Advisory Group on Tax and Social Welfare

First Report: Child and Family Income Support

27 March 2012

This publication includes results based on SWITCH, the ESRI tax-benefit model. Information on the design, underlying data and model construction can be found at www.esri.ie/switch. Responsibility for the results and interpretation in this document rests with the Department of Social Protection and not with the ESRI.

Contents

1. Introduction

The Advisory Group on Tax and Social Welfare was established by the Minister for Social Protection in June 2011. The members of the Group are listed in Appendix 1. The first meeting of the Group was held on 30 June 2011. Eleven further meetings have been held.

The Group's terms of reference are quite wide ranging – they are set out in full in Appendix 1. Among other things, the Group was asked to examine child and family income supports (in particular child benefit, increases for qualified children and family income supplement). While recognising that all the issues to be examined are inter-related, the Group decided to give priority to the issue of direct child income support (CIS). This report deals only with that issue.

The terms of reference require that all of the Group's work is carried out in the context of ensuring that the income support and tax systems provide good incentives to take up work and contribute to the reduction of poverty and child poverty in particular. The Group is also required to consider any proposals for change to existing arrangements in a cost-neutral or cost-reducing context.

The Group did not consider that it had enough information available to reach definitive conclusions on the long term development of child income support in time for Budget 2012. It did not make specific recommendations for changes in Budget 2012 but did provide a progress report to the Minister for Social Protection in advance of the Budget. An extract from the progress report is included in Appendix 3.

The report comprises eight sections with more detail contained in the Appendices. Sections 1 to 3 introduces the report, reviews submissions made to the Group and sets out the objectives of child income support. Section 4 outlines the rationale for change while section 5 reviews the options for change. Section 6 reviews two of the main options for reform of child income support: a two-tier Child Income Support payment and taxation of child benefit. Section 7 contains the conclusions and recommendations of the Group. Section 8 identifies issues to be addressed in light of the Group's recommendations.

2. Submissions

The Group decided at the outset to invite written submissions on the issues to be considered. Advertisements inviting registration of interest in making submissions on all the issues identified in the terms of reference were placed in the national newspapers. Submissions on child and family income support were invited in the first instance and 21 replies were received on this topic. A majority of submissions support the continuation of a universal element of child income support. A summary of the key issues raised and a list of those who made submissions is set out in Appendix 2.

3. Child income support payments

As specified in its terms of reference, the Group concentrated on the following payments in its consideration of family and child income supports:

- Child Benefit
- Qualified Child Increases (QCIs) to primary social welfare payments
- Family Income Supplement.

Child Benefit is a monthly payment made to families with children in respect of all qualified children. It is a "universal" payment (that is, not relying on a means test or a social insurance contribution), paid in respect of qualified children up to the age of 16 years. The payment continues to be paid in respect of children up to their 18th birthday who are in full-time education, or who have a physical or mental disability.

Qualified Child Increases (QCIs) are child-related supplements included in most weekly social welfare payments. QCIs are paid in respect of a qualified child up to age 18, and may be paid in respect of older school/college going children up to age 22 under certain circumstances.

The **Family Income Supplement** (FIS) payment provides income support to families with children whose parents are employees on low earnings. The payment amount is based on a fixed proportion (currently 60 per cent) of the gap between the assessable income (net of income taxes, PRSI and the Universal Social Charge) of the household and prescribed FIS income thresholds. Specifically in order to qualify for FIS a person must:

- be in paid full-time employment which is expected to last for 3 months;
- work at least 19 hours a week or 38 hours a fortnight;
- have at least one child who normally lives with and is supported by him/her;
- have an average weekly income below the designated income threshold for the family size.

FIS is payable in respect of qualified children up to age 18, and may be paid up to age 22 if the child is attending full-time education and normally lives with the applicant.

FIS is both a child income support payment and an in-work payment designed to provide an incentive to work for lower income families. The Group intends to further examine the role of an in-work incentive payment when it addresses the issue of working age income supports.

The **Back to School Clothing and Footwear Allowance** (BTSCFA) is also an element of CIS. While the Group did not examine it in any detail, it did consider the allowance in the context of the proposed two-tier CIS payment.

The objectives of child income support payments

Child income support policy has been the subject of a considerable number of reviews by various commissions, working groups and statutory bodies over a long number of years – see Appendix 4 for a list of the most relevant. The Group has considered the analysis in these reports and has built on that analysis.

Over the years, child income support payments have been seen to fulfil a number of policy objectives. These have developed with varying significance and reflect different social and economic priorities at different times. These include:

- Providing assistance to all households with children in recognition of the costs incurred in child-raising;
- Providing targeted assistance to no- or low-income households with children in order to reduce poverty in those households in a way which minimises labour market disincentives or positively contributes to labour market incentives;
- Reducing financial disincentives for parents to take up work;
- Providing financial assistance with specific costs such as the cost of childcare;
- Providing an independent income source for women in the home.

The Group is mainly concerned with the first two of these objectives, which could be termed the primary objectives of child income support.

Other supports for children

The Group recognises that child income support payments cannot be viewed in isolation from other State supports for children such as education, health services and childcare. The payments also have to be examined in the context of parental income and the Group intends to examine these issues as part of its future work. However, this report is concerned exclusively with direct child income support payments and does not take account of child related services or family income, all of which are important determinants in both child poverty and work incentives.

4. Rationale for change to child income support payments

The individual payments that comprise the child income support system emerged at different times over the course of the development of the Irish social welfare system. In 1944, children's allowance was introduced as a universal payment. It was originally payable to the third and subsequent children and subsequently to all children. In 1986 this payment was replaced by child benefit, which maintained the principle of universality. At the time, it had been intended to have this payment taxed, but for administrative and technical reasons, it was decided to introduce a non-taxable scheme of child benefit.[1] At the same time, the provision under the tax code of a child tax allowance was abolished. The taxation of child benefit has resurfaced onto the policy agenda on a number of occasions since.

Targeted payments to those families with children with no- or low-incomes have a more complex history. Adjustments for social welfare payments according to family size were originally provided through child dependant additions (now called QCIs) with payment rates and conditions varying according to each social welfare scheme. While rationalisation of QCIs took place during the 1980s and 1990s following a recommendation by the Commission of Social Welfare, it was not until 2006 that QCIs were finally consolidated into one rate. The Family Income Supplement was introduced in 1984 as a targeted support for families with children on a low income. It was designed to incentivise employees to take-up or remain in employment when they might have been only marginally better off if they were claiming social welfare benefits. Furthermore, it was originally intended that FIS would be a temporary measure pending an overall reform of child income supports.

Thus, by the 1990s a system of child income supports had emerged that had been built up incrementally in response to differing objectives. Since then the individual payments have been considered in policy

[1] *Dáil Éireann – Historical Debates, Volume 364, Social Welfare Bill 1986, Second Stage, 11 March, 1986, Minister for Social Welfare.*

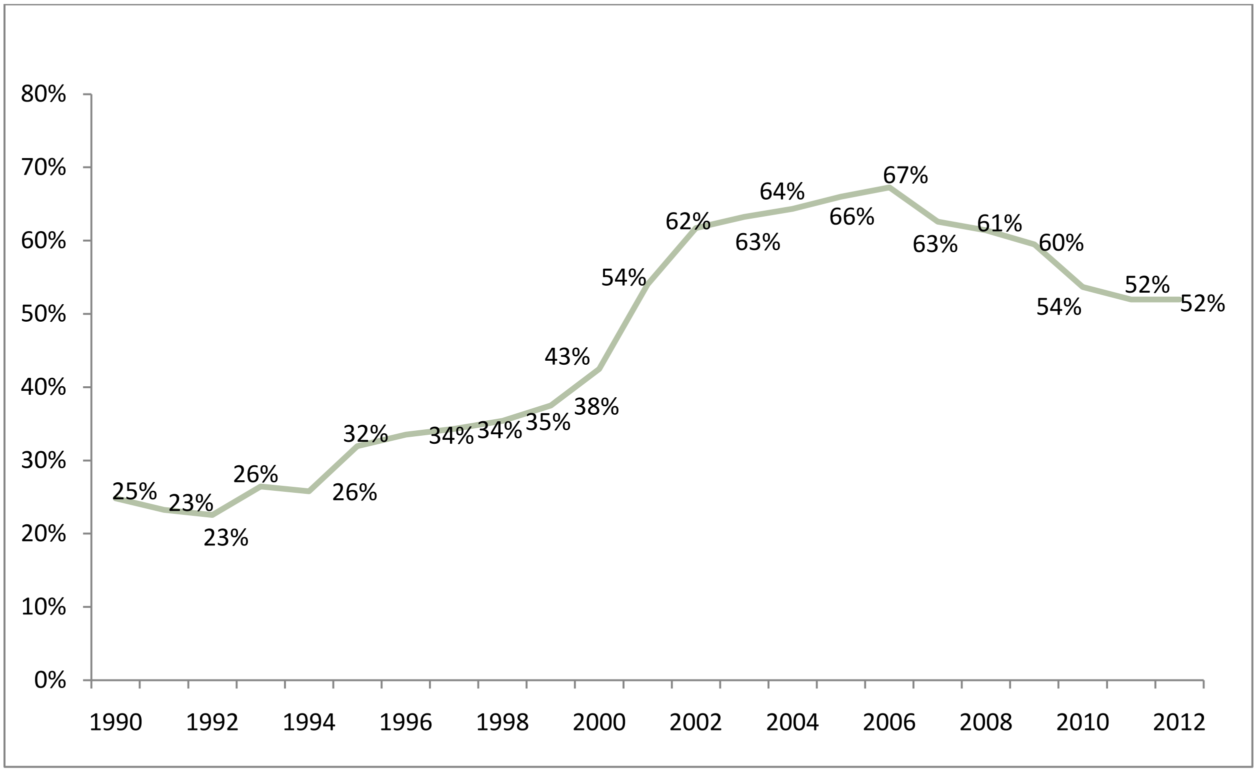
terms as working in tandem with one another as part of a broader child income support system. However, the individual payments maintain their disparate characteristics which obviates against overall coherence within the system.

