

Citizen's Income

A brief introduction

Citizen's Income: A brief introduction

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1 What is a Citizen's Income?

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

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

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

A Citizen's Income scheme would phase out as many allowances against personal income tax, and as many existing state financed cash benefits, as possible, and replace them with a Citizen's Income paid automatically to every man, woman and child.

The Citizen's Income attack on poverty is three pronged. It would

- reduce poverty and unemployment traps, hence boosting employment
- provide a safety net from which no citizen would be excluded
- create a platform on which all citizens are free to build

A Citizen's Income scheme would encourage individual freedom and responsibility and help to

- bring about social cohesion. Everybody is entitled to a Citizen's Income and everybody pays tax on all other income
- end perverse incentives that discourage work and savings.

A Citizen's Income would be simple and efficient and would be:

- affordable within current revenue and expenditure constraints
- easy to understand. It would be a universal entitlement based on citizenship that is non-contributory, non-means-tested, and non-taxable
- cheap to administer and easy to automate

2 How would it work?

A Citizen's Income scheme would co-ordinate the income tax and benefits systems. Citizen's Incomes would be paid automatically, and the cost would be recouped via Income Tax levied on all income, rather than running separate systems of means testing, benefit withdrawal, and taxation. Instead of different rules for claimants and taxpayers, everybody would be treated alike.

Automatic payments. Each week or each month, every legal resident would automatically be given the Citizen's Income 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 Citizen's Incomes might be paid to older people, and smaller Citizen's Incomes 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 Citizen's Incomes 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 Citizen's Income amounts. The higher the Citizen's Income, the higher the Income Tax rate.

Funded by Income Tax. There are various ways of funding a Citizen's Income. The particular schemes discussed in this booklet are funded by removing some tax allowances and reliefs and reducing or abolishing some means-tested and contributory benefits.

This booklet discusses a Citizen's Income funded by Income Tax, but a Citizen's Income could also 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 Citizen's Incomes. A Citizen's Income could either be implemented for everybody at the same time, or successively for different age groups.

3 Six fundamental changes

- *Citizenship 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. Every citizen 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 Income 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, Citizen's Income would be symmetrical between men and women. Marriage, civil partnership and cohabitation would be neither subsidised nor penalised.
- *The Citizen's 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 and savings of all types would be encouraged.
- *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 Citizen's Income. School attendance, further and higher education, voluntary work, vocational training and re-training, would not be discouraged or penalised by the tax and benefits system in the way that they are now.
- *Access to a Citizen's 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 Citizen's Income in the UK).
- *Benefit levels would be indexed to average earnings, or to incomes, or to GDP per capita, rather than to prices*. To index the Citizen's Income lower than this would merely store up problems for the future. Whilst all citizens would benefit from a more generous payment, there would be an equal and opposite pressure against Income Tax rises to fund it.

4 Four frequently asked questions

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

Under the current system, in spite of sizeable benefit withdrawal rates (or 'marginal deduction rates', MDRs), the vast majority of working age adults choose to seek employment. With a Citizen's Income most people's withdrawal rates would fall, ¹ making it even more likely that working age adults would seek employment.

At the moment, parents and other carers can find that employment for a few hours a week brings only small financial gains – again, because of high withdrawal rates. A Citizen's Income would reduce this problem, so that working age carers who cannot or do not wish to seek full-time employment 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 Income?

As a society we have chosen to fund payments to those not in paid work out of general taxation: so at the moment those in employment pay for benefits for people who are not. With Citizen's Income both those currently receiving means-tested benefits and tax credits and those not currently receiving them would receive a Citizen's Income. 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 is to reduce the rigidities in the labour market that serve neither employers nor employees. A Citizen's Income would help to achieve this. A Citizen's Income in combination with a National Minimum or Living Wage would go a long way towards preventing poverty.

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

Simply 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.

