action on
POVERTY TODAY
Supplement

Spring 2003 No. 58
ISSN 0791 0096

Analysis of Budget 2003

"Budget 2003 maintains the living standards of low-income groups in difficult economic circumstances by providing a total welfare package slightly ahead of forecast wage growth. Households with children and those on the lowest welfare payments do less well because of the composition of the welfare package."

Combat Poverty Agency
working for the prevention and elimination of poverty

Analysis of Budget 2003

In its submission on Budget 2003, Combat Poverty stated that the focus of budgetary policy should be to prioritise poverty at a time of economic uncertainty.[1] To what extent has this been achieved in the budget? And what are the underlying policy trends that are likely to shape the next budget?

Analysing the poverty implications of the budget, along with other major policy statements, is now a standard procedure for policy formation and review under the National Anti-Poverty Strategy.[2] It falls within the remit of the Combat Poverty Agency, as a government advisory body on policies to tackle poverty, to contribute to this policy assessment procedure.[3]

Combat Poverty's analysis of Budget 2003 focuses on four main issues:

- the overall distributive impact of the tax and welfare components of the budget, using the SWITCH tax/benefit model
- welfare reforms and how these will impact on the living standards of welfare-dependent households
- tax elements and their implications for social equity
- key issues for income support policy arising from the budget and their implications for future budgetary strategy.

The analysis begins by setting out the policy and macro-economic context for Budget 2003.

Policy and Macro-Economic Context

The key touchstone in shaping budget policy from a poverty perspective is the National Anti-Poverty Strategy (NAPS). The government produced an updated strategy in February 2002 following a review under the Programme for Prosperity and Fairness. The new strategy, *Building an Inclusive Society,* contains a global poverty reduction target of 2 per cent (or less) for households experiencing consistent poverty, with similar targets for at-risk groups such as women and children.

Central to the achievement of this objective is a commitment to increase the lowest social welfare payment to €150 per week (2002 values) by 2007. This policy objective is reiterated in the 2002 agreed programme for government. A related social welfare objective is to increase the old age pension to €200 by 2007. For children, the objective is to increase the combined level of child income support to between 33 and 35 per cent of the minimum adult rate. This requires the completion of a three-year programme to raise child benefit to €149 per month by 2003.

While the budget is of crucial importance from an income poverty perspective, it is one element of a wider policy platform underpinning the NAPS. Analysis of the budget should therefore take into account other public expenditure on housing, education and health, as detailed in the Book of Estimates, which will be of crucial importance in determining the living conditions and opportunities of low-income households. Equally, employment policy continues to influence the extent of poverty. A further consideration is that the budget should be viewed in the context of long-term budgetary policy (past and future).

The economic backdrop to Budget 2003 was the continuing deterioration of the public finances, due to falling tax revenues and higher than planned public expenditure. In light of this, the Book of Estimates for 2003 indicated a severe reduction in public expenditure. Budget 2003 maintains this contractionary fiscal strategy and extends it to the tax side. The allocation on tax and welfare is €716 million, a fall of 55 per cent on the €1.2 billion in the 2002 budget. The welfare expenditure is €530 million, compared to €1.1 billion in 2002 (-50 per cent). Other major components are increased expenditure on public sector pay and road construction, while corporation tax is reduced to 12.5 per cent. The modest tax and expenditure increases in Budget 2003, however, are more than compensated for by higher taxes, mainly in VAT or other indirect taxes.

As a result of the changes announced in the budget, tax revenue should grow by 4 per cent in 2003, while current expenditure will increase by 10 per cent.[4] Economic growth is forecast to be 3.8 per cent of GDP in 2003. This should leave a €1 billion deficit in the government balance (0.7 per cent of GDP) for 2003. The inflation rate forecast for 2003 is 5 per cent, while unemployment is expected to rise to 100,000 (an increase of 15,000).

