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A BASIC INCOME FOR AUSTRALIA?

Exploring Rationale, Design, Distribution and Cost

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Abstract

This paper considers the potential for a basic income (BI) or guaranteed minimum income (GMI) scheme for Australia. The paper particularly examines the proposal for a GMI advocated by the Henderson Poverty Inquiry in 1976. It briefly considers the rationale for a BI in Australia, in light of concerns about inequality, poverty, precarious work and automation.

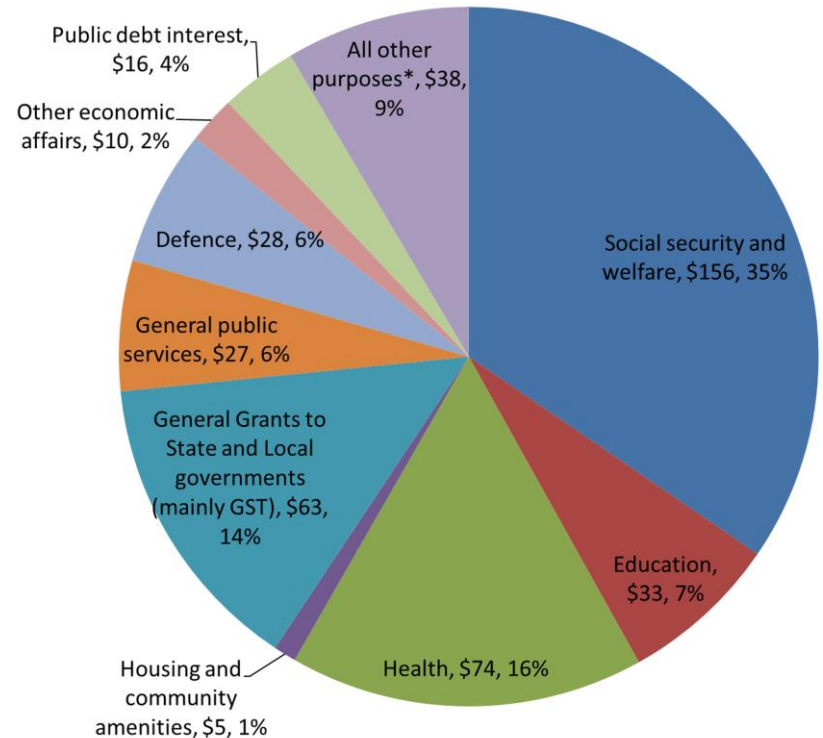
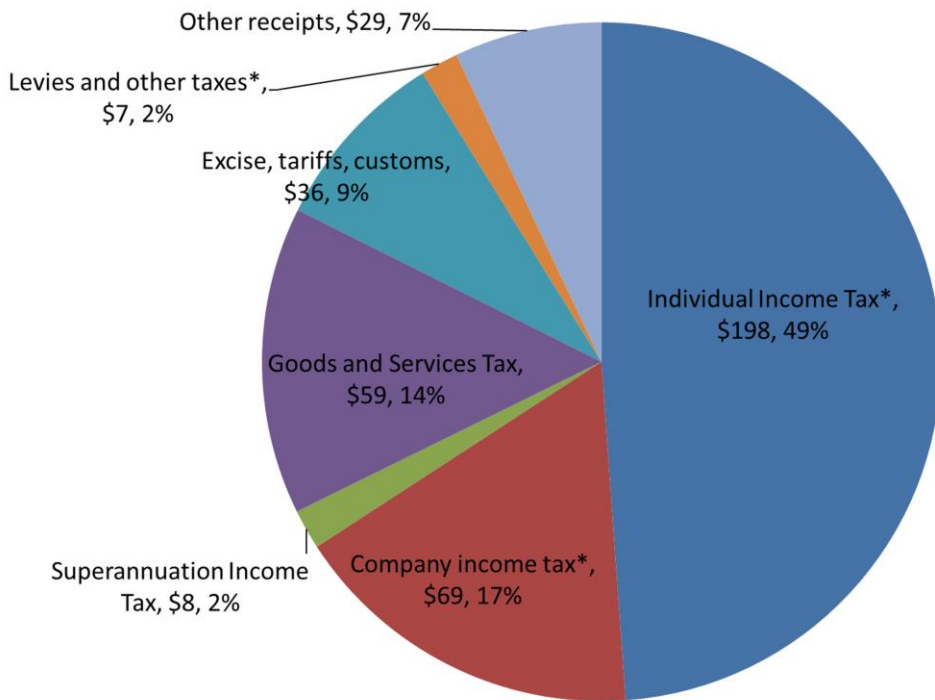
The focus of the paper is on the main design issues and financing for a BI. The paper presents options to move towards a partial or categorical BI which could be an first step in the Australian context. The proposed BI would help ease effective marginal tax rates impacting families and welfare recipients and would provide extra support to those with low or fluctuating incomes. The paper models four options and explores the tax rate and base required to finance the BI.

Some background: Taxing, spending and income/wealth distribution in Australia

Structural features of current system (context for reform matters...)

- High reliance on progressive income tax
- Tightly targeted (means tested) transfer system
- Relatively low consumption taxation (GST) compared to other countries
- No direct wealth taxation and relatively low property taxation (*but* asset test an indirect wealth tax on pensioners)
- Fiscal deficit in its 10th year

Australia Federal Taxes and Spending (2016-17) (\$b, %total revenues)

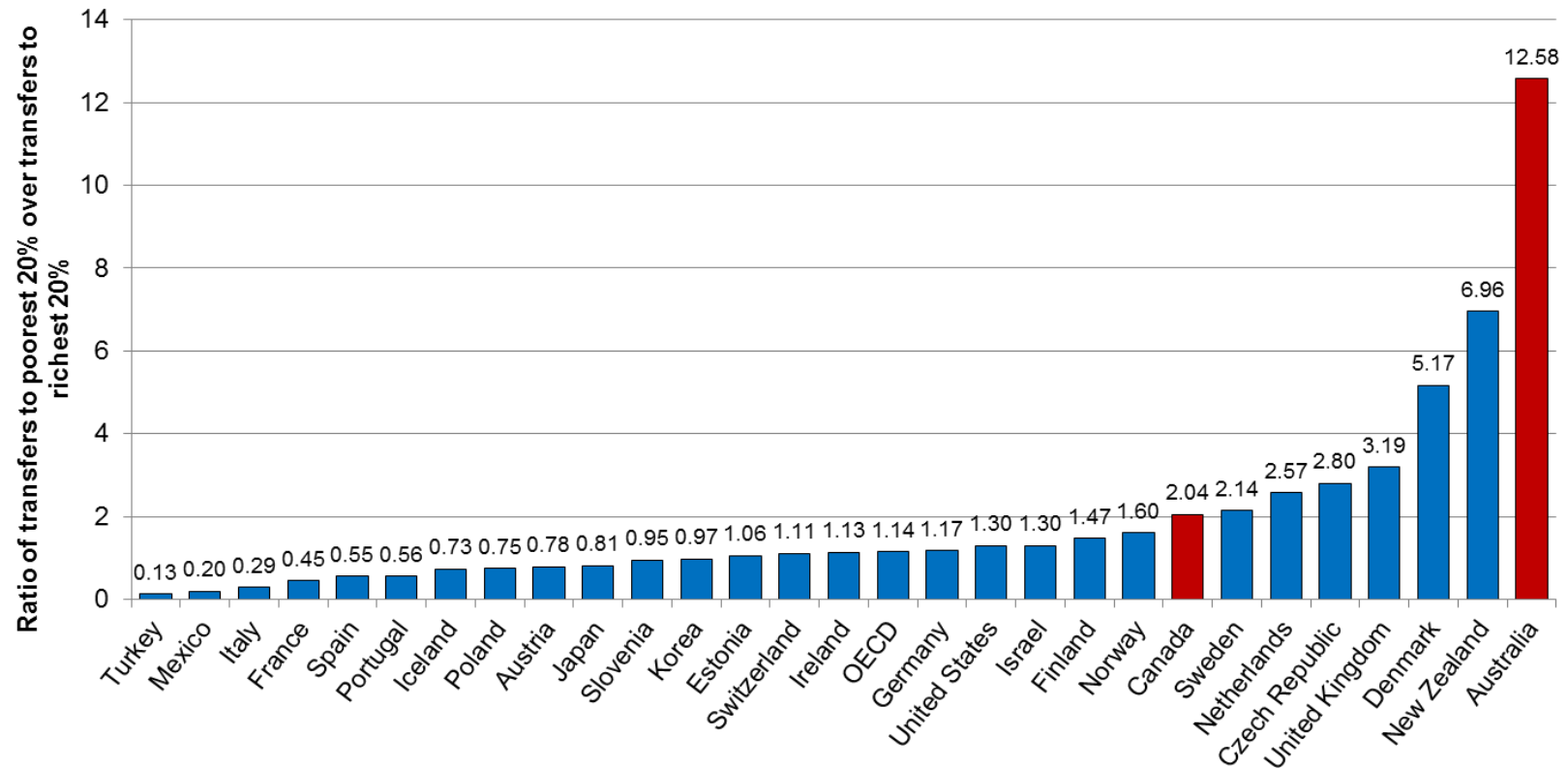


Federal revenue \$405b; expenditures \$450b
(fiscal deficit about 2% of GDP)

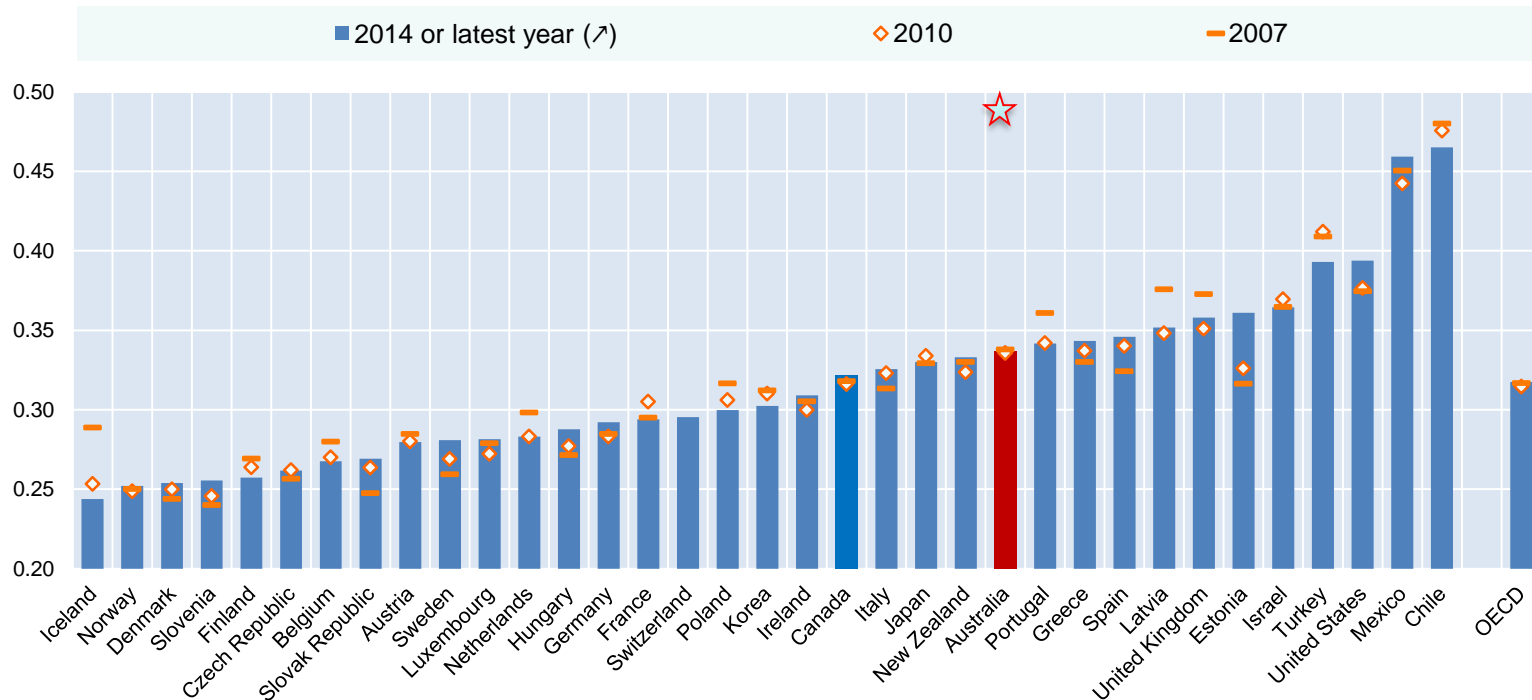
Australia's social security system is more targeted than any other OECD country

Ratio of transfers received by poorest 20% to those received by richest 20%

Source: Calculated from Table s 3 and 5, OECD, 2014, http://www.oecd-ilibrary.org/economics/economic-growth-from-the-household-perspective_5jz5m89dh0nt-en



Inequality: Gini coefficient of disposable income after tax-transfers (OECD 2014)



Australia (2014): Gini (market income) 0.483 (disposable income) 0.337

Gini coefficient: The most equal society will be one in which every person receives the same income ($G = 0$); the most unequal society will be one in which a single person receives 100% of the total income and the remaining people receive none ($G = 1 - 1/N$).

