

**CITIZEN'S**

**INCOME**

**TRUST**

# **Citizen's Basic Income**

**A BRIEF INTRODUCTION**

2017

# CITIZEN'S BASIC INCOME: A BRIEF INTRODUCTION

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# 1 WHAT IS A CITIZEN'S BASIC INCOME?

A Citizen's Basic Income is an unconditional, automatic and nonwithdrawable payment to each individual as a right of citizenship.

(A Citizen's Basic Income (CBI) is sometimes called a Basic Income (BI) or a Citizen's Income (CI))

- 'Unconditional': A CBI would vary with age, but there would be no other conditions: so everyone of the same age would receive the same CBI, whatever their gender, employment status, family structure, contribution to society, housing costs, or anything else.
- 'Automatic': Someone's CBI would be paid weekly or monthly, automatically.
- 'Nonwithdrawable': CBIs would not be means-tested. If someone's earnings or wealth increased, then their Citizen's Basic Income would not change.
- 'Individual': CBIs would be paid on an individual basis, and not on the basis of a couple or household.
- 'As a right': Everybody legally resident in the UK would receive a CBI, subject to a minimum period of legal residency in the UK, and continuing residency for most of the year. (See section 13 on page 14)

A Citizen's Basic Income scheme would phase out as many allowances against personal income tax as possible, and would phase out or reduce many existing means-tested benefits, and would pay a Citizen's Basic Income automatically to every man, woman and child.

## **The Citizen's Basic Income would**

- create a financial platform on which all would be free to build
- encourage individual freedom and responsibility
- help to bring about social cohesion
- end perverse incentives that discourage work and savings
- be affordable within current revenue and expenditure constraints
- be easy to understand
- be cheap to administer and easy to automate

## 2 HOW WOULD IT WORK?

A Citizen's Basic Income (CBI) scheme would co-ordinate the income tax and benefits systems. CBIs would be paid automatically, and the cost would be recouped via Income Tax levied on all income and by reducing means-tested benefits. At the moment claimants and taxpayers experience very different regulations. A CBI would treat everyone alike.

**Automatic payments.** Each week or each month, every legal resident would automatically be given the CBI appropriate to his or her age. For most adults this could be done through the banking system, and for children it could be done through the bank accounts of their parents. For adults without bank accounts special provisions would be necessary. Larger CBIs might be paid to older people, and smaller CBIs to children and young people, but there would be no differences on account of gender or marital status, nor on account of work status, contribution record, or living arrangements.

**Tax-free and without means test.** The CBIs would be tax-exempt and without a means test, but tax would be payable on all, or almost all, other income. This is necessary in order to finance the scheme. The rate of tax would depend on the CBI amounts. The higher the CBI, the higher the Income Tax rate.

**Funded by Income Tax.** There are various ways of funding a CBI. The particular illustrative scheme discussed in this booklet would be funded by removing some tax allowances and National Insurance Contribution earnings thresholds, and reducing or abolishing means-tested benefits. Later on a larger CBI could be part of a wider tax reform package including, for example, a land value tax, a financial transaction tax, and/or a carbon tax.

**Implementation methods.** At the point of implementation, either means-tested benefits could be abolished, or some or all of them could be retained and everybody's in-work and out-of-work means-tested benefits recalculated to take into account their CBIs. A CBI could either be implemented for everybody at the same time, or successively for different age groups.

### 3 SIX FUNDAMENTAL CHANGES

- **Legal residence becomes the basis of entitlement**, subject to a minimum period of legal residency in the UK, and continuing residence in the UK for most of the year. Everyone legally resident would have a small independent income, whether or not they were in paid employment.
- **The individual would be the tax/benefits unit.** The Citizen's Basic Income (CBI) would be paid on the basis of the individual, and not on the basis of a couple, a family, or a household. Unlike the existing benefits system, CBI would be symmetrical between men and women. Marriage, civil partnership and cohabitation would be neither subsidised nor penalised.
- **The Citizen's Basic Income would not be withdrawn as earnings and other income rises**, nor would it be reduced by owning assets. It would be a base on which to build without having to report to officials every minor change in earnings or household composition. Benefits errors and fraud would be reduced significantly. Work – paid and unpaid – would be encouraged, and saving for old age would be more worthwhile.
- **There would be no availability-for-work rule.** Under the current system, young people in education or training, and unemployed people who study or train for more than a few hours a week, forfeit most benefits. This would not happen to their CBI. School attendance, further and higher education, voluntary work, vocational training and re-training, would not be discouraged by the tax and benefits system in the way that they can be now.
- **Access to a Citizen's Basic Income would be easy and unconditional.** Instead of the current maze of regulations, often resulting in perverse incentives, everybody would know their entitlement and their obligations. Take-up would be nearly 100%, as it is with Child Benefit (currently the only benefit close to a CBI in the UK).
- **Citizen's Basic Income levels would be indexed to average earnings, or to incomes**, or to GDP per capita, rather than to prices. To index the CBI lower than this would merely store up problems for the future. Whilst everyone would benefit from CBIs, there would be an equal and opposite pressure against Income Tax rises to fund them.

