

Social impact assessment of the main welfare and direct tax measures in Budget 2013

This is a social impact assessment of the main welfare and direct tax measures in Budget 2013, valued at almost €1 billion. In particular, it considers the budgetary impact on the key role of social transfers in reducing the at-risk-of-poverty rate. In 2011, all social transfers reduced the at-risk-of-poverty rate from 51 per cent to 16 per cent.ⁱ

Social impact assessment is an evidence-based methodology to estimate the likely distributive effects of policy proposals on income and social inequalities, which builds on the practice of poverty impact assessment.

The assessment is based on the tax/welfare microsimulation model (Switch) developed by the Economic and Social Research Institute. Responsibility for the results and their interpretation rests solely with the Department of Social Protection.

It is hoped that the publication of this assessment will inform public discourse about budgetary choices, and will contribute to the policy making process for Budget 2014.

Main findings

- The main welfare and direct tax measures in Budget 2013 have led to no significant change in the at-risk-of-poverty rate. This confirms the continuing strong poverty reduction effect of social transfers during fiscal consolidation.
- The budgetary measures result in a loss of €5 per week or 0.8 per cent in average household income (assuming 100 per cent take-up of the deferral option under the local property tax).
- There is a bigger cash loss of c €7 per week in the top three quintiles, and smaller losses of €1.60 to €3.60 in the bottom two quintiles.
- The largest percentage loss of 1.1 per cent is in the third quintile; the smallest percentage losses are in the first and fifth quintiles (0.6 to 0.7 per cent).
- Four-fifths of the total revenue from the measures is contributed by the top three quintiles; the top quintile contributes almost five times that of the bottom quintile.
- Households worst affected by the measures are those with children, in particular lone parent families. Households where no one is working or without children are least affected.
- Assuming no take-up of the deferral option under the local property tax, the distributive impact is greater in the bottom two quintiles and their share of total savings increases to 26 per cent. In addition, the losses for households with children are greater.
- The welfare and direct tax components differ greatly in terms of distributive impact: welfare changes affect the bottom quintiles more, PRSI and income tax impact on middle and higher quintiles; and local property tax is largely neutral.



Introduction

This briefing presents a social impact assessment of the main welfare and direct tax components of Budget 2013. It is prepared by the Department of Social Protection, which is responsible for the welfare component of the Budget.

Social impact assessment is an evidence-based methodology to estimate the likely distributive effects of policy proposals on income and social inequality. Assessing the social consequences of fiscal consolidation policy is of particular importance in order to protect the most vulnerable in society and to monitor the crucial role of social transfers in preventing welfare and other recipients from falling into poverty. Including all social transfers the reduction was from 51 per cent to 16 per cent in 2011. Excluding pensions the reduction was from 40 per cent to 16 per cent.ⁱⁱ

Social impact assessment is used in Europe as a tool for mainstreaming social inclusion in public policy.ⁱⁱⁱ In Ireland, social impact assessment builds on the experience of poverty impact assessment, the process to assess the likely impact of policies and programmes on poverty and inequalities which are likely to lead to poverty. Social impact assessment extends the poverty focus to other aspects of social inequality, e.g. age and gender.

The Government has decided to develop an integrated social impact assessment to strengthen implementation of the national social target and the new sub-targets on child poverty and jobless households and to facilitate greater policy coordination in the social sphere.^{iv} It is intended to apply social impact assessment to a range of policy issues, in conjunction with government departments and other stakeholders.

Public consultation is ordinarily an important component of social impact assessment, but this is difficult to put into practice in a budgetary context. It is hoped that the publication of this assessment will inform public discourse about budgetary choices, and will contribute to the policy making process for Budget 2014.

The social impact of Budget 2013 is one of a number of policy considerations guiding the budgetary process; economic, fiscal and employment objectives also come into play. These multiple considerations are not mutually exclusive, but can be seen as inter-related processes which have as a common goal the promotion of inclusive economic and employment growth, as set out in the Programme for Government and the Europe 2020 Strategy.

