Citizen's Income schemes: An amendment, and a pilot project[*]

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Abstract

This is an addendum to EUROMOD working paper EM 5/16, revisiting an illustrative Citizen's Income scheme developed in that paper. It makes a necessary adjustment to the scheme, and then develops a method for organising a Citizen's Income pilot project.

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Introduction

A Citizen's Income (CI) (also called a Basic Income, a Universal Basic Income, or a Citizen's Basic Income) is an unconditional and nonwithdrawable income paid to each individual as a right of citizenship. A previous EUROMOD working paper, *An Evaluation of a Strictly Revenue Neutral Citizen's Income Scheme*, [1] contained a description of an illustrative Citizen's Income scheme (scheme β**)** that was strictly revenue neutral, [2] and that imposed only minimal losses on households at the point of implementation.

Scheme β funded the Citizen's Incomes shown in table 1 by reducing Income Tax personal allowances and the National Insurance Contribution (NICs) Lower Earnings Limit to zero, equalising NICs at 12% on all earnings, and increasing all Income Tax rates by 3%. For ease of transition from the current benefits system, a small Citizen's Pension was paid on top of existing state pensions rather than replacing current state pensions with a Citizen's Pension, and Child Benefit was increased rather than a new Child Citizen's Income being implemented.

As far as we can tell, any Citizen's Income scheme that abolished means-tested benefits entirely would impose unacceptable losses on low income households: [3] so scheme β retained means-tested benefits, and recalculated them on the basis that household members would have been receiving CIs and that their net earnings would have been altered by the tax rate and threshold changes.

One problem discovered with scheme β was that it increased elderly poverty. This was because all Income Tax personal allowances had been reduced to zero, and the small Citizen's Pension paid on top of existing state pensions was not sufficient to compensate for the loss of the Income Tax personal allowance for elderly individuals still in employment. An amended version of the scheme (scheme β*) has therefore been constructed [4] that provides individuals of pensionable age with an Income Tax personal allowance of £5,000 per annum. This ensures that pensioner poverty does not worsen. Figures for scheme β and scheme β* are as follows:

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[1] Malcolm Torry, *An Evaluation of a Strictly Revenue Neutral Citizen's Income Scheme*, Institute for Social and Economic Research, Colchester, Euromod Working Paper EM 5/16, 2016, https://www.iser.essex.ac.uk/research/publications/working-papers/euromod/em5-16

[2] 'Strictly revenue neutral' here means that the scheme has a net cost of less than £3bn per annum, that it requires no additional revenue from outside the tax and benefits system, and that the only adjustments made to the current system are in relation to Income Tax Personal Allowances and tax rates, National Insurance Contribution thresholds and rates, and means-tested benefits.

[3][3] Malcolm Torry, *Two feasible ways to implement a revenue neutral Citizen's Income scheme*, Institute for Social and Economic Research Working Paper EM6/15, Institute for Social and Economic Research, University of Essex, Colchester, April 2015, www.iser.essex.ac.uk/research/publications/working-papers/euromod/em6-15; Chris Stapenhurst, 'Experiments in Euromod', 2014, http://citizensincome.org/research-analysis/experiments-in-euromod/

[4] The amendment can be found in *Citizen's Income Newsletter*, issue 1 for 2017.

Table 1: Scheme β (the original scheme) compared with scheme β (with a £5,000 Income Tax Personal Allowance for individuals over 65 years of age)*

	Scheme β	**Scheme β***
Citizen's Pension per week (existing state pensions remain in payment)	£30	£30
Working age adult CI per week (ages 25 to 65)	£60	£60
Young adult CI per week (ages 16 to 24)	£50	£50
(Child Benefit is increased by £20 per week)	(£20)	(£20)
Income Tax rate increase required for strict revenue neutrality	3%	3%
Income Tax, basic rate (on £0 – 42,385)	23%	23%
Income Tax, higher rate (on £42,385 – 150,000)	43%	43%
Income Tax, top rate (on £150,000 –)	48%	48%
Proportion of households in the lowest original income quintile experiencing losses of over 10% at the point of implementation	1.5%	1.56%
Proportion of households in the lowest original income quintile experiencing losses of over 5% at the point of implementation	3.2%	2.38%
Proportion of all households experiencing losses of over 10% at the point of implementation	1.4%	1.81%
Proportion of all households experiencing losses of over 5% at the point of implementation	16.9%	21.51%
Net cost of scheme per annum	– £2.8bn	£2.79bn

