Citizen’s Income

A brief introduction

**CITIZEN'S
INCOME
TRUST**

2013

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 phasing out means tested and contributory benefits. In addition, income tax and employees' national insurance contributions could 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.

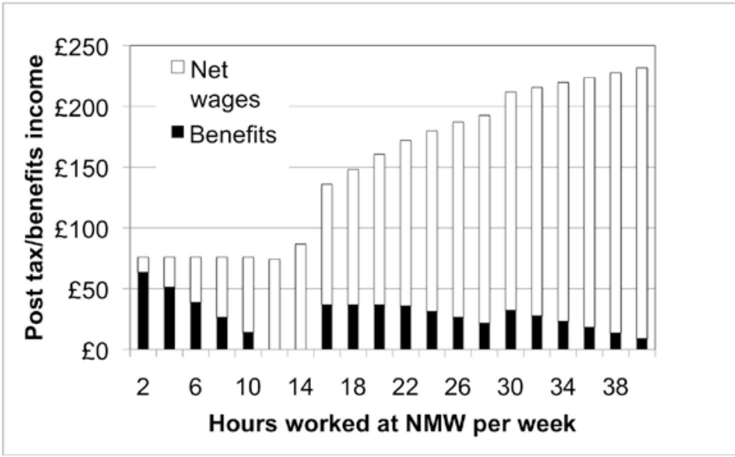
- *Access to a Citizen's Income would be easy and unconditional*. Instead of the current maze of regulations, often resulting in perverse incentives, everybody would know their entitlement and their obligations. Take-up, as with child benefit (currently the only form of Citizen's Income in the UK), would 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 2012 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:

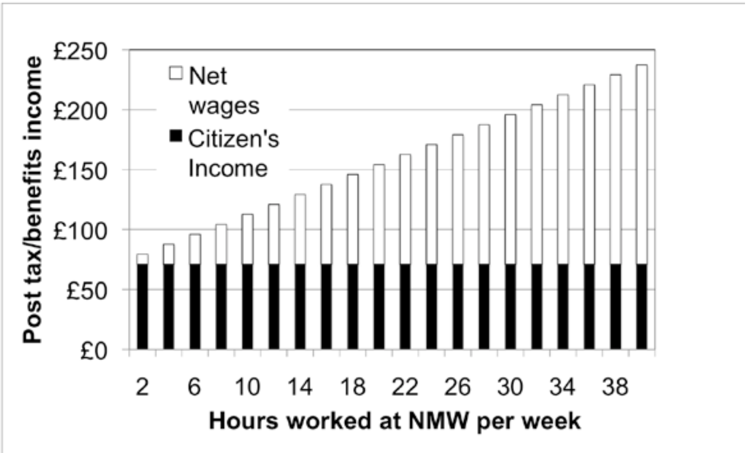


The chart clearly reveals the benefit traps. As earned income rises, earnings are taxed and benefits are withdrawn. Someone working between 11 and 16 hours per week retains their additional earnings in full, but if they work more than 16 hours per week and become entitled to tax credits, their net income rises much more slowly. If someone earning the national minimum wage (£6.19 in 2012) increases their weekly working hours from 20 to 40, their gross income increases by £124 per week but their net income only increases by £71 per week – having suffered £25 in income tax and national insurance contributions and lost £28 in working tax credits. The increase in net income is only 57% of gross income, so there is a 'marginal deduction rate' or 'withdrawal rate' of 43%. 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%.

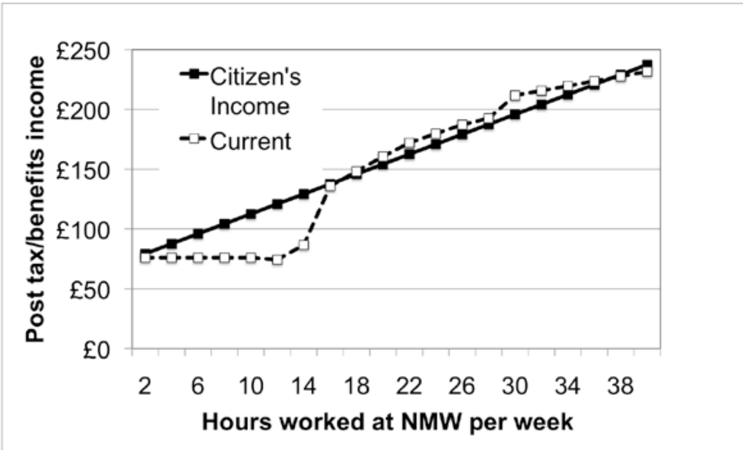
A Citizen's Income proposal:

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

Age	Weekly CI	2012-13 rates:
0 to 15	£35.50	Half adult IS/JSA/ESA rates
16 to 24	£56.25	Current IS/JSA/ESA rate
25 to 64	£71.00	Current IS/JSA/ESA rate
65 plus	£142.70	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 basic rate of tax on earned income of 32% (20% income tax plus 12% employee’s national insurance contributions), with higher and additional rates as at present on higher earnings. Rates of 20% are assumed for pension and investment income.

The estimated total cost of benefits and tax reliefs and allowances that would be replaced is £272 billion (see Appendices).