## 4 FOUR FREQUENTLY ASKED QUESTIONS

### **Would people still work if they received a Citizen's Basic Income?**

Under the current system, anyone on means-tested benefits suffers a high marginal deduction rate: that is, the withdrawal of means-tested benefits, and also payment of Income Tax and National Insurance Contributions, can result in additional earned income resulting in very little additional disposable income. For some family types, and some earnings ranges, the marginal deduction rate is higher than 95%.<sup>1</sup> In spite of this, the vast majority of working age adults choose to seek employment. With a Citizen's Basic Income (CBI) many current claimants' marginal deduction rates would fall,<sup>2</sup> making it even more likely that working age adults would seek employment. Parents and other carers can find that employment for a few hours a week brings only small financial gains. With a CBI, many parents and carers would find that part-time employment would result in additional disposable income, so they would be more likely to seek part-time employment.

### **Is it fair to ask people in employment to pay for everyone to receive a Citizen's Basic Income?**

As a society we have chosen to pay benefits out of general taxation: so at the moment those in employment pay for benefits for people who are not. With CBI both those currently receiving means-tested benefits (including tax credits) and those not currently receiving them would receive a CBI. This would be a lot fairer.

### **Isn't guaranteeing a right to work a better way to prevent poverty?**

The best way to prevent poverty is through well-paid employment; and the best way to ensure employment's widespread availability and take-up is to reduce the disincentives in the labour market. A CBI would help to achieve this. A CBI in combination with a National Minimum Wage or Living Wage would go a long way towards preventing poverty.

### **Why pay money to the rich when they don't need it?**

Because it is more efficient to pay the same amount to everyone than to run complicated means-testing systems. And in any case, because their Personal Income Tax Allowances would have been removed, the rich would be paying more Income Tax, so they would be no better off than they are now.

<sup>1</sup> Richard Murphy and Howard Reed, Financing the Social State: Towards a full employment economy, Centre for Labour and Social Studies, 2013, pp 25–7

<sup>2</sup> If Income Tax rates rose slightly, then those paying Income Tax and not on means-tested benefits would

see a slight rise in withdrawal rates on additional income. Similarly, higher Income Tax and National Insurance Contribution rates would mean that high earners would see slightly increased withdrawal rates on additional income

## 5 CONSTRUCTING A FEASIBLE CITIZEN'S BASIC INCOME SCHEME

The illustrative scheme described in this booklet retains the means-tested benefits system, and recalculates benefits on the basis that household members will be receiving Citizen's Basic Incomes (CBIs) and that tax rate and threshold changes will have altered net earnings.<sup>4</sup> As far as we can tell, any strictly revenue neutral CBI scheme that abolished means-tested benefits entirely would impose unacceptable losses on low income households.<sup>5</sup> While CBI schemes could be designed that would be generous enough to abolish means-tested benefits and not impose unacceptable losses on low income households, they would not be strictly revenue neutral.

The scheme described here is 'strictly revenue neutral': that is, it assumes that no additional revenue from outside the tax and benefits system will be available, and that the CBIs will be paid for by reducing Income Tax Personal Allowances, adjusting National Insurance Contribution rates and thresholds, increasing Income Tax rates slightly,<sup>6</sup> and reducing means-tested benefits. If additional revenue were to become available then higher CBIs could be paid.

### **Paying for this illustrative scheme**

Fewer households would be receiving means-tested benefits, and claims would be of lower amounts, generating savings; reductions in the Income Tax Personal Allowances, and a slight increase in tax rates, would generate additional revenue; the National Insurance Contribution Lower Earnings Limit would be removed; and National Insurance Contribution rates would be equalised at 12% on all earnings,<sup>7</sup> again generating additional revenue.

