

WHAT TYPE OF TAXES DEMANDS BASIC INCOME?*

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Abstract

Usually the different theories of justice argued by political philosophers are presented in an abstract way that makes difficult to concrete them in institutions. The different theories of justice that have justified basic income have raised the discussion about the concrete institutions through which basic income might be put in practice. In this sense, in the last years different ways of financing basic income have been discussed. These proposals must be studied as a consequence of the idea of justice. In this paper, we would try to discuss what type of taxes fits better with the idea of justice of basic income: either direct or indirect taxes. We will try to avoid the reciprocity objection that is used to argue against basic income. We will focus this model of financing in the Spanish tax system and we will try to see if basic income agrees with the principles recognised by the Spanish Constitution, as fairness and progression.

1. Introduction. Basic Income in The Theories of Justice.

Traditionally there has been a divorce between the different theories of justice argued by political philosophers and the institutional design made by the politicians and the legislators. The theory of justice that opened a great discussion in the last century was John Rawls' theory of justice. However, many of his commentators have argued that it is presented in a very abstract and normative way, so it is difficult to put it in practice and, what it is worse, that maybe different political systems with different priorities could fit, without many difficulties, in the design of John Rawls. Maybe we can defend Rawls' position arguing that what moral philosophers discuss is about the moral principles that order a fair society and later the work of politicians, lawyers and economists is to put in practice those moral principles.

Nevertheless nowadays many authors are worried about the ways to concrete in institutions the normative theories. If we want to present a complete view about social justice it is necessary not only reflect about the moral principles that might order that society, but also about the ways to put it in practice. Recently at least three books have been published that discuss this topic: *The Civic Minimum* by Stuart White¹, *The Cost of*

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¹ S. White, 2003.

Rights. Why Liberty Depends on Taxes by Stephen Holmes and Cass Sunstein² and *The Myth of Ownership: Taxes and Justice* by Liam Murphy and Thomas Nagel³. Specially the last two ones introduce the topic about the tax system in the theory of justice because one of the main instruments to achieve social justice is the tax policy⁴. In consequence, a complete theory of justice demands a reflection about the ways to finance it because it seems that justice starts with equity taxes.

However, this topic is not new for the academics of Tax Law. In this discipline there have been deep discussions about the justice of some taxes, about the progressivity of the tax system or about the redistributive effect of some taxes. These discussions were uncompleted if they were not made from an idea of what is and what means social justice. It seems that now philosophers and tax experts have met. From this meeting we might obtain a theory of justice that could be at the same time, practice.

Basic income has been justified from different theories of justice in the last years. The most well known is the one argued by Belgian philosopher Philippe Van Parijs. His theory in some sense is a concrete version of the general of social justice defended by Rawls. Basic income has been argued from the principles of republicanism too and in addition there are some libertarian versions of basic income. That is the reason why some authors defend that basic income is an ecumenical idea⁵. However, the fact that basic income could be argued from different theories of justice does not mean that it is the same what idea of justice we support if we achieve basic income. Basic income must be studied in the context of a concrete idea about what social justice is. Basic income is only one instrument, among others, that can put in practice a concept of social justice so the important point here is what idea of social justice we try to support.

One of the most original aspects of the proposal argued by Philippe Van Parijs is that he tries to concrete the normative principles that order the fair society (that is, security, self ownership and the leximin order of opportunities) in institutions: a well enforced structure of rights, the defense of autonomy linked to the idea of undominated diversity and the basic income (Van Parijs, 1995, 25). There is an asymmetry in this institutional design⁶. Van Parijs does not explain what he means by “well enforced structure of rights”, the undominated diversity requires the unanimous consensus if we want to transfer resources to handicapped people (and this is difficult if not impossible in plural societies with different ideas of good as ones we live). Instead the Belgian philosopher makes an important effort to justify basic income and although he does not discuss tax policies he suggests that the way to finance it could be taxing labour because jobs are one of the assets might be distributed equally. Specially in a context of unemployment (that today we can formulate a context of scarcity of quality jobs for everybody) those who have a job have more than what they might have if we distribute equally all the jobs, so they would be obliged to maintain the basic income system paying taxes for their jobs. This idea has inspired many proposals of financing basic income.

The main critic Van Parijs’ theory of justice has received is the reciprocity objection. Elster pointed out this idea many years ago when he said that it is unfair that people able to work live from the work of others. For Elster “most workers would,

² S. Holmes and C. R. Sunstein, 1999.

³ L. Murphy and T. Nagel, 2002.

⁴ As C. Farrelly points out “ the fact that rights have costs means that redistribution is omnipresent”, “Taxation and Distributive Justice”, (C. Farrelly, 2004, 189).

⁵ About this discusión you can read A. Domènech, 2001 and A. De Francisco 2001 a and 2001b.

