How could Basic Income work in the UK? What are the costs and benefits?

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(preliminary, please do not cite without permission)

"Basic Income: Turning the Concept into Policy Proposals", Festival of Social Sciences, 5 Nov 2018, London





Motivation

- Basic Income (BI)
 - benefit provided to everyone regardless of their circumstances
- Designing such a scheme can be a complex task
- Evaluating the 'morning-after' impact of hypothetical BI schemes
 - Full BI (removes means-tested-benefits) (e.g. Browne and Immervoll, 2017)
 - · less generous than existing means-tested amounts
 - · increase in poverty and inequality
 - Partial BI (partially replaces means-tested benefits) (e.g. Atkinson, 2015; Torry, 2017; Atkinson et al., 2017; Martinelli, 2017)
 - means-tested benefits retained (in part)
 - reduce poverty and inequality
 - costs and distributional impact sensitive to the BI design





What we do

- Aim: show how differences in the BI design can lead to different conclusions about its costs/benefits
- Simulate 7 reform scenarios to the 2018 income tax and cash benefit policies in the UK
 - Introduction of BI in all scenarios
 - BI amount set to achieve budget-neutrality
 - BI provided to adults only; the Child Benefit acts as BI for children
 - Different aspects of the tax-benefit system are gradually reformed
 - Goal is <u>reduction</u> in i) income inequality and poverty through redistribution and ii) reliance on means-testing
 - focus on BI that only 'partially' replaces existing benefits
 - different restrictions and motivation for each scenario





What we do (cont.)

- We use the tax-benefit model EUROMOD with household micro-data from the Family Resources Survey (FRS) for 2015/16. EUROMOD calculates:
 - 1. who in the data is entitled to a benefit / liable to pay taxes/NI
 - 2. <u>how much</u> is the benefit entitlement and tax/NI liability
 - households' <u>net income</u> = reported earned income + simulated benefits simulated taxes/NI
- All interactions between direct taxes and cash benefits taken into account
 - BI included in existing income-tests
 - reduces reliance on means-testing
 - 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



Policy	1 no PTA									
income tax	abolish personal tax allowance (£11,850 per year) and married couples allowance									
schedule: marginal tax rates (MTRs) and tax thresholds										
National Insurance	abolish primary threshold (£162 per week)									
contributions										
Child Benefit	abolish withdrawal for higher-income families									
(£ per week)										
means-tested benefits	Basic Income (BI) enters income-test of CTC, WTC, HB, CTS, PC, income-based JSA and ESA									
National Insurance benefits										
<u>Basic Income</u> (£ per year)	£2,780									

1	2		
no PTA	MTRs+3pp		
abolish pe	rsonal tax allo	owance (£11,	850 per year) and married couples allowance
	raise MTRs b	y 3 % points	
	(Scotland:	22%, 23%,	
	24%, 44%,	49%; rUK:	
	23%, 43	%, 48%)	
		abolish personal tax allo raise MTRs b (Scotland: 24%, 44%,	

National Insurance	abolish primary threshold (£162 per week)
contributions	
Child Benefit	abolish withdrawal for higher-income families
(£ per week)	

means-tested	Basic Income (B	BI) enters income-test of CTC, WTC, HB, CTS, PC, income-based JSA and ESA
benefits		
National Insurance		
benefits		
<u>Basic Income</u>	£2,780	£3,450
(£ per year)		

Benefit spending and revenues (billion £)

	2018	1	2	
	(billion	no PTA	MTRs	
	£ per		+3pp	
	year)		•••	
			chang	ge (relative to 2018 baseline
spending on:				
means-tested benefits	69	-19	-24	
Child Benefit	11	1	1	
Basic Income	0	140	174	
NI benefits and	120	0	0	
public pensions	120	U	0	
revenues from:				
direct taxes	169	94	124	
NI contributions	76	27	27	

Notes: all reform scenarios are *budget-neutral*, i.e. total revenues minus total spending in each reform scenario is the same as in the 2018 baseline.

