study, excluding the consultant's final analyses.
- Commerce and the consultant co-facilitate a fifth advisory meeting. Members review the first draft of the final study and provide feedback.
- Commerce and the consultant incorporate the consultant's final analyses and complete the final study.

Appendix A – Research Overview

Self-Employment in Washington

The below information is a limited overview of existing sources on state-level self-employment statistics. This research is provided to give an overview of available information within the project’s scope. It is expected that the consultant will integrate this summary information into the research design phase of the project.

Changes in Self-Employment

Tables 1 and 2 show declines in the percentage of Washington’s employed labor force who identify as primarily self-employed.^{xx} Unincorporated counts were chosen because this category is the closest proxy available to measure independent contractors using federal household survey data.

Table 1: Percentage of Unincorporated Self-Employed People in Washington by Industry, 2009 and 2016

Industry	2009	2016	Percentage Point Difference
Agriculture, forestry, fishing, hunting, mining	14.2	10.2	-4.0
Construction	12.8	11.6	-1.2
Manufacturing	2.1	1.7	-0.4
Wholesale trade	4.3	3.3	-1.0
Retail trade	4.7	3.1	-1.6
Transportation, warehousing and utilities	4.2	4.1	-0.1
Information	4.1	3.9	-0.2
Finance, insurance, real estate, rental and leasing	10.0	8.3	-1.7
Professional, scientific, management, administrative and waste-management services	12.8	11.9	-0.9
Educational services, health care and social assistance	4.3	3.9	-0.4
Arts, entertainment, recreation, accommodation and food services	5.0	4.6	-0.4
Other services	20.7	21.6	0.9
State total	6.9	6.1	-0.8

Source: Author’s calculation of “American Community Survey 5-Year Estimates,” industry by class of worker for the civilian employed population 16 years and older. Accessed online through American Fact Finder. Note: The “Other services” industry

represents NAICS 81 and comprises establishments not specifically provided for in the existing classification system. See, <https://www.bls.gov/iag/tgs/iag81.htm>.

Table 2: Percentage of Unincorporated Self-Employed People in Washington by Occupation, 2010 and 2016

Occupation	2010	2016	Percentage Point Difference
Management, business, science and arts	6.6	6.0	-0.6
Service	10.0	9.6	-0.4
Sales and office	5.1	4.2	-0.9
Natural resources, construction and maintenance	9.0	7.7	-1.3
Production, transportation and material moving occupations	4.0	3.7	-0.3
State total	6.8	6.1	-0.7

Source: Author’s calculation of “American Community Survey 5-Year Estimates,” occupation by class of worker for the civilian employed population 16 years and older. Accessed online through American Fact Finder. Note changes to occupation codes for the 2010 Census make 2009 occupational data generally less comparable to later years.

Self-Employment Health Insurance Coverage

In 2017, the U.S. Treasury Department Office of Tax Analysis published state-specific figures on marketplace health insurance coverage rates for sole proprietors and small-business owners.^{xxi} As of 2014, 30,060 sole proprietors and 21,120 small business owners had marketplace coverage in the state, a 10 percent and 11 percent share, respectively, of all individuals with any marketplace health insurance coverage.

Retirement plan coverage rates for self-employed people are provided in the 2017 Commerce report “[Retirement Readiness: Washington State Retirement Preparedness Study](#).” Importantly, in contrast to Tables 1 and 2 above, self-employment figures in Tables 3 through 7 below include both unincorporated and incorporated self-employment counts.

Table 3 shows that self-employed people in the state who reported not having a retirement plan represent 9 percent of the state’s total labor force, or 15 percent of the total uncovered labor force.

Table 3: Uncovered Labor Force Participants in Washington by Reason for Lack of Coverage, 2014

Reason for not having coverage	Number	Share of total labor force
All Washington labor force participants	3,305,140	100%
Total uncovered	2,010,926	61%
Employer does not offer a plan	1,214,935	37%
Employer offers plan, not included	487,800	15%
Self-employed without plan	308,191	9%

Source: *Washington's Retirement Readiness Study (2017)*; Boston College Center for Retirement Research calculations from CPS, March Supplement 2015.

Tables 4 and 5 show that self-employed persons without a retirement plan are most prevalent in the professional services industry, and generally provide services to firms with less than 10 employees.

Table 4: Distribution of Uncovered Self-Employed People by Industry, 2014

Industry	Number	Share of total labor force
Total	308,191	9.3%
Nonprofessional services	41,303	1.2%
Professional services	130,823	4.0%
Construction	54,245	1.6%
Raw materials	40,662	1.2%
Manufacturing	15,462	0.5%
Retail/wholesale	11,967	0.4%
Transport/utilities	13,729	0.4%

Source: *Washington's Retirement Readiness Study (2017)*; Boston College Center for Retirement Research calculations from CPS, March Supplement 2015.

Table 5: Distribution of Uncovered Labor Force Participants by Firm Size, 2014

Firm Size	All	Employer does not offer a plan		Employer offers plan, not included		Self-employed without a plan	
	Number	Number	Share	Number	Share	Number	Share
Fewer than 10 employees	672,580	305,551	9.2%	34,029	1.0%	278,718	8.4%
10-49 employees	470,293	300,672	9.1%	55,651	1.7%	8,794	0.3%
50-99 employees	291,026	142,727	4.3%	39,839	1.2%	8,062	0.2%
100+ employees	1,871,241	465,985	14.1%	358,281	10.8%	12,617	0.4%
Total	3,305,140	1,214,935	36.8%	487,800	14.8%	308,191	9.3%

Source: Washington's Retirement Readiness Study (2017); Boston College Center for Retirement Research calculations from CPS, March Supplement 2015.