Distributive Impact

To provide a comprehensive picture of the outcome of budgetary changes it is necessary to use a computer-based model, which simulates the tax and welfare situation for a representative sample of Irish households.[5]

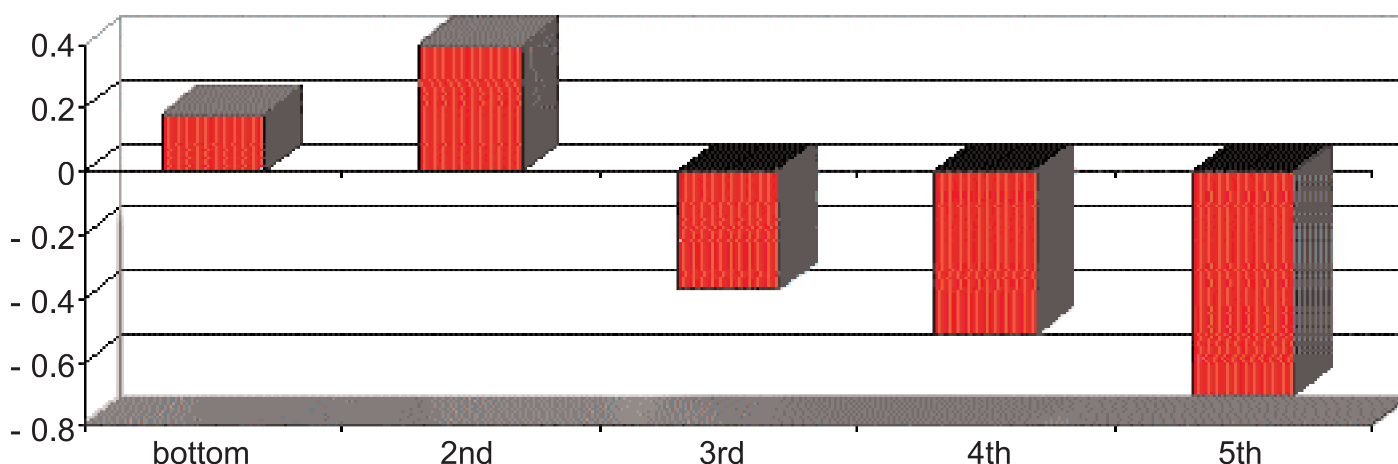
One such model is SWITCH, developed by the Economic and Social Research Institute (ESRI). SWITCH has been used to assess budgetary policy and to identify policy options over a number of years, both by the ESRI and by official working groups (for example Social Welfare Benchmarking and Indexation Group), government departments (for example Department of Finance[6]) and government advisory bodies (for example Combat Poverty Agency). SWITCH provides an overview of the impact of policy changes for households across the income range, as well as for various types of family.[7]

The overall change in income under Budget 2003 shows a slight loss of less than 0.5 per cent. However, this outcome is not shared equally across income groups, with lower-income groups (in this case the bottom 40 per cent of the population) experiencing a gain of up to 0.4 per cent as a result of the budget. In contrast, the better-off 60 per cent record an income loss of between 0.4 and 0.7 per cent (top quintile). Therefore, the budget's redistributive intent is moderated by the small spread in the proportionate changes (just over one per cent).

Looking at the impact of the budget on various types of family, only the elderly and the single unemployed record gains (between 0.7 and 1.2 per cent). Otherwise, all family types, including those with children, experience a loss in income relative to the wage-indexed benchmark. Precise data on the

Figure 1. Distributive impact of Budget 2003

(% gain by equivalised disposable income per quintile)



A key starting point in the SWITCH analysis is to select a benchmark against which the impact of budgetary changes can be assessed. SWITCH uses a 'neutral' benchmark based on equal growth in income across all income categories. In practice, this involves indexing tax and welfare to the growth in gross wages and then using this to assess the distributive impact of the actual changes introduced in the budget. Indeed, welfare indexation in line with wage growth has become a de facto policy benchmark in recent years, while usually exceeded on the tax side.

For 2003, the forecast wage growth is 5.5 per cent in nominal terms. Against this benchmark, the distributive impact of Budget 2003 is outlined in figure 1.[8]

impact of the budget on relative income poverty is not available. However, given the mild redistributive impact, income poverty is likely to fall slightly under Budget 2003.

