

DESCRIPTION OF PROPOSALS RELATING  
TO INDEPENDENT CONTRACTORS  
SCHEDULED FOR A HEARING

BEFORE THE

SUBCOMMITTEE ON  
SELECT REVENUE MEASURES

OF THE

COMMITTEE ON WAYS AND MEANS  
ON JULY 16 AND 17, 1979

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PREPARED FOR THE USE OF THE  
COMMITTEE ON WAYS AND MEANS

BY THE STAFF OF THE  
JOINT COMMITTEE ON TAXATION

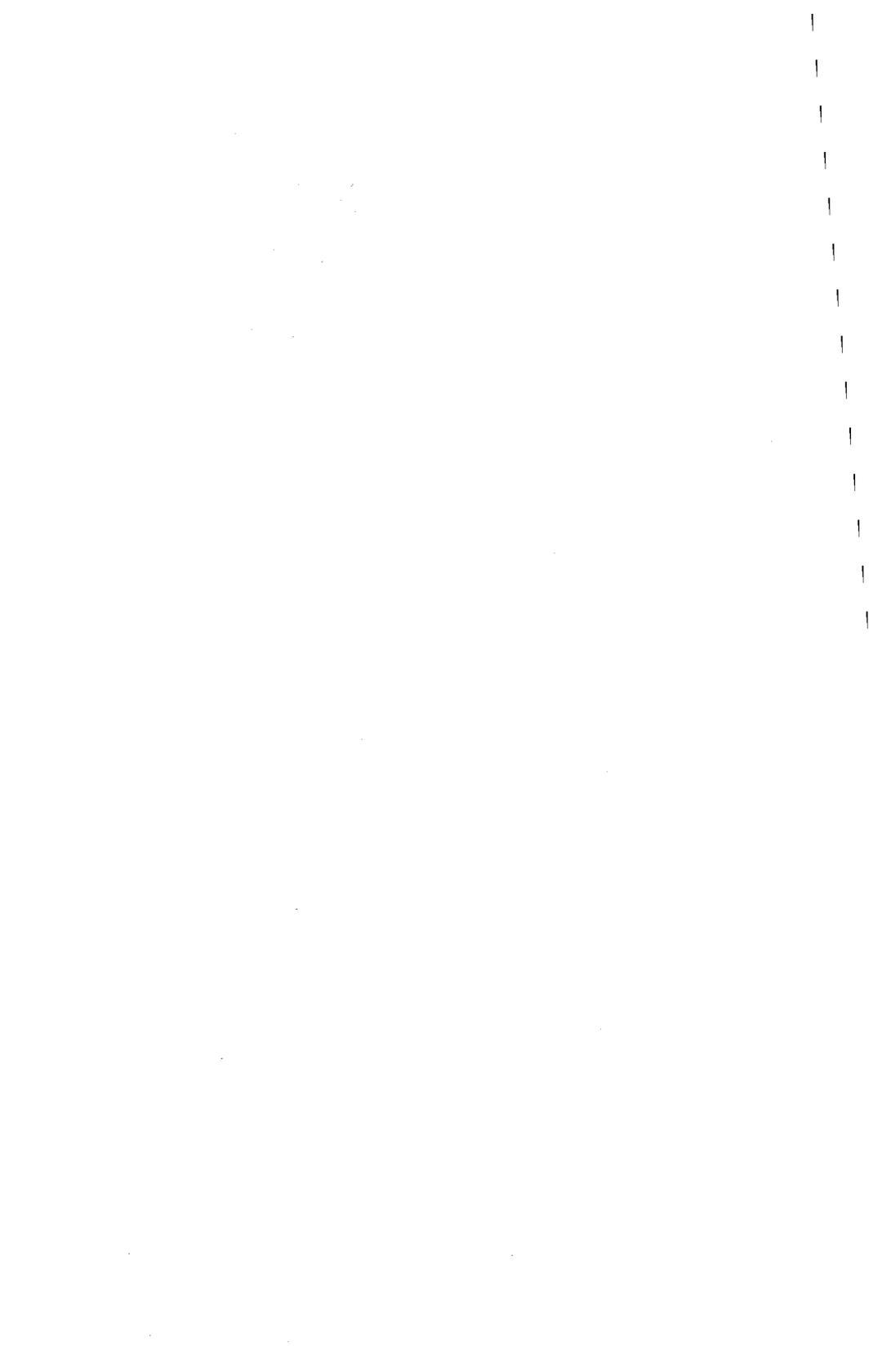


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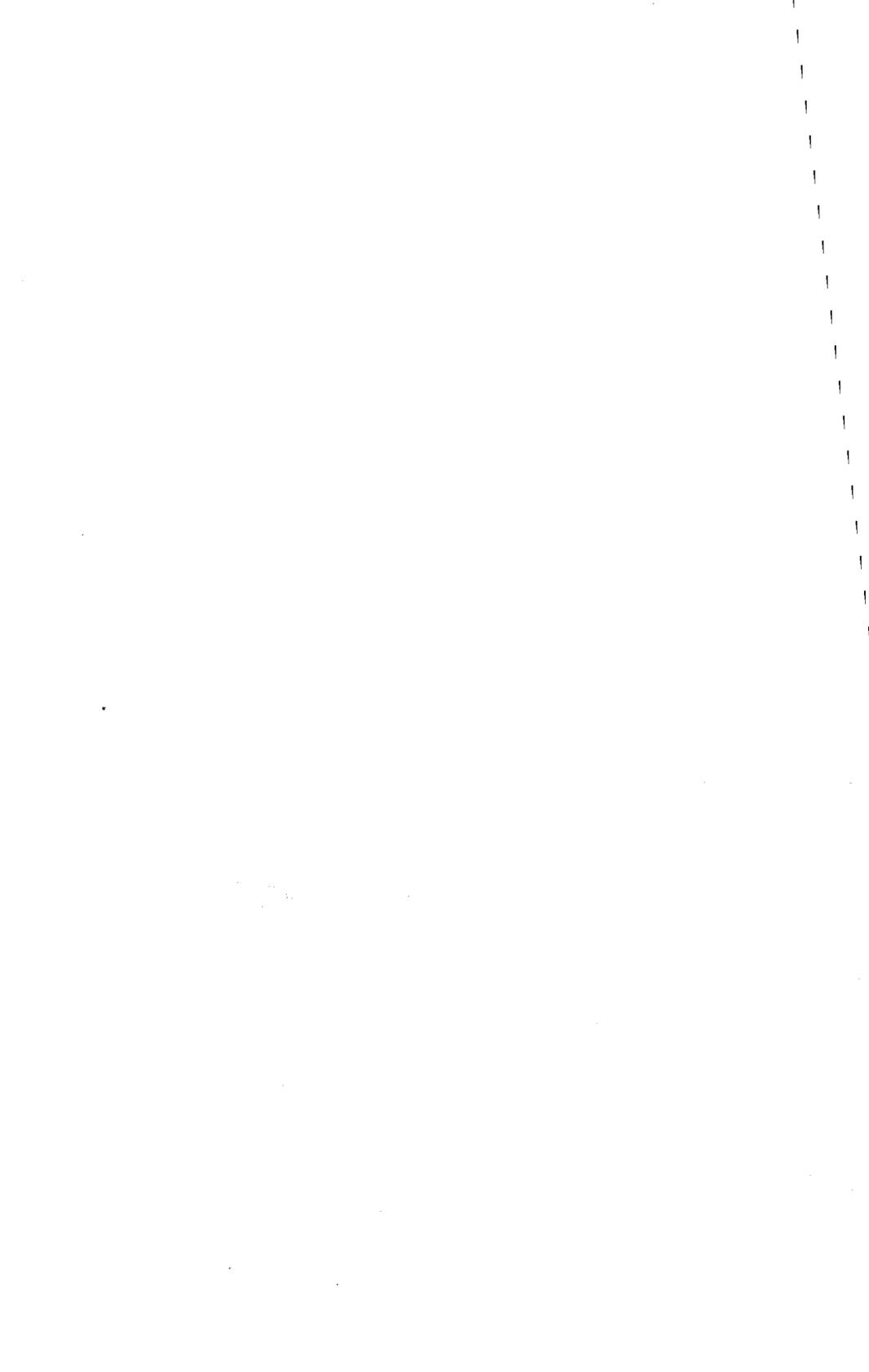
## I. INTRODUCTION

On July 16 and 17, 1979, the Subcommittee on Select Revenue on proposals relating to the tax treatment of independent contractors.<sup>1</sup>

The pamphlet outlines the present common law rules governing the classification of individuals as employees or independent contractors for purposes of Federal income and employment taxes, as well as the issues raised by these rules. The pamphlet also describes alternatives to present law, including proposals by the Administration, H.R. 3245 (introduced by Mr. Gephardt), and the recommendations of the General Accounting Office. In addition, an appendix contains the Treasury Department summary of a recent Internal Revenue Service study of compliance by certain independent contractors with the income and employment tax laws.

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<sup>1</sup> A public hearing was held by the Subcommittee on June 20, 1979, to receive testimony from the Department of the Treasury. The Treasury proposals appear in part V of this pamphlet.



## **II. BACKGROUND**

### **A. Determination of Status**

Under present law, the classification of particular workers as employees or independent contractors for Federal income and employment tax purposes generally is determined under common law rules. Under the common law, if a person engaging the services of another has "the right to control and direct the individual who performs the services, not only as to the result to be accomplished by the work, but also as to the details and means by which the result is to be accomplished," the relationship of employer and employee is deemed to exist.

### **B. Increased IRS Enforcement**

In the late 1960's, the Internal Revenue Service increased enforcement of the employment tax laws. As a result, many controversies developed between the IRS and taxpayers concerning the proper classification of workers. These controversies affected a wide variety of workers, including insurance agents, direct sellers, pollsters, oil jobbers, and real estate agents. If the IRS prevailed in reclassifying a worker as an employee, the taxpayer became liable for employment taxes (withholding, social security, and unemployment) with respect to the reclassified workers. In many cases, these reclassifications involved a large number of workers and several tax years.

### **C. Revenue Act of 1978**

The Revenue Act of 1978 provided interim relief (until 1980) for certain taxpayers involved in employment tax status controversies with the IRS. In general, the Act terminated taxpayers' potential liabilities for Federal income tax withholding, social security and FUTA taxes in cases where taxpayers have a reasonable basis for treating workers other than as employees. In addition, the Act prohibited the issuance of Treasury regulations and Revenue Rulings on common law employment status before 1980.

