

The Basic Income Guarantee

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About Reform Scotland

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Reform Scotland is independent of political parties and any other organisations. It is funded by donations from private individuals, charitable trusts and corporate organisations. Its Director is Geoff Mawdsley and Alison Payne is the Research Director. Both work closely with the Advisory Board, chaired by Alan McFarlane, which meets regularly to review the research and policy programme.

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i. Executive summary

Objective

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.

This paper focuses on the current system of work-related benefits. Questions about other benefits, such as those which address disability and other hardships, will form the basis of future reports.

Our conclusion is 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’. The system must be fair to all at the same time providing value for the public money that funds it.

Reform Scotland believes that a radical reform is required and that a Basic Income Guarantee is the best way forward. Everyone in or out of work receives a guaranteed basic income. Anything earned goes on top and is taxed at the relevant rate. Sometimes called a Citizen's Income, the Basic Income Guarantee is a BIG idea whose time has come.

Two equally big questions would then follow – what level should the guaranteed income be set at and what would implementing this policy cost?

To address these questions this paper has taken as a starting point the Scottish Green Party's proposed Citizen's Income, the only major party with this policy and thus to have put forward firm numbers. Reform Scotland is not endorsing the Scottish Green Party's proposals but is using them to promote informed debate on this issue.

Findings

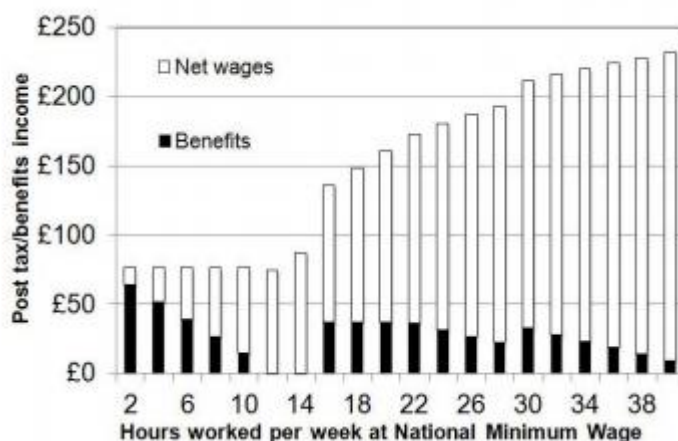
The current welfare system is confusing and ineffective

The current welfare system is complicated both for claimants to navigate and for government to administer. Successive governments have added to and/or tinkered with it in pursuit of their particular policy objectives. It is made up of a lot of different benefits, some of which interact with others, some of which are to be devolved and some of which are being reformed. It has universal and means-tested elements. Its operation often involves extensive bureaucratic interference in people's lives.

An effective work-related benefits system should do two things. Its first role is to provide financial security for those out of work –a safety net. Its second is equally important, to help and encourage those who can to re-join the workforce - a safety trampoline.

As set out in the graph below from the Citizen's Income Trust, the current system fails the second test as it can often act as a disincentive to work.

Graph 1: Minimum wage and Income Support / Jobseeker's Allowance (graph from Citizen's Income Trust)



(NOTE: 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)

Many people gain no financial benefit from returning to or increasing their work. This is the so-called welfare trap. While an individual's precise marginal rate will vary due to factors such as eligibility, family structure etc, the impact is substantial. Why would people want to find a job or increase their working hours if they were to receive no financial gain? This inherent and long-standing

problem with the current system is the principal reason for the Basic Income Guarantee.

Policy Recommendations

A BIG idea – the Basic Income Guarantee

The current benefits system for those out of work is in need of radical reform. Although successive governments have attempted to amend the system it remains lacking particularly in incentivising work. Any system which actively discourages work, as the current system does, is therefore in urgent need of an overhaul.

The current UK Government's main policy in this area is Universal Credit which is intended to simplify payments when fully implemented. But the problem of high marginal tax rates faced by people on low incomes taking up or increasing their work would remain. Work does not pay.

Having looked at the possible options, Reform Scotland's conclusion is that the best way to solve this fundamental problem 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.

There are other benefits. 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 is not alone in advancing the BIG idea. Much excellent work has already been done by a range of different people and organisations across the political spectrum such as the Green Party, the Citizen's Income Trust, Common Weal, the Scottish Government's Expert Group on Welfare and others. Reform Scotland is seeking to develop these ideas and, in particular, to attach illustrative costings.

We have used proposals from the Scottish Greens as the basis for the financial workings set out in this report.

These are £100 per week per adult and £50 per week per child.

So this is one option as to how a Basic Income Guarantee might operate. If the essential idea is accepted, other proposals would have to come forward. What

this work demonstrates is that there would be significant costs to introducing such a policy. Reform Scotland acknowledges these costs, but considers that they would be offset in the long run by the BIG idea's considerable benefits.

One government department responsible for welfare

Whilst carrying out the research for this report, Reform Scotland was confronted by the complexity of the present welfare and social insurance system and how difficult it is to obtain comprehensive data on welfare expenditure.

Welfare expenditure is divided between two departments, HMRC and the Department for Work and Pensions (DWP), and so it is difficult to get clear information on expenditure, especially with regard to regional data. This is further complicated by the fact that responsibility for particular benefits has been swapped between departments with child benefit moving from the DWP to HMRC. Tax credits are presently controlled by HMRC but are being replaced by the Universal Credit which is under the DWP.

This split between departments does not aid transparent government, but it can make a complicated system even more complicated for the user. Many benefits issued by the DWP are liable for income tax. However, the DWP does not take off the tax before paying the benefit, nor does it inform HMRC. The onus is instead on the individual to inform HMRC and ensure their tax code is adjusted. Such transactions could, and should be carried out in a simpler and more user-friendly manner. Reform Scotland believes that, regardless of whether the responsibility lies at Holyrood or Westminster, a single department should be responsible for the UK's and/or Scotland's tax and benefits system and that taxable benefits should be taxed at source. The objective of a single, effective tax and benefit system requires a single government department. As well as enabling taxable benefits to be taxed at source, this would also lead to an improvement in the clarity of available information, especially at a Scottish level.

Implementation

At present, even with the new welfare powers being devolved to the Scottish Parliament as part of the Scotland Bill currently going through Westminster, the Scottish Government could not introduce a Basic Income Guarantee. This is because the benefits to be devolved are not work-related and address other hardships. However, such a reform could be enacted by the UK Government if it was so-minded.

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. The question is whether such a Basic Income Guarantee should be a UK-wide policy

or implemented at a more local level and this debate will continue over the next few years. As part of its Devolution Plus proposals, Reform Scotland argued that the majority of benefits should be devolved to the Scottish Parliament. There is plenty of logic behind bringing together the policy areas associated with alleviating poverty, such as social inclusion and housing, with benefit provision that remains reserved. 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.

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.

1. Background

1.1. Costs and statistics

Although some small benefits will be devolved to Scotland as part of the Scotland Bill 2015 process, currently welfare policy and expenditure are controlled by Westminster.

Official figures provide much more detail for welfare expenditure for Great Britain¹ as a whole, compared to the regional breakdowns. On 30 September 2015 new statistics were published which gave Scottish data for the full list of benefits. However, it did not break the data down by age, which it does for Great Britain. This is important as this report is only looking at non-pensioner benefits. This new data also did not provide data on HMRC spend for Scotland, which it does for GB.

As a result, to be able to include a full breakdown, and illustrate the very wide and confusing number of benefits available, we have decided to use the figures for Great Britain.

Spending on welfare is split between the Department for Work and Pensions (DWP), which is responsible for the vast majority of benefits, and Her Majesty's Revenue and Customs (HMRC), which is responsible for child benefit and tax credit. The DWP was projected to spend about £167.8bn on benefits in 2014/15 (real terms), with HMRC spending about £40bn on tax credits and child benefit.²

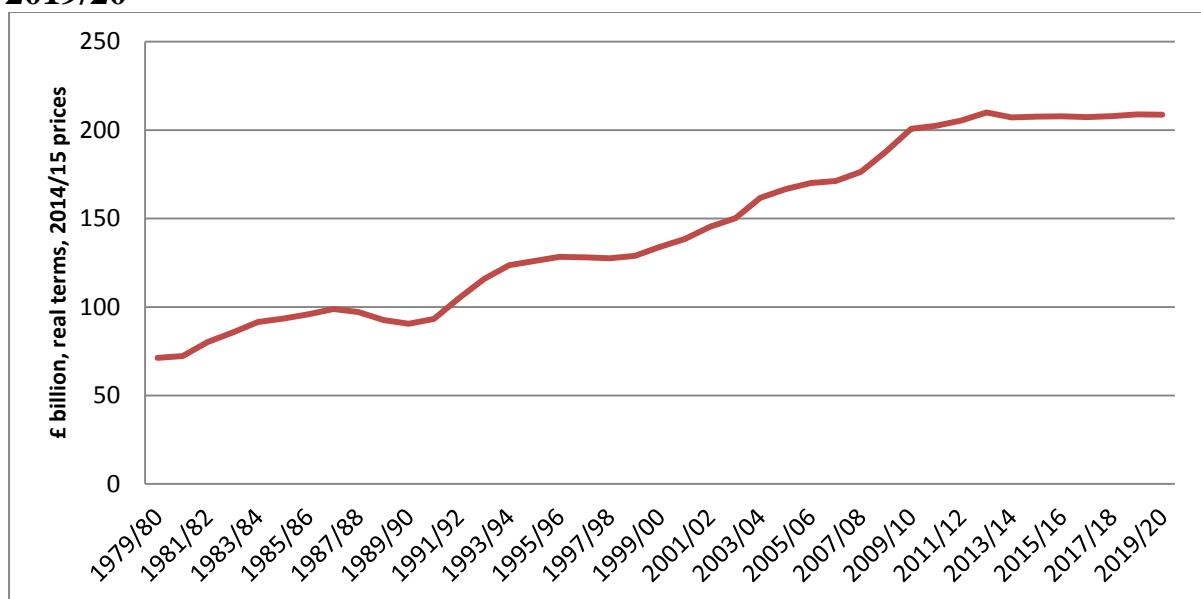
The following graphs illustrate how spending has changed in recent years, as well as the distribution in spending depending on the age category of the recipient.³

¹ Figures relate to Great Britain, or people resident overseas who are receiving United Kingdom benefits, except for Over 75 TV Licences, War Pensions and Financial Assistance Scheme payments which also cover Northern Ireland. All other benefit expenditure on residents of Northern Ireland is the responsibility of the Northern Ireland Executive. Hence the reference is not for the UK. This is mentioned in more detail in chapter 2.

