Implementing a Basic Income Guarantee through the Personal Income Tax System: Benefits, Barriers, and Bothers

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2017

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Introduction

In its February 2016 budget, the government of Ontario announced it would "test whether a basic income would provide a more efficient way of delivering income support" (Ontario 2016, 132). In June, it appointed the Honourable Hugh Segal to provide advice on the design and implementation of the pilot, including delivery models. His report (Segal 2016, 8) suggests that the basic income pilot should test replacing social assistance payments in the province, delivered through Ontario Works and the Ontario Disability Support Program, with a negative income tax or refundable tax credit. Segal further notes that the Canada Revenue Agency (CRA) "could play a very natural role in the administration of a Basic Income" (30).

The identification of the personal tax system (PIT) as an administrative structure for a basic income is not unexpected. The tax system, after all, is not just used to raise revenue; it has become an increasingly important instrument for delivering income support and achieving various social objectives. In fact, many question the efficiency and effectiveness of running tandem social assistance systems, duplicated across each province, each with its own administrative costs and complexity, when the income tax system provides a potentially sound administrative base upon which to ladder social support, including a basic income. Already, a number of existing successful social benefits are delivered through the tax system, including the new Canada Child Benefit (CCB), the Working Income Tax Benefit, and the Guaranteed Income Supplement. Ontario also already uses the PIT system to deliver social benefits, most notably through the Ontario Trillium Benefit. Experience with these social benefits delivered through the tax system provides a base upon which a Basic Income Guarantee (B.I.G.) could be built.

The existing tax system, however, is not a panacea. Although there are a number of benefits to using the income tax system to deliver a B.I.G. in Ontario, regardless of its form, there are also a number of difficulties. The purpose of this paper is to discuss how the PIT system, as it exists at both the federal and Ontario provincial levels, could help not only to implement a B.I.G., but also how it would pose barriers to, and bothersome issues with, its implementation. I begin by considering the benefits of using the tax system over the existing provincial social assistance administration. I then consider the barriers to doing so, which primarily would result from the integration of the federal and provincial PIT systems through the tax collection agreements, and detail bothersome issues with the tax system that would be amplified with a B.I.G. I conclude by proposing reforms to the tax system that would aid the implementation of a B.I.G.

Benefits of Using the Tax System [level 1 head]

Using the tax system to deliver a B.I.G. would have two benefits. First, across Canada, social benefits are delivered through a number of overlapping and mutually exclusive rules, procedures, benefit payments, and administrative structures operating fairly independently at each of the federal, provincial, and municipal levels. Potential recipients have to navigate this complex environment to access the assistance they urgently need, yet those most in need frequently lack the sophistication to traverse these systems successfully, making it likely they will overlook a potential social benefit or, worse, abandon the system altogether. Second, the higher-than-necessary administrative costs of running these various systems reduces the amount of support available for potential recipients. Further, the systems' complexity and duplication make it difficult for policy makers to understand and measure the effects that any one social benefit has on the target population, and therefore to develop effective poverty alleviation policy and programs. Combining these myriad benefits and structures into one benefit payment and one administrative structure could greatly reduce associated administrative and compliance costs, allowing governments to redirect these savings into richer benefits. It also might mean that more at-risk individuals are able to get the cash payments they need to reduce the effects of poverty on themselves and their families.

It is also problematic to have two different systems operating independently from each other — one determining how much tax someone must pay, the other determining how many transfers funded by tax revenues someone should receive. Taxes and transfers are intertwined objectives, so combining these two phases not only would aid simplicity; it would also allow individuals to make decisions based on full knowledge of their joint tax-and-transfer position.

Synchronizing taxes and transfers in this way would aid efficiency, effectiveness, fairness, and visibility, and reduce administrative costs. In fact, since the PIT system is already used to deliver many social benefits and the information provided through the system is often used to qualify an individual for provincially and municipally administered social welfare programs, one wonders why governments in Canada have not yet fully integrated these tax and distributional objectives into a single administrative structure.

