

Basic Income Guarantee

FAST FACTS

- Reform Scotland called for the introduction of a Basic Income in Scotland in our February 2016 report. The report also set out an example of how the policy could be afforded.
- As a result, we welcome the Scottish Government's commitment to look in more detail at the introduction of a Basic Income.
- Any system which actively discourages work, as the current system does, is in urgent need of an overhaul.
- A Basic Income could solve this fundamental problem as it could not be withdrawn as circumstances changed.
- Reform Scotland suggests a Basic Income could be set at £5,200 per year for adults and £2,600 for children.
- It would be free of tax, but replace the personal allowance; tax credits and a number of benefits. All earnings would be taxed.
- It is not a disincentive to work, a basic income only provides the bare minimum, but crucially ensures that work always pays.

CONTEXT

On 5th September 2017 the First Minister set out the Scottish Government's Programme for Government. Within the proposals, Nicola Sturgeon announced funding for research into the feasibility of a citizen's Basic Income scheme.

Reform Scotland has welcomed this move. We first advocated the introduction of a basic income in February 2016 with the publication of our report, [The Basic Income Guarantee](#). That report also set out how such a policy it could be implemented as well as one example of how it could be afforded.

We believe that our current social security system is complicated both for claimants to navigate and for government to administer.

An effective work-related benefits system should provide financial security to those out of work – a safety net; but also encourage those who can, to re-join the workforce.

Unfortunately, the system in place at present actively discourages many to return to work or increase hours. This is because people can find their benefits reduced or taxes increase as a result of work.

This is an abject failing of our welfare system. We cannot blame an individual for not seeking our work if that work would leave them financially no better, or potentially worse, off.

Instead, our aim should be to reform the system so that work always pays and we believe that this could be achieved through a Basic Income Guarantee.

This briefing summarises the case we made in our 2016 report; why we welcome the Scottish Government's decision; and why we believe that a Basic Income Guarantee is the right decision.

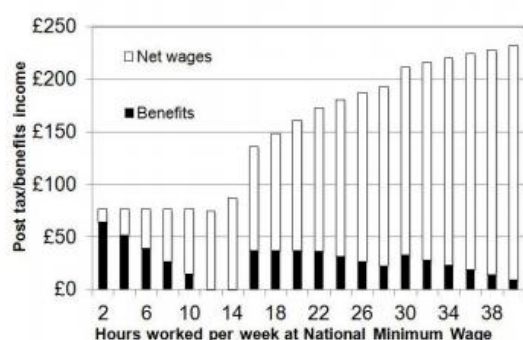
BACKGROUND

The UK's social insurance and welfare system has grown over the past century to deal with a wide range of economic and social needs. It is complex both to understand and to operate. There is widespread agreement that it should be reformed but little consensus as to the way forward.

Reform Scotland believes that the benefits system should protect the unemployed and under-employed but at the same time must reduce – and ideally remove – any disincentives to take work, particularly part-time work.

The manifest failing of the present system is the cash penalty many face when they take a job, the so-called 'welfare trap'. As a result, our current welfare system often penalises people for working. While an individual's precise marginal rate will vary due to factors such as eligibility, family structure etc, the impact is substantial.

People are not stupid. It is believed that if we offer incentives to those at the top with bonuses or other financial rewards, they will work harder. Yet, we currently have a welfare system which actively discourages work. Consider the following chart from the Citizen's Income Trust:¹



¹ Citizen's Income Trust

It highlights the welfare trap whereby there is little, if any, financial reward to be gained from working more than 10 hours, up to 16 hours per week, on the minimum wage. In no other situation would you expect someone to work additional hours in return for no financial gain. So why should someone struggling on minimum wage work more and expect no financial reward in return? It would be illogical. Yet that is exactly what our current welfare system does.²

Reform Scotland believes this trap means that a radical reform is required and that a Basic Income Guarantee is the best way forward.

What is a Basic Income?

A Basic Income is an amount of money, which can vary by age of recipient, but is given to every citizen of a country, regardless of their income, gender or employment status.

It is not means tested and does not increase or decrease as an individual's circumstances change.

It would be free of tax, but replace personal allowances and tax credits. In other words all earned income would be subject to tax.

It is not a disincentive to work as it only pays enough to cover the basics of life.

It would replace a number of benefits, but not replace disability/maternity/housing or bereavement based benefits.

A Basic Income gives money from the government to all earners, including the

² People who work less than 16 hours per week may be entitled to income support, while those who work more may be entitled to working tax credit or Universal Credit

wealthiest in society. However, this helps mitigate for the loss of the personal allowance and the increases in taxes which may be required initially to pay for the policy. It also makes the system considerably simpler to operate and everyone is treated the same.

Devolution

The Scotland Act 2016 devolved a number of welfare payments to Scotland which comprise about 15% of the UK Government's social security spend in Scotland. The devolved benefits are³:

- Personal Independence Payments (PIP)
- Carer's Allowance (CA)
- Attendance Allowance (AA)
- Disability Living Allowance (DLA)
- Winter Fuel Payments
- Cold Weather Payments
- Severe Disablement Allowance (SDA)
- Industrial Injuries Disability Benefits (IIDB)
- Funeral Expenses Payment
- Sure Start Maternity Grant (will be replaced by the Best Start Grant)
- Discretionary Housing Payments

The Scottish Government also proposes to use its powers to introduce a new Job Grant to help young people aged 16-24 who are returning to work after a period of six months unemployment.

The majority of benefits which would be replaced by a Basic Income remain reserved to Westminster.

