



Report to the Ranking Member,  
Subcommittee on Taxation and IRS  
Oversight, Committee on Finance, U.S.  
Senate

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# TAXPAYER COMPLIANCE

## More Income Reporting Needed for Taxpayers Working Through Online Platforms

Accessible Version

May 2020

# GAO Highlights

Highlights of [GAO-20-366](#), a report to the Ranking Member, Subcommittee on Taxation and IRS Oversight, Committee on Finance, U.S. Senate

## Why GAO Did This Study

Platform companies typically classify workers offering services as independent contractors and do not withhold taxes from their payments for remittance to IRS.

GAO was asked to review issues related to platform workers and tax compliance. This report, among other things, examines (1) what is known about the platform workforce, and (2) options to promote compliance among its workers.

GAO reviewed research on the U.S. platform economy and interviewed stakeholders on the tax-related challenges platform workers face; reviewed IRS documents; interviewed IRS officials; and assessed potential impacts of some options that could address platform worker tax-related challenges.

## What GAO Recommends

GAO is making seven recommendations to IRS, including actions to enhance its communications plan, increase information reporting for platform workers, and allow voluntary withholding. IRS agreed with the recommendation to enhance its communications plan. For four recommendations related to information reporting and voluntary withholding, IRS either disagreed or said it was unable to agree because it could not commit to an implementation date due to higher priorities. GAO continues to believe that all the recommendations are valid, as discussed in the report.

View [GAO-20-366](#). For more information, contact James R. McTigue, Jr at (202) 512-9110 or [mctiguej@gao.gov](mailto:mctiguej@gao.gov).

May 2020

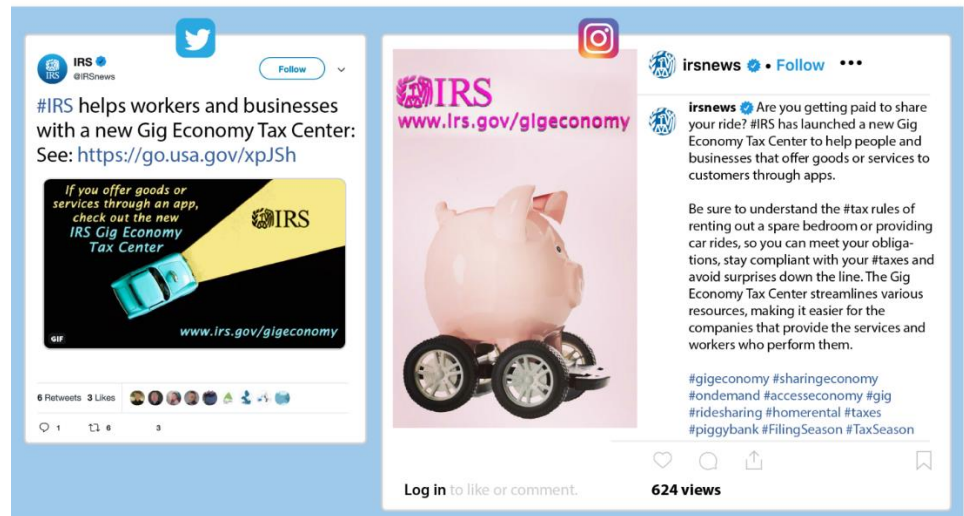
## TAXPAYER COMPLIANCE

### More Income Reporting Needed for Taxpayers Working through Online Platforms

## What GAO Found

The platform economy is an arrangement where workers offering goods or services connect with customers through an app or other online platform. Estimates of the population of platform workers lack certainty, but generally range from around 1.5 million to 2 million workers for recent years and suggest that the platform workforce may be growing. According to stakeholders, such as researchers and tax preparers, platform workers may not realize that a company is treating them as independent contractors rather than employees and that they must comply with different tax requirements. To help address this challenge, the Internal Revenue Service (IRS) developed a communications plan aimed at workers in the platform economy (which IRS calls the gig economy).

## Examples of IRS's Social Media Communications Tailored for Platform Workers



Source: Internal Revenue Service (IRS) social media. | GAO-20-366

The communications plan incorporates leading practices for redesigning web pages and improving the online user experience, but lacks a monitoring plan to help assure IRS's efforts address platform workers' tax challenges.

GAO found that platform workers may not receive information on their earnings, creating compliance challenges for them and enforcement challenges for IRS. GAO identified actions that could promote compliance. For example, some platform companies only report total annual payments for workers if they exceed \$20,000 and 200 transactions—an amount that exceeds the average gross pay from a single company for many platform workers. Amending this rule to lower the reporting thresholds would provide workers with more information to help them comply with their tax obligations. The change could also enhance IRS's ability to ensure that these workers are correctly reporting their income. Additionally, IRS could implement voluntary withholding on payments to independent contractors (including platform workers). IRS data indicate that tax withholding substantially increases the compliance rate.

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**Abbreviations**

BLS	Bureau of Labor Statistics
FICA	Federal Insurance Contribution Act
IRC	Internal Revenue Code
IRS	Internal Revenue Service
OLS	Online Services
RAAS	Research, Applied Analytics, and Statistics Division
SB/SE	Small Business and Self-Employed Division
TOPE	Tax Outreach, Partnership, and Education
TPSO	Third Party Settlement Organization
Treasury	Department of the Treasury

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May 28, 2020

The Honorable Mark R. Warner  
Ranking Member, Subcommittee on Taxation and IRS Oversight  
Committee on Finance  
United States Senate

Dear Senator Warner:

Over the past 10 years, a work arrangement has arisen where workers offering goods or services connect with customers through online marketplaces or platforms accessed from a personal computer or smart phone. This emerging sector is referred to by different names, including sharing, gig, on-demand, or platform economy. For the purpose of this report, we selected the terms platform economy and platform workforce, by which we mean workers who provide goods or services to customers through an online platform operated by a company that facilitates the match, transaction, and payment.<sup>1</sup> We selected these terms because they were the most comprehensive and relevant to online work arrangements. For more information on our approach, see appendix I.

The platform economy has been extensively covered in the media as several well-known companies held initial public offerings and various states and local entities have considered or enacted laws related to platform worker status or protections.<sup>2</sup> Platform companies typically treat workers providing services as independent contractors and do not withhold taxes from payments to them for remittance to the Internal Revenue Service (IRS).<sup>3</sup> Instead, workers classified as independent

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<sup>1</sup>See appendix I for a description of how we verified the accuracy of the term platform workforce.

<sup>2</sup>For example, in September 2019, the California legislature passed and the Governor signed Assembly Bill No. 5, which places conditions on classifying workers as independent contractors, rather than employees, by companies in the state. In 2018, the city of New York instituted minimum payments for app-based drivers.

<sup>3</sup>In general, employees are individuals who are subject to another's right to control the manner and means of performing the work. In contrast, independent contractors are individuals who obtain customers to provide services and who control the manner by which they perform their services. See GAO, *Employee Misclassification: Improved Coordination, Outreach, and Targeting Could Better Ensure Detection and Prevention*, [GAO-09-717](#) (Washington, D.C.: Aug. 10, 2009).

contractors may have to estimate and pay the taxes to IRS every quarter. However, the workers may not understand this or the other tax obligations of their activities.

You asked us to review issues related to platform workers and tax compliance. This report (1) examines what is known about the platform workforce and what can be done to improve the available IRS data, (2) identifies challenges platform workers face complying with federal tax obligations, (3) assesses IRS actions to promote tax compliance among this population, and (4) assesses additional options to promote tax compliance.

To address our objectives, we conducted a literature search to identify and review government, academic, and private-sector research on the size and characteristics of the platform workforce as well as tax-related challenges and options to address them. Through this research, we identified knowledgeable stakeholders and interviewed them to obtain their views on the platform workforce. These selected stakeholders included academic and other researchers, Department of the Treasury and IRS officials, state government officials, private-sector and nonprofit tax preparers, tax software developers, and platform company representatives and workers. Stakeholders were selected to present varied areas of expertise and a range of perspectives.

Through these interviews, we obtained stakeholders' views on (1) the use of the term "platform workforce," (2) its size and composition, (3) workers' understanding of and compliance with tax obligations, and (4) federal, state, and private-sector efforts and proposals to help workers comply with their tax obligations. Although our findings from these interviews are not generalizable to the views of all stakeholders, they provide insight and illustrative examples about the platform workforce, including the challenges platform workers face understanding and complying with federal tax obligations.

We also reviewed IRS documents including a new compliance strategy for platform companies and workers. We interviewed IRS officials from the Small Business/Self-Employed Division (SB/SE); Research, Applied Analytics, and Statistics Division Office; Communications & Liaison Office; and the Office of Chief Counsel about efforts to develop, implement, and assess the effectiveness of the new strategy in addressing the workers' challenges in complying with tax obligations. We also obtained information on IRS's research on the size and

characteristics of the platform workforce as well as IRS forms and publications that affect the platform workers.

We assessed IRS's research on the platform workforce, strategy, and evaluation plan against relevant criteria from the *Standards for Internal Control in the Federal Government* and leading practices for designing web materials to improve the user experience.<sup>4</sup> The relevant internal control principles focus on information, communication, and monitoring.

To further address the fourth objective, we analyzed the potential effects of selected options that could address platform workers' tax compliance challenges. We identified these options from our literature review and our interviews of stakeholders and analyzed options that were commonly cited as potential solutions for the challenges. Based on this analysis, we asked our selected stakeholders for their views on the identified options, including how the implementation of the options would affect workers who provide goods or services, and whether they supported or opposed the action.

We assessed these potential options using "Criteria for a Good Tax System" described in our prior work.<sup>5</sup> These criteria state that a good tax system should be equitable, economically efficient, and simple, transparent, and administrable. We focused our review on whether individual options would increase simplicity by reducing compliance burden, increase transparency by helping taxpayers better understand their tax obligations, and improve tax administration by helping IRS more effectively collect taxes.

More detailed information on our scope and methodology appears in appendix I, including the criteria we used. Appendix II discusses some options that require more data and research to determine their possible features and the related pros and cons.

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<sup>4</sup>GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: September 2014) and <https://www.usability.gov/what-and-why/index.html> The Department of Health and Human Services manages usability.gov, a website where the federal government has published ways to assess a website's usability and, in partnership with the General Services Administration, issued guidance and best practices for designing federal websites.

<sup>5</sup>GAO, *Understanding the Tax Reform Debate: Background, Criteria, and Questions*, [GAO-05-1009SP](#) (Washington, D.C.: September 2005).

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We conducted this performance audit from February 2019 to May 2020 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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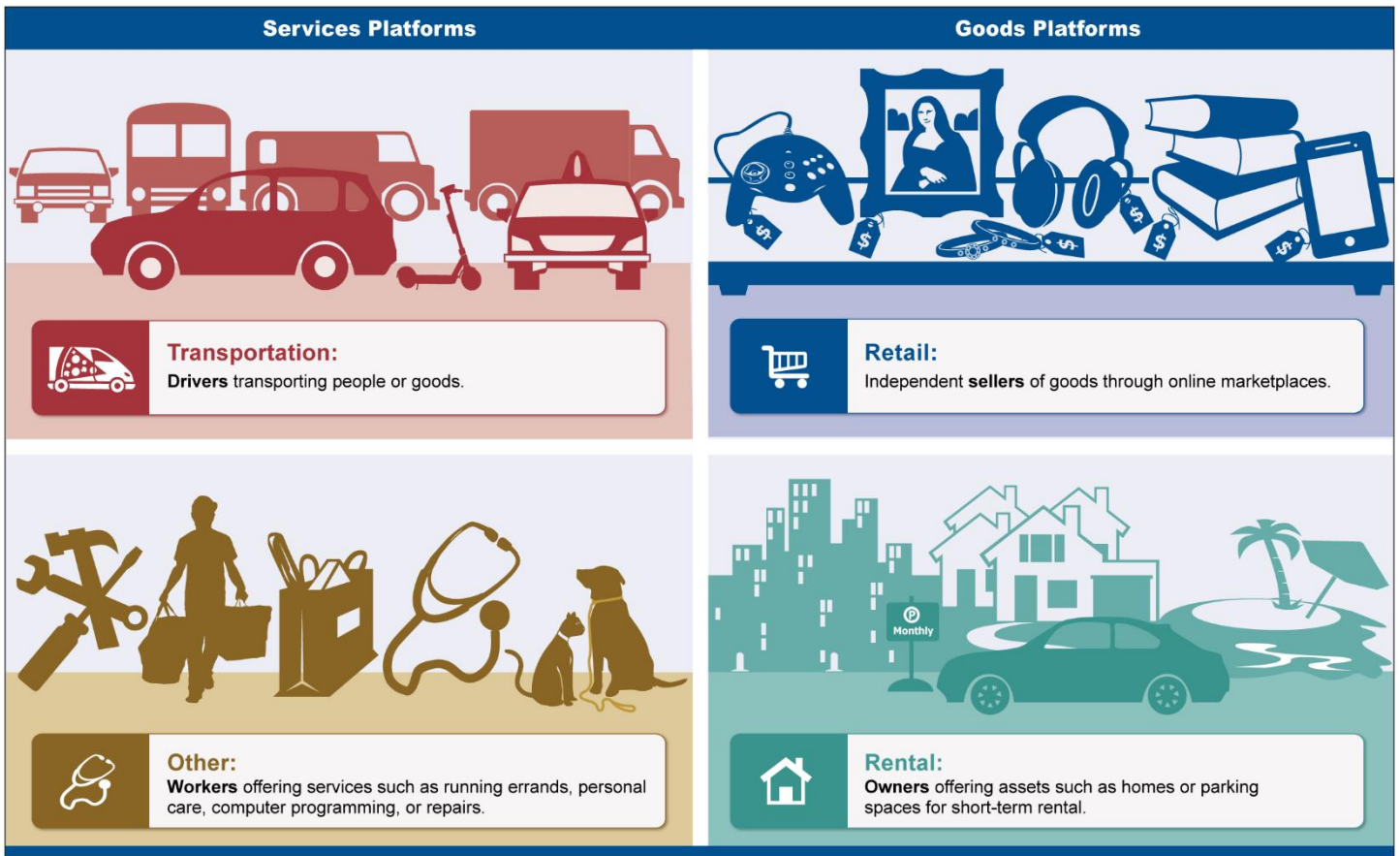
## Background

The platform economy is relatively new. Its rise has been tied to the development of the iPhone and Apple's app store, which launched in 2008. Smart phones and apps made it easier for people to develop online marketplaces where buyers and sellers could connect to exchange goods. Since then, more platform companies have emerged, expanding into marketplaces for a host of services. This expansion has increased the ways in which people could sell their services or goods and lowered the barriers to entering this type of work.

