



**AEO**

Association for  
Enterprise  
Opportunity

## **SELF-EMPLOYMENT**

How Independent Contractors Fuel the Growth of  
New and Existing Microbusinesses

December 2023

About

## RESEARCH AT AEO

As the leading voice of innovation in microbusiness, the Association for Enterprise Opportunity (AEO) has an extensive history of conducting research that aims to understand, support, and promote the interests of entrepreneurs, including the underserved owners of non-employer, small, and microbusinesses (SMBs). For more than 30 years, AEO and its member and partner organizations have helped millions of underserved entrepreneurs in starting, sustaining, and growing their businesses. Together, AEO is working to change the way that capital and services flow to underserved entrepreneurs so that they can create jobs and opportunities for all.

### Acknowledgments

AEO wishes to acknowledge the invaluable support and collaboration received from the dynamic community of entrepreneurs across the United States. Their openness in sharing their transformative stories has been the cornerstone of our research. It is their journey that continues to inspire our mission in serving as the leading voice of innovation for microbusiness and microfinance. Furthermore, we extend our gratitude to John Stanford and Marieka Walsh for their contributions, elevating the depth and impact of this important work.

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# EXECUTIVE SUMMARY

The self-employed sector has emerged as a powerful force in the modern economy, reshaping conventional perceptions of work and entrepreneurship. The significance of self-employment is evident in its critical role in driving microbusinesses, serving as a linchpin for the 96% of U.S. businesses with fewer than ten employees. As the leading advocate for microbusinesses in the United States, the Association for Enterprise Opportunity (AEO) is uniquely positioned to explore the intricate interplay between independent contracting and microbusinesses within the self-employed sector.

In 2023, AEO initiated a study to gain deeper insights into the experiences of self-employed individuals engaged in independent contracting—a notable form of self-employment—within the microbusiness economy. Based on a combination of interviews and surveys involving 950 individuals,\* this report explores the roles of self-employment and independent contracting in the microbusiness economy. It delves into why individuals become self-employed, articulates the challenges and opportunities that shape their experiences, and identifies the types of support they require to thrive.

## Self-employment is the preferred work for most individuals working for themselves

Self-employment is a popular and attractive option for many people. In AEO's study, nearly 90% of survey respondents preferred self-employment over traditional employment, citing the freedom and flexibility of self-employment as their primary reasons. Fifty-three percent of survey respondents emphasized that work flexibility was "extremely important" to their decision to be self-employed.

## Self-employment is a pathway to business ownership

Self-employment allows people to explore their entrepreneurial aspirations, seize control of their professional destinies, and set themselves up as business owners. Entrepreneurs can build relationships with potential partners, such as suppliers and clients, by operating as independent contractors. The opportunity empowers self-employed people to hone their skills, expand their professional network, and accumulate capital for future endeavors with reduced entry barriers.

## Independent contracting is essential for the growth and resilience of microbusinesses

Due to resource constraints, microbusinesses often need support adapting to dynamic workforce and market demands. In this scenario, independent contractors emerge as valuable resources. These self-employed individuals can provide niche skills and expertise, allowing microbusiness owners to address labor, skill, or knowledge gaps on a project-by-project basis. When utilized, the independent contracting relationship enables flexibility for the microbusiness and the independent contractor.

## Self-employment can be a catalyst for inclusive economic opportunity

The self-employed sector opens up economic prospects for diverse and historically underserved communities, which may face obstacles in conventional work settings or experience discrimination. Study participants shared that self-employment enabled them to balance responsibilities that can be barriers to traditional W-2 work, such as caregiving responsibilities and pursuing education. This path also helps some individuals navigate life disruptions, including layoffs from W-2 work and public health emergencies like the COVID-19 pandemic.

## Key institutions must strengthen paths to self-employment and business ownership

Amid the self-employed sector's growth, institutions should adapt to help this workforce fully thrive. Policymakers should prioritize developing a nuanced approach to better align public policy with the realities of work and the needs of all people in the 21st century while protecting the valued independence of self-employed people. Financial institutions have a role in facilitating improved access to capital for self-employed people by creating and providing capital products tailored to their needs. Business service providers should also empower self-employed people by offering targeted education and upskilling opportunities. By addressing the challenges that self-employed individuals face, these institutions can strengthen the pathways to business ownership.

# The Integral Role of the Self-Employed Sector in the Microbusiness Economy

## KEY TAKEAWAYS:

- *Approximately 90% of the survey respondents preferred self-employment over traditional employment.*
- *The self-employed sector fosters inclusive economic opportunities and facilitates economic participation for underserved communities.*
- *Independent contracting, a form of self-employment allows microbusinesses to tap into specialized talent as needed. It also gives entrepreneurs a business model to get started as microbusiness owners.*

The self-employed sector is a driving force within the microbusinesses economy. This section explores the breadth of self-employment's influence on the U.S. economy, entrepreneurs, and microbusinesses. Additionally, this section reviews key definitions and focuses on the impact of independent contractors, a subset of self-employed individuals, on microbusinesses.



