Negative Income Taxes

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Notation
The negative income tax (NIT) gives us a general framework for taxes and transfers.

Key ingredients:
- The guarantee level, $G$
- An implicit tax rate, $t$
- The net payment or subsidy, $S$
- Program breakeven,
  \[ B = \frac{G}{t} \]

Program rules
- Someone with no earnings receives $G$, but payments are reduced by $t$ for every dollar earned (unearned income is usually untaxed)

  The program pays
  \[
  S = \begin{cases} 
  G - twh; & S > 0 \\
  0; & otherwise 
  \end{cases}
  \]

- Note that this means that

  \[ wh < B = \frac{G}{t} \]

  for anyone receiving a payment
Generalizations

- $t$ can be negative (like in the EITC)
- $t$ can vary with income (often increasing)
- $t$ can be (often is) 100% or even effectively infinite
- Assets might be taxed, but this isn’t typical
- $G$ may require a work requirement
- Beneficiaries may face lifetime caps or time limits

Budget set bonanza!

See figures 1-6 and Tables 1-3 in Moffitt (2002).
See figure 4 in Moffitt (2003).
See figures 1, 4, 5 in Blundell-MaCurdy (1999).