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September 2021**

Universal Basic Income

Consultation Paper 146

Background

This consultation paper is presented as the first stage in the development of new Party policy in relation to universal basic income. It does not represent agreed Party policy. It is designed to stimulate debate and discussion within the Party and outside; based on the response generated and on the deliberations of the working group a full policy paper will be drawn up and presented to Conference for debate.

The paper has been drawn up by a working group appointed by the Federal Policy Committee and chaired by Paul Noblet. Members of the group are prepared to speak on the paper to outside bodies and to discussion meetings organised within the Party.

Comments on the paper, and requests for speakers, should be addressed to: Christian Moon, Policy Unit, Liberal Democrats, 1 Vincent Square, London, SW1P 2PN. Email: policy.consultations@libdems.org.uk

Comments should reach us as soon as possible and no later than Friday 15th October 2021.

Further copies of this paper can be found online at www.libdems.org.uk/policy_papers

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Towards Income Security For All

1 Why a Universal Basic Income?

1.1 The UK's social security system is deeply broken and badly underfunded. Benefits for working age adults are perhaps especially inadequate, with a system that leaves too many gaps and is too arbitrary and punitive for those needing support. The botched roll-out and savage cutbacks to Universal Credit overseen by the Conservatives since 2015 have deeply exacerbated both lack of trust in the system and the simple, brutal human indignity of people being left without enough money for a decent standard of living.

1.2 Low income levels and income instability have led to deep-rooted poverty right across the UK, especially among women and some ethnic minority groups. Measures to solve this problem are badly overdue, especially as the numbers of people out of work and in hardship have spiralled in the past year. As well as our simple belief that everyone should have enough money to live on, poverty is also one of the largest factors in reducing the personal freedoms that liberals cherish as it reduces access to opportunities and undermines trust across society.

1.3 A Universal Basic Income can help address a number of these problems. The core principle of all UBI implementations can be summed up as making a fixed rate payment to everyone, on a regular basis, to provide support for living costs. A UBI should be part of a system providing sufficient income to ensure that those not in work – including those who actively choose to pursue other goals, as well as those who cannot find work – are able to cover a reasonable baseline level of living costs.

1.4 The universal nature of UBI provides stability and continuity when income from other sources fluctuates, which could be particularly helpful to the self-employed. UBI does not need to be applied for when circumstances change, and due to its universality there is no social stigma

in receiving it. It reduces cashflow problems for those with highly variable income, and also provides a basis for building a resilient economy and society in the face of threats like the current pandemic. The higher the Universal Basic Income and the bigger the contribution it makes to our systems for guaranteeing a minimum income, the stronger these effects.

1.5 The guarantee of an unconditional minimum income floor, to which UBI contributes, is an avowedly liberal policy that speaks to the core Liberal Democrat objectives of fighting poverty, ignorance, and conformity. It has an important effect on poverty reduction by stabilising incomes for the worst off in society, and contributes to a new level of personal freedom by helping support people to choose paths other than immediate work: this could include retraining as adults, starting small businesses, refusing jobs with unacceptably poor working conditions, community volunteering, caring for others or healing ourselves. This may particularly benefit students, for whom the lack of living cost support is one of the most common causes of hardship during degree programmes, and women, who are more likely to take time outside the workforce or in part-time work in order to fulfil unpaid caring roles.

1.6 A UBI would also have significant distributional impacts within households. Currently, Universal Credit is paid at the household level, meaning that one member of the household receives the full payment. A UBI would be paid to each household member individually, meaning that all members of a household receive some income directly. This would especially impact households affected by coercive control or domestic abuse, where the structure of universal credit has been cited as a factor preventing people, mostly women, from leaving abusive relationships. Given significant evidence, both in the UK and internationally, that men and women spend money differently, this would also be likely to positively impact children's welfare in low-income households.

1.7 An erosion of trust in politics and society at large may also be addressed in part by the introduction of a basic income payable to all. UBI is a policy that starts to move us away from a social security system based

on the principle that people need to be coerced into work towards a system based on the state trusting people with their own lives. That social bond of trusting one another throughout society to forge our own paths, a trust on which any open and democratic society must be founded, is core to the UK that we as Liberal Democrats seek to build.

