

Policy Submission

Making a Decisive Impact on Poverty

Pre-Budget Submission 2006

October 2005



Making a decisive impact on poverty

**Submission on Budget 2006 to
the Minister for Social and Family Affairs**

October 2005

Summary of proposals for Budget 2006

Item	Proposal	Cost (million)
Welfare rates	Increase personal rates by €15 per week	€709
	Increase qualified adult allowances (QAA) by €11 per week	€67
	Improve welfare provision	*
Child income support	Increase child benefit by €10 and €12	€137
	Increase child dependant allowances (CDAs) on an age-related basis to €20 (under 12) and €25 (12+)	€80
	Extend CDAs for all in full-time education up to 21 years	€0.5
	Increase clothing and footwear allowance by €10 + €20	€2.2
	Expand the school food programme	*
In-work benefits	Increase family income supplement thresholds by €42 per week	€21
	Increase the earnings threshold for retention of the QAA by €11.12 (full-rate)	*
	Increase the earnings threshold for retention of CDAs by €25 (full-rate) and €50 (half-rate)	€3 (half-rate only)*
	Increase child-related income thresholds for medical cards and differential rents scheme	N/a
	Increase earnings disregard under Supplementary Welfare Allowance rent supplements	*
	Reduce the expenditure threshold under the Drugs Refund Scheme to €50 per month for households with children holding a doctor-only medical card	N/a
Childcare	Provide sessional pre-school education to all 3 and 4 year old children from low-income families	N/a
	Provide vouched childcare disregard of €100 per week (1 child) + €50 per week for each additional child	*
	Provide a child benefit top-up of €20 per month for children under 5 years	€72
Savings and pensions	Introduce a low-income savings scheme in conjunction with Money Advice and Budgeting Service	€1
	Bring the means-tested state pension up to the government target of €200 per month (this requires an additional €2 per week on top of the proposed welfare increase of €15)	*
	Make PRSA contributions mandatory, with contributions from employers and state	N/a
	Reform retirement pension to enable people to continue to work at age 65	*
Income tax	Increase PAYE tax credit by €305 per annum	403
	Increase personal tax credit by €45 per annum	86

* A figure of €70 million is allocated to cover these miscellaneous welfare measures

1. Introduction

Combat Poverty has a statutory remit to advise on all aspects of public policy pertaining to poverty. Budgetary policy has a central role to play in tackling poverty, especially the use of the tax and welfare systems to redistribute resources to those on low incomes. Combat Poverty's submission on Budget 2006 sets out a comprehensive range of welfare measures, tax changes and social expenditure initiatives which are designed to make a decisive impact on poverty, with a particular focus on ending child poverty. It is estimated that these Budget proposals will reduce income poverty of up to 2 percent in 2006, with a knock-on effect on child poverty levels.

The submission assumes a tax/welfare budget package of €1,650 million, which is €80 million more than allocated in Budget 2005. The majority of this is allocated to welfare expenditure, including child benefit (€1,160 or 70 percent of the total package), while tax reductions are capped at the equivalent of wage indexation (€490 million or 30 percent of total). The submission proposes significant rate increases and structural reforms in the social welfare system, including child income support and in-work benefits. In addition, expenditure proposals in regard to childcare, savings and pensions are recommended, while it is suggested that tax revenues can be raised through the curtailment of tax incentives and reliefs.

The submission is premised on a two-year budgetary strategy. This reflects the scale of the problem to be addressed, the likely availability of significant exchequer resources over the next few years and the timescale of the Programme for Government.

2. Making a decisive impact on poverty: why relative income poverty matters

The policy response to poverty in Ireland is robust. The *National Anti-Poverty Strategy (Sharing in progress and Building an inclusive society)* commits the government to reduce substantially and, ideally, eliminate poverty and to build a socially inclusive society, within a timescale of 2007. This policy is reinforced under the EU Lisbon Strategy, which commits member states to make a decisive impact on poverty by 2010 through a series of *National action plans against poverty and social exclusion*. The new Irish National Action Plan on poverty and social exclusion for the period 2006-2008 is currently being prepared and may include revised targets for reducing poverty.

The challenge of poverty in Ireland is significant, whatever measure of poverty is used. The latest figures indicate that 23 percent of the population (903,000 people) are in income poverty (the EU measure), while 9 percent of the population (375,000 people) experience both income poverty and deprivation of basic necessities – usually referred to as consistent poverty (the Irish government measure).¹

Irish anti-poverty policy primarily focuses on trends in consistent poverty, which is how the poverty reduction target is expressed. There is no policy emphasis on reducing income poverty, though the government is committed to providing levels of income support sufficient to sustain dignity and avoid

¹ Central Statistics Office (2005), *EU Survey on Income and Living Conditions: first results for 2003. Statistical Release, 24 January, 2005*. Dublin: CSO

poverty. By contrast, income poverty is the dominant measure at EU level in monitoring progress towards the Lisbon goal of a decisive impact on poverty. The Irish emphasis on consistent poverty is justified on the basis that income poverty is influenced by wider economic factors, notably rapid income growth, while consistent poverty is more in tune with trends in actual living standards (though also subject to revision over time as expectations rise). It is also implied that the high Irish rate of income poverty is an inevitable feature of rising affluence.

The Irish rate of income poverty can be contextualised in three ways. First, it is amongst the highest in the EU and is 30 percent higher than the European norm. Second, income poverty in Ireland is worsening, having risen by a quarter since 1997. Third, the cash adult equivalent of the income poverty threshold in 2003 was €185.25 per week, almost 50 percent higher than the basic welfare rate at that time (€124.80 per week).

It is misleading from a national perspective to ignore these trends in income poverty for a number of reasons. In the first instance, consistent poverty includes an income component, which must be addressed if downward trends are to be maintained. There is evidence that the gap between those in consistent poverty and the rest of society is widening, suggesting further reductions will be much harder to achieve.

Second, rising incomes translate into higher living standards and so indicators of deprivation will have to be recalculated in line with societal expectations. This issue has already been flagged in the poverty monitoring reports of the ESRI. More recently, the higher deprivation findings reported in the new poverty survey (EU SILC) have challenged any complacency about an inevitable downward trend in consistent poverty and highlighted the need to update the deprivation indicators to reflect rising living standards.

Third, there are changes in the nature and composition of income poverty which raise important policy concerns. The main feature of recent income poverty trends is the emergence of general welfare dependency as the key risk factor for poverty, replacing unemployment. Thus, one in every two households dependent on social welfare is now in poverty. This reflects a widening income gap between those at work and social welfare dependents. A further consideration is the significant proportion of those in poverty who are at work (17 percent), which highlights the emerging problem of the working poor.

Finally, there is the phenomenon of income poverty becoming more persistent in its duration, with recent findings indicating that almost three-quarters of those affected had experienced income poverty over the preceding years.

Combat Poverty proposes that income poverty is made an explicit concern of government policy and that a measurable target for reducing income poverty is formulated. The key role of the Budget in reducing income poverty and how the budget package should be framed to meet this goal are set out in section 3 below. Before that, we examine the policy challenge that is posed by child poverty.