⁶ See about this point J. L. Rey Pérez, 2007.

correctly in my opinion, see the proposal as a recipe of exploitation of the industrious by the lazy” (Elster, 1986, 719). There are a lot of articles and books written about the reciprocity objection. Reading all this production we can conclude that the reciprocity objection is not something necessary linked to basic income. This depends on the concrete institutional design we do, how we finance it. We cannot examine the reciprocity objection in abstract, we have to study if each concrete design of basic income violates or not the reciprocity principle.

This principle is also present in the idea of social justice argued by republicanism. If we had to synthesize the moral principles of republicanism in one sentence, we could say that while liberalism only pays attention to rights, republicanism points out that all rights imply some duties. Citizenship means not only rights against the State or other individuals but also duties. Among these duties, as Marshall pointed out in a classic book, maybe the main one is paying taxes (Marshall, 1950). Holmes and Sunstein argue in *The Cost of Rights* that we can only maintain freedoms paying taxes⁷; in consequence it is false the libertarian argument that says that it is necessary cutting taxes to increase our liberties. So it is not valid the argument defended by Nozick that paying taxes means cutting our freedoms (Nozick, 1974), the liberties are possible because we create and maintain them through a tax system.

But there are many different tax systems. A society is fair only if their justice principles are compatible with the principles that sustain its tax system⁸. It must be fair the way we obtain the resources (what we tax and with what extension) and also the way we distribute and spend those resources⁹.

2. What Type of Taxes to Finance Basic Income?

Obviously we could examine all the types of taxes to see if they fit with the idea of justice of basic income. However, in this paper, we are going to analyze only two possibilities: income taxes and consumption taxes.

2.1. Income taxes.

One of the main taxes of our systems is the income tax. This tax encumbers the incomes obtained by workers in their jobs. The importance of this tax was logical in a society based on labor. After II World War citizenship and labor status were linked. The social integration was obtained occupying a job. In this context the group of labor rights were recognized and protected. All employments had a minimum standard of quality that protected the security of the worker.

If everybody has a job with a minimum standard of quality it is reasonable that workers pay a part of their incomes to finance the institutions that make possible that

⁷ They point out that “the security of acquisitions and transactions depend, in a rudimentary sense, on the government’s ability to extract resources from private citizens and apply them to public purposes”; in consequence “the question is not free markets or government but what kind of markets and what kind of governments”, (Holmes and Sustain, 1999, 61 and 69).

⁸ L. Murphy and T. Nagel, 2002, 173 and ff.

⁹ C. Pérez Muñoz, “Impuestos y justicia distributiva: una evaluación de la propuesta de justicia impositiva de Murphy y Nagel”, paper in progress.

quality and it is also reasonable that those who have best jobs with higher wages pay more. This is a case of the progressivity principle.

However, nowadays we see the deterioration of the labor relationship. In the 80s and 90s there was not enough jobs for everybody, but today what happens is that there are not enough quality jobs for everybody. The labor rights have been cut. In these days we have seen how the members of the European Union have approved the labor week of 65 hours. In consequence, the income tax as the main tax in our system is not adapted to this new context, a context where workers do not have a continuous labor life, they have periods, sometimes very long, without an employment, where the wage is not real because sometimes they receive money apart from the official salary, where people work more than 8 hours per day, where the protection against unemployment has been cut, and so on. The income tax made sense when there was a standard labor relation with quality; today only a few have quality jobs. So, the income tax would have to levy other aspects apart from the economic quantity because today we have to calculate the economic capacity including some quality aspects. In fact, if we use a broad meaning of economic capacity we could say that the higher the quality of a job is, the higher economic capacity has the one who occupies that job. So, this last one would have to pay more taxes.

It is necessary introducing some indicators to measure the quality of work¹⁰ and levies it, if we decide to maintain the income tax, because quality jobs are a scarcity asset in our societies that we would have to distribute¹¹.

The idea of financing basic income through income taxes is argued by Philippe Van Parijs. As jobs are a scarce asset in our world, this resource might be distributed equally among all the members of a society, so it is congruent levy those ones who occupy a job, because they have a larger part of the asset if we do an equally strict distribution. Basic income would be a way to distribute jobs and the opportunities those jobs make real, the opportunities to make real the different conceptions of good life. From our point of view, this idea can be reformulated today as follows: as what is scarce today is quality jobs, then those who had employments with high quality might pay taxes because they are appropriating a part of quality job considered as an asset larger than the part they might have if we distribute jobs equally among all the members of the political community. In consequence it would be consistent to finance basic income thorough an income tax that levies the quality of jobs.

However, quality is not a quantitative element. For that reason, creating a tax that levies quality of jobs can be very difficult. In the other hand, as we have said earlier, to levy salaries cannot avoid the reciprocity objection. Van Parijs works as if the leisure option were available to everybody, but this option can only be chosen by someone if not everybody does it; it is conditioned to the rest of people continue working. Leisure is a scarce resource too. In consequence, the reciprocity objection, that has been discussed by many authors, only can be overcome either distributing equally leisure (for example, giving a sabbatical number of years that anyone can enjoy in any

¹⁰ Cfr R. Anker; I. Chernyshev; P. Egger; F. Mehran and J. A. Ritter, 2003; D. Bescond and A. Chataigner, 2003; and F. Bonnet; J. B. Figueiredo and G. Standing, 2003.

