

Backgrounder on the Nuts and Bolts of a Guaranteed Livable Income

Thank you to Harvey Stevens who prepared this backgrounder at the invitation of the UCC Guaranteed Livable Income group.

This is one of many resources available to support and encourage communities of faith to learn and take action. Please go to The United Church of Canada webpage [Create a Universal Basic Income Program](#) on www.united-church.ca. The United Church does not endorse a specific design, but raises up principles on which a program for basic income should be designed and implemented.

1. What is a Guaranteed Livable Income?

A Guaranteed Livable Income (GLI) is a payment to individuals or families by government (federal and/or provincial/territorial) that covers the cost of basic necessities (food, shelter, clothing, transportation, and community participation) and is not conditional on meeting employment criteria in order to qualify for the benefit. However, demographic conditions such as age and residency or citizenship may be imposed as eligibility requirements.

2. How can a GLI be administered?

Governments use two methods for designing and administering guaranteed incomes: as a demogrant and as a refundable tax credit.

A **demogrant** is a fixed amount of income paid to all families or individuals, regardless of their income level. The amount is not reduced (clawed back) by the amount of income the family or individual has. However, the benefit could be considered taxable income by government. A current example is the Alaska Permanent Fund, which issues an annual dividend to each person who has been a resident of the state for the full calendar year and not incarcerated. The 2020 dividend is \$992.

By comparison, a **refundable tax credit (RTC)** provides families or individuals with no other income a maximum benefit—the Guarantee—which is then reduced as the family's or individual's other sources of income increase. The reduction (clawback) rate can vary. A current example of an RTC is the Old Age Security benefit. All seniors with incomes up to \$77,580 receive the full annual value of the OAS benefit (\$7,370). For those with higher incomes, the benefit is reduced at the rate of 15 percent, such that those with incomes greater than \$126,713 get no OAS benefits.

A refundable tax credit that offers a livable guarantee is substantially less expensive than a demogrant of equal value because the benefit only goes to those whose income is low enough to qualify for a full or partial benefit. A refundable tax credit is most efficiently administered through the personal income tax system.

3. Does Canada already have guaranteed income programs?

The federal government presently offers **three** guaranteed income programs, two for seniors and one for children. The two seniors' programs are Old Age Security and the Guaranteed Income Supplement for low-income seniors. The Canada Child Benefit provides a benefit to children under 18 years of age.

The demographic group not covered by any existing guaranteed income program is adults aged 18–64.¹ Provincial social assistance and federal Employment Insurance are the only income transfer programs available to these two groups, but the programs impose employability and contribution tests in order to qualify.

4. What is a *livable income*?

Canada now has an official poverty line called the Market Basket Measure (MBM). It is constructed by identifying and pricing a basket of goods and services deemed to provide a “modest, basic standard of living.” The items included in the market basket are food, clothing and footwear, shelter, transportation, and other expenses. Specific levels of consumption have been specified for each item to meet the needs of a family of four including two adults and two children. That basket is priced annually by Statistics Canada for specific regions within each of the 10 provinces but not the territories or First Nations communities.² The total cost of the basket of goods and services is the MBM poverty line (threshold) for each region.

A **national** GLI would have to use **one** MBM threshold as the measure of the maximum benefit (Guarantee), which would be the overall average of each region's threshold, weighted by the number of people living in that region. For 2019, the national weighted average MBM for the four-person family was **\$44,860**. For a single adult, the average MBM threshold was \$22,430. For two-, three-, five- and six-person households, the national MBM thresholds were \$31,720, \$38,850, \$50,155, and \$54,942, respectively.

5. How much would it cost to provide a Guaranteed Livable Income to all Canadians?

The short answer is that it depends on how it's designed. The four key components in the construction of a GLI, designed as a refundable tax credit, are

- the value of the Maximum Benefit (Guarantee)
- the rate at which that Guarantee is clawed back against other income (Benefit Reduction Rate or BRR)
- the definition of the income used to claw back the value of the Guarantee
- the demographic unit used to calculate the value of the GLI

¹ The GST credit and the Climate Action incentive offer unconditional benefits to this group, but they are very small amounts.

