

Citizen's Income

A brief introduction

1 What is a Citizen's Income?

A Citizen's Income (CI) is an unconditional, automatic and non-withdrawable payment to each individual as a right of citizenship.

(A Citizen's Income is sometimes called a Basic Income (BI), a Universal Grant, or a Universal Benefit)

A Citizen's Income scheme would phase out as many reliefs and 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. Such a scheme would

- end the 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 to automate

* A Citizen's Income varies only with age; and there will be additions for disability

2 **How would it work?**

A Citizen's Income scheme would co-ordinate the income tax and benefits systems. A single government agency would credit the Citizen's Incomes automatically and recoup the cost 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 credited with 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. Citizen's Income supplements would be paid to older people and those with chronic disabilities, 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-free 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 tax rate.

A new, comprehensive income tax. There are various ways of funding a Citizen's Income. The particular scheme discussed in this booklet is funded by removing tax allowances and reliefs and reducing means tested and contributory benefits. In addition, income tax and employees' national insurance contributions would be merged into a new income tax.

This booklet establishes the viability of a Citizen's Income funded by income tax, but it could also be part of a wider tax reform package including, for example, a land value tax and/or a carbon tax.

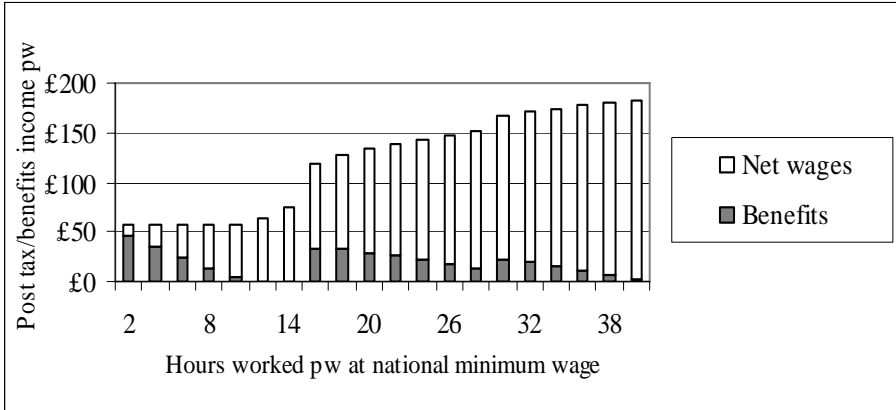
3 Six fundamental changes

- *Citizenship becomes the basis of entitlement*, subject to a minimum period of legal residency in the UK. Every citizen would have a small independent income, whether or not they are in paid employment.
- *The individual would be the tax/benefits unit*. The Citizen's Income would be paid to individuals, not couples, families or households. 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 fraud would be reduced significantly. Work and savings of all types would be encouraged.
- *The availability-for-work rule would be abolished*. 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. With a Citizen's Income this would not happen. School attendance, further and higher education, voluntary work, vocational training and re-training would all be facilitated.
- *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, as with child benefit (currently the only form of Citizen's Income in the UK), would be nearly 100%.
- *Benefit levels would be indexed to earnings 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. So two basic variables – the Citizen's Income level and the income tax rate required to fund it – would be inherently linked and stable.

4 Integrating tax and social security

The current system

Putting housing-related benefits to one side, in 2006 the net income of a single earner aged 25 or over after income tax, national insurance contributions, income support/jobseeker's allowance and working tax credits was as follows:

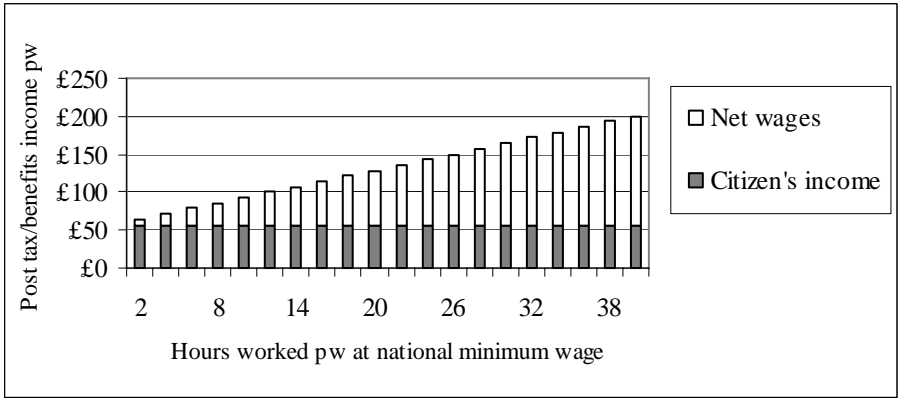


The chart clearly reveals the benefit trap. As earned income rises, earnings are taxed and benefits are withdrawn. Someone working between 11 and 16 hours per week retains their additional earnings in full, but when they work more than 16 hours per week and become entitled to tax credits, their net income rises much more slowly. If someone earning the national minimum wage (£5.35 in 2006) starts working 40 rather than 16 hours, his or her *gross* income increases by £128 per week, but his or her *net* income increases by only £65 per week – having suffered £34 in income tax and national insurance contributions and lost £29 in working tax credits. The increase in net income is only 51% of gross income, so there is a ‘marginal deduction rate’ or ‘withdrawal rate’ of 49%. For many family types, withdrawal rates are 85% of earned income up to nearly £400 per week; and for some family types and some earnings ranges the withdrawal rate is higher than 95%.

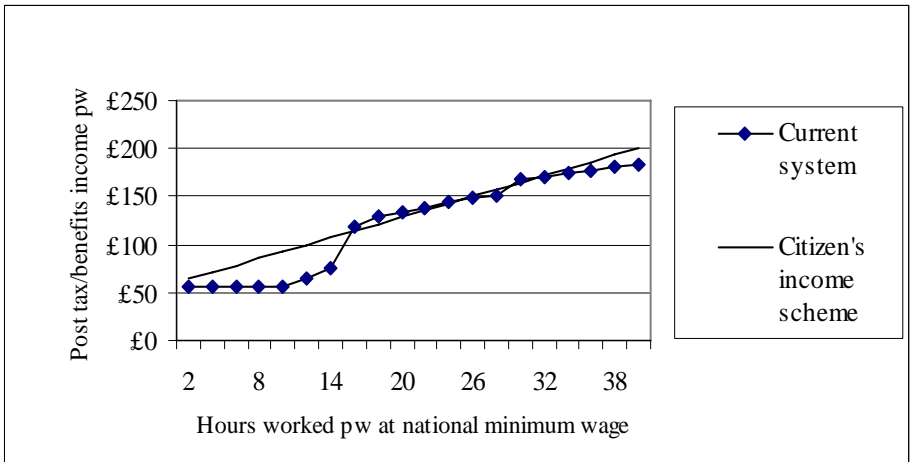
A Citizen's Income proposal:

The relatively uncontroversial Citizen's Income scheme proposed here assumes the following rates of Citizen's Income:

Age	Weekly CI	2006-07 rates:
0 to 18	£34	Income Support for 16-17 year olds
19 to 24	£45	Income Support for 18-24 year olds
25 to 64	£57	Income Support for 25-59 year olds
65 and over	£114	Pensions Credit rate



Overlapping the two previous charts shows that the system will increase work incentives at most levels of income:



5 Paying for a Citizen's Income scheme

The Citizen's Income scheme outlined here is intended to be revenue and cost neutral. For simplicity, we shall assume a flat rate of tax on earned income of 33% (22% income tax plus 11% employee's national insurance contributions), with a higher rate as at present on higher earnings. Rates of 22% are assumed for pensioners and of 20% for unearned income. The estimated total cost of benefits and tax reliefs and allowances that would be replaced is as follows:

Social security spending	£100 bn	(Appendix 1, see page 9)
Tax reliefs and allowances	£94 bn	(Appendix 2, see page 10)
DWP ¹ running costs	£6 bn	(DWP ¹ expenditure budget)
HMRC ² (tax credit administration)	<u>£1 bn</u>	
Total	<u>£201 bn</u>	

The total cost of the proposed scheme is as follows:

Age	Population survey 2006	Citizen's Income per week	Cost
0 to 18	13,912,600	£34	£25 bn
19 to 24	4,770,800	£45	£11 bn
25 to 64	32,141,500	£57	£95 bn
65 and over	<u>9,708,100</u>	£114	<u>£58 bn</u>
	60,533,000		£189 bn
Running costs (1%)			<u>£2 bn</u>
Total cost p.a.			<u>£191 bn</u>

We assume that tax relief for pension contributions will be restricted to 22%, the same as the rate of income tax deducted from pensions in payment. Running costs are estimated at one per cent, which is the approximate cost of administering child benefit (non-contributory, non-means tested, non-taxable).

In the short term some of the £10bn saved will be needed to compensate those for whom transitional measures are required, as explained later.

That the UK can afford a Citizen's Income scheme is also illustrated by the fact that per capita GDP was £391 per week in 2005 (UK National Accounts 2006, Table 1.5, Item IHXT).

1 DWP: Department for Work and Pensions

2 HMRC: Her Majesty's Revenue and Customs

Appendix 1

DWP Table 3, estimated outturn, 2006-07	£m	Note
Basic state pension	44,840	
Pension Credit	6,200	(1)
Jobseeker's allowance	2,460	
Incapacity benefit	4,700	(2)
Statutory maternity and sick pay	800	
Income support (less child allowances)	6,000	
Carer's allowance and other minor benefits	<u>2,000</u>	
sub-total, Great Britain only	67,000	
<i>add 3% for Northern Ireland</i>	2,000	
HMRC annual report 2005-06		
Child benefit and child trust fund	11,700	(3)
Tax credits	17,300	(4)
Student grants/low interest loans	<u>2,000</u>	(5)
Total	<u>100,000</u>	

Notes

- (1) Any disability-related elements will be retained.
- (2) The total cost according to Table 3 is £6,529m. If those eligible for incapacity benefit at the long term rate of £78 per week are paid £21 in addition to the Citizen's Income rate of £57, the cost is reduced by $(£57 \div £78) \times £6,529m = £4,771m$.
- (3) Child trust fund estimated at 700,000 births x £250.
- (4) Figure excludes £4,600m included in Appendix 2
- (5) Figure per www.donttaxmytalent.co.uk

Appendix 2

	£m	
HMRC Table 1.5		
Cost of tax reliefs and allowances (2006-07)		Note
Personal allowance (income tax)	30,100	(1)
Age-related personal allowances	2,400	
Tax credits (treated as negative income tax)	4,600	(2)
Income tax relief for approved pension schemes	16,300	(3)
National insurance rebates for pension schemes	17,000	(4)
PEP, ISA, VCT and EIS reliefs	2,300	(5)
HMRC Table 1.6 (2007-08)		
(6)		
Additional tax if all earned income were taxed at 33%		
Increase starting rate from 10% to 22%	6,600	(7)
Remove lower earnings/profits limit (national insurance)	12,600	(8)
Align Class 4 and Class 1 national insurance rates	900	(9)
Align upper earnings/profits limit with higher rate tax threshold (national insurance)	<u>1,500</u>	(10)
	<u>94,300</u>	

Notes

- (1) Table 1.5 gives a figure of £40,000m, but this assumes that the basic state pension would be taxable, which would raise £9,900m (£44,837m x 22%). The potential saving shown here is lower as the Citizen's Income paid to pensioners will be non-taxable.
- (2) These are in addition to the tax credits treated as benefit payments.
- (3) Table 1.5 shows £16,300m as the net cost, i.e. the cost of tax relief (at up to 40%) minus tax paid on pensions in payment (largely at 22%). If tax relief for pensions contributions is restricted to 22%, the net long-run cost will be minimal.
- (4) Under a Citizen's Income scheme, national insurance will be merged into the overall tax rate and all benefits will be non-contributory, so there will be no additional national insurance rebates or reliefs.
- (5) These are regressive subsidies. A higher rate taxpayer benefits twice as much as a basic rate taxpayer and benefit claimants lose benefits if they have significant savings.
- (6) The figures for 2006-07 are no longer published.
- (7) $12 \times £550\text{m}$
- (8) $£97 \div £2 \times (£240\text{m} + £20\text{m}) = £12,610$
- (9) $3 \times £315\text{m} = £945\text{m}$
- (10) Higher rate threshold £38,335 minus upper earnings/profits limit £33,600 = £4,735. $£4,735 \div £520 \times (£150\text{m} + £15\text{m}) = £1,502$