3. Ending child poverty: a defining challenge for industrialised societies

Child poverty has been identified in a number of policy statements as a key policy challenge, including *National Anti-Poverty Strategy*, the *National Children's Strategy* and the social partnership agreement, *Sustaining Progress*. Tackling child poverty is also a stated policy priority of the Minister for Social and Family Affairs. At an international level, UNICEF has highlighted the worsening problem of child poverty in developed countries. In a recent research report, it states that preventing child poverty is

*both the mark of a civilized society and a means of addressing some of the evident problems that affect the quality of life in the economically developed nations.*²

Recent figures (2003) indicate that 23 percent of Irish children are affected by relative income poverty, in line with the adult rate. More worryingly, 15 percent of children suffer the more severe form of consistent poverty, twice the adult rate. This translates to 120,000 children under the age of 15 years, or the equivalent of 145,000 children under 18 years. In terms of international comparison, Ireland along with the UK are countries with the highest rates of child poverty in the OECD.

The situation of children in poverty poses a serious risk. Low income and deprivation directly affects material circumstances and indirectly impacts on broader aspects of childhood, including health, education, social participation and quality of life. The social impact of child poverty has been highlighted in *Against all odds*, a qualitative insight into family life on a low income.³ Poor children, the study found, were at a triple risk of social exclusion: from school, from their peers and from a social and cultural norms. As well as the immediate social costs, child poverty generates long-term economic costs in terms of lower productivity, more unemployment and additional social provision.

Some children face a higher risk of child poverty than others.⁴ Lone-parent households demonstrate the highest incidence of child poverty, affecting one-in-three such households. Households with larger and older children also have a high incidence of child poverty (17 percent). Children in non-working households are at high risk of poverty. Other high-risk groups include children with a disability, Traveller children and children of minority ethnic groups.

Child-specific measures of have also been used to quantify child poverty.⁵ This indicates that a substantial percentage of children do without basic items: from 8 percent for three meals a day to 17 percent for bicycle/sports equipment. The percentage lacking these items increased significantly for

² UNICEF Innocenti Research Centre (2005), *Child poverty in rich countries 2005. Report Card No 6*. Florence: UNICEF Innocenti Research Centre

³ M Daly and M Leonard (2002), *Against all odds. Family life on a low income in Ireland*, Dublin: IPA and Combat Poverty Agency

⁴ B Nolan, (2000), *Child poverty in Ireland*, Dublin: Oak Tree Press and Combat Poverty Agency

⁵ S Cantillon et al (2004), *Sharing household resources. Learning form non-monetary indicators*, Dublin: IPA and Combat Poverty Agency. The deprivation items are: a birthday trip, school trips, having friends home to play, lessons/sports, three meals a day, pocket money, toys and bicycle/sports equipment.

lone parents, with between 13 and 28 percent doing without. Factors such as unemployment and larger family size further exacerbated deprivation levels. The overall distribution of deprivation among children reveals that just over a fifth (22 percent) of all children experience deprivation. Of this group, 6 percent are deprived on 3-5 items, while a further 8 per cent are forced to do without six or more of the items. Again, for lone parents, these figures increase significantly, with 45 per cent experiencing some form of deprivation, while 21 and 15 percent respectively face the most extreme levels of deprivation.

The extent of deprivation for children is much higher for households in poverty. However, a significant number reporting child deprivation is in non-poor households. This highlights the value of child-specific deprivation items, over general household measures, in monitoring the living standards of Irish children.

One aspect of child poverty of particular importance is duration, as prolonged exposure to low income will maximize the effects of childhood poverty. To investigate this issue, Combat Poverty is undertaking a study on the duration of child poverty. Two key issues are being examined: the duration of child poverty and the factors which lead into and out of persistent child poverty. The interim report on the study shows that certain associated factors cause children to flow into and out of poverty spells, such as household structure and composition, including the age of children within the households, receipt of social welfare benefits and the educational level of the household reference person.

To assist in the objective of ending child poverty, Combat Poverty has produced a policy statement outlining key strategies for tackling child poverty, drawing on European experience. The following mix of measures is recommended:⁶

- The incomes of households raising children need to be increased, while minimizing possible financial obstacles to parental employment.
- Increased investment in social provision is critical to the wellbeing of children, with intervention in early childhood education of key importance.
- Policy should address the household circumstances, especially the situation of jobless households.
- Additional measures is required to address the situation of children at high-risk of poverty, with a particular focus on lone parent and larger families.
- The mediating factors (family, school, neighbourhood) which can shape children's life chances should be strengthened.

⁶ Combat Poverty Agency (2005), *Ending child poverty*, Dublin: Combat Poverty Agency. A more detailed set of proposals were later submitted to the Minister for Social and Family Affairs at his request.

- Ending child poverty requires the development of a coherent policy framework.

4. The role of tax/welfare policy in tackling poverty

One of the main mechanisms for tackling poverty is the tax and welfare systems, which is at the core of government budgetary policy. These are the primary policy mechanisms for redistributing resources to low-income households and, more generally, ameliorating income inequalities arising from employment and ownership of resources. There are also specific child income supports, which are designed to channel resources towards families, especially those reliant on social welfare and on low wages.

The importance of the tax/welfare system in reducing poverty is illustrated by data on the effect of cash transfers on income poverty rates in EU countries. In the absence of cash transfers, income poverty in the EU would average 40 percent, as compared to 16 percent (a fall of 60 percent). Generally, the European evidence shows that countries with higher average living standards are better placed to reduce income poverty than are countries with lower standards of living.⁷ However, this is not the experience in Ireland, where cash transfers reduce poverty from 38 percent to 23 percent (a fall of only 40 percent).

This focus on cash transfers as a key determinant of low poverty rates is upheld in comparative poverty research. This finds that it is social protection that has the greatest impact on poverty rather than demographic or labour market factors. This role of social protection is further underlined by comparative EU data on welfare expenditure, which shows a relationship between aggregate welfare effort and poverty levels. Thus, Ireland's high poverty rate is matched by its low expenditure on social welfare. More specifically, there are clear differences in the relative value of welfare payments and the welfare structure between Ireland and countries with low poverty rates.⁸

An insight into how a strengthened system of tax/welfare transfers could reduce income poverty in the Irish context is demonstrated in the recent ESRI report on comparative poverty rates.⁹ In this analysis, the SWITCH tax/welfare simulation model is used to restructure Ireland's welfare system in line with that of that of Denmark, one of the best performing European states in terms of a low rate of income poverty. In modelling the Danish welfare system in Ireland, Irish welfare rates have to be significantly increased so that they reached the same proportion of average earnings. In addition, entitlement to higher social insurance benefits has to be widened, as Denmark has a greater proportion of welfare beneficiaries on social insurance. The adoption of the Danish welfare model would result in a substantial fall in income poverty (60 percent of median) of 4.5 percent, rising to 7 percent at the 70 percent threshold. The net cost of this package was €2,400 million (1998 values).