Table 2: Percentage of households claiming means-tested social security benefits for the existing scheme in 201, scheme β, and scheme β.*

	Percentage of households claiming benefits in the context of		
	the existing scheme in 2015	**scheme β**	**scheme β***
Out-of-work benefits (Income Support, Income-related Jobseeker's Allowance, Income-related Employment Support Allowance)	15.4%	13.1%	13.1%
In-work benefits (Working Tax Credits and Child Tax Credits)	20.5%	15.5%	15.5%
Pension Credit	12.1%	12.3%	10.9%
Housing Benefit	21.9%	22%	21.9%
Council Tax Benefit	26.7%	25.3%	24.4%

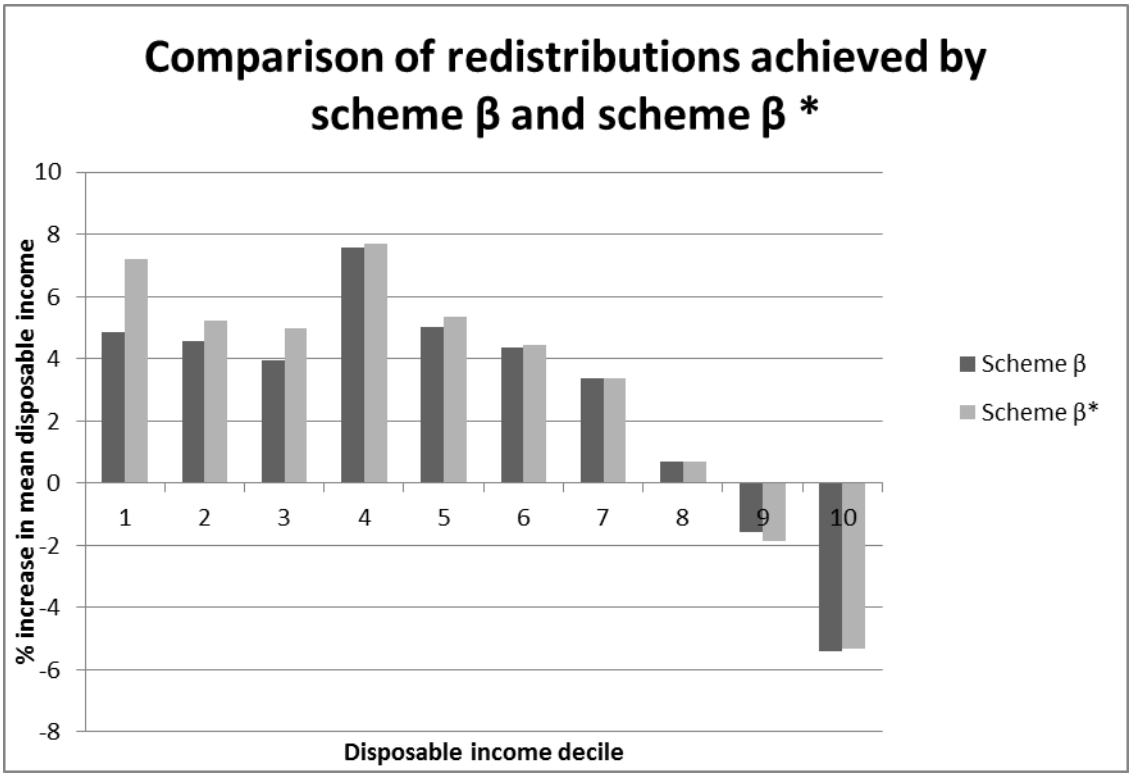
*Table 3: Percentage reductions in total costs of means-tested benefits, and percentage reductions in average value of household claims, on the implementation of scheme β and of scheme β**

