



Policy Submission

**Paper to the NAPS Working Group
on Income Adequacy**

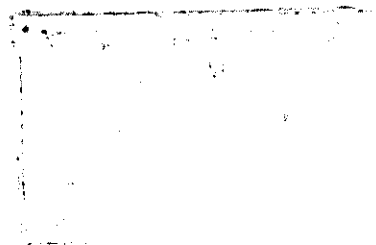
September 1996

NATIONAL ANTI-POVERTY STRATEGY

WORKING GROUP ON INCOME ADEQUACY

COMBAT POVERTY AGENCY PAPER

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SUMMARY

1. Minimum Income Standard

The Commission on Social Welfare identified the adequacy of social welfare payments as an underlying principle of the social welfare system. According to the Commission, an adequate payment should prevent poverty as determined by prevailing living standards. The Commission's proposal for a minimum adequate social welfare rate can also be seen in the context of the recommendation by the European Commission to national governments for the adoption of a minimum income standard. Specifically this would

*recognise the basic right of a person to sufficient resources and social assistance to live in a manner comparable with human dignity as part of a comprehensive and consistent drive to combat social exclusion.*¹

Such a minimum income level would be inclusive of social welfare payments and personal tax allowances, and apply to both adults and children. This would enable policy to alleviate poverty, while at the same time maintaining work incentives and minimising poverty traps. Adopting a minimum income standard would also help to address many of the anomalies within the welfare system.

2. The Social Insurance System

Within the social welfare system the social insurance system should remain the mainstay of social welfare provision. Social insurance is an expression of social solidarity and citizenship in which the risks, costs and benefits should be shared as widely as possible in the community. A comprehensive social welfare system should have two elements - comprehensive coverage in regard to contributions and comprehensive coverage of contingencies.

3. An Historic Opportunity

The main difference between now and ten years ago is that the economic and social context for addressing poverty is now far more favourable. Projections for the economy for the rest of the 1990s are very positive, with the economy likely to grow by nearly 5% a year; inflation is predicted to remain at around 2.5%; and employment growth is likely to average at least 1.8% in the second half of the decade. Complementing these favourable economic conditions are major demographic changes where dependency ratios are falling rapidly. These factors will mean that new resources will become available and that some existing resources will be freed up. In

¹ CEC (1992) "Council recommendation on 24 June 1992 on common criteria concerning sufficient resources and social assistance in social protection systems (92/441/EC)", *Official Journal of the European Communities*, 22 August, 1992.

this climate of favourable demographic trends and tax buoyancy a unique and historic opportunity exists to address the deep-seated structural causes of poverty in Ireland.

4. A Coherent Strategic Direction

In this context it will be important that the *Income Adequacy* Sub-Group identifies the key issues to be addressed in this area under the National Anti-Poverty Strategy and sets out a coherent strategic policy direction. This should include the setting of clear short-term and long-term targets following discussion and consultation.

5. Key Issues

The key issues identified by the Combat Poverty Agency to be addressed by the NAPS Working Group on Income Adequacy are identified as follows:

5.1 Provision of an Minimum Adequate Income

A priority under the National Anti-Poverty Strategy should be to set minimally adequate income targets: set initially at £69.67 to £83.60 for a single adult, with a pro-rata increase for an adult dependent (based on uprating the Commission on Social Welfare's rates) and that these rates should be reviewed upon receipt of the final ESRI report on the Review of the Social Welfare rates.

5.2 Tackling Child Poverty

To address child poverty, and to improve work incentives for unemployed families, child benefit should be substantially increased and made liable to tax: this would be achieved by initially increasing child benefit by £7 and making the increase liable for tax, as part of a five year strategy of introducing an integrated child benefit. Once an adequate level of child income support is achieved, CDAs could then be clawed back, so easing the transition from welfare to work. However, it is important that CDAs are not withdrawn until an adequate level is achieved through increases in child benefit, otherwise families dependent on welfare will lose out at the expense of better-off families.

5.3 Tackling Child Poverty and Reducing Disincentives

The medical card should be extended to all children.

5.4 Reducing Women's Dependency

Consideration should be given to reducing the concept of dependency and moving towards a more individualised social welfare system.

5.5 Substantially Increasing Personal Tax Allowances

As a first step personal tax allowances (inclusive of the PAYE allowance) should be increased to £3,575 for a single person and £7,150 for a couple, as part of a two year strategy of equalising tax allowances and exemption thresholds.

5.5 Restructuring Employers' PRSI

Consideration should be given to restructuring employers' PRSI to reduce labour costs for the low paid and promote job creation (and retention) of low paid employment.

5.6 Broadening the Tax Base

- *The various tax reliefs and exemptions should be "poverty proofed".*
- *Consideration should be given to the introduction of a comprehensive property tax which would take account of ability to pay. A proportion of the income from this tax could be retained locally for discretionary allocation by the relevant local authority.*
- *The allowance for employee PRSI should be increased from £80 to £100; and an allowance should be introduced against the levies.*

5.7 Combining Welfare and Work

Welfare/work combinations should be facilitated through improving earnings disregards on means-tested payments.

5.8 Facilitating the Take-Up of Labour Market Programmes

The current income support measures to facilitate labour market programme participation should be reviewed with a view to making them consistent and transparent and promoting the participation of the long-term unemployed.

5.9 Facilitating Employment through Improving Child Care

A key priority should be the provision of more accessible child care facilities to facilitate a return to work. Consideration should be given to assisting low income groups with child care costs.