From the perspective of social justice advocates, the appeal of the tax system over the social welfare system to deliver social benefits is the institutional context. The tax system and social benefits delivered through it lack the stigma associated with social welfare. There is a firmly etched notion that receiving support through social welfare is shameful and defaming, yet qualifying for and receiving support through tax benefits is almost praiseworthy — often sold by politicians as a means of getting money back into the hands of "hard-working Canadian families." The tax system, in many ways, is also less intrusive than the social welfare system. To obtain tax benefits, individuals are not required to provide fingerprints or rationalize why someone is or is not living in their house, and the revenue authority does not visit individuals' households to assess their eligibility for benefits. Instead, eligibility for tax benefits is often based simply on unassuming characteristics — such as age, disability, household size, reported income, and marital status — about which the tax system already has information. The tax system, therefore, is easily able to tailor benefits according to personal situations. Further, the tax system has begun to be integrated with other databases — such as those relating to employment, vital statistics, and other life-changing events — that increasingly allows it to track changes and seamlessly modify benefits as an individual's situation changes. Moreover, there is a growing movement to expand these data linkages to records such as land title registries, vehicle registrations, and workers' compensation, which would allow for even more detailed tracking, while removing the onus on the individual to report this information separately.

The tax system also already has the tools to deliver a B.I.G. — namely, refundable tax credits. The current tax system works by taking reported gross income, adjusting it for various deductions and exemptions, and applying the statutory tax rates to calculate the total amount of income tax owing. The tax owing is then reduced by applying various tax credits, which are either non-refundable or refundable. Non-refundable tax credits — for example, the basic exemption and the medical expense tax credit — can be used to reduce tax owing to zero, but no lower. Unused amounts from non-refundable tax credits cannot be transferred or carried forward or backward and, therefore, have no value. Non-refundable tax credits are a substantial benefit to high-income individuals who owe a lot of tax, but are of little use to low-income households, thereby violating the principle of the pursuit of vertical equity in the tax system. Refundable tax credits, in contrast, permit tax owing to be reduced below zero, with that amount refunded to the taxpayer. Refundable tax credits treat all individuals symmetrically, regardless of income. Although some refundable tax credits are paid out only after a PIT form is filed, others – such as the goods and services tax/harmonized sales tax (GST/HST) credit – are paid out quarterly or even, as with the CCB, monthly; moreover, the increasing use of electronic transfers means even more frequent payments are possible. However, as with any social assistance payments, and regardless of the delivery model, it is difficult, of course, to deliver support to someone without a fixed address or a bank account.

Using the tax system and refundable tax credits to deliver a B.I.G. is not a novel idea. Boadway (2013) has argued that making all tax credits refundable would create a negative income tax system — a form of B.I.G. Simpson and Stevens (2015) show how converting all federal non-refundable tax credits into a comprehensive system of refundable tax credits could approach a B.I.G.[1] And Segal has advised the Ontario government to design its B.I.G. pilot using this approach, although he notes that doing so would require the collaboration of the federal authorities (2016, 49), a point to which I turn next.

Barriers to Using the Personal Income Tax System [level 1 head]

Although the tax system is generally agnostic about individuals' receiving tax relief through the tax system, and would be a suitable tool for delivering a B.I.G., serious institutional barriers exist to implementing such a proposal. The biggest barrier is Canada's harmonized tax system. As it is well known, both the federal and provincial governments have the authority to collect

[1] The level of the benefit described in Simpson and Stevens (2015) is relatively modest, and most advocates would not consider the dollar amount sufficient for a B.I.G.

personal income taxes. The taxing powers of the federal and provincial governments are set out in the *Constitution Act, 1867*, under section 91 of which the federal government may raise revenues by "any mode or system of taxation," which means it has wide tax powers with few limitations. The provinces, in contrast, are limited to imposing direct taxation, which, along with the federal government, includes income tax. Because of the multiple jurisdictions involved in levying tax, considerations regarding jurisdictional issues, tax administration, coordination, and harmonization are a central feature of the Canadian tax system.

Although provinces may impose personal income taxes, all provinces except Quebec, which levies its own PIT, have agreed, through tax collection agreements (TCAs) that date back to 1962, to coordinate their income tax systems with that of the federal government. The TCAs also allow the provinces the flexibility to address regional concerns. Under the TCAs, the provinces (except Quebec) have agreed to use the *Income Tax Act* as the statutory framework for their tax systems (see Canada 2000). This means that the provinces must adhere to such things as:

- the federal definition of taxable income;
- the federal definition of a resident for tax purposes;
- the prescribed method for determining provincial residency;
- a single administrative structure for the tax system; and
- the approval of the Federal-Provincial Committee on Taxation (FPCT) for all tax policy changes before they are implemented.

