

Tax Filing Literacy in the Small Business and Enterprising Gig Ecosystem:

Exploring Spatial Socio- Economic and Demographic Factors



BÁRBARA J. ROBLES & CAROLINE BRUCKNER

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Research Objective and Pain Points

- What types of business sectors are affected?
- Who are the small businesses, self-employed, independent contractors and gig workers in these sectors?
- Where are they geographically and spatially located?
- How are they managing their tax responsibilities and compliance obligations?
- When and where does tax education occur?

Small Business Tax Literacy Survey: Overview



Small Business Tax Literacy Survey was administered Sept 15, 2022 to October 22, 2022 by PPSI (Public Private Strategies Institute)



Small Business Tax Literacy Survey was sent to approx. 90,000 small businesses, self-employed, independent contractors, freelancers and gig workers



562 respondents completed the 20-question survey with a cumulative response rate of 0.12 percent



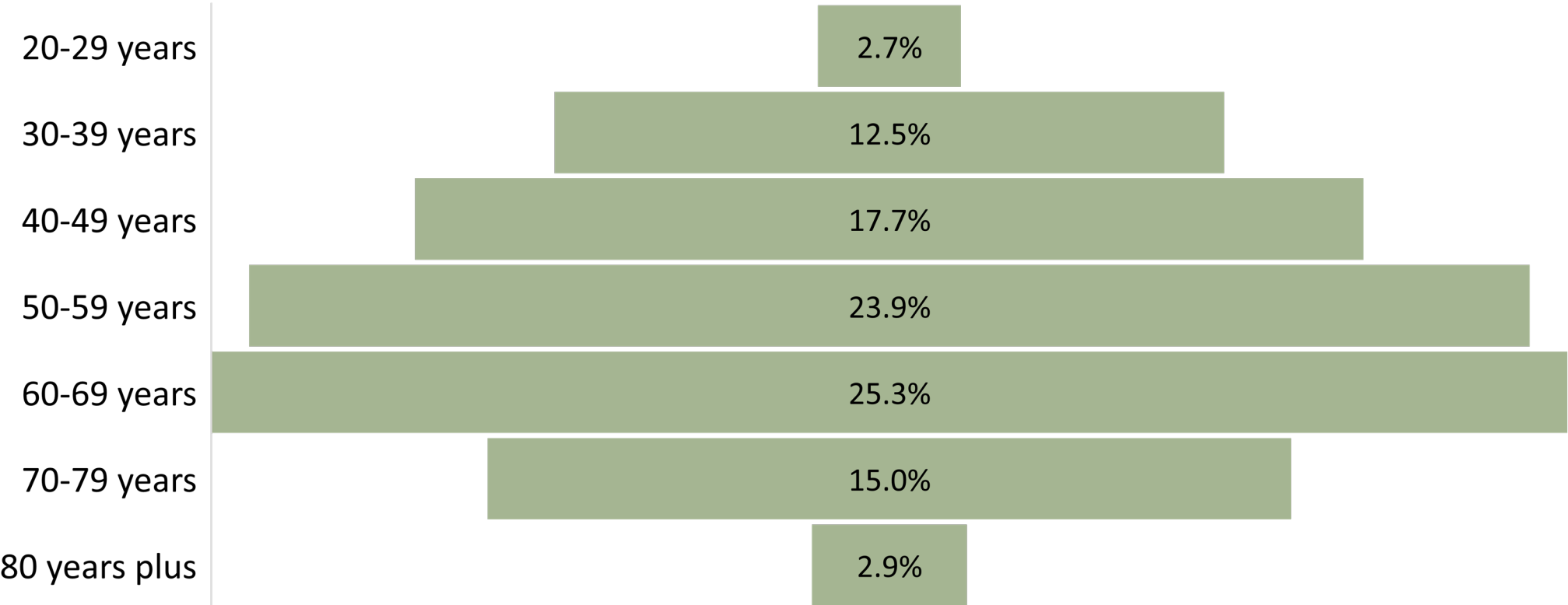
We employ n= (##) to indicate total number of responses per question
Average time to complete Tax Ed Survey: 10 minutes
Median time to complete Tax Ed Survey: 6 minutes

Tax Education Survey

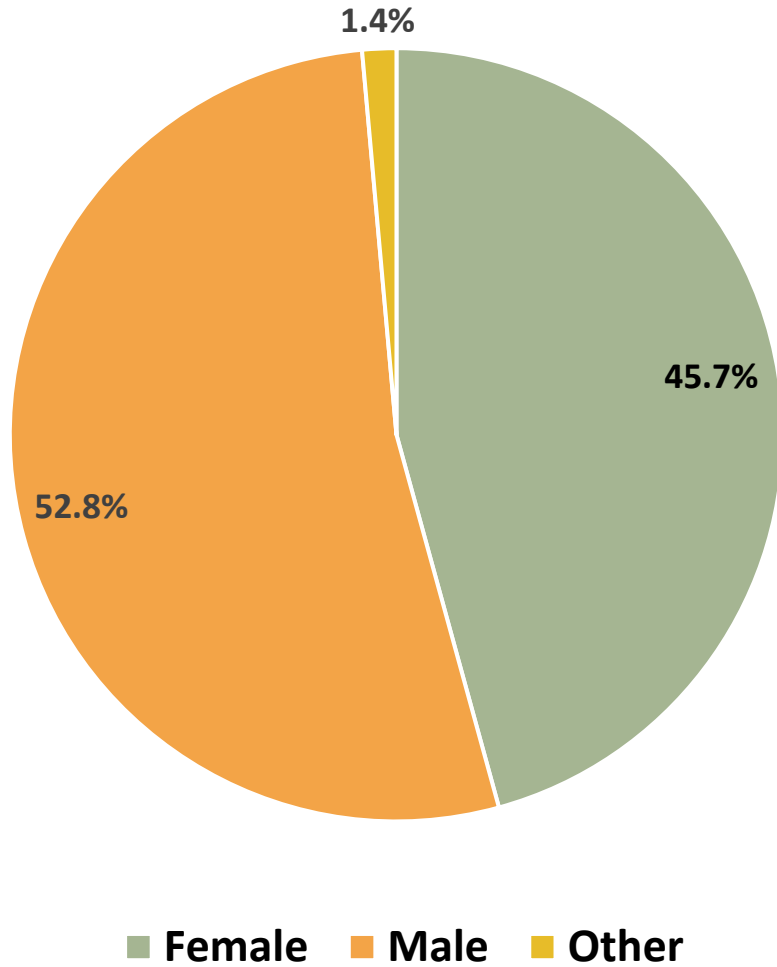
DEMOGRAPHICS AND SOCIAL-ECONOMIC FACTORS

Over 66% of Respondents are between 40 and 69 years old

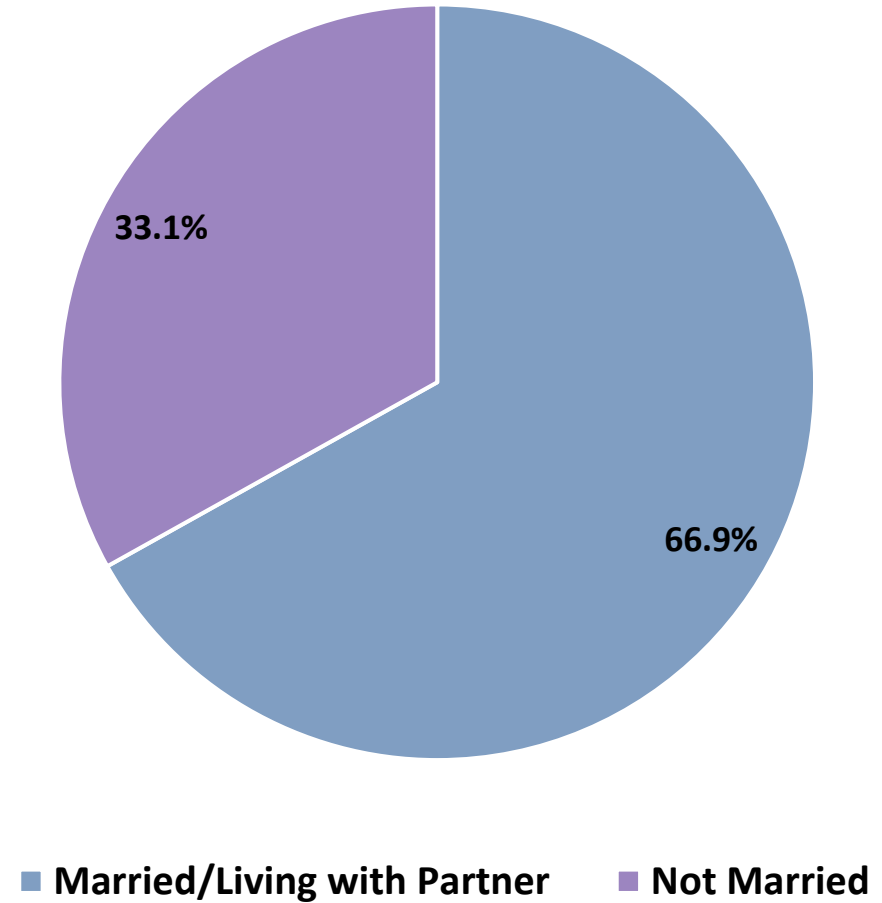
Small Business and Gig Economy Tax Knowledge Survey (n=553):
Age Categories of Respondents