	Scheme β		**Scheme β***	
	Reduction in total cost	Reduction in average value of claim	Reduction in total cost	Reduction in average value of claim
Out-of-work benefits (Income Support, Income-related Jobseeker's Allowance, Income-related Employment Support Allowance)	70%	64%	69.9%	64.6%
In-work benefits (Working Tax Credits and Child Tax Credits)	27%	3%	26.7%	3.3%
Pension Credit	22%	23%	33.9%	26.8%
Housing Benefit	2.3%	3.1%	3.7%	3.7%
Council Tax Benefit	6.6%	1.4%	12.1%	3.8%

*Table 4: Inequality and poverty indices for scheme β and scheme β**

	The current tax and benefits scheme in 2015/16	**Scheme β**	**Scheme β***
Inequality			
Disposable income Gini coefficient	0.292	0.267	0.266
Poverty indices			
Children in poverty	10.88%	6.99%	7.26%
Working age adults in poverty	12.45%	10.20%	10.42%
Economically active working age adults in poverty	3.81%	3.02%	3.19%
Elderly	10.63%	13.34%	10.84%

Figure 1: Comparison of redistributions



We can see that reintroducing a small Income Tax personal allowance of £5,000 for individuals over the age of 65 alters the redistribution profile of the scheme, avoids pensioner poverty, and just about retains the revenue neutrality of the scheme. It is always difficult to draw general conclusions from single instances, but it is undoubtedly of significance that in

this particular case a relatively small amendment to a Citizen's Income scheme can generate significantly different outcomes.

Implementation methods for a Citizen's Income

A recent Institute for Chartered Accountants in England and Wales (ICAEW) publication suggests four possible methods for implementing a Citizen's Income:

1. A Citizen's Income for every UK citizen, large enough to take every household off means-tested benefits (including Working Tax Credits, Child Tax Credits, and Universal Credit), and large enough to ensure that no household with low earned income would suffer a financial loss at the point of implementation. The scheme would be implemented all in one go.
2. A Citizen's Income for every UK citizen, funded from within the current tax and benefits system. Current means-tested benefits would be left in place, and each household's means-tested benefits would be recalculated to take into account household members' Citizen's Incomes in the same way as earned income is taken into account. Again, implementation all in one go.
3. This scheme would start with an increase in Child Benefit. A Citizen's Income would then be paid to all 16 year olds, and they would be allowed to keep it as they grew older, with each new cohort of 16 year olds receiving the same Citizen's Income and being allowed to keep it.
4. Inviting volunteers among the pre-retired, between the age of 60 and the state pension age. [5]

The first option would either impose losses on poorer households, or would not be strictly revenue neutral; and the second is scheme β. The rest of this working paper will test a variant of the third option.

A Citizen's Income for 16 to 18 year olds

After the Basic State Pension (and the State Single Tier Pension) has been turned into an unconditional Citizen's Pension, and Child Benefit has been increased in value, with possibly equal amounts being paid to the first and subsequent children, there are several arguments for 16 to 18 year olds being the next demographic group to receive Citizen's Incomes:

- The UK already has an unconditional Child Benefit paid up to the age of 16 (or up to the age of 19 for young people still in full-time education). [6]

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[5] Malcolm Torry, *How might we implement a Citizen's Income?* (London: Institute for Chartered Accountants of England and Wales, 2016), p. 6, www.icaew.com/-/media/corporate/files/technical/sustainability/outside-insights/citizens-income-web---final.ashx?la=en

[6] Contrary to popular belief, Child Benefit has not been means-tested. The proposal to means-test it for higher rate taxpayers was made at the 2010 Conservative Party conference. The result was an additional tax charge for higher rate taxpayers living in households in receipt of Child Benefit. Child Benefit remains unconditional.

- The financial affairs of 16 to 18 year olds are relatively simple, making a transition unproblematic.
- Providing a Citizen's Income to this age group would provide a secure financial floor that would enable them to pursue further education, employment, or a mixture of the two, with rather less financial anxiety than at present for themselves and their families.
- A variety of implementation methods would be easy to administer: for instance, payment of a 16 year old's Citizen's Income to the main carer (following the Child Benefit model); payment of a 17 year old's Citizen's Income half and half to carer and 17 year old; and payment of the 18 year old's Citizen's Income to the individual concerned.

