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DISTRIBUTIONAL ANALYSIS OF BUDGET 2020 TAX AND WELFARE MEASURES

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Introduction

The Programme for Partnership Government provides a commitment to developing a process of budget and policy proofing as a means of advancing equality, reducing poverty and strengthening economic and social rights. Using the ESRI's microsimulation SWITCH tax-benefit model, the distributional impact of the main tax and welfare measures in the budget package has been estimated. This material was prepared in advance of Budget 2020 by the Department of Finance with input from the Department of Public Expenditure and Reform.

Overall, the impacts of the budget measures are very small. In net terms, households experience a modest average gain of 0.03 per cent in weekly disposable income as a result of the full budget package. This includes the effects of the direct tax, indirect tax and welfare measures.

A broadly progressive pattern is evident, with households in the first three deciles experiencing a positive impact on their disposable income on average. The income of the remaining seven deciles is broadly unchanged.

Key points

- Overall the impacts of the budget measures are very small. In net terms, households experience a modest average gain of 0.03 per cent in weekly disposable income as a result of the full budget package. This includes the effects of the direct tax, indirect tax and welfare measures.

- The following income tax measures are included: an increase in the Home Carer Credit (HCC) from €1,500 to €1,600 and in the Earned Income Tax Credit from €1,350 to €1,500. The following indirect taxes are included: A €6/ tonne increase in the rate of carbon tax. It has not been possible to model the impact of the reduced VAT rate announced on food supplements. Around €25 million of this €150 million welfare package could not be modelled, although they relate mainly to changes in means-testing and income disregards.

- A broadly progressive pattern is evident, with households in the first three deciles, on average, experiencing a positive impact on their equivalised disposable income (equivalisation adjusts household income on the basis of household size and composition). The income of the remaining seven deciles is broadly unchanged.

- The average gain from direct tax measures is a 0.02 per cent increase in weekly disposable income. The average loss from indirect (carbon) taxes is 0.09 per cent, however this is entirely offset by the average gain arising from welfare measures.[1]

- 21 per cent of the households benefit from social welfare measures, 79 per cent experience no change and 0.1 per cent have a negative change. Gains to social welfare are much higher for the lower income deciles.

- 9.5 per cent of households experience gains from the direct taxation measures, 90.5 per cent experience no change and 0.03 per cent experience losses.

- 29 per cent of households are estimated to benefit as a result of the direct tax and welfare measures. 71 per cent are estimated to experience no change in their disposable income. These gains are broadly progressive and are highest for the lowest four income deciles.

- Losses due to indirect tax changes reflect the regressive nature of carbon taxes, with the lowest deciles experiencing relatively greater losses[2]. The welfare package pattern is strongly progressive and sufficient to outweigh the regressive impact of the carbon tax increase.

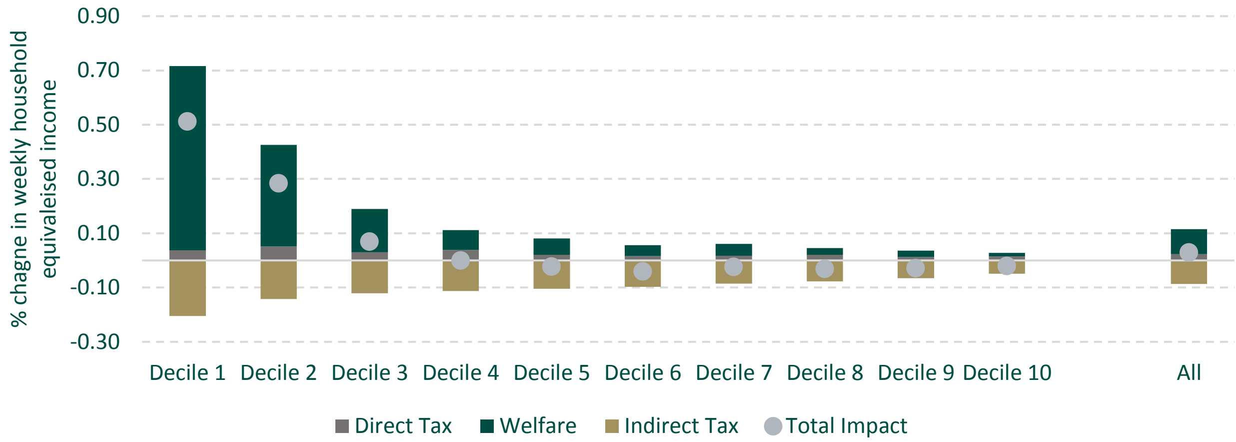
- By family type, tax gains from the direct taxation and welfare measures are highest for non-earning lone parents and non-earning couples with children, reflecting the nature of welfare measures contained in the Budget.[3]

- Gains from changes to direct tax are lowest for non-earning couples with no children and those single, unemployed and without children. This primarily reflects the fact that these cohorts are generally not captured in the income tax system.