<sup>3</sup> Many of the research results employed in this booklet were generated by a computer programme, EUROMOD G3.00, using tax and benefits regulations for 2015/16 and Family Resources Data from 2012 updated to 2015 values. The process of extending and updating EUROMOD is financially supported by the European Union Programme for Employment and Social Innovation 'Easi' (2014–2020). The UK Family Resources Survey data was made available by the Department of Work and Pensions via the UK Data Archive.

<sup>4</sup> Malcolm Torry, An Evaluation of a Strictly Revenue Neutral Citizen's Income Scheme, Institute for Social and Economic Research, Colchester, Euromod Working Paper EM 5/16, 2016, <https://www.iser.essex.ac.uk/research/publications/working-papers/euromod/em5-16>. An amendment is described in Citizen's Income Newsletter, issue 1 for 2017.

<sup>5</sup> Malcolm Torry, Two feasible ways to implement a revenue neutral Citizen's Income scheme, Working Paper EM6/15, Institute for Social and Economic Research, University of Essex, Colchester, 2015, [www.iser.essex.ac.uk/research/publications/working-papers/euromod/em6-15](http://www.iser.essex.ac.uk/research/publications/working-papers/euromod/em6-15); Chris Stapenhurst, 'Experiments in Euromod', 2014, <http://citizensincome.org/research-analysis/experiments-in-euromod/>

<sup>6</sup> A 3% increase is the maximum increase likely to be politically feasible.

<sup>7</sup> Employee NICs are now 2% above the Upper Earnings Limit, which is regressive. Equalisation at 12% for all earnings (which would effectively remove the Upper Earnings Limit) would cohere with the idea of Citizen's Basic Income paid at the same rate to everyone.

## 6 AN ILLUSTRATIVE CITIZEN'S BASIC INCOME SCHEME

**Table 1:** An evaluation of a Citizen's Income scheme with the working age adult Citizen's Basic Income set at £60 per week.<sup>8</sup>

<b>Citizen's Pension per week</b> (existing state pensions remain in place)	£30
<b>Working age adult CI per week</b> (for individuals aged 25 to 64)	£60
<b>Young adult CI per week</b> (for individuals aged 16 to 24)	£50
(Child Benefit is increased by £20 per week)	(£20)
<b>Income Tax rate increase required</b>	3%
<b>Income Tax, basic rate</b> (on £0 – 42,385)	23%
<b>Income Tax, higher rate</b> (on £42,385 – 150,000)	43%
<b>Income Tax, top rate</b> (on £150,000 – )	48%
<b>Proportion of households in the lowest gross income quintile experiencing losses of over 10% at the time of implementation</b>	1.56%
<b>Proportion of households in the lowest gross income quintile experiencing losses of over 5% at the time of implementation</b>	2.38%
<b>Proportion of all households experiencing losses of over 10% at the time of implementation</b>	1.81%
<b>Proportion of all households experiencing losses of over 5% at the time of implementation</b>	12.51%
<b>Net cost of scheme per annum</b>	£2.79bn

As we can see, this scheme is strictly revenue neutral,<sup>9</sup> it requires an increase in Income Tax rates of only 3%, and it imposes negligible losses on low income households at the point of implementation. This suggests that the scheme is financially feasible.

### Feasibility

As well as being financially feasible, any Citizen's Basic Income (CBI) scheme would need to be psychologically feasible (that is, understood to be beneficial), behaviourally feasible (it would need to produce the expected effects), administratively feasible (not a problem with CBI), politically feasible (this is possible if a psychological feasibility test has been passed), and policy process feasible (that is, a scheme would need to be able to make its way through the policy process from idea to implementation).<sup>10</sup>

<sup>8</sup> The figures are for the fiscal year 2015/16. See note 3 on page 7.

<sup>9</sup> The additional cost would be less than £3bn per annum.

<sup>10</sup> For a full discussion of feasibility, see Malcolm Torry, *The Feasibility of Citizen's Income* (Palgrave Macmillan, 2016).



