



Research Report:

## **Guaranteed Annual Income**

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## About the Guelph & Wellington Task Force for Poverty Elimination

The Guelph & Wellington Task Force for Poverty Elimination is a community initiative composed of concerned and affected residents, organizations, business, and all levels of government, the research community and others. The Poverty Task Force (PTF) works together to eliminate poverty in Guelph and Wellington by supporting, coordinating and inspiring sustainable change and supporting the growth of individual resilience through collective action.

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## About The Research Shop

The Institute for Community Engaged Scholarship (ICES) fosters collaborative and mutually beneficial community-university research partnerships. ICES draws on strong traditions of community engagement and socially responsive research within the College of Social and Applied Human Sciences (CSAHS) at the University of Guelph. The Research Shop serves as a portal between community and university research needs. Faculty and students work with community organizations and individuals to identify and address social problems, and develop policies for positive change. Currently, the Research Shop focuses on working with collaborations in Guelph and Wellington by developing community-based research, placing students for service learning, and knowledge mobilization.

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## Background

### **Main Problem and Purpose of the Study**

Members of the Guelph & Wellington Task Force for Poverty Elimination first expressed interest in learning more about Guaranteed Annual Income (GAI) when the report *In From the Margins: A Call to Action on Poverty, Housing and Homelessness* was released in December 2009.

In 2010, two of the report's committee members – Art Eggleton and Hugh Segal – visited Guelph & Wellington, which led to further discussions around GAI among Poverty Task Force (PTF) members.

In June 2011, Jennifer Walker, a student at the University of Guelph and intern with The Research Shop, provided a presentation about GAI based on a paper she was working on as part of her MA studies in Psychology. The presentation focused on work disincentives, political and public fears, goal-setting theory, learning vs. performance goals and social cognitive theory.

In September 2011, members of the Income Security Action Group (ISAG) (an action group of the PTF) met with MP Michael Chong to discuss GAI. MP Chong provided an overview of GAI based on information in a 1994 report by the Government of Canada, *Improving Social Security in Canada*.

After the meeting with MP Chong, members of ISAG thought that more information, including concrete examples of the different models of GAI and a list of benefits and downfalls, would be useful for the broader PTF membership and a research request was submitted to The Research Shop for this report.

### **Research Questions**

1. Define Guaranteed Annual Income
2. Provide an explanation of the two models of Guaranteed Annual Income (universal demogrant and negative income tax). Give a concrete example of how each works.
3. What are the benefits and downfalls of each model?

### **Key Sources of Information Reviewed**

Information for this project was collected using document review. A quick scan of recent and relevant government reports on Guaranteed Annual Income was undertaken. This way, it was possible to find the most up to date discussion on GAI. Government reports were reviewed in order to understand what proposals the government has put forward before and why GAI has never been fully implemented.

### **Limitations of the Report**

Because Canada has not yet implemented a comprehensive GAI, it is difficult to come up with examples of how the different models of GAI actually work. Examples provided represent proposals that have not yet been tested.

## Key Findings

- Guaranteed Annual Income is a complex term that means different things to different people.
- Some define it as a policy framework for social security provision; therefore it would be made of a variety of programs. However, for the most part it is seen as a program that provides a guaranteed income to citizens which is not linked to work.
- There are two main models of GAI; Negative Income Tax (NIT) and Universal Demogrant (UD).
- NIT tends to target those below a certain income level because the amount of the benefit is decreased as individuals earn additional income and those earning a high enough income do not receive the benefit. The Universal Demogrant provides benefits to everyone, but additional income is taxed such that those earning very high additional incomes end up paying the benefit back in taxes.
- Canada has not implemented GAI to date primarily because of the high cost associated with the programs. Providing a benefit that is adequate is too costly while a low level of benefit will not move people out of poverty.

## Results

### 1. Defining Guaranteed Annual Income

Guaranteed Annual Income (GAI) is an idea that has dominated social security reform dialogue in Canada since the 1960s. The debate in recent years is fuelled mostly by the realisation that Canada's social safety net is increasingly inadequate and poverty persists (Mulvale, 2008). However, implementing it as a national program has proved challenging partly because guaranteed annual income means different things to different people. Mulvale defined it as a "set of policies or a policy framework for ensuring a floor of economic security below which no one falls and that provides a modest but adequate material standard of living" (2008: 2). In addition to income, this definition also includes provision of goods and services such as health care, education, childcare, social housing and many others.

