

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(preliminary, please do not cite without permission)

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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 reduction 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. how much is the benefit entitlement and tax/NI liability
 3. households' net income = 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 schedule: marginal tax rates (MTRs) and tax thresholds	abolish personal tax allowance (£11,850 per year) and married couples allowance
National Insurance contributions	abolish primary threshold (£162 per week)
Child Benefit (£ per week)	abolish withdrawal for higher-income families
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> <i>(£ per year)</i>	£2,780

Policy	1 no PTA	2 MTRs+3pp
income tax schedule: marginal tax rates (MTRs) and tax thresholds	abolish personal tax allowance (£11,850 per year) and married couples allowance	
		raise MTRs by 3 % points (Scotland: 22%, 23%, 24%, 44%, 49%; rUK: 23%, 43%, 48%)
National Insurance contributions	abolish primary threshold (£162 per week)	
Child Benefit (£ per week)	abolish withdrawal for higher-income families	
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> <u>(£ per year)</u>	£2,780	£3,450

Benefit spending and revenues (billion £)

	2018 (billion £ per year)	1 no PTA	2 MTRs +3pp	
		change (relative to 2018 baseline)		
<i>spending on:</i>				
means-tested benefits	69	-19	-24	
Child Benefit	11	1	1	
Basic Income	0	140	174	
NI benefits and public pensions	120	0	0	
<i>revenues from:</i>				
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 no PTA	2 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	
<i>number of:</i>				% 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 schedule: marginal tax rates (MTRs) and tax thresholds	abolish personal tax allowance (£11,850 per year) and married couples allowance		
		raise MTRs by 3 % points (Scotland: 22%, 23%, 24%, 44%, 49%; rUK: 23%, 43%, 48%)	
National Insurance contributions	abolish primary threshold (£162 per week)		
Child Benefit (£ per week)	abolish withdrawal for higher-income families		
		raise benefit to: 0.3 of the 2018 relative poverty line (£57.9 [£3,011 per year])	
means-tested benefits	Basic Income (BI) enters income-test of CTC, WTC, HB, CTS, PC, income-based JSA and ESA		
		reduce child/family rates of CTC/HB	
National Insurance benefits			
<u>Basic Income</u> <u>(£ per year)</u>	£2,780	£3,450	£3,070

Benefit spending and revenues (billion £)

	2018 (billion £ per year)	1 no PTAMTRs+	2 3pp	3 CB+	
					change (relative to 2018 baseline)
<i>spending on:</i>					
means-tested benefits	69	-19	-24	-32	
Child Benefit	11	1	1	29	
Basic Income	0	140	174	155	
NI benefits and public pensions	120	0	0	0	
<i>revenues from:</i>					
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 no PTA	2 MTRs +3pp	3 CB+	
					% points change (relative to 2018 baseline)
					share 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	
					income 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)	1 no PTA	2 MTRs+ 3pp	3 CB+
<i>number of:</i>				% change (relative to 2018 baseline)
individuals	23	-9	-19	-26
benefit units	10	-4	-15	-18

Policy	1 no PTA	2 MTRs+3pp	3 CB+	4 MTRs++
income tax schedule: marginal tax rates (MTRs) and tax thresholds	abolish personal tax allowance (£11,850 per year) and married couples allowance			
		raise MTRs by 3 % points (Scotland: 22%, 23%, 24%, 44%, 49%; rUK: 23%, 43%, 48%)	MTRs: 30%, 40% and 50% (UK)	
National Insurance contributions	abolish primary threshold (£162 per week)			
Child Benefit (£ per week)	abolish withdrawal for higher-income families			
		raise benefit to: 0.3 of the 2018 relative poverty line (£57.9 [£3,011 per year])		
means-tested benefits	Basic Income (BI) enters income-test of CTC, WTC, HB, CTS, PC, income-based JSA and ESA		reduce child/family rates of CTC/HB	
National Insurance benefits				
<i>Basic Income (£ per year)</i>	£2,780	£3,450	£3,070	£4,160