(*Equivalised household disposable income:* <https://data.oecd.org/hha/household-disposable-income.htm>
<http://www.oecd.org/social/income-distribution-database.htm>)

Design issues for a basic income

- Universal/categorisation
- Adequacy (level of payment; poverty line)
- Unit (individual, household)
- Convergence of categorical with general population
- Diverse cost of living, esp. housing costs
- Wage supplements in a low wage world?
- Revenue-neutral or additional fiscal cost?
- The ***required tax rate*** to finance a basic income will depend on what we are trying to achieve and the breadth of the tax base

Guaranteed Minimum Income (GMI)
proposed previously in Australia

Henderson Inquiry (1975)
(never implemented)

Aims of GMI (1975, Henderson)

- “To emphasise that the right to a minimum income and the obligation to pay tax are but two sides of the same coin.
- To reduce the emphasis placed on special categories in the determination of entitlements and obligations.
- To provide minimum income levels such that Australians do not find themselves in poverty.
- To assure all citizens of a logical sequence of income retention rates as private income increases.
- To favour neither those whose private income fluctuates nor those whose private income is steady.
- To lighten the administrative load of social security and taxation.
- To achieve all this without markedly worsening the position of any person compared with the present system.”

Fundamentals of a GMI with financing

- Minimum equal payment to all citizens
- Proportional (flat, or linear) tax rate on private income (*could have sur-tax at the top*)
- No tax on GMI

Disposable income

$$= \text{GMI} + (\text{private income} * (1 - \text{Tax Rate}))$$

- So, the **GMI** is taxed back as income rises; the Required Tax Rate to finance it is crucial
- This is *equivalent* to tapering or phasing out the GMI at the tax rate

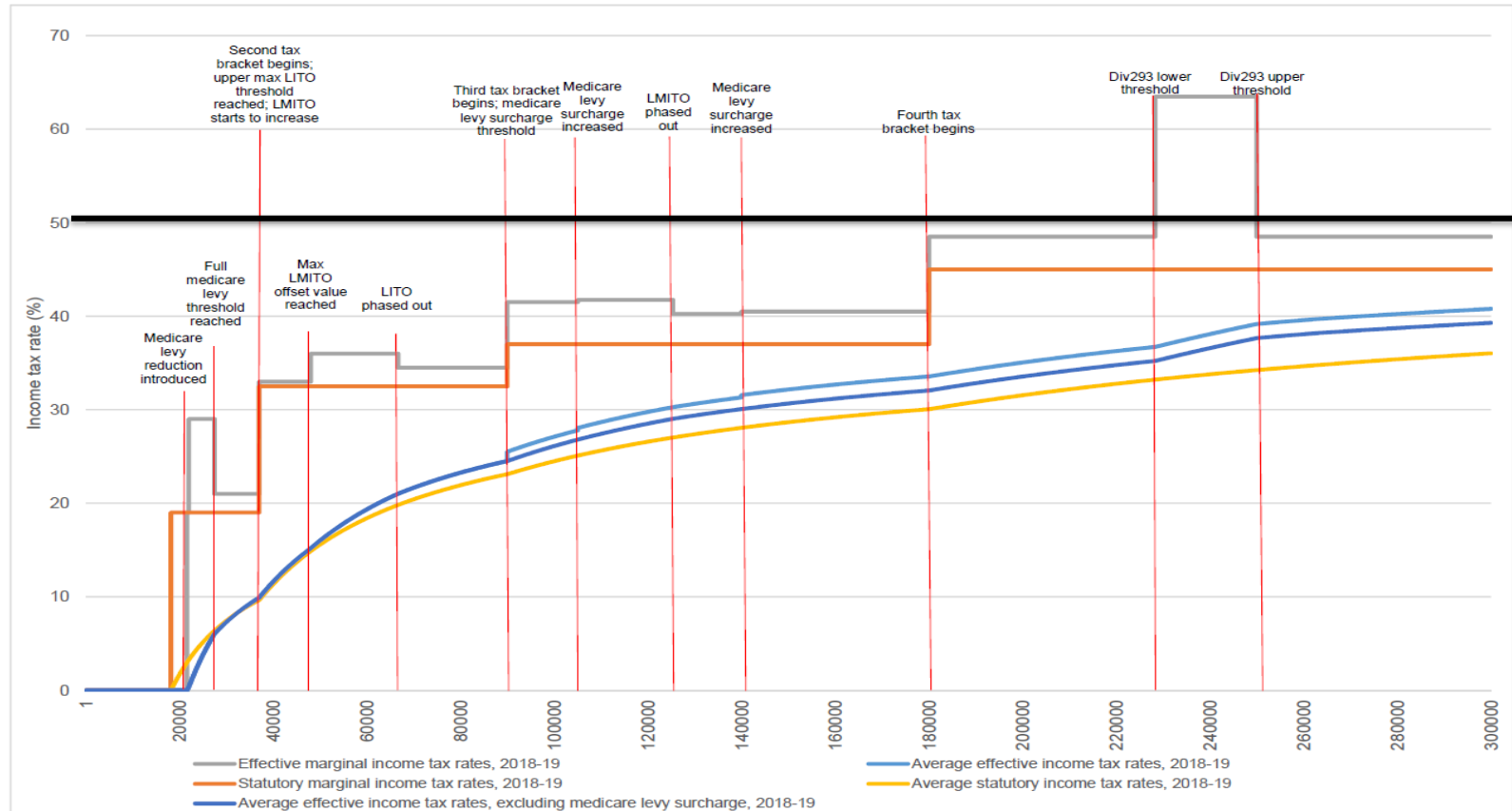
Example of basic GMI with proportional 50% tax on all private income

Table: Simple example of basic GMI with 50% tax rate

Citizen		Private income/week	GMI/week	Disposable income/week	Tax paid/week
A	Destitute	0	\$300	\$300	0
B	Minimum wage	\$600	\$300	$300 + (600 \cdot 0.5) = \mathbf{\$600}$	\$300
C	Top 10% (Average full time male wage)	\$1,600	\$300	$300 + (1600 \cdot 0.5) = \mathbf{\$1,100}$	\$800
D	Top 1% income	\$4,500	\$300	$300 + (4500 \cdot 0.5) = \mathbf{\$2,550}$	\$2,250

Australia's current income tax rates

Statutory and effective marginal income tax rates and average income tax rates, 2018-19



Notes: The average statutory income tax rate refers to the average tax rate if statutory marginal income tax rates were applied, excluding any other policies (LITO, LMITO, medicare levy, medicare levy surcharge, and Division 293). The average effective income tax rate for 2018-19 refers to the average income tax rate if the other aforementioned policies were applied. An additional average effective income tax rate is included, excluding the medicare levy surcharge, since individuals typically elect to purchase private health care coverage thereby avoiding the surcharge.

In order to maximise space on the graph, the effective marginal income tax rates (EMTR) for the medicare levy surcharge thresholds have been excluded. For example, at the medicare levy surcharge threshold of \$90,000, the EMTR jumps to 900% at \$90,001, 263% at the \$105,001 threshold, and 350% at the \$140,001 threshold.

For high-income taxpayers where the compulsory superannuation guarantee (9.5%) exceeds \$25,000, division 293 tax (15%) owed is only based on \$25,000.

Source: TTPI calculations.

Categorical GMI proposed in 1975

- Categories to provide adequate payments at acceptable fiscal cost and tax rates
- **Basic minimum** for those normally expected to work
 - GMI at 62% of the poverty line
 - Higher GMI for large families (up to 71% poverty line)
- **Categorical payments** for aged, disabled (sole parents?)
 - Set at about 106% of the poverty line
- **Couple (joint) unit**
 - In both social security and tax systems (*contra Asprey*)
 - Husband, wife and dependent children
 - But could make payments directly to individuals as a demogrant

Categorical GMI (1975): Compromises

- Top income earners better off: surcharge 5%
- Couple unit, each member gets less than singles
- Two-worker couples worse off: 20% tax credit for second earner
- Temporarily sick/unemployed worse off (and not eligible for categorical payment): Benefit to bring them up to the categorical rate, withdraw at 100%
- Intermediate rates for 'partial' categorical payments who are paid too much? eg 'partial' disabled
- Supplements for costs eg housing, withdraw at 20%
- ***Do compromises bring us back to the means tested existing system?***

GMI (1975): Required tax rate

- Estimated a 40% proportional tax rate on all private income
- Would require reform of the income tax base
- Probably underestimated at the time

Today, certainly underestimates likely fiscal cost:

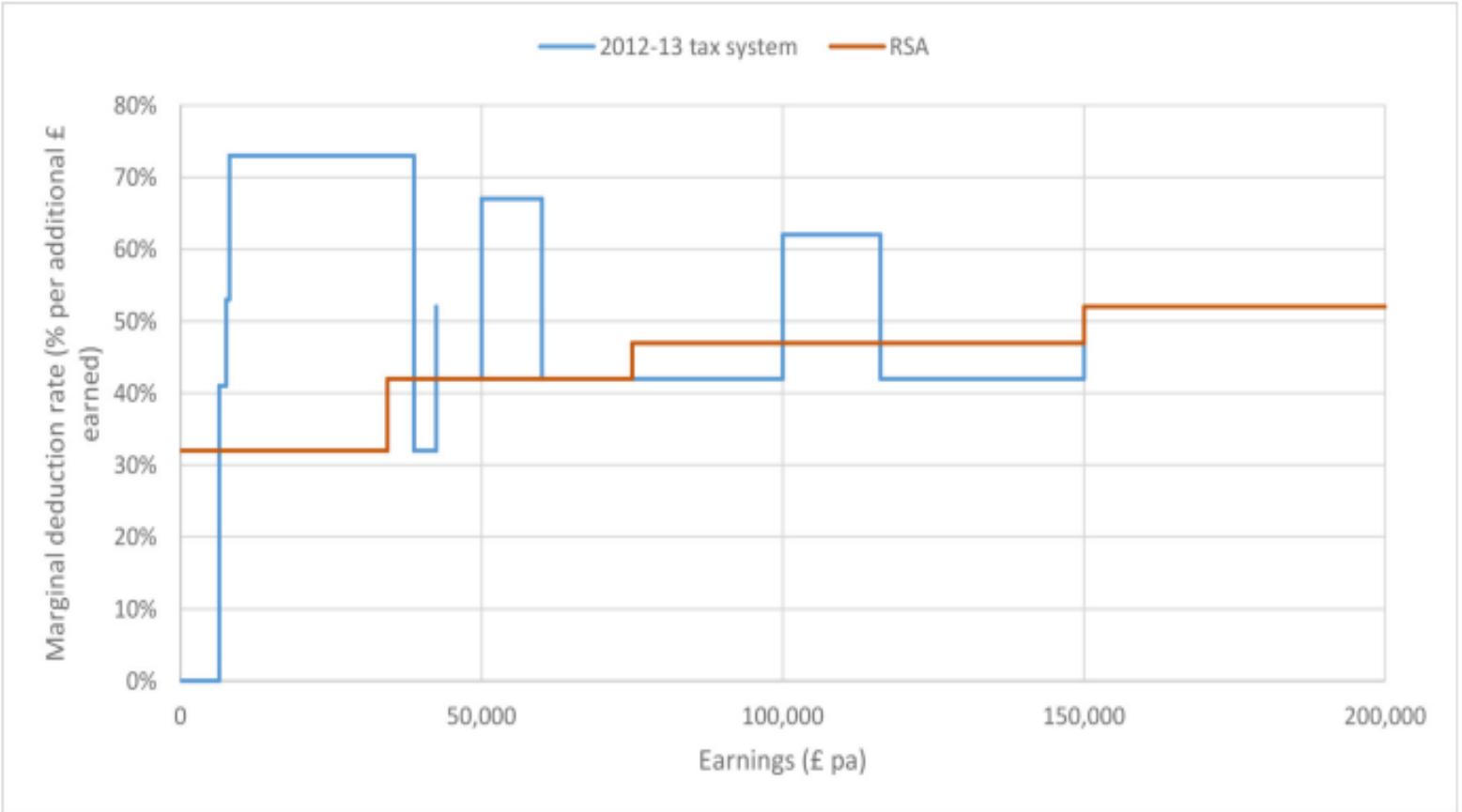
More recent modelling of similar schemes suggests:

- Dawkins 50% tax rate on income (1998)
- Scutella 55% tax rate or more (2004)

Work (dis)incentives, poverty traps and Effective Marginal Tax Rates (EMTRs)