## Self-Employment Creates Economic Opportunities

The self-employed sector is thriving in the United States. The self-employed sector has grown over the last two decades<sup>1,2</sup> and even in the previous couple of years alone.<sup>3,4,5</sup> Today, an estimated 60 million Americans,<sup>6</sup> or nearly 40% of the U.S. workforce, are involved in various forms of self-employment. In 2022, this workforce segment<sup>7</sup> contributed \$1.35 trillion to the U.S. economy in annual earnings, making up approximately 5% of the U.S. gross domestic product (GDP).

### Self-employment is the preferred work for most people working for themselves

Self-employment is a popular and attractive option for many people. In AEO's survey of self-employed individuals engaging in independent contracting, 89% of respondents expressed a general preference for self-employment over traditional employment.\* Self-employment is attractive to respondents due to the freedom and flexibility it provides. It is also appealing due to the opportunities available across industries.<sup>9</sup> <sup>10</sup> Of respondents who were self-employed at the time of the survey, a vast majority (84%) expressed plans to continue self-employment in the foreseeable future. In comparison, less than one-third (30%) showed strong interest in pursuing a traditional full-time job, suggesting that self-employment has an enduring appeal for some people.

## DEFINITIONS

The **self-employed sector** includes people who work for themselves, including business owners regardless of entity structure and independent contractors. This report will refer to this diverse array of individuals as **self-employed**.

**Independent contracting** is a form of self-employment where an individual or business provides services to another entity but is not considered an employee. **Independent contractors** work independently of a single employer and control their work arrangements, including when and how they are compensated for their services. For tax purposes, they receive a Form 1099-MISC, 1099-NEC, or 1099-K to report their income to the Internal Revenue Service (IRS).

The **microbusiness economy** refers to the 96% of U.S. businesses with *fewer than ten employees*. A single individual or a small team often operates these **microbusinesses**. They are characterized by their relatively small size, low capital investment, and typical focus on serving niche markets or local communities. Some microbusiness owners are also independent contractors.

\*While the statistic suggests a preference for self-employment, interviews unveiled the complexity of the reality. Despite expressing a general preference for self-employment, some respondents raised concerns about its sustainability, particularly its impact on marriage and family planning. Additional research is necessary to delve deeper into these intricacies.



of respondents preferred self-employment over traditional employment



## Self-employment can foster inclusive economic opportunities

The self-employed sector can potentially\* empower historically marginalized, excluded, and underserved communities, enabling their participation in the modern economy. In particular, this sector offers employment opportunities for individuals facing obstacles in accessing traditional jobs, including returning citizens<sup>11</sup> (previously incarcerated individuals), people residing in rural or economically disadvantaged areas, individuals with differing abilities seeking diverse work options, and those with caregiving responsibilities who need flexible work arrangements. Furthermore, AEO's survey findings indicate a possible overrepresentation of lesbian, gay, bisexual, or transgender people in the self-employed sector relative to the general population,<sup>12,13</sup> highlighting a diverse and inclusive environment.

The self-employed sector empowers individuals to create opportunities for themselves and generate employment for others in their communities. Hiring is often a positive indicator of enterprise growth, and AEO's study found that over half of the respondents (57%) hired sub-contractors or employees to support their work. This growth marker extended to respondents who identified with an underserved community. Most respondents of color (61%) reported hiring subcontractors or employees, which is significant because people often hire people who look like themselves. For example, previous AEO research found that Black business owners tend to hire Black workers,<sup>14</sup> which contributes positively to communities.

## Self-employed people leverage independent contracting to fit their diverse needs

The self-employed sector provides a viable way for people at different life stages and with various personal and professional commitments to receive income. About 5% of respondents reported being retired, 4% being a student, and 2% being an unpaid caregiver. Although most survey respondents noted their self-employment as their sole source of income (66%), some respondents reported having other jobs or responsibilities. People sometimes use self-employment to bolster income from traditional work. AEO's study found about one-fifth of respondents said they maintained a form of traditional employment: 13% also had a traditional full-time job, and 10% had a traditional part-time job while self-employed.

## The Sector Empowers Microbusiness Success

Self-employment is pivotal to the success of the microbusiness ecosystem, contributing to its vibrancy and growth. This mutual relationship is particularly evident in the overlap between independent contracting, a form of self-employment, and microbusinesses, where the interplay between these groups fuels innovation and entrepreneurial endeavors.

## Microbusinesses leverage independent contractors to sustain and grow

Microbusinesses often need help with resource constraints that hinder their capacity to hire full-time employees or maintain specialized staff. This predicament positions independent contractors as a valuable resource. These self-employed individuals possess niche skills and expertise, presenting microbusinesses with a flexible solution that can be leveraged project-by-project. Like larger businesses and companies, microbusinesses harness the potential of independent contractors in several ways:

- Accessing unique expertise.
- Addressing project-based work with limited internal capacity.
- Managing administrative work.<sup>15</sup>

Some research indicates microbusinesses with one to four employees utilize about seven contractors.<sup>16</sup> Responding to this market demand, several independent contractors interviewed in this study emphasized their specialty in supporting small businesses, startups, and other entrepreneurs. About half of the interviewees for this study had contracts to help scale up small business operations or build small business capacity to pivot. For example, an independent web developer shared that most of his work is building custom websites and web applications for small businesses just starting websites or transitioning to conducting business online. Another interviewee, a fashion designer and microbusiness owner, shared how he contracts with another microbusiness for digital marketing support.

