

# **A PROPOSAL FOR A GUARANTEED BASIC INCOME BENEFIT IN PRINCE EDWARD ISLAND**



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## **DEDICATION**

This report is dedicated to the late Harvey Stevens. His modelling was indispensable to all our work on this report. He was always willing to model the impact of yet another possibility being considered, to answer yet another question we had; unfailingly generous with his knowledge and skills, time, and energy, he often provided new model simulations by the next day. Harvey had also done the modelling for the Special Committee on Poverty in Prince Edward Island, which provided the inspiration for our project. His long life of volunteering his expertise for environmental and poverty-related issues began in 1973 with the Mincome basic income experiment in Manitoba. Harvey's vital contributions in support of PEI's poverty reduction initiatives bring his life's work for basic income full circle.

## **PROJECT TEAM AND APPROACH**

This report represents the outcome of an iterative year-long process between economists and researchers, public servants, politicians, and advocates from Prince Edward Island and across the country. Motivated to advance the accomplishments of the Special Committee on Poverty in Prince Edward Island, this working group has collaborated to design a feasible and progressive guaranteed basic income program for Prince Edward Island. Our hope is that this report can serve as a useful starting point in policy discussions about the future of poverty reduction in Prince Edward Island and Canada.

## **ACKNOWLEDGEMENTS**

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## EXECUTIVE SUMMARY

The consequences of poverty are both deep and far-reaching. At an individual level, poverty is linked to food insecurity, poorer health outcomes, higher stress, lower educational attainment, and inadequate or unsafe housing. However, the implications of poverty extend beyond those experiencing it, from lost economic opportunities to higher expenditures in our health and criminal-legal systems.

Families living in poverty would see their lives radically improved and transformed if poverty were considerably reduced or eradicated. But the positive impact of eliminating poverty would go beyond that: investing in people would contribute to economic activity and improve the health, self-esteem, and well-being of people in communities across the country. Indeed, a report published in 2008 by the Ontario Association of Food Banks concluded that the economic cost of poverty in Ontario was between \$32.2 and \$38.3 billion, or up to 6.6% of Ontario's GDP. These costs are borne by people living in poverty but also those that are not directly affected by poverty. With one-third of these costs being borne by governments through higher expenditures and lower revenues, a program or benefit that considerably reduces poverty would not only improve the lives of individual recipients and broader society but would also become at least partially self-financing over time.

Both federal and provincial governments have recognized the urgent need to reduce and ultimately eliminate poverty. Introduced in 2018, Opportunity for All, Canada's First Poverty Reduction Strategy acknowledged that eliminating poverty is a priority and established the target of reducing poverty in Canada by 50% by 2030. Prince Edward Island (PEI) has adopted the Poverty Elimination Strategy Act that established the targets of reducing poverty in the province by 50% by 2030 and eliminating it by 2035. The Poverty Elimination Strategy Act was a follow-up to the Special Committee on Poverty in PEI established by the Legislative Assembly of Prince Edward Island.

This cross-party committee tabled its final report at the end of 2020 and made 16 recommendations for eradicating poverty in PEI. One of the key recommendations of that final report was that "the Government of Prince Edward Island begin immediate negotiations with the Government of Canada for the development and implementation of a basic income guarantee program for Prince Edward Island." More recently, PEI legislators reconfirmed their support for this recommendation in a letter signed by all provincial party leaders. A guaranteed basic income (GBI) – an unconditional income-tested cash transfer paid to adults living in families with income under a certain threshold – is a promising approach to eliminate poverty in Canada and the costs associated with it.

This report outlines a proposal for a province-wide GBI for PEI residents aged 18 to 64, jointly delivered, through the tax system, and financed by the Government of Prince Edward Island and the Government of Canada. As recommended by the Special Committee on Poverty in PEI, the GBI outlined in this report has a maximum benefit of 85% of the official poverty line – estimated to be \$19,252 for a single adult and \$27,227 for a family of two adults in 2022 – and for every dollar increase in family's net income, the benefit is reduced by \$0.50. This new

benefit would complement similar income-tested basic income benefits that already exist for children – the Canada Child Benefit – and seniors – the Old Age Security and Guaranteed Income Supplement.

While supporting the objectives of Canada’s First Poverty Reduction Strategy, this proposed GBI benefit would put Prince Edward Island on a path to meet its poverty reduction targets for poverty reduction by considerably reducing the poverty rate for Islanders aged 18 to 64 from almost 10% to 1.5%. As a result, among Islanders aged 18 to 64, the proposed GBI benefit would eradicate poverty for persons with disabilities and families with children, including for single-parent families who are currently experiencing a poverty rate as high as 42%. The poverty rate of single adults aged 18 to 64 would fall from almost 30% to 3%. Furthermore, the available evidence suggests that such a program would not only provide income security to GBI recipients, but also improve their health, and for children, support better educational outcomes and greater intergenerational mobility.

Basic income proposals are often criticized for being very expensive and, therefore, hardly implementable without significantly increasing the tax burden on the middle class. This issue is addressed by using a broader definition of the family to administer this new benefit – a novel approach that previous GBI proposals have not taken advantage of. By ensuring that a greater share of the GBI expenditures is provided to families living in poverty, the proposal reduces the cost of the GBI for PEI by \$120 million or almost 40% relative to a GBI where an adult child living with their parents is considered a separate family. This, in turn, means it is possible for the PEI government to tax-finance a significant share of the proposal while simultaneously raising the after-tax income of most Islanders. Indeed, only the top 20% wealthiest Islanders would experience a modest reduction in their after-tax income. When combined with federal funding, likely reductions in provincial and federal expenditures on income-tested benefits, and reductions over time in the costs of poverty for governments, this GBI proposal can be fully financed while ensuring that most PEI taxpayers are better off.

There is also a concern that a GBI would lead workers to work less. This proposal helps to address this concern by using a broader family definition that better targets low-income families and impacts fewer workers, thereby significantly mitigating the reduction in hours worked. We found that the hours worked in PEI would be reduced by 1.5% based on recent evidence on how workers respond to changes in income and after-tax wages. This is a small reduction. For an Islander working 35 hours per week, this translates to a reduction as low as half an hour per week. We still recommend that the Government of Prince Edward Island put in place, together with the new GBI benefit, a strategy to increase participation of Islanders in the labour market and to support innovation to help address current labour shortages in the province, as well as the small impact the GBI would have on hours worked.

This proposal offers a framework for a GBI that could be implemented in PEI in partnership with the federal government. It offers a framework for either a permanent or a demonstration project. A minimum five-year demonstration project would provide an opportunity to generate evidence and allow for adjustments, if necessary, to the program, as well as a tested model for other provinces, or for a national program. We have also provided options within the report to

support flexibility – particularly with respect to the financing of the new benefit – that allow for adjustments to the proposal following discussion between the Government of Prince Edward Island and the Government of Canada.

In sum, this proposal provides a roadmap for a feasible GBI for Islanders aged 18 to 64. Together with the Canada Child Benefit, the Old Age Security (OAS)/Guaranteed Income Supplement (GIS) and the new Canada Disability Benefit reintroduced in the legislature by the Government of Canada, this proposed GBI has the potential of creating an Island without poverty, paving the way for a Canada without poverty.

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# 1. INTRODUCTION

The consequences of poverty are both deep and far-reaching. At an individual level, poverty is linked to food insecurity, poorer health outcomes, higher stress, lower educational attainment, and inadequate or unsafe housing. However, the implications of poverty extend beyond those experiencing it, from lost economic opportunities to higher expenditures in our health and criminal-legal systems.

Introduced in 2018, Canada's First Poverty Reduction Strategy acknowledged that poverty is not only a pressing issue, but also an addressable one. The strategy outlined three pillars to focus government action on poverty – dignity, opportunity and inclusion, and resilience and security – and established an official measure of poverty based on the Market Basket Measure (MBM). For the first time, it also outlined measurable poverty reduction targets for the country, including a 50% reduction in poverty by 2030.

Provincial and territorial governments are also recognizing the urgent need to address poverty. In July of 2019, the Legislative Assembly of Prince Edward Island (PEI) established the Special Committee on Poverty in PEI. The cross-party committee was tasked with making recommendations on establishing clear definitions and measures of poverty, defining a living wage for the province, and reporting fully costed recommendations regarding the creation of a guaranteed basic income for PEI. Following consultations with subject matter experts, advocates, community groups, and government officials, the Special Committee tabled their final report in November of 2020. Of the report's 16 recommendations, 13 were concerning the creation of a guaranteed basic income in PEI. Chief among these was that "the Government of Prince Edward Island begin immediate negotiations with the Government of Canada for the development and implementation of a basic income guarantee program for Prince Edward Island." The Special Committee report was followed by the Poverty Elimination Strategy Act in 2021, which established measurable targets for poverty reduction, including the ultimate goal of eliminating poverty by 2035.

A guaranteed basic income (GBI) – an unconditional cash transfer paid to adult residents living in a family with income under a certain threshold – is an effective and targeted policy response to poverty and its associated economic and social costs. Beyond being identified as a priority approach by PEI's Legislative Assembly and Special Committee on Poverty, evidence suggests that a GBI could have dramatic and positive effects not only on income security, but also on health, education, and other important social and economic outcomes. In this way, the Special Committee's call for a GBI for PEI represents an innovative and promising opportunity to offer Prince Edward Islanders the dignity, opportunity and inclusion, resilience, and security highlighted in Canada's First Poverty Reduction Strategy.

