

ScoopPro December Sale
Get 33% off a year of
Professional Media Tools

[Claim This Deal Now](#)
 (t&c's apply)

[Click to learn more](#)

SC



<http://www.scoop.co.nz/stories/PO1603/S00396/ubi-as-a-reconceptualisation-of-income-tax.htm>

UBI as a Reconceptualisation of Income Tax

Thursday, 24 March 2016, 1:13 pm

Article: Keith Rankin

Keith Rankin, 23 March 2016

I am worried that too much of the recent talk around the introduction of a universal basic income has been unhelpful. The concept – defined in 1991 – is still not understood by the politicians and journalists who represent the public's main source of information about policy options.

In 1991 I introduced the subject thus: "a universal tax credit available to every adult - the universal basic income (UBI) - and a moderately high flat tax rate", in my University of Auckland Policy Discussion Paper. Through this approach, the basic income can be understood as an alternative form of progressivity of the income tax system, as distinct from the traditional stepwise graduations of income tax rates that we are familiar with.

In the newer 'public equity' approach which I have emphasised since 2008, the basic income represents an alternative to income-tax progression rather than a form of progression. It adopts sound equity principles that render the need for tax progressivity redundant. While in monetary terms the result is the same, the public equity concept has the greater capacity to bring about the reconceptualisation of income that twenty-first century economies desperately require.

Here I will outline a simple four-step approach to the implementation of the requisite reforms. Any critique of 'universal basic income' needs to address these four steps. I am confident that this implementation programme is immune from any substantial criticism on the usual grounds of affordability and work incentives. It is intellectually dishonest for politicians and journalists to confine their critiques to proposals that are easy targets; proposals that are extreme, unimplementable, or not thought through.

The steps can be implemented within either a short-term or medium-term timeframe.

Step 1: Reconceptualisation of Income Tax

In New Zealand this involves re-interpreting the present income tax regime as a 33% flat tax and a 'Public Equity Benefit' of upto \$175 per week. (In Australia it would involve re-interpreting the present income tax regime as a 37% flat tax and a public equity benefit of upto \$A232 per week.) And for people receiving income in the form of Family Tax Credits, Work and Income Benefits, or Student Allowances, upto \$175 of these weekly payments would be reconceived as public equity benefits; any remainder (over and above \$175) would continue to be regarded as 'transfer payments', to use economist language.

This step has zero cost, except for minor administrative detail. Payslips and benefit notifications would be itemised differently. Company tax at 28% would be understood as incorporating a 5% subsidy ($33\% - 28\% = 5\%$).

The government's 'consolidated fund' could – for conceptual clarity – be renamed the public equity fund.

Step 2: Creation of a Public Equity Dividend

Convert the Public Equity Benefit into a 'Public Equity Dividend'. (This is the universal basic income component of our income tax reconceptualisation.) For some people this will mean a few more dollars of disposable income. More significantly than its cost, as a rights-based payment, it becomes unconditional.

The immediate beneficiaries will include people grossing less than \$70,000 per year who receive total benefits – including public equity benefits – of less than \$175 per week. Their benefits would be topped-up to ensure they receive the full \$175 dividend. These will also include a number of caregivers – especially mothers – in middle-income households. And they will include working-age recipients of private care who do not currently receive a benefit. All people turning 18 will qualify for their \$175 weekly dividend, regardless of work or educational status.

The IRD would pay the PED directly where necessary, including to students and people only in casual employment. Otherwise it would continue to represent an itemisation on workers' payslips.

Step 3: Indexation

Index the Public Equity Dividend to an appropriate economic variable (such as the Consumers Price Index, or Gross National Income per capita). Set guidelines for appropriate raising of lowering of the tax rate, or adjusting the dividend. It would be expected that political parties – in election campaigns – would offer policies involving making such adjustments.

Move to a collection regime incorporating full income taxation 'at source'. This would represent the completion of the process that began with the

introduction of PAYE in 1958. From this point, workers would be paid net wages from company income that has already been taxed (eg at 33%) and the whole concept of 'gross wages' would be consigned to the history books.

Step 4: Reform the Transfer System

The transfer system represents all the benefits payable in excess of the \$175 public equity dividend. At present they are abated independently; for example, present Job-Seeker Benefits, Accommodation Supplements, and Family Tax Credits all have their own abatement rates that create high 'effective marginal tax rates' (otherwise known as the 'poverty trap' or 'income trap').

The obvious reforms here are: to rationalise supplementary transfers (raising them where appropriate); to introduce a single abatement rate – say 25% – which would mean that people with the greatest particular needs will experience lesser benefit reductions as their private incomes rise; and, in line with full taxation at source (Step 3), would have their after-tax incomes (rather than their before-tax earnings) assessed for means-testing purposes.

Overall

Once each policy step is implemented, the next steps become obvious. It is the first step that is by far the hardest, and is the most important.

Only steps 2 and 4 involve any actual cost. And a reduction and rationalisation of transfer payments substantially reduces the bureaucratic costs of administering these. Likewise, tax administration and compliance is a much simpler process when there is a single rate of income tax.

To journalists and other media pundits: please understand what is actually being proposed before unleashing your criticisms. And make it clear which specific policies or philosophies you are criticising. Too many quite diverse proposals have been lumped together (by both proponents and critics) under the 'universal basic income' rubric. Be clear to your readers, listeners or viewers that by criticising any one such proposal that you are not necessarily applying the same critique to different proposals. Finally, while cynicism may provide saleable copy, appreciate that we do have some very real problems around income distribution; problems that, if not addressed, can undermine our liberal mixed-market capitalist system, ushering alternative forms much less appealing to freedom-loving democrats.

[Home Page](#) | [Politics](#) | [Previous Story](#) | [Next Story](#)

Copyright (c) Scoop Media