¹¹ This idea is a consequence of the argument defended by S. White that says that we have to eliminate the proletarians condition, that is, we have to achieve that work be considered as something with value, (S. White, 2003).

moment of his life)¹² or looking other ways of financing basic income through other type of taxes different from a direct tax over the salaries.

In addition, in practical terms, financing basic income through a tax over salaries is not realistic because firstly, that implies very high marginal rates; some works talk about marginal rates of 55%. It does not seem that an income tax with that marginal rate could help the sustainability of basic income. In the other hand, the political viability of a marginal rate over 50% is very doubtful. Some countries, like Germany, have even constitutional rules, at least as his Constitutional Court understands them, limiting the progressivity of income taxation. Secondly, it is not realistic, because it does not consider that nowadays in the European countries the presence of indirect taxes has the same, or even superior, importance than direct taxes.

2.2. Consumption taxes.

As we have just said, the importance of indirect taxes in the public finances is increasing in the last years all over the world. The reciprocity objection makes sense only in the model developed by Van Parijs where basic income is financed through an income over salaries. If we look for another way to finance basic income we would not attack the reciprocity principle. This puts over the table the topic about the possibility to finance basic income not only through income taxes, but also through a consumption tax, the Value-Added Tax that is the most important form of indirect taxation in Europe, Canada, Australia, New-Zeland, India, Mexico, and some South/American countries. We'd like to stand a point very clearly from the outset: we are not at all partisans of any kind of abolition or substitution of the progressive income taxation for any kind of retail sales tax, expenditure tax, X tax or so-called flat tax, as has been defended in the USA, in fact we defend much more progressives income taxes than the actual ones in most of OECD' countries.

The topics are: can VAT help to finance BI and how can BI help to reform VAT in terms of justice.

An author like John Rawls, that inspired in some way the work of Van Parijs, wrote that "it is worth noting that a proportional expenditure tax may be part of the best tax scheme. For one thing, it is preferable to an income tax (of any kind) at the level of common sense precepts of justice, since it imposes a levy according to how much a person takes out of the common store of goods and not according how much he contributes (assuming here that income is fairly earned). Again, a proportional tax on total consumption (for each year say) can contain the usual exemptions for dependents and so on; and it treats everyone in a uniform way" (Rawls, 1971, 278-279). The <common pool> argument was originally formulated by Hobbes in his *Leviathan*¹³ and

¹² C. Offe, 2000.

¹³ "The Equality of Imposition, consisteth rather in the Equality of that which is consumed, than of the riches of the person that consume the same. For what reason is there, that he wich laboureth much, and sparing the fruits os his labour, consumeth little, should be more charged, than he that living idly, getteth little, and spendeth all he gets., seeing the one hath no more protection from the Common_wealth, then the other? But when the impositions, are layd upon those things wich men consume, every man payeth equally for what he useth.. Nor is the Common_wealth defrauded, by the luxurious waste of private men" (T. Hobbes, 1651, Cap.XXX).

argued by Stuart Mill too¹⁴ when he pointed out the double imposition that suffer savings when you have to pay income taxes¹⁵. Although Rawls wrote his fragment in 1971, he anticipates the labor crisis we referred before that makes that income tax were not the best tax in the system. In Van Parijs' theory of justice, basic income is a way to distribute resources and he includes among these resources jobs. However, the leisure option is not available for everybody and when we impose salaries we find the reciprocity objection. But imposing the consumption of goods is in accordance with the idea of distribute resources equally. When Van Parijs says that those who occupy jobs must pay for that because they occupy more than their equal part, the idea is that those who take out of the common store of goods might pay for that. In this sense, occupying a job is equivalent to consuming a job. As salaries become finally in consumption goods because people use them to acquire different type of products, imposing the salaries would be imposing twice those incomes. This imposition would be against the reciprocity principle explained by Elster. If we want to consider jobs as a resource, we have to admit that the use we do of this good is deferred; that means, we only finally use jobs when we consume and acquire goods through the salaries obtained in those jobs. We can levy it in origin, but it seems better doing at the end, when we use those salaries, when we consume goods, because it is really in that moment when we take out goods of the common store. Finally, jobs are not assets as others, jobs is a way, a medium step in the use of resources.

As everybody consumes, at least to cover the basic needs, everybody would contribute to finance basic income; so we would overcome the reciprocity objection. Obviously, we would contribute in different scales but that is consequence of the progressivity principle and of the economic capacity.

In this sense, how can we articulate a consumption tax to finance basic income and how it would fit with the idea of progressivity?

