

Analysis of Budget 2007

Jim Walsh
 Head of Research and Policy

Analysis of Budget 2007

- will Budget reduce poverty and inequality? (evidence-based approach to policy-making)
- inform poverty impact assessment of govt policy (eg DoF PIA of Budget 2007)
- income poverty an indicator under the EU social inclusion strategy (implicit in NAPS)
- direction of tax/welfare policies, especially with new NAPinclusion and new Government
- Combat Poverty PBS proposals

Contents

- overview of tax/welfare changes
- tax-welfare simulation model (SWITCH)
- impact on income distribution and poverty of Budget 2007 (+ specific tax/welfare measures)
- comparative perspective (2006 and 5/10 years)
- comparison with Combat Poverty proposals
- specific policy developments
- conclusions

Budget tax/welfare package

	2007 €m (%)	2006 €m (%)	Change €m (%)
Social welfare	1,162 (42%)	958 (41%)	+ 204 (+21%)
Child income support	244 (9%)	507 (21%)	- 263 (-52%)
Income tax	1,342 (49%)	921 (38%)	+ 461 (+46%)
Total	2,748 (100%)	2,386 (100%)	+ 362 (+15%)

Welfare package

Category	Measures	Cost (€m)
Minimum welfare rate	Increase of €20 per week	574
Pension and other rates	Increase of €16-18 per week	325
Qualified adult rates	Increases of €10.70 to €11.90 per week	73
Fuel allowance	Increase of €4 per week	36
Carers	Assessment of means etc	76
Pensioners	Assessment of means etc	38
Working age	Assessment of means etc	21
Disabilities	Assessment of means etc	17
Other		2
Total		1,162

Child income package

Child benefit	Increase of €10 per month	138
Child dependent allow's	Increase of €0.30 and €5.20 per week	56
Family income supple'nt	Increase in threshold of €15 to €185 pw	32
Clothing/footwear allow	Increase of €60 and 90 per annum	13
School meals	Increased provision	3
Other		2
Total		244

Income tax package

Employee tax credit	Increase by €270 per annum	264
Personal tax credit	Increase by €130/€260 pa	361
Standard rate bands	Increase by €2,000/€4,000 per annum	365
Top rate of income tax	Reduce by 1%	186
Other income tax	Exemption limits and credits	44
PRSI threshold	Increase by €39 per annum	32
Health levy threshold	Increase €40 per annum	44
Health levy rate	Increase by 0.5% for high earners	(34)
Mortgage interest relief	Increase in ceiling, especially for FTB	70
Other		10
Total		1,342

Approach (1)

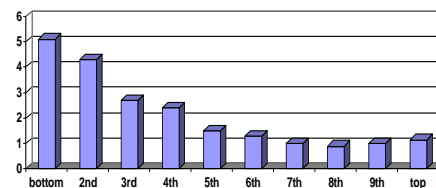
- distribution: allocation of budget resources to population ranked from poorest to richest and by family type
- focus on percentage change; also look at share-out of total resources
- poverty: numbers below various median thresholds + 'gap' below the thresholds
- source: ESRI micro-simulation model, based on representative sample of population (LIS 2000), reflecting diversity of household types and income sources
- unit of analysis is income sharing unit
- first round impact (no behaviour change)

Approach (2)

- comparator is wage-indexed policy (5.5 percent) (eg €20 welfare increase: €9 indexation; €11 additional)
- net resources are €1,100 million (40% of total)
- half on welfare; half on tax (only 3.5% for CIS)
- average gain 1.5 percent
- cash equivalent of €9.41 per week
- median equivalised income increased by 1.4 percent (€426.06)

Distributive impact of Budget 2007

(percentage change in disposable income by decile, compared with wage-indexed 2006 policy)

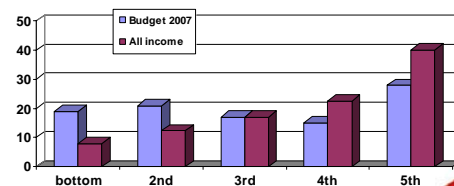


Impact on families

- distinguish by composition and income source
- non-working families do best: 3 - 5.5 percent (single unemployed, non-earning couples, lone parents and retired):
- families without children generally do better (small CIS package)
- non-earning couples with children have largest cash gain (€23 pw)

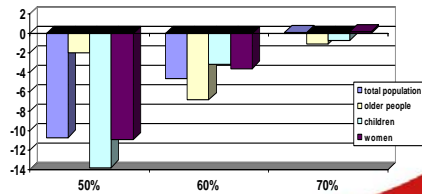
Share-out of Budget resources as compared to all income (2005)

(percentage share of disposable income by quintile)



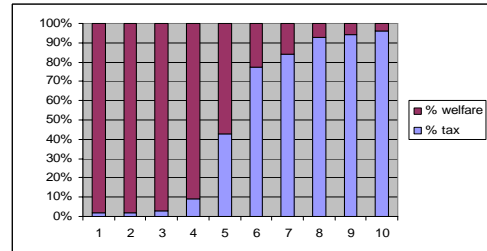
Effect on income poverty in Budget 2007

(percentage change at various median income thresholds, against wage indexed 2006 policy)



