The UBER Effect: Nonemployer Establishments and Receipts in Pennsylvania

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Center for Economic Development
Heinz College, Carnegie Mellon University
A Bumpy Ride: The Rollout of Ridesharing in Pennsylvania

Newspaper reports indicate that Uber and Lyft began operating in Pittsburgh in early 2014; Lyft in February, and Uber in March.\(^1\) Ridesharing began in the state without the express approval of relevant state and local regulatory bodies. This includes the Pennsylvania Public Utility Commission (PUC) which has jurisdiction over the licensing of limos and taxis operating anywhere in the state except Philadelphia, where regulation falls under the jurisdiction of the Philadelphia Parking Authority (PPA).\(^2\) One exception was UberBlack, Uber's on demand limousine dispatch service, which began operating in Philadelphia in 2012 and which received early approval from both the PUC and PPA.\(^3\) The entry of Lyft and Uber's lower cost UberX service into the Pittsburgh market without regulatory approval kicked off a series of conflicts between ridesharing companies and regulators that lasted over two years.

On July 2, 2014 PUC issued cease and desist orders to both Lyft and UberX right before the holiday weekend.\(^4\) Both companies responded by indicating their intent to continue operations in the press.\(^5\) After citing 32 drivers and proposing daily corporate fines, on July 25 PUC issued an order that granted both companies a temporary permit to operate as an "experimental service" in Allegheny County for a window of sixty days, by which firms and drivers were expected to comply with a list PUC regulations on insurance coverage, vehicle safety, and driver eligibility.\(^6\) Both firms soon submitted applications for permanent PUC approval.\(^7\) On September 26 two PUC administrative judges recommended that Uber be denied authority to operate in Pennsylvania, based largely on its previous defiance of court orders.\(^8\)

One month later on October 26, Uber announced the launch of UberX in Philadelphia without the permission of the PPA.\(^9\) On November 14 2014, with a vote of 4-1, PUC approved a two year experimental license for Uber to operate in all but ten Pennsylvania counties (including Philadelphia) subject to its ability to meet regulatory conditions in thirty days.\(^10\) On January 15 2015 PUC's Bureau of Investigation and Enforcement proposed a $19M fine against Uber.\(^11\) On January 28 Lyft announced its intent to launch service in Philadelphia by the end of the month.\(^12\) On January 30 PUC ruled that the conditions set forth in its November 14 ruling had been met, and it approved a two year license for Uber to operate in the state.\(^13\) The ruling did not cover Philadelphia. PUC granted a similar license to Lyft thirteen days later.\(^14\) Lyft settled its fines with PUC in July for $250K.\(^15\) In November 2015 the same two PUC judges recommended a record $50M fine against Uber. The commission ultimately levied an $11M fine against the company in April of 2016.\(^16,17\)

On July 8 2016 Uber and the PPA reached an agreement which permitted the company temporary authority to operate in Philadelphia until September 30, and which settled on a fine of $350K for operating in the city without the approval of PPA.\(^18\) A week later Governor Wolf signed state legislation permitting Uber and Lyft to operate in Philadelphia until the end of September.\(^19\) On November 4 2016, Wolf signed a bill that legalized ridesharing statewide, including in Philadelphia.\(^20\) The legislation required both companies to pay 1.4% of gross receipts on fares that originated in the City of Philadelphia to the PPA, which would keep a third. The Philadelphia School District would receive two thirds of fee revenues.\(^21\)
Uber received a permanent license to operate in Pennsylvania from PUC in January of 2017. In April, PUC and Uber reached a $3.5M settlement over the firm’s regulatory violations, effectively concluding its conflict with the company over the legality of ridesharing, at least for the time being.

Estimates of Ridesharing Activity in Pennsylvania

Estimates of ridesharing activity in the Commonwealth, including counts of rides, drivers, and revenues are not readily available to the public, and a limited amount of information has been sporadically reported by newspapers via regulatory agencies or other sources, including the companies themselves.

For example, according to one report, tax numbers released by the PPA indicated that Uber and Lyft reported $53M in revenue over the first 11 weeks of legal operation in Philadelphia from July 14 to September 30 2016; an amount earned upon an average of 59,000 rides a day, according to the report. This same report also quoted Uber as having 12,000 drivers in the Philadelphia region. A second report, again based on PPA figures, pegged revenues from November 4 to Dec 30 that same year at $44M on a rate of 49,000 rides a day.

An October 2016 report by the Brookings Institution attempted to measure “gig activity” related to ridesharing and roomsharing activities at both the national and regional metropolitan level, including the Philadelphia and Pittsburgh regions. The report found that the Pittsburgh region saw an 85% increase in sole proprietor businesses associated with ridesharing activity between 2012 and 2014. The data used for this estimate originated from the Nonemployer Statistics program of the Census Bureau.

Since the Brookings report a new year of data (2015) from the Nonemployer Statistics program has been released. Like the Brookings report, this report uses data from the program to provide an estimate of the number of driver “businesses” in industries associated with ridesharing activity, and trends in that number over time. However, this report assesses trends over a longer time period, with a more recent year of data, and in more detail. Rather than assessing this trend at the national and metropolitan level, this report runs the numbers at the state and county level. Unlike the Brookings report, this report also examines sales revenue associated with driver businesses. As with the Brookings report, our estimates come with several caveats, which are covered in detail on the pages that follow.

At the time of this writing, to the best of our knowledge, we know of no other report that attempts to characterize driver businesses or revenues in Pennsylvania. Our numbers cover the startup period from the winter of 2014 through the end of 2015. Unfortunately, numbers for 2016 will not be available until next spring. Still this report gives some insight into the extent which Pennsylvania residents may be participating and benefiting as ridesharing drivers, and the amount of revenue involved.
The Nonemployer Statistics Program

This analysis relies on data from the Nonemployer Statistics Program of the Census Bureau. Per its website:

Nonemployer Statistics is an annual series that provides subnational economic data for businesses that have no paid employees and are subject to federal income tax. The data consist of the number of businesses and total receipts by industry. Most nonemployers are self-employed individuals operating unincorporated businesses (known as sole proprietorships), which may or may not be the owner’s principal source of income.28

The two key measures reported by the program are *establishments* and annual *receipts*. These are defined on the program’s website as follows.