Table 6 shows that nearly 60 percent of self-employed people without a retirement plan work 40 or more hours per week. Table 6: Distribution of Uncovered Labor Force Participants by Hours Worked and Median Wages, 2014

Usual hours a week	Employer does not offer a plan			Employer offers plan, not included			Self-employed without a plan		
	Number	Share	Median wage	Number	Share	Median wage	Number	Share	Median wage
1-9 hours	34,695	2.9%	\$5,000	12,913	2.6%	\$6,700	17,889	5.8%	\$4,500
10-19 hours	80,042	6.6%	\$5,000	39,283	8.1%	\$9,800	12,730	4.1%	\$10,500
20-29 hours	99,209	8.2%	\$13,000	67,902	13.9%	\$13,312	32,571	10.6%	\$10,000
30-39 hours	186,308	15.3%	\$17,500	85,452	17.5%	\$20,000	66,284	21.5%	\$15,000
40+ hours	814,681	67.1%	\$36,000	282,250	57.9%	\$35,360	178,717	58.0%	\$45,000
Total	1,214,935	100%	\$28,357	487,800	100%	\$26,783	308,191	100%	\$31,073

Source: Washington's Retirement Readiness Study (2017); Boston College Center for Retirement Research calculations from CPS, March Supplement 2015.

Table 7 shows that 15 percent of all uncovered labor force participants in Washington identify as primarily self-employed. Additionally, self-employed people without a retirement plan tend to be older (55+) and have some form of post-high-school education.

Table 7: Key Demographics of Washington Uncovered Self-Employed, 2014

Characteristic	Total Not Covered by a Plan	Number of Self-Employed Not Covered by a Plan	Share of Total Uncovered
Total	2,010,926	308,191	15.3%
Sex			
Male	1,095,825	209,923	19.2%
Female	915,101	98,268	10.7%
Age			
Younger than 18	26,219	0	0.0%
18 to 24	337,237	1,534	0.5%
25 to 54	1,197,385	156,151	13.0%
55 to 64	293,947	101,553	34.5%
64+	156,138	48,953	31.4%
Race			
White	1,389,130	259,425	18.7%
Black	67,184	5,337	7.9%
Asian	150,347	8,063	5.4%
Hispanic	303,714	23,207	7.6%
Other	100,551	12,159	12.1%
Birth country			
United States	1,597,554	239,502	15.0%
Foreign-born	413,372	68,689	16.6%
Education			
Some high school	228,841	24,229	10.6%
High school diploma or equivalent	530,115	57,637	10.9%
Some college	652,737	75,738	11.6%
Bachelor's or higher	599,233	150,587	25.1%
Number of employers			
Single employers	1,723,267	284,132	16.5%
Multiple employers	287,659	24,059	8.4%
No tax filing (less than \$4,000 income)			
Not filing	140,873	40,218	28.5%

Source: Washington's Retirement Readiness Study (2017); Boston College Center for Retirement Research calculations from CPS, March Supplement 2015.

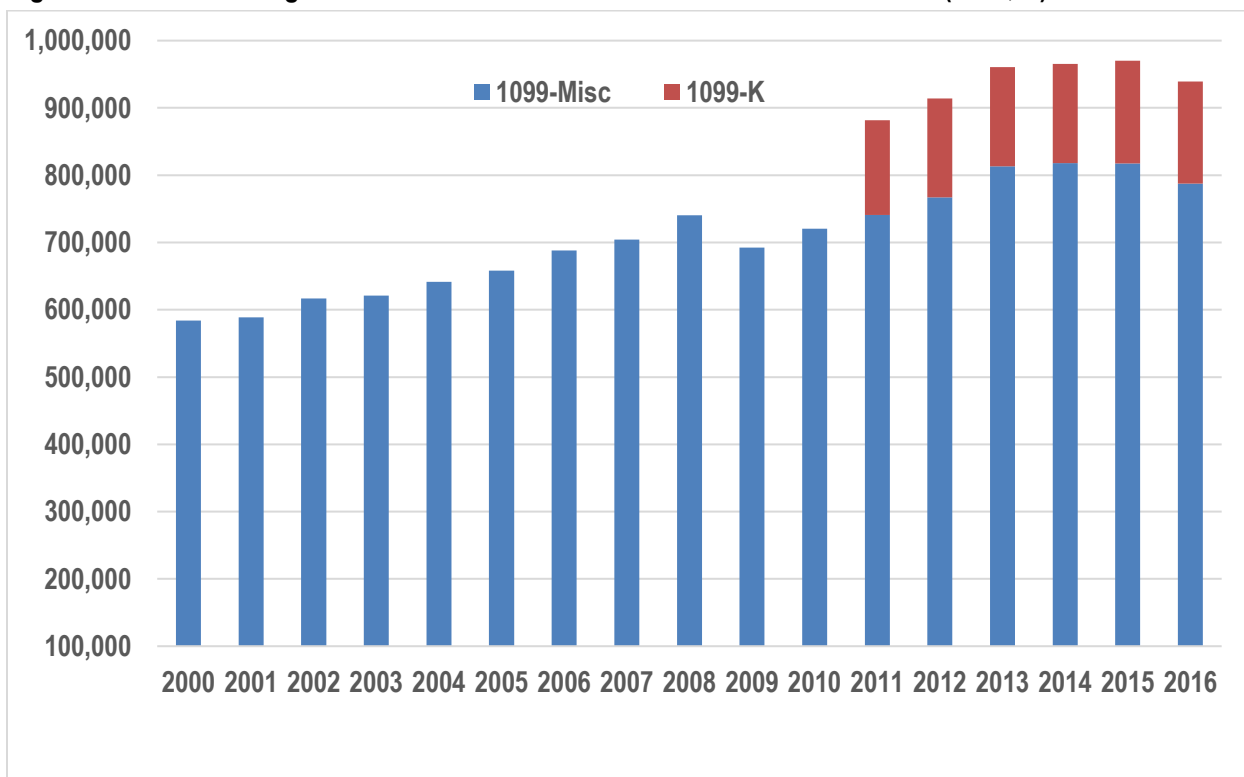
In terms of total employment, one-third of older (age 64+) uncovered labor force participants identify as self-employed, compared to 10 percent for younger cohorts (ages 25-54).^{xxii} More research would be needed to understand the causes for this difference (that is, how many are opting out versus being ineligible).