² For more information about the MBM, go to the Statistics Canada website and look up [Report on the second comprehensive review of the Market Basket Measure](#). Cat. no. 75f0002m.

The **net value** of a GLI is the value of the Guarantee less the percent of family income used to reduce the Guarantee. Thus, the higher the value of the Guarantee the greater the cost, and the higher the Benefit Reduction Rate the lower the cost.

The following table shows the cost and coverage of a national GLI under two different levels of the Guarantee and two Benefit Reduction Rates for 2019.³

Guarantee/ Maximum Benefit	Benefit Reduction Rate	Average Net Family Benefit	Number of Families with a Benefit (Millions)	Total Cost (\$Billions)
75% of MBM Threshold	20%	\$9,519	14.08	\$134.2
75% of MBM Threshold	40%	\$7,153	8.19	\$58.6
100% of MBM Threshold	20%	\$14,785	16.03	\$237.1
100% of MBM Threshold	40%	\$11,221	10.84	\$121.6

Source: Statistics Canada, Social Policy Simulation Database/Model, version 28.1. Calculations by the author.

6. Where would the money come from to pay for a GLI?

There are a variety of sources available to the federal and provincial governments to pay for a national GLI, including

- Cancellation of some existing income transfer programs
- Closure of tax loopholes/expenditures
- Increases in personal and corporate income taxes
- Removal of selected non-refundable tax credits
- Imposition of new taxes
- Growth of the national economy and attendant tax revenues
- Reductions in government expenditures for health and other services due to the positive impact of a GLI

In 2019, the Basic Income Canada Network (BICN) released a paper showing how a Guaranteed Livable Income could be designed and financed.⁴ Chapter 4 of the paper identified \$202.6 Billion in revenue that could be raised from both federal and provincial sources to finance two of the BICN's proposed GLI options. The itemized list of revenue sources presented in that chapter have been re-grouped according to the above list and the total revenues presented in the following table:

Income Source	Total Revenue (\$Billions)
Cancellation of Federal Income Transfer Programs ¹	\$58.8
Cancellation of Provincial Income Transfer Programs ²	\$16.2
Closure of tax loopholes ³	\$27.2

³ The Canada Child Benefit's (CCB) definition of the demographic unit (the nuclear family) and the Canada Revenue Agency's "net" family income have been applied to all households living off reserve in the 10 provinces in 2019 to arrive at the cost of the four options.

⁴ See, *Basic Income: Some Policy Options for Canada*. www.basicincomecanada.org/policy_options.

Increases in Personal Income Taxes	\$8.2
Increases in Corporate Taxes	\$17.4
Removal of Selected Non-refundable tax credits ⁴	\$74.9
TOTAL REVENUE	\$202.7

Notes:

¹ Includes the Working Income Tax Benefit, GST Credit, Guaranteed Income Supplement, Old Age Security, and Spousal Allowance.

² Includes social assistance.

³ Includes a range of items like the partial inclusion of capital gains, the employee stock option deduction, meals and entertainment deduction.

⁴These include the basic exemption, pension income credit, caregiver credit, student loan interest credit and others.

In its report, *Platform for Tax Fairness*,⁵ Canadians for Tax Fairness identified a range of **new taxes** that could be levied which would target the wealthiest Canadians and corporations and would raise \$40+ billion in additional tax revenues.

In addition to these direct and immediate sources of funding is the additional tax revenue generated by the macro economic stimulus effect of providing low income individuals and families with additional income. A December 2020 report prepared by the Canadian Centre for Economic Analysis—[Potential Economic Impacts and Reach of Basic Income Programs in Canada](#)—indicates that providing Canadians with a GLI would lead to increased employment of between 298,000 and 346,000 people, grow the national economy by between \$178 and \$199 billion and generate between \$46 and \$52 billion in taxes over the first five years of the program.

Finally, as noted below, there may well be savings to government from reductions in the cost of other health and social programs due to the positive impact of a GLI on the lives of its recipients. However, there are no hard numbers for Canada on the size of those savings.