Platform companies generally facilitate the match, transaction, and payment between those seeking goods or services online and those providing them. Platform companies can be divided into marketplaces for services or goods and can be further divided into two types of services—transportation or other types of services—and two types of goods—retail or short-term rental. See figure 1 for a description of the different platform company marketplaces.



Figure 1: General Overview of Platform Marketplaces



Source: GAO adaptation of graphics from the JPMorgan Chase & Co. Institute report, "The Online Platform Economy in 2018: Drivers, Workers, Sellers, and Lessors," and from analysis of literature and stakeholder interviews. | GAO-20-366

Transportation platforms comprise the largest sector of the platform economy—by revenue and number of workers—and include companies like Uber and Lyft.<sup>6</sup> Examples of platform companies providing other types of services include Care.com (child or senior care) and Upwork (a range of freelance services). Retail platforms like Etsy and eBay provide an online marketplace for goods. Companies that facilitate short-term rental include Airbnb (property) or Kerb (parking spaces).

Platform companies also vary by the number and degree of specialization of services offered. For example, platform companies could be

<sup>6</sup>Diana Farrell, Fiona Greig, and Amar Hamoudi, *The Online Platform Economy in 2018: Drivers, Workers, Sellers and Lessors* (JPMorgan Chase & Co. Institute, 2018).

differentiated by the range of services offered, from those that offer a single service, such as transporting people and goods, to those that are a one-stop source to access workers specializing in an array of fields such as legal, information technology, marketing, writing, design, and accounting. Further, companies have adopted different business models. Some set prices while others allow the worker and customer to negotiate a price for the good or service provided.

While platform workers can choose whether to accept work, companies are not committed to pay workers for a set number of hours, which allows companies to more easily manage demand fluctuations. Many platform companies classify workers providing services as independent contractors rather than as employees. This classification has implications for companies and workers. For independent contractors, companies are not responsible for paying a minimum wage or overtime and do not typically provide benefits such as paid leave, health insurance, or retirement plans. Furthermore, numerous labor protections that apply to employees do not apply to independent contractors.<sup>7</sup>

Companies also do not have to withhold and remit federal income or employment taxes for independent contractors. Instead, the worker is responsible for estimating, saving, and remitting these taxes each quarter to IRS. Furthermore, a platform company that operates as an intermediary between buyers and sellers to transfer funds for transactions—for example, a ride-hailing company that matches drivers and riders and processes those riders' payments to drivers—may act as a third party settlement organization (TPSO) under IRS regulations, depending on its circumstances.<sup>8</sup> Acting as a TPSO can further reduce the tax reporting requirements for these companies.

SB/SE oversees taxpayers filing tax returns as self-employed individuals with business income, such as independent contractors, and businesses

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<sup>7</sup>See [GAO-09-717](#).

<sup>8</sup>A TPSO is a central organization which has agreed to make payments for third-party network transactions. 26 U.S.C. § 6050W(b)(3). A third party network transaction is any agreement which involves the establishment of accounts with a TPSO by a substantial number of persons who (1) are unrelated to the TPSO, (2) provide goods or services, and (3) settle transactions for providing the goods or services pursuant to the agreement. The agreement must provide standards and mechanisms for settling the transactions, and guarantee that the people providing the goods and services will be paid. 26 U.S.C. § 6050W(d)(3).

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with less than \$10 million in total assets.<sup>9</sup> SB/SE aims to promote compliance among this population by raising awareness through outreach and education about tax obligations and how to comply. SB/SE also takes enforcement actions such as audits to pursue noncompliance, although with budget cuts, the number of audits has dropped considerably over time.<sup>10</sup>

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## Platform Work Has Some Unique Characteristics, but Lack of Data Complicates Efforts to Describe the Workforce

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### Unique Characteristics of Platform Work Affect Tax Responsibilities and Information Reported

While the nature of the work may be similar, key differences exist among traditional independent contractors, platform workers, and employees. We use the term platform worker for those workers that platform companies classify as independent contractors, which is the focus of our report.<sup>11</sup> A major similarity is that all three types of workers provide services to customers in a business transaction, regardless of whether the customer is another business or an individual such as a homeowner. However, the three types of workers differ in terms of payments, tax responsibilities, and the information reported to IRS and workers. Figure 2 summarizes these differences, which are discussed below.

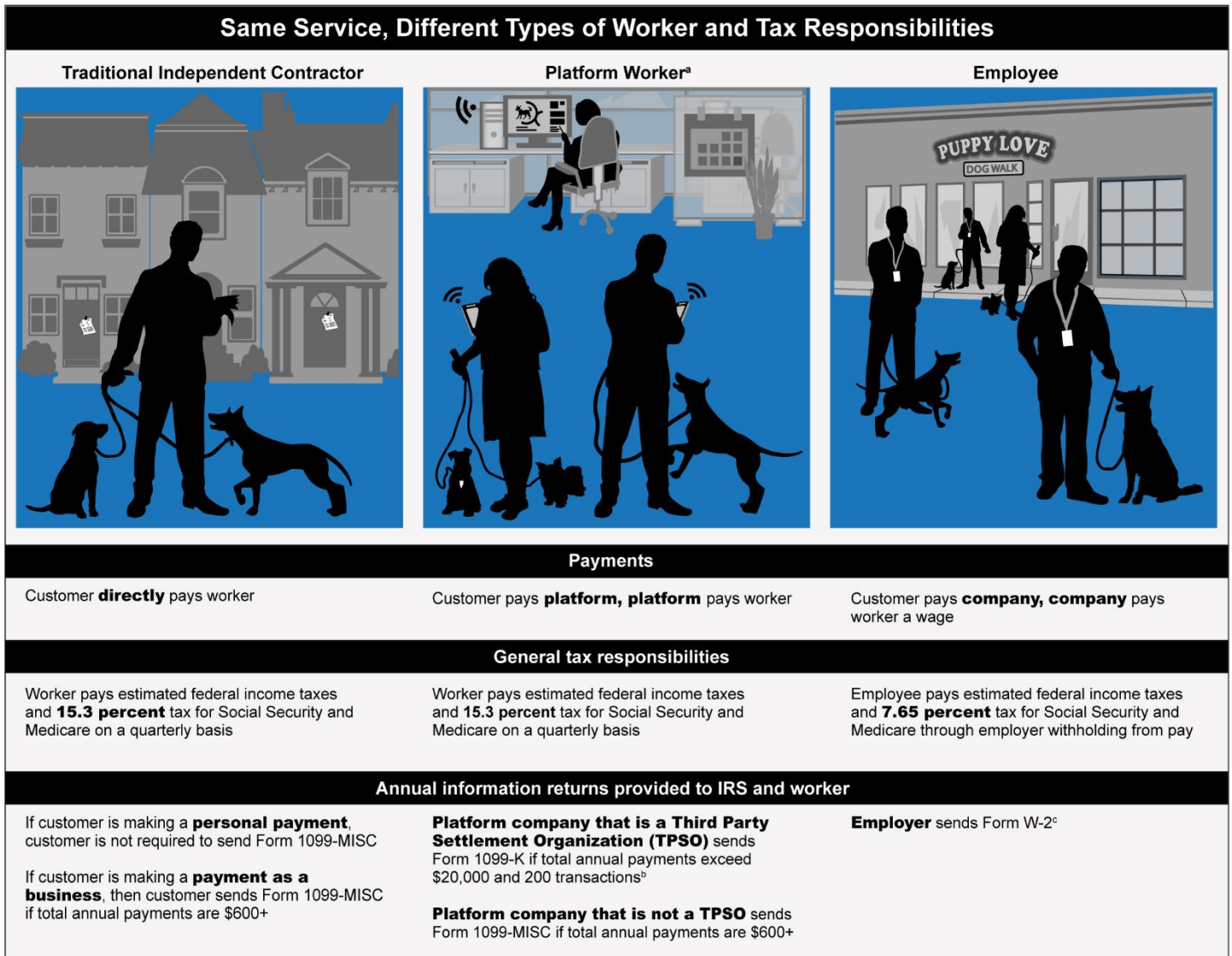
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<sup>9</sup>For information about IRS oversight of small businesses, see GAO, *Small Businesses: IRS Considers Taxpayer Burden in Tax Administration, but Needs a Plan to Evaluate the Use of Payment Card Information for Compliance Efforts*, [GAO-15-513](#) (Washington, D.C.: June 30, 2015).

<sup>10</sup>We reported that the number of individual returns audited declined each year and 40 percent overall for fiscal years 2011 through 2017. See GAO, *Internal Revenue Service: Strategic Human Capital Management is Needed to Address Serious Risks to IRS's Mission*, [GAO-19-176](#) (Washington, D.C.: Mar. 26, 2019).

<sup>11</sup>We have not analyzed whether platform companies are properly classifying their workers. The determination as to whether a worker is properly classified as an employee or an independent contractor is a complex issue, which depends on the specific facts and circumstances of each platform company and each worker. See [GAO-09-717](#).

Figure 2: Different Work Arrangements and Their General Tax Responsibilities



Source: GAO analysis of IRS documents. | GAO-20-366

<sup>a</sup>For this figure, we use the term platform worker for workers whom the platform company is classifying as independent contractors.

<sup>b</sup>Only payments to platform workers who are treated as independent contractors and who are paid through a TPSO's payment network are subject to Form 1099-K reporting. Form 1099-K reporting is not required when TPSOs pay independent contractors and employees directly rather than through the TPSO's payment network. Platform companies that classify workers as employees have the same responsibilities as other employers.

<sup>c</sup>Employer sends W-2 to the Social Security Administration, which then sends the data to IRS

A major difference is how these workers provide their services and receive payments. Traditional independent contractors directly provide their services to and receive payments from a business or an individual customer. Employees provide services through an employer who pays them wages. Unlike the other two types of workers, the platform worker provides services through a third party intermediary—the platform company—that uses online tools to connect workers with customers and facilitates payment between them.

Platform workers that are classified as independent contractors have different tax obligations than employees. Independent contractors are generally expected to pay the full amount of their personal federal income and self-employment taxes—which are comprised of Social Security and Medicare taxes—through quarterly estimated tax payments to IRS.<sup>12</sup> For employer-employee relationships, both the employer and the employee each pay roughly half of the Federal Insurance Contribution Act (FICA) taxes—which are comprised of Social Security and Medicare taxes. An employer is required to withhold income taxes and the employee portion of FICA taxes from wage payments made to the employee and pay these taxes to IRS. Additionally the employer is required to pay its own portion of the FICA taxes to IRS.

These workers have different requirements for filing annual tax returns. Generally, independent contractors, including those that are platform workers, are to use Schedule C, Profit or Loss from Business (Sole Proprietorship), to report their self-employment revenues and expenses, and to calculate net income; the Schedule C is to be attached to their Form 1040. Employees are to report wage amounts received on their Form 1040.

Businesses also differ in information-reporting obligations for workers classified as independent contractors and employees. Generally speaking, when a business pays an independent contractor, the business is required to report annual payments of \$600 or more on Form 1099-MISC; for tax year 2020, businesses are to start using Form 1099-NEC to report such payments. Instead of a Form 1099-MISC (or Form 1099-NEC), TPSOs are required to file Form 1099-K to report annual payments

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<sup>12</sup>An independent contractor generally gets an income tax deduction for one half of his or her self-employment tax paid or accrued. Independent contractors who have another job as an employee, or have a spouse who has a job as an employee, can use withholding on such jobs to pay their taxes and not fall under the quarterly payment regime.

made through their payment networks that exceed \$20,000 and 200 transactions.<sup>13</sup> When paying employees, businesses are to file a Form W-2 annually to report all wages paid.

A difference between platform workers and traditional independent contractors is that platform companies often have information on workers' earnings and some expenses that could help workers file tax returns. For example, a ride-hailing company has information on fares, tips, and miles driven for each customer as well as fees and other charges. Traditional independent contractors who provide rides to individuals typically have no equivalent third party to provide such information.

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## Platform Workforce Size and Characteristics Are Uncertain but Many Believe It Is Growing

The population of platform workers is difficult to count, due in part to the variation in terms and definitions used to describe these workers such as gig, on-demand, sharing economy, contingent, and freelance, among others.<sup>14</sup> As a result of these and other barriers, efforts to measure the size of the platform workforce through household surveys or administrative data have produced estimates that lack certainty; these estimates of the workforce size generally have ranged from around 1.5 million to 2 million for recent years and suggest that the platform workforce may be growing.

In 2017, the Department of Labor's Bureau of Labor Statistics (BLS) collected data on alternative employment.<sup>15</sup> BLS's survey found there are an estimated 1.6 million "electronically-mediated workers," defined as those obtaining work through mobile apps and websites that connect workers with customers and arrange payment. However, in January 2019

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<sup>13</sup>The Department of the Treasury (Treasury) has authority in this area to implement regulations that prevent the reporting of the same transaction more than once. See 26 U.S.C. § 6050W(g). In this case, Treasury has implemented a "tie-breaker rule." The rule, found at 26 C.F.R. §§ 1.6041-1(a)(1)(iv), provides that TPSOs are to use the form 1099-K, rather than the 1099-MISC, to report payments made through their third party payment networks.

<sup>14</sup>For more information, see GAO, *Workforce Training: DOL Can Better Share Information on Services for On-Demand or Gig Workers*, [GAO-17-561](#), (Washington, D.C.: Sept. 26, 2017).

<sup>15</sup>The Bureau of Labor Statistics Contingent Worker Supplement is a set of questions occasionally appended to the Current Population Survey.

we reported that several factors may have contributed to an undercount of platform workers.<sup>16</sup> For example, survey questions may not have captured individuals who engage in platform work on a part-time or sporadic basis.<sup>17</sup> BLS has stated that it will not use the same questions again and it is working with stakeholders and the Committee on National Statistics of the National Academies of Science, Engineering, and Medicine to address survey limitations.

