and Beyond

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According to a recent study from the Pew Research Center, nearly a quarter of all Americans are earning an income from online platforms, including eBay. While these types of gig economy companies – also often referred to as the sharing economy – provide many benefits for American workers, two trends have converged to create a nightmare for tax information reporting professionals. First, the gig economy has redefined work and taxation of wages. Second, the IRS has decided that it needs to bridge the gap between revenue and taxes paid. This is a divide that the sharing economy has only made wider.

The issue is that 63 percent of income generated in the gig economy is flying under the radar, according to the IRS. It's imperative to reduce this tax evasion, which is why the federal government and state governments are crafting tax laws to catch up with the gig economy – which is set to explode. The Brookings Institute expects the gig economy to grow from $14 billion to $335 billion by 2025, so governments must act fast.

Tax Loopholes in the Gig Economy

In order to close the gig economy tax gap, Congress and the states are currently working to get the money they feel they're losing to the gig economy by significantly lowering their earning threshold. The core IRS form used by gig economy workers is the 1099-K, which reports on payments processed through a payment card transaction (debit, credit or gift cards) or those processed through a third party, like

Uber. This is not to be confused with the 1099-MISC, which is usually issued to

K recipients aren't getting taxed at all. Moreover, gig economy organizations – as of yet – don't have to report those 1099-K forms to the IRS or to states. And they aren't. In the 2016 tax year, the IRS received 10 million 1099-K forms versus around 93 million 1099-MISC forms. This leaves a lot of money unreported – and Congress and the states are not having it.

Global Solutions for Closing the Tax Gap

While there is still much to be done, several states have already implemented or are in the early stages of figuring out ways to demand their piece of the revenue pie. Massachusetts and New Jersey, for example, have already lowered the 1099-K earnings threshold from $20,000 to $1,000. Vermont is also pursuing a similar provision, and heavy economic hitters such as California and New York are likely not far behind. As the gig economy continues to grow, both the federal government and state governments will continue working to pass legislation aimed at closing the tax gap, which will inevitably make this complex situation even more confusing.

So, just what does this mean for organizations operating in the gig economy? Simply put, it's crucial for companies to be prepared. One recommendation is to establish a "center of excellence," in which tax information reporting responsibility is placed in the hands of a select group of individuals who can act quickly to changes in compliance requirements and anticipate what the next challenges will be. This way, processes are centralized and automated and gig economy companies will be prepared for the IRS' heavy hammer of enforcement – not to mention potentially large financial penalties for late or incorrect 1099 fillings.

With all the uncertainty, it's best companies operating in the gig economy work now to get prepared for new changes in tax-reporting compliance. This includes establishing a streamlined, automated operation that is nimble enough to react to change. When combined with automation, centralizing tax operations provides gig economy companies with the ability to react quickly to changes in compliance

These companies need to act now to centralize and automate their tax-reporting processes to ensure their businesses are safeguarded from the burdens and risks of compliance.

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Clark Sells, solution principal at Sovos, is responsible for managing and launching new tax reporting solutions aimed at simplifying complex processes for enterprise clients. An expert in domestic information reporting, Sells also works closely with state and federal government agencies to determine the impact of regulatory requirements for Sovos to consider in its ongoing product expansion. Last year, Sells was selected to serve on the national Information Reporting Program Advisory Committee (IRPAC), a liaison between the IRS and the public with the goal of improving the information reporting program of the United States. Sells will serve a three-year term alongside six other newly named tax and regulatory professionals and 13 returning members.

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