Universality and selectivity

The various commissions and working groups which have examined child income support payments in the past have addressed the issue of retaining universal child benefit. While there has generally been agreement that child benefit should remain universal, an increased focus on how the payment could be made more targeted has emerged, most recently in the recommendations of the Commission on Taxation (2009). Meanwhile the issue of making child benefit more targeted, through either taxation or means testing, gained an increased focus within public discourse, particularly as the economic crisis developed. In 2010, the Department of Social Protection *Value for Money Review of Child Income Support Policies and Associated Spending Programmes* (the DSP VfM Review) argued for a greater coherence within the system of supports through the rationalisation of payments and particularly in the structure of selective payments so as to provide more consistent assistance to low income families and to encourage parental employment.

To portray where the current system stands in the context of universality and selectivity, Figure 1 shows the weekly value of child benefit as a percentage of the combined child income support payment (child benefit plus QCIs) over the period 1990 to 2012. Prior to 2000 there was a reliance on the targeted QCI payment, with the proportion attributed to child benefit below the 40% level. Between 2000 and 2006 a greater reliance on child benefit emerged as the proportion of the combined child income support payment that was attributed to the universal element moved above the 60% level. Thereafter the proportion that the universal child benefit payment represented declined towards a mixed system whereby the proportions approached a 50%:50% split.

Figure 1: Child Benefit as a percentage of combined child income support payment (CB & QCI)



Expenditure

Overall annual expenditure on child income support payments increased significantly between 2000 and 2008 from just over €1 billion to almost €3.6 billion. This increase was mainly due to increases in child benefit, which cost almost €2.5 billion in 2009. The increase in the total number of births from 54,239 in 2000 to 74,976 in 2010 also played a role in the increase in CIS expenditure. Since 2009 and the onset of the fiscal crisis there has been retrenchment in the overall cost of CIS payments and a rebalancing of the level of those payments with a decreased reliance on child benefit. Expenditure on child benefit has reduced to just under €2.1 billion in 2011 while total spending on CIS payments amounted to just over €3 billion. Compensatory measures provided for the reductions in child benefit payment rates, as well as an increase in the number of social welfare recipients, particularly those in receipt of jobseeker payments, has contributed to expenditure on FIS and QCIs increasing from €720 million in 2009 to €870 million in 2011. Therefore the net reduction in CIS spending (excluding both the back to school clothing and footwear allowance and the early childcare supplement) over the period 2009 to 2011 has been of the order of €200 million.

Table 1: Child Income Support Expenditure 2000-2011

Year	Child Benefit	Family Income Supplement	Qualified Child Increases	Back to School Clothing and Footwear Allowance	Early Childcare Supplement[2]	Total
	€million	€million	€million	€million	€million	€million
2000	637.5	39.4	313.7	13.8	0	1004.4
2001	964.8	37.1	312.7	12.8	0	1327.4
2002	1462.7	42.4	317.7	15.2	0	1838
2003	1666.5	45.4	308.2	17.7	0	2037.8
2004	1765.1	55.8	290.5	17.0	0	2128.4
2005	1899.9	72.2	284.0	16.7	0	2272.8
2006	2056.3	107.1	287.2	24.9	292.0	2767.5
2007	2233.0	140.0	349.0	40.2	417.0	3179.2
2008	2454.0	170.3	443.6	49.6	477.0	3594.5
2009	2495.3	167.1	552.2	67.2	248.0	3529.8
2010*	2213.5	186.0	668.9	77.4	0	3145.8
2011^	2076.8	204.4	674.5	90.0	0	3045.7
2012^	2078.6	199.5	674.5	63.7	0	3016.3

***** Provisional***

^ Estimated

The effectiveness and the efficiency of CIS expenditure were considered in the DSP VfM Review. The review concluded that spending on CIS payments contributed to the dual primary objectives of assisting with the cost of raising children and the alleviation of child poverty. While the exact level of contribution by CIS payments to addressing these objectives could not be determined, given data limitations, the review found that CIS payments were moderately efficient at targeting resources at the lower half of the income distribution. Furthermore, the review determined that it would not appear that better outcomes would be attained from an increase in income supports alone. The review also noted that the increased reliance on child benefit as a mechanism to deliver supports to families suggests that the overall expenditure may have been higher than it ought to have been. Therefore, the provision of resources to those in the top half of the income distribution provides scope for efficiency gains to be achieved

[2] The Early Childcare Supplement was a tax free non means tested supplement introduced in Budget 2006 to assist with the childcare costs of children under six years of age. The payment was replaced in January 2010 by the Early Childhood Care and Education Scheme.

through a rationalised child income support system that provides an increased level of targeting to those on no- or low-income.

The requirement to achieve savings became more pressing as the economic situation deteriorated, which gave rise to Ireland entering into a Programme of Financial Support with the EU and the IMF. Under the terms of the Programme, Ireland is committed to building on a range of studies relating to structural reform of the social welfare system, including the DSP VfM Review of CIS payments, with a view to producing a comprehensive programme of reforms that can help the better targeting of social support to those on lower incomes, and ensure that work pays for welfare recipients. Under the fourth update to the Memorandum of Understanding (February 2012), the Department of Social Protection has a commitment to submit to the Government this comprehensive programme of reforms by the end of March 2012. Therefore, reform to child income support payments is an integral component of this comprehensive programme of reforms and savings in this regard are expected to contribute to the overall reduction in social welfare spending over the coming years.

Services

Ireland's CIS payments rates are high by international standards – see Appendix 5. Despite the fact that Ireland spent significantly higher amounts on cash benefits, analysis of child poverty outcomes across the OECD countries shows that the child poverty rate in Ireland was higher than the OECD average.[3] The experience in Ireland can be compared with the situation in other countries where better outcomes are obtained for similar levels of spending. In particular, a comparison with the Nordic countries shows that poverty rates are lower notwithstanding lower spending. However, these countries spend significantly more on child services, supports for families with young children with well paid parental leave and a high proportion of childcare.

Difficulties with current CIS payments

Although there has been significant commentary on the level of public expenditure devoted to child benefit over recent years and general debate as to how that payment could be made more targeted, there has been less of a focus on the difficulties confronting the selective CIS programmes, that is, FIS and QCIs. As well as the lack of consistency between the CIS payments, the individual payments also have a number of problems that hinder their effectiveness as income supports. Some of these were

[3] See Section 7.3 of DSP VfM Review on analysis of child poverty outcomes.

highlighted in the VfM Review of CIS payments and they were also raised in a number of submissions to the Group. In particular, a number of issues have been identified in respect of FIS including:

- The employee condition prevents self-employed workers from receiving FIS, effectively excluding certain low income families with children from receiving a child-related supplement.
- The concurrent payment of FIS with some social welfare payments and not with others has been identified as incoherent and inconsistent and weakens the extent to which FIS clearly addresses both in-work poverty and low incomes for families with children. Budget 2012 introduced some rationalisation by providing that carers payments and income from employment as a home help are to be included in the FIS income assessment.
- The low level of take-up of FIS has been perceived as a persistent problem since the introduction of the payment. While there is some evidence that the situation may have improved over recent years, there continues to be concerns regarding the application process, which requires employers to provide information.
- The method of calculating FIS is quite complex and, as there is no single rate, it is difficult for prospective applicants to be aware of what level of payment they might receive.
- FIS is not only a child income support but also an in-work support payment and as such this dual function might best be addressed through separate mechanisms. (As already stated, it is the Group's intention to examine the question of an in-work support payment when it is dealing with working age payments.)

The difficulties associated with QCIs are not so numerous, but the following issues can be highlighted:

- QCIs are delivered as a supplement to the primary adult social welfare payment and as such are somewhat invisible as child income supports.
- QCIs are withdrawn at a rate which could be as high as 60% depending on the conditions of the particular payment.
- The loss of QCIs on taking up work can have significant disincentives for social welfare recipients with children. Research conducted by the ESRI points to higher replacement rates for married couples with children compared to single people.[4]
- Current rules regarding half rate QCI payments add a further level of complexity to the system.