### **D. Employment Taxes**

#### ***1. Social Security (FICA) taxes***

For calendar year 1979, employers and employees are required by the Federal Insurance Contributions Act (FICA) to pay social security (FICA) taxes of 6.13 percent each on the first \$22,900 of the employee's wages, for a maximum of \$1,403.77 each and a total of \$2,807.54 per employee.

## **2. Federal Unemployment Tax Act (FUTA) taxes**

The FUTA tax is levied on covered employers at a current rate of 3.4 percent on wages up to \$6,000 per year paid to an employee. However, a 2.7 percent credit is provided to employers who pay taxes under state unemployment compensation programs. The self-employed are not taxed by, nor included in, the Federal unemployment compensation program.

## **3. Income tax withholding**

In addition to the responsibility for FICA and FUTA taxes, an employer who pays wages to individual employees must withhold for each pay period a portion of the wages to satisfy all, or part, of the employee's Federal income tax.

## **E. Taxes Imposed on Self-Employed Individuals**

Compensation paid to individuals who are self-employed is not subject to Federal income tax withholding. Rather, self-employed individuals must make quarterly payments of estimated tax directly to the Treasury. For calendar year 1979, self-employed individuals with net self-employment earnings of \$400 or more are required by the Self-Employment Contributions Act (SECA) to pay social security (SECA) tax of 8.10 percent on earnings up to \$22,900, for a maximum SECA tax of \$1,854.90.

### **III. ISSUES**

The controversies over the proper classification of workers for employment tax purposes involve at least three parties: the taxpayers who pay workers for their services, the individual workers who perform the services, and the tax administrators who review the taxpayers' classification of workers. Each of these parties has a significant interest in establishing correct classifications because the classifications affect their respective responsibilities and liabilities. Moreover, the concerns of these parties may not only vary, but even may conflict. If the interpretation of the present law governing employment status is to be clarified or if new rules and standards are to be adopted, these varied and conflicting concerns must be evaluated and, where possible, reconciled.

#### **A. Certainty**

Both taxpayers and administrators agree that in many cases the application of the common law tests for classifying individuals as employees or independent contractors is often vague and unclear and, thus, has been the cause of confusion and controversy. A solution providing greater certainty about proper status would aid both taxpayers and tax administrators.

#### **B. Compliance**

Tax administrators, concerned about taxpayer compliance and the cost of government administration, believe that the responsibilities imposed on employers for withholding and information reporting result in more accurate reporting and payment of liabilities as well as less expensive collection and enforcement. The IRS recently conducted a study of compliance with the income tax laws by workers with disputed status classifications. This study appears in the Appendix to this pamphlet.

#### **C. Revenue**

Any change which increases the number of workers classified as self-employed would have some negative revenue consequence to the Treasury. Not only is the social security tax rate imposed with respect to the self-employed lower than the combined employer-employee rate, but the Internal Revenue Service believes that the withholding requirement placed on employers with respect to the wages of their employees results in higher income tax compliance than does the self-employed workers' obligation for quarterly payments of estimated tax.

## IV. GENERAL TYPES OF ALTERNATIVES

### A. Information Reporting on Payments to the Self-Employed

A number of changes could be made to the information reporting requirements of present law: (1) the definition of what payments are subject to information reporting could be clarified and expanded; (2) the dollar amount for which information returns are necessary could be reduced (currently, information returns are required of persons engaged in a trade or business with respect to certain payments of \$600 or more); (3) payors could be required to furnish payees with copies of information returns which potentially relate to their tax liability; and (4) the penalty for failure to file information returns could be increased. (Currently, the penalty for failure to file is \$1 per return with a maximum aggregate penalty of \$1,000 per taxpayer.) While expanded information reporting would not address issues about an individual's employment status, it could increase the ability of the IRS to administer the tax laws and to ascertain compliance with income and employment taxes.

### B. Withholding

#### 1. *Income tax*

An expanded withholding requirement might alleviate concerns about noncompliance with the Federal income tax. In the case of independent contractors, withholding might be fixed at a flat *de minimis* rate in order to compensate for the overwithholding which otherwise might occur when compensation paid to independent contractors does not reflect their net earnings. While expanded withholding might improve compliance, it would not eliminate the uncertainty about the definition of "employee" and "independent contractor."

#### 2. *Social Security taxes*

In addition to income tax and FICA withholding, the withholding and paying over of SECA tax might be required. For example, payors who were made subject to an expanded income tax withholding obligation could be required to withhold from an independent contractor and to pay over an amount no larger than an employee's share of social security taxes. As an alternative to, or in conjunction with, expanded withholding, the elimination of the differences in the rates and imposition of the liabilities for SECA and FICA taxes might be considered.

### C. Statutory Classes of Self-Employed Individuals

A possible alternative to the use of the common law tests and to the development of any new rules of general application would be to designate statutorily certain workers in occupations with unique characteristics as self-employed.

#### **D. "Safe Harbor" Approach**

Congress could establish criteria for the classification of certain types of workers as independent contractors. These criteria could be designed to accommodate those classes of individuals who the Congress believes should be treated as independent contractors. Such a "safe harbor" approach might make status classifications easier for many individuals.

## V. PROPOSALS

### A. Treasury Proposal

The Treasury Department proposal relating to the tax treatment of independent contractors would require withholding on independent contractors at a flat rate, would strengthen the information reporting requirements, and would reduce from 100 percent to 10 percent the penalty imposed on an employer for failure to withhold. In addition, the Treasury has suggested several alternatives which may be considered now or in the future.<sup>1</sup>

#### *1. Withholding on independent contractors*

The Treasury Department has proposed that taxes be withheld at a flat rate of 10 percent from payments made in the course of a payor's trade or business for services provided by certain independent contractors. There would be two exceptions to this general withholding requirement.

The first exception would provide that no withholding would be required on payments to an individual who normally provides similar services to five or more payors during each calendar year. A worker would be entitled to rely upon this exception if (1) he or she performed similar services for five or more payors during the preceding calendar year, or (2) objective circumstances indicate that the worker reasonably can expect to perform services for five or more payors during the year in question.

The second exception is designed to prevent overwithholding. A worker who expected to owe less tax than the amount to be withheld (taking into account any taxes being withheld by other payors) would be permitted to elect out of the proposed withholding system. This would be accomplished by a worker checking a box and signing a form that would provide the payor with the worker's name, address, and social security number, which the payor is required to obtain for information reporting purposes under present law. If it were determined subsequently that the worker should have been withheld upon as an independent contractor, a payor who obtained this information would not be subject to any penalties for failure to withhold.

Under the Treasury proposal, flat-rate withholding would apply also to salespersons whose compensation for services is based upon the difference between the price to them of merchandise sold and its resale price. Compensation, for this purpose, would be measured by the difference between the "suggested" (or estimated) selling price to retail customers and the purchase price paid by the salespersons. Regulations would be issued requiring payors to make appropriate arrangements for withholding the tax.

#### *2. Strengthen information reporting requirements*

The Treasury Department has proposed three measures to strengthen the information reporting requirements of present law.

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<sup>1</sup> These proposals and possible alternatives were made by the Treasury Department in a statement by Donald C. Lubick, Assistant Secretary of the Treasury (Tax Policy), in testimony before the Ways and Means Subcommittee on Select Revenue Measures on June 20, 1979.

The first measure would increase the penalties for failure to file information returns to 5 percent of payments not reported, with a minimum penalty of \$50. Under present law, the penalty for failure to file information returns is \$1.00 per occurrence, with a maximum penalty of \$1,000 per calendar year.

The second proposal would require payors to provide copies of information returns to workers. Penalties for failure to provide these copies would be the same as for failure to file the information returns.

Finally, information reporting would be extended to compensation for services performed by salespersons. The amount to be reported would be the difference between the cost of goods sold and the suggested or estimated retail selling price of goods sold.

### **3. 10-percent penalty tax**

Under present law, if workers who were treated as independent contractors are reclassified as employees, payors are liable for a 100-percent penalty tax, that is, they are liable for all income and FICA taxes which should have been withheld from the workers in addition to their own liability for FICA and FUTA taxes.

Under the Treasury proposal, a penalty tax of 10 percent of the amount of wages not withheld upon would replace the 100-percent penalty tax. Payors whose workers are reclassified as employees would remain liable for the employer's half of FICA taxes and FUTA taxes. The worker would be liable for the employee's half of FICA taxes.

The 10-percent penalty tax would be abated if it were not unreasonable for the payor to treat the worker as an independent contractor and the payor also withheld a flat rate of 10 percent from the worker's compensation (or was excused from withholding because the worker elected out of the system). However, the payor would still be liable for the employer's half of FICA taxes and FUTA taxes.

### **4. Alternative suggestions**

The Treasury Department has suggested that, instead of a simplified flat—rate system for withholding on independent contractors, graduated—rate withholding could be required on all workers paid other than on a wage or salary basis regardless of employment status. Exceptions to graduated withholding would be provided for cases where the gross payments received by a worker would not approximate his or her net income and it is likely that the worker would provide services to multiple payors.

In addition, the Treasury has pointed out that it would be possible to reduce the tax advantages inherent in independent contractor status by equalizing the total social security tax burden for employees and independent contractors, while allowing the latter an income tax deduction for approximately one-half of such taxes. The Treasury believes that eliminating the disparity between FICA and SECA tax rates should be given consideration in the future as part of the broader issue of social security financing.

Finally, the Treasury has suggested that, if absolute certainty is considered paramount, objective standards to supplement the common law and assist payors in making determinations of withholding could be provided as part of a flat-rate withholding system. However, it urges that any such criteria provide certainty by erring only on the side of classifying workers as subject to graduated-rate withholding.

## **B. H.R. 3245 (Mr. Gephardt)**

H.R. 3245, the "Independent Contractor Tax Status Clarification Act of 1979," introduced by Mr. Gephardt, would create a "safe harbor" by establishing five requirements, which, if met, would result in an individual not being classified as an employee. To be an independent contractor under H.R. 3245:

(1) the individual must control the aggregate number of hours actually worked and substantially all of the scheduling of the hours worked;

(2) the individual must not maintain a principal place of business, or, if he does so, his principal place of business must not be provided by the person for whom such service is performed, or, if it is so provided, the individual must pay such person rent for it. For purposes of this requirement, the individual would be deemed not to have a principal place of business if he does not perform substantially all the service at a single fixed location;

(3) the individual either must have a substantial investment in assets used in connection with the performance of the service, or must risk income fluctuations because his remuneration with respect to such service is directly related to sales or other output rather than to the number of hours actually worked;

(4) the individual must perform service pursuant to a written contract between the individual and the person for whom service is performed which was entered into before performance of the service, which provides that the individual will not be treated as an employee for purposes of employment taxes, and which provides the individual with written notice of his responsibility for payment of self-employment and income taxes; and

(5) the person for whom service is performed must file required information returns.