Despite the difficulties estimating the size of the workforce, two studies and stakeholders we interviewed have concluded that the platform workforce is growing. For example, in a review of customer checking account transactions, the JP Morgan Chase Institute documented a five-fold increase between 2012 and 2018 to about 2.3 million families receiving at least one payment from known platform companies.<sup>18</sup>

Two studies have also found that the majority of platform workers work part time, for a short time, for secondary income, and for relatively low earnings. For its sample, the JP Morgan Chase & Co. Institute found that platform work was not the primary source of income for most families that participated in the platform economy between 2012 and 2018. Yet the study also found that platform work can account for roughly 20 percent of workers' income during months when they are actively engaged in platform work. Also, while the number of platform workers who provide transportation has increased, their average monthly earnings fell steadily between 2014 and 2018.

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<sup>16</sup>GAO, *Contingent Workforce: BLS is Reassessing Measurement of Nontraditional Workers*, [GAO-19-273R](#) (Washington, D.C.: Jan. 29, 2019).

<sup>17</sup>For example, BLS only asked about respondents' main jobs, thus potentially missing workers with second jobs. BLS also only asked respondents about their work in the past week and may have failed to capture seasonal workers or workers who only work occasionally.

<sup>18</sup>JP Morgan Chase & Co. Institute used a sample of 39 million Chase checking accounts to track payments from 128 platform companies to 2.3 million families participating in platform work between October 2012 and March 2018. According to JP Morgan Chase & Co. Institute, the majority of these participants work for online platforms for 3 or fewer months in a year. The platform companies met three criteria for inclusion: they matched independent suppliers with customers; they mediated the payment from customer to supplier; and they empowered suppliers to enter and exit the market whenever they wanted.

In another study, IRS used tax data to attempt to estimate the population of platform workers, which it termed “gig workers.”<sup>19</sup> Similar to BLS, IRS attempted to count workers who use websites and mobile apps to connect with customers to obtain short-term work and to receive payment through the company that owns the website or mobile app. IRS identified the names and Employer Identification Numbers of companies providing labor services and matched Forms 1099-MISC and 1099-K issued by the companies to workers.<sup>20</sup> IRS estimated the number of workers who received a Form 1099-K or 1099-MISC from known labor platform companies increased from roughly 20,000 in 2012 to 1.9 million in 2016, then dropped to 1.3 million in 2017.

However, IRS’s methodology had limitations that make the study an uncertain source for determining the number of platform workers. First, IRS cannot easily identify the universe of platform companies because it is rapidly changing and not well documented. Second, according to IRS, an unknown number of platform workers receive neither a Form 1099-MISC nor a Form 1099-K, for reasons we discuss later in the report. In sum, the data IRS receives do not allow it to accurately count the number of platform workers or determine their tax reporting behaviors.

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### Certain Tax Form Changes Could Help IRS Better Understand the Size, Characteristics, and Reporting Behaviors of the Platform Worker Population

Given the limited data IRS has on the platform workforce, IRS cannot be assured that it knows enough about the size, characteristics, and behaviors of this workforce to better understand how to help workers comply with tax obligations. According to federal standards for internal control, managers should collect and use quality information to achieve an entity’s objectives.<sup>21</sup> IRS officials we interviewed acknowledged that identifying platform workers is challenging given limitations within IRS’s data.

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<sup>19</sup>IRS uses the term “gig” to describe companies and workers that we define as platform.

<sup>20</sup>The platform companies included in IRS analysis only include those that facilitate the provision of labor services; our definition covers online platforms for goods as well as services.

<sup>21</sup>[GAO-14-704G](#).



IRS does not have a straightforward way for taxpayers to indicate on their tax forms whether they performed platform work. For example, Schedule C—the form that independent contractors are to use to report profit or loss—includes a series of yes/no checkboxes near the top of the form; however, it does not have a checkbox to indicate whether any reported income or expenses are from platform work.<sup>22</sup> Similarly, Schedule C has a six-digit code to indicate the type of business or activity conducted, but it does not include a code for all platform workers.<sup>23</sup> Although this information would be self-reported and imperfect, it would provide more information than IRS has on platform workers.<sup>24</sup>

Obtaining more information on the number of platform workers and their tax filing and reporting behaviors could help IRS develop ways to assist platform workers in complying with their tax obligations. For example, if IRS had more data on the types of deductions that certain types of workers were reporting, IRS would be better able to craft guidance on such deductions or do outreach to help those types of workers comply.

Further, without changes to Schedule C, IRS cannot cross-check whether workers who self-identify as platform workers are also identified as platform workers on Forms 1099 filed by platform companies; a cross-check would enhance IRS's understanding of the platform workforce. For example, if the cross-check shows that the number of workers who self-identify as platform workers significantly exceeds the number of Forms 1099 filed, IRS may have to work with platform companies to understand the filing shortfall. Conversely, if the number of filed Forms 1099 is significantly higher, IRS may need to enhance outreach efforts to make platform workers more aware of their tax obligations.

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## Challenges for Platform Workers Include Awareness of Tax Responsibilities, Limited

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<sup>22</sup>For example, yes/no checkboxes include “materially participating” in operating the business and making any payments that would require Form(s) 1099 filings.

<sup>23</sup>Ride-hailing is an exception but it is part of the code that also includes taxi and limo service.

<sup>24</sup>Adding a checkbox will not help identify platform workers who do not file or file but do not check the box.

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## Income Information, and Saving and Remitting Quarterly Taxes

We identified three areas of challenges for platform workers' compliance with their tax obligations. First, according to our stakeholder interviews, platform workers may be less aware of their tax responsibilities than some independent contractors.<sup>25</sup> Independent contractors typically have to advertise or seek referrals to gain customers, develop a network of peers, and learn about rules related to licensing or certifications. These activities can educate them about the basic responsibilities of being self-employed, including their tax obligations. In contrast, entry into platform work can be quick and workers may begin the activity without time to learn how their tax obligations differ from those of employees.

For example, someone with a car, a valid driver's license, and a smart phone can start working as a ride-hailing driver after they register with an app.<sup>26</sup> Likewise, some platform workers may approach platform work as a hobby, an artistic endeavor, or something they do for a short time or in addition to another job. They may not realize that the company is treating them as an independent contractor, that the platform income may affect their taxes owed, and that they may need to track their expenses and make quarterly tax payments.

As a second challenge, platform workers may have limited information about the payments they receive for their work. TPSOs are not required to file information returns to report earnings information to workers or IRS if the workers receive \$20,000 or less in annual payments or have 200 or fewer transactions. Available tax data from tax year 2016 suggest that only around 30 percent of platform workers who were known to IRS had gross platform-related earnings higher than \$5,000. Hence, most platform workers are likely not receiving an information return from the company. As a result, workers may not be aware that their income is taxable and IRS is less able to check the workers' tax compliance.

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<sup>25</sup>For more information, see Caroline Bruckner, *Shortchanged: The Tax Compliance Challenges of Small Business Operators Driving The On-Demand Platform Economy* (Washington, D.C.: Kogod Tax Policy Center, 2016), and Shu-Yi Oei and Diane Ring, *The Tax Lives of Uber Drivers; Evidence from Internet Discussion Forums* (Boston, MA: Boston College Law School, 2016).

<sup>26</sup>A driver must also meet minimum age requirements and complete an online screening that reviews driving record and criminal history.

A third challenge, according to stakeholders, is the burden associated with the steps platform workers must take to estimate, save, and remit quarterly tax payments. Because earnings of some platform workers may be low and earnings and expenses may fluctuate, they can have difficulty estimating their taxes owed and setting aside money to pay the taxes. They may also find it time consuming or costly to track expenses and determine profit. To the extent these burdens and difficulties confuse workers, they are less likely to pay the estimated tax payments fully and on time and may incur a penalty as a result. One stakeholder from a large tax preparation firm raised the concern that if the penalty or amount owed is more than workers can afford, they are at risk of falling into a cycle of noncompliance.

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## IRS's Strategy to Promote Compliance by Platform Workers Features Enhanced Communication, but Lacks Key Details for Monitoring Feedback and Clarifying Guidance

In response to a February 2019 recommendation by the Treasury Inspector General for Tax Administration, IRS formed a team of officials from across the agency to develop a strategy to promote compliance among platform workers.<sup>27</sup> The strategy focuses on two challenges for platform workers: (1) raising awareness about federal tax obligations, and (2) easing burden by identifying improvements to instructions, guidance, or forms that platform workers are likely to use. As part of the strategy, IRS developed a communications plan that includes a redesign of IRS web pages for platform workers and companies, outreach activities to the workers and various stakeholders, and a review of IRS guidance and related forms or instructions.

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<sup>27</sup>The Treasury Inspector General for Tax Administration issued a report in February 2019, which recommended that IRS take several corrective actions, including developing a strategic plan to address tax administration for the gig economy. Treasury Inspector General for Tax Administration, *Expansion of the Gig Economy Warrants Focus on Improving Self-Employment Tax Compliance 2019—30-016* (Feb. 14, 2019). IRS's team that developed the strategy include officials from SB/SE; Research, Applied Analytics, and Statistics Division; Communications & Liaison Office; and the Office of Chief Counsel.

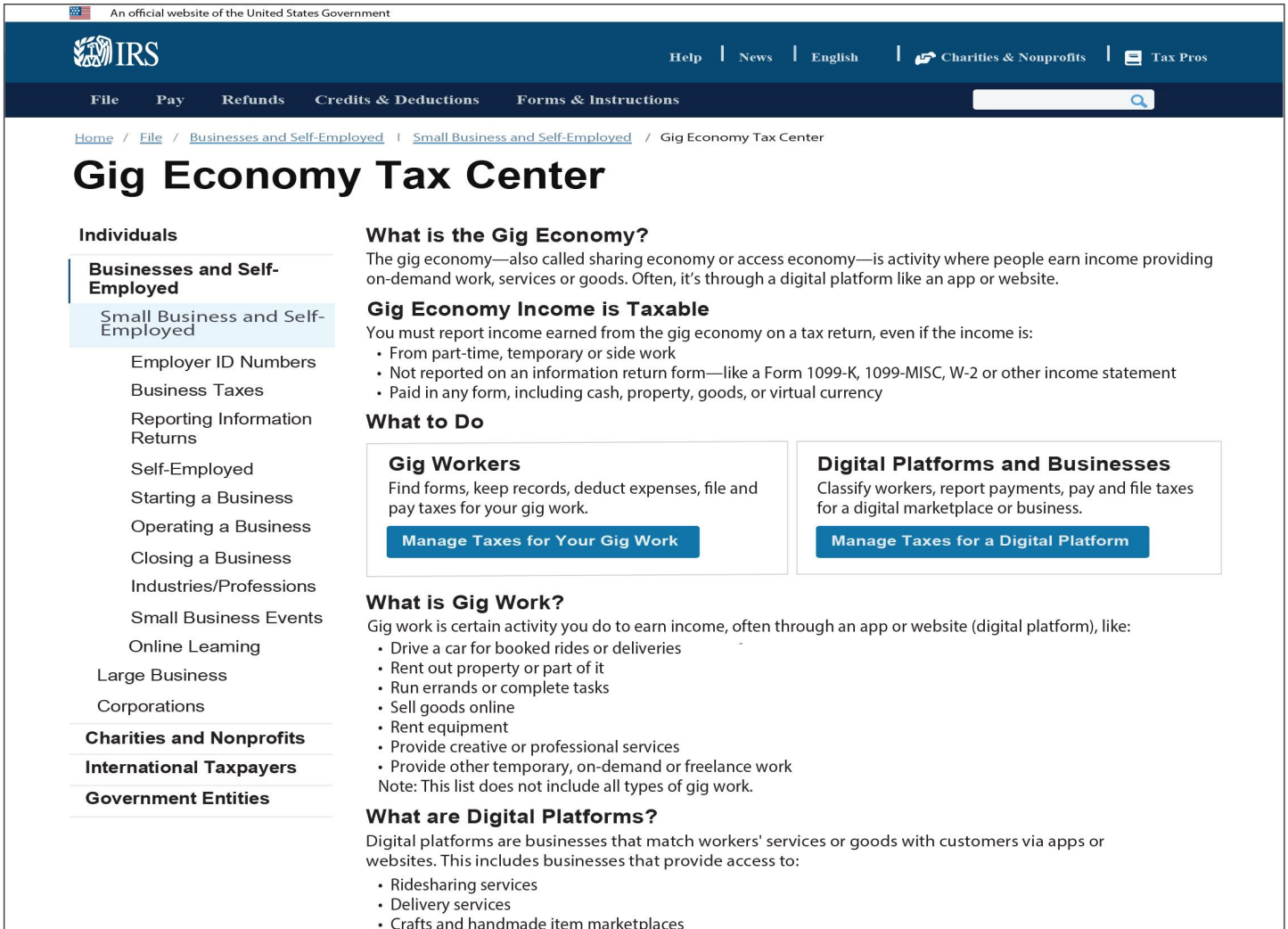
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## IRS Redesigned Its Web Pages to Improve the User Experience for Platform Workers and Companies

The IRS Communications & Liaison office is managing the communications plan to educate platform workers and companies about their tax and reporting responsibilities. A key component of the plan is to redesign IRS web pages that provide tax information for platform workers and companies. IRS changed the name to the Gig Economy Tax Center (previously it was called the Sharing Economy Tax Center) and launched it in January 2020 before the start of the filing season (see fig. 3).

Figure 3: New Landing Page on IRS.gov for Platform Workers and Companies as of January 2020



Source: Internal Revenue Service (IRS). | GAO-20-366

As part of this effort, IRS is working to make web pages more user friendly for platform workers as well as platform companies. IRS's Online Services (OLS) conducted research on the expectations, behaviors, motivations, and needs of self-employed individuals. According to OLS officials, IRS used insights about platform workers from the research coupled with user testing of the new web pages to inform the redesign effort. IRS's steps to redesign the web pages align with selected leading practices for improving the online user experience, such as taking steps

to make the pages useful and findable (see table 1).<sup>28</sup> It is too soon to know whether the intended users find the new pages useful, usable, findable, and credible, as envisioned by the practices.