Generally, an establishment is a single physical location at which business is conducted, services are rendered, or industrial operations are performed. However, Nonemployer Statistics counts each distinct business income tax return as a firm.29

Receipts [include] gross receipts, sales, commissions, and income from trades and businesses, as reported on annual business income tax returns. Business income consists of all payments received for services rendered.30

The program reports establishments and receipts by industrial classification and legal form of organization. This report focuses on establishments under industry groups 4853 Taxi and Limousine Services, and 4859 Other Transit and Ground Passenger Transportation, categories under NAICS that are often associated with ridesharing activity.31 Where possible, analysis is limited to sole proprietorships, which includes the self-employed. We present findings first, with information on technical details and caveats following.
**Statewide trends in nonemployers**

Statewide the number of nonemployer establishments in NAICS 4853 and 4859 grew steadily from 2009 to 2013. Over four years the number of taxi and limousine service establishments (4853) grew at an average rate of 5% per year while other transit and ground passenger transportation (4859) grew at a rate of about 3%.

Growth in the former accelerated dramatically in 2014 and spiked in 2015. Between 2013 and 2014, the number of establishments in taxi and limousine services grew by 23%, and then by 89% from 2014 to 2015. In just two years the number of nonemployer businesses in this category grew by over 7,500 businesses statewide. The number of establishments for other transit and ground passenger transportation services also jumped by 25% between 2013 and 2014, and by 53% in 2015, growing by almost 1,150 in two years.
Statewide trends by legal form of organization

The Nonemployer Statistics Program also tracks nonemployer businesses by legal form of organization at the state level. The most common form is sole proprietor, but others include partnerships and incorporated organizations. The chart below combines the number of establishments for both industry categories, and classifies the results by legal form. The main takeaway is that the aforementioned jump in the data from 2014 on occurred only with sole proprietors, the category we would expect Uber and Lyft drivers to fall under. For both industry categories combined, sole proprietors grew by almost 8,650 in two years such that by 2015 the number of proprietors had reached almost 15,000 in the state.

Corporations and other corporate legal forms of organization were the second most common type of establishment, followed by partnerships. According to the Nonemployer Statistics Program, starting in 2014 S-corporations were tracked separately from other corporate forms. As indicated by the last two years of the figure, this appears to be the most common type of corporate legal form for nonemployers in these industries.
Statewide trends in nonemployer receipts

The Nonemployer program also tracks business receipts, representing gross sales. For ridesharing drivers, this figure is inclusive of all payments and fees to Uber or Lyft, tolls, and other businesses expenses. While such expenses ultimately reduce the true net income to the driver, only estimates of gross receipts/sales (as opposed to estimates of net income after expenses) are produced by the Nonemployer Statistics program. Trends in nonemployer receipts for NAICS 4853 and 4859 combined are shown in the chart below, classified again by legal form of organization, and in nominal dollars.

Focusing again on sole proprietors, receipts grew by 54% of 2009 levels as of 2013, whereas establishments grew by 22% during the same period. Thus nominal receipts outpaced establishment growth for sole proprietors during this period, although part of receipt growth is attributable to inflation. Conversely, while proprietor receipts still grew at a healthy rate from 2013 to 2015, they lagged establishment growth. Whereas sole proprietor establishments grew by 139% from 2013 to 2015 (from 6,190 to 14,837) total receipts for these establishments grew by 47% (188M to 277M). Still the amount of income that flowed to these firms in these last two years is impressive. Nominal revenues for sole proprietors grew by $66M over four years from 2009 to
2013, then grew again by $89M in just two. Meanwhile, after growing 16% from 2009 to 2013 corporate nonemployer receipts appeared to shrink by 9% between 2013 and 2015.33

Still, at face value, this number seems much smaller than press reports on revenues for ridesharing in Philadelphia alone a year later, which as noted were reported to be $97M alone between July 14 and the end of the December 2016. Possible explanations for this, in order of likelihood, include: that with the PPA’s approval of Uber in Philadelphia on July 8 2016, demand and associated revenue surged to significantly higher levels than the previous year; that a significant amount of the PPA reported revenue of $97M was actually earned by out of state drivers, and thus not included in the data; that a significant amount of the PPA revenue was generated by drivers with less than $1K revenue, and also not included in the data; and finally (and least likely) that a significant amount of revenue has yet to reported to the IRS by drivers. The 2016 release of Nonemployer Statistics data will likely clarify matters.

Statewide trends in receipts per establishment

The ratio of receipts to establishments (i.e. average receipts) provides a hint of how these businesses broadly fared from year to year. Receipts per establishment varied significantly by legal form of organization over the period. For taxi and limousine services alone, partnerships saw the largest ratios, as well as a swell in average receipts from 2010 to 2011. This is a very small group however, comprising around 21 firms in 2009 vs. 4,000+ sole proprietorships the same year. While still relatively high compared to other legal forms of organization, the ratio for this group declined thereafter. Corporate firms, including S-corporations, had the next highest receipts per business over the period. Average receipts grew gradually for these firms until 2014. Sole proprietor establishments saw much smaller average receipts throughout the period. Starting at $25K, average receipts appeared to grow slowly and steadily such that by 2013 the ratio was 29% larger. However, this ratio declined starting in 2014, and by 2015 average receipts were $19K, $6K less than where they started in 2009.34
Estimating new entrants and their receipts

As noted ridesharing began in earnest in PA starting in 2014. It is of interest to know how many new self-employed drivers entered the market via Uber and Lyft from 2014 and 2015, and how much they made. Unfortunately it is impossible to extract exact estimates from the Nonemployer Statistics program. Instead, we use a crude approach to characterize both measures here.