As a result, at present, the Scottish Government on its own could not introduce a Basic Income Guarantee. This is because the

benefits to be devolved are not work-related and address other forms of hardship. However, such a reform could be enacted in partnership with the UK Government, whether as a policy just for Scotland; as a pilot for the whole of the UK or as part of reform across the whole of the UK

In any case, the current patchwork of devolution throughout the UK is likely to change over time and so Scotland may gain further welfare powers. Reform Scotland has continued to argue that the majority of benefits should be devolved to the Scottish Parliament. It makes sense to bring together the policy areas associated with alleviating poverty, such as social inclusion and housing, with benefit provision that remains reserved.

It is also worth remembering that devolution of welfare has already happened in Northern Ireland where the Northern Ireland Executive has been responsible for social security, pensions and child benefit since 1998. However, Northern Ireland's Executive does not have the fiscal powers necessary to raise the money it spends in this or any other area. So all that is really devolved is administration, with real power remaining at Westminster.

That is why Reform Scotland has consistently argued that effective, transparent and accountable government requires devolved administrations being able to raise and control most of the money that they spend.

Clearly, if any government, at Westminster or Holyrood, is going to implement a Basic Income Guarantee it would need to examine a range of different options and might want to consider pilot schemes, as have been considered in other jurisdictions.

³ <http://www.gov.scot/Topics/People/fairerscotland/Social-Security/Resources/FAQs#Question 1>

So, regardless of where the bulk of responsibility for welfare policy rests – Westminster or Holyrood – Reform Scotland is advancing the Basic Income Guarantee to replace the current work-related benefits system. This BIG idea must be at the centre of debate about our future benefits system.

POLICY RECOMMENDATIONS

A BIG idea – the Basic Income Guarantee

Having looked at the possible options, Reform Scotland's conclusion is that the best way to solve the fundamental problem in our welfare system is to introduce a Basic Income Guarantee.

Each person would receive an income from the state which cannot be withdrawn or reduced. Any earnings on top are taxed but the Basic Income Guarantee is never withdrawn. So work always pays.

It would be simpler than the current system, and so should permit lower administration costs and less intrusion in peoples' lives.

Each person is treated as an individual as opposed to via membership of a household. As a result, people would be treated equally irrespective of gender and marriage or cohabitation would not be subsidised or penalised.

Reform Scotland set out and explained the costs of the policy for both the UK and Scotland in implementing the policy in our 2016 report.

We set the level of the Basic Income at £5,200 per year for adults and £2,600 for children, the same as the Scottish Greens. This is one

party's idea. Others will suggest different levels. Should either the UK or Scottish Government wish to introduce a Basic Income, Reform Scotland recommends that a variety of models are considered.

Our 2016 report also set out one way of paying for the policy. We demonstrated that the costs could be met through:

- Scrapping certain benefits.
- Scrapping the personal allowance.
- Merging National Insurance and Income tax, including the removal of the upper NI limit.
- An initial 8p increase on all rates of income tax.

The full costings can be seen in our report [The Basic Income Guarantee](#), but this table from that publication provides a summary: £5,200/ £2,600 Scottish Citizen's Income:

Cost		Revenue generated	
16-64 citizen's income	£18bn	Scrapping certain benefits	£3.6bn
Child citizen's income	£2.4bn	Scrapping personal allowance	£5.2bn
		Merging NI with Income Tax (so non-taxed allowance now taxed)	£2.36bn
		Merging NI with Income Tax removes upper NI limit	£1.65bn
		8 pence added to all rates of income tax	£5.53bn
Total	£20.4bn	Total	£18.34bn

As savings were made through simplification and an increase in people working, we would expect the tax rates to begin to decrease.

It is worth pointing out that because everyone in a household would receive a Basic Income, even many higher rate tax payers could see a net gain in household income.

Benefits of a Basic Income

- **Simplification:** The current system is overwhelmingly complicated. The Basic Income is very straightforward, as all citizens receive a payment. This also hugely reduces the administration involved, as means testing is removed and the payment can be automated.
- **Individualisation:** Every citizen would have a small independent income, whether or not they were in paid employment, since the individual would be the unit, as opposed to the household. As a result, people would be treated equally irrespective of gender, and marriage or cohabitation would not be subsidised or penalised.
- **Incentivises those who can work, but additional benefits remain for those who cannot:** The income is non-withdrawable and is not means-tested. As a result, work always pays. It guarantees, unlike at present, that every hour worked generates additional income for an individual. However, additional benefits aimed at housing and disability remain in place.
- **All work pays:** Not all work is permanent or full time, and some work is seasonal or sporadic. As a result, it can be difficult for individuals at present to accept such work without losing out on benefits and facing uncertainty as to what such work opportunities mean. However, all work, no matter the regularity or permanence, would bring additional income to an individual. There would be no constant changes to benefits as working hours changed.
- **Income Tax and Basic Income would balance each other:** Although everyone would receive the Basic Income there would be limits to the pressure for it to be increased. It is likely that increases in the level of the Basic Income would need to be paid for by increases in Income Tax. As a result, Income Tax and Basic Income levels should keep each other in balance.
- **Would increase employment:** The safety net which ensured all work, no matter the hours or permanence, would pay removes the current welfare trap therefore boosting employment.
- **No availability-for-work rule:** Currently, some people who study or train for more than a few hours a week can forfeit some benefits. This would not be the case with a Basic Income. As a result, there would be no disincentive to train/retrain or carry out voluntary work.