Change (% points) in poverty and inequality

	2018	1	2	
	(%)	no PTA	A MTRs	
			+3pp	
				% points change (relative to 2018 baseline)
				share of poor people
all	15.8	-2.8	-3.8	
children	18.2	-1.7	-2.5	
aged 65+	14.4	-6.1	-7.4	
				poverty gap
all	4.6	-1.5	-1.9	
children	4.9	-1.2	-1.5	
aged 65+	2.7	-1.5	-1.8	
				income inequality
Gini	30.9	-2.0	-2.9	

Notes: poverty line is 60% of 2018 median equivalised hh net income. The poverty gap is the mean shortfall of the total population from the poverty line (counting the non-poor with zero shortfall), in % of the poverty line.

Change (%) in number of means-tested benefit recipients

	2018 (million)	1 no PTA	2 MTRs +3pp	
number of:				% change (relative to 2018 baseline)
individuals	23	-9	-19	
benefit units	10	-4	-15	





Policy	1 no PTA	2 MTRs+3pp	3 CB+		
income tax				850 per year) and marrie	d couples allowance
schedule:	abolisti pe			oso per year, and marrie	u couples allowallee
			by 3 % points		
marginal tax rates		(Scotland:			
(MTRs) and tax		24%, 44%,	-		
thresholds		23%, 43	%, 48%)		
National Insurance		abol	ish primary t	hreshold (£162 per week)
contributions					
Child Benefit		abolis	sh withdrawa	I for higher-income famil	es
(£ per week)				ise benefit to:	
			0.3 of the 2	018 relative poverty line	
				[£3,011 per year])	
			,		
means-tested	Basic Income (BI) enters inc	ome-test of (CTC, WTC, HB, CTS, PC, inc	come-based JSA and ESA
benefits				reduce child/family rates	s of CTC/HB
National Insurance					
benefits					
Basic Income	£2,780	£3,450	£3,070		
(£ per year)					

Benefit spending and revenues (billion £)

	2018	1	2	3
	(billion	no PTA	MTRs+	CB+
	£ per		3pp	
	year)	_		
			ch	ange (r
spending on:				
means-tested benefits	69	-19	-24	-32
Child Benefit	11	1	1	29
Basic Income	0	140	174	155
NI benefits and	120	0	0	0
public pensions	120	0	0	0
revenues from:				
direct taxes	169	94	124	124
NI contributions	76	27	27	27

Notes: all reform scenarios are *budget-neutral*, i.e. total revenues minus total spending in each reform scenario is the same as in the 2018 baseline.

Change (% points) in poverty and inequality

	2018	1	2	3	
	(%)	no PTA	MTRs	CB+	
			+3pp		
			%	points cl	nange (relative to 2018 baseline)
				shar	e of poor people
all	15.8	-2.8	-3.8	-3.5	
children	18.2	-1.7	-2.5	-3.5	
aged 65+	14.4	-6.1	-7.4	-5.8	
					poverty gap
all	4.6	-1.5	-1.9	-2.0	
children	4.9	-1.2	-1.5	-2.5	
aged 65+	2.7	-1.5	-1.8	-1.6	
				inc	ome inequality
Gini	30.9	-2.0	-2.9	-3.1	

Notes: poverty line is 60% of 2018 median equivalised hh net income. The poverty gap is the mean shortfall of the total population from the poverty line (counting the non-poor with zero shortfall), in % of the poverty line.

Change (%) in number of means-tested benefit recipients

	2018 (million)		2 MTRs+ 3pp	3 CB+	
number of:			%	change	(relative to 2018 baseline)
individuals	23	-9	-19	-26	
benefit units	10	-4	-15	-18	





l ———						
	1	2	3	4		
Policy	no PTA	MTRs+3pp	CB+	MTRs++		
income tax	abolish per	rsonal tax allc	wance (£11	,850 per year) and marrie	d couples allowance
schedule:		raise MTRs b	y 3 % points	MTRs: 30%,		
marginal tax rates		(Scotland:	22%, 23%,	40% and		
(MTRs) and tax		24%, 44%,	49%; rUK:	50% (UK)		
thresholds		23%, 439	%, 48%)			
					1	
National Insurance		abol	ish primary t	threshold (£1	62 per week	x)
contributions						
Child Benefit		abolis	sh withdrawa	al for higher-ii	ncome famili	ies
(£ per week)			ra	aise benefit to	o:	
			0.3 of the 2	2018 relative p	poverty line	
				[£3,011 per v		
			,		/ 1/	
means-tested	Basic Income (BI) enters inco	ome-test of (CTC, WTC, HB	s, CTS, PC, inc	come-based JSA and ESA
benefits				reduce child	d/family rates	s of CTC/HB