Self-Employment Earnings

The 1099-Misc tax reporting form is used, in part, to report nonemployee compensation payments of at least \$600. Beginning in 2011, the IRS introduced a new reporting form (1099-K) to capture payments received from payment card or third-party network transactions.

Figure 1 shows only the counts of individuals who filed a tax return with a 1099 form attached. Increases in reporting from 1099-K counts represent the introduction of a new reporting form and is otherwise non-conclusive.

Figure 1: Total Washington Individuals Who Filed Taxes That Included a 1099 (Misc, K) 2000-2016



Source: Author's calculation of counts of administrative tax records provided with the permission of the Internal Revenue Service through an existing research contract by the Board of Governors of the Federal Reserve System.

National Trends

Recent surveys and research regarding independent contractors provide national figures and important takeaways to inform Washington’s approach to measuring this segment of the labor force.

Contingent Worker Supplement

In a June 2018 release of survey data on contingent and alternative employment arrangements, the Bureau of Labor Statistics (BLS) provided national figures for independent contractors as of May 2017.

The analysis shows that independent contractors who earn their primary income as independent contractors:

- Represent 6.9 percent of the total workforce, or 10.6 million people
- Represent the largest group of people in alternative work arrangements (58 percent)
- Have a significantly lower percentage (3 percent) of people who are also categorized as contingent workers, compared to other alternative work arrangements
- Are older than people in other alternative arrangements, with more than one in three ages 55+
- Overwhelmingly (79 percent) prefer their work arrangement to traditional employment
- Are more likely than people in traditional arrangements to be in management, business and financial operation occupations; sales and related occupations; and construction and extraction occupations
- Have median weekly earnings (\$851) on par with traditional employment (\$884)

In a subsequent September 2018 news release, BLS reported data relating to four new questions added to the Contingent Worker Supplement. These questions attempted to measure “electronically mediated” work, or work performed through mobile applications or websites.

BLS reported that independent contractors are more likely than people in other alternative employment arrangements to have performed work online or through a mobile application at 6 percent compared to 3 percent and 2 percent, respectively.^{xxiii}

In evaluating the survey, BLS found that its question terminology confused many respondents, limiting the information obtained. Washington’s project can learn from BLS’ work in administering and evaluating survey questions that aim to deepen and refine information obtained from respondents about their work experiences in the labor market.

National Bureau of Economic Research (NBER) (Working Paper 24950)

The NBER publication examines reporting discrepancies between federal data sets. It provides analysis on how to improve household survey measures of nonemployee work through integration of survey and administrative data at the individual level.

Specifically, the study examines the following federal data sets that provide estimates on self-employment: Current Population Survey Annual Social and Economic Supplement (CPS-ASEC) and the Detailed Earnings Record (DER).

DER is an extract from the Master Earnings File (MEF), a database maintained by the Social Security Administration. MEF includes data on self-employment income from Schedule SE tax filings and wage earnings reported on Form W-2.

Notably, the study found that from 1996 to 2012, on average 65 percent of respondents who reported self-employment income for tax purposes did not report any self-employment income to the Census Bureau on CPS-ASEC. The average self-employment earnings reported in DER but not in CPS-ASEC were \$13,700 (in 2009 dollars). An increase was observed in the share of individuals in the DER who reported self-employment earnings, rising from 9.5 percent in 1996 to 11.3 percent in 2012.

U.S. Treasury Department Office of Tax Analysis (Working Paper 114)

The 2017 paper “The Rise of Alternative Work Arrangements: Evidence and Implications for Tax Filing and Benefit Coverage” analyzes administrative tax records on self-employment earnings, business-related activities and costs, health insurance coverage, and retirement plan contributions for a broad range of occupations, ranging from law offices to babysitting services.