**Table 1: Selected Leading Practices for Meaningful and Valuable User Experience and Related IRS Steps to Redesign Gig Economy Pages**

Practice	IRS steps	Alignment with practice
Useful: the content should be original and fill a need	<ul style="list-style-type: none"> <li>Reviewed existing data and research to better understand platform workers' challenges and online behavior.</li> <li>Used this information to redesign the web pages.</li> <li>Identified data analytics to help determine to what extent users are landing and staying on the redesigned web pages—an indicator that users find the new information useful.</li> </ul>	Generally aligns with practice
Usable: the site must be easy to use	<ul style="list-style-type: none"> <li>Broke tax compliance into simple and specific steps, organized in a logical order, with links to additional information, tools, or forms.</li> <li>Used plain language and added examples of platform work such as transportation, rental, retail, and other professional services.</li> <li>Used bold text and bullets to enhance attractiveness.</li> <li>Tested whether platform workers and platform company representatives find the redesigned pages easy to use.</li> </ul>	Generally aligns with practice
Findable: the content needs to be navigable and locatable onsite and offsite	<ul style="list-style-type: none"> <li>Used Google Analytics and other sources to improve the search function.</li> <li>Researched and incorporated terms that increase findability rates.</li> <li>Revised the introductory paragraph so it used common terms that would resonate with certain users, such as rideshare with drivers.</li> <li>Developed a social media campaign to coincide with the launch of the redesigned pages to help drive user traffic.</li> </ul>	Generally aligns with practice
Credible: users must trust and believe what you tell them	<ul style="list-style-type: none"> <li>Plans to partner with platform companies and other organizations that interact with platform workers to share information, which can help engender trust.</li> </ul>	Generally aligns with practice

Source: GAO analysis of IRS web pages and leading practices from Usability.gov. | GAO-20-366

## IRS's Outreach Activities for Increasing Awareness among Platform Workers and Companies Lack Key Details for Monitoring Their Feedback

IRS's communications plan included outreach activities to raise awareness. For example, to publicize the redesigned web pages, the plan envisions targeting audiences such as platform workers and companies,

<sup>28</sup>The selected practices to provide a meaningful and valuable user experience are from usability.gov, which OLS officials said IRS uses for requirements and guidance on web content development.

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news media, national tax publications, tax professionals, government agencies, IRS employees, and other groups. IRS created and distributed products such as a national news release about the new web pages and articles for newsletters and other products for tax professionals, small businesses, and payroll providers. IRS created a one-page electronic brochure to inform platform workers about their tax obligations and available tools to help them (see fig. 4). IRS intends to encourage platform companies to provide the brochure to workers.

Figure 4: IRS Brochure for Platform Companies and Workers



The image shows a page from an IRS brochure titled "Gig economy and your taxes: things to know". The page features the IRS logo and several paragraphs of text. On the right side, there are three circular inset images: the top one shows three people in a car, the middle one shows a woman smiling at a laptop, and the bottom one shows a delivery person on a bicycle interacting with a customer. At the bottom left of the page, there is publication information.

**IRS** Gig economy and your taxes:  
things to know

What do driving for a ride-sharing company, renting out a room through a rental service, and working for a company that outsources errands and tasks have in common? These are all examples of the gig economy. Just like any other office job, money earned through the gig economy is taxable.

As a gig economy worker, it's your responsibility to keep track of the money you make and report it on your tax return.

This means if you receive income from a gig economy activity, it's generally taxable even if you don't receive a Form 1099-MISC, Form 1099-K, W-2 or other income statement. On the other hand, your business expenses may be deductible, depending on tax limits and rules.

**Pay your taxes as you go**

If you earn a paycheck as a gig economy employee, your employer usually withholds tax from your pay to help cover taxes you owe. If you're a gig economy worker who's not considered an employee, two ways you can help cover your taxes are:

- ☞ Fill out and submit a new Form W-4 for other jobs where you work as an employee.
- ☞ Make quarterly estimated tax payments to help pay your taxes throughout the year, including self-employment tax.

**Keep good records**

The IRS requires you to keep adequate proof of income and expenses. Some gig companies will track some of this information for you and send you a W-2, 1099-MISC or a 1099-K at the end of the year. Even if they don't, it's important that you keep track of all your income and expenses to report on your tax return.

**Check your tax payments**

A Paycheck Checkup using the IRS Withholding Estimator can help you see if you should make additional tax payments to avoid an unexpected tax bill or underpayment penalty when you file your tax return. This is especially important if you:

- ☞ Have multiple jobs - especially if you don't have each employer withhold taxes.
- ☞ Expect to pay self-employment tax.

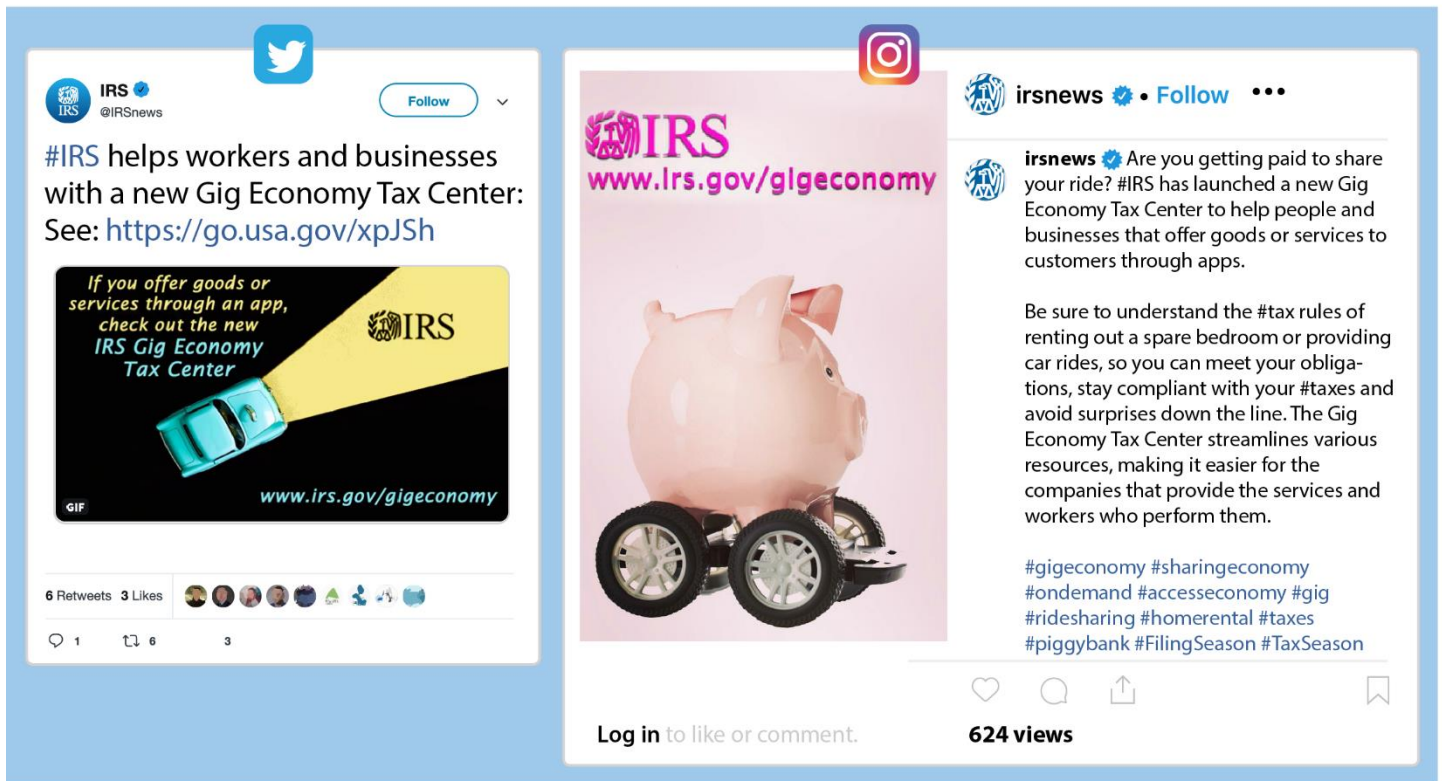
Publication 5369 (11-2019) Catalog Number 73405J  
Department of the Treasury Internal Revenue Service www.irs.gov

Source: Department of the Treasury Internal Revenue Service, catalog number 73405J. | GAO-20-366

IRS is also using social media such as Twitter and Instagram to target platform workers and direct them to the redesigned web pages through posts such as those seen in figure 5.



Figure 5: Examples of IRS Social Media Posts



Source: Internal Revenue Service (IRS) social media. | GAO-20-366

To assess the effectiveness of its efforts to increase awareness, including whether outreach efforts are driving people to the new web pages, IRS plans to compare data analytics for the redesigned site with the previous site. OLS plans to analyze changes in website traffic volume and taxpayer behavior—such as click patterns and how long users stay on the page—3 months after the launch of the redesigned pages and again 6 months later, and make changes as warranted.

IRS's office of Tax Outreach, Partnership, and Education (TOPE) is supporting awareness efforts by building relationships with partners, such as platform companies and organizations that advise platform workers. The communications plan provides a high-level description of efforts to engage with partners. Goals are to increase partner use of IRS social media, develop more industry-specific content, and increase TOPE involvement in virtual and face-to-face partner events and conferences, among others. IRS also plans to leverage these new partnerships to

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solicit feedback on its communication efforts to ensure they meet the needs of platform workers and companies.

However, the communications plan lacks details about how IRS will monitor feedback from stakeholders. Specifically, IRS does not have a process for documenting and evaluating feedback based on the various communications efforts and products tailored for platform workers. According to federal standards for internal control, management should establish two-way reporting of quality information to achieve its objectives. Management should monitor activities and periodically evaluate the quality of information received to achieve its objective.<sup>29</sup> According to IRS officials, they do not have the time or staff to document all feedback received. Further, they said the value of responding quickly to stakeholder comments supersedes the value of documenting and evaluating feedback.

Given limited resources, IRS could choose to do something simple like creating a spreadsheet that captures feedback received, such as stakeholder emails, and document whether it led to changes. IRS has dedicated time and resources to better understand platform workers' tax-related challenges and has undertaken multifaceted communication efforts to address them. Without a process to monitor feedback, IRS may miss opportunities to find better ways to drive platform workers toward the redesigned web pages, to ensure the redesigned web pages are meeting platform workers' needs, or to strengthen communication efforts to enhance tax compliance. These opportunities could become more important as the platform worker population grows and evolves.

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## IRS Guidance and Instructions Do Not Always Clarify Tax Obligations for Platform Workers

IRS identified changes to forms, guidance, and other publications that could make it easier for platform workers to understand which forms apply to them. According to IRS officials, the Gig Strategy Team reviewed tax forms, publications, instructions, and training materials relevant to independent contractors, including platform workers. The team concluded that it did not need to create new forms or publications, although it

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<sup>29</sup>GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: Sept. 10, 2014). Also, for more information on how IRS can determine whether current online services meet taxpayer needs, see GAO, *Tax Administration: Taxpayer Input Could Strengthen IRS's Online Services*, [GAO-20-71](#) (Washington, D.C.: Dec. 19, 2019).

identified 10 forms, instructions, guidelines, and publications that could be updated to be more helpful to platform workers.

For example, the team suggested that IRS make several changes to update the instructions for Form 1040, such as adding a reference to Form 1099-K and clarifying that platform economy work can be a trade or business. The team also suggested that IRS revise the Form 1099-K instructions for payees to indicate how this form could clarify information on business gross receipts. IRS did not approve the gig strategy team's requested changes to clarify the instructions for Forms 1040 and 1099-K for 2020. However, IRS is considering making these changes in 2021. According to IRS officials, they want to ensure these changes complement each other and the guidance is clear for taxpayers.

According to federal standards for internal controls, management should communicate both internally and externally information necessary to achieve the entity's objectives.<sup>30</sup> Moreover, research based on behavioral insights has shown that introducing small interventions or removing small obstacles can significantly improve effectiveness.<sup>31</sup> For example, interventions should be attractive (to draw people in) and easy (use simple, plain language). Leading practices suggest that people respond to information that is relevant to them. One way to do this is to include examples that help people recognize when information is relevant. For example, adding a brief reference to the gig or platform economy to the Form-1099 K payee instructions, along with a simple description of what the taxpayer should do, such as "show total payments from a company that facilitated a match, transaction, and payment for goods or services," could help platform workers understand that the forms apply to them.

By not including plain language for the Form 1099-K and 1040 instructions, platform workers are less likely to recognize which information applies to them. Simplifying one aspect of the tax system for platform workers by making the forms easier to understand could lead to enhanced tax compliance.

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<sup>30</sup>[GAO-14-704G](#).

<sup>31</sup>For resources on behavioral insights, see Implementation Guidance for Executive Order 13707: Using Behavioral Science Insights to Better Serve the American People; OECD, *The BASIC Toolkit: Tools and Ethics for Applied Behavioral Insights*; Behavioral Insights Team; *EAST: Four Simple Ways to Apply Behavioral Insights*; and Behavioral Economics Team of the Australian Government, *Guide to Developing Behavioral Interventions for Randomized Controlled Trials: Nine Guiding Questions*.

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## IRS and Congress Have Options to Improve Voluntary Tax Compliance, but Tradeoffs Exist

According to our prior work, a good tax system should be equitable, economically efficient, and simple, transparent, and administrable.<sup>32</sup> However, the challenges we have discussed—such as the lack of awareness and information—are complicating the tax system for platform workers and limiting IRS’s ability to more effectively collect taxes. We identified nine options from our literature review and stakeholder interviews to address these challenges and enhance tax compliance for platform workers (see table 2). For each option, we analyzed available data on the potential design and tradeoffs, including the potential costs and benefits. We discuss two options related to reporting and two options related to withholding in the sections below. For five options related to simplifying the reporting and filing processes, we found that the available data and research did not support a full assessment of potential pros and cons. We discuss those five options in appendix II.