⁷ A-C Guio (2005), *Income poverty and social exclusion in the EU25*. Statistics in focus. Population and social conditions. Eurostat

⁸ T Callan et al (2004), *Why is relative income poverty so high in Ireland?*, Dublin: ESRI

⁹ Ibid

Tax and welfare policy also plays a role in tackling child poverty through child income support and related social transfers. For Ireland, social transfers reduce the gross child poverty rate by 37 percent, slightly less than the average reduction in OECD countries of 40 percent, but far less than that achieved in countries with the lowest rates of child poverty, which achieve a poverty reduction effect of 80 percent or more. In general, these findings show that variation in child poverty rates between OECD countries is primarily attributable to government policy on social transfers.¹⁰

Further confirmation of the link between social expenditure and child poverty is apparent in the finding that no OECD country devoting 10 percent or more of GDP to family and related benefits has a child poverty rate higher than 10 percent. However, it is not only the overall quantity of spending that matters, but also how it is dispensed. Thus, some countries, including Ireland, would appear to have the potential to reduce child poverty below 10 percent without a significant increase in overall spending.

5. Using the benefits of economic growth to reduce poverty

We now turn to look at the major opportunity in Budget 2006 (and 2007) to use the benefits of economic growth to make a major inroad on income poverty. The Irish economy continues to grow at an impressive rate. Gross National Product (GNP) is estimated to have grown by almost 6 percent in 2004.¹¹ The rate of increase in GNP will moderate somewhat in 2005 and 2006, to a very healthy 5 percent. Gross National Disposable Income (GNDI), a measure of living standards, rose by almost 5 percent in 2004. GNDI growth of between 4 and 5 percent is forecast in 2005 and 2006.

There are three main benefits from sustained economic growth. First, employment continues to rise. The latest household survey shows that employment grew by 72,400 in the last year, an increase of just under 4 percent. The majority of this growth was in full-time employment. The unemployment rate is now 4.2 percent or 82,100 people. It is estimated that employment growth will average between 2 and 3 percent in 2005-06. Second, earnings have increased by almost 6 percent in 2004.

Third, the public finances continue to strengthen on the foot of economic growth, boosted by revenue returns 3.6 percent ahead of forecast.¹² The exchequer returns show a deficit of €153 million, compared to the €2,988 million deficit budgeted for 2005 as a whole. This includes the full impact of the refund of nursing home charges, estimated to be €1 billion. Excluding this cost, which will be spread over a number of years, the underlying general government balance is projected to be in deficit by 0.4 percent of GDP by end 2005 (or roughly €600 million). The debt to GDP ratio is expected to remain below 30 percent.

Fewer people unemployed and higher tax revenues paint a positive fiscal outlook. What are the implications of this economic growth dividend for the budget package (welfare and tax) in Budget 2006? The last three budgets

¹⁰ UNICEF Innocenti Research Centre, *op cit*.

¹¹ D McCoy et al (2005), *Quarterly Economic Commentary Summer 2005*, Dublin: ESRI

¹² Department of Finance (2005), *Economic Review and Outlook 2005*, Dublin: Stationery Office

have seen a significant increase in the budget envelope, from €716 million in 2003 to €917 million in 2004 and €1,570 million in 2005. Given the continued improvement in the exchequer finances, an envelope of €1,650 million is not an unreasonable assumption for Budget 2006 (and Budget 2007).

While the total envelope of resources available in the Budget is of considerable importance in terms of the scale of tax/welfare reform, the share out between tax and welfare measures is more critical in terms of its distributional orientation. In overall terms, while the total budget allocation increased by 119 percent between 2003 and 2005, tax reductions garnered a far higher increase (almost three times), while welfare payments grew by only 65 percent. Thus, while the Budget has become increasingly generous, this trend has been much more favourable to income tax reduction over welfare improvements. The welfare-tax allocation in Budget 2005 was 56:44, far less than in the previous two budgets when the ratio was 74:26 (2003) and 68:32 (2004).

Table 1: Tax/welfare allocation in Budgets 2003-05

	2003	2004	2005	Change 2003-05
Total allocation	€716 m	€917 m	€1,570 m	+119%
Social welfare	€530 m (74%)	€630 m (68%)	€874 m (56%)	+ 65%
Income tax	€186 m (26%)	€287 m (32%)	€694 m (44%)	+273%

There is a strong argument that tax measures in Budget 2006 should be confined to indexing tax credits/bands in line with forecast wage growth for 2006 (4.3 percent), at a total cost of c €490 million (or 30 percent of the Budget package). There is broad agreement among the social partners that further tax reductions are not a priority. Where additional tax measures are merited, these should be financed through increases in other areas. The remaining resources should then be allocated to welfare items and child benefit. This would ensure that a minimum of €1,160 million or 70 percent of the total package is available to fund the extensive welfare improvements recommended below.

A pro-welfare focus in Budget 2006 will redistribute resources towards low-income groups, which is essential if relative income poverty is to be reduced. The alternative scenario, where welfare and tax achieve roughly equal shares, will result in little discernable effect in relative income poverty. The poverty outcomes of these alternative approaches are illustrated using the SWITCH model later in the submission.

In terms of child poverty, it is important that child income support remains a clear and distinct focus in government tax and welfare policies. In line with this, €290 million (25 percent) of the welfare package is allocated to child income support. In addition, a differentiation should be made in the additional funding for child benefit of €210 million, which is a universal payment, and the rest of the welfare changes, which mainly target those on low incomes. This

would ensure that child benefit increases are seen as a separate funding line, which does not impinge on the overall welfare package.

6. Proposed tax/welfare measures in Budget 2006

We now turn to the specific tax/welfare measures proposed by Combat Poverty for Budget 2006. These, in the main, focus on welfare improvements, with a combination of higher payments and structural reforms. There are also proposals on childcare and savings and pensions, which are designed to bring long-term benefits for low-income households. The final set of proposals relates to reform of personal taxation and tax reliefs. The proposals cover the following six policy areas:

- welfare payments
- child income support
- in-work benefits
- childcare
- savings and pensions
- tax reform

5.1. Welfare payments

The Government policy target is a basic welfare payment of €150 by 2007, which is the equivalent of €171 adjusted by forecast inflation.¹³ This leaves a gap of approximately €22 (€11 x 2) to be made up in the remaining three budgets. However, if inflation in the baseline year of 2002 is taken into account, the requirement is €29.40 (€14.70 x 2). Given that the increase in 2005 was €14, the higher figure is an affordable target. Therefore, Combat Poverty proposes an increase of €15 in the basic welfare rate in Budget 2006.

Last year, the Government gave a lower rate increase to welfare pensions. Combat Poverty proposes that the €15 increase is applied to all welfare categories. This is a more equitable approach across all welfare categories, while ensuring that those on the lowest payments still receive a higher percentage gain.

