Methods of Payments

Since the negative income tax is designed to help poor families provide their basic needs, it will be important to make the payments rather frequently—certainly once or twice a month. The payments can be calculated in one of two ways, corresponding to the two different conceptions of the negative income tax explained on page 98ff. First, the basic allowances could be paid to all families, except those who waive payment in order to avoid the offsetting tax on other income. Second, the *net* benefits could be paid on the basis of a declaration of estimated income, patterned along the lines of the quarterly payments now made under the positive income tax by persons who are not subject to withholding.

The election to waive the basic allowance under the first method could be made in writing either to the government or to the employer. In the former case, the government would inform the employer not to withhold the offsetting tax; in the latter case, the employer would inform the government to stop payments of the basic allowance. Tables would be provided, of course, to help individual workers make up their minds, but the decision would not be irrevocable. In the event the employee elected the wrong option, he would be reimbursed for any difference after he filed his final tax return.

If the declaration system is preferred, individuals and families would declare their incomes annually. The government would compute the estimated net benefit for the year and make payments weekly or twice a month on a pro rata basis. Families with a change in income status, either up or down, could amend their declarations at any time. Even if the circumstances did not change, a renewed declaration would be required at the beginning of each year.

The declaration method would not require any changes in the present withholding system, and would thus not add to the costs of employers. On the other hand, the automatic payment method would be less likely to be abused by persons who are willing to take the chance to defraud the government. In addition, the automatic payment method would place the burden of compliance on those who do not want negative income tax payments and these are the people who are likely to have the sophistication needed to make the decision.

It should be added that, under either system, there will be a final reconciliation at the end of the year, at which time the taxpayer will pay any balance of positive income tax due or excessive negative income tax received and will receive a payment for any excessive prepayments of positive income tax or underpayments of negative income tax. Many billions of dollars are received from, or paid to, the government at the end of each year under the present tax system and there is nor reason why the additional—much smaller—amounts that would be involved in a negative income tax cannot be handled in approximately the same way and with as little fuss.

Since there would be an intimate connection between the positive and negative income tax, it would be appropriate for the IRS to receive the final tax returns and handle the refunds and payments due, as well as to make the necessary office and field audits. But the claims for the weekly or semimonthly payments could be made through another agency specially organized to guide the poor in preparing their applications for payments. One of the strong arguments in favor of the negative income tax is that it would relieve welfare agencies of the administrative tasks of investigating the validity of welfare claims and permit them to devote their personnel to guidance, counselling, and other social services which the poor badly need.

Integration With Public Assistance and Other Transfer Programs

The federal and state governments make a wide variety of transfer payments to individuals, and these must be integrated with the negative tax to avoid confusion and duplication. In general, the rule should be that transfers intended as deferred compensation for previous work should be counted as income. Unemployment compensation and veterans pensions would thus be included in the negative income tax base. On the other hand, payments based on need—e.g., public assistance, Medicaid, rent supplements, and the value of food received under