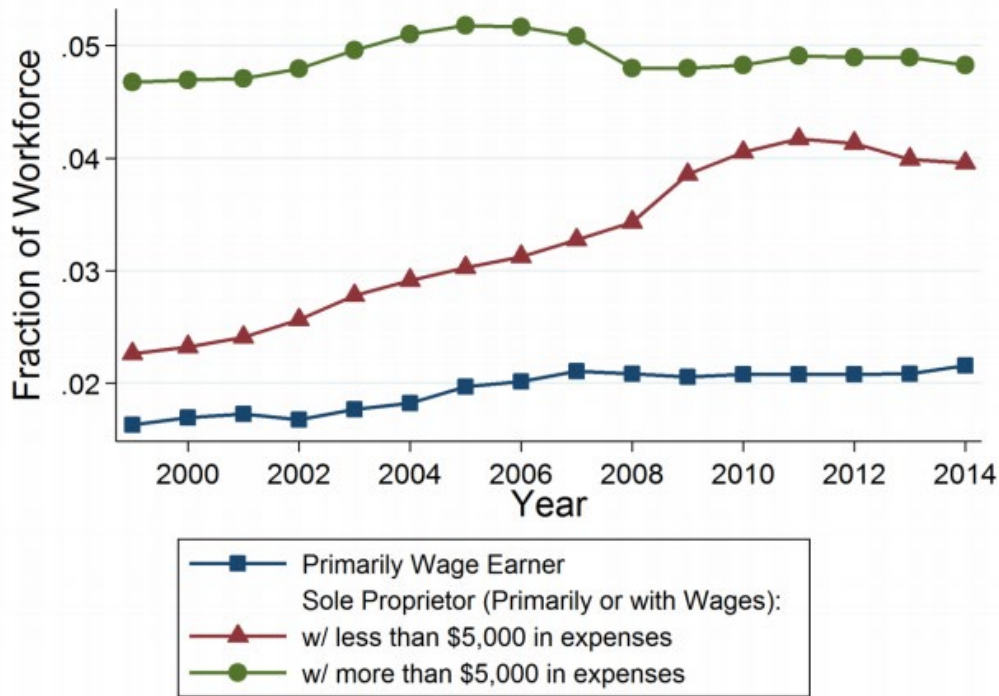
The analysis groups self-employed individuals into three categories:

1. Sole proprietors (who make at least 85 percent of their earnings from self-employment)
2. Small-business owners (who see at least \$10,000 of business expenses or profits, or \$15,000 in combined expenses and profits, and a minimum of \$5,000 in business expenses)
3. Gig economy workers (whose self-employment earnings are derived in part or in whole from online platforms)

Notably, the paper finds:

- In 2014, 87 percent of all filers earned income solely from wages, while 7 percent earned income solely from self-employment and 6 percent earned a mix from both
- From 2001 to 2014, a 34 percent increase was seen in the number of individuals who filed returns for the operation of nonfarm sole proprietorships
- Out of 24.9 million individuals who reported operation of a sole proprietorship in 2014, 16.8 million earned a profit and paid self-employment tax, up 32 percent from 2001
- Increases in self-employment are primarily due to increases in sole proprietorships that report performing labor services with little or no business-related deductions (less than \$5,000)
- When compared to primarily wage-earning workers, individuals whose primary earnings (at least 85 percent) were from self-employment in 2014 were:
 1. Less likely to be covered by health insurance or to participate in or make contributions to a retirement account
 2. More likely to purchase health insurance in the marketplace

Figure 2: Composition Changes in the Self-Employed



Source: “The Rise of Alternative Work Arrangements: Evidence and Implications for Tax Filing and Benefit Coverage.” Office of Tax Analysis Working Paper 114. January 2017. Note “Sole Proprietor (Primarily or with Wages)” indicates that an individual files schedule C and has less than 85 percent of earnings from wages.

Table 8: Top 10 Schedule C Descriptions, and by Receipt of Third-Party Form

Rank	All Schedule C Filers	Received 1099K	Received 1099MISC
1	CONSULTING	CONSULTING	CONSULTING
2	REAL ESTATE	SALES	CONSTRUCTION
3	CONSTRUCTION	HAIR SALON	REAL ESTATE
4	CLEANING/JANITORIAL	SERVICE	SALES
5	SALES	TAXI DRIVER	TRUCKING/TRANSPORTATION
6	TRUCKING/TRANSPORTATION	PHYSICIAN/DENTIST/CHIRO.	SERVICE
7	SERVICE	ATTORNEY	CLEANING/JANITORIAL
8	HAIR STYLIST	RETAIL	INSURANCE
9	CHILD CARE	TRUCKING/TRANSPORTATION	CHILD CARE
10	LANDSCAPING	RESTAURANT	LANDSCAPING

Source: “The Rise of Alternative Work Arrangements: Evidence and Implications for Tax Filing and Benefit Coverage.” Office of Tax Analysis Working Paper 114. January 2017.