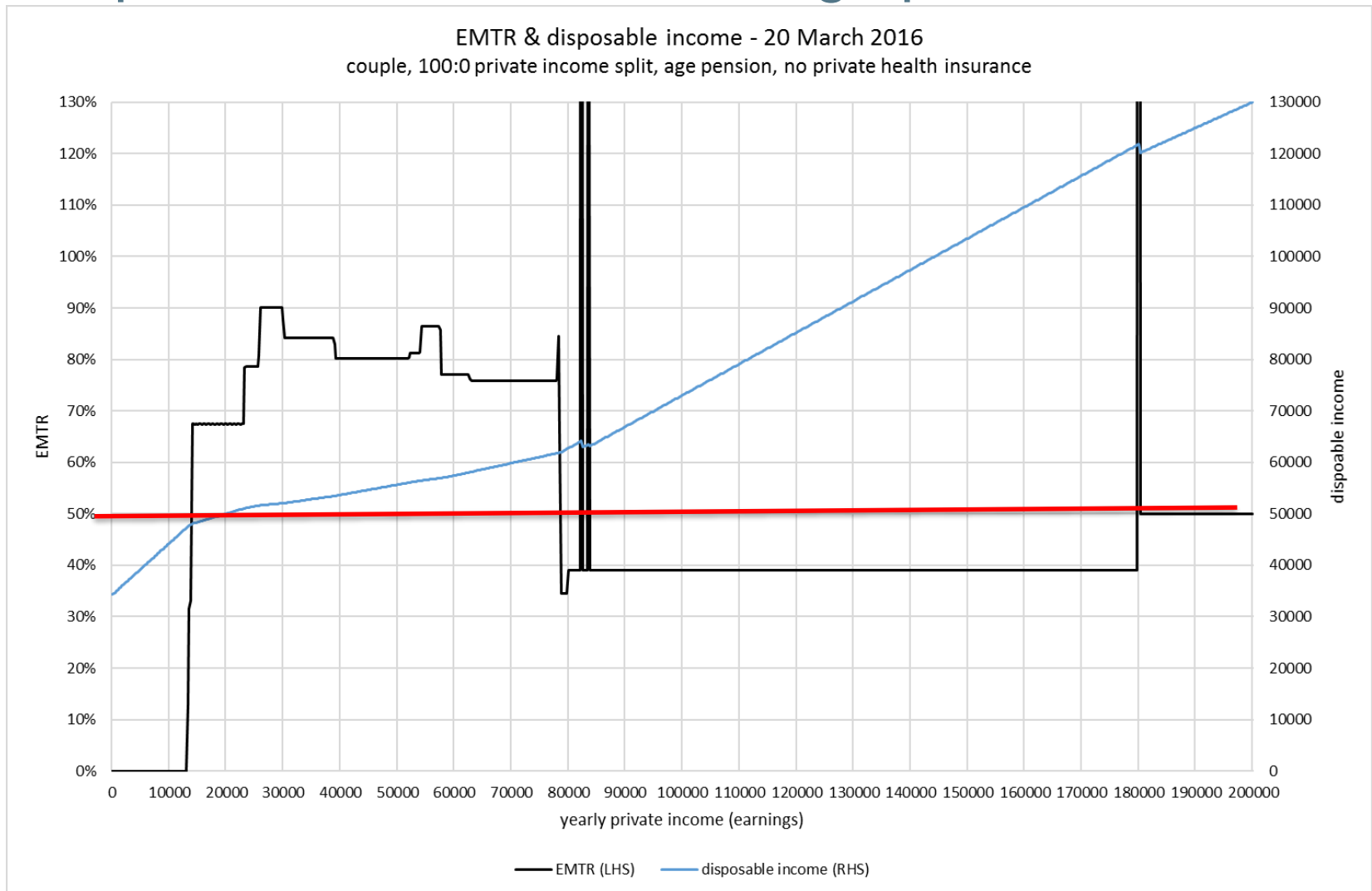
- The effect of EMTRs (or lowering them) on work incentives depends on
 - How many people are affected
 - Over what income range
 - How steep is the rate
- Substitution effect:
 - Lower disposable income from next hour/day of work *decreases work effort* (why work more if you take home so little?)
- Income effect:
 - Lower disposable income after tax-transfers *increases* work effort (you need the cash even if its not much)
- For a BI, both income and substitution effects may be in the ***same direction***
- Elasticities ***an empirical question***

What could a BI/GMI do for high EMTRs? UK example: *Smoothing effect*



Source Painter and Thoug (2015) Figure 2 p28. RSA: a kind of tax credit first proposed by Citizens Income Trust 2013

Australia: *Smoothing effect* 50% proportional compare current EMTRs for age pension



Options for a BI today starting from Australia's current tax-transfer system

Options for modelling and financing a BI

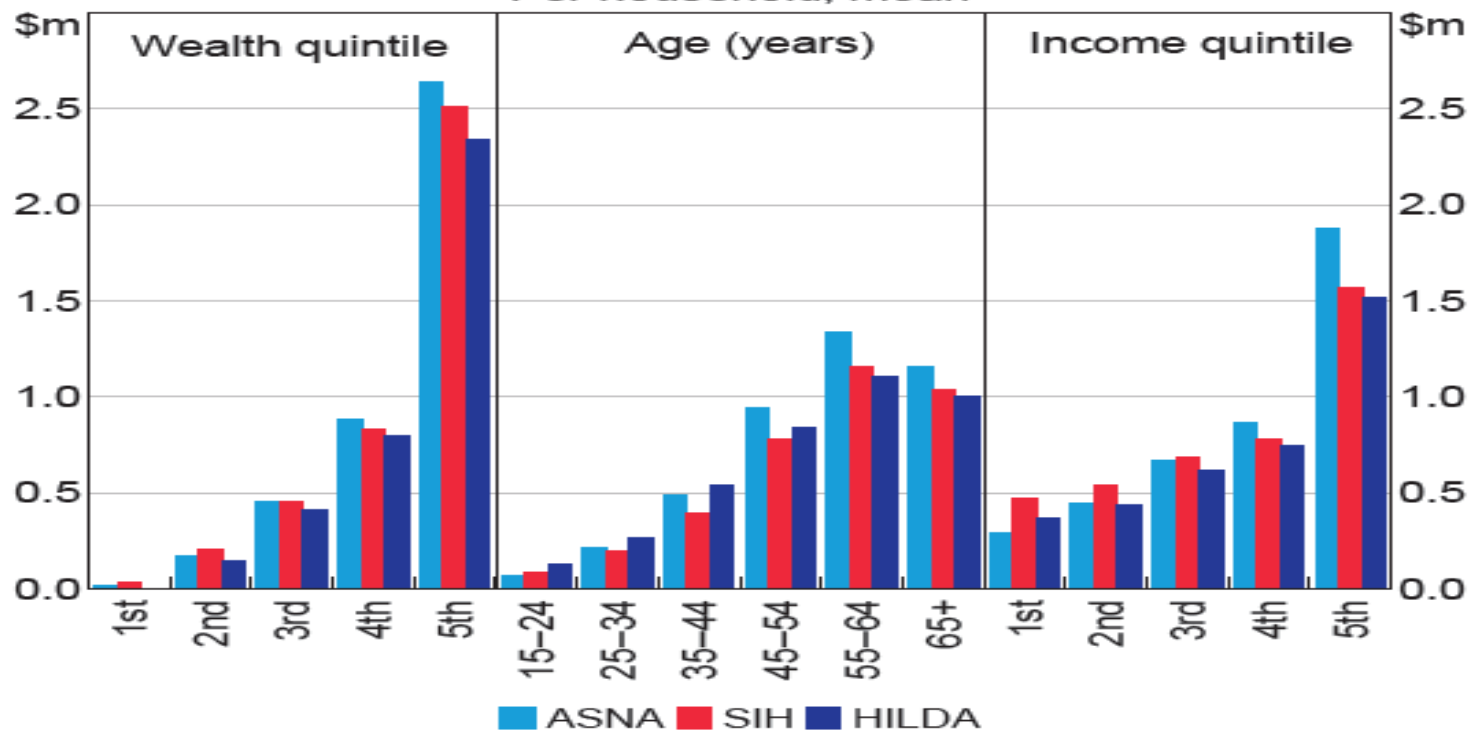
- **Options 1** starts with current social security system and adjusts it by universalising child payments
- **Option 2** is a slightly higher universal child and adult payment, small top up and asset test on BI payment
- **Option 3** is a BI plus categorical payments
- **Option 4** a much more radical BI, higher for aged
- How to keep the **required tax rate down?**
(all other spending, taxes constant)
 - Use a relatively low level “cheap” BI (Options 1, 2)
 - **Broaden** the tax base; we introduce a **wealth tax**
 - Options 3 and 4 replace income taxation of capital with wealth tax on all net household assets
 - Could alternatively increase rate, broaden base of **GST**

Financing BI with a wealth tax

- To reduce the **required tax rate** to finance BI, and/or to increase level of BI, we test a **wealth tax**
 - Increasing concern about wealth inequality
 - Australia does not tax wealth; taxes capital income/gains lightly
 - But pensioners face a wealth tax in the asset means test
- Annual wealth tax on deemed return of 5% (net of debt)
 - Household unit for wealth
 - Includes the home
 - Assume net assets divided equally among adults in household
- NB we reduce one of the problems of the household unit: the high EMTRs on work of the second earner
- (Just) a few issues: *Cashflow for low income, high wealth households; lifecourse security; gender equity; home ownership dream; price and wealth effects*

Distribution of wealth much more unequal than income (and intergenerational)

Graph 2
Household Wealth
 Per household, mean



Sources: ABS; HILDA Release 14.0

Microsimulation of BI proposals: ANU [PolicyMod](#)

- Static microsimulation model of Australian tax and social security systems
- Simulate existing system and proposed BI variations
- Based on microdata updated annually
 - Records of individual people or households
 - Each proposed BI ‘policy world’ is compared with ‘current world’ for each of the 17,000 families in the ABS survey file.
- Shows impact of policy changes
 - Fiscal (revenue and expenditure) on government budget
 - Distributional (winners and losers) by quintile
 - Effective marginal tax rates

Benchmarks for distributional comparison

- ANU Policymod standard benchmark
 1. **Equivalised disposable income** post tax-transfers
- Novel benchmark including wealth to compare distributional effects of wealth tax
 2. **Include deemed 5% imputed income from wealth (net assets) for households in the benchmark income**
 - This imputed amount reflects that wealth is a resource for the household (**even if** that household has low income)
 - Includes owner occupied housing net of debt
 - Attributed in equal shares to all adults in household
 - Remove financial income (to prevent double counting)

Option 1: Modest BI all adults & children

- Universalise child payments in current means tested family benefits, to apply for adults and children
 - BI = \$5505 per adult and child
 - Abolish existing family benefits except 'older' child top-up in FTB A
- Offset against social security *to keep at same level*
 - Benefits (eg Newstart) \$14,047 = \$5,505 + \$8,542
 - Pensions (eg age) \$23,317 = \$5,505 + \$17,812
 - Means testing, unit, other payments as is in current system
 - Abolish tax-free threshold, tax offsets incl. seniors, LITO