This report outlines a proposal for a province-wide GBI for PEI residents aged 18 to 64. Informed by the final report of the Special Committee on Poverty in PEI, it builds on that work by outlining a promising approach for a GBI in PEI that is implemented jointly by the provincial and federal governments. While we have assumed that our proposed GBI would be

delivered as a multi-year demonstration project, we have sought to design a program that could be implemented on a permanent basis.

Given that a province-wide GBI has not been tested in Canada to-date, a demonstration project lasting at least five years would provide an opportunity to generate evidence not only on the program's effectiveness, but also its design and delivery. It represents an invaluable opportunity to better understand what does and does not work in the administration of a GBI, not only for PEI, but for governments across the country seeking effective ways to address poverty in their own jurisdictions. For the federal government, supporting this demonstration project would generate evidence towards its goal of reducing poverty by 50% by 2030 and inform longer-term innovative poverty-reduction policy solutions.

Beginning with an overview of the current context of poverty and social assistance in PEI, we turn to outlining key design principles and decisions informing the proposed GBI program. We then illustrate the anticipated effects of the proposed program on both poverty and labour market participation in PEI. Following a discussion of financing options, implications for other programs, population-specific considerations, and evaluation, we close with final remarks and recommendations for moving forward.

## 2. POVERTY IN PRINCE EDWARD ISLAND

While more recent poverty statistics are available (for the year 2020, released in early 2022), we have opted to use 2019 data here to set the context of poverty in PEI. The onset of the COVID-19 pandemic and subsequent introduction of emergency income supports have had substantial positive effects on income and poverty rates; in 2020, more than one-quarter of Canadians received federal emergency and recovery benefits, with the poverty rate falling considerably. Given the temporary nature of the pandemic and related income support measures, 2019 data likely offer a more reliable picture of the current poverty landscape in PEI.

Table 1 on the following page shows official poverty statistics for Prince Edward Island including the *number of people living below the official poverty line*, the *poverty rate* (the proportion or percentage of the population living below the official poverty line), and the *average poverty income gap* (the difference between the official poverty line and the average income of families living in poverty).



**TABLE 1 – Summary of poverty in Prince Edward Island, 2019**

	Number of persons below the official poverty line	Poverty rate (%)	Average poverty income gap (%)
All persons	19,000	12.3	29.8
Under 18 years	4,000	14.6	20.6
In female lone-parent families	-	45.9	-
18-64 years	13,000	13.2	36.2
Single	7,000	39.2	40.9
Males	6,000	11.5	36.1
Females	7,000	14.9	36.4
65 years and over	2,000	6.9	9.4

Source: Statistics Canada, Table 11-10-0135-01

In 2019, there were 19,000 Islanders, or 12.3% of the population, living in families with incomes below the official poverty line. This poverty rate was higher than the national poverty rate of 10.3%. The poverty rate was considerably higher for individuals under 65 than for seniors; as many as 17,000 Islanders living in poverty were under 65, with more than three-quarters of these people, or 13,000, between the ages of 18 and 64. In addition to a higher rate of poverty among 18 to 64 year-olds, this group's income was, on average, further away from the official poverty line, with an average poverty income gap as large as 36.2%. Poverty rates were also higher than average among single persons aged 18 to 64 (almost 40%) and for children and their mothers living in female lone-parent families (almost 46%). Further, poverty was more prevalent among women aged 18 to 64 than men.

### CANADA'S OFFICIAL POVERTY LINE

**Canada's Official Poverty Line** is calculated using what is known as the Market Basket Measure (MBM), which reflects the combined costs of a basket of goods and services that individuals and families require to meet their basic needs and achieve a modest standard of living. The basket includes items such as healthy food, appropriate shelter and home maintenance, and clothing and transportation. It also includes other goods and services that permit engagement in the community.

The costs of each item in the basket are directly linked to the prices of these items in communities across Canada. Canada's Official Poverty Line reflects poverty thresholds for 50 different regions across the country, including 19 specific communities. Wherever individuals and families are living across the country, if they cannot afford the cost of this basket of goods and services in their community, they are living below Canada's Official Poverty Line—that is, living in poverty. Statistics Canada updates the basket regularly to reflect the reality of what is needed to participate in society today.

There are three MBM regions in Prince Edward Island: Charlottetown; Prince Edward Island, population under 30,000; and Prince Edward Island, rural. For 2020, the most recent year available, the official poverty lines for these three regions are respectively \$44,505, \$43,517, and \$42,745 for a family of two adults and two children under 18.

### 3. GUARANTEED BASIC INCOME: HOW IT RELATES TO SOCIAL ASSISTANCE

A GBI has the potential to eradicate poverty in PEI. In line with the Special Committee on Poverty in PEI, we are referring to a basic income that is income-tested, but not means-tested. We are not referring to a universal basic income or UBI, which is a uniform and unconditional payment to all citizens regardless of their income. In contrast, the GBI we are referring to offers unconditional eligibility for an income transfer to ensure a minimum level of income for everyone.

Provincial financial assistance for low-income individuals in PEI currently comes primarily from two sources: the Social Assistance program and AccessAbility Supports.<sup>1</sup> PEI's Social Assistance program provides financial assistance for living expenses on a case-by-case basis for those considered "employable" with a maximum basic annual benefit of \$16,812 for single individuals and \$22,944 for couples without children. Meanwhile, the AccessAbility Supports program<sup>2</sup> provides financial assistance for living expenses, though Assured Income, for people with disabilities, with a maximum basic annual benefit of \$18,612 for single individuals and \$24,744 for couples without children.<sup>3</sup>

The GBI program we propose differs from current provincial responses to poverty in several ways. First, provincial income assistance schemes use means-testing to determine eligibility, which includes an assessment of both income as well as individual and family assets. In contrast, eligibility for receipt of a GBI would be determined only based on family income. Further, existing income assistance programs frequently require recipients to meet certain conditions (e.g., actively seeking employment, participating in training, etc.) to remain eligible. Conversely, a GBI would be unconditional in nature.

We turn to GBI as an alternative policy response. A GBI is a promising approach to reducing poverty and improving the health, education, and social outcomes of low-income Islanders. While social assistance programs are sometimes able to offer a security net for those experiencing poverty, they are often characterized by inadequate benefit levels, social stigma, high administrative costs associated with recipient surveillance, and low uptake because of complex means-testing, conditions, and eligibility criteria.

While the receipt of a GBI would render many individuals currently receiving provincial income assistance ineligible for these benefits (because of their higher income status), our proposal assumes that the province's current income assistance programs would remain in

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<sup>1</sup> The benefit rates for Social Assistance and Assured Income in this paragraph include recent enhancements announced by the [Government of PEI](#).

<sup>2</sup> As discussed in section 9.1, this program also provides disability-specific in-kind benefits for people with disabilities.

<sup>3</sup> According to 2021 administrative data, 6,261 households in PEI received income assistance at some point during the year. Half of them received assistance for the whole year, while 20% received assistance only for a month. On a monthly basis, 4,103 households received assistance, on average, during the same year – 70% of them were single adults. Two-thirds of beneficiaries received Social Assistance, while one-third had disabilities and received Assured Income.

place for two key reasons. First, these programs offer a means for providing emergency relief in response to in-year unexpected changes in household income and circumstances. Tax-administrated benefits like the GBI are not sensitive to changes of income over the year as they are based on the income in the previous calendar year. Second, for some Islanders receiving Social Assistance or Assured Income through the AccessAbility Supports program, the GBI benefit amount would be lower than the payments they currently receive; maintaining these programs would give the province the ability to top-up GBI benefits, which we recommend and have implemented in our simulations presented below.<sup>4</sup>

Given our recommendation that existing provincial income assistance programs remain intact alongside a GBI, the PEI government may also wish to pursue strategies to improve these programs. This could include reviewing means-testing rules, exploring ways to minimize stigma, and incorporating more client-centered approaches to case management and benefit delivery, among other strategies.

## 4. DESIGNING A GBI FOR PRINCE EDWARD ISLAND

In this section, we outline key design characteristics of our proposed GBI for the province of PEI. The overall proposal and specific design decisions are informed by the guiding principles identified by the Special Committee on Poverty in PEI. These seven principles are reproduced in full in Annex A and include but are not limited to recommendations regarding conditionality, administration, and eligibility criteria for the benefit. In addition to these guiding principles, we found that key objectives – some of which mirror the Special Committee’s guiding principles – were useful in anchoring the development work that led to the proposal below. These key objectives are that a GBI benefit for Prince Edward Island should:

- Be adequate.
- Be targeted to low-income families.
- Avoid making low-income and middle-class individuals worse off.
- Come at a cost that can be financed with limited net effect on most taxpayers.
- Minimize any disincentive for Islanders to work.
- Be as simple as possible to administer, ideally within the tax system.

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<sup>4</sup> Given the rates of provincial benefits at the time of writing, such a situation occurs for recipients of income assistance (social assistance and assured income) with children – about 25% of households receiving income assistance based on administrative data. One option worth exploring for the PEI Government would be to replace these higher benefit rates for families on social assistance and assured income by a child benefit supplement for low-income families. Clients participating in the Targeted Basic Income Guarantee pilot – 625 households – would also experience a reduction in their benefits.

