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## Research note: A feasible way to implement a citizen's income

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**EUROMOD WORKING PAPER SERIES**

**EM17/14**

**Research note: A feasible way to  
implement a Citizen's Income**

Malcolm Torry

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## **Research note: A feasible way to implement a citizen's income<sup>1</sup>**

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### **Abstract**

A Citizen's Income – an unconditional and nonwithdrawable income for every individual – would offer many advantages, but transition from the UK's current largely means-tested benefits system to one based on a Citizen's Income might generate initial losses for some low-income households, and this could make a Citizen's Income politically unattractive. This paper employs EUROMOD to study the initial losses that a variety of different Citizen's Income schemes would generate, and finds that in those schemes in which a Citizen's Income replaces most means-tested benefits, substantial household losses would occur, both generally and for households in the lowest disposable income decile, whereas where means-tested benefits are not abolished, but instead the Citizen's Income reduces means-tested benefits in the same way that other existing income does, almost no households in the lowest disposable income decile suffer initial losses, and initial losses generally are at a manageable level. This means that there is at least one method for implementing a Citizen's Income that could be politically attractive.

**JEL classification:** C80, H53, H55, I38, R20

**Keywords:** citizen's Income, household income, initial losses, microsimulation model

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## Introduction

A Citizen's Income is an unconditional, non-withdrawable income for every individual as a right of citizenship. If a Citizen's Income were to be implemented in the UK then there would be no problem with the effects of the Citizen's Income itself ( - lower marginal deduction rates and so increased employment incentives; greater social cohesion; no stigma; almost zero error and fraud rates, etc),<sup>2</sup> or with how a Citizen's Income would be administered ( - that would be simpler than the administration of Child Benefit): but there could be a problem with the transition between the current benefits system and a benefits system based on a Citizen's Income. It might be true that the problems would be caused by the tangled nature of the UK's current benefits system, but it could still be the case that transition to a Citizen's Income would be fraught with difficulty. Firstly, it might be difficult for a government to legislate for a Citizen's Income in the face of some entrenched prejudices against universal benefits: 'the rich don't need them', 'people wouldn't work', and 'if resources are limited then we should give more to the poor'). But these objections to universal benefits are all answerable:<sup>3</sup> - the rich pay more in Income Tax than they would receive by way of universal benefits; people are more likely to work if marginal deduction rates decline; and targeting means-testing, with all of the problems that that involves - and recent increasing press interest in a Citizen's Income suggests that understanding of the reasons for increasing the coverage of universal benefits is in fact increasing. Secondly, and perhaps more importantly, the transition to a Citizen's Income would need to be seamless, and, following the Department for Work and Pensions' difficulties with the implementation of Universal Credit, it would need to be clear to everybody that similar problems would not be encountered if a Citizen's Income were to be implemented. Thirdly, and most importantly, it would need to be clear that at the point of implementation the transition would not impose unacceptable losses on households, and particularly on households with the lowest disposable incomes.

This article tackles the third of these potential difficulties. It discusses two ways in which a Citizen's Income might be implemented, and uses the EUROMOD simulation programme to inform a decision as to which method might be the most feasible.

## Some illustrative Citizen's Income schemes

### *The 2012 simulation of a scheme similar to that in the Citizen's Income Trust's 2007 Select Committee submission*

In 2007, the Citizen's Income Trust submitted evidence to the House of Commons Work and Pensions Select Committee's *Benefits Simplification* enquiry. This submission was received as evidence, was printed in the committee's report,<sup>4</sup> and was later published by the Citizen's

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<sup>2</sup> Malcolm Torry, *Money for Everyone: Why we need a Citizen's Income*, Bristol: Policy Press, 2013, pp 81-186

<sup>3</sup> Malcolm Torry, *Money for Everyone: Why we need a Citizen's Income*, Bristol: Policy Press, 2013, pp 149-60, 277-8

<sup>4</sup> House of Commons Work and Pensions Committee (2007) *Benefit Simplification*, the Seventh Report of Session 2006-7, HC 463, London: The Stationery Office, pp Ev.84-90

Income Trust.<sup>5</sup> In 2013 the figures were updated and the publication was reissued.<sup>6</sup> In both cases the Government's accounts, along with population and other statistics, were employed to show that a Citizen's Income could be paid for by reducing tax allowances and means-tested and contributory benefits. The figures are robust, and make a good case that it would be financial feasible for a government to implement a Citizen's Income. However, what the method did not reveal was that gains and losses would be experienced by individuals and households at the point of transition from the current tax and benefits system to a system based on a Citizen's Income. Even if a scheme were to be revenue neutral, i.e., if the total cost of the Citizen's Income were to be found by making adjustments to the current tax and benefits system, then major household losses, particularly amongst households with the lowest disposable incomes, would clearly make the scheme impossible to implement.

