

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

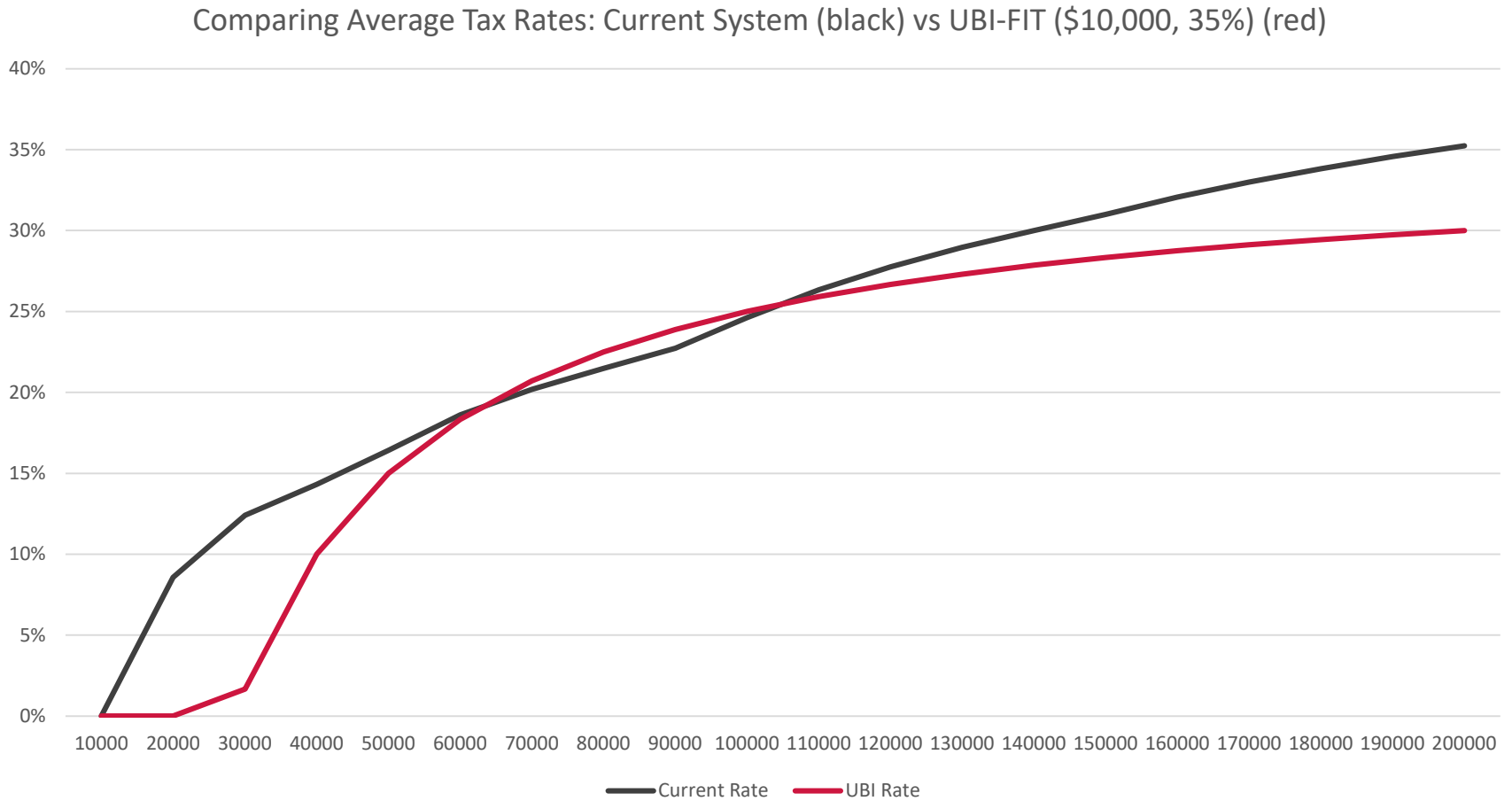
What is an UBI-FIT?

- 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



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*)?

Year	1820	1870	1913	1950	1973	1989	2016	2050
Real GDP Per Capita	\$2,400	\$4,700	\$10,100	\$18,300	\$31,900	\$44,000	\$57,500	\$108,360
UBI	\$480	\$940	\$2,020	\$3,660	\$6,380	\$8,800	\$11,500	\$21,672
FIT	>100%	>100%	>100%	70%	46%	38%	32%	24%