JP Morgan Chase Institute – The Online Platform Economy in 2018

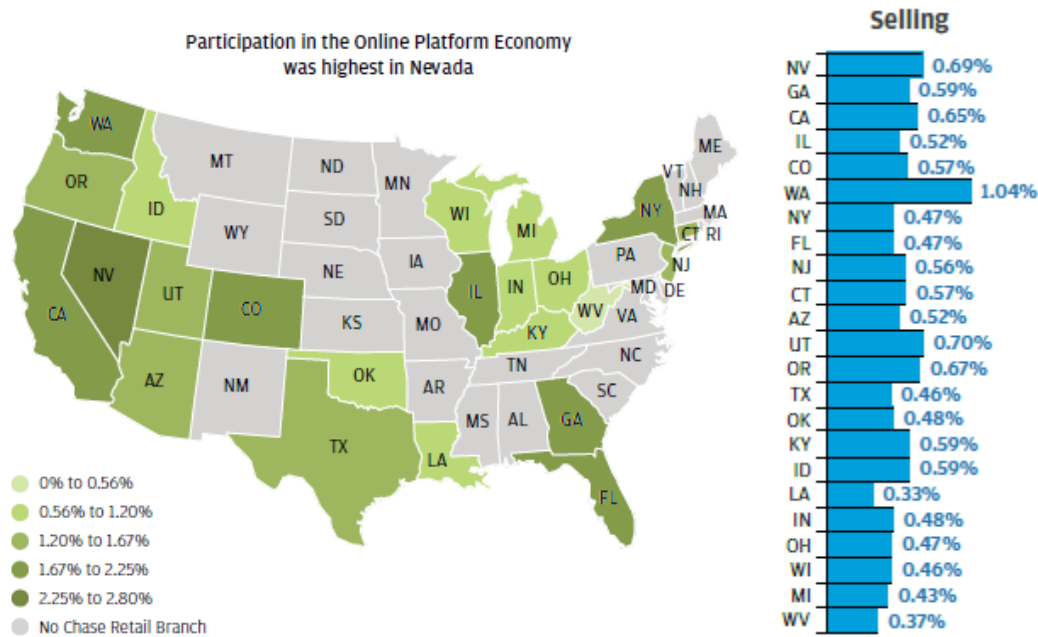
The JP Morgan Chase Institute’s study measures payments received from 128 online platform companies across 39 million checking accounts. The data was gathered through repeated monthly sampling from 2013 to 2018.^{xxiv} The data is grouped into four sectors: transportation, nontransport work, selling and leasing. A high degree of variation exists among states in terms of participation across the sectors.

The study finds the following related to growth and change in the online economy:

- Over the past five years, the diversity of online platforms has increased significantly.
- Overall median earnings, with the exception of the leasing sector, remained below \$1,000 per month.
- Even though participants are active only a few months in the year, earnings received during these months represent a large share of their income (54 percent).
- People not earning wages from an employer are more likely to participate in the transportation sector.
- The transportation sector is driving the growth in supply-side participation and total transaction volume.
- Transportation earnings dropped 53 percent, going from \$1,500 in 2013, to less than \$800 in 2017.

In comparison to other states, Washington stands out as having a relatively higher overall participation rate in the online economy, as defined by JP Morgan Chase and a significantly higher rate in the selling sector.

Figure 3: Participation Rates in the Online Platform Economy



Source: JP Morgan Chase Institute. "The Online Platform Economy in 2018: Drivers, Workers, Sellers, and Lessors."

Data Sources and Limitations

Federal

The Census Bureau and Bureau of Labor Statistics' joint household Contingent Worker Survey (CWS) is the most current and relevant public source of data for information about independent contractors. Due to a small sample size, it is not possible to tabulate the 2017 CWS data at the state level.

And even though the CWS measures eligibility for retirement and health insurance coverage for all other forms of alternative employment arrangements, this information was not collected from independent contractors in the 2017 survey.

Another important limitation of the CWS data is that respondents are measured based on their primary source of income, excluding secondary sources. This means it is not possible to distinguish whether a respondent performs freelance work to supplement their wages or relies solely on self-employment.

Other federal household survey data can be tabulated at the state level, such as from the Current Population Survey and the American Community Survey. However, data on independent contractors is limited to the category "non-incorporated self-employed" and does not capture differences in main versus secondary sources of income.

Federal administrative tax records are an important data source to triangulate information obtained from respondents about labor force characteristics. Developing a research proposal and obtaining approval from the Internal Revenue Service (IRS) to access and use Washington-specific tax records is

not a feasible option for this project given the timeframes established. Nonetheless, it is worth pursuing for ongoing validation efforts.

It was possible to obtain limited IRS tax data through an existing contract with a qualified researcher from the Federal Reserve Board of Governors. The data is limited to counts of Washington 1099 filers by county from 2000 through 2016. The data file does not contain any personally identifying or confidential information.

The Survey of Household Economics and Decisionmaking (SHED) administered by the Federal Reserve Board of Governors is a primary source for information about household economic wellbeing. This annual survey captures data on schedule stability, access to benefits, credit outcomes and financial literacy, among other variables. It is not possible to obtain state-specific tabulations based on self-employment from SHED.

The Enterprising and Informal Work Activities (EIWA) Survey the Federal Reserve Board of Governors issued for the first time in 2015 captures national behavioral and financial information about labor force participants who report performing informal work online and offline. Thirty-six percent of respondents reported performing informal work to either complement or substitute for a traditional job; and 65 percent indicated their main reason for participating in informal work was to earn extra income.^{xxv}

State and Local

The state of Washington does not currently collect information from businesses about hiring independent contractors, nor does it collect information from labor force participants who perform independent contract work.

The Washington State Department of Revenue (DOR) tax and licensing records for sole proprietorships are the closest proxy available to estimate the number of independent contractors statewide. Generally, businesses must register with DOR if they have annual gross incomes of \$12,000 or more or are required to collect retail sales tax.

License holders with “active” status accounts have an open and operating business. However, they might not be required to file tax returns. If their annual gross incomes are below \$28,000, or \$46,667 if they are a service business, and they aren’t required to collect retail sales tax, they don’t have to file. For sole proprietorships that do file, aggregated information is available, including gross revenue, deductions, taxable revenue and tax due. DOR records do not provide information about net income, expenses, health insurance or benefits coverage.