5.10 Enhancing Housing Income Support

Consideration should be given to the introduction of a statutory means-tested system of housing income support.

5.11 Tackling Fuel Poverty

The Income Adequacy Theme Group of the National Anti-Poverty Strategy should carefully consider the submissions made to address fuel poverty and critically assess the recommendations contained therein.

5.12 Improving Access to Financial Services

The Income Adequacy Theme Group of the National Anti-Poverty Strategy should carefully consider the detailed and comprehensive submission made by the Credit and Debt Policy Coalition and, in particular, critically assess the recommendations contained therein.

5.13 Supporting the Community and Voluntary Sector

- *The important role of the community and voluntary sector in anti-poverty work should be recognised and the sector provided with an adequate level of resources and support accordingly.*
- *The role of the voluntary sector in the provision of information services on benefits and their role in promoting take-up campaigns should be recognised and supported*

1. Introduction

The Combat Poverty Agency seeks to redirect resources in favour of those living in poverty. The Agency works for change to promote a fairer and more just, equitable and inclusive society by preventing and decreasing poverty and social exclusion and reducing inequality in Ireland. It is a centre of expertise on poverty issues, policies and practices. A key element of its work is advising government on all aspects of economic and social planning pertaining to poverty.

The Combat Poverty Agency welcomes this opportunity to produce a short discussion paper on the theme of income adequacy to feed into the discussion at the sub-group meeting. The Agency has produced a number of research and policy documents on income adequacy. This paper will draw on these and also on the submissions which were made under the National Anti-Poverty Strategy, the Overview Document and recent relevant reports.

2. Background to Issues

The role and importance of the main policy mechanisms which influence the distribution of income and resources in Ireland ie. the tax and social welfare systems are critical in addressing poverty. While the operation of the tax and social welfare systems may not in themselves cause poverty they may be less than effective at preventing poverty. In order to prevent poverty social welfare payments need to be adequate, there should be incentives for people to take up work and the tax system should be progressive. The National Anti-Poverty Strategy has a key role in recommending the appropriate balance between the systems. The issues which the Combat Poverty Agency believe should be addressed in relation to income adequacy under the National Anti-Poverty Strategy are set out below.

3. Guiding Principles

The Working Group on *Income Adequacy* should be guided by the following principles in the development of their strategies to tackle poverty:

- (i) ensuring equal access and participation for all;
- (ii) guaranteeing the rights of minorities especially through anti-discrimination measures;
- (iii) the reduction of inequalities and in particular addressing the gender dimension of poverty;
- (iv) the development of a partnership approach building on national and local partnership processes;
- (v) actively involving the community and voluntary sector;

Travellers and people out of home are also at high risk of poverty, although they are not identified in national sample surveys of private households.

Data from the recent 1994 *Living in Ireland Survey*² indicate that the overall extent of poverty was little different in 1987 from 1994, but that the more important changes relate to composition. This relates particularly to a disimprovement in the position of the elderly and those in home duties.

The relevance of these findings in relation to the achievement of an adequate income for these groups at risk of poverty is briefly discussed below.

(i) Unemployed Households

Households with an unemployed head have been found to be at the greatest risk of poverty, both in 1987 and in 1994. This is in spite of the substantial increases in the rates of Unemployment Assistance and Supplementary Welfare Allowance. However, these rates have been increased from a very low level and have still not reached the minimally adequate rates recommended by the Commission on Social Welfare. Further, it has been found that those experiencing long-term unemployment suffer an erosion of their resources, and by existing over a long period on a very low income find themselves less able to cope with unexpected bills or to have resources available which may assist in job seeking activities.

An urgent priority is to bring the basic payments of Unemployment Assistance and Supplementary Welfare Allowance up to a minimally adequate level (£69.67 in the first instance).

(ii) Children

In 1987 a higher poverty risk existed for families (23%) and for children (26%) as compared to non-child households (13%) and adults (17%). Unemployment has been identified as the main reason for the high level of child poverty. In 1994 children still face a higher risk of poverty than adults, where households with four or more children are at a particularly high risk.³

In addition, it has been found that families in receipt of welfare payments face the greatest disincentives to taking up employment. This is well documented in the recent report *Integrating Tax and Social Welfare*, which recommends the reform of child income support. A reform of the current system of child income support should seek to improve the lives of low income families while at the same time facilitating the transition from unemployment to work. In terms of a long-term structural change the Agency believes that the most strategic approach is to increase child benefit and make

² While initial results from the survey are available to inform the National Anti-Poverty Strategy, they are not available publicly. Thus, this information is for internal use only.

³ Households with three or more children were identified as being at a particularly high risk of poverty in 1987.

it taxable. A taxable child benefit provides a direct and effective method of assisting all low income families with children, irrespective of their source of income; it is neutral with respect to their work status or whether they are inside or outside the tax net. The payment would also help mothers of dependent children as it is paid generally to the mother and by being a universal payment it avoids all the side effects which accompany means-tested payments.

However, changing the way child income support is delivered without increasing its value would fail to address the severe problem of child poverty. Hence, merely transferring existing child dependent allowances into an enhanced child benefit would not improve the position of those on welfare, even though it may ease their transition to work. The Agency thus suggests that existing payments be amalgamated and their overall value be enhanced by increasing child benefit by £7 per month. The additional component of child benefit would be made liable to tax, in order to minimise costs and to claw back gains from better-off families. The long-term goal should be to reach a monthly child benefit of £100 over a five year period.