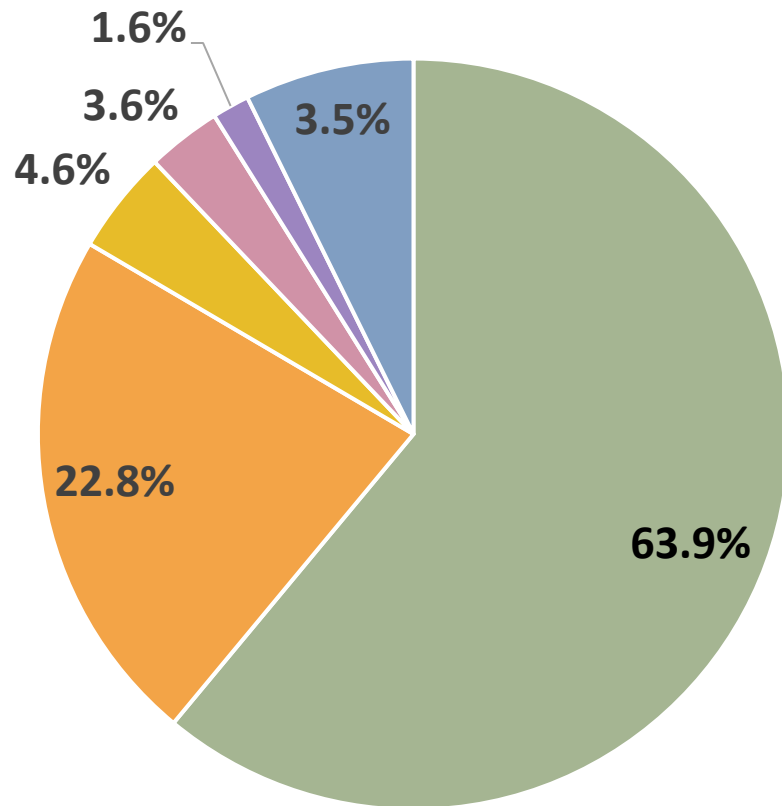
Small Business and Gig Economy
Tax Knowledge Survey (n=562): Demographics



Small Business and Gig Economy
Tax Knowledge Survey (n=562): Demographics



Small Business and Gig Economy
Tax Knowledge Survey (n=549): Race and Ethnicity

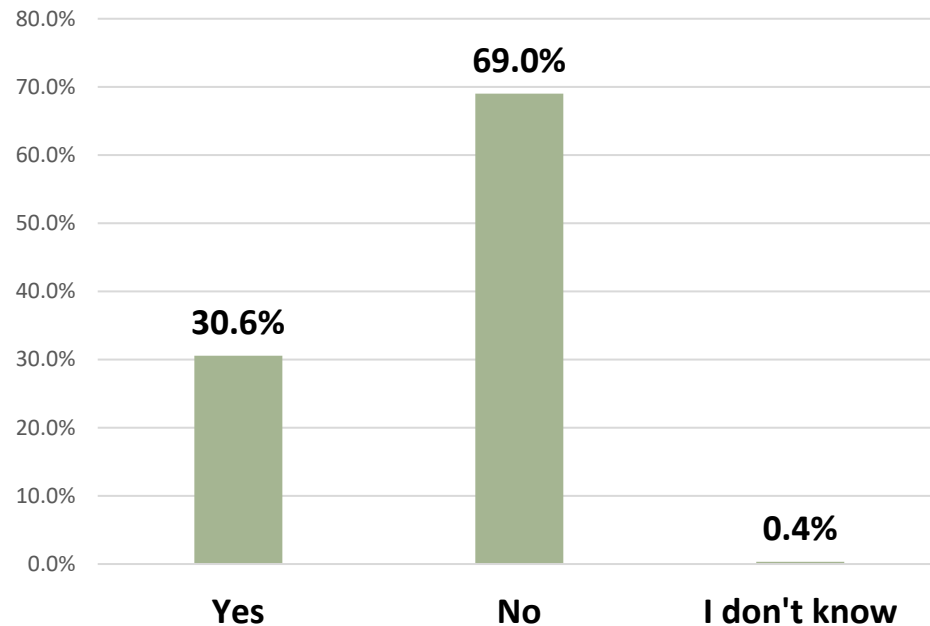


■ White ■ Black ■ Latino/a/x ■ Asian Amer ■ Native Amer ■ Other

Race/Ethnicity (n=549)	Male/Female
White 63.9% (n=351)	58.1% Male/ 41.9% Female
Black 22.8% (n=125)	38.4% Male/ 61.6% Female
Latino/a/x 4.6% (n=25)	56.0% Male/ 44.0% Female
Asian Amer 3.6% (n=20)	60.0% Male/ 40.0% Female
Native Amer 1.6% (n= 9)	55.6% Male/ 33.3% Female
Other 3.5% (n = 19)	52.6% Male/ 42.1% Female

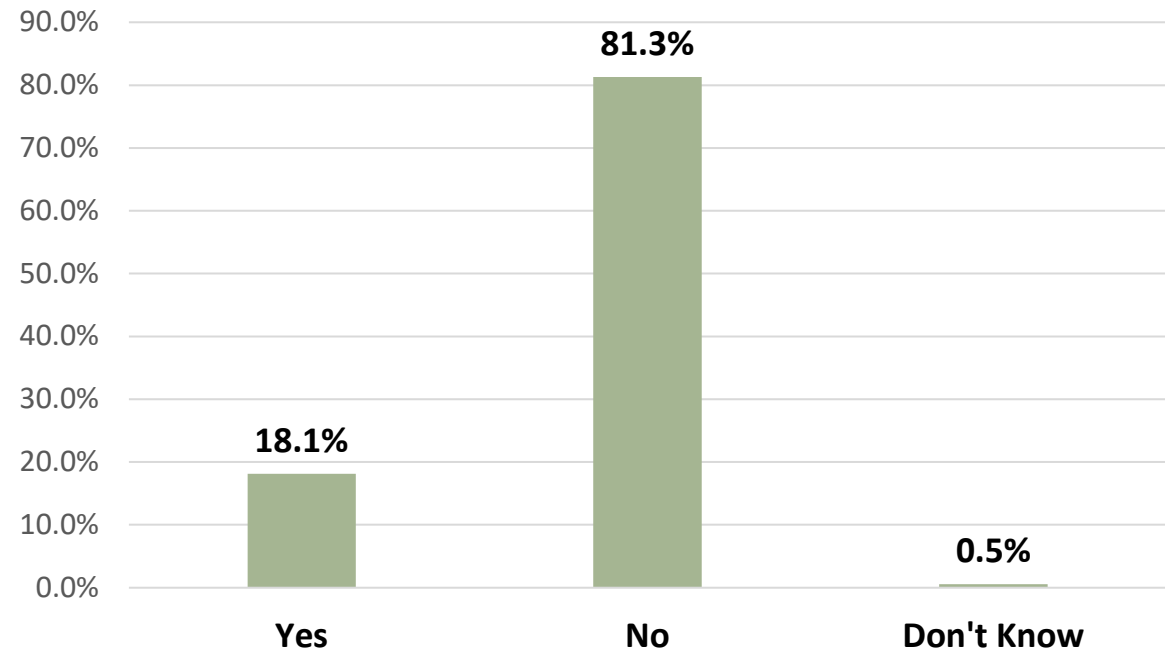
More Female than Male Respondents are in FT and PT employment while engaging in Entrepreneurial activities

TEQ2. Have you had a permanent job (35 hours a week or more with a single employer that gives you a W-2 tax form) in the last 6 months? n=562



- Of the 30.6% (n=170) above, 50% (n=85) are female and 48.8% (n=83) are male

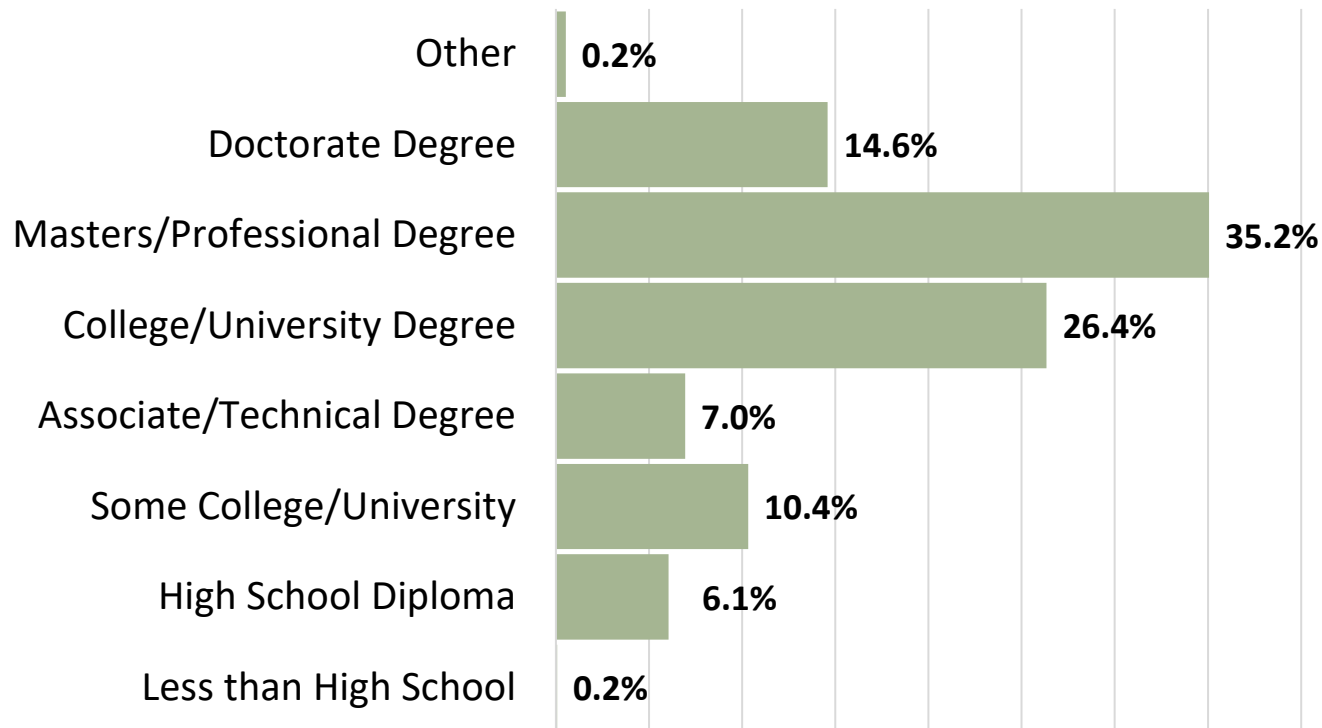
TEQ3. Have you had a permanent part-time job (34 hours a week or less with a single employer that gives you a W-2 tax form) in the last 6 months? n=562



