

Basic Income: Some Policy Options for Canada IN BRIEF

As the need for basic income grows, the Basic Income Canada Network (BICN) is often asked how Canada could best design and pay for it. To answer that in a detailed way, BICN asked a team to model some options that are fair, effective and feasible in Canada. Our new report, *Basic Income: Some Policy Options for Canada* does just that. The three options in this report do just that. Our three options demonstrate that it is indeed possible for Canada to have a basic income that is progressively structured and progressively funded. BICN wants governments, especially the federal government, to take this seriously—and to act. Lives, and the future of our country, depend on it.

We also think Canadians should have a say in the public policies that affect them. Very few people are experts in the kind of technical work this report depends on so BICN has created this Brief to cover the essentials and aid in delving into the full report.

The Goal

It's one thing to design a basic income from scratch based on an ideal concept. Our goal was much harder—to develop workable options in the real world of existing public policy, specifically Canada's tax/transfer system.

What is a basic Income?

A basic income is an unconditional cash transfer from government to individuals to enable everyone to meet their basic needs, participate in society and live with dignity, regardless of work status.

Canada already has policies that have basic income features. Child benefits (federal and provincial/territorial) are a partial basic income. The amount a family gets is based on the number of children and benefits are reduced progressively as other income increases. Families don't have to meet intrusive conditions and parents decide how their money gets spent. Another transfer program in Canada is the opposite of a basic income; social assistance has many rules and conditions that can work against people's best efforts, is highly stigmatizing and usually provides far too little to cover even bare subsistence needs.

Why the tax/transfer system?

The tax/transfer system is a powerful government tool to gather and invest revenue needed for the well-being of a society and its members. It enables us to have roads, schools and hospitals, democratic institutions and much more. In Canada, a wealthy country, it should be a priority to enable us all to have decent lives. But our tax/transfer system has become very complex and contradictory; modelling change is a big challenge. It does not treat all Canadians with dignity and respect. On the one hand, seniors benefits and child benefits provide stability to millions of Canadians, helping them weather the ups and downs of life. Social assistance, on the other hand, traps people in deep poverty. There

are also billions of dollars of tax breaks that go primarily to the wealthiest individuals and corporations, a situation that was not always like this—they used to contribute a fairer share. The other key reason to focus on the tax/transfer system is that by using Statistics Canada's Social Policy Simulation Database and Model (SPSD/M) we can see, in detail, the impact of our modelled options. Other ways to help pay for a basic income may be more difficult to estimate but they include, for example, cost-savings over time as people's health and well-being improves. Canadians know that inequality, insecurity and poverty have a high price tag that we are already paying. Governments must take that into account as well in efforts to build a more fair and equitable society.

The Three Policy Options

BICN has a framework document called *The Basic Income We Want*. Its key **principles** guided how the benefit side of the basic income options were designed as well as how they are funded. We can measure how well our options do in enabling people to meet basic needs and in reducing inequality. We can see whether it is people with the least who benefit most and whether those with the highest incomes contribute a fair share. Canadians should look for these kinds of results in any options for a basic income that a government or non-governmental organization may put forward.

Benefit Design

The **benefit design** in all options have similarities. All options are for adults; children's benefits remain as they are. All options are based on a benefit of **\$22,000** per year for an individual. The report details a number of assumptions about how the options will work including intergovernmental relations and administrative matters.

Option One - A benefit for 18-64 year olds, based on family income

- \$22,000 for a single person; \$31,113 for a couple (divided between individuals)
- It works similar to existing child benefits and the Ontario pilot as benefits are reduced gradually as other income rises, in our case using a modest 40% reduction rate.
- Some tax changes affected low-income single seniors so we give a boost to the Guaranteed Income Supplement for them in this model.

Option Two - A benefit for all adults 18+, based on family income

- The benefit works in the same manner as Option One, with seniors now included.

Option Three - An individual, universal benefit for all adults 18+

- Each adult gets the same \$22,000 benefit amount, regardless of family status or other income—there is no reduction rate in this model.

Funding Resources

All options are **fully funded**, from similar sources, making them all affordable. The resources used follow BICN principles:

- Funding is rolled in from existing refundable tax credits and programs that provide direct income support, like the Goods and Services Tax/Harmonized Sales Tax (GST/HST) credit, as well as social assistance (we only take half of administrative funds, so the remainder can be used for social services);

- Resources are shifted from non-refundable tax credits into the basic income, including the basic personal amount and credits (federal and provincial) that go mostly to the wealthy;
- Tax fairness measures are adopted, such as more tax brackets and higher tax rates on high incomes;
- All income is treated the same whether it comes from employment or capital gains;
- Changes to corporate taxation are included so that corporations pay a fair share—they will gain from more people being able to participate in the economy;
- In Options Two and Three, which include seniors, funding is included from Old Age Security (OAS) and the Guaranteed Income Supplement (GIS);
- In Option Three, a significant increase to the basic individual tax rate given that every adult will receive \$22,000 of untaxed income.