First, we assume that all new businesses after 2013 represent ridesharing drivers. This ignores the possibility that part of the increase might have been due to activity outside of ridesharing platforms. This might well have been true, as numbers for establishments for both groups were growing steadily if relatively slowly through 2013.\(^{35}\)

Second, as a measure of how much these new entrants may have earned, we divide the total change in receipts after 2013 by the total change in establishments. In other words, we assume that all new receipts after 2013 flowed only to new entrants, even though in reality this might not be true. This is a strong assumption, and reality is likely much messier, but it does seem likely that much of the new revenue flowed to new entrants, rather than existing ones.
Third, we are interested in Uber and Lyft drivers, so limiting this calculation to sole proprietors is appropriate.

Results

The total increase in sole proprietor receipts for both NAICS groups combined after 2013 was $89M. The total increase in sole proprietor establishments after 2013 was 8,647. This results in average receipts of about $10.3K per proprietor. But this figure is for both years of increases combined. Breaking out the figures by year results in an average of $24.3K per proprietor for 2014, and an average of $7.2K per proprietor in 2015.

The aforementioned $89M increase in sole proprietor revenues over two short years suggests a rapid and dramatic increase in market demand for ground passenger transportation, and one surely driven by ridesharing. While $89M is a lot of money, the sheer number of establishments that entered the market in those same years suggests that much of this new revenue was spread relatively thinly among new drivers.36

The $7.2K per proprietor number is striking, but is still only an average. While large numbers of new entrants seem likely to have made around $7K or less, many surely made much more. It is also possible that average receipts may have a bimodal distribution, such that one group of drivers actually has a higher ratio, while the other may have one less than $7K. Finally it is also possible that this new wave of drivers achieved additional incomes by also capturing revenue from traditional (ex: taxi) self-employed drivers. To the extent this happened the receipts of the new wave would in reality be higher on average, at the expense of proportionately lower average incomes for drivers in traditional services. Other possible explanations for this number are described in the technical section.

Unfortunately we are limited to point estimates that do not classify businesses accordingly, and which do not reveal the true distribution of new entrants by receipts. We can note that both the $7.2K estimate for new entrants, and the annual estimate of $17K for all nonemployers for 2015 appear to be significantly lower than the figures that platforms have claimed drivers can make.37
Trends in Establishments in Ground Transportation vs. Other Nonemployers

One possible explanation for the surge in establishments might have simply been a commensurate and broad surge in self-employment generally during the period. However, while the total number of nonemployer sole proprietors did increase during the period, the number of Taxi and Limousine proprietors grew much faster. In fact, when compared to the "top gaining" sole proprietor categories in the state of some size at the four digit NAICS level from 2009 to 2015, its gain of increase significantly outpaced the competition, particularly by 2015. The intensity of year to year percent differences are indicated below by color in the first chart, and by percent change from the baseline year of 2009 in the second.


<table>
<thead>
<tr>
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<th></th>
</tr>
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<td>Taxi and Limousine Services</td>
<td>4,044</td>
<td>4,180</td>
<td>4,527</td>
<td>4,739</td>
<td>4,998</td>
<td>5,291</td>
<td>6,291</td>
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<td>Home and Healthcare Services</td>
<td>6,948</td>
<td>7,162</td>
<td>7,957</td>
<td>8,143</td>
<td>8,861</td>
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<td>Individual and Family Services</td>
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<td>5,681</td>
<td>6,029</td>
<td>6,244</td>
<td>6,426</td>
<td>6,776</td>
<td>6,840</td>
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<td>Health and Personal Care</td>
<td>4,084</td>
<td>4,039</td>
<td>3,847</td>
<td>3,991</td>
<td>4,108</td>
<td>4,496</td>
<td>4,935</td>
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<tr>
<td>Other Professional, Scientific and</td>
<td>29,943</td>
<td>31,157</td>
<td>32,067</td>
<td>32,574</td>
<td>33,402</td>
<td>34,893</td>
<td>35,262</td>
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<td>Technical Services</td>
<td>24,490</td>
<td>26,102</td>
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<td>27,287</td>
<td>28,057</td>
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<td>Personal Care Services</td>
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<td>35,783</td>
<td>37,684</td>
<td>37,741</td>
<td>38,521</td>
<td>39,540</td>
<td>39,710</td>
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<td>Other Personal Services</td>
<td>4,285</td>
<td>4,457</td>
<td>4,572</td>
<td>4,775</td>
<td>4,770</td>
<td>5,009</td>
<td>4,983</td>
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<td>Special Food Services</td>
<td>5,335</td>
<td>5,484</td>
<td>5,642</td>
<td>5,970</td>
<td>5,890</td>
<td>6,095</td>
<td>6,184</td>
</tr>
<tr>
<td>Spectator Sports</td>
<td>4,068</td>
<td>4,055</td>
<td>4,115</td>
<td>4,481</td>
<td>4,382</td>
<td>4,591</td>
<td>4,629</td>
</tr>
<tr>
<td>Other Amusement and Recreation</td>
<td>23,678</td>
<td>23,857</td>
<td>24,290</td>
<td>24,704</td>
<td>25,062</td>
<td>26,213</td>
<td>26,694</td>
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<tr>
<td>Industries</td>
<td>14,531</td>
<td>14,839</td>
<td>15,127</td>
<td>15,283</td>
<td>15,485</td>
<td>15,842</td>
<td>16,211</td>
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<tr>
<td>All Nonemployers</td>
<td>662,430</td>
<td>665,024</td>
<td>672,359</td>
<td>672,939</td>
<td>675,454</td>
<td>694,410</td>
<td>705,308</td>
</tr>
</tbody>
</table>