Policy	1 no PTA	2 MTRs+3pp	3 CB+	4 MTRs++	5 MTRs & thresholds+++
income tax schedule: marginal tax rates (MTRs) and tax thresholds	abolish personal tax allowance (£11,850 per year) and married couples allowance				
		raise MTRs by 3 % points (Scotland: 22%, 23%, 24%, 44%, 49%; rUK: 23%, 43%, 48%)		MTRs: 30%, 40% and 50% (UK)	MTRs: 30%, 40%, 50%, 60%, 65%
					tax thresholds: £25,000; £45,000; £90,000; £190,000; £190,000+
National Insurance contributions	abolish primary threshold (£162 per week)				
					raise Upper Earnings Limit for Class 1 and 4 (to £55,000 per year)
Child Benefit (£ per week)	abolish withdrawal for higher-income families				
			raise benefit to: 0.3 of the 2018 relative poverty line (£57.9 [£3,011 per year])		
means-tested benefits	Basic Income (BI) enters income-test of CTC, WTC, HB, CTS, PC, income-based JSA and ESA				
			reduce child/family rates of CTC/HB		
National Insurance benefits					
<u>Basic Income</u> <u>(£ per year)</u>	£2,780	£3,450	£3,070	£4,160	£4,700

Benefit spending and revenues (billion £)

	2018 (billion £ per year)	1 no PTAMTRs+	2 CB+ 3pp	3 CB+	4 MTRs ++	5 MTRs & threshold s +++	
change (relative to 2018 baseline)							
<i>spending on:</i>							
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 public pensions	120	0	0	0	0	0	
<i>revenues from:</i>							
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 no PTA	2 MTRs +3pp	3 CB+	4 MTRs++	5 MTRs & thresholds +++
% points change (relative to 2018 baseline)						
share of poor 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
poverty gap						
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
income inequality						
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 (million)	1 no PTA	2 MTRs+3p p	3 CB+	4 MTRs++	5 MTRs & threshold s +++	
<i>number of:</i>				% change (relative to 2018 baseline)			
individuals	23	-9	-19	-26	-33	-36	
benefit units	10	-4	-15	-18	-27	-31	

Policy	1 no PTA	2 MTRs+3pp	3 CB+	4 MTRs++	5 MTRs & thresholds+++	6 CB 1 st child+
income tax schedule: marginal tax rates (MTRs) and tax thresholds	abolish personal tax allowance (£11,850 per year) and married couples allowance					
		raise MTRs by 3 % points (Scotland: 22%, 23%, 24%, 44%, 49%; rUK: 23%, 43%, 48%)		MTRs: 30%, 40% and 50% (UK)	MTRs: 30%, 40%, 50%, 60%, 65%	
					tax thresholds: £25,000; £45,000; £90,000; £190,000; £190,000+	
National Insurance contributions	abolish primary threshold (£162 per week)					
					raise Upper Earnings Limit for Class 1 and 4 (to £55,000 per year)	
Child Benefit (£ per week)	abolish withdrawal for higher-income families					
			raise benefit to: 0.3 of the 2018 relative poverty line (£57.9 [£3,011 per year])		0.5 of the poverty line for the 1st child (£96.6 [£5,023 per year]) and 0.3 for any other child	
means-tested benefits	Basic Income (BI) enters income-test of CTC, WTC, HB, CTS, PC, income-based JSA and ESA					
			reduce child/family rates of CTC/HB			
National Insurance benefits						
<i>Basic Income (£ per year)</i>	£2,780	£3,450	£3,070	£4,160	£4,700	£4,390