Washington’s Employment Security Department (ESD) administers unemployment insurance benefits to eligible unemployed labor force participants. Eligibility is based on the number of hours worked for which wages were paid before the worker became unemployed. The unemployment insurance wage file contains information about employee demographics, wages and hours.^{xxvi}

ESD also administers the state’s new Paid Family and Medical Leave Program, scheduled to go into effect Jan. 1, 2020. Self-employed people, including independent contractors, can choose to opt in to the program.^{xxvii}

The Washington State Department of Labor and Industries (L&I) administers a number of state workplace laws, including health and safety, wages, hours, breaks, and paid sick leave. L&I also collects premiums from employers and pays out worker compensation benefits to employees who are injured at work. Benefits can include medical, time-loss compensation, wage replacement and pension benefits, depending on the severity of the injury.^{xxviii}

Beginning in July 2008, the state began data sharing across DOR, ESD and L&I to increase compliance with state laws and the effectiveness of fraud prevention. Findings are published in an annual report titled “Underground Economy Benchmark Report” and include information on misclassified employees.^{xxix}

Local governments across the state are beginning to adopt ordinances requiring for-hire drivers who provide services through online platforms such as Uber and Lyft to apply for business licenses.^{xxx} Data on these Transportation Network Company (TNC) licenses can be obtained by directly contacting each local jurisdiction. This information is fairly limited since it does not take into account more than one type of online platform or industry. Additionally, information varies by jurisdiction.

Private

The Gig Economy Data Hub is a partnership between Cornell University’s ILR School and the Aspen Institute’s Future of Work Initiative. This online portal provides comprehensive information about public and private sources of data and research about independent contractors.^{xxxi}

Studies compiled in the below graphic represent a mix of different definitions of independent work, some of which only include online mediated work.

Types of Data

	Self-reported	Administrative
Public	<ul style="list-style-type: none"> • BLS Contingent Worker Supplement • Survey of Household Economics and Decisionmaking • General Social Survey • Current Population Survey 	<ul style="list-style-type: none"> • Tax forms issued (1099s versus W2s issued) • Taxes filed (Schedules C and SE) • Nonemployer statistics
Private	<ul style="list-style-type: none"> • Freelancing in America survey • MBO Partners State of Independence survey • McKinsey Global Institute survey • Pew American Trends Panel 	<ul style="list-style-type: none"> • Bank account records (JPMorgan Chase Institute) • Private administrative data (like records of Uber drivers analyzed by Hall and Krueger)

Source: gigeconomydata.org/research/types-data

Private sources in the above table provide nationally representative samples of different measures of alternative work arrangements. For example, the JPMorgan Chase Institute found 0.5 percent of adults had participated in a select group of 30 online platforms in a month and 1.5 percent over a 3.5-year period. The Pew American Trends Panel found 24 percent of Americans had earned income online over a year period, from both labor and capital platforms.

Appendix B – Statement of Work

Scope of Work and Budget for Washington’s Independent Contractor Study

██████████ (hereafter “Contractor”) shall assist Commerce with the collaborative development, implementation, analysis, and reporting of secondary and primary research to inform a study on the needs of workers earning income as independent contractors in Washington State. Research performed by the Contractor for Commerce will be in consultation with the Advisory Committee (hereafter “Committee”) convened by Commerce to assist in completing the study by June 1, 2019.

In conducting research for the purpose of identifying and measuring independent contractors, the Contractor will:

- Document the research approach, methods, and findings so as to create a sufficient technical record of the research and analysis performed for future studies
- Work collaboratively with Commerce and the Committee to identify and refine research objectives, strategies, and criteria, obtain needed data, and create facilitation materials

Payment will be made by Commerce based on actual hours worked by the Contractor plus direct expenses, **up to a total of** ██████████. The Contractor shall communicate promptly with Commerce if it appears that the amount budgeted will be insufficient to complete any phase prior to performing work in excess of the amount budgeted. Commerce retains the ability to adjust compensation per phase, in consultation with the Contractor within the total project budget. Contractor will submit monthly invoices detailing actual hours worked and direct expenses incurred.

Compensation for actual hours worked shall be based on the below hourly billing rate schedule for ██████████ staff, subcontractors, and consultants:

President: ██████████

Executive Vice President: ██████████

Principal Associate: ██████████

Senior Research Associate: ██████████

Research Associate: ██████████

Research Analyst: ██████████

Research Assistant: ██████████

Administrative Staff: ██████████

Consultant 1: ██████████

Consultant 2: ██████████

Consultant 3: ██████████

The Contractor shall be responsible for assigning work to appropriately qualified staff.

PHASE 1 – [October to December 2018] Research Consultation and Design (up to [REDACTED])

Task 1.1 – Review of background information Contractor will begin the assignment with a detailed review of the background information related to Commerce’s initial research, scoping, and facilitation of the Committee for this project. The Contractor may request additional information from Commerce to assist in its review and assessment of the project to date.

Task 1.2 – Phone or video meeting with Contractor and Commerce. Contractor will prepare a list of questions or items for discussion. Upon completion of the meeting, Contractor will provide a written report summarizing the meeting. Topics for the meeting potentially include:

- Collaboration, communication and reporting protocols, expectations, and guidelines
- Project schedule, risks, objectives, processes, and outcomes
- Co-facilitation approaches and preparation of materials and activities for the Committee
- Access, use, and management of relevant state-level administrative records

Task 1.3 – Internal team meetings. The Contractor will schedule regular team meetings as needed to complete necessary project planning, including data share agreements with Commerce and other state agencies to be identified. Internal team meetings can be held in-person, by phone or videoconference.