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**Table 2: Options to Improve Voluntary Compliance**

Action
<b>Increase information reporting:</b> Amend the “Tie-Breaker Rule” for Third Party Settlement Organizations
<b>Increase information reporting:</b> Determine appropriate Form 1099 reporting thresholds
<b>Withhold estimated taxes owed:</b> Implement voluntary withholding
<b>Withhold estimated taxes owed:</b> Assess requiring companies to offer voluntary withholding to workers
<b>Simplify process for platform workers:</b> Create a standard business deduction
<b>Simplify process for platform workers:</b> Require platform companies to inform workers of tax obligations
<b>Simplify process for platform workers:</b> Require platform companies to provide expense information
<b>Simplify process for platform workers:</b> Clarify Form 1099-K definition of gross amount
<b>Simplify process for platform workers:</b> Make electronic delivery of Forms 1099 the default

Source: GAO analysis of literature and stakeholder interviews. | GAO-20-633

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<sup>32</sup>[GAO-05-1009SP](#).

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## Increasing Information Reporting on Payments Made to Platform Workers Could Help Improve Tax Compliance

Many platform workers are not receiving a Form 1099 on their self-employment income, and therefore may be unaware of their tax reporting obligations. It is difficult to estimate how many workers are not receiving these forms because of limitations in available data. However, IRS found that the number of workers receiving Forms 1099-K or 1099-MISC from known labor platform companies dropped more than 30 percent from 2016 to 2017. Such a decline in information reporting for platform workers can be attributed to three factors.

First, reporting thresholds for TPSOs were set at a high level to prevent unnecessary information reporting to IRS. When Congress enacted the Housing and Economic Recovery Act of 2008, TPSOs applied mainly to online marketplaces for goods, like eBay, and companies that facilitated payments, like PayPal.<sup>33</sup> The act required information reporting by TPSOs for payments made through their payment networks only if those payments exceed both \$20,000 and 200 transactions annually. Individuals who were generally not engaged in business or not producing a profit, such as casual sellers of goods, would likely fall below these thresholds.

Second, IRS created a “tie-breaker rule” to avoid duplicative reporting which also led to no Form 1099 being filed in some cases.<sup>34</sup> Businesses, including TPSOs, are in general required to report certain transactions on Form 1099-MISC, while TPSOs are also required to report certain transactions on Form 1099-K. IRS instituted a rule to break the “tie” that exists when a TPSO is required to report the same transactions on both Forms 1099-MISC and 1099-K. Specifically, the rule states that payments made through a TPSO’s payment network are not required to be reported on Form 1099-MISC, subject to an annual \$600 threshold. Instead, TPSOs’ payments are required to be reported on Form 1099-K, subject to the annual \$20,000 and 200 transactions thresholds.

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<sup>33</sup>Pub. L. No. 110-289, § 3091, 122 Stat. 2654, 2908 (July 30, 2008), codified at 26 U.S.C. § 6050W. The act created the designation TPSO to describe central organizations that generally speaking transfer funds from purchasers to providers of goods or services. See 26 U.S.C. §§ 6050W(b)(3), (d)(3).

<sup>34</sup>In this regard, Treasury has authority in this area to create regulations that prevent the reporting of the same transaction more than once. See 26 U.S.C. § 6050W(g).

Third, since 2008, new platform companies have emerged that fit the TPSO designation but that facilitate payments for workers providing services rather than goods. These payments often fall below the combined annual \$20,000 and 200 transaction thresholds.

Options to increase information reporting for platform workers would help raise awareness about their tax obligations while lowering their burden. As a result, platform workers would be more likely to comply with tax obligations. The following sections discuss our analysis of two options.

#### Amend the “Tie-Breaker Rule” for TPSOs

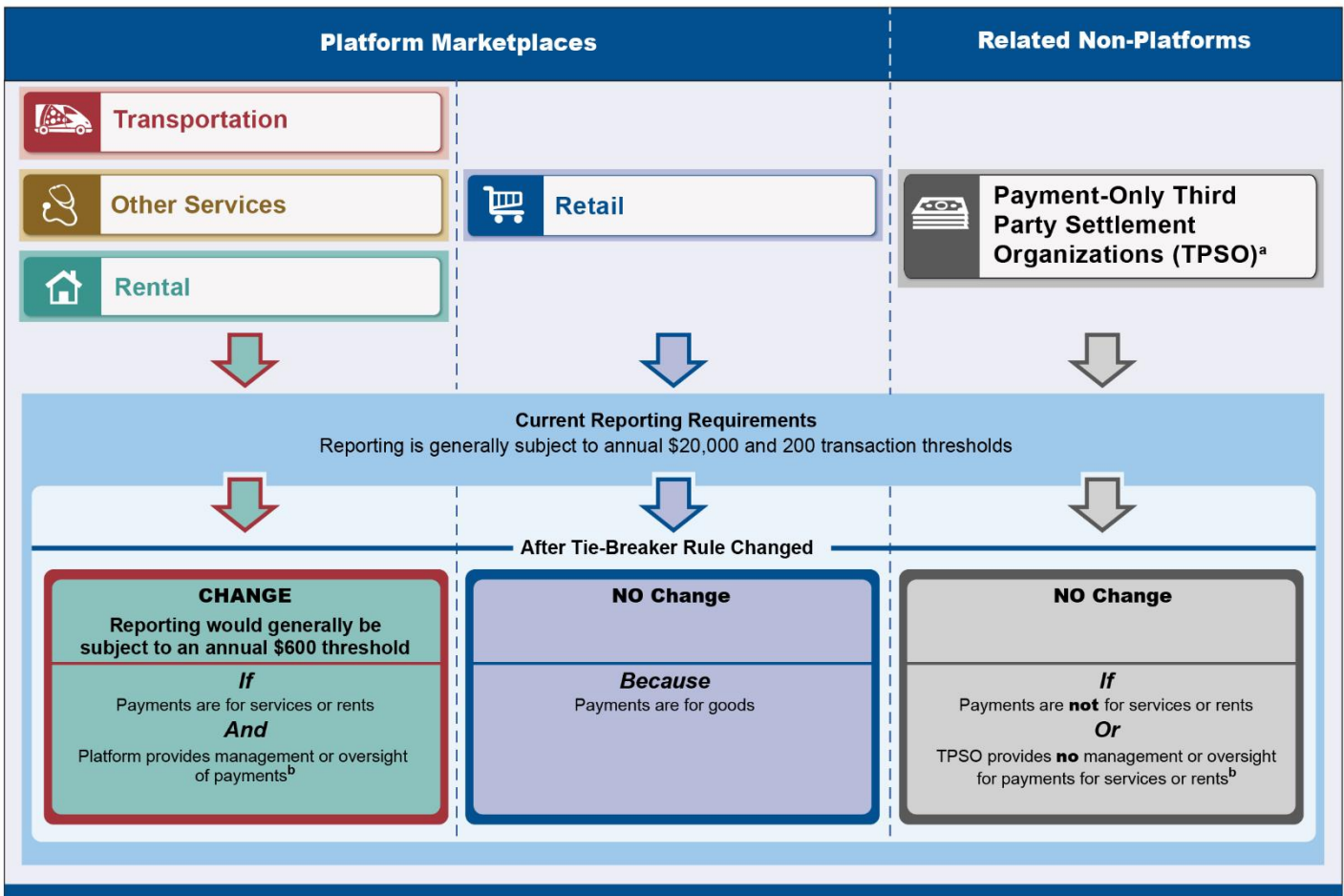
The “tie-breaker rule” could be amended to reverse the rule for payments made through a TPSO’s payment network. This would result in more reporting on Forms 1099-MISC under Internal Revenue Code (IRC) Section 6041, rather than on Forms 1099-K under IRC Section 6050W. Given the much lower threshold for the Form 1099-MISC versus the thresholds for the Form 1099-K, more workers would receive reports on their payments and IRS would receive more reports, too.

Information reporting under the regulations related to IRC Section 6041 would generally increase for TPSOs that facilitate the provision of services. If the TPSO makes a payment for a service on behalf of another and performs management or oversight for the payment, then that TPSO would generally be responsible for filing a Form 1099-MISC, subject to the annual \$600 threshold. Also, TPSOs that facilitate payments of rentals and also provide management or oversight of those payments would likely be subject to the \$600 threshold.

Reporting would remain unchanged for some types of companies. Because payments for goods are generally not reportable under IRC Section 6041, reporting would not change for online marketplaces that facilitate the sale of goods only. Because of the management and oversight requirements of IRC Section 6041, TPSOs that only facilitate

payments would also generally not be affected by a change to the tie-breaker rule (see fig. 6).<sup>35</sup>

**Figure 6: How Amending the Tie-Breaker Rule Would Generally Work for TPSOs**



Source: GAO analysis of IRS regulations. | GAO-20-366

Note: Reporting requirements in this figure are only for payments made through a TPSO's third party payment network.

<sup>a</sup>In this table, "Payment-Only TPSOs" are TPSOs that facilitate payments only.

<sup>35</sup>However, a TPSO that makes a payment for a service or rent on behalf of another entity or that only processes payments on behalf other entities may be required to report the payment if the TPSO has a significant economic interest in the payment, even if no management or oversight is provided. See 26 C.F.R. § 1.6041-1(e). When the TPSO is not required to file a 1099-MISC, a business that uses a TPSO payment facilitator to pay for services may have to file a 1099-MISC.

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<sup>b</sup>A business, such as a TPSO, may also be required to report a payment on behalf of another entity if that business has a significant economic interest in the payment, even if no management or oversight is provided. See 26 C.F.R. § 1.6041-1(e)

IRS Counsel has discussed amending the tiebreaker rule, but has yet to take action. According to IRS, Counsel has had to address other priorities, such as reviewing rules and publishing guidance related to Public Law 115-97, commonly known as the Tax Cuts and Jobs Act of 2017.<sup>36</sup> Without amending this rule, the lack of information-return reporting for many workers complicates their efforts to comply with their tax obligations and IRS's ability to ensure that these workers are correctly reporting their income. When workers do not receive forms related to their self-employment income, they have more difficulty determining how much money they made for computing taxable income. IRS analysis indicates that taxpayers are more likely to report their income that is subject to some information reporting (an estimated 83 percent compliance) compared to little or no information reporting (an estimated 45 percent).<sup>37</sup> Sending more information returns may add costs for some companies; however, stakeholders had differing views on how significant those costs would be.

### Determine Appropriate Form 1099 Reporting Thresholds

In addition to amending the tie-breaker rule, stakeholders, as well as our literature review, discussed changing the various reporting thresholds. IRS and the Department of the Treasury (Treasury) have unique access to tax data and could analyze whether the 1099-K and 1099-MISC reporting thresholds are set at levels appropriate for tax administration. The 1099-MISC threshold was enacted in 1954 and the 1099-K reporting threshold was enacted in 2008; neither reflect the development of the platform economy. These changes include the emergence of companies that facilitate workers' earning income by renting their houses or by providing transportation services, among many other activities.

Informed stakeholders suggested that the current 1099-K thresholds may be appropriate for some TPSOs, such as online marketplaces that facilitate the sale of goods or companies with a primary function of facilitating payments. Different thresholds may be more appropriate for

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<sup>36</sup>To provide for reconciliation pursuant to Titles II and V of the concurrent resolution on the budget for fiscal year 2018, Pub. L. No. 115-97, 131 Stat. 2054 (Dec. 22, 2017).

<sup>37</sup>Department of the Treasury, Internal Revenue Service Federal Tax Compliance Research: Tax Gap Estimates for Tax Years 2011-2013 Publication 1415 (Rev. 9-2019) Catalog Number 10263H (Washington, D.C: September 2019)



other activities facilitated by platform companies, such as renting houses or other assets. For example, a lower dollar threshold and no transaction threshold may be appropriate for home rentals because substantial income could be generated from even one transaction and provider costs may be limited. However, some service providers incur significant costs, such as drivers who must pay to own and operate a vehicle. Some stakeholders suggested that a threshold of \$600 was more appropriate than a threshold of \$20,000 and 200 transactions. Even so, some stakeholders suggested that typical costs to service providers may justify a threshold higher than the \$600 threshold set in 1954.

We found no available analysis of tax or other data showing whether the reporting thresholds for Forms 1099-MISC and 1099-K are appropriate for today's economy or what the thresholds should be. The NEW GIG Act of 2019, which was introduced in Congress in March 2019, would raise the Form 1099-MISC reporting thresholds from \$600 to \$1,000. It would also lower the Form 1099-K reporting threshold from \$20,000 and 200 transactions to \$5,000 or 50 transactions for TPSOs making payments to those primarily engaged in the sale of goods, among other actions.<sup>38</sup> Aligning reporting thresholds with today's economy would support tax administration for IRS, as IRS studies have shown that information reporting increases tax compliance. It would also help reduce compliance burden for workers, since they would have clear information on their earnings.

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## Withholding Estimated Taxes Owed Could Ease Burden for Platform Workers

Platform workers can be burdened in estimating, saving, and remitting quarterly payments for income, Social Security, and Medicare taxes. Companies are not allowed to withhold and remit these taxes for platform workers who are treated as independent contractors and who want to participate in voluntary withholding—except where backup withholding is required.<sup>39</sup> Voluntary tax withholding that satisfies quarterly tax payment requirements could reduce the workers' burden and promote their tax

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<sup>38</sup>NEW GIG Act of 2019, S. 700, H.R. 1625, 116th Cong. § 2 (2019). IRS's 2021 Congressional Budget Justification and Annual Performance Report and Plan supports these actions.

<sup>39</sup>Backup withholding requires a payer to withhold tax from payments not otherwise subject to withholding, and an individual may be subject to backup withholding if he or she fails to provide a correct taxpayer identification number, among other reasons.

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compliance. We identified two actions that IRS could take on voluntary tax withholding.

### Implement Voluntary Withholding

IRS could work with Treasury to implement voluntary withholding on payments to independent contractors for services. Voluntary withholding would be an option where it would be voluntary for companies to participate; for those companies that choose to participate, it would be voluntary for the independent contractor to participate. According to IRS Counsel, IRS has the statutory authority to take this action if the Secretary of the Treasury finds that withholding would be appropriate and would improve tax administration, and if the company and independent contractor agree to such withholding.<sup>40</sup> According to IRS officials, IRS and Treasury have not determined whether they intend to pursue such an action.