Policy	1 no PTA	2 MTRs+3pp	3 CB+	4 MTRs++	5 MTRs & thresholds+++	6 CB 1 st child+	7 BI & NI interact
income tax schedule: marginal tax rates (MTRs) and tax thresholds	abolish personal tax allowance (£11,850 per year) and married couples allowance						
		raise MTRs by 3 % points (Scotland: 22%, 23%, 24%, 44%, 49%; rUK: 23%, 43%, 48%)		MTRs: 30%, 40% and 50% (UK)	MTRs: 30%, 40%, 50%, 60%, 65%		
					tax thresholds: £25,000; £45,000; £90,000; £190,000; £190,000+		
							basic State Pension is tax exempt
National Insurance contributions	abolish primary threshold (£162 per week)				raise Upper Earnings Limit for Class 1 and 4 (to £55,000 per year)		
Child Benefit (£ per week)	abolish withdrawal for higher-income families						
			raise benefit to: 0.3 of the 2018 relative poverty line (£57.9 [£3,011 per year])			0.5 of the poverty line for the 1st child (£96.6 [£5,023 per year]) and 0.3 for any other child	
means-tested benefits	Basic Income (BI) enters income-test of CTC, WTC, HB, CTS, PC, income-based JSA and ESA		reduce child/family rates of CTC/HB				
National Insurance benefits							BI reduced by sum of NI benefits
<i>Basic Income (£ per year)</i>	£2,780	£3,450	£3,070	£4,160	£4,700	£4,390	£4,980

Benefit spending and revenues (billion £)

	2018 (billion £ per year)	1 no PTAMTRs+	2 CB+ 3pp	3 CB+	4 MTRs ++	5 MTRs & threshold s +++	6 CB 1st child+	7 BI & NI interact
change (relative to 2018 baseline)								
<i>spending on:</i>								
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
<i>revenues from:</i>								
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