% Difference in Es.,

-20% 200%

Notes:
- Taxi and Limousine Services
- Home and Healthcare Services
- Individual and Family Services
- Health and Personal Care
- Other Professional, Scientific, and Technical Services
- Personal Care Services
- Other Personal Services
- Special Food Services
- Spectator Sports
- Other Amusement and Recreation Industries
- Independent Writers, Artists, and Performers
- Health Practitioners
- All Nonemployers
County level trends in establishments

Data was also available by county. However, the Nonemployer Statistics Program does not disaggregate county figures by legal form of organization. So unfortunately, the only numbers available to us on establishments and receipts are not limited to sole proprietors, and are skewed by partnerships and incorporated businesses, even though the number of proprietorships still likely dominates the whole in any given county. Further, due to the publication standards of the program many county estimates of establishments or receipts are not disclosable.\(^\text{38}\)

Given these constraints we limited our analysis to twenty counties with large numbers of establishments in which all estimates were disclosable from 2009 to 2015. We examined establishments, receipts, and average receipts per establishment. In presenting average receipts, we made no attempt to adjust for the presence of partnerships or incorporated businesses.

By 2015 Philadelphia, Allegheny, Delaware, Montgomery and Bucks counties contained the most establishments with Philadelphia dominating, especially by 2015. After trailing the county since 2009, Allegheny County (Pittsburgh) eventually moved to second place by surpassing Delaware County in 2015.

Whereas Delaware, Montgomery, and Bucks counties are all adjacent to Philadelphia county and part of the greater Philadelphia region, Allegheny County is the only county in the Pittsburgh region that had substantial numbers of establishments out of this group during the study period.\(^\text{39}\) Colors indicate year to year percent change. Dark blue cells represent over 200% year to year growth, while orange or red represents year to year decline. The most noticeable takeaway is the "mosty blue" column in 2015, a burst in growth that began for some counties in 2014. This burst of activity is present for just about each of the 20 counties save Lebanon.
County level trends in receipts

Receipts at the county level for both NAICS codes are shown in the table below, and again include receipts from partnerships and incorporated firms (in nominal dollars). The table presents counties in the same order as the last, and as might be expected the rank of counties by total receipts is similar, with a few exceptions. The most noticeable one is that despite the fact that Allegheny surpassed Delaware in the number establishments as of 2015, it still lags far behind the county in receipts. Year to year percent changes in total receipts are indicated using the same scale and colors as the last table. The table indicates a drop in revenues broadly felt in 2013 across a number of counties, followed by increases for 2014 and 2015. As noted earlier, these increases were not as dramatic as increases for establishments.

Nonemployer Receipts for Taxi, Limousine, and Other Transit and Ground Passenger Transportation by County, 2009-2015

<table>
<thead>
<tr>
<th>County</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
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<tr>
<td>Philadelphia</td>
<td>56.8M</td>
<td>61.7M</td>
<td>76.1M</td>
<td>82.4M</td>
<td>90.5M</td>
<td>106.5M</td>
<td>121.1M</td>
</tr>
<tr>
<td>Allegheny</td>
<td>10.0M</td>
<td>10.3M</td>
<td>12.9M</td>
<td>13.9M</td>
<td>14.6M</td>
<td>20.2M</td>
<td>31.1M</td>
</tr>
<tr>
<td>Delaware</td>
<td>32.6M</td>
<td>34.7M</td>
<td>43.1M</td>
<td>47.5M</td>
<td>49.7M</td>
<td>57.3M</td>
<td>62.4M</td>
</tr>
<tr>
<td>Montgomery</td>
<td>9.7M</td>
<td>10.7M</td>
<td>12.9M</td>
<td>12.7M</td>
<td>13.5M</td>
<td>17.7M</td>
<td>19.3M</td>
</tr>
<tr>
<td>Bucks</td>
<td>9.3M</td>
<td>10.9M</td>
<td>12.8M</td>
<td>13.1M</td>
<td>13.3M</td>
<td>15.7M</td>
<td>16.6M</td>
</tr>
<tr>
<td>Lancaster</td>
<td>8.6M</td>
<td>8.5M</td>
<td>8.5M</td>
<td>9.2M</td>
<td>9.2M</td>
<td>9.7M</td>
<td>10.3M</td>
</tr>
<tr>
<td>Lehigh</td>
<td>3.1M</td>
<td>4.4M</td>
<td>4.6M</td>
<td>4.9M</td>
<td>4.5M</td>
<td>4.7M</td>
<td>7.1M</td>
</tr>
<tr>
<td>Chester</td>
<td>2.8M</td>
<td>3.4M</td>
<td>4.3M</td>
<td>3.9M</td>
<td>3.6M</td>
<td>4.6M</td>
<td>7.0M</td>
</tr>
<tr>
<td>Dauphin</td>
<td>2.4M</td>
<td>2.2M</td>
<td>2.5M</td>
<td>3.0M</td>
<td>3.7M</td>
<td>3.3M</td>
<td>5.0M</td>
</tr>
<tr>
<td>Berks</td>
<td>4.5M</td>
<td>5.2M</td>
<td>4.5M</td>
<td>3.7M</td>
<td>4.7M</td>
<td>4.2M</td>
<td>5.2M</td>
</tr>
<tr>
<td>Northampton</td>
<td>2.4M</td>
<td>2.6M</td>
<td>3.4M</td>
<td>3.4M</td>
<td>3.6M</td>
<td>3.8M</td>
<td>4.6M</td>
</tr>
<tr>
<td>Centre</td>
<td>1.0M</td>
<td>1.0M</td>
<td>1.3M</td>
<td>1.4M</td>
<td>1.6M</td>
<td>1.8M</td>
<td>2.6M</td>
</tr>
<tr>
<td>Cumberland</td>
<td>0.9M</td>
<td>1.1M</td>
<td>1.5M</td>
<td>1.6M</td>
<td>1.8M</td>
<td>2.1M</td>
<td>2.2M</td>
</tr>
<tr>
<td>Erie</td>
<td>0.9M</td>
<td>0.9M</td>
<td>1.1M</td>
<td>1.1M</td>
<td>0.9M</td>
<td>0.9M</td>
<td>1.5M</td>
</tr>
<tr>
<td>Monroe</td>
<td>2.4M</td>
<td>2.9M</td>
<td>2.6M</td>
<td>3.0M</td>
<td>3.2M</td>
<td>3.3M</td>
<td>4.3M</td>
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<tr>
<td>Luzerne</td>
<td>1.3M</td>
<td>1.4M</td>
<td>2.3M</td>
<td>2.7M</td>
<td>1.9M</td>
<td>1.6M</td>
<td>1.7M</td>
</tr>
<tr>
<td>York</td>
<td>2.1M</td>
<td>2.2M</td>
<td>2.1M</td>
<td>1.7M</td>
<td>1.6M</td>
<td>2.3M</td>
<td>2.5M</td>
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<tr>
<td>Lackawanna</td>
<td>0.9M</td>
<td>1.5M</td>
<td>1.9M</td>
<td>1.7M</td>
<td>1.8M</td>
<td>1.5M</td>
<td>1.9M</td>
</tr>
<tr>
<td>Washington</td>
<td>0.7M</td>
<td>0.6M</td>
<td>0.8M</td>
<td>1.0M</td>
<td>0.8M</td>
<td>1.0M</td>
<td>1.0M</td>
</tr>
<tr>
<td>Lebanon</td>
<td>0.8M</td>
<td>1.3M</td>
<td>1.4M</td>
<td>2.1M</td>
<td>1.3M</td>
<td>1.7M</td>
<td>2.0M</td>
</tr>
</tbody>
</table>