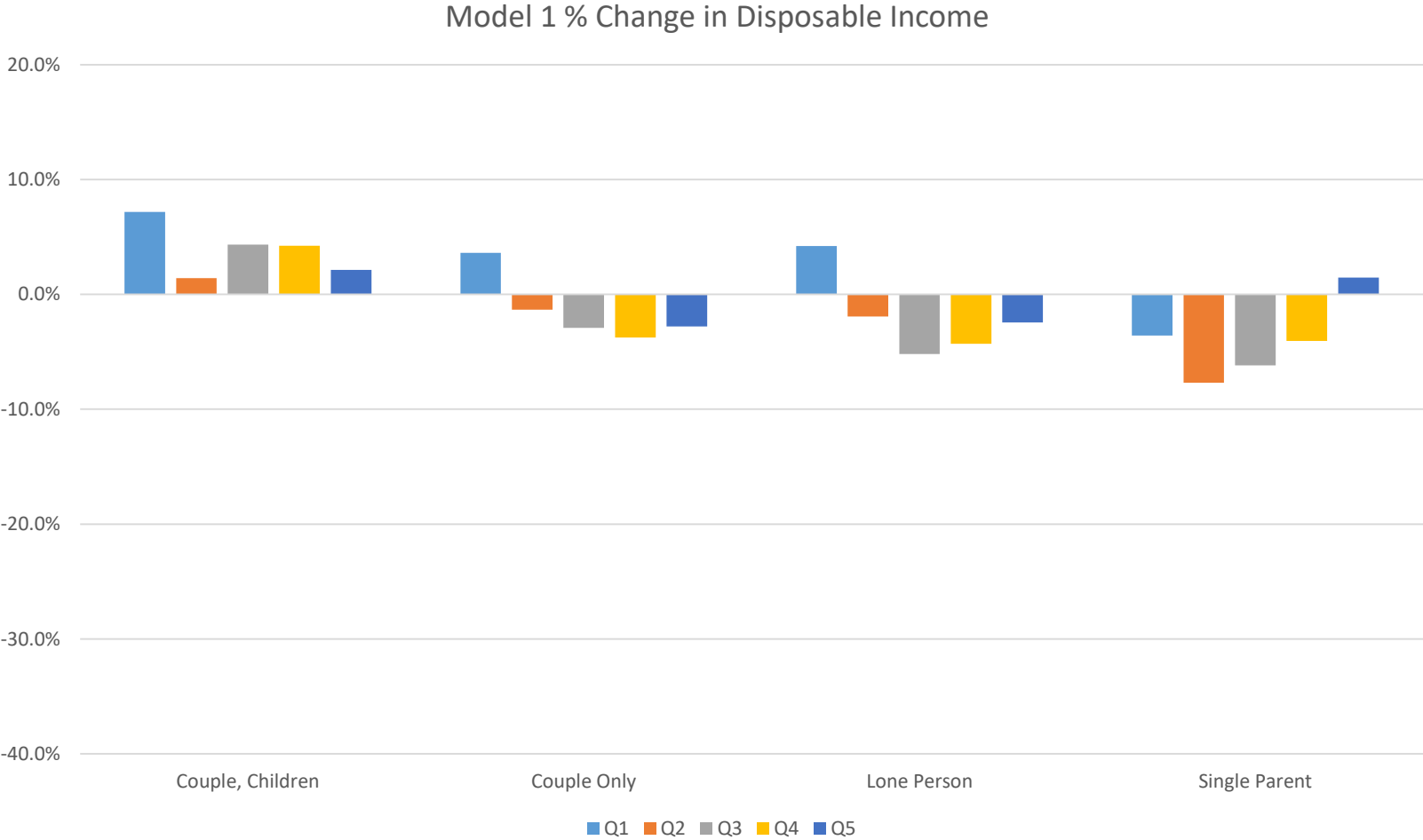
Required tax rate in current income tax

- **32%** from \$1 of private income to \$37,000; then current rates

Fiscal cost

- \$90 billion per annum

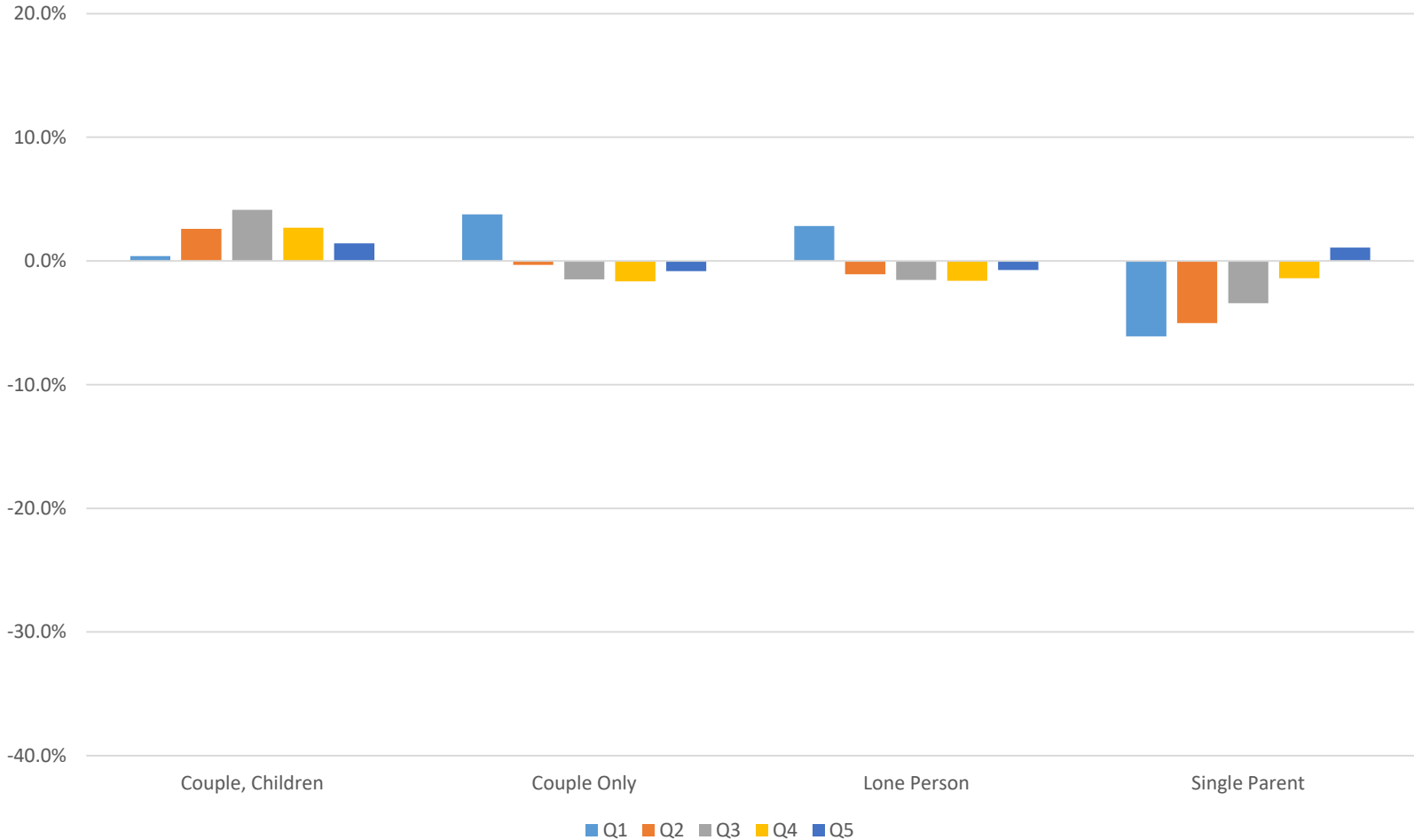
Option 1: % distributional change (disposable income)



Source: Policymod (2018)

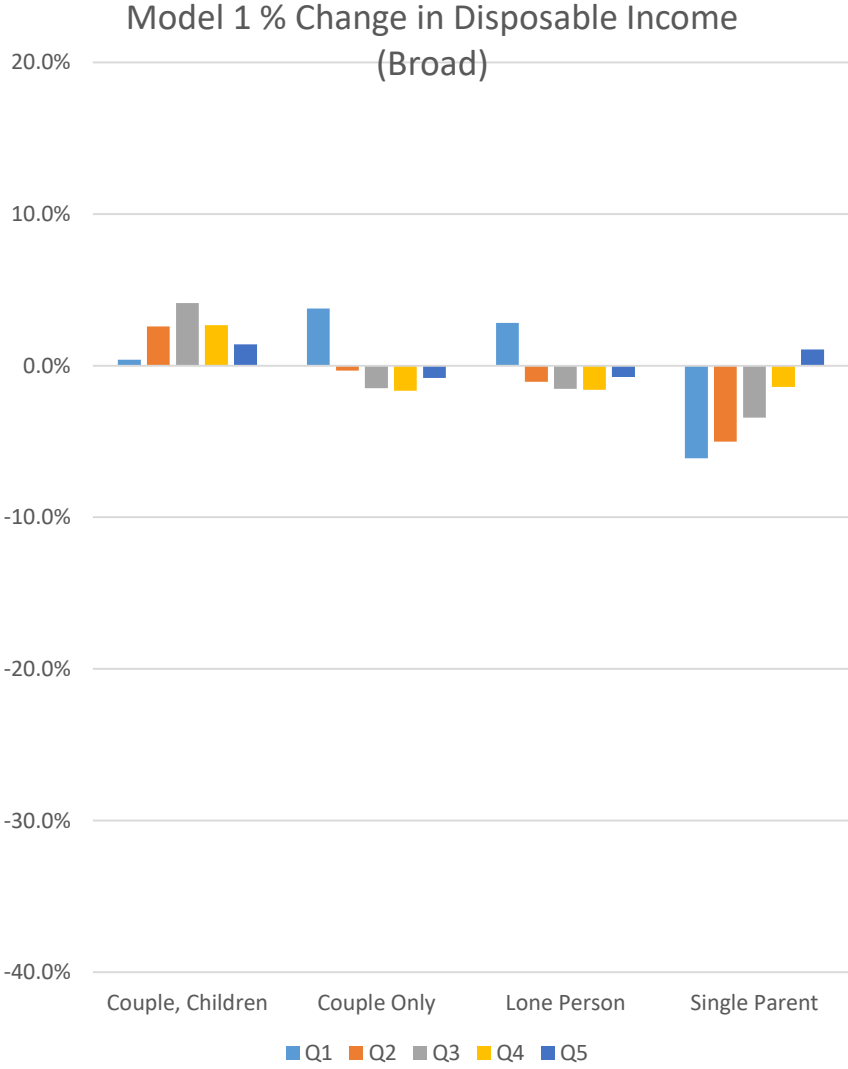
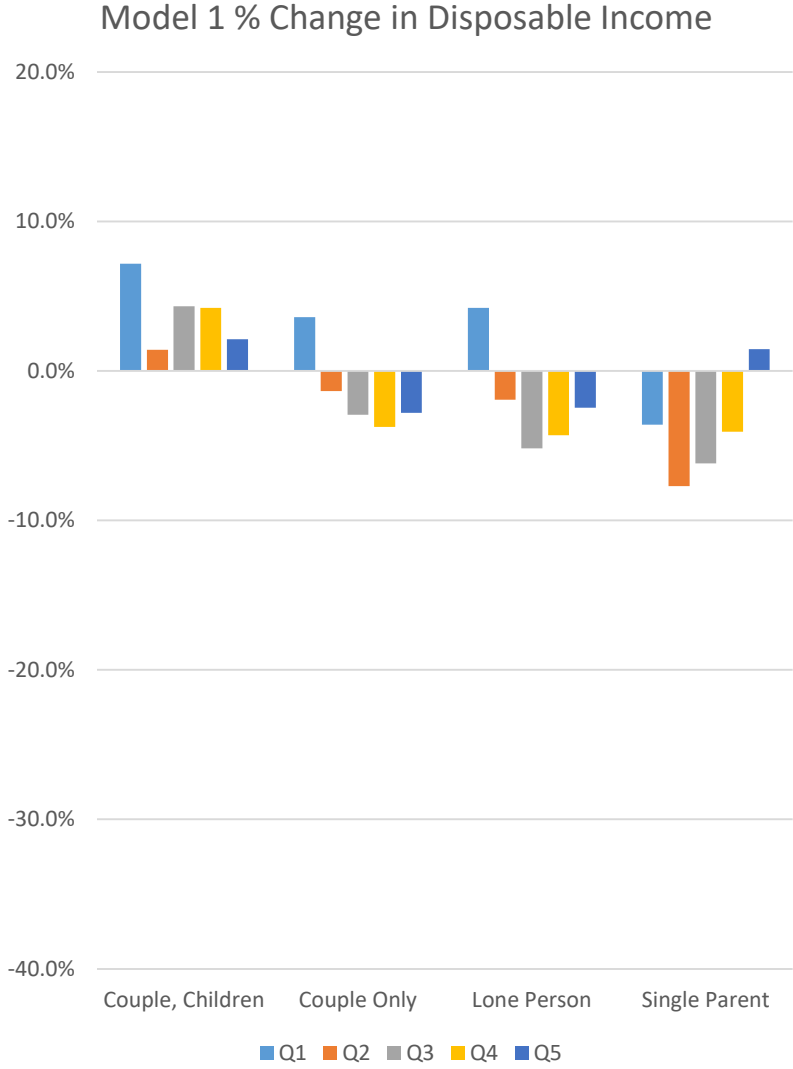
Option 1: % distributional change (including imputed asset income)

Model 1 % Change in Disposable Income (Broad)



Source: Policymod (2018)

Option 1: % distributional change



Source: Polycymod (2018)

Option 2: Less modest BI, asset-tested

- **BI = \$6938 for adults, children 13+, \$5505 children 0-12**
 - Abolish existing family benefits; child payment is universal
- Offset against social security, but ***top up payments***
 - \$4000 for singles and \$2000 each for couples
 - Benefits (eg Newstart) \$14,047 + **\$4,000** (max)
 - Pensions (eg age) \$23,317 + **\$4,000** (max)
- Means test (taper rate) on net assets for BI, **1.5%**
 - Effectively, a wealth tax on BI recipients; BI has a ceiling
 - Equivalent to a flat income tax rate on capital income of 35%
 - Top up compensates partly for wealth tax

Required tax rate in current income tax

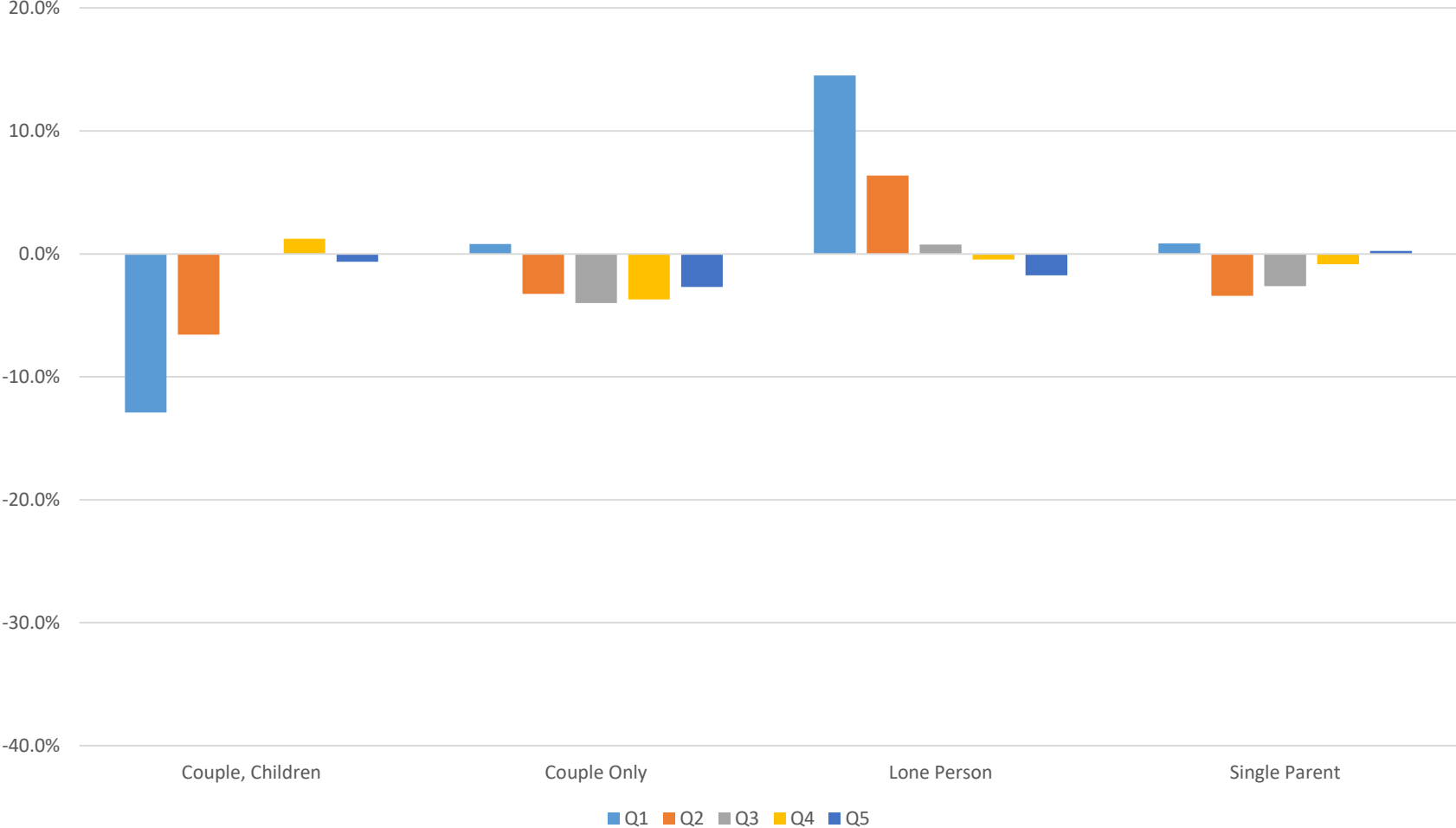
- **19%** from \$1 of private income to \$37,000; then current rates