£3,070

£4,160

National Insurance

£2,780

£3,450

benefits

Basic Income

(£ per year)

Doligy	1 no DTA	2 MTBci 2nn	3 (P)	4 MTRout	5 MTRs &	
Policy	no PTA	MTRs+3pp	CB+	MTRs++	thresholds+++	
income tax	abolish pe	rsonal tax allo	wance (£11	,850 per year) and married	l couples allowance
schedule:		raise MTRs b	y 3 % points	MTRs: 30%,	MTRs: 30%	5, 40%, 50%, 60%, 65%
marginal tax rates		(Scotland:	22%, 23%,	40% and		
(MTRs) and tax		24%, 44%,	49%; rUK:	50% (UK)		
thresholds		23%, 43	%, 48%)			
					tax threshold	s: £25,000; £45,000;
					£90,000; £19	0,000; £190,000+
National Insurance		abol	ish primary t	threshold (£1	L62 per week	
contributions					raise Upper E	Earnings Limit for Class 1
					and 4 (to £55	5,000 per year)
Child Benefit		abolis	sh withdrawa	al for higher-i	ncome famili	es
(£ per week)			ra	aise benefit to	o:	
			0.3 of the 2	2018 relative	poverty line	
			(£57.9) [£3,011 per	year])	
manana taatad	Decie Income					ama based ICA and ECA
means-tested	Basic Income (BI) enters inco	ome-test of			ome-based JSA and ESA
benefits				reduce child	d/family rates	OF CTC/HB
National Incurance						
National Insurance						
benefits						
Basic Income	£2,780	£3,450	£3,070	£4,160	£4,700	
(£ per year)	,	,	,	,	,	
<u>1-p ;;</u>						

Benefit spending and revenues (billion £)

	2018	1	2	3	4	5
	(billion	no PTA	MTRs+	CB+	MTRs	MTRs &
	£ per		3pp		++	threshold
	year)					s +++
			cha	ange (r	elative to 2	2018 baseli
spending on:						
means-tested benefits	69	-19	-24	-32	-38	-41
Child Benefit	11	1	1	29	29	29
Basic Income	0	140	174	155	210	237
NI benefits and	120	0	0	0	0	0
public pensions	120	0	0	0	0	0
revenues from:						
direct taxes	169	94	124	124	172	197
NI contributions	76	27	27	27	27	27

Notes: all reform scenarios are *budget-neutral*, i.e. total revenues minus total spending in each reform scenario is the same as in the 2018 baseline.

Change (% points) in poverty and inequality

	2018	1	2	3	4	5	
	(%)	no PTA	MTRs	CB+	MTRs	++ MTRs &	
			+3pp			thresholds	
						+++	
				% points cha	nge (rela	ative to 2018 l	paseline)
			people				
all	15.8	-2.8	-3.8	-3.5	-5.2	-6.8	
children	18.2	-1.7	-2.5	-3.5	-5.1	-6.9	
aged 65+	14.4	-6.1	-7.4	-5.8	-8.1	-9.6	
				p	overty g	ap	
all	4.6	-1.5	-1.9	-2.0	-2.6	-3.0	
children	4.9	-1.2	-1.5	-2.5	-3.0	-3.4	
aged 65+	2.7	-1.5	-1.8	-1.6	-2.0	-2.2	
				inco	ne ineq	uality	
Gini	30.9	-2.0	-2.9	-3.1	-4.0	-6.1	

Notes: poverty line is 60% of 2018 median equivalised hh net income. The poverty gap is the mean shortfall of the total population from the poverty line (counting the non-poor with zero shortfall), in % of the poverty line.

Change (%) in number of means-tested benefit recipients

	2018	1	2	3	4	5
	(million)	no	MTR	s+3p CB+	MTR	s++MTRs &
		PTA	p			threshold
						s +++
number of:				% change	relativ	e to 2018 bas
individuals	23	-9	-19	-26	-33	-36
benefit units	10	-4	-15	-18	-27	-31