The total cost of the proposed scheme is as follows:

Age	**Census 2011**	**Citizen’s Income per week**	**Cost**
0 to 15	11.9 million	£35.50	£22 bn
16 to 24	7.5 million	£56.25	£22 bn
25 to 64	33.4 million	£71.00	£124 bn
65 and over	10.4 million	£142.70	£77 bn
State pension entitlements in excess of CP rate*			£20 bn
	63.2 million		£265 bn
Running costs (<1%)			£2 bn
Total cost p.a.			£267 bn

We assume that tax relief for pension contributions will be restricted to 20%, the same as the rate of income tax deducted from pensions in payment. Running costs are estimated less than 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 £5 bn 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 £478 per week in 2012-13 (Public Sector Finances Databank).

* Some pensioner households currently have a total state pension entitlement in excess of £142.70 or £285.40 a week. Those households would continue to receive their current entitlement.

1 DWP: Department for Work and Pensions
2 HMRC: Her Majesty’s Revenue and Customs

Appendix 1

	£ m	Note
Department of Work and Pensions 2012- 13		
State pension	79,851	
Pension Credit and other age-related benefits	14,590	(1)
Income support, JSA, ESA, Carer's Allowance	18,989	
Incapacity benefit	2,847	(2)
Statutory maternity and sick pay	2,382	
Other minor benefits	1,627	
sub-total, Great Britain only	120,286	
add 3% for Northern Ireland	3,609	
Administration costs	8,125	
HM Revenue & Customs 2011-12		
Child Benefit	12,221	
Child Tax Credits	22,915	
Working Tax Credits	6,999	
Child Benefit and Tax Credit administration	1,000	(3)
Student grants, low interest loans, loans written off	3,000	(4)
Total	178,155	

Notes

(1) Any disability-related elements will be retained.
(2) The total cost is given as £2,847 m. If those eligible for incapacity benefit at the short term higher rate of £88.55 per week are paid £17.55 more than the Citizen's Income rate of £71, this would cost an additional £564 m a year (£71 ÷ £88.55) x £2,847 = £2,283 m.
(3) Estimated at 0.5% of Child Benefit plus 3% of Tax Credit payments.
(4) Students from low-income households still receive modest grants. The cost of the interest subsidy and write-offs can be estimated at ten per cent of the total student loans outstanding of £28 billion.

Appendix 2

HM Revenue & Customs, Table 1.5 (2011-12)

	£m	Note
Income tax reliefs		
Personal allowance	60,100	(1)
Age–related personal allowances	2,510	(2)
Higher rate income tax relief for pension Contributions	10,000	(3)
National Insurance		
Primary Threshold	18,700	(4)
Lower Profits Limit	1,100	(5)
Reduced rate contributions for self-employed	1,650	(6)
	94,060	

Notes

(1) No longer required, as the Citizen's Income will act as a reimbursement of all income tax paid on the first £11,577 earnings per year (or the first £18,524 of investment income).
(2) Not required as will be compensated for with the Citizen's Pension and withdrawal of the 30% marginal rate.
(3) Table 1.5 gives a figure of £18,900 m for the total cost of income tax reliefs less income tax deducted from pensions in payment. Over half of the value of the tax relief accrues to higher and additional rate taxpayers.
(4) The equivalent of the tax-free personal allowance for the first £146 of an employee's weekly wages for National Insurance purposes.
(5) The equivalent of the Primary Threshold for the self-employed.
(6) The self-employed pay 9% National Insurance, against 12% for employees.

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 with children earning less than £17,500 per annum, for whom the Citizen's Income envisaged would not compensate for the withdrawal of both Child and Workings Tax Credits
- 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 £28 bn annually, and the economic value of below-market rents in the social rented sector estimated at £7 bn (John Hills, *Ends and Means: the future roles of social housing in England*, London School of Economics, 2007)

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 usually paid to households whereas it is fundamental to a Citizen’s Income that it is paid to individuals.

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.

The Citizen's Income Trust would like to thank Mr. Mark Wadsworth for his help with this booklet

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
37 Becquerel Court, West Parkside, London SE10 0QQ

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

(CAPITAL LETTERS PLEASE)

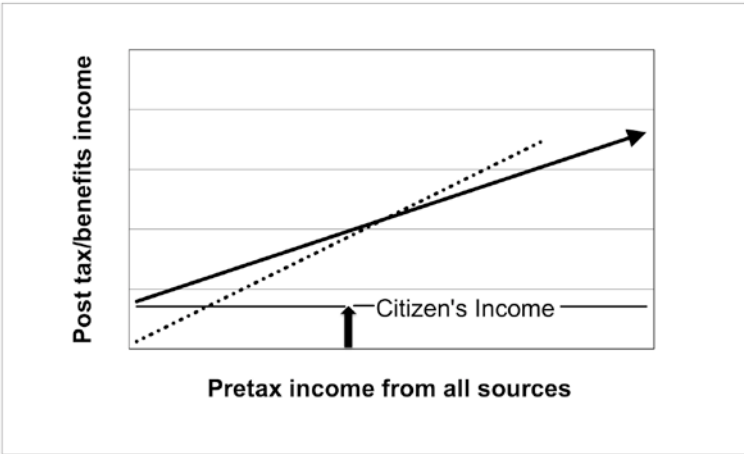
Name

Address

Phone Fax

Email address

Please return this form to: Dr. Malcolm Torry, Director
Citizen’s Income Trust
37 Becquerel Court, West Parkside, London SE10 0QQ



…….. 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.