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Tax Compliance in the Gig Economy: The Need for Transparency and Accountability

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Abstract

The gig economy is characterized by its flexibility, and it is a form of employment that primarily involves temporary jobs and short-term independent freelance workers. The study evaluates tax compliance in the gig economy, emphasizing the need for transparency and accountability. Using the mixed-methods approach, the result of the study shows that 43.3% of participants are engaged in work outside of their primary jobs, while 33.3% assert they have no other work apart from their main job. The results also indicate that caregiving work (27%) is the most common type of gig work, compared to others. Social media marketing recorded the lowest participation at 6%. The findings also show a significant percentage (80%) of the respondents are not concerned about tax default. In conclusion, the gig economy has demonstrated its viability as an employment form due to the number of people engaging in it. However, most gig workers strongly disagreed to tax compliance. Future research exploring wider population in tax compliance should be focused on.

Keywords: Gig Economy, Tax Compliance, Independent Freelance, Temporary Jobs, Mixed-Methods Approach, Caregiving Work

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Introduction

McKinsey Global Institute, (2016) report made it known that the number of independent and freelancers is growing rapidly so much that in EU-15 and the United States, more than 162 million people, estimated at 20–30% of the working-age population, are engaged in one or two independent work (McKinsey Global Institute, 2016). Edame and Okoj (2014) posited that taxation is a major source of government revenue globally as they use tax proceeds to render traditional functions, such as: the provision of goods, maintenance of law and order, defense against external aggression, regulation of trade and business to ensure social and economic maintenance.

The ‘gig economy’ terminology though has been recently used by economists, media and policy makers; the concept has not however been fully accepted even with the exponential growth in recent years. Kuhn (2016); Warner (2015) defined gig economy as those involved in primary short terms independent freelance workers. According to Chappelow (2019), the gig economy is defined as a type of employment characterized by flexibility and temporariness. It has become commonplace for organizations and consumers to lean towards hiring independent contractors and freelancers rather than offering full-time employment. Most of the present-day gig opportunities are known to be facilitated by technological platforms (Abraham et al., 2019) with most of these platforms being smartphone apps that connects gig workers with their various possible customers or consumers in need of the services they are providing. Due to the nature of the work, the gig economies around the world are growing at an exponential rate. According to International Labor Organization [ILO] (2017), it was reported that 34% of the workforce in the United States are mainly gig workers.

Gig economy work leaves room for self-direction and are often more flexible compared to traditional careers (Beazley et al., 2017). In addition to this, gig economy can also work independently without being represented by any company. In carrying out their jobs in the gig economy, workers utilize publicly available social platforms such as YouTube, Instagram, and Facebook to promote their products and generate sales (Guta, 2017). Gig economy workers are invariably classified as self-employed. This classification has been a major source of concern that if they are independent contractors as they claimed to be, why their works are closely supervised and their pay is directed through a specific application or internet platform (Bregiannis et al., 2017). By classifying gig-workers as independent contractors, the platforms they work with do not pay into social insurance systems for gig-workers who are contractors. Tax compliance had been defined by many researchers. Ahmed and Kadir (2015) defined tax compliance as the degree taxpayers complies with tax rules and regulation instituted in a country. Thiga and Muturi (2015) also defined tax compliance as the ability to fulfil tax obligation payment as required by the relevant tax laws. The concept of tax compliance according to Olaniyan (2020) is defined as a form of

magnitude by which tax is paid to fulfil tax obligation through payment to the appropriate tax laws or regulations. Olaniyan (2020) further went on to add that taxpayer's response to tax compliance or tax payment through the submission of their tax information to tax authorities is not done in a particular manner but based on stipulated formats. Tax compliance is the willingness and ability on the taxpayer's part to obey the relevant tax laws, declare the actual income and pay the correct tax liability as assessed promptly.

For a proper effective function of a modern economy, there is need for accountability and transparency to foster social well-being. The popularity and the rise of gig economy has been a major source of concerns in terms of tax as many of these independent workers are not transparent with their earning and have more opportunity to legally avoid or even illegally evade taxes compared traditional employees. Lack of accountability and transparency of tax of gig economy, will have negative effect on the economy. Furthermore, gig workers are enjoying some of the provisions being doled out by the government even though they don't comply with tax payment. Several authors have also investigated tax avoidance impact on a nation's economy (Arias, 2017; Bayer and Kupzowa, 2006). Thus, the premise on which this study undertook to look into tax compliance in the gig economy: the need for transparency and accountability.