1 no PTA	2 MTRs+3pp	3 CB+	4 MTRs++	5 MTRs & thresholds+++	6 CB 1 st child+	
abolish pe		owance (£11,	,850 per yea	r) and marrie	d couples all	owance
	raise MTRs b	y 3 % points	MTRs: 30%	MTRs: 309	%, 40%, 50%,	60%, 65%
	(Scotland:	22%, 23%,	40% and			
	24%, 44%,	49%; rUK:	50% (UK)			
	23%, 43	%, 48%)				
				tax threshole	ds: £25,000;	£45,000;
				£90,000; £1	90,000; £190	,000+
	abol	ish primary t	hreshold (£	162 per week	<)	
				raise Upper	Earnings Lim	it for Class 1
				and 4 (to £5	5,000 per ye	ar)
	abolis	sh withdrawa	l for higher-	income famili	es	
		ra	aise benefit t	:0:		-
		(£57.9	[£3,011 per	r year])		
					0.3 for any	other child
Basic Income (BI) enters inc	ome-test of (CTC, WTC, H	B, CTS, PC, ind	come-based	JSA and ESA
£2,780	£3,450	£3,070	£4,160	£4,700	£4,390	
	no PTA abolish pe	no PTA MTRs+3pp abolish personal tax allo raise MTRs b (Scotland: 24%, 44%, 23%, 43 abolis abolis Basic Income (BI) enters inc	no PTA MTRs+3pp CB+ abolish personal tax allowance (£11, raise MTRs by 3 % points (Scotland: 22%, 23%, 24%, 44%, 49%; rUK: 23%, 43%, 48%) abolish primary t abolish primary t abolish withdrawa ra 0.3 of the 2 (£57.9) Basic Income (BI) enters income-test of 0	no PTAMTRs+3ppCB+MTRs++abolish personal tax allowance (£11,850 per yea raise MTRs by 3 % points MTRs: 30%, (Scotland: 22%, 23%, 40% and 24%, 44%, 49%; rUK: 50% (UK) 23%, 43%, 48%)abolish 24%, 44%, 49%; rUK: 23%, 43%, 48%)50% (UK) 23%, 43%, 48%)abolish primary threshold (£ 0.3 of the 2018 relative (£57.9 [£3,011 per Basic Income (BI) enters income-test of CTC, WTC, H reduce chil	no PTA MTRs+3pp CB+ MTRs++ thresholds+++ abolish personal tax allowance (£11,850 per year) and marrie raise MTRs by 3 % points MTRs: 30%, MTRs: 309 (Scotland: 22%, 23%, 40% and 24%, 44%, 49%; rUK: 50% (UK) 23%, 43%, 48%) tax threshol £90,000; £19 abolish primary threshold (£162 per week raise Upper and 4 (to £5 abolish withdrawal for higher-income famili raise benefit to: 0.3 of the 2018 relative poverty line (£57.9 [£3,011 per year]) Basic Income (BI) enters income-test of CTC, WTC, HB, CTS, PC, income reduce child/family rates	no PTA MTRs+3pp CB+ MTRs++ thresholds+++ child+ abolish personal tax allowance (£11,850 per year) and married couples all raise MTRs by 3 % points MTRs: 30%, MTRs: 30%, 40%, 50%, (Scotland: 22%, 23%, 40% and 24%, 44%, 49%; rUK: 50% (UK) 23%, 43%, 48%) tax thresholds: £25,000; £90,000; £190,000; £190,000; £190 abolish primary threshold (£162 per week) raise Upper Earnings Lim and 4 (to £55,000 per year) abolish withdrawal for higher-income families raise benefit to: 0.3 of the 2018 relative poverty line (£57.9 [£3,011 per year]) Basic Income (BI) enters income-test of CTC, WTC, HB, CTS, PC, income-based . reduce child/family rates of CTC/HB