[4] Tim Callan, *et. al.* (2011), "Tax, Welfare and Work Incentives", in *Budget Perspectives 2012*, (ESRI, Dublin), p. 9.

While each of these difficulties could potentially be addressed separately, changes to the system of child income supports in a coherent manner could achieve reductions to overall expenditure and minimise effects on both employment incentives and poverty outcomes for families with children.

5. The options for change

Role for universality

The Group is unanimous in its view that there continues to be a role for universality within the system of child income supports and that the State should provide some income support for all children. In considering the role of universality, the Group endorsed the finding in the Report of the Commission on Social Welfare (1986) which emphasised the role of child benefit in providing support to all families with children and which states: *"We regard it as appropriate that the State shares with parents the costs of rearing and maintaining children. This does not imply that child income supports are made in a rigorously selectivist fashion to a small group of low income families but, rather, that a contribution is made to the income of all families and full provision is made for children in families without incomes."*[5]

The arguments in favour of retaining a universal payment can be summarised as follows:

- At a societal level, a universal payment makes a strong statement that children matter and that society values children and wishes to share in the cost of raising children.
- A universal payment is easy to understand and administer and generally results in a high level of take up.
- A universal payment is employment and income neutral and therefore avoids labour market disincentive effects.
- A universal payment avoids branding the families that receive it as poor and as such is free of stigma. This in turn ensures a high level of take-up.
- It avoids fluctuations in the level of payment being provided to families and thus ensures certainty and can aid budgetary considerations within the family unit and increase the likelihood that the payment is used for the welfare of the children.
- It facilitates intra household distribution of resources.

[5] *Commission on Social Welfare* (Dublin, 1986), p. 293.

The main arguments against retaining a universal payment are that:

- It is expensive;
- It is ill-targeted and on its own it does not provide adequate support to those children living in the poorest families; and
- It has multiple objectives and as such it can be difficult for all of these objectives to be met.

Therefore, while the Group is in favour of retaining an element of universality, it recognises the need to examine the balance between universal and selective elements within the system of child income supports.

Targeted payments and child poverty

The Group noted the considerable evidence showing that children reared in poverty have poor outcomes that can impact on their development and which can have a negative impact on society as a whole. The Group also noted that children report higher levels of poverty than other age groups, even though the difference has narrowed in recent years. (Table 2 and Table 3) The Group acknowledged the important role that child income supports plays in reducing child poverty rates, though it is not the only factor.

Table 2: At risk of poverty[6] rates, 2005 – 2010

	2005	2006	2007	2008	2009	2010
Risk of Poverty – All	18.5	17.0	16.5	14.4	14.1	15.8
Risk of Poverty – Children (0-17)	23.1	22.3	19.9	18.0	18.6	19.5
Risk of Poverty – Working age (18-65)	16.2	15.4	15.0	13.5	13.0	15.3
Difference between RoP (children) and RoP – working age	6.9	6.9	4.9	4.5	5.6	4.2

Source: CSO, SILC

[6] A person is considered to be at risk of poverty if their equivalised income is less than 60% of the national median income.

Table 3: Consistent poverty[7] rates, 2005 – 2010

	2005	2006	2007	2008	2009	2010
Consistent Poverty – All	7.0	6.5	5.1	4.2	5.5	6.2
Consistent Poverty – Children (0-17)	10.8	10.3	7.4	6.3	8.7	8.2
Consistent Poverty – Working age (18-65)	6.1	5.6	4.7	3.9	4.9	6.4
Difference between children and working age	4.7	4.7	2.7	2.4	3.8	1.8

Source: CSO, SILC

The Group did not discuss in detail what might be the optimum level of support to be provided to families except to say that it should be in some way related to the cost of raising a child.
In the absence of an agreed indicator, the Group noted the current official target in this area as a starting point to evaluate the adequacy of support. The National Action Plan for Social Inclusion 2007 – 2016 (NAP Inclusion)[8] target is that the rate of child benefit plus Qualified Child Increase (QCI) should be between 33% and 35% of the main adult social welfare rate. At present, the standard rate of child benefit is €140 a month or €32.22 a week. The Qualified Child Increase is €29.80 a week. The combined weekly payment, €62.02, is almost 33% of the main adult social welfare rate (€188 a week).

The Group is conscious that a target which relates child income support to another social welfare payment may not be the most appropriate target but noted that a review of national poverty targets is currently being conducted. Until such time as a new target is agreed, the Group considers that the target as outlined above should continue to be met.

Possible changes

There are six main options for changing child income support payments:

Reduction of child benefit rates with no other changes: While this approach would reduce expenditure on child income support, it would be limited to only one of the main income support payments and would have no benefit in terms of a better design of the overall CIS system. The Group considers that a straight reduction to child benefit rates would achieve greater targeting of the overall spend as there

[7] Consistent poverty is the official measure of poverty in Ireland and forms the basis of the poverty reduction target contained in the NAP Inclusion. An individual is defined as being in consistent poverty if they are identified as being at risk of poverty and live in a household that experiences enforced deprivation of at least two items out of an index of eleven basic deprivation items.
[8] http://www.welfare.ie/EN/Policy/PolicyPublications/SocialInclusion/Documents/napsocinc.pdf

would be a greater emphasis on the selective payments. However, this approach would have an adverse effect on low income families and would be devoid of reform.

Reduction of child benefit rates with compensatory measures in QCIs: This approach was adopted in Budget 2010 when child benefit rates were reduced and compensatory measures in QCIs and FIS were introduced in order to protect families with children most likely to be affected by decreases in child benefit rates. Analysis considered by the Group shows that the impact of reducing child benefit and providing compensatory payments to QCIs would include an increase in the at risk of poverty rates, particularly for children, and some disimprovement in employment incentives.

Income/Means testing child benefit: This could mean that some families would not receive any child income support from the State. The Group favours the retention of a universal child income support payment at some appropriate level. While income/means testing child benefit has potential to improve targeting of resources it also would have considerable administrative consequences, as the scale of means testing would be considerably greater than anything required by the current system. On a more general level this approach would only address one of the main income support payments and would have no benefit in terms of a better design of the overall CIS system.

Taxation of child benefit: There are two main options for taxing child benefit: full taxation at source by the Department of Social Protection and 'coding-in' of child benefit to tax credits and bands. The Group also discussed the possibility of a final liability tax similar to a withholding tax. The Group recalled the obstacles which exist to the taxing of child benefit, including the potential for different treatment between married and co-habiting couples. The technical obstacles to taxing child benefit could be overcome through closer working of the tax and benefit systems. Some legal issues would also have to be overcome. (See Section 6 for further details)

Refundable Tax Credits: The question of refundable tax credits will be examined by the Group in the context of working age income supports but in the context of child income support the same issues arise as for taxation of child benefit.

Second tier payment as per NESC /an integrated CIS payment as per the Department of Social Protection VfM review: Under the proposal outlined in the NESC report for a second tier payment, all parents would continue to receive a universal payment (the 'first tier'). Where family income is below a threshold, a second tier payment for each child would be made in full. Above that threshold, it would be withdrawn on a tapering basis, and not paid at all at higher levels of family income. It should replace QCIs and FIS (and potentially the back to school clothing and footwear allowance also).

The core concern of the NESC second tier payment is that its payment would be triggered solely by low family income, and not by social welfare status, employee status or hours worked.

The DSP VfM Review identified an alternative approach based on an integrated and unified payment per child. Under this approach, described in more detail below, as in the case of the NESC proposal, all parents would continue to receive a universal payment (the 'first tier') and a second tier payment based either on social welfare status (receipt of a social assistance payment) or level of family income.

Having considered the various options the Group concluded that the taxation of child benefit and the two-tier CIS payment were the two most feasible options for change.

6. Analysis of main options

This section provides an overview of the two most feasible options for change to child income support payments considered by the Group and how each approach could work in practice. Under the taxation of child benefit approach, three options are reviewed, namely collection of tax at source, "coding-in" and a final liability levy. Following on from this, the key features of the two-tier CIS payment are set out and described. Subsequently, the key findings of the impact assessment of both approaches in terms of budgetary, poverty and incentive outcomes are outlined. The section concludes with an analysis that seeks to interrogate the feasibility and practicalities of each approach.

Taxation of child benefit

Option 1 –Collection of tax at source by the Department of Social Protection

This approach would treat child benefit payments as equivalent to income from an employment. The Department of Social Protection (DSP) would register as an employer and collect the tax due in the same way as the PAYE system. In the case of self-employed taxpayers, the DSP 'employment' would operate in the same way as any other subsidiary PAYE employment in all respects. The following would apply to all child benefit recipients under this option:

- This option would treat child benefit as income that is within the scope of the PAYE system and the DSP would operate PAYE on making the payment.