1.8 This paper has been written in response to Liberal Democrat conference voting to adopt a Universal Basic Income in Autumn 2020. The working group was asked by Federal Policy Committee in light of that motion to present practical and deliverable Basic Income proposals, taking into account the need for funding to be just and equitable, the need to fund other policy priorities alongside UBI, and the need to protect the incomes of low-income and vulnerable households: that is what this report endeavours to deliver. The past year has shown the possibilities of wide-scale government action to support living costs: we can now build a more secure system to do so for everyone, for the long term.

2 Current Policy

2.1 Liberal Democrat policy already includes a wide range of social security changes. In particular, in the area of household income support, these include reducing Universal Credit waiting times, investing more in the system, abolishing the sanctions system, and removing the two-child limit and benefits cap. Other changes detailed elsewhere in Liberal Democrat policy in recent years include expanded early years provision, wide-ranging improvements in disability support, and increased sick pay and carers' allowances. These changes, which are unaffected by the proposals in this paper, would provide real help to families and individuals in hardship and help to reduce child poverty in particular.

2.2 Our proposed plan for UBI would not permit immediately phasing out income support benefits for low income households, such as the current Universal Credit standard allowance. Universal Credit reforms to abolish sanctions and conditionality, as previously passed by party conference in the 2019 paper *A Fairer Share for All*, are therefore still necessary: we envisage our UBI plan working alongside a Universal Credit system without any tests or claimant prerequisites other than financial means testing to set an appropriate claim level, with job-seeking support services being separated fully from income support systems.

2.3 Our existing policies help realise the benefits of UBI and would contribute to the guaranteed income support discussed above. The removal of sanctions conditionality could additionally be delivered faster than the roll-out of UBI itself. Means-tested benefits will always provide less income stability and more claims bureaucracy than an equivalent UBI – but whilst there is a need to include them in the system, we would ensure minimised conditionality. Taken together, Liberal Democrat reforms to Universal Credit and our proposals for UBI will reduce the conditionality and complexity of the tax and benefit systems and provide all UK residents with a secure minimum income floor.

2.4 The presence of a UBI does supersede the party's older commitment to provide living cost support for start-up businesses, as these payments would be unnecessary with the UBI.

3 Scope of the policy

3.1 One of the most important questions regarding a UBI is who is permitted to claim it. This was set out in our scope as all longer-term UK residents. The precise definition of this for non-citizens would have to be set at the time of implementation pending future changes to the immigration system, but we would foresee it only excluding those intending to be on short-term stays in the country.

3.2 In the near term at least, we do not propose that the scheme should cover pensioners and children, who are already covered by guaranteed payment schemes in the form of the state pension and child benefit respectively. While not strictly universal, these schemes have many of the characteristics of a UBI, and replacing them at the same time as introducing a UBI would significantly add to the complexity and cost of the policy.

3.3 For these reasons, we propose initially making UBI payments specifically to working age adults from age 16 to pension age, with child benefit no longer payable for 16-20 year olds in most circumstances. We have also assumed that any other aspects of taxation and benefits affecting other groups are unchanged by our policy: for example, the elimination of personal allowances used to fund the policy would not apply to pensioners.

3.4 There are a number of areas of social security explicitly placed outside the scope of this working group in our remit. Due to the extremely variable costs of payments needed for people with disabilities, and the highly variable nature of housing costs across the UK, these targeted benefits were explicitly excluded from the working group's remit. We envisage that they would be paid alongside any UBI by separate properly assessed and suitably generous benefit schemes. All other benefits under the current system would also continue to be paid as previously, excepting where income from the UBI affects levels or eligibility due to means testing requirements (as discussed in section 4).