To address child poverty, and to improve work incentives for unemployed families, child benefit should be substantially increased and made liable to tax: this would be achieved by initially increasing child benefit by £7 and making the increase liable for tax, as part of a five year strategy of introducing an integrated child benefit. Once an adequate level of child income support is achieved, CDAs could then be clawed back, so easing the transition from welfare to work. However, it is important that CDAs are not withdrawn until an adequate level is achieved through increases in child benefit, otherwise families dependent on welfare will lose out at the expense of better-off families.

(iii) Lone Parents

In 1987 lone parents were found to be one of the groups at greatest risk of poverty. In 1994 female-headed households and single adult households with children were identified as having a high risk of poverty. Research in Ireland has shown that the majority of lone parents are dependent on the state for their main source of income.

Recent research by McCashin (*Lone Mothers in Ireland, 1996*) shows that the income levels of lone parents dependent on social welfare are below the minimally adequate rates recommended by the Commission on Social Welfare and that as a consequence their living standards are seriously constrained. However, it is noted that recent policy changes have improved the position of lone parents - payment rates have increased, the earnings disregards have been improved significantly and treatment in relation to participation on Community Employment Schemes has improved significantly.

International comparisons suggest that while lone parent families in many countries experience poverty, lone parents do best in countries where state support is relatively generous to all families with children, and worst where they have to rely on social assistance. Thus income adequacy for lone parent families can best be dealt with in the context of a broader focus on the needs of children in all families. McCashin's recent research demonstrated that the majority of the lone parents he interviewed want

to work, or return to work when their children are older. When asked about the areas that they would seek to improve the largest response was for improvements in child care, so that they could return to the workforce outside the home. The lack of affordable child care and access to training were found to be barriers to lone mothers finding employment. Thus the provision of more accessible child care facilities, and assisting people with child care costs must be a priority.

Two other areas of concern were the adequacy of social welfare payments to families with children dependent on social welfare and the need to re-examine the case for making Child Benefit age-related to reflect the higher costs associated with raising adolescent children.

Social welfare payments for families with children, including lone parent families should be adequate: the best approach to achieving this is to raise basic social welfare payments to an adequate level; to substantially increase child benefit, make it taxable and consider the possibility of making it age-related; through the provision of more accessible child care facilities to enable lone mothers to return to work; and through assisting low income people with child care costs.

(iv) People in Home Duties

The risk of poverty for people in home duties, who are mainly women, is an issue which warrants much broader consideration of the role of women in society and their treatment under the social welfare code than is possible here. Some issues in relation to women's dependency under the social welfare system are outlined below. In this section we briefly look at survey evidence on the risk of poverty for people on home duties and female headed households in 1987 and 1994.

In 1987 survey evidence indicated that the risks of being in a poor household were similar for men and women. However, in 1994 it was found that female-headed households are now at a substantially higher poverty risk than male- or couple-headed households. Also, households where the head is engaged in home duties is at a substantially higher risk of poverty in 1994 than in 1987 and the incidence of this type of household among households who are poor has increased significantly. It is suggested that this is because support rates for the elderly and widows increased by a good deal less than mean incomes between 1987 and 1994.

In conclusion, further exploration of the increased risk of this group is required - initially there is a need to ensure that their payments are adequate, but also that issues relating to their entitlement and access to employment opportunities are addressed.

(v) Farmers

In 1987 small farmers were identified as being at risk of poverty. However, in 1994 farmers made up a much smaller of poor households than they did in 1987. The decreasing risk of poverty for households headed by a farmer is a reflection of the fact that 1986, the year to which the information on farm incomes in the 1987 survey

applies, was a particularly bad year for farming. It is therefore unsurprising that the risk of poverty is less for farmers in 1994, which was a much more typical year.

Nevertheless, other evidence on rural poverty suggests that there are a group of small farmers, many of them elderly, and with a relatively small proportion of their income coming from farming who can still be identified as at risk of poverty. While the plight of these small farmers will be addressed by the NAPS Theme Group on *Tackling Rural Poverty*, it is as well to bear in mind the need for adequate income support for farmers who are unable to derive an adequate standard of living from their farming enterprises or alternative sources of employment.

(vi) People with Disabilities

People with disabilities were identified as being at high risk of poverty in 1987. This remained the case in 1994 where households where the head was ill and households where the head was disabled were at a high risk of poverty.

The majority of disability payments still fall below the minimally adequate rates set by the Commission of Social Welfare. In addition people with disabilities encounter a range of extra costs which arise from the nature of their disability eg. costs of aids, adaptations, higher insurance premia, additional costs for transport, diet or heating. Disability-related costs are not specifically covered by social welfare payments. While an estimate of the additional costs incurred by people with disabilities is difficult to establish without further research, existing studies here and in the UK have estimated substantial disability-related costs.

People with disabilities may also find it relatively difficult to obtain employment, if they choose to do so - unemployment rates among people with disabilities have been estimated as high as 70%. In addition to the fact that many people with disabilities find it difficult to obtain suitable employment, the withdrawal of allowances when recipients earn more than a specified amount each week acts as a disincentive to many people with disabilities taking up employment. Once in employment, the issue of low pay often arises.

All disability payments should be increased to the minimally adequate levels recommended by the Commission on Social Welfare, the additional costs of disability should be assessed, documented and included in an integrated system of support for people with disabilities and barriers to participation in education, training and employment should be removed.