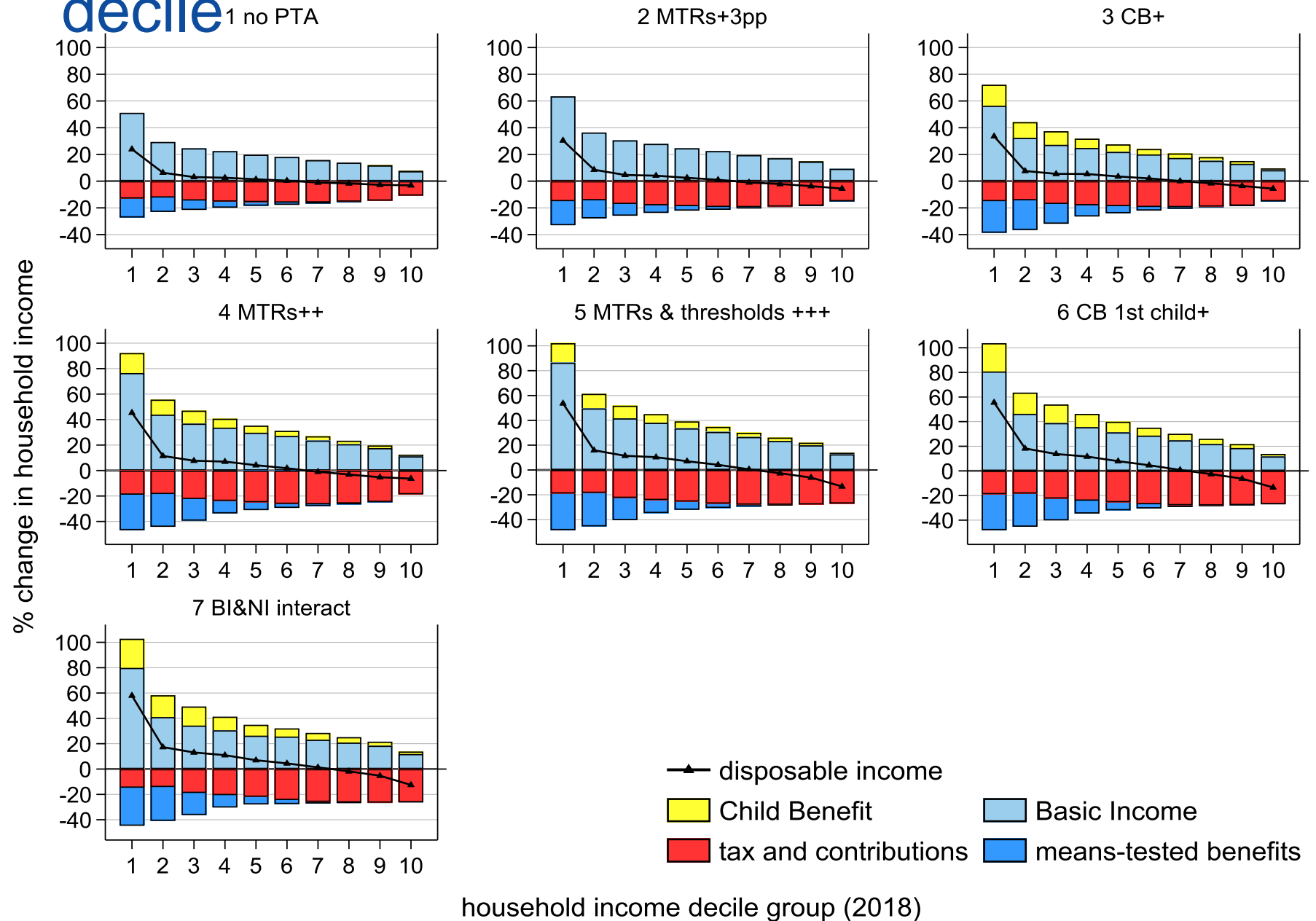
	2018 (%)	1 no PTA	2 MTRs +3pp	3 CB+	4 MTRs++	5 MTRs & thresholds +++	6 CB 1st child+	7 BI & NI interact
% points change (relative to 2018 baseline)								
share of poor people								
all	15.8	-2.8	-3.8	-3.5	-5.2	-6.8	-8.1	-7.2
children	18.2	-1.7	-2.5	-3.5	-5.1	-6.9	-11.5	-12.6
aged 65+	14.4	-6.1	-7.4	-5.8	-8.1	-9.6	-8.8	1.3
poverty 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
income inequality								
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.