## 4.1 What are GBI benefit rates?

As recommended by the Special Committee on Poverty in PEI, we propose and model a GBI with a maximum benefit equivalent to 85% of the weighted average of PEI's three estimated regional poverty line thresholds for 2022. This results in a maximum annual benefit of \$19,252 for single adults and \$27,227 for families of two adults. For families with three or more adults, the maximum benefit is calculated by multiplying the maximum benefit for a single adult by the square root of the number of adults in the family.<sup>5</sup>

The benefit reduction rate is set at 50%, such that for every dollar increase in the family's net income, the benefit is reduced by \$0.50. Therefore, the benefit is reduced to zero when income reaches \$38,504 for a single adult and \$54,454 for a family of two adults. A family with no net income would receive the full maximum benefit. A summary of benefit rates by family size is provided below.

<b>GBI BENEFITS BY FAMILY SIZE</b>			
<b>Number of adults in family</b>	<b>Official poverty line</b>	<b>Maximum GBI Benefit</b>	<b>Phasing out of GBI benefit</b>
1	\$22,649	\$19,252	\$38,504
2	\$32,032	\$27,227	\$54,454
3	\$39,229	\$33,345	\$66,690
4	\$45,299	\$38,504	\$77,008

## 4.2 Who is eligible to receive the GBI?

PEI residents aged 18 to 64 would be eligible to receive the GBI, provided that their net family income is less than \$38,504 for a single adult or \$54,454 for a family of two adults (see "phasing out of GBI benefit" in the Table above). In alignment with the Special Committee on Poverty's recommendations, we do not include those under 18 in our proposal or modelling given that a national income-tested program targeting families with children under the age of 18 already exists (i.e., the Canada Child Benefit). Considerations for individuals aged 65 and older are discussed later in this report.

## 4.3 How is income defined for eligibility and administration purposes?

To determine eligibility and benefit reduction rates, we define income as the sum of net income (line 236 of the federal tax form) minus social assistance benefits (line 145 of the federal tax form) for all adults in the family. In addition, we reduce the guarantee, or the maximum benefit, by 100% of the federal GST credit for all adults in the family. For administration purposes, social assistance benefits would be removed from net income of the last year as Islanders enrolled in the GBI program would see their social assistance benefits replaced by the

<sup>5</sup> The square root rule is used by Statistics Canada as well as statistical agencies in other countries to account for economies of scale in larger families.

GBI. For adults who receive provincial income assistance because of new and unexpected circumstances, these benefit amounts would be reduced by the amount of GBI they receive.

#### 4.4 How is the family defined for eligibility and administration purposes?

Up to now we have not defined what we mean by “family.” The typical approach in the economic literature in modelling a GBI has been to use the concept of the nuclear family.<sup>6</sup> The nuclear family includes adults living alone as well as childless couples and parent(s) with children under 18. If a household includes children 18 and over living with their parents, they are considered separate nuclear families. Using the nuclear family to administer a GBI supports the objective of simplicity as it is the family unit currently used by the Canada Revenue Agency to administer benefits – such as the Canada Child Benefit and the GST/HST credit – within the tax system. Given this precedent, we began by modelling the GBI benefit with the nuclear family as the administrative unit.

As shown in Table 2, a GBI modelled using the nuclear family leads to an eradication of deep poverty<sup>7</sup> and a substantial reduction in the poverty rate of those aged 18 to 64 from almost 10% to 1.5%. However, the cost is relatively high at nearly \$310 million – over 6 times PEI’s current expenditure on income assistance programs.

Following recent research by Kevin Milligan highlighting the influential role of the family unit in the design of a GBI, we then explored how a broader family unit would better target those with low incomes and reduce program costs, while achieving similar reductions in poverty. We looked specifically to the census family, in which adult children living with their parents are considered part of the same administrative family unless these adult children have their own spouse, common law partner, and/or children living in the same household. By adopting the census family as the administrative unit, the cost of the benefit would be reduced by \$120 million, or almost 40%. Meanwhile, this achieves the same reduction in poverty as when the nuclear family is used as the administrative unit.

**TABLE 2 – Poverty reduction and cost by family unit, Islanders aged 18-64**

Family unit	Cost (\$M)	Post-GBI deep poverty rate (%)	Post-GBI poverty rate (%)	Share of GBI expenditures provided to pre-GBI poor (%)	18-64 share receiving GBI benefits (%)
Nuclear family	\$309.3	0.0	1.5	34	37.3
Census family	\$189.0	0.0	1.5	55	27.7

The poverty and deep poverty rates pre-GBI are 9.7% and 5% respectively. The GBI has a maximum benefit of 85% of the poverty line and a reduction rate of 50%.

<sup>6</sup> Some researchers have also modelled individual GBI. We are not exploring that option in this report.

<sup>7</sup> The deep poverty rate is the percentage of individuals with income below 75% of the official poverty line.

How could we get such a reduction in costs while achieving the same reduction in poverty? This is because the use of nuclear family results in a significant share of benefits being provided to adult children with low individual incomes but living in families with incomes above – sometimes considerably above – the poverty line. Indeed, using the nuclear family results in only 34% of benefit expenditures provided to individuals living in low-income families. This proportion increases to 55% when the census family is used. While this means that fewer Islanders aged 18 to 64 would receive a GBI benefit if the census family were used as the administrative unit as we propose here, those individuals would be living in families with relatively high income: for example, a family with income greater than \$66,690 for an adult child living with two parents.

Given this, we recommend using the census family as the unit to administer the GBI benefit. Using the census family leads to improved targeting of adults in low-income families, which in turn considerably reduces the costs of the program. Furthermore, as discussed later in this report, using the census family substantially reduces the impact of the GBI on labour markets as well as the impact on the middle class for tax-financing. Altogether, these features more than offset the fact that the census family is more complex to administer than the nuclear family.<sup>8</sup>

### ECONOMIC FAMILY AS AN ALTERNATIVE FAMILY UNIT

Another alternative to using the census or nuclear family would be to use the economic family. The economic family extends the census family to include other (i.e., non-immediate) relatives living in the same household, and is the family concept used by Statistics Canada to estimate and measure poverty. Simulations we did using the economic family indicate that compared to the census family, the proportion of GBI expenditures going to Islanders in pre-GBI low-income families would increase from 55% to 67%, the cost would be further lowered from \$189 million to \$151.6 million, and the reduction in hours worked by low-earnings Islanders would fall from 5% to 4.2% (see section 7 for more details). The poverty rate of Islanders aged 18 to 64 would still fall from 10% to 1.5%. If greater targeting of the benefits to low-income families or a lower overall program cost is desired, using the economic family as the unit to administer the GBI is one option to consider. More information would need to be collected by CRA to properly identify the economic family unit and more administration may be required in PEI to verify the information. Given the fluidity of low-income families, there may be benefits to using a census family unit as opposed to an economic family unit.

#### 4.5 To whom would the GBI benefit be paid?

In principle, the benefit could be provided to one adult (e.g., the principal applicant) or shared among adults in the family. We would suggest that while the benefit eligibility and amount be based on family net income, the benefit be divided and paid out equally among adults in the family by the benefit administrator. This would support the objective of greater autonomy and

<sup>8</sup> Would the census family be also a more effective way to deliver benefits such as the Canada Child Benefit and the Guaranteed Income Supplement for seniors that are based on and delivered to the nuclear family? We would argue that the family definition is a considerably less salient issue for these benefits as, for the former, it is generally accepted that parents are responsible for taking care of their children under 18, and, for the latter, the nuclear and census families tend to be equivalent.

self-determination, and follows the approach already used by the federal government in delivering the Guaranteed Income Supplement to seniors.

#### 4.6 How would the GBI benefit be administered?

The GBI benefit would be administered through the tax system.<sup>9</sup> Since we propose using the census family to administer the benefit instead of the nuclear family, the Canada Revenue Agency (CRA), together with PEI officials, would have to add a schedule to the PEI tax form to identify census families and their net income to determine benefit's eligibility and amount. While using the nuclear family to administer the GBI would be straightforward for the CRA as it already uses it to administer other benefits, using the census family is administratively more complex and costly, and requires the additional step of designing and including a new schedule to the PEI tax form.<sup>10</sup> However, given the benefits of using the census family in terms of more targeted poverty reduction impacts, the added administrative complexity associated with this option appears warranted.

The benefit would be distributed monthly from July to June based on a family's net income in the previous calendar year as assessed on their income tax return. This reflects the approach that is currently used to administer the Canada Child Benefit and the Old Age Security/Guaranteed Income Supplement.<sup>11</sup>

In addition, we would recommend updating the GBI benefit every July to account for the most recent MBM poverty thresholds as well as inflation, as measured by the Consumer Price Index, in between the year for which the most recent poverty thresholds are available and the following year.<sup>12</sup>

Ultimately, a mixed model of administration of the proposed GBI (e.g., benefit delivery, services for beneficiaries, as well as compliance and verification activities) is the best approach. For example, while income information would be collected by the CRA through the tax system, it would be shared regularly with the government of Prince Edward Island to deliver the benefits to its residents. Informal and preliminary discussions with officials from the Canada Revenue Agency and the government of Prince Edward Island confirmed that a mixed model where both levels of government would use their comparative advantage and cooperate to deliver this new benefit is the best approach.

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<sup>9</sup> Islanders should also be able to apply directly by filing a benefit form. This form should be as simple and accessible as possible, ensuring that vulnerable populations have a greater access to the new benefit.

