Reducing income inequality in the UK: testing the idea of a Basic Income

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ISER 30th anniversary conference
Dec 9, 2019, British Academy
Motivation

- Income inequality in the UK is high

- Tax-benefit reforms in the UK led to increased reliance on means-testing
  - high marginal tax rates at the bottom
  - unmet need due to benefit non-take-up

- Basic Income (BI) put forward as an idea to deal with these issues
  - unconditional and universally paid benefit which decouples income from work, or any other condition, and replaces family with individual benefit entitlements
  - in the UK: trial options being explored (e.g. Sheffield, Scotland) and idea promoted by the Green and Labour parties
What we do

- We use the tax-benefit model UKMOD to test the impact of different Basic Income schemes
  - account for interactions between Basic Income and the rest of the tax-benefit system
  - design budget-neutral schemes

- A Basic Income alongside the current tax and benefit system can be an effective way to reduce poverty and inequality

- Even in the most generous scenario we have to retain the means-tested safety net to avoid a large number of low-income losers
# Policy

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<td>CB+</td>
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- **income tax schedule:** tax rates and tax thresholds
- **abolish personal tax allowance (£12,500 per year) and married couples allowance**
- **tax rates ↑ by 3 % points**
  - (23%, 43%, 48%)
  - tax rates ↑:
    - 30%, 40% and 50% (UK)

#### National Insurance contributions
- **abolish primary threshold (£166 per week)**

#### Child Benefit (£ per week)
- **abolish withdrawal for higher-income families**
- **raise benefit to:**
  - ~0.3 of the 2019 relative poverty line
  - (£63 [£3,260 per year])

#### means-tested benefits
- **BI enters income-test of CTC, WTC, HB, CTR, PC, income-based JSA and ESA, UC**
- **reduce child/family rates of CTC/HB/UC**

### Basic Income (£ per year)
- **£2,990**
- **£3,750**
- **£3,260**
- **£4,410**
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## Impact on the fiscal budget

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<th>2019/20 (billion £ per year)</th>
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<th>2 tax rates+3pp</th>
<th>3 CB+</th>
<th>4 tax rates++</th>
<th>5 tax rates &amp; thresholds +++</th>
<th>6 CB 1st child+ change (relative to 2019/20 current system) in £ billion per year</th>
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<td>spending on:</td>
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<td>Child Benefit</td>
<td>11</td>
<td>+1</td>
<td>+1</td>
<td>+33</td>
<td>+36</td>
<td>+36</td>
</tr>
<tr>
<td>Basic Income</td>
<td>0</td>
<td>+153</td>
<td>+191</td>
<td>+166</td>
<td>+225</td>
<td>+264</td>
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<td>revenues from:</td>
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<td>direct taxes 199</td>
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<td>+106</td>
<td>+140</td>
<td>+140</td>
<td>+196</td>
<td>+231</td>
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<td>NI contributions 90</td>
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<td>+30</td>
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*ISER*
Poverty and inequality in 2019/20 and across BI scenarios

Notes: poverty line is 60% of 2019 median equivalised hh net income.
Change (%) in net income by **decile**

![Diagram showing change in net income by decile.](image-url)

- **1 no PA**

% change in household income

- disposable income
- Child Benefit
- Basic Income
- tax and contributions
- means-tested benefits

**Legend**

- disposable income
- Child Benefit
- Basic Income
- tax and contributions
- means-tested benefits

**Household income decile group (2019)**

1 2 3 4 5 6 7 8 9 10
Change (%) in net income by **decile**

6 CB 1st child+

- **Disposable income**
- **Child Benefit**
- **Basic Income**
- **Tax and contributions**
- **Means-tested benefits**

% change in household income

household income decile group (2019)
Change (%) in net income by age

1 no PA

6 CB 1st child+

age group

disposable income
Summary

- A BI alongside the current tax and benefit system can be an effective way to reduce poverty and inequality.

- Cashing out the PA and NIC allowance is a start but to make a bigger difference a larger BI is needed, financed by progressive tax increases.

- To avoid low income losers or very high tax rates, need to retain means-tested safety net.
  - BI reduces reliance on means-testing (e.g. spending reduction ranged from 30% to 66%) but it can’t entirely remove the need for it.

- A universal child benefit is a powerful tool for redistribution.
Thank you!

itasseva@essex.ac.uk

www.iser.essex.ac.uk/research/projects/ukmod
What we do (cont.)

- We use the tax-benefit model UKMOD with household micro-data from the Family Resources Survey (FRS) for 2017/18. UKMOD calculates:
  1. who in the data is entitled to a benefit / liable to pay taxes/NI
  2. how much is the benefit entitlement and tax/NI liability
  3. households’ net income = reported earned income + simulated benefits – simulated taxes/NI

- Legacy benefits and Universal Credit simulated in the 2019/20 system
  - Eligible families/households randomly allocated to LB or UC
  - 41% of claimants on UC (OBR estimate)
  - Incomplete take-up of LB and UC

- All interactions between direct taxes and cash benefits taken into account
  - BI included in existing income-tests
    - reduces reliance on means-testing (LB+UC)
    - can lift some families out of it entirely
    - 100% benefit for those not currently taking up their means-tested entitlements

- We evaluate the morning-after effect of the reform scenarios on
  - Benefit spending and revenues
  - Income poverty and inequality
  - Mean income across the distribution
  - Gainers and losers across the income distribution
Share of gainers/losers (in %) by decile

1 no PA
2 tax rates+3pp
3 CB+
4 tax rates++
5 tax rates & thresholds +++
6 CB 1st child+

household income decile group (2019)

Note: individuals with a change in equivalised household net income of 5% or more.
Share of gainers/losers (in %) by age
Change in the mean Marginal Effective Tax Rates by policy and decile

household income decile group (2019)

→ total  ■ means-tested benefits  □ tax and contributions
Change in the mean Participation Tax Rates by policy and decile

household income decile group (2019)

- total
- means-tested benefits
- tax and contributions