Methodology

This research study made use of mixed-methods approach using quantitative and qualitative data collection methods, surveys questionnaires and interviews in order to explore multiple areas of the study. Structured questionnaire and interview schedule were used in the primary data generation exercise. Secondary data from textbooks, journals, books, newspaper article and reliable internet sources were also collected and properly cited. Survey methods were also used in the collection of quantitative data. This form of data extraction gave a piece of inherently statistical information. For this data extraction, semi structured interviews were used. This was done through the conduction of structured interviews. Descriptive statistics such as frequency distribution and percentage tables were used to analyze the socio-economic characteristic of the gig economy. Category of gig work and understanding tax compliance in the gig economy was identified and ranked using a 4-point Likert scale ranking.

		Result	
Demographic Characteristics of gig workers			
		Frequency (N=30)	Percentage (%)
Gender	Male	18	60.0
	Female	12	40.0
Age	20-24	3	10.0
	25-29	12	40.0
	30-34	13	43.3
	35-39	2	6.6
	> 39	0	0
	Total	30	100
Education level	High school	5	16.6
	Diploma	5	16.6
	Technical degree	5	16.6
	B.S/B.A	10	33.3
	M.S/M.A	3	10.0
	PhD	2	6.6
	Total	30	100
Other Involvement	Jobs Other part-time work	13	43.3
	Other-full time work	7	23.3
	No any other work	10	33.3
	Total	30	100

