

A basic income for everyone would solve Osborne's tax ...

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I could have been amused by reports that George Osborne was seeking advice from Conservative back benchers on how to resolve the tax credits crisis he has dug for himself if only the issue was not so serious.

Let's be clear what the tax credit crisis is about. First it is about people in work not being paid enough to maintain themselves and their families because the rates of pay offered to millions in the UK are insufficient to prevent poverty.

Second, it is about the cost of living in the UK, and particular housing costs which having risen disproportionately in recent years. The cost of land rental, however packaged to the consumer, are too high in the UK.

And third, there is the problem of integrating a necessary benefits system that is required to prevent poverty with a tax system with which it is poorly integrated.

Put bluntly, tax credits and housing benefit are a patch intended to cover the consequences of the first two issues. They do not solve the problem; they ameliorate it. The third issue is as significant: marginal tax rates of up to 93% are going to arise under the planned system of tax credit withdrawal, and there is (surely?) no one who can condone that in a system supposedly designed to encourage work.

Given the nature of these three issues nothing any backbench MP is going to suggest to George Osborne is going to solve the problem unless, in my opinion, it embraces the idea of a universal basic income. This is something I discussed in a paper I co-authored with Howard Reed in 2013, [available here](#). It is an issue I also raised in [The Joy of Tax](#) (along with many other such ideas).

The principle is simple. Every qualifying person, without exception, in the UK would be paid a basic income by the state. This would be designed to prevent poverty. So, it would be greater than the current inadequate old age pension, and replace it. And the payment would, when joined with the payment due for each child (who would have their own entitlement) ensure that no family would live in poverty (defined as being

income of less than 60% of the median wage).

This would be financed by giving a much reduced tax personal allowance (maybe just £2,000) and more progressive tax rates than now ending at a top rate of maybe 70%. Do however remember that everyone, including those on these top rates of tax, would get this universal basic income, tax free.

Why does this work?

First, because it is universal we know people will get it.

Second, it massively simplifies pensions.

Third it enormously simplifies benefits (barring those for disability and maybe housing in some areas).

Fourth, poverty is by definition eliminated.

Fifth, the tax system is simplified. In the Joy of Tax I discuss how alternatives to NIC could also reduce the highest rates.

Sixth, there are no high marginal tax rates on the withdrawal of benefits as they are never taken away.

Seventh, benefit fraud and even some tax evasion may be dramatically reduced.

Of course there are behavioural issues to consider of whether people would work: my suspicion is the vast majority would as people desire the social functions, status and interactions work provides. And we could afford for them to do so doing the things that we need done.

If George Osborne wants to solve the tax credit crisis he should borrow David Cameron's notorious copy of The Joy of Tax. Will he have the courage to do so?