

Making a decisive impact on poverty

PRE-BUDGET SUBMISSION

October 2005

Summary of proposals for Budget 2006

Item	Proposals	Cost (€m)
Welfare rates	Increase personal rates by €15 per week Increase qualified adult allowances (QAA) by €11 per week Improve welfare provision	709 67 *
Child income support	Increase child benefit by €10 and €12 Increase child dependant allowances (CDAs) on an age-related basis to €20 (under 12) and €25 (12+) Pay CDAs up to 21 years for all Increase clothing and footwear allowance by €10 + €20 Expand the school food programme	137 80 0.5 2.2 *
In-work benefits	Increase Family Income Supplement thresholds by €42 per week 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) Increase child-related income thresholds for medical cards and differential rents scheme 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	21 * 3 (half rate only)* N/a * N/a
Childcare	Provide sessional pre-school education to all 3 and 4 year old children from low-income families Provide trained childcare assistants in all infant classes 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	N/a N/a * €72
Savings and pensions	Introduce a low-income savings scheme in conjunction with Money Advice and Budgeting Service 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 Reform retirement pension to enable people to continue to work at age 65	1 10.5 N/a 17.5
Income tax	Increase PAYE tax credit by €305 per annum Increase personal tax credit by €45 per annum	403 86

*€40 million is allocated to cover these miscellaneous welfare measures

1. Introduction

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 by up to 2 percent in 2006, with a specific effect on child poverty levels. 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.

There is a major opportunity in Budget 2006 (and 2007) to use the benefits of economic growth to make a major inroad on income poverty. Fewer people unemployed and higher tax revenues paint a positive fiscal outlook. Given the continued improvement in the exchequer finances, a tax/welfare envelope of €1,650 million is a reasonable assumption for Budget 2006 (and Budget 2007).

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 €490 million (or 30 percent of the Budget package). The remaining resources should then be allocated to welfare expenditure 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.

2. Proposed tax/welfare measures in Budget 2006

2.1. Welfare payments

The Government policy target is a basic welfare payment of €150 by 2007. An increase of between €11 & €15 is required to meet this target, depending on how inflation is calculated. Given that the increase in 2005 was €14, a higher figure is an affordable target. Therefore, Combat Poverty proposes an increase of €15 in the basic welfare rate in Budget 2006.

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). The government agreed in Budget 2000 to increase the qualified adult allowance to 70 per cent of the personal rate. In order to work towards this target, a flat rate increase of €11 per week in the qualified adult rate is proposed.

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. €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*

2.2. Child income support

The Government child benefit target of €149 per month requires a minimum €8 increase. However, if the original target is adjusted by inflation, then the value in 2006 terms is €160 per month. 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. Combat Poverty believes that child benefit should be paid at least on a fortnightly basis, as is the case in the United Kingdom. The exclusion of newly arrived children of immigrant families from entitlement to child benefit should be reversed.

Combat Poverty sees CDAs as a cost-effective solution to the issue of child poverty. A radical option, favoured by Combat Poverty, is 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.

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*

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.

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*

2.3. In-work benefits

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. 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. Pending the implementation of this, 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 is the treatment of working spouses/partners of welfare recipients. 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).

The medical card is a key instrument for providing access to health and social services for poor children. Combat Poverty supports a significant increase in eligibility thresholds for these benefits, especially in households with 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 (up to €245 and €400)*
- *Introduce an enhanced and streamlined child income support scheme for low-income families*
- *Increase the threshold for family income supplement by €42 per week and rebalance the benefits for additional children*
- *Increase income thresholds for children under the medical card & differential rents schemes*
- *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*

2.4 Early childhood education and care

Combat Poverty highlights the need to enhance social provision for poor children, especially in their early formative years. Recent policy 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. We 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 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 pre-school provision for all children aged 3 and 4 years from low-income families.*
- *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*

2.5. Savings and pensions

The Government has promoted a 'savings culture' through the savings incentive scheme. The introduction of a pilot savings scheme for low-income households is proposed. This would be operated through Money Advice and Budgeting Service (MABS) and involve various financial institutions. Encouraging savings among low income families 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.

Pensions

Income poverty among older people has increased considerably in recent years. Combat Poverty highlights a number of actions to reduce pensioner poverty. 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. The retirement pension, 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. Combat Poverty believes that PRSAs should be made compulsory for all those in employment. It is suggested that the state should provide a direct financial contribution and that employers should also contribute. The PRSI system should be 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 billion¹. Combat Poverty is not convinced that the reliefs on private pensions are well-targeted. Tax reliefs on pensions have a strong inequity effect as people who earn more get more tax relief. This regressive outcome needs to be given attention in future pension strategy.