- The deduction of tax at source from child benefit through the PAYE system would apply to all individuals – social welfare recipients / the PAYE sector / the self-employed at progressive tax rates, where appropriate.
- All recipients of child benefit would be registered on the PAYE system, with their child benefit payments recorded as primary or subsidiary income, similar to any other source of PAYE income. Unless the payment was exempted from use against tax credits, the taxpayer could allocate his or her tax credits (or a portion thereof) against any source of PAYE income, including child benefit.
- Revenue would determine each child benefit recipient's tax credit entitlement and notify him or her, along with the DSP as "employer", in the normal way.
- The taxation of the child benefit income would run parallel but separately to any other activity of the taxpayer, be it self-employment, PAYE employment, or a combination of both.
- DSP would channel the child benefit payments through a 'payroll' system, deducting any tax due, in advance of payment through established mechanisms.
- The DSP would operate the child benefit schemes on the basis of current PAYE Regulations and would issue P60s, detailing payments and tax deducted to each child benefit recipient after end-of-year.

The technologies required for this process are already well established.

Option 2 - "Coding in"

This option relates to the taxing of child benefit in full with the tax to be collected by -

- for PAYE taxpayers, reduction of their personal tax credits (commonly known as 'coding in');
- for the self-employed, by way of direct assessment within the self assessment system; and
- for those whose only income is social welfare income, by way of direct assessment within the self assessment system.

"Coding in" is a system that relates to the PAYE sector only and would work on the basis of restricting tax credits by the value of standard rate tax due on the child benefit paid and, to ensure higher rate taxation in appropriate cases, reducing the Standard Rate Cut-Off-Point (SRCOP) by the amount of child benefit. Tax is already collected on current taxable sources of DSP income (such as jobseekers benefit, State pensions, one parent family payment, carers allowance etc) from the PAYE sector on the basis of "coding in".

For some taxpayers, negative tax credits may arise where the tax liability on coded income is greater than the total tax credits granted. In such situations the Standard Rate Cut-Off-Point (SRCOP) would be automatically adjusted downwards in order to collect the excess liability through higher rate taxation. In practice this would not always result in the additional tax liability being collected as the taxpayer's income must reach and exceed the higher rate band before the measure has any effect. Revenue would therefore be obliged to pursue the underpayment by means other than the PAYE system (e.g. direct assessment following the end of the tax year). Where negative tax credit situations arise, knock on difficulties for Revenue in collecting underpayments of tax for prior years or tax on other income will arise. The negative impact on the exchequer take in this respect is difficult to quantify.

In the case of all child benefit recipients, DSP would pay child benefit in full (i.e. no deduction of tax at source). DSP would provide Revenue with data on all child benefit recipients before the beginning of a year and on the basis of this data, Revenue would "code in" the projected child benefit for the coming year in the case of PAYE child benefit recipients.

In the case of social welfare recipients drawn into the tax net by taxation of child benefit, Revenue (in the absence of an exemption system graduated by reference to number of children and, possibly, a marginal relief system for those on low pay and in receipt of social welfare benefits to avoid step effects) would raise an assessment and in the event of non-payment proceed to compliance and debt management interventions. The raising of such an assessment could only be done after the end of a year and most likely after the child benefit has been spent.

In the case of the self-employed, the child benefit recipient would pay preliminary tax based on total estimated income including child benefit. However, some self-assessed taxpayers may opt to pay 100% of previous year liability as preliminary tax in which case a big time lag in getting liability on the child benefit arises. Child benefit would have to be shown on the individual's annual return of income the same as any other income source.

The pros and cons of both of these methods are set out in Appendix 6.

Option 3 - "Final Liability Levy"

The Group also considered the option of a final liability levy as a method of taxing child benefit. This option provides for a non-refundable 20% levy at source of the payment with an exemption for social welfare recipients. This option could be an intermediate step towards the implementation of either option 1 or option 2 above i.e. collection of taxation at source by DSP or "coding-in". There are less legal and technical issues in implementing this option than for the two main options for taxation of child benefit. There would be some costs involved by DSP in identifying and granting exemption from the levy.

Two-tier CIS payment

The basic features of the integrated child income support payment outlined in the Department of Social Protection's VfM Review are:

- A universal payment in respect of all children.
- An automatic supplement payable in respect of children whose parents are in receipt of an adult social welfare payment; the automatic payment would be paid only in respect of those children whose parent(s) is receiving a social assistance payment and who are thus already subject to a means test. Parents who are receiving social insurance payments would be eligible for the means tested supplementary payment.
- A means tested supplement payable in respect of children in low/middle income families where the parents are not in receipt of an adult social welfare payment and withdrawn as income increases (replacing FIS and also covering some families not currently eligible for FIS).

Only those parents with dependent children on social assistance based schemes would receive the second tier payment automatically. Parents with dependent children on social insurance payments would be encouraged to apply for it through the income-test component where a full declaration of household income would be made.

There are some clear advantages in making payment of the second-tier automatic for all parents on social assistance payments with dependent children. Their households are already means-tested and it is clear from these means-tests that the vast majority have incomes so low that they would qualify for full payment of the second-tier if subjected to an income test specific to the two-tier CIS payment. In addition, “relabeling” their QCIs as the second-tier of a child payment would provide an important point of continuity with the existing system.

However, unlike parents on social assistance based schemes, parents on social insurance payments are not means-tested. While a significant number of parents on social insurance payments may have income below the income threshold, many parents may have an income that would be above this threshold (especially if their partner’s income is taken into account).

A key part of the two-tier payment arrangement therefore is providing an option for the continued payment of a supplement where no automatic payment is made through establishing the current income status of the household. This suggests the need for a new system that provides a capability of:

- making on-line declarations as a way of getting a declaration of household income;
- verifying the reliability of the income declarations made by household units in support of their claim for the income-related supplement;
- using this data to determine the level, if any, of supplementary payment; and
- managing this claim on an ongoing basis taking account of changing circumstances and control risks.

While an on-line declaration would minimise the level of interaction with most parents, an alternative system may be necessary for those without the facility to make on-line declarations or those with literacy difficulties.

Since the publication of the DSP VfM Review, the Department of Social Protection has carried out a technical analysis of how the proposed integrated child income support payment could be implemented. This analysis makes various assumptions about the level of payment and the income limits for the supplementary element of the payment. The effects on the public finances, poverty and households of a number of different packages were also examined. The baseline package analysed by the Department of Social Protection is based on the current combined child benefit and QCI rate of €63 a week. It is proposed that there would be a universal/selective split of 40% universal and 60% selective (€25:€38). This would mean that all children would receive €25 a week (the current standard rate is €140 a month). All children in households with gross income of up to €25,000 (€480 a week) would also receive the full supplementary payment. The supplementary payment would be withdrawn at a rate of 20% as income increases above the €25,000 level. This would mean that families with one child would continue to receive a proportion of the selective payment if their annual income was below €34,935. Table 4 sets out various other cut off points that would apply having regard to the number of children in the family. The Department carried out a more limited analysis of other possible packages – summary details are given in Appendix 8.

Table 4: Cut off points for CIS integrated payment[9]

Household size	
One child	*€ 34,935*
Two children	*€ 44,870*
Three children	*€ 54,805*
Four children	*€ 64,740*
Five children	*€ 74,675*
Six children	*€ 84,610*

Assumptions:
Value of selective payment per child: €1,987 a year (€38 per week)
Income withdrawal threshold: €25,000 a year (€478 per week)
Withdrawal taper: 20%

The Group proposes to describe this proposal as the "two-tier CIS payment". The Group's analysis and conclusions are based on this particular package. Any number of variations on this package are possible but the Group wishes to emphasise that similar conclusions may not necessarily follow from any variation of this package.

Impact assessment

An impact assessment of both the taxation of child benefit and the two-tier CIS payment was carried out using the ESRI's social welfare and tax microsimulation model (SWITCH) covering:

- Budgetary impact
- Poverty outcomes
- Income deciles
- Incentives
- Numbers of households/families affected

[9] The cut-off points are calculated through a combination of the value of the selective payment, the threshold and the withdrawal rate and this provides a precise level at which the selective payment is entirely withdrawn.

The detailed results of this assessment are set out in Appendix 7. However, it is important to note that they both differ in their approach to achieving a greater degree of targeting and therefore the analysis is not a straightforward 'like for like' comparison.

Key Findings

Budgetary Impacts: The taxation of child benefit has the potential to deliver additional tax revenue of around €300 million a year assuming that all tax could be collected. Estimates of the savings derived from the two-tier CIS payment would be of the order of €200 million, although SWITCH tends to underestimate spending by around 10%.

Poverty outcomes: Poverty levels would reduce marginally under the two-tier CIS payment, particularly for children at the deeper level of poverty reported at the 40% median income threshold, even though there is a reduction in overall spending. In contrast, at risk of poverty levels would marginally increase as a result of the taxation of child benefit, particularly for children at the 60% median income threshold.

Income deciles: Either option would mean that middle to upper income deciles would on average experience losses in their weekly disposable income, with the most significant losses being experienced by those in the middle income deciles, which is where most households with children are located in the income distribution. For those in the lowest income deciles, there would be on average gains in the weekly disposable income under the two-tier CIS payment approach, particularly for the lowest income decile. In contrast under the taxation of child benefit approach the lowest income deciles would experience on average a loss to their disposable weekly income.