\*There are important challenges to accessing and maintaining self-employment. The final section outlines recommendations to institutions to make self-employment more accessible and inclusive.

## The independent contracting relationship facilitates entrepreneurial startups

The independent contracting relationship serves as a pathway to entrepreneurship and business ownership in several ways. Self-employment as an independent contractor offers a low-barrier entry point for those aspiring to own businesses. Starting as an independent contractor enables entrepreneurs to promptly access the market, establish a presence, improve skills, expand professional connections, and gain industry insights. Through independent contracting, they gain valuable experience, expand their professional network, and establish a solid reputation within their respective industries. This progression enables them to scale their operations gradually, attract more clients, and ultimately lay a solid foundation for a successful business.

Throughout this study, several interviewees shared how they leverage their status as independent contractors to build their skills and supplement their income while building their businesses. One interviewee in AEO's study, an independent contractor doing on-demand data entry and web design, shared that, although he does not consider himself a business owner, he is building a client base and saving capital to develop his services into a business. Another interviewee described how providing transportation to her Spanish-speaking friends and neighbors to and from doctor's appointments helped her identify a local market gap. Now, she is gradually scaling up her transportation business, bringing on her husband to help with the client load, and dreaming of acquiring additional vehicles to expand.

## Independent contractors as microbusiness owners

The identities of independent contractors and microbusiness owners are not mutually exclusive. Significant overlap exists between these roles as they focus on different aspects of a commercial relationship. The term "independent contractor" describes the nature of the working relationship, while "microbusiness" characterizes the size of the enterprise. Many independent contractors function as microbusiness owners, and conversely, microbusiness owners often engage in independent contracting.

In AEO's interviews for this study, independent contractors in the field of web design shared diverse descriptions of their self-employment. One interviewee described himself as an aspiring business owner, outlining his vision to expand his work, hire employees, and establish a stable business. In contrast, another identified as a

freelance content writer with independent work and creative skill development. A third interviewee described himself as a gig worker, highlighting the variety of short-term tasks he undertakes for many clients. All three interviewees work on specific projects or tasks, maintain independence, and complete work contractually. However, they have outlined different professional roles and scopes and may structure themselves differently.

Regardless of how they define their roles or structure their work or business, independent contractors and microbusiness owners share commonalities in tax obligations, contractual engagements, and the responsibility for managing their health insurance and benefits. They are also exempt from common employment laws, such as minimum wage and overtime regulations.



I was doing the same work for a company, and they closed my division. I wanted to continue doing what I was doing, and customers I had with the company wanted to continue receiving the same service. So, I decided to start my own business to provide those services," shared one survey respondent on why they first became self-employed.





# The Advantages and Challenges of Being Self-Employed

## KEY TAKEAWAYS:

- This study categorizes self-employed individuals engaged in independent contracting into three self-selected groups: business owners, specialists, and gig workers.
- Self-employment offers benefits such as greater control over work, flexibility regarding when and where individuals work, and the freedom to choose projects. It provides opportunities for personal and professional growth, high job satisfaction, and increased autonomy.
- Self-employment also comes with challenges. Inconsistent income and work, managing client relationships, and lack of traditional benefits are among the top challenges reported by self-employed individuals who engage in independent contracting.

The self-employed sector is incredibly diverse in trade, talent, and experience. This section provides an overview of how the subset of self-employed individuals that do independent contracting identify and the advantages and challenges associated with self-employment. With the changing work landscape, it is crucial to understand the prominent types of self-employment arrangements and the experience of people who engage with independent contracting. By examining the unique characteristics, benefits, and hurdles faced by different self-employed individuals, we can identify the types of support needed to help this growing segment of the workforce fully thrive.

## Three Groups Leveraging Independent Contracting: Business Owners, Specialists, and Gig Workers

For the study, AEO groups self-employed individuals engaged in independent contracting into three primary categories: business owners, specialists, and gig workers. While this classification simplifies the reality of independent contracting, these three categories helped target a survey sample with diversity in experiences.

### BUSINESS OWNERS, SPECIALISTS, AND GIG WORKERS CAN BE INDEPENDENT CONTRACTORS

When you think about your self-employed work, which of the following best describes your self-employed role?

<b>"Business owner"</b> (I own and operate a business)	328	35%
<b>Specialists</b> ("Contractor," "Consultant," or "Freelancer")	315	34%
<b>"Gig worker"</b> (I complete short-term tasks for others organized by a third party, like an app)	292	31%
<b>"Employee"</b> (I work for an organization/company)	1	0%

(N = 936 respondents who confirmed receiving 1099-MISC, 1099-NEC, or 1099-K forms for tax purposes)

\*All 936 survey respondents were surveyed about the work for which they receive or submit a 1099 form for tax purposes. One of the respondents identified as an employee, rather than as a self-employed worker. Challenges around worker classification are addressed elsewhere in this report.





## Business Owners

Business owners are those who own and operate their businesses. Many of these businesses get incorporated as a business or an individual, known as a sole proprietor. They may collaborate with other microbusinesses as suppliers, customers, or thought partners. They may also contract with other independent contractors to address temporary labor gaps or access a specialized skill or service.

