

Written Submission

Guaranteed Annual Income-Negative Income Tax:

a new Canadian income support policy

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Executive Summary: This is a proposal for an income support scheme for Canada that would offer strong inducements to become more firmly attached to the work force and that would replace most present federal and provincial programs

News reports recently, have referred to the possibility the Canadian government was seriously considering the adoption of some form of Guaranteed Annual Income.

A Department of Human Resources Development discussion paper from 1994 titled 'Improving Social Security in Canada / Guaranteed Annual Income: A Supplementary Paper', ISBN 0-662-61566-2, has become known as the 'Axworthy report'; I will make reference to this paper as the 'Axworthy report' throughout the body of this proposal.

This income support proposal suggests a marriage of Canada's income tax system and a consolidated amalgam of many of Canada's existing multifaceted, somewhat uncoordinated, sometimes politically burdened job creation, training and income support programs each of which carries the expense of its own bureaucracy of managers, administrators, policy makers and assessors.

***Part of the attraction of a scheme that consolidates many of our income support, training and job creation programs, is the prospect of cost savings and streamlined administration. My proposal visualizes a new Guaranteed Annual Income - Negative Income Tax (GAI-NIT) being managed as an extension of the present Canadian income tax system operated by the Canadian Revenue Agency (CRA).

***The scheme should be as administratively simple as possible. My proposal visualizes the submission of the equivalent of a tax form to CRA so that income can

start flowing to the client/taxpayer very rapidly. Support payments would be mailed to the client/taxpayer twice a month and would be accompanied by a tear off /postage paid form upon which the client/taxpayer would declare his or her 'earned income' during the previous two weeks; the income information contained on these returns would allow Revenue Canada to adjust the income flow to the client/taxpayer as current income patterns change (perhaps with a lag time of one month) so that the client/taxpayer's overdraft does not become excessive. A final reckoning (client/taxpayer owes or is owed) would be made at tax time at the end of the year.

***The political acceptance of any income support scheme will be enhanced if it can be seen to offer clear incentives to the client/taxpayer to become more and more firmly attached to the work force whenever the opportunity for even temporary employment presents itself. My proposal is designed with such a graduated series of claw backs, as 'earned income' increases, that each increase in 'earned income' renders the client/taxpayer better off. The proposal incorporates a continuum from total dependence on the public purse - to full taxpayer status in a progressive system with gradually increasing rates that offer no abrupt shifts. From total dependence through to full taxpayer status, there is a constant increase in retained 'after-claw back/tax' monetary wealth (see tabular presentation below).

***The Axworthy report made it obvious that any scheme that could be financed by a reallocation of current expenditures and refundable credits --- (as well as the elimination of the income redistribution aspects of Employment Insurance so that EI is returned to a true self financed insurance program for workers who seldom [if ever] expect to be unemployed) --- would gain more acceptance than one that required large amounts of new spending. My proposal leaves the gradually escalating claw back rates (applied to GAI-NIT as earned income rises beneath the break even income level) and the gradually escalating tax rates (applied to earned income that is above the break even income level) subject to a variety of increase scenarios that will allow the proposal to be infinitely flexible and modified until it becomes revenue and deficit neutral with reference to current expenditures that are presently devoted to job creation, training and income support programs.

Note: Instead of job creation and training programs that are sometimes intrusive and often do not meet the needs of the marketplace, GAI-NIT would allow down sized, underemployed, trainable employment seekers to make their own arrangements with prospective employers who know their future skill-set requirements and who can offer on-the-job training to individuals whose basic monetary support comes from the public purse during the training period.

***The basic support level I have used (see tabular presentation below) is \$7,000 for each adult (18-64 years old)---Old Age Pensions would remain as they are for those persons over 65 years old. Further to what is shown in the tabular presentation (below), proposed coverage is:

\$3000 for the first dependent child, less than 18, in a single parent family

\$1000 for the second dependent child, less than 18 in a single parent family

\$300 for the third dependent child, less than 18 in a single parent family

\$0 for the fourth, fifth, etc. dependent children , less than 18 in a single parent family

The idea here is to discourage parents from treating extra children as a source of income.

Note: Men and Women are to be treated as economic equals within households in my proposal, just as they were in the Negative Income Tax scenario in the Axworthy report (pages 11-12).

The \$7,000 level is not designed to be so generous as to discourage the client/taxpayer accessing employment when it is available as it is somewhat above current Social Assistance levels in some provinces and somewhat below Social Assistance levels in other provinces, and the \$7,000 figure is far below what would be earned by an individual working full time at minimum wage in any Canadian province.

It is important to understand that natural, organic, communitarian shelter sharing arrangements (that are forbidden by most current [patriarchal] income assistance programs) would alleviate some of the hardship that is extant at these proposed support levels.