The bill contains a no-inference rule which provides that if the five requirements are not met with respect to any service, nothing in the bill shall be construed to infer that the service is performed either by an employee or for an employer, and that the determination of employment status issues is to be made as if the bill had not been enacted. Thus, if an individual failed to meet any one of the requirements, the individual's classification would be governed by the present common law rules.

### C. GAO Recommendations

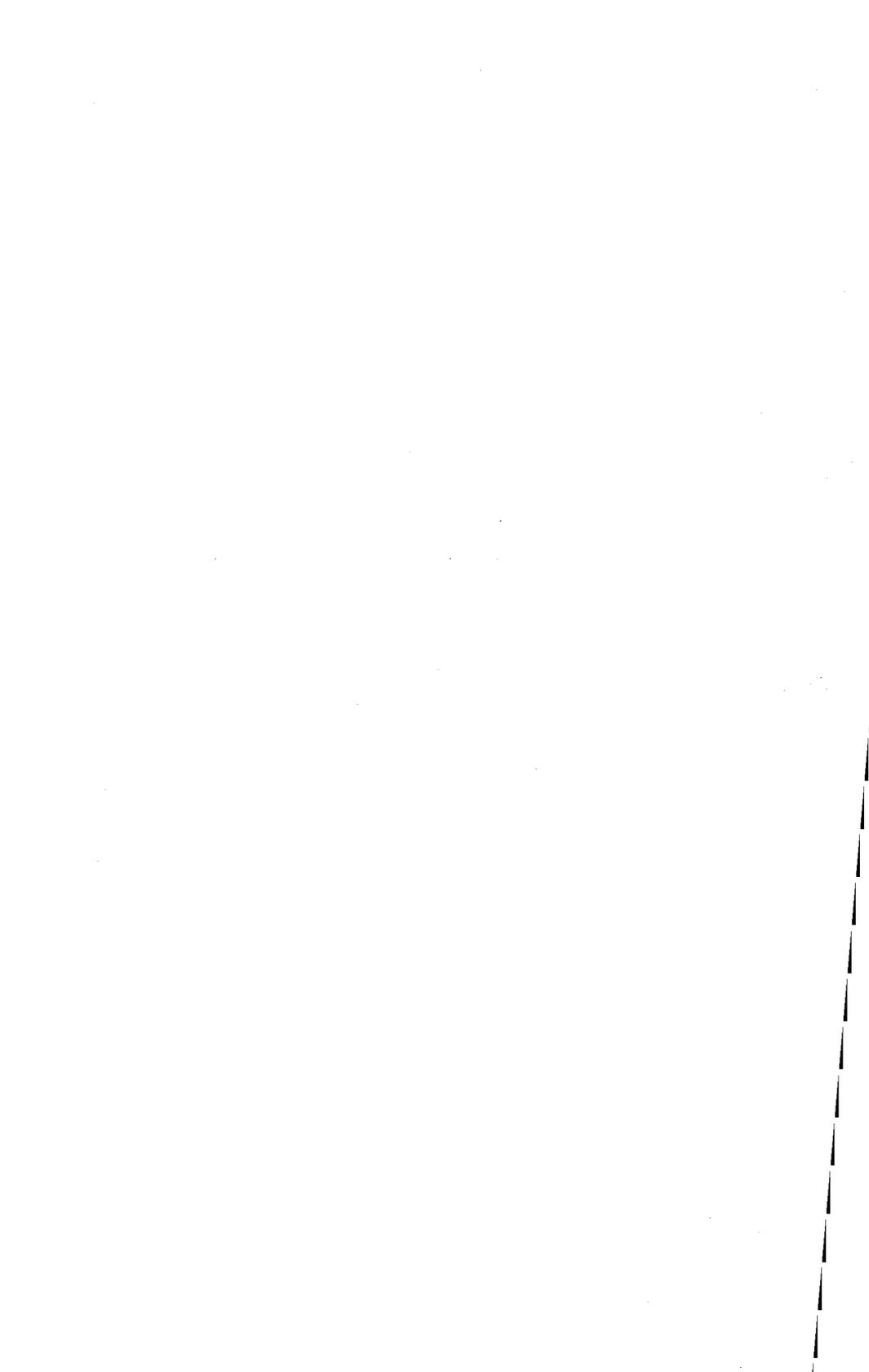
Under recommendations made by the General Accounting Office (GAO)<sup>1</sup>, the owner of a separate business entity would be excluded from the common law definition of employee, if he or she:

- (1) has a separate set of books and records which reflect items of income and expenses of the trade or business;
- (2) has the risk of suffering a loss and the opportunity of making a profit;
- (3) has a principal place of business other than at a place of business furnished by the persons for whom he or she performs or furnishes services; and
- (4) holds himself or herself out in his or her own name as self-employed and/or makes his or her own services generally available to the public.

An employer-employee relationship would exist if an individual met fewer than three of the GAO criteria. If an individual met three of the four criteria, the common law criteria would be used to determine employment status. The GAO further recommended that, absent fraud, the Internal Revenue Service should be prevented from making a retroactive employee determination if the business annually obtains from the workers it classifies as self-employed signed certificates stating that they meet the separate business entity criteria and the business annually provides the IRS with the names and employer identification or social security numbers of all certificate signers.

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<sup>1</sup> Report of the Comptroller General to the Joint Committee on Taxation, "Tax Treatment of Employees and Self-Employed Persons by the Internal Revenue Service: Problems and Solutions," GGD-77-88, November 21, 1977, p. 19.



## APPENDIX

### IRS Employee/Independent Contractor Compliance Study<sup>1</sup>

The objective of the 1979 Internal Revenue Service Employee/Independent Contractor Compliance Study (the Study) was to determine the extent to which workers who the IRS believed were employees (but who had been treated by their payors as independent contractors) were actually reporting their compensation for income tax and for social security tax purposes. Basically, the Study was performed by tracing a sample of payments from payor records to the income tax returns of the workers. Workers were audited in order to determine whether they had received the payments and whether all, a portion, or none of the payments had been reported on their income tax returns.

#### *Summary Conclusions from the Study*

The data from the Study show income and social security tax compliance rates in terms of both compensation received and numbers of workers, as classified by the workers' incomes, by the amounts of the payments, by the industry of the payor, by the occupation of the worker, and by several other classifications. The data show varying compliance rates between the various categories. The Office of Tax Analysis of the Treasury Department has made an attempt to analyze the causes and the significance of these varying compliance rates. While this analysis is still in its early stages, several conclusions can be drawn.

- Approximately 47 percent of all workers who are treated by payors as independent contractors do not report any of their compensation. Another 5 percent report some of their compensation. Only 48 percent report all of their compensation.
- Only 76.2 percent of all payments are reported for income tax purposes, resulting in a noncompliance rate of 23.8 percent.
- There is a significant, positive correlation between the size of compensation payments and the compliance rate: the larger the compensation payment, the higher the probability that it will be reported. There are indications that for each additional \$1,000 of compensation received, the compliance rate increases by about one-half of one percentage point.
- The compliance rate also increases with adjusted gross income (or adjusted gross income less income from compensation payments). For each additional \$1,000 of income other than compensation payments, the compliance rate increases by about 0.2 percentage points.

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<sup>1</sup> Reprint of the Appendix to the Statement of Donald C. Lubick, Assistant Secretary of the Treasury (Tax Policy), before the Subcommittee on Select Revenue Measures of the House Ways and Means Committee, June 20, 1979, with the addition of Table 9A.

- A large proportion of the variation in compliance rates between industry and occupation categories is accounted for by the distributions of the sizes of the compensation payments and of the workers' adjusted gross incomes within a particular industry or occupation category.
- Most workers either fully report their income or report none of it. Roughly, 50 percent of workers receiving about 70 percent of the total payments fully report their incomes. Another 5 percent with between 5 and 10 percent of the payments report part of their compensation, with most reporting over 80 percent. The remaining 45 percent of all workers (with 20 to 25 percent of total payments) report absolutely none of their compensation.
- Reporting for social security purposes is lower than for income tax purposes. This difference may be largely explained by the amount of payments reported as "wages and salaries" and as "other income" rather than as business receipts.

### ***Tables and Charts from the Study***

This appendix contains 13 tables from the Study which summarize its findings in regard to compliance rates.

Tables 1 through 4 summarize income reporting and social security tax compliance rates by size of the compensation payments to the worker, by income class, by the payor's industry, and by the worker's occupation. These tables show the proportion of income reported for income tax purposes, the proportion of SECA tax liability shown on the return, and the proportion of workers fully reporting, partially reporting, and not reporting for both income tax and SECA purposes.

Charts 1, 2, and 3 show the proportion of workers who did not report any of their compensation for income tax purposes, classified by the size of the compensation payments, by adjusted gross income, and by the industry of the payor.

Tables 5 through 8 show reporting for income tax purposes as to both the proportion of workers reporting and the amounts of compensation reported. Data are shown for full reporters, partial reporters (underreporters), and nonreporters. There are separate tables showing the data by amount of compensation, adjusted gross income, industry of the payor, and occupation of the worker.

Table 9 shows compliance rates in terms of the percentage of payments reported cross-classified by industry and occupation.

Tables 10 through 13 show social security tax compliance rates for the same four classifications as in Tables 1 through 4. Compliance rates are in terms of the proportion of proper social security tax actually paid and the proportion of workers who paid at least some of their social security tax. The tax compliance rates are shown in two ways. The compliance rate in the first column is based on the social security treatment of compensation as shown on the worker's tax return. If the worker reported the income as income from a business, it was treated as subject to SECA tax. If the worker reported the income as wages or salary, it was treated as subject to the employee's share of FICA tax. The compliance rate in the second column is based on the assumption that all payments were business income and, hence, subject to SECA tax.

## ***Methodology***

The Study attempted to measure the extent to which payments known to have been made were actually reported for both income tax and social security tax purposes.

As part of its regular audit program, the Internal Revenue Service audits employers for compliance with the income tax and social security tax (FICA) withholding provisions. These audits attempt to verify that the proper amounts have been withheld from employees (and, as applicable, matched by employers) and paid to the IRS. Attempts are also made to determine whether payments to persons who are not treated by the employer as employees (i.e., those treated as independent contractors) should actually have been treated as payments to employees. The sample for this Study was drawn from a list of payments which the IRS had proposed to reclassify from payments to independent contractors to payments to employees.