In AEO's study, business owners were the group most likely to hire others (60%). They were also the least interested in obtaining a traditional W-2 job, with 39% reporting that they were "not at all interested" and only 9% reporting that they were "extremely interested." Unsurprisingly, business owners had the highest share of respondents reporting that they generally prefer self-employment (93%).

### *Business owner leverages independent contracting to supplement her income as she builds her business*

Dottie,\* a determined and resourceful Black woman in her late 50s, has always identified as an entrepreneur. However, her journey self-employed began out of necessity when she worked with a tailoring shop after separating from her husband. Today, Dottie utilizes the independent contracting relationship to supplement her income while focusing on growing her two businesses: a real estate company and a custom dressmaking business. She allocates 25% of her time to independent contracting, which accounts for 50% of her current income.

Dottie firmly believes in the value of her skills and experiences, understanding that she can monetize her life experiences. She states, "Everything that I've experienced in life, I know that I can translate that to some form of money. My mother taught me not to spend money without learning how to make money. I don't allow any of my skills to just lay dormant. I find a use for them. [They are] a resource for me to generate income for myself and my family."

## Specialists

Specialists, who commonly identify as workers, consultants, or freelancers, have a skill or specialized service that they provide. They may have a portfolio of work they use to promote themselves. A business may contract with specialists to access their technical skills on an as-needed basis or for temporary support in adapting to fluctuating workforce needs.

Compared to business owners and gig workers, specialists had the smallest share of respondents earning all of their personal income from their self-employed work, suggesting that they were more likely to have other sources of income.

### *Independent contracting fosters an entrepreneurial spirit for a specialist*

Kevin, a white male in his 20s, is currently an independent contractor specializing in web design, a role he has held for the past three years. After graduating from college with a degree in engineering during the pandemic, he struggled to find traditional employment but discovered web design as a hobby. Encouraged by friends already involved in the field, he decided to try it. Reflecting on his decision, he says, "Most of my friends were doing it and they were like, 'Hey, you should try this out.' They were doing it for fun. I took it to another level, and I was like, wow, this is actually something I could do for a long time."

Kevin works with many online small businesses. His client base primarily consists of online shops, including Etsy and Instagram stores, where users can purchase directly. Design-focused projects make up most of his work as he tailors his services to meet the unique needs of these online businesses.

Kevin's ultimate dream is to build a sustainable business from his freelance work, turning his passion for web design into a long-term venture.

## Gig Workers

Gig workers complete short-term tasks for others, often contracted by a third-party company that organizes the delegation of tasks. Gig workers support microbusinesses in achieving finite projects, making deliveries, providing personnel transportation, and other various projects.

Perhaps surprisingly, gig workers had a higher level of education than business owners and specialists, with 61% of the group having earned at least a 2-year college degree. Additionally, although 89% reported that they generally prefer self-employment, 39% of gig workers reported that they were interested in securing traditional employment.

### *Gig worker utilizes independent contracting to support his education and work towards his long-term career goal*

Danny, a Latino male in his 30s, drove for Lyft and Uber in a tri-state region for over two years. He dedicated an average of 50 hours per week to his gig driving, striving to find a reliable source of income while also pursuing his education. "I became self-employed because I was facing a hard time finding a reliable job for me at the time, and I needed a little bit more flexibility with school," shared Danny.

### *Gig worker is leveraging independent contracting work to launch her business*

Diana, a Latina immigrant in her late 20s, is leveraging independent contracting to build her own transportation business. She has struggled to access capital through traditional lenders and decided to get started without it. Diana provides transportation for individual and small business clients in her local Spanish-speaking community. Her clients trust her to transport packages and get their loved ones to and from medical appointments. Diana has already developed a strong enough reputation that she needs help to meet current customer demand and hopes to expand soon.

\*The names and identifying details in this report have been changed to protect the privacy and confidentiality of the entrepreneurs who shared their stories.



## Embracing Independent Contracting: The Allure of Freedom and Flexibility

There are many advantages to self-employment, which contribute to the sector thriving. People aspire to take charge of their work on their terms. This trend can be attributed to the desire for the freedom to determine how, when, where, and what they work on.

### People become self-employed for a multitude of reasons, ranging from proactive choices to reactive responses

In AEO's research study, respondents shared a variety of reasons for choosing self-employment. Some reasons were proactive, indicating that individuals chose self-employment based on intrinsic factors, while others were reactive, seeking stability in response to external circumstances. Overall, diverse motivations drive individuals to become self-employed, but flexibility and independence emerge as prevailing themes.