2.2.1. A precedent in the direct taxation: The tax-credit or transfer for motherhood and the personal and familiar exemption in the Spanish income tax.

Some people could think that a transfer as basic income is different from taxes, as compulsory duties of citizens, so it would be difficult to link a consumption tax to a basic income. However, in some European countries we can find an instrument that combines the taxation with a monetary transfer: the tax-credit or transfer for motherhood. In the Spanish income tax, mothers, under certain conditions, have the right to obtain either a tax-credit or a transfer, as they prefer, for the amount of 100 euros per month.

VAT, as a consumption tax, burdens each and every sale in the same way, regardless of the buyer' real ability to pay, it is difficult to articulate it with a basic income as tax credit. It would be possible for business men and companies because they could compensate basic income (in accordance with the European Union regulation) in

¹⁴ J. S. Mill, 1861.

¹⁵ Following this idea about double imposition of savings argued by Mill, many economists have defended consumption taxes as Marshal, Pigou, Fisher or Einaudi.

the periodical declarations, and receive a tax rebate when the addition of basic income and the input tax were more than the output tax¹⁶.

For the final consumers, the best way would be an anticipated monthly pay, formally and politically linked to the consumption tax in the regulation and in its administration by the Tax authorities, as the transfer for motherhood is in Spain.

Nevertheless, the taxpayer could obtain periodically basic income as a credit incorporated to some electronic method of payment or to some credit card as economist Laurence Kotlikoff has proposed for a quite different sales tax system. This credit would be compensated, as a really tax credit, with the rebound quotas of VAT and if it exceeds those quotas it could be accumulated for the next period or it could be given as a cash payment¹⁷. Although the difficulties and administrative costs of this system are evident, it would present the advantage of linking basic income with VAT in a very clear way for the taxpayer.

We could think about another similarity between this combined model of basic income and VAT and the personal and childhood exemption that appears in the income taxes. If we see basic income as a quantity that wants to compensate the VAT quotas for the taxpayer (worth the right to perceive the difference when this is higher, similar to the tax-credit of income tax); then we could compare its quantity with the quantities that are not collected in the income tax when we apply the personal and familiar exemption; the aim and purpose of this exemption have many common aspects with basic income.

The application of a personal exemption of 5.151 euros in the Spanish income tax originates a deduction in the quota of 1.236,24 (at a rate of 24% following the article 74.1.2^a of the law that regulates the income tax), equivalent a monthly quantity of 103,02 euros.

The result of the familiar exemption for taking care of children under certain age and income and the additional exemption for children under 3 years old would be as follows:

3 to 25 years	Ammount of exemption	Tax deduction (Anual)	Tax deduction (Monthly)
1 st Son	1.836	440	36,66
2 nd Son	2.040	489,6	40,8
3 rd Son	3.672	881,28	73,44
4 th and following sons.	4.182	1.003,68	83,64

¹⁶ Cf. Arts.115 and ff. Ley 37/1992, de 28 de diciembre, del Impuesto sobre el Valor Añadido. Arts. 29 and ff. Real Decreto 1624/1992, de 29 de diciembre, Reglamento del Impuesto sobre el Valor Añadido y modifica otras normas tributarias. BOE 31st December.

¹⁷ This method however would be far from Van Parijs' definition of basic income: "A basic income, instead, is provided in cash, without any restriction as to the nature or timing of the consumption or investment it helps fund" (2000, 3).

If we add the additional exemption for children under 3 years old:

0 to 3 years	Amount of exemption	Tax deduction (Annual)	Tax deduction (Monthly)
1 st Son	4.080	979,2	81,64
2 nd Son	4.284	1.028,16	85,68
3 rd Son	5.916	1.419,84	118,32
4 th and following sons.	6.426	1.542,24	128,52

And if we finally add the personal and familiar exemption of a household:

	Amount of exemption	Tax deduction (Annual)	Tax deduction (Monthly)
1 Taxpayer	5.050	1.212	101
2 Taxpayers	8.450	2.028	169
2 Taxpayers and a son > 3	12.530	3.007,2	250,6
2 Taxpayers and two sons > 3	16.814	4.035,36	336,28
2 Taxpayers and three sons > 3	22.730	5.656,11	471,34
2 Taxpayers and four sons > 3	29.156	7.455,39	621,28
For each son < 3	2.244 +	538,56+/622,72+ ¹⁸	44,88+/51,89+

With these results, it is illogical, if we take into account the horizontal and vertical equity, that a household of two taxpayers and four children were receiving tax benefits of 621,28 euros per month in the income tax in the concept of personal and

¹⁸ As the 24% or the 28% rate is applied to part or the whole exemption.

familiar exemption and other household with the same composition do not receive any tax benefit due to the scarce quantity of their incomes and at the same time they pay the same VAT than a family of a single taxpayer without children.