Tax breaks in Canada come in a variety of forms with various, sometimes questionable, objectives. A *deduction* means that an amount of income is removed from the calculation of your taxable income. Money that people put into Registered Retirement Savings Plans (RRSP) is an example (it's actually a deferral as you eventually do pay tax on this when you are older). In our options, you can't use an RRSP deduction to lower your income in order to receive a basic income payment. A *refundable tax credit* means you receive the value of the credit even if you pay no tax. A *non-refundable tax credit* is used to reduce the tax you owe but if your income is low you get little or no benefit at all. Tax brackets help ensure fairness in ability to pay. If tax brackets are few, then there is a gap of many thousands of dollars between those at the upper and lower ends of the bracket, yet they pay tax at the same rate. Some tax breaks just don't often apply to average Canadians. For example, capital gains are taxed at a lower rate than employment income, and this tends to benefit people with high incomes.

The Results

The results to pay attention to most are those that impact people. For example:

- In all three options the entire lower half of the income distribution sees their disposable income increase. Most people up into the middle-income groups continue to benefit. Wealthier individuals in the upper income deciles contribute more to ensuring that all Canadians at every stage of their lives, through ups and downs that affect all of us, have true income security. In all options inequality is reduced.
- The lowest income families see their disposable income increase by more than 350%. This is especially important for singles under 65 who have very little income security now.
- Poverty is almost eliminated, at zero in some cases. For the few remaining under the poverty line the gap is far smaller than under the current system which traps too many people in deep poverty.
- There are some differences among options and some issues that merit further consideration. Integrating seniors programs that currently have a universal, individual component as well as one based on family income was a challenge for Option Two and would benefit from more work to help those in the middle-income brackets. More women than men were beneficiaries, especially in Option Three. For families in the bottom decile, however, Option Three tended to help couples more than singles or single parents.
- There are a few 'outlier' situations that may need special solutions, such as a young person under 18 living on their own who couldn't access a regular adult benefit. At the upper income end, there seem to be a few exceptional cases where a form of minimum tax may be required to ensure a fair contribution.

Understanding the real costs and benefits of the options requires care. They are all fully paid for, from similar sources in the tax/transfer system, and the pattern of results is relatively similar.

Our results suggest that *net* affordability of the options is fairly similar too.

- Option One appears to have the lowest cost at \$134 billion—it also has the fewest adults. Our proposed tax/transfer resources generate \$136 billion in revenue.
- Option Two include seniors but also comes with the money that goes to seniors benefits now, so this option at \$187 billion (resources of \$189 billion) isn't necessarily much more expensive than Option One.
- Option Three includes more people still because benefits are provided to every adult based on individual income, instead of family income. It may be somewhat more expensive but not nearly as much as it might appear from its upfront \$637 billion calculation because the money to pay for it is recouped at tax time (resources of \$639 billion). This option requires more extensive change to the way income is taxed. Because we will all have received \$22,000 of non-taxable income, we will all pay higher taxes on the first dollar of other income.
- Greater tax fairness, simplicity, transparency, and accountability are benefits of all options.

Beyond The Numbers

Some people reading this report will be moved to action by the human dimension of a basic income rather than, or in addition to, facts and figures. We encourage you to read BICN's Signposts to Success report with quotes from recipients of Ontario's recent basic income pilot. It is amazing how quickly many people's lives turned around for the better and what plans they were working towards for the future. It is wrenching to see how anxiety and despair returned when the cancellation of the pilot was announced.

More personally, you need not go far to ask a relative, friend, neighbour or co-worker about the difference that monthly child benefit or seniors benefit cheques have made to their lives and to their communities. There are millions of those people out there—you yourself may be one of them. We cannot do justice to all those experiences. We urge you, therefore, to listen to each other's stories, see how similar and how unique they are, and imagine how much better our country would be if everyone in Canada were equally trusted and supported in making the most of their lives. Please also talk to young people, perhaps your own children or grandchildren, who have almost no income security now and are understandably anxious, facing a precarious future.

BICN is profoundly grateful to everyone who graciously gave of their time and expertise to help and to challenge us. Among the report's authors, project team, experts and reviewers are some of the most exceptional policy thinkers in this country. We see the options in this report as a major step forward but not the only one. We encourage others to continue to develop proposals. We urge governments and elected representatives to rigorously pursue options and public dialogue so that basic income in Canada can become a reality.

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