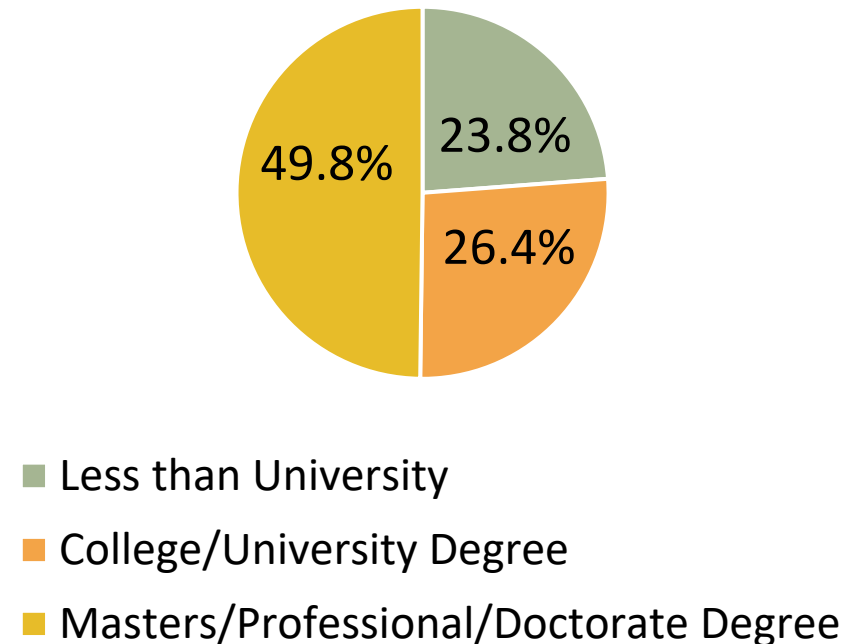
- Of the 18.1% (n=99) above, 58.6% (n=58) are female and 41.4% (n=41) are male

76% of Respondents had at least a college degree

Small Business and Gig Economy
Tax Knowledge Survey (n=560):
Educational Attainment All Categories

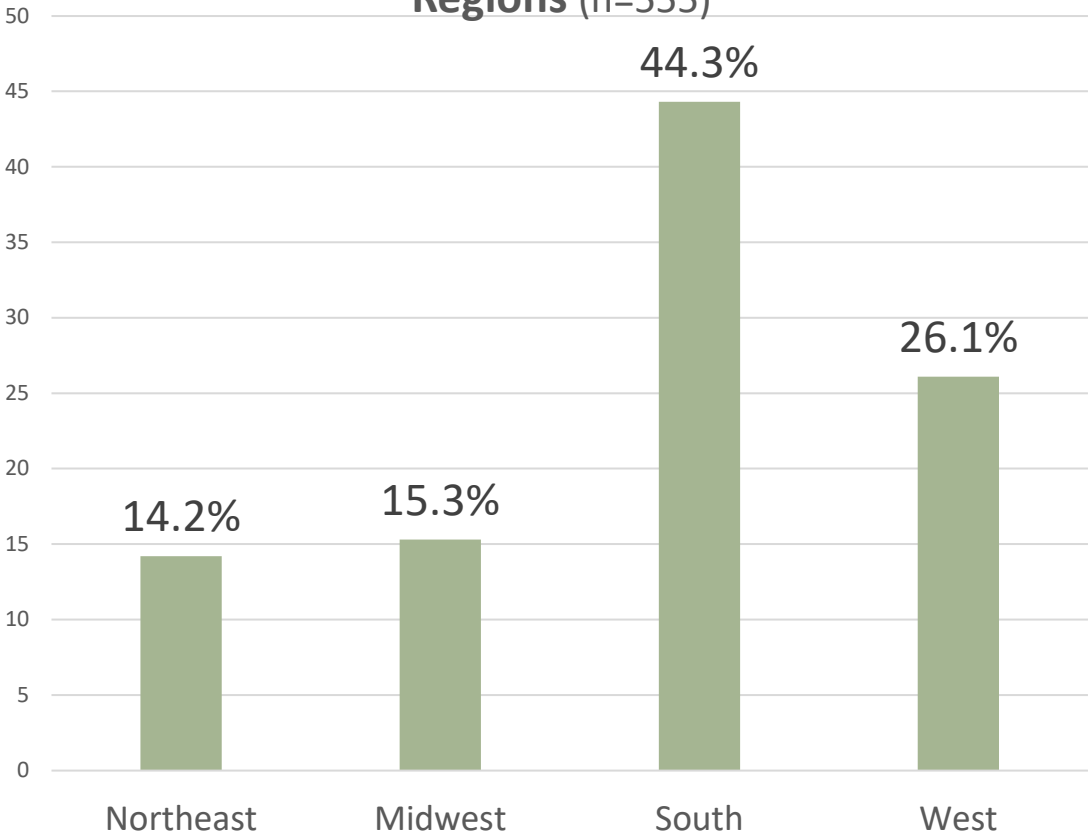


Small Business and Gig Economy Tax
Knowledge Survey (n=560):
Educational Attainment 3 Categories

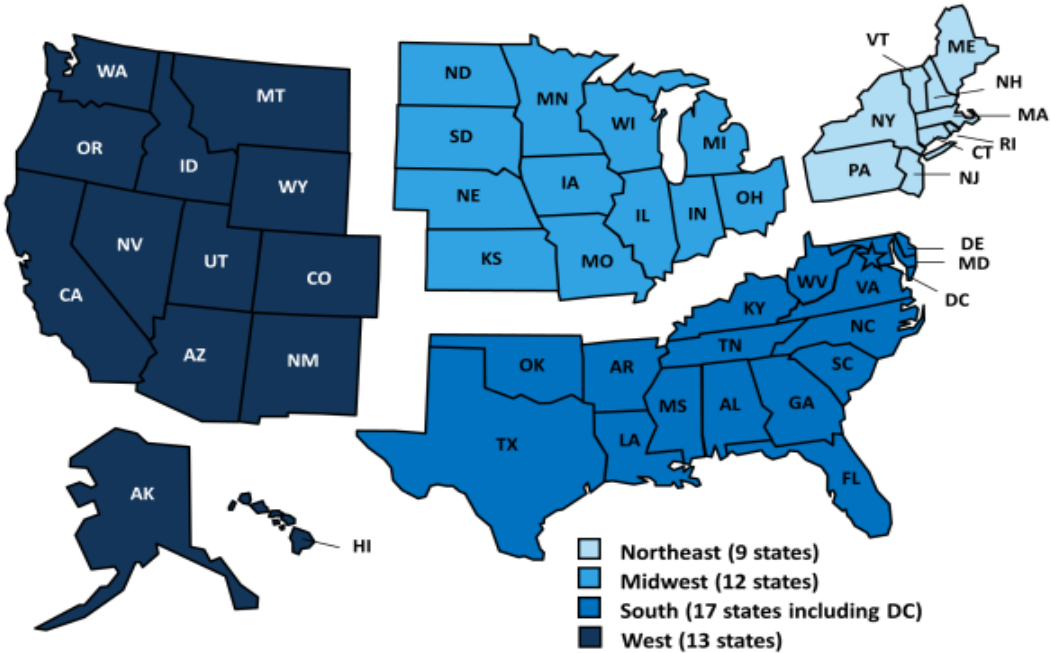


44% of Respondents reside in the South- 85% in metro and 1510% in non-metro areas

Percent of Respondents by Geographical Regions (n=555)



States by Census Regions



Source: U.S. Census Bureau.

Tax Education Survey

SURVEY QUESTIONS CAPTURING TAX KNOWLEDGE GAP

Top-Line Findings Summary

It's a Pay-to-Pay System: 87% of respondents hired someone or bought software to do their taxes.

A College Degree Doesn't Guarantee You Know How to Do Your Taxes: 76% of our respondents had at least a college degree compared to 23.5%(*) of the U.S. population and only 13.5% learned how to do taxes in college.