As Mercader has pointed out, a basic income proposal, financed through an income tax, would achieve a better integration and coherence between the tax policy and the guarantee of income policy that avoid the discrimination between the beneficiaries and the non-beneficiaries of the policies implemented through income taxes¹⁹. Paradoxically, when income tax wants to increase progressivity doing higher the personal or familiar exemption, those who have incomes lower of those index are out, so the exclusion consequence is larger²⁰.

As Professor Herrera (2000, 13) has said, “*the true existential minimum should not be reduced to the field of income tax (...) if the income is under that minimum there should be applied a tax credit on other taxes and even a transfer for the excess of taxation over the existential minimum*”. We think so, but we also think that the existential minimum can be and must be guaranteed from indirect taxation, not only from income taxes.

2.2.2. Proposed Model.

In the table 1 of the Appendix is shown how Basic income of 200 euros per month, or 2400 per year, affects the average rates of the VAT over consumption.

In the first column there is the monthly disposable income the taxpayer has decided to spend before receiving basic income. In the second column appears that quantity increased with 200 euros of basic income; this quantity is what the taxpayer wants to spend every month. In other words, we assume a rational behaviour in the taxpayer who takes his decisions over consume taking into account that he will perceive a basic income of 200 euros every month.

The expenditure is divided between consume and VAT: between the price of goods the taxpayer acquires every month (third column), that is the economic capacity taxed by VAT and it is also the tax base of the VAT²¹, and the pay of VAT (fourth column) that we have fixed at a 25% rate.

In the fifth column we have calculated the monthly consequence of the combination of basic income and the VAT.

In the last column we calculate the average rate of the tax, dividing the difference between transfer (BI) and tax (VAT), among the tax base or ability to pay levied: the consume.

The results show that for the lower scales of consume, specifically until 600 euros of monthly expenditure (Spanish minimum salary), the net effect of the transfer and the tax is positive (the amount received as basic income is higher than the amount paid as VAT); this gives as results negative average tax rates. The taxpayer not only

¹⁹ In this sense Pinilla (2004, 60) points out that the basic income guarantee means an alternative to the cut taxes policies and the reductions of direct taxes do not affect those citizens with lower incomes and benefit those richer.

²⁰ We can see this consequence in the protection to elder people in the income tax in Alonso Madrigal (2006 a, 421) and Alonso Madrigal (2006 b, 42).

²¹ Ley 37/1992, de 28 de diciembre, Regula el Impuesto sobre el Valor añadido (BOE 29 December), Art.78. Uno.

does not pay taxes but also he receives a quantity of money that is higher than the amount paid as VAT. For these taxpayers with lower ability to pay, basic income would not be not only a devolution of the tax paid but also a way to finance the consumption that is estimated to be basic or essential, that one addressed to cover basic needs, the existential minimum.

For the taxpayers whose consume exceeds 600 euros the net effect of the transfer and the tax is negative (the basic income received is lower than the quantity paid as VAT); this gives as results positive average tax rates. The taxpayer receives a quantity of money that only partially compensates the quantity paid as VAT. Those average tax rates are higher if the consume increases. Although the tax rate proposed is always 25%, the taxpayer pay a tax average rate that depends on the ability to pay taxed by the VAT, so the consequence is that combining basic income with VAT we turn the consumption tax into a progressive one.

The rate of 25% is the one that exists in two countries of the European Union: Denmark and Sweden and it is not very far from the 22% of Poland and Finland as it is possible to check in the Table 2 of the Appendix²². The average tax rate of the 27 countries of the EU is 19,48%. However we have to regard that the tax rate of 25% of the model proposed is just the marginal rate, because the real or effective tax rates, the average rates, depend on the combination of basic income and the money spend by the taxpayer.

In the proposed model, Table 1, this average tax rate of the EU countries, the 19,48, is levied to a monthly expenditure of 3.623,2 Euros. An average tax rate of 16%, as the Spanish general one, only would be achieved with a monthly expenditure of 2.232,2 euros. In the Spanish case, the combination of reduced tax rates of 4% and 7%²³, made that the average rate in practice, as a result of the division of the whole VAT charged during the 2006 among the total tax bases of the period, were 13,56%²⁴. This average rate in the proposed model means an expenditure over 1.748 euros per month. In this sense, in the proposed model the reduced tax rates of 4% and 7% corresponds with a monthly expenditure of 952,38 and 1.111,11 euros.

So, although we have chosen a relatively high tax rate, the consequence of combining it with a very modest basic income, would mean a significant reduction in the tax burden for those who consume the less. We could achieve very important consequences trying to adapt the tax to the ability to pay and doing it more progressive. Indeed, with a lower quantity of basic income we could think that this proposal can be financed by the own VAT.

²² European Commission. Directorate-General Taxation and Customs Union Tax Policy Vat and other turnover taxes. VAT rates applied in the member states of the European Community. Situation at 1st January 2008. In this document, pp. 23-27, we can see the evolution of tax rates in the countries of the EU. Almost all countries have increased the rates; only Chec Republic, Slovakia and Hungary have reduced the tax rate of AVT; Poland, Latvia and Lithuania have not vary the tax rate.

