Transition to Basic Incomes & an Asset Tax

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Note that this paper is available at http://perce.harpham.nz

1. A major question

A major point of departure is the question of whether in the case of a house should its value for the owner's tax purposes be the notional sale value or the sale value less the mortgage? In other words is the tax levied in the same way that local body rates are levied or is there a system somewhat like GST where every component of the asset is taxed separately.

In the latter case the net equity in the house would be counted as wealth of the owner but the equity represented by the mortgages would be counted as an asset of the bank or mortgagor and the lenders of money would have it taxed as their asset. It could become very complicated.

The most practical solution I believe to be to have the owner of the property accountable for the entire value of the property – just as with local body rates.. They are, after all, the ones who are using and managing the resource..

There are other problems when dealing with companies. I now believe that the best solution is to treat companies and persons etc in exactly the same way. That is to add asset taxes to rates as a percentage of the improved capital value of all rateable property..

An interesting corollary is that money or shares would not be counted for the asset tax. Very much in the same way as with GST where the finance sector was exempted from GST for similar reasons. And the end result for the owner of the assets would be much the same since, if an asset tax is levied on providers of finance along the way, this finance cost will be passed on in any case. And the opportunities to "game" the system will be reduced since non-monetary assets are hard to hide

One ends up with a fairly straightforward system where money deposited by someone in a finance company, bank or company bond is not counted for purposes of the asset tax but all rateable property is so counted. We are then, in a way, imposing a "resource tax".

It may seem a little strange not to count money as an asset but money does not use the resources of the planet and to the extent that it is loaned to someone who does have physical assets then this final owner will pay the asset tax but there will be no double taxation or the great complication of dealing with tax accounting all along the chain.

An Asset Tax could be added to car registrations and a levy collected on insurances for personal property and house contents insurance etc if one chose to do this. Most, probably all, of these Asset Taxes could be collected without requiring any special accounting or returns **provided that there are no exemptions**. The appropriate tax could then be collected from each asset separately as it was registered. There would be virtually no administrative impost on the taxpayer. But, in the beginning at least, I believe we should confine the Asset Tax to property.

With such an Asset Tax administered simply by a percentage addition to rates many of the difficulties associated with a more comprehensive Asset Tax drop away. Rates are a small component of the costs of almost all companies and the addition is likely to be a small part of the total rates. The effect on start ups and forestry companies etc is then such that I do not think that any special consideration will be required for them.

One attraction of an Asset Tax is that it should increase the pressure for the capital in the country to be put to productive use. Amongst other things it should be a disincentive to spend huge sums on elaborate houses and the like. One would expect house prices to fall.

3. The Change

What we have been considering is a major change. It is not something to be undertaken lightly or precipitately. It is of a level of complexity which is worthy of the best attention of our Public Service. It needs to be carefully staged and well thought through before implementation step by step. But the effect on our social and economic well-being will make the difficulties worth the effort.

A different tax from the Asset Tax might be chosen to finance the BI but it should be one which reduces inequality and has the great advantage of the simplicity that is proposed here.

Whatever taxes are chosen to pay for the BI the taxes will have to be paid by everyone who either has an income or assets (assuming an Asset Tax is chosen). This will diminish the net benefit of the BI.

So, in principle at least, we would end up with a very simple cost-effective tax and benefit system which would greatly reduce inequality. In practice there will still be a need for top-ups in some cases but if the BI is in any way generally adequate these should be few in number compared to the present system. For example with a reasonable BI for both parent and child or children there should, in most cases, be no need for a separate DPB .

Again with the BI the problem of people being unable to work before reaching superannuation age will be reduced.

4. Transition to a BI and Asset Tax

As I discuss and reflect on some of these issues I come to understand the interconnections better and how to separate the transition into digestible steps. The purpose of these comments is to assist in choosing those steps and defining the initial tasks which different people could then address.

Much of the difficulty is planning the various operations so that finances stay in balance else Government or the populace will have cash flow problems. Part of Government's cash flow could depend on reducing staff. The latter raises questions of redundancy payments, alternative Government employment and the demand for labour in the economy as a whole. What is required is a constructive approach to the considerable changes that will affect many people.

There needs to be a huge amount of detailed costing. All that I will attempt here is to outline some thoughts to start the process. The final policy decisions will depend on the costings and vice-versa.

There are many statements made by political parties to the effect that they will reduce inequality, the poverty trap, child poverty and such like but no indication of how it will do them. The BI system I have outlined is a practical approach to all of these things.

