

UTAH'S TAX CREDIT BILL TO SUPPORT INDEPENDENT CONTRACTOR BENEFITS

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Independent Contractor Benefits Tax Credit Amendments

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Chair Bramble and distinguished members of the committee, thank you for the invitation to speak today.

I am Liya Palagashvili, senior research fellow at the Mercatus Center at George Mason University. For several years, my research has focused on the gig economy and independent contractors, including the advantages of portable benefits systems for this workforce. I recently published a policy brief “Flexible Benefits for a Flexible Workforce: Unleashing Portable Benefits Solutions for Independent Workers and the Gig Economy,” which is attached. I hope you will find it helpful in your discussion of the merits of allowing benefits to independent contractors in Utah.

The world of work is changing. More and more Americans are choosing flexible jobs through freelancing, gig work, platform-based work, or self-employment. In Utah, there are 80,000 independent contractors or self-employed individuals representing more than 5 percent of total employment. This number is expected to grow significantly in the next decade. This workforce spans industries, skill levels, and educational attainment. For example, these workers can be musicians, ridesharing and delivery drivers, yoga instructors, software developers, graphic designers, landscapers, and self-employed online merchants.

According to the Bureau of Labor Statistics, 79 percent of independent contractors prefer their arrangement over an employment arrangement.¹ Over a dozen surveys indicate that workers prefer the flexibility of engaging in independent work, especially workers who have dependent care obligations or

¹ Bureau of Labor Statistics, “Contingent and Alternative Employment Arrangements—May 2017,” news release no. USDL-18-0942, June 7, 2018, <https://www.bls.gov/news.release/pdf/conemp.pdf>.

other personal circumstances that prevent them from taking on employment.² In fact, approximately 46 percent of freelancers state that freelancing gives them the flexibility they need because they are unable to work for a traditional company owing to personal circumstances, such as health issues or family obligations.³

Gig workers in particular value flexibility to a greater extent than the average employee. Uber drivers would require almost twice as much pay to accept the inflexibility that comes from adopting a taxi-style schedule.⁴ And for the top 10 percent of DoorDash drivers, losing flexibility is equivalent to a 15 percent pay cut.⁵

These flexible job arrangements can be particularly transformative for women who are the primary caregivers in their households. One study finds that self-employment rates are higher for women who have young children and that self-employed female workers have more flexibility in their work location, hours, and schedule as compared to women in traditional employment.⁶

In a nationwide survey, researchers also found that about 75 percent of self-identified homemakers, or stay-at-home mothers, indicated that they would likely return to work if they had flexible options.⁷ Another survey of self-employed women found that 96 percent of 2000 women surveyed indicated flexible working hours as the primary benefit of engaging in platform-economy work.⁸ Indeed, 70 percent of these platform-working women were the primary caregivers in their homes. A quarter of these women had recently left their full-time employment for platform-based work, and 60 percent indicated that they did so to gain more flexibility and time to care for a child, parent or other relative, or both.

Independent contracting and self-employment are providing an important source of income for a large set of working Americans, especially working mothers, many of whom are unable to take on traditional employment.

At the same time, there are shortcomings with this type of work: independent workers do not have access to common workplace benefits afforded to traditional employees. This is partially because many decades ago, tax incentives were created to encourage tying fringe benefits to traditional employment, and labor laws were designed in a way that restricted the flow of benefits to nontraditional workers.

² See, for example, Adam Ozimek, “Freelance Forward Economist Report,” Upwork, accessed January 14, 2023, <https://www.upwork.com/research/freelance-forward-2021>; James Manyika et al., *Independent Work: Choice, Necessity, and the Gig Economy* (New York: McKinsey Global Institute, 2016).

³ Adam Ozimek, “Freelance Forward Economist Report.”

⁴ M. Keith Chen et al., “The Value of Flexible Work: Evidence from Uber Drivers,” *Journal of Political Economy* 127, no. 6 (2019).

⁵ Laura Katsnelson and Felix Oberholzer-Gee, “Being the Boss: Gig Workers’ Value of Flexible Work” (working paper no. 21-124, Harvard Business School, Boston, MA, May 18, 2021).

⁶ Katherine Lim “Self-Employment, Workplace Flexibility, and Maternal Labor Supply: A Life-Cycle Model,” *Economic Review of the Household* 17, no. 3 (2019): 805–42.

⁷ Kaiser Family Foundation, CBS, and New York Times, Non-Employed Poll, December 2014, 25.

⁸ Hyperwallet, *The Future of Gig Work Is Female: A Study on the Behaviors and Career Aspirations of Women in the Gig Economy*, 2017.

Back then, this was not a big issue because most workers were traditional employees. But now that the circumstances have changed, these laws are failing a large and growing sector of the workforce.

This creates an awkward trade-off for independent workers who must often choose between an inflexible employment job that comes with benefits and a flexible job that comes without benefits.

That does not have to be the case. State and federal policies could decouple benefits from traditional employment and allow access to benefits for all workers. Tying benefits to individuals rather than their employers could increase equity and efficiency. Indeed, several decades of economics research has highlighted that employer-based fringe benefits discourage job mobility and make labor markets more rigid. Employer-based fringe benefits also increase the cost of exiting a job, inadvertently creating an increasingly monopsonistic market structure that reduces workers' bargaining power by making workers more dependent on one firm.

Decoupling benefits entirely from employment may still be light-years away. But policymakers can begin to make small adjustments today that will help create a fairer system for independent workers tomorrow.

By doing so, states will also support reform of existing institutions to give all workers—not just employees—a better step into the future.