Receipts per establishment by county are shown in the table below. Again, these numbers are not limited to sole proprietors, so figures are inflated somewhat by the presence of partnerships and corporate establishments. Color indicates magnitude. The most noticeable thing about the table is the drop in average receipts for 2015, for every county shown save Monroe and Lebanon. Previous to 2013, these figures were relatively stable, and especially so for Allegheny County, for example.
Not surprisingly, even before ride sharing rolled out in earnest, average receipts were higher in the more urbanized counties of the Philadelphia region, particularly in the suburban counties of Delaware, Montgomery, and Bucks.

Receipts per Nonemployer Establishment for Taxi, Limousine, and Other Transit and Ground Passenger Transportation by County, 2009-2015

<table>
<thead>
<tr>
<th>County</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Philadelphia</td>
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<td>37K</td>
<td>39K</td>
<td>40K</td>
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<tr>
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<td>31K</td>
<td>35K</td>
<td>40K</td>
</tr>
</tbody>
</table>

Total Receipts per...

| 12K | 49K |
Here’s a final look at average receipts per establishment, limited to counties in the Philadelphia region and Allegheny. Results are shown by year, and then separately for estimated “new entrants” added in 2014, 2015, and for both years combined. Average receipts began to change in 2014 and changed in a big way by 2015. The change in the average receipts for “new entrants” in 2015 is striking.

<table>
<thead>
<tr>
<th>County</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>New Entrants</th>
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<tr>
<td>Annual Receipts per Establishment/Year</td>
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<td></td>
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<tr>
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<td>43K</td>
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</tr>
<tr>
<td>Chester</td>
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<td>31K</td>
<td>26K</td>
<td>24K</td>
<td>20K</td>
<td>20K</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>New Entrants</th>
<th>2014</th>
<th>2015</th>
<th>Combined</th>
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<tr>
<td>Chester</td>
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<td>15K</td>
<td>16K</td>
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</tbody>
</table>
Technical Notes and Caveats

Sources of Error, Exclusions, Classification, Suppression, and Noise Infusion

The program relies on a census of administrative records (primarily business income tax returns) rather than a sample, and does not suffer from sampling error. However the program is subject to nonsampling error, including but not limited to undercounting due to late tax submissions.\(^\text{41}\) The classification of businesses as nonemployers is also subject to error. As part of this process, the program reviews potential nonemployer records and removes those businesses which seem likely to have employees, or upon closer inspection, seem to be units of other firms.\(^\text{32}\)

The program intentionally excludes otherwise technically qualifying nonemployers via minimum and maximum business income cutoffs.\(^\text{43}\) Nonemployers with less than $1,000 in receipts are excluded from the data for all industries save construction.\(^\text{44}\) Nonemployers with over $1M in annual receipts may instead be reclassified as employers depending on their legal form of organization and industry. For example nonemployers that are partnerships or corporations in service industries are excluded if receipts exceed $2M.\(^\text{45}\) The logic behind maximum cutoffs is that very high receipts indicate that a business actually has employees.

The program makes available annual establishment and receipts totals at the national, regional, state, and county level. The program typically assigns business location based on the business owner's mailing address, which may not be the same as the physical location of the business, or the area the business primarily serves or operates in.\(^\text{46}\)

As noted the program also reports establishments and receipts by legal form of organization, across four types: sole proprietors (i.e. unincorporated businesses with a sole owner), partnerships, corporations and other corporate forms of organization, and S corporations. The most common type of nonemployer is sole proprietor, a category inclusive of self-employed persons.\(^\text{47}\) The program first began to track S corporations in 2014. Before then this type of nonemployer was grouped under the third category (corporations etc.).

Estimates are also classified by up to 450 industries using the North American Industry Classification System (NAICS).\(^\text{48}\) Industry classifications mainly derive from self reported information on business tax forms.\(^\text{49}\) Since self-reported classifications are not always definitive, a small percentage of nonemployers are initially unclassified each year. Per the website, for such cases industrial classification is imputed based on the existing industrial distribution of businesses in the same geography with the same legal form of organization.