So in 2012 I used a previous version of EUROMOD<sup>7</sup> to calculate the gains and losses that would be experienced if a scheme like the Citizen's Income Trust's 2007 illustrative scheme were to be implemented. The results were published in the *Citizen's Income Newsletter*.<sup>8</sup> The Citizen's Income envisaged was of £40 per week for every individual under state retirement age (including children), and of £100 per week for every individual over state retirement age.<sup>9</sup> Income Tax was to be collected on all earned income above a Personal Tax Allowance of £4,000 p.a. as follows: from £4,001 to £20,000 p.a., 25%; from £20,001 to £40,000 p.a., 35%; above £40,000 p.a., 45%. The Lower Earnings Limit for National Insurance Contributions was retained, but the Upper Earnings Limit was abolished. Working Tax Credits, Child Tax Credits, Basic State Pension, means-tested Jobseeker's Allowance (but not the contributory variety), and Child Benefit were abolished. Other benefits were left in place.<sup>10</sup> The following pattern of gains and losses emerged:

Losses and gains	Results for individuals		Results for households	
	No.	%	No.	%
Loss > 15%	2,392	4.18	1,882	7.50
15% > loss > 10%	2,302	4.02	679	2.71
10% > loss > 5%	6,160	10.75	1,914	7.63
5% > loss > 0	5,532	9.66	4,346	17.32
No loss or gain	19,747	34.48 <sup>11</sup>	1,067	4.25
0 > gain > 5%	7,350	12.83	6,736	26.85
5% > gain > 10%	3,647	6.37	3,582	14.28

<sup>5</sup> *Citizen's Income: A brief introduction*, London: Citizen's Income Trust, 2007

<sup>6</sup> *Citizen's Income: A brief introduction*, London: Citizen's Income Trust, 2013

<sup>7</sup> EUROMOD F6.0+ using 2008 Family Resources Survey data updated for use with 2009 tax and benefits regulations and levels

<sup>8</sup> Malcolm Torry, 'Research note: A Citizen's Income scheme's winners and losers', *Citizen's Income Newsletter*, issue 3 for 2012, London, Citizen's Income Trust, pp 2-4. [www.citizensincome.org](http://www.citizensincome.org)

<sup>9</sup> Because EUROMOD F6.0+ employed 2008 Family Resources Survey data updated for use with 2009 tax and benefits regulations and levels, the state retirement age employed for this exercise was the state retirement age as it was in 2009: 60 for women and 65 for men.

<sup>10</sup> For individuals and households claiming means-tested benefits, Citizen's Incomes were counted as income received for the purpose of calculating the level of benefit. So, for instance, instead of Housing Benefit being withdrawn at 65% of the value of Working Tax Credits, in this scheme Housing Benefit was withdrawn at 65% of the value of Citizen's Incomes received by the household.

<sup>11</sup> Most of those individuals for whom no change occurs will be children. Their Child Benefit is ascribed to the main carer, and the Children's Citizen's Income would be similarly ascribed.

Losses and gains	Results for individuals		Results for households	
	No.	%	No.	%
10% > gain > 15%	2,358	4.11	1,935	7.71
Gain > 15%	7,788	13.60	2,947	11.75
Totals	57,276 <sup>12</sup>	100	25,088	100

### *Chris Stapenhurst's project*

During the Summer of 2013, Chris Stapenhurst, a student from the University of Aberdeen, worked as a volunteer with the Citizen's Income Trust. Under my supervision he employed a previous version of EUROMOD<sup>13</sup> to study the gains and losses that would be experienced on the implementation of a variety of different Citizen's Income schemes. The full results will be published later this year in the *Citizen's Income Newsletter*.<sup>14</sup> While some schemes would have generated lower losses than others, the levels of losses at the point of transition suggest that none of the schemes would be politically feasible.