Methodology

The methodology for undertaking a social impact assessment is based on the application of a tax/welfare microsimulation model. Microsimulation is a widely used device in welfare economics to measure the impact of changes in welfare and tax policies at national and European levels.^v

This assessment uses a tax-welfare simulation model developed by the Economic and Social Research Institute (ESRI) known as Switch.^{vi} The model simulates the impact of changes in welfare and income tax for a representative sample of 5,000 households, drawn from the 2010 CSO *Survey on Income and Living Conditions*. The tax and welfare data are updated to reflect trends in population, employment and incomes since 2010.^{vii} Responsibility for the results and interpretation in this document rests solely with the Department of Social Protection.

The assessment focuses on the main welfare and tax components of Budget 2013 which have a direct impact on household incomes. Consideration of the social impact of the welfare component alone is a limited exercise, given the largely targeted nature of income supports. Also, tax changes impact across the whole population, including welfare recipients. Therefore, to ensure a comprehensive analysis, the welfare package is combined with the direct tax elements of Budget 2013: PRSI, income tax and local property tax.

The assessment does not include all budgetary welfare and tax measures, as the necessary data are not available in Switch (see details below). Similarly, it does not consider the reductions in non-welfare government expenditure in Budget 2013, as this would be outside the scope of the Department of Social Protection.

Welfare and tax measures

The main welfare and direct tax budgetary measures included in the assessment are presented in table 1, divided into three components. The official savings from the welfare items is €313 million. The PRSI and income tax components amount to €329 million. The local property tax will generate revenue of €250 million. The combined official revenue in the package is €892 million. Also included in the assessment is the abolition of the household charge, with an estimated revenue loss of €100 million.

Table 1 also presents the comparable Switch estimates of the revenue from the measures and as a proportion of the official figures. The revenue from the local property tax is presented as a range, as two variants of the tax are modelled: a 100 per cent take-up of the voluntary deferral option and no take-up of voluntary

deferral. In modelling the local property tax, the charge is attributed to the owner of the property and not the tenant/renter. Reductions in tax liability linked to disability or other factors are not included.^{viii} The Switch figures for the combined revenue are between €791 and €842 million, which equate to 87 to 94 per cent of the official figure.

Table 1: Welfare and direct tax measures

| Measures | Official €m | Switch €m |
|--|---------------------------|---|
| Welfare | 313 | 281 <i>(90% of official)</i> |
| • Child benefit | 143 | |
| • Back to school clothing/footwear allowance | 17 | |
| • Respite care & Household Benefits Package | 110 | |
| • Budget 2012 | 44 | |
| PRSI & income tax | 329 | 305 <i>(93% of official)</i> |
| • Employee PRSI allowance | 289 | |
| • Maternity benefit | 40 | |
| Local property tax | 250 | 205 - 256 <i>(82%-102% of official)</i> |
| Total revenue | 892 | 791 - 842 <i>(87%-94% of official)</i> |
| Off-setting measure | -100 (estimate) | -111 <i>(111% of official)</i> |
| • Household charge | | |

The details of the policy simulation in Switch of the main welfare and direct tax measures are presented in the following box.

Policy simulation in Switch

The welfare policy simulation for the Switch model is as follows:

- Budget 2012 measures for implementation in 2013:
 - Reduction of €20 per week in earnings disregard for lone parents.
 - Reduction of €8 per month in child benefit for the third child.
 - Reduction of €20 in child benefit for the fourth + child.
- Back-to-school clothing and footwear allowance reduced by €50 per annum.
- €10 reduction in child benefit per month for the first, second and third child.
- A reduction of €325 per annum in the respite care grant.^{ix}
- A reduction in the household benefits package of €20.25 per month, made up of €13.10 in the telephone allowance and €7.15 in the electricity and gas allowance.^x

The simulation of the tax measures is:

- Abolition of employee PRSI allowance of €127 per week.
- Taxation of maternity benefit.
- Abolition of €100 annual household charge.
- Property tax based on 0.9 per cent of property value (half-year basis), with two variants of deferral option: 100 per cent take-up and no take-up.

Certain welfare and tax items are not included in the assessment due to constraints in the Switch model. On the welfare side, these include changes in the duration of jobseeker's benefit, reductions in back to education allowance, farm

assist and exceptional needs payments, along with administrative measures (refund of redundancy payments, fraud and control). Additional expenditure on labour market programmes and child and family initiatives are also excluded.^{xi} Not included on the tax side are some income tax measures.