Fiscal cost

- \$40 billion per annum

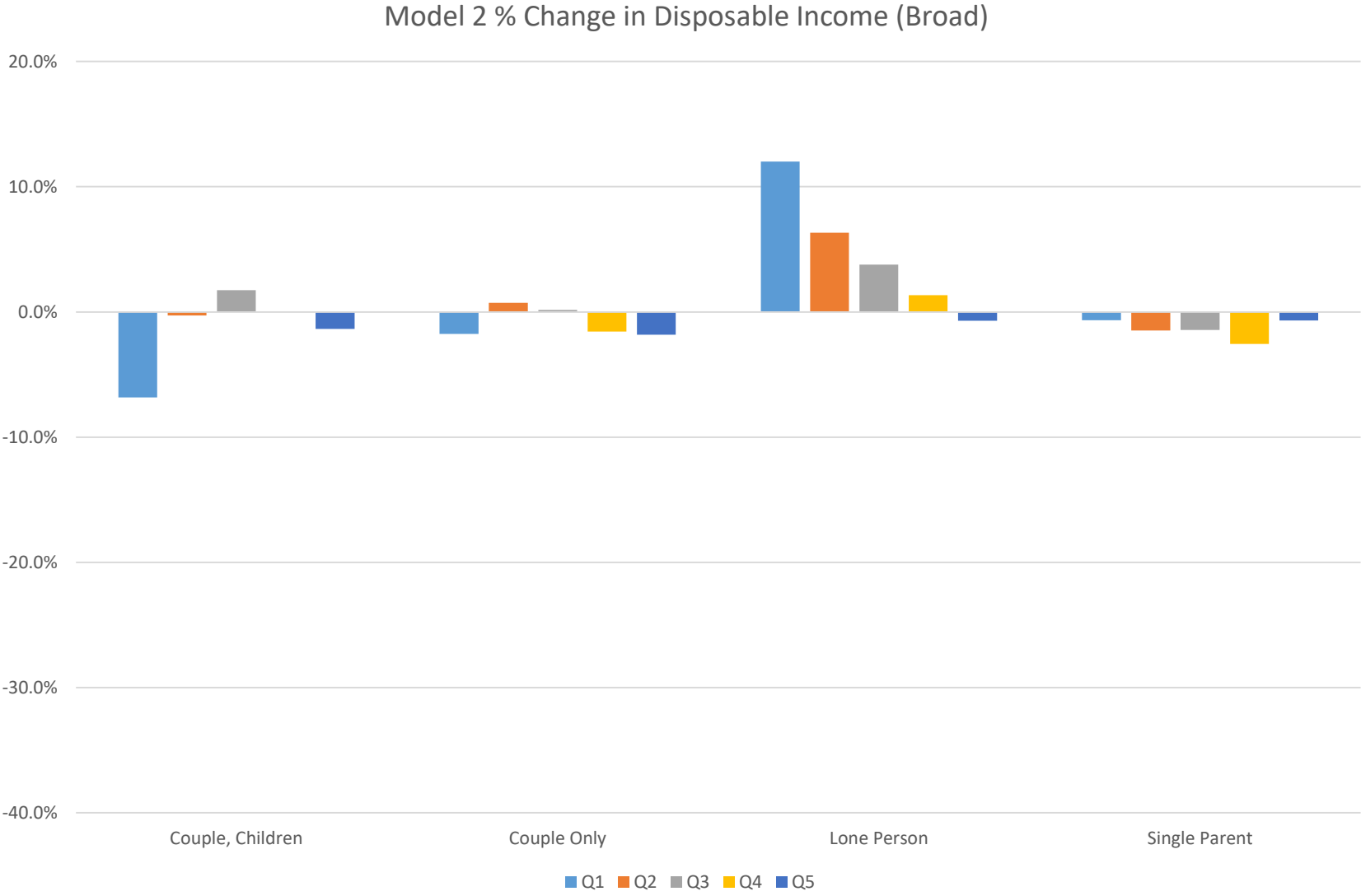
Option 2: % distributional change (disposable income)

Model 2 % Change in Disposable Income



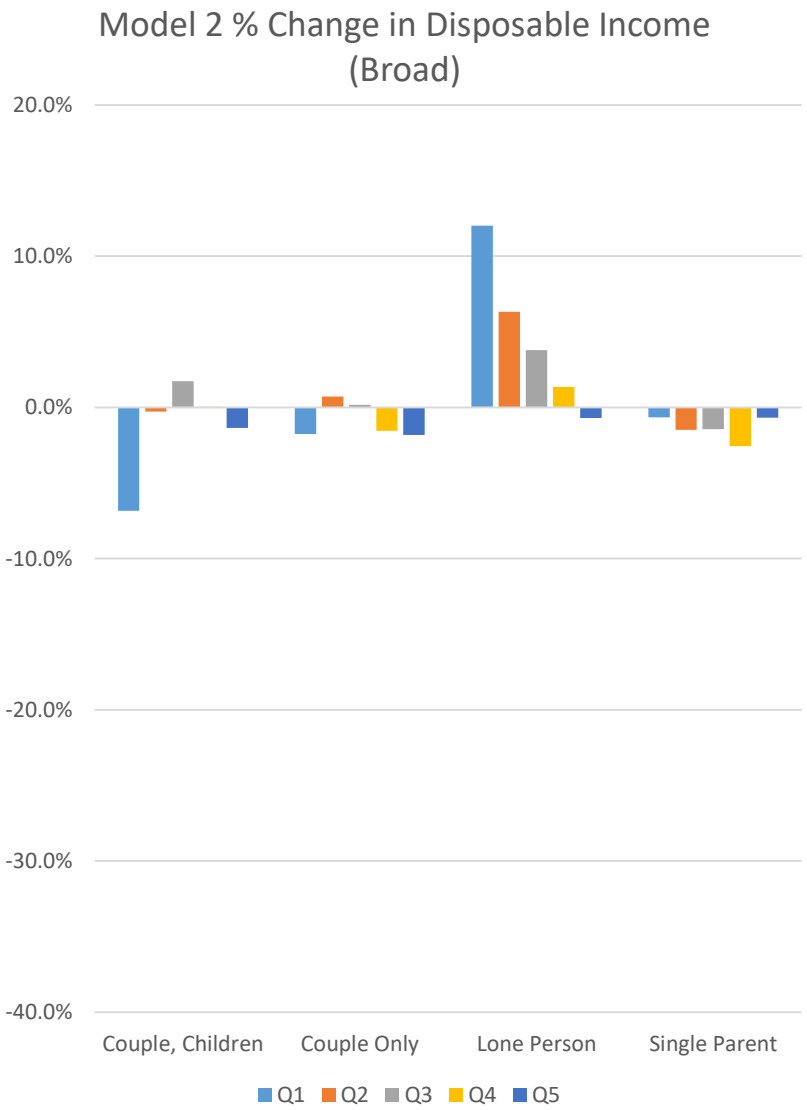
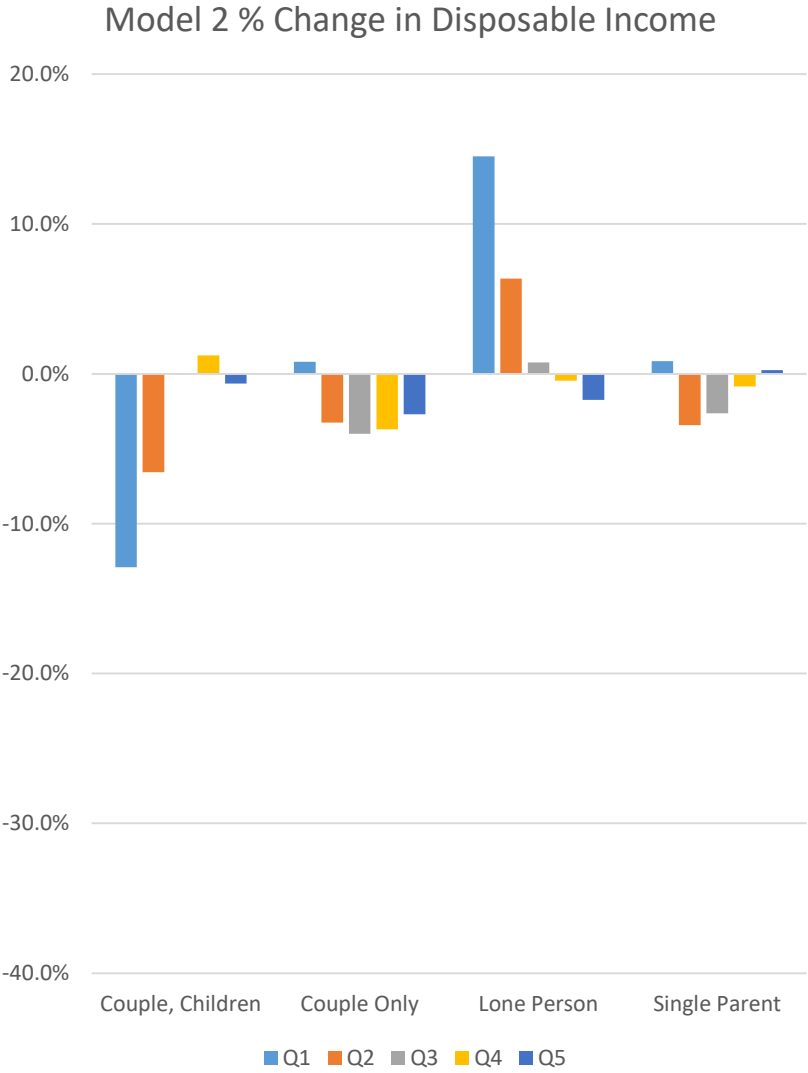
Source: Policymod (2018)

Option 2: % distributional change (broad)



Source: Policymod (2018)

Option 2: % distributional change



Source: Polycymod (2018)

Option 3: Categorical BI similar to Henderson GMI, wage tax, wealth tax

- BI = \$6938 for adults, children 13+, \$5505 children 0-12
- **Categorical** payments: *top up* pensions, benefits
 - Abolish free areas
 - No clawback for payments
 - Means testing: include 5% deemed income (remove asset test)
 - Withdrawal/Taper rates **25%** flat taper
 - Abolish rent assistance
- **Net wealth tax** for all on net assets **1.5%**

Required tax rate on wages

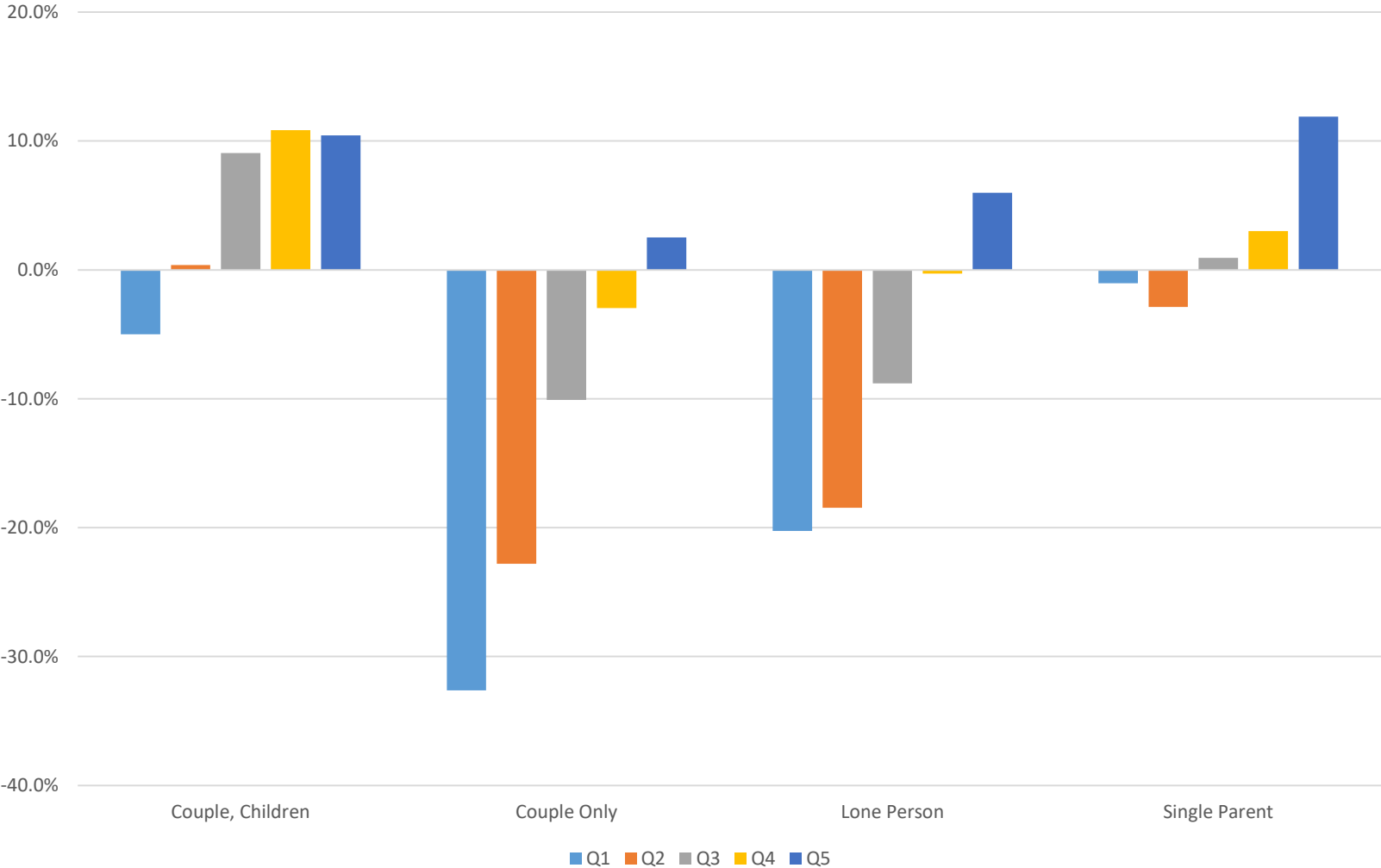
- **22.3%** flat rate from \$1 of earned income

