



Developing a costing for a basic income is not a neutral exercise

Summary and analysis of the Office of the Parliamentary
Budget Officer's report, *Distributional and Fiscal
Analysis of a National Guaranteed Basic Income*

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About Maytree

Maytree is committed to advancing systemic solutions to poverty and strengthening civic communities. We believe the most enduring way to fix the systems that create poverty is to ensure that economic and social rights are respected, protected, and fulfilled for all people living in Canada. Through our work, we support non-profit organizations, their leaders, and people they work with.

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The Upshot

This policy brief provides a summary and analysis of the Office of the Parliamentary Budget Officer's (OPBO) report, *Distributional and Fiscal Analysis of a National Guaranteed Basic Income*. Our analysis offers an overview of the OPBO's report and an examination of some of the shortcomings of the OPBO's costing. The following is the upshot of our analysis:

- Proponents of a basic income often contend that a basic income could help reduce poverty, stabilize incomes, and simplify the complex web of benefits and programs available to people across Canada. The OPBO's mix of parameters and offsets helps to achieve a goal of reducing poverty, but it does not do so equitably and would come at a significant cost to many of Canada's working poor.
- Implementing a basic income program requires a clear and transparent conversation about potential offsets and their consequences. Without making explicit the rationale behind certain offsets when developing the cost estimates, the OPBO report creates the perception that the viability of a basic income is dependent on cost, and that offsets can be readily identified.
- Our analysis of the OPBO's report demonstrates that the costing of such a basic income program is not neutral—it is fraught with many decisions that could lead to negative consequences for some of the very people a basic income program is intended to serve.
 - The criteria the OPBO uses to select its offsets are unclear, and by its own estimates would lead to lower total incomes among Canada's working poor. This is paradoxical to some of the reasons why people call for a basic income.
 - The OPBO also uses the basic income disability amount to justify eliminating many disability-focused credits, including the disability tax credit, caregiver tax credits, medical expenses tax credits, and workers' compensation benefits. While the added \$6,000 a year would be beneficial, it assumes a homogeneity of need and exposes people with disabilities to market rates for necessities.
- While the suggested model would decrease the poverty rate overall, this hides the fact that it would lower total incomes among the working poor. It would also reduce services provided to low-income people in Canada, supports for people with disabilities, and access to benefits and supports that cannot be replaced simply with a cheque.

- If the goal is to increase supports to those living in deep poverty, we can achieve that goal without a basic income program. Creating income floors for everyone in Canada is necessary and desirable, but basic income and income floor are not synonymous. Targeted increases or new supports for working-age adults in poverty would help address the needs for this group without creating the other unintended consequences outlined in our analysis. Expanding and improving social assistance, increases in targeted tax credits and benefits, strengthening Employment Insurance, stronger labour standards, and investments in public services would be less costly, more effective, and have fewer negative consequences than the suggested basic income.

Introduction

The success of pandemic income supports, like the Canada Emergency Response Benefit (CERB), have re-ignited a national conversation on setting an income floor¹ for people across Canada. These conversations are often focused on the idea of a basic income, without delving deeply into the costs, benefits, and trade-offs associated with such a program.

Per the request of federal parliamentarians, in April 2021, the Office of the Parliamentary Budget Officer (OPBO) published a report on a National Guaranteed Basic Income² (or “basic income” for short). This is the OPBO’s second report on the topic in less than a year. Like its previous report, the OPBO provides costing estimates for the basic income, but goes a step further by separating the cost into three components: the basic cost, the disability cost, and the behaviour cost. In addition, it examines the potential impacts of a basic income benefit by income quintile, household type, province, and gender.

While the OPBO’s report provides some guideposts on the potential costs and impacts of a basic income program, we need to cautiously assess the estimates because they are inherently fraught with a number of trade-offs in the programs and benefits that could get replaced by a basic income—each with policy and political consequences. Although it may appear that the costing of a basic income is a neutral and straightforward exercise—one in which existing programs and services that provide support for people living in poverty can easily be replaced—it is not.