A frequently neglected aspect of welfare adequacy is the amount paid to the spouses or partners of welfare recipients (referred to as the qualified adult allowance, QAA). This level of this payment is critical given the absence of individual entitlement in the Irish welfare system. Currently, an additional adult receives 66 per cent of the personal rate, on the basis of economies of scale where two adults live together. The level of this additional payment is important in determining the living standards of couples. An official review of equivalence scales has indicated that the additional payment for a second adult is too low to ensure comparable living standards with single adult households.¹⁴ In line with this finding, the government agreed in Budget 2000 to increase the qualified adult allowance to 70 per cent of the personal rate. In order to achieve this target, a flat rate increase of €11 per week in the

¹³ Combat Poverty acknowledges there are other interpretations of how this target might be adjusted in 2007 values, based on indexation by wages or the equivalent of 30 percent of gross average industrial earnings.

¹⁴ *Report of the working group examining the treatment of married, cohabiting and one-parent families under the tax and social welfare codes* (1999), Dublin: Stationery Office

qualified rate is proposed. This would represent an equivalence scale of 73 percent on the proposed personal rate increase of €15 per week.

In addition to headline rate increases, Combat Poverty supports ongoing efforts to develop and expand welfare provision, including schemes which are based on a means test and targeted measures which address specific needs, eg fuel allowance, disability. A review of the fuel allowance, both in terms of coverage and rate, is particularly warranted given the increase in fuel costs. €20 million is proposed for this overall purpose.

Recommendations

- **increase personal rate by €15 per week**
- **increase qualified adult allowance by €11 per week**
- **develop and expand welfare provision, including the fuel allowance**

5.2. Child income support

Government policy has prioritized child benefit as the route for channelling resources to families, including those on low incomes. Child benefit is the mainstream support for all children. It fulfills a number of policy aims such as assisting families with childcare costs, tackling child poverty, supporting low-paid families and giving an independent income to carers in the home. Combat Poverty supports this universal approach to child income support as it confers the greatest proportional gain on poorer families and minimizes work disincentive effects. To fulfill this comprehensive mandate, the Government set a child benefit target of €149 per month (equivalent of €34.40 per week) initially by 2003, then 2005 and now by 2006.). This would require a minimum €8 increase to meet the original target figure in 2006. However, if the original target is adjusted by prices, then the value in 2006 terms is €160 per month. Therefore a higher increase is warranted. Combat Poverty proposes an increase of €10 in the standard rate and €12 in the higher rate, which is the same as provided in Budget 2005.

There are two administrative issues relating to child benefit which Combat Poverty wishes to highlight. The first is the frequency of the payment, which remains on a monthly basis, despite the major increase in its value in recent years. The frequency of payment is of particular relevance for low-income households. Child dependent allowances (CDAs), paid weekly, are now a much smaller component of the total child income support package. Combat Poverty believes that child benefit should be paid at least on a fortnightly basis, as is the case in the United Kingdom. The second relates to the non-eligibility of children of immigrant families, who are in the country for less than two years, to child benefit. This runs counter to the universal principle underlying child benefit and creates an artificial division between children of different backgrounds. The exclusion of newly arrived children from entitlement to child benefit should be reversed.

From a child poverty perspective, the proposed child benefit increase will not provide a sufficient improvement in child income support for a variety of reasons. First, its value for welfare-dependent families is undermined if CDAs continue to be frozen in nominal terms. This has been the situation since 1993. Second, the NAPS target for the total value of child income support is

between 33 and 35 percent of the adult welfare payment. A €10 monthly increase in child benefit, together with a €15 increase in the lowest personal welfare payment, would mean that the child income package would fall outside the target figure (31.8 percent). Third, updated estimates of the basic minimum costs of a child give an income range of €39 to €70 per week, with older children costing the most.¹⁵ The average minimum cost of a child is €54.32. The value of the child income package, including a €10 child benefit increase, would be €52.11 per week, giving a shortfall of €2.21 per week. This shortfall is much higher for older children, up to €18 per week.

Combat Poverty sees CDAs as a cost-effective solution to these issues. CDAs are a targeted mechanism to support the children of low income households in receipt of welfare. However, recent government policy has focused on child benefit as the means of supporting children on welfare and has left CDA rates unchanged since 1993. A review of policy on CDAs is justified by the rebalancing in the child income support package, with CDAs falling from 71 percent of the total in 1993 to almost 30 percent in 2005. Consequently, the bulk of child support is now employment neutral. Furthermore, the value of CDAs relative to the adult payment has fallen significantly, from 22 percent in 1994 to 11 percent now.

One drawback to the CDA from a low-income perspective is that it is not age-related. In fact, the payment is varied according to welfare status, with a differential of €5 or 30 per cent between the three rates. This division cannot be justified on the basis of need. Given the evidence that age is a key variable in the cost of a child, we propose an enhancement of the current structure based on a two-tier age-related payment. A minimal approach would be to abolish the lowest rate of payment and convert the two higher rates (€19.30 and €21.60) into an under 12 and 12 + payment. A more radical option, which is favoured by Combat Poverty as it would benefit older children in particular, would be to create two new age-related rates of €20 and €25. This would represent an improvement of €8.20 per week for older children in families on the lowest welfare rates, or 50 percent. One other reform which would benefit families in receipt of CDAs is to increase eligibility to 21 years for all children attending full-time education in welfare-dependent households. (Currently, this is confined to families on long-term welfare payments; others lose eligibility when a child reaches 18 years.)

Recommendations

- **Increase child benefit by €10 (standard rate) and €12 (higher rate) per month**
- **Increase and age-relate CDAs to €20 (under 12s) and €25 (12 +) per week.**
- **Pay CDAs up to age 21 where in full-time education for all welfare categories**

¹⁵ This is based on original estimates by C Carney et al (1994), *The cost of a child*. Dublin: Combat Poverty Agency, and updated by inflation. It should be seen as a conservative calculation of the basic costs.

School-related welfare supports

Child income supports which pertain to school continue to have an important role for welfare-dependent children, eg the back-to-school clothing and footwear scheme, the school meals scheme and the school books scheme. Enhancing these would not alone meet a financial need, but could also have a positive impact on school participation of poorer children. Key issues are the take-up of these schemes and level of benefit.

The clothing and footwear scheme could be reformed in three main ways: increase the value of the payment; make the payments easier to claim; and minimise the costs associated with these items. Take-up of the payments could be maximised by linking the payments into the mainline social welfare system, either as direct payments or on a passport basis. Similar improvements could be made in the school books scheme. There is also scope to reduce the costs of these items by promoting book rental schemes and standardising uniforms, so that they can be purchased in larger retail outlets.

An enhanced school meals scheme, based on a hot school dinner or its equivalent, would provide multi-faceted benefits for the health and education of poor children.¹⁶ Despite important advances in this scheme in recent years, there are still a number of elements which require further development. Central to this should be the provision of a nutritional hot school dinner to all eligible children. This programme could be extended to all schools in the long-term, with a tiered payment scheme. This would minimise stigma and reach out to a wider category of low-income children, as well as bringing important health benefits for all school children.