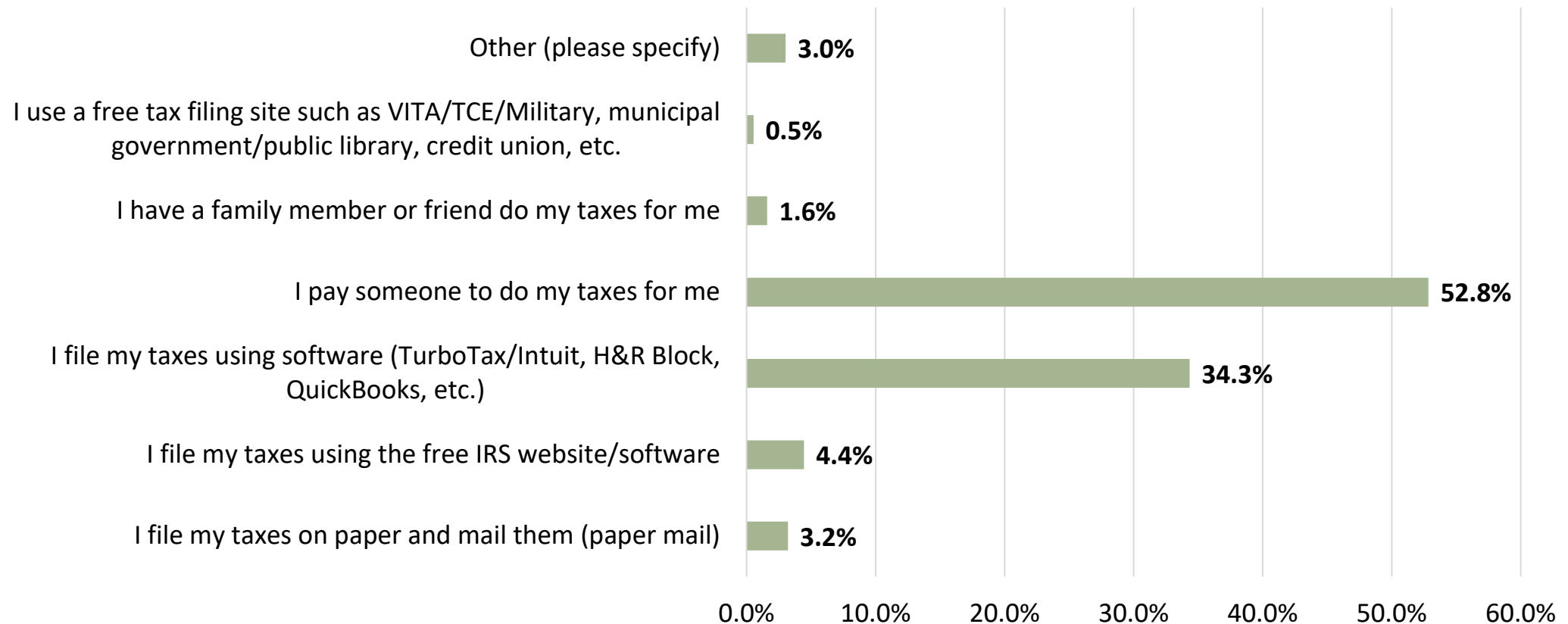
You're On Your Own When It Comes to Taxes: 62% of respondents reported learning how to do taxes on their own and only 7.5% reported learning how to do taxes in high school. At the same time, more than half of the states require completion of a financial literacy course to graduate high school.

People Don't Know What's Due When: Approximately one-third of respondents didn't know whether they needed to pay quarterly-estimated taxes and a quarter didn't know how to pay their taxes. While 54% of respondents did set aside money to pay taxes, 30% didn't know and didn't set aside money to pay taxes.

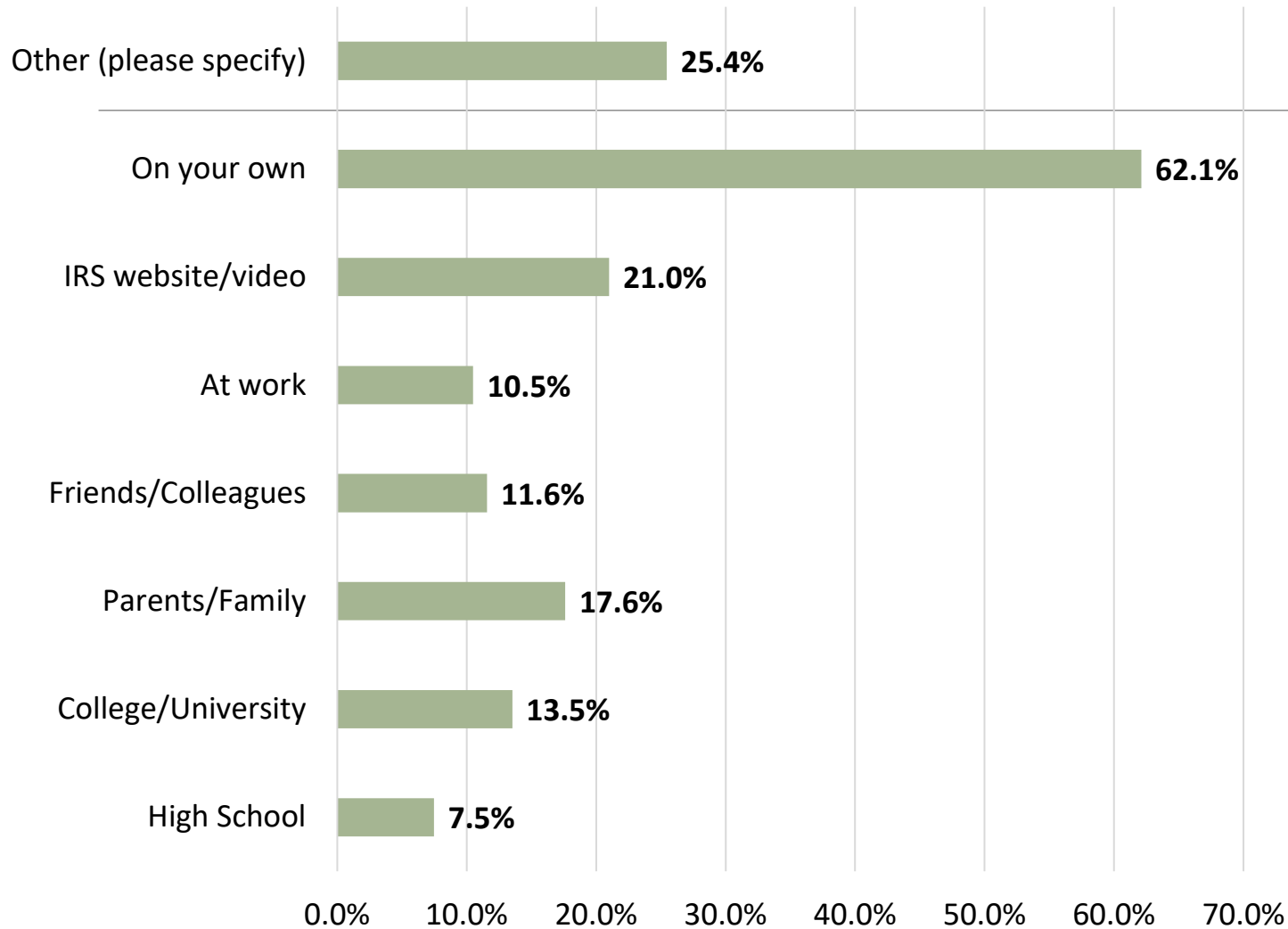
Tax Time Triggers Anxiety: Over 37% of Respondents Felt Nervous/Scared or Bad about Filing Taxes.

It's a Pay-To-Pay System: 87% of Respondents Pay Someone *or* Buy Software to File Their Taxes