Incentives: The two-tier CIS payment has mixed results for employment incentives, as the disincentive effect at the above 70% replacement rate threshold worsens slightly while at the above 80% replacement rate threshold a positive incentive effect is reported. Under the taxation of child benefit approach employment incentives would improve, particularly at the above 70% replacement rate threshold.

Numbers of households/families: Under the two-tier CIS payment, all families would receive the (reduced) universal element of the payment. About 61% of families would receive a selective payment. The taxation of child benefit would result in no change to the number of families in receipt of the current standard universal payment. Revenue data suggests that some 393,500 taxpayer units would be affected by the taxing of child benefit – this is 69.4% of the estimated number of all income earners on Revenue's tax record who are in receipt of child benefit. The taxation of child benefit would result in a slight increase in the number of FIS recipients, given that FIS is based on net income.

Comparison of the proposals

Does the approach make the CIS system more rational?

While taxing child benefit would still provide a level of payment to all families with children, this approach would introduce some element of targeting to the payment. However, the tax system is a crude method of targeting as it is limited by the prevailing rates of taxation. The taxation of child benefit could also lead to different treatment between married and cohabiting couples with children and also between jointly assessed married couples. There is also a danger that if child benefit is treated as income for tax purposes, it may bring those whose only income is social welfare income into the tax net. Crucially, the taxation of child benefit would only address one of the main child income support payments and have no benefit in terms of a better design of the overall child income support system as it does not address the other child income support payments to low income families.

In contrast, the two-tier CIS payment provides for the rationalisation of the current system of child income support payments that would provide support to all families with children through a basic universal payment and targeted support to recipients of primary social welfare payments and low and middle income families. The two-tier CIS payment would make it easier for people to move from welfare to work without significantly worsening the level of support. This approach would also address many of the difficulties identified at the end of Section 4 above, particularly with regard to FIS, including take-up issues and the exclusion of self-employed workers.

Does the approach save money?

Both approaches would have a positive impact on the public finances. With regard to taxing child benefit, estimates derived from the ESRI's SWITCH model suggest an increase in tax yield of around €300 million to €345 million a year depending on the option used. However, the yield from the final liability levy option is estimated to be up to €230 million a year. Analysis conducted by the Department of Social Protection estimate that the two-tier CIS payment has the potential to deliver savings of the order of €200 million per year. While these estimates are based on a set of specific limits, the two-tier CIS payment provides a mechanism that can be calibrated to produce greater savings.

To be balanced against these savings, there would be administrative costs. Under both the taxation of child benefit and the two-tier CIS payment approaches there would be considerable set up and administrative costs. With regard to the two-tier CIS payment approach, it is estimated that the development costs would be in the region of €1.5 million. Nevertheless, such an investment would yield savings that would be a multiple of this spending.

Is the approach flexible in terms of future changes?

Taxation of child benefit would be quite inflexible and would be subject to any changes in the taxation system. Currently the rates of income tax are a standard rate of 20% and a higher rate of 41%. As such, this current structure does not facilitate gradual progressivity.

In contrast, the two-tier CIS payment has the potential to achieve a greater degree of flexibility in terms of targeting income supports than is possible under the current system. The range of thresholds and withdrawal tapers enhances the degree to which the system can be tailored to provide extra supports within certain income ranges (See Appendix 8, Table 3). Furthermore, the payment provides a system that can be developed incrementally and in tandem with moves towards the integration of the tax and social welfare systems.

Are there legal issues to be addressed?

The Group is not aware of any legal or constitutional difficulties in relation to the two-tier CIS payment. The legal issues in connection with the taxation of child benefit are referenced in the report of the Expert Group on the Integration of the Tax and Social Welfare Systems (1996).

The treatment of married/co-habiting couples

The main legal issue relates to the requirement that cohabiting couples with children would not be treated more favourably than married couples with children. This could arise, for example, if the child benefit income was deemed to be the income of the income earning spouse but could not be deemed to be the income of an income earning co-habitee.

Ownership of the benefit

Questions have been raised as to who owns child benefit. Ownership of the benefit would determine the 'assessable person' for tax purposes and consequently impact on the tax yield. If it were determined that the benefit belongs to the child then no tax liability would arise.

PAYE Tax Credit

Currently the PAYE tax credit is available against all taxable social welfare income. If child benefit became taxable it would automatically attract the PAYE tax credit and the yield would be substantially reduced or non-existent if the recipient of the child benefit had no or a low income.

Home Carer Tax Credit

The home carer tax credit is available to a couple in a marriage or civil partnership where one spouse or civil partner stays at home caring for one or more dependents. If child benefit became taxable income there is a risk of a double taxation effect for some families unless the conditions for granting the credit are amended. In the absence of such amendment the home carer tax credit may still be available in circumstances where the home carer has income in their own right below a certain limit.

What implementation issues are there?

The administrative implications of taxing child benefit would depend on the method deployed to collect this revenue. Under the 'at source' approach, child benefit payments would be treated as equivalent to profits or gains from employment. The Department of Social Protection would register as an employer and collect the tax due through PAYE type deduction at source. This approach would eliminate duplication of effort, where one State agency pays out child benefit and another State agency subsequently collects tax on it. While this approach would create an enormous "payroll" (600,000 payees), bigger than any employer in the country, the principles for implementation are well established and the computer software required is relatively simple and would provide real time accurate tax deduction.

Under the "coding in" approach, the Department of Social Protection would continue to pay child benefit in full and provide relevant data to Revenue of all child benefit recipients while Revenue would restrict a taxpayer's tax credits and Standard rate Cut-Off-Point (SRCOP) to the value of the total coded income. All recipients of child benefit would therefore be registered on the PAYE system. The effect of reducing the tax credits and SRCOP is to increase the tax payable on other sources of income equal to the tax payable on DSP income. This methodology is already in operation for taxable sources of Department of Social Protection (DSP) income, such as jobseekers benefit, State pensions, and one parent family payment. However there would be duplication of effort where one State agency pays out child benefit and another State agency subsequently recoups the tax on the payments. Furthermore, some households whose income is solely derived from social welfare would be brought into the tax net by virtue of child benefit payments and they would be difficult to assess for tax purposes. Moreover, in certain circumstances, tax would not be collected where credits and bands may have insufficient capacity to absorb all the tax due on the payments.

The two-tier CIS payment would involve major changes for existing Department of Social Protection systems and operational arrangements. However, it would build on the existing child benefit system and there are many features in the existing operational system that can be re-used. The selective component would combine both automatic and application-led supplements which could potentially increase both the complexity of the ICT system and operational systems. The automatic component would require some development work to ensure seamless transfer of information to the child benefit file. The application-led component would require the strengthening of the on-line function. However, these requirements are broadly consistent with information systems development work already being undertaken and/or planned within the Department of Social Protection.

The payment also implies greater interaction with parents and staffing requirements would be greater than the current requirements to administer child benefit. However, these would need to be balanced against reduced staffing requirements on FIS and QCIs. Furthermore, additional requirements around control and review policies would need to be balanced against reduced maintenance on QCIs and FIS. More accurate requirements of staffing needs can only be determined when the exact limits of the payment structure are decided. All in all, the Department of Social Protection considers that the integrated CIS payment approach can be implemented but would require a lead-in time of between one to two years to address the issues identified above.

How would families be affected?

The Group recognises that the introduction of the two-tier CIS payment will result in losses for some families and gains for others. Clearly, all families with incomes above the relevant thresholds will lose some payment. More significantly, however, families in receipt of FIS, particularly those consisting of only one child, will experience a reduction in their overall income. Analysis carried out by DSP in the case of parents in receipt of FIS shows that over 80% would lose a portion of their income supports as a consequence of introducing a two-tier CIS payment. However given that there is no standard FIS payment rate and the variations in household circumstances not all families will be affected to the same degree. The analysis shows that over two-thirds of parents in receipt of FIS would lose between €1-€100 per week and less than 20% would gain in the region of €1-€50. Likewise one parent families in receipt of the OPF and FIS will see their income reduced given that these payments can be paid concurrently. On the other hand, low income families who are currently not entitled to FIS, due to the hours worked condition or the employee condition, would stand to gain. Furthermore, the design of the payment based on a low withdrawal rate would play a part in easing the transition from welfare to work and would also encourage recipients to increase their earnings by taking on extra hours. The design of the payment would also ensure that an element of supplementary support extended into the middle of the income distribution, which would be an important statement in terms of the degree to which the cost of child rearing should be socialized. Thus the losses for certain sections of society need to be balanced with wider societal gains. Given that FIS has a dual role, not only as a child income support but also as a support for parents in work on low income, the Group determined to give further consideration to the reform of FIS as part of its module of work on working age income supports.

In relation to the taxation options it is evident that all those liable to tax would lose a proportion of their child benefit payment. On the other hand, as there would be no change to FIS and QCIs these levels of payment would not change. The analysis also shows that a straight across-the-board taxation of child benefit would have a significant negative impact on larger families at any given income level.