The provision of a school breakfast for low-income children has many advantages in terms of getting children to come to school and by providing them with a good start to the day. It also improves their overall social participation in school and contributes to health and well-being. Benefits would be maximised if breakfasts were provided as part of a breakfast club incorporating homework support. In the first instance, breakfast clubs should be developed in disadvantaged schools. There would be similar benefits from the provision of food snacks in after-school homework clubs.

Recommendations

- **Increase clothing and footwear allowance by €10 and €20 respectively to €100 (aged 2-11) and €190 (aged 12-17)**
- **Increase take-up by making the allowance part of the main social welfare system (rather than Supplementary Welfare Allowance)**
- **Encourage standardised uniforms and promote book rental schemes in all schools**
- **Extend school meals scheme to include a hot school dinner**
- **Provide breakfasts and snacks as part of pre and after-school programmes to tackle educational disadvantage**

¹⁶ Combat Poverty Agency (2000), *Submission to the Department of Social, Community and Family Affairs on its evaluation of the school meals scheme*. These proposals are also in line with the review of school meals schemes published by the Department of Social and Family Affairs in 2003.

5.3. In-work benefits

Combat Poverty recognises the key contribution of paid work if poverty is to be tackled. This is not simply a question of ensuring a financial incentive to work, but also providing additional support to low-paid workers with dependent children. There is a small but growing pattern of working poverty associated with the major growth in employment in recent years, with 157,000 people affected. To make work pay, especially where children are being supported, the main policy instrument is the Family Income Supplement (FIS), while secondary benefits such as the medical card and housing allowances also play an important role. FIS remains a limited instrument because of take-up problems. It also primarily targets households with one child, with a proportionally much lower level of benefit for low-income employees with larger families.

A review of second-tier child income support (FIS and CDAs) is currently underway by the NESC, with a view to streamlining support for low-income families, both on welfare and in work. Combat Poverty supports the introduction of an employment-neutral 'child benefit supplement' which would be payable to all low-income households with children regardless of income source. This new payment should deliver additional resources towards families with children on low incomes, irrespective of whether they are welfare-dependent or in paid employment. A gently tapered payment mechanism should be employed to ensure a gradual withdrawal of the supplement towards the middle-income range. The new payment should incorporate the previous proposal for an increased and age-related child payment (as part of CDAs).

The administration of the payment would be a key feature, especially if problems surrounding low take-up of FIS are to be addressed. Eligibility for the payment should be automatic, based on information gathered by both the Revenue Commissioners (on income tax) and the Department of Social and Family Affairs (on welfare benefits and child benefit). The principal challenge is to link data from both sources in an efficient and speedy manner, particularly for parents sharing the responsibility of rearing children who have chosen to be taxed individually. It would be important that the reformed payment automatically reaches all low-income families, including those not drawing down FIS.

Pending the outcome of the NESC review, Combat Poverty proposes an increase in the income threshold for the FIS to parallel the increase in welfare payments. A rebalancing of the supplement to give more support to families with additional children is also recommended.

There are other aspects of the social welfare system which impact on working families. One the treatment of working spouses/partners of welfare recipients. Currently, the spouse/partner is eligible for a QAA if their weekly income does not exceed €88.88 per week. This is a relatively low amount and can create a disincentive to increase earnings. It is proposed that this figure is increased by €11.12 to €100 per week. There are related earnings thresholds for the retention of the CDA component of welfare benefits, where spouses/partners are working. Again, these thresholds should be increased, by €25 for full

CDAs (currently €220 per week) and by €50 for half-rate CDAs (currently €350 per week).

Another is the operation of the One Parent Family Payment (OPFP). The OPFP is designed to facilitate lone parents accessing employment. A number of structural faults in the payment system is now apparent, which lessens its impact as an in-work support. Combat Poverty is contributing to a Department of Social and Family Affairs-led review of the OPFP. This review is likely to recommend significant reform in the payment, so as to enable lone parents to increase their participation in paid work. It should also address the contingency nature of lone parenthood, with the view to making the payment more family-friendly. Combat Poverty welcomes this initiative as a positive intervention in support of lone parents and looks forward to the proposals emanating from the review.

The medical card is a key instrument for providing access to health and social services for poor children. However, eligibility is restricted by the income thresholds under the scheme, especially as they relate to working households with children. A second problem is the sharp withdrawal of the benefit as income increases, though this has been tapered somewhat by the introduction of a doctor-only medical card for those on higher incomes. These issues also arise in regard to means-tested housing benefits, both rent supplements and the differential rent scheme. Rent supplements, in particular, lead to a serious poverty trap where a recipient takes-up employment.

Combat Poverty supports a significant increase in eligibility thresholds/disregards for these benefits, especially in households with children. These should be in line with the minimum costs of a child (discussed above), with a higher allowance for older children. A more tapered withdrawal of benefits is also suggested. In this regard, it is proposed that the families in receipt of the new doctor-only medical cards should have a lower medicines expenditure threshold under the Drugs Refund Scheme.

Recommendations

- **Increase the earnings threshold for QAA by €11.12 to €100 per week**
- **Increase the earnings threshold for full-rate and half-rate CDAs by €25 per week and €50 per week respectively (€245 and €400)**
- **Introduce an enhanced and streamlined child income support scheme for low-income families**
- **Increase the threshold for FIS by €42 per week and rebalance the benefits for additional children**
- **Reform the structure of the OPFP to enhance its support for lone parents taking-up work**
- **Increase the income thresholds/disregards for families with children under the medical card and the differential rents scheme**
- **Increase the earnings disregard for the SWA rent supplement, especially where there are dependent children**
- **Reduce the monthly ceiling on the Drugs Refund Scheme to €50 for families in receipt of the doctor-only medical card**

5.4 Early childhood education and care

Combat Poverty highlights the need to enhance social provision for poor children, especially in their early formative years. The education and care of pre-school children is of dual importance in tackling child poverty: it gives children a better start in life and it facilitates parents, especially mothers, to access employment. A OECD review in 2004 highlights a number of system failures in provision for early childhood: there is no coherent policy governing early education and care and no single agency has the lead function; access is haphazard, with deficiencies in terms of the availability of services and of the financial obstacles to using these services; and the quality of provision is uneven, with a lack of quality standards and supports.¹⁷ The OECD and other more recent reviews make a number of policy recommendations on early childhood education and care. The priority, from a child poverty perspective, should be to provide early childhood education for all 3 and 4 year olds from low-income families. A range of models should be used to expand provision, drawing on existing schemes (eg Early Start, community playgroups, daycare services and private pre-schools) and incorporating best international practice.

Greater provision of childcare for working parents is also recommended. The main policy instrument targeting low-income families is the Equal Opportunities Childcare Programme. However, this is primarily confined to disadvantaged areas and needs to be expanded to meet the needs of parents in other areas.

