

Software Industry Concerned About the Potential Impact of AB-5 on Gig Economy

The Software Industry is closely following legislation in California that, if passed, could have a huge impact on Gig workers and the software companies that rely on them.

The legislation at issue is AB 5, which would codify and expand the California Supreme Court's recent decision in **Dynamex Operations v. Superior Court** (2018) 4 Cal. 5th 903. The text of the proposed legislation is available [here](#).

According to **The Intercept**, the bill was sponsored by Lorena Gonzalez, a Democratic assemblywoman from San Diego. **The Intercept** reports that California is losing an estimated \$7 billion in payroll tax annually due to the misclassification of employees as independent contractors, so the state is eager to close the loophole.

Obviously, Uber and Lyft, directly oppose the legislation, since it would directly impact their current Gig worker business model. In fact, **The Los Angeles Times** has reported that Uber and Lyft have actually paid drivers to organize protests against the legislation.

For Uber and Lyft, the obvious concern is that the passage of AB-5 in California could prompt other states to pass their own versions of the legislation, or even, that similar legislation could be passed at the federal level, which could potentially expand the impact of the legislation far beyond the borders of California.

Both **The Intercept** and **The Los Angeles Times** are reporting that Uber and Lyft have each warned investors of this potential risk in recent regulatory filings. Indeed, an

investment publication, **Investorplace**, warns that the passage of the bill will have a very detrimental impact on both companies.

The bottom line is that software companies who have built business models around the Gig worker model may soon be forced to either cease operations in California or, alternatively, to change their models for the state, if AB-5 is passed and signed into law, so if your company has been developed around this model or you are building a company relying on this model, you will want to follow this legislation closely as it moves through the California legislature.

News Update on California Supreme Court Ruling Establishing New Independent Contractor Test

News Update 5.3.18