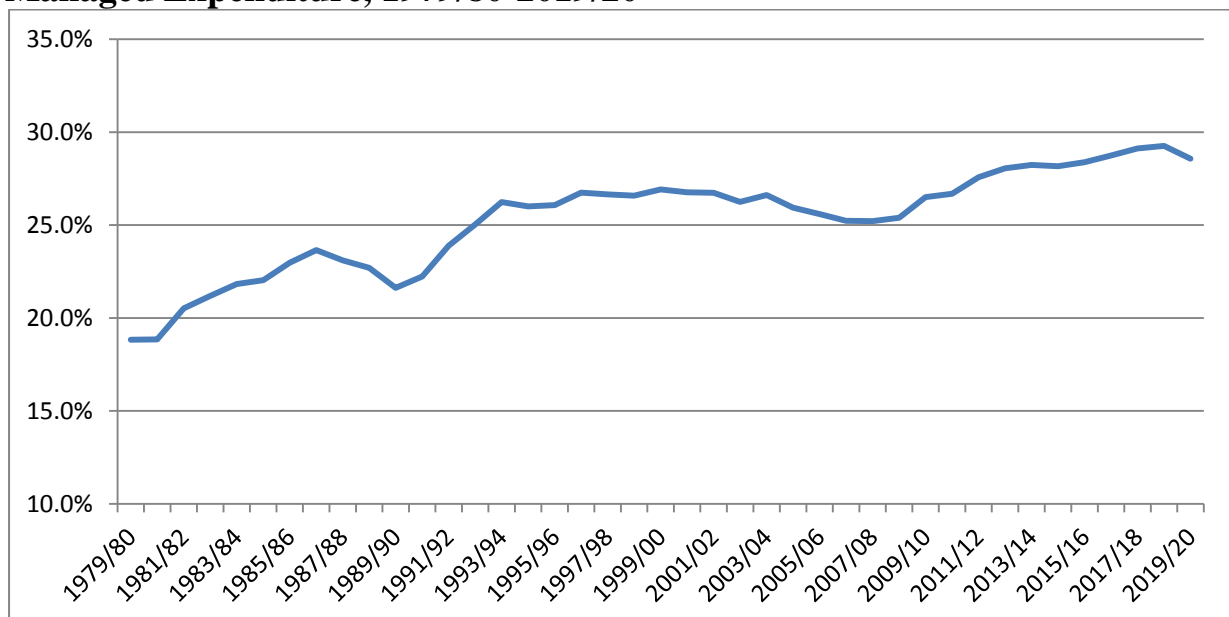
² DWP, Benefit expenditure and caseload tables, 2015, <https://www.gov.uk/government/collections/benefit-expenditure-tables>

³ DWP, Benefit expenditure and caseload tables, 2015, <https://www.gov.uk/government/collections/benefit-expenditure-tables>

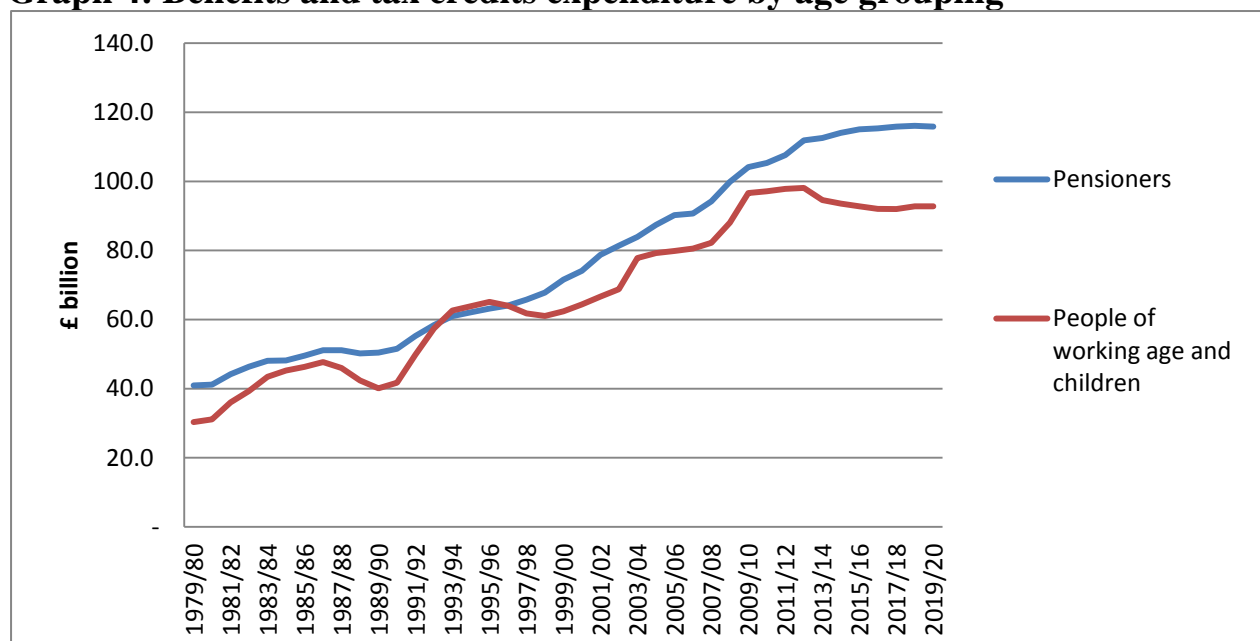
Graph 2: Benefits and personal tax credits real terms expenditure, 1979/80-2019/20



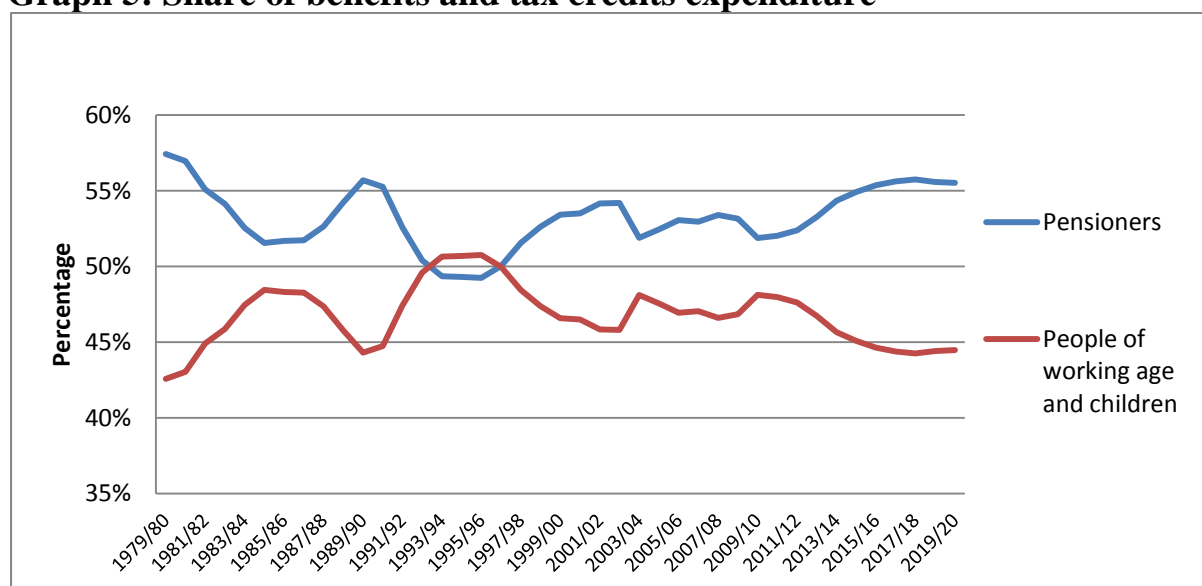
Graph 3: Benefits and personal tax credits expenditure as a share of Total Managed Expenditure, 1979/80-2019/20



Graph 4: Benefits and tax credits expenditure by age grouping



Graph 5: Share of benefits and tax credits expenditure



It is worth highlighting that the graphs all indicate that although spending on welfare is increasing, it is actually expenditure on pensioners that is increasing, while welfare expenditure on the rest of the population has fallen since 2010.

Indeed, of the £207.6 billion set to be spent on welfare in 2014/15, £114 billion is in relation to pensioners. Of this, about £93 billion is made up by the state pension and pensioner credit.

Therefore, as this paper is focused on welfare expenditure related to the working age population and children and not pensioners, the actual expenditure level it focuses on is £93.6 billion. While still a large figure, it is important to set it in the context of overall welfare expenditure. (Reform Scotland has previously looked at the pensions system in our report [The Pension Guarantee](#).)

It is also worth highlighting that a great deal of this expenditure includes payments to individuals who are carers, disabled or on maternity leave, amongst other situations. It is not just spent on providing benefits to those who are out of work. It is unfortunate that too often when welfare is debated the two different functions are not separated out. One is to help people who find themselves out of work, while the other is about helping provide security to people dealing with additional hardships, whether that is caring for an ill child, death of a loved one, or a disability that limits their ability to work. The former should hopefully be more short-term and the goal is to help people back into work by ensuring that work should always pay. However, the latter is more long-term, recognising that the level of the hardship may remove the ability to work altogether.

Table 1 details the breakdown of the £93.6 billion welfare expenditure on the non-pensioner population by benefit type. The £93.6 billion represents about 12.8% of the UK Government's total managed expenditure of £736 billion in 2014/15.⁴

It should be noted that some of the benefits listed may have been reformed or merged into new benefits and no longer exist. However, due to transitional arrangements, some payments will still be being made. Full definitions of all benefits are given in section 1.2.

⁴ UK Government, Public Expenditure Statistical Analyses 2015
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/446716/50600_PESA_2015_PRINT.pdf

Table 1: DWP & HMRC benefit expenditure on children and working age people, 2014/15⁵

£M	2014/15
Armed Forces Independence Payment	6
Bereavement Benefits	544
Carer's Allowance	2,266
Christmas Bonus - non-contributory	33
Cold Weather Payments	5
Disability Living Allowance	8,787
Discretionary Housing Payments	165
Employment and Support Allowance	12,719
Funeral Expenses Payments	27
Housing Benefit	17,788
Incapacity Benefit, Invalidity Benefit & Sickness Benefit	254
Income Support	2,934
Industrial injuries benefits	368
In-work Credit	16
Jobseeker's Allowance	3,059
Maternity Allowance	416
New Enterprise Allowance	13
Personal Independence Payment	1,490
Return to Work Credit	4
Severe Disablement Allowance	604
Social Fund Discretionary	-108
Specialised Vehicles Fund	17
Statutory Maternity Pay	2,238
Statutory Sick Pay	8
Sure Start Maternity Grant	34
Universal Credit	63
Vaccine Damage Payments	1
DWP Total	53,749
Personal tax credits and equivalents	28,772
Child Benefit, One Parent Benefit & Guardian's Allowance	11,195
HMRC Total	39,967
DWP & HMRC total	93,716

Please note that the reason the total figure of £93.7billion is £100m higher than the £93.6billion figure is because official figures give an amended total that is “consistent with current DWP coverage”. As a result, table 2b in the DWP’s Benefit Expenditure Caseload Figures 2015 notes that the total DWP amount spent on children falls from £1.84billion to £1.71billion to take adjust for this accounting issue.