(vi) Elderly People

The 1987 survey showed a very significant improvement in the position of the elderly though some remained at risk of poverty. However, information from the 1994 survey indicates that single adult households, households headed by an elderly person and households headed by someone in home duties - with a good deal of overlap between these groups - had an increased risk of poverty. Support rates for the elderly rose by a good deal less than mean incomes between 1987 and 1994, and as a result those

relying entirely on means-tested old age pensions at now at a greater risk of poverty.

This finding indicates the increasing vulnerability of elderly people relying on state pensions to the risk of poverty.

In this context, old age non-contributory pensions should be raised to a minimally adequate level, as discussed above.

(vii) Students

In a submission to the National Anti-Poverty Strategy the Union of Students in Ireland have raised the inadequacy of income support for students - "Access to third level education remains outside the remit of many young people while thousands of young students in third level live in poverty." Research and submissions to the National Anti-Poverty Strategy have clearly shown the importance of education in providing opportunities for employment and a route out of poverty. While students will no longer have to pay fees at third level, for those from low income backgrounds the subsistence costs of going to college may prevent potential students from seeking or taking up a place at college. While such issues will no doubt be considered by the NAPS Theme Group on *Educational Disadvantage*, there are particular income adequacy issues which should be considered by this sub-group on *Income Adequacy*.

For example, a USI survey has contrasted the maximum rate of grant of £1,523 (1995) to an estimated cost of living for a student living away from home at £5,497 - this represents a shortfall of £3,974 per annum. Students receive less than a single adult on unemployment assistance yet have the additional costs of attending college. While students may be able to repay these costs in the longer term, it does not provide an incentive for young people to go to college, where there are financial constraints.

Thus, given the importance of education in addressing poverty the National Anti-Poverty Strategy should ensure that students from low income families at third level receive an adequate level of income to maintain them while at college.

(vii) People out of Home

Poverty may lead to homelessness and in most cases homelessness is associated with poverty and exclusion. While there are many complex issues associated with the reasons for people becoming homeless the provision of an adequate income is a key issue in ensuring that this is not a reason resulting in people becoming homeless. It is also important that the Departments of Health, Social Welfare, Environment and Justice work together to prevent people becoming at risk of homelessness.

(viii) The Travelling Community

The Travelling Community has been found to be at a high risk of poverty. While there are a range of issues to be resolved in addressing poverty for the Travelling Community, such as discrimination, provision of suitable and adequate accommodation, addressing health and education issues, the provision of an adequate

income is key in improving their standard of living. The delivery of that income is also an issue which needs to be addressed.

4.3 *Women's Dependency*

The social welfare system continues to assess and pay benefit on the basis of "family payments" where one adult claims for and collects the payment for the other adult and any children. Married women have the right to claim unemployment assistance in their own right if they satisfy qualifying conditions; however, many are not eligible because of low participation in the labour force and home duties. As a consequence men usually claim for the family. This means that the adult dependent receives no income in his/her own right and depends on the other partner for financial support. In many cases this may increase the risk of poverty for women.

The social welfare system also treats cohabiters as a married couple so that any woman living with a man is automatically considered his dependent and the payment is a joint one. Conversely, the tax system treats cohabiters as two separate individuals which precludes them from benefitting from the married couples tax allowance. The Expert Integration Group has proposed that consideration be given to the possibility of allowing for the joint taxation of cohabiting couples where the couple have a child mainly resident with them, who is wholly or partly maintained by the couple concerned.

The rate of payment for the adult dependent, who is usually a woman, is 60% of that of the main claimant. This is based on an "economies of scale" argument, even though there has been no research undertaken in Ireland as to what the appropriate equivalence scales should be. The Agency supports the Expert Integration Group's recommendation that research should be undertaken to establish appropriate equivalence scales for Ireland.

In addition, the threshold for "adult dependents" creates a disincentive to take up work above a certain income, (currently £60 per week). While there are provisions in train to allow for a tapered withdrawal of the Adult Dependant Allowance, until this is operational women are destined to low paid work or dependence on social welfare.

Research has shown that among households receiving Child Benefit, 58% of women have no other source of income; in 10% of households employment or interest provides an income which on a weekly basis is less than what Child Benefit provides. Women's earnings exceeded Child Benefit in only 32% of households. It is relevant to note here that Child Benefit continues as the one source of state income support that is paid directly to the mother.

There is also evidence that the family income, be it from social welfare or employment, is not shared equally between husbands and their wives. Irish research has shown the division of expenditure responsibilities follow traditional gender-based patterns in which the wives take primary responsibility for day-to-day essentials and the husbands for larger recurrent expenses such as rent. Husbands are consistently more likely to have access to money for their own entertainment and to have more

money to spend on leisure. Women's incomes are largely devoted to family rather than personal expenditures. In families of school-going children there is an apparent shift from personal spending to spending on the children.

There is thus a need under the National Anti-Poverty Strategy, particularly in relation to income adequacy, to recognise that the recent changes in family structures have been accompanied by changes in the role of women. As noted by the Expert Integration Group, this has brought an increased emphasis on the dignity of the individual, and on individual rights to be made available to people irrespective of their social role. In particular there has been a rejection by women of the idea that their position is automatically seen as dependent. The social welfare system, and its interaction with the tax system, needs to recognise these changes and introduce reforms accordingly.

Thus, under the National Anti-Poverty Strategy consideration should be given to reducing the concept of dependency and moving towards a more individualised social welfare system.