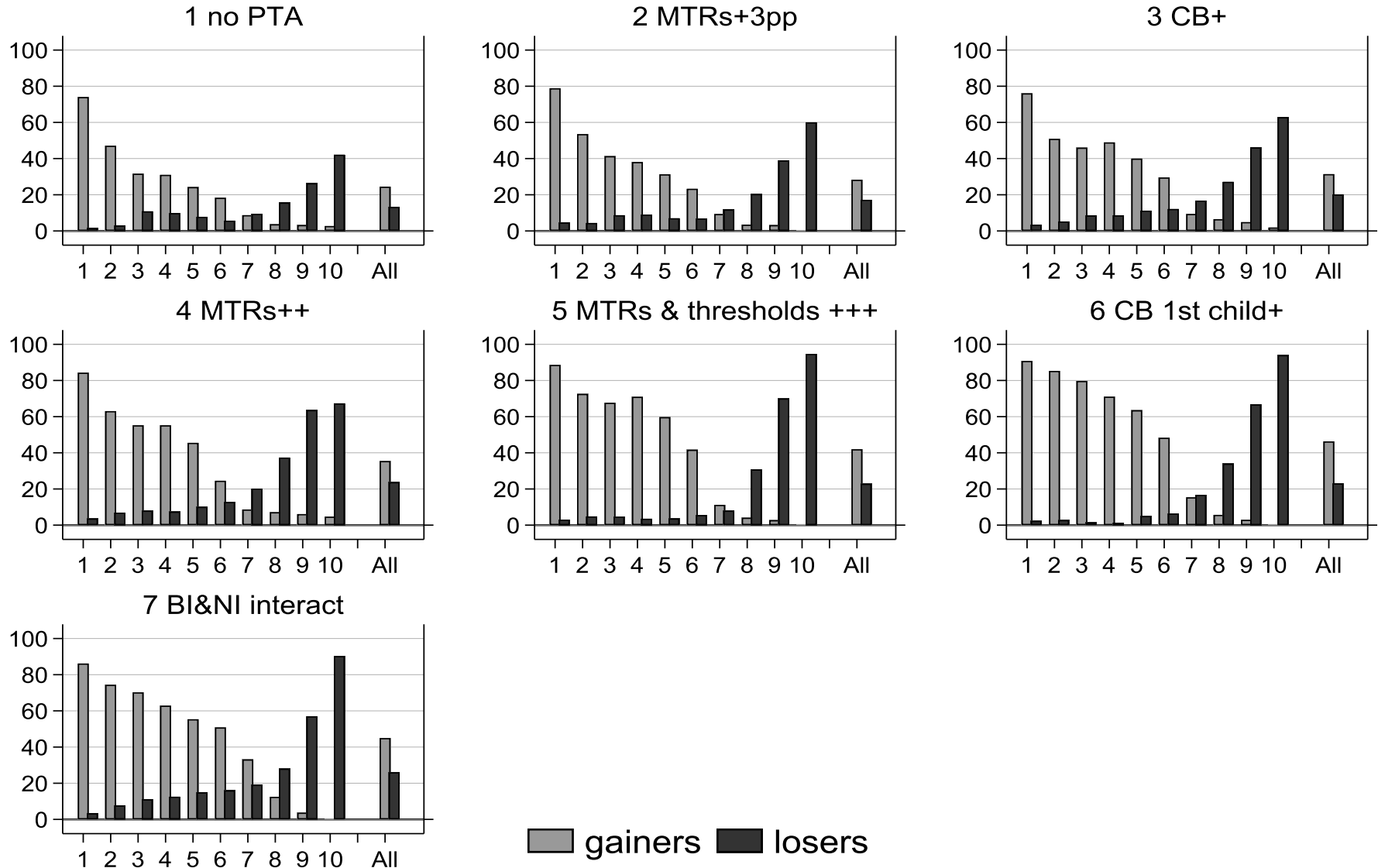
Change (%) in number of means-tested benefit recipients

	2018 (million)	1 no PTA	2 MTRs+3p CB+	3 CB+	4 MTRs++	5 MTRs & threshold s +++	6 CB 1st child+	7 BI & NI interact
<i>number of:</i>		% 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



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

Thank you!

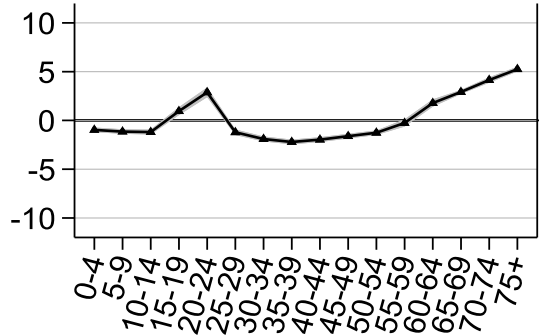
itasseva@essex.ac.uk

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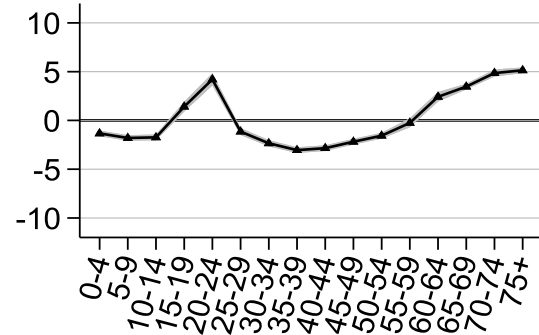