Some illustrative examples of the impact of taxing child benefit and of a two-tier CIS payment on certain households are set out in Appendix 9.

7. Conclusions and Recommendation of the Group

The Group has examined the taxation of child benefit and the proposed two-tier CIS payment with a view to trying to better target child income support payments. It has done this in the context of ensuring that the income support and tax systems provide good incentives to take up work and contribute to the reduction of poverty and child poverty in particular. The Group is conscious that child income supports are only one of the many factors which affect poverty and incentives.

The Group considers that a universal child benefit should be paid in respect of all children. Both options would involve the implementation of this important principle.

There is no one perfect method of targeting child income support payments but the Group has concluded that the preferable method is the two-tier CIS payment. It has the potential to provide a means of providing better targeting with a smaller negative impact on work disincentives than the current targeted payments. While the two-tier payment would result in a reduction in the level of the universal payment, there would be some degree of compensation delivered through the targeted tier of the payment to those within the lower to the middle of the income distribution. Lower income families could continue to receive targeted payments if they leave jobseeker's payments to enter employment and the transition from welfare to work will be easier. Those currently not eligible for FIS could also benefit including some lower income self-employed families and those who do not currently meet the hours-worked condition. The development of an on-line application system would also be a positive development, making it simpler for parents to apply and ensuring a high level of take-up. The two-tier CIS payment could also result in savings in the total child income support budget depending on the final configuration. It has the advantage of providing a basis for structural reform of the overall CIS system which the taxation of child benefit would not achieve. In addition, the two-tier CIS payment will result in treating families with the same level of income in the same way.

The changeover to the two-tier CIS payment need not occur in one year but could be implemented over a number of years.

Some members of the Group consider that taxation of child benefit remains an attractive option. In particular, the information available on household incomes in Revenue databases is impressive. (See Appendix 7) In addition, the degree of matching DSP data from the child benefit file with Revenue data on households (in the order of 87%) indicates that taxation of child benefit might be less technically difficult than previously thought.

8. The issues to be addressed

Under the two-tier CIS payment, the Group is conscious that a number of issues need to be addressed in implementing the proposal. The Group acknowledges that a number of these issues are closely interconnected and offer flexibility in addressing the impact of trade offs and complementarities in terms of poverty and incentive outcomes.

Age/education

The two-tier CIS payment involves the alignment of the upper age limit to 18 years of age which is currently the limit for child benefit. This would entail a reduction in the current upper age limit for the selective payments (QCIs and FIS) of 22 years. Given that these payments are payable while the qualified 18 – 22 year old is engaged in full-time education, the Group recommends that the savings arising from this change should be allocated directly to increasing the top up rate of higher education maintenance grant.[10]

Payment thresholds

The threshold at which the full universal plus selective payment is payable is essentially a matter for Government. However, as already stated, the Group wishes to emphasise that the analysis it examined is based on a threshold of €25,000 and the effects could be different if a different threshold is chosen.

In deciding the threshold, a balance needs to be struck between on the one hand, having a threshold that is low enough to secure required savings and, on the other hand, ensuring a meaningful targeting of resources at the income groups for whom the measure is intended. Therefore, the risk of poverty for various household sizes is relevant.

- The at risk of poverty line for a lone parent with one child was around €14,400 in 2010. For a family of two adults and two children in 2010, the at risk of poverty line was around €25,000.
- The at risk of poverty rate for children aged 0-17 years was 19.5% in 2010. That means that about 250,000 children were at risk of poverty.

[10] An analysis of Qualified Child Increases beneficiaries showed that 4 per cent are aged 18 – 22, which would equate to just over 20,000 beneficiaries for the approximate number of 500,000 qualified children. With regard to the numbers of FIS recipients, some 6% are aged 18 to 22, which would equate to about 3,900 beneficiaries. However, some of these beneficiaries would have younger siblings and in these cases their families would continue to receive a FIS payment, albeit at a reduced rate.

- The consistent poverty rate for children aged 0-17 was 6.4% in 2010, which means that about 100,000 children were both at risk of poverty and experienced deprivation.
- A household with two adults and two children would fully lose Jobseeker's Allowance at around €26,000.

Rate of payment

The current NAP Inclusion target is that the rate of child benefit plus Qualified Child Increase should be between 33% and 35% of the main adult social welfare rate. At present, the standard rate of child benefit is €140 a month or €32.22 a week. The Qualified Child Increase is €29.80 a week. The combined weekly payment, €62.02, is almost 33% of the main adult social welfare rate (€188). The split between the universal payment and the selective payment is currently 52:48, the ratio used in the two-tier CIS Payment proposal is 40:60. Again, while the split is a matter for Government, the Group wishes to emphasise that the analysis it examined is based on a 40:60 split. The Group also recognises that the Back to School Clothing & Footwear Allowance could be integrated with the two-tier CIS payment at a later stage.

Assessable income

Income may be assessed on a gross or net basis. At present, most social welfare means tests assess income from employment net of PRSI[11] but do not take account of income tax or the Universal Social Charge. However, FIS is calculated on net income and assesses income from employment net of income tax, the USC and PRSI. This approach is designed to reduce employment disincentive effects. Some social welfare weekly payments are taxable (for example, Jobseeker's Benefit) while others are not (for example, Jobseeker's Allowance). PRSI and the USC are not applied to social welfare benefits. Even though the use of net income has an advantage in terms of reducing disincentives to employment, the use of gross income has advantages in terms of simplicity and ease of administration. However, the Group has not examined these issues in any great detail but expressed the view that if gross income was used in rolling-out the two-tier CIS payment the method of assessment could be kept under review with regard to its effect on employment incentives.

[11] Other items such as superannuation contributions and union dues are also deducted.

Withdrawal rate

Lower withdrawal rates than those generally associated with the social welfare system, of the order of 20%, can help to improve the incentive to take up work. They also mean that the number of people eligible for at least part of the supplementary payment increases and, therefore, the overall cost is greater. Conversely, a higher withdrawal rate, of the order of 40%, would limit the potential number of claimants and reduce the overall cost, although the potential for poverty traps emerging is greater as the reduction in income supports would add to marginal effective tax rates.

Operational issues

The precise thresholds and withdrawal rate of the two-tier CIS payment will determine the caseload and administrative effort required for implementation. The Group supports the Department of Social Protection's approach in using as many features in the existing operational system as possible and the Department's desire to minimise the level of interaction with recipients and reduce administrative burden as far as practical. The Group noted that the development of an on-line led-declaration mechanism would be a significant development in the social welfare system and one which has considerable potential to enhance the application process for income support payments as a whole.

The Group recognise that the introduction of the two-tier CIS payment will involve start-up costs, the extent of which will largely depend on the final configuration of the payment and which cannot be isolated from other activities being undertaken by the DSP, particularly in the context of overall structural reform. However, the Group is keen to emphasise the need to ensure that the two-tier CIS payment is kept as straightforward as possible so that operational costs are kept to a minimum.

Appendix 1: Terms of Reference and Membership of the Advisory Group

1. The Government agreed the following terms of reference for the Advisory Group:

a. To constitute a forum to which the Minister for Social Protection may refer specific issues around the income supports and tax systems so that they provide good incentives to take up work and to contribute to the reduction of poverty and child poverty in particular. In particular, the Advisory Group will examine the following specific issues and make recommendations on:

i. Child and family income supports (in particular child benefit, increases for qualified children and the family income supplement);
ii. Working age income supports (including unemployment payments and similar payments made by other agencies, one parent family payment, one parent family tax credit, back to work tax credit, increases for adult dependants as well as secondary benefits such as medical cards and rent and mortgage supplementary payments);
iii. The appropriate unit of assessment in both the tax and social welfare codes;
iv. How to address identified anomalies in the interaction of tax and social welfare codes.

b. To examine and report on issues involved in providing social insurance cover for self-employed persons in order to establish whether or not such cover is technically feasible and financially sustainable;

c. To examine and report upon how to improve interaction between the tax, social welfare systems and other supports so as to improve the operation of both in a cost-effective way and in the delivery of positive social and economic outcomes;

d. To examine and report upon any other issue that may be referred to the Group by the Minister for Social Protection following consultation with the Ministers of Finance and Public Expenditure and Reform and the agreement of the Minister for Finance on taxation matters.

It is intended that the Advisory Group should consider any proposals for change to existing arrangements in a cost-neutral or cost-reducing context.

2. Following Budget 2012, the Minister for Social Protection, Joan Burton T.D. refers the following additional terms of reference to the Advisory Group:

a. To examine and report on the policy objectives underpinning the Budget 2012 proposals regarding:

i. Changes in the eligibility criteria and rates of payment for Disability Allowance (DA);
ii. The increase in the age threshold for payment of Domiciliary Care Allowance (DCA);

b. To assess the effectiveness of the Budget 2012 proposals in delivering on the policy objectives taking account, inter alia, the ease of implementation and the timing/phasing of implementation; and

c. To consider alternative ways as to how the policy objectives might be achieved.