²³ Art.91 Ley 37/1992.

²⁴ Ministerio de Economía y Hacienda. Secretaría de Estado de Hacienda y Presupuestos. 2006, p.256.

2.2.3. Basic Income, Consumption Tax and Households.

We see better these consequences when we take into account not the individual consumer but the household because each member of the family would receive the total amount of basic income that is an individual income. An important part of the consumption²⁵ is made by the household and not individually by each member of the family; we can think for example in the consumption in lodging, food, electricity, furniture and so on. So, in these examples the VAT taxes the household consumption more than the individual one. In the other hand, the VAT is a tax *in rem*, so it is built over a charge that is not individual or familiar, the own ability to pay itself is what is levied disregarding who will be the owner of that ability to pay.

In the Table 3 of the Appendix is an example of how the model proposed would affect to households. We make an example of a household of two adult people and two sons. The adults would receive an even more modest basic income of 125 euros and the children one of 75 euros. The results point out that the proposed model would have more positive consequences the larger the household is. It would benefit specially those families with less income and more members. And it will correct, at least partially, one of the negative consequences of consumption taxes: its regressivity is higher when the family has more members²⁶; the so called perversion or depravity of VAT.

As Van Parijs points out, some proposals of basic income are presented only for adult people while for the children establish a system of subsidies with a level that can vary depending on the position of the child in the family or the age. Other authors conceive basic income as a right from the birth to the grave and in consequence it would be a substitute of the subsidies for children. Anyway, the level of the income must be independent of the situation of the family; in particular, it must be independent from the position of the child in the family. Some authors propose the same basic income for children and adults as in fact happens with the permanent fund of Alaska. But a majority of authors who suggest integrating the child benefits in basic income policy agree to establish a different quantity for children and adults.

If we examine the former Spanish income tax when it takes into account the disposable income of the tax payer, it was defined as the income the taxpayer could use after cover his needs and the needs of the people he is responsible for. In other words, the income someone has after satisfying his needs and the needs of his family²⁷. We can calculate it if we subtract to the annual income the personal and familiar minimum. In the Spanish case, the personal exemption is 5.151 euros. For each descendant single and younger than 25 years old: 1.836 euros for the first, 2.040 for the second, 3.672 for the third and 4.182 for the fourth and the others. To these quantities we would have to add 2.244 euros if the descendant is younger than 3 years old.

So, in the Spanish income tax, there are differences in the existential minimum depending on the position the children occupy in the family and if they are younger than 3 years old. This means that the relation between the income the taxpayer needs to cover his basic needs and the income he needs to cover the needs of her children is 2,8 in relation with the first one, 2,52 with the second, 1,4 with the third and 1,23 with the fourth and other members. If the child were younger than three years old, the figures change to 1,26, 1,2, 0,87 and 0,8.

²⁵ Art.1 Ley 37/1992.

²⁶ Groves H. and Hansen R. R. quoted by Fuentes Quintana 1987, 370.

²⁷ Art.2.2 del Real Decreto Legislativo 3/2004.

If we copy this model to the basic income proposal (and this should be justified if we take into account the purpose of the personal and familiar minimum); if an adult receives a basic income of 125 euros, her first descendent would receive 44,64, the second 49,96, the third and 101.62 the fourth. If the descendent were younger than 3 years old, the quantities would be 99,2, 104,16, 143,67 and 156,25.

2.2.4. Making VAT a more personal tax.

The combination of the basic income with the VAT shows clear advantages when we try to adequate the tax burden to the ability to pay of the taxpayer compared to the existing VAT model of many members of the EU that combines a general tax rate with super reduced and reduced tax rates for social or cultural goods.

Firstly, the super reduced tax rate for goods as medicines, food or some type of lodging is levied disregarding the ability to pay of the consumer; so when he has not covered the minimum of subsistence, he will have to reduce the consumption of this basic goods in order to pay the VAT. We can use the same argument for the goods taxed with a reduced tax rate as other type of food, water, etc. In addition there are some others basic goods that are taxed with the higher general rate, as electricity, gas, phone, etc.

Secondly, not all the goods taxed with reduced tax rates are social or essential: not any kind of lodging just covers a basic need.

In addition, if we examine the consequences for progressivity of these different tax rates, we found that this does not depend on the real economic capacity or the total amount of the consumption, but on the distribution of the consumption among the goods taxed with different tax rates²⁸; if, for example, a taxpayer spends one half of his money in lodging and the other half in goods taxed with the general rate, his average tax rate would be exactly the average between the general rate and the reduced rate weather he can spend 1.000, 10.000, 100.000 or 1.000.000 euros. This can have strongly regressive consequences. As an example, if someone can buy a second, third or fourth home, his tax rate will be near the reduced rate while other whose consumption is much lower could be taxed near to the general rate. In consequence, as Rosen points out, we can conclude that using selective taxes or tax rates over consume is not the best way to achieve equality objectives.