Late in 1978, all such "open" audit reclassifications for tax years 1976 and 1977 were collected. From these cases, a stratified random sample was selected from those which contained sufficient information to provide a reasonable possibility of follow-through. The selection process was random except for stratification to provide a sufficiently large sample in various occupation and industry categories.

The selected sample consisted of payments by 2,600 employers to 7,109 individuals. Attempts were made to locate and contact these workers, to locate their tax returns, and to obtain tax returns from those who had not already filed them. As Table 14 shows, 5,152 (72.5 percent) of the workers with 89.9 percent of the compensation reportedly paid were located and audited. The remainder were not audited for various reasons, predominantly because the payor records contained incorrect information or did not contain sufficient information to locate the workers. Attempts to locate these individuals were abandoned only after the IRS had expended considerable efforts and it had been determined that additional efforts would not have been fruitful. About 5 percent of workers with 1 percent of the compensation were not audited because it was determined that their total income level was below both the income tax and the self-employment filing requirements, so that there would be no tax consequences stemming from the payments involved.

For each worker whose return was audited, an audit checksheet was completed (see Attachment I) which showed the amounts of compensation received by the worker and the amount initially reported on the tax return, both for income and social security tax purposes. Information on the tax consequences of the compensation was also included. The form also contained additional information about the income and taxes of the worker, about the payor's industry and worker's occupation (as defined by both the payor and the worker), the payor's size, the worker's geographic region, etc. An additional form indicating the size of the payor was also completed (see Attachment II) and associated with each worker's record.

For purposes of analyzing the results of the Study, the information from these two forms for each audited worker has been processed into tables which show the results in the aggregate and for various sub-groups according to several different classifications and cross-classifications. The tables represent simple tabulations of the raw data. No attempt has been made to weight industry, occupation, and income groups to represent their relative frequencies in the population because the tests of weighting which have been performed indicate that weighted data would not differ materially from unweighted data.

The most important conclusions in terms of compliance rates are summarized in Tables 5 through 13, mentioned above. In addition, some preliminary attempts to analyze the significance of various factors in affecting compliance rates have been made using statistical techniques such as linear regressions. Further analyses along these lines will be made in the near future.

Wherever possible, the data have been tabulated and presented to give *conservative* measures of noncompliance. For example, omitting the 21 percent of sampled workers with about 8 percent of the income who could not be located can be expected to raise the reported rate of compliance. Common sense and experience would suggest that the types of people who cannot be located despite diligent searches by the Internal Revenue Service have lower than average tax compliance rates. In addition, the workers who could not be located generally received small payments, and small payments are associated with higher than average noncompliance rates.

Drawing the sample from a selection of payor returns actually subject to employment tax audits does produce a representative sample for the purposes of this Study. The initial employer audits were random and were only to determine if the employers had properly paid their employment taxes and if payments made to independent contractors actually should have been treated as payments to employees subject to FICA taxes and income tax withholding. In selecting the employers for audit, no determination was made about the recipients of these payments.

**Table 1.—Employee/Independent Contractor Compliance Study: Compliance Rates—By Amount of Compensation Received <sup>1</sup>**

[In percent]

Amount of compensation (as corrected)	Income tax compliance rate				Social security tax compliance rate		
	Percentage of compensation reported	Percentage of payees with—			Percentage of SECA tax paid	Percentage of payees having paid—	
		Full compliance	Partial compliance	Zero compliance		All or some of SECA tax	None of SECA tax
Less than \$100.....	25.0	23.5	0	76.5	(2)	(2)	(2)
\$100 to \$200.....	24.6	25.1	0	74.9	(2)	(2)	(2)
\$200 to \$500.....	33.6	31.4	1.9	66.6	(2)	(2)	(2)
\$500 to \$1,000.....	42.0	38.1	3.8	58.1	22.9	22.6	77.4
\$1,000 to \$2,000.....	48.4	45.5	3.0	51.5	30.7	30.7	69.3
\$2,000 to \$5,000.....	60.8	54.3	6.9	38.9	44.7	44.7	55.3
\$5,000 to \$10,000.....	70.8	63.0	8.8	28.2	58.8	59.5	40.5
\$10,000 to \$15,000.....	80.5	74.1	7.2	18.6	71.6	73.3	26.7
\$15,000 to \$20,000.....	92.0	86.3	6.9	6.9	88.0	86.2	13.8
\$20,000 to \$50,000.....	86.6	75.0	13.6	11.4	88.3	85.3	14.7
\$50,000 and over.....	98.4	92.0	8.0	0	66.7	66.7	33.3
<b>All <sup>3</sup>.....</b>	<b>76.2</b>	<b>48.2</b>	<b>4.9</b>	<b>46.9</b>	<b>66.0</b>	<b>38.1</b>	<b>61.9</b>

<sup>1</sup> All percentages are based on returns actually audited. Data for payees who could not be identified, located, or contacted are excluded. This omission has the effect of raising compliance rates.

<sup>2</sup> Not meaningful because self-employment income of less than \$400 is not subject to self-employment (SECA) tax.

<sup>3</sup> Based on simple tabulation of raw data. Weighting does not affect results substantially.

Source: Office of the Secretary of the Treasury, Office of Tax Analysis, June 19, 1979.

**Table 2.—Employee/Independent Contractor Compliance Study; Compliance Rates—By Adjusted Gross Income<sup>1</sup>**

[In percent]

Adjusted gross income	Income tax compliance rate			Social security tax compliance rate			
	Percentage of compensation reported	Percentage of payees with—			Percentage of SECA tax paid	Percentage of payees having paid—	
		Full compliance	Partial compliance	Zero compliance		All or some of SECA tax	None of SECA tax
Less than \$5,000-----	51.0	30.6	2.2	67.2	42.6	22.1	77.9
\$5,000 to \$10,000-----	62.8	42.2	6.4	51.4	52.1	35.4	64.6
\$10,000 to \$15,000-----	72.8	50.0	5.0	45.0	64.2	41.2	58.8
\$15,000 to \$20,000-----	83.2	60.5	5.1	34.4	77.0	49.6	50.4
\$20,000 to \$30,000-----	86.0	64.1	7.1	28.8	83.7	56.6	43.4
\$30,000 to \$50,000-----	89.0	78.1	4.7	17.2	87.8	70.4	29.6
\$50,000 to \$100,000-----	94.6	77.9	7.8	14.3	91.0	81.5	18.5
\$100,000 and over-----	99.9	88.9	0	11.1	66.7	66.7	33.3
All <sup>2</sup> -----	76.2	48.2	4.9	46.9	66.0	38.1	61.9

<sup>1</sup> All percentages are based on returns actually audited. Data for payees who could not be identified, located, or contacted are excluded. This omission has the effect of raising compliance rates.

<sup>2</sup> Based on simple tabulation of raw data. Weighting does not affect results substantially.

Source: Office of the Secretary of the Treasury, Office of Tax Analysis, June 19, 1979.

**Table 3.—Employee/Independent Contractor Compliance Study: Compliance Rates—By Industry <sup>1</sup>**

[In percent]

Industry	Income tax compliance rate			Social security tax compliance rate			
	Percentage of compensation reported	Percentage of payees with—			Percentage of payees having paid—		
		Full compliance	Partial compliance	Zero compliance	Percentage of SECA tax paid	All or some of SECA tax	None of SECA tax
Real estate.....	89.5	75.1	4.7	20.2	84.3	69.7	30.3
Insurance.....	98.3	89.8	4.0	6.2	95.5	87.9	12.1
Direct sales.....	68.8	51.0	5.7	43.3	53.3	33.3	66.7
Other sales.....	74.1	48.2	4.7	47.1	66.6	36.9	63.1
Logging and timber.....	52.1	22.9	7.6	69.5	49.2	26.9	73.1
Franchise operations.....	73.0	38.3	10.0	51.7	67.1	35.1	64.9
Barber and beauty shops.....	90.0	73.3	6.7	20.0	77.2	66.7	33.3
Trucking.....	66.7	40.9	4.9	54.2	61.4	35.1	64.9
Taxicabs.....	43.5	32.4	2.9	64.7	41.1	29.4	70.6
Home improvement.....	70.2	39.8	4.6	55.5	58.0	32.8	67.2
Real estate construction.....	63.7	31.3	6.0	62.7	58.1	29.6	70.4
Warehousing.....	54.0	16.0	4.0	80.0	54.7	19.0	81.0
Eating and/or drinking places.....	58.5	33.1	8.0	58.9	46.2	25.4	74.6
Entertainment.....	77.9	54.0	4.0	41.9	70.7	46.4	53.6
Exempt organizations.....	97.8	76.1	2.2	21.7	79.1	31.4	68.6
Medical and health services.....	90.1	67.4	4.6	28.0	73.0	49.1	50.9
Consulting.....	76.3	55.6	3.2	41.3	60.7	36.0	64.0
Other <sup>2</sup> .....	72.5	45.0	4.1	50.7	61.1	33.5	66.5
<b>All <sup>3</sup>.....</b>	<b>76.2</b>	<b>48.2</b>	<b>4.9</b>	<b>46.9</b>	<b>66.0</b>	<b>38.1</b>	<b>61.9</b>

<sup>1</sup> All percentages are based on returns actually audited. Data for payees who could not be identified, located, or contacted are excluded. This omission has the effect of raising compliance rates.

<sup>2</sup> Includes all other industries not separately tabulated. Examples of industries reported include farming, manufacturing, janitorial service, messenger service, security service, oil exploration, legal services, nursery, market research, modeling agency, CPA review,

opinion survey, snow removal, data processing, funeral home, and landscaping.

<sup>3</sup> Based on simple tabulation of raw data. Weighting does not affect results substantially.

Source: Office of the Secretary of the Treasury, Office of Tax Analysis, June 19, 1979.