## 7 THE EFFECT ON MEANS-TESTED BENEFITS

Fewer households would be receiving the main in-work and out-of-work means-tested benefits, and the value of claims would fall:

**Table 2:** Percentage of households claiming means-tested social security benefits for the existing scheme in 2015 and for the illustrative scheme

Percentage of households claiming benefits in the context of ...	the existing scheme in 2015	the illustrative scheme
Out-of-work benefits (Income Support, Income-related Jobseeker's Allowance, Income-related Employment Support Allowance)	15.4%	13.1%
In-work benefits (Working Tax Credits and Child Tax Credits) <sup>11</sup>	20.5%	15.5%
Pension Credit	12.1%	10.9%
Housing Benefit	21.9%	21.9%
Council Tax Benefit <sup>12</sup>	26.7%	24.4%

**Table 3:** Percentage reductions in total costs of means-tested benefits, and percentage reductions in average value of household claims, on implementation

	Reduction in total cost	Reduction in average value of claim
Out-of-work benefits (Income Support, Income-related Jobseeker's Allowance, Income-related Employment Support Allowance)	69.9%	64.6%
In-work benefits (Working Tax Credits and Child Tax Credits)	26.7%	3.3%
Pension Credit	33.9%	26.8%
Housing Benefit	3.7%	3.7%
Council Tax Benefit	12.1%	3.8%

<sup>11</sup> The FRS data employed by Euromod G3.0 is updated 2012 data, and so is based on data collected before Universal Credit began to be rolled out. Given the slow pace of the roll-out, it will be some years before the FRS data reflects changes brought about by the transition to Universal Credit.

<sup>12</sup> The FRS data employed by Euromod G3.0 is updated 2012 data, and so is based on data collected before Council Tax Benefit became locally regulated Council Tax Support.

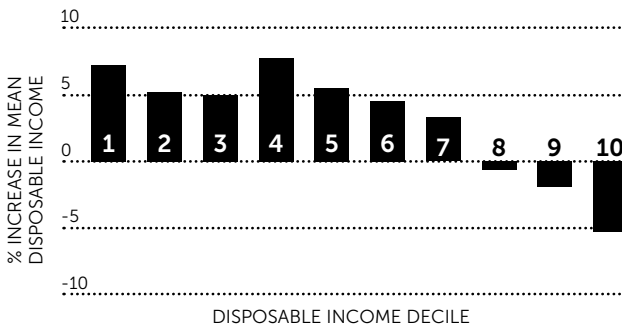
## 8 THE EFFECT ON INEQUALITY AND POVERTY

One of the frequently stated advantages of Citizen’s Basic Income (CBI) is that it could reduce inequality and poverty. It is significant that even the fairly small CBI represented by the illustrative scheme that we are testing here can substantially reduce inequality and poverty:

**Table 4:** Changes in inequality and poverty indicators

	The current tax and benefits scheme in 2015/16	Illustrative CBI scheme
<b>Inequality</b>		
Disposable income Gini coefficient	0.292	0.266
<b>Poverty indices<sup>13</sup></b>		
Children in poverty	10.88%	7.26%
Working age adults in poverty	12.45%	10.42%
Economically active working age adults in poverty	3.81%	3.19%
Elderly <sup>13</sup>	10.63%	10.84%

**Figure 1:** Redistributive effect of illustrative Citizen’s Basic Income scheme



The graph shows that the scheme would redistribute from rich to poor, with the ‘squeezed middle’ seeing the largest average increase in disposable income.

<sup>13</sup> Poverty is defined as household incomes below 60% of median household income (Paola De Agostini and Holly Sutherland, Euromod Country Report: United Kingdom (UK) 2011–2015, Colchester: Institute for Social and Economic Research, Essex University, 2016, [https://www.euromod.ac.uk/sites/default/files/country-reports/year6/Y6\\_CR\\_UK\\_final\\_13-04-2016.pdf](https://www.euromod.ac.uk/sites/default/files/country-reports/year6/Y6_CR_UK_final_13-04-2016.pdf), pp. 66–7).

<sup>14</sup> The original ISER working paper on which this booklet’s figures are based abolished all Income Tax

Personal Allowances. Because for elderly people the small Citizen’s Pension did not compensate for the loss of their Personal Allowance for those in employment, an increase in pensioner poverty occurred. The amended version in the Citizen’s Income Newsletter, issue 1 for 2017, implements an Income Tax Personal Allowance of £5,000 p.a. for everyone over the age of 65. This ensures no increase in pensioner poverty, and improves other indicators.

## 9 THE EFFECT ON A TYPICAL HOUSEHOLD<sup>15</sup>

There is no such thing as a typical household, but it might still be helpful to see how one particular kind of household might be affected if a Citizen's Basic Income scheme were to be implemented. If the household represented by the tables below had been on Tax Credits, then they would have gained £18.37 per week; and if they had been on Universal Credit, they would have gained £8.36. In either case, the household would have been much closer to escaping from means-testing than it is now.