Source: Field Data, 2022

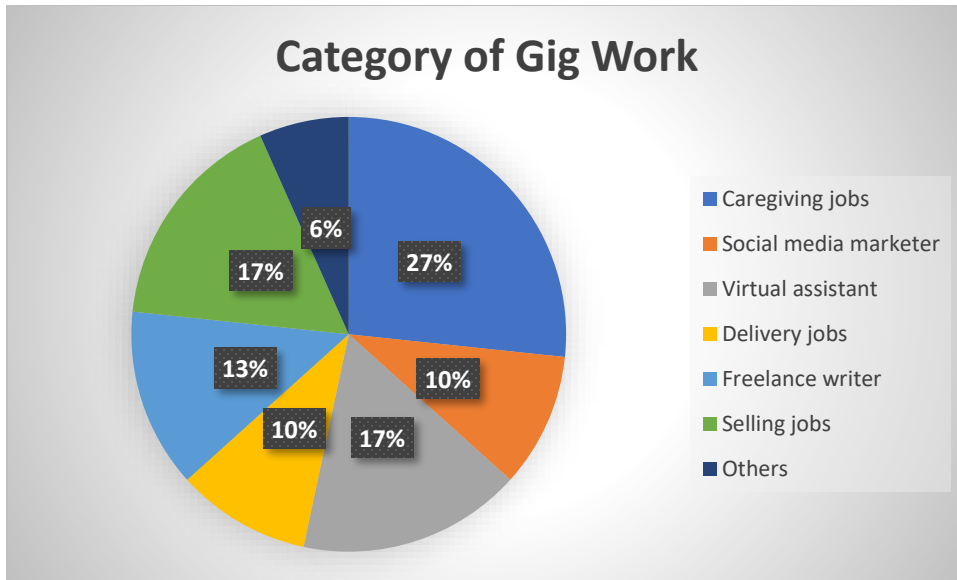


Figure 1:Category of Gig Work

Source: Field Data, 2022

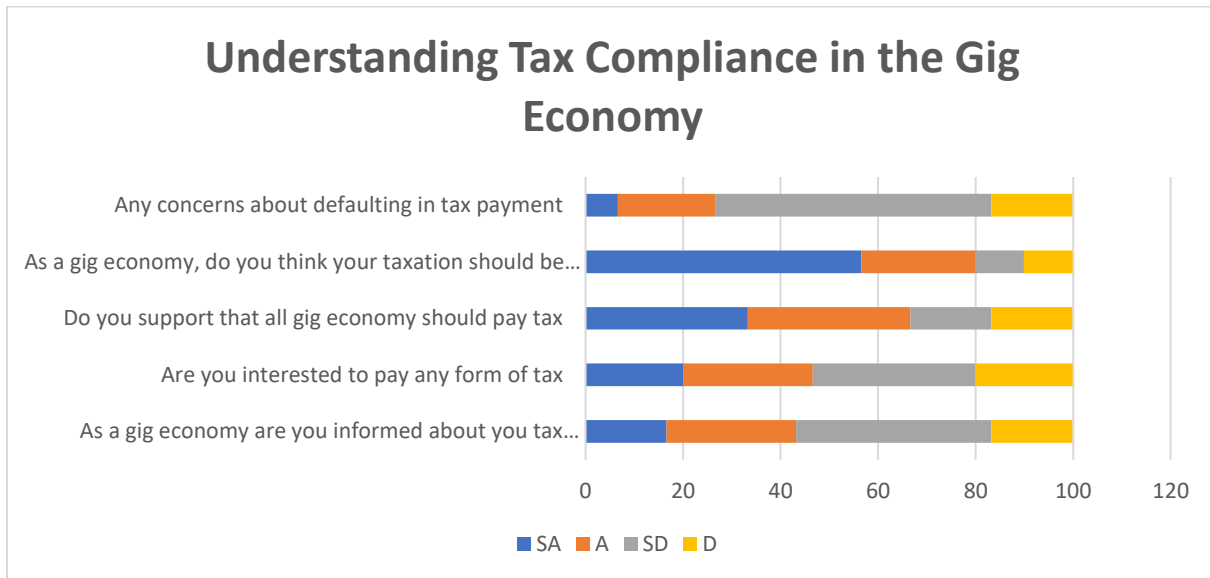


Figure 2: Understanding Tax Compliance in the Gig Economy

Source: Field Data, 2022

DISCUSSION

Tax compliance with accountability and transparency has significant effect on good governance. In other way, tax evasion has a negative significant effect on good governance (Olaniyan, 2020). Thus, there is need for accountability and transparency in gig economy. This study evaluates tax compliance in the gig economy, the need for transparency and accountability.

The results of the study show that 60.0% of the respondents are male, while females account for 10.0%. Also in the result, 43.3% of these respondents are engaged in other part time work compared to other-full time work (23.3%) and no other work (33.3%). This shows that most people do engage in other side hustles apart from their full-time work in order to be able to meet up with their needs and avoid economy crisis. The result also shows that 33.3% of the respondents are graduate. Lago-Pens (2010) pointed out that highly educated taxpayers are more prudent in completing their tax returns based on the fact that educated ones compared to others who are not educated are more exposed to public affairs and also critical with government policies. Even with the fact that most are educated and are familiar with tax compliance and the need to account for their income doesn't mean that the highly educated ones cannot engage in this white-collar crime (Burton et al., 2005; Togler and Schaltegger, (2006).

In terms of the category of gig work involved in, the result of this study shows that caregiving jobs recorded the highest (26.6%) percentage compared to other gig work social media marketer (10.0%), virtual assistant (16.6%), delivery jobs (10.0%), freelance writer (13.3%), selling jobs (16.6% and others (6.6%) in this present study. The reason for this could be due to the fact that in caregiving jobs, this gig work involves just little hours to work to get engaged with. This however depends on the kind of bargain or arrangement between a caregiver and the clients. This kind of gig work is flexible and can be navigated with a full-time work. Thus, the reason for high involvement of the respondents. Relating this to tax compliance, caregiver in the gig economy believe no need to pay any tax. In addition, as much as gig workers such as caregiving, delivery jobs, and freelance writers are synonymous with working multiple jobs, the number of gig work they are involved in is not significant in taxpayers decision whether they comply or not, thus, various intent in getting multiple jobs may be the justification for the reason they don't want to pay taxes. It should also be noted that apart from economy crisis that propel gig workers to engage in gig economy, personal qualities such as talent and resources are the major reason why these gig workers engage in multiple work.

National Bureau of Economic Research (NBER) in their report made it known that gig workers underreport their earnings with an underreporting rate of these gig works and earning placed at 30-50% (Austin et al., 2019). Lack of transparency and not being able to account for earning in order to pay tax

has significant effect on the economy and can lead to loss in tax revenue (Austin et al., 2019). Lawlor et al. (2020) citing IFS reported that noncompliance with tax laws is frequent among gig workers especially for those who work with different platforms and thus, they tend to be insincere with tax compliance and also do not show transparency with their dealings.

Conclusion

The gig economy has shown a reputation to be a viable form of employment due to the number of people that are engage in it. The study reveals that most gig jobs are the likes of; caregiving, freelance writing, virtual assistant, selling jobs etc. The study also reveals that most of these gig works strongly disagreed to tax remittance or compliance as they see no reason to. This is definitely an issue that will affect the economic growth of any country.

Recommendations

Based on the research findings, the following are recommended:

- i. Future research in terms of wider population in the area of tax compliance should be focused on
- ii. Further study is also needed to look into factors affecting employee propelling them to engage in gig economy.

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