¹ 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 increased withdrawal rates on additional income

5 The current system in the UK ²

Putting housing-related benefits to one side for the moment, in 2013/14 the net income of a single earner aged 25 or over after Income Tax, Employees' National Insurance Contributions, Income Support/Jobseeker's Allowance and Working Tax Credits was as follows:

Figure 1: Net income of a single earner in 2013/14 aged 25 and receiving the National Minimum Wage and Income Support / Jobseeker's Allowance

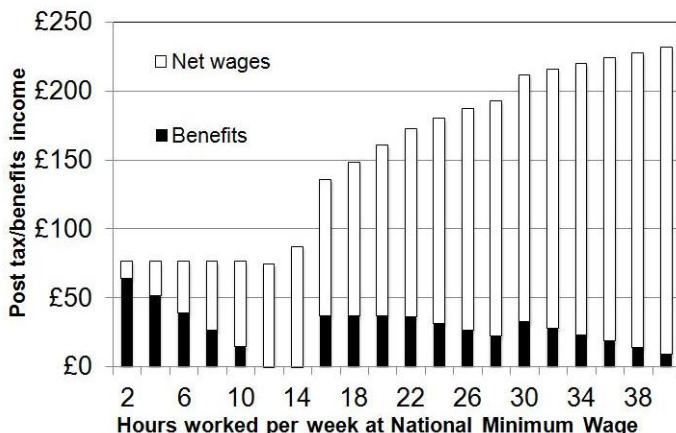


Figure 1 reveals the benefit traps, and shows that someone employed for fewer than 14 hours per week cannot increase their income. As earned income rises, first of all out-of-work benefits (such as Jobseeker's Allowance), and then in-work benefits (such as Working Tax Credits), are withdrawn. For some family types, and some earnings ranges, the resultant withdrawal rate, known as the marginal deduction rate, is higher than 95%.³

² Many of the research results employed in this booklet were generated by a computer programme, EUROMOD G2.0++ using Family Resources Survey data for 2009-10 updated to 2013 values and tax and benefits regulations and amounts for 2013/14. The contribution of all past and current members of the EUROMOD consortium is gratefully acknowledged. The process of extending and updating EUROMOD is financially supported by the Directorate General for Employment, Social Affairs and Inclusion of the European Commission [Progress grant no. VS/2011/0445.] The UK Family Resources Survey data was made available by the Department of Work and Pensions via the UK Data Archive. A full discussion of these results can be found in Malcolm Torry, *Two feasible ways to implement a revenue neutral Citizen's Income scheme*, Euromod Working Paper EM6/15, Institute for Social and Economic Research, University of Essex, Colchester, April 2015, www.iser.essex.ac.uk/research/publications/working-papers/euromod/em6-15, and subsequently as an article in the *Citizen's Income Newsletter*, issue 3 for 2015

³ Richard Murphy and Howard Reed, *Financing the Social State: Towards a full employment economy*, Centre for Labour and Social Studies, 2013, pp 25-7

6 Three illustrative Citizen's Income schemes

The Citizen's Income schemes studied here assume the following rates:

Table 1: Citizen's Income amounts in 2013/14 for the illustrative schemes

| | Scheme A | Scheme B | Scheme C |
|--|---|---|-----------------|
| Relationship of Citizen's Income to means-tested benefits | Citizen's Incomes replace means-tested benefits except for Housing Benefit and Council Tax Support. Child Benefit and Basic State Pension are no longer paid. | Means-tested benefits are left in place and CIs are taken into account when means-tested benefits are calculated. Basic State Pension and Child Benefit still paid. | As for scheme A |
| CIs per week | | | |
| Citizen's Pension (over 65) | £145.40 | £30 (+ Basic State Pension) | £120 |
| Working age adult CI (25 to 64) | £71.70 | £50 | £160 |
| Young adult CI (16 to 24) | £56.80 | £40 | £120 |
| Child CI | £56.80 | £20 (+ Child Ben.) | £80 |

Paying for the three schemes

First step: If means-tested and other benefits are abolished, then the savings made can be used to fund Citizen's Incomes. If means-tested benefits are reduced by taking into account people's Citizen's Incomes when they are calculated, then again there will be savings, and these can be used to pay for Citizen's Incomes. We can assume administrative savings of £4bn per annum where means-tested benefits are abolished, and £1bn per annum where they are retained (because everyone will have their means-tested benefits reduced by the total of Citizen's Incomes received by the household, so fewer people will be receiving means-tested benefits).