<sup>10</sup> We have not included the cost of administering the new benefit in our cost estimates presented in section 4.4.

<sup>11</sup> Both benefits, however, are administered using the nuclear family.

<sup>12</sup> Statistics Canada updates MBM poverty thresholds every year, but the most recent year available lags behind the current year by about one year. For example, the most recent available poverty thresholds are for 2020 and were released in March 2022. Therefore, if the GBI benefit were updated in July 2022, growing the 2020 MBM poverty thresholds for inflation between 2020 and 2021 would allow for the comparison of Islanders' net income in 2021 to the best estimate of MBM poverty thresholds in 2021.

Because the GBI would be administered through the tax system, this unfortunately means that eligible Islanders who do not file their tax returns would not receive any GBI benefit. We hope that a new benefit such the GBI would provide a strong incentive for Islanders to file their tax returns. We also support the recommendation from the Special Committee on Poverty that the government of PEI implement measures to support Islanders in filing their taxes. Moreover, the government of PEI, together with non-for-profit organizations, should increase the awareness among low-income Islanders of existing simple benefit forms from CRA to access their benefits, such as the “Let us help you get your benefits!” Credit and Benefit Short Return, or the T1S-D, Credit and Benefit Return, and make these benefit forms broadly available to them.

The T1S-D Credit and Benefit Reform has been designed for Indigenous people but is not available to Indigenous people in PEI. The PEI government should open a dialogue with the federal government to understand why this form is not available to Indigenous people in PEI. More generally, the government of PEI should consult and collaborate with Indigenous people to ensure that the new GBI benefit has the maximum beneficial effect on Indigenous people and communities.

## 5. THE IMPACT OF A NEW GBI ON PEI

To simulate the impact of a new GBI in Prince Edward Island we used the Social Policy Simulation Database and Model (SPSD/M) created and maintained by Statistics Canada. We used version 28.1.1, which is based on data from the 2016 Canadian Income Survey, as available from the Public Use Microdata File. Furthermore, we applied the SPSD/M growth factors to that database such that population, income, and MBM poverty thresholds are scaled up to 2022 estimates.

### 5.1 Poverty reduction impacts

Implementing our proposed GBI benefit in PEI for those aged 18 to 64 would lead to the eradication of deep poverty, as well as a substantial reduction in the overall poverty rate from about 10% to 1.5%.

Table 3 provides more detailed information on the poverty reduction achieved for those aged 18 to 64 as well as children.<sup>13</sup> First, poverty is essentially eradicated for families with children,

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<sup>13</sup> Because the model simulating the impact of a GBI on PEI uses data from SPSD/M, the poverty rates in this section differ from those presented earlier in the report from the Canadian Income Survey. For example, the poverty rate of PEI residents aged 18 to 64 provided by SPSD/M and the Canadian Income Survey is 9.7% and 13.2%, respectively. This difference is largely attributable to year-over-year changes: the poverty rate in SPSD/M is calculated using 2016 data, while the Canadian Income Survey uses 2019 data. In addition, SPSD/M is based on the Public Use Microdata File of the Canadian Income Survey, which differs from the Canadian Income Survey for several reasons (e.g., confidentiality, changes in weights). To assess the sensitivity of our results to baseline data, we have re-run simulations with SPSD/M calibrated with 2017 data. The baseline poverty rate in that version is 11.7% for Islanders aged 18 to 64, considerably higher than the rate of 9.7% in our modelling and closer to the 2019 poverty rate of 12.9% in the Canadian Income Survey. In relative terms, the quantitative results presented in this report are maintained when we use the 2017-based SPSD/M simulations. For example, the percentage reduction in the poverty rate for Islanders aged 18 to 64 is about 80% in both simulations.



both for single-parent and two-parent families. Second, for persons living alone, the poverty rate falls significantly from almost 29% to 3%. Finally, for persons with disabilities, poverty is essentially eliminated.<sup>14</sup> Additional considerations for persons with disabilities are discussed later in this report.

**TABLE 3 – Poverty reduction for families and children, census family as the administrative unit**

	Pre-GBI poverty rate (%)	Post-GBI poverty rate (%)
<b>All persons aged 18-64</b>	<b>9.7</b>	<b>1.5</b>
<i>Family with children under 18 years</i>		
Single parent	42.0	0.0
Two parents	3.2	0.1
Children under 18 years	6.2	0.1
<i>Family without children under 18 years</i>		
Single	28.9	3.0
Two or more adults	7.3	2.3
<b>Persons with disabilities*</b>	<b>6.6</b>	<b>0.1</b>

\*Corresponds to persons aged 18-64 in receipt of either a CPP disability benefit or a disability tax credit.

## 5.2 Poverty reduction benefits

Available evidence widely points to the dire effects of poverty for those experiencing it, including poor mental and physical health outcomes, housing and food security, and intergenerational impacts for children and families. In other words, we suspect that the full range of impacts associated with the proposed GBI cannot be fully captured by the statistics presented here. Through considerable reductions in poverty, we might also anticipate the benefit to support positive and long-term outcomes related to health and wellbeing, education, housing, and community involvement, among other areas.

Beyond the significant social, health, and economic consequences for those experiencing poverty, poverty also poses several implications for society at large. For instance, a 2008 report by the Ontario Association of Food Banks concluded that the economic cost of poverty in Ontario was between \$32.2 and \$38.3 billion, or up to 6.6% of Ontario's GDP. For Prince Edward Island this would correspond to a total cost of poverty of \$495 million. These estimated economic costs include costs associated with health care, crime, intergenerational poverty transmission, and lost economic activity. About one-third of these economic costs reflected higher expenditures and lower revenues for the Ontario government. A major part of higher government costs were higher health care expenditures: the report demonstrated that 40% of Ontario's population representing the two lowest income quintiles in the province accounted for more than 50% of public health care expenditures.<sup>15</sup> Further, it concluded that Ontario's

<sup>14</sup> Broader aspects of poverty among persons with disabilities are discussed in section 9.1.

<sup>15</sup> While the link between income and health is well established in the literature, this relationship is likely a bidirectional one. Higher income likely leads to better health and better health likely leads to greater participation to the labour market

health care costs could be reduced by 7% if public health expenditures just for the bottom income quintile were reduced to the level of expenditures observed for the second quintile. With respect to evidence from basic income pilots, Evelyn Forget's (2011) analysis of the Mincome experiment in Manitoba found material impacts on health outcomes among participants in small town of Dauphin: relative to controls, visits to family doctors as well as hospitalizations fell, the latter by 8.5%.<sup>16</sup> To put both of these results in context, public health expenditures for Prince Edward Island in 2021 were about \$1 billion; just 7% of these total health expenditures corresponds to \$70 million.

A recent paper that comprehensively reviews the impact of U.S. social policies shows that investments in children's health and education have a very high rate of return for both children and broader society. Indeed, these investments often more than pay for themselves over time. Further, a recent review of Canadian studies also concludes that "cash transfer programs to families with children in Canada are associated with better child and parental health outcomes." Since the GBI proposed here would essentially eliminate poverty for families with children, one would expect considerable immediate and long-term benefits, leading over time to higher potential economic growth and, hence, benefits for all Islanders.

### 5.3 Modelling limitations

It is important to note a few limitations inherently associated with the modelling approach used in developing this proposal. One issue is the representativeness of the population eligible to receive the new GBI benefit in our modelling. Since the model we used is based on the Canadian Income Survey, it excludes Indigenous peoples living on reserve. Indigenous peoples living on reserve who file their tax return or simplified benefit forms would indeed receive the GBI benefit, however they are missing from our simulations due to their exclusion from the Canadian Income Survey. According to the National Household Survey, 2,230 Indigenous peoples were living in PEI in 2011, representing 2% of the population of that province; of that, 435, or 0.4% of the province's population, were living on reserve.

The Canadian Income Survey also uses imputation for people with missing tax information. In practice, otherwise-eligible individuals who had not filed a tax return would not receive the GBI benefit but are represented as recipients in our simulations. For context, Robson and Schwartz (2020) suggest that 9.4% of those aged 25 to 64 in Atlantic provinces do not file tax returns. However, the proportion of low-income Islanders that would be eligible for the new GBI benefit and not receive it is likely higher than this estimate, as the national statistics presented in their study show that the proportion of people not filing tax returns is considerably higher for low-income individuals as well as for those aged 18 to 24, who are included in our simulations. This suggests that about 15% of those aged 18 to 64 who are eligible and accounted for as receiving the GBI benefit in our simulations would not receive it initially and until they file their taxes or simplified benefit forms. Based on this rough estimate,

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and higher earnings. It is only if the relationship runs only from health to income that the potential savings noted above are misleading. In that respect, recent evidence suggests that the impact of income on health, indeed, dominates.

<sup>16</sup> A review of the qualitative impact of the recent and prematurely terminated Ontario Basic Income Pilot comes to similar conclusions.

if these eligible Islanders received the average GBI benefit in our simulations – a likely conservative assumption – this would reduce the annual cost of the GBI program in early years by \$28 million.<sup>17</sup> This reduced cost hopefully would decline over time as initiatives to promote tax filing and access to benefits identified in section 4.6 are implemented.