⁵ Table 2b, DWP, Benefit expenditure and caseload tables, 2015, <https://www.gov.uk/government/collections/benefit-expenditure-tables>

1.2 Benefit definitions

There are a large number of different benefits, some which affect eligibility for others, some which are on offer instead of others, some which are means tested and some which are not. Understanding all that is on offer is not easy with such a large web of benefits. The table below tries to give a brief description of each benefit currently available in the UK. If a benefit comes under the benefit cap it is noted in the table.

Some benefits are due be devolved to Holyrood under the Scotland Bill.⁶ All of those benefits are in boxes shaded grey below. It is worth noting the following with regard to those benefits:

- Personal Living Allowance is to replace some aspects of [Disability Living Allowance](#), though that too will be devolved.
- [Severe Disablement Allowance](#) is being replaced by Employment and Support Allowance (ESA), which is *not* due to be devolved.
- [Attendance Allowance](#) can affect Pension Credit and Housing Benefit, which are *not* due to be devolved.
- [Carer's Allowance](#) can affect the Universal Credit, which is *not* due to be devolved.
- [Cold Weather Payment](#) comes under the Regulated Social Fund and is due to be devolved. However, eligibility is based on other benefits which are *not* due to be devolved.
- The benefit cap takes into account Carer's Allowance and Severe Disablement Allowance which are due to be devolved. The Smith Commission noted this, stating "*The UK Government's Benefit Cap will also be adjusted to accommodate any additional benefit payments that the Scottish Parliament provides*".

It is important to note that not all benefits are income dependent, as some are based on National Insurance Contributions that have been paid. For example, if someone is off work sick for a long period and is no longer eligible for statutory sick pay, they can claim Employment and Support Allowance based on their National Insurance Contributions. Even if the individual is still receiving some pay from their employer and/or not struggling financially, they are entitled to receive the benefit because they have paid into national insurance.

It should be noted that the list of benefits begins on page 14 and runs until page 24. We have chosen to keep the list within the text of this report, and not put it in an appendix, as the length of the table helps illustrate the complexity of the current system.

⁶ Benefits which currently comprise the Regulated Social Fund: Cold Weather Payment, Funeral Payment, Sure Start Maternity Grant and Winter Fuel Payment - <http://www.bbc.co.uk/news/uk-scotland-30215512>

DWP Benefits

Armed Forces Independence Payment	The Ministry of Defence (MOD), in conjunction with the Department for Work and Pensions (DWP), has introduced a new benefit called the Armed Forces Independence Payment (AFIP) with effect from 8 April 2013. The benefit is designed to provide financial support to service personnel and veterans seriously injured as a result of service to cover the extra costs they may have as a result of their injury. ⁷
Attendance Allowance ⁸	You could get £55.10 or £82.30 a week to help with personal care because you're physically or mentally disabled and you're aged 65 or over. This is called Attendance Allowance. It's paid at 2 different rates and how much you get depends on the level of care that you need because of your disability. The other benefits you get can increase if you get Attendance Allowance
Bereavement benefits ⁹	<p>Bereavement payment: If your husband, wife or civil partner has died you may be able to get a Bereavement Payment: a one-off, tax-free, lump-sum payment of £2,000.</p> <p>Bereavement allowance: You might be able to claim Bereavement Allowance (previously known as Widow's Pension) if you're widowed between 45 and State Pension age. You can get it for up to 52 weeks from the date your husband, wife or civil partner died. <i>This benefit is affected by the benefit cap.</i></p> <p>Widowed parent allowance: You might be able to claim Widowed Parent's Allowance if you're widowed under State Pension age and have at least one dependent child.</p> <p>You may also be able to claim if you're pregnant and your husband has died, or you're pregnant after fertility treatment and your civil partner has died. You can get Widowed Parent's Allowance until you stop being entitled to Child Benefit. <i>This benefit is affected by the benefit cap.</i></p>
Carer's Allowance ¹⁰	<p>Carer's Allowance is £62.10 a week to help you look after someone with substantial caring needs. You don't have to be related to, or live with, the person you care for. You must be 16 or over and spend at least 35 hours a week caring for them. Carer's Allowance is taxable. It can also affect your other benefits.</p> <p><i>This benefit is affected by the benefit cap.</i></p>

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https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/414586/20130322_afip_faq_8april_comms_combined.pdf

⁸ <https://www.gov.uk/attendance-allowance/what-youll-get>

⁹ <https://www.gov.uk/browse/benefits/bereavement>

¹⁰ <https://www.gov.uk/carers-allowance>

Christmas Bonus ¹¹	<p>The Christmas Bonus is a one-off tax-free £10 payment made before Christmas, paid to people who get certain benefits in the qualifying week. This is normally the first full week of December.</p> <p>You don't need to claim - you should get paid automatically.</p>
Cold Weather Payments ¹²	<p>You may get a Cold Weather Payment if you're getting certain benefits. Payments are made when your local temperature is either recorded as, or forecast to be, an average of zero degrees Celsius or below over 7 consecutive days.</p>
Council Tax Benefit ¹³	<p>Council Tax Reduction replaced Council Tax Benefit in April 2013.</p> <p>Apply to your local council for Council Tax Reduction (sometimes called Council Tax Support). You'll get a discount on your bill if you're eligible.</p>
Disability Living Allowance ¹⁴	<p>You can only make a new claim for Disability Living Allowance (DLA) if you're claiming for a child under 16 - this is known as DLA for children. You may be able to make a new claim if you're over 65.</p> <p>Anyone over 16 must apply for Personal Independence Payment (PIP) instead of DLA.</p> <p>PIP is gradually replacing DLA for people aged 16 to 64, even for those with an indefinite or lifetime DLA award. You can continue to get DLA if you were born on or before 8 April 1948 and you're eligible.</p>
Discretionary Housing Payments ¹⁵	<p>Discretionary Housing Payments (DHPs) provide extra money when your council decides that you need extra help to meet your housing costs. Your council will look at your circumstances to see whether you are eligible for a DHP. They will decide whether to give you a DHP, how much you will be paid and for how long you will receive the payment.</p>

¹¹ <https://www.gov.uk/christmas-bonus>

¹² <https://www.gov.uk/cold-weather-payment>

¹³ <https://www.gov.uk/apply-council-tax-reduction>

¹⁴ <https://www.gov.uk/dla-disability-living-allowance-benefit>

¹⁵ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/269539/housing-benefit-factsheet-3-discretionary-housing-payments.pdf

<p>Employment and Support Allowance¹⁶</p>	<p>If you're ill or disabled, Employment and Support Allowance (ESA) offers you:</p> <ul style="list-style-type: none"> • financial support if you're unable to work • personalised help so that you can work if you're able to <p>You can apply for ESA if you're employed, self-employed or unemployed.</p> <p>This benefit replaced incapacity benefit and severe disablement allowance and covers a wide range of individuals. Claimants must have a Work Capability Assessment while their ESA claim is being assessed. This is to see to what extent the illness or disability affects their ability to work. Individuals are then be placed in one of 2 groups :</p> <ul style="list-style-type: none"> • work-related activity group, where they will have regular interviews with an adviser • support group, where they don't have interviews <p>How much ESA you get depends on:</p> <ul style="list-style-type: none"> • your circumstances, eg income • the type of ESA you qualify for • where you are in the assessment process <p><i>This benefit is affected by the benefit cap.</i></p>
<p>Financial Assistance Scheme¹⁷</p>	<p>The Financial Assistance Scheme (FAS) offers help to some people who have lost out on their occupational pension scheme because their sponsoring employer has become insolvent</p>
<p>Funeral Expenses Payments¹⁸</p>	<p>You could get a Funeral Payment if you're on a low income and need help to pay for a funeral you are arranging. However, you will usually need to pay back any money you get from the deceased person's estate (if they have one).</p>
<p>Housing Benefit¹⁹</p>	<p>You may get Housing Benefit if:</p> <ul style="list-style-type: none"> • you pay rent • you're on a low income or claiming benefits • your savings are below a certain level - usually £16,000 • You can apply if you're employed or unemployed, but if you live with a partner, only one of you can get Housing Benefit. <p>If you're single and under 35, you can only get Housing Benefit for bed-sit accommodation or a single room in shared accommodation.</p> <p>Housing Benefit can pay for part or all of your rent. How much you</p>

¹⁶ <https://www.gov.uk/employment-support-allowance>

¹⁷ <https://www.gov.uk/government/collections/financial-assistance-scheme-guidance-for-pension-scheme-professionals>

¹⁸ <https://www.gov.uk/funeral-payments>

¹⁹ <https://www.gov.uk/housing-benefit/eligibility>

	<p>get depends on your income and circumstances and on whether you rent privately or from a council.</p> <p>Your Housing Benefit could be reduced if you live in council or social housing and have a spare bedroom. The reduction is:</p> <ul style="list-style-type: none"> • 14% of the 'eligible rent' for 1 spare bedroom • 25% of the 'eligible rent' for 2 or more spare bedrooms <p><i>This benefit is affected by the benefit cap.</i></p>
Incapacity Benefit ²⁰	<p>Incapacity Benefit is being replaced with Employment and Support Allowance (ESA).</p> <p><i>This benefit is affected by the benefit cap.</i></p>
Income Support ²¹	<p>You may be able to get Income Support if you meet all the specific conditions including:</p> <ul style="list-style-type: none"> • you and your partner have no income or a low income • you're working less than 16 hours a week • you haven't signed on as unemployed <p>The actual amount you get depends on your circumstances, but if you qualify and have no income you'll get at least £57.90 a week. You can claim Child Tax Credit if you claim Income Support and have children.</p> <p><i>This benefit is affected by the benefit cap.</i></p>
Independent Living Fund ²²	<p>The UK Government made a decision on March 6, 2014, to close the Independent Living Fund (ILF) on June 30, 2015.</p> <p>The Scottish Government have committed to protecting users' current awards in Scotland as long as they remain eligible and are developing a national system along with voluntary organisations to support existing users from July 1, 2015</p>
Industrial disablement injuries benefits ²³	<p>You might get Industrial Injuries Disablement Benefit (IIDB) if you're ill or disabled:</p> <ul style="list-style-type: none"> • from an accident or disease caused by work • while you were on an approved employment training scheme or course • the work accident or event that caused your illness or disability happened in England, Scotland or Wales <p>The amount you may get depends on your individual circumstances.</p>
Jobseeker's Allowance ²⁴	<p>You can apply for Jobseeker's Allowance (JSA) to help you while you look for work.</p>