Here I will take it as fixed that we will go to a Basic Income financed as I have proposed but many of the same issues would arise if the BI was financed differently.

There are many minor policy details to be decided before building a more accurate model for deciding on the levels of the BI, "Uniform Income Tax" (UIT) and Asset Tax. For example, whether to have higher Income Tax rates for income above, say, $150,000 or $500,000.

5. Possible segmentation of the transition

There needs to be a phased introduction so that systems can be proven with training and the establishment work loads carried by existing staff before staff numbers are reduced. This means having some groups of people brought into the system before others**.** Clearly when one receives a BI then one should immediately also start paying the Uniform Income Tax (UIT). The problems of non-citizens, overseas students, those with work permits, refugees and the like need detailed attention.

6. Children and Teenagers

Because of the problems of child poverty one choice to consider for the first group is the 0 to 12 together with the 13 to 17 group. My spreadsheet indicates that 0 to 12 at $3500/yr would be matched nicely by discontinuing "Working for Families" but more would have to be gathered from UIT or Asset Tax to finance the 13 to 17 group. Another possibility is to introduce a higher tax for higher incomes as noted above. Depending on the levels chosen for these, if any, they might cover the 13 to 17 group leaving the Asset Tax till later.

7. The Unemployed.

The next group of people to consider moving onto the BI could be the unemployed. They would simply move to a regime of having the BI and the UIT. With one rate for all the unemployed Government would not be involved with individual life-style choices or the snooping and surveillance that follows from such divisions. Stand-down and “claw-back” would disappear.

However the difficulties of deciding when one became or ceased to be unemployed and moved from or back to the current system seem to me to be so great that this cannot be considered as a practical separate step.

8. Superannuitants

The next step might well be for Superannuitants. They are already identified and it would be easy to change the payment rates as I have indicated. As with the unemployed the snooping and court cases to determine if one is really single and living alone would disappear if there were only one rate
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It would also be easy to put them onto a UIT of 33%. The latter would more than pay for the increased payment for all except the single living alone group. It would be much harder to impose an Asset Tax on Superannuitants alone. Consideration of Trusts, divided ownership,legal manouvering and separation issues abound.

The BI payments might be raised again with the introduction of Asset Taxes so as to compensate for this tax to some extent - again whether they had assets or not. This is another subsidiary policy decision. Since the rate would have been increased so substantially for married couples it may well be felt that no increase was necessary to compensate for the Asset Tax - especially if more social services (home help etc) for the elderly were to be provided.

9. The rest

Finally the 18 to 64 group is the large one and with any reasonable UIT there must also be an Asset Tax. But even here one possibility to consider would be to split the group on an age basis. Maybe 25 to 45 first as they are likely to be the ones most in need with young families and to add the others later. Once on the new system people would stay on it so that turning 46 would not change one's tax basis.

One might be inclined to start, right at the beginning, with a small Asset Tax so as to cover the cost of paying the BI to the 0 to 17 group with removal of Working for Families and a decrease in child poverty. Then 3 to 6 months later bring in the unemployed group. Next other minority groups followed by superannuitants and finally the 18 to 64 group, possibly in more steps, with Asset Tax or UIT increased.

10. Companies, Trusts and Partnerships

There are likely to be some policy issues to be decided here in the transition to the same tax structure and rates for "legal persons" and "actual persons". This transition will, hopefully, decimate the tax avoidance industry. Although it will not touch the major issue of the use of tax "havens".

11.Administration overall.

What I have proposed is conceptually very simple. Rates are collected by Local Bodies, Income tax is collected by IRD and payments are made by MSD. Each of these organisations will need to make modifications to their computer systems.

My earlier thought had been that the BI would only be given to NZ citizens. But, in this case, those who are here on work permits or who have residency would be grossly disadvantaged by a flat 33% or other tax on all their earnings. So it is now my view that these classes of "citizen" must be included and would have a weekly BI payment just as others. Their weekly earnings would be subject to PAYE at the flat rate of Income Tax. But the immigration status, arrival and leaving dates would need to be available to avoid under or over-payments. Similarly with overseas students who should not qualify for a BI unless they have a work permit and pay taxes,

There will be a need for linking and cross matching to various databases for verification and other administration purposes. Considerable thought will be needed as to new rules that will apply to cross matching, security and completeness of the databases, possible falsification of identities and the like.