5. Incentives

The transition from unemployment to work can be a difficult one due to a range of factors including the insecurity of work payments compared to social welfare payments, the loss of secondary benefits, the start up costs associated with a new job, uncertainty around the assessment for Family Income Supplement or reassessment of means, and the temporary loss of income while moving from one payment system to another. This can result in unemployment traps, real or perceived, particularly for families with children. Some of these uncertainties, anomalies and disincentives occur as a result of the interaction of the tax and social welfare systems which can leave some families better off on the dole, than in low paid work.

This concern led to the establishment of the Expert Integration Group and should be addressed by the NAPS Theme Group on *Income Adequacy*. The *Income Adequacy* Theme group should endorse the principles which guided the Expert Integration Group's report. These are:

- *there must be a reward for working*: people facing a job offer, or in lower paid employment, must be certain that they are identifiably better off by taking the available work than they would be if they stayed on unemployment payments;
- *the transition to work should be facilitated*: the income tax and social welfare systems should not create difficulties for people moving between unemployment and employment;
- *tax on the lower paid should be reduced*: since many unemployed people, in particular the long-term unemployed, cannot command earnings at or above the average, every effort must be made over time to reduce or eliminate the tax wedge at lower income levels; where low earners pay no tax, subsidisation

through the benefit system provides an important and well targeted support to work;

- *the tax and social welfare systems should be simpler:* complexity discourages movement between unemployment and employment; and
- *tax and social welfare reforms should be co-ordinated:* many of the problems with the existing systems arise from the failure in the past to co-ordinate tax and welfare policies, particularly where they relate to unemployment/employment; institutional frameworks must be found to ensure that this weakness is eliminated.

In relation to the implementation of the Expert Integration Group's recommendations as part of the National Anti-Poverty Strategy, the Combat Poverty Agency sets out the following priorities:

5.1 Adequate Social Welfare Payments

While it is recognised that a balance must be struck between providing adequate social welfare payments and maintaining or improving the incentive to work, the National Anti-Poverty Strategy must be clear about ensuring that everyone is entitled to a minimum income standard, first and foremost.

The establishment of a minimum income standard, as discussed at 3.1 above, should be the key concern in tackling poverty and should be a key consideration in the introduction and implementation of the recommendations made in the Expert Integration Group's report.

5.2 Substantially Increasing Personal Tax Allowances

Tax policies at the lower end of the income distribution should be directed towards limiting and eventually abolishing the system of tax exemption limits. This should be done by increasing personal tax allowances at a rate faster than exemption limits, so that, over time, personal allowances will be brought up to a level comparable with those for exemption limits. This would have the benefits of improving the incentive to work, removing the poverty trap from the income schedule, increasing the incomes of the lower paid (non-tax exempt workers), promoting employment (particularly among the long-term unemployed), reducing welfare dependency, simplifying and rationalising the tax system and aligning tax allowances and welfare payments. Further examination of standard rated allowances and consideration of a system of tax credits is also warranted.

As a first step personal tax allowances (inclusive of the PAYE allowance) should be increased to £3,575 for a single person and £7,150 for a couple, as part of a two year strategy of equalising tax allowances and exemption thresholds.

5.3 *Enhancing Child Income Support*

Enhancing child income support through substantially increasing it and making it liable to tax would improve the incentive to work for families with children, remove the poverty trap from the income schedule, improve the financial dependence of mothers, increase the income of lower and middle income families, bring child payments for welfare families closer to an adequate level, reduce welfare dependency and simplify the system of child income support. Details of the reforms envisaged are outlined at 3.2 above.

5.4 *Retention of Medical Cards*

The real and perceived loss of a medical card can be a significant disincentive to people considering moving from the surety of a social welfare payment to the relative uncertainty of a job. In theory, following the 1996 budget, people taking up employment, where they have been unemployed for a year or more can retain their medical card for a period of three years. In practice, this policy has had some teething problems administratively, but if the operating problems are resolved this should remove the disincentive to take up work due to the withdrawal of the medical card.

The Expert Integration Group also considered the possibility of extending the medical card to all children. The Agency believes that this option - extending the medical card to all children qualifying for Child Benefit regardless of household means - warrants further consideration and implementation. This would mean that when a parent took up employment or received a pay increase they would only lose the benefit of the medical card for themselves and any adult dependents. This approach is equitable, administratively cost efficient, non-divisive and easy to understand, and would significantly improve the situation for low income families with children, who may be least able to take up low paid jobs under current circumstances.

Consideration should thus be given to extending the medical card to all children.

5.5 *Housing Income Support*

At present, a wide range of direct and indirect subsidies towards housing costs is provided through the social welfare system (via SWA supplements), through various tax reliefs and through local authorities (differential rents), as well as a number of smaller schemes. Currently, 39,000 households are in receipt of rent and mortgage supplements under the SWA scheme, which represents about 30% of all households in receipt of social housing (ie. housing which meets the needs of households whose resources are insufficient to provide them with access to suitable and adequate housing - it includes local authority housing and housing provided by voluntary and non-profit housing agencies).

The operation of some schemes, such as the SWA rent/mortgage supplements, contributes to unemployment and poverty traps. These arise from (i) the exclusion of full-time employees from eligibility for supplements; (ii) the withdrawal of

supplements on a £1 for £1 basis where additional income is secured, including that earned by an adult dependent; and (iii) the claw back of any welfare income above the basic SWA rate, which is the lowest of all welfare payments and only 90% of the minimally adequate rate recommended by the Commission of Social Welfare.

The proposed solution to these problems is through the introduction of a statutory, means-tested scheme of housing income support, which would be open to employed and unemployed people. The scheme would incorporate a tapered withdrawal of benefit, where income exceeded a basic eligibility threshold. It is also advisable that the new scheme would incorporate other similar forms of housing assistance operated by the local authorities, including differential rents.