1	2	3	4	5 MTRs &	6 CB 1st	7 BI & NI
no PTA	MTRs+3pp	CB+	MTRs++	thresholds+++	child+	interact
abolish pe	rsonal tax allo	owance (£11,	850 per year	r) and marrie	d couples al	lowance
	raise MTRs b	y 3 % points	MTRs: 30%,	MTRs: 30%	%, 40%, 50% _.	, 60%, 65%
	(Scotland:	22%, 23%,	40% and			
	24%, 44%,	49%; rUK:	50% (UK)			
	23%, 43	%, 48%)				
				tax threshold	ls: £25,000;	£45,000;
				£90,000; £19	90,000; £190),000+
						basic State
						Pension is
						tax exempt
	abol	ish primary t	hreshold (£	162 per week)	
				raise Upper	Earnings Lim	nit for Class 1
				and 4 (to £5	5,000 per ye	ar)
	abolis	sh withdrawa	al for higher-	income famili	es	
		ra	iise benefit t	o:	0.5 of the	poverty line
		0.3 of the 2	018 relative	poverty line	for the 1st	child (£96.6
		(£57.9	[£3,011 per	year])	[£5,023 pe	r year]) and
					0.3 for any	other child
Basic Income (BI) enters inc	ome-test of (CTC, WTC, HI	B, CTS, PC, inc	ome-based	JSA and ESA
			reduce chile	d/family rates	of CTC/HB	
						BI reduced
						by sum of
						NI benefits
£2,780	£3,450	£3,070	£4,160	£4,700	£4,390	£4,980
	no PTA abolish pe	no PTAMTRs+3ppabolish personal tax allo raise MTRs b (Scotland: 24%, 44%, 	no PTA MTRs+3pp CB+ abolish personal tax allowance (£11, raise MTRs by 3 % points (Scotland: 22%, 23%, 24%, 44%, 49%; rUK: 23%, 43%, 48%) abolish primary t abolish primary t abolish withdrawa ra 0.3 of the 2 (£57.9) Basic Income (BI) enters income-test of 0	no PTAMTRs+3ppCB+MTRs++abolish personal tax allowance (£11,850 per year raise MTRs by 3 % points MTRs: 30%, (Scotland: 22%, 23%, 40% and 24%, 44%, 49%; rUK: 50% (UK) 23%, 43%, 48%)abolish 24%, 44%, 49%; rUK: 23%, 43%, 48%)50% (UK) 23%, 43%, 48%)abolish primary threshold (£1)abolish withdrawal for higher- raise benefit t 0.3 of the 2018 relative (£57.9 [£3,011 perBasic Income (BI) enters income-test of CTC, WTC, HI reduce child	no PTA MTRs+3pp CB+ MTRs++ thresholds+++ abolish personal tax allowance (f11,850 per year) and married raise MTRs by 3 % points MTRs: 30%, MTRs: 30% (Scotland: 22%, 23%, 40% and 24%, 44%, 49%; rUK: 50% (UK) 23%, 43%, 48%) tax threshold f90,000; f19 abolish primary threshold (f162 per week raise Upper and 4 (to f59 abolish withdrawal for higher-income famili raise benefit to: 0.3 of the 2018 relative poverty line (f57.9 [f3,011 per year]) Basic Income (BI) enters income-test of CTC, WTC, HB, CTS, PC, inco reduce child/family rates	no PTA MTRs+3pp CB+ MTRs++ thresholds+++ child+ abolish personal tax allowance (£11,850 per year) and married couples all raise MTRs by 3 % points MTRs: 30%, MTRs: 30%, 40%, 50% (Scotland: 22%, 23%, 40% and 24%, 44%, 49%; rUK: 50% (UK) 23%, 43%, 48%) tax thresholds: £25,000; f90,000; f190,000; f190,000; f190 mand 4 (to £55,000 per year) abolish withdrawal for higher-income families raise benefit to: 0.3 of the 2018 relative poverty line (£57.9 [£3,011 per year]) Basic Income (BI) enters income-test of CTC, WTC, HB, CTS, PC, income-based reduce child/family rates of CTC/HB

Benefit spending and revenues (billion £)

	2018	1	2	3	4	5	6	7
	(billion	no PTA	MTRs+	CB+	MTRs	MTRs &	CB 1st	BI &
	£ per		3pp		++	threshold	child+	NI
	year)					s +++		interact
			cha	ange (rel	ative to 2	018 basel	ine)	
spending on:								
means-tested benefits	69	-19	-24	-32	-38	-41	-41	-39
Child Benefit	11	1	1	29	29	29	45	45
Basic Income	0	140	174	155	210	237	221	197
NI benefits and public pensions	120	0	0	0	0	0	0	0
revenues from:								
direct taxes	169	94	124	124	172	197	197	176
NI contributions	76	27	27	27	27	27	27	27

Notes: all reform scenarios are *budget-neutral*, i.e. total revenues minus total spending in each reform scenario is the same as in the 2018 baseline.