Provinces are free to set their own tax structure, including the number of and rates for tax brackets, surtaxes, and low-income tax reductions. Provinces are also permitted any number of refundable tax credits, but are limited to a block of non-refundable tax credits. Any provincial tax measures that are to be administered under the TCAs must be approved by the federal Department of Finance, must be able to be administered by the single administrative structure, and are subject to full cost recovery — that is, the federal government will charge the province the administrative costs of administering the provincial measures. Costs are waived if a provincial tax measure simply mimics a federal tax measure, and are reduced if the tax measures are built on some degree of harmonization. In addition, provincial tax credits that overlap with federal tax credits must use federal definitions where they exist. Finally, these provincial tax measures can alter the calculation of provincial income tax, but not that of federal income tax. As for the single administrative structure, this is filled by the CRA, the main point of contact for all matters related to the tax system. The CRA is responsible for producing Information Circulars for the public and income tax folios that detail major developments in a tax area or detail the departmental interpretation of a tax provision. The CRA also helps taxpayers meet their tax obligations, and engages in a variety of audit and compliance tasks, including litigation activities.

What would this mean for a B.I.G.? First, although a province could propose to deliver a B.I.G. through the use of one or more refundable tax credits, doing so would have to be discussed with and approved by the federal Department of Finance, the CRA, and the FPCT. The FPCT would focus on the socio-economic effects of a basic income beyond the borders of the proposing jurisdiction, and might require changes to the basic income system to alleviate broader concerns, which would take away the proposing jurisdiction's full design and implementation flexibility. If the proposal were approved through these bodies, the province would then have to work with the CRA regarding the administrative design, and pay any and all administrative costs incurred by the CRA that are associated with the program on a cost-recovery basis.

Second, the primary policy objective of the CRA is that of revenue gathering, and the agency has only recently begun to ensure that all those entitled to benefits are receiving them and to help Canadian complete their tax returns. The objective of a basic income, though, would be to provide assistance to those who need it. The CRA has not yet reconciled these two objectives. As the CRA has not moved fully to a service model that embraces this assistance perspective, and because the dominant culture within the CRA still tips in favour of an adversarial relationship with taxpayers, this might impede the implementation of a basic income through the PIT system.

Third, although there are benefits to having a single administrative structure for social assistance, it is important to remember that Canada's tax system is itself complex, intimidating, and not easy to navigate. Although the CRA produces compliance information, it is filled with technical legal and accounting jargon not accessible to many Canadians. High-income and sophisticated taxpayers can access experts to help them navigate the process and ensure they minimize their tax obligations, and thereby maximize their benefits, but no real comparable service exists for lower-income individuals except for the Community Volunteer Income Tax Program, which allows community organizations to host free tax-preparation clinics. It would be essential in the design and implementation of a B.I.G. to ensure the necessary supports are available to individuals to access any benefits delivered through the tax system.

Fourth, a nice feature of the tax system — often present in social welfare systems — is that individuals cannot be barred from accessing future benefits if they are found not to be in compliance with the tax rules, a feature often present in many social welfare systems. In addition, many tax benefits cannot be seized by anyone other than the CRA, and the CRA can seize benefit payments only for purposes of repayment of the benefit. Dispute resolution, which is outlined in the *Income Tax Act*, is a very formal, often time-consuming process, however, and much of it can be navigated only in Ottawa by those with a high degree of sophistication.

Finally, the CRA can provide only cash transfers, and not the many other services that are important to low-income social welfare recipients, including help accessing other services, evaluating recipients for other services, or providing mental health assessments, pharmaceuticals, food, shelter, medical supplies, transportation, appointments, Internet service, dental and vision benefits, legal aid, clothing supports, or school benefits. Ensuring that these essential services for low-income individuals are maintained is essential for addressing and overcoming poverty.

It is important to note, however, that, although these institutional implications pose barriers to the implementation of a provincial B.I.G., they can be overcome through collaboration and reform. Any barriers to delivering a B.I.G. through the tax system are actually political choices, and could be renegotiated in one way or another, but this should be done before a B.I.G. is implemented.