Voluntary withholding could be implemented by adjusting existing procedures and using the existing requirements for paying estimated taxes each quarter as a foundation. For example, to enable companies to solicit workers' choices on when and how much to withhold, IRS could create a form similar to the Employee's Withholding Certificate, Form W-4, which employees complete so that employers can withhold the correct estimated federal income tax from employees' wages. Workers could choose to vary the amounts withheld and the frequency of withholding as long as they met the quarterly estimated tax requirements. Alternatively, IRS could create guidance similar to what exists for workers who opt-in to electronically receive tax forms from their companies. Companies could use the existing procedures for tax withholding on wages paid or for backup withholding to withhold and remit the taxes to IRS. Companies would need to develop other design features, such as how they inform workers about participation.

If the withholding is voluntary for companies, any burden is limited to those companies that choose to participate. For workers who choose to participate, they would still have the burden of estimating the amount of taxes owed for each quarter, but their burden to save and remit those taxes could be reduced. If some workers find that withholding is not appropriate for them, they could continue to use the existing system for quarterly tax payments. As long as workers choose withholding amounts

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<sup>40</sup>See 26 U.S.C. § 3402(p)(3); 26 C.F.R. § 31.3402(p)-1.

that satisfy these quarterly estimated tax requirements, IRS would not need to design default percentages or dollar amounts to be withheld.

While withholding could potentially help all types of independent contractors, voluntary withholding would specifically address some challenges that platform workers face. For example, platform workers have had challenges meeting the quarterly estimated tax requirements when their work is part time or sporadic. Giving workers and the companies the flexibility to structure tax withholding would better ensure that these challenges are addressed and the taxes are paid.

Furthermore, this voluntary withholding regime would help those workers who choose to participate set aside a sufficient amount of money for taxes throughout the year, reducing the likelihood of an unanticipated large tax bill and tax penalty at the end of the year. Tax withholding plays a critical role in supporting voluntary compliance. IRS's analysis indicates that withholding helps induce higher compliance in reporting income; higher compliance can help to reduce the tax gap—the difference between tax amounts the taxpayers should have paid and what they paid voluntarily and on time.

#### Assess Requiring Companies to Offer Voluntary Withholding to Workers

Another option we reviewed involved Congress requiring companies to offer the withholding of taxes for remittance to IRS. That is, the companies must offer withholding; it would still be voluntary for the independent contractor to participate. Given that IRS does not currently allow for voluntary withholding on payments to independent contractors, we could not determine the need for such a requirement. If IRS implements withholding that is voluntary for companies, it would have the opportunity to collect and assess information on the need for such a requirement. For example, IRS could determine whether workers who volunteer to participate in withholding are able to better meet their estimated quarterly tax payments. IRS also could determine whether companies are offering withholding. If IRS finds that voluntary withholding bolsters compliance while reducing burden for workers, but that platform companies are not offering it, IRS could recommend that Congress take action.

In considering which platform companies could be required to offer voluntary withholding, a starting point would be TPSOs. Focusing the requirement on TPSOs would likely be less burdensome than on other

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platform companies. TPSOs already settle payments to multiple parties; withholding and remitting taxes to IRS would only be one more type of payment that the TPSOs would process.

This requirement would benefit platform workers who wished to participate in voluntary tax withholding and who work for TPSOs. More workers would have the option to have their taxes withheld. Because worker participation would remain voluntary, the need to determine default percentages or dollar amounts for withholding could be avoided as long as the worker met the quarterly requirement for paying estimated taxes.<sup>41</sup>

Some stakeholders suggested the option of mandatory withholding for platform workers to help them avoid a tax penalty. However, mandatory withholding could be burdensome for workers who need to balance cash flow and other spending priorities. Additionally, if participation in withholding is mandated, IRS would need to determine minimum withholding amounts. Because different businesses involve different typical expenses, it may be difficult to create an appropriate withholding rate across all business types. Creating multiple withholding rates for different types of businesses instead could be complicated and burdensome.

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## Conclusions

The platform economy is still relatively new but available evidence suggests that it is growing and presenting tax-related challenges for both workers and IRS. While IRS has addressed some of these challenges, it could do more to promote voluntary compliance among platform workers by further raising awareness and easing taxpayer burden. IRS developed a communications plan to raise awareness among platform workers of their tax responsibilities; however, the plan lacks details about how IRS will monitor stakeholder feedback. Having a process for documenting and evaluating feedback would help assure that IRS's communications efforts are addressing platform workers' tax-related challenges, even as the population grows and evolves. Additionally, IRS could better understand

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<sup>41</sup>The NEW GIG Act of 2019, which was introduced in Congress in March 2019, includes a provision that would extend withholding to nonemployees such as independent contractors. IRS's 2021 Congressional Budget Justification and Annual Performance Report and Plan supports these actions.

the platform workforce if it had a straightforward way to collect data to identify platform workers.

IRS has identified changes to forms, guidance, and other publications that could make it easier for platform workers to understand which forms apply to them. However, IRS has not yet taken actions such as adding plain language to instructions and publications that clearly indicate when a form applies to a platform worker. Making instructions and publications easier to understand by adding a simple description could help platform workers comply with their tax obligations.

IRS could help ease taxpayer burden by taking steps to increase information reporting for these workers. Platform companies that act as TPSOs do not have to report income information on many workers because reporting thresholds are much higher than what most workers earn. Amending IRS rules to require such reporting at lower thresholds would provide workers with more information to comply with their tax responsibilities and would give IRS additional information to support enforcement efforts.

Taxpayer burden could also be eased through a voluntary withholding program for platform workers. IRS and Treasury have the statutory authority to take such an action if the Secretary of the Treasury finds that withholding would be appropriate; however, IRS and Treasury have not determined whether they intend to pursue it. Voluntary withholding could help platform workers save and remit their taxes to IRS. This would address specific challenges platform workers face, such as low or fluctuating income. Once a voluntary withholding program is created, IRS would be able to assess its impacts and, if warranted, work with Treasury on a proposal to Congress to require TPSOs to offer voluntary withholding on payments for platform workers and other independent contractors.

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## Recommendations for Executive Action

We are making the following seven recommendations to IRS:

The Commissioner of IRS should change Schedule C or Form 1099-NEC so that taxpayers can identify if they received payment for platform work. (Recommendation 1)

The Commissioner of IRS should develop a process for monitoring feedback on its communications efforts and products tailored for platform workers, which should include documenting and evaluating feedback. (Recommendation 2)

The Commissioner of IRS should clarify the instructions and publications for Forms 1040 and 1099-K by adding plain language to clearly indicate to platform workers that the forms apply to them. (Recommendation 3)

The Commissioner of IRS should work with the Secretary of the Treasury to amend the 6050W “tie-breaker rule” that applies to duplicative reporting requirements so that payments made through a TPSO’s third party payment network are reportable under Section 6041, rather than under Section 6050W. (Recommendation 4)

The Commissioner of IRS should work with Treasury to determine what thresholds would be the most appropriate for payment information reporting and, if warranted, recommend that Congress adjust the thresholds. (Recommendation 5)

The Commissioner of IRS should work with the Secretary of the Treasury to implement withholding that is voluntary for companies making payments for services to platform workers and other independent contractors who choose to participate. (Recommendation 6)

The Commissioner of IRS should assess the impact of withholding that is voluntary for companies, once implemented, and if warranted, work with the Secretary of the Treasury on a proposal to Congress that would require TPSOs to offer tax withholding to platform workers and other independent contractors who choose to participate. (Recommendation 7)

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## Agency Comments

We provided a draft of this report to Treasury and IRS for review and comment. IRS provided written comments, which are reproduced in appendix III and summarized below. Of our seven recommendations, IRS agreed to implement or consider two recommendations, said it could not agree with two recommendations due to other priorities, disagreed with two, and said it could not implement a recommendation that flowed from another recommendation. IRS also provided technical comments, which we incorporated as appropriate.

IRS agreed to refine its process for monitoring feedback on its communication efforts and products but was silent on documenting and evaluating the feedback (Recommendation 2). The value of monitoring feedback will be minimized unless IRS has a process for documenting and evaluating it over time. In addition, IRS agreed to consider clarifying the language in the instructions and publications for Forms 1040 and 1099-K (Recommendation 3). We revised this recommendation by deleting the word “examples” from the clarifications to make.

IRS stated that it could not agree to work with Treasury to (a) amend the 6050W “tie-breaker rule” and (b) determine appropriate thresholds for payment information reporting and, if warranted, recommend that Congress adjust the thresholds (Recommendations 4 and 5). For both recommendations, IRS said it cannot commit to implementation dates because of higher priority guidance projects, especially in light of the many new tax provisions enacted by Congress. We acknowledge IRS’s need to prioritize guidance projects, but we do not understand why it does not agree to address problems that will persist into the future absent corrective actions or why IRS believes it cannot agree unless it commits now to a future implementation date. In fact, IRS stated that it has a long-term guidance project under development for amending the rule to clarify definitions. IRS said it would consider our recommendation on amending the rule as it develops its 2020-2021 plan for guidance priorities. As for our recommendation on determining reporting thresholds, IRS said it is willing to meet with Treasury officials to discuss the need to analyze the current thresholds.

IRS disagreed with our recommendation to change Schedule C or Form 1099-NEC so that taxpayers can identify if they received payments for platform work (Recommendation 1). IRS said it has no evidence that platform workers pose a greater compliance risk and that the platform worker designation, by itself, would not be a selection factor for compliance actions. We found that IRS has not measured this risk, in part, because it cannot easily identify the workers. Further, we did not intend that IRS use the data to initiate compliance against the workers; our report discussed using the data to identify workers and their reporting behaviors to improve services and voluntary compliance. IRS concluded that the additional taxpayer burden and its costs were not warranted at this time. IRS did not identify the level of burden or costs, and the burden from checking a box on Schedule C does not seem high. We asked about the costs to revise the forms to add a checkbox but IRS did not provide them. As for IRS’s costs to capture the data, we note that IRS’s costs to transcribe the data would be zero for returns filed electronically. Individual taxpayers (including platform workers) electronically filed 138 million of

156 million (89 percent) tax returns—which includes the Schedule C—during 2019. If IRS intends to help these workers become more aware and reduce their taxpayer burdens to comply, identifying them and their tax behaviors would enhance those efforts.

IRS disagreed with our recommendation to work with Treasury to implement withholding that is voluntary for companies making payments for services to workers who choose to participate (Recommendation 6). IRS said that its role is to administer tax law rather than propose tax policy changes. As we discuss in the report, IRS has the authority to take this action if the Secretary of the Treasury agrees that the action would improve tax administration and our recommendation focuses on working with Treasury officials. IRS also stated that it cannot commit to an implementation date for publishing guidance on a voluntary withholding program due to higher priorities, including implementing various COVID-19 relief programs. As stated above, we do not understand why current higher priorities would prevent IRS from taking future corrective actions or why IRS believes it must commit to an implementation date at this time. We continue to believe that voluntary withholding has potential to improve compliance and reduce taxpayer burden

Finally, IRS said it would not assess the impact of such voluntary withholding and thus not work with Treasury on a proposal to Congress that would require third party settlement organizations to withhold taxes for workers who choose to participate (Recommendation 7). IRS's rationale was that it disagreed with the voluntary withholding recommendation. As stated above, we believe this proposal has potential to improve compliance and an assessment would help inform Congressional deliberations about additional statutory changes that could enhance tax compliance among platform workers.

As agreed with your office, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will copy this report to the relevant congressional committees, the Secretary of the Treasury, the Commissioner of IRS, and other interested parties. In addition, this report is available at no charge on the GAO website at <https://www.gao.gov>.

If you or your staff has any questions about this report, please contact me at (202) 512-9110 or [mctiguej@gao.gov](mailto:mctiguej@gao.gov). Contact points for our offices of Congressional Relations and Public Affairs are on the last page of this report. GAO staff members who made major contributions to this report are listed in appendix IV.

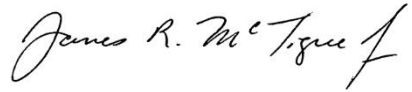


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Letter

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Sincerely yours,

A handwritten signature in black ink that reads "James R. McTigue, Jr." with a stylized flourish at the end.

James R. McTigue, Jr. Director, Tax Issues  
Strategic Issues

# Appendix I: Objectives, Scope, and Methodology

You asked us to review issues related to platform workers and tax compliance. This report (1) examines what is known about the platform workforce and what can be done to improve the available Internal Revenue Service (IRS) data, (2) identifies challenges platform workers face complying with federal tax obligations, (3) assesses IRS actions to promote tax compliance among this population, and (4) assesses additional options to promote tax compliance.

This sector and its workers are referred to by different names including sharing, on-demand, gig, and platform. We selected the term platform because it was the most comprehensive and relevant to online work arrangements. For example, neither sharing nor gig communicates that the work could be full time and for income. Platform worker also clearly communicates that workers are using an online app or other platform to find and secure work. While platform workforce does not have a standard definition, for the purposes of this report we defined it as workers who provide goods or services to customers through an online platform operated by a company that facilitates the match, transaction, and payment.

To identify what is known about platform workers, we conducted a literature review of peer-reviewed material; trade and industry articles; government reports; conference papers; general news; association, nonprofit, and think tank publications; hearings and transcripts; and working papers that described the platform economy in the United States and related tax issues. We searched publication databases such as Proquest and Dialog for keywords like gig, contingent, sharing, or platform, and tax, IRS, or compliance to identify studies that were relevant to our research objectives.

We also conducted semistructured interviews with selected stakeholders and reviewed documents provided by them to obtain information on and descriptions of platform workers. Through these interviews, we obtained stakeholder views on (1) the use of the term “platform workforce,” (2) its size and composition, (3) workers’ understanding of and compliance with

tax obligations, and (4) federal, state, and private-sector-level efforts and policy proposals to help workers comply with their tax obligations.