Fiscal cost

- \$100 billion per annum

Option 3: % distributional change (disposable income)

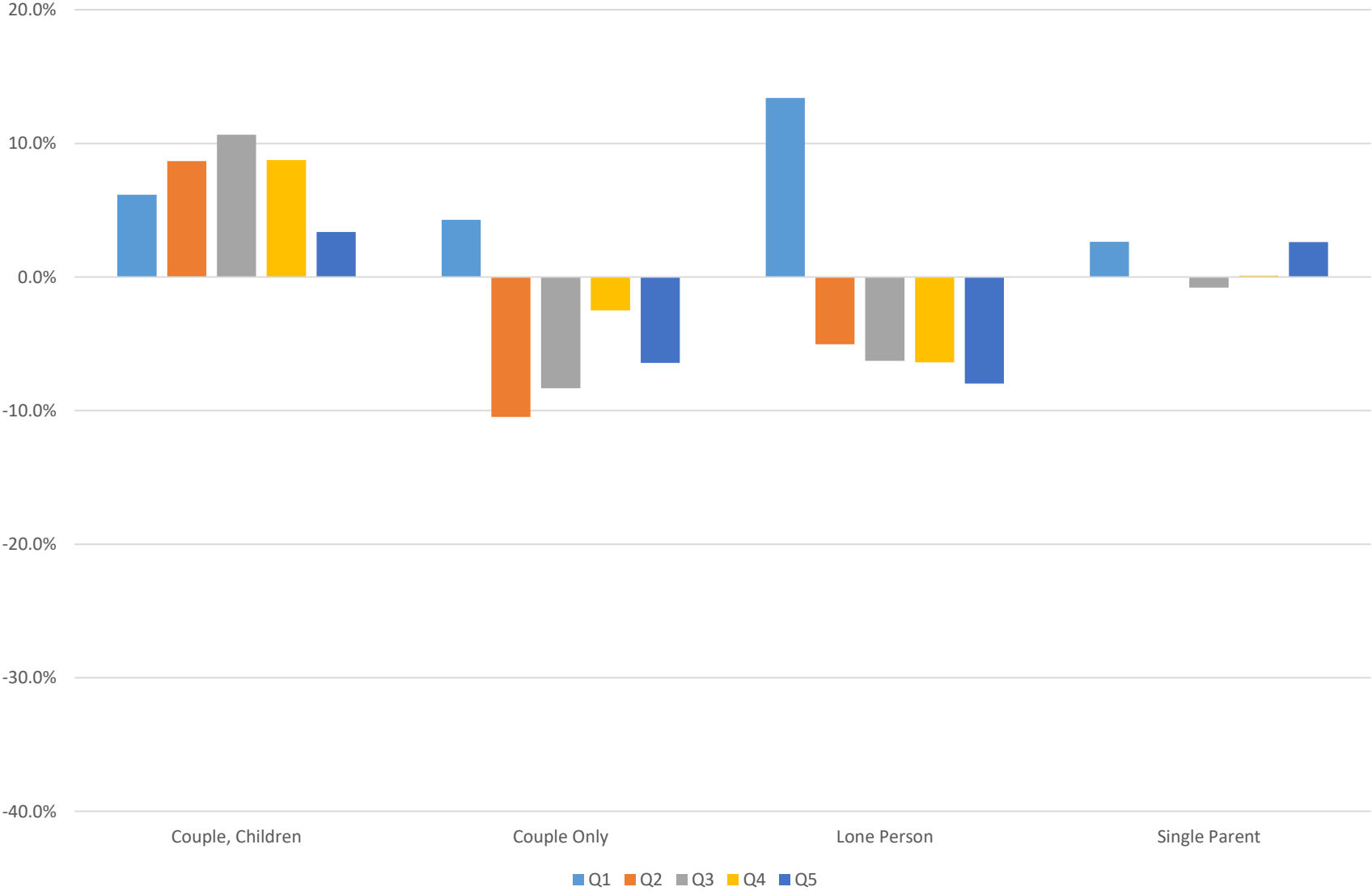
Model 3 % Change in Disposable Income



Source: Policymod (2018)

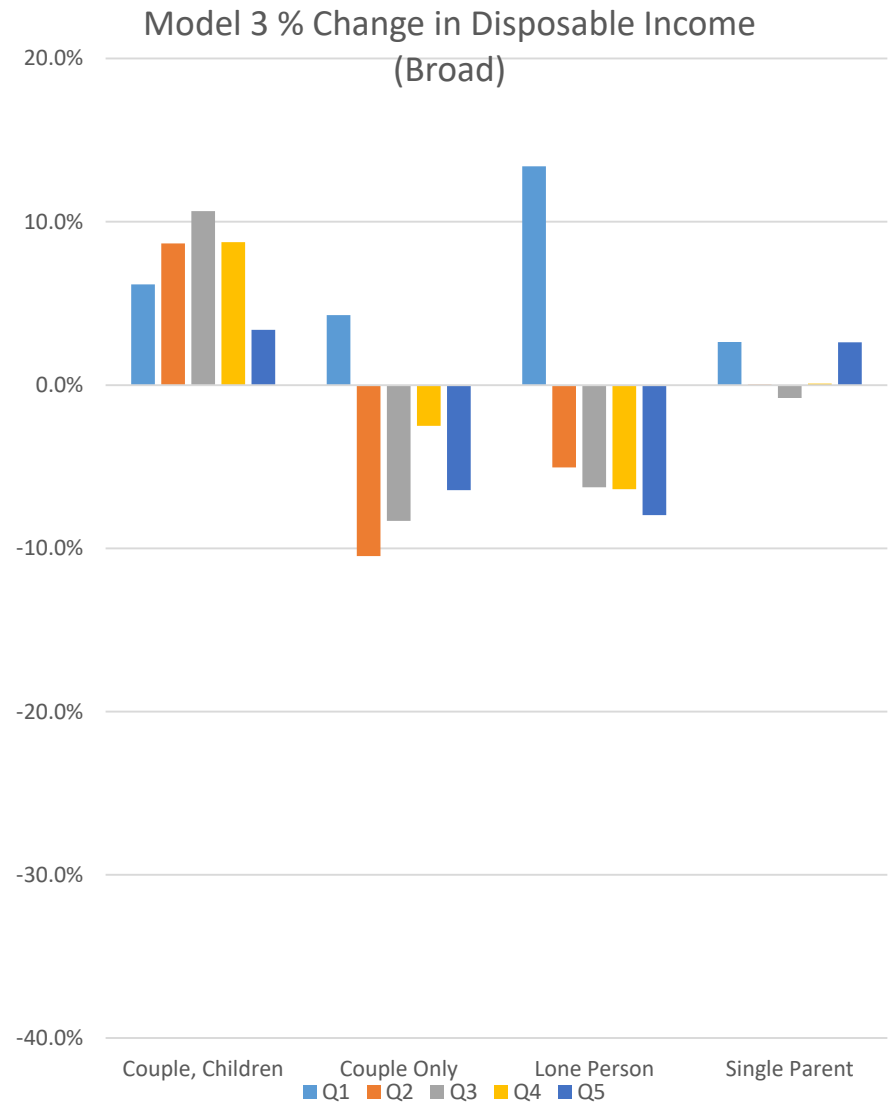
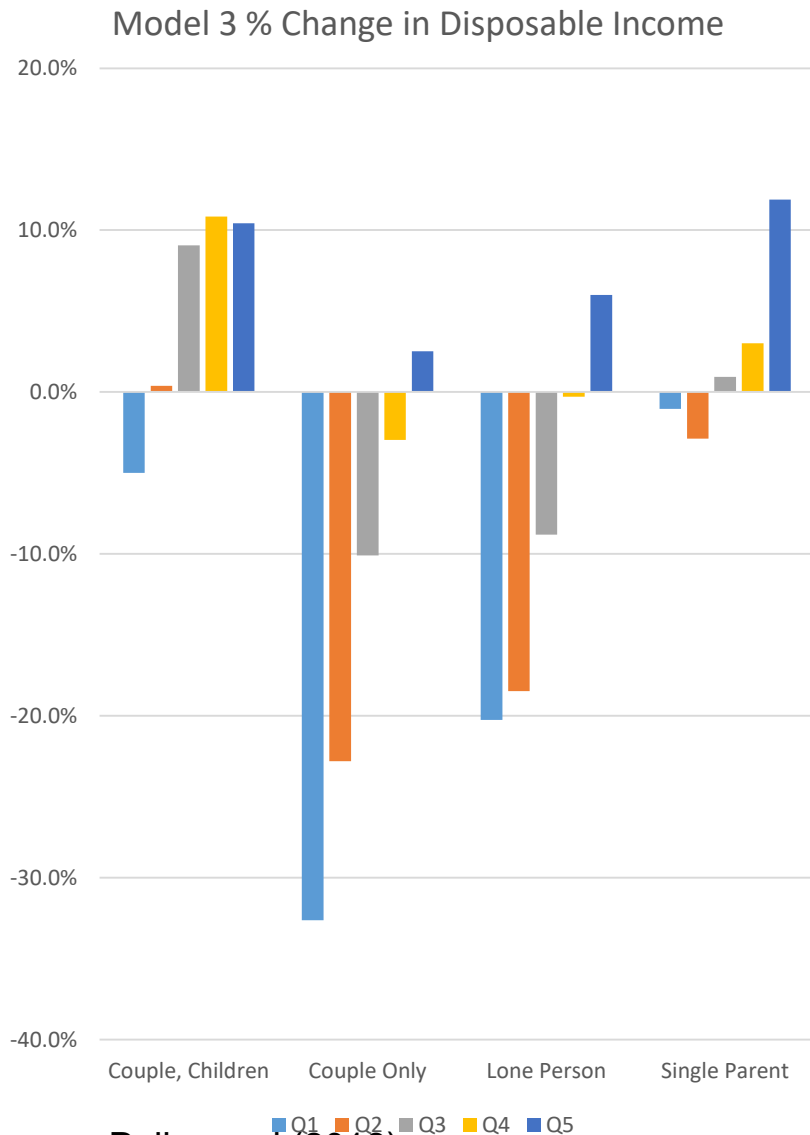
Option 3: % distributional change (broad)

Model 3 % Change in Disposable Income (Broad)



Source: Policymod (2018)

Option 3: % distributional change



Source: Policymod (2018)

Option 4: Pension level BI for adults at or above poverty line; universal child payments

- **Basic income** with demogrant
 - \$6939 for Adults + Newstart \$14,000 approx. for all <65
 - Category: Over 65, \$6939 + Age pension \$23,000 (individual)
 - No clawback for payments
 - Children 0 to 12: \$5505
 - Abolish rent assistance, other payments

- **Net wealth tax** for all on net assets **2%**

Required tax rate on wages

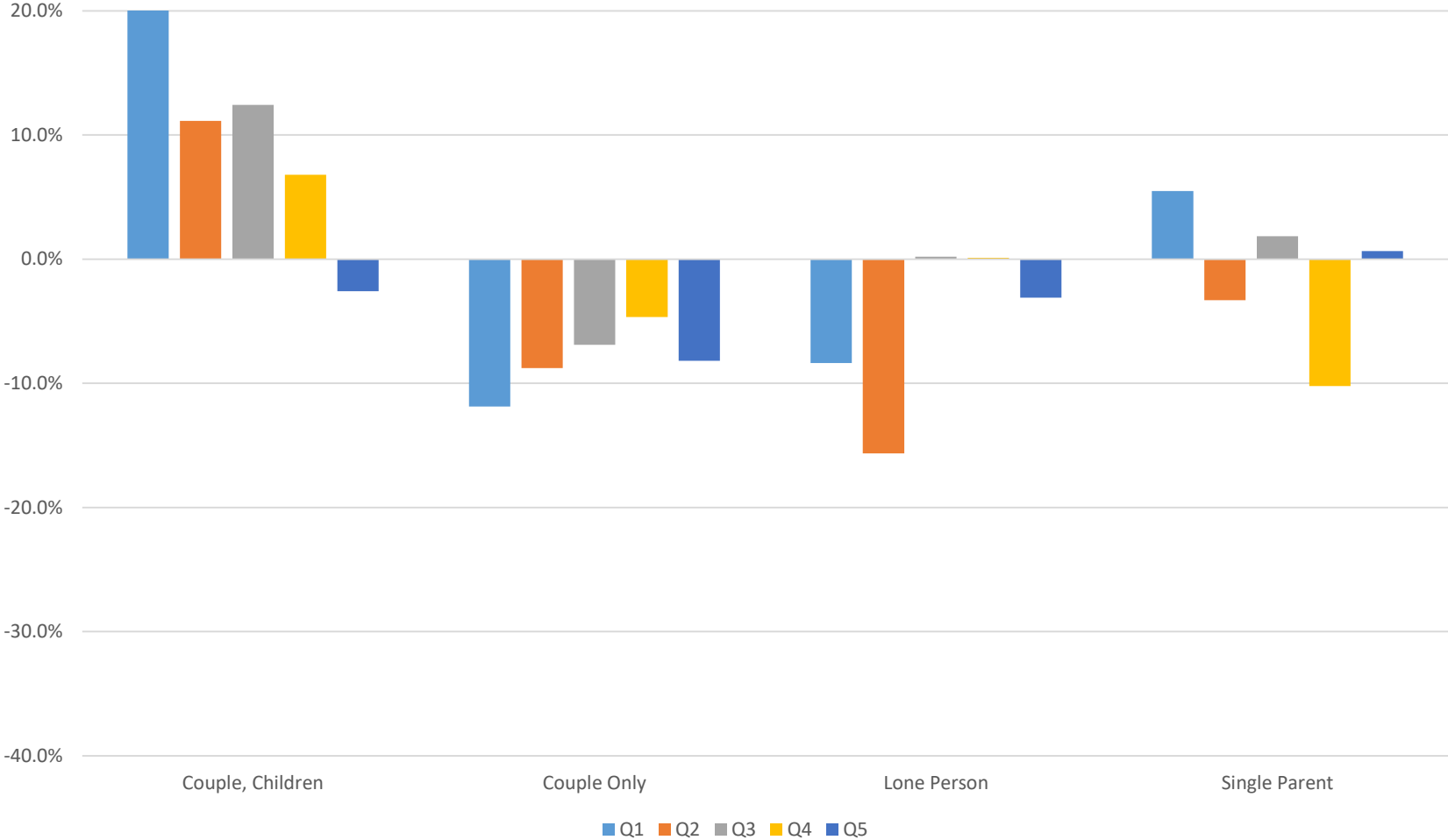
- **38.3%** flat rate from \$1 of earned income