## 6. FINANCING THE GBI BENEFIT

Many GBI proposals suggest financing that modifies or eliminates tax credits or increases taxes, leaving the middle class worse off as their taxes increase more than the GBI benefits they receive. Given the cost reduction obtained by using the census family as the administrative unit, it appears useful to revisit the financing issue in the context of our specific proposal for a GBI for Prince Edward Island. More precisely, assuming a partnership with the federal government, we consider some of the options that would be available to finance our proposed GBI under the existing federal tax system while ensuring that the middle class is better off and that the bulk of the net financial cost is coming from the wealthiest Islanders.

Of note, our use of the census family unit to administer a GBI for PEI reduces the cost of the program by almost 40% when compared with our simulations using the nuclear family, resulting in a reduction in financing requirements of \$120 million and a remaining upfront investment of \$189 million, which might be somewhat lower initially as the GBI is rolled out.<sup>18</sup> Assuming a partnership with the federal government, there are several ways for the Government of PEI to finance its share of the proposed GBI program sustainably, while ensuring that most taxpayers are better off and the bulk of the net financing comes from the wealthiest Islanders.

First and foremost, the federal government should be interested in funding a significant part of the benefit to gather evidence for a possible national program and help meet the goals of its Poverty Reduction Strategy. In addition, federal financial support for a demonstration project would be partially offset by reduced expenditures on existing federal income-tested benefits currently delivered to PEI residents, such as the Canada Child Benefit and GST credit (see section 8.2). Presumably the federal share would be a matter of negotiation and would come via a transfer to the PEI government.

Second, we would note that Prince Edward Island is coming out of the pandemic in a solid financial position. The Public Accounts for the 2021-2022 fiscal year reported a surplus of \$84 million and the province has had a fiscal surplus in four of the last five years. The 2022-23 Fiscal and Economic Update projects a deficit of \$ 94.8 million in 2022-23, but this forecast

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<sup>17</sup> The lower take-up of benefits would also likely lower the poverty reduction impacts presented in this report in early implementation years.

<sup>18</sup> As previously mentioned, we assume in our modelling that all Islanders aged 18 to 64 who are eligible would receive a GBI. However, only eligible recipients who file their tax return would receive the benefit. Otherwise-eligible recipients who do not complete their tax returns would not receive the benefit, which we estimate would reduce the cost of the GBI by about \$28 million in the early years of implementation. While the Government of PEI should take actions to increase the take-up of the benefit, it remains the case that the total initial investment in the early years of implementation would be lower than anticipated.

includes temporary spending of \$176.3 million for Hurricane Fiona response and recovery as well as programs helping Islanders cope with higher inflation that would largely not be expected to continue in subsequent years. A return to budget surplus combined with a relatively low net debt as a percentage of GDP of 26.4%, the fourth lowest among provinces, puts PEI in a good fiscal position to finance this proposed GBI from provincial resources and to attenuate reliance on tax increases or public spending reductions.

Third, there will clearly be some savings to existing income support programs when the GBI is instituted. We estimate that the proposed GBI benefit administered using the census family would reduce PEI's social assistance expenditure by about \$17.5 million.<sup>19</sup> This is a conservative estimate, however, and the reduction in expenditures for social assistance and other income assistance programs in PEI may well be larger than we have estimated. Moreover, the Government of PEI may want to review income-tested provincial benefits (see section 8.2) in light of the new benefits provided by the GBI.

Fourth, the province may increase its revenues to pay for the GBI through tax increases. An increase in the provincial sales tax (PST) would provide substantial new revenue. Although its impact would be widespread and include lower- and middle-income Islanders, that could be offset by an increase in the harmonized sales tax (HST) credit as well as the new GBI benefit. An increase in the provincial income tax (PIT) would also raise significant new revenue and could be targeted at the top marginal tax rate to focus the impact on the wealthiest taxpayers. The province could also consider reductions in existing provincial tax credits (the basic personal amount and other credits) or an increase in the general corporate tax rate. We illustrate the impact of modest increases in the PST and PIT as a resource for financing the GBI in Annex B. It shows that it is possible for PEI to raise revenues covering nearly 40% of the cost of the new GBI program while ensuring that Islanders with low-income and in the middle class would be better off, when accounting for the GBI benefit they would receive.

Finally and importantly, the evidence available suggests that reducing poverty in the fashion our GBI achieves (see section 5.1) will have considerable positive spillovers over time for the economy and the budgetary position of both provincial and federal governments (see section 5.2).

Overall, we conclude that there are many options to finance a GBI benefit in PEI while ensuring that most taxpayers, particularly taxpayers in the bottom 80% of the income distribution, are better off. The ultimate financing approach would be the decision of the government of PEI and might include options not considered in this section.

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<sup>19</sup> From SPSPD/M, we know the total annual benefit social assistance recipients received. Therefore, we calculated the savings as the lesser of the total social assistance benefit or the GBI benefit they received.

## 7. HOW WOULD THE GBI BENEFIT IMPACT THE LABOUR MARKET?

The results presented above account for the labour supply adjustments made by workers receiving the GBI benefit and facing higher taxes. Changes in labour force participation and hours worked in response to the changes in income and after-tax wages of Islanders aged 18 to 64 are estimated based on the methodology and labour supply elasticities documented in Stevens and Simpson (2017).<sup>20</sup> Table 4 shows the impact of the GBI benefit and tax changes<sup>21</sup> on the hours worked by individual annual earnings quintiles. The results are for those who received as well as those who did not receive the GBI benefit as it is the combined effect on the entire labour force that is of interest.

The impact on hours worked is larger for workers with lower earnings, as they would receive higher GBI amounts. When the nuclear family is used to administer the benefit, low-earnings workers reduce their hours by about 8%, while total hours worked in the PEI economy are reduced by 2.2%. This is higher than the estimate of the Parliamentary Budget Officer study that found a reduction of 1.4% of total hours worked in PEI with the introduction of a GBI with benefit rates that are lower than those proposed here (\$16,989 for a single person and \$24,027 for a couple, or 75% of the 2022 MBM poverty thresholds).<sup>22,23</sup>

Because it is a targeted approach that impacts less workers, using the census family as the administrative unit reduces the negative impact on hours worked by about 40% - a reduction of about 5% instead of about 8% - for low-income workers, compared to a benefit that uses the nuclear family. For the whole economy, this means that the fall in hours worked is reduced from 2.2% to 1.5% (in line with the PBO estimate). For Islanders with low earnings, this translates to a reduction of 50 hours per year, while for all workers aged 18 to 64, it translates to a reduction of 25 hours per year.

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<sup>20</sup> Changes in after-tax wages correspond to changes in marginal effective tax rates associated with the introduction of the GBI benefit.

<sup>21</sup> Without presuming how the PEI government would finance the GBI benefit, we have assumed that the tax changes illustrated in Annex B would be used to finance the new benefit and have hence included their impact on hours worked.

<sup>22</sup> These amounts correspond to those set out in the Ontario's 2017 basic income pilot project. At the time, the project ensured that participants received a maximum benefit of 75% of the low-income measure. As noted above, these amounts also happen to be equivalent to 75% of the 2022 MBM poverty thresholds on which our analysis is based.

<sup>23</sup> When using the nuclear family as the administrative unit for the benefit, our estimate of the reduction in hours worked is larger than that of the PBO because the maximum benefit and the mix of labour supply elasticities are somewhat higher in our analysis.

**TABLE 4 – The impact on hours worked by level of annual earnings, adults aged 18-64 with earnings**

Annual after-tax earnings quintile	Annual average hours worked	Average reduction in hours worked (%)	
		Nuclear family	Census family
Min-\$9,871	1,011	8.2	5.0
\$9,872 - \$19,255	1,530	8.0	5.6
\$19,256 - \$30,780	1,910	2.8	2.0
\$30,781 - \$45,411	2,065	0.5	0.4
\$45,412 and over	2,117	0.1	0.1
All	1,729	2.2	1.5

Are these reductions in hours worked small or large? First, the reduction of 1.5% of total hours worked is in line with the result obtained by the PBO for PEI. The PBO describes these impacts on labour supply as “small.” Second, David Green, Chair of the BC Basic Income Panel, in a review of labour supply issues related to a basic income (one of the papers produced to support the Panel) concludes:

*“Overall, based on estimates in various related literature (...) a shift to a generous basic income scheme would likely have limited impacts on total hours works in the economy. (...) At the same time, there are some groups – notably those without children – from whom predicted hours reductions are somewhat larger. Concerns for those groups could be mitigated by implementing a wage or earnings subsidy in conjunction with the basic income. But the key conclusion is that hours impacts are likely not large enough for them to be the main factor on deciding whether to adopt a basic income.” (p.5)*

In sum, there is consensus that the impact on of a guaranteed basic income as proposed in this report would have a small and manageable impact on labour markets. There is also a consensus that low-wage workers would likely reduce their hours worked somewhat more than other workers. As noted by David Green, this could be addressed by adapting the Canada Workers Benefit in PEI – which is allowed by the federal government – or more generally by implementing a labour market strategy that would support participation of Islanders in labour markets, innovation, and higher productivity.

The expected labour market impacts discussed above are short-term. What would medium- and longer-term impacts be? There are reasons to believe that the negative short-term impact on labour supply would be reduced and become positive in the long run. First, there is evidence that some of those receiving benefits who stop working would return to school or begin training with the intention of re-entering the labour market later as more qualified workers.<sup>24</sup> Second, as discussed in section 5.2, recent evidence suggests that social programs that support low-income families via cash transfers or otherwise lead to better educational, health and labour market outcomes for their children.<sup>25</sup> This suggests that a GBI has the potential to lead to a more productive workforce and stronger economic growth.