We conducted close to 30 interviews with knowledgeable individuals that we selected to represent varied areas of expertise and perspectives including Department of the Treasury and IRS officials; academics and other researchers; state government tax and revenue officials from the Massachusetts Department of Revenue, the California Franchise Tax Board, the Maryland Department of Labor & Regulations, and the Vermont Department of Taxation; private-sector and nonprofit tax preparers; tax software developers; and platform company representatives and workers. We interviewed representatives from four companies—Airbnb, Thumbtack, Etsy, and eBay; and two representatives from professional associations, Technet and Internet Association, that include platform companies among their members. Company representatives from Uber, Lyft, Taskrabbit, Upwork, Snag, and Postmates participated in the Technet group interview. We also interviewed representatives from organizations that work directly with platform workers such as the Freelancers Union, Center on Budget and Policy Priorities and Creating Assets, Savings and Hope Campaign of Maryland, National Association of Self-Employed, and the Independent Drivers Guild (IDG). IDG also set up 30-minute phone calls for us with five full-time drivers who use mobile apps to connect with customers.

We were also invited to attend a panel from the National Academies of Science on the platform workforce. The panel included experts from the Aspen Institute, JP Morgan Chase, the Federal Reserve Board, the Census Bureau, and various think tanks and universities.

We identified potential interviewees through a literature search, and recommendations from our initial interviews. We selected interviewees based on their relevance to the scope of our review. We also aimed for balance between those who could serve as a proxy specifically for low-income platform workers, and those who work with people across the income spectrum. Although the results of these interviews are not generalizable to the views of all stakeholders, they still provide important insight into and illustrative examples of the challenges platform workers face understanding and complying with federal tax obligations.

To assess IRS actions to promote tax compliance, we reviewed IRS research on the platform workforce and other documents describing current and planned actions to identify taxpayers who are platform workers and to promote their tax compliance, including the Gig Economy

Compliance Strategy. We also interviewed IRS officials from the Small Business/Self-Employed Division; Research, Applied Analytics, and Statistics Division; Communications & Liaison Office, including officials from the Offices of Online Services and Tax Outreach, Partnership, and Education; and the Office of Chief Counsel about their efforts to develop, implement, and assess the impact of the new strategy. We identified criteria for assessing elements of IRS's strategy such as its research, communication materials, and evaluation plan. We based these criteria on *Standards for Internal Control in the Federal Government* and leading practices for designing web materials to improve the user experience.<sup>1</sup> The relevant internal control principles focus on information and communication and monitoring. The leading practices posted at [usability.gov](http://usability.gov) describe principles for creating a meaningful and valuable online user experience.

To assess options to promote tax compliance, we identified options from our literature review and our interviews of stakeholders and selected those that were commonly cited as potential solutions for the challenges. We then sent 39 stakeholders a list of the potential solutions to solicit their views on these options, including whether they supported or opposed the option. Twenty-eight stakeholders, including those from academia, the research sector, government, platform companies, tax preparation firms, and worker advocacy, provided their views. We analyzed their responses to help us identify strengths, weaknesses, and other considerations associated with each option. We also assessed each option using "criteria for a good tax system" described in our prior work.<sup>2</sup> These criteria state that a good tax system should be equitable, economically efficient, and simple, transparent, and administrable. We focused on whether individual options would increase simplicity by reducing compliance burden; enhance transparency by helping taxpayers better understand their tax obligations; and improve tax administration by helping IRS more effectively collect taxes. We found that the available data and research for some options did not support a full assessment of

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<sup>1</sup>GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: September 2014) and <https://www.usability.gov/what-and-why/index.html>. The Department of Health and Human Services manages [usability.gov](http://usability.gov), a website where the federal government has published ways to assess a website's usability and, in partnership with the General Services Administration, issued guidance and best practices for designing federal websites.

<sup>2</sup>GAO, *Understanding the Tax Reform Debate: Background, Criteria, and Questions*, [GAO-05-1009SP](#) (Washington, D.C.: September 2005).

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the pros and cons that might be offered by the option. We describe these options in appendix II.

We conducted this performance audit from February 2019 to May 2020 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

# Appendix II: Other Options to Help Platform Workers Comply with Their Federal Tax Obligations

One set of options we identified focused on simplifying aspects of the tax system to help platform workers comply with their tax obligations. For all of them, sufficient evidence did not exist on how the option would be designed or on the tradeoffs such as costs and benefits. Some of the options require legislative action, and other options could be costly for the Internal Revenue Service (IRS) to implement. Balancing the pros and cons is a policy decision for IRS and the Department of the Treasury (Treasury) or Congress to make and more research would be needed. The following discusses our analyses of these options including what information would be needed to design the option and compare the tradeoffs.

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## Create a Standard Business Deduction

According to some stakeholders, properly tracking and deducting expenses from gross income can be burdensome for self-employed workers, including platform workers. A common feature of platform work is using an asset, such as a car or house, for personal and business use; for example, a car owner may use his or her personal car for occasional ride-hailing work. Stakeholders and several articles from our review discussed how the rules for apportioning expenses for personal and business use and determining which ones are deductible can be complicated, especially for part-time or short-term drivers or renters.

Some stakeholders as well as some articles mentioned that Congress could consider creating a standard business deduction that platform workers could use. Platform workers, especially those who may not have the necessary knowledge or experience, may not track all eligible business deductions and overpay income and self-employment taxes. They may improperly overstate their expense deductions to offset income, contributing to the tax gap. Creating a standard business

deduction could reduce the complexity associated with the current system.

However, different businesses involve different expenses, and it may be difficult to create an appropriate standard deduction across all business types. Creating multiple standard deductions for different types of businesses could be complicated and burdensome, and could ultimately reduce tax revenue if the standard deduction exceeds actual expenses for many platform workers. Additionally, a standard business deduction limited to only platform workers would be difficult to design because no regulatory or statutory definition of the term platform worker exists. Further, providing the standard deduction option only for platform workers would raise disparate treatment concerns. Given the limited data on the number and tax reporting characteristics of platform workers, we could not analyze the potential benefits and costs of creating a standard deduction.

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## **Require Platform Companies to Inform Workers about Federal Tax Obligations**

Because platform workers may be unaware of their federal tax obligations, Congress could consider requiring platform companies to inform workers who are classified as independent contractors about their tax obligations. While platform companies may incur some burden to inform platform workers, some could leverage existing processes to inform their workers. For example, when platform companies hire such workers, they could inform them about their tax obligations.

Officials at platform companies we contacted raised concerns about the legal risks for them to develop the information provided to the workers. Platform companies would not necessarily need to develop the information provided. IRS developed a one-page publication that platform companies could provide to workers to inform them about tax obligations (see fig. 4). The publication is available in an electronic format for sharing with workers.

However, no statutory or regulatory definition of a platform company exists. Without a definition, IRS could not equitably enforce the requirement. Alternatively, the requirement to provide the information could be limited to third party settlement organizations (TPSO) which have been defined. However, even a well-designed requirement could

have limited impact on awareness. IRS is collaborating with partners such as platform companies to better inform workers about their tax obligations. To the extent that this collaboration as well as other IRS actions help make workers more aware, Congress may not need to consider requiring platform companies to inform their workers.

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## **Require Platform Companies to Provide Expense Information**

Congress could require platform companies to provide available payment and expense information to platform workers who are independent contractors. Multiple stakeholders suggested that sharing this information is a best practice for raising awareness and helping workers comply with tax obligations.

Some platform companies already provide a dashboard to workers showing total payments and other data, like miles driven. Platform companies have visibility over the full range of payments and some expenses for workers. While some companies would be providing data or providing online access to data that they already have, requiring information-sharing may increase their administrative burden to at least some extent.

However, we did not find information on how much more burden would be created, which could vary based on the type of platform company. Further, given no statutory or regulatory definition of a platform company, a legal definition would need to be created or the requirement to provide the information could be limited to a subset of companies, such as TPSOs.

Because several prominent platform companies already provide expense information, Congress may not need to add a legal obligation on the companies. We did not find sufficient evidence to show that this legal requirement would benefit most platform workers. Likewise, IRS considered adding information to its website encouraging platform companies to provide available payment and expense information their workers, but decided not to do so. IRS officials explained that many platform companies are already providing workers with this information. They also expressed concerns that platform workers might rely on this information, and not maintain their own records, which could cause challenges if platform companies do not track all available expenses or



income. According to IRS officials, they will continue to update the website to include tips for platform companies to help workers comply with their tax obligations.

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## **Clarify Form 1099-K Definition of Gross Amount**

The Internal Revenue Service Advisory Council (IRSAC) found that the definition of “gross amount” for reporting purposes on Form 1099-K includes items that are not part of the economic transaction between the purchaser and the seller or service provider. This includes refunds, fees, discounts, and other items. IRSAC recently recommended that the definition of “gross amount” for the purposes of reporting on Forms 1099-K should exclude these items, which are not taxable income for the platform worker, and include only payments to the workers for their service.

IRS officials have identified some practical drawbacks to implementing this proposal. For example, determining what is includable and what is excludable from the “economic transaction” can vary from industry to industry and from taxpayer to taxpayer. Depending on the industry or activity, the gross transaction amount may not be itemized to specify what is included; for example, many payment settlement entities would not know whether sales tax is included in a transaction amount. IRS officials stated that it is not clear whether this proposal would provide any value to the worker or IRS given the variations.

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## **Make Electronic Delivery of Forms 1099 the Default**

IRS could work with Treasury to allow for electronic delivery of Forms 1099 by default. The default delivery method is mail, and workers must opt-in to receive forms electronically. When a worker receives the form electronically, the worker may receive an email notification that the electronic form is available for download in a secure online account. Platform company officials with whom we spoke said sending forms by mail can be burdensome due to mailing costs and the costs of finding accurate mailing addresses. However, they generally have accurate email addresses because that is how they exchange information with platform workers. Allowing electronic delivery of Forms 1099 by default could

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**Appendix II: Other Options to Help Platform  
Workers Comply with Their Federal Tax  
Obligations**

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reduce the burden for companies, while ensuring that more workers receive their forms.<sup>1</sup>

However, new rules would be needed to ensure that workers are easily able to opt-out of electronic delivery, and receive the forms on paper if they wish. We were not able to collect sufficient data on the cost or savings for companies and barriers for workers.

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<sup>1</sup>Generally, platform companies may furnish forms 1099-MISC and 1099-K electronically if the recipient consents. See 26 C.F.R. § 1.6050W-2. Allowing electronic furnishing of the Form 1099-K by default would require Treasury to amend or withdraw 26 C.F.R. § 1.6050W-2. Additional guidance under I.R.C. § 6050W was not on the Priority Guidance Plan last year as Counsel and Treasury were prioritizing other guidance projects.

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# Appendix III: Comments from the Department of the Treasury

**Appendix III: Comments from the Department  
of the Treasury**



DEPUTY COMMISSIONER

**DEPARTMENT OF THE TREASURY**  
INTERNAL REVENUE SERVICE  
WASHINGTON, DC 20224

May 12, 2020

James R. McTigue, Jr  
Director, Tax Issues Strategic Issues  
United States Government Accountability Office  
Washington, DC 20548

Dear Mr. McTigue, Jr:

Thank you for the opportunity to review your draft report entitled, *Taxpayer Compliance: More Income Reporting Needed for Taxpayers Working Through Online Platforms* (GAO-20-366). Your report examined what is known about the platform workforce and options to promote compliance among its workers.

New technology such as apps and smartphones has made it relatively easy for individuals to perform services and sell or rent goods and property through an online platform. The number of these taxpayers continues to increase. Many of these taxpayers, referred to in your report as platform workers, are being treated as independent contractors (self-employed) and may not be aware of their tax responsibilities.

We appreciate your acknowledgement of our proactive efforts to raise awareness through outreach, education, and improvement of tax products. Our efforts include a robust communications plan and the development of Publication 5369, *Gig Economy and Your Taxes: Things to Know*. We also redesigned our web pages, including the Gig Economy Tax Center, using leading practices, to improve the online user experience and provide information to help platform workers and businesses comply with their tax responsibilities.

Unfortunately, many platform workers are not receiving an information return (e.g. Form 1099) reporting their self-employment income. This creates compliance and enforcement challenges, as less third-party information is available to assist the taxpayer with meeting their tax responsibilities or to help the IRS identify potential tax non-compliance. However, the FY 2021 Presidential budget proposal includes a provision to reduce the reporting threshold for third-party settlement organizations from \$20,000 and 200 transactions per payee to \$1,000 without regard to the number of transactions, thus increasing third-party reporting.

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**Appendix III: Comments from the Department  
of the Treasury**

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Responses to your specific recommendations are enclosed. If you have any questions, please contact me or Scott Irick, Director, Examination, Small Business/Self-Employed Division.

Sincerely,

Sunita B. Lough Digitally signed by Sunita B. Lough  
Date: 2020.05.12 14:45:14 -04'00'  
Sunita Lough  
Deputy Commissioner for Services and Enforcement

Enclosure

Enclosure

**GAO Recommendations and IRS Responses to GAO Draft Report  
TAXPAYER COMPLIANCE: More Income Reporting Needed for Taxpayers  
Working Through Online Platforms (JC 103351)**

**Recommendation 1:**

The Commissioner of IRS should change Schedule C or Form 1099-NEC so that taxpayers can identify if they received payment for platform work.

**Comment:**

We disagree. Some platform workers have an independent contractor status. Our data show that these workers face the same compliance challenges as other self-employed workers, and we have no evidence that non-compliance among these individuals is higher than among other self-employed workers. We have developed a communication strategy focused specifically on these platform workers, educating them on how to be compliant with the tax filing and payment obligations that apply to self-employed workers more generally.

In order for the suggested information collection to be useful, the data identifying platform work would first need to be captured by IRS systems, including compliance systems. The revision of forms to collect and capture this information will require additional costs to implement. Further, the additional information gathered, while increasing taxpayer burden, would not be required for the taxpayer to comply with the law.

The designation of "gig/platform worker" does not, in and of itself, pose a greater compliance risk nor would this designation, by itself, be a case selection factor for compliance actions. While this could provide a count of self-reported platform workers, it is not expected to serve a benefit to improve tax administration, nor does the IRS see a clear jeopardy to tax compliance without implementation of this recommendation.

Therefore, the IRS concludes the additional taxpayer burden and costs are not warranted at this time.

**Recommendation 2:**

The Commissioner of IRS should develop a process for monitoring feedback on its communications efforts and products tailored for platform workers, which should include documenting and evaluating feedback.