Fiscal cost

- \$264 billion per annum

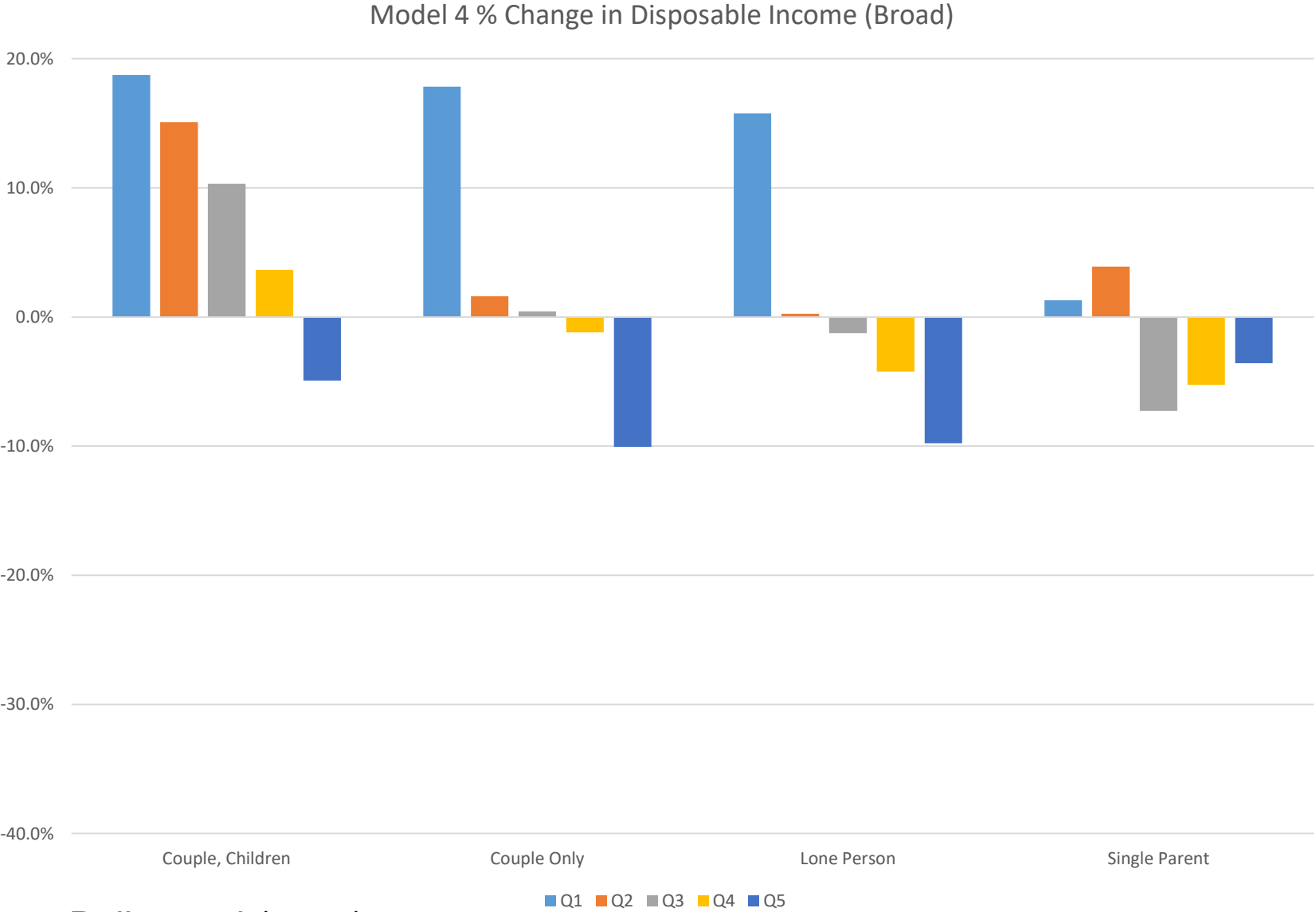
Option 4: % distributional change (disposable income)

Model 4 % Change in Disposable Income



Source: Policymod (2018)

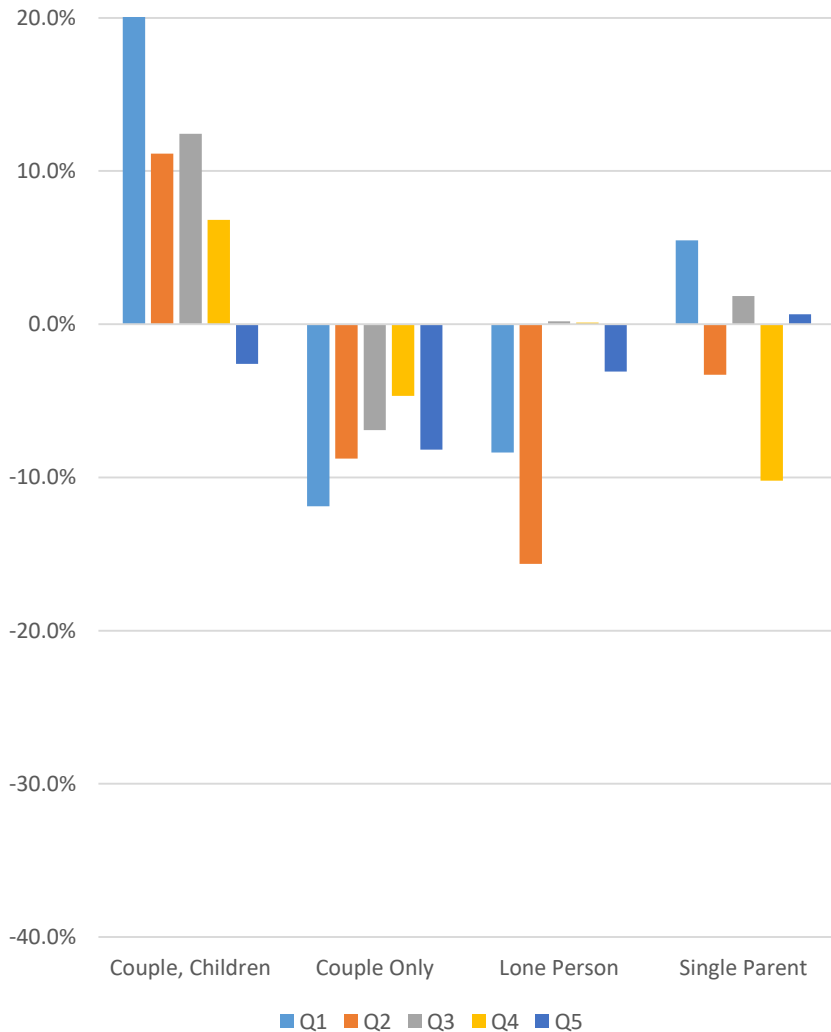
Option 4: % distributional change (broad)



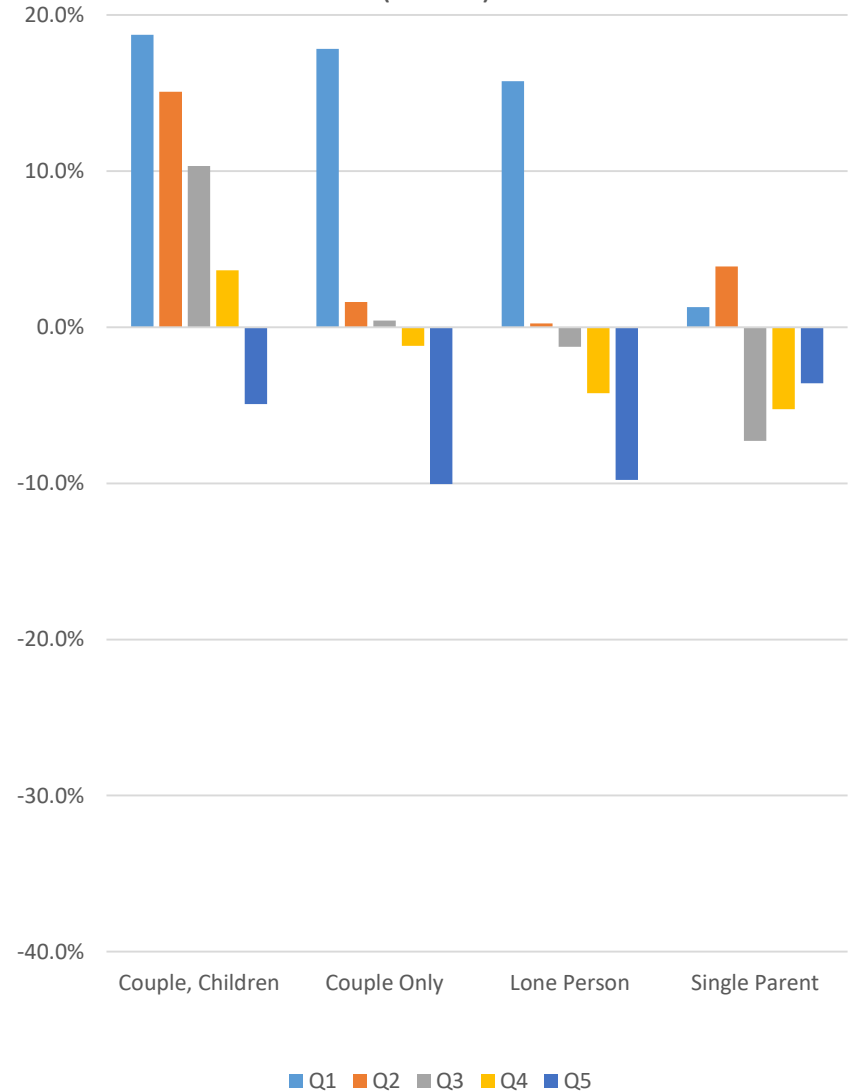
Source: Policymod (2018)

Option 4: % distributional change

Model 4 % Change in Disposable Income



Model 4 % Change in Disposable Income (Broad)



Source: Policymod (2018)

Conclusions

- We see various levels of BI as feasible
- The required tax rate and distributional consequences depend on parameters for level and design of BI
- The fiscal cost is high
- It matters what you do with children; housing and other wealth
- Where is the political drive?

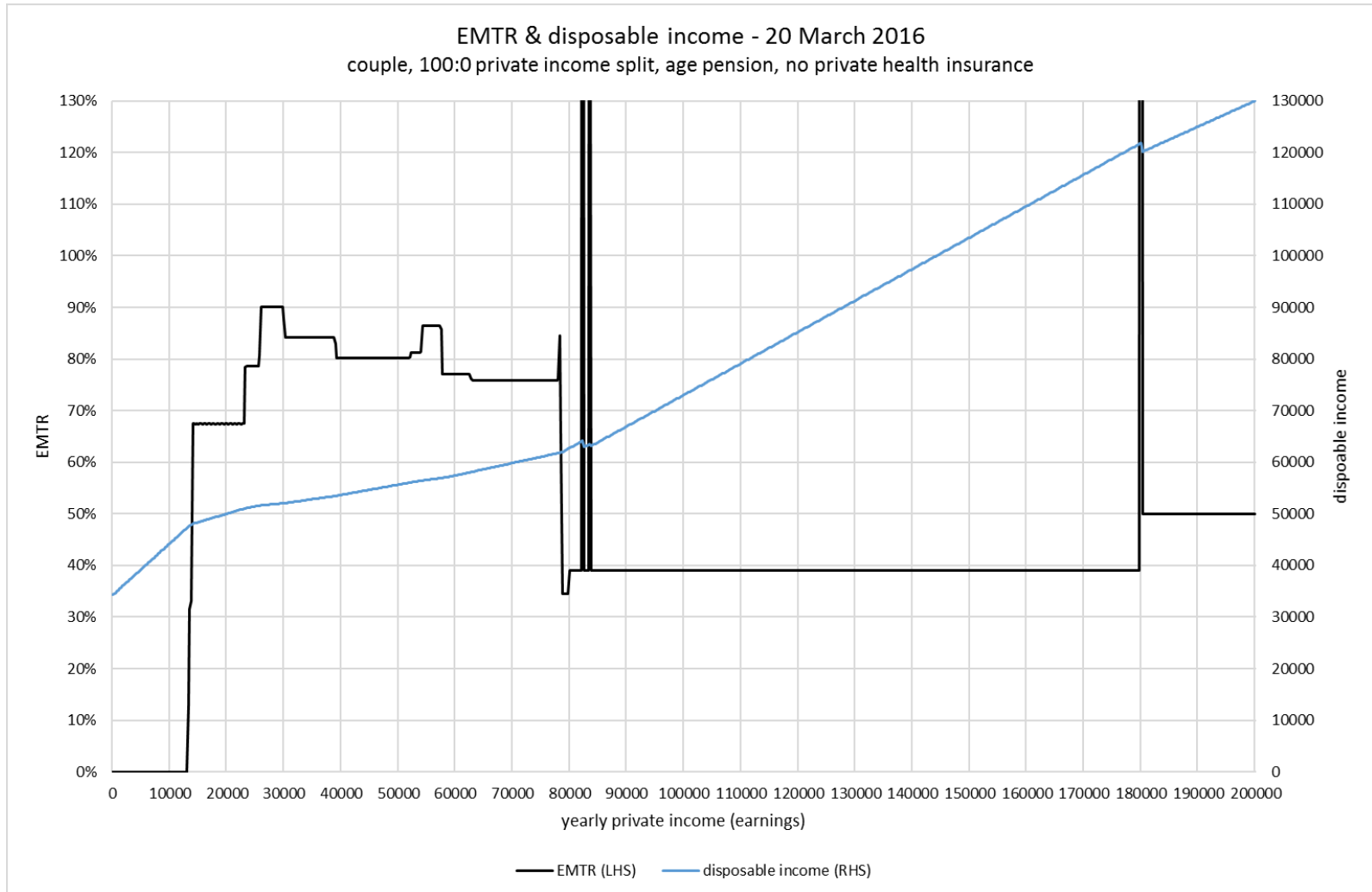
APPENDIX (EXTRA SLIDES)