### *The Citizen's Income Trust's 2013 illustrative scheme*

For the current research project I have undertaken a similar exercise, this time matching the Citizen's Income scheme to that published by the Citizen's Income Trust in 2013. The new version of EUROMOD was employed, with 2013 benefits regulations and Family Resource Survey data updated to 2013 values.<sup>15</sup>

For the purposes of this exercise I have studied the gains and losses experienced by households, and not those experienced by individuals. There are good arguments for both approaches. It is individuals who receive income, so gain or loss is an individual experience; and within households income is not necessarily equitably shared, so the amounts that individuals receive might be more relevant than the amount that the household receives. However, we can assume that in most cases income is pooled within households, at least to some extent, so if one member gains and another loses then the household might be better off, and that might be a more significant fact than that one member of the household has suffered a loss in disposable income. Another point to make about households is that they are of different sizes, so the absolute gain or loss is not particularly relevant. However, percentage gains and losses are relevant, so this is the measure that we shall use.

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<sup>12</sup> The survey covers approximately 0.1% of the total population of the UK

<sup>13</sup> EUROMOD F6.0+ using 2008 Family Resources Survey data updated for use with 2009 tax and benefits regulations and levels

<sup>14</sup> Chris Stapenhurst (with supervision by Malcolm Torry), 'Experiments in Euromod', *Citizen's Income Newsletter*, issue 3 for 2014, London: Citizen's Income Trust

<sup>15</sup> EUROMOD G2.0++ with Family Resources Survey data for 2009-10 updated to 2013 values. The programme uses benefit regulations and amounts for 2013. 'The factors that are used to update monetary variables (parameter sheet *Uprate\_uk*) from the mid-point of the data year (October 2009) to the mid-point of the policy years applying on June 30th (i.e. October 2010 to October 2013) are shown in Annex 1. No other updating adjustments are employed. Thus the distribution of characteristics (such as employment status and demographic variables) as well as the distribution of each income source that is not simulated remain as they were in 2009/10' (Paola De Agostini and Holly Sutherland, *Euromod Country Report: United Kingdom 2009-2013*, Colchester: Institute for Social and Economic Research, Essex University, 2014)

Particularly problematic is knowing how to order households. A household of two parents and three children with twice the disposable income of a household containing just one adult will not be as well off as that individual adult. For the purposes of this exercise I ignore the different sizes of households. More detailed research, employing household weights so that the disposable incomes of households of different sizes could be more relevantly compared, would constitute a further research project.

The Citizen's Income scheme studied allocates Citizen's Incomes of £142.70 to individuals over 65, £71 to individuals over 25 years of age, and £56.25 to every other individual (to match Income Support and Pension Credit rates). The Personal Tax Allowance is abolished (but not Old Age Personal Tax Allowance), and income thresholds are adjusted accordingly. National Insurance Contributions of 12% are charged on all earned income. Means-tested benefits (including Tax Credits, but not Housing Benefit or Council Tax Benefit) are abolished, as are the State Retirement Pension, Child Benefit, Incapacity Benefit, and contributory Unemployment Benefit. A funding gap of £20bn p.a. remains, to be filled by restricting pension contribution relief to the basic rate of Income Tax and through administrative savings.

The important results, extracted by comparing columns in the output files for the current benefits system and the Citizen's Income scheme,<sup>16</sup> are that for the lowest disposable income decile, over one fifth of households suffer losses of over 10%, and that for the second lowest disposable income decile the same is true.

By interrogating the results sheets for individuals generated by the programme it is possible to identify the source of most of these substantial losses among households with low disposable incomes: In the scheme, low earners have their Personal Tax Allowance replaced by a Citizen's Income, but not their Working Tax Credits. To increase the working age adult Citizen's Income so that it would compensate for the loss of Working Tax Credits as well as for the loss of the Personal Tax Allowance would be far too expensive, as the increase in Citizen's Income would apply to every working age adult and not just to Tax Credit recipients.

It is a pity that such a large number of households with low disposable incomes suffer such large losses on the implementation of what otherwise looks like a useful and revenue neutral scheme: but unfortunately with that number of large losses the scheme would be impossible for a government to implement, and we ought to look for an alternative. .

Just as Chris Stapenhurst tested a variety of schemes for the patterns of gains and losses that they generated, so I have tried amending the Citizen's Income Trust's 2013 illustrative scheme in a variety of ways by altering different variables through a number of values. This generated Citizen's Income schemes paying different amounts and funded by different configurations of the tax system. Each scheme generates different numbers and levels of gains and losses, but the pattern is generally similar to the one discovered with the illustrative scheme, and the reasons are the same: the complexity of the current benefits system (and particularly its mixture of means-tested, contributory, and contingency elements); and the way in which a Citizen's Income cannot compensate for the withdrawal of both the Personal Tax Allowance and means-tested benefits without being too expensive.

