Money for everyone

An appendix to chapter 9

Taxation implications of diverse household economies in a flexible labour market

Steinert and Pilgram show how low-income families cope by using social security systems as one element in an overall strategy. The strategy will include casual labour, family and other networks, and voluntary and self-help organizations: [1] and the problem with this situation is that none of the income factors is secure, leaving the family in a state of constant anxiety. They conclude that a Citizen's Income would be a useful element in any future welfare state designed for a flexible labour market because it would be a stable income floor on which other shifting provisions could be built.

A wider discussion is that of the informal economy itself, and the particular question that would emerge if a Citizen's Income were implemented would be this: If tax allowances are reduced to pay for a Citizen's Income, how will we collect the Income Tax that then becomes due on small earnings? A similar question also arises: Our labour market is becoming more flexible, and a Citizen's Income would remove some of the brakes on this process. What we now call the 'informal economy' might become a much larger part of the economy. How would we collect Income Tax on the earnings generated?

The first thing to say is that these are not questions related only to a new scenario in which every citizen is receiving an unconditional and nonwithdrawable income. The questions are relevant today. Already there is a sizeable informal economy, and it is already a problem that it is difficult to collect Income Tax on its earnings. Here we are not just discussing earnings at low hourly rates: we are also discussing earnings at substantial and often exorbitant hourly rates that remain untaxed because those earning them have implemented tax avoidance or tax evasion strategies.

There are currently two very different earnings declaration methods: If someone is employed, then their employer collects tax on earnings and pays it Her Majesty's Revenue and Customs (HMRC). If too much tax has been paid then the employee can claim it back. If someone is self-employed then they receive their earnings untaxed and declare them on a tax return at the end of the year. They will already have paid an estimated tax liability, and the following year either more tax is demanded or a repayment is made. Complications can arise when someone is both an employee and self-employed. Depending on the balance of earnings, HMRC will either count them as someone self-employed who also has an employer, or as an employee with additional untaxed earnings.

As we have seen, the labour market is becoming more flexible, and if we are to remain in a global economy, which we must, then the labour market will become even more flexible, and soon there will be no normative employment patterns. A Citizen's Income would facilitate this change, but would not be its cause. Whether or not we implement a Citizen's Income, we are going to need a tax system suitable for a more flexible labour market. Currently, the method with the least leakage of tax revenue is an employer's Pay As You Earn (PAYE) system, by which the employer deducts tax from earnings and pays it to HMRC. We could with some benefit extend this system, making it the responsibility of the person or organization that pays someone to work for them to deduct and pay tax on their earnings, with such individuals as piano teachers opting into a continuation of the current system for the self-employed. This process would of course be much helped by the integration of Income Tax and National Insurance Contributions (recommended by the recent Mirrlees Review on the tax system) and by a universal flat Income Tax rate.

A rather different response to a more flexible labour market would of course be to cease to collect tax on earnings, and instead to tax both land and carbon. The taxation of land values would ensure that the wealthy paid more tax than those with less wealth, and it would also ensure that land was used more efficiently; and a tax on carbon would reduce our use of it, which would make its supply more sustainable and would reduce the risk of unsustainable climate change. [2] (A common objection to carbon taxes is that they penalize the poor. This is not necessarily the case. [3]) Whilst the abandonment of Income Tax as a revenue-raising measure might sound like a rather outlandish proposal, the ways in which our labour market is changing, and the importance of our labour market remaining competitive globally, would suggest that it is high time that the proposal was seriously considered.

The essential point to make here is that our labour market is becoming more flexible, that what we call the informal economy is becoming a more important part of the economy, that a Citizen's Income would facilitate this process, to the benefit of the economy and of individuals and households, and that the tax system needs to catch up with these changes. What is absolutely essential is that we do not allow the way the tax system works now, and the difficulty of changing it, to become an excuse for not implementing a Citizen's Income. Whether a Citizen's Income should be implemented should be judged on its own merits, and in relation to the criteria for a good benefits system listed in the next chapter. It should not be judged on the basis of extraneous considerations. If establishing a Citizen's Income means that we have even more reason than before to look at radical proposals relating to taxation, then that is the road that we should take.

[1] Heinz Steinert, 'European Social Security as the Infrastructure for the Necessities of Life and the Participation of All', in Heinz Steinert and Arno Pilgram, *Welfare Policy from Below: Struggles against Social Exclusion in Europe*, Ashgate, Aldershot, 2006, pp.xi-xxii

[2] Royal Commission on Environmental Pollution, *Twenty-second Report: Energy – the changing climate*, Cm 4749, Stationery Office, London , 2000; Meg Huby, 'The Sustainable Use of Resources on a Global Scale', *Social Policy and Administration*, vol.35, no.3, December 2001, pp.521-537, p.533.

[3] Paul Ekins and Simon Dresner, *Green taxes and charges: Reducing their impact on low-income households*, Joseph Rowntree Foundation, York, 2004.