Effective Marginal Tax Rates (EMTRs) in
current Australian tax-transfer system

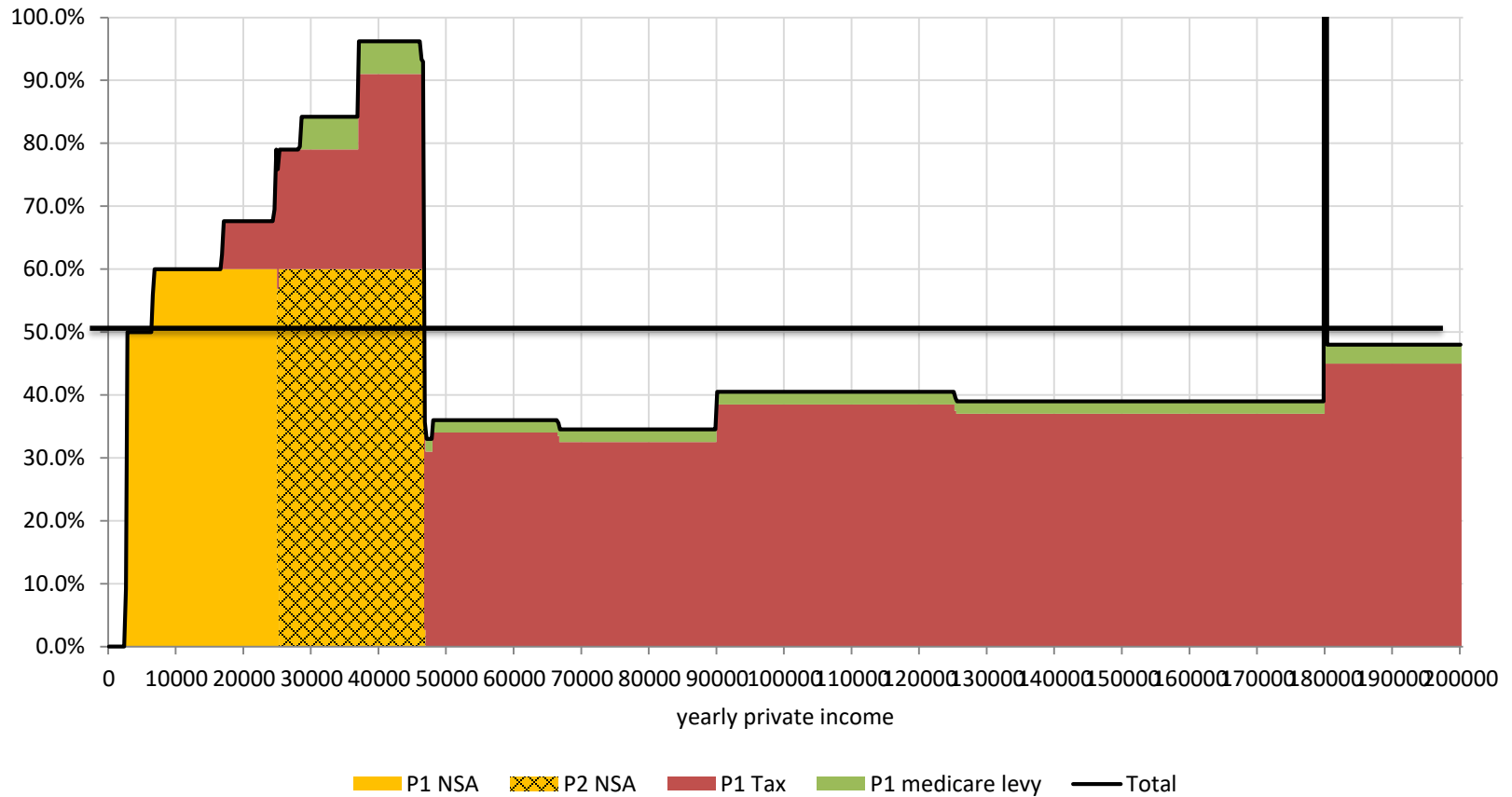
EMTRs are caused by tax and transfer parameters

- Tax thresholds and marginal rates
- Tax surcharges, eg Medicare levy, HECS
- Benefit levels, free areas and withdrawal/taper rate
- Cut out point = free area + benefit/withdrawal rate
- Tax credits/offsets, eg LITO, SAPTO
- Taxability of payments
- Conditionality of payments
- Treatment of different income sources and assets
- Supplementary payments
- Non-cash benefits eg transport, health (sudden death)

EMTR: Age pension (couple)

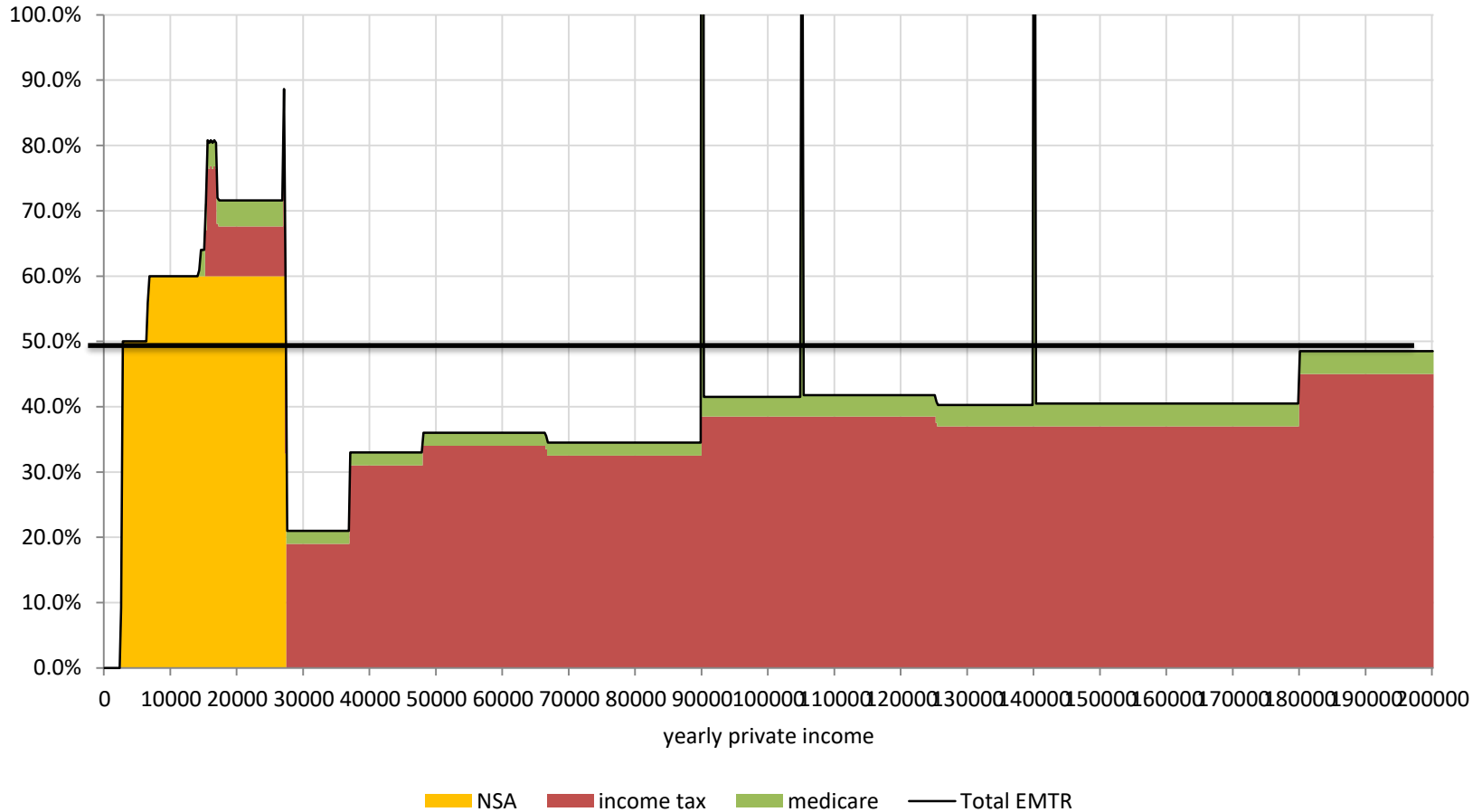


EMTR for Newstart (single income couple) (2018)



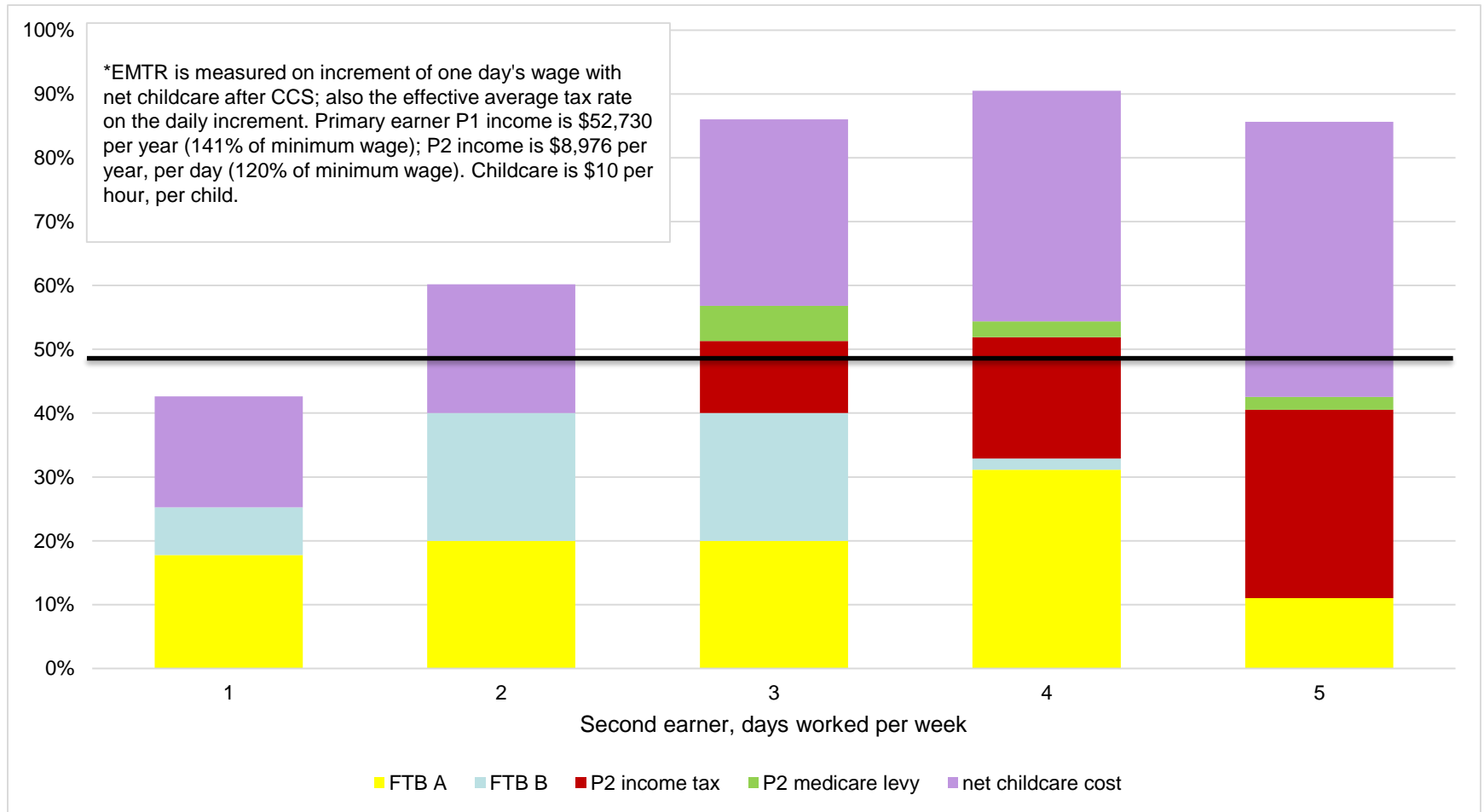
Source: D Plunkett model (2018) (no private health insurance)

EMTR for Newstart (single) (2018)



Source: D Plunkett model (2018) (no private health insurance)

EMTR* by day: Second earner, with family payments and CCS, LMITO (2018)



THANKS

Questions?