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<sup>16</sup> For the purposes of all of these calculations, the few households with initial negative or zero disposable incomes are removed from the list.

### *Another option: 'alternative 1'*

As we have seen, the major generators of large losses among households with low disposable incomes are the combined value of Working Tax Credits and the Personal Tax Allowance, and the difficulties encountered when a complex system of means-tested and contributory benefits is replaced by a simple Citizen's Income.

It might therefore be worth proposing a method of implementing a Citizen's Income that circumvents these problems. What is *not* an option is to tamper with the Citizen's Income itself. Its value can be reduced, but it must remain an unconditional and nonwithdrawable income for every individual. If it does not do so then it will not deliver the advantages of social cohesion, simplicity, transparency, zero marginal deduction rate, lower total marginal deduction rates, reduced error and fraud rates, loss of stigma, etc.

So my proposal is that a Citizen's Income should be paid, that the Personal Tax Allowance should be abolished (which means that thresholds have to be increased by £10,000 as all earned income will have become taxable), and that the Citizen's Income should be taken into account in the calculation of all existing means-tested benefits (including Tax Credits). This suggests that the Basic State Pension will be retained, so the Citizen's Income rate for those over the state retirement age should be £30 per week. (The new Single Tier State Pension will make this payment unnecessary.). Child Benefit will be retained and Child Citizen's Income should be paid at £20 p.w.. The adult Citizen's Income rate should remain at £71: the 2013 Income Support rate. Again, National Insurance Contributions will be paid at 12% throughout the earned income range. All existing benefits are left in place, and the Citizen's Incomes are added to the means taken into account when means-tested benefits are calculated.

Simulation of the current system and of this alternative Citizen's Income scheme reveals that only a handful of households would experience any loss at all. In that respect the scheme is entirely feasible politically. However, such a lack of losses comes at a cost: £84bn, which is clearly unsustainable.

One way to solve the cost problem is to increase the basic and higher Income Tax rates by 10% from 20% to 30% and from 40% to 50%, and to increase the highest rate by 5% from 45% to 50%. The results are still encouraging. In the lowest disposable income decile, only 1,000 households in the country would suffer losses of over 10%. Overall, only 5.3% of households would suffer losses of over 10%, and the vast majority of those households are amongst those with the highest disposable incomes. Only 0.2% of households would suffer losses of over 15%.

The cost of this scheme is £24bn per annum. Restricting pension contribution tax relief to the basic rate (as suggested in the Citizen's Income Trust's illustrative scheme) would provide about £10bn, and administrative savings would provide perhaps a further £2bn. The scheme as calculated leaves in place the current contributory benefits: Unemployment Benefit (contributory JSA), Incapacity Benefit, and contributory ESA. There would be a case for reducing these by the amount of the Citizen's Income in order to make savings. The extra economic growth that a) immediate increased disposable incomes amongst households with the lowest disposable income would generate, and b) that would be generated by decreasing marginal deduction rates and therefore increasing employment incentives, should easily provide the rest.

The number of Working Tax Credit claims would almost halve, and only 1% of households would still be receiving more than £200 per month in Working Tax Credits. Child Tax Credit claims would fall by about 20%. In both cases the value of claims would reduce, so we would



see some households abandoning Tax Credit claims. The result would be administrative savings and increasing employment incentives.

***A further option: ‘alternative 2’***

A further option would be to reduce the working age adult Citizen’s Income to £50 p.w. (i.e., to more nearly match it to the current value of the Personal Tax Allowance rather than to the Income Support rate) and the young adult’s Citizen’s Income to £40 p.w.. Again the Citizen’s Income amounts are added to other means taken into account when means-tested benefits are calculated. Income Tax rate rises could then be restricted to 5% throughout, thus raising Income Tax rates to 25%, 45% and 50%. The cost is again £24bn p.a.

The results are again encouraging. 0.08% of households in the lowest disposable income decile would face losses of over 10%, and only 0.2% would face losses of over 5%. Overall, 0.25% of households would face losses of over 15%, 1.1% of households losses of over 10%, and 20% of households losses of over 5%, again mostly amongst households with higher disposable incomes. This is the pattern that we would expect.