Change (% points) in poverty and inequality

	2018	1	2	3	4	5	6	7
	(%)	no PTA	MTRs	CB+	MTRs++	- MTRs &	CB 1st	BI & NI
			+3pp			thresholds	child+	interact
						+++		
			% p	oints cha	nge (relati	ve to 2018 b	aseline)	
all	15.8	-2.8	-3.8	-3.5	-5.2	-6.8	-8.1	-7.2
children	18.2	-1.7	-2.5	-3.5	-5.1	-6.9	-11.5	-12.6
aged 65+	14.4	-6.1	-7.4	-5.8	-8.1	-9.6	-8.8	1.3
				po	overty gap)		
all	4.6	-1.5	-1.9	-2.0	-2.6	-3.0	-3.1	-3.0
children	4.9	-1.2	-1.5	-2.5	-3.0	-3.4	-4.0	-4.2
aged 65+	2.7	-1.5	-1.8	-1.6	-2.0	-2.2	-2.1	-0.4
				incor	ne inequa	lity		
Gini	30.9	-2.0	-2.9	-3.1	-4.0	-6.1	-6.5	-6.0

Notes: poverty line is 60% of 2018 median equivalised hh net income. The poverty gap is the mean shortfall of the total population from the poverty line (counting the non-poor with zero shortfall), in % of the poverty line.

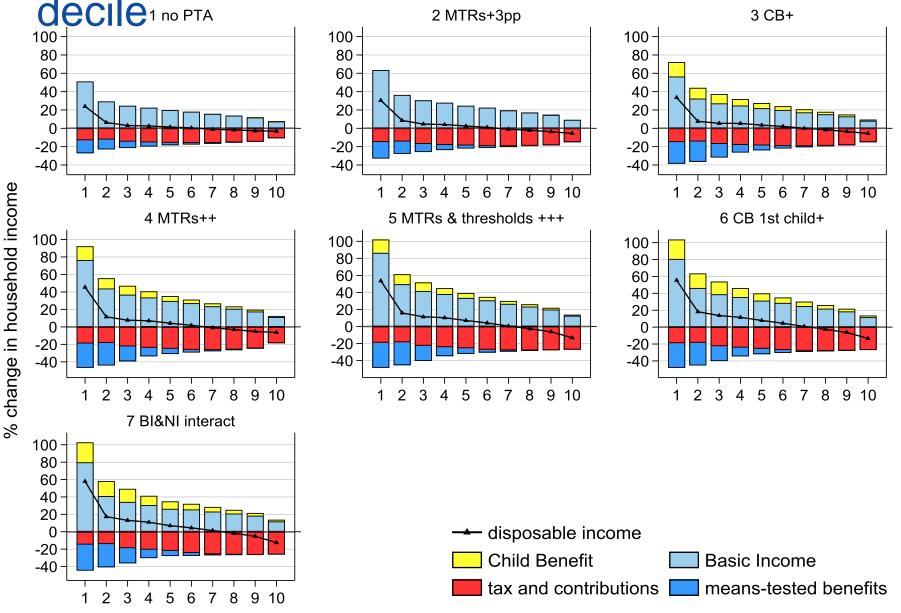
Change (%) in number of means-tested benefit recipients

	2018	1	2	3	4	5	6	7	
	(million)	no	MTRs+3	p CB+	MTRs+-	+ MTRs &	CB 1st	BI & NI	
		PTA	p			threshold	child+	interact	
						s +++			
number of:		% change (relative to 2018 baseline)							
individuals	23	-9	-19	-26	-33	-36	-36	-34	
benefit units	10	-4	-15	-18	-27	-31	-30	-25	