Options for funding a Citizen's Income of £50 per week for all 16 to 18 year olds in the UK

1. Each 16 to 18 year old would be paid a Citizen's Income of £50 per week. They would be taxed on all earned income at the Basic Rate. Otherwise everything else would remain as it is: National Insurance contributions, means-tested benefits entitlements (although calculations would need to take their Citizen's Incomes into account), and their family's benefits receipts, including Tax Credits and Universal Credit: except that Child Benefit would no longer be paid for any child over the age of 16. This would be the easiest option to implement, as all that would be required would be to cease paying Child Benefit for children over the age of 16, and to apply the tax code BR. The net cost would be £3.33bn per annum. [7]

[7] There are 1,561 16 to 18 year olds in the Family Resources Survey sample, and 286 of the sample are not in full-time education [In the Euromod FRS data, dec=0].

Total earnings for 16 to 18 year olds in the sample are £86,331.87 per month, on which Income Tax of £2,563.94 is collected each month. If all earnings were taxed then tax collected would be 0.2 x 86,331.87 = £17,266.37, rather than £2,563.94, so additional Income Tax collected = £14,702.43 per month = £3,392.87 per week.

1,561 – 286 = 1,275 16 to 18 year olds are in full time education, so their families collect Child Benefit. I take the midpoint between the First Child and Other Child rates for child Benefit = £17.2 per week. Child Benefit saved is 17.2 x 1,275 = £21,930 per week.

Means-tested benefits: Under the current benefits scheme, £49,599.24 is paid to the sample in means-tested benefits. With Citizen's Incomes in payment, and net earnings adjusted, £15,024.60 is paid out. (The Citizen's Income for this age group is below the Jobseeker's Allowance rate, so for anyone currently receiving JSA the difference would be paid: although whether many young adults would submit themselves to the sanctions regime for the sake of £20 per week is an interesting question). So the saving in means-tested benefits is £34,574.64 per month = £7,978.76 per week.

So the net cost of the scheme would be (50 x 1,561) – 3,392.87 – 21,930 – 7,978.76 = 44,748.37 per week

There are 2,232,571 16 to 18 year olds in the UK (2013 figures: http://webarchive.nationalarchives.gov.uk/20160105160709/http:/www.ons.gov.uk/ons/about

2. As above, except that the Income Tax rate would be increased to 23% for this age group, and National Insurance Contributions would be charged at 12% on all earned income: that is, the Lower Earnings Limit would be reduced to zero. The net cost would be £3.1bn per annum. [8]

Option 2 would be more complicated to administer, and would save very little money. The clear winner is option 1.

-ons/business-transparency/freedom-of-information/what-can-i-request/previous-foi-requests/population/uk-population-of-14-to-18-year-olds/index.html)

So the total cost would be 2,232,571 x 52 x 44,748.37 / 1,561 = £3.33bn per annum.

£3.33bn is not a large sum in terms of the national accounts. It could be paid for by a small rise in the Income Tax rate. 'A 1 percentage point rise in all rates of income tax would raise £5.5 billion; a 1 percentage point rise in all employee and self-employed National Insurance contribution (NIC) rates would raise £4.9 billion; and a 1 percentage point rise in the main rate of VAT would raise £5.2 billion.' (Carl Emmerson, Paul Johnson and Robert Joyce, *The IFS Green Budget* (London: Institute for Fiscal Studies, 2015), p.227: www.ifs.org.uk/uploads/gb/gb2015/ch10_gb2015.pdf.) Alternatively, quantitative easing could fund the project.

[8] There are 1,561 16 to 18 year olds in the Family Resources Survey sample, and 286 of the sample are not in full-time education [In the Euromod FRS data, dec=0].

Total earnings for 16 to 18 year olds in the sample are £86,331.87 per month, on which Income Tax of £2,563.94 is collected per month. National Insurance Contributions of £2,630.28 is collected per month. The new total tax rate would be 23% (IT) + 12% (NICs) = 35%. Tax collected would be 0.35 x 86,331.87 = £30,216.15 rather than £2,563.94. Additional tax collected would be 30,216.15 – 2,563.94 – 2,630.28 = £25,021.93 per month = £5,774.29 per week

1,561 – 286 = 1,275 16 to 18 year olds are in full time education, so their families collect Child Benefit. I take the midpoint between the First Child and Other Child rates for child Benefit = £17.2 per week. Child Benefit saved is 17.2 x 1,275 = £21,930 per week.