<sup>24</sup> See the [review](#) by Marinescu (2018) and the [review](#) of the impact of the recent and prematurely terminated Ontario Basic Income Pilot.

<sup>25</sup> See [Hendren and Sprung-Keyser \(2020\)](#), [Cooper and Stewart \(2017\)](#), [Garfinkel et al. \(2021\)](#) and [Sherman and Mitchell \(2017\)](#).

## 8. HOW WOULD THE GBI BENEFIT INTERACT WITH OTHER BENEFITS?

This section briefly discusses how a new GBI might interact with some existing provincial and federal benefits. The interaction between the new GBI and other benefits would depend on how the GBI is treated within the federal tax and benefit system. Based on informal discussions with CRA officials, their preliminary assessment is that a GBI in PEI would be treated as not taxable but included in net income. This is consistent with how income from provincial social assistance programs and the federal Guaranteed Income Supplement (GIS) for seniors is currently treated.

The discussion presented below is not exhaustive. We recommend that a comprehensive analysis of interactions between any new GBI benefit and existing or future federal and provincial benefits be conducted prior to implementation.

### 8.1 Non-income-tested benefits

As mentioned earlier, our proposed GBI would be administered within the tax system, with the amounts updated every July based on the family net income in the previous year. This means that all types of income included in net income (as per line 236 of the federal tax form), such as Canada Pension Plan (CPP) retirement income or Employment Insurance (EI) benefits, would have an impact on GBI eligibility and amount. However, for these two programs, the reverse would not happen. This is to say that any CPP retirement income or EI benefits received by Islanders would be unaffected by the GBI benefit they receive. This is because CPP retirement income is determined by contributions made by employees and their employers throughout their work life, while EI benefits are only affected by employment-related earnings.

### 8.2 Income-tested benefits

How would the new GBI benefit interact with federal income-tested benefits such as the Canada Child Benefit (CCB) or the Goods and Services Tax Credit (GST credit)? Since receiving a GBI would increase net income, it may result in reduced amounts for these other benefits.<sup>26</sup> Additional simulations conducted as part of our analysis that are not presented here suggest that the introduction of a GBI would reduce federal CCB expenditures in PEI, however, the poverty reduction effects achieved would remain intact.

As for provincial benefits, we echo the recommendation from the Special Committee on Poverty in PEI “that the Government of PEI (...) commits to maintaining all other social programs and services that support people with low income, regardless of the implementation of any basic income guarantee in the province.” We take this to mean that current provincial programs in PEI would remain unchanged with the introduction of a GBI. However, benefit

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<sup>26</sup> With respect to the CCB, this would mainly affect families with net income over the official poverty line as the CCB begins to be reduced only when family net income reaches \$32,797. The same would apply to the GST credit as it begins to be reduced only when family net income reaches about \$40,000.

amounts received from these other programs would likely be reduced or eliminated for some individuals who have a higher income status because they receive the GBI benefit.

If the interaction between provincial benefits and the GBI leads to undesired reductions for those currently receiving provincial benefits, the PEI government should consider adjusting the eligibility criteria of these programs to make them more accessible. In general, we recommend that existing programs with potential interacting effects be reviewed to support their alignment with the proposed GBI. As discussed below, this may be especially important to consider the context of disability-related supports such as the AccessAbility program. In effect, public directives, regulations, or legislation regarding provincial benefits in PEI could be adjusted to mitigate or eliminate the impact of the new GBI on these benefits. While we do not want to presume what the Government of Prince Edward Island would do, this process, where eligibility rules are adjusted (fully or partially) for some benefits and not for others, is likely to lead to lower expenditures on income-tested benefits for the PEI government.

## 9. CONSIDERATIONS FOR SPECIFIC POPULATIONS

This section discusses some implications of our proposed GBI for specific populations within PEI, and highlights issues for the Government of PEI to consider in finalizing the design of this new program.

### 9.1 Persons with disabilities

As noted earlier, the GBI benefit could lead to considerable increases in incomes among persons with disabilities in PEI by essentially eliminating poverty among them. However, poverty statistics most likely underestimate the prevalence and depth of poverty among persons with disabilities because they do not account for the higher costs of living faced by this population. In addition, only those who receive the Disability Tax Credit or Canada Pension Plan Disability Benefit are accounted for in our modelling of poverty reduction impacts, meaning that people with disabilities who are not currently receiving these benefits are not represented in our estimates.

As a rule, the Government of Prince Edward Island should ensure that no Islanders with disabilities are worse off with the GBI benefit than under current programming. In the simulations we have presented in this report, we ensured that Islanders with disabilities receiving income assistance would not receive less than they are currently receiving.

PEI currently provides financial support to people with disabilities through the AccessAbility Supports program. This program offers multiple types of support, including disability-specific in-kind supports and modest income support through the Assured Income program, which mirrors benefits delivered through the province's Social Assistance program. One of the guiding principles for the design of a GBI program from the report from the Special Committee on Poverty in PEI includes the recognition that many would-be recipients will require additional non-income support. For this reason, it is especially important that the Government of PEI maintain existing supports such as the AccessAbility Supports program, which provides



in-kind personal care, housing, community, and caregiver support for Islanders with long-term disabilities. The implementation of the GBI cannot replace targeted essential programs like AccessAbility Supports, which provide disability-specific in-kind social supports; therefore, these programs need to remain in place alongside the introduction of any GBI program.

As for persons with disabilities receiving income support for living expenses through Assured Income, that program's current annual maximum payment rates for most recipients are lower than the maximum benefit rate of the proposed GBI, with some exceptions.<sup>27</sup> At the same time, it should be noted that people with disabilities currently receiving Assured Income through the AccessAbility Supports program get an annual supplement of \$1,800 relative to clients in the same family situation who receive Social Assistance. The Government of PEI should maintain that supplement for persons with disabilities who receive the GBI benefit. The forthcoming introduction of the Canada Disability Benefit by the federal government may also have implications for a provincial GBI program in PEI, which will need to be considered and addressed as details of that program become available.

## 9.2 Youth and students

The prevalence of poverty among young people in Canada means a large share of any total GBI expenditure will fund benefits for youth. There is strong potential associated with investing in a GBI that includes young people to support them to establish income stability early in their adulthood and support other outcomes like educational attainment and labour market participation. The recent rise of targeted unconditional cash transfer programs for various groups of young people both in Canada and abroad further illustrates the growing consensus of the importance of supporting youth to thrive early in the life course.

Youth might also be most impacted by the choice of family unit for GBI administration since younger adults may be more likely to be living with their parents into early adulthood. For example, students may move into and out of their parents' household throughout the year (e.g., when pursuing post-secondary education), complicating the administrative determination of where they live and who "counts" as a member of a census family for the purposes of determining GBI eligibility and amount. Using the census family as the administrative unit for the proposed GBI ensures that youth are eligible for the benefit but adjusts the benefit amount according to the income of the family in which they live. Ultimately, using the census rather than nuclear family as the administrative unit leads to a considerable reduction in overall expenditures. By accounting for parents' income, using the census family results in 40% of the total GBI expenditures being administered to PEI residents aged 18 to 29, compared to 55% when the nuclear family is used. While using the census family results in young people making up a smaller proportion of GBI expenditures, this design decision achieves greater targeting by

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<sup>27</sup> According to administrative data, the exceptions would be persons with disabilities with children under 18 – about 50 households – and those participating in the Target Basic Income Guaranteed pilot – about 200 households – that receive a higher maximum benefit through the AccessAbility Supports program than that offered by the GBI. In addition, some young adults with disabilities living with their parents – about 450 households – may experience a reduction in their benefits because the census family is used to determine the GBI eligibility and benefit amounts. We recommend that those recipients continue to be served by the current Assured Income program to not experience a reduction in benefits.

avoiding the distribution of benefits to youth with low individual incomes living in high-income family households.

As part of the design and delivery of a GBI in PEI, the provincial and federal governments should consider how the proposed benefit might interact with other programs currently targeted to young people. Support for low-income students is one salient example. The Student Financial Assistance Program provides support to students from low-income families based on family and student total income. Therefore, based on these current program eligibility rules, the GBI benefit may largely lead to a reduction in student loans and grants. This underscores the importance of having PEI and federal officials beginning to work together early on to assess interactions between provincial and federal benefits and designing appropriate changes to eligibility rules to ensure that the GBI benefit would not largely displace federal programs supporting low-income individuals and families. For example, decision makers may wish to consider whether and how loans and grants are included when determining GBI eligibility and benefit rates, as well as whether GBI payments would be considered as income when determining eligibility and the amount of loans and grants by the Student Financial Assistance Program.

As referenced elsewhere in this report, it is crucial that a GBI be complemented by other strong social services and in-kind supports. For youth – particularly those who are not in employment, education or training or are experiencing challenges related to mental health or substance use – GBI would be most effective when paired with targeted training and wraparound supports. In any case, the proposed demonstration will offer a valuable opportunity to understand better the unique effects of a GBI for young people, and how it may be best designed to support youth to thrive in education, work, or other endeavours (e.g., caregiving or voluntary work).