To protect the confidentiality of individual business owners, the program suppresses certain estimates from publication. Specifically, “at all levels of geography, the number of firms and receipts in a data cell can be published only if the cell contains three or more nonemployer businesses.”\(^\text{50}\) Estimates are also suppressed if more than 40% of receipts or firms are from an imputed industry classification.\(^\text{51}\)

Since 2005 the program has also used noise infusion to prevent disclosure of receipts estimates for individual businesses.\(^\text{52}\) This involves the application of a random noise multiplier to the estimate, altering the original value. When this occurs the original value is
typically only altered by less than 2% (flagged as “low noise”), less commonly between 2% up to 5% (“medium noise”), and rarely by more than 5% (“high noise”).

The program underwent a methodology change starting in 2009. Per the website, new maximum receipt cutoffs were established to increase the accuracy of the sole proprietor count, and new procedures were applied to identify and exclude likely employers from businesses in the corporate and partnership categories. These changes rendered estimates before and after 2009 less comparable, and so we opted to limit our analysis from 2009 to 2015, the most recent year of data available at the time.

**How Uber and Lyft Drivers Report Business Income**

Uber and Lyft do not treat their drivers as employees but as users of their third party ride sharing systems, thus drivers do not receive W-2 forms for tax purposes. Instead, for example, Lyft sends drivers earning over $600 in gross ride receipts on 200 or more transactions an IRS Form 1099-K (“Payment Card or Third Party Transactions”). Drivers that earn at least $600 from activities other than driving (ex: bonuses) also receive IRS form 1099-MISC (“Miscellaneous Income”). Uber’s policies appear to be similar.

A driver with a single business would then enter the income amounts from both forms into Schedule C of IRS Form 1040, “Profit or Loss from a Business”. Driver income and other income (ex: bonuses) are added and entered together under “Gross Receipts or Sales” on the form (Part I Income, Item 1). Again, these figures represent gross sales to the driver, and include the ridesharing service’s cut and other fees. That cut, and other expenses and fees (ex: tolls) are deducted as expenses on the form to obtain a net profit or loss for the business, which is reported on the 1040. As noted earlier, gross receipts as reported on the Schedule C. form are used by the Nonemployer Statistics Program.

On Schedule C, Item B, drivers are also asked to enter the appropriate “Principal Business or Professional Activity Code” for the type of activity the business entails. These codes are based on six digit NAICS industry codes, and are self-reported.

**Assessing Ride Sharing Service Driver Activity Under The Nonemployer Statistics Program**

The design of the Nonemployer Statistics Program, the policies of Lyft and Uber, and the behavior of drivers as taxpayers all have potential implications for the analysis as follows.

- First, businesses that collectively earn less than $1,000 in receipts appear to be excluded from the Nonemployer Statistics data entirely. It seems far less likely that high earning Uber or Lyft drivers would be excluded (the cutoff ceiling appears to be $2M a year).
- Industry classification is self-reported and therefore subject to error. The appropriate code for drivers to use from the IRS Schedule C instructions appears to be 485300 for Taxi & Limousine Service, but at face value 485990 for Other Transit and Ground Passenger Transportation also seems to fit. Casual searches of the web suggest that both are in use. Still since classification is self-reported, it seems possible that a different code might be used, or none at all. While relevant information of the payer (company name and address) are included on 1099-Ks and 1099-MISCs sent to payees and the IRS alike, this information is not shared with the
Nonemployer Statistics program, and so cannot be used to characterize businesses by industry. Ultimately, we cannot discount the possibility of an undercount due to misclassification, although to the extent that this exists, it is probably limited. Overcounting due to misclassification seems less likely.

- The primary unit of measure for the Nonemployer Statistics Program is a business, not an individual, and an individual can have more than one business. Self-employed persons can earn income from more than one business activity, and guidance from the IRS suggests that such persons should submit a Schedule C for each “separate” business activity they undertake in a given year. These “Schedule C businesses” appear to comprise the unit of analysis for the program. Driving for/using a ridesharing service would seem to be a single business activity, but it is possible for a driver to use and be paid by more than one service, or to drive under other arrangements apart from the service. This at least introduces the possibility of what amounts to an “overcount” of drivers. Such an overcount would result in average income per establishment that is lower than what drivers (as opposed to “businesses”) would actually make by using multiple platforms.

- Suppression did impact our analysis, but for the most part only at the county level.
  - At the state level, at the “all establishments” level, no estimates of establishments or receipts were suppressed for any year examined.
  - For estimates by legal form of organization, only two point estimates, the number of businesses and associated receipts respectively, for partnerships under NAICS 4859 in 2010, were suppressed. As a result, one average receipt per business figure was also suppressed. Based on the estimates available for this group for other years, we assume the numbers involved were very small.
  - Because estimates of firms and receipts were suppressed for numerous counties for several years in the study period, we decided to limit our analysis to 20 of the Commonwealth’s 67 counties. Regrettably, Westmoreland, Beaver, Butler, Fayette, and Armstrong were all excluded from the analysis for suppression issues, which is unfortunate given that they are routinely included in definitions of the Pittsburgh region. Unlike Philadelphia however, the number of establishments appeared to be very concentrated in the core urban county of Allegheny. Estimates for the five counties were available for 2015, and the number of establishments for all five counties combined still only comprised 14% of the total establishments for Allegheny.

- The primary threat of the use of noise infusion on actual receipts is that changes in receipt levels or average receipts per firm may not be due to real changes in year to year sales, but instead merely due to adjustments to the original values due to noise infusion. The impact of noise infusion on the results are also likely limited.
  - Of the 280 estimates of annual receipts at the county level for the seven years of the period for both NAICS 4853 and 4859, only one point estimate was altered by 5% or more due to “high noise” infusion. The data indicated that that sixty two estimates (22%) were altered between 2% and just under 5% of their original values through “moderate noise” infusion, and that the remaining 217 (78%) of estimates were changed by less than 2%
via “low noise” infusion. The vast majority of estimates infused moderate noise were for NAICS 4859. Only 15 of the 140 receipt estimates for 4853 were flagged for “moderate noise”.