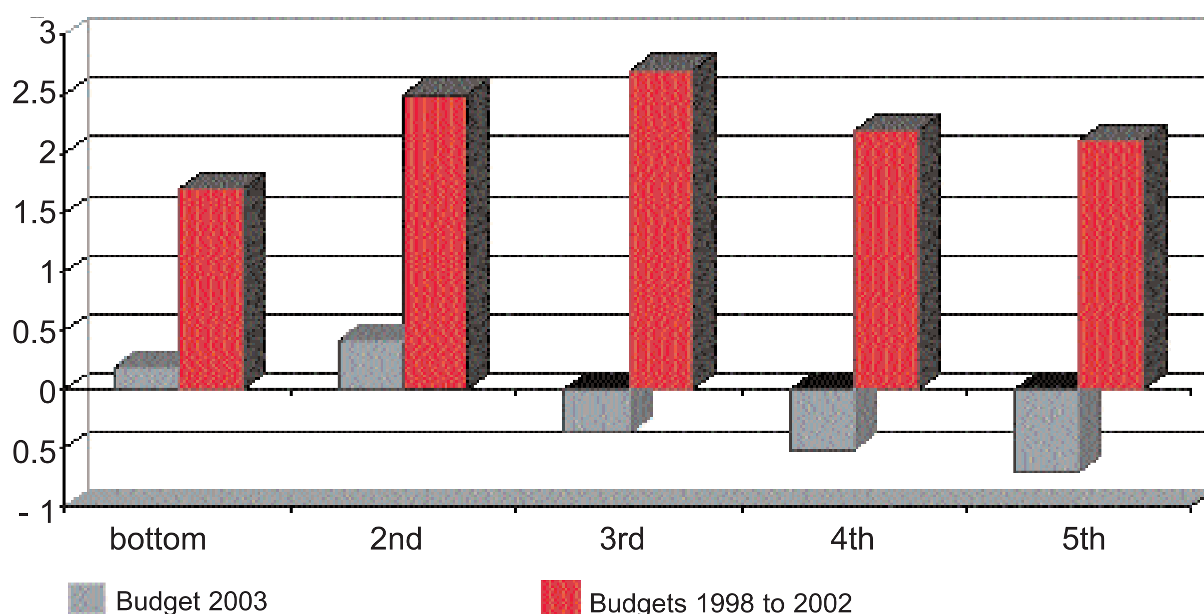
What explains these outcomes? To begin with, the total budget package was less than the amount needed to index tax and welfare in line with wage growth (the neutral benchmark). This shortfall is primarily on the tax side, with the tax package €300 million less than what was needed to keep pace with wages, while welfare expenditure was slightly in advance. The negative outcome on low-income families reflects the freezing of child dependant allowances, which was not adequately compensated for by the increase in child benefit of 7 per cent

(much lower than in previous years). This is despite the inherently redistributive impact of a flat rate increase in child benefit, which is worth proportionately more to low-income families.

The distributive impact of Budget 2003 can be compared with that of previous budgets. Figure 2 highlights the relative generosity of budgets from 1998 to 2002, which delivered average annual gains of over two per cent. These gains were concentrated among middle and, to a lesser extent, higher income groups. By contrast, Budget 2003 shows a small average loss, with the brunt of the losses being carried by better-off groups, while the poorer 40 per cent did best. A better comparison is with Budget 2002, when the average gain was 1 per cent. The main beneficiaries were the poorest 40 per cent, who gained by 4 per cent, up to ten times the gains accruing this year.

Given the limited financial package available in Budget 2003 in comparison to previous years, the government chose to protect the position of those on lower incomes. Indeed, higher-income households were required to contribute more in taxation to ensure this outcome. The redistributive impact is modest, however, as reflected by the limited spread of proportionate changes. In Budget 2002 a priority on low-income households, combined with a substantial resource allocation, resulted in meaningful gains and a reduction in relative income poverty of almost one per cent. By contrast, Budget 2003 was constrained in its redistributive effect by the small welfare allocation.

Figure 2. Distributive impact of Budget 2003 compared to Budgets 1998 to 2002 (annualised)
(% gain by equivalised disposable income per quintile)



Welfare Improvements

The main welfare measures in Budget 2003 are summarised in table 1. Personal payments increased by between €6 and €10 per week; the equivalent of a 5 to 7 per cent rise, with old age pensioners getting slightly more than the unemployed or lone parents.[9] The increases in qualified adult allowances (QAAs) were pro rata, ranging from €4 to €7.70 per week.