Our analysis shows that the OPBO’s suggested parameters for a basic income program and associated potential fiscal offsets are problematic because they would not provide equitable outcomes for low-income people. While those in deep poverty would see an increase in total incomes, it would come at the cost of a significant decrease in disposable income³ among Canada’s working poor, particularly among singles and single parents.

1 An income floor guarantees people with a minimum amount of income support. An income floor can be universal, or it can be targeted like the Guaranteed Basic Supplement (GIS), which can only be accessed by low-income seniors.

2 A National Guaranteed Basic Income is a minimum income guaranteed to all members of society with very few or no conditions.

3 Disposable income is the amount of income a person has remaining after deducting taxes and other mandatory charges.

To conduct its fiscal analysis, the Office of the Parliamentary Budget Officer applied two key parameters that were set by Ontario's 2017 basic income pilot project:⁴

1. Guaranteed basic income levels are set at 75 per cent of the low income measure (LIM). This is estimated to be \$16,989 for singles and \$24,027 for couples. People with disabilities would receive an additional \$6,000 per year.
 - a. LIM is fixed at 50 per cent of the median adjusted household income and is the same across Canada. Market Basket Measures (MBM) and low income cut-offs (LICO) are similar metrics but they vary regionally based on the cost of living.
2. The guaranteed basic income decreases at a rate of \$0.50 for every dollar an individual receives from employment earnings.⁵

What does the report say?

Using the parameters set by Ontario's 2017 basic income pilot project, the OPBO provides estimates for both the cost and the distributional impact of a basic income program on various demographic groups.

Costing basic income and fiscal offsets

According to the OPBO, the cost of a basic income can be divided into three categories:

1. The basic cost—for the suggested new benefit of a maximum of \$16,989 for singles and \$24,027 for couples, declining as income increases;
 2. The disability cost—for the additional \$6,000 per year that only applies to people with disabilities; and
 3. The behaviour cost—for the loss of tax revenue that may result from some low-income people working less.
- If a basic income were to be in place for the 2021-22 fiscal year, the OPBO estimates that the basic cost would be \$78.5 billion, the disability cost

4 Ontario Ministry of Children, Community and Social Services, 2021. *Archived - Ontario Basic Income Pilot*. Accessed at: <https://www.ontario.ca/page/ontario-basic-income-pilot>

5 The OPBO's July 2020 report examined the potential cost of a basic income at three phase-out rates, \$0.50, \$0.25, and \$0.15 for each dollar of employment income. Over a six-month period, it estimated that basic income would cost \$45.8 billion, \$71.8 billion, and \$96.4 billion, respectively. From: Office of the Parliamentary Budget Officer, 2020. *Costing a Guaranteed Basic Income During the COVID Pandemic*. Accessed at: https://www.pbo-dpb.gc.ca/web/default/files/Documents/Reports/RP-2021-014-M/RP-2021-014-M_en.pdf

would be \$3.5 billion, and the behaviour cost would be \$3 billion, for a gross total of \$85 billion.

- It is worth noting that the cost of the basic income is estimated to be disproportionately large in Ontario relative to its population: 43.6 per cent of the total cost for 38.8 per cent of the national population.
- In every other province, the share of the basic income allocated is lower than its share of the national population.⁶
- It is unclear why Ontario is an outlier; a possible explanation could be that a larger proportion of the population lives in deep poverty relative to other jurisdictions.
- The basic income behaviour cost takes into account the consequences of potential disincentives to work introduced by a basic income. It has two main components: the total change in hours worked and the total change in payroll. Overall, the OPBO expects the behavioural impact of a basic income on the labour force to be limited, with a 1.3 per cent decrease in hours worked and 0.5 per cent decrease in payroll.
- The OPBO also includes potential fiscal offsets⁷ in its analysis, which it estimates would cover the gross cost of a basic income.⁸ The OPBO proposes a list of 36 offsets, including social assistance (both income supports and in-kind benefits, such as prescription medicine and dental benefits), and refundable and non-refundable provincial and federal tax credits. These tax credits include the federal and provincial basic personal amounts, sales tax credits, low-income tax credits, and training credits. They also include credits that are specific to people with disabilities, such as the disability tax credit, caregiver tax credits, medical expenses tax credits, and workers' compensation benefits.
 - It is unclear how the OPBO decided on the list of potential tax credits—the list is not exhaustive, and it is unclear what criteria were used to determine potential offsets.
 - For example, the Ontario Low-Income Individuals and Families Tax Credit is not included in the list, but Saskatchewan's Low-Income Tax Credit is.