Bothers with Using the Personal Income Tax System [level 1 head]

The federal-provincial tax collection agreements require that a B.I.G. be designed so that it can be administered by the CRA. This leads to several considerations, or bothers, that would influence the design and implementation of a B.I.G. Notably, a B.I.G. would have to:

- be based on information already known and collected under the *Income Tax Act*;
- rely on features of the existing system, including the definition of a resident for tax purposes, the method for determining provincial residency, and rules surrounding tax filers;
- be based on the federal definition of taxable income, which excludes some forms of income, such as capital gains from the sale of a primary residence, lottery and other windfall amounts, gifts, and bequests; and
- eschew adjusting eligibility for assets that are not accounted for in the tax system.

Tax Filers [level 2 head]

Delivering a B.I.G. through the tax system would mean that eligible recipients would have to be based on those who file tax returns. This would lead to consideration of two issues: residency for tax purposes and the requirement to file taxes.

Residency for Tax Purposes [level 3 head]

Tax filing obligations in Canada are based on where one lives, not on citizenship or immigration status. This criterion is then split into two categories: federal residency and provincial residency.

Residency for federal tax purposes is determined annually and falls into two categories: residents of Canada and non-residents of Canada. Residents for tax purposes must report their worldwide income, whereas non-residents must report only income earned in Canada. Unfortunately, for some individuals, determining residency for tax purposes is not straightforward: the definition of a resident for tax purposes is not defined in the *Income Tax Act*, but instead is based primarily on case law. The leading case is *Thomson v. Minister of National Revenue*,[2] which defined residency as based on settled routine and ordinary living that

[2] [1946] SCR 209, 2 DTC 812.

is permanent, not transitory or temporary in nature. A key consideration relates to the degree of ties to Canada, including the presence of a dwelling, partner, or dependents. The complications with residency for tax purposes typically occur around those new to Canada, those leaving Canada, and those who frequently travel to Canada. It is also possible to be a dual resident — that is, a resident of more than one country for tax purposes.

For the most part, low-income Canadians and other vulnerable populations, such as refugees, likely will meet the definition of residency for tax purposes, but some things would have to be considered if a B.I.G. is to be delivered through the tax system. First, in order to file a tax return, an individual needs a Social Insurance Number, an Individual Tax Number, or a Temporary Taxation Number. Thus, the system would have to ensure that individuals most in need of a B.I.G. have one of these numbers or help them obtain one.

Second, like the tax system as a whole, residency for tax purposes is based on the individual, not the family or household, yet it is possible that not all family members, including the supporting family member, are residents or even non-residents for tax purposes. Thus, although it is not unusual for eligibility for tax benefits to be restricted only to residents for tax purposes, existing tax benefit eligibility requirements could be used to guide the determination of eligibility for a basic income. There is also usually a process available to apply for tax benefits that are paid regularly through the year once residency for tax purposes is established. The tax system, however, has not yet found a suitable way to deal with the matter of a dependent spouse or partner becoming a resident of Canada for tax purposes, while the supporting spouse or partner remains a non-resident — a complication for any basic income that is either taxed or means-tested, since the supporting spouse's income is not reported for tax purposes.[3] The implementation of a basic income would increase the need to address this problem

The next step is to determine an individual's province of residence — the province where the individual has significant residential ties on December 31 of a particular tax year. Establishing significant residential ties typically is based on a combination of the location of the individual's dwelling, spouse/partner, and dependents. Clearly, the establishment of a provincial B.I.G. program would have to be concerned with the establishment of provincial

[3] The issue of a non-resident supporting spouse arose recently in Vancouver; see Todd (2015).

residency for tax purposes. Depending on the interaction of the benefit with tax rates, it might draw some individuals to establish residential ties to a particular province and others to sever their residential ties. These behavioural effects would have to be considered during the design, implementation, and costing of any B.I.G. program.

Tax Filing [level 3 head]

Whether or not an individual has to file a tax return in any given year depends on his or her situation. An individual who does not owe any tax is not required to file; this includes individuals whose earned income is below the taxable threshold or whose full earned income is subject to accurate withholding. Aboriginal people who live on-reserve are also exempt from taxation.[4] In addition, newcomers, low-income, and Indigenous individuals are more likely not to file and, as a result, to miss out on benefit programs delivered through the tax system. Unfortunately, there is very little publicly available data on tax-filing rates in Canada, although Bajwa (2015, 7) suggests that upwards of 26 percent of marginalized families do not file a tax return. Individuals' not accessing tax benefits for which they are eligible is widespread enough for the matter to have been included in the Minister of National Revenue's mandate letter, which directed the Minister to "proactively contact Canadians who are entitled to, but are not receiving, tax benefits" (Trudeau n.d., para. 15).