**Table 4.—Employee/Independent Contractor Compliance Study: Compliance Rates—By Occupation <sup>1</sup>**

[In percent]

Occupation <sup>2</sup>	Income tax compliance rate				Social security tax compliance rate		
	Percentage of compensation reported	Percentage of payees with—			Percentage of SECA tax paid	Percentage of payees having paid—	
		Full compliance	Partial compliance	Zero compliance		All or some of SECA tax	None of SECA tax
Manager, distributor.....	95.7	78.3	6.4	15.3	91.5	75.5	24.5
Skilled labor.....	69.6	42.6	5.4	51.9	60.1	35.4	64.6
Unskilled labor—casual.....	43.0	25.3	5.5	69.2	27.5	18.0	82.0
Unskilled labor—noncasual.....	48.5	27.1	3.6	69.3	39.0	21.0	79.0
Driver.....	66.5	45.3	4.5	50.2	60.7	37.5	62.5
Sales.....	86.1	71.2	5.0	23.8	80.0	58.5	41.5
Professional.....	94.4	72.1	5.7	22.2	83.3	54.9	45.1
Clerical.....	75.2	47.8	6.2	45.9	64.3	37.3	62.7
Entertainer.....	75.8	52.4	4.0	43.7	62.3	37.9	62.1
Other.....	77.8	51.1	2.1	46.8	73.8	37.6	62.4
<b>All <sup>3</sup>.....</b>	<b>76.2</b>	<b>48.2</b>	<b>4.9</b>	<b>46.9</b>	<b>66.0</b>	<b>38.1</b>	<b>61.9</b>

<sup>1</sup> All percentages are based on returns actually audited. Data for payees who could not be identified, located, or contacted are excluded. This omission has the effect of raising the compliance rates.

<sup>2</sup> Occupation as reported by payor.

<sup>3</sup> Based on simple tabulation of raw data. Weighting does not affect results substantially.

Source: Office of the Secretary of the Treasury, Office of Tax Analysis, June 19, 1979.

Chart 1  
**PERCENTAGE OF WORKERS WITH ZERO COMPLIANCE**  
**by Size of Compensation**

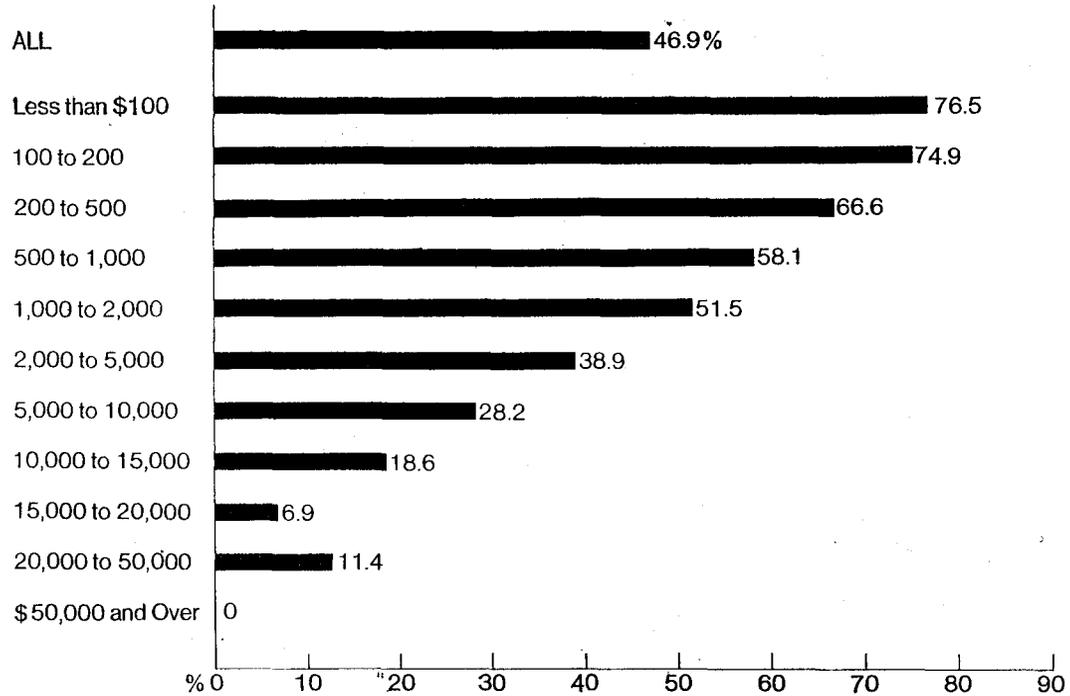


Chart 2  
**PERCENTAGE OF WORKERS WITH ZERO COMPLIANCE**  
**by Adjusted Gross Income'**

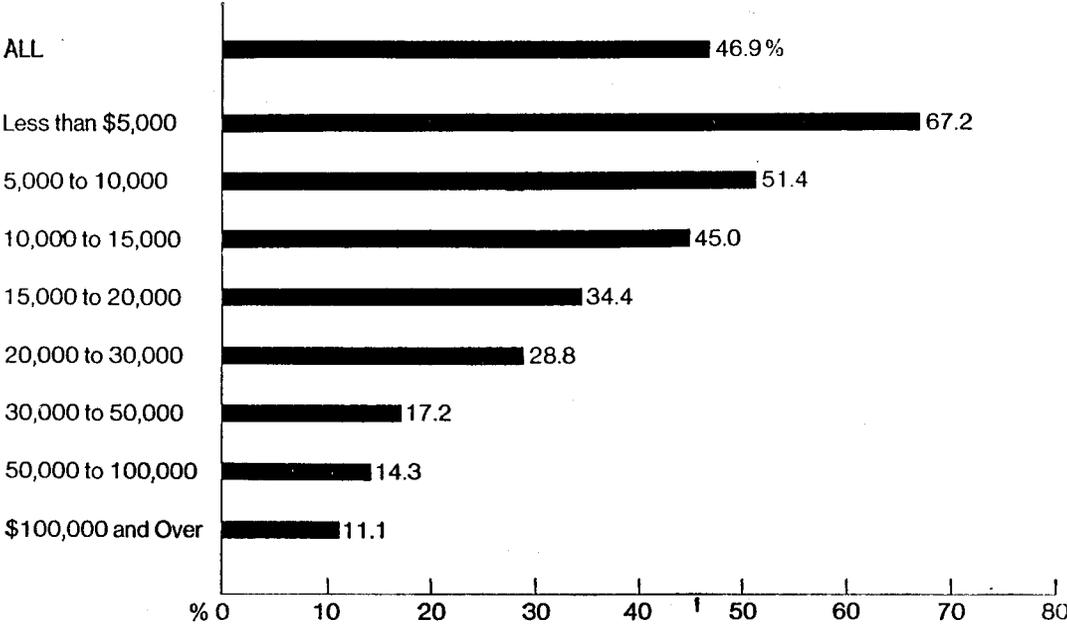
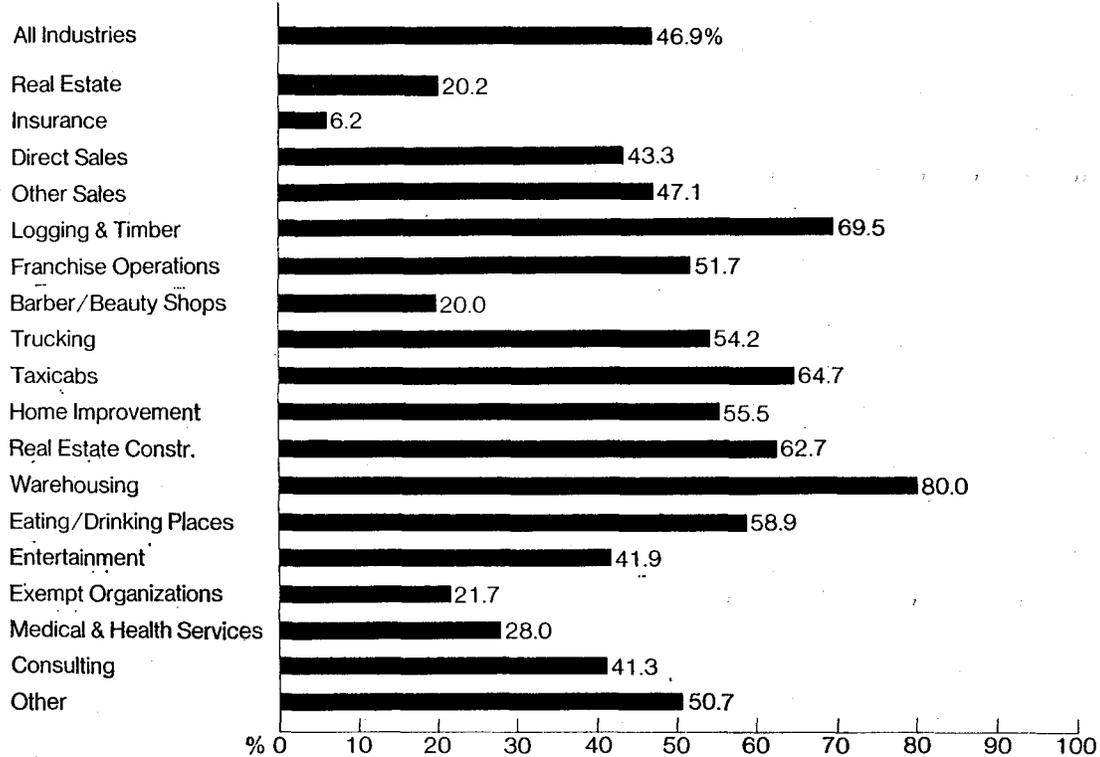


Chart 3  
**PERCENTAGE OF WORKERS WITH ZERO COMPLIANCE**  
by Industry



**Table 5.—Employee/Independent Contractor Compliance Study: Percentage of Compensation Reported and Percentage of Workers Reporting Their Compensation for Income Tax Purposes—By Amount of Compensation Received <sup>1</sup>**

[In percent]

Amount of compensation (as corrected)	Compliance rate	Percentage of compensation on tax returns with—					Percentage of payees with—				
		Full compliance	Partial compliance (percent)			Zero compliance	Full compliance	Partial compliance (percent)			Zero compliance
			All	80 to 100	0 to 80			All	80 to 100	0 to 80	
Less than \$100.....	25.0	25.0	0	0	0	75.0	23.5	0	0	0	76.5
\$100 to \$200.....	24.6	24.6	0	0	0	75.4	25.1	0	0	0	74.9
\$200 to \$500.....	33.6	32.1	2.0	.6	1.4	65.9	31.4	1.9	0.6	1.4	66.6
\$500 to \$1,000.....	42.0	39.0	4.1	1.3	2.8	56.9	38.1	3.8	1.3	2.5	58.1
\$1,000 to \$2,000.....	48.4	45.8	3.1	2.0	1.1	51.1	45.5	3.0	1.9	1.1	51.5
\$2,000 to \$5,000.....	60.8	55.2	6.9	4.8	2.1	37.9	54.3	6.9	4.7	2.1	38.9
\$5,000 to \$10,000.....	70.8	63.6	9.0	5.8	3.2	27.5	63.0	8.8	5.7	3.1	28.2
\$10,000 to \$15,000.....	80.5	74.8	6.8	4.7	2.1	18.4	74.1	7.2	4.9	2.3	18.6
\$15,000 to \$20,000.....	92.0	85.8	7.3	5.7	1.6	6.8	86.3	6.9	5.3	1.5	6.9
\$20,000 to \$50,000.....	86.6	75.8	13.3	8.7	4.5	10.9	75.0	13.6	9.8	3.8	11.4
\$50,000 and over.....	98.4	91.9	8.1	4.9	3.3	0	92.0	8.0	4.0	4.0	0
<b>All <sup>2</sup>.....</b>	<b>76.2</b>	<b>69.2</b>	<b>8.6</b>	<b>5.7</b>	<b>2.9</b>	<b>22.2</b>	<b>48.2</b>	<b>4.9</b>	<b>3.0</b>	<b>1.9</b>	<b>46.9</b>

<sup>1</sup> All percentages are based on returns actually audited. Data for payees who could not be identified, located, or contacted are excluded. This omission has the effect of raising compliance rates.