Task 1.4 – On-site co-facilitation meeting with Commerce and Committee. Contractor will work with Commerce to produce an agenda and needed facilitation materials in advance of a collaborative research design workshop to be held [REDACTED]. Topics for the meeting potentially include consultation and facilitation of the following:

- Project schedule, communication and reporting protocols
- Ongoing performance evaluation of process and deliverables
- Committee input on research objectives, design, and methods
- Committee input on information gaps and research questions
- Data curation, integration and analysis
- State investments needed to gather consistent and useful information about unknown segments of the labor force
- Delivery and presentation of research findings

Task 1.5 – Institutional Review Board (IRB) Approval. Contractor will consult with Commerce on the review and assessment of whether the project meets standards for the protection of human subjects, and will submit an IRB package to an IRB organization selected by Commerce, most likely the University of Washington’s IRB. Contractor will provide Commerce with the IRB package submission details prior to submission for review and feedback. Contractor will consult with Commerce in the event changes to the project are required to meet IRB standards.

Task 1.6 – Presentation of research strategies and methods to Commerce and Committee. Contractor will present information that incorporates input and feedback received at the research design workshop under Task 1.4. The presentation may be by videoconference or in-person and will provide the following minimum information:

- Proposed work plan and schedule
- Proposed research approach and data collection methods
- Data sources and known limitations of existing data

Task 1.7 – Final written report on research strategies and methods to Commerce. Contractor will incorporate necessary edits from review and feedback of presentation given under Task 1.6. The report

will include a detailed work plan and schedule that adheres to project timelines. Potential research strategies and methods include:

- Analysis of Washington-specific data from existing sources
- Analysis of limitations of existing state administrative records
- Integration and analysis databases
- Focus groups
- Online survey

Phase 1 Expenses. Contractor may invoice Commerce for up to [REDACTED] in direct expenses related to the completion of Phase 1. Invoices shall include itemization of labor and direct costs billed.

PHASE 2 [January to April 2019] – Implement Research Design and Data Collection (up to [REDACTED])

Task 2.1 – Contractor will perform and manage research tasks identified in writing and approved by Commerce under Task 1.7 within allowable timeframes of the project schedule.

Task 2.2 – Internal team meetings. The Contractor will schedule regular team meetings with Commerce to discuss progress to date and plans to meet deadlines and milestones. Internal team meetings can be held in-person, by phone or videoconference.

Task 2.3 – Contractor will provide Commerce and the Committee with periodic status updates as needed or as requested by Commerce relating to research tasks performed under Task 2.1 per project communication protocols. Periodic updates will be provided by videoconference or email. The Contractor will prepare status updates addressing the following as applicable:

- Process changes and delays
- Research issues and significant achievements
- Requests for input and feedback
- Effectiveness of data collection methods employed, including limitations and outcomes
- Technical documentation on methods and strategies
- Insights gained in applying research methods selected

Task 2.4 – On-site co-facilitation meeting with Commerce and Committee on early data collection outcomes and analysis plans. Contractor will work with Commerce to produce an agenda and needed facilitation materials prior to the event.

Phase 2 Expenses. Contractor may invoice Commerce for up to \$[REDACTED] in direct expenses related to the completion of Phase 2. Invoice shall include itemization of labor and direct costs billed.

PHASE 3 – [May – June 2019] Analysis and Reporting (up to \$[REDACTED])

Task 3.1 – Contractor will complete performance and management of analysis of research conducted and data collected in Phases 1 and 2 according to information gaps and research questions identified by the Committee and approved by Commerce.

Task 3.2 – Contractor will provide Commerce with a draft report for review and editing. The draft report will detail all research performed, analysis conducted, and findings including technical documentation, data limitations and recommendations for continuing research options. Contractor will work with Commerce to structure the report based on Commerce's formatting requirements.

Task 3.3 – Internal team meetings. The Contractor will schedule regular team meetings with Commerce to discuss progress to date and plans to meet deadlines and milestones. Internal team meetings can be held in-person, by phone or videoconference. *An internal team meeting is required for the delivery of the final report to Commerce.*

Task 3.4 – On-site presentation of research findings and project outcomes to Commerce and Committee. Contractor will work with Commerce to finalize presentation materials for the Committee.

Task 3.5 – Final report delivered to Commerce incorporating feedback received from Committee with Commerce's approval.

Task 3.6 – Delivery of draft briefing materials for review and feedback by Commerce. Contractor will provide briefing materials for presentation purposes to key stakeholders and legislators, and may be required to attend and co-present findings from the final study.

Phase 3 Expenses. Contractor may invoice Commerce for up to \$[REDACTED] in direct expenses related to the completion of Phase 3. Invoice shall include itemization of labor and direct costs billed.