Question One: *Is our approach of focusing on UBI as a working-age benefit (from 16) an appropriate one?*

4 Our Proposed Model

4.1 Having compared the costs of implementing an initial UBI at different levels – as outlined in the initial consultation undertaken in May this year - we propose a model that would initially turn the tax-free personal allowance into an equivalently valued Universal Basic Income. That is, we would abolish the current income tax free personal allowance and national insurance primary threshold for working age adults, and set an introductory basic income rate equivalent to the full value gained from these allowances (around £71pw at the time of writing), with the intention of raising it thereafter.

4.2 The Universal Basic Income would not be taxable but would be classified as income for the purpose of means-testing Universal Credit. So, for example, someone with no taxable income currently receiving £94 UC per week at the single person's standard allowance would receive £71 income from the UBI. They would then have £44.73 of their Universal Credit tapered out and so would be left with a new total income of £120.27 per week: a 28% increase. Running the two systems alongside one another for this level of basic income thereby makes the scheme significantly more distributionally progressive compared to models we examined that abolished rates of Universal Credit but did not improve income levels for current claimants.

4.3 Some key benefits of UBI would eventually be best delivered by a significantly higher payment level than the one presented here. There were, however, a number of issues raised that prevented us from endorsing a higher starting level. These included concerns over our ability to effectively estimate the revenue gained from a rapid move to significantly higher levels of personal taxation, the need for households to have time to adjust to new financial circumstances, and our ability to make the case for those tax rises to voters still unfamiliar with how a basic income works and what difference it could make for them and their communities. We therefore propose a staged approach in which this would be the starting point for a

programme of eventual further increases, which are discussed in section 6 of this paper.

4.4 The point at which individuals start to pay higher-rate income tax would not change as a result of the withdrawal of the personal allowance¹.

4.5 Those earning over £100,000 currently have a reduced or zero personal allowance. We similarly propose that the Basic Income should be phased out or recouped with suitable changes to the uppermost income tax thresholds for the very wealthiest taxpayers. If we did not make this modification to the scheme, some very high earners would be among the biggest beneficiaries of the changes.

Table 1: Impact of recouping or tapering UBI for the highest earners: a comparison with basic rate taxpayers

	Individual earning £30,000		Individual earning £150,000		
	Current	Proposed UBI	Current	With UBI	Proposed without UBI
Benefit from personal allowance	£ 2,514		£ -		
Benefit from National Insurance threshold	£ 1,148		£ 1,148		
Benefit from UBI		£ 3,692		£ 3,692	£ -
	£ 3,662	£ 3,692	£ 1,148	£ 3,692	£ -
Gain		£ 30		£ 2,544	(£ 1,148)

4.6 For individuals receiving very small incomes, it would be arduous for individuals, and financially of little benefit to the state, to collect taxes.

¹ At present, the personal allowance is set at £12,570 and there is a basic rate tax band above this of £37,700, which has the effect that individuals start paying higher rate tax on earnings above £50,270. Our proposal would eliminate the personal allowance, but expand the basic rate tax band to £50,270 so that we did not bring additional people into scope for higher rate tax.

We would therefore provide reporting thresholds below which incomes did not need to be reported to HMRC for tax purposes, of at least £1000 per year for income tax purposes and for incomes under £20pw for National Insurance.

4.7 For most taxpayers, the removal of the personal allowance for income tax and national insurance covers the cost of their Universal Basic Income. Some funding also comes from reductions in welfare expenditure as the UBI reduces households' dependence on Universal Credit and other means tested welfare benefits. However, the basic income requires additional funding beyond this to cover basic incomes for those not currently getting the full benefit from the tax-free personal allowance. We estimate this cost to be around £30bn per year.