1. **FREEDOM:** Many surveyed and interviewed participants expressed a desire for freedom from bosses, constant supervision, and corporate settings. Self-employment allowed them more control over their work and to avoid the constraints of traditional employment environments.
2. **FINANCIAL CONTROL:** Some respondents wanted more control over their earnings and potentially increased their take-home pay. Self-employment offers the opportunity to directly benefit from the fruits of one's labor and business efforts.
3. **PURSuing A DREAM:** The dream of owning a business led some participants to choose self-employment. They had a passion or a vision and wanted to bring it to life by starting their own venture.
4. **IMMEDIATE ACCESS TO WORK:** Rather than going through the process of applying and waiting to be hired for a position after graduation or a lay-off, some respondents preferred the immediate access to work that self-employment provides. They could start working on projects or offering services without a traditional employment arrangement.
5. **RESPONSE TO LIFE EVENTS AND PERSONAL NEEDS:** Life events and personal needs, such as caregiving responsibilities or health concerns related to COVID-19, influenced some people to become self-employed. They needed flexibility in their working hours or location to accommodate their caregiving tasks or protect their health during the pandemic.

## Flexibility is a highly valued advantage of self-employment

According to AEO’s findings, self-employed individuals strongly desire flexibility in their work schedule, pay, and location. This desire takes precedence over other factors, with respondents consistently highlighting its importance. Financial security and the ability to control one’s career are subsequent considerations, further reinforcing the importance of flexibility as a pivotal determinant.

Interviews of self-employed individuals found that some people value the privacy and safety of working independently, often from home. One interviewee, a cybersecurity specialist who primarily works with startup businesses and small hospitals, described himself as struggling with social skills. Because of this personal challenge, he enjoys the ability to control his environment. Considering AEO’s findings that self-employed individuals may be more likely to identify with vulnerable communities, it is reasonable to hypothesize that they may similarly enjoy comfort in controlling their environment and business relationships.



**As an independent contractor, I could work whenever I wanted or whenever I needed to. I had more flexibility in my schedule,” shared one interviewee.**

### FLEXIBILITY, FINANCIAL SECURITY, AND CAREER CONTROL ARE IMPORTANT TO DECIDING TO BE SELF-EMPLOYED

Thinking about your decision to be self-employed (currently or previously), how important are (or were) the following to you?	Not at all important	Slightly important	Moderately important	Very important	Extremely important
<b>Flexibility</b> (schedule, pay, location)	1%	3%	9%	35%	53%
<b>Career Control</b> (client choice, project choice, creative freedom)	2%	5%	13%	36%	45%
<b>Financial Security</b>	2%	5%	14%	35%	44%
<b>Work Environment / Culture</b> (workplace culture, politics, connecting to clients, work/life balance)	3%	6%	17%	37%	37%
<b>Skill Development and Advancement</b> (personalized goals, developing skills, building professional network)	5%	10%	23%	35%	27%
<b>Benefits</b> (health insurance, profit-sharing, retirement plans)	16%	15%	23%	26%	20%

Percentages may add up to more than 100 because of rounding.

## DIVERSE CHALLENGES OF BEING SELF-EMPLOYED

What are the key challenges you experience(d) being self-employed? (Please select up to three challenges from the list below.)*	All Respondents N = 936	Gig Workers N = 292	Business Owners N = 328	Specialists N = 315
<b>Inconsistent income</b>	47%	46%	49%	45%
<b>Inconsistent work</b>	37%	46%	31%	37%
<b>Unpredictable hours</b>	28%	25%	28%	29%
<b>Managing client relationships</b>	21%	21%	20%	21%
<b>Receiving worker benefits</b>	19%	21%	14%	22%
<b>Managing administrative tasks (e.g., book-keeping, insurance, etc.)</b>	17%	13%	24%	15%
<b>Turning down work for lack of time</b>	17%	21%	13%	17%
<b>Lack of opportunities for business growth</b>	13%	16%	12%	11%
<b>I do not face any challenges</b>	10%	7%	12%	11%
<b>Gaining access to trainings to support role</b>	5%	6%	3%	6%

### Freedom's Paradox: Navigating Instability in Independent Contracting

While the self-employed sector offers undeniable advantages, it's crucial to recognize that self-employment also brings many challenges. Survey respondents highlighted several prominent pain points, including:

1. **INCONSISTENT INCOME**
2. **INCONSISTENT WORK**
3. **UNPREDICTABLE HOURS**
4. **MANAGING CLIENT RELATIONSHIPS**
5. **THE ABSENCE OF TRADITIONAL WORKER BENEFITS**

These insights hold particular significance since the very attributes of self-employment valued by respondents – freedom and flexibility – are the same attributes contributing to the most significant challenges they face. This paradox emphasizes the complexity and diversity of experiences; what offers freedom and flexibility to some people contributes to instability and uncertainty for others.<sup>17,18</sup>

Within AEO's survey of self-employed people, a

pattern emerged as four out of the top five challenges displayed consistency across the three groups. Additionally, all three groups identified the management of client relationships as a central hurdle, albeit with varying rankings – fifth for business owners and specialists and fourth for gig workers. Among specialists, the lack of traditional worker benefits emerged as a noteworthy concern, whereas business owners pinpointed managing administrative responsibilities as a substantial challenge. On the other hand, gig workers mentioned the challenge of turning down work due to time constraints.

The interview phase yielded challenges similar to those identified in the survey while unveiling more specific obstacles and complex dynamics. Prominent challenges from the interviews encompassed fluctuating work and income, the need for initial capital, the absence of access to traditional worker benefits, and grappling with the self-employment tax during their inaugural tax season as self-employed. Interviewees also tied these challenges to familial relationships and household concerns.