### 9.3 Women, gender, and GBA+

In its guiding principles, the Special Committee on Poverty in PEI emphasized the importance of a GBI being “equitable for all people,” supported through a consideration of the program through the lens of gender, sexuality, ability, and other social locations. Recognizing this as well as the federal government’s commitment to adopting a Gender-Based Analysis Plus (GBA+) lens throughout its policies and programs, we briefly consider the anticipated gender and other equity-related implications of a GBI program in PEI.

Relative to men, women in Canada are more likely to experience poverty, be precariously employed in low-waged work, and receive less in pension and other contributory programs. Existing research has also highlighted the disproportionate effects of poverty on LGBTQ2S+, racialized, and disabled people in Canada. While strong public services also play a crucial role in supporting equity-deserving groups in Canada, existing evidence points to the transformative potential of a GBI program in addressing material inequities affecting these populations.

The design and administration of any GBI program is likely to play a significant role in determining its impacts for equity-deserving groups, including but not limited to women. Applying a GBA+ lens to the implementation of a GBI will be important in ensuring that the

positive effects of such a program are distributed equitably among PEI residents. For example, our earlier recommendation that the GBI payment be paid individually to adults within a household responds to feminists' emphasis on the importance of supporting women's economic independence by ensuring that the benefit is not delivered solely to the primary breadwinner. The PEI and federal governments should aim to identify and address this and any other design-related considerations in implementing a GBI program. Further, the inclusive and systematic collection of participants' demographic information will be essential to supporting detailed outcomes analyses for the program.

## 9.4 Seniors

Our proposed GBI includes PEI residents aged 18 to 64.<sup>28</sup> This departs from the Special Committee on Poverty in PEI's recommendation that a GBI program be available to all adult residents aged 18 and older, including seniors. This departure from the Special Committee's recommendation is informed by the GBI's anticipated interactions with currently available seniors' benefits in PEI. Currently, seniors in Canada have access to Old Age Security (OAS) and – for low-income seniors – Guaranteed Income Supplement (GIS). Given this current policy context, including seniors in the proposed GBI is not likely to result in significant increases in income among this population. For instance, it is our interpretation that a strict application of the OAS Act would lead to a reduction of up to \$0.75 of GIS for each dollar of GBI received.<sup>29</sup>

But, more importantly, would seniors be better off with a GBI program, with a maximum benefit of 85% of the official poverty line, than they currently are? Our analysis suggests they would not be better off. As of the third quarter of 2022, the maximum annual combined OAS/GIS benefit is \$19,954 for single adults and \$30,393 for couples. In addition, Prince Edward Island has its own supplement for low-income seniors – the Seniors Independence Initiative – with a yearly maximum benefit of \$1,700 for single adults and couples. This means that the combined maximum federal/provincial benefit is \$21,654 for single adults and \$32,093 for couples, corresponding respectively to 96% and 100% of the official poverty line. This is

<sup>28</sup> Since the GBI benefit is for those aged 18 to 64 but based on the family income, a rule had to be established in the modelling work for "mixed families" with adults aged 65 and over as well as adults aged 18 to 64. For these mixed families, we calculated the net income of the census family, determined the GBI eligibility and amount, and divided the GBI amount by the number of adults in the family, including those aged 65 and over. However, the resulting individual GBI benefit was only provided to the adults aged 18 to 64 in these mixed families in our simulations. An alternative approach would be to follow the same initial steps but to divide the family GBI only among those aged 18 to 64 in the mixed family. This would increase the GBI payments for those eligible in these families and slightly increase the cost of the program.

<sup>29</sup> Under the OAS Act, income for a calendar year is calculated in accordance with the Income Tax Act. Essentially, an individual's net income is used to calculate their entitlement to the GIS. However, some exceptions to this general rule are prescribed under the OAS Act. For example, all OAS benefits are excluded from the calculation of net income, as are social assistance benefits, provincial and territorial seniors' benefits, and CPP contributions and EI premiums. The OAS Act also provides a GIS earnings exemption that allows seniors to exempt a portion of their employment or self-employment earnings from the GIS calculation. The earnings exemption provides a full exemption on up to \$5,000 of annual earnings, as well as a 50% exemption on the next \$10,000 of earnings. It is our interpretation that none of these exemptions would apply to a GBI for those aged 18 to 64 like the one we have proposed here.

higher than the maximum benefit they would receive under the GBI program – \$19,252 for single adults and \$27,227 for couples.<sup>30</sup>

Overall, this suggests that the best approach to improve the financial security of seniors in PEI would be to build on programs that already exist. The Government of PEI may wish to pursue strategies to increase uptake of existing seniors' benefits. For example, it may want to explore the feasibility of using the tax system for auto-enrolling eligible seniors into the Seniors Independence Initiative, which currently relies only on a form-based application to determine eligibility and payments. Furthermore, the Government may consider increasing the benefit rate under the Seniors Independence Initiative.<sup>31</sup>

## 10. EVALUATION

Finally, we would like to emphasize the importance of ensuring that any GBI implemented in PEI is accompanied by rigorous evaluation efforts. While a wealth of evidence regarding unconditional cash transfer programs exists both in Canada and elsewhere,<sup>32</sup> an evaluation focused on both process and outcomes could offer valuable insights related to the implementation and effects of a GBI program in Canada. It should be noted that while we are proposing a framework tailored to PEI, the federal government may wish to consider the benefits of having similar demonstration projects operating simultaneously in other provinces or territories (e.g., to support comparative analyses across regions).

An explicit focus on implementation would support any evaluation to address questions of GBI administration that have been largely unanswered to-date and recognized as a significant research gap: for instance, the effectiveness and efficiency of administering a GBI via the federal tax system. Evaluative efforts should focus on outcomes across a range of domains, including but not limited to poverty, health, employment and wages, education and training, and life satisfaction. Provincial and federal administrative data would provide the most robust information on many of these indicators, which could be complemented by regular surveys conducted by Statistics Canada. Other data sources might include participant surveys as well as

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<sup>30</sup> In addition, since July 2022, seniors aged 75 and over have seen their OAS benefit increased by 10%. This translates into a maximum annual increase of \$833 and means, for example, that the combined maximum annual federal/provincial benefit for single seniors aged 75 and over is \$22,477 or 99% of poverty line threshold of \$22,649

<sup>31</sup> As shown in Table 1 of this report, the poverty rate of seniors in Prince Edward Island was 6.9% in 2019 and, on average, these seniors had an income 9.4% below the official poverty line. Given programs in place in the province, both statistics seem high to us. What could explain this seemingly high poverty rate for seniors? First, it may reflect, as noted above, that some seniors eligible for provincial income support are not applying for it and hence do not receive it. Second, it may mean that seniors who are receiving provincial income support through the Seniors Independence Initiative are not captured by Statistics Canada. According to the Canadian Income Survey, government transfers include the main federal benefits and provincial tax credits. At first glance, this suggests that the Seniors Independence Initiative may not be accounted for in poverty statistics. Finally, this may reflect that some seniors who are eligible for OAS and GIS benefits do not receive it if they do not file their tax returns: Robson and Schwartz (2020) estimate that almost 5% of Canadian seniors do not file tax returns. These three issues may affect poverty statistics for seniors and deserve to be explored in future research as they will have different implications for public policies.

<sup>32</sup> A recent review of the economic and social impacts of basic income pilots and experiments in the world can be found [here](#).

interviews with participants, caseworkers, and others involved in the GBI's design and administration.

An external team or agency would be best suited for evaluating the proposed GBI program. Ideally, the evaluation team would include and/or engage with representatives and advisors from multiple levels of government (i.e., federal, provincial, municipal, and Indigenous), Statistics Canada, PEI civil society organizations, people with lived experience of poverty, and those involved in business, academia, and advocacy activities. Should the GBI be implemented as a demonstration project, it is important that its duration be such that sufficient data can be collected, analyzed, and compared with similar provinces and/or pre-measures from participants and non-participants. This would require a minimum of five years.

## 11. CONCLUSION

This report outlined a framework for the design and delivery of a guaranteed basic income for PEI residents aged 18 to 64. Our analysis led us to recommend using the census family as the unit to administer the GBI benefit, instead of the nuclear family which is used by the CRA to deliver federal benefits through the tax system. Using the census family (which includes children over 18 living in the same household as their parents) leads to a greater proportion of the benefit's funding being provided to adults in low-income families, therefore achieving more targeted poverty reduction impacts, while considerably reducing the cost of the program and the impact on labour markets. Furthermore, reducing the costs allows for most of the financing for this new benefit implemented in partnership with the federal government to be provided by a modest increase in the tax burden for the wealthiest PEI taxpayers.

With a maximum benefit set at 85% of the 2022 official poverty line, the proposed program would have major implications for poverty in PEI: the poverty rate among those aged 18 to 64 would be reduced by 85%, and deep poverty would be eradicated. Poverty would also be eradicated for single-parent and two-parent families with children, while the high level of poverty among Islanders living alone (39.2%) would be reduced by as much as 90%.

Our analysis indicates a small impact of the GBI benefit on labour markets, like those suggested by a recent study of the Parliamentary Budget Officer. Furthermore, we highlighted that those modest impacts are most likely to occur among low-income workers, who are likely working for low wages or part time. While these impacts would be small, they would add to labour shortages that PEI is already facing. We would therefore recommend that the government of Prince Edward Island implement, in parallel to the GBI, a labour market strategy to support these workers and the sectors employing them. This strategy could be built on pillars such as adjustments to the Canada Workers Benefit, immigration, skills development, training, as well as capital investment and innovation.