Table 2: simplified summary of net funding requirement of a £71 UBI

	Current working age taxpayers	Current working age non taxpayers	Total	Notes
Estimated number (million)	25.2	16.2	41.4	1
Cost of UBI (£bn)	93.0	59.7	152.8	
Tax and NI increases from elimination of allowances (£bn)	(93.0)	(9.7)	(102.7)	2
	0.0	50.1	50.1	
Savings in welfare expenditure (£bn)			(17.8)	3
Impact of redistribution on increasing tax take (£bn)			(2.3)	4
Estimated funding requirement (£bn)			30.0	

Notes

1 figures exclude those earning over £100,000 who will not receive a UBI and will benefit from personal allowances

2 Those who are not current taxpayers but have some earnings will pay some tax as a result of the elimination of the tax and NI allowances

3 Mainly due to the interaction of UBI and the Universal Credit Taper

4 This central case assumes a very modest (0.3%) increase in government receipts as a result of redistribution to lower earning and higher spending households

4.8 If we increase the value of the UBI beyond £71 the cost increases quite significantly. This is because there are no longer any further reductions possible to personal tax allowances. For every £ the UBI is increased above £71, the annual cost increases by approximately £2bn. Every £ by which the UBI is reduced below £71 reduces the total annual cost by approximately £0.35bn.

Table 3: Estimated cost of a UBI for all working age adults at different levels on the basis of the principles described in this paper

UBI (£ per week)	Funding required £bn per year
45	22
60	26
71	30
95	77
120	126
150	186
175	236
200	287

4.9 To provide some context for committing to an additional £30bn spend:

- The proposed additional spend on benefits in the 2019 manifesto to cover the recommendations in A Fairer Share for All (including scrapping the two-child benefit limit, the cap on total benefits, and the bedroom tax) was £5bn a year.
- The 2019 manifesto commitment to invest in schools was £11bn a year, and the proposed investment in early years and child care was £14bn a year
- The total spending rises in the 2019 general election manifesto totalled just under £63bn a year.

4.10 We propose to fund the UBI with four major tax changes: re-allocating the 3 percent corporation tax rise (worth around £10 billion) and capital gains tax reforms (worth around £5.6 billion) already in the Liberal Democrats' 2019 manifesto, and additionally eliminating capital

gains tax uprating at death (worth around £1.2 billion) and reducing pension relief to the basic rate of tax (worth around £13 billion). This progressive package of tax rises would ensure those with the broadest shoulders covered the relevant gap in funding.

4.11 Implementing a UBI at this level (and funded in this way) would represent a very significant change to our tax and benefits system and to our society. Table 4 identifies how some groups would be impacted.

Table 4: Likely financial winners and losers from the UBI and tax raising proposals (see overleaf)

Significant financial gains	
Those who fall through the cracks of the current benefits system and have no income from other sources.	Full UBI - £3,692 a year per adult
Students with no income or benefits	Full UBI -£3,692 a year
Some financial gains	
Those currently receiving Universal Credit (UC)	Will gain from the UBI but some of the benefit will be offset by reduced welfare payments – e.g. a couple whose only income was from UC would see a net gain of £2,700 a year
Households with some adults paying basic rate tax, but some adults not currently earning enough to pay tax	UBI benefit will exceed the additional tax cost – e.g. a family with one income earner paying basic rate tax, and one partner not working would gain £3,692 a year
No meaningful financial difference	
Households where all adults are basic rate taxpayers	UBI offset by loss of personal allowance and removal of NI threshold
Those over the state pension age	Retain personal allowance, no UBI applicable.
Those who have significant capital gains (CGT) income (over £11,300) and no other income	UBI offset by loss of CGT allowance
Likely to lose under these proposals	
Higher rate taxpayers who are currently making contributions to pension schemes	UBI offset by loss of personal allowance AND reduced tax benefits from pensions.

Question Two; *Do you agree with the proposed level of the UBI, when the objectives of UBI are considered in the round alongside the funding constraints?*

Question Three: *Do you agree with the positioning of this level of UBI as 'initial', with the promise of subsequent increases?*

Question Four: *Do you agree with these sources of funding for the policy or should the party consider other funding mechanisms and sources of taxation?*

5 Deployment, schedule and payments

5.1 Rolling out a UBI should be done as fast as possible – within a single parliament - however we must ensure that the sorts of problems faced by the Universal Credit roll-out are not repeated. We have therefore proposed two options for a roll out.