- At the state level, for estimates of receipts of establishments in 4853 and 4859 for all legal forms of organization combined, all 14 estimates used low noise infusion. Of the 46 estimates available by legal form of organization, one was again suppressed, 13 featured moderate noise infusion, and 32 (70%) featured low noise infusion. All estimates for sole proprietorships for 4853 and 4859 also featured low noise infusion.

- Based on the program’s website, establishments appear to be located based on the “business owner’s mailing address identified from administrative records”. This introduces the possibility that the business owner’s address might be different from that of the place of business, or more relevant to ground transportation, the area that the driver typically serves. This introduces an unknown but likely minor amount of location error.

- A related issue is that drivers get separate 1099-Ks for each state that they drive in. This introduces the possibility that some out-of-state revenue is earned by in-state drivers, which is included in-state receipt totals. Conversely out-of-state drivers that operate in the state may earn revenue that is not reported under PA. This is likely to be particularly true for the Philadelphia area. Thus this analysis is best thought of as an assessment of receipts earned by drivers located in PA, regardless of where they operate, rather than an assessment of all ridesharing activity in the state.

- People make mistakes on tax forms. Again, the Nonemployer Statistics Program’s main source of receipts for sole proprietors is Part 1 (Income) Box 1, on the Schedule C form. This represents receipts before such expenses are deducted. There is likely an unknown amount of error associated with incorrect reporting of establishment receipts, particularly with respect to the extent that drivers account for expenses, including Uber/Lyft fees, correctly.

- People send in taxes late. As indicated previously, the program estimates that late reporting resulted in an estimated undercount of 5% of partnership and corporate nonemployers, with a much lower (unreported) rate for sole proprietors. Whatever the unreported proprietor rate is, it could conceivably be higher for a wave of new drivers grappling with new tax obligations and unfamiliar forms for the first time.

- Finally, it must be acknowledged that sole proprietors in the taxi and limousine business existed before ridesharing services came on the scene, and they continue to do so. In 2009 there were already 4K sole proprietors under NAICS 4853. While the record shows a large surge in nonemployers and accompanying receipts for NAICS 4853 and 4859, a significant portion of those establishments are surely still independent drivers in traditional lines of business in ground passenger transportation. We cannot separate the number of businesses or their sales by industrial classification, and can only imperfectly compare the time periods “before and after” Uber and Lyft began operating in PA.
Comments on Falling Receipts per Establishment

Again, we do not have precise figures on ridesharing income for individual drivers. Since the average receipt figures declined noticeably for 2014-2015, we offer some possible explanations here, none of which we can prove at this point.

- New entrants preferred limited hours for driving (held other jobs, etc.).
- New entrants dropped out soon after earning more than $1K (voluntarily or involuntarily). Some may have decided ridesharing was not for them, others may have been excluded from the use of the platform for performance or other related reasons etc.
- The timing of market entry and regulatory actions surely impacted driver revenues. Such impacts were probably more significant for 2014 than 2015. Lyft and Uber did not formally rollout in Allegheny County until February and March of 2014. Uber “officially” entered the Philadelphia in October, and Lyft did so January of 2015. Many new entrants may have entered midway or late in either tax year (truncating reportable receipts for the year). Regulatory actions may have dampened activity as well. Despite the fact that Uber and Lyft signaled assurances to drivers that they would pay driver fines and impoundment fees from PUC and the PPA, it is reasonable to assume that some individuals were reluctant to drive for ridesharing services until regulatory risks were more clear. To whatever extent such risks suppressed driving activity, in 2014, for those driving outside of Philadelphia, those risks greatly receded when PUC granted two year licenses to Uber and Lyft in January and February of 2015, very early in the year. No further significant regulatory event one way or another with the potential to impact driving in Philadelphia occurred until 2016.
- An alternative and complementary scenario is that as latent demand for ridesharing services uncorked, a rush of new drivers may have flooded the market (supply exceeded demand under a relatively fixed system of prices, resulting in smaller shares of the revenue pie for each driver).
- As noted earlier, multiple tax forms may have inflated the establishment count.
- As operations expanded outside of Pittsburgh to other “less lucrative” markets in the state between 2014 and 2015, average receipts may have also been impacted.
- Pricing may have also helped driven average sales down. For example UberX is generally priced lower than traditional taxi services, but has surge pricing. Presumably unknown price elasticity effects operate under both conditions, with an unknown average net impact on driver revenue. We did not examine changes in ridesharing pricing from 2014 to 2015. However, one press story reported that Uber dropped prices in Pittsburgh by 15% midway through 2015, while Lyft actually increased their prices by 15%. The effect of these prices changes on demand and thus revenues is unknown.
About this Report

This report was prepared by the Center for Economic Development. Its conclusions and opinions are the CED’s alone. This report does not represent the conclusions, views, or official positions of Carnegie Mellon University or any of its corporate officers.

About the CED

The School of Public Policy and Management at the Heinz College at Carnegie Mellon University exists to improve the ability of public, non-profit and private organizations to address the most difficult challenges facing society. Established in 1968, Heinz takes a broad interdisciplinary approach that combines systems analysis, quantitative analysis, and information technology to address policy questions.

The Center for Economic Development at the College exists to help local institutions address challenges in the Pittsburgh region, and the Commonwealth of Pennsylvania. Since its inception under the College in 1987, the Center has also followed an interdisciplinary approach to help the region and state confront problems and opportunities in economic, workforce, and community development. Through objective research and technical tools, the Center helps clients manage change through policy, strategy, and programming. Our toolkit includes economic, demographic, geographic, and institutional data analysis, economic and statistical modeling, survey design and analysis, performance measurement, and program design and evaluation.