TEQ8. How do you file your taxes? n=562



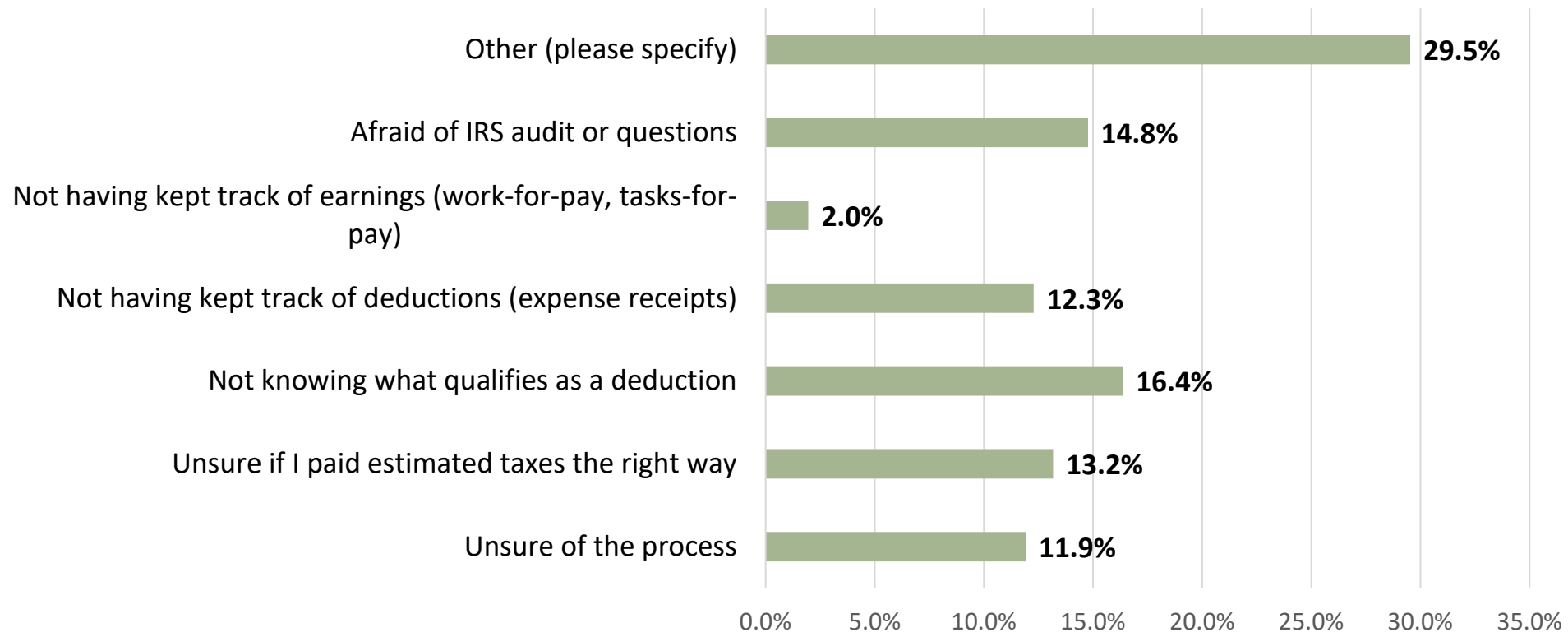
TEQ14. Where did you learn how to do your taxes?
(CHOOSE ALL THAT APPLY) (n=562)



62% Reported They Learned to Do their Taxes on Their Own and More than 25% Reported Not Knowing How to Do Their Taxes and Relied on their Preparer

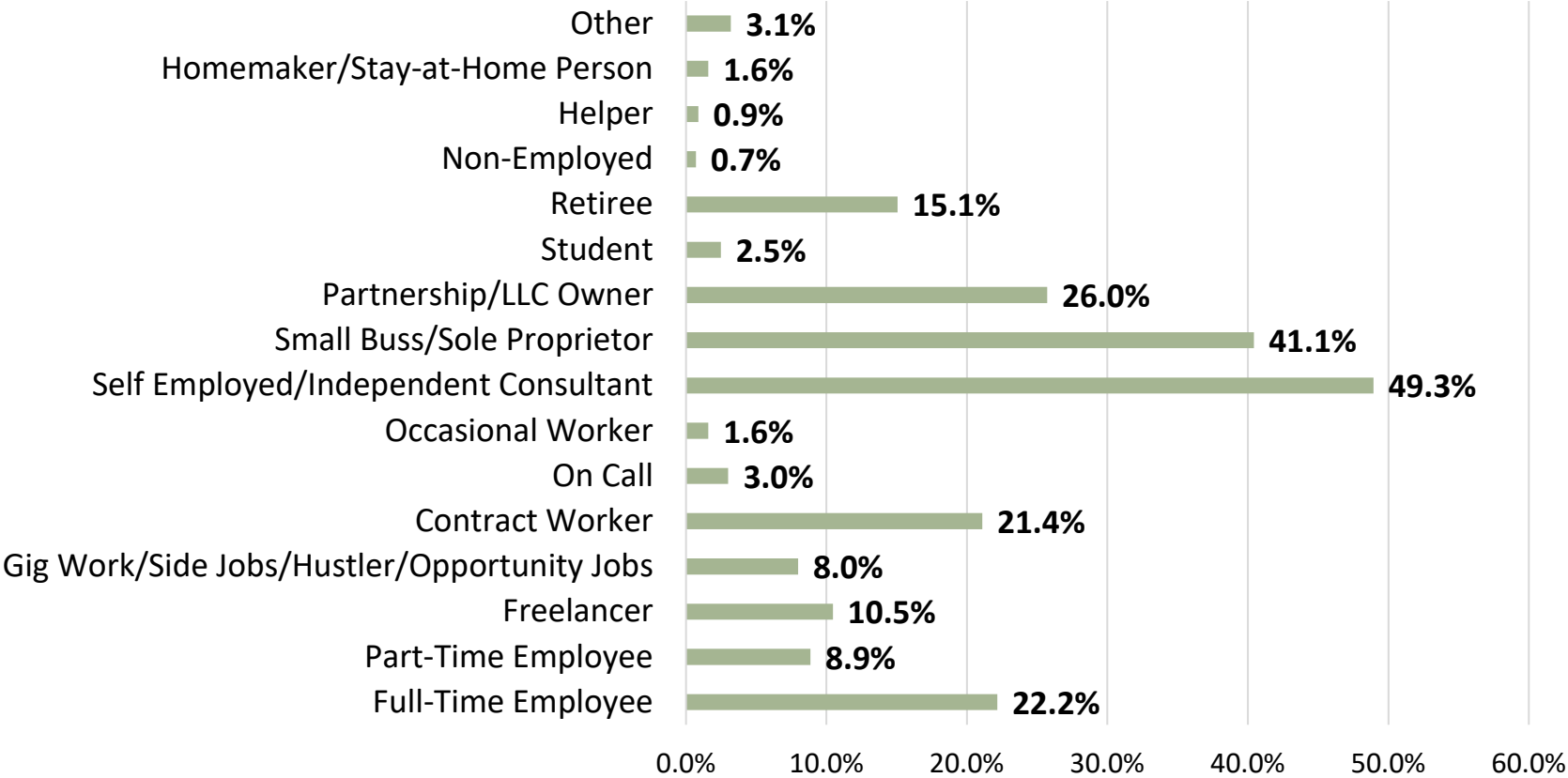
Over 41% of Respondents were Concerned about: What Qualifies as a Deduction, Unsure of Paying Estimated Taxes and of the Process

TEQ9. What most concerns you when you are filing any type of 1099 income on your taxes?
(n=562)



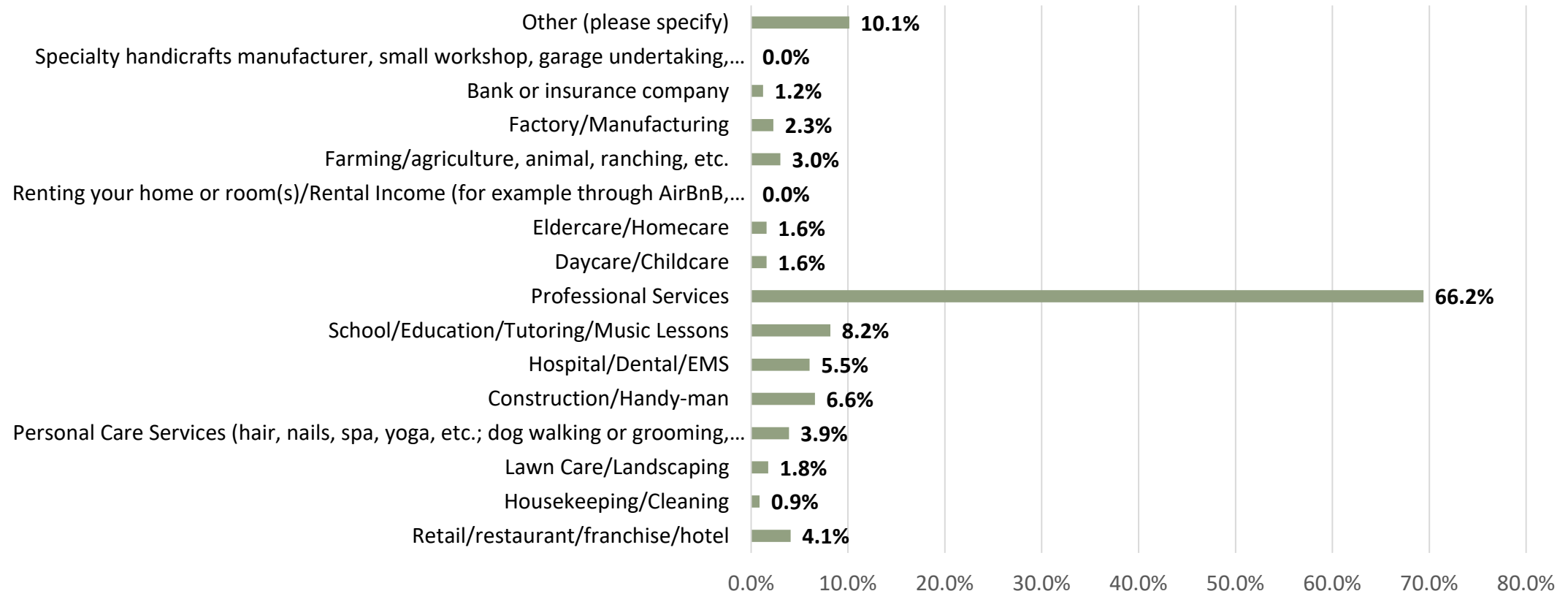
Almost 50% of respondents identified as part of the Independent Workforce and 67% Identified as Small Business Owners