Changes in capital taxes, excise duties (e.g. alcohol, tobacco, motor tax, carbon tax) and DIRT are not included as no data are available on their distributive impact and so cannot be added to the Switch analysis. These are significant revenue measures and it would be important to include information on their distributive impact in future assessments. Further details of the excluded measures can be found in the Budget 2013 documentation.^{xii}

The findings of the assessment are now presented. The first part details the distributive impact of each of the three main welfare and direct tax components. The second part considers the distributive impact of the composite package (with full deferral of the local property tax).

This analysis is then replicated for the composite package with no deferral of the local property tax. Distributive impact is measured in a number of ways: by income groups (five quintiles ranked by equivalised income), by household composition and economic status and by at-risk-of-poverty (below 60 per cent median income threshold). The findings are disaggregated where possible by social group.^{xiii} In presenting the findings, no account is taken of statutory non-cash benefits such as the medical card.

Distributive impact of the welfare and direct tax components of Budget 2013

The distributive impact of the main welfare and direct income tax components in Budget 2013 is examined first. Table 2 shows that the PRSI/income tax measures are the largest component at €301 million (net basis) or 46 per cent of the total net revenue of €651 million.^{xiv} They result in an average loss of €2.40 per household per week or 0.4 per cent of average household income. Next largest is the welfare component, with savings of €258 million (net) or 40 per cent. This leads to an average loss of €2 per household per week or 0.3 per cent of average household income. The property tax changes (with full deferral and abolition of the household charge) give rise to the smallest savings of €94 million (net) (14 per cent). The average loss is €0.75 per household per week, the equivalent of 0.1 per cent of average income.

Table 2: Impact of welfare and direct tax components of Budget 2013 (net)

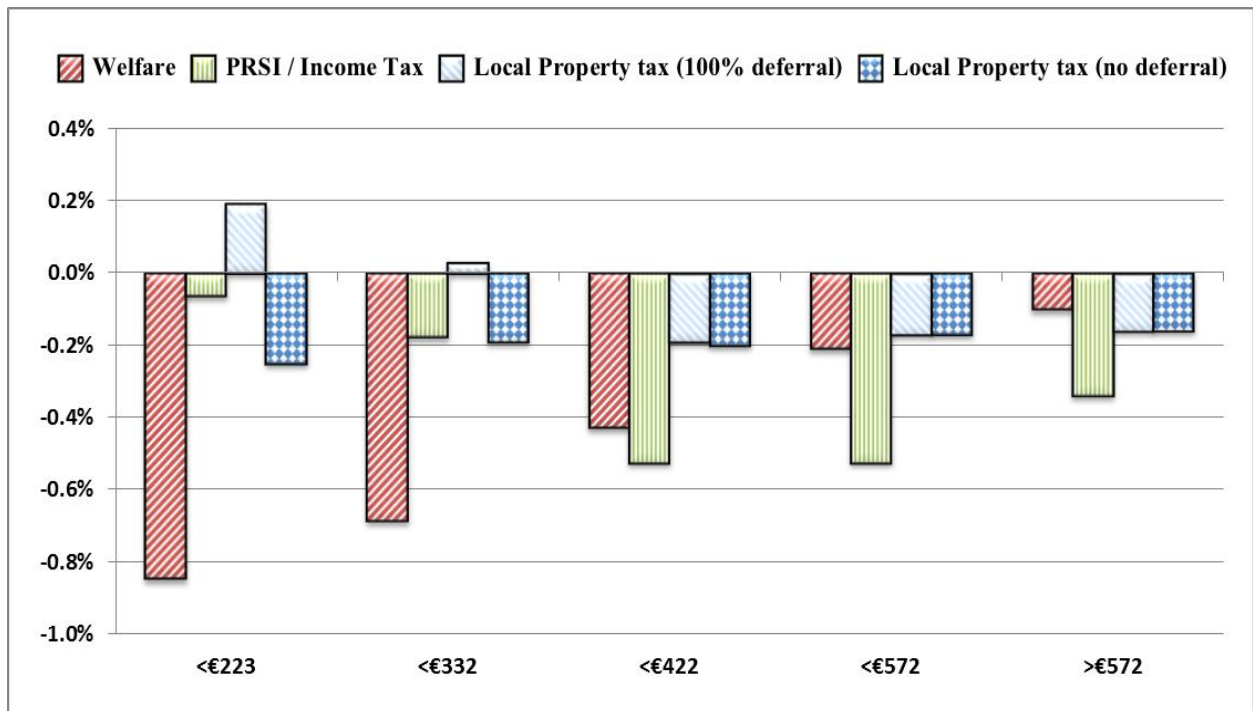
| Component | Savings | % of total | Loss €/pw | Loss % |
|------------------------------|--------------|-------------|-----------|--------|
| Welfare | €258m | 40% | €2.04 | -0.3% |
| PRSI/income tax | €301m | 46% | €2.38 | -0.4% |
| Property tax (100% deferral) | €94m | 14% | €0.75 | -0.1% |
| <i>Total</i> | <i>€651m</i> | <i>100%</i> | | |
| Property tax (no deferral) | €145m | | €1.15 | -0.2% |