In this case the number of Working Tax Credit claims would reduce by 32%, and the number of households receiving Child Tax Credits would reduce by 16%. As we would expect, the reduction in the number of households receiving means-tested benefits does not reduce by as much as with a larger Citizen’s Income, but the reductions are still substantial and would deliver administrative savings. Total marginal deduction rates would be reduced for either of the two schemes, thus encouraging additional employment or self-employment. With either alternative scheme we would therefore see a gradual reduction in the number of claims for Tax Credits.

**A summary table**

For all three schemes, National Insurance Contributions are collected at 12% on all earned income.

	<b>Citizen’s Income Trust 2013 illustrative scheme</b>	<b>Alternative 1</b>	<b>Alternative 2</b>
<b>Relationship of Citizen’s Income to means-tested benefits</b>	Citizen’s Income replaces means-tested benefits except for Housing Benefit and Council Tax Benefit	Means-tested benefits are left in place and the Citizen’s Income is taken into account when means-tested benefits are calculated	Means-tested benefits are left in place and the Citizen’s Income is taken into account when means-tested benefits are calculated
<b>Working age adult CI amount</b>	£71	£71	£50
<b>Young adult CI amount</b>	£71	£71	£40
<b>Income Tax, basic rate</b>	20%	30%	25%

	<b>Citizen's Income Trust 2013 illustrative scheme</b>	<b>Alternative 1</b>	<b>Alternative 2</b>
<b>Income Tax, higher rate</b>	40%	50%	45%
<b>Income Tax, top rate</b>	45%	50%	50%
<b>Proportion of households in the lowest disposable income decile experiencing losses of over 10% at the point of implementation</b>	21.12%	0.04%	0.08%
<b>Proportion of all households experiencing losses of over 10% at the point of implementation</b>	9.28%	5.38%	1.09%
<b>Cost of scheme <sup>17</sup> *</b>	£20bn	£24bn	£24bn

## Conclusion

A Citizen's Income would deliver many advantages, for individuals, for households, and for society as a whole. It is therefore important to begin to move our benefits system towards a system based on a Citizen's Income. The Citizen's Income scheme submitted by the Citizen's Income Trust to the 2007 parliamentary enquiry would have been affordable, but its implementation would have been complicated by the level of losses that would have been experienced by many households at the point of implementation, making implementation politically impossible.

The alternatives offered in this paper deliver a genuine Citizen's Income while avoiding the transition problems. While it would be preferable to be able to abolish means-tested benefits at the point of implementation of a Citizen's Income, that is unlikely to be possible, and so perhaps it is not an option that we should pursue. What is possible is to establish a genuine Citizen's Income while leaving means-tested and other benefits in place. Because every household would see their Citizen's Incomes replace proportions of means-tested and other benefits, total marginal deduction rates would be reduced, and all of the other benefits of a Citizen's Income would be experienced. The amounts of means-tested benefits received

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<sup>17</sup> Much of the additional cost would be met by restricting tax relief on pension contributions to the basic rate, and through administrative savings generated by the abolition of means-tested benefits (in the case of the 2013 illustrative scheme) or by many households leaving means-tested benefits as their Citizen's Incomes and additional earnings increased the means taken into account when their means-tested benefits were calculated (in the case of the two alternative schemes).

would be reduced by the Citizen's Income being taken into account in those benefits' calculations, and for many households the reduction would offer the option of adding additional hours of employment and escaping from means-testing.

All that implementation of a Citizen's Income by this method would require would be to pay the Citizen's Income, to adjust tax codes, and to take Citizen's Incomes into account in the calculation of means-tested benefits (an easy process given the entirely predictable amounts of Citizen's Incomes received by each household). The current means-tested and contributory benefits are well understood, and to leave them in place would provide stability during transition to a Citizen's Income. Once the Citizen's Income was in place, and increasing numbers of households found themselves off means-tested benefits, or able to leave means-tested benefits behind, the Citizen's Income would become the basis for our society's income maintenance strategy - and as Citizen's Incomes increased in value, the means-tested system would become the minimal safety net that Beveridge intended it to be and for which it was designed.

If the Government decides that its difficulties with implementing Universal Credit mean that the scheme should be abandoned, then there is another far easier option waiting in the wings. A Citizen's Income, implemented as suggested here, would deliver all of the benefits of Universal Credit and more, and it would pose none of the computerisation and administrative problems that the implementation of Universal Credit has encountered.

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