The idea of a negative income tax (NIT) is commonly thought to have originated with economist Milton Friedman, who advocated it in his 1962 book, Capitalism and Freedom. These labor economists worried that providing the working poor with a basic income guarantee if they quit work, and then reducing that guarantee at a fairly steep rate as income from work increased would damage work incentives and ultimately swell NIT costs. They feared that NIT would reduce work effort in two ways. First, by giving a family with no outside income a guaranteed minimum income, NIT might, at the extreme, discourage family members from working at all. Long saw it as a way to offset the regressive effect of payroll taxes on low-income earners. The negative income tax is a way to provide people below a certain income level with money. In contrast to a standard income tax, where people pay money to the government, people with low incomes would receive money back from the government. Theoretically, this would work by giving people a percentage of the difference between their income and an income cutoff, or the level at which they start paying income tax. For instance, if the income cutoff was set at $40,000, and the negative income tax percentage was 50 percent, someone who made $20,000 would receive $10,000 from the government. The credit is equal to a fixed percentage of someone’s income, based on the number of children they have and if they file their taxes jointly with a partner or not. The disproportionate impact on low-wage occupations makes inequality worse in recessions. The pandemic has made it worse for those engaged in low-wage occupations. Further, socioeconomic factors such as poverty and lower rates of private health insurance point to a reduced ability among many minorities to cope with the pandemic’s health impacts. Poverty rates among Black Americans (20.8%) and Hispanics (17.6%) are higher than among non-Hispanic whites (8.1%). Given their greater share in low-wage and medium-wage occupations and the disproportionate impact of recessions on these occupations, Blacks and Hispanics likely end up suffering worse economic impacts than whites and Asians on average during recessions. Higher tax leads to lower wages – and work becomes relatively less attractive than leisure. The substitution effect of a higher tax is that workers will want to work less. Income effect. The impact of indirect tax is more of a microeconomic issue. A higher tax on a good, shifts supply to the left causing higher price and less demand. A graph showing the impact of an ad valorem tax (20%) on a good. The impact of an indirect tax will depend on the elasticity of demand. Higher taxes during a time of stagnant wages can lead to a decline in real incomes. This shows the inflation rate in the UK. In 2011, CPI was over 5%. However, the inflation measure CPI-CT (which excludes taxes was lower at just 3%). Tax and social efficiency. the lower the work incentive. the problem with reducing the implicit tax rate pertaining to the welfare program is that: individuals well above the poverty level may receive benefits AND the cost of the program increases. for higher income eligibles, either a zero implicit tax, or a positive implicit tax on earnings exists, so there is nothing to counteract the: income effect, and a substitution effect may even reinforce it, reducing work effort. many who work for minimum wages do not live in low-income households, and although their impact on work incentives may be positive (they are theoretically ambiguous), they may result in reduced hours because of: employer cutbacks. subsidies given to employers to hire low-income workers have