¹ Tax Strategy Group (2004). Tax Incentives/Expenditures and Broadening the Tax Base, TSG 04/22: Department of Finance: Dublin.

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 by 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 order to reduce the strong inequities that exist.*

2.6 Tax reform

Combat Poverty has proposed 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 greatest impact for those on low 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 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. The social impact of tax expenditures should be considered in such evaluations.

Combat Poverty believes that ceilings on tax reliefs 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.

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*

3. Analysis of distributive impact

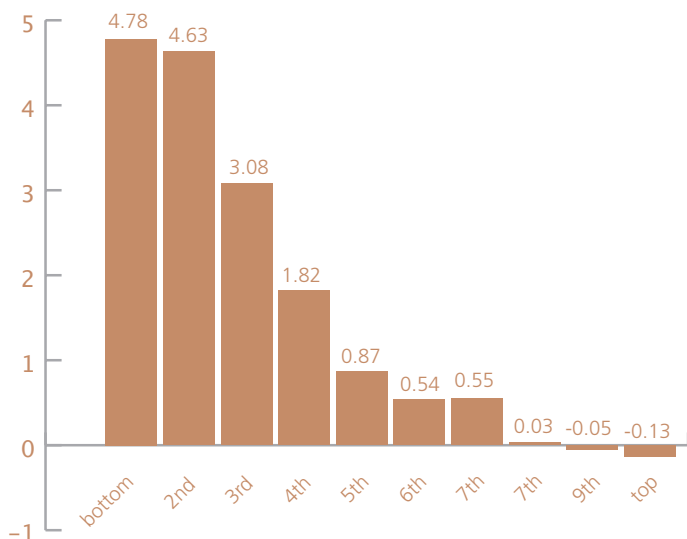
The objective of this submission is to reduce relative income poverty through distributing exchequer resources towards those on the lowest incomes. We examine below what impact the Combat Poverty proposals will have on income distribution and on relative income poverty. This analysis is carried out using the ESRI tax/welfare model, SWITCH, to take into account variation in individual and family circumstances.²

Diagram 1 shows the distributive impact of the Combat Poverty budget proposals, compared with a wage-indexed policy. 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.

² 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.

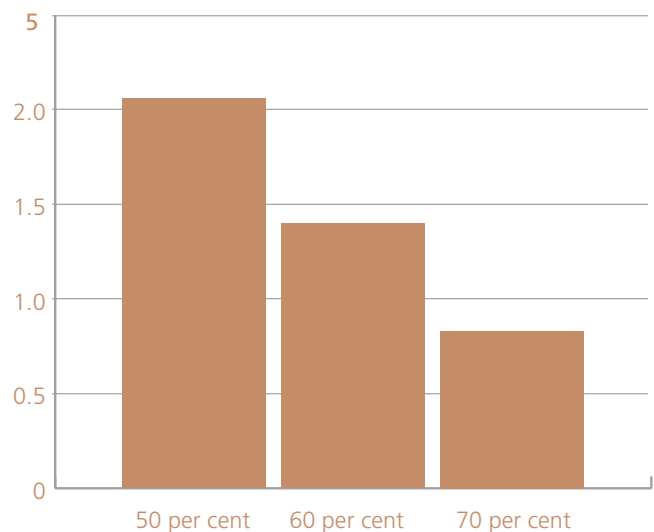
The distribution of the aggregate Budget resources shows the significant scale of income distribution inherent in the Combat Poverty proposals. An additional €434 million goes to the bottom half of the income schedule compared with a wage-indexed budget, equivalent to 89 percent of the total allocation. The poorest quintile receives €195 million or 40 percent of the total. Only €54 million (11 percent) goes to the richer half, which is less than the €78 million (16 percent) received by the bottom decile alone.

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)



We can also consider the impact on relative income poverty of the proposals. Diagram 2 shows a significant fall of up to 2 percentage points in persons below various income thresholds, as compared to a wage-indexed budget. This is the equivalent of a drop of one-fifth in the percentage of households below 50 percent of the median.

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



4. Conclusion

This submission has focused on the related issues of relative income poverty and child poverty. The positive financial background to Budget 2006 presents a unique opportunity to make significant inroads on both these issues. 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. 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 is a summary version of the Combat Poverty submission on Budget 2006. A full version is available on www.combatpoverty.ie)