Change in net income by age

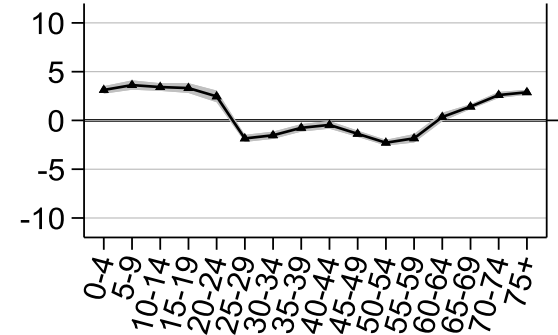
1 no PTA



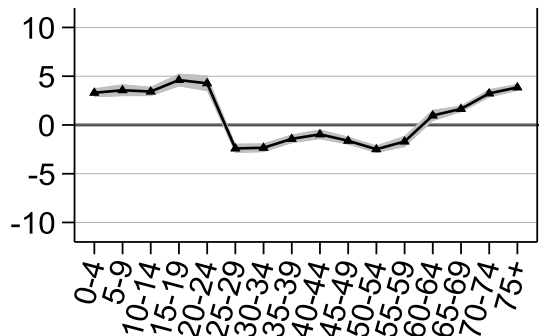
2 MTRs+3pp



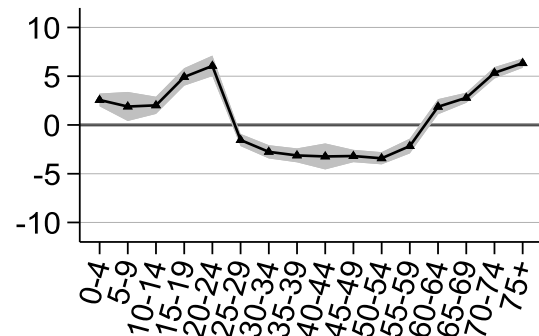
3 CB+



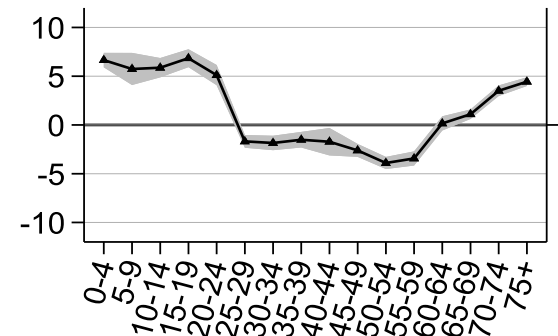
4 MTRs++



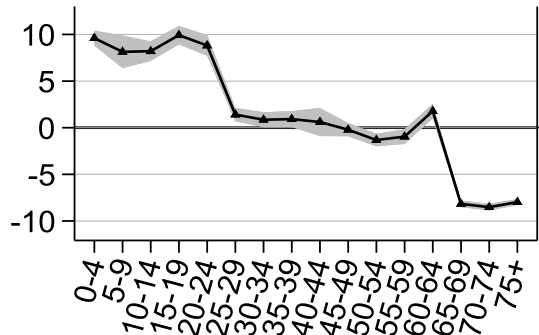
5 MTRs & thresholds +++



6 CB 1st child+



7 BI&NI interact