Childcare costs place a considerable burden on low-income working families and provide a barrier to female labour force participation in particular. The Government has chosen child benefit as the primary mechanism to channel assistance with childcare costs to families. While this is the appropriate mechanism for general assistance, there is a case for targeted intervention for low-income working families. We therefore propose the introduction of a childcare payment for low-income families. This could be administered through FIS, the existing mechanism for supporting low-paid families, in the form of an income disregard for vouched expenditure.

If the Government decides to provide a more extensive system of support for childcare costs, then the policy option should continue to be child benefit. A targeted option is to provide an additional payment for parents with younger children, when childcare costs are greatest. Tax reliefs for childcare are not recommended as it would be inequitable, while subsidised provision is seen to have some drawbacks.

Recommendations

- **Ensure morning pre-school provision for all children aged 3 and 4 years from low-income families, supplemented by all-day care where appropriate**
- **Introduce a childcare support for low income families, possibly as a vouched disregard through FIS**
- **Introduce a childcare supplement of €20 per month for all children under 5 in conjunction with child benefit**

¹⁷ *OECD Thematic Review of Early Childhood Education and Care Policy in Ireland*. Available at www.oecd.org/edu/earlychildhood.

5.5. Savings and pensions

The Government has promoted a 'savings culture' through the savings incentive scheme. This is a generic and expensive scheme and should not be extended when it ends next year. At the same time, the savings incentive scheme is not designed to meet the needs of low-income households (minimum payment was too high; the incentive was too low; the time period was too long). While savings may be difficult for this group, it is increasingly recognized that savings are an essential part of a broader strategy to promote financial inclusion among low-income groups. For example, the Money Advice and Budgeting Service (MABS) includes savings as part of its advice plan for indebted households. The UK government has developed this idea further through the Savings Gateway, a pilot project to encourage low-income households to save as part of a community financial and learning initiative. An interim evaluation of the scheme shows that the scheme is a success in encouraging this target group to save regularly.¹⁸

The introduction of a similar scheme in Ireland on a pilot basis is proposed. This would be operated through MABS and involve various financial institutions. Encouraging savings among these clients would be an important step in aiding their transition to financial independence.

The proposed two-year pilot scheme has the following components:

- a **savings** requirement of €1 to €5 per week or €5 to €25 per month
- a **top up** of €1 for every €1 saved, to a maximum of €600
- a **minimum savings period** of 6 months.

As well as encouraging savings, the scheme would facilitate access to financial services, eg access to a bank account, use of electronic benefit transfer. While MABS deals with over 20,000 indebted clients every year, there would be a cap of 1,000 clients for the pilot phase. The estimated cost of the pilot phase would be €1 million.¹⁹

Pensions

Income poverty among older people has increased considerably in recent years. Longer-life expectancy will intensify the implications of low retirement income in the years ahead. The Pensions Board is currently reviewing pensions policy. Combat Poverty, in its submission to the review, has highlighted a number of actions to reduce pensioner poverty.²⁰ Beginning with the state pension, the Government has set an income target of €200 per week for the state pension. This should apply to both contributory and non-contributory pensions. In addition, coverage of the contributory old-age pension should continue to be extended, as this reduces both the risk of poverty in retirement (owing to the higher contributory pension rate), and also the cost to the state of pension contributions. It also facilitates working after retirement age, as this benefit is not means-tested. The retirement pension,

¹⁸ Elaine Kempson et al (2003), *Evaluation of the CFLI and Saving Gateway Pilot Projects. Interim report on the Saving Gateway pilot project*. Personal Finance Research Centre, University of Bristol.

¹⁹ For more details, see 2005 Pre-Budget proposal from the MABS National Advisory Committee to the Minister for Social and Family Affairs for the introduction of a savings incentive scheme for low-income households.

²⁰ Combat Poverty Agency (2005), *Submission on the pensions' review to the Pensions Board*

payable at age 65, prohibits beneficiaries from paid employment. This is an archaic requirement and should be abolished.

In addition to the state pension, there is a need for a comprehensive second-tier pension. Currently, 50 percent of people do not have an occupational pension. To remedy this, Personal Retirement Savings Accounts (PRSAs) have been promoted as a voluntary option for people without an occupational pension. However, the take-up rate of PRSAs is disappointing, despite the standard financial incentives. Combat Poverty believes that PRSAs should be made compulsory for all those in employment. To increase the financial incentive for those on low wages, it is suggested that the state should provide a direct financial contribution and that employers should also contribute. For administrative purposes, it is suggested that the PRSI system is used to collect contributions which would then be managed independently of the social insurance fund.

The cost of tax reliefs on private pensions amounts to approximately €1.5 billion.²¹ This is in excess of the total cost of the State non-contributory pension, which amounted to €565m in 2003,²² and both the contributory old-age pension and the retirement pension combined (€1.2 billion).²³ Combat Poverty is not convinced that the reliefs on private pensions are well-targeted. Tax reliefs on pensions have a strong inequity effect, as they benefit primarily those in the top income quintile. Using 2000 data, Hughes reports that 65 percent of employees and 78 percent of those self-employed in the top income quintile claim tax relief on private pensions, though less than 3 percent of employees and virtually no self-employed individuals in the bottom income quintile avail of such reliefs.²⁴ This regressive outcome needs to be given attention in future pension strategy.

Recommendations

- **Introduce a low-income savings scheme in conjunction with MABS**
- **Remove the requirement to stop working under the retirement pension**
- **Increase the non-contributory pension an additional amount (€2 in Budget 2006) in order to meet the target of €200 per week by 2007**
- **Continue to extend eligibility to contributory pensions**
- **Make PRSAs compulsory for those without an occupational pension, with contributions by the state and employers**
- **Review tax relief on private pensions in an effort to reduce the strong inequities that exist.**

5.6 Tax reform

It has already been stated that income tax reductions should be capped at indexation in line with wage growth. Within that envelope, it is possible to select certain measures which have the greater impact for those on low

²¹ Tax Strategy Group (2004). *Tax Incentives/Expenditures and Broadening the Tax Base*, TSG 04/22: Department of Finance: Dublin.

²² Department of Social and Family Affairs (2003). *Statistical Information on Social Welfare Services*, Department of Social and Family Affairs: Dublin.

²³ G Hughes (2005). 'Pension Tax Reliefs and Equity', in Stewart, J. *For Richer, For Poorer: An Investigation of the Irish Pension System*, Dublin: TASC

²⁴ Ibid

incomes, in particular the minimum wage. This means prioritising resources towards increasing the PAYE and personal tax credits. The optimum combination here is to increase the PAYE tax credit by €305 per annum and the personal tax credit by €45 per annum. As this exhausts the resources available for tax reductions, based on wage indexation, no increase is proposed in the income tax band.

Budget 2006 will present the outcomes of the review of income tax reliefs, which was announced in last year's Budget. Combat Poverty has made a detailed submission to this review.²⁵ In this, it is argued that tax reliefs violate many of the canons of taxation, most particularly the principle of equity which states that people should pay tax in proportion to their ability to pay. It is clear that tax reliefs provide high-income individuals with opportunities to reduce their effective taxable income substantially. This is completely at odds with the principles of vertical and horizontal equity and reduces progressivity in the tax system.