However, for the most part, GAI is viewed as a program that provides an income to citizens. Even with this common understanding of GAI as a social security program, there are many types of GAI that have been proposed which reflect differences in goals and objectives to be achieved as well as how to achieve them. Some of the objectives that have led to the government, groups or individuals advocating for GAI are:

- 1) To eliminate poverty
- 2) To remove stigma from social assistance and increase choices

- 3) To simplify the existing programs and services
- 4) To provide a program that would reduce costs compared to current programs
- 5) To increase incentives for work, which has been eroded under the current system
- 6) To facilitate adjustment of the population to structural economic changes

Because of the differences in objectives, different groups and organisations often adopt different names and definitions for GAI. The Citizens for Public Justice adopted the term Guaranteed Liveable Income which they define as income “that ensures that everyone has access to the basic necessities of life while respecting dignity and encouraging participation in society” (2008: 1). The Basic Income Earth Network uses the name Basic Income and define it as “income unconditionally guaranteed to all on an individual basis, without means test or work requirement” (Basic Income Earth Network, <http://www.basicincome.org/bien/>). Finally, the Government of Canada, in its review of social security in 1994 defined GAI as “a floor income provided on a continuing basis, which may vary depending on household configuration, age and other sources of income” (Government of Canada, 1994: 1). Important characteristics of GAI that emerge from the different definitions are that: it provides income to all citizens, the income is not linked to participation in the labour force, and qualification is based on citizenship, that is, there is no means-testing.

## 2. The Two Guaranteed Annual Income Models

To date, Canada has not yet implemented a comprehensive GAI program but there are two main models that have been advanced as alternative ways to implement a GAI: (1) the negative income tax (NIT) model and (2) the universal demogrant (UD) model. It is interesting to note that some of the existing social security programs are GAI-type programs, which are implemented either as NIT or UD. It is therefore reasonable to assume that proposals that advance the NIT or UD model are developed based on the workings of these existing programs. Information used to illustrate how the two GAI models work is based on the Human Resources Development Canada Social Security Reform publication titled *The Guaranteed Annual Income-a supplementary paper*, released in 1994. The publication provides detailed explanation of how GAI could be implemented under the two models, with examples of how the benefits would be calculated.

### 2.1 The Negative Income Tax (NIT)

This is a payment made to individuals or households who are below a certain income level. The rationale is to increase the incentive to work while reducing the cost and complexity of the income support system. The NIT is administered through the tax system and has three basic components

- i. The guarantee or benefit level –the maximum benefit a person or household can receive
  - It varies by family size and configuration.

- ii. A reduction rate - the amount by which the benefit is reduced for any additional income above the benefit rate or maximum allowable level.
- iii. A break-even level – income level at which reduction rate is 100% or above which no benefit is received. It is the maximum income level at which NIT can be received. When income is greater than break- even level, then NIT benefit = 0.

**Example: Family of 4 (two adults, two children) that earns an income of \$5000**

*The guarantee:*

All adults 18-64	= \$4500
The first dependent child <18 in a lone-parent family	= \$4500
All other dependent children < 18	= \$3000

*Reduction rate:*

First adult	= 15%
Second adult or first dependent child <18 in a lone-parent family	= 6%
First two children <18	= 3% each

When applying the reduction rate, it would be stacked and would not exceed 27%.

**Table 1** Calculating total disposable income for a family of 4 (2 children and 2 adults) earning \$5000

Family component	Guaranteed income	Reduction rate
<b>First adult</b>	\$4500	15%
<b>Second adult</b>	\$4500	6%
<b>First child</b>	\$3000	3%
<b>Second child</b>	\$3000	3%
<b>Total guaranteed income/Reduction rate</b>	\$15000	27%
<b>Total Disposable Income</b>	<b>\$18650</b>	

*Total Disposable Income:*

If the family earns \$5000, the reduction rate of 27% is applied on this family income

Reduction →  $0.27 * \$5000 = \$1350$

Hence, the Guaranteed Income is reduced by \$1350 →  $\$15000 - \$1350 = \$13650$

Total Disposable Income →  $\$13650 + \$5000 = \$18650$

*Break-even level:*

Break-even level = Guarantee/reduction rate,  $\$15000/0.27 = \$55555$

The family of 4 will stop getting a guaranteed income when they start earning more than \$55555; at an income of \$55556, their reduction on the guarantee is equal to \$15000.12.

The NIT model has three basic groups of people:

- 1) Those who receive full benefits (No additional income other than NIT benefit)
- 2) Those who receive partial benefits (Additional income that is below break even level)
- 3) Those who receive no benefits (Additional income is above break-even level)

Among current income security programs, there are some that are based on a negative income tax system. These include the Child Tax Benefit, Guaranteed Income Supplement, spouse allowances and Goods and Services Tax Credit.

**Table 2** Benefits and downfalls of the NIT Model

Benefits
It is targeted, because only those below a certain income level receive the benefit
Because not everyone receives benefits, this lowers the overall cost for the government
Considered to have good work incentive; because the benefit is not eliminated entirely till a reasonably high additional income level is achieved
Can reduce rate and depth of poverty if benefit level is set above the minimum level of current last resort social assistance program
Downfalls
Targeting fails to reduce stigma associated with social assistance
Benefit level often set below poverty threshold level to maintain work incentive, but this means on its own will not eliminate poverty. NIT needs to be set it at level of poverty threshold to eliminate poverty
Not very responsive to changes in income and family structure. Needs to keep track of income fluctuations on a family basis all year round
Needs to be integrated with personal income tax system to ensure the combined effect of reduction rate and income tax rate does not create work disincentive

## 2.2 The Universal Demogrant (UD)

This represents a payment to all citizens that is not based on their income. The goal is to establish a non-stigmatizing entitlement to an adequate floor level income regardless of work effort for all members of society. The guaranteed income is not taxed, but income from other sources is taxed.