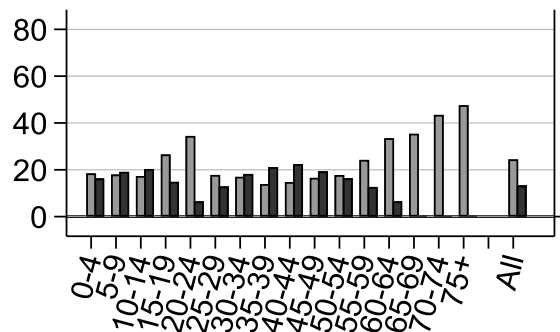
—▲— disposable income

age group

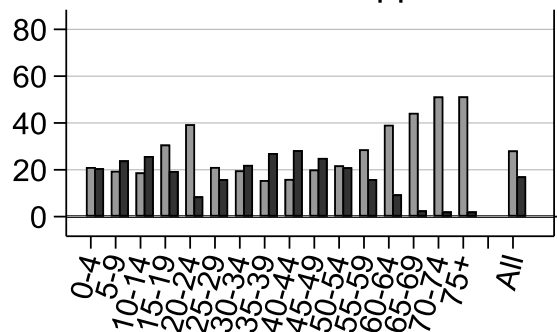
% change in household income

Share of gainers/losers (in %) by age

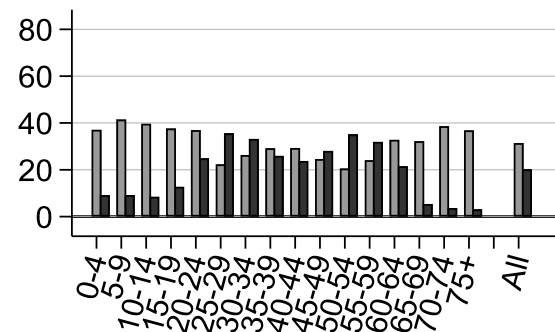
1 no PTA



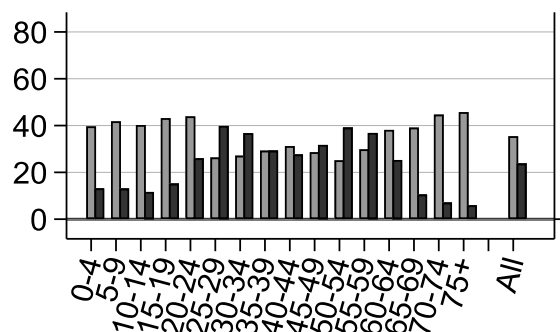
2 MTRs+3pp



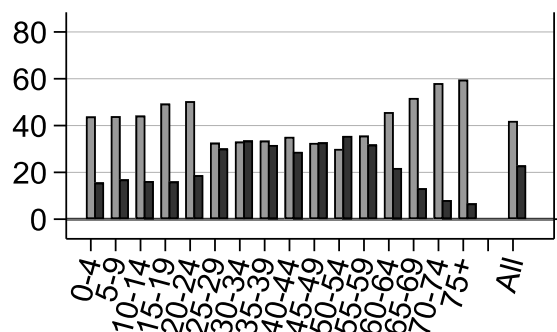
3 CB+