Table 2 also presents for comparison purposes the impact of the local property tax with no deferral. The resultant revenue is €145 million, leading to losses of €1.15 and 0.2 per cent respectively.^{xv}

Diagram 1 presents the distributive impact of the three budgetary components, which shows the following:

- Welfare measures (red bar) have the greatest impact on the lower quintiles (< €332 per person per week), which lose up to 0.8 per cent. By contrast, the top two quintiles (> €422 pppw) lose 0.2 per cent or less. This reflects the targeted nature of welfare payments.
- The largest impact of the PRSI/income tax measures (green bar) is on the third and fourth quintiles (> €332 to < €572 pppw) at half of one per cent. The top quintile (> €572 pppw) shows a smaller loss of 0.3 per cent, because the value of the allowance is less as a proportion of higher earnings. The bottom quintiles (< €332 pppw) lose the least (0.1 and 0.2 per cent), because any earnings are likely to be below the PRSI exemption threshold and thus are not affected by the abolition of the allowance.
- The local property tax with full take-up of the deferral option (grey bar) has the same impact for the top three quintiles (> €332 pppw) at - 0.2 per cent or less. By contrast, the first and second quintiles gain from the measure, due to the combination of the deferral option, and the abolition of the flat rate household charge.
- Also shown is the impact of the local property tax with no deferral option (blue bar). This results in losses of 0.2 per cent for the bottom two quintiles (< €332 pppw), which are comparable to those in top quintiles.

Diagram 1: Distributive impact of welfare, PRSI/income tax and local property tax components of Budget 2013
 (Percentage loss in household income by equivalised income quintile)^{xvi}