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- ⁱ Substitute Senate Bill 6032 Sec 127 (47 (a-b)) 2018.
- ⁱⁱ Katz, L, and Krueger, A. *The Rise and Nature of Alternative Work Arrangements in the United States, 1995-2015*. March 29, 2016.
- ⁱⁱⁱ Abraham, K, Haltiwanger, J., Sandusky, K., Spletzer, J. *Measuring the Gig Economy: Current Knowledge and Open Issues*. March 2, 2017.
- ^{iv} Bernhardt, A. and Thomason, S. *What Do We Know About Gig Work in California? An Analysis of Independent Contracting*. June 14, 2017. U.C. Berkeley Labor Center.
- ^v Jackson, E., Looney, A., Ramnath, S. *The Rise of Alternative Work Arrangements: Evidence and Implications for Tax Filing and Benefit Coverage*. U.S. Department of the Treasury Office of Tax Analysis. Working Paper 114. January 2017.
- ^{vi} *The Report on the Economic Well-Being of U.S. Households in 2016* explores respondents' experiences in the labor market, including schedule stability and benefits. <https://www.federalreserve.gov/publications/files/2016-report-economic-well-being-us-households-201705.pdf>
- ^{vii} See endnote i.
- ^{viii} Commerce's project landing page: <https://www.commerce.wa.gov/about-us/research-services/independent-contractor-employment-in-washington-state/>
- ^{ix} <https://www.lni.wa.gov/IPUB/101-063-000.pdf>
- ^x <https://dor.wa.gov/doing-business/business-types/industry-guides/mortgage-brokers/independent-contractors>
- ^{xi} <https://www.jporganchase.com/corporate/institute/document/jpmc-institute-onlineplatform-econ-brief.pdf> and <https://www.slideshare.net/TRowePrice/financial-attitudes-behaviorstoward-the-gig-economy-92640797>
- ^{xii} <https://www.bls.gov/cps/contingent-and-alternative-arrangements-faqs.htm#IC>
- ^{xiii} <https://www.bls.gov/cps/contingent-and-alternative-arrangements-faqs.htm>
- ^{xiv} <https://www.bls.gov/news.release/conemp.nr0.htm>
http://research.prudential.com/documents/rp/Gig_Economy_Whitepaper.pdf
- ^{xv} The Federal Reserve Board's Survey of Household Economics and Decisionmaking found that 39 percent gig workers are supplementing income from a primary job, while only 16 percent of gig workers see it as their primary job. See Board of Governors of the Federal Reserve System (May 2018), *Report on the Economic Well-Being of U.S. Households in 2017* <file:///V:/LG/Research%20Services/3.%20%20%20Contracted%20projects/19-01%20Ind.%20Contractors/Research/2017-report-economic-well-being-us-households-201805.pdf>
- ^{xvi} See endnotes ii and iii.
- ^{xvii} U.S. Census Bureau Current Population Survey (CPS). <https://www.census.gov/programs-surveys/cps/technical-documentation/methodology.html>. The Annual Social and Economic Supplement to CPS collects data on personal income, family income and household income; health insurance coverage; and poverty.
- ^{xviii} Abraham, K., Haltiwanger, J., Sandusky, K., Spletzer, J. *Measuring the Gig Economy: Current Knowledge and Open Issues*. August 2018. NBER Working Paper 24950. <http://www.nber.org/papers/w24950>. Also see endnote iii.
- ^{xix} The analysis of the EIWA survey found that 72 percent of respondents reported working full-time for someone else. Sixteen percent reported they lived in the Pacific region that includes Washington, Oregon, California and Alaska. https://www.federalreserve.gov/consumerscommunities/files/EIWA_Chartbook_2016.pdf
- ^{xx} <https://www.census.gov/topics/employment/industry-occupation/about/class-of-worker.html> Self-employed in one's own not- incorporated business is often tabulated together with unpaid family workers.
- ^{xxi} See endnote V, Appendix Table 2, page 49.
- ^{xxii} Department of Commerce. Washington State Retirement Preparedness Study. November 2017. <http://www.commerce.wa.gov/wp-content/uploads/2017/12/Commerce-Retirement-Readiness-Study-2017.pdf>
- ^{xxiii} <https://www.bls.gov/opub/mlr/2018/article/electronically-mediated-work-new-questions-in-the-contingent-worker-supplement.htm> Three percent of temporary help agency workers and on-call workers, and 2 percent of workers provided by contract firms reported performing electronically mediated work compared to 6 percent of independent contractors.
- ^{xxiv} JP Morgan Chase Institute's *Online Platform Economy in 2018: Drivers, Workers, Sellers, and Lessors*. <https://www.jporganchase.com/corporate/institute/report-ope-2018.htm>
- ^{xxv} <https://www.federalreserve.gov/econresdata/feds/2016/files/2016089pap.pdf> and <https://www.federalreserve.gov/consumerscommunities/eiwa.htm>
- ^{xxvi} As of 2016, 228,316 businesses paid unemployment insurance tax to the state in comparison to 176,000 businesses in fiscal year 2017 that paid workers compensation premiums. <https://esd.wa.gov/newsroom/unemployment-statistics> and <http://www.lni.wa.gov/IPUB/101-002-000.pdf>
- ^{xxvii} <https://esd.wa.gov/paid-family-medical-leave> and <https://esd.wa.gov/paid-family-medical-leave/FAQ>
- ^{xxviii} <http://www.lni.wa.gov/IPUB/101-002-000.pdf>

^{xxix} RCW 18.27.80. In 2017, The Department of Labor and Industries found 49 incidents of employers misclassifying employees while the Employment Security Department found 12,500 employees who were either unreported or misclassified. See endnote iv Bernhardt and Thomason (2017) for a discussion on worker misclassification.

^{xxx} Ordinances regulating Transportation Network Company drivers have been adopted by the following local jurisdictions: Kent, Richland, Bellingham, Olympia, Lacey, Tumwater, Yelm, Yakima, Longview, Pierce County, Kelso and Everett.

<http://mrsc.org/Home/Stay-Informed/MRSC-Insight/September-2016/Regulating-Rideshare-Companies-Like-Uber-and-Lyft.aspx>

^{xxxi} <https://www.gigeconomydata.org/>