In addition to these challenges, some interviewees shared that they experienced clients who tried to treat them like employees, making them feel frustrated and worried about straining their relationships with the clients.

# Implications for Institutions: Supporting the Microbusinesses of the Self-Employed Sector

## KEY TAKEAWAYS:

- *Society must modernize norms and policies related to work and entrepreneurship in light of our current and future economy and address structural challenges inhibiting the self-employed sector. Policymakers, financial institutions, and business service providers can all help address these challenges.*
- *Policymakers need to develop a nuanced policy approach to protect the valued independence of self-employed individuals and address existing gaps.*
- *Financial institutions should create capital products and underwriting processes specifically tailored to the needs of the self-employed, including those who are independent contractors, enabling them to access resources for business growth and scalability.*
- *Business service providers are crucial in supporting self-employed individuals, including microbusinesses. They should help self-employed people navigate licensing, business growth, and skill development.*

The self-employed sector fuels the microbusiness economy by providing individuals with alternative business ownership and work pathways. The section makes recommendations to three key institutions on how they can foster the growth of the microbusiness economy. Ultimately, policymakers, financial institutions, and business service providers must collaboratively establish an environment that empowers self-employed people to flourish fully.

## Policymakers: Develop an Adaptive Work Policy Framework

Policymakers must develop a flexible legal framework and comprehensive policy infrastructure that recognizes the changing needs of the 21st-century workforce. These structures must accurately reflect the diverse nature of self-employment in the 21st century. Adopting a nuanced approach is essential, striking a balance that preserves the advantages of the current

classification system while also supporting these individuals as valued community members. This approach embodies the essence of the American Dream: independence, innovation, and entrepreneurship.

### I. PROTECT THE INDEPENDENCE OF MICROBUSINESS OWNERS

As policymakers craft legislation and regulations that influence business ecosystems and workforce dynamics, they must consider the impact of these changes on microbusinesses. Many microbusiness owners rely on the flexibility of employing different types of labor to grow their enterprises, just as many self-employed individuals depend on opportunities within these microbusinesses to advance their professional goals. When modernizing worker classifications and the legal framework governing business relationships, policymakers should consider the impact on small businesses, strive to protect diverse business relationships, and respect the autonomy that independent contractors value.

### II. ADAPT BENEFIT STRUCTURES TO TRANSFORMING WORK DYNAMICS

Self-employed individuals have different protections than employees. Under the current worker classification system, W-2 work connects specific legal safeguards and benefits, including minimum wage laws, workers' compensation, and unemployment insurance. Historically, W-2 work has also been the primary source of critical benefits like health insurance, retirement plans, and paid leave. As a result of this setup, many self-employed people have to try to fill any benefit gaps themselves. Given the increase in self-employed work, policymakers must reevaluate benefit structures to address changing needs.

One promising avenue for policymakers to consider is the implementation of voluntary portable benefits.<sup>19</sup> The current system rigidly binds benefits to specific employment arrangements. Portable benefits allow workers to carry their benefits seamlessly through various work arrangements.

Policymakers should consider an approach that empowers companies using independent contractors to voluntarily provide perks or services to the self-employed individuals they contract. This strategy could allow companies to offer benefits like safety and health training to their independent contractors without adverse consequences.



## Financial Institutions: Tailor Capital Support for Self-Employed Individuals

In today's dynamic economy, the self-employed sector thrives as individuals embrace entrepreneurship and carve their paths to success. However, despite their entrepreneurial spirit and drive, many self-employed individuals face significant hurdles when accessing the capital they need for business growth. To address this issue, financial institutions can play a critical role in creating innovative solutions explicitly tailored to the unique needs of the self-employed. Financial institutions can improve their bottom line, foster economic growth, and enable a more inclusive and vibrant business ecosystem by actively supporting and investing in self-employed people, including independent contractors.

### I. DEVELOP TAILORED CAPITAL PRODUCTS

Some self-employed individuals face challenges accessing small business financing and resort to consumer credit products. An untapped market exists for financial products aimed at stabilizing the income of self-employed individuals. Community-based lenders and other financial institutions should innovate by designing new capital products to address these unique circumstances.

### II. REASSESS UNDERWRITING APPROACHES

Historically, lending relied on factors like FICO scores, collateral, cash flow analysis, and proof of W-2 employment. However, this approach can disadvantage business owners in underserved communities when seeking capital. Access to capital significantly influences business success, and traditional underwriting methods may overlook the potential of self-employed individuals in these communities. Financial institutions should reassess their underwriting approaches to address the experiences and needs of all self-employed people. If current methods fall short, exploring alternative metrics will be essential.

### III. MEND THE TRUST GAP\*

In underserved communities, many individuals turn to self-employment. Yet, there's a significant trust gap between these communities and both large financial institutions and small community-based lenders. To mend this gap, financial institutions should proactively work on building trust. Initiatives could include forming and maintaining relationships within underserved communities, actively seeking and incorporating feedback on products and services, and fostering an internal culture that is inclusive and reflective of the communities engaged.<sup>20</sup>

## Business Service Providers: Empower the Self-Employed Workforce

Business service providers can significantly empower self-employed individuals by providing tools and support to help them thrive in today's dynamic landscape. By integrating self-employed people into their service offerings, providers can contribute to sector growth. Additionally, by imparting knowledge, facilitating fair relationships, bridging benefits gaps, and fostering collaboration, providers will enable self-employed individuals to fulfill their potential, driving innovation, entrepreneurship, and economic progress.