A reformed scheme of housing income support would improve the incentive to work, remove the poverty trap facing households on welfare, reduce welfare dependency, simplify the system of housing income support, eliminate anomalies between schemes of housing assistance, make public subsidisation of housing more transparent, provide a greater choice to households in need of housing and strengthen the social housing sector in general.

Under the National Anti-Poverty Strategy consideration should be given to the introduction of a statutory means-tested system of housing income support.

6. Combining Welfare and Work

The nature of work is changing and the social welfare system needs to be able facilitate the transition from unemployment to work and various combinations of work and welfare. Social welfare policy has acknowledged these changes and responded through the part-time job incentive scheme, the back-to-work allowance and the retention of secondary benefits such as the medical card for those returning to work and improvements for lone parents. However, much more remains to be done, if we are to seriously tackle poverty through facilitating people back into the labour market on either a full-time or part-time basis.

The option to combine welfare and work could be enhanced by improving the earnings disregard on means-tested payments through bringing them in line with entitlements currently available to lone parents, incorporating a child care element, tapering the withdrawal of the adult dependent allowance, including an earnings disregard for a working adult dependent under the FIS scheme and simplifying procedures and making them more transparent.

Encouraging the smooth transition from welfare to work and developing a strategy that acknowledges that a pattern of welfare/work combination is likely to remain, and even develop in the future, would have the benefit of allowing welfare recipients to take advantage of work opportunities when they arise secure in the knowledge that they have an income safety net. Such an approach may be relevant to the growth in seasonal work, particularly in rural areas.

The National Anti-Poverty Strategy should facilitate welfare/work combinations through improving earnings disregards on means-tested payments.

7. Taxation

7.1 Redistribution

The operation of the taxation system can be less than fully effective in relation to addressing poverty. Work by Atkinson has shown that in terms of the distribution of disposable income in Ireland, the poorest 10% receive 2.5% of the total income in Ireland; in contrast, the richest 10% receive 25% of total income. The operation of the tax system is the main redistributive mechanism available to government to fund public expenditure and ensure that income is redistributed from the rich to the less well off.

There is a general perception that the Irish tax system is in urgent need of reform. However, there is less agreement on how this should be done. The Combat Poverty Agency has consistently recommended a reform of the present system to take greater account of the needs of those at risk of poverty, and more generally, those on lower incomes. Reforming the tax system to achieve greater social equity has to satisfy two aims. Firstly, the revenue raised through taxation needs to be sufficiently large to afford the economic and social programmes that prevent significant parts of our community from becoming excluded from the living standards that the majority of Irish people enjoy. Secondly, it is important to ensure that the tax burden does not fall on those families who already face considerable risk of poverty.

The Agency has identified the following priorities in reforming tax policy:

- tax reform should aim to reduce the tax burden of those on the lowest incomes;
- tax reform should aim to enhance the progressivity of the tax system and to remove the major regressive elements; and
- tax reform should aim to achieve, where possible, a shift away from reliance on taxation of personal earned incomes.

A package of reform along these lines would make the tax system fairer and should impact positively on the labour market. It is important to ensure consistency between policies on taxation and transfers given their overlapping effects on the distribution of incomes. Savings within the tax system should not be redistributed exclusively within the tax system. Rather they must be considered with regard to overall budgetary objectives including the priorities for combating long-term unemployment and improving social welfare provision as set out above.

7.2 *Tax Liability of the Lower Paid*

Tax exemption thresholds have expanded significantly in recent years as a targeted and cost-effective way of minimising the tax liability of lower earners. The down-side of this policy has been to greatly increase the number of workers paying tax at the marginal relief rate of 40%. For lower income workers also in receipt of Family Income Supplement, the combined effect can be a severe poverty trap, with workers losing up to 100% of additional income.

The problem of high marginal tax rates can be addressed by re-balancing and eventually equalising the value of tax exemption thresholds and personal tax allowances. This will have the effect of greatly reducing the number of lower earners which fall within the system of tax exemption/marginal relief. While increasing the basic tax allowances would bring, in absolute terms, greater benefits to those on higher earnings, an increase in the general allowance has at least the advantage that it conveys greater reductions in the average tax rate to those on lower incomes. Combined with the reform of child income support, as outlined above and analysed by the Expert Integration Group these measures can greatly improve the situation of those on low incomes.

As outlined above, personal tax allowances (inclusive of the PAYE allowance) should be increased to £3,575 for a single person and £7,150 for a couple, as part of a two year strategy of equalising tax allowances and exemption thresholds.

7.3 *Employer's PRSI*

There would appear to be some scope to restructure employers' PRSI in order to promote the creation and retention of less skilled employment, the erosion of which has disproportionally contributed to the growth of long-term unemployment. At the same time, any restructuring of employer PRSI should maintain the current overall employer contribution to the social insurance fund.

Currently, employers' PRSI is tilted against the employment of low paid workers, in that, wages in excess of £26,800 per annum are not liable to employers' PRSI, making it less expensive to employ one person for £33,000 than two people at £16,500 or three people at £11,000. Some progress has been made on this issue in last year's budget when employers' PRSI rates were reduced, the ceiling was raised and the thresholds increased. In addition, employers are no longer liable to pay the health and employment levies for employees with medical cards. While these changes are welcome more could be done to tilt the payments structure in favour of low paid employees. The introduction of a single low rate of contribution with no ceiling would improve the current PRSI system on the basis of equity, efficiency and administrative simplicity. Alternatively a super low rate of employers' PRSI could be introduced for those earning up to £80 per week above the allowance limit. These changes would enhance the capacity of the economy to create self-sustaining employment over the longer term.