<sup>2</sup> Based on simple tabulation of raw data. Weighting does not affect results substantially.

Source: Office of the Secretary of the Treasury, Office of Tax Analysis, June 15, 1979.

**Table 6.—Employee/Independent Contractor Compliance Study: Percentage of Compensation Reported and Percentage of Workers Reporting Their Compensation for Income Tax Purposes—By Adjusted Gross Income <sup>1</sup>**

[In percent]

Adjusted gross income	Compliance rate	Percentage of compensation on tax returns with—					Percentage of payees with—				
		Full compliance	Partial compliance (percent)			Zero compliance	Full compliance	Partial compliance (percent)			Zero compliance
			All	80 to 100	0 to 80			All	80 to 100	0 to 80	
Less than \$5,000.....	51.0	47.0	4.4	3.7	0.8	48.5	30.6	2.2	1.3	0.9	67.2
\$5,000 to \$10,000.....	62.8	55.0	9.2	6.7	2.5	35.7	42.2	6.4	4.1	2.3	51.4
\$10,000 to \$15,000.....	72.8	64.9	9.3	7.0	2.3	25.9	50.0	5.0	3.1	1.9	45.0
\$15,000 to \$20,000.....	83.2	76.3	8.1	5.7	2.3	15.6	60.5	5.1	3.7	1.4	34.4
\$20,000 to \$30,000.....	86.0	74.9	14.0	8.8	5.2	11.0	64.1	7.1	4.0	3.1	28.8
\$30,000 to \$50,000.....	89.0	84.0	7.0	2.3	4.8	8.9	78.1	4.7	1.7	3.0	17.2
\$50,000 to \$100,000.....	94.6	92.8	2.3	1.8	.5	4.9	77.9	7.8	3.9	3.9	14.3
\$100,000 and over.....	99.9	99.9	0	0	0	.1	88.9	0	0	0	11.1
<b>All <sup>2</sup>.....</b>	<b>76.2</b>	<b>69.2</b>	<b>8.6</b>	<b>5.7</b>	<b>2.9</b>	<b>22.2</b>	<b>48.2</b>	<b>4.9</b>	<b>3.0</b>	<b>1.9</b>	<b>46.9</b>

<sup>1</sup> All percentages are based on returns actually audited. Data for payees who could not be identified, located, or contacted are excluded. This omission has the effect of raising compliance rates.

<sup>2</sup> Based on simple tabulation of raw data. Weighting does not affect results substantially.

Source: Office of the Secretary of the Treasury, Office of Tax Analysis, June 15, 1979.

**Table 7.—Employee/Independent Contractor Compliance Study: Percentage of Compensation Reported and Percentage of Workers Reporting Their Compensation for Income Tax Purposes—By Industry<sup>1</sup>**

[In percent]

Industry	Percentage of compensation on tax returns with—						Percentage of payees with—				
	Compliance rate	Full compliance	Partial compliance (percent)			Zero compliance	Full compliance	Partial compliance (percent)			Zero compliance
			All	80 to 100	0 to 80			All	80 to 100	0 to 80	
Real estate.....	89.5	83.8	7.2	2.7	4.5	9.0	75.1	4.7	1.9	2.8	20.2
Insurance.....	98.3	95.6	2.9	2.4	.5	1.5	89.8	4.0	2.7	1.3	6.2
Direct sales.....	68.8	62.5	8.5	3.9	4.6	29.0	51.0	5.7	3.0	2.8	43.3
Other sales.....	74.1	70.4	4.7	2.6	2.0	24.9	48.2	4.7	2.2	2.4	47.1
Logging and timber.....	52.1	37.1	17.4	15.7	1.7	45.6	22.9	7.6	6.7	1.0	69.5
Franchise operations.....	73.0	47.7	29.9	25.5	4.4	22.4	38.3	10.0	8.3	1.7	51.7
Barber and beauty shops.....	90.0	82.3	8.1	8.1	0	9.6	73.3	6.7	6.7	0	20.0
Trucking.....	66.7	54.9	13.0	10.9	2.1	32.1	40.9	4.9	4.3	.7	54.2
Taxicabs.....	43.5	39.5	6.7	0	6.7	53.8	32.4	2.9	0	2.9	64.7
Home improvement.....	70.2	60.6	10.6	10.0	.6	28.9	39.8	4.6	3.9	.8	55.5
Real estate construction.....	63.7	52.6	13.7	9.3	4.4	33.7	31.3	6.0	3.1	2.9	62.7
Warehousing.....	54.0	29.2	42.1	0	42.1	28.6	16.0	4.0	0	4.0	80.0
Eating and/or drinking places.....	58.5	50.5	11.9	4.6	7.2	37.7	33.1	8.0	3.4	4.6	58.9
Entertainment.....	77.9	75.5	3.3	.4	2.9	21.2	54.0	4.0	.8	3.2	41.9
Exempt organizations.....	97.8	97.6	.2	.2	0	2.2	76.1	2.2	2.2	0	21.7
Medical and health services.....	90.1	85.3	5.7	2.9	2.8	9.0	67.4	4.6	2.3	2.3	28.0
Consulting.....	76.3	67.4	9.8	9.8	0	22.9	55.6	3.2	3.2	0	41.3
Other <sup>2</sup> .....	72.5	66.2	8.3	5.0	3.2	25.5	45.0	4.1	2.6	1.5	50.7
<b>All<sup>3</sup>.....</b>	<b>76.2</b>	<b>69.2</b>	<b>8.6</b>	<b>5.7</b>	<b>2.9</b>	<b>22.2</b>	<b>48.2</b>	<b>4.9</b>	<b>3.0</b>	<b>1.9</b>	<b>46.9</b>

<sup>1</sup> All percentages are based on returns actually audited. Data for payees who could not be identified, located, or contacted are excluded. This omission has the effect of raising compliance rates.

<sup>2</sup> Includes all other industries not separately tabulated. Examples of industries reported include farming, manufacturing, janitorial service, messenger service, security service, oil exploration, legal

opinion survey, snow removal, data processing, funeral home, and landscaping.

<sup>3</sup> Based on simple tabulation of raw data. Weighting does not affect results substantially.

Source: Office of the Secretary of the Treasury, Office of Tax Analysis, June 15, 1979.

**Table 8.—Employee/Independent Contractor Compliance Study: Percentage of Compensation Reported and Percentage of Workers Reporting Their Compensation for Income Tax Purposes—By Occupation <sup>1</sup>**

[In percent]

Occupation <sup>2</sup>	Percentage of compensation on tax returns with—						Percentage of payees with—				
	Compliance rate	Full compliance	Partial compliance (percent)			Zero compliance	Full compliance	Partial compliance (percent)			Zero compliance
			All	80 to 100	0 to 80			All	80 to 100	0 to 80	
Manager, distributor.....	95.7	90.6	6.8	3.2	3.6	2.6	78.3	6.4	3.8	2.5	15.3
Skilled labor.....	69.6	59.1	12.5	9.6	2.9	28.4	42.6	5.4	3.7	1.7	51.9
Unskilled labor:											
Casual.....	43.0	35.7	9.0	6.2	2.7	55.4	25.3	5.5	3.5	1.9	69.2
Noncasual.....	48.5	42.7	6.9	5.5	1.5	50.4	27.1	3.6	2.4	1.2	69.3
Driver.....	66.5	56.9	10.8	8.8	1.9	32.3	45.3	4.5	3.6	.9	50.2
Sales.....	86.1	81.0	6.3	2.9	3.5	12.6	71.2	5.0	2.5	2.6	23.8
Professional.....	94.4	86.8	8.9	6.6	2.4	4.3	72.1	5.7	3.3	2.4	22.2
Clerical.....	75.2	68.7	11.0	5.0	6.1	20.3	47.8	6.2	3.8	2.4	45.9
Entertainer.....	75.8	74.0	3.4	.3	3.1	22.6	52.4	4.0	.8	3.2	43.7
Other.....	77.8	75.7	2.7	1.4	1.2	21.6	51.1	2.1	1.1	1.1	46.8
<b>All <sup>3</sup>.....</b>	<b>76.2</b>	<b>69.2</b>	<b>8.6</b>	<b>5.7</b>	<b>2.9</b>	<b>22.2</b>	<b>48.2</b>	<b>4.9</b>	<b>3.0</b>	<b>1.9</b>	<b>46.9</b>

<sup>1</sup> All percentages are based on returns actually audited. Data for payees who could not be identified, located, or contacted are excluded. This omission has the effect of raising compliance rates.

<sup>2</sup> Occupation as reported by payor.

<sup>3</sup> Based on simple tabulation of raw data. Weighting does not affect results substantially.

Source: Office of the Secretary of the Treasury, Office of Tax Analysis, June 19, 1979.