Child dependant allowance rates were once again unchanged, though eligibility was extended to schoolgoing dependants aged 19 to 22 years of beneficiaries on short-term welfare schemes. Child benefit was increased by €8 per month (7 per cent), the weekly equivalent is €1.84. The income thresholds for family income supplement were increased by €17 per week or just under five per cent (worth up to €10.20 per week in cash terms.)

The increases of 5 to 7 per cent ensure that the real value of welfare payments and child benefit is maintained, given the projected inflation rate of 5 per cent. The exception to this is child income support for welfare-dependent families. Though child benefit is increased by 7 per cent, the freezing of child dependant allowances means that the value of the

Table 1. Main welfare measures in Budget 2003

Scheme	*Weekly increase*	*% increase*	*New rate*
Old age	€10	6 to 7%	€144 to €157.30
Invalidity, widow(er), carer	€7	5 to 6%	€129.60 to €130.30
Unemployment, disability, SWA	€6	5%	€124.80
Child benefit[10]	€1.84 to €2.30	7%	€28.87 to €36.16

combined child supports only improved by 4 per cent, which is below forecast inflation. These families will suffer a real decrease in the income received for their children. It is not likely that this devaluation will be offset by improvements in minor schemes, such as clothing, footwear and schools meals.

The cost of the welfare rate improvements is €395 million, with a further €105 million for child benefit and €5.5 million extra for family income supplement. Improvements in minor schemes (school meals, clothing and footwear), along with administrative reforms in income disregards and means tests, cost in the region of €30 million. This includes additional funding for welfare advisory bodies, at a cost of €3.5 million.

While most welfare increases are equal to or ahead of inflation, there are other policy and economic effects that may erode the position of recipients. These include:

- the possibility that the 2003 inflation rate may exceed the forecast rate of 5 per cent
- evidence that the inflation rate underestimates the impact of price increases on lower-income households[11]
- the taxation measures introduced in Budget 2003, which disproportionately impact on lower-income groups
- the higher service charges arising from cutbacks in government expenditure will have an adverse welfare effect for those on low incomes
- the higher housing costs for welfare recipients of rent and mortgage subsidies due to a reduction in the level of support provided.

Close scrutiny of these issues is required to ensure a real benefit from welfare increases.

In assessing the welfare reforms introduced in Budget 2003, it is important to consider them in the context of the welfare policy targets. These include:

- €200 old age pension by 2007
- €127 for the lowest welfare payment by 2003, with a €150 target (2002 values) by 2007
- combined child income support package (child dependant allowances and child benefit) to 33 to 35 per cent of the €150 target rate
- extend short-term child dependant allowances to schoolgoing dependants aged 19 to 22 years
- €149.20 per month child benefit by 2003 (based on three successive increases of €31.80 between 2001 and 2003)
- qualified adult allowance to 70 per cent of the personal rate
- qualified adult allowance for those aged 66 or over to 100 per cent of the non-contributory pension
- widow(er)'s contributory pension aged 66 and over equalised with the old age contributory pension.

Table 2 outlines the increases required to meet these commitments based on a synopsis produced by the Department of Social and Family Affairs and the amounts subsequently provided in Budget 2003.[12]

Table 2 shows that none of the welfare targets were met in Budget 2003. The most significant failure was in regard to a minimum welfare payment of €127 and a child benefit target of €149.20. As a result, a deficit of €2.20 still exists in regard to the €127 figure. Meanwhile, only a quarter of the proposed child benefit increase was delivered, with the remainder to be met over the next two budgets.

The other welfare targets are more long term (2007) and incorporate some flexibility as to the rate at which they will be achieved. Nonetheless, a lower increase in 2003 will mean that subsequent budgets will have to compensate with a higher amount if the targets are to be met.

Changes in the qualified adult allowance and widow(er)'s pension, though a modest cost, were not implemented in Budget 2003. In fact, ground has been lost on the qualified adult allowance for those aged 66 years under the non-contributory old age pension.