Consideration should be given to restructuring employers' PRSI to reduce labour

costs for the low paid and promote job creation (and retention) of low paid employment.

7.4 Broadening the Tax Base

There is a clear need to improve the current share-out of the tax burden, primarily by widening the tax base. The capacity of government to support existing and additional public expenditure is a function of the tax base and the effectiveness of collection methods. The perceived fairness of, and hence public support for, the instruments of taxation is an equally important consideration. Three issues present themselves in relation to broadening the tax base: the regressive impact of tax reliefs and allowances; the low tax threshold on property assets; and the structure of employee PRSI and the two levies.

A feature of the income tax system is the prevalence of discretionary tax reliefs. Whatever their economic rationale, these reliefs are particularly objectionable because of their "topsy-turvy" distributional effects, whereby higher rate tax payers gain more than other earners. This imbalance is not justifiable on equity, efficiency or administrative grounds, and should be a priority for tax reform. In recent years, the government has introduced important changes in this area, notably by standard-rating mortgage and VHI reliefs. A logical next step would be to standard-rate the Business Expansion Scheme (BES), section 35, pension and urban renewal tax reliefs.

Thus, the various tax reliefs and exemptions should be "poverty proofed".

Action to widen the tax base by including income earned from property as taxable income should be considered. Many problems have been highlighted in relation to the current mechanism for taxing property - the residential property tax. A more equitable and comprehensive system for imputing income from property should be explored. In addition, to improve the transparency of property tax, mechanisms to allow a proportion of the additional revenue raised to be retained for discretionary funding by local government should be considered in the context of local government financing. While recognising the perceived weaknesses of the current residential property tax, from an equity viewpoint it is critical that the tax is, at a minimum, retained and, ideally, enhanced.

It is proposed that consideration be given to the introduction of a comprehensive property tax which would take account of ability to pay. A proportion of the income from this tax could be retained locally for discretionary allocation by the relevant local authority.

Employee PRSI, and to a lesser extent, the health and training levies should also be addressed under the National Anti-Poverty Strategy. Employee PRSI is, in its current form, quite a regressive tax. The introduction, in 1995 of a £50 PRSI allowance, and its extension to £80 in 1996 were welcome moves. This should be extended. This reform could be funded by abolishing (or significantly increasing) the income ceiling for employee PRSI, which would also have the benefit of making PRSI more neutral as between higher and lower earners. Recent reductions in the two levies for lower

paid households are also welcomed. However, the method chosen - an exemption set at £9,776 - has created a poverty trap. Converting this exemption into a basic allowance, as happened with PRSI, or in the longer term integrating the levies into the income tax system, would be a less problematic way of assisting low earners.

Thus, as a first step the allowance for employee PRSI should be increased from £80 to £100; and an allowance should be introduced against the levies.

8. Employment

While the Theme Group on *Income Adequacy* is mainly concerned with issues relating to the social welfare system and the taxation system and their interaction there are also some issues relating to employment which are of concern. The Agency has identified the following issues which should be considered by the *Income Adequacy* Theme Group:

- the take up of labour market programmes
- in-work benefits
- low pay.

8.1 *Take-up of Labour Market Programmes*

This is an issue which should be considered by the NAPS Theme Group *Addressing Long-Term Unemployment*, but there are some issues which relate to income adequacy and the social welfare system. A welcome feature of recent government policy is the provision of various labour market programmes for long-term welfare recipients. The programmes are frequently essential stepping stones if the long-term unemployed are to have a realistic chance of accessing work. A disturbing aspect of this expanded provision, however, is the often significant financial costs associated with participation. These can include loss of secondary benefits, travel and clothing costs and opportunity costs. While some of these costs have been addressed by recent policy changes, including the retention of secondary benefits, problems remain particularly around the lack of clarity, from the claimant's viewpoint, as to the mechanisms for retaining such benefits.

A basic problem here is the range of income-support approaches under labour market programmes. Three regimes can be identified: (i) welfare-based eg VTOS; (ii) allowance-based eg Specific Skills training; and (iii) wage-based eg the Community Employment Programme. Over time these regimes have become intermingled, resulting in both confusion and inconsistency. Other issues to be addressed here are those of access to education and training courses while on welfare and include eligibility, the range of options available and accreditation mechanisms.

The current income support measures to facilitate labour market programme participation should thus be reviewed with a view to making them consistent and

transparent and promoting the participation of the long-term unemployed.

8.2 *In-Work Benefits*

A particular focus of recent tax and welfare reforms has been, rightly, to seek to improve the in-work benefits available to low earning families. This has mainly been through the tax exemption limit, discussed above at 6.2 and the Family Income Supplement. The potential of the Family Income Supplement (FIS) is limited by its low take-up rate and its high rate of withdrawal. While improvements to FIS have been introduced in recent budgets, including an increase of £10 in the income limit and the retention of CDAs for 13 weeks for persons unemployed for 12 months or more who take up employment which is expected to last for at least 4 weeks, its ability to further improve the position of those already being helped is limited.

The Agency thus favours the development of a more strategic approach to assisting low paid families through the reform of child income support and increasing personal allowances as discussed above.