Under the UD system, total disposable income is equal to the UD guarantee plus after-tax income from other sources. Two modes of taxing other sources of income have been proposed. Taxing can be at a flat rate or it

can be scaled to rise as income rises, along the same lines as the progressive tax system currently in use in Canada. It has been proposed that the additional income can be taxed at rates high enough so that the taxes can provide funding for the program. Whatever the tax rate, high income earners will end up paying back their benefits through taxes. The current Old Age Security is similar to the universal demogrant; it is a benefit paid by the federal government with no link to work history or retirement. It is taxable and those earning higher incomes pay it back through taxes.

**Example: Family of 4, (two adults and two children) that earns an income of \$30000**

*The guaranteed:*

All adults 18-64	= \$7000
First dependent child <18 in a lone parent family	= \$7000
All other dependent children < 18	= \$3000

*Taxation rate:*

Taxation rate for other incomes	= 50% (flat rate, this is the rate used for the GIS)
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*The Guaranteed Non-taxable income for a family of 4:*

Two adults @ \$7000 each	= \$14000
Two children @\$3000 each	= \$6000
Total Non-taxable benefit	= \$20000

*After-tax income:*

Tax on additional income	= $0.5 * \$30000 = \$15000$
After-tax income	= $\$30000 - \$15000 = \$15000$
<i>Total disposable income</i>	= <i>Guaranteed income + after-tax income</i>
	= $\$20000 + \$15000$
	= \$35000

**Table 3** Benefits and downfalls of the UD model

Benefits
Non-stigmatizing because everyone receives it
Politically more difficult to cut benefits because everyone receives them, which gives greater security to lower income recipients
Can simplify administrative system if other income support and tax credits are eliminated, making it cheaper to administer
More responsive to changes in income and family structure

## Downfalls

Universality makes it more costly for the government because covers more people

Requires level of taxation to be increased to cover the higher costs of implementing

Can create work disincentives because when taxes on the additional income is very high then people are less willing to take jobs above but close to the threshold level

Inappropriateness of sending cheques to middle and upper income families who repay benefit through higher taxes

### 3. Some Considerations Regarding GAI

There are three important considerations with regards to implementing GAI: benefit level and tax rate and funding for the program (Pasma and Mulvale, n.d.). Setting the benefit level seems to be a balancing act. If it is set too high, this may remove the incentive to work while if set too low, below the poverty rate, then GAI may increase rather than reduce poverty. Taxation is important because it provides the part of the capital pool to fund the GAI. However, the taxes should not erode the benefit of GAI as this will increase poverty. A flat tax rate is often advocated for the UD model but is seen as affecting low-middle income earners harder than high earners (Pasma and Mulvale, n.d.).

While people continue debating about NIT versus UD, the most important point to note is that failure to implement GAI is often because the proposal is seen to be either too inadequate (benefit level set too low) or too costly (Mulvale, 2008). Striking a balance between adequacy and cost is, therefore, important and raises the question of how to fund the program. Several suggestions have been put forward regarding funding for GAI. Most of these involve adjustment of the current social security programs, however, there is almost a universal agreement that health care and education should not be part of the reformation and must be left untouched. Some suggestions on how GAI can be funded are:

- i. Replace all or part of the following income security programs:
  - Employment Insurance
  - Old Age Security, Guaranteed Income Supplement, spouse allowances
  - Child Tax Benefits - National Child Benefit Allowance, Child Disability Benefit
  - Social assistance payments (welfare) – but to eliminate this, GAI would have to be very responsive to family income fluctuations, otherwise some level of social assistance needs to be retained
- ii. Savings from shrinkage of the bureaucratic organization needed to deliver present social security programs
- iii. Higher income tax rates on additional income
- iv. Special taxes on use of natural resources, consumption, wealth, capital transfers, information transfers, electronic transactions, ecotax

- v. Eliminating personal tax credits, individual tax cuts

## 4. Conclusions

**Guaranteed Annual Income** is a complex term often defined differently by different people. However, the most common understanding of GAI is that it is a program that provides income to all citizens and the income is not linked to participation in the labour force. Two main models have been put forward which describe how GAI can be implemented. The **Negative Income Tax model** gives benefits to all citizens, the amount is adjusted based on income and ranges from 100% benefit for those citizens with no additional income to zero benefit for those citizens with an income above a break-even level. Its main rationale is to give people incentives to work since not all the benefit is taken away until a relatively high additional income is earned. One of the main downfalls of the NIT model is that it does not remove the stigma associated with social assistance since it still targets low income earners. The Universal Demogrant provides a floor income to all citizens. Additional income is taxed such that citizens who earn very high additional incomes will pay back their benefit through their taxes. The major benefit is that because everyone receives it, it is non-stigmatizing. However, a downfall to UD is that it is very costly to implement, primarily because more people are covered. Canada has not implemented a GAI to date although some of the social security programs in existence are GAI-type programs. The major draw-back to implementing GAI appears to be cost; the challenge is to balance adequate guarantee with a capital pool to fund it.

## References

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