6 Based on internal Maytree calculations. Population data from Statistics Canada. Accessed at: <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1710000901>

7 A fiscal offset is the partial or full replacement of cost associated with existing programs or policies to reduce the fiscal impact of a new program or policy expenditure.

8 Office of the Parliamentary Budget Officer, 2020. *Costing a Guaranteed Basic Income During the COVID Pandemic*.

- These potential offsets could make the fiscal costs of a basic income net neutral. However, as these programs provide support for people across Canada, eliminating them to offset the cost of a basic income could lead to negative outcomes for the most vulnerable. Decisions on which programs (both income supports and in-kind services) could potentially be eliminated are inherently political, and a basic income will not simply replace, let alone increase, the value of these benefits.

There are both winners and losers with a basic income

The OPBO conducts its analysis by examining the effects of a basic income on income quintiles, which divide a population into five groups of the same size based on their income level. The first quintile consists of the poorest members of society (the bottom 20 per cent), and the fifth quintile consists of the richest (the top 20 per cent). The OPBO also focuses on four household types that comprise at least one working-age adult: singles, single parents, couples, and couples with children. The estimates include the impacts of potential offsets that the OPBO has identified, most notably the elimination of the federal basic personal amount (BPA) and the partial elimination of provincial equivalents.

The basic personal amount (BPA) is a non-refundable federal tax credit that is available to all tax-filers. The BPA provides a full reduction of federal income tax to low-income people with taxable income below the BPA (\$13,229 in 2020). For those with taxable income above the BPA, it provides a partial reduction in federal income tax.

The value of the BPA is \$13,229 for individuals with a net income below \$150,473. The value gradually decreases until reaching a BPA floor for individuals with net income above \$214,368.⁹

Each province and territory also provides its own basic personal amount/credit.

- According to Figure 1, those in the first quintile (those with the lowest incomes) would see an increase in their disposable income, regardless of their household type.

9 Canada Revenue Agency. Basic personal amount. Accessed at: <https://www.canada.ca/en/revenue-agency/programs/about-canada-revenue-agency-cra/federal-government-budgets/basic-personal-amount.html>

Figure 1 – Real and relative increase in disposable income due to guaranteed basic income by household for those living in the first quintile

Household type	Real increase (\$)	Relative increase (per cent)
Unattached Singles	5,453	32.1
Single parents	4,210	12.3
Couples	17,057	64.5
Couples with children	13,797	31.6

- Singles would benefit less from a basic income than their couple equivalents, even though they are more likely to be living in deep poverty.¹⁰ In fact, working-age singles are more than four times more likely to live under the poverty line than working-age adults in economic families¹¹ (32.9 per cent as opposed to 7.7 per cent in 2019).¹²
- This is a significant design shortfall of the suggested basic income program, as it does not target support where it is most needed.
- When looking at the effect of a basic income on poverty, it is also necessary to consider the effects on those in the second income quintile, whose income is by definition below the national median. Figure 2 shows the impact of a basic income on the disposable income of Canada’s working poor.¹³

Figure 2 – Real and relative change in disposable income due to guaranteed basic income by household for those living in the second quintile

Household type	Real change (\$)	Relative change (per cent)
Unattached Singles	-2,634	-7.0
Single parents	-5,315	-9.5
Couples	4,346	9.4
Couples with children	2,950	4.9