TEQ1. How Do You Describe Yourself?
(Choose All That Apply) n=562



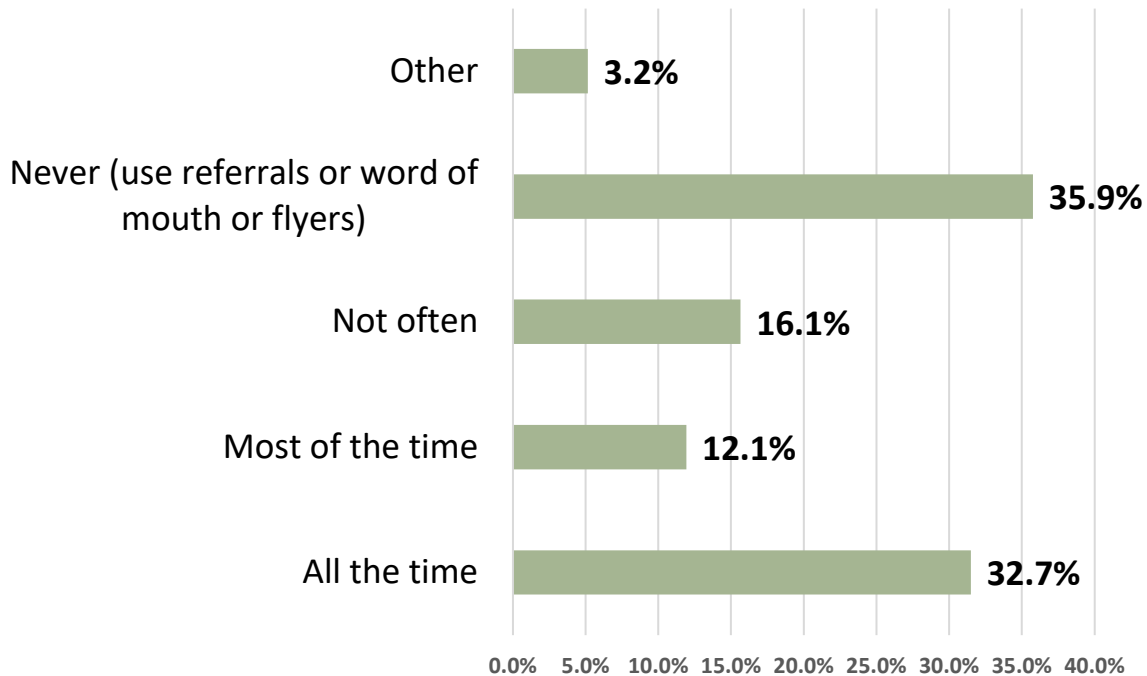
Over 66% of Respondents Self-Identify as Offering Professional Services

TEQ5. What type of work do you do?
(CHOOSE ALL THAT APPLY) n=562

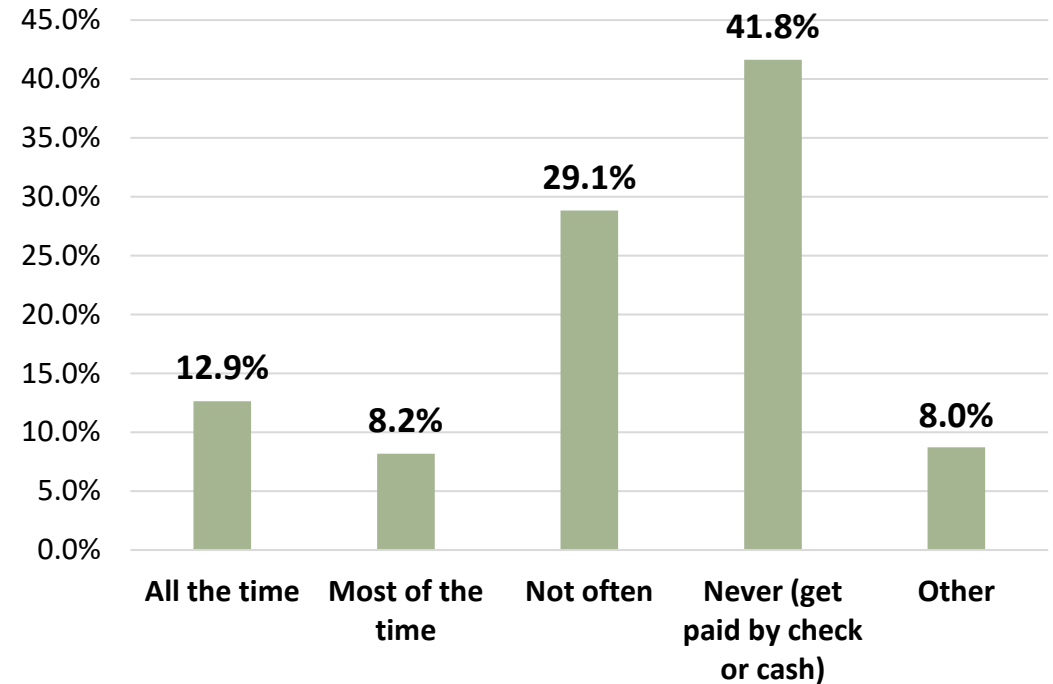


Over 50% of Respondents Never or Not Often Use On-line Customer Connectivity and More than 70% Never or Not Often get Paid Digitally

TEQ4a. How often do you use internet platforms, websites and/or apps (such as Uber, Etsy, Airbnb or TaskRabbit) to connect with customers and get work-for-pay/gigs on your computer, laptop, pad or smartphone? n=560

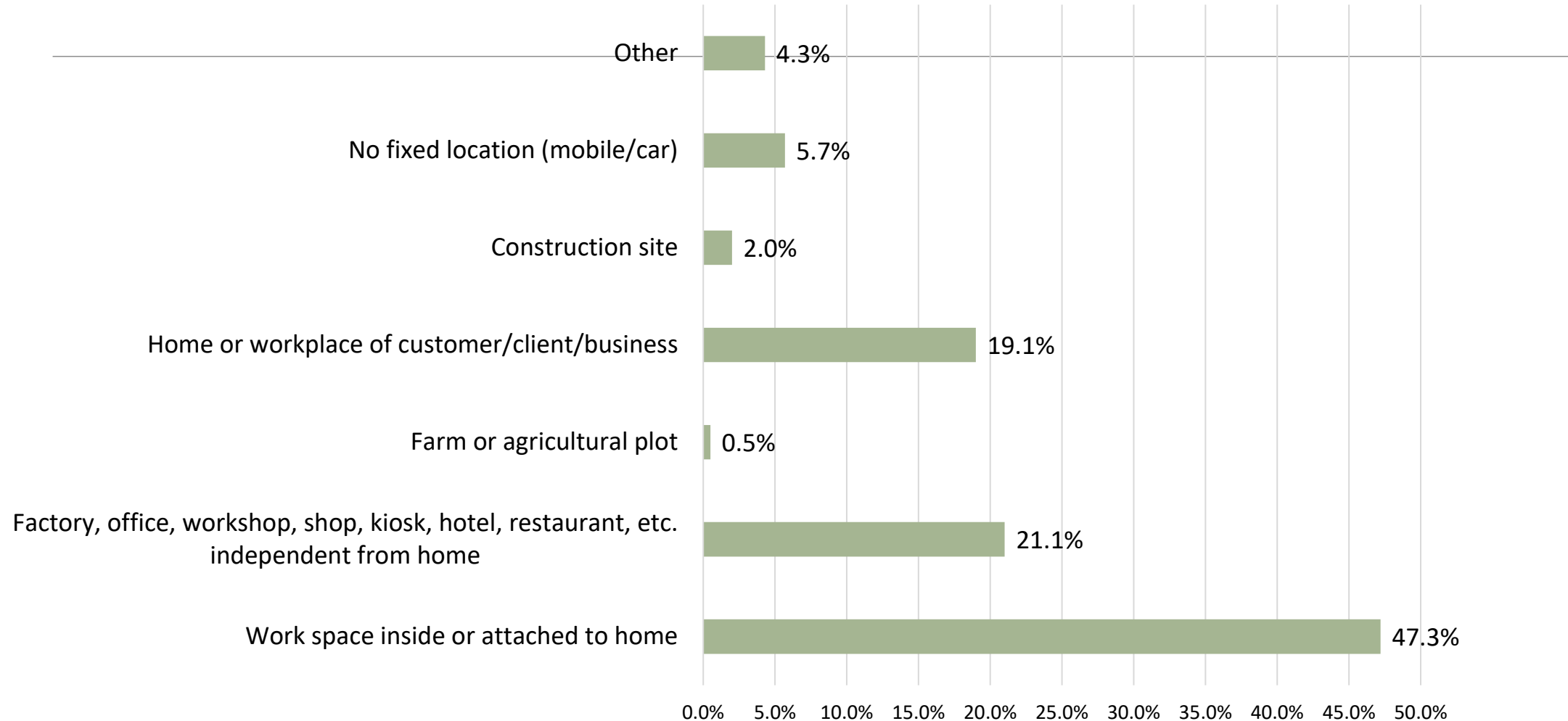


TEQ4b. How often are you paid for your work (selling goods or services to customers or businesses) using payment apps (such as VENMO, Paypal, Zelle, CashApp, ApplePay, etc.)? n=560



