UBI-FIT: Using the Tax System to Fund a Basic Income

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Disclaimer

• Opinions and positions expressed in this presentation are my own and do not necessarily represent those of Osler, any partners or employees at Osler, or Osler’s clients

• In my view, UBI-FIT would be an effective way to fund an UBI that would also benefit entrepreneurs, businesses, and high-net worth individuals and stimulate economic growth and generate inbound investment

• But this is my opinion and not that of my firm or clients

• None of this is legal advice
What is an UBI-FIT?

• Both an UBI and a FIT:
  ◦ *Universal Basic Income*: Paid to every individual, regardless of income level, and not conditional on behaviour, choices, etc.
  ◦ *Flat Income Tax*: A tax levied at a flat rate on income, regardless of how much income is earned or how it is earned

• Replaces existing income taxes, but not other taxes

• Milton Friedman’s Negative Income Tax, with a twist

• Would *not* replace any existing government transfers / spending

• FIT must raise 16% of GDP plus revenue to fund the UBI

• E.g. UBI of $10,000 with a 35% FIT
How can a flat income tax be progressive?

- Answer: When you couple it with UBI
- Flat taxes are legitimately criticized for not being progressive
- Average tax rate on income: total tax paid divided by total income earned
- Marginal tax rate on income: percentage of tax on marginal dollar of income
- UBI-FIT is progressive by the average tax rate on income
- UBI-FIT is not progressive by marginal tax rate on income
- Best of both worlds:
  - Limited disincentives to earn income
  - Lower (or even negative) proportionate tax burden for lower-income individuals
- The higher the UBI and FIT, the more progressive the system
Graphing Progressivity

Comparing Average Tax Rates: Current System (black) vs UBI-FIT ($10,000, 35%) (red)
Why UBI?

- All the benefits others have discussed this weekend
- Provide income to low-income individuals *without* punishing them with high marginal tax rates for earning income
- E.g. part-time low-wage worker who gets a means-tested government transfer considering taking another shift
  - 20% tax rate in Ontario *plus* 50+% claw back rate on welfare
  - $14/hour becomes $3-4/hour - barely pays for commute for the shift
- Progressive tax system
- Fewer bureaucratic complexities for low-income individuals
Why FIT?

• Simpler, more efficient tax system with more certainty for individuals and businesses
• Rallying cry in tax policy: lower the rates and broaden the base
• Lower flat income tax rate for high-income individuals
• Remove many deductions, credits, exemptions, etc. targeted towards (or with highest uptake amongst) high-income individuals
• Reduced opportunities for, and incentives to engage in, undesirable tax avoidance (because simpler system and lower tax rate)
• Better for businesses, encourages investment in Canada, etc.
Complexity

- Federal *Income Tax Act*: 3,000+ pages long, complex, and changing
- Expensive and time-consuming for people and businesses
- UBI-FIT could allow, amongst other things, removing distinctions between different types of income, capital gains, and dividends
Potpourri

• Loss of deductions, credits, and exemptions for vulnerable
• Negatively affects middle class
  ◦ Solution Idea: Keep TFSA = UBI so everyone can save UBI tax-free?
• UBI in old age reduces need for retirement saving
• Divert part of UBI to make loan payments – access to cheap credit
• Should UBI increase by inflation or by GDP per capita?
UBI-FIT: More affordable than ever before

- FIT = (Tax Revenue as % of GDP) + (UBI as % of GDP per Capita)
  - E.g. roughly 35% = 15% + 20%
- Average 2% growth rate of real GDP per capita in US/Canada/UK
- 1) What UBI can 35% FIT finance, or
- 2) what FIT is needed to finance a $10,000 UBI (today’s dollars)?

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<th>Year</th>
<th>1820</th>
<th>1870</th>
<th>1913</th>
<th>1950</th>
<th>1973</th>
<th>1989</th>
<th>2016</th>
<th>2050</th>
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<tbody>
<tr>
<td>Real GDP Per Capita</td>
<td>$2,400</td>
<td>$4,700</td>
<td>$10,100</td>
<td>$18,300</td>
<td>$31,900</td>
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<tr>
<td>FIT</td>
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<td>&gt;100%</td>
<td>&gt;100%</td>
<td>70%</td>
<td>46%</td>
<td>38%</td>
<td>32%</td>
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