- For a complete picture of the distributional impact of Budget 2020, the impact of these tax and welfare measures would need to be considered in conjunction with wider changes to public expenditure in the areas of health and education etc.

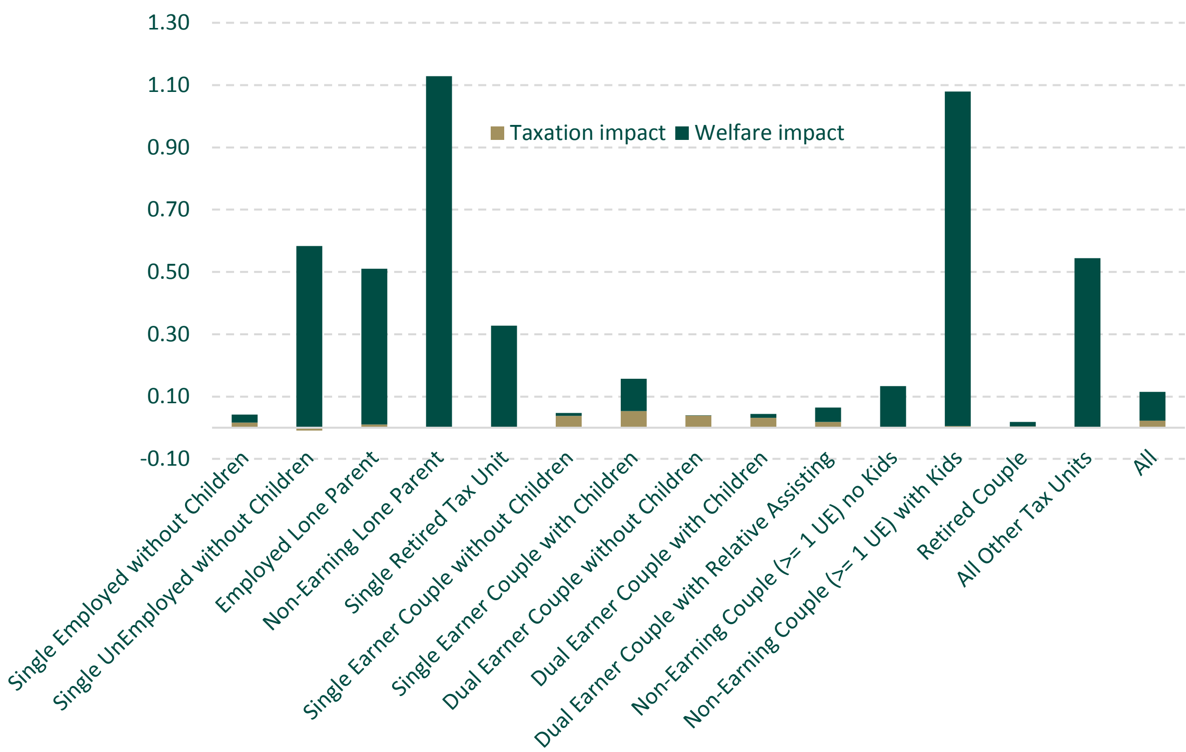
[1] Figures may not sum due to rounding.
[2] Beyond the €2 per week increase in fuel allowance, the carbon tax impact shown here does not reflect further offsetting measures as outlined in 'The Carbon Tax Increase – What it will be spent on' (October 2019).
[3] It is not possible to show the proportion of family types benefitting or losing out from the combination of direct tax, welfare and indirect tax measures as the indirect taxes model draws on a different data source.

Figure 1: Change in Household Disposable Income by Income Decile, per cent



Source: Department of Finance calculation using ESRI's SWITCH micro-simulation programme.

Figure 2: Change in Disposable Income by Family Type, per cent



Source: Department of Finance calculation using ESRI's SWITCH micro-simulation programme.