**Table 5:** Net income for a couple with one earner (earning £20,000 p.a.), two children, and rent of £120 p.w., both for the current Tax Credit system and for Universal Credit

<b>Today's system, 2016/17 weekly figures</b>	<b>Tax Credits</b>	<b>Universal Credit</b>
Gross Earnings / Net Profit	384.62	384.62
Net Earnings – after Income Tax and N.I.	322.45	322.45
Child Tax Credit (No Working Tax Credit)	86.69	0.00
Housing Benefit	22.18	0.00
Child Benefit	34.40	34.40
Universal Credit	0.00	171.11
Weekly Income	£465.72	£527.95

**Table 6:** Net income for the same family, but now in receipt of Citizen's Incomes and with their Tax Credits or Universal Credit reduced in relation to their Citizen's Incomes

<b>Citizen's Basic Income scheme, 2016/17 weekly figures</b>	<b>Tax Credits</b>	<b>Universal Credit</b>
Gross Earnings / Net Profit	384.62	384.62
Net Earnings – after Income Tax and N.I.	268.60	268.60
Citizen's Basic Income	120.00	120.00
Child Tax Credit (No Working Tax Credit)	21.09	0.00
Housing Benefit	0.00	0.00
Child Benefit	74.40	74.40
Universal Credit	0.00	73.31
Weekly Income	£484.09	£536.31

<sup>15</sup>Gareth Morgan, 'Some typical household effects of a Citizen's Income Scheme', Citizen's Income Newsletter, issue 3 for 2016, pp. 7–8, with figures updated.

## 10 HOUSING COSTS

The Citizen's Basic Income (CBI) scheme outlined here does not pretend to solve the housing crisis, which is why Housing Benefit is retained in its current form. Citizen's Basic Income would neither solve nor exacerbate the housing problem. Housing provision and housing-related benefits need to be reformed, and they need to be tackled as a separate issue.

Another reason for keeping the issues separate is that housing benefits are usually paid to households whereas it is fundamental to a CBI that it is paid to individuals.

Similarly, Council Tax Support is retained. This is now locally regulated as well as locally administered.

## 11 IMPLEMENTATION METHODS

There are several options for implementing a CBI Scheme:

**All at once:** On the chosen day, every individual would be paid their CBI, means-tested benefits would be abolished or recalculated, Income Tax Personal Allowances would be reduced, and adjustments would be made to National Insurance Contribution rates.

**One age group at a time:** The process could start by turning Child Benefit into a genuine Child CBI by equalising the amounts paid to the first and to the second and subsequent children in the family. Secondly, the new Single Tier State Pension could be turned into a Citizen's Pension by removing the link with National Insurance Contribution records. Thirdly, a Preretirement CBI could be given to individuals over the age of say 55. Fourthly, a Young Adult CBI could then be implemented. Finally, a CBI for working age adults would fill the gap in the middle.

**An evolutionary approach:** This process too would start by implementing a Child CBI and a Citizen's Pension. Then would come a Young Adult CBI. As each cohort of young adults grew older they would retain their CBIs and would not receive Income Tax Personal Allowances. By this method it would take about fifty years to complete the process. A variant of this method would be to pay a CBI to every 16 year old (and deprive them of an Income Tax Personal Allowance), and then let them keep the CBI as they grew older, with each new cohort of 16 year olds then receiving a CBI, and so on. This would be a relatively easy way of achieving the transition from our current tax and benefits system.

**A voluntary approach:** Once a Child CBI, a Citizen's Pension, and a Young adult CBI had been established, individuals could be invited to swap their Income Tax Personal Allowances for CBIs.

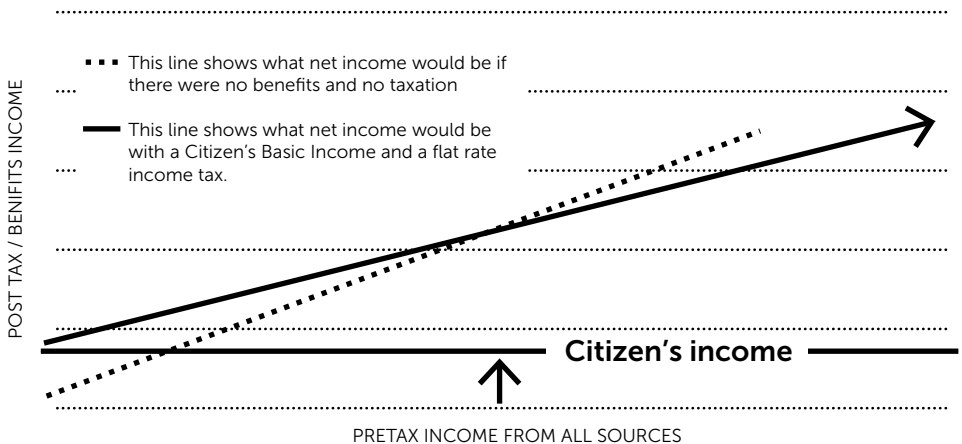
## 12 ALTERNATIVES TO CITIZEN'S BASIC INCOME?