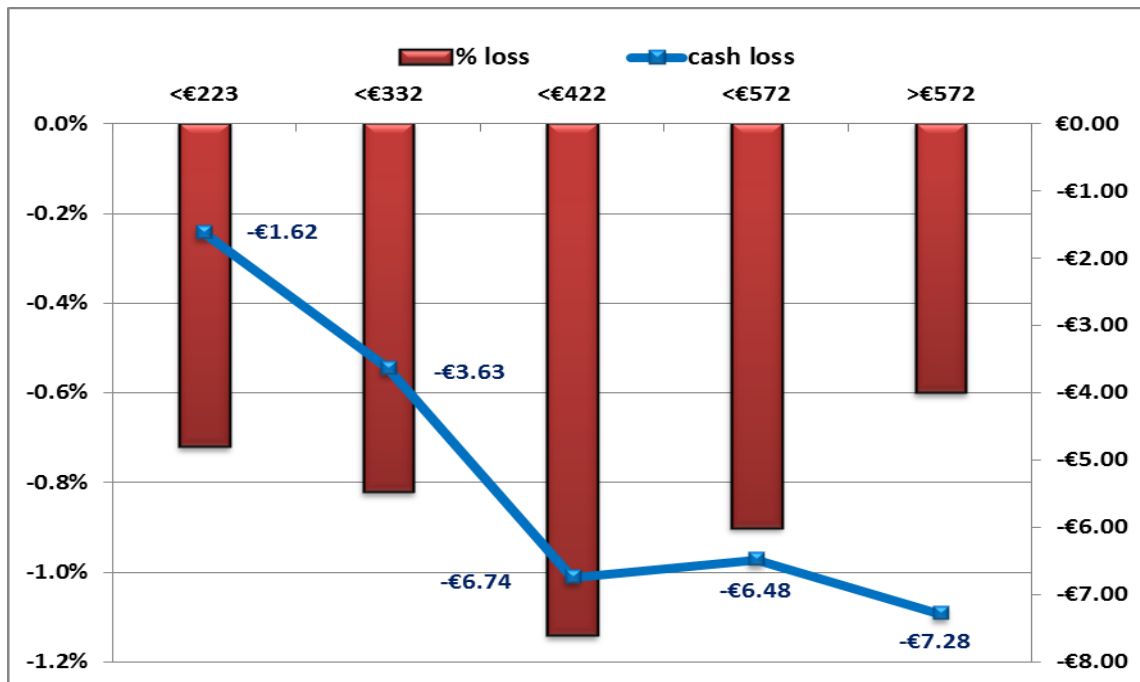
Source: Switch, the ESRI tax-benefit model

Distributive impact of the composite welfare and direct tax package

The analysis of the composite Budget measures is now presented, assuming full deferral of the local property tax. The average loss is slightly over €5 per household per week or 0.8 per cent of average household income. Diagram 2 shows the distributive impact of the Budget in terms of cash losses (blue line) and percentage losses (red column).

- The largest cash loss is in the top quintile at over €7 per week. Quintiles 3 and 4 also have larger cash losses at c €6.50 per week.
- The smallest cash loss is in the bottom quintile at €1.60 per week, followed by the second quintile at €3.60 per week.
- In percentage terms, the greatest loss is for the third quintile at almost 1.1 per cent, followed by the fourth quintile at 0.9 per cent.
- There are smaller losses in the first and fifth quintiles, at 0.7 and 0.6 per cent respectively. The loss for the second quintile is in line with the average.

Diagram 2: Distributive impact of welfare and direct tax package in Budget 2013
 (Percentage and weekly cash loss in household income by equivalised income quintile)

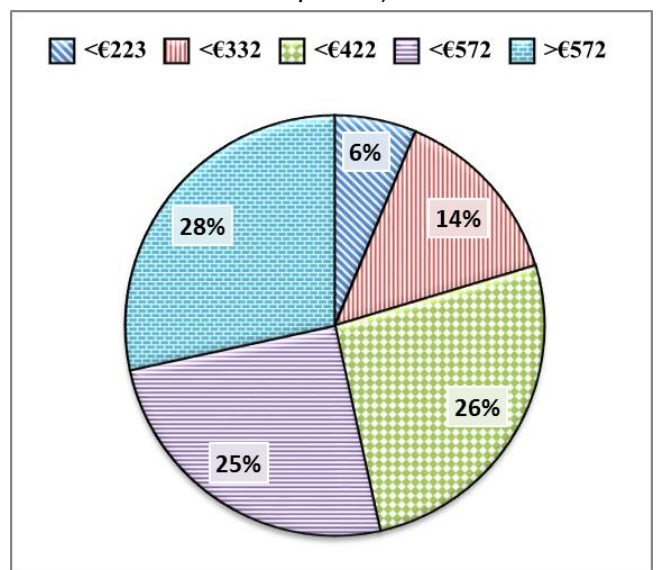


Source: Switch, the ESRI tax-benefit model

Diagram 3 presents the distribution of aggregate savings.

- The largest contribution comes from the top quintile at 28 per cent. The third and fourth quintiles also contribute more than their share at 25 – 26 per cent. Overall, the vast bulk (four-fifths) of the savings come from third, fourth and fifth quintiles.
- The bottom two quintiles contribute the remaining one fifth of total savings, with the bottom quintile providing the smallest share at 6 per cent.
- In relative terms, the top quintile contributes almost five times the share of the bottom quintile.

