

## Analysis of Budget 2004

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### Why a CPA budget analysis?

- Remit to advise/comment on government policy pertaining to poverty - Budget is crucial
- CPA made a submission, so did the govt act on what we proposed and if not, why not?
- Poverty proofing of budget a requirement - can Dept Finance analysis be improved upon?
- Balance more orthodox economic commentary on Budget 2004, from a poverty perspective

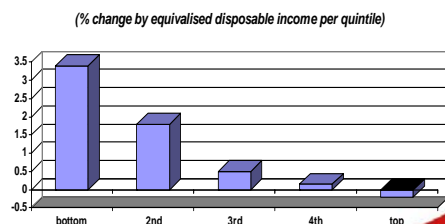
### Measuring budgetary impact

- focus on income tax/welfare rate changes
- use ESRI tax/welfare model (SWITCH)
- assume 'neutral' benchmark (wage indexation)
- identify gains/losses across income range
- also assess impact on income poverty
- set in a comparative perspective
- sensitive to other effects (incentives, charges, tax reliefs)

### Overview of Budget 2004

- €917 million package (+ €200m/28% on 2003)
- €630m on welfare; €287m on tax; 68:32 ratio
- welfare changes
  - flat €10 per week personal rate
  - €6.60-€7.70 for Qas (pro-rata)
  - €6 per month child benefit
  - FIS threshold up €28
- tax
  - €240 increase on employee tax credit (30%)

### Distributive impact of Budget 2004



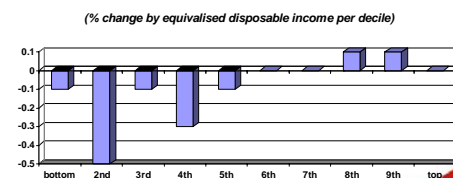
### Key details

- wage growth forecast of 3.5% (inflation 2.5%)
- modest average gain (0.4%) masks variation
- bottom 40% gain more (1.5% to 4%)
- top 30% lose, by almost 0.5%
- cash gains between €3.50 and €5.50 PAEPW
- 90% of additional resources (€220m) went to low-income households; better-off contributed net €40m

### Key choices

- Welfare was over-indexed by €270m; tax under-indexed by €50m
- Structure of welfare package: flat €10 increase - worth more to those on lowest rates
- Tax change focused on lower-income taxpayers; more paying at higher tax rate
- Child benefit main casualty, a problem made worse by CDA freeze - need policy rethink?

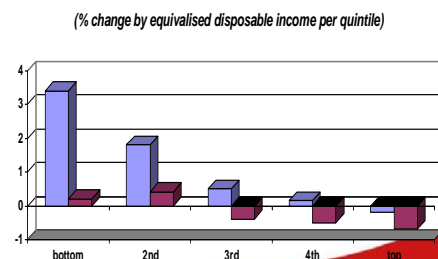
### Impact of Budget 2004 compared with pro-CB policy option (+ €80m CB, - €80m on tax credit)



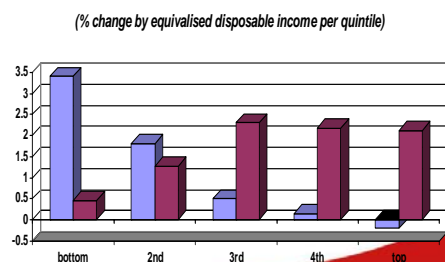
### Main outcomes

- Tax option over child benefit is regressive for bottom 4 deciles
- losses across income range for households with children (average €2.66 per week)
- transfer of €26m from bottom half to top, with top 30% main beneficiaries (€24m)
- relative income poverty increased by 0.4%
- tax a crude measure to help low paid

### Distributive impact of Budget 2004 Vs Budget 2003



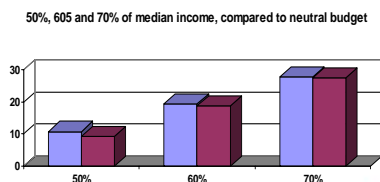
### Distributive impact of Budget 2004 Vs Budgets 1998-2002



### Long-term perspective

- Budget 2003 also redistributive, but lacked sufficient scale to be meaningful
- major contrast to Budgets 1998-2002 in terms of distributive effect and scale of resources (eg Budgets 1998-2002 had almost three times the additional resources as Budget 2004)

### Impact on relative income poverty of Budget 2004



### Poverty impact of Budget 2004

- Fall of up to 1.5% in income poverty (19% at 60% of median)
- will have positive effect on consistent poverty target
- bring Ireland more in line with EU norm

### NAPS targets and Budget 2004

- Flat welfare increase of €10 (8%) broadly in line with NAPS target of €150 (2002 values), especially as inflation rate is down (2.5%)
- child benefit increase of €6 only half what was required to meet govt target; problem exacerbated by non-indexation of CDAs
- no improvements in percentage payment for adult dependants (66% Vs 70% target)

### Other issues

- Poverty trap effect of PRSI threshold for those on minimum wage
- welfare cutbacks in Book of Estimates - impact on people's choices (work, live, diet, parenting)
- indirect costs (inflation, user charges, VAT)
- tax expenditures (revenue loss, inequitable)

### New financial instruments

- New financial instruments
  - savings incentive scheme
  - carbon tax
  - waste changes
- involve significant levels of resources
- more effort required to protect position of low-income households
- importance of joined-up government

### Conclusions

- Redistributive emphasis in Budget 2004 due to level of resources and policy choices
- impact could have been greater if bigger welfare package
- tax crucial to what happens at poverty end
- reconfigure funding of child benefit
- explicit income poverty target would give more focus to poverty proofing of budget