Table 2. Progress in Budget 2003 on government welfare commitments

Commitment	*Change required*	*Change delivered*
€127 minimum welfare 2003	€8.20	€6 (73%)
€149 child benefit 2003	€31.80	€8 (25%)
€150 minimum welfare 2007	€10.10 to €15.40	€6 (60% to 40%)
€200 old age pension 2007	€13.20	€10 (75%)
Total child income support equivalent to 33 to 35% of personal rate	€1.27 to €3.13	€1.84 (144% to 69%)
Extend short-term child dependant allowances to 22 years	Administrative	Yes
Qualified adult allowance equivalent to 70% of personal rate	€2 to €4.50[13]	€0 (0%)
Qualified adult allowance for contributory old age pensions (66+) equivalent to 100% of non-contributory personal rate	€3.90[14]	-€0.10 (-2.5%)
Widow(er)'s pension (66+) equalised with old age pension	€2.50	€1 (40%)

Despite the lower child benefit increase, the combined value of the child income support package is within the range of the equivalence target of 33 to 35 per cent of the minimum personal rate. An administrative commitment delivered in full in Budget 2003 was to extend eligibility to 22 years for schoolgoing dependants of beneficiaries on short-term welfare schemes.

The payment structure for child benefit remains unchanged, with no proposals to introduce either fortnightly or weekly payment options. A more frequent payment structure to facilitate weekly budgeting in low-income families is required since the main component of child income support is now delivered through child benefit and not child dependant allowances. It is also disappointing that the commencement date for child benefit increases was not advanced from April to the start of the year (as is the case for all other welfare schemes as well as income tax).

Tax Changes and Other Expenditure Measures

The main income tax measure in Budget 2003 was to increase the employee tax credit by €140 (20 per cent), at a cost of €161 million. In addition, there were changes in age exemption limits and mortgage interest relief, the cost of which is relatively modest, at €17 and €8 million respectively, as they only affect a small percentage of taxpayers. Otherwise, personal tax credits and bands were unchanged. The other major tax reduction was in corporation tax, which was cut to 12.5 per cent from 16 per cent at a cost of €305 million.

Revenue-generating changes in Budget 2003 and their full-year yields are set out in table 3. The total value of these changes is €1.4 billion in a full year, which will exceed the cost of the expenditure rise as they affect the exchequer balance. The additional revenue will mainly be sourced from higher indirect taxes. Other gains will come from administrative changes which either restrict reliefs or bring forward due dates. However there is no change in the savings incentive scheme (costing between €500 and €600 million in 2003) and the employee PRSI ceiling was not abolished.

Table 3. Tax changes in Budget 2003

Tax	*Change*	*Yield (€m)*
Capital allowances/incentives	Administrative	143
Capital gains	Administrative	350
Stamp duty	Higher rates on non-residential property and bank cards plus new financial levy on banking sector	309
VAT and excise duties	1% increase in standard VAT rate; higher duties on alcohol, tobacco and cars	225
PAYE/PRSI	Application to benefit-in-kind	91

One other major expenditure announced in Budget 2003 was 565 million for the first instalment of the benchmarking report on public sector pay.

Overall, the tax side of Budget 2003 was primarily about raising rather than reducing taxes. This is a major departure on recent years and reflects the severe financial constraints facing the government. The modest income tax reduction masks an effective tax increase of up to V300 million in 2003, arising from the failure to index tax credits and bands in line with wage growth. Equally, while corporation tax is reduced, a significant proportion of the gains from this will be clawed back by other tax increases, notably the levy on the financial sector.

The heavy reliance on indirect taxes has two negative features: it will drive up the rate of inflation and it will impact most on low-income groups. The combined effect may be to undermine the marginal gains secured by welfare recipients under the expenditure side of Budget 2003.

Achieving Welfare Gains: Key Policy Issues Arising from Budget 2003

This section looks at some policy issues arising from Budget 2003 in the context of achieving improvements in the living standards of low-income households. Budget 2003 saw a severe drop in the tax/welfare allocation as a result of the decline in government revenue flows. Consequently, the large increases in personal incomes associated with previous budgets have come to an end. In order to protect those on lower incomes, Budget 2003 adopted a redistributive focus, continuing a pattern evident in last year's budget.