Thirdly, if we consider the tax as a whole, these different tax rates have not really remarkable consequences in the progressivity of the consumption tax, as it is shown with the small difference between the general tax rate and the whole average tax rate. The reason is that the consumption of goods taxed with reduced tax rates is not very important if we take into account the global consumption.

Finally, though some of the VAT exemptions have a social aim; probably we could achieve better that aim introducing a basic income, because when the taxpayer of VAT cannot use as a tax-credit the VAT charged to him as he sells exempted goods, the tax becomes a cost for him and he will try to include it on the price paid for the final consumer, who will finally not enjoy at all the pretended effect of the exemption. Moreover, as is well known, when the exemption does not happen to be in the final retail sale, it causes the so-called “pyramid-effect”, that will make the Treasury finally collect a bigger tax than the one that should have been collected if the exemption: the

²⁸ Fuentes Quintana 1987, 370.

own tax becomes part of the tax base, loosing the neutrality of VAT in front of other sales taxes²⁹.

2.2.5. Consumption Taxes, Basic Income and Protection of a Minimum Income.

The Constitutional Court of Germany from 1990 defends that it is a duty derived from the constitutional principle of ability to pay that the personal and household existential minimum must not be charged by income taxes³⁰. The Court establishes what we can understand by existential minimum: The amount of money that public services provide the worst-off to cover basic needs³¹.

In Spain, the Constitutional Court has established that salaries can not be embargoed. This is linked to the idea of existential minimum we are discussing. This minimum is conceived by the Court as the minimum income that makes possible to have an existence with dignity. The Court identifies this minimum with the minimum salary. In this sense there are differences in the minimum vital of the procedural laws and the one recognised by tax laws. This last one is lower. It is necessary to unify these quantities as Martín-Barnuevo argues³².

This argument makes even more sense regarding the consumption taxes. Nowadays, in the VAT there is not recognised any exempt quantity to cover basic needs, so the VAT is affecting those incomes the taxpayer needs to maintain an existence with dignity. In this point we are in front of incongruence between the protection of dignity and the right and duty to maintain the public spends through a tax system inspired in the principles of equality and progressivity that can not be confiscatory. And this includes also indirect taxes.

In the Tables of Appendix we can point out how the combination of VAT and basic income would respect the protection of an existential minimum that it can be quantified in the minimum salary (in Spain for 2008 is 600 euros). Because with the system proposed those who had to spend a quantity lower than the minimum salary would not pay consumption taxes. In addition, basic income helps to achieve the minimum income.

Conclusions:

In the point of the discussion about Basic income we are nowadays, it is necessary reflect about a theory of justice that at the same time, it could be practice. In consequence it is necessary to reflect about the best and fairest way to finance basic income.

Making a BI possible is contingent upon financing it, at least partially, by means of VAT; one of the two more important taxes in current tax systems. Pursuing the financing of BI only with Income Taxes, what could lead us to marginal rates above 50

²⁹ Fuentes Quintana 1987, 399-403. Rosen, 1987, 426

³⁰ Quoted by Casado (1999, 26).

³¹ Martín-Barnuevo (1999, 404).

³² 1999, 125-127.

o 60 %, is not realistic. As Martin Feldstein has pointed, we never face issues of tax design, but rather always issues of tax reform.

Linking BI with VAT should be justified not just for the bare necessity of financing it, but also for making VAT a much more fair tax in terms of progressivity and more respectful with the existential minimum of the tax-payer.

This link between tax and a transfer actually exist in some tax-systems; as it does in the Spanish Income Tax in the tax-credit or transfer for motherhood.

Income taxes usually have personal or household exemptions o tax credits that try to achieve the goal that the link between BI and VAT could reach much better. It cannot be justified, neither in terms of vertical nor horizontal equity, to exclude from personal and household tax-breaks those who do not reach the amount of income that actually allows that protection. It cannot neither be justified that VAT levies households regardless of its composition and ability to pay.

The connection between VAT an BI could provide a tax refund for those who are under a certain level of consumption, grant them an elemental level of the same and obtain average rates that increase with the ability to pay levied, that is to say progressivity. These effects on equity are bigger considering the households, correcting the so-called “VAT depravity”.

The adaptation of VAT to tax-payer ability to pay, if linked with BI, should deeply improve the actual crude combination between general rates, reduced and super reduced rates and social exemptions, providing a real protection to existential minimum as is understood by some European Constitutional Courts.

Finally, we think that linking BI and VAT as a more personal and progressive consume-based tax, is a viable alternative to Kaldor’s “*Expenditure tax*” or Bradford’s “*X tax*”, forms of personal consume taxes that have never been implemented due to the huge administration disadvantages, and are considered “more as an intellectual curiosity than a realistic political option”³³.