10 Deep poverty describes those in the lowest income quintile. It often includes those receiving social assistance.

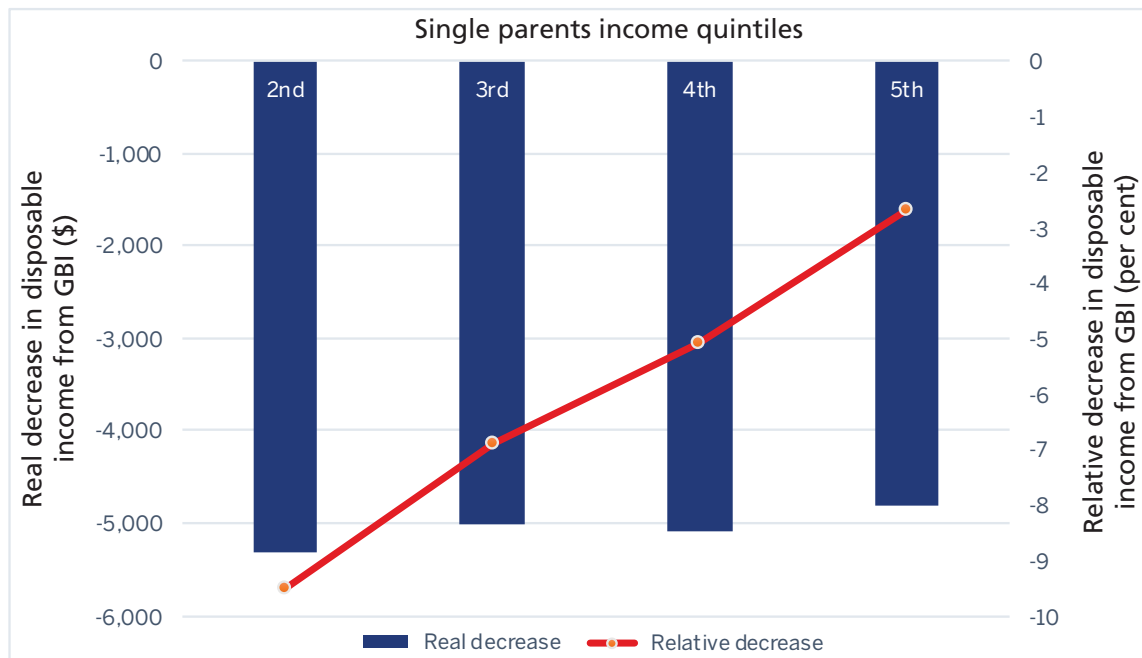
11 According to Statistics Canada, an economic family refers to “a group of two or more persons who live in the same dwelling and are related to each other by blood, marriage, common-law union, adoption or a foster relationship.” Accessed at: <https://www23.statcan.gc.ca/imdb/p3Var.pl?Function=Unit&Id=33863>

12 Statistics Canada. Table 11-10-0136-01, Low income statistics by economic family type. Accessed at: <https://www150.statcan.gc.ca/t1/tbl1/en/cv.action?pid=1110013601>

13 The working poor describes those in the second lowest income quintile. They include low-wage earners such as factory workers, personal support workers, service sector workers, and gig workers.

- The impact on couples appears to be a net positive. Couples with children in the second income quintile would see about a 4.9 per cent increase in income. Couples without children would see about a 9.4 per cent increase in income.
- For singles, there are significant negative impacts. Singles would lose 7 per cent of their disposable income, or \$2,634 on average. Single parents would experience an even more negative net impact, losing 9.5 per cent of their disposable income, or \$5,315 on average. These two groups will be the worst impacted by the implementation of a basic income.
- Again, this is significant because the suggested basic income program—as determined by the offsets the OPBO has used for its paper—has a disproportionately negative impact on households that are already more likely to be living in poverty.
- For people in the third, fourth, and fifth income quintiles, all households would see a decrease in their disposable income. However, the estimates show that higher income households would face less negative impacts from a basic income compared to lower-income households. The absolute and the relative impacts on disposable income for single parents in the second to fifth quintiles are illustrated in Figure 3.