Membership of the Advisory Group on Tax and Social Welfare as announced on 25th June 2011

Ita Mangan, Chairman of the Advisory Group

John Bohan, Department of Social Protection

Niall Cody, Office of the Revenue Commissioners

Micheál Collins, Department of Economics, Trinity College Dublin*

John Conlon, Department of Public Expenditure and Reform

Catherine Hazlett, Department of Children and Youth Affairs

Paul Kealy, Department of Jobs, Enterprise and Innovation

Geralyn McGarry, Citizens Information Board

Aebhric McGibney, Dublin Chamber of Commerce

Pat Mahon, Pricewaterhouse Coopers (PwC)

Derek Moran, Department of Finance

Mary P. Murphy, Department of Sociology, National University of Ireland, Maynooth

Brian Nolan, School of Applied Social Science in UCD

Marie Sherlock, SIPTU

John Sweeney, National Economic and Social Council

*Since moved to a position with the Nevin Economic Research Institute

Secretariat to the Advisory Group on Tax and Social Welfare

Joan Gordon, Department of Social Protection, Secretary to the Advisory Group

Ciaran Diamond, Department of Social Protection

Denise Tully, Department of Finance

Joe Twomey, Office of the Revenue Commissioners

Appendix 2: Submissions received

The Group received 21 submissions on the issue of child income supports. The main issues raised in the submissions are outlined below under various broad headings along with some of the key recommendations made.

Universality of child benefit

A majority of the submissions favoured the retention of a universal child benefit payment, as it constitutes “a clear statement by the Irish State that it values all children in Ireland equally”. Many of the submissions stressed the positive outcomes associated with universal child benefit payments including:

- Providing basic income security for families
- Direct contribution to childcare costs
- Alleviation of child poverty

While a majority considered maintaining a universal child benefit payment significant, some did accept that this may be difficult if not impossible given the current economic climate. If a universal child benefit payment is to remain in place, a large majority of submissions were opposed to further reductions in the amount of such a payment. This opposition was based on the disproportionate effect on those living on low incomes, for example, lone parents and those ‘at-risk of poverty’. Rather than flat rate reductions in child benefit, many of the submissions suggested greater targeting of children in vulnerable positions.

Taxation of child benefit

Some of the submissions discussed taxation of child benefit and on the whole those who contributed were not in favour of any such proposed tax. The main reasons given for the opposition to taxing child benefit were:

- The importance of the horizontal equity of the child benefit payment
- Significant administrative costs associated with taxing child benefit
- Lack of effectiveness of taxing child benefit as a mechanism for redistribution of wealth
- Potential negative effect on employment incentives

A majority of the submissions also considered the introduction of a refundable tax credit for all children in Ireland as part of the Child Income Support scheme. Most were in favour of such a scheme seeing it as an effective means of addressing child poverty in an integrated, efficient and equitable manner.

Introduction of an Integrated Second Tier Payment

Several of the submissions discussed the introduction of a new second tier payment alongside the universal child benefit payment; this would involve reform of the current Family Income Support (FIS) and Qualified Child Increase (QCI) schemes. A majority of the submissions were in favour of such an approach. The development of a second tier payment was supported for a number of reasons including:

- Possibility of Child Income Supports that are both universal and targeted
- Enhanced targeting of the most vulnerable children in society
- Potential to significantly reduce child poverty

However, some fears were expressed that unemployment and poverty traps could be created where the second tier payment is tapered or ends. The submissions on FIS from the voluntary organisations were remarkably similar and most held the view that the FIS system is not an effective scheme and is in need of reform. The main issues with FIS identified in the submissions were:

- Lack of flexibility with regard to changing work patterns
- Stigma attached with requirement of employer certification
- Lack of integration between the tax and social protection systems

In general the submissions emphasised the need to address child poverty and the protection of low income families. They also recognised the major role of adult welfare payments in dealing with child poverty and argued for no further reductions in adult rates of payments. Some also emphasised the importance of the provision of services, in particular, childcare.

List of Submissions

- Barnardos
- Cargill, Keith
- Children’s Rights Alliance
- Citizen’s Information Board
- Cúram
- Free Legal Aid Advice Centres
- Foley, John
- Hanly, Mark
- Harper, Mike
- Hunt, Bill
- Irish Business and Employer’s Confederation
- Irish National Organisation of the Unemployed
- National Women’s Council of Ireland
- O’ Dowd, Enid
- One Parent Exchange and Network
- Sheehan, Eileen Mary
- Single Parents Acting for the Rights of Kids
- Social Justice Ireland
- Society of St. Vincent de Paul
- Treoir
- Wallace, Martin

Appendix 3: Extract from Pre-Budget Progress Report to Minister

Implications for Budget 2012

The Group, while it finds the proposed integrated universal/supplementary payment solution attractive, considers that it has not been able to complete a sufficiently detailed examination of this and other options to reach a definitive conclusion. The Group's work on these examinations is continuing.

The Group recognises that the Government has to make decisions in relation to the 2012 Budget, and wishes to highlight at this point that any such decisions should not create obstacles to subsequent structural reform aimed at delivering a better-functioning child income support system. ***In particular, if the Government were to decide to reduce child benefit rates, the Group is of the view that any such reduction in rates should ensure that there are sufficient resources available within the child income support budget for the future implementation of an integrated universal/supplementary payment.***

The Group cannot give a precise figure that would ensure this objective is met because, as outlined above, it depends on the ratio, income limits and withdrawal rate chosen.

The Group recognises that increases in QCIs have significant employment disincentive effects for adults with dependent children. However, it considers that the consequences of an uncompensated reduction in child benefit rates would be significant in terms of child poverty and, until a better long term solution is agreed, compensation should be paid to those in receipt of QCIs sufficient to ensure that their combined rate of child benefit and QCIs meets the current NAP Inclusion target of 33-35% of the main adult social welfare rate.

10th November 2011

Appendix 4: Selected Reports

- *Commission on Social Welfare*, Department of Social Welfare (Dublin, 1986).
- *Child Benefit Review Committee, Report to the Minister for Social Welfare* (Dublin, 1995).
- *Report of the Expert Working Group on the Integration of the Tax and Social Welfare System* (Dublin, 1996).
- *Final Report of the Social Welfare Benchmarking & Indexation Group* (2001).
- *Basic Income – A Green Paper*, Department of the Taoiseach (Dublin, 2002). http://www.taoiseach.gov.ie/eng/Department_of_the_Taoiseach/Policy_Sections/Economic_and_Social_Policy/Economic_and_Social_Policy_Publications/Basic_Income_-_A_Green_Paper.shortcut.html
- *EU Survey on Income and Living Conditions (EU-SILC)*, Annual Statistical Release, Central Statistics Office (Cork, 2003 – 2009). http://www.cso.ie/eusilc/default.htm
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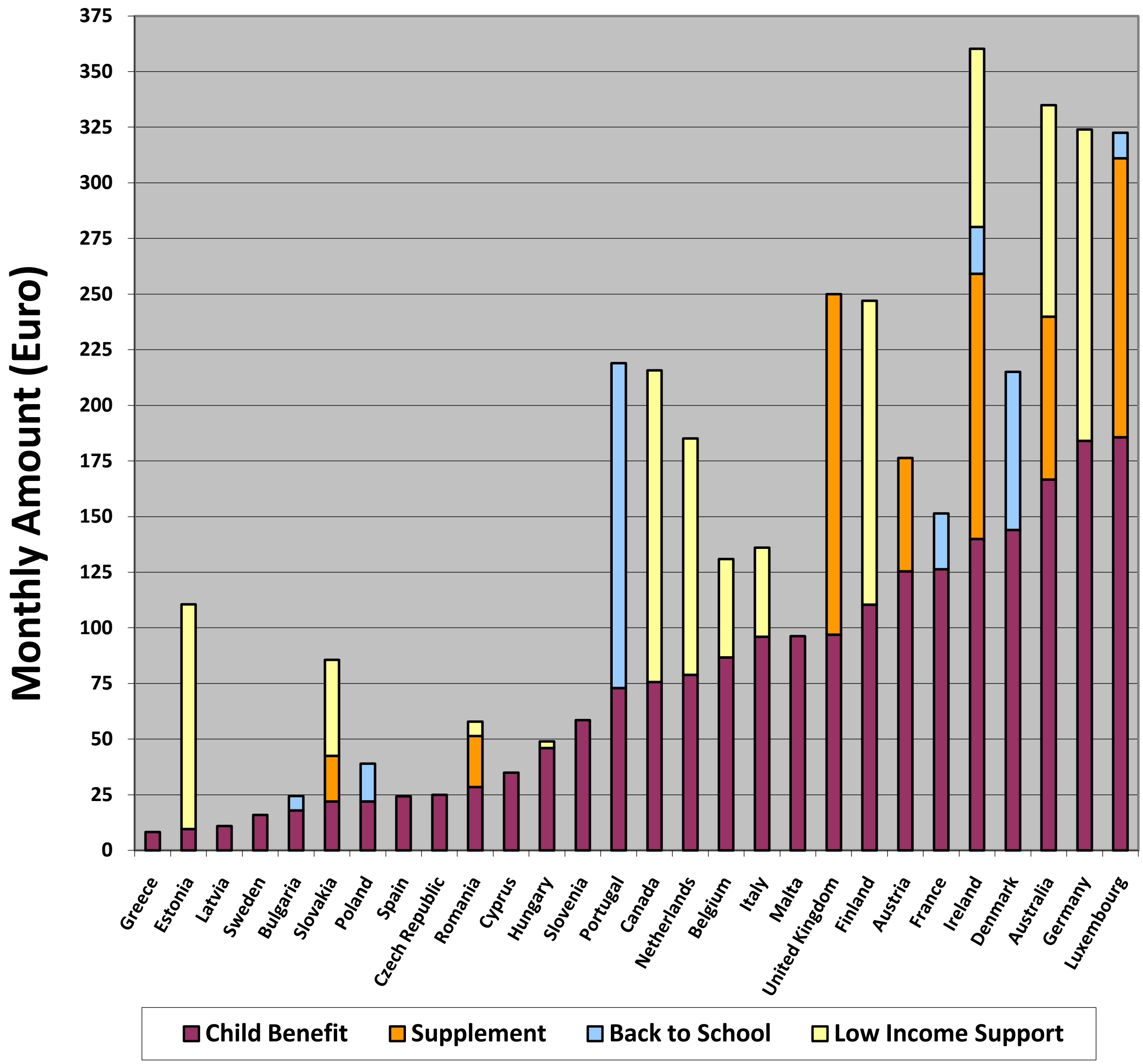
Appendix 5: International Context: International Child Income Support Payment Rates 2011