Means-tested benefits: Under the current benefits scheme, £49,599.24 is paid to the sample in means-tested benefits. With Citizen's Incomes in payment, and net earnings adjusted, £15,025.50 is paid out. (The Citizen's Income for this age group is below the Jobseeker's Allowance rate, so for anyone currently receiving JSA the difference would be paid: although whether many young adults would submit themselves to the sanctions regime for the sake of £20 per week is an interesting question). So the saving in means-tested benefits is £34,573.74 per month = £7,978.55 per week.

The net cost of CI of £50 per week would be (50 x 1,561) – 5,774.29 – 21,930 – 7,978.55 = 42,367.16 per week

There are 2,232,571 16 to 18 year olds in the UK (2013 figures: http://webarchive.nationalarchives.gov.uk/20160105160709/http:/www.ons.gov.uk/ons/about-ons/business-transparency/freedom-of-information/what-can-i-request/previous-foi-requests/population/uk-population-of-14-to-18-year-olds/index.html)

So the total cost would be 2,232,571 x 52 x 42,367 / 1,561 = £3.15bn per annum.

Gains and losses [9]

For option 1:

Of those not in full time education (286 of the sample), 4 individuals lose over 10%, 125 gain, and for the others there is no change.

For those in full-time education, there is one loss over 10%, 2 losses under 10%, and the others all gain.

For any individual suffering losses and living in a household, the household loss will be a lower percentage than the individual's loss.

For option 2:

Of those not in full time education (286 of the sample), 4 individuals lose over 10%, 55 suffer losses below 10%, 71 gain, and for the others there is no change.

For those in full-time education, there is one loss over 10%, 7 losses under 10%, and the others all gain.

For any individual suffering losses and living in a household, the household loss will be a lower percentage than the individual's loss.

Losses suffered at the point of implementation create less of a problem for option 1 than for option 2, so again we find option 1 to be preferable.

Pilot projects

The construction of pilot projects for Citizen's Income schemes will always be problematic in countries with more complex economies. In developing countries, with relatively little by way of benefits systems, and with numerous isolated communities, it is relatively easy to construct genuine Citizen's Income pilot projects. Every member of an entire community or communities can be given a small unconditional income without adjustments having to be made to existing tax or benefits systems. Such pilot projects have been carried out in Namibia and India, and they have delivered significant results in relation to health, education, democracy, and economic activity, particularly among households with the lowest original disposable incomes. [10] However, in both cases there was one sense in which they were not in

[9] To calculate gains: For individuals still in full-time education, the previous individual disposable income + £17.2 Child Benefit is subtracted from the individual's new disposable income. For individuals not in full-time education, the previous individual disposable income is subtracted from the individual's new disposable income. We assume that the household's tax credits and other benefits do not change.

[10] Malcolm Torry, 'Can Unconditional Cash Transfers Work? They Can', a report of a seminar, *Citizen's Income Newsletter*, issue 2 for 2009, Citizen's Income Trust, London, 2009, pp.1-3; Claudia Haarman and Dirk Haarmann, 'From Survival to Decent Employment: Basic Income Security in Namibia', *Basic Income Studies*, vol.2, no.1, 2007, pp.1-7; *Making the Difference: The BIG in Namibia: Basic Income Grant Pilot Project, Assessment Report*, Basic Income Grant Coalition, Namibia NGO Forum, 2009, pp.72-3, www.bignam.org/Publications/BIG_Assessment_report_08b.pdf; Sarath Davala, Renana

fact genuine pilot projects. The behavioural effects of a permanent Citizen's Income scheme would be different from the effects of a scheme established for only two years, particularly in relation to labour market and other economic activity. Both the Namibian and Indian projects were for two years or less. The positive changes that the two projects delivered in terms of economic activity during that short timespan suggest that a permanent scheme would generate even more additional economic activity: but only the establishment of permanent Citizen's Incomes would be able to prove that.