Figure 3 – Real and relative decreases in disposable income for single parents due to guaranteed basic income (GBI)



- Notably, the values of the decreases are similar in range. This is likely because of the fiscal offsets that are factored into the OPBO's calculations. Eliminating the total federal BPA, and a portion of the provincial BPA, would affect everyone equally in absolute terms but would disproportionately affect low-income people in relative terms.
- The OPBO further provides gender-based estimates on the impact of a basic income.
 - Women are slightly more likely to benefit from a basic income. Of the 16.4 per cent of the population that would benefit from a basic income, 8.4 per cent are women and 8 per cent are men.
 - However, men would see a more significant change in disposable income. For those with a positive change, women would see a 48.7 per cent increase, and men would see a 50.4 per cent increase.
 - Of the 43.4 per cent of the population that would see a loss of income, 21.2 per cent are women, 22.2 per cent are men.
 - For those with a negative change, women would see a 6.7 per cent decrease, and men would experience a 4.5 per cent decrease.
 - The OPBO does not explain why these gendered differences may occur.

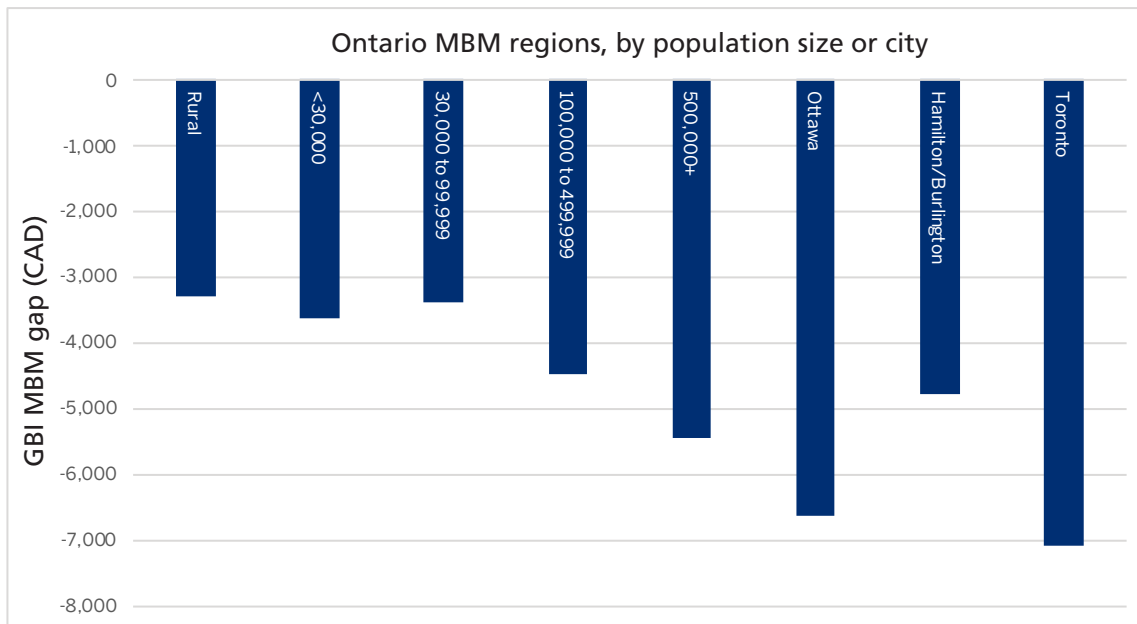
Basic income's regional impact

According to the OPBO's analysis, the suggested basic income appears to reduce poverty in all ten provinces, although not equally.