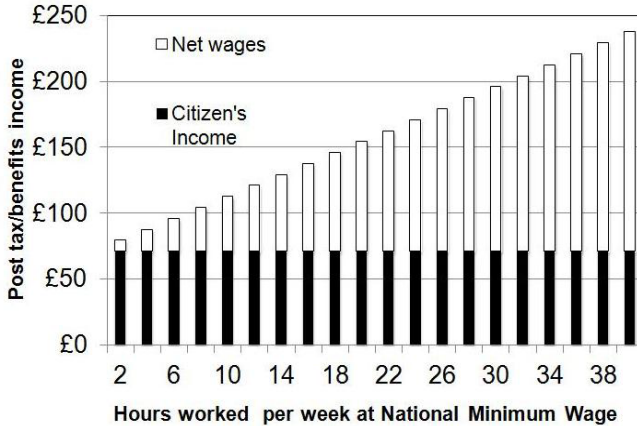
Second step: Currently Employees' National Insurance Contributions are regressive: that is, people with high earnings pay only 2% of any additional earnings, whereas people with lower earnings pay 12% of any additional earnings. We therefore suggest equalising these rates at 12%, and, because each individual will be receiving a Citizen's Income, we remove the Lower Earnings Limit, with the effect that National Insurance Contributions would be paid on all earnings.

Third step: Personal Income Tax Allowances would be abolished. If there is still a funding gap, then Income Tax rates can be raised to provide the additional revenue required.

7 An illustration: The effect of scheme A

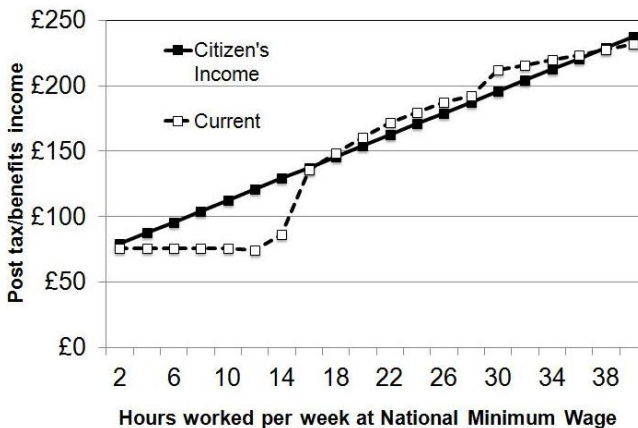
Scheme A would abolish all means-tested benefits (apart from Housing Benefit, Council Tax Support, and disability related benefits). Figure 2 shows the effect on a single earner aged 25 or over after Citizen's Income, Income Tax, and National Insurance Contributions (at 12% on all earned income):

Figure 2: Net income in 2013/14 of a single earner aged 25 and receiving the National Minimum Wage and a scheme A Citizen's Income



Overlapping Figures 1 and 2 shows that scheme A would increase employment incentives at low earnings levels while not reducing incentives to work at higher earnings levels:

Figure 3: Net income of a single earner aged 25 and receiving a) the National Minimum Wage and a Citizen's Income, and b) the NMW and current benefits



8 The financial feasibilities of the illustrative schemes ⁴

Table 2: Citizen's Income amounts in 2013/14 for the illustrative schemes, increases in tax rates to fund the schemes, and losses at the point of implementation

| | Scheme A | Scheme B | Scheme C |
|--|---|---|-----------------|
| Relationship of Citizen's Income to means-tested benefits | Citizen's Incomes replace means-tested benefits except for Housing Benefit and Council Tax Support. Child Benefit and State Pension are no longer paid. | Means-tested benefits are left in place and CIs are taken into account when means-tested benefits are calculated. Basic State Pension and Child Benefit are still paid. | As for scheme A |
| CIs per week | | | |
| Citizen's Pension | £145.40 | £30 (+State Pension) | £120 |
| Working age adult CI | £71.70 | £50 | £160 |
| Young adult CI | £56.80 | £40 | £120 |
| Child CI | £56.80 | £20 (+ Child Ben.) | £80 |
| Increase in Income Tax rates required | 5% | 3% | 28% |
| Proportion of households experiencing losses of over 10% at the point of implementation | | | |
| Households in the lowest income decile | 28.03% | 1.5% (and 4.37% with losses over 5%) | 29.0% |
| All households | 15.2% | 1.24% (and 15.2% with losses over 5%) | 30.2% |

To increase Income Tax rates by 28% would not be feasible; and even to raise them by 5% might not be feasible either. Also, schemes A and C would impose high losses on many households, including poor ones. Schemes A and C would therefore not be financially feasible in the short term. Both might be feasible in the longer term if additional funding became available.