Tax reliefs also violate, in many instances, another canon of taxation: that of efficiency. Economic inefficiency arises because many reliefs are 'deadweight' and simply subsidise activities that would have occurred regardless of whether there were reliefs in operation. This results in a number of so-called 'free-riders' who use the relief schemes to invest in activities that they would have invested in even in the absence of the subventions. In addition, the difficulty in targeting tax reliefs effectively entails that they may be used for a purpose different to that originally intended. Thus, the existence of tax reliefs results in an inefficient (sub-optimal) allocation of resources.

Combat Poverty argues that only those tax expenditures which are fully quantifiable (both in terms of numbers of beneficiaries and foregone costs) should be considered for continuation. Existing schemes should be evaluated using formal economic evaluation techniques, such as Cost-Benefit Analysis, and any decision to continue with a given scheme must be based on such objective evidence-based evaluations. Transparency and continuous monitoring of the schemes are both very critical to efficient outcomes. The social impact of tax expenditures should be considered in such evaluations. Indeed, social objectives should be included in the design of tax incentives, such as occurred with the urban renewal scheme in the late 1990s.

Where a given scheme is considered to have some economic justification, but there are concerns that the level of 'free-riders' under the scheme is high, the Department may wish to consider the option of introducing ceilings on the maximum exemptions and reliefs permissible. While the decision in 1998 to introduce a ceiling of €31,750 per annum on capital allowances that can be offset against non-rental income was broadly welcomed, Combat Poverty believes that such ceilings do not go far enough in addressing the distributional concerns associated with many tax expenditure and relief schemes. The latter could be achieved by standard-rating all discretionary tax reliefs or by setting a minimum effective tax rate for earners above a certain income threshold. This has been the recommendation of Combat Poverty in its last two Pre-Budget Submissions.

²⁵ Combat Poverty Agency (2005), *Submissions on the review of tax reliefs and exemptions for high earners to the Department of Finance*

Recommendations

- **Increase PAYE tax credit by €305 per annum**
- **Increase personal tax credit by €45 per annum**
- **End tax incentives which are of questionable economic value**
- **Curtail the value of tax reliefs for higher earners, either by standard-rating reliefs or by introducing a minimum effective tax rate**

6. Analysis of distributive impact

We now turn to consider the distributive outcome of the Budget proposals and their likely impact on relative income poverty. The objective of this submission as stated at the outset is to reduce relative income poverty through distributing exchequer resources towards those on the lowest incomes. We examine below what impact the Combat Poverty proposals will have on income redistribution and on relative income poverty. More broadly, it is Government policy that all major policy proposals, such as the annual Budget, are assessed in advance as to their impact on poverty and the inequalities leading to poverty. Therefore, for illustrative purposes, the Combat Poverty tax/welfare proposals for Budget 2006 are compared with a conventional Budget, which allocates an equivalent amount of resources in a 50:50 basis as between welfare and tax. This enables a clearer policy contrast to be articulated between the pro-welfare approach of Combat Poverty and a conventional approach with benefits both welfare and tax in equal proportions.

This analysis is carried out using the ESRI tax/welfare model, SWITCH, to take into account variation in individual and family circumstances.²⁶ SWITCH illustrates the distributive direction of budget proposals in terms of percentage change in disposable income, as well as the average cash change, for different income and household categories. In addition, it calculates the effect of alternative budget proposals on income poverty. The SWITCH cost of the Combat Poverty budget is €1,409 million.²⁷

The analysis of SWITCH is based on a comparison of the Combat Poverty proposals with a budget policy which indexes welfare payments and tax allowances/bands in line with forecast wage growth for 2006 (4.3 percent).²⁸ The Combat Poverty proposals cost €486 million more than a wage-indexed budget. This consists of an additional €448 million on welfare increases, €51 million on child benefit and €12.5 million on FIS, giving a combined total of €511 million. On the tax side, there is a gain of €26 million compared to an indexed budget, due to additional tax revenue on higher welfare payments.

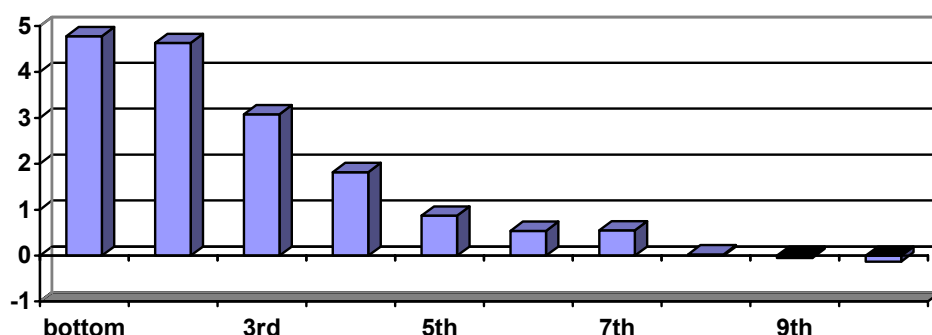
²⁶ SWITCH is a well-established policy tool for analysing the first round effects of tax and welfare policies, and forms part of the poverty proofing analysis of the Budget produced by the Department of Finance.

²⁷ This differs from the full cost (€1,650 million) of the Combat Poverty budget proposals in three ways: it excludes a €20 per month child benefit addition for children under 5 years; it excludes an allocation of €70 million for miscellaneous welfare improvements; and it includes the additional tax revenues arising from higher welfare payments (ie it is the net amount). Allowing for these, the SWITCH cost is within 97 percent of departmental estimates of the social welfare and income tax costs.

²⁸ ESRI Quarterly Economic Commentary, Autumn 2005.

Diagram 1 shows the distributive impact of the Combat Poverty budget proposals, compared with a wage-indexed budget policy. The average gain in disposable income across all income groups is 0.7 percent or €4.40 per person in cash terms. Those on the lowest incomes receive the bulk of the benefits from the Combat Poverty proposals, with the bottom fifth of the population receiving an increase in disposable income of over 4.5 percent, the equivalent of €9 per person per week. The second quintile benefits by roughly half this amount (2.4 per cent), though the cash gain is almost the same at €8.50 per person. Thereafter, the gains are much reduced. Middle income groups (5th-7th deciles) record a modest increase of approximately 0.6 percent, a per capita equivalent of €3.80 per week. For the richest 30 percent, there is minimal change, either in percentage or money terms. This arises from the decision not to index tax bands, though households with children in these income groups gain from the child benefit rises.

Diagram 1: Distributive impact of Combat Poverty 2006 Budget proposals, benchmarked with budget indexed by wage growth (4.3%)
(% gain by equivalised disposable income per decile)



What is the distributive impact on different family types? Not surprisingly, those not in the labour market do best. These include the single unemployed, non-earning lone parents, retired people (singles and couples) and non-earning couples, whose incomes increase by between 2 and 6 percent. There are small percentage gains for working families, with those with children doing slightly better. The biggest cash gains accrue to unemployed couples with children, who get an additional €30 per week on average.