Establishing genuine Citizen's Income pilot projects in the context of more developed benefits and tax systems is far more difficult than in the context of such countries as India and Namibia. Any permanent Citizen's Income established in a more developed country would probably need to be largely funded by making adjustments to existing tax and benefits systems. [11] The scheme discussed in this working paper is of this nature. To adjust tax and benefits regulations for a single community, or for a group of communities, would be highly problematic, both in relation to the legislation required to enable that to happen, and in relation to the highly porous nature of community boundaries in terms of employment market activity. In the UK context: Her Majesty's Revenue and Customs and the Department for Work and Pensions would need to construct parallel Income Tax, National Insurance Contribution, and benefits systems; and if someone in the pilot project community, town A, worked in town B, then their employer in town B would need to construct an entirely different Income Tax and National Insurance Contribution collection system for that one employee. There would be multiple town Bs. A community such as the Isle of Man would be able to achieve the necessary changes more easily than most other places in the UK: but the unrepresentative nature of that and other similar communities would make generalising the project's results somewhat problematic.

The proposed 16 to 18 year old Citizen's Income as a pilot project

One of the virtues of the scheme for 16 to 18 year olds explored in this working paper is that it could function as a genuine pilot project if it were to be conducted over a sufficiently long period of time. If option 1 were to be chosen, then apart from the payment of the Citizen's Incomes, the only adjustment required of benefits systems would be to Child Benefit, which could easily be achieved. Applying a BR (Basic Rate) tax code for 16 to 18 year olds would be easy for employers; and the recalculation of claims for means-tested benefits would be a routine matter - and in any case there would be fewer such claims. (In this paper I do not offer an estimate of how few, because the major factor would be how many current Jobseeker's Allowance claimants decided to forego a much smaller JSA weekly payment in return for escaping the sanctions regime.) A further advantage of this scheme would be that it would be easy to extend it. Initially it might be decided that as soon as an individual reached the age of 19 they would leave the Citizen's Income scheme: but if the scheme was delivering the advantages that we would expect – for instance, in terms of economic activity – then individuals could stay in the scheme after their nineteenth birthday. We know from the results

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Jhabvala, Soumya Kapoor Mehta and Guy Standing, *Basic Income: A Transformative Policy for India*, Bloomsbury, London, 2014

[11] While the experiment planned for Finland (http://citizensincome.org/news/an-update-on-the-finnish-basic-income-experiment/) will produce some useful results, it is not a Citizen's Income pilot project because it is of limited duration and it will only be for a limited number of currently unemployed individuals.

contained in the first part of this working paper that by the time the entire population was receiving Citizen's Incomes the scheme could be funded by charging National Insurance Contributions at the same rate on all earned income and by raising Income Tax rates by just 3% - and, of course, as with the 16 to 18 year old project, charging Income Tax on all income.

A pilot project of the pilot project

If a pilot project of a national 16 to 18 year olds project were to be required, then the simplicity of option 1 above would make this possible. Any community could be chosen – even a London borough; 16 to 18 year olds could be listed via Child Benefit records, schools, colleges, apprenticeship schemes, etc., and then paid Citizen's Incomes; their means-tested benefits could be recalculated; and for those in employment it would be a simple matter for their employers to apply the BR tax code. A London borough would normally contain something like 0.25 million people. The cost of a national scheme using option 1 would be £3.33bn per annum, so a single borough scheme would be 3.33bn/240 = £13.8 million per annum.

Conclusion

The reform of the UK's benefits system is becoming urgent, and a benefits system based on a Citizen's Income is a clear candidate for achieving that. The request for a pilot project can be heard both from the idea's detractors and from those sympathetic to it. This paper shows that although in a developed country constructing a pilot project might generally be quite problematic, to establish a Citizen's Income scheme for 16 to 18 year olds would be both feasible and affordable, and to construct an initial smaller pilot would also be possible. The twin virtues of paying a Citizen's Income to every 16 to 18 year old in the UK would be that it would function as a genuine pilot project, and that it could easily be extended across the whole of the working adult age range.