6 Transitional arrangements

There will be clear winners under the Citizen's Income system proposed here, in particular:

- earners with low or fluctuating incomes
- students
- families with children on low to average earnings
- pensioners with small savings and pensioner couples

It is also clear that if the Citizen's Income scheme were adopted outright then transitional measures will be required for

- lone parents with no earned income who receive no maintenance from the absent parent
- women aged between 60 and 65 eligible for the state pension
- single earner households earning between £8,000 and £16,000 per annum, for whom the Citizen's Income envisaged would not compensate for the withdrawal of both child tax credit and working tax credit
- civil servants at Her Majesty's Revenue and Customs and the Department for Work and Pensions who have to be retrained or made redundant.

The Citizen's Income scheme outlined here ignores the fact that some residents have not been in the UK long enough to qualify, and it also ignores pensioners living abroad who receive a state retirement pension. It is assumed that the two issues will cancel each other out so that a negligible overall cost or saving will be the result.

7 Housing-related benefits

The Citizen's Income scheme outlined here has ignored housing and council tax benefits, which cost around £19bn annually, and the economic cost of below-market rents in the social rented sector estimated at £7 bn in John Hills' recent review. *

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. Such benefits are necessarily paid to households whereas it is fundamental to a Citizen's Income that it is paid to individuals.

* John Hills, *Ends and Means: the future roles of social housing in England*, London School of Economics, 2007

8 Three 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, the vast majority of working age adults choose to seek employment. With a Citizen's Income the withdrawal rates would fall, making it even more likely that working age adults would seek employment.

At the moment, parents and other carers find that employment for a few hours a week brings only small financial gains – again, because of the benefit withdrawal rates. A Citizen's Income would reduce this problem, so those working age carers who cannot or do not wish to seek full-time employment would be more likely to seek and to accept 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. At the moment, those in employment pay for the benefits received by people who are not. With a Citizen's Income scheme both those currently receiving means tested benefits and tax credits *and* those *not* currently receiving them would receive a Citizen's Income. In general, this is fairer than the current system.

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 the widespread availability of such employment is to make the labour market as free and as flexible as possible.

A Citizen's Income would help to reduce rigidities in the labour market. The combination of a Citizen's Income and a national minimum wage would go a long way towards preventing poverty.

9 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 a registered charity, and is affiliated to *BIEN* (The *Basic Income Earth Network*: formerly the *Basic Income European Network*), which it helped to form.

The Citizen's Income Trust is a registered charity, no. 328198, and it has a website at www.citizensincome.org.

10 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
P.O. Box 26586
London SE3 7WY

Telephone: 020 8305 1222; fax: 020 8305 1802

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

(CAPITAL LETTERS PLEASE)

Name

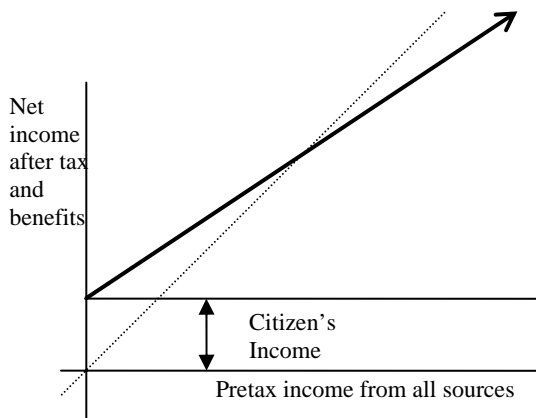
Address

Phone

Fax

Email address

Please return this form to: Dr. Malcolm Torry, Director, Citizen's Income Trust, P.O. Box 26586, London SE3 7WY



——— This line, at 45°, 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.