

# 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

$$\begin{aligned} S &= G - twh; S > 0 \\ S &= 0; \textit{otherwise} \end{aligned}$$

- 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).

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