Diagram 3: Distribution of total savings
 (Percentage contribution by equivalised income quintile)



Source: Switch, the ESRI tax-benefit model

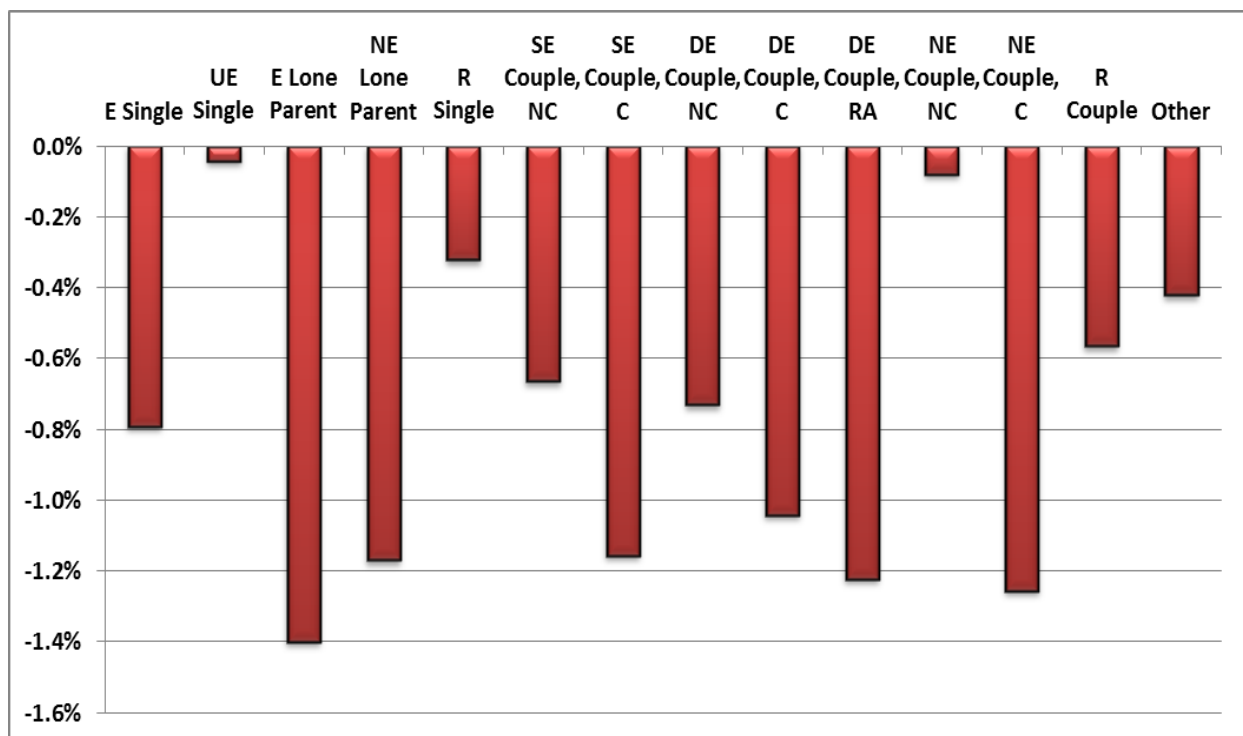
Diagram 4 presents the distributive impact on households.

- Employed lone parents are most affected, with a loss of 1.4 per cent of average income.
- Other households with high losses include non-earning couples with children (loss of 1.3 per cent), non-earning lone parents (- 1.2 per cent), dual earner couples with children (- 1 to - 1.2 per cent) and single earner couples with children (- 1.2 per cent).
- Individuals and couples in work and without children show losses in line with the average at 0.7 to 0.8 per cent.

- Retired single people and couples lose between 0.3 and 0.6 per cent.
- The family types least affected are single unemployed people and non-earning couples without children, losing 0.1 per cent or less.

There is a fall in the at-risk-of-poverty threshold of €4 per week or 1 per cent as a consequence of the Budget package. There is no significant change in the at-risk-of-poverty rate for the total population or for social groups (no diagram). This reflects the continuing strong poverty reduction effect of social transfers during fiscal consolidation.