²⁰ <https://www.gov.uk/incapacity-benefit>

²¹ <https://www.gov.uk/income-support>

²² <http://www.gov.scot/Topics/Health/Support-Social-Care/Independent-Living/ScottishIndependentLivingFund>

²³ <https://www.gov.uk/industrial-injuries-disablement-benefit/overview>

²⁴ <https://www.gov.uk/jobseekers-allowance>

	<p>How much you get depends on your circumstances. To get JSA you usually have to:</p> <ul style="list-style-type: none"> • be 18 or over (but below State Pension age) • be available for work • meet the other rules for eligibility <p>There are 2 types of Jobseeker's Allowance (JSA). Contribution-based JSA: You'll get contribution-based JSA if you've paid enough Class 1 National Insurance contributions (NICs) in the 2 tax years before the benefit year you're claiming in. Income-based JSA: Individuals get income-based JSA if one of the following applies:</p> <ul style="list-style-type: none"> • you were paid less than £153 per week on average when you were employed over the last 2 years • you've been claiming contribution-based JSA for over 182 days • you haven't worked over the last 2 years <p><i>This benefit is affected by the benefit cap.</i></p>
Maternity Allowance ²⁵	<p>Maternity Allowance is usually paid to you if you don't qualify for Statutory Maternity Pay.</p> <p>The amount you can get depends on your eligibility.</p> <p>You can claim Maternity Allowance as soon as you've been pregnant for 26 weeks. Payments can start 11 weeks before your baby is due.</p> <p>Any money you get can affect your other benefits.</p> <p><i>This benefit is affected by the benefit cap.</i></p>
Diffuse Mesothelioma Payments ²⁶	<p>You may be able to get a payment if you've been diagnosed with the asbestos related disease, diffuse mesothelioma.</p> <p>There are 2 types of payment you can claim for:</p> <ul style="list-style-type: none"> • Diffuse mesothelioma payments (the '2008 scheme'). You can claim a one-off payment if you; <ul style="list-style-type: none"> ○ aren't entitled to a payment under the 1979 Pneumoconiosis Act; ○ haven't been given a payment for the disease from an employer, a civil claim or elsewhere ○ aren't entitled to compensation from a Ministry of Defence scheme <p>Your exposure to asbestos must have happened in the United Kingdom. You must claim within 12 months of diagnosis. You may be able to claim if you were the dependant of a</p>

²⁵ <https://www.gov.uk/maternity-allowance>

²⁶ <https://www.gov.uk/diffuse-mesothelioma-payment>

	<p>sufferer who has died. You must claim within 12 months of their death.</p> <ul style="list-style-type: none"> • The Diffuse Mesothelioma Payment Scheme (DMPS). You may be able to claim if all of the following apply: <ul style="list-style-type: none"> ○ you were diagnosed with diffuse mesothelioma on or after 25 July 2012 ○ your mesothelioma was caused by exposure to asbestos when working in the UK ○ you can't trace the employer that exposed you to asbestos, or their insurers ○ you haven't made a civil claim against any employer or insurer ○ you haven't received damages or a specified payment for mesothelioma and you're not eligible to a specified payment <p>You may also be able to claim if you were the dependant of a sufferer who has died. You can claim for DMPS even if you have already claimed from the 2008 scheme or under the 1979 Pneumoconiosis Act. If you've already got a payment from the 2008 scheme or the Pneumoconiosis Act, it will be deducted from the amount you get from DMPS.</p> <p>You may still be able to claim from the 2008 scheme even if you are unsuccessful in your DMPS claim.</p>
New Deal and Employment programme allowances ²⁷	New Deal was phased out on a rolling programme ending in September 2011.
New Enterprise Allowance	<p>New Enterprise Allowance can provide money and support to help you start your own business if you're getting certain benefits. You must be aged 18 or over, have a business idea and get one of the following benefits:</p> <ul style="list-style-type: none"> • Jobseeker's Allowance (or your partner does) • Employment and Support Allowance (or your partner does) • Income Support, if you're a lone parent or you're sick <p>You may also be eligible if you get Universal Credit.</p>
Over 75 TV Licences ²⁸	<p>You can get a free TV licence if you're 75 or over and a discount if you're blind or in residential care.</p> <p>You can also get a short-term licence if you're 74. It's valid until the end of the month before your 75th birthday.</p>
Pension Credit ²⁹	<p>Pension Credit is an income-related benefit made up of 2 parts - Guarantee Credit and Savings Credit.</p> <p>Guarantee Credit tops up your weekly income if it's below £151.20 (for single people) or £230.85 (for couples).</p>

²⁷ <http://www.hmrc.gov.uk/manuals/eimanual/eim01651.htm>

²⁸ <https://www.gov.uk/free-discount-tv-licence>

²⁹ <https://www.gov.uk/pension-credit>

	<p>Savings Credit is an extra payment for people who saved some money towards their retirement, eg a pension.</p> <p>You may not be eligible for savings credit if you reach State Pension age on or after 6 April 2016.</p> <p>You don't pay tax on Pension Credit.</p>
Personal Independence Payment ³⁰	<p>Personal Independence Payment (PIP) helps with some of the extra costs caused by long-term ill-health or a disability if you're aged 16 to 64. The rate depends on how your condition affects you, not the condition itself. The rate is regularly reassessed to make sure you're getting the right support. Your carer could get Carer's Allowance if you have substantial caring needs.</p> <p>PIP started to replace Disability Living Allowance (DLA) for people aged 16 to 64 from 8 April 2013.</p>
Pneumoconiosis 1979 ³¹	<p>The Pneumoconiosis etc. (Workers' Compensation) Act 1979 provides lump sum payments to sufferers of certain dust related industrial diseases</p>
Severe Disablement Allowance ³²	<p>Severe Disablement Allowance has been replaced with Employment and Support Allowance (ESA) - Jobcentre Plus will re-assess your Severe Disablement Allowance claim to see if you're capable of work or eligible for ESA.</p> <p><i>This benefit is affected by the benefits cap.</i></p>
State Pension ³³	<p>The new State Pension will be a regular payment from the government that you can claim if you reach State Pension age on or after 6 April 2016.</p> <p>You'll be able to get the new State Pension if you're eligible and:</p> <p>a man born on or after 6 April 1951 a woman born on or after 6 April 1953</p> <p>If you reach State Pension age before 6 April 2016, you'll get the State Pension under the current scheme instead.</p> <p>You can still get a State Pension if you have other income like a personal pension or a workplace pension.</p> <p>The full new State Pension will be £155.65 per week.</p> <p>Your National Insurance record is used to calculate your new State Pension.</p> <p>You'll usually need 10 qualifying years to get any new State Pension.</p>

³⁰ <https://www.gov.uk/pip>

³¹ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/223188/meso_april_2011.pdf

³² <https://www.gov.uk/severe-disablement-allowance>

³³ <https://www.gov.uk/new-state-pension>

	<p>The amount you get can be higher or lower depending on your National Insurance record. It will only be higher if you have over a certain amount of Additional State Pension.</p> <p>You may have to pay tax on your State Pension.</p> <p>Working after State Pension age</p> <p>You don't have to stop working when you reach State Pension age but you'll no longer have to pay National Insurance. You can also request flexible working arrangements.</p>
Statutory Maternity Pay ³⁴	<p>Statutory Maternity Pay (SMP) is paid for up to 39 weeks. You get:</p> <ul style="list-style-type: none"> • 90% of your average weekly earnings (before tax) for the first 6 weeks • £139.58 or 90% of your average weekly earnings (whichever is lower) for the next 33 weeks <p>SMP is paid in the same way as your wages (eg monthly or weekly). Tax and National Insurance are deducted.</p> <p>To qualify for SMP you must:</p> <ul style="list-style-type: none"> • earn on average at least £112 a week • give the correct notice • give proof you're pregnant • have worked for your employer continuously for at least 26 weeks up to the 'qualifying week' - the 15th week before the expected week of childbirth
Statutory Sick Pay ³⁵	<p>You can get £88.45 per week Statutory Sick Pay (SSP) if you're too ill to work. It's paid by your employer for up to 28 weeks.</p> <p>To qualify for Statutory Sick Pay (SSP) you must:</p> <ul style="list-style-type: none"> • be classed as an employee and have done some work for your employer • have been ill for at least 4 days in a row (including non-working days) • earn at least £112 (before tax) per week • tell your employer you're sick before their deadline - or within 7 days if they don't have one <p>You won't qualify if you:</p> <ul style="list-style-type: none"> • have received the maximum amount of SSP (28 weeks) • are getting Statutory Maternity Pay <p>You may be able to apply for Employment and Support Allowance</p>

³⁴ <https://www.gov.uk/maternity-pay-leave/overview>

³⁵ <https://www.gov.uk/statutory-sick-pay>

	(ESA) if you're not eligible for SSP or your SSP has ended or is coming to an end.
Sure Start Maternity Grant ³⁶	<p>You could get a one-off payment of £500 to help towards the costs of having a child.</p> <p>You usually qualify for the grant if:</p> <ul style="list-style-type: none"> • you're expecting your first child - or you're expecting a multiple birth (eg twins) and have children already • you already get certain benefits <p>You must claim the grant within 11 weeks of the baby's due date or within 3 months after the baby's birth.</p> <p>You don't have to pay the grant back and it won't affect your other benefits or tax credits.</p>
Universal Credit ³⁷	<p>Universal Credit is being introduced in stages, with individuals able to claim it instead of:</p> <p>Jobseeker's Allowance Housing Benefit Working Tax Credit Child Tax Credit Employment and Support Allowance Income Support</p> <p>You can't receive tax credits at the same time as Universal Credit.</p> <p>Universal Credit is paid differently from current benefits. It'll be paid once a month, usually into your bank, building society or credit union account.</p> <p>If you live with your partner and both claim Universal Credit you'll receive a single payment that covers you both.</p> <p>Any help you get with your rent will be included with your Universal Credit payment and you'll then pay your landlord yourself.</p>
Vaccine Damage Payments ³⁸	<p>If you're severely disabled as a result of a vaccination against certain diseases, you could get a one-off tax-free payment of £120,000. This is called a Vaccine Damage Payment.</p> <p>A Vaccine Damage Payment can affect other benefits and entitlements.</p>
War Pensions ³⁹	<p>You may be entitled to a War Widow's or Widower's Pension if your wife, husband or civil partner died as a result of their service in</p>