Note: These support levels are similar to those outlined (pages 11-12) in the Axworthy report under the heading Negative Income Tax, which was designed not to cost more than current programs in place (February 1994). My proposal raises the basic support level from the \$4,500 in the Axworthy report to \$7,000, however the Axworthy report's reduction rate of 15% produced a break even income level of \$30,000 for a single adult-----while my proposal visualizes the taxpayer/client ceasing to draw any support from the public purse at \$10,000 (above which gradually increasing tax rates on earned income apply). I believe that the single claw back rates (15%), and the high break even levels (\$30,000) in the programs described in the Axworthy report rendered most of the programs proposed in the report too expensive to adopt.

Increase in basic support, above abject poverty levels, is much more important (and a better use of tax dollars) than continuing support into the higher income levels.

*** Almost all of the income support variants in the Axworthy report incorporate administratively simple (and perhaps unimaginative) single claw back or reduction rates on the taxpayer/client's 'earned income'. My proposal visualizes a very gradual increase in claw back rates (on GAI-NIT) when 'earned income' is below the \$10,000 break even income level (see tabular presentation below) AND a very gradual increase in tax rates above the \$10,000 break even level.

The Axworthy report stated (page 19) that "The lower the reduction rate on the GAI benefit, the higher up the income scale the benefit goes and the more people are included". The authors of the Axworthy report did not conceive of the incrementally escalating rates (that offer infinite permutations and combinations) that are the strength of my proposal.

The Axworthy report suggested (page 20) "there appears to be a need for some mechanism to encourage people now unemployed and/or on social assistance to take entry-level, low-paying jobs. Encouraging this first step on the wage ladder by providing a living standard at least equal to what people would have been receiving on social assistance, is considered to be a major objective of policy". My proposal (see tabular presentation below) offers the kind of incentives that the report had in mind, in that it studiously avoids any semblance of the disincentives that are a part all existing social support programs (reduction rates on increments of 'earned income' as high as 80 %) that make it obvious that taking work does not increase the financial well being of those who have been solely reliant on income support from the public purse, and that taking work that may be temporary simply exposes the client to the bureaucratic nightmare of reapplying for support if the employment ends.

The Axworthy report states (page 22) "the Quebec personal income tax system has been adjusted so that all households with incomes below what they could receive on social assistance pay no provincial income taxes". My proposal demands federal income tax only on 'earned income' above the break even level for GAI-NIT.

Similar to the Universal Income Security Plan (USIP) (1985) proposed by the MacDonald Commission (Axworthy report, page 30) - my proposal leaves the federal government "100 percent responsible for the administration and financing of the income supplementation for those with low earnings as well as for providing an income base for the non-earning poor", and would leave the provinces 100 percent responsible for the financing and administration of a support tier which would top up the USIP to ensure that persons [who had been] on social assistance would be no worse off that under the current [new] system. The top up would be at the provinces'

discretion, as they may wish to top up the incomes of people who are generally so completely unemployable (with such severe mental or physical handicaps) that the incentive scheme offered by my proposal would be irrelevant.

The tabular presentation follows below. The only example depicted here is that dealing with a single adult. I visualize the rate reductions used here to apply to couples and families with their higher cumulative support levels (as described above).

GUARANTEED ANNUAL INCOME ---NEGATIVE INCOME TAX CONTINUUM

1. GAI-NIT 2. EARNED INCOME 3. % CLAW BACK OF GAI-NIT

4. \$ REDUCTION OF GAI-NIT 5. % TAX 6. \$ TAX 7. \$ RETAINED

<u>1.</u>	<u>2.</u>	<u>3.</u>	<u>4.</u>	<u>5.</u>	<u>6.</u>	<u>7.</u>
7000	0	0	0			7000
6300	1000	10	700			7300
5600	2000	20	1400			7600
4900	3000	30	2100			7900
4200	4000	40	2800			8200
3500	5000	50	3500			8500
2800	6000	60	4200			8800
2100	7000	70	4900			9100
1400	8000	80	5600			9400
700	9000	90	6300			9700
0	10000	100	7000			10000

_____BREAK EVEN INCOME LEVEL_____

11000				2	220	10778
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12000	4	480	11520
13000	6	780	12220
14000	8	1120	12880
15000	10	1500	13500

and so on

This proposed GAI - NIT is not only novel but as it has as so many claw back and tax levels whose gradual progression, without large discontinuities in increasing income, that it is amenable to adjustments so that it will have a total cost that is equal or less than the present income assistance complex (federal and provincial combined) in Canada.

This income support scheme proposal is a marriage of Canada's income tax system and a consolidated amalgam of many of Canada's existing multifaceted, somewhat uncoordinated, sometimes politically burdened job creation, training and income support programs each of which carries the expense of its own bureaucracy of managers, administrators, policy makers and assessors. The proposal offers savings by simplifying the social support bureaucracy and it offers unprecedented incentives for the working poor to become attached to the work force while decreasing the requirement for large numbers of immigrants who are presently needed to do entry level jobs that Canadians cannot afford to take.

Reference

Government of Canada, Minister of Human Resources Development. 1994

Improving Social Security in Canada Guaranteed Annual Income: A Supplementary Paper. Minister of Supply and Services Canada 1994, Cat. No. MP90-2/15-1995, ISBN 0-662-61566-2, SC-100-01-95

<http://www.canadiansocialresearch.net/ssrgai.htm>