In spite of the pro-welfare bias, the low level of resources available results in little progress on welfare policy objectives. The indication is that this tight budgetary context will be repeated for the next few years, with welfare expenditure being curtailed by lower tax revenues. Given this changed budgetary landscape, it is important that policy options to enhance the welfare impact of future budgets are considered.

Are welfare commitments still valid?

The starting point in this consideration is to ask if the welfare policy commitments are still valid in the light of the deterioration in the public finances? The payment rate targets were adopted in the context of significant increases in the incomes of working households over recent years, derived from the growth in earnings and supplemented by major reductions in personal income tax.

While welfare payments have also been increased ahead of inflation, they have not kept pace with the gains for those in employment. If the division between those in work and those on welfare is not to

widen, then welfare payments have to be increased to bridge the gap with the better-off. This was the context in which the government, in agreement with the social partners, agreed to a new adequacy benchmark of €150 (2002 terms) by 2007. A similar concern lies behind the commitment to a €200 minimum pension payment also by 2007.

These policy targets are therefore catch-up payments and should remain a budgetary priority. The relevance of these commitments is underpinned in the agreed programme for government, which was drawn up following the 2002 general election, and reiterated in the recently negotiated social partnership agreement for 2003 to 2005, *Sustaining Progress.* The commitments therefore have a current political and economic legitimacy and are not a redundant legacy from an earlier era.

Can existing resources be better targeted?

The next issue is whether the available resources could be better targeted to achieve welfare gains? A major component of welfare expenditure is the child benefit increase (40 per cent in Budget 2002, 20 per cent in Budget 2003). Some commentators have argued that this would be better used to benefit those on low incomes either by taxing it or diverting it into child dependant allowances? This would have validity if the three-year reform programme for child benefit was specifically intended to tackle child poverty. This is not the case, however, as the core objective, as stated by government, was to provide support for all parents with the costs of caring for children.[15] A key consideration in choosing child benefit as the means to achieve this objective was its equitable nature, thereby ensuring a proportionately greater gain for low-income families.

It is misleading therefore to label the child benefit increase as a social inclusion measure. In this context, it would be better for the public understanding of child benefit if the allocation for this was ring-fenced as a separate budget heading from the welfare allocation. It would avoid an unfair welfare policy choice between child benefit increases and improvements in personal and adult rates, which have quite distinct objectives. Once the three-year programme is implemented, it would be valid to review the future direction of child income support, bearing in mind the exchequer financial pressures and other issues.

A targeted approach might suggest that welfare increases should be equalised in cash terms. In Budget 2003, payments varied between €6 and €11 depending on the category of entitlement. A fairer approach might be to lift all welfare payments by the same amount, thereby giving a higher percentage gain to the lowest payments. The approach adopted in Budget 2003 had the opposite effect. On equity grounds, a strong case can be made for adopting a flat-rate increase or, at a minimum, giving the same percentage increase across all welfare payments.

Better targeting might also be applied to the tax element of the budget package. In Budget 2003, three-quarters of the tax/welfare package goes on social welfare, compared to two-thirds in 2002. The remaining tax component is significantly less than what was required to index tax credits and bands, resulting in a fall in income compared to a neutral benchmark. Furthermore, the money spent on taxation was targeted at lower-paid taxpayers through the employee tax credit. There appears little scope therefore to re-allocate income tax resources.

Another option is to look at other government expenditure, including aspects of public sector pay and the reduction in corporation tax. The cost of the benchmarking report is estimated to be in the region of €1.3 billion, with €565 million required to fund phase one alone, the equivalent of the welfare allocation in the budget. The cut in corporation tax costs €305 million, which would have paid for the full implementation of the child benefit programme. Consideration could be given to deferring some or all of these expenditures until welfare payments have been brought up to the recommended levels.

Can additional resources be found?

A third policy issue is whether there is scope to increase the size of the budget package by generating additional revenues? One way to achieve this would be to curtail the loss of tax revenue arising from various tax expenditures.

Tax expenditures include compensations for the costs of a particular activity (for example home caring, medical care) or incentives for certain behaviours (for example personal pensions/savings, economic investment, house purchase and rental).