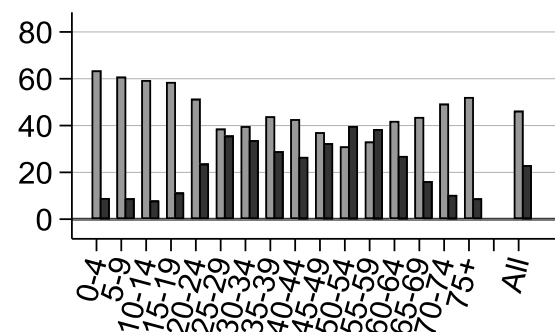
4 MTRs++



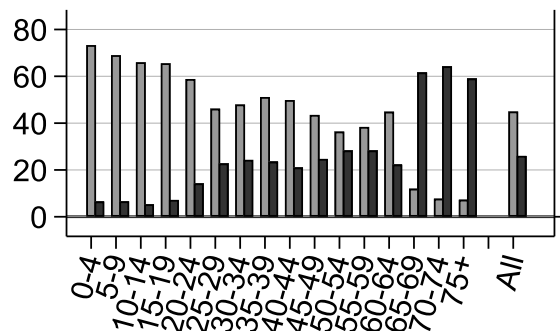
5 MTRs & thresholds +++



6 CB 1st child+



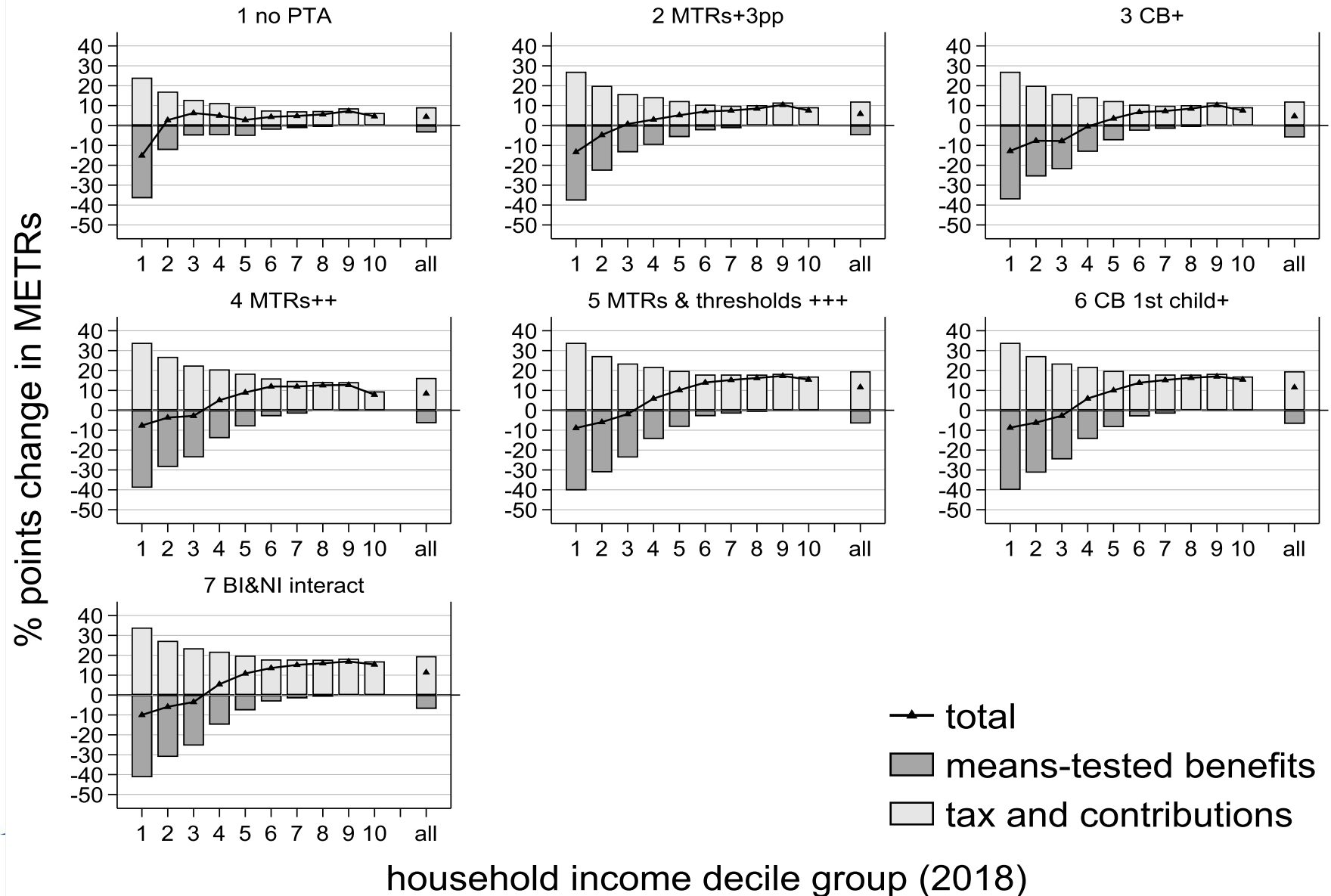
7 BI&NI interact



gainers losers

age group

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



Change in the mean Participation Tax Rates by policy and decile