Diagram 4: Impact on households
(Percentage loss in household income by household type)*



Source: Switch, the ESRI tax-benefit model

* E=employed; UE=unemployed; NE=non-earning; R=retired; SE=single earner; DE=dual earner; C=children; NC=no children; RA=relative assisting

Distributive impact of the combined package with no deferral of property tax

The distributive impact of the budgetary package assuming no deferral of the local property tax is now considered. The average household loss increases slightly to €5.50 per week or 0.9 per cent of average household income. Diagram 5 shows the cash (red line) and percentage loss (blue column) by quintile.

The main results in comparison with the previous analysis are:

- The cash losses increase for the bottom quintile to €2.60 per week and the second quintile to €4.60 per week.

There is no change in the losses in the third to fifth quintiles.

- The percentage losses are greater in the first and second quintiles (over 1 per cent) and are now on a par with the third quintile at 1.2 per cent.
- The fifth quintile has the lowest percentage loss at 0.6 per cent, almost half the loss of the bottom quintile.

Diagram 5: Distributive impact of composite package (no deferral of property tax)
(Percentage and cash loss in household income by equivalised income quintile)



Source: Switch, the ESRI tax-benefit model

In summary, the other comparative impacts are:

- the share of the aggregate savings from the bottom quintile increases to 9 per cent, with small falls in the shares of the top two quintiles
- the losses are increased for households with children.
- there remains no significant change in the poverty risk.

Endnotes

- ⁱ Source: 2011 CSO *Survey on Income and Living Conditions*. See http://www.cso.ie/en/media/csoie/releasespublications/documents/silc/2011/silc_2011.pdf
- ⁱⁱ Ibid. This equates to a poverty reduction effect for social transfers, excluding pensions, of 60 per cent. This is the best performance of all EU member states and is almost twice the EU average (see http://epp.eurostat.ec.europa.eu/portal/page/portal/income_social_inclusion_living_conditions/data/database).
- ⁱⁱⁱ See <http://ec.europa.eu/social/main.jsp?catId=89&langId=en&newsId=935&furtherNews=yes>
- ^{iv} See <http://www.socialinclusion.ie/NPT.html>
- ^v See <https://www.iser.essex.ac.uk/euromod>
- ^{vi} Stimulating Welfare and Income Tax Changes
- ^{vii} Information on the design, underlying data and model construction can be found at www.esri.ie/switch.
- ^{viii} The voluntary deferral option applies to owner-occupier households where the gross income does not exceed €15,000 (single) and €25,000 (couple). The gross income limit is adjusted for income stressed owner-occupiers who have an outstanding mortgage. Deferral should be distinguished from exemption, as the tax remains due until discharged at a later date. The Department of Finance estimates that 15 per cent of all households will avail of a deferral. It is not possible to model this rate of take-up of the deferral option as its distribution is unclear.
- ^{ix} This is modelled as a proxy adjustment in the personal rates of income support for carers. The actual rates were unchanged in the Budget.
- ^x This is modelled as a proxy adjustment in the personal rates of income support across welfare schemes eligible for the Household Benefits Package. The actual rates were unchanged in the Budget.
- ^{xi} These amount to €47 million in a full year and include an additional 10,000 activation places and 6,000 additional after-school places, along with additional funding for school meals and an initiative for disadvantaged children.
- ^{xii} <http://budget.gov.ie/budgets/2013/2013.aspx>
- ^{xiii} This includes the impact for children, older people, and gender. Consideration of the impact on people with disabilities or ethnic minorities is not analytically possible, but it is hoped to rectify this in future social impact assessments.
- ^{xiv} Note the net figure of €651 million is less than the gross figure of €680 million as it takes into account tax and welfare expenditure offsets against the Budget measures.
- ^{xv} Caution is advised in the interpretation of the local property tax measure for 2013 for two reasons: it is modelled on a half-year basis, and it includes the abolition of the household charge as a one-off measure. The full year impact of the local property tax in 2014 will be greater and may have a different distributive pattern.
- ^{xvi} The equivalisation scales used are 1 for a single person, 0.66 for an additional adult and 0.33 for a child (< 14 years).