- With the suggested basic income, the OPBO estimates that the average disposable income for those in the first income quintile (those with the lowest incomes) would increase in all 10 provinces, with a national increase of 17.5 per cent. The highest increases are in Manitoba (23.7 per cent), Saskatchewan (22.3 per cent), and Ontario (20 per cent). The lowest increases are in Alberta (13.8 per cent), New Brunswick (11.8 per cent), and Prince Edward Island (11.4 per cent).
- Households in the second quintile in Quebec, New Brunswick, Newfoundland and Labrador, and Saskatchewan would see their average disposable income slightly decrease. Conversely, households in the second quintile in Ontario, Manitoba, British Columbia, Nova Scotia, Alberta, and Prince Edward Island would see a slight increase in disposable incomes (with a national increase of 1 per cent).

- In the third, fourth, and fifth quintile, there would be a decrease in all households, with those in the fifth quintile seeing the smallest decrease in their average disposable income in all provinces except Nova Scotia.
- Furthermore, both the labour force and the cost of living vary greatly by region, even within a province. The suggested basic income amount of \$16,989 for singles and \$24,027 for couples does not provide the same quality of life in Vancouver as it would in rural Quebec, for example. Figure 4 shows the gap between basic income and the MBM (2018) in different regions of Ontario for singles without children.

Figure 4 - Gap between guaranteed basic income (GBI) and Market Basket Measure (MBM) by region for Ontario singles



What does this all mean?

Implementing a basic income program requires a clear and transparent conversation about potential offsets and their consequences. Without making explicit the rationale behind certain offsets when developing the cost estimates, the OPBO's report creates the perception that the viability of a basic income is dependent on cost and that offsets can be readily identified. Our analysis of the OPBO's report demonstrates that the costing of such a basic income program is not neutral—it is fraught with many decisions that could lead to negative consequences for some of the very people a basic income program is intended to serve.

The criteria the OPBO uses to select its offsets are unclear, and by its own estimates would lead to lower total incomes among Canada's working poor. Potential offsets from the federal and provincial basic personal amounts, sales tax credits, low income tax credits, and training credits, to help pay for a basic income program, would create inequitable outcomes. Using the OPBO's model, many low-income people would actually be worse off. This is paradoxical to some of the reasons why people call for a basic income.

The OPBO also uses the basic income disability amount to justify eliminating many disability-focused credits, including the disability tax credit, caregiver tax credits, medical expenses tax credits, and workers' compensation benefits. While the added \$6,000 a year would be beneficial, it assumes a homogeneity of need and exposes people with disabilities to market rates for necessities. People with disabilities will likely have to spend a significant portion of this money to compensate for the OPBO-chosen offsets, and it is likely that a suggested new basic income disability supplement would not simply replace the value of credits and benefits lost.

Generally, proponents of a basic income often contend that a basic income could help reduce poverty, stabilize incomes, and simplify the complex web of benefits and programs available to people across Canada. The OPBO's mix of parameters and offsets helps to achieve a goal of reducing poverty, but it does not do so equitably and would come at a significant cost to many of Canada's working poor. In particular, working poor singles would see a significant income decline after the implementation of the basic income, pushing them down towards deep poverty. As singles are more than four times more likely to live under the poverty line, it is counter-intuitive that a basic income would by design harm low-income singles.

The exercise of costing basic income without a clear set of policy or political priorities is misleading because it creates the idea that such a benefit is possible without discussing the inherent trade-offs and consequences associated with such a program. While the suggested model would decrease the poverty rate overall, this hides the fact that it would lower total incomes among the working poor, reduce services provided to low-income people in Canada, reduce support for people with disabilities, and reduce access to benefits and supports that cannot be replaced simply with a cheque.

If the goal is to increase supports to those living in deep poverty, we can achieve that goal without a basic income program. Creating income floors for everyone in Canada is necessary and desirable, but basic income and income floor are not synonymous. Targeted increases or new supports for working-age adults in poverty would help address the needs for this group without creating the other unintended consequences outlined in our analysis. Expanding and improving social assistance,

increases in targeted tax credits and benefits, strengthening Employment Insurance, stronger labour standards, and investments in public services would be less costly, more effective, and have fewer negative consequences than the suggested basic income.



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