³⁶ <https://www.gov.uk/sure-start-maternity-grant>

³⁷ <https://www.gov.uk/universal-credit>

³⁸ <https://www.gov.uk/vaccine-damage-payment>

³⁹ <https://www.gov.uk/war-widow-pension>

	Her Majesty's (HM) Armed Forces or during a time of war.
Winter Fuel Payment ⁴⁰	<p>You could get between £100 and £300 tax-free to help pay your heating bills if you were born on or before 5 January 1953. This is known as a 'Winter Fuel Payment'.</p> <p>You usually get a Winter Fuel Payment automatically.</p>

HMRC benefits

Child Benefit ⁴¹	<p>You'll usually get Child Benefit for children you're responsible for, even if you're not their parent. Only one person can get Child Benefit for each child.</p> <p>There are 2 Child Benefit rates - £20.70 per week for the eldest or only child, £13.70 per week for additional children.</p> <p><i>This benefit is affected by the benefit cap.</i></p> <p>You may have to pay a tax charge, known as the 'High Income Child Benefit Charge', if you have an individual income over £50,000 and either:</p> <ul style="list-style-type: none"> • you or your partner get Child Benefit • someone else gets Child Benefit for a child living with you and they contribute at least an equal amount towards the child's upkeep <p>It doesn't matter if the child living with you is not your own child.</p>
Guardian's Allowance & Child's Special Allowance ⁴²	<p>You could get Guardian's Allowance if you're bringing up a child whose parents have died. You may also be eligible if there's one surviving parent.</p> <p>The Guardian's Allowance rate is £16.55 a week. You get it on top of Child Benefit and it's tax-free.</p> <p><i>This benefit is affected by the benefit cap.</i></p>
Child Trust Fund ⁴³	<p>Child Trust Fund schemes are long term tax-free saving schemes for children. They have now closed, though those with existing accounts can continue to save into them. Children born between 1 September 2002 and 2 January 2011 were given money by the UK Government to start the funds.</p>
Personal tax credits and equivalents	<p>If you get tax credits, you may get less:</p> <p>Housing Benefit Income Support income-based Jobseeker's Allowance income-related Employment and Support Allowance</p>

⁴⁰ <https://www.gov.uk/winter-fuel-payment>

⁴¹ <https://www.gov.uk/child-benefit-rates>

⁴² <https://www.gov.uk/guardians-allowance>

⁴³ <https://www.gov.uk/child-trust-funds/overview>

	<p>Pension Credit</p> <p>Child Tax Credit⁴⁴: You could get Child Tax Credit for each child you're responsible for if they're:</p> <ul style="list-style-type: none"> • under 16 • under 20 and in approved education or training <p>You don't need to be working to claim Child Tax Credit. You get <u>money</u> for each child that qualifies and Child Tax Credit won't affect your Child Benefit. How much you get depends on your circumstances. Only one household can get Child Tax Credit for a child.</p> <p>Working Tax Credit⁴⁵: You could get Working Tax Credit if either of the following apply: you're aged from 16 to 24 and have a child or a qualifying disability you're 25 or over, with or without children You must:</p> <ul style="list-style-type: none"> • work a certain number of hours a week • get paid for the work you do (or expect to) • have an income below a certain level <p>The <u>basic amount of Working Tax Credit</u> is up to £1,960 a year - you could get more (or less) depending on your circumstances and income.</p> <p>If an individual or their child gets disability benefits they may get extra tax credits.</p> <p><i>You can't claim tax credits and the Universal Credit at the same time</i></p>
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⁴⁴ <https://www.gov.uk/child-tax-credit>

⁴⁵ <https://www.gov.uk/working-tax-credit>

1.3 The benefit cap

There's a limit on the total amount of benefit that most people aged 16 to 64 can get. This is called the benefit cap.

The cap applies to the total amount that the people in your household get from the following benefits:

- [Bereavement Allowance](#)
- [Carer's Allowance](#)
- [Child Benefit](#)
- [Child Tax Credit](#)
- [Employment and Support Allowance](#) (unless you get the support component)
- [Guardian's Allowance](#)
- [Housing Benefit](#)
- [Incapacity Benefit](#)
- [Income Support](#)
- [Jobseeker's Allowance](#)
- [Maternity Allowance](#)
- [Severe Disablement Allowance](#)
- [Widowed Parent's Allowance](#)

The level of the cap is:

- £500 a week for couples (with or without children living with them)
- £500 a week for single parents whose children live with them
- £350 a week for single adults who don't have children, or whose children don't live with them

This means that the benefit cap for a couple, or single parent is currently £26,000 per annum, the equivalent of a salary of £33,700 before tax. It is worth noting that this is higher than the average pre-tax salary of £26,000.

However, the UK Government's changes, included in the Welfare Reform and Work Bill, would reduce the cap to £20,000 outside London for couples or single parents with children and to £13,400 for single claimants.⁴⁶ That is the equivalent of pre-tax salaries of roughly £24,900 and £15,175.

⁴⁶ Welfare Reform and Work Bill 2015 Explanatory Notes <http://www.publications.parliament.uk/pa/bills/cbill/2015-2016/0051/en/16051en.pdf>

2. Problems & Reform

2.1. Problems of the current benefits system

The background information set out in chapter 1 clearly indicates the sheer complexity of the current benefits system. This makes it difficult for those who require assistance to navigate their way through it and leads to a high level of bureaucratic interference in people's lives. However, the current welfare system is in need of reform, not just because it is complex but also because it doesn't meet the objectives such a system should have. An effective benefits system is one which provides a safety net helping and encouraging those who can work to re-join the workforce, while at the same time providing security to those who cannot work.

But that is not the case at present. With regard to those who can work, the current system can actually act as a disincentive to work. As people move into work, or increase their hours, their benefits are reduced and their taxes go up. While the precise marginal rate will be affected by a number of factors such as eligibility, family structure etc, ultimately the impact is the same and in many cases people's financial situation does not improve when they work more hours.

As Michael Tanner and Charles Hughes wrote in their article on work-vs-welfare on the IEA's blog,⁴⁷ *"There is no evidence to suggest that poor people are lazy, but they are also not stupid. If you pay someone more not to work than they can earn by working, they will be less likely to work. For the poor as much as the wealthy, incentives matter."*

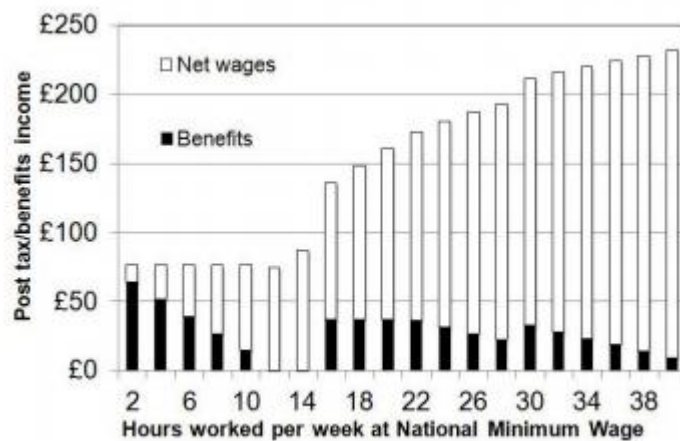
A marginal rate of taxation is the rate that is paid on each additional pound earned, as opposed to the average rate of taxation. When allowing for the withdrawal of tax credits, many families can face very high effective marginal tax rates.

The following graphs from the Citizen's Income Trust⁴⁸ illustrate this problem in relation to Income Support and Job Seeker's Allowance. The first figure demonstrates that for a single earner in 2013/14 aged 25 and receiving the National Minimum Wage and Income Support / Jobseeker's Allowance their income is the same regardless of whether they work two hours or 10 hours per week. The second figure from the Citizen's Income Trust illustrates what would happen using the Citizen's Income it advocates, as opposed to the means-tested current system.

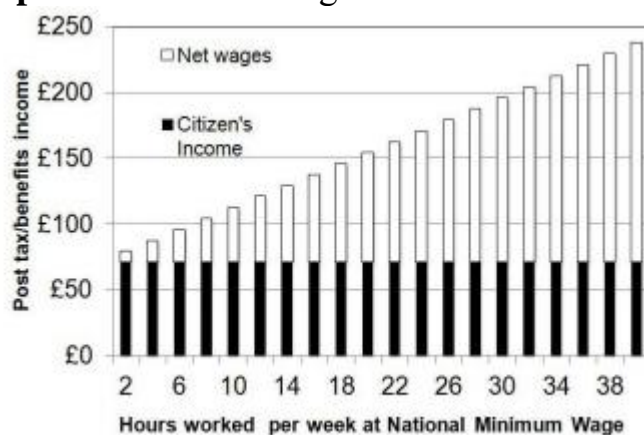
⁴⁷ <http://www.iea.org.uk/blog/the-work-vs-welfare-trade>

⁴⁸ Citizen's Income Trust, "Citizen's Income: A brief Introduction", 2015, <http://www.citizensincome.org/filelibrary/Booklet2015.pdf>

Graph 6: Minimum wage and Income Support / Jobseeker's Allowance:
(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)



Graph 7: Minimum wage and Citizen's Income:



Incentive to live apart

Arguably, the benefit cap also penalises families and potentially drives them apart. Consider the following:

- A couple living together currently receives a cap of £500 per week, regardless of whether they have children or not.
- A couple with children may be better off living apart as they would receive a combined total of £850 per week cap, compared to £500 per week if they lived together. That is a difference of just over £1,500 per month.
- In fact, a couple with more than one child could be better off living separately, each with a child, as they would both be entitled to £500 per week cap – double the entitlement than if they lived together.

Obviously, the above scenarios are based on individuals receiving the full cap amount and ignore additional issues. However, the very fact that the cap even potentially makes it financially attractive for families to live apart is worrying. Benefits should quite clearly be based on individual need, not living arrangements.

This trend is followed with the move to the Universal Credit. While the UK Government's aims of simplifying the system and reducing the welfare trap may have good intentions, the move to household, as opposed to individual, payments is worrying. If a couple living together both claim Universal Credit they will receive a single payment which covers both individuals.⁴⁹ For example, this will mean that individuals in vulnerable situations may lose the only money, and the little independence, they had. Instead of treating all adults like responsible individuals, it necessitates a "head of household" figure being appointed who receives the money, something which can only be regarded as a backward step and which risks further aggravating gender inequalities.

2.2. UK Government reforms

The UK Government has been carrying out a number of reforms to welfare provision. Some of the main policy proposals are outlined below:

Universal Credit

Universal Credit replaces some in-work and out-of-work benefits and UK Ministers' stated intentions are to simplify the system as well as to encourage people into work. The benefit is being rolled out across the country, having started in February 2015. It is also supposed to help address the problem of effective marginal rates of tax, as the amount you get gradually reduces once you earn more, but does not stop when you work more than 16 hours a week.⁵⁰

As mentioned above, if a couple living together both claim Universal Credit they will receive a single payment which covers both individuals.