Since 2008, with the assistance of its EDO partners and C-level Executive Fellows, the CED has also provided a steady pipeline of academic, extracurricular, and experiential learning opportunities for master’s students interested in economic development in the U.S. context.
End Notes

5 “Lyft, Uber gain ground at PUC; Board grants emergency OK with conditions”, Kim Lyons, Pittsburgh Post-Gazette, Business Section, p. A13, 9/26/2014.
7 “PUC vote gives Uber a license to roll; Company has 30 days to fulfill conditions”, Kim Lyons, Pittsburgh Post-Gazette, Business Section, p. A1, 11/4/2014.
8 “PUC targets big fine at Uber; $19M penalty as ride data sought”, Kim Lyons, Pittsburgh Post-Gazette, Business Section, p. D1, 1/15/2015.
11 “PUC grants Lyft 2-year license”, Bobby Kerlik, Pittsburgh Tribune Review, 2/12/2015
21 Ibid.
22 Ibid.
23 Ibid.
“The North American Industry Classification System (NAICS) is the standard used by Federal statistical agencies in classifying business establishments for the purpose of collecting, analyzing, and publishing statistical data related to the U.S. business economy.” See https://www.census.gov/eos/www/naics/

For nonemployers in NAICS 4859, a much smaller group, roughly similar patterns held, with a few noticeable differences. Average receipts for sole proprietors in this group were lower, starting at $20K rather than $25K, in 2009. Further, average receipts for this category did not experience a smooth increase from 2009 to 2013. By 2013 the ratio had only grown overall by $1K. Corporate average receipts were much higher. Average receipts for sole proprietors in this group still dipped at the end, falling to $17K by 2015, $3K below the average of $21K in 2009.

We also ignore the reality of “business churn”, where firms (in this case drivers) enter and exit markets from year to year, meaning that in actuality the number of new entrants might be more than suggested by comparing yearly counts.

We do not examine the economic impact of diverting this money away from the taxi business, other forms of transportation, or from other consumer side expenditures here.


Three counties in the Pittsburgh region, Beaver, Butler, and Westmoreland had disclosable counts of establishments for 4853 for every year, but had several nondisclosable years for 4859, and so they are suppressed from the table. For the record, all three had numbers of establishments in 4853 that were higher than Washington County but lower than Centre County by 2015.

Beaver, Butler, and Allegheny Counties were added back here as figures for receipts were not suppressed.

Per the program’s website, late reporting results in an estimated undercount of 5% of partnership and corporate nonemployers, with a much lower (unreported) rate for sole proprietors. See https://www.census.gov/econ/nonemployer/methodology.htm Exclusions and Undercoverage, retrieved 07/10/2017.

Ibid.

https://www.census.gov/econ/nonemployer/methodology.htm Maximum and Minimum Receipts Cutoffs, retrieved 07/10/2017. Other types of businesses that are suppressed from the data include tax-exempt organizations (ex: government, nonprofit), regulated investment companies reporting mutual fund income, and employee leasing companies.

Ibid. Per the program’s website: “The small receipts of these non-construction firms indicate that they may represent hobbies as opposed to normal business activities.”

Specific industry level cutoffs were not available from the program’s website or when requested from the program, according to an e-mail exchange with Nonemployer Statistics Program staff on 6/29/2017.


See https://www.census.gov/econ/nonemployer/definitions.htm Legal Form of Organization (LFO) for definitions.

Estimates of employers and receipts are available from the Nonemployer Statistics Program at several levels of industrial classification/aggregation. We opted to use the four digit level (“industry group”) for this report.
For example, Lyft’s web page on driver tax forms contains the statement: “All drivers are considered users of the Lyft platform. **No matter the type of income you report, you are not considered an employee of Lyft**” [emphasis in the original]. See [https://help.lyft.com/hc/en-us/articles/213582038-2016-tax-info-for-drivers](https://help.lyft.com/hc/en-us/articles/213582038-2016-tax-info-for-drivers), retrieved 07/10/2017.

Again, gross receipts are inclusive of the ridesharing service’s cut, and other fees. [https://help.lyft.com/hc/en-us/articles/213582038-2016-tax-info-for-drivers](https://help.lyft.com/hc/en-us/articles/213582038-2016-tax-info-for-drivers) accessed 07/10/2017. Ridership income of less than $600 is still taxable, and drivers are still responsible for submitting the appropriate tax forms to report it. However Lyft does not submit a form to drivers who make less than $600 and does not appear to be required by law to do so. Instead, the regulations pertaining to form 1099-K only seem to require the “third party settlement organization” to send a 1099-K to a payee “if for the calendar year: [t]he gross amount of total reportable payment transactions exceeds $20,000, and [t]he total number of such transactions exceeds 200.” On the other hand, there is a long established threshold of $600 in payments for “services to someone who is not your employee” that requires the issuance of 1099-MISC to the payee. See [https://www.irs.gov/pub/irs-pdf/i1099misc.pdf](https://www.irs.gov/pub/irs-pdf/i1099misc.pdf) under “Specific Instructions”. So it would appear that the $600 threshold for the issuance of a 1099-K is based on corporate policy rather than IRS regulation. Uber does not make a similarly explicit description of its tax form policies available to the public on-line (i.e. to non-drivers), but it presumably follows the same regulations.


For an example, see [https://www.irs.gov/uac/schedule-c-form-1040-profit-or-loss-from-business](https://www.irs.gov/uac/schedule-c-form-1040-profit-or-loss-from-business) retrieved 07/11/2017. This is form is typically used by self-employed persons/sole proprietors. Partnerships without employees use a different IRS form.


Confirmed for the case of returns for sole proprietors from e-mail exchange with Nonemployer Program staff, 7/14/2017.


E-mail exchange with Nonemployer Statistics Program staff, 7/11/2017.

Uber apparently files one 1099-K for every state a driver operates in. We assume that most drivers would report income for all such forms under a single Schedule C. An e-mail exchange with the Nonemployer Statistics Program staff on 07/13/2017 suggested that the rate at which multi-platform drivers may combine Schedule Cs across ridesharing activity is unknown to the program, and that no particular steps are taken to account for it when generating estimates.

This is an irregular number since estimates for S-Corporations only began in 2014.
In theory this could be due to fewer rides per capita, or lower prices for those markets, or both.