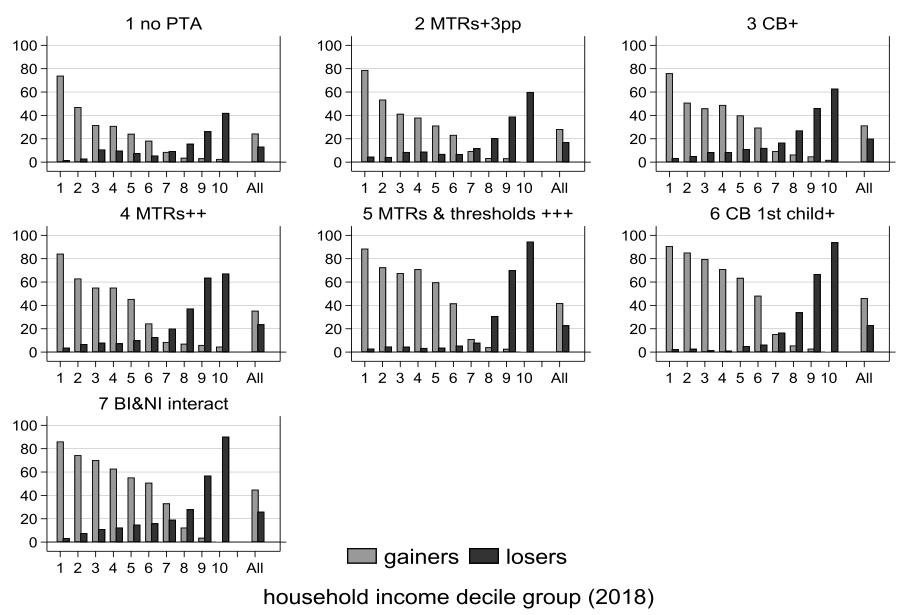


Change (%) in net income by policy and decile^{1 no PTA} 2 MTRs+3pp 3 CB+



household income decile group (2018)

Share of gainers/losers (in %) by decile



Note: individuals with a change in equivalised household net income of 5% or more.

Summary

- A BI alongside the current tax and benefit system can be an effective way to reduce poverty and inequality
- Can be tailored to give a range of poverty and inequality outcomes
 - E.g. we considered 7 possible reforms and poverty reduction ranged from 18% to 52%
- Reduces reliance on means-testing (e.g. spending reduction ranged from 28% to 60%)
- Universal child benefits are a powerful tool for redistribution
 > Higher child benefit rate for the first child most effective
- Impact on pensioners depends on interactions with the state pension
 селение

Thank you!

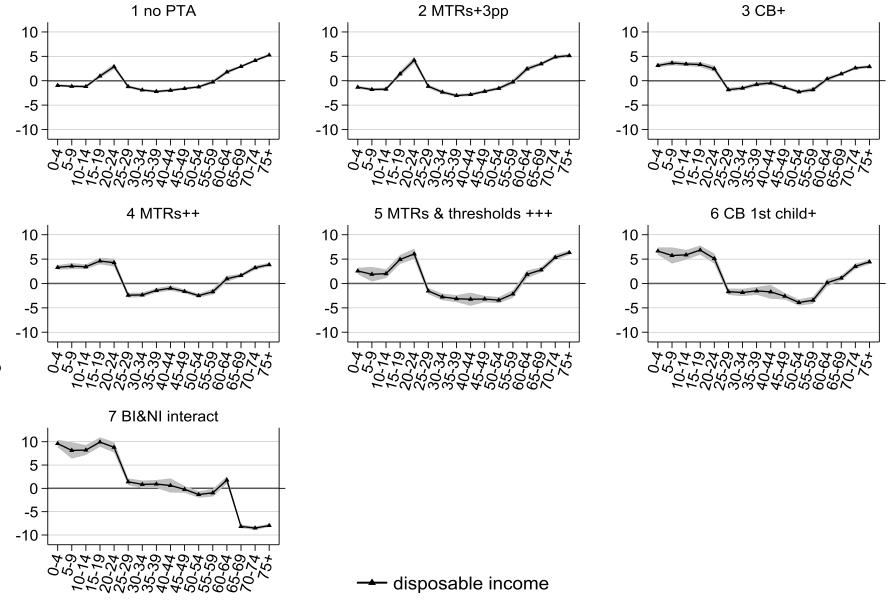
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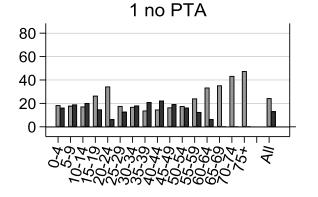