5.2 The first is that we should aim for a two year roll-out after such a policy is legislated for: this time would be used primarily to produce the database systems needed to administer payments and ensure maximum coverage for the system to ensure that nobody was left out.

5.3 Alternatively, post-legislation we could use targeted trials focussed on certain age groups or geographic areas of the UK to ensure a smooth full roll-out later across the country later in the parliament.

5.4 One of the primary advantages of a genuinely universal payment is that, as mentioned above, it carries no stigma to be claiming it. We can further improve on this by ensuring that it is seen as outside the Universal Credit system: as such, we recommend that the payments be administered by HMRC, rather than by the Department for Work and Pensions.

5.5 We believe that it should be possible to provide the UBI on a weekly or monthly basis as per the payee's preference. For those without bank accounts, a cash or payment card system could be implemented along the lines of similar mechanisms currently available to benefits claimants. We would also explore the possibility of people being able to opt to claim their UBI as a tax credit, which could greatly simplify claiming for a large number of employed claimants.

Question Five: *Which of the roll-out proposals outlined above do you prefer? Do you have other ideas on a roll out?*

Question Six: *Do you agree that HMRC is the appropriate body to administer a UBI?*

Question Seven: *Are there additional deployment issues we need to cover within this paper? Are there impacts on specific groups or protected characteristics that we have not fully considered regarding deployment?*

6 Developing Universal Basic Income

6.1 The models proposed in this paper are not the full extent of our ambitions for a universal basic income: they represent a system that, with proper preparation as laid out in the previous section, could be implemented in one go with limited need for wider economic adjustment. However, once this is implemented, expanding the level or scope of payments over time, with relevant increases in taxation to account for them, would help to bring more people off means-tested benefits as their incomes rose past the point where these were needed, and would tend to improve the efficacy of the system as a whole for combating poverty and providing living cost support.

6.2 We do nonetheless expect significant social and economic benefits from the policy as presented, in particular on poverty levels: analysis conducted for our working group by the UBI Center suggested that our starting level UBI would already be sufficient to cut overall poverty in the UK by 25 percent and deep poverty by 70 percent. We would expect improved wellbeing metrics as a result of this decreased poverty and improved income stability, and a degree of economic uplift due to increase baseline consumer spending, among other benefits of the policy as outlined above. Realising and measuring these benefits in practice would help secure the long term political case for unconditional income support measures.

6.3 To ensure an evidence-based future for the policy, and to best allow planning for future increases, we would therefore conduct a review of the wellbeing, economic, social and fiscal impacts of the UBI after one year of implementation, and at that stage set out proposals for the speed and funding of further increases in the UBI level. We would aim for these to happen on an automatic, legislated, progressive basis and to supersede basic elements of Universal Credit over time, allowing families to plan ahead and bringing increasing income security to low income households.

6.4 Our phased approach could better allow us to assess the possibilities for funding future increases with alternative mechanisms, such as land value taxes or revenue from a sovereign wealth fund: we believe that these could help ensure the future growth of the policy, but would need significant further work when in government to best assess their efficacy and the speed at which they could be grown as funding mechanisms.

6.5 We would also assess, after initial implementation, the possibility of combining and dovetailing the UBI better with those parts of the population excluded – that is, with child benefit and pensions - allowing for smoother transition between different benefits at different ages. Further work on strengthening the universality and reducing conditionality of payments for these groups would help ensure that this aim could be realised.

Question Eight: *If the UBI is positioned as an ‘initial UBI, as recommended by this paper, should we propose specific medium or long term targets for expanding UBI, such as suggesting that it should eventually reach rates sufficient to taper out the couples, or the higher individual, universal credit standard allowances?*

Question Nine: *Should we propose that medium-term targets for expanding UBI be legislated for, or left as matters for further work after implementation?*

Question Ten: *Should we propose that in future, we should work towards rolling pensions and child benefits into the UBI?*

Question Eleven: *Are there any other matters the working group should consider, or more general feedback on this paper and our approach? Should we have included other mechanisms and forms of income guarantee in our scope?*

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