Personal consume taxation can not be taken as an alternative to personal income taxes, some kind of income taxation that exempts the savings, as it does not fulfil properly basic fairness requirements. But if we join to progressive personal income taxes a more personal VAT linked to a BI we could not only serve much better the principles of fair taxation, but also justify the BI as an essential piece of a fair tax system.

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³³ Rosen 1987, 435 and ff.

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APPENDIX

Table 1. Individual. Basic Income 200 €.

Disposable Income	Disposable Income + 200 BI	Consumption	VAT 25 %	BI-VAT	Average rate on consumption
0	200	160	40	160	-100,00 %
500	700	560	140	60	-10,71 %
600	800	600	200	0	0 %
990,5	1190,5	952,4	238,1	-38,1	4,00 %
1000	1200	960	240	-40	4,17 %
1189	1389	1111,2	277,8	-77,8	7,00 %
1500	1700	1360	340	-140	10,29 %
2000	2200	1760	440	-240	13,64 %
2500	2700	2160	540	-340	15,74 %
2579	2779	2223,2	555,8	-355,8	16,00 %
3000	3200	2560	640	-440	17,19 %
3500	3700	2960	740	-540	18,24 %
4000	4200	3360	840	-640	19,05 %
4.329	4.529	3623,2	905,8	-705,8	19.48%
4500	4700	3760	940	-740	19,68 %
5000	5200	4160	1040	-840	20,19 %
5500	5700	4560	1140	-940	20,61 %
6000	6200	4960	1240	-1040	20,97 %

Table 2. Individual. Basic Income 125 €.

Disposable Income	Disposable Income + 125 BI	Consumption	VAT 25 %	BI-VAT	Average rate on consumption
0	125	100	25	100	-100,00
500	625	500	125	0	0,00
1000	1125	900	225	-100	11,11
1500	1625	1300	325	-200	15,38
2000	2125	1700	425	-300	17,65
2500	2625	2100	525	-400	19,05
3000	3125	2500	625	-500	20,00
3500	3625	2900	725	-600	20,69
4000	4125	3300	825	-700	21,21
4500	4625	3700	925	-800	21,62
5000	5125	4100	1025	-900	21,95
5500	5625	4500	1125	-1000	22,22
6000	6125	4900	1225	-1100	22,45

Table 3. Family with two adults and two children. BI 400 € (2 x 125 + 2 x 75)

Disposable Income	Disposable Income + 400 BI	Consumption	VAT 25 %	BI-VAT	Average rate on consumption
0	400	320	80	320	-100,00
500	900	720	180	220	-30,56
1000	1400	1120	280	120	-10,71
1500	1900	1520	380	20	-1,32
2000	2400	1920	480	-80	4,17
2500	2900	2320	580	-180	7,76
3000	3400	2720	680	-280	10,29
3500	3900	3120	780	-380	12,18
4000	4400	3520	880	-480	13,64
4500	4900	3920	980	-580	14,80
5000	5400	4320	1080	-680	15,74
5500	5900	4720	1180	-780	16,53
6000	6400	5120	1280	-880	17,19
6500	6900	5520	1380	-980	17,75
7000	7400	5920	1480	-1080	18,24
7500	7900	6320	1580	-1180	18,67
8000	8400	6720	1680	-1280	19,05
8500	8900	7120	1780	-1380	19,38
9000	9400	7520	1880	-1480	19,68
9500	9900	7920	1980	-1580	19,95
10000	10400	8320	2080	-1680	20,19

Tabla 4: AVT rates of the member of European Union.

Member States	Code	Super Reduced Rate	Reduced Rate	Standard Rate	Parking Rate
Belgium	BE	-	6 / 12	21	12
Bulgaria	BG		7	20	
Czech Republic	CZ	-	5	19	-
Denmark	DK	-	-	25	-
Germany	DE	-	7	19	-
Estonia	EE	-	5	18	-
Greece	EL	4,5	9	19	-
Spain	ES	4	7	16	-
France	FR	2,1	5,5	19,6	-
Ireland	IE	4,8	13,5	21	13,5
Italy	IT	4	10	20	
Cyprus	CY	-	5 / 8	15	-
Latvia	LV	-	5	18	-
Lithuania	LT	-	5 / 9	18	-
Luxembourg	LU	3	6 / 12	15	12
Hungary	HU	-	5	20	-
Malta	MT	-	5	18	-
Netherlands	NL	-	6	19	-
Austria	AT	-	10	20	12
Poland	PL	3	7	22	-
Portugal	PT	-	5 / 12	21	12
Romania	RO		9	19	
Slovenia	SI	-	8,5	20	-
Slovakia	SK	-	10	19	-
Finland	FI	-	8 / 17	22	-

Sweden	SE	-	6 / 12	25	-
United Kingdom	UK	-	5	17,5	-