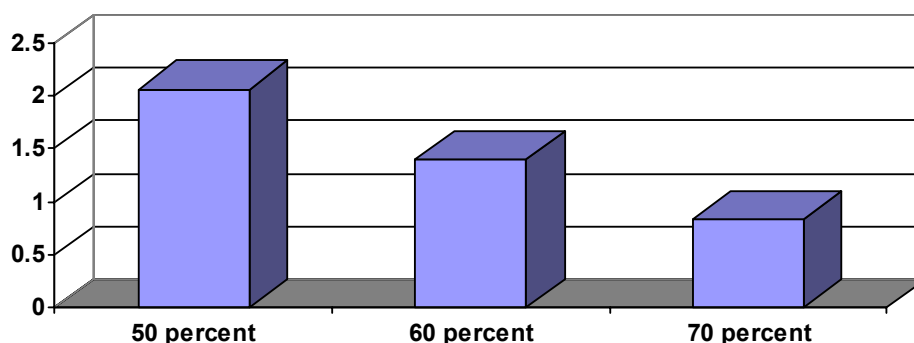
The distribution of the aggregate Budget package can also be examined by income decile. This shows that €434 million goes to the bottom half of the income schedule, which is equivalent to 89 percent of the additional budget allocation. The poorest quintile receive €195 million or 40 percent. In comparative terms, the proportion allocated to the bottom decile (16 percent) is greater than the total gain by the entire richer half (11 percent). This is in part due to the loss of €25 million experienced by the top two income deciles compared to a wage-indexed budget. These figures illustrate the significant scale of income redistribution inherent in the Combat Poverty proposals.

We can also consider the impact on relative income poverty of the proposals. Diagram 2 shows a fall of between 1 and 2 percentage points in households

below various income thresholds, as compared to a wage-indexed budget. The reduction is greatest for the poorest households, those below 50 percent of the median, with this measure of poverty falling by 2 percentage points. This represents a drop of one-fifth on the equivalent rate under a wage-indexed Budget. The reduction at the 60 percent threshold is 1.4 percentage points, a fall of 7.5 percent on the comparative figure. The smallest reduction occurs at the 70 percent threshold, with a decline of 0.8 of a percentage point. This is the equivalent of a 3 percent decline on the wage-indexed rate.

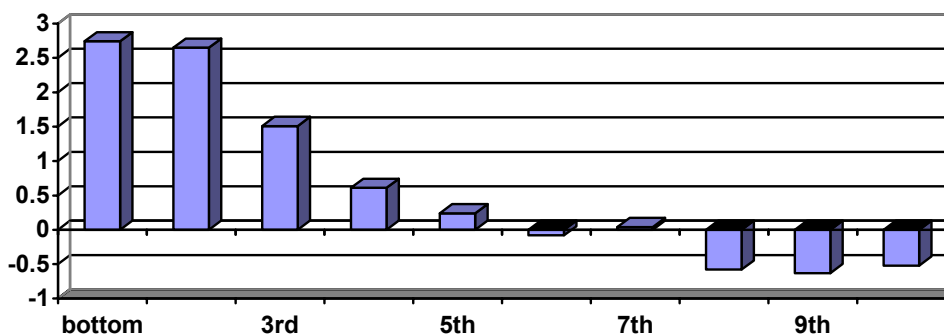
Diagram 2: Reduction in relative income poverty under Combat Poverty 2006 Budget proposals, benchmarked with budget indexed by wages (4.3%)

(% fall in households below various median income thresholds)



The distributive impact of the Combat Poverty proposals and a conventional budget of similar cost but which divides its resources 50:50 between tax and welfare, is illustrated in diagram 3. The Combat Poverty budget is more favourable to the bottom half of the income schedule, especially the poorest two deciles who gain almost 3 percent more than under a conventional 50:50 budget. The losers under the Combat Poverty proposals are the top 30 percent, who record a 0.5 percent loss compared to a conventional budget.

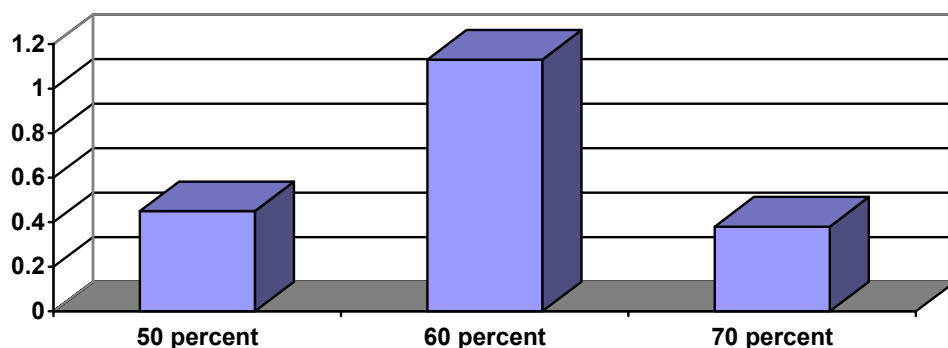
Diagram 3: Distributive impact of Combat Poverty 2006 Budget proposals compared with conventional 50:50 tax/welfare budget
(% gain by equivalised disposable income per decile)



The poverty impact of the two alternative budget strategies is shown in diagram 4. The Combat Poverty budget has a greater poverty reduction effect than the conventional budget. This difference is strongest at the 60 percent income threshold, where the Combat Poverty proposals reduce poverty by over 1 percentage point. At the other two lines, the differential is smaller, at half of a percentage point.

Diagram 4: Reduction in relative income poverty under Combat Poverty 2006 Budget proposals compared with conventional 50:50 tax/welfare budget

(% fall in households below various median income thresholds)



7. Conclusion

This submission has focused on the related issues of relative income poverty and child poverty. The Irish rate of relative income poverty is quite high by EU standards, mainly reflecting the weaker impact of social transfers in reducing gross poverty rates. Income transfers also play a role in explaining Ireland's high level of child poverty, though inadequate provision of social services, such as pre-school education and childcare, are also important factors in hindering childhood development.

The positive financial background to Budget 2006 presents a unique opportunity to make significant inroads on both these issues. The Combat Poverty budget package assumes a tax/welfare allocation of €1,650 million, with the majority of this allocated for welfare improvements and child benefit increases. Tax reductions are strictly capped at wage-indexation. As well as increases in personal welfare rates, Combat Poverty proposes measures which will benefit low-income families with children, including those who are working. There are also suggestions for targeted expenditure on pre-school education, childcare, pensions and savings. A reform of the current system of tax incentives is advocated, on economic and equity grounds.

The outcome of these budget proposals is a substantial reduction of one-fifth in relative income poverty measured at 50 percent of median income, with significant declines also at higher income poverty thresholds. This impact is greater than that of a conventional budget, which distributes an equivalent pot of resources in a less targeted manner.