Welfare Reform & Work Bill

This legislation is currently before Westminster and passed its second reading on the 20th July 2015. The Bill is supposed to account for around 70% of the £12-13 billion in welfare savings identified in the Summer Budget 2015.⁵¹ The welfare/housing measures include:

⁴⁹ <https://www.gov.uk/universal-credit/what-youll-get>

⁵⁰ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/452143/uc-faq-aug2015.pdf

⁵¹ <http://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-7252>

- Lowering the benefit cap threshold and varying it between London and the rest of the UK.
- A four year benefits freeze.
- Limiting support through Child Tax Credits/Universal Credit.
- The abolition of the Employment and Support Allowance Work-Related Activity Component.
- Changes to conditionality for responsible carers under Universal Credit.
- Replacing Support for Mortgage Interest with Loans for Mortgage Interest.
- Reducing social housing rent levels by 1% in each year for four years from 2016-17.

2.3. Devolution of welfare

According to Government Expenditure and Revenue Scotland 2013/14, published in March 2015, £16.7 billion was spent on social protection by the Westminster Government in Scotland. However, the benefits proposed to be devolved by the Scotland Bill currently going through the Westminster Parliament cover only £2.5 billion, or 15 per cent, of this expenditure, with the main benefits all remaining reserved. The benefits proposed to be devolved are:

- Discretionary Housing Payments
- Attendance Allowance
- Disability Living Allowance
- Carer's Allowance
- Industrial Injuries Benefits
- Severe Disablement Allowance
- Benefits in the Regulated Social Fund (Mainly Winter Fuel Payment)

It is also worth noting that none of the benefits due to be devolved are aimed at helping people get into work, but are all focussed on addressing additional hardships. So the proposed changes would not enable the Scottish Government to reform out-of-work benefits in Scotland. However, the UK Government could reform the current system.

There is no reason why further welfare powers could not be devolved to Scotland in the future, as has already happened in Northern Ireland. There, the Executive has been responsible for social security, pensions and child benefit since 1998 although it does not have the fiscal powers necessary to raise the money it spends in this or any other area. This limits its room for manoeuvre and means its powers in this area are largely administrative.

Whether further welfare powers should be devolved is, of course, a separate question. As Reform Scotland has previously argued when putting forward its Devolution Plus proposals, there is plenty of logic behind bringing together the policy areas associated with alleviating poverty that are currently devolved, such as social inclusion and housing, with benefit provision, which remains reserved. This would help to provide a more coherent approach to tackling poverty and inequality. The debate on this issue will, no doubt, continue in the years to come.

3. Basic Income

3.1. What is a Basic Income?

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

It is non-means tested and does not increase or decrease as someone's income changes.

The Basic Income is provided as of right. Every citizen is eligible.

A Basic Income would replace a number of means-tested benefits and be a new way of providing a social safety net.

A Basic Income would be free of tax, but would replace personal allowances and tax credits.

A Basic Income is not a disincentive to work, since it only pays enough income to cover the basics of life.

The need for means testing and the associated bureaucracy is removed. All citizens are treated the same. While the better off may not require the income by receiving the income it lessens the penalising effects they experience as a result of the changes to the tax system.

3.2. An alternative – the Negative Income Tax

Another way of ensuring all citizens receive a basic income level is through a so-called Negative Income Tax. This could be done by ensuring that if a household earned below their tax allowance they would receive a payment from government to top up their income. If they earned above their tax allowance they would pay tax. The allowance would vary by household type to take account of the number of children.

The principles behind a Negative Income Tax and a Basic Income are broadly the same – providing everyone with a safety net of a guaranteed income while ensuring that work always pays.

A Negative Income Tax would also simplify the current system as well as removing the current benefits trap. However, Reform Scotland did not feel this

model was as effective as a Basic Income. While a Basic Income is based on individuals and treats everyone equally, a Negative Income Tax would be based on households. It would be possible to have an individual Negative Income Tax rate. However, for children to be taken into account, they would need to be brought into the tax system.

A Basic Income is also a lot easier to understand than a Negative Income Tax. Any major change to the welfare system will require broad public understanding and support. With a Basic Income it is clear that everyone will receive the same amount and be treated the same and so has the benefit of being a simple system. Everyone will know what they will get from the state and when, with no fluctuations dependant on earnings and so it provides stability. A Negative Income Tax is more complicated and would vary depending on earnings. For someone who suddenly loses their job, there may be a delay in receiving their Negative Income Tax if carried out through the PAYE system and this could be very damaging to those concerned.

3.3. The calculations

Reform Scotland has attempted to set out and explain the costs and revenue generation for both the UK or Scotland in implementing the proposed Basic Income Guarantee. We have explained any calculations and assumptions we have made in full, though we fully accept that our figures are only best estimates of a Basic Income and would, therefore, call on either the Scottish or UK Governments to carry out further modelling, and possibly a pilot scheme, as part of any transition towards introducing the policy.

Level of the Basic Income

The Citizen's Income Trust suggests a level of £71.70 per week for adults and £56.80 for children if a Basic Income was to replace most means-tested benefits.⁵²

The Scottish Green Party has suggested an adult level of £100 per week and £50 for children.⁵³

For the purposes of this report we have used the levels proposed by the Scottish Green Party which equate to an annual Basic Income of £5,200 per year for adults and £2,600 for children. This is one party's idea. Others will suggest different levels. Should either the UK or Scottish Government wish to introduce

⁵² Citizen's Income Trust, "Citizen's Income: A brief Introduction", 2015, <http://www.citizensincome.org/filelibrary/Booklet2015.pdf>

⁵³ Scottish Green Party, Citizen's Income, Briefing note August 2014

a Basic Income, Reform Scotland recommends that a variety of models are considered.

Costs

UK:

According to the latest population estimates from the ONS, in 2014 19% of the UK's 64.6m population was in the age range 0-15, 64% were 16-64 and 18% were 65+. ⁵⁴ This means that 41.34 million people were of working age and would be eligible for the Basic Income. 12.27 million would be eligible for the children's Basic Income, and the rest would be covered by pension arrangements. **Therefore, using the Scottish Green's proposals, the cost of providing the Basic Income Guarantee would be £247 billion on a UK basis** (£215 billion for the working-age component and £32 billion for the child component).

Scotland:

According to the Scottish Government, 17% of Scotland's 5.33 million population were under 16, with 65% aged between 16 and 64. ⁵⁵ As a result, **the cost of implementing the Basic Income Guarantee in Scotland would be £20.4 billion** (£18 billion for the adult component and £2.4billion for the child component)

Revenue generation

- Replacing certain benefits

UK:

Table 2 below illustrates which benefits would be replaced by the Basic Income and which would remain, to be available in addition to those in need. Using the UK Government's Benefit Expenditure and Caseload Tables 2015 ⁵⁶, expenditure directed at working-age people and children is split into two categories; benefits which could be replaced by a Basic Income and benefits which would have to be in addition to a Basic Income. Reform Scotland is not suggesting that the following split is the perfect set-up, but simply indicating what may or may not be covered.

⁵⁴ <http://www.ons.gov.uk/ons/rel/pop-estimate/population-estimates-for-uk--england-and-wales--scotland-and-northern-ireland/mid-2014/sty---overview-of-the-uk-population.html>

⁵⁵ <http://www.gov.scot/Topics/People/Equality/Equalities/PopulationMigration>

⁵⁶ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/464090/outturn-and-forecast-summer-budget-2015-v2.xlsx Using worksheets '2b' and 'Tax Credits and Child Benefit'

Table 2: Suggestion of which benefits could be replaced by a basic income, UK

Could be covered by a basic income		To be in addition to a basic income	
DWP benefits			
Benefit	2015/16 real terms expenditure £m	Benefit	2015/16 real terms expenditure £m
Income Support (directed at children)	91	Bereavement benefits	533
Christmas Bonus - non-contributory	33	Disability Living Allowance (directed at children)	1,772
Cold Weather Payments	57	Vaccine Damage Payments	1
Discretionary Housing Payments	125	Armed Forces Independence Payment	7
Income Support (directed at working age)	2,689	Carer's Allowance	2,417
Jobseeker's Allowance	2,157	Disability Living Allowance (directed at working age)	6,378
New Enterprise Allowance	31	Funeral Expenses Payments	27
Universal Credit - actual (to 2015/16)	555	Industrial injuries benefits	356
		Incapacity Benefit, Invalidity Benefit & Sickness Benefit	48
		Maternity Allowance	443
		Severe Disablement Allowance	357
		Specialised Vehicles Fund	17
		Statutory Maternity Pay	2,288
		Sure Start Maternity Grant	34
		Personal Independence Payment	2,484
		Employment and Support Allowance	13,966
		Housing Benefit	17,840
DWP Total	5,738	DWP Total	48,968
HMRC Benefits (Child benefit, Guardian's Allowance and tax credits)	39,692		
Total	45,430		48,968

Based on the data above, scrapping the benefits which would be replaced by the Basic Income would save £45.4 billion for the UK.

Scotland:

The UK Government, through its benefit expenditure and caseload tables, provides data on benefit expenditure broken down by age category, and including expenditure on HMRC benefits. Unfortunately, the regional level of data does not provide this level for all data. As a result, the expenditure

figures in the table below cover all age categories, unless otherwise stated. However, we have not included benefits which are only for pensioners. The data for Scotland only goes up to 2014/15, though is in real terms prices for 2015/16. We have used the latest year available for Scotland. To get data on tax credits and child benefit expenditure at a Scottish level we have used the UK Government's statistics on disaggregation of HMRC tax receipts.⁵⁷ Using this data can at least provide a rough guide as to what the Scottish figure is.

Table 3: Suggestion of which benefits could be replaced by a basic income in Scotland

In Scotland			In England		
Could be covered by a basic income			To be in addition to a basic income		
DWP benefits					
Benefit	2014/15 real terms expenditure £m (15/16 prices)		Benefit	2014/15 real terms expenditure £m (15/16 prices)	
Income Support	251		Bereavement benefits	56	
Cold Weather Payments	7		Disability Living Allowance (directed at children)	139	
Discretionary Housing Payments	51		Vaccine Damage Payments		
Jobseeker's Allowance	314		Armed Forces Independence Payment		
Universal Credit - actual (to 2015/16)	2		Carer's Allowance	205	
			Disability Living Allowance (directed at working age)	784	
			Incapacity Benefit, Invalidity Benefit & Sickness Benefit	10	
			Maternity Allowance	30	
			Severe Disablement Allowance (working age)	64	
			Statutory Maternity Pay	211	
			Sure Start Maternity Grant		
			Employment and Support Allowance	1,447	
			Housing Benefit	1,794	
DWP Total	625		DWP Total	4,740	
HMRC Benefits (Child benefit and tax credits 2014/15)	2,986				
Total	3,611			4,740	

⁵⁷ <https://www.gov.uk/government/statistics/disaggregation-of-hmrc-tax-receipts>

Based on the data above, scrapping the benefits which would be replaced by the Basic Income would save £3.6 billion in Scotland.

