

# How to build a well-designed national basic income program – at half the cost

A new report finds that using a broader definition of family would considerably reduce costs while maintaining or even increasing the poverty-reduction impact.

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Universal basic income may not be as expensive as once thought. iStock

The Office of the Parliamentary Budget Officer (PBO) recently released a [new analysis](#) of a proposed national guaranteed basic income program for working-age Canadians, which found it is possible to halve previously projected costs while maintaining or even increasing its poverty-reduction impact.

The key is to base eligibility for the program on the



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economic family, instead of the typical nuclear family, to account for the net income of adult children and other relatives in the household.

The new PBO analysis, which updates its 2021 findings, includes projections for 2025 capturing changes in economic, poverty and demographic conditions.

It comes to the same conclusions as a [2023 report](#) advocating a guaranteed basic income in P.E.I. That report was written by a working group of economists, public servants, politicians and advocates – including the authors –

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who spent two years studying the issue, including broader family definitions.

That report recommends Ottawa partner with the P.E.I. government to implement a multi-year provincial demonstration project based on its proposals.

The report has been presented to the government and opposition parties in P.E.I. The mandate letter for the provincial minister of social development and seniors notes the priority of continuing “to advocate the federal government in pursuing a joint pilot program for a Basic Income Guarantee.”

Barb Ramsay, P.E.I. minister of social development and seniors, and Jenna Sudds, the former federal minister of families, children and social development, have created a federal-provincial working group of departmental officials to assess the feasibility of the P.E.I. proposal.

At an annual cost of \$53 billion, a national income-tested basic income program for working Canadians aged 18 to 64, based on the economic family, would cost more than the current Canada child benefit (\$30 billion) but considerably less than benefits for seniors such as old age security

and the guaranteed income supplement (\$85 billion).

As discussed in a supplemental note to the P.E.I. report, accounting for factors such as savings in other income-assistance programs, automatic reductions in other income-tested benefits and benefit adjustments for students, it should be possible to finance the cost of the program with targeted tax adjustments without greatly increasing the national debt.

**How is the basic income defined in the PBO analysis?**

The PBO continues to follow Ontario's 2017 basic income pilot project in setting the maximum benefit at 75 per cent of Statistics Canada's low-income measure of poverty, meaning \$21,903 for a single person and \$30,975 for two in 2025. Furthermore, people with a disability would receive an annual top-up of \$7,355.

The P.E.I. report suggests a maximum benefit of 85 per cent of the official poverty line, meaning \$23,167 for a single person and \$32,758 for two in 2025.

Both reports use a benefit-reduction rate of 50 per cent of family

net income. That is, each dollar of family income would reduce the guaranteed basic income benefit by 50 cents and benefits would cease when family income reaches twice the value of the maximum benefit.

## **Considering the economic family**

In its earlier study, the PBO looked at the impact of a basic income based only on the nuclear family. The inclusion of the economic family as an alternative administrative unit is innovative and it follows a [2022 analysis](#) by Kevin Milligan as well as the [P.E.I. report](#).

The new PBO report considers the economic family definition in response to concerns raised by parliamentarians and stakeholders regarding the fairness of using the nuclear family for determining eligibility.

Under the nuclear family approach, children over 18 living with their parents are considered separate families and can qualify independently, regardless of their parents' income. This raises equity concerns because it may result in disproportionate benefits for high-income families.

In contrast, the economic family definition uses the

combined income of all related individuals living in the same household, providing a more comprehensive and equitable basis for assessing eligibility.



## **What is the gross cost of the basic income?**

The new PBO report provides basic income cost estimates for Canada and all provinces. The cost reduction it obtains by using the economic family is similar to the results in the P.E.I. report:

- For Canada, the annual gross cost, excluding labour market impacts, is reduced by 50 per cent, from \$107 billion to \$53 billion.
- For P.E.I., the annual cost reduction is slightly lower at 44 per cent from \$437 million to \$244 million.
- For other provinces, the annual cost reduction ranges from 40 per cent in Nova Scotia to nearly 55 per cent in Alberta.

The PBO, therefore, confirms the P.E.I. report's conclusion that it is possible to roughly halve the cost

of a basic income program for Canada and each province by using the economic family definition instead of the nuclear family.

But these are the gross costs. Net costs include factors such as income assistance savings, automatic reduction in income-tested benefits and benefit adjustments for students.

In the latter case, the PBO rightly notes that its modelling does not account for loans and grants provided to students from low-income families, which would reduce their basic income benefits and the cost of the program.

The P.E.I. report says 40 per cent of basic income benefits would go to youth, with half of that allocated to students. This factor alone would reduce considerably the cost of the program. A [supplementary note](#) to the P.E.I. report suggests that the net cost of the program could be up to 50 per cent lower than the gross cost.

## **Financing the basic income**

The PBO report says the basic income program's gross cost (excluding labour market impacts) can be financed by eliminating or reducing existing federal and provincial tax credits,

including the basic personal amounts, that target low-income individuals and families.

The approach in the P.E.I. report is different because it explicitly resists changing tax credits and instead suggests targeted tax changes that would, when combined with the basic income benefit, affect (modestly) only top-income earners.

## **Income and poverty impacts**

Accounting for the basic income and the tax offset, the PBO simulations with economic families indicate an increase in disposable income of approximately 21 per

cent for households in the bottom income quintile (bottom 20 per cent) and virtually no change for the second quintile. It predicts reductions of approximately two per cent for households in the third and fourth quintiles and one per cent for the top income quintile.

The P.E.I. report outlines larger increases in individual disposable income for both low-income and middle-income individuals – 87.4 per cent for the first income decile (bottom 10 per cent), 17.7 per cent for the third decile, five per cent for the fifth decile and 0.7 per cent for the seventh decile. On the other

hand, it foresees decreases of 0.7 per cent for the ninth income decile and 1.8 per cent for the top decile.

The PBO report suggests a 40-per-cent reduction in poverty across Canada, whereas the P.E.I. proposal predicts a reduction of nearly 80 per cent in that province.

Overall, both suggest it is possible to finance a basic income program that reduces poverty significantly while ensuring that most families are better off.

The modest reduction in income for the middle-income families in the PBO simulations largely

reflects a mechanical approach rather than a targeted approach to tax changes. In addition, by calculating the financing based on the gross cost, rather than the net cost, the PBO analysis reduces tax credits more than it would be necessary in practice.

## **A feasible, affordable and socially acceptable basic income**

At \$53 billion, the annual gross cost of a national income-tested basic income program for the working-age population would be considerably lower than any estimates to date.

Moreover, the net cost of such a program would be lower. It should be possible to finance the program with targeted tax adjustments without resorting to any significant increase in the national debt.

This means it has the potential to be a politically feasible, affordable and socially acceptable approach to poverty reduction.

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