

**Minimum Income Guarantee – share your views
Response from the Low Incomes Tax Reform Group (LITRG)**

1 Executive Summary

- 1.1 We welcome the opportunity to submit ideas to the Scottish Government’s dialogue in respect of a minimum income guarantee (MIG).
- 1.2 The Scottish and UK Governments will need to work together to enable Scotland to introduce a MIG. There will be many interactions between policy areas, both devolved and reserved; working together will be essential to identify and deal with these interactions and unintended consequences.
- 1.3 There will be a number of considerations in relation to eligibility criteria, including whether entitlement should take into account income (gross or net, individual or household), wealth, and certain types of debt and expenditure, and whether it should be self assessed by an applicant. In addition, there will need to be a decision about the frequency of assessments and the degree to which rules which provide a MIG can or should flex to take account of variations in the individual’s own income levels.
- 1.4 There are likely to be risks in relation to perception, for example if some MIG recipients appear to be better off (taking into account financial and non-financial aspects of a MIG) than individuals or households not eligible for the MIG. This could lead to a removal of incentives to take on more work or stay in work.
- 1.5 In designing a MIG, we think there should be a focus on groups that may prove more difficult to reach or who may be less likely to claim the benefits to which they are entitled. This should cover thinking about how it might be possible to encourage them to claim and considering how to make it straightforward for them to claim. This might include those who feel a stigma associated with claiming social security benefits, but also those for whom English is not their first language and others who may find it difficult to actually make a claim in terms of completing the requisite forms.
- 1.6 It is important to think about administrative and operational matters of payment delivery at an early stage. Consideration will need to be given to issues like frequency of payments, delivery of payments, and flexibility. There will also need to be robust systems for dealing with both under- and overpayments, clear, fair and accessible processes for appeals and clear guidance. By its very nature,

the MIG as proposed will need to involve means-testing. This can be complex and expensive to operate, with various practicalities to consider, and is therefore likely to reduce the efficiency of a MIG.

- 1.7 It will be necessary to give thought to the funding of a MIG. The Scottish Budget consists of three key elements: revenues from Scottish taxes, the block grant and limited borrowing. Existing devolved national tax powers do not offer much scope for raising significant additional revenues. The reform of council tax to make it more progressive might assist in raising more revenues for local authorities, but could also be used to provide elements of a MIG.

2 About Us

- 2.1 The Low Incomes Tax Reform Group (LITRG) is an initiative of the Chartered Institute of Taxation (CIOT) to give a voice to the unrepresented. Since 1998, LITRG has been working to improve the policy and processes of the tax, tax credits and associated welfare systems for the benefit of those on low incomes. Everything we do is aimed at improving the tax and benefits experience of low-income workers, pensioners, migrants, students, disabled people and carers.
- 2.2 LITRG works extensively with HM Revenue & Customs (HMRC) and other government departments, commenting on proposals and putting forward our own ideas for improving the system. Too often the tax and related welfare laws and administrative systems are not designed with the low-income user in mind and this often makes life difficult for those we try to help.
- 2.3 The CIOT is a charity and the leading professional body in the United Kingdom concerned solely with taxation. The CIOT's primary purpose is to promote education and study of the administration and practice of taxation. One of the key aims is to achieve a better, more efficient, tax system for all affected by it – taxpayers, advisers and the authorities.

3 Introduction

- 3.1 We welcome the dialogue in relation to how to ensure that all people in Scotland have an adequate income for living – that is, how to ensure that people are supported properly, at the same time as retaining (or improving) work incentives.

4 What do you see as being the key elements of a Minimum Income Guarantee?

- 4.1 The aim of a MIG appears to be to ensure that all people in Scotland have an income that allows them to access all their needs, thus resulting in a minimum acceptable standard of living for all.
- 4.2 As such, we think two of the key elements relate to the social security system and the tax system. This is not to the exclusion of other elements that may be able to play a role. In order to realise the aims of a MIG, it will be particularly important to consider how the tax and social security systems interact, both in terms of devolved powers and reserved powers.

