

TESTIMONY BY
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BEFORE THE SMALL BUSINESS COMMITTEE
REGARDING THE IMPACT OF SELF-EMPLOYMENT
ON THE NYC ECONOMY

NEW YORK CITY COUNCIL
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Good morning, Committee Chairman Yassky and honorable members of the Small Business Committee. I am very pleased to appear here today to give testimony on the growing impact of self-employment on the New York City economy.

My office estimates that over the past ten years, self-employment has accounted for approximately one-half of the City's job growth, or roughly 260,000 jobs. For several months we have been accumulating data on this shift, which was recently analyzed in our quarterly Economic Notes, issued this past January.

Understanding this trend is of great importance – both for what it represents about the changing nature of the City's workforce and for the challenges it presents in terms of associated social impacts, in particular access to health insurance and other benefits of traditional payroll employment.

More than 98 percent of the City's businesses have fewer than 100 employees. Because so many small businesses begin as smaller self-employed start-ups, the issues surrounding self-employed freelancers could not be more relevant to your committee.

According to the U.S. Bureau of Economic Analysis, between 1976 and 2004 the proportion of all City jobs represented by self-employment rose from 8 to 16 percent. This trend reflects a shift from a decades-long decline in self-employment as the nation moved from an agricultural economy to an industrial economy.

This is a diverse, broad-based trend that appears to be happening across all sectors of New York City business, from low-wage to high. The Census Bureau's 2005 American Community Survey permits us to construct a general profile of self-employed New Yorkers.

The average self-employed worker in the City earns more than the average wage and salary worker. However, the dispersion of incomes is much

wider among the self-employed. More earn under \$25,000 annually and over \$75,000 than do wage and salary workers.

For instance, more self-employed attorneys earn over \$100,000 annually than their salaried counterparts. At the other end of the income spectrum, self-employed child care workers report, on average, lower earnings and more hours worked per week than their wage and salary counterparts.

Until recently, Professional, Technical and Scientific services workers represented the largest group of self-employed workers. Today there are more self-employed trade construction contractors like plumbers, electricians and painters, in large part due to a strong housing market and a surge in home renovation.

Self employment growth has been high in fields associated with information and technology. Self employment among writers, artists and musicians has long been common and has likewise been increasing.

But the fastest growth in non-employer businesses has come in personal service occupations like home health care and child care – a fact that reflects the changing demographics and lifestyles of the City's population.

Interestingly, foreign-born residents who hold graduate or professional degrees are less likely to be self-employed today than are their U.S.-born counterparts. This may be due to immigration laws, or to a greater preference for the security of salaried employment among first-generation immigrants.

There appear to be several factors driving the rapid increase in the self-employed workforce in New York City. Clearly, industries and occupations in which self-employment is more common have been growing faster than the overall job base.

As the City's economy has become more geared to finance and real estate, the ranks of independent providers of legal services, accounting services and other professional services have likewise grown.

The growth of self-employed personal service workers and other lesser-paying occupations may stem from the fact that those jobs provide families an important cushion between decent living conditions and poverty. Many such workers are second earners whose income is vital to their family's well-being.

On the other hand, some of the growth in self-employment among service workers, tradespersons, and professionals alike, may also be due to a reluctance of employers to absorb the costs of employee health care and other fringe benefits.

The increase in self-employed taxi and limousine drivers by 10,000 between 1997 and 2004 is largely attributable to a shift away from paid taxi fleet drivers to leased fleets, whereby the independent driver assumes much of the business risk, as well as the costs of health insurance and retirement savings.

Almost 60 percent of self-employed New Yorkers have at least one other earner in the household. Access to family health insurance coverage may enable some workers who wish to form a business or forge a freelance career to exit wage and salary work.

However, almost two-thirds of the self-employed who live in households with no other earners have total incomes under \$50,000, and for those independent workers it may be very difficult to obtain affordable health coverage. Moreover, publicly provided disability insurance and unemployment insurance programs do not cover self-employed workers.

For these reasons, as well as the inherent volatility of self-employment income, the movement toward self-employment may augur an economy in which the financial security of the typical family is diminishing. We must pay careful attention to this trend and formulate public policy to address it.

The unincorporated business tax is unique to New York City and, while most of the revenue from it comes from large partnership firms in the legal, accounting, and financial sectors, it also affects the self-employed.

In fact, about 64 percent of NYC's self-employed residents operate non-incorporated businesses and so are potentially subject to the UBT. They have to pay UBT on top of their regular income tax.

Several years ago, the City introduced a credit against PIT for City residents with UBT liability. The credit is higher for those earning below a certain income threshold, and leads to UBT exemption for those with low enough earnings.

A freelancer with adjusted gross income of \$90,000 would owe about \$3,600 in UBT in addition to \$2,900 of City PIT. She'd be able to get a credit for about half the UBT liability on her PIT, but would still end up paying more in taxes than a salaried worker with similar adjusted gross income.

The Mayor is proposing to increase the amount of the credit, which I agree with. It is my feeling, however, that the Mayor's proposal does not go far enough.

For example, the income range over which the credit declines isn't indexed for inflation, which must to be addressed. It is also imperative that we increase the threshold at which a freelancer has to file a UBT form.

Finally, we must simplify the UBT form itself. The intricacy of the UBT and related forms forces freelancers to go to a professional tax preparer, creating an additional burden.

Despite the difficulties freelancers face, I would argue that the changing nature of self-employment in New York City is overall a positive development. The independence and flexibility associated with self-employment make it an exciting niche in which New Yorkers may experience new entrepreneurial success and we should nurture that.

At the same time, while the City has much to gain from the vitality and creative energy provided by its rapidly growing, self-employed workforce, elected leaders and advocates must take account of the growing risks and financial vulnerabilities associated with an increasingly independent workforce.

Thank you for the opportunity to provide testimony today and now I would be happy to answer any questions.