**Comment:**

We agree with the recommendation. We will refine existing processes for monitoring feedback in our communications and outreach for this group, helping with our efforts to expand reliable, actionable information of interest to gig economy workers.

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**Appendix III: Comments from the Department  
of the Treasury**

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**Recommendation 3:**

The Commissioner of IRS should clarify the instructions and publications for Forms 1040 and 1099-K by adding plain-language examples that clearly indicate to platform workers that the forms apply to them.

**Comment:**

We are considering adding clarifying language for Forms 1040 and 1099-K and will provide additional details with our response to the final draft of the report.

**Recommendation 4:**

The Commissioner of IRS should work with the Secretary of the Treasury to amend the 6050W "tie-breaker rule" that applies to duplicative reporting requirements, so that payments made through a Third Party Settlement Organization's third party payment network are reportable under Section 6041, rather than under Section 6050W.

**Comment:**

The IRS Office of Chief Counsel (Counsel) is unable to agree to this recommendation because it cannot commit to an implementation date. Counsel has previously discussed amending the "tiebreaker rule" in Treasury regulation § 1.6041-1(iv) with the Treasury Office of Tax Policy. The tiebreaker rule currently provides that if reporting is required under I.R.C. § 6041 and I.R.C. § 6050W, then the information is reported under I.R.C. § 6050W. The tiebreaker rule could be removed or amended to require reporting under § 6041 in the case of a tie. Amending the tiebreaker rule would likely require amending regulations under I.R.C. §§ 6041 and 6050W. Projects to develop and revise Treasury regulations are prioritized annually, with the benefit of public input and suggestions, and announced in a Department of the Treasury Priority Guidance Plan. As set forth in the 2019-2020 plan, our resources are currently focused on guidance in response to the Tax Cuts and Jobs Act, Pub. L. 115-97, guidance in response to the Taxpayer First Act, Pub. L. 116-25, and identifying and reducing regulatory burdens in response to Executive Orders 13789 and 13777, as well as other priorities outlined in the plan.

Counsel has already opened a guidance project to amend the I.R.C § 6050W regulations to clarify the definitions of certain terms used in the statute. The guidance project is entitled "Amendments of Information Reporting for Payments Made in Settlement of Payment Card and Third Party Network Transactions" and is currently listed as a "Long-Term Action" on the Fall 2019 Unified Agenda of Federal Regulatory and Deregulatory Actions, under RIN 1545-BL34, which means that the project is under development but we do not expect to have a regulatory action within 12 months after publication of this edition of the Unified Agenda.

While Counsel will consider this recommendation as it works with Treasury and the IRS on developing the 2020-2021 Priority Guidance Plan, Counsel cannot provide an implementation date for when guidance might be issued under I.R.C. §§ 6041 and 6050W.

**Recommendation 5:**

The Commissioner of IRS should work with Treasury to determine what thresholds would be the most appropriate for payment information reporting and, if warranted, recommend that Congress adjust the thresholds.

**Comment:**

Counsel is unable to agree to this recommendation because it cannot commit to an implementation date. A change to reporting thresholds established in I.R.C. § 6050W requires Congressional action; the thresholds cannot be changed by regulation. Counsel is willing to meet with the Treasury Office of Tax Policy to discuss the need to analyze the current thresholds and, if warranted, will discuss recommending Congress take legislative action to adjust these thresholds. However, given current guidance priorities as discussed in the response to Recommendation 4, Counsel cannot commit to an implementation date for this recommendation.

**Recommendation 6:**

The Commissioner of IRS should work with the Secretary of the Treasury to implement withholding that is voluntary for companies making payments for services to platform workers and other independent contractors who choose to participate.

**Comment:**

We disagree. It is not the role of the IRS to propose changes in tax policy such as this recommendation would entail; rather, our role is to administer existing tax law. Moreover, implementation of a voluntary withholding program would require published guidance. Published guidance projects are prioritized under the Treasury Department's Priority Guidance Plan. As outlined in the 2019-2020 plan released in October 2019, guidance priorities are focused on guidance in response to the Tax Cuts and Jobs Act, Pub. L. 115-97, guidance in response to the Taxpayer First Act, Pub. L. 116-25, and identifying and reducing regulatory burdens in response to Executive Orders 13789 and 13777, as well as other priorities outlined in the plan. In addition, resources are currently focused on implementing various COVID-19 relief programs under published guidance and legislation, including the Families First Coronavirus Response Act, Pub. L. 116-127 (FFCRA) and the Coronavirus Aid, Relief, and Economic Security Act, Pub. L. 116-136 (CARES Act), as well as implementation of the Setting Every Community Up for Retirement Enhancement Act of 2019, Pub. L. 116-94 (SECURE Act) and related SECURE Act published guidance. Thus, the IRS cannot commit to developing a voluntary withholding program or to a particular implementation date for this recommendation.



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**Appendix III: Comments from the Department  
of the Treasury**

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**Recommendation 7:**

The Commissioner of IRS should assess the impact of withholding that is voluntary for companies, once implemented, and if warranted, work with the Secretary of the Treasury on a proposal to Congress that would require Third Party Settlement Organizations to offer tax withholding to platform workers and other independent contractors who choose to participate.

**Comment:**

As we disagree with recommendation 6, there will not be any impact to assess.

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# Appendix IV: GAO Contact and Staff Acknowledgments

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## GAO Contact

James R. McTigue, Jr. (202) 512-9110, [mctiguej@gao.gov](mailto:mctiguej@gao.gov)

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## Staff Acknowledgments

Key contributors to this report include: Julie Anderson, Rob Gebhart, Sarah Gilliland, Gina Hoover, Jesse Mitchell, Ed Nannenhorn, Jessica Nierenberg, Robert Robinson, Eden Savino, Tom Short, AJ Stephens, and Peter Verchinski.

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# Appendix V: Accessible Data

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## Agency Comment Letter

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Accessible Text for Appendix III Comments from the  
Department of the Treasury

Page 1

May 12, 2020

James R. McTigue, Jr

Director, Tax Issues Strategic Issues

United States Government Accountability Office Washington, DC 20548

Dear Mr. McTigue, Jr:

Thank you for the opportunity to review your draft report entitled, Taxpayer Compliance: More Income Reporting Needed for Taxpayers Working Through Online Platforms (GAO-20-366). Your report examined what is known about the platform workforce and options to promote compliance among its workers.

New technology such as apps and smartphones has made it relatively easy for individuals to perform services and sell or rent goods and property through an online platform. The number of these taxpayers continues to increase. Many of these taxpayers, referred to in your report as platform workers, are being treated as independent contractors (self-employed) and may not be aware of their tax responsibilities.

We appreciate your acknowledgement of our proactive efforts to raise awareness through outreach, education, and improvement of tax products. Our efforts include a robust communications plan and the development of Publication 5369, Gig Economy and Your Taxes: Things to Know. We also redesigned our web pages, including the Gig Economy Tax Center, using leading practices, to improve the online user experience and provide information to help platform workers and businesses comply with their tax responsibilities.

Unfortunately, many platform workers are not receiving an information return (e.g. Form 1099) reporting their self-employment income. This creates compliance and enforcement challenges, as less third-party information is available to assist the taxpayer with meeting their tax responsibilities or to help the IRS identify potential tax non-compliance. However, the FY 2021 Presidential budget proposal includes a provision to reduce the reporting threshold for third-party settlement organizations from \$20,000 and 200 transactions per payee to \$1,000 without regard to the number of transactions, thus increasing third-party reporting.

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Responses to your specific recommendations are enclosed. If you have any questions, please contact me or Scott Irick, Director, Examination, Small Business/Self-Employed Division.

Sincerely,

Sunita Lough

Deputy Commissioner for Services and Enforcement

Enclosure

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Enclosure

GAO Recommendations and IRS Responses to GAO Draft Report  
TAXPAYER COMPLIANCE: More Income Reporting Needed for  
Taxpayers Working Through Online Platforms (JC 103351)

Recommendation 1:

The Commissioner of IRS should change Schedule C or Form 1099-NEC so that taxpayers can identify if they received payment for platform work.

Comment:

We disagree. Some platform workers have an independent contractor status. Our data show that these workers face the same compliance challenges as other self-employed workers, and we have no evidence that non-compliance among these individuals is higher than among other

self-employed workers. We have developed a communication strategy focused specifically on these platform workers, educating them on how to be compliant with the tax filing and payment obligations that apply to self-employed workers more generally.

In order for the suggested information collection to be useful, the data identifying platform work would first need to be captured by IRS systems, including compliance systems. The revision of forms to collect and capture this information will require additional costs to implement. Further, the additional information gathered, while increasing taxpayer burden, would not be required for the taxpayer to comply with the law.

The designation of “gig/platform worker” does not, in and of itself, pose a greater compliance risk nor would this designation, by itself, be a case selection factor for compliance actions. While this could provide a count of self-reported platform workers, it is not expected to serve a benefit to improve tax administration, nor does the IRS see a clear jeopardy to tax compliance without implementation of this recommendation.

Therefore, the IRS concludes the additional taxpayer burden and costs are not warranted at this time.

Recommendation 2:

The Commissioner of IRS should develop a process for monitoring feedback on its communications efforts and products tailored for platform workers, which should include documenting and evaluating feedback.

Comment:

We agree with the recommendation. We will refine existing processes for monitoring feedback in our communications and outreach for this group, helping with our efforts to expand reliable, actionable information of interest to gig economy workers.

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Recommendation 3:

The Commissioner of IRS should clarify the instructions and publications for Forms 1040 and 1099-K by adding plain-language examples that clearly indicate to platform workers that the forms apply to them.

Comment:

We are considering adding clarifying language for Forms 1040 and 1099-K and will provide additional details with our response to the final draft of the report.

Recommendation 4:

The Commissioner of IRS should work with the Secretary of the Treasury to amend the 6050W “tie-breaker rule” that applies to duplicative reporting requirements, so that payments made through a Third Party Settlement Organization’s third party payment network are reportable under Section 6041, rather than under Section 6050W.

Comment:

The IRS Office of Chief Counsel (Counsel) is unable to agree to this recommendation because it cannot commit to an implementation date. Counsel has previously discussed amending the “tiebreaker rule” in Treasury regulation § 1.6041-1(iv) with the Treasury Office of Tax Policy. The tiebreaker rule currently provides that if reporting is required under I.R.C. § 6041 and I.R.C. § 6050W, then the information is reported under I.R.C. § 6050W. The tiebreaker rule could be removed or amended to require reporting under § 6041 in the case of a tie. Amending the tiebreaker rule would likely require amending regulations under I.R.C. §§ 6041 and 6050W. Projects to develop and revise Treasury regulations are prioritized annually, with the benefit of public input and suggestions, and announced in a Department of the Treasury Priority Guidance Plan. As set forth in the 2019-2020 plan, our resources are currently focused on guidance in response to the Tax Cuts and Jobs Act, Pub. L. 115-97, guidance in response to the Taxpayer First Act, Pub. L. 116-25, and identifying and reducing regulatory burdens in response to Executive Orders 13789 and 13777, as well as other priorities outlined in the plan.

Counsel has already opened a guidance project to amend the I.R.C § 6050W regulations to clarify the definitions of certain terms used in the statute. The guidance project is entitled “Amendments of Information Reporting for Payments Made in Settlement of Payment Card and Third Party Network Transactions” and is currently listed as a “Long-Term Action” on the Fall 2019 Unified Agenda of Federal Regulatory and Deregulatory Actions, under RIN 1545-BL34, which means that the project is under development but we do not expect to have a regulatory

action within 12 months after publication of this edition of the Unified Agenda.

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While Counsel will consider this recommendation as it works with Treasury and the IRS on developing the 2020-2021 Priority Guidance Plan, Counsel cannot provide an implementation date for when guidance might be issued under I.R.C. §§ 6041 and 6050W.

Recommendation 5:

The Commissioner of IRS should work with Treasury to determine what thresholds would be the most appropriate for payment information reporting and, if warranted, recommend that Congress adjust the thresholds.

Comment:

Counsel is unable to agree to this recommendation because it cannot commit to an implementation date. A change to reporting thresholds established in I.R.C. § 6050W requires Congressional action; the thresholds cannot be changed by regulation. Counsel is willing to meet with the Treasury Office of Tax Policy to discuss the need to analyze the current thresholds and, if warranted, will discuss recommending Congress take legislative action to adjust these thresholds. However, given current guidance priorities as discussed in the response to Recommendation 4, Counsel cannot commit to an implementation date for this recommendation.

Recommendation 6:

The Commissioner of IRS should work with the Secretary of the Treasury to implement withholding that is voluntary for companies making payments for services to platform workers and other independent contractors who choose to participate.

Comment:

We disagree. It is not the role of the IRS to propose changes in tax policy such as this recommendation would entail; rather, our role is to administer existing tax law. Moreover, implementation of a voluntary withholding program would require published guidance. Published guidance projects

are prioritized under the Treasury Department's Priority Guidance Plan. As outlined in the 2019-2020 plan released in October 2019, guidance priorities are focused on guidance in response to the Tax Cuts and Jobs Act, Pub. L. 115-97, guidance in response to the Taxpayer First Act, Pub. L. 116-25, and identifying and reducing regulatory burdens in response to Executive Orders 13789 and 13777, as well as other priorities outlined in the plan. In addition, resources are currently focused on implementing various COVID-19 relief programs under published guidance and legislation, including the Families First Coronavirus Response Act, Pub. L. 116-127 (FFCRA) and the Coronavirus Aid, Relief, and Economic Security Act, Pub. L. 116-136 (CARES Act), as well as implementation of the Setting Every Community Up for Retirement Enhancement Act of 2019, Pub. L. 116-94 (SECURE Act) and related SECURE Act published guidance. Thus, the IRS cannot commit to developing a voluntary withholding program or to a particular implementation date for this recommendation.

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Recommendation 7:

The Commissioner of IRS should assess the impact of withholding that is voluntary for companies, once implemented, and if warranted, work with the Secretary of the Treasury on a proposal to Congress that would require Third Party Settlement Organizations to offer tax withholding to platform workers and other independent contractors who choose to participate.

Comment:

As we disagree with recommendation 6, there will not be any impact to assess.



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