5 What do you see as the main benefits, challenges and risks of a Minimum Income Guarantee in Scotland?

- 5.1 As noted above, it will be necessary to carefully consider interactions between the tax and social security systems, both in a devolved and reserved powers context. This will undoubtedly pose a huge challenge, in order to prevent or minimise unintended consequences. Bearing in mind these interactions, the plan for a MIG needs both the Scottish and UK Governments to work together. We set out in the following paragraphs some specific areas that are likely to pose challenges.
- 5.2 Where benefits claimants have overpayments from earlier awards or arrears in relation to certain types of bills (including tax debt), they can face automatic deductions from their benefits. When establishing the level of a MIG, it will be important to consider (and explain) whether the level of MIG is a secure and reliable minimum amount or whether it will be vulnerable to any types of deductions. In addition, consideration would have to be given as to how a MIG would operate where a benefit such as Universal Credit is reduced by the recovery of a tax credit debt. The recovery of a tax credit debt would reduce the amount of UC received – would a MIG increase to compensate for this?
- 5.3 Similarly, in existing regimes, there are measures which withhold payment of benefit (to varying degrees) where there are matters relating to non-compliance with the eligibility rules, (for example, universal credit sanctions). When establishing the principles around a MIG, it will be important to establish whether penalty measures will be imposed that may reduce the level of MIG in any particular circumstance and, if so, whether there are any options to mitigate the loss of ‘cash’ with alternatives.
- 5.4 It should be noted that where an individual has taxable income that is less than the income tax personal allowance (£12,570 for 2021/22), income tax reliefs (which are not currently within the control of the Scottish Parliament) will not be of assistance. Similarly, the introduction of a nil rate band of tax (currently within the power of the Scottish Parliament to do) to effectively raise the level of the personal allowance, would not assist non-taxpayers. Moreover, a nil rate band alone would be poorly targeted, as it would benefit all Scottish income taxpayers.
- 5.5 Consideration needs to be given as to whether net income (after income tax and National Insurance contributions) or gross income is to be taken into account when determining eligibility for the MIG. If a taper rate is included as part of the MIG, as suggested in the report published by the IPPR,¹ there are likely to be further complications in terms of the interactions between the income tax system and the MIG system, for example when there are changes to the income tax personal allowance or when a claimant’s level of earnings changes.
- 5.6 Where eligibility is reliant on income, it will be important to establish how the income level is measured, what income is relevant, whether any types of expenditure are relevant, and how

¹ Page 26: <https://www.ippr.org/publication/securing-a-living-income-in-scotland>

temporary variations in income might affect eligibility. Also key, if using income as a qualifying measure, will be to establish whether the individual self-declares their income or whether other sources of income data are to be used, for example Government data held by HMRC or DWP.

- 5.7 There are likely to be challenges/risks around perception. There may be a perception of unfairness, particularly if some MIG recipients appear to be better off (taking into account financial and non-financial aspects of a MIG) than individuals or households not eligible for the MIG. This is likely to be a particular issue where there are cliff edge cut offs. There is also therefore a risk that it may remove incentives to take on more work or to stay in work for those currently in work at the lower end of the income spectrum.
- 5.8 As a result, it will be necessary to ensure there is a finely tuned balance between providing a reliable safety net and demonstrating the benefit of, say, moving into work or taking on more work.
- 5.9 It will be helpful to understand how and how often assessments will be made to establish payments. This can bring some challenges in terms of flexibility and short- and long-term changes of income circumstances.
- 5.10 It may be beneficial to ensure eligibility for the MIG is sufficiently flexible to tolerate some level of variations in circumstances which can come with the uncertainties of insecure work, those with variable capacity to undertake work and, sometimes, those who are self-employed who are susceptible to fluctuations in their income at any particular point in the year. Anecdotally, we hear from individuals that where support stops and starts each time there is a short-term spike in income (for example, a moderate bonus or overtime payment) this can be disruptive to household finances and can potentially lead to disincentives to take up opportunities for additional work/earnings.
- 5.11 Depending on the design and degree of support it is intended to provide, having a MIG could potentially result in unintended consequences. For example, if housing costs play a role in the level of support provided to determine the MIG this could bring inflationary pressures on housing costs etc. as landlords, for example, will be aware of the MIG and may adjust their rents accordingly. It may be possible to mitigate this type of effect by designing the composition of the MIG such that, where appropriate and viable, it is delivered through non-cash elements.

6 Are there certain groups of people that you think should be given particular attention when thinking about how a Minimum Income Guarantee in Scotland should work?

- 6.1 Benefits for unpaid carers fall within the powers of the Scottish Parliament now, with Carer's Allowance Supplement (CAS) providing a top-up to Carer's Allowance. With devolved benefits, and in particular, top-ups to UK benefits, the Smith Agreement set out the no detriment principle. This had to be adhered to in relation to CAS, meaning that while CAS is taxable, like Carer's Allowance, it is not taken into account when determining entitlement to other social security benefits.
- 6.2 We think there should be a focus on groups that may prove more difficult to reach or who may be less likely to claim the benefits to which they are entitled. This should cover thinking about how it might be possible to encourage them to claim and considering how to make it straightforward for

them to claim. This might include pensioners on low incomes, who may feel a stigma associated with claiming social security benefits, but also migrants for whom English is not their first language and others, such as those with a low level of education or reading ability, who may find it difficult to actually make a claim in terms of completing the requisite forms.

- 6.3 There may also be matters to consider around whether assessment for the MIG is based on the individual or the household income. In other support systems (tax credits, universal credit), we see household income and circumstances determine the level of support offered and a single award value is established for the household. This can create difficulties in some household situations and yet is intended to address arguments that individual entitlement can be unfairly beneficial to those in a joint household than a single household. In the tax regime however, apart from specific provisions such as the high income child benefit charge, for the most part, obligations are determined for each individual.