Boosting filing rates is an important matter for any social assistance program delivered through the tax system. Individuals do not file tax returns for a variety of reasons, including fear, complexity, lack of knowledge, accessibility, literacy, poor advice, and so on. Addressing these matters is important to ensuring that the target recipients are reached. Yet, under our integrated and harmonized PIT system, these are matters for the CRA, as the provinces have limited capacity under the TCAs to intervene directly. A way to address some of these concerns would be to implement pre-populated tax forms and other measures to ensure all individuals are able to file a tax return. The mandate letter for the revenue Minister did include a directive to "offer to complete returns for some clients, particularly lower-income Canadians and those

[4] There are some exceptions to these rules; see Canada (2016).

on fixed incomes, whose financial situation is unchanged year-to-year," providing an opportunity for these concerns to be addressed through the existing structure.

Reportable Income [level 2 head]

The matter of reportable income for tax purposes would also be important for a basic income program. This is not only true of those that will have a claw-back or means tested eligibility, but also of one that would be funded based on the taxation of income above a defined minimum to pay for the new program. There are several areas of concern here, including the income-reporting period, income excluded from reporting, income subject to misreporting, and the role of wealth.

Reporting Period [level 3 head]

Under current PIT filing rules, individuals report their income to the tax authority annually, and the reporting period is the calendar year. In general, the tax-filing date is April 30 of the year following the reporting period — a 100-year-old tradition based on Canada's formerly agricultural economy. This tradition, however, would be an important consideration for a B.I.G., as benefits paid out of the tax system are based on income earned during the reporting period. Because of the tax-filing period, benefits are adjusted beginning July 1 of the year following the reporting period. That is, income earned in one year is used to calculate tax benefits that begin to be paid out starting only on July 1 of the following year. This means that tax benefits reflect the individual's income situation of the previous year, not his or her current income situation, which might have changed dramatically — as many individuals experienced in Alberta during the recent collapse of oil prices.

Calculating the payment of tax benefits in this way thus means that benefits do not rise in tandem with negative income shocks or decline with positive income shocks. Instead, it can take as long as eighteen months before benefits to be recalibrated for such shocks. This poses a barrier to delivering real-time assistance, something the social assistance system can currently address. It also means that individuals with highly variable income — for example, commissioned workers (such as real estate agents), executive officers, and the self-employed — might report a sizable income one year and much less or even no income for several subsequent years. This means they would not qualify for tax benefits in a year when they report a sizable income, but would do so in other years. Such problems, which would have to be addressed before moving forward with a B.I.G., might be overcome by changing the reporting period and using technological improvements in the administration of the tax system, but doing so would increase both compliance and administrative costs. It would also be possible to base tax benefits on some form of income averaging.

Taxable Income [level 3 head]

Although there is no clear definition of income in the *Income Tax Act*, the CRA clearly details what income is not reportable. This includes:

- payments from the Canada Child Benefit, the GST/HST credit, and those from any related provincial or territorial program;
- child assistance payments;
- some settlement payments;
- strike pay;
- proceeds from the sale of second-hand goods;
- most lottery, gift, life insurance, and inheritance payments;
- amounts from a tax-free savings account; and
- the proceeds from the sale of a principle residence.

The first four items might not be of concern with respect to a basic income, but the latter four would be. In all these cases, the amounts received might be substantial, yet they cannot be factored into any means-testing formula, clawback system, or funding model under the current tax system. The magnitude of the problem is difficult to ascertain since these amounts are not comprehensively tracked in any publicly available database, but some evidence exists to guide governments. For example, it has recently been found that Canadians earn, on average, nearly $900 a year from the sale of second-hand goods (Durif, Ertz, and Tedds 2016). The non-taxation of gift payments is how many individuals with offshore corporations repatriate income without having to pay tax on the money (see, for example, Cashore, Seglins, and Zalax 2015). Over time, the amount withdrawn from tax-free savings accounts will rise, but individuals are already using such accounts to accrue substantial capital gains through aggressive trading (Marr 2014). Although there is no estimate of the capital gains households accrue from the sale of a principle residence, given the substantial increase in house prices experienced in Canada since 2001, there is cause for concern. For example, the average selling price of a detached home reached nearly $2 million in Vancouver in 2016. A seller who bought such a home before prices began their substantial rise might be pocketing more than $1.5 million in capital gains, a sizable amount upon which to live.