The information we gathered also led us to recommend a mixed model for the administration of this new benefit. Following this approach, agencies and departments from the federal government and the government of Prince Edward Island would share information and

cooperate to deliver and administer the GBI benefit. While we have begun to explore how existing federal and provincial benefits may interact with the proposed GBI, we strongly recommend that a more comprehensive analysis be conducted along these lines. Furthermore, discussions between relevant stakeholders at both the provincial and federal levels begin imminently to clarify outstanding administrative questions. This includes but is not limited to those identified throughout this proposal (e.g., approaches to defining and tracking residency to determine eligibility, process for identifying individuals living in census families, etc.).

This proposal offers a framework for a GBI that could be implemented in PEI in partnership with the federal government. It offers a framework for either a permanent program or a multi-year demonstration project. Given that a province-wide GBI has not been tested in Canada to-date, a demonstration project lasting at least five years would provide an opportunity to generate evidence not only on the program's effectiveness, but also its design and delivery. It represents an invaluable opportunity to better understand what does and does not work in the administration of a GBI, not only for PEI, but for governments across the country seeking effective ways to address poverty in their own jurisdictions. We have also sought to offer options to support flexibility – particularly with respect to the financing of the new benefit – that allow for adjustments to the proposal following discussion between the Government of Prince Edward Island and the Government of Canada.

In conclusion, the proposal presented in this report is a roadmap for a Guaranteed Basic Income for Islanders aged 18 to 64 that is feasible and affordable. It offers a GBI benefit that can target adults in low-income families considerably better than any other proposals to-date. Together with the Canada Child Benefit, the Old Age Security/Guaranteed Income Supplement, and the new Canada Disability Benefit reintroduced in the legislature last summer by the Government of Canada, it has the potential of creating an Island without poverty, paving the way for a Canada without poverty. We strongly encourage the federal government to partner with the Government of Prince Edward Island to implement in PEI the GBI proposal outlined in this report.

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## ANNEX A: GUIDING PRINCIPLES FOR A BASIC INCOME GUARANTEE FOR PEI<sup>33</sup>

1. A basic income guarantee should be universal and unconditional to all adult residents (Prince Edward Island residency of at least one year), subject to income, but regardless of work status, relationship status, or age.
2. A basic income guarantee should be available to all adult residents, age 18 and above, and include seniors.
3. A basic income guarantee should recognize that not all people have the same basic needs. Any program implemented should be sufficient to provide for people's basic needs with dignity and self-determination. Sufficient needs includes, but may not be limited to: housing, transportation, food, medicine, learning opportunities, childcare and eldercare, participation in community and emergencies.
4. A basic income guarantee should transform some social programs and services, such as income support. It is believed that many social programs and service should be maintained, including disability supports. It should be recognized that many will need more supports in addition to a basic income guarantee, including support programs for needs that money cannot fill.
5. A basic income guarantee should be administered through the income tax system, and respond to people's changing income levels in a timely matter, meaning that the system can adjust to fluctuations in income throughout the year. At such a time where the basic income guarantee is reduced, any reductions in the basic income guarantee should occur gradually. Calculations of a basic income guarantee should be made based on income, and should not include assets held by individuals.
6. A basic income guarantee should be evidence-based, and that appropriate lenses are applied to ensure the program is equitable for all people (such lenses include but may not be limited to: gender, diversity, age, ability, mental health, class, culture, language and literacy, sexuality and gender identity and geography).
7. A basic income guarantee should include the establishment of an arms-length third-party agency that would be responsible to monitor, measure and evaluate the basic income guarantee program.

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<sup>33</sup> Source: Final Report of the Special Committee on Poverty in PEI, Legislative Assembly of Prince Edward Island, November 27, 2020.

## ANNEX B: FINANCING THE GBI AND THE NET IMPACT ON INCOME DISTRIBUTION

As noted earlier, an issue often raised with GBI proposals is that they are expensive and lead to a significant increase in the tax burden of many taxpayers, including the middle class. Indeed, in many GBI proposals that are financed by modifying or eliminating tax credits or increasing taxes, the members of the middle class end up worse off as their taxes increases more than they receive in GBI, leading to lower incomes. We examine this issue in this annex. More precisely, assuming partnership with the federal government, we consider if it would be possible for PEI to finance our proposal while ensuring that the middle class is better off in net and that the bulk of the net financing is coming from the wealthiest Islanders.

As discussed in section 6, several options would be available to PEI to finance its share of the GBI. In this annex we consider only increases in personal income tax (PIT) and provincial sales tax (PST) because other major tax instruments are not available in SPSSD/M. Table A1 illustrates one possible option based on these two taxes. Increasing the top marginal PIT rate from 16.7% to 19.4% and the PST by one percentage point would yield \$24.7 million and \$28.4 million, respectively. Combined with our conservative estimate of savings to PEI's social assistance (SA) spending of \$17.5 million, these three financing sources would generate a total of \$70.6 million annually, covering nearly 40% of the cost of the new program.

**TABLE A1 – Options for financing the GBI benefit**

Total GBI expenditure (\$M)	Provincial revenue sources (\$M)		
	SA reduction	Top PIT rate increase	PST increase (1 p.p.)
\$189.0	\$17.5	\$24.7	\$28.4

Table A2 shows the impact on individual adult disposable income of increasing the PST from 10% to 11% and the top marginal personal tax rate from 16.7% to 19.4%. To provide a picture of how the tax burden is shared among individuals with different incomes, the results are presented by income decile. It shows that the additional tax burden in dollars and as a percentage of additional tax revenues increases with income. As a percentage of disposable income, the tax increase is low and stable in the 0.6%-0.9% range, except for the top income decile where it is 1.9%.

TABLE A2 – Provincial tax increase options, all taxpayers aged 18 and over

Individual adult disposable income decile	Average disposable income	Average change in PST	Average change in PIT	Total tax revenue raised (\$M)	Percent of total tax revenue	Average tax increase as a percent of disposable income
1. Min-\$12,018	\$5,232	\$41	\$6	\$0.632	1.2%	0.9%
2. \$12,019-\$18,633	\$15,445	\$99	\$2	\$1.339	2.5%	0.7%
3. \$18,634-\$22,400	\$20,869	\$136	\$2	\$1.838	3.5%	0.7%
4. \$22,401-\$27,124	\$24,879	\$182	\$11	\$2.571	4.8%	0.8%
5. \$27,125-\$31,642	\$29,378	\$184	\$3	\$2.494	4.7%	0.6%
6. \$31,643-\$37,688	\$34,643	\$187	\$4	\$2.556	4.8%	0.6%
7. \$37,689-\$43,650	\$40,528	\$243	\$6	\$3.334	6.3%	0.6%
8. \$43,651-\$52,982	\$48,286	\$294	\$21	\$4.209	7.9%	0.7%
9. \$52,983-\$67,169	\$59,220	\$354	\$169	\$6.955	13.1%	0.9%
10. \$67,170-Max	\$108,226	\$407	\$1,629	\$27.185	51.2%	1.9%
All	\$38,655	\$212	\$185	\$53.113	100.0%	1.0%
<i>Number of adults (18+)</i>	133,567					
<i>Total revenue</i>		\$28.382	\$24.731	\$53.113		

But this is providing only a partial picture of the impact of the GBI benefit on the income distribution as it does not include the impact of the GBI itself. The full impact is presented in Table A3. It shows that the impact of the GBI net of higher taxes is large and significant and remains positive up to and including the eighth decile of individual income ranging from \$43,651 to \$52,982. For the top income decile, with annual disposable income over \$67,170, the reduction in disposable income is 2.0% or \$2,166.

We conclude, therefore, that it is possible for PEI to finance a sizeable share of the new GBI benefit while ensuring that the bottom 80% of taxpayers in the income distribution have higher after-tax and GBI incomes and the top 20% taxpayers see modest income reductions of less than 2%.<sup>34</sup>

<sup>34</sup> It should be noted that the wealthiest top 20% taxpayers would include some seniors and that all seniors would be affected by the increase in PST. However, the annual tax increase for seniors would be limited, ranging from \$61 for low-income seniors to \$300 for seniors in the 8<sup>th</sup> income decile with incomes in between \$43,651 and \$52,982. The impact on low-income seniors could be fully offset by a modest increase in the Seniors Independence Initiative, as discussed in Section 9.4.

TABLE A3 – Impact on individual income of GBI and higher taxes by income decile, adults aged 18-64

Pre-GBI individual adult disposable income decile	Average increase in taxes (\$)	Average GBI (\$)	Net GBI as a percent of disposable income (%)
1. Min-\$12,018	\$45	\$9,543	199.7%
2. \$12,019-\$18,633	\$98	\$9,515	60.6%
3. \$18,634-\$22,400	\$112	\$6,000	28.5%
4. \$22,401-\$27,124	\$199	\$4,154	15.8%
5. \$27,125-\$31,642	\$183	\$2,108	6.6%
6. \$31,643-\$37,688	\$194	\$689	1.4%
7. \$37,689-\$43,650	\$243	\$600	0.9%
8. \$43,651-\$52,982	\$319	\$523	0.4%
9. \$52,983-\$67,169	\$531	\$69	-0.8%
10. \$67,170 & over	\$2,175	\$9	-2.0%
All	\$434	\$3,222	7.1%

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