Recent reports by the Tax Strategy Group and the Comptroller and Auditor General have considered the benefits and costs of tax expenditures.[16] While these tax incentives do not involve direct government expenditure, they impact on exchequer resources through tax foregone. The estimated cost of these tax expenditures is detailed in table 4, which shows a cumulative figure of €7.3 billion.

Table 4. Major tax expenditures [17]

Item	*Cost per annum (€m)*
Capital allowances	2,071
Pensions/savings	3,233
Personal	844
Capital	946
Indirect	88
Other income tax	168
Total	7,320

The significance of these expenditures is illustrated by the fact that their cost equates to one-quarter of the total government tax take in 2002. Tax expenditures, as with more conventional aspects of government expenditure, should be applied selectively and be kept under constant review as to their value for money. Equally, their cost implications should be carefully assessed, especially because of the frequently unpredictable level of demand.[18]

As well as narrowing the tax base, these expenditures introduce inequities in the tax system by their effects on the tax liabilities of companies and individuals. Thus, higher earners are more likely to avail of tax incentives and also benefit more because they pay tax at the higher rate. A recent report by the Revenue Commissioners illustrates how top earners can use incentives to reduce their effective tax rate in some cases to less than 15 per cent.[20] This outcome undermines the key principle of tax equity, namely that better-off people should pay more tax than those on lower incomes.[21]

Conclusion

Budget 2003 maintains the living standards of low-income groups in difficult economic circumstances by providing a total welfare package slightly ahead of forecast wage growth. Households with children and those on the lowest welfare payments do less well because of the composition of the welfare package. Higher earners experience a loss in income of up to one per cent because of the failure to index tax credits and bands in line with expected wage growth. An important caveat to this positive budgetary outcome for low-income households is the potential of a higher-than-forecast rate of inflation and higher taxes and service charges to undermine the modest gains accruing through welfare increases.

The impact of Budget 2003 must also be assessed against the welfare policy commitments agreed as part of the NAPS, the social partnership programmes and the agreed programme for government. The failure to achieve credible progress in relation to these targets in Budget 2003 throws into question the likelihood that they will be implemented over the planned five-year period. However, there is time and scope to achieve their implementation and therefore avoid a serious blow to the aspirations of the NAPS. This will require changes in future budgetary strategy in order to better target existing resources and to generate additional revenue streams. Changes in the delineation of the welfare package are also suggested, in order to distinguish between improvements for those on the lowest payments and universal supports for families. In sum, current budgetary policy is pointed in the right direction of income redistribution, like its immediate predecessor. What is needed for the next few years is the resources to generate the necessary momentum to make a significant impact on income poverty.

Endnotes

1 Combat Poverty Agency (2002), *Prioritising poverty at a time of economic uncertainty,* Dublin: Combat Poverty. The submission recommended eight policy measures: indexation of welfare payments to wages; additional increase of €5 for lowest payments; increase qualified adult allowance to 68 per cent of personal rate; child benefit increase of €31.80/€38.10; age-restructuring of child dependant allowances; reform of school meals; widen income thresholds for medical card; increase employee tax credit by €163. The cost of the proposals was estimated at €1.2 billion. Various revenue-generating measures were also suggested.

2 This assessment procedure is known as 'poverty proofing' and requires that the poverty impact of the budget is assessed in advance and that adjustments are made, where necessary, to enhance the poverty reduction effect. The Department of Finance's assessment of the poverty impact of the budget, which it releases as part of the budget papers, is therefore an important information source in this analysis (Department of Finance (2002), *Budget 2003. Annex B,* Dublin: Government Publications).

3 An earlier version of this analysis was presented to the Oireachtas Committee on Social and Family Affairs in January 2003.

4 These forecasts are taken from Economic and Social Research Institute (2002), *Quarterly Economic Commentary, Winter,* Dublin: ESRI.

5 Typical budget commentary focuses either on the absolute gains from changes in welfare benefits or income tax or, alternatively, examines the combined welfare and tax effects for a small number of 'case study' households. The first approach reveals little about the outcome at the household level. The second, while household-based, is misleading as a few illustrative households cannot reflect the diversity of the population in terms of household composition, economic activity, income range and level of housing costs.