This problem, though, is not insurmountable. With technology, the amounts of income from these sources are generally known and could be subject to third-party reporting, even if not taxed, and factored into any benefit system. This would be a matter for the federal government to address, perhaps by revisiting the recommendation of the Carter Commission (Canada 1966) that "a buck is a buck" and that all additions to personal wealth, regardless of source, should be included in earned income.

The Underground Economy [level 3 head]

Although Canadians are required to report all income subject to tax when filing their tax returns, many forms of income are subject to underreporting, including income from illegal activities, business transactions, self-employment, gratuities, rental income, the proceeds from the sales of some capital assets, and the growth of the sharing economy. This is because much of this income is not subject to third-party reporting, which is more likely to be accurate since it gives the tax authority a way to check against PIT reports — through for example, income reports on T4 slips. In addition, there are significant concerns about the tax-avoidance activities of high-income individuals, particularly their use of offshore tax havens. Finally, the growth of the sharing economy has resulted in widespread underreporting due to the lack of third party reporting related to the income generated through these activities.

The issue of underreported income is neither an innocuous matter nor would it be simple to address. Estimates of income underreporting in Canada vary: Statistics Canada, for example, using National Accounts discrepancies, estimates the size of the underground economy to be roughly 2–3 percent of gross domestic product (GDP) (Statistics Canada 2016).

Four sectors accounted for two-thirds of the total estimated underground economy in 2012: residential construction (28 percent); finance, insurance, real estate, rental, leasing, and holding companies (14 percent); retail trade (12 percent); and accommodation and food services (12 percent). The Statistics Canada approach likely produces misleading estimates, however, because the technique assumes certain proportions of income or consumption have been misstated. Yet, that is exactly what is not known. For example, Statistics Canada assumes that income from undeclared tips amounts to 50 percent of reported wage income, yet CRA audits have found that income from undeclared tips amounts to between 100 and 200 percent of reported wage income.

Academic research supports the notion that the Statistics Canada estimate is misleading. Estimates produced by different researchers employing different techniques — see, for example, Giles and Tedds (2002); Schneider 2012; Schneider, Buehn, and Montenegro (2010); Tedds (2005) — instead peg the size of income underreporting to be roughly 15 percent of GDP. A Bank of Canada study of the amount of currency in circulation in Canada was unable to account for nearly $46 billion in total cash holdings (Arango et al. 2015). Further, despite the increase in the availability of electronic means of payment, cash money has increased in popularity. Several studies — Dunbar and Fu (2015); Schuetze (2002); Tedds (2010) — estimate that between 35 and 50 percent of households underreport income and that the amount of unreported income is equivalent to between 14 and 19 percent of GDP.

Few estimates of the underground economy exist at the subnational level. Statistics Canada (2016), which recently has begun to produce provincial-level estimates, suggests that income underreporting in Ontario amounts to $15.3 billion. A report for the Ontario Construction Secretariat estimates that, between 2007 and 2009, Ontario lost up to $2.4 billion in revenue from underground economy practices in the construction sector alone (Prism Economics & Analysis 2010). These practices included the misuse of independent contractors and the use of cash payments. In addition, a survey of homeowners found that 56 percent of Ontario homeowners admitted to paying cash for home repairs or renovations (Daniszewski 2015). The Ontario Home Builders' Association (2015) estimates that cash-only renovators accounted for at least 36 percent of residential contractors, contributing $5.2 billion to the underground economy. The Canadian Taxpayers Federation (2012) estimates that contraband tobacco costs the Ontario and federal governments $1.1 billion in lost tax revenue.

Some attempts have been made to crack down on the underground economy, the most prominent of which is the CRA's Underground Economy Strategy. First launched in 1993, the strategy was recently updated (Canada 2014) and expanded with a new Minister's UE Advisory Committee. This strategy is working on ways to reduce participation in the underground economy, including using third-party data and information and working with provincial and territorial governments to identify and target specific regional risk areas. One such action under this strategy was to support the Canadian Home Builder's Association's Get It in Writing campaign. The CRA also has a Special Enforcement Program that focuses on individuals who acquire income illegally and fail to report it for tax purposes.