**Both Negative Income Tax and Tax Credits** (genuine ones) require the employer or the Government to top up wages below a tax threshold, and to deduct tax above the threshold. This results in administrative complexity if individuals move from one employer to another, if there are gaps in employment, if someone has more than one employer, or if someone has self-employed earnings in addition to employment earnings.

A **Participation Income** would require social participation as a condition for receiving the income. The retired, and those who were sick or disabled, would be granted the Participation Income automatically. Anyone employed, self-employed, studying on approved courses, caring for children or for others who need care, or undertaking approved voluntary activity, would be regarded as 'participating' in society. Every member of the population would need to have their 'participation' regularly evaluated.

Citizen's Basic Income, Negative Income Tax, Tax Credits, and Participation Income (for those counted as participating) would all experience a smooth rise in net income as earnings rose, as in figure 2. The differences are administrative. A Citizen's Basic Income would lighten the administrative burden. All of the other options would increase it.

**Figure 2:** Graph showing how post-tax income rises as pre-tax income rises



## 13 WHO WOULD RECEIVE A CITIZEN'S BASIC INCOME?

Who would receive a Citizen's Basic Income (CBI) would be a decision made by the Government at the time of implementation, but here is an illustrative possibility:

Anyone living in the UK with the right to do so indefinitely, and refugees with a defined number of years of legal residence, would receive CBIs if they would be defined as resident in the UK by Her Majesty's Revenue and Customs, and they have been resident in the UK for a minimum residency period. A national of another country which had implemented a Citizen's Basic Income would be entitled to receive an individual CBI on arrival in the UK if their country gave the same right to UK nationals.

## 14 FURTHER READING

The most recent thorough introduction to the CBI debate can be found in:

- Malcolm Torry, *Money for Everyone: Why we need a Citizen's Income*, Policy Press, 2013
- Money for Everyone contains a select bibliography, and a longer bibliography can be found on the Citizen's Income Trust's website at: <http://www.citizensincome.org/MoneyforEveryone.htm>

Three more recent books are:

- Sarath Davala, Renana Jhabvala, Soumya Kapoor Mehta and Guy Standing, *Basic Income: A Transformative Policy for India*, Bloomsbury, London, 2014
- Malcolm Torry, *101 Reasons for a Citizen's Income*, Policy Press, 2015
- Malcolm Torry, *The Feasibility of Citizen's Income*, Palgrave Macmillan, 2016

All of the Citizen's Income Trust's publications can be downloaded for free from the website: [www.citizensincome.org](http://www.citizensincome.org)

## 15 THE CITIZEN'S INCOME TRUST

The Basic Income Research Group was set up in 1984 to promote debate on the desirability and feasibility of a Citizen's Basic Income. (*BIRG was renamed the Citizen's Income Trust in 1992*).

The Citizen's Income Trust is not a pressure group, nor is it aligned to any political party. It publishes a regular Newsletter, maintains a website and a library, responds to requests for information, and undertakes research projects directly related to its aims. The Trust is affiliated to BIEN (The Basic Income Earth Network: formerly the Basic Income European Network), which it helped to establish.

The Citizen's Income Trust is a registered charity, no. 328198, and it has a website at [www.citizensincome.org](http://www.citizensincome.org).

The trustees recently decided to use the term 'Citizen's Basic Income' in preference to 'Citizen's Income'.

## 16 HOW YOU CAN HELP

If you are interested in reform of the tax and benefits systems, why not join our mailing list?

Please go to our website, [www.citizensincome.org](http://www.citizensincome.org), and sign up for monthly updates; mail your contact details to [info@citizensincome.org](mailto:info@citizensincome.org); or complete the form below and send it to: Dr. Malcolm Torry, Director, Citizen's Income Trust, 286 Ivydale Road, London SE15 3DF

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Yes, please keep me in touch with the debate about a Citizen's Basic Income:

(CAPITAL LETTERS PLEASE)

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Address .....

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Please return this form to: Dr. Malcolm Torry, Director, Citizen's Income Trust, 286 Ivydale Road, London SE15 3DF