- Ending the personal allowance

UK:

The introduction of a Basic Income Guarantee would also end the tax free personal allowance, so that all earned income would be taxed. The Basic Income would not be taxed. It is important to note that the current personal allowance of £10,600 is not money from the government, rather it is money on which income tax is not levied. If income tax was levied on that amount at the current rate, it would cost earners £2,120. Therefore, the saving it represents to individuals is £2,120, considerably lower than the proposed Basic Income.

According to the UK Government, there were 29.7 million income taxpayers in the UK in 2015/16.⁵⁸ However, individuals earning just over £120,000 do not have a personal allowance and are currently taxed in full. There were roughly 332,000 additional rate tax payers in 2014/15⁵⁹. Although the Additional Rate is set higher than this £120,000 threshold, this still provides a rough guide. There were also 691,000 savers rate payers. Therefore, the number of income taxpayers who currently have a personal allowance is about 28.7 million people.

Each of these taxpayers currently has a tax-free personal allowance of £10,600. If this was taxed at the current rate of 20% that would generate **£60.8 billion** across the UK as a whole.

Scotland:

According to the UK Government's figures on Scottish taxpayers,⁶⁰ there were 2.46 million basic and higher rate taxpayers in Scotland in 2015/16. Using the same basis as for the calculations above, if all these taxpayers were taxed at the current rate of 20% on their personal allowance it would generate revenue of **£5.2 billion** in Scotland. (The Scottish revenue amounting to 8.6% of the UK figure)

- Merging National Insurance & Income Tax

UK:

Earnings under £8,000 are not currently subject to National Insurance for those earning under £120,000. We would propose merging National Insurance and Income Tax. The merger would also end the situation where income earned

⁵⁸ <https://www.gov.uk/government/statistics/number-of-individual-income-taxpayers-by-marginal-rate-gender-and-age>

⁵⁹ <https://www.gov.uk/government/statistics/number-of-individual-income-taxpayers-by-marginal-rate-gender-and-age>

⁶⁰ <https://www.gov.uk/government/statistics/number-of-individual-income-taxpayers-by-marginal-rate-gender-and-age-by-country>

over the Upper Earnings Limit of £42,385 is taxed at a lower 2% rate of National Insurance.

This would generate two increases in revenue. Taxing 28.7 million taxpayers who don't currently pay the 12% National Insurance on this amount would generate **£27.5 billion**.

All income over £42,385 is currently taxed at 2% National Insurance. Our proposed merger of National Insurance and Income Tax, would increase this to 12%. According to the Income Tax Liabilities figures published in May 2015⁶¹, of the £935 billion total income of taxpayers in 2013/14, £328.5 billion was earned over the £50,000 range. If this was taxed at an additional 10%, it would generate **£32.9 billion**.

Scotland:

With regard to Scotland, taxing the 2.46 million taxpayers who don't currently pay National Insurance on earnings under £8,000 would generate income of **£2.36 billion**.

Although the total income of taxpayers broken down by income band for the UK as a whole is not available on a regional level, we have tried to estimate the revenue that could be generated in Scotland if the upper earnings limit was abolished. According to the UK Government's Income Tax liabilities figures, there were 16,000 Additional Rate taxpayers in Scotland in 2014/15⁶². This represented 5% of the 313,000 across the UK as a whole. Reform Scotland has therefore attributed 5% of the UK's revenue for this change to Scotland, which would equate to **£1.65 billion**.

- Increasing tax

UK:

The IFS has estimated that a 1% increase in all rates of income tax would generate £5.5 billion in tax receipts.⁶³

The estimated income generated from a 1% increase on all rates of taxation does not include the personal allowance. An additional 1% tax increase on the personal allowance level of the 28.7 million taxpayers with a personal

⁶¹

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/428961/Income_Tax_Liabilities_Statistics_May_2015.pdf Table 2.5

⁶² <https://www.gov.uk/government/statistics/number-of-individual-income-taxpayers-by-marginal-rate-gender-and-age-by-country>

⁶³ http://www.ifs.org.uk/uploads/gb/gb2015/ch10_gb2015.pdf

allowance would raise £3 billion. That means that every additional one per cent increase in income tax across the board would raise roughly £8.5 billion across the UK.

Our system is intended to ensure that those on or below the average wage of roughly £26,000 per year cannot be worse off.

Someone earning £26,000 currently has a net pay of £20,767. If they were to receive a basic income of £5,200, they couldn't be taxed higher than 40% (including the merger of national insurance) otherwise they would be worse off. Such an individual is currently taxed at a combined rate of 32%. Increasing this to 40% would allow an additional 8%, or 8p to be added on to all levels of income tax. This would **generate £68 billion**.

Table 4 below shows how levels of income are currently taxed, and how this would change under our proposals to merge NI and income tax as well as adding the combined tax⁶⁴:

Table 4: Proposed changes as a result of merging NI and Income Tax, as well as increasing tax rate

Earnings	Current National Insurance rate	Current Income Tax rate	Current Combined NI & Income Tax rate	Proposal under merger
Up to £8,060	0	0	0	40
Between £8,061 - £10,600	12	0	12	40
Between £10,601 - £41,786	12	20	32	40
Between £41,787 - £42,385	12	40	52	60
Between £42,386 - £150,000	2	40	42	60
Over £150,000	2	45	47	65

It should be noted that although all earned income is now taxed, those earning below the average salary will not be worse off as a result of receiving the Basic Income, as illustrated in Table 7 on page 40. Therefore, although individuals falling in the first two rows of Table 4 above will see a dramatic increase in their combined tax rate, they will not be worse off. Even though the effective marginal rates in this scenario would represent substantial redistribution, that effect could of course be increased by varying the rates in each band, or by amending the bands themselves.

Scotland:

⁶⁴ <https://www.gov.uk/rates-and-thresholds-for-employers-2015-to-2016>

The IFS report, ‘Taxing an Independent Scotland’,⁶⁵ suggests that a 1 per cent increase to all rates of income tax in Scotland could raise £430 million. An additional 1 per cent on the personal allowance level would raise £261million. As a result, an additional one per cent on all earned income would raise about £691 million in Scotland. Increasing Income Tax by 8p, therefore, would generate **£5.53billion** in Scotland.

The costs and revenue generated by a proposed Basic Income, for both Scotland and the UK are summarised below:

Table 5: Costs and savings from £5,200/ £2,600 UK Basic Income

Cost		Revenue generated	
16-64 Basic Income	£215bn	Scrapping certain benefits	£45.4bn
Child Basic Income	£32bn	Scrapping personal allowance	£60.8bn
		Merging NI with Income Tax (so £8,000 non-taxed allowance now taxed)	£27.5bn
		Merging NI with Income Tax removes upper NI limit	£32.9bn
		8 pence added to all rates of income tax	£68bn
Total	£247bn	Total	£234.6bn

Table 6: Costs and savings from a £5,200/ £2,600 Scottish Basic Income

Cost		Revenue generated	
16-64 Basic Income	£18bn	Scrapping certain benefits	£3.6bn
Child Basic Income	£2.4bn	Scrapping personal allowance	£5.2bn
		Merging NI with Income Tax (so £8,000 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

⁶⁵ <http://www.ifs.org.uk/bns/bn141.pdf>

Reform Scotland recognises that there is still a shortfall of about £12 billion for the UK and about £2 billion for Scotland. However, this represents only about 5% of the cost of the policy for the UK and about 10% in Scotland.

These assumptions exclude the economic benefit - including revenue increases - associated with the extra employment likely to arise as a consequence of ending the current system's structural disincentives to enter the workforce. Further, they do not take into account the savings associated with ending the current 'policing' of the work activities of those in receipt of benefits which is bureaucratic and costly.

So, while the calculations shown above imply that a Basic Income Guarantee would cost more, there are strong arguments to suggest that it would lead to changed behaviour and a bigger workforce. We don't believe that these shortfalls are insurmountable and, therefore, we believe that delivery of this policy is achievable.

Effects of a Basic Income

The following table illustrates the consequences of introducing a Basic Income on a range of earners. It is worth remembering that these figures do not include the child level of Basic Income to which parents from all income households would be entitled. Two children would increase a household's income by £5,200 per year (in contrast to the £1,600 only certain households currently receive in child benefit).

Table 7: Effects of a Basic Income on individual tax incomes

Current income	Current net pay ⁶⁶	Proposed net pay	Total income including basic income	Difference
£5,000	£5,000	£3,000	£8,200	£3,200
£12,000	£11,247.20	£7,200	£12,400	£1,152.80
£15,000	£13,287.20	£9,000	£14,200	£912.80
£20,000	£16,687.20	£12,000	£17,200	£512.80
£26,000	£20,767.20	£15,600	£20,800	£32.80
£30,000	£23,487.20	£18,000	£23,200	-£287.20
£35,000	£26,886.20	£21,000	£26,200	-£686.20
£50,000	£36,326.20	£28,400	£33,600	-£2,726.20
£100,000	£65,326.20	£48,400	£53,600	-£11,726.20

As the Basic Income is an individual payment, as opposed to current household benefits, the benefits of a Basic Income would actually be felt by more. For

⁶⁶ <http://www.uktaxcalculators.co.uk/>

example, a household where one partner earns £60,000 a year, would go from a net pay of £42,126 to £37,554, a reduction of about £4,500 once the Basic Income was taken into account. However, if that was within a household with three children and only one working person, the household income would actually increase. The stay-at-home parent would go from zero to an annual income of £5,200, and there would also be £7,800 per year for the three children, an increase from the zero child benefit that would currently be received. As a result, the household would be better off by about £8,400.

Table 7 highlights the impact on individual tax income, not household income, because a Basic Income shifts from a household basis to an individual one. However, even those individuals in the higher tax bands may or may not be better off depending on their personal circumstances. Due to the complexities of the many other benefits that would still be available as well as the numerous types of households, it would be impossible to cover every scenario. However, Table 8 below illustrates a couple of additional specific suggestions which assume recipients receive no other government benefits other than child benefit (where applicable) and show a wider number of households would be better off.