There will already be mechanisms in place in all departments to address some of these issues but they will need further consideration. And photo identification should be required, just as with driver licenses. Fortunately, a system for on-line identification has already been developed by Internal Affairs and NZ Post called "Realme". It is being promoted by NZPost and is in use with a number of departments and councils already. It would appear to need very little change to fulfill the requirements. But the effort involved in getting it available for everyone would be considerable.

There is also the problem of the "non-persons" who may have been severely disadvantaged from birth by having had numerous "fathers", whose birth was not registered, their education was restricted and they cannot get identity documents such as passports and cannot get driving licenses, bank accounts and suchlike.

Apart from the BI usage there would be considerable benefit for people at large to be able to notify only one Government agency of a change of address. This would then have to be propagated to all other agencies.

Whether or not there should be a completely separate database set up for BI purposes or whether one or other of the departments should assume this responsibility, incorporate it into their existing database and act as a central point is another decision to be made.

There is clearly a lot of detailed work required. And there are implications across many areas of Government.

Much of the administration, rules, training and the computer systems, for both Government and Local Bodies, will need to be in place before any group can be moved to the BI.

And it is essential that a small group be moved first so that the systems can be proven while staff resources can be certain to be capable of dealing with the problems that will require human assistance.

12.Government employees.

It is not yet clear how much could be saved and how many bureacratic jobs would be lost by the introduction of a BI but the numbers appear to be likely to be substantial. This may well be the most difficult transition issue to manage. If Government does not behave as a good employer the social standing it should gain from reducing inequality may be largely lost.

Bureaucrat-bashing is almost as popular as beneficiary-bashing or MP-bashing. Apart from pandering to this negative stereotyping a wholesale reduction in government employment, particularly when unemployment is high, would potentially have many undesirable side effects. And such an approach might well be guaranteed to prevent the system from functioning even if it does not render it politically unacceptable to begin with.

I think that a much more constructive approach would be to budget for no initial staff saving from introducing the BI . And instead to manage the training and redeployment of the staff. This will be no mean feat so it is likely that for this reason the full introduction of the system should be spread over a longer period than might otherwise be the case.

There would be some attrition. Voluntary redundancy is possible and it may be that those taking it would be entrepreneurial and that they would not contribute to unemployment . On the other hand there are many departments which can profitably employ displaced staff. Others will be required to give training during the transition.

It would be in accord with the mission to reduce inequality to retrain some staff into planned increases in some social-good areas - child care, in-home care for the disabled and the elderly etc, teaching assistants, conservation projects, ramped up apprenticeships for the housing developments and others.

All of this needs detailed planning commensurate with the state of the economy at the time and the success of other policies in stimulating employment.

There is a wide range of options. Some basic decisions need to be made, particularly in terms of political acceptability. Then a number of people need to be marshalled to explore different probable alternatives to see if a reasonably detailed and costed system can be coherently linked together for final policy approval. Then all the resources of the administration can be marshalled to put the policy into effect.

13. Choosing the BI levels and Income Tax rates.

This will be a difficult choice. It must balance many different issues of incentive, fairness, practicality, political acceptability and so on. No easy task.

The fiscally neutral Asset Tax required to pay the difference between the cost of the BI and the return from Income Tax follows from the choice of these two variables.

"All models are wrong, but some models are useful." Approach my spreadsheet in that way. It is listed at **http://perce.harpham.nz**.

The spreadsheet is reasonably self explanatory. I recommend that you use it to develop some feeling for the interaction of the various decisions when all BIs are being paid. Substituting your own figures and seeing the consequences will be useful in formulating ideas.

But, do not try to use the spreadsheet to explore the transition suggestions I have made as you will generally get nonsense answers because the spreadsheet assumes that all age groups are covered. For example if you make the 18 to 64 age group BI zero with a UIT of 33% you will get a negative Asset Tax because there is insufficient BI cost to offset the increased tax take. Changes can be made to the assumptions on Sheet 3 to approximate the position but more extensive modelling is needed.

14. Conclusion

The difficulties of preventing evasion and avoidance with a lengthy stepwise approach are mind boggling. My own current choice would be to plan on adjusting superannuation first with Basic Income and the accompanying UIT and Asset Tax. Then to bring in the Adult Basic Income with UIT and Asset Tax and, finally the Child BI – funding it with higher taxes on high incomes as well as the elimination of Working for Families. The steps to follow at intervals of, possibly, six months

The transition must be carefully thought through in detail and competently managed with extensive "dummy runs", staff training and the retention of an abundance of knowledgeable staff until it is clear that the processes are robust.

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