Recent federal budgets also have focused increasingly on tax evasion and tax avoidance, including by closing known tax loopholes and addressing base erosion, corporate profit shifting, and the abusive use of tax havens. There has also been an increase in the amount of data collection and sharing among federal government agencies and departments, including between the CRA and Employment and Social Development Canada regarding border crossings to ensure that tax benefits are paid only to eligible tax residents; between the CRA and the Financial Transactions and Reports Analysis Centre of Canada regarding international electronic funds; and between the CRA and financial institutions. The federal government also recently signed onto the Organisation for Economic Co-operation and Development's Base Erosion and Profit Shifting initiative. Such initiatives are expected to increase under the Trudeau Liberal government, as the mandate letter for the Minister of National Revenue includes as a top priority investing "additional resources to help the CRA crack down on tax evaders and work with international partners to adopt strategies to combat tax avoidance" (Trudeau n.d.)

Ontario has also ramped up its efforts to crack down on income underreporting, including through its Tax Verification program, the banning of electronic sales suppression devices, various public awareness campaigns, and partnering with the CRA, which, to date, have raised more than $1 billion in additional tax revenues since fiscal year 2013/14. These efforts are to be applauded, but without knowing the size of the tax gap, it is not known what portion of underreported income has been recovered. If estimates are accurate, however, the recovered revenues are simply a small drop in a very leaky bucket.

While tax non-compliance is a bothersome issue regardless, it become exacerbated under a B.I.G. Individuals with unreported income would obtain cash benefits they should not qualify for, increasing unfairness between those with fully declared income and those who are able to hide income. It also means that the ability to pay for a B.I.G. system is significantly compromised. Further, a B.I.G. would increase the incentive to engage in income underreporting either to qualify for the generous payment or to avoid paying the increased taxes that likely would accompany a B.I.G. While governments, especially Ontario's, have increased their attention on detecting income underreporting, there is still much work left to do.

Wealth [level 3 head]

Most social welfare systems include both an income test and an assets test. Under the current Canadian tax system, however, assets tests are difficult, as many assets are not well reported or known. Individuals earn income through holdings of wealth, but under the current tax system only the gains associated with an asset are reported. Even then, not all gains are reported for tax purposes, such as those related to tax-free savings accounts and, as noted, the proceeds from the sale of a principal residence. In addition, a B.I.G. might lead some to rely on that income, rather than drawing down their wealth. Both of these issues are problems from the perspective of equity and fairness. Wealth, therefore, would be important to consider in the design and implementation of a basic income.

Concluding Remarks [level 1 head]

The personal income tax system provides a means through which a basic income could be implemented, but its fitness to do so is questionable. Given the existing harmonization of the tax system, provincial efforts to deliver a basic income in this way would have to adhere to the federal structure and administration, and be negotiated with and supported by the federal government. In many ways, therefore, it would be better for the federal government, rather than the provinces, to make such a social policy commitment.

Outside of that, the simplest — and most likely acceptable to the Federal-Provincial Committee on Taxation, which must agree to any tax policy changes — way to deliver a basic income through the tax system would be to convert all provincial non-refundable tax credits into refundable tax credits. Delivery through the tax system also would mean administration by the Canada Revenue Agency, which is still struggling with its dual mandate of maximizing tax revenues and delivering social assistance. Significant changes at the CRA would have to take place to ensure a proper balance between these dueling perspectives.

In terms of the target audience, a B.I.G. delivered through the tax system would be restricted to those who file their taxes, which is not the same thing as simply being a resident. Many residents are not required to file a tax return. This means there is a very rough fit between those in need and those who would be provided with the benefit. A key way to address those who would qualify but who fail to file would be through the use of pre-populated tax forms, but that decision would have to be made by the federal government. Such a method would also be time-consuming to implement, because it would depend on the expansion of third-party reporting of income. Expanding third-party reporting would be important, however, for the affordability of a basic income due to the extent of income underreporting, whether because the income need not be reported for tax purposes or because of attempts to evade tax.

The highest hurdle to overcome for any basic income would be related to income accuracy. Any basic income would have to be funded through tax revenues and/or clawbacks, both of which depend on the accuracy of the income reported. Research suggests, however, that reporting is a substantial problem, and one that would be exacerbated by the incentives of a basic income.

The technical details of delivering a B.I.G. through the tax system would be neither trivial nor peripheral to the design and success of such a program. Addressing these implementation details, in fact, would be linked to both the policy and objectives of a B.I.G. Such issues could be solved, if not easily, but they would require real effort and discussion and the maturity of all the players involved. A B.I.G. is doable, but at what cost, with what delay, and to what effect?

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