Table 8: Some examples of households who would benefit from a Basic Income

Scenario	Current net pay (+ child benefit where applicable)	Proposed net pay including Basic income	Difference
Two parent family, each earning £35,000 per year, with two children	£53,772.40 pay + £1,788.80 child benefit = £55,561.20	£42,000 net pay, + £10,400 adult basic income and £5,200 child basic income = £57,600	+\$2,038.80
Two parent family, one earning £60,000 one earning £20,000, with two children	£58,813.40 net pay, no child benefit	£44,357.20 net pay + £10,400 adult basic income and £5,200 child basic income = £59,957.20	+\$1,143.80
One parent household earning £40,000 with two children	£30,287.20 net pay + £1,788.80 child benefit = £32,076	£24,000 net pay + £5,200 adult basic income and £5,200 child basic income = £34,400	+\$2,324
Two parent household, one parent earning £100,000, one parent not working, with three children	£65,326.20 net pay, no child benefit	£48,400 net pay + £10,400 adult basic income and £7,800 child basic income = £66,600	+\$1,273.80

It is important to remember that a number of benefits, such as Employment & Support Allowance (which is aimed at the sick and disabled) and Housing Benefit are not included. Therefore, households which include those with disabilities or carers, for example, would still receive additional income and they would not be subject to any benefit cap.

3.4. 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.

3.5. Others supporting a Basic or Citizen's Income

- **Jimmy Reid Foundation – Ailsa McKay/ Willie Sullivan**

The following extracts are taken from The Jimmy Reid Foundation's report, *In Place of Anxiety*, by Ailsa McKay and Willie Sullivan⁶⁷:

"A Citizen's Income can also be used to encourage people to think about their role as citizens. Compared to many Northern European states the levels of active involvement in public life by Scots is low. That means the formal state is expected to do much more and citizens are only passive consumers of services. If this remains the case the resource required to provide such services will continue to be pressured. The Citizen's Income makes it easier to create a culture of public involvement and of communities using each others' time and skills for their own good. If the state was able to co-produce services with citizens and communities who felt their role and time as an active citizen was partially compensated through the Citizen's Income then there would be significant gains in terms of efficient services and community togetherness."

"A Citizen's Income is cheaper to administer and allows us to fully integrate the tax and benefit system as it means both benefit and tax are based on individuals whereas up to now benefits have been based on households. Men and women are treated equally with no embedded dependence."

"All of this is possible. It requires creativity and ambition for something better and some political courage and leadership. The alternative is not the status quo but a steady decline of a struggling welfare state and an increasingly unequal and dysfunctional society."

- **Scottish Greens**

The work carried out by the Scottish Green Party is highlighted elsewhere in this paper, and the model Reform Scotland recommends uses their figures for a Basic or Citizen's Income. The following is an extract from the party's Citizen's Income briefing note from August 2014:⁶⁸

⁶⁷ McKay, A & Sullivan, W, *In Place of Anxiety: Social Security for the Common Weal*, Compass, March 2014

⁶⁸ Scottish Green Party, Citizen's Income, Briefing note August 2014

“Those who can pay should contribute a fair share of tax, but everyone should see a benefit. This promotes solidarity – nobody will pay tax but get nothing in return.”

“A Citizen’s Income can help make all work pay. The complex design of the current benefits system creates a perverse situation; many people find that taking a job or increasing their working hours has no effect on their income because their benefits or tax credits are reduced. For people caught in this ‘benefit trap’, even when work is available it doesn’t provide a way out of poverty. A Citizen’s Income can help to ensure both that paid work will always add to a person’s net income, and unpaid work such as parenting, caring, and volunteering is recognised as having value to society.”

“Women are more likely to be found in low paid jobs and typically earn less than men for the same work – the pay gap in Scotland is as large as 33% when comparing women’s part time work to men’s full time employment. A Citizen’s Income supports the lowest income households and treats all genders equally.”

“A Citizen’s Income will only ever pay for the basics. People would still need to work to pay for most things in life. A Citizen’s Income might help people achieve a better work-life balance or take an occasional break but would not pay for a comfortable life. A Citizen’s Income recognises that the benefits of work go beyond money. People have an innate desire to have a fulfilling life, and for most people that will include paid work that we find interesting and rewarding, as well as the social contact we gain from working with others.”

- **Citizen’s Income Trust**

The Citizen’s Income Trust, directed by Malcolm Torry, promotes debate on the desirability and feasibility of a Citizen’s Income. This extract from the Trust’s blog post from 25 June 2015 highlights the value of a Basic or Citizen’s Income with regard to the current debate about tax credits⁶⁹:

“What the last Labour Government called Tax Credits are not Tax Credits. They are a means-tested benefit, like Housing Benefit. This means that as someone’s earned income rises, the amount of means-tested benefit that the household receives falls. Research from the Centre for Labour and Social Studies shows that someone earning above the Income Tax threshold can face a total withdrawal rate of 96% on additional earned income, because on every extra £1 earned National Insurance Contributions and Income Tax have to be paid, and Housing Benefit and Tax Credits are withdrawn. Anyone in this position receives just 4p of any additional £1 of earnings. Compare this with the

⁶⁹ Citizen’s Income Trust, “Reducing Tax Credits and Housing Benefits”, 25 June 2015
<http://citizensincome.blogspot.co.uk/2015/06/reducing-tax-credits-and-housing-benefit.html>

53p out of every extra £1 received by anyone earning above £150,000 per annum.

“So we can agree with the Chancellor, the Prime Minister, and the Secretary of State for Work and Pensions, that there is a lot wrong with Tax Credits. However, we disagree over what to do about the problem. Simply reducing the value of Tax Credits and Housing Benefit will make poor families poorer, and will leave the current taper rates in place, so the total withdrawal rates faced by low-earning families will remain the same. It will be simply impossible for the families affected to earn enough additional income to repair the gaps in their finances. The situation will be slightly better if 'Universal Credit' is introduced. The highest total withdrawal rate on additional earnings will drop from 96% to 76% (although this figure will vary somewhat with different local Council Tax Support regulations). But that still leaves a family with only 24p out of every extra £1 earned. This is not the way to enable families to earn their way out of poverty.

“There is an answer. The answer is to pay to every legal resident an unconditional, nonwithdrawable income: a Citizen's Income; and to pay for it by abolishing the Income Tax Personal Allowance and either abolishing or recalculating means-tested-benefits. As research published by the Institute for Social and Economic Research has shown, this is perfectly feasible. A household's Citizen's Incomes would never be withdrawn, so it would be perfectly possible for a family to earn its way out of poverty - which at the moment it usually isn't”.

- **The Foundation for Law, Justice and Society – Charles Murray⁷⁰**

Charles Murray has written on the need for a Guaranteed Income (GI) and the following are extracts from his 2008 report for the Foundation for Law, Justice and Society:

“While a GI is not on the current policy agenda of any government, it has unique potential in the years to come as the basis for a coalition of supporters from Left and Right. A GI is already attractive on ethical grounds for most people on the Left. Those on the Right of the political spectrum, including many on the libertarian Right, are already reluctantly convinced that large-scale transfer payments are here to stay, and are consequently receptive to ways of spending the money that does not involve extensive bureaucracies and social engineering. In view of this convergence of views on GI, a grand compromise is potentially available: for the Left, it represents larger government in that it

⁷⁰ Murray. C, “Guaranteed Income as a Replacement for the Welfare State”, The Foundation for Law, Justice and Society, April 2008

constitutes a state-driven redistribution of wealth, while for the Right, it offers smaller government in terms of the state's power to control people's lives."

4. Policy Recommendations

A BIG idea – the Basic Income Guarantee

The current benefits system for those out of work is in need of radical reform. Although successive governments have attempted to amend the system it remains lacking particularly in incentivising work. Any system which actively discourages work, as the current system does, is therefore in urgent need of an overhaul.

The current UK Government's main policy in this area is the Universal Credit which, when fully implemented, would simplify matters. The problem of high marginal tax rates faced by people on low incomes taking up or increasing their work would remain. Work must always pay.

Having looked at the possible options, Reform Scotland's conclusion is that the best way to solve this fundamental problem 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.

There are other benefits. 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 is not alone in advancing the BIG idea. Much excellent work has already been done by a range of different people and organisations across the political spectrum such as the Green Party, the Citizen's Income Trust, Common Weal, the Scottish Government's Expert Group on Welfare and others. Reform Scotland is seeking to develop these ideas and, in particular, to attach illustrative costings.

We have used proposals from the Scottish Greens as the basis for the financial workings set out in this report. So this is one option as to how a Basic Income Guarantee might operate. If the essential idea is accepted, other proposals would have to come forward. What this work demonstrates is that there would be significant costs to introducing such a policy. Reform Scotland acknowledges these costs, but considers that they would be offset in the long run by the BIG idea's considerable benefits.

One government department responsible for welfare

Whilst carrying out the research for this report, Reform Scotland was confronted by the complexity of the present welfare and social insurance system and how difficult it is to obtain comprehensive data on welfare expenditure.

Welfare expenditure is divided between two departments, HMRC and the Department for Work and Pensions (DWP), and so it is difficult to get clear information on expenditure, especially with regard to regional data. This is further complicated by the fact that responsibility for particular benefits has been swapped between departments with child benefit moving from the DWP to HMRC. Tax credits are presently controlled by HMRC but are being replaced by the Universal Credit which is under the DWP.

This split between departments does not aid transparent government, but it can make a complicated system even more complicated for the user. Many benefits issued by the DWP are liable for income tax. However, the DWP does not take off the tax before paying the benefit, nor does it inform HMRC. The onus is instead on the individual to inform HMRC and ensure their tax code is adjusted. Such transactions could, and should be carried out in a simpler and more user-friendly manner. Reform Scotland believes that, regardless of whether the responsibility lies at Holyrood or Westminster, a single department should be responsible for the UK's and/or Scotland's tax and benefits system and that taxable benefits should be taxed at source. The objective of a single, effective tax and benefit system requires a single government department. As well as enabling taxable benefits to be taxed at source, this would also lead to an improvement in the clarity of available information, especially at a Scottish level.

Implementation

At present, even with the new welfare powers being devolved to the Scottish Parliament as part of the Scotland Bill currently going through Westminster, the Scottish Government could not introduce a Basic Income Guarantee. This is because the benefits to be devolved are not work-related and address other hardships. However, such a reform could be enacted by the UK Government if it was so-minded.

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. The question is whether such a Basic Income Guarantee should be a UK-wide policy or implemented at a more local level and this debate will continue over the next few years. As part of its Devolution Plus proposals, Reform Scotland argued that the majority of benefits should be devolved to the Scottish Parliament. There is plenty of logic behind bringing together the policy areas associated

with alleviating poverty, such as social inclusion and housing, with benefit provision that remains reserved. This can be done since 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.

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.

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