### I. CULTIVATING A SUPPORTIVE ECOSYSTEM FOR SELF-EMPLOYED INDIVIDUALS

Self-employed people can face unique obstacles and isolation. Business service providers should consider how they facilitate community for these people, whether by integrating them into current services or cultivating platforms, networks, and events. These communities can provide resources, mentorship, knowledge exchange, and networking, bolstering the resilience and development of this workforce.

\*To learn more about the trust gap, read AEO's report, [MENDING THE TAPESTRY: BUILDING TRUST AND STRENGTHENING BLACK BUSINESS OWNERSHIP IN AMERICA](#).

## II. EDUCATION AND ADVOCACY: PROMOTE UNDERSTANDING OF THE INDEPENDENT CONTRACTING RELATIONSHIP

The independent contracting relationship presents opportunities for microbusinesses to effectively manage costs, maintain flexibility, and tap into specialized skills on a temporary or project basis. However, it is important for microbusinesses to accurately classify their workers as either W-2 employees or independent contractors. Our research encountered cases where independent contractors believed they were misclassified. If a business misclassifies a worker, then they can be sued. Business service providers can educate their networks on how to work with independent contractors most responsibly.

## III. GUIDE SELF-EMPLOYED INDIVIDUALS IN NAVIGATING COMPLEX BUSINESS RELATIONSHIPS

Self-employed people can benefit from compliance and financial management education so that they are better prepared to file taxes. Therefore, business service providers should offer practical skills beyond education. Providers can deliver training and resources to help self-employed individuals develop effective contract negotiation and management strategies. Additionally, providers can assist self-employed individuals in navigating incorporation complexities, including legal requirements, paperwork, and ongoing compliance obligations associated with each option. By demystifying incorporation and offering tailored advice, providers can empower self-employed individuals to make informed decisions aligned with long-term goals and business interests.

## IV. COLLECTIVE STRENGTH: BRIDGING BENEFITS GAPS THROUGH SHARING AND COLLABORATION

Some of the most expensive challenges that self-employed individuals face include the need to cover their own health insurance and retirement plans and the cost of their work equipment. Providers can foster cost-sharing initiatives, offering group health insurance and equipment-sharing solutions. These programs and supports will help providers bridge the benefits gap and enhance the well-being of self-employed people.

By aligning their strategies, policymakers, financial institutions, and business service providers can strengthen the self-employed sector. Through this work, they will foster innovation and job creation across the microbusiness economy.

# Conclusion

The Association for Enterprise Opportunity's research sheds light on the role of self-employed people and independent contracting in fueling a flourishing microbusiness economy. Contrary to misconceptions, self-employment is not a last resort but a preferred choice for most self-employed people. The desire for freedom, flexibility, and control over one's career resonates strongly among self-employed individuals.

This sector has the potential to drive inclusive economic growth by facilitating business ownership, granting microbusinesses access to specialized services and flexible workforce solutions, and offering opportunities for historically marginalized communities and individuals with diverse personal and professional commitments. Further research is essential to understand the challenges individuals face in navigating the instability of self-employment, the factors influencing the choice to become and remain self-employed, the impact of self-employment on households, and how society can enhance the sustainability of self-employment and increase accessibility to business ownership, especially for entrepreneurs from underserved communities.

While there are challenges to self-employment, they are not insurmountable. A nuanced policy approach that addresses the evolving nature of work, acknowledges diverse work preferences, improves access to capital, and provides specialized business services can support the thriving community of self-employed people.

The self-employed sector, characterized by its entrepreneurial spirit, innovation, and adaptability, has the power to mold a more inclusive and resilient economy. Embracing this potential requires creating an environment that fosters the thriving of self-employed people, allowing them to contribute significantly to the continually evolving microbusiness landscape.



## Appendix

### Research Methodology

#### INTERVIEW METHODOLOGY

We employed a comprehensive interview methodology to gather the necessary information for our report. We took the following steps to ensure a diverse range of perspectives from self-employed individuals who receive 1099 forms:

**PERSONAL OUTREACH:** AEO staff reached out to individuals known to be self-employed or operating as freelancers, gig workers, independent contractors, single-member LLCs, or sole proprietors. Through this method, we aimed to connect with self-employed individuals who receive 1099-MISC, 1099-NEC, or 1099-K forms for tax purposes.

**OUTREACH WITHIN AEO COHORTS:** We contacted current business owners actively involved in AEO cohorts. By leveraging the existing network and connections within AEO, we identified and approached individuals who fit our criteria as self-employed individuals receiving 1099 forms.

**LINKEDIN POST:** AEO made a single post on its LinkedIn platform to attract potential interviewees. This broader outreach aimed to engage with a wider audience of self-employed individuals who could provide valuable insights based on their experiences with 1099 forms.

In total, we conducted 14 interviews through these outreach efforts. While this sample size is small, we captured a wide array of perspectives and case studies within the self-employed community. Specifically, we interviewed based on diversity of geographic location, gender, race, and years of experience.