Figure 2 shows the level of Child Income Support payments in EU countries, Canada and Australia. The amount and type of income support that a family receives from the State varies from country to country and reflects different traditions and economic conditions. Child Income Support payment amounts can differ depending on factors such as the age of the child, the number of children in a family and parental income. In these cases the figures used for this comparison are maximum or average payment amounts. For example, in the case of Germany the 'Low Income Support' figure of €140 a month is the maximum payment provided to parents below certain income levels. As the figure shows, Ireland's universal child benefit payment of €140 a month makes it the fourth highest provider in the EU. This compares with Luxembourg which provides the highest payment at €185.60 per month and Greece which provides the lowest payment at €8.22 per month. The figure also displays Ireland's relatively high level of additional supports in comparison with the other countries, with Ireland being one of only seven countries to provide a 'Back to School' payment. While a comparison such as this can be helpful, it must be noted that the figure does not take into account any of the services provided to families with children, which can be provided at a significant level in other countries, for example in Scandinavia.

Figure 2: International Child Income Support Payment Rates 2011



Source: *MISSOC social protection database for EU countries. (Figures for July 2011). Canada and Australia – Government websites (Figures for 2012)*

Country	***Child Benefit***	***Supplement***	***Back to School***	***Low Income Support***
Luxembourg:	*€185.60 per month, 1 child. Universal.*	*Ave. €125.40 per month 'Child Bonus' – amount depends on age of child.*	*Ave. €137.41 per year. Age dependent.*	*None.*
Germany:	*€184 per month, 1 child. Universal.*	*None.*	*None.*	*€140 per month. If income is below level to support a child.*
Australia:	*Ave. €166.62 per month, 1 child. Amount depends on age of child and income of parents.*	*Annual supplement per child €863.97.*	*None.*	*Ave. €94 per month if family income is below certain levels – Max €19,536 per year.*
Denmark:	*Ave. €144 per month, 1 child. Universal. Age dependent.*	*None.*	*€856 per year, per child.*	*None.*
Ireland:	*€140 per month, 1 child. Universal.*	*€29.80 per week. Qualified Child Increase for those on Social Welfare.*	*Ave. €252.50 per year. Age dependent.*	*Min €20 per week.*
France:	*€126.41 per month, 2 children. Universal.*	*None.*	*Ave. €300 per year. Age dependent.*	*None.*
Austria:	*Ave. €125.42 per month, 1 child. Age dependent.*	*Child Tax Credit €50.90 per month.*	*None.*	*None.*
Finland:	*€110.40 per month, 1 child. Universal.*	*€4.88 daily supplement for children.*	*None.*	*None.*
United Kingdom:	*€97 per month, 1 child. Universal.*	*Child Tax Credit. Ave €153 per month.*	*None.*	*None.*

Malta:	*Max €96.32 per month, 1 child. Income dependent.*	*None.*	*None.*	*None.*
Italy:	*Ave. €96 per month. Income dependent.*	*None.*	*None.*	*€40 per month if income is below €6,322 a year.*
Belgium:	*€86.77 per month, 1 child. Age and Income dependent.*	*€44.17 per month social supplement.*	*None.*	*None.*
Netherlands:	*Ave. €78.92 per month, 1 child. Age dependent.*	*None.*	*None.*	*Child related allowance. €106.21 per month if income below €42,200 a year.*
Canada:	*€75.67 per month, 1 child. Universal.*	*None.*	*None.*	*Ave. €140 per month if below income limit €29,415 a year.*
Portugal:	*Ave. €73 per month, 1 child. Age and Income dependent.*	*None.*	*Ave. €146 per month or 2x Child Benefit. Secondary level students.*	*None.*
Slovenia:	*Ave. €58.60 per month, 1 child. Income dependent.*	*None.*	*None.*	*None.*
Hungary:	*€46 per month, 1 child. Universal.*	*None.*	*None.*	*€22 per half year, per child if family income below 130% Min Old Age pension.*
Cyprus:	*Ave. €35 per month, 1 child. Income dependent.*	*None.*	*None.*	*None.*
Romania:	*Ave.; €28.45 per month, 1 child. Age dependent.*	*€23 per month, per child. Income dependent.*	*None.*	*Ave. €6.48 per month if monthly income less than €47.*

Czech Republic:	*Ave. €25 per month, per child. Age and Income dependent.*	*None.*	*None.*	*None.*
Spain:	*€24.25 per month, per child. Income dependent.*	*None.*	*None.*	*None.*
Poland:	*Ave. €22 per month, per child. Age & Income dependent.*	*None.*	*Ave. €17 per month, per child.*	*None.*
Slovakia:	*€21.99 per month, per child. Universal.*	*Child Tax Bonus €20.51 per month.*	*None.*	*€43.16 per month allowance for low income families.*
Bulgaria:	*€18 per month, 1 child. Income dependent.*	*None.*	*€77 per year school allowance.*	*None.*
Sweden:	*€16 per month, 2 children. Universal.*	*None.*	*None.*	*None.*
Latvia:	*€11 per month, per child. Universal.*	*None.*	*None.*	*None.*
Estonia:	*€9.59 per month, 1 child. Universal.*	*None.*	*None.*	*Max €101 per month low income families.*
Greece:	*€8.22 per month, 1 child. Insured employees only.*	*None.*	*None.*	*None.*

Source: *MISSOC social protection database for EU countries. (Figures for July 2011). Canada and Australia – Government websites (Figures for 2012)*

Appendix 6: Taxation options - Pros and Cons

Option 1 –Collection of tax at source by the Department of Social Protection

Pros	Cons
Maximises tax yield estimated at €345m	IT Systems requirements by DSP
Real time tax deduction on payment by DSP for all payments	
Applies progressive tax rates	Significant additional taxpayer service burden for both agencies
All recipients: unemployed, self-employed and PAYE, treated equally.	Major work needed by Revenue to set up all recipients on PAYE record before taxation can start.
Eliminates duplication of effort where one state agency pays out CB and another state agency subsequently collects tax on it.	
Data on which PAYE applied is totally accurate and timely.	Regular interfaces of data from DSP required to identify commencements and cessations.
No compliance implications.	Yield impacted negatively where CB recipient is non-assessable spouse and couple are jointly assessed as a one income couple. In such cases an increased SCROP of up to €23,800 will be available.
Enhanced Revenue compliance activity generally as a significant number of taxpayers that currently are outside the tax net will be registered.	
Enhanced DSP anti fraud activity as the tax profile of taxpayers will be shared by both agencies.	Without legislative change, PRSI and USC will automatically apply to CB.

Option 2 “Coding in”

Pros	Cons
Largely eliminates the burden of taxing CB from DSP.	Capacity of tax credits and SRCOP in some cases be insufficient to absorb the tax due on CB if other income or underpayments for previous years already coded in.
Real time tax deduction from those in employment with sufficient income for coding-in purposes	Yield reduced due to capacity issue (see above).
PAYE credit would not be given to anyone who did not already have it.	Yield reduced due to need to introduce direct assessments for some social welfare only recipients – compliance and debt management interventions would prove challenging.
Progressive taxation rates applied (albeit somewhat imperfectly).	Where recipient not on PAYE record, considerable work needed to match them with their assessable spouses before start. Similar task will be necessary for self-employed. Apart from sheer numbers, the quality of DSP data and the difficulty

	in matching DSP records with Revenue records will make this work challenging and should not be underestimated.