Scheme B would raise Income Tax rates by 3% and would impose few losses. It would be financially feasible in the short term, and it could be implemented almost overnight. It would pay genuine Citizen's Incomes that would transform the lives of many households.

⁴ A full discussion of these results can be found in a Euromod working paper, *Two feasible ways to implement a revenue neutral Citizen's Income scheme*, Institute for Social and Economic Research Working Paper EM6/15, Colchester: Institute for Social and Economic Research, University of Essex, April 2015, www.iser.essex.ac.uk/research/publications/working-papers/euromod/em6-15, and subsequently as an article in the *Citizen's Income Newsletter*, issue 3 for 2015

9 Housing costs

The Citizen's Income schemes outlined here do not pretend to solve the housing crisis, which is why in all three schemes discussed Housing Benefit is retained. We are aware that housing-related benefits need radical simplification and reform, but we believe that to be a separate debate and not directly related to the implementation of a Citizen's Income scheme. Housing benefits are usually paid to households whereas it is fundamental to a Citizen's Income that it is paid to individuals.

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

10 Implementation methods

There are several options for implementing a Citizen's Income Scheme:

All at once: On the chosen day, every individual would be paid their Citizen's Income, 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 Citizen's Income 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 Citizen's Income could be given to individuals over the age of say 55. Fourthly, a Young Adult Citizen's Income could then be implemented. Finally, a Citizen's Income for working age adults would fill the gap in the middle.

An evolutionary approach: This process too would start by implementing a Child Citizen's Income and a Citizen's Pension. Then would come a Young Adult Citizen's Income. As each cohort of young adults grew older they would retain their Citizen's Incomes and would not receive Income Tax Personal Allowances. By this method it would take about fifty years to complete the process.

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

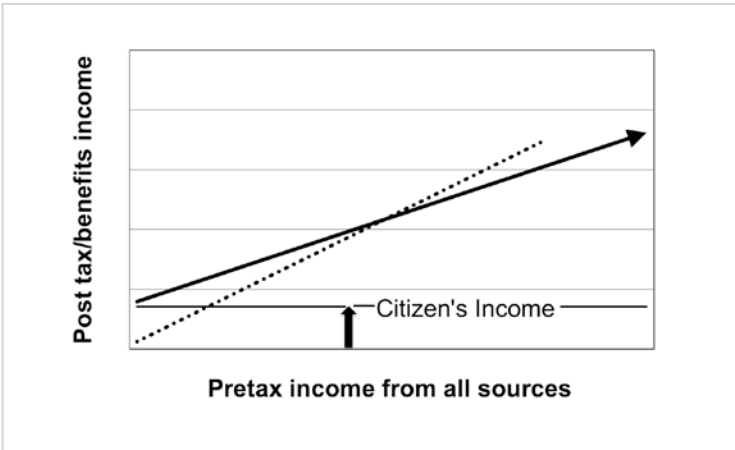
11 Alternatives to Citizen's Income?

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 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 4. The differences are administrative. A Citizen's Income would lighten the administrative burden. All of the other options would increase it.

Figure 4: Graph showing how post-tax income rises as pre-tax income rises



- This line shows what net income would be if there were no benefits and no taxation
- This line shows what net income would be with a Citizen's Income and a flat rate income tax.

12 The Citizen's Income Trust

The immediate reaction of most people when introduced to the idea of a Citizen's Income is one of incredulity. It sounds too good to be true. The *Basic Income Research Group* was set up in 1984 to promote debate on the feasibility and desirability of a Citizen's 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.

13 How you can help

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

Email your contact details to 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

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

(CAPITAL LETTERS PLEASE)

Name

Address

Postcode

Phone

Fax

Email address

Please return this form to:

Dr. Malcolm Torry, Director
Citizen's Income Trust
286 Ivydale Road
London SE15 3DF

14 Further reading

The most recent thorough introduction to the Citizen's Income 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>

Two books that have been published more recently 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

All of the Citizen's Income Trust's publications can be downloaded for free from the website: www.citizensincome.org