6 The Department of Finance uses the SWITCH model to analyse the combined impact of the budgetary tax and welfare changes. However, the benchmark used for this analysis is the 'conventional opening budget', where tax and welfare rates are frozen in nominal terms. This is of limited value in analysing distributional impact because the opening budget has biasing effects on baseline income distribution and poverty that can distort the outcome. For a discussion of poverty proofing and the SWITCH model, see T. Callan et al. (2001), 'Income tax and welfare policies: some current issues', in T. Callan and D. McCoy (eds), *Budget perspectives. Proceedings of a conference held on 9 October 2001,* Dublin: ESRI.

7 The SWITCH model is described in detail in T. Callan et al. (1998), *Simulating tax and welfare changes,* Dublin: ESRI.

8 The data for this analysis is taken from T. Callan et al. (2003), 'Budget 2003: analysis of the distributional impact', *Quarterly Economic Commentary, Spring,* Dublin: ESRI.

9 There is a special increase of €11 for widow(er)s aged 66 or over.

10 The figures for child benefit are the weekly equivalent of the monthly payment of €125.60 for first and second child and €157.30 for third plus child.

11 E. Murphy and E. Garvey (unpublished), 'A consumer price index for low-income households in Ireland (1989-2001)'.

Endnotes

12 These commitments and their financial implications are detailed in a note entitled '2003 Budget' Issues prepared by the Department of Social and Family Affairs for the Tax Strategy Group (TSG 01/11, available on the Department of Finance website: www.finance.gov.ie). The paper goes on to state that a significant welfare package would be required in order to ensure that 'credible progress' is made in 2003 on the phased implementation of the policy commitments by 2007.

13 An additional €2 on top of a pro-rata increase would be required to bring the QAA to 68 per cent of the personal rate (post-Budget 2003) or €4.50 for 70 per cent.

14 On the basis that this target would be reached over five years, an additional €3.90 on top of a pro-rata increase was required to bring the QAA rate to 79.8 per cent of the OAP (nc) (post-Budget 2003).

15 The child benefit commitment primarily emerged from the need to support the increased labour market participation of women in the context of an historical underfunding by the state of the costs of rearing children. Reform of child benefit was an integral part of the tax individualisation policy – on the basis that child benefit was a more targeted measure to support families with childcare costs than expanding the higher tax bands for married couples.

16 Paper entitled 'Tax Incentives/Expenditures' prepared for the Tax Strategy Group (TSG 02/28, Department of Finance website: www.finance.gov.ie). Comptroller and Auditor General (2001), *Report on value for money examination. Department of Finance expenditure review initiative,* Dublin: Government Publications.

17 Taken from paper on tax incentives/expenditures presented to the Tax Strategy Group (op. cit.). A detailed breakdown of the expenditures is contained in the paper. Not included in the figures is the PRSI employee ceiling, which exempts income above €40,420 from PRSI at a cost of 190 million.

18 Combat Poverty will consider this and other aspects of the tax system in a forthcoming research study on tax and social equity.

19 Francis O'Toole (1997), *Tax and PRSI reform from a low income perspective. Poverty and Policy Discussion Paper No. 3,* Dublin: Combat Poverty Agency.

20 Revenue Commissioners, 'Effective Tax Rates for High Earning Individuals'.

21 The savings incentive scheme illustrates many of the flaws associated with tax expenditures. The rationale for the scheme was to promote savings and to moderate inflation-inducing consumer expenditure. However, there is evidence that the scheme has had a high substitution effect, with beneficiaries diverting existing savings into this scheme. Furthermore, curtailing consumer expenditure is no longer a policy priority during an economic downturn. The cost of the scheme has also spiralled beyond initial estimates and is now forecast to be €525 million per annum or €2.5 billion over its five-year duration. This poses a major financial burden on the exchequer at a time of falling tax revenues. Again, this is the equivalent of the total welfare package in Budget 2003. In addition to its economic effects, the scheme is expected to be highly regressive on income distribution. The main beneficiaries of the scheme are likely to be the better-off in society, who can afford to save. Furthermore, with the high monthly cut-off figure, the more people can save, the more they can gain under the scheme.

Bridgewater Centre
Conyngham Road
Islandbridge
Dublin 8
Tel: 01-6706746
Fax: 01-6706760
Email: info@cpa.ie
Website: www.cpa.ie