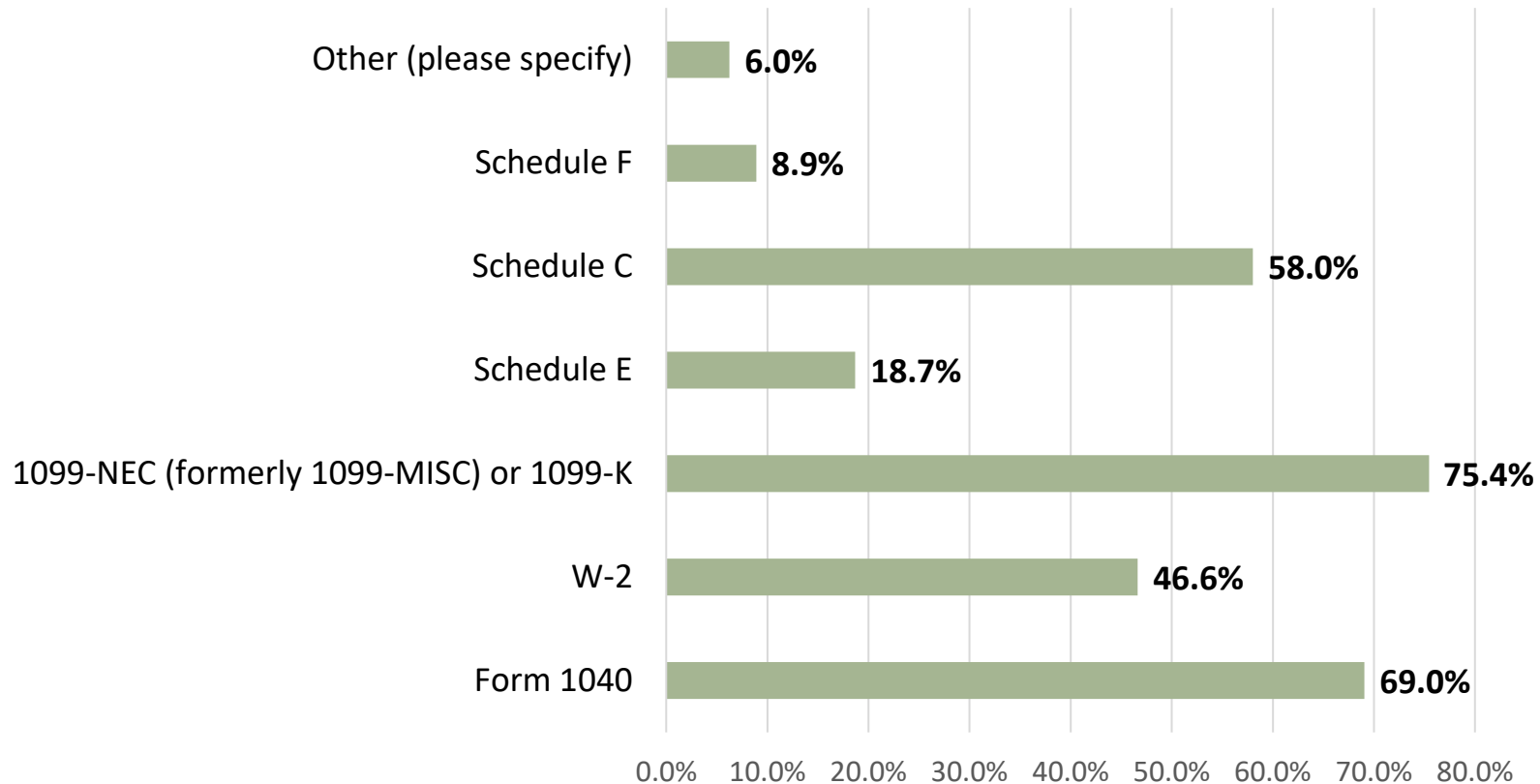
Almost half of all Work is Done From Home

TEQ4_Where do you mainly undertake your work? (n=560)



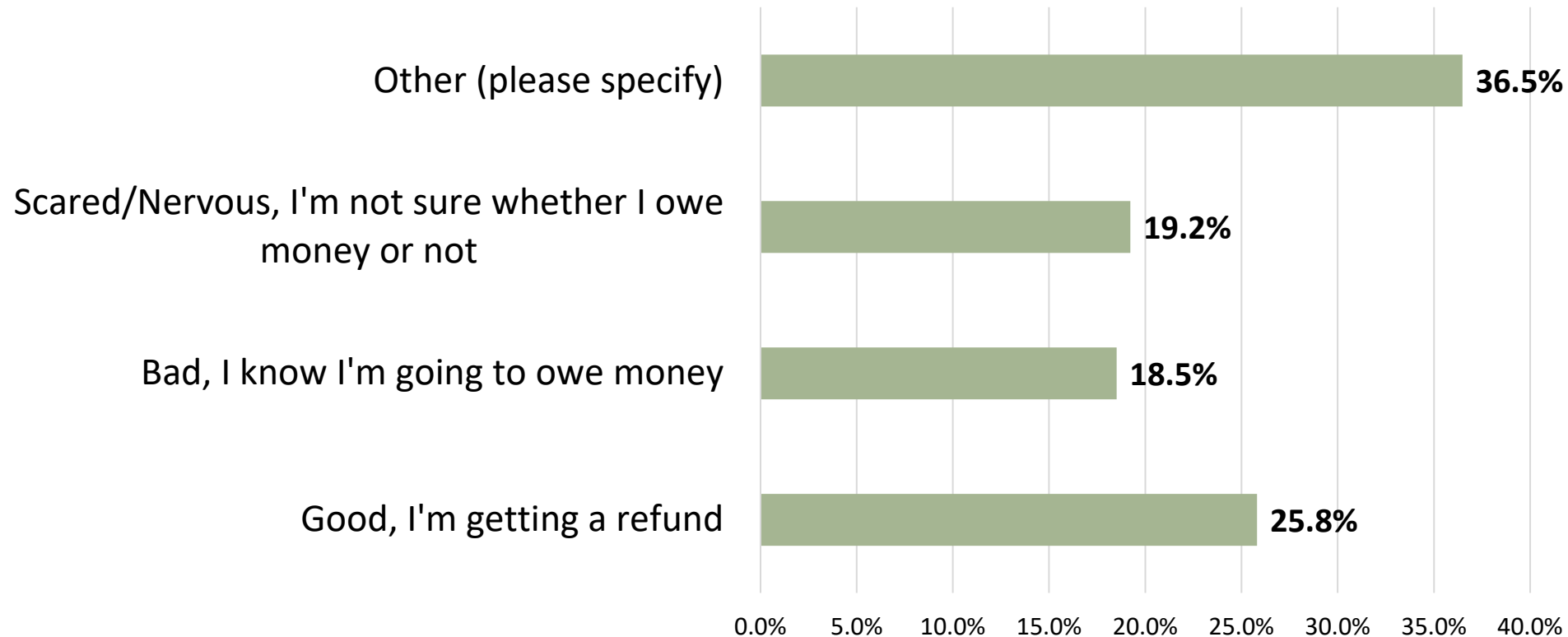
Only 69% of Respondents Reported Filing a Form 1040 but over 75% Report 1099's

TEQ7. Do you include the following income tax forms when you file your taxes?
(CHOOSE ALL THAT APPLY) n=561