**Table 9.—Employee/Independent Contractor Compliance Study: Income Tax Compliance Rates by Industry and Occupation (Percentage of Compensation Received Which Was Reported on Tax Returns)<sup>1</sup>**

[In percent]

Industry	Occupation <sup>2</sup>										
	Manager, distributor	Skilled labor	Unskilled labor		Driver	Sales	Professional	Clerical	Entertainer	Other	All
			Casual	Non-casual							
Real estate.....	91.5	81.9	42.5	4.5	-----	94.2	76.4	7.6	-----	76.4	89.5
Insurance.....	99.9	-----	-----	-----	-----	98.0	81.4	82.0	-----	-----	98.3
Direct sales.....	75.4	33.4	48.2	53.2	63.5	76.3	85.3	20.0	-----	53.8	68.8
Other sales.....	77.7	59.6	46.0	43.5	63.3	83.9	65.1	65.3	47.7	48.4	74.06
Logging and timber.....	-----	60.1	21.8	44.0	73.8	-----	-----	-----	-----	-----	52.1
Franchise operations.....	92.9	27.2	0	-----	-----	71.0	-----	-----	-----	0	73.0
Barber and beauty shops.....	-----	90.8	-----	-----	-----	-----	100.0	-----	-----	-----	90.0
Trucking.....	-----	87.9	28.0	46.7	67.2	98.4	-----	-----	-----	21.53	66.7
Taxicabs.....	-----	-----	-----	-----	43.9	-----	-----	-----	-----	-----	43.5
Home improvement.....	54.2	69.4	47.9	62.3	27.2	85.5	-----	72.6	-----	68.6	70.2
Real estate construction.....	75.6	66.3	21.0	51.3	81.0	88.5	85.4	-----	-----	81.9	63.8
Warehousing.....	-----	-----	22.0	0	-----	-----	-----	-----	-----	-----	54.0
Eating and/or drinking places.....	52.8	54.2	22.9	44.0	-----	-----	29.4	45.1	65.1	28.4	58.5
Entertainment.....	100.0	86.0	59.6	97.0	100.0	68.1	77.8	-----	74.6	85.0	77.9
Exempt organizations.....	-----	-----	93.4	82.0	-----	-----	99.9	64.7	-----	73.3	97.8
Medical and health services.....	100.0	93.05	54.2	23.0	60.6	42.0	95.8	51.1	-----	58.5	90.1
Consulting.....	-----	91.4	26.1	100.0	-----	-----	77.3	48.2	-----	92.8	76.3
Other <sup>3</sup> .....	65.2	68.5	32.6	50.3	54.0	85.6	92.7	82.7	83.2	81.0	72.4
<b>All<sup>4</sup>.....</b>	<b>88.7</b>	<b>57.7</b>	<b>36.1</b>	<b>50.6</b>	<b>65.0</b>	<b>89.0</b>	<b>92.5</b>	<b>69.8</b>	<b>70.5</b>	<b>73.1</b>	<b>76.2</b>

<sup>1</sup> All percentages are based on returns actually audited. Data for payees who could not be identified, located, or contacted are excluded. This omission has the effect of raising compliance rates.

<sup>2</sup> Occupation as reported by worker.

<sup>3</sup> Includes all other industries not separately tabulated. Examples of industries reported include farming, manufacturing, janitorial service, messenger service, security service, oil exploration, local

opinion survey, snow removal, data processing, funeral home, and landscaping.

<sup>4</sup> Based on simple tabulation of raw data. Weighting does not affect results substantially.

Source: Office of the Secretary of the Treasury, Office of Tax Analysis, June 15, 1979.

and Occupation<sup>1</sup> (Percentage of Compensation Received Which Was Reported on Tax Return)<sup>2</sup>

[In percent]

Industry	Manager, distributor	Skilled labors	Unskilled labor								All	
			Casual	Non-casual	Driver	Sales	Professional	Clerical	Entertainer	Other		
Real estate	79.1	70.2	65.0	12.9			93.3	16.5	50.9			89.5
Insurance	99.4			48.4			97.1		70.5			98.3
Direct sales	89.6	66.3	85.8	51.7	45.6		73.1	98.7	29.2	60.1	78.9	68.8
Other sales	88.7	55.6	54.6	34.1	61.9		82.5	60.5	81.6	0	6.1	74.1
Logging and timber		40.8	18.4	42.9	92.7							52.1
Franchise operations	92.3	82.3	31.2	10.4			47.6					73.0
Barber and beauty shops		88.7						61.7		100.0	98.8	90.0
Trucking		87.9	13.3	38.0	68.2		96.7	99.2				66.7
Taxicab					43.9							43.5
Home improvement		73.6	52.7	49.9	81.6				33.8	0		70.2
Real estate construction		66.6	24.9	44.4	96.1					99.6		63.7
Warehousing	71.0	37.6	14.2									54.0
Eating and/or drinking places		60.2	50.2	43.6							67.1	58.5
Entertainment		96.9	61.3	88.2			60.1	91.0		70.8		77.9
Exempt organization				79.5				99.1	57.1			97.8
Medical and health services		76.9	0	15.1	57.1		87.3	95.7	77.7		5.4	90.1
Consulting		99.2					11.9	88.5	50.0			76.3
Other <sup>3</sup>	99.4	69.4	48.3	51.0	64.9		81.8	93.1	82.6	88.5	81.0	72.7
All <sup>4</sup>	95.7	69.6	43.0	48.5	66.5		86.1	94.4	75.2	75.8	77.8	76.2

<sup>1</sup> Occupation as reported by payor.

<sup>2</sup> All percentages are based on returns actually audited. Data for payees who could not be identified, located, or contacted are excluded. This omission has the effect of raising compliance rates.

<sup>3</sup> Includes all other industries not separately tabulated. Examples of industries reported include farming, manufacturing, janitorial service, messenger service, security service, oil exploration, legal services, nursery, market research, modeling agency, CPA review,

opinion survey, snow removal, data processing, funeral home, and landscaping.

<sup>4</sup> Based on simple tabulation of raw data. Weighting does not affect results substantially.

Source: Office of the Secretary of the Treasury, Office of Tax Analysis, July 9, 1979.

**Table 10.—Employee/Independent Contractor Compliance Study:  
Worker Social Security Tax Compliance Rates—By Amount of  
Compensation Received<sup>1</sup>**

[In percent]

Amount of compensation	Workers' social security tax compliance rate assuming—		Percentage of workers having paid—	
	Subject to FICA or SECA, as on audit	Subject to SECA	All or some of the social security tax	None of the social security tax
Less than \$100-----	(2)	(2)	(2)	(2)
\$100 to \$200-----	(2)	(2)	(2)	(2)
\$200 to \$500-----	(2)	(2)	(2)	(2)
\$500 to \$1,000-----	26. 6	22. 9	22. 6	77. 4
\$1,000 to \$2,000-----	34. 7	30. 7	30. 7	69. 3
\$2,000 to \$5,000-----	49. 2	44. 7	44. 7	55. 3
\$5,000 to \$10 000-----	63. 4	58. 8	59. 5	40. 5
\$10,000 to \$15,000-----	74. 7	71. 6	73. 3	26. 7
\$15,000 to \$20,000-----	90. 7	88. 0	86. 2	13. 8
\$20,000 to \$50,000-----	89. 5	88. 3	85. 3	14. 7
\$50,000 and over-----	66. 7	66. 7	66. 7	33. 3
<b>All <sup>3</sup>-----</b>	<b>70. 0</b>	<b>66. 0</b>	<b>38. 1</b>	<b>61. 9</b>

<sup>1</sup> All percentages are based on returns actually audited. Data for payees who could not be identified, located, or contacted are excluded. This omission has the effect of raising compliance rates.

<sup>2</sup> Not meaningful because self-employment income of less than \$400 is not subject to self-employment (SECA) tax.

<sup>3</sup> Based on simple tabulation of raw data. Weighting does not affect results substantially.

Source: Office of the Secretary of the Treasury, Office of Tax Analysis, June 15, 1979.

**Table 11.—Employee/Independent Contractor Compliance Study:  
Worker Social Security Tax Compliance Rates—By Adjusted  
Gross Income <sup>1</sup>**

[In percent]

Adjusted gross income	Workers' social security tax compliance rate assuming—		Percentage of workers having paid—	
	Subject to FICA or SECA, as on audit	Subject to SECA	All or some of the social security tax	None of the social security tax
Less than \$5,000-----	46.7	42.6	22.1	77.9
\$5,000 to \$10,000-----	56.4	52.1	35.4	64.6
\$10,000 to \$15,000-----	68.2	64.2	41.2	58.8
\$15,000 to \$20,000-----	80.3	77.0	49.6	50.4
\$20,000 to \$30,000-----	86.8	83.7	56.6	43.4
\$30,000 to \$50,000-----	90.2	87.8	70.4	29.6
\$50,000 to \$100,000-----	92.1	91.0	81.5	18.5
\$100,000 and over-----	66.7	66.7	66.7	33.3
<b>All <sup>2</sup>-----</b>	<b>70.0</b>	<b>66.0</b>	<b>38.1</b>	<b>61.9</b>

<sup>1</sup> All percentages are based on returns actually audited. Data for payees who could not be identified, located, or contacted are excluded. This omission has the effect of raising compliance rates.

<sup>2</sup> Based on simple tabulation of raw data. Weighting does not affect results substantially.

Source: Office of the Secretary of the Treasury, Office of Tax Analysis, June 15, 1979.

**Table 12.—Employee/Independent Contractor Comprehensive Study: Worker Social Security Tax Compliance Rates—By Industry <sup>1</sup>**

[In percent]

Industry	Workers' social security tax compliance rate assuming—		Percentage of workers having paid—	
	Subject to FICA or SECA, as on audit	Subject to SECA	All or some of the social security tax	None of the social security tax
Real estate.....	85.6	84.3	69.7	30.3
Insurance.....	96.2	95.5	87.9	12.1
Direct sales.....	57.4	53.3	33.3	66.7
Other sales.....	70.2	66.6	36.9	63.1
Logging and timber.....	53.6	49.2	26.9	73.1
Franchise operations....	70.6	67.1	35.1	64.9
Barber and beauty shops.....	87.2	77.2	66.7	33.3
Trucking.....	65.2	61.4	35.1	64.9
Taxicabs.....	46.7	41.1	29.4	70.6
Home improvement.....	62.7	58.0	32.8	67.2
Real estate construction.....	62.1	58.1	29.6	70.4
Warehousing.....	57.1	54.7	19.0	81.0
Eating and/or drinking places.....	50.8	46.2	25.4	74.6
Entertainment.....	74.6	70.7	46.4	53.6
Exempt organizations....	89.0	79.1	31.4	68.6
Medical and health services.....	76.4	73.0	49.1	50.9
Consulting.....	68.2	60.7	36.0	64.0
Other <sup>2</sup> .....	64.7	61.1	33.5	66.5
<b>All <sup>3</sup>.....</b>	<b>70.0</b>	<b>66.0</b>	<b>38.1</b>	<b>61.9</b>

<sup>1</sup> All percentages are based on returns actually audited. Data for payees who could not be identified, located, or contacted are excluded. This omission has the effect of raising compliance rates.