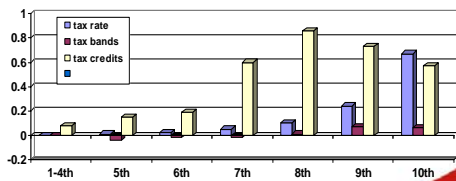
Composition of distributive impact of Budget 2007 (welfare and tax)

(percentage share of change in disposable income by quintile against wage-indexed 2006 policy)



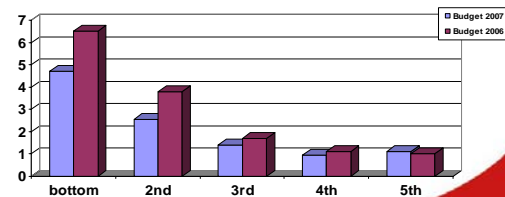
Distributive impact of income tax measures in Budget 2007

(percentage change in disposable income by decile against wage-indexed 2006 policy)



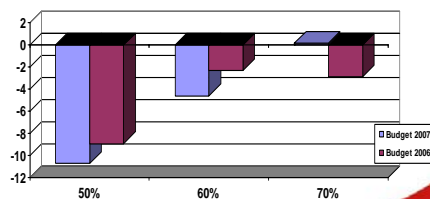
Distributive impact of Budgets 2006-7

(percentage change in disposable income by quintile, against wage-indexed 2006 policy)



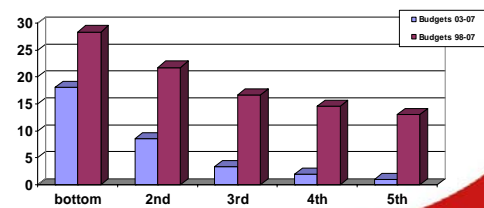
Effect on income poverty in Budgets 2006-7

(percentage change at various median income thresholds, against wage indexed 2006 policy)



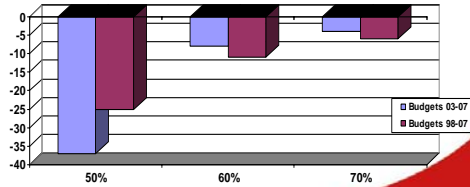
Distributive impact of Budgets 2003-2007 and Budgets 1998-2007

(percentage change in disposable income by quintile)



Effect on income poverty in Budgets 2003-7 and Budgets 98-2007

(change in poverty rate at various median income thresholds, against wage-indexed policies)

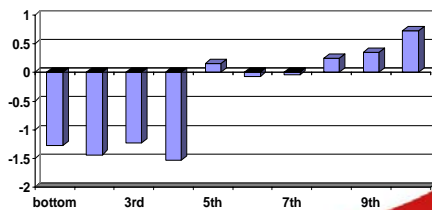


Comparison with Combat Poverty proposals

- additional €400m spent on total package;
- structure different: similar welfare amount, €650m more on tax and €300m less on children
- welfare increases in line with proposals; child benefit and CDAs changes similar;
- main difference is in regard to ECS, where no change
- more generous tax reductions, with rate cut
- compare distributive and poverty impact of equivalent sized budgets (CPA + 15%)

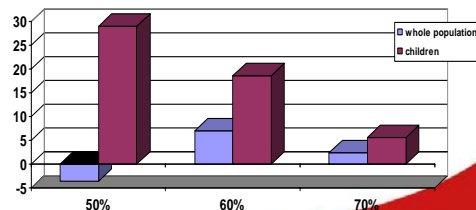
Distributive impact of Budget 2007 compared with Combat Poverty package

(percentage change in disposable income by quintile)



Effect on income poverty in Budget 2007 compared with Combat Poverty proposals

(change in poverty rate at various median income thresholds)



Implementing the minimum welfare target of €150

Methodology	Inflation	Wage growth	30% GAIE
Estimate	€175.58	€194.25	€185.80
Comparison with welfare rate (€185.80)	€10.22 more	€8.45 less	identical

The structure of child income support

(standard rates in weekly € equivalent)

Category	CB	ECS	CDA	CFA	FIS	Total (% of adult rate)	Means-tested share
Welfare							
< 6 years	36.78	19.15	22.00	3.45	-	81.38 (44%)	31%
6 years +	36.78	-	22.00	3.45	-	62.23 (34%)	41%
Low paid							
< 6 years	36.78	19.15	-	3.45	54.00	113.38 (61%)	51%
6 years +	36.78	-	-	3.45	54.00	94.23 (51%)	61%

Other policy issues arising

- future target for welfare rates?
- reform of OPFP?
- increased complexity of CIS
- future role of ECS?
- how to benefit people outside tax net?
- tax cuts back on policy agenda
- indirect taxes ignored

Conclusions

- Budget 2007 strong redistributive focus, with significant reductions in income poverty, especially for children
- engine is large welfare increases, augmented by targeted package for low-income children
- big tax package regressive, esp tax rate cut
- CPA proposals would have delivered a greater poverty impact (substituting rate cut for ECS increase)
- concern about SSIsAs and tax relief for pensions; should be subject to similar analysis