The interviews were conducted virtually during the week of March 6, 2023. To compensate the interviewees for their time and insights, each participant received a \$100 Amazon gift card. The interviews were no longer than one hour, and the information shared was kept confidential.

At the beginning of each interview, participants described their self-employment arrangement and confirmed whether they received a 1099 form (such as 1099-MISC, 1099-NEC, or 1099-K) for tax purposes related to their self-employment. This confirmation helped ensure the interviewees met our target criteria and provided insights relevant to our research.



By following this interview methodology, we aimed to gather comprehensive and diverse insights from self-employed individuals who receive 1099 forms, contributing valuable information to our report.

## SURVEY METHODOLOGY & DEMOGRAPHICS

We employed a survey methodology using Qualtrics panels to collect data for our report. In contracting with Qualtrics, we prioritized targeting individuals with experience in one of the three primary groups of self-employed individuals, and we set quotas for the demographic markers of age, gender, region, and race for natural fallout. The following information outlines the additional details of our survey methodology:

**DATA COLLECTION:** AEO utilized Qualtrics panels to field the survey. The survey was conducted from February 17 to March 10, 2023, allowing us to gather responses over three weeks.

**SAMPLE SIZE:** We captured a total of 936 responses. These respondents provided valuable insights and perspectives related to self-employment and business ownership.

### DEMOGRAPHIC PROFILE OF THE SAMPLE:

- **Age:** The majority of respondents (85%) fell within the 25 to 64 age range. The largest age group was 55 to 64 (30%).
- **Gender:** The sample skewed toward identifying as female (52%).
- **Transgender Identification:** Approximately 5% of the sample identified as transgender.
- **Sexual Orientation:** Nearly 13% of respondents identified as bisexual (7%) or Gay/Lesbian (5%).
- **Race:** The majority of respondents identified as White (76%), followed by Black or African American (13%).
- **Hispanic Identification:** Almost one-fifth of respondents identified as Hispanic (17%).
- **Education:** A significant proportion of survey respondents had at least a 2-year degree after high school (54%). Roughly three-quarters of respondents had completed at least some college-level education (76%) and another 5% attended technical, trade, or vocational school. Only 13 respondents reported not finishing high school.
- **Disability:** Around 10% of respondents reported having a disability that may affect their experiences related to their business.

- **Returning Citizens:** Less than one-tenth of respondents identified as returning citizens (8%).
- **Veterans:** A little over one-tenth of respondents identified as veterans (11%).
- **Geographic Distribution:** The largest category of respondents was from the Southern region of the United States (38%), followed by the West (24%), Midwest (21%), and Northeast (17%).

**SAMPLE COMPOSITION:** The survey outreach targeted three types of self-employed people, and the sample aimed to distribute respondents evenly between the three groups.

- The largest group represented in the sample were self-identified business owners, comprising 35% of the sample.
- The second largest group in the sample were categorized as specialists (34%). These survey respondents self-identified as contractors (20%), consultants (5%), and freelancers (9%).
- Nearly one-third of survey respondents self-identified as gig workers (31%).
- Notably, one out of the 936 survey respondents self-identified as an employee.

By conducting the survey using these methodologies, we obtained diverse responses from individuals representing various demographics and self-employment categories. The approach provided us with a comprehensive data set to inform our report. However, it is important to note that the demographics of this sample were not designed to be representative of the self-employed sector as a whole.

## STUDY LIMITATIONS

The project's main goal was to gather insights on self-employed individuals, but we acknowledge limitations in our methodology and sample selection. Despite confidence in our findings' indicative power, these constraints exist. Future AEO research aims to improve by creating a more representative sample and using a larger size for enhanced statistical precision. Despite efforts to mitigate challenges, these are intrinsic and must be considered for proper contextualization. Nevertheless, the research remains valuable, offering a foundational understanding of the experiences and perspectives of self-employed individuals and illuminating a dynamic segment of the U.S. workforce.

## Endnotes

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11. To learn more about how entrepreneurship presents a promising pathway to economic security and reintegration into communities for returning citizens, read the recent report *From Prison To Business: Entrepreneurship as a Reentry Strategy*, a collaboration between AEO and the Progressive Policy Institute.
12. In AEO's survey, 5% of the respondents identified as transgender, while 13% identified with a sexual identity other than heterosexual or straight. A recent consumer study conducted in the U.S. by Statista Consumer Insights Global (2023) among self-employed individuals and freelancers revealed that 14% of these individuals identify themselves as members of the LGBTQ+ community. A separate study conducted by CLEAR and MAP in 2022 on the employment status of LGBTQI+ adults in the United States found that 11% of them were self-employed: <https://www.mapresearch.org/file/MAP-LEAF-Survey-Report-2023.pdf>



13. It's important to note that there is not data on the sexual orientation or gender identity of the U.S. workforce, which limits the availability of clearer insights on this matter. However, a 2023 Gallup poll estimates that only 7% of adults in the U.S. identify as lesbian, gay, bisexual, or transgender: <https://news.gallup.com/poll/470708/lgbt-identification-steady.aspx>.
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