7 What steps should we take first to deliver the Minimum Income Guarantee in Scotland? You may wish to think about public services, employment and employers, and social security.

- 7.1 It is important to think about administrative and operational matters of payment delivery at an early stage. Consideration will need to be given to frequency of payments, how they will be delivered, and how flexible they will be to allow them to adapt to changing circumstances, amongst other things. There will also need to be robust systems for dealing with both under- and overpayments, clear, fair and accessible processes for appeals and clear guidance.
- 7.2 By its very nature, the MIG as proposed will need to involve means-testing. This can be complex and expensive to operate, and is therefore likely to reduce the efficiency of a MIG. There will be practicalities to consider in relation to means-testing, such as whether claimants should essentially self assess their means through the completion of a form, and how such assessments will be checked for accuracy. If there is an incorrect claim, will this generate overpayments that the individual must repay, and how these would be collected. There will also need to be thought given as to what should be taken into account when carrying out means-testing – should it only include income and other circumstances, such as disability, number of children, etc. or should it also include wealth? If it includes wealth, what types of wealth or assets should it include? Should it take account of debts, for example mortgages, loans and credit card debts?
- 7.3 Moreover, if the MIG is to be subject to people making a claim, how will the Scottish Government ensure that all those eligible actually take it up, given there can be an issue with certain groups not claiming benefits to which they are entitled, either because of a lack of awareness or other reasons, including a perception of stigma?
- 7.4 In relation to other aspects, for income tax, the Scottish Parliament currently can only set rates and thresholds for Scottish income tax on non-savings and non-dividend income. In order for tax reliefs to play a direct role, there would need to be further devolution of income tax powers, in particular over the tax base. This does not appear likely in the short-term.

- 7.5 It might be worth considering whether it would be possible and appropriate to make more use of passported benefits. In addition, Scotland already has social security powers in some areas – in relation to carers and also the Scottish child payment. It will also be able to implement some powers in relation to disability payments. So, it may be possible to top-up or increase certain social security payments in these areas. This might not provide exact targeting. On the whole, however, this would reach people at the lower end of the income spectrum, given the criteria for entitlement to these benefits.
- 7.6 Although Scotland does not currently have powers in relation to National Insurance contributions (NIC) or the state pension, consideration could be given as to whether a MIG could be connected with the NIC system in some way. For example, individuals who have employment income between the lower earnings limit for NIC and the primary threshold are credited with National Insurance, even though they do not have to pay any NIC, thus building up entitlement to state benefits including the state pension. Individuals with employment income below the lower earnings limit build up no such entitlement. If income from a MIG could be treated as employment income for the purposes of being credited with NIC, this might assist in bringing people to a minimum standard both in the present and the future, by building up entitlement to state benefits. This would of course require collaboration with the UK Government.
- 7.7 It will also be necessary to give thought to the funding of a MIG. The Scottish Budget consists of three key elements: revenues from Scottish taxes, the block grant and limited borrowing. Existing devolved national tax powers do not offer much scope for raising significant additional revenues.
- 7.8 The Scottish Parliament has limited Scottish income tax powers – the ability to set rates and bands for income tax that applies to the non-savings and non-dividend income of Scottish taxpayers. The Scottish income tax structure is arguably already more progressive than that for UK income tax. The Scottish Government has indicated that it does not intend to make significant changes to Scottish income tax during the term of this parliament. Beyond that, given the current powers, if changes are made in future, with a view to raising additional revenues, it would be important to examine possible behavioural effects on Scottish taxpayers and the interaction with the Fiscal Framework, to ensure that the desired outcome is achieved.
- 7.9 The Scottish Parliament has full control of Land and Buildings Transaction Tax and Scottish Landfill Tax. However, these raise relatively small amounts of revenue, and it is unlikely that any policy changes would result in a significant contribution towards the funding of a MIG.
- 7.10 Local taxes may provide more scope for revenue raising. Over the past few years there have been reviews of both non-domestic rates and council tax. The Scottish Government has agreed to establish a Citizens' Assembly to look at the reform of council tax as part of its agreement with the Scottish Green Party.² Council tax offers scope for significant and useful reform, and we hope that

² https://www.gov.scot/publications/scottish-government-and-scottish-green-party-cooperation-agreement/?_cldee=andhbGtlckBjaW90Lm9yZy51aw%3d%3d&recipientid=contact-69e9870c3ec6e711810f70106faa2721-de080fb6cf39473d93a82206f01fd465&esid=eefdabe1-c30c-ec11-b6e6-0022481a992b

the work of the Assembly will address this. Reform of council tax could potentially serve a dual purpose – it might potentially assist in raising additional funds (although these revenues are spent by local authorities not the Scottish Government), but perhaps more importantly, it could play a role within a MIG. An earnest reform, that led to property values being reflected more consistently and updated more regularly, could assist those on lower incomes and could offer a more targeted way of providing tax relief to help an individual achieve a MIG. If there were concerns about capacity to pay in cash terms for certain groups, consideration could be given to mechanisms to allow payment deferral, for example.

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