8.3 *Low Pay*

While the ESRI survey analysis has found that low paid households are not at a particularly high risk of poverty, *who in the household is low paid* is critical. Where the primary earner is low paid the household may be at risk of poverty, particularly where there are dependent children. Where the low paid person is not the primary earner, the level of pay may be less critical.

In addition to who is low paid, the *nature* of low paid jobs warrants consideration. Many jobs which are low paid offer poor working conditions and few prospects of advancement. Labour market changes are resulting in an increase in part-time working, short-term contracts, temporary employment, casual working and short-term working.

Increasing the number of low paid jobs will not in itself address poverty in most cases, although it is recognised that lower paid jobs may provide a stepping stone to improved employment opportunities. In this context it is important that there are income supports for people who are on low pay, particularly if they are primary earners with dependents. Additional assistance, such as education and training, also needs to be provided to help some people move from low paid to higher paid employment. Low paid, low skill jobs should not be seen as an end in themselves, but as part of a progression route to higher skilled and higher paid work. In addition, people in low paid work must be provided with the tax and welfare supports proposed above.

9. Debt

There are a number of links between debt, credit and poverty. These have been identified as:

- households living in poverty face a very high risk of falling into debt, because of the high cost of credit, limited financial means and inappropriate repayment methods;
- indebted poor households are very vulnerable in the face of the procedures used by creditors to recover their debts;
- indebted poor households face considerable personal and social pressures which are likely to exacerbate their sense of social exclusion;
- an increasing number of low income households are turning to credit as a means of providing basic necessities, especially those relating to children;
- the credit made available to low income groups is frequently much more expensive than conventional credit and carries far less consumer protection; and
- the erosion of mainstream financial services in disadvantaged communities hastens their spiral into economic decline and hinders attempts at local renewal.

The Credit and Debt Policy Coalition have made a very comprehensive and detailed submission to the National Anti-Poverty Strategy, including a large number of recommendations on how credit and debt issues for low income groups should be addressed. In addition, the Credit and Debt Policy Coalition are currently undertaking a comprehensive research study, which when complete, will further assist in our understanding of these issues and the development of strategies to deal with them.

The Income Adequacy Theme Group of the National Anti-Poverty Strategy should carefully consider the detailed and comprehensive submission made by the Credit and Debt Policy Coalition and, in particular, critically assess the recommendations contained therein.

10. Fuel Poverty

Fuel poverty has been defined as *"the inability to afford adequate warmth because of the energy inefficiency in the home"*. Fuel poverty has been identified as a problem which faces about one third of households in Ireland, which are in receipt of one or more type of fuel allowance. A number of substantial submissions were received on fuel poverty, outlining the nature of the problem and making a range of recommendations to address fuel poverty. These include the establishment of a national twenty year programme to retrofit those homes where fuel poverty is most

prevalent with a range of comprehensive measures and central heating. Programmes are recommended for the local authority sector, the private rented sector and low-income owner-occupied homes.

The Income Adequacy Theme Group of the National Anti-Poverty Strategy should carefully consider the submissions made to address fuel poverty and critically assess the recommendations contained therein.

11. The Role of the Community and Voluntary Sector

The community and voluntary sector has an important role to play in the implementation of the National Anti-Poverty Strategy. This role has been increasingly recognised in recent years and is evident in the increasing emphasis on the concept of partnership between the state, state agencies, the private sector and the voluntary and community sector. Community development has a central role to play in this regard by developing community capacity and in helping to create the conditions for more effective social and economic development.

Thus, the success of any programme to regenerate areas of multiple disadvantage will crucially depend on the involvement of strong local community groups in the planning and management of initiatives. In some of the most disadvantaged communities the community infrastructure is very weak. A process of community capacity building - through which local people are mobilised and the local community development infrastructure fostered - is an essential in local development. The establishment of community development initiatives which co-ordinate and support voluntary action is often an essential precursor to the development of effective partnerships. However, the level and type of resources available to the community sector is often dependent, insecure, short-term and inadequate.

The National Anti-Poverty Strategy should recognise the important role of the community and voluntary sector in anti-poverty work and provide an adequate level of resources and support accordingly.

In addition, the voluntary sector can play an important role the provision of information about benefit entitlements and payments and in the improvement of take-up through the promotion of benefit take-up campaigns.

Given the importance of this work in tackling poverty and in improving the efficiency and effectiveness of benefit schemes the role of the voluntary sector in the provision of information services on benefits and their role in promoting take-up campaigns should be recognised and supported.

12. Basic Income

A number of Submissions under the National Anti-Poverty Strategy proposed the adoption of a Basic Income scheme to address poverty in Ireland. A Basic Income

scheme, and variants thereof, were also considered in some detail by the Expert Integration Group, supported by research undertaken by the ESRI. While the Agency recognises that the Basic Income model and its derivatives have some attractions we believe that in terms of addressing poverty, the potential of basic income schemes in Ireland is limited, unless the basic payment is at a level to lift people out of poverty. The main disadvantages of a basic income scheme are that it is poorly targeted in addressing poverty, it does not have the flexibility to meet different needs in different ways and its substantial cost.

13. Conclusion

The National Anti-Poverty Strategy provides a unique opportunity to strategically and comprehensively substantially reduce poverty, social exclusion and inequality in Ireland. Serious consideration and implementation of the policy recommendations relating to income adequacy contained in this paper are key to ensuring that the implementation of the National Anti-Poverty Strategy will lead to real improvements in poor people's lives so that no longer will up to one fifth of the people of Ireland be subjected to living in poverty.