7. What is the effect of a GLI on people's willingness to work?

Between the late 1960s and 1970s four social experiments were conducted in the United States and one in Canada (Manitoba) to determine the effect of a Guaranteed Income on working age adults' level of work effort. The one Canadian experiment found that male heads worked 1 percent fewer hours, secondary earners in two parent families worked 3 percent fewer hours and female heads worked 7 percent fewer hours.

It is worth noting that a federal/provincial/territorial evaluation of the National Child Benefit program that started in the late 1990s found that the female spouse's labour force participation also declined with the receipt of the child benefit but they used the extra hours for home-related work such as child rearing, care of dependent elderly family members and furthering their education.

⁵ See www.taxfairness.ca/en/news/platform-tax-fairness.

8. What other effects does a GLI have on the lives of recipients?

The most immediate effect is to raise their income and lift many of them out of poverty. For example, a national GLI featuring a Guarantee equal to the MBM poverty line with a benefit reduction rate of 40 percent would lower the national rate of poverty by 58 percent. This immediate increase in income would generate the following positive spin-off effects, as documented in a recent article in the public health journal, *Lancet Public Health*⁶:

- Teens more likely to remain in and complete high school
- Improved academic performance
- Reduction in low birthweight babies and higher birthweights associated with higher benefits
- Lower probability of child obesity at age 3
- Less use of hospitals due mainly to fewer accidents or injuries and mental health diagnoses
- Improved mental health due in part to less financial stress
- Reduction in young adult obesity
- Reductions in criminal activity

Qualitative evidence gleaned from both the Dauphin site and those who participated in the recent Ontario Basic Income Pilot project show that the provision of a guaranteed income had wide spread positive effects on participants. Many recipients reported improvements in their physical and mental health, labour market participation, food security, housing stability, financial status, and social relationships. Basic income also had a noticeable impact on the use of health services, with many of the survey respondents indicating less frequent visits to health practitioners and hospital emergency rooms. For a significant number of participants, basic income purportedly proved to be transformational, fundamentally reshaping their living standards as well as their sense of self-worth and hope for a better future.⁷

9. What is the political opposition to adopting and implementing a GLI?

Likely the biggest barrier to implementing a GLI is the cost, particularly now that the pandemic has increased the federal deficit from \$20 billion in 2019/20 to a projected \$381 billion for 2020/21 and the federal government's reluctance to raise taxes to pay for programs and services. In addition, a review of the federal government's 2018 Poverty Reduction plan⁸ reveals a clear preference for reserving income transfer programs for children and seniors. The only programs in its plan for working-age adults are increases to the Canada Workers Benefit and the funding of a national housing strategy. This preference is likely grounded in the federal government's reluctance to pay those deemed employable a guaranteed income. Also, some argue that a commitment to a permanent income support program will increase the structural deficit problem facing the federal government such that, even when the economy is operating at full capacity, the government runs a deficit.

⁶ See [www.thelancet.com/journals/lanpub/article/PIIS2468-2667\(20\)30005-0/fulltext](http://www.thelancet.com/journals/lanpub/article/PIIS2468-2667(20)30005-0/fulltext).

⁷ See <https://labourstudies.mcmaster.ca/news/access-southern-ontario2019s-basic-income-experience-report>.

⁸ See www.canada.ca/en/employment-social-development/programs/poverty-reduction.html.

However, structural deficits arise because there is insufficient tax revenue being generated, which is due, in part, to the existence of the kind of tax loopholes described above.

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- working for the Mincome Manitoba Guaranteed Income Experiment as a researcher between 1974 and 1976
- co-authoring three peer-reviewed journal articles on the design of a Guaranteed Income for Canada between 2014 and 2017
- undertaking the modeling for the Basic Income Canada Network's paper, *Basic Income: Some Policy Options for Canada*, in 2019
- providing the Special Committee on Poverty of Prince Edward Island with costed options for implementing a Basic Income program for that province in 2020

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