<sup>2</sup> Includes all other industries not separately tabulated. Examples of industries reported include farming, manufacturing, janitorial service, messenger service, security service, oil exploration, legal services, nursery, market research, modeling agency, CPA review, opinion survey, snow removal, data processing, funeral home, and landscaping.

<sup>3</sup> Based on simple tabulation of raw data. Weighting does not affect results substantially.

Source: Office of the Secretary of the Treasury, Office of Tax Analysis, June 15, 1979.

**Table 13.—Employee/Independent Contractor Compliance Study:  
Worker Social Security Tax Compliance Rates—By Occupation<sup>1</sup>**

[In percent]

Occupation <sup>2</sup>	Workers' social security tax compliance rate assuming—		Percentage of workers having paid—	
	Subject to FICA or SECA, as on audit	Subject to SECA	All or some of the social security tax	None of the social security tax
Manager, distributor.....	92.6	91.5	75.5	24.5
Skilled labor.....	64.7	60.1	35.4	64.6
Unskilled labor:				
Casual.....	30.8	27.5	18.0	82.0
Noncasual.....	43.5	39.0	21.0	79.0
Driver.....	64.5	60.7	37.5	62.5
Sales.....	82.7	80.0	58.5	41.5
Professional.....	86.7	83.3	54.9	45.1
Clerical.....	67.9	64.3	37.3	62.7
Entertainer.....	67.5	62.3	37.9	62.1
Other.....	79.8	73.8	37.6	62.4
<b>All<sup>3</sup>.....</b>	<b>70.0</b>	<b>66.0</b>	<b>38.1</b>	<b>61.9</b>

<sup>1</sup> All percentages are based on returns actually audited. Data for payees who could not be identified, located, or contacted are excluded. This omission has the effect of raising compliance rates.

<sup>2</sup> Occupation as reported by payor.

<sup>3</sup> Based on simple tabulation of raw data. Weighting does not affect results substantially.

Source: Office of the Secretary of the Treasury, Office of Tax Analysis, June 15, 1979.

**Table 14.—Employee/Independent Contractor Compliance Study:  
Explanation of Differences Between Sample Selected and Sam-  
ple Audited and Tabulated**

	Number of returns	Percentage of returns	Amount of compensation	Percent- age of compen- sation
Total sample selected-----	7, 109	100. 0	\$24, 840, 019	100. 0
Less:				
Unable to locate-----	1, 522	21. 4	2, 094, 152	8. 4
Unable to contact-----	90	1. 3	202, 281	. 8
Not liable for taxes---	333	4. 7	204, 783	. 8
Other-----	12	. 1	16, 845	. 1
Audited and tabulated--	5, 152	72. 5	22, 322, 318	89. 9

Source: Office of the Secretary of the Treasury, Office of Tax Analysis, June 15, 1979.

# Attachment I

Employee Examination Checksheet Employee/Independent Contractor Compliance Study		Employee Sample Control Number:
1. Employee's Name and Address:		5. Employer's Name and Address:
2. SSN: _____		6. EIN: _____
3. Amount of Reclassified Wages: .....\$ _____		7. Industry/Occupation Code:..... [ ] [ ]
4. Year: <input type="checkbox"/> 1976 <input type="checkbox"/> 1977		
<b>RETURN IDENTIFICATION</b>		
8. Return Filing Record (to be completed by RPM)		9. Source of Return:
(a) <input type="checkbox"/> Return Secured and Attached		(a) <input type="checkbox"/> Initial Selection
(b) <input type="checkbox"/> Return Not Secured		(b) <input type="checkbox"/> Delinquent Return Secured (Collection Referral)
(c) <input type="checkbox"/> Return Assigned to: (Please Associate)		(c) <input type="checkbox"/> Previously Filed (Collection Referral)
		(d) <input type="checkbox"/> Refusal to File (Collection Referral)
10. If Taxpayer Not Liable to File Return <input type="checkbox"/> S/E Income less than \$400 and Total Income less than return filing requirement. Check here <input type="checkbox"/> and Complete Items 30 thru 34 ONLY.		
11a. Was Return Previously Examined? <input type="checkbox"/> Yes <input type="checkbox"/> No		12. Enter MIR CODE: _____
b. If Yes, was it Reopened? <input type="checkbox"/> Yes <input type="checkbox"/> No		13. Enter DIF SCORE: _____
c. If not Reopened, can edit sheet be completed from closed case file? <input type="checkbox"/> Yes, do so <input type="checkbox"/> No, see instructions		
<b>RECLASSIFIED WAGES</b>		
14a. Enter Employer's Business: _____ CODE: _____		
b. Enter Services Associated with Reclassified Wages: _____ CODE: _____		
15. Where and what amount of the "Reclassified Wages" (Item #3) were reported on return for Income Tax purposes? (Dollars only)		
	Per Return	As Corrected
(a) Wages and Salaries .....	\$ _____	\$ _____
(b) Schedule C Gross Receipts .....	\$ _____	\$ _____
(c) Schedule F Gross Receipts .....	\$ _____	\$ _____
(d) Other Income .....	\$ _____	\$ _____
<input type="checkbox"/> None Reported		
16. Amount of Reclassified Wages (Item #3) (Dollars only) reported for SECA/FICA purposes.		17. The basis for the determinations in questions 15 and 16 was:
	Per Return	As Corrected
(a) For FICA purposes .....	\$ X X X X X X \$ _____	\$ _____
(b) For SECA purposes .....	\$ _____	\$ _____
<input type="checkbox"/> None Reported		(a) <input type="checkbox"/> Specific identification of the item
		(b) <input type="checkbox"/> Customary indirect methods of determining income
		(c) <input type="checkbox"/> Other (explain in remarks)
<b>RECLASSIFIED WORKER</b> (Questions 18 and 19 refer to the income of the reclassified worker only. Do not include income of spouse if this is a joint return.)		
18. Total of all Schedules C and Schedules F for Reclassified Worker		
	Per Return	(Dollars only) As Corrected
(a) Gross Receipts .....	\$ _____	\$ _____
(b) Gross Profit (or loss) .....	\$ _____	\$ _____
(c) Net Profit (or loss) .....	\$ _____	\$ _____
19. FICA and SECA for Reclassified worker		
	Per Return	(Dollars only) As Corrected
(a) Total wages from FICA covered sources (disregard FICA limitation).....	\$ _____	\$ _____
(b) Total net earnings from self-employment (line 13, Form S/E).....	\$ _____	\$ _____
(c) Self-employment income (line 17, Form S/E).....	\$ _____	\$ _____
(d) Self-employment tax (line 18, Form S/E).....	\$ _____	\$ _____
<b>TAX RETURN SUMMARY</b> (Questions 20 thru 27 call for data from return, including spouse if return is joint. Enter all data which is appropriate.)		
20. Year: <input type="checkbox"/> 1976 <input type="checkbox"/> 1977		
21. Filing Status:		
	Per Return	As Corrected
	(check one)	(check one)
(a) Single .....	<input type="checkbox"/>	<input type="checkbox"/>
(b) Joint .....	<input type="checkbox"/>	<input type="checkbox"/>
(c) Head of Household .....	<input type="checkbox"/>	<input type="checkbox"/>
(d) Married Filing Separately ...	<input type="checkbox"/>	<input type="checkbox"/>
(e) Surviving Spouse .....	<input type="checkbox"/>	<input type="checkbox"/>
	Per Return	As Corrected
(a) Single .....	\$ _____	\$ _____
(b) Joint .....	\$ _____	\$ _____
(c) Head of Household .....	\$ _____	\$ _____
(d) Married Filing Separately ...	\$ _____	\$ _____
(e) Surviving Spouse .....	\$ _____	\$ _____
22. Adjusted Gross Income .....		
23. Taxable Income .....		
24. Tax Table Income (1977 only) .....		
25. Number of Exemptions .....		
26. Income tax after credits but excluding minimum tax .....		
27. Minimum Tax .....		
<b>AUDIT STATUS</b>		
28. Status: (a) <input type="checkbox"/> Final - Audit Completed.		
(b) <input type="checkbox"/> Final as to reclassified wages. Still open on other issues.▷		
(c) <input type="checkbox"/> Incomplete.▷		
29. REMARKS: (Index each item by its corresponding number and letter)		Estimated completion Date: _____ (Fill in if (b) or (c) is checked)
		Reserved:
30. Preparer's Name	31. District or Service Center Code	32. Organization Code
		33. Telephone (FIS)
		34. Date Prepared

Attachment II

<b>Employer Size Indicator</b>		Reserved		
<b>Employee/Independent Contractor Compliance Study</b>				
(1) Employer's Name and Address:		(2) Taxpayer Identifying Number:		
		(3) Tax Year: <input type="checkbox"/> 1976 <input type="checkbox"/> 1977		
<b>EMPLOYER SIZE INDICATOR</b>				
(4) Per tax year <u>YY</u> <u>MM</u> <u>DD</u> return.				
(5) Tax return of employer				
1 <input type="checkbox"/> 1040		3 <input type="checkbox"/> 1120, 1120-S, 1120 L, etc.		
2 <input type="checkbox"/> 1065		4 <input type="checkbox"/> Exempt Organization		
		5 <input type="checkbox"/> Other (explain) _____		
<b>BUSINESS INCOME:</b>		<b>BUSINESS ASSETS:</b>		
(6) 1 <input type="checkbox"/> Actual		(8) 1 <input type="checkbox"/> Actual		
2 <input type="checkbox"/> Estimate		2 <input type="checkbox"/> Estimate		
3 <input type="checkbox"/> Not available/no basis for estimate		3 <input type="checkbox"/> Not available/no basis for estimate		
(7) 1 <input type="checkbox"/> Under \$50,000		(9) 1 <input type="checkbox"/> Under \$100,000		
2 <input type="checkbox"/> \$50,000 under \$100,000		2 <input type="checkbox"/> \$100,000 under \$500,000		
3 <input type="checkbox"/> \$100,000 under \$1,000,000		3 <input type="checkbox"/> \$500,000 under \$5,000,000		
4 <input type="checkbox"/> \$1,000,000 under \$10,000,000		4 <input type="checkbox"/> \$5,000,000 under \$50,000,000		
5 <input type="checkbox"/> \$10,000,000 under \$100,000,000		5 <input type="checkbox"/> \$50,000,000 under \$250,000,000		
6 <input type="checkbox"/> \$100,000,000 and over		6 <input type="checkbox"/> \$250,000,000 and over		
REMARKS:				
RESERVED:				
(10) Preparer's Name	(11) District or S.C. Code	(12) Organization Code	(13) Telephone Number (FIS)	(14) Date