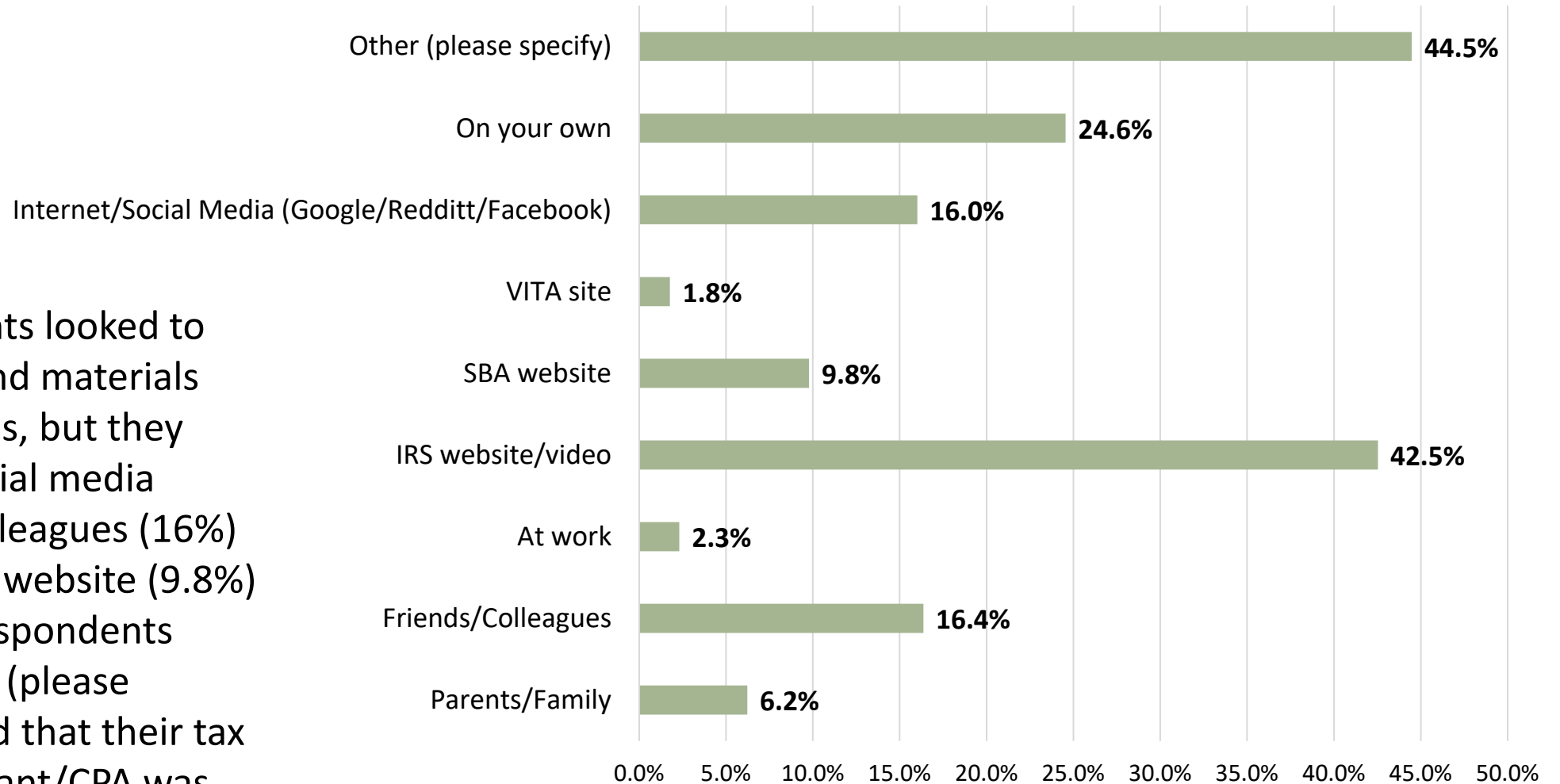


Over 37% of Respondents Feel Scared/Nervous or Bad About Filing Taxes

TEQ19. How do you feel about filing your taxes?
(Choose one answer) n=562



TEQ11. Where do you go for help or advice to learn about your taxes?
(CHOOSE ALL THAT APPLY) n=562



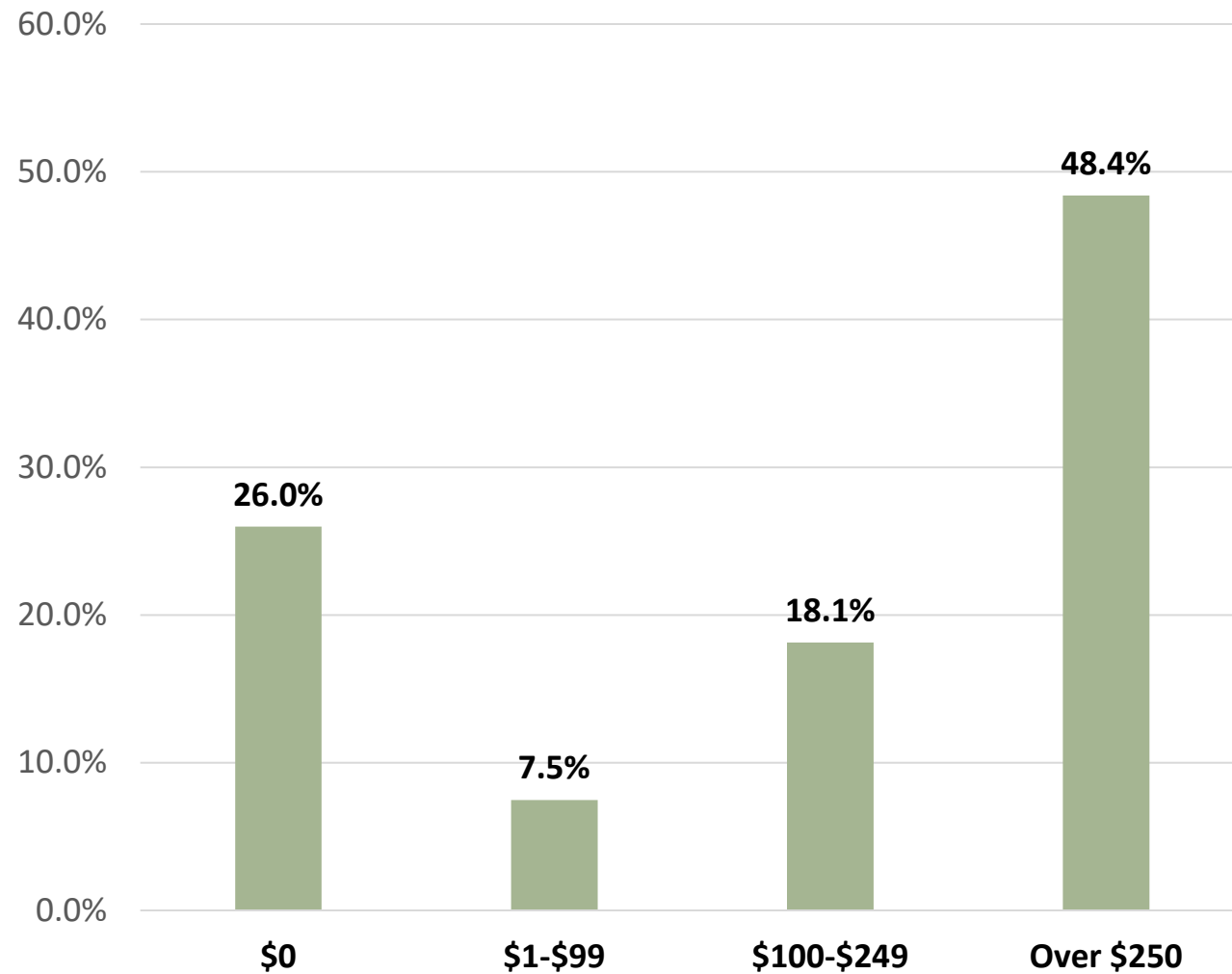
TOPLINE FINDINGS:

- 43% of respondents looked to the IRS website and materials for help filing taxes, but they also looked to social media (16%); friends/colleagues (16%) and even the SBA website (9.8%)
- Almost 45% of Respondents answering “Other (please specify)” indicated that their tax preparer/accountant/CPA was their tax adviser/tutor

TOPLINE FINDINGS:

- One-third of respondents pay less than \$100 but two-thirds pay more than \$100 and almost half of our respondents paid more than \$250 to help with their taxes

TEQ16. How much do you pay to have help with or have someone do your taxes? n=562



Preliminary Logit Regression Results for Small Business, Independent Contractors, Freelancers and Gig Workers

- Request for SOI IRS proprietary Zip Code and County level data for 2022 is pending
- Preliminary results from employing public IRS Zip Code level data for 2020 provide suggestive results for various Adjusted Gross Income Tax Filers with 6 categories of AGI
- Results presented here are for AGI4: Adjusted Gross Income for \$75,000 to under \$100,000
- Odds Ratios indicate that **Age** and **Education** of respondents as well as Zip Codes with high levels of **Paid Preparer** Signatures on Taxes Filed with the IRS have a significant probability of Small Business, Independent Contractors, Consultants, Freelancers, and Gig Workers **paying someone to prepare their taxes.**

AGI4: Small Business Tax Filers with Adjusted Gross Income between \$75K and \$100K

Logistic regression

Number of obs = 532
 LR chi2(11) = 19.37
 Prob > chi2 = 0.0547
 Pseudo R2 = 0.0263

Log likelihood = -358.22202

TaxEd_Pay_Nopay	Odds ratio	Std. err.	z	P> z	[95% conf. interval]	
PREP	1.001188	.0005442	2.18	0.029	1.000122	1.002255
ELDERLY	.9994921	.0006659	-0.76	0.446	.9981877	1.000798
N00900_NumBusReturns_NetY	.9965692	.002422	-1.41	0.157	.9918335	1.001327
SCHF	.9922652	.0057045	-1.35	0.177	.9811474	1.003509
N26270_Partner_Scorp	1.001478	.002708	0.55	0.585	.9961843	1.0068
N09400_SETax	1.001183	.0036349	0.33	0.745	.9940839	1.008333
TED1_Age	1.016252	.00713	2.30	0.022	1.002373	1.030323
NTED2_Gender	1.137366	.21008	0.70	0.486	.7919119	1.633516
NTED3_MarStatus	1.171256	.2367364	0.78	0.434	.7881441	1.740597
NTED6_Educ	.8585251	.0564249	-2.32	0.020	.7547609	.9765548
NTED7_Region	.9839425	.0952459	-0.17	0.867	.8139041	1.189505
_cons	.6557385	.4486893	-0.62	0.537	.1715125	2.507066

Source: Tax Literacy and Small Business Survey, 2022 and IRS Tax Statistics, Zip Code Level,
<https://www.irs.gov/statistics/soi-tax-stats-individual-income-tax-statistics-2020-zip-code-data-soi>

Preliminary Recommendations: Financial Literacy & Tax Education Outreach

- Tax literacy modules should be required to be (1) included in financial literacy and civics curricula/courses developed for SBA including those prepared and distributed among SBA/SBDC/WBC/SCORE organizations as well as Middle School, High School, Community and Technical Colleges and University programs; and (2) studied for long-term impact and outcome analysis.
- VITA/Tax Counseling for the Elderly (TCE) sites should include awareness, education and basic information concerning 1099 forms (1099NEC and 1099K) by having links to resources on SBA/USDA websites and networks.
- Going forward, IRS/SBA/USDA should collaborate on funding and employing participatory research, tax awareness and education as a wholistic methodology for learning what type and level of tax literacy has the most significant impact on small business access to capital and facilitates compliance.

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