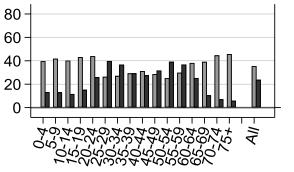
Change in net income by age



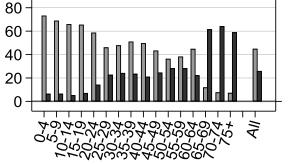
Share of gainers/losers (in %) by age

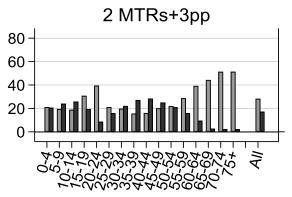


4 MTRs++

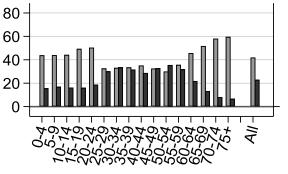


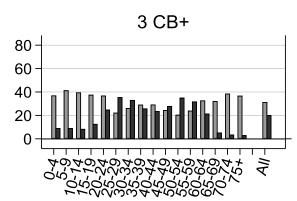
7 BI&NI interact



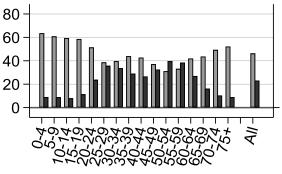








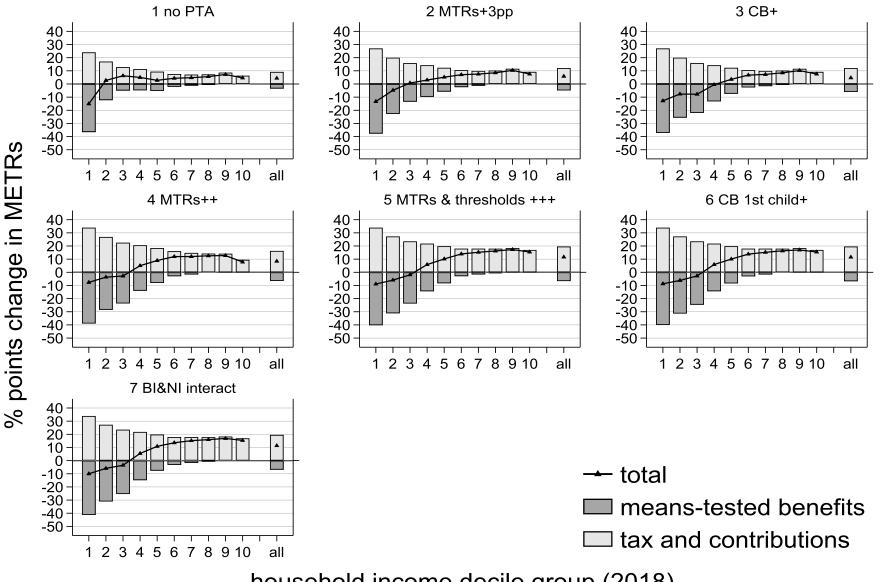
6 CB 1st child+





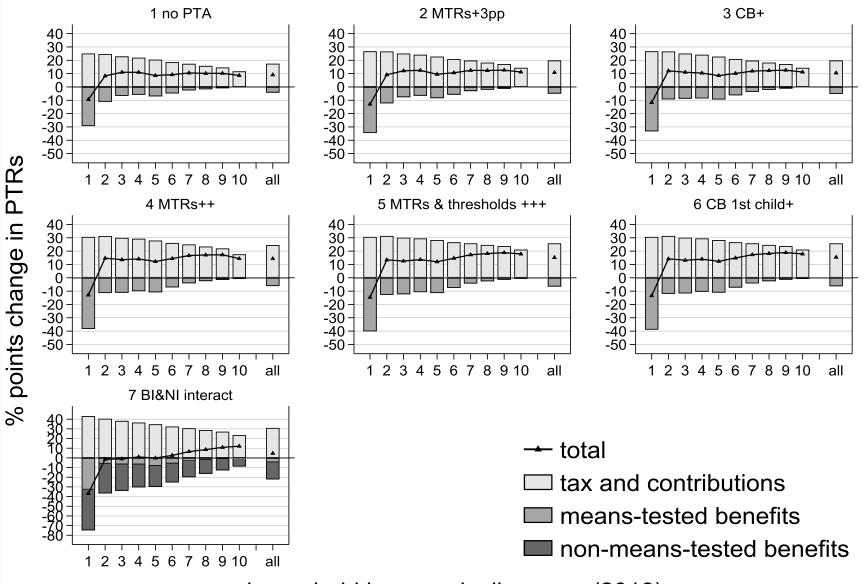
age group

Change in the mean Marginal Effective Tax Rates by policy and decile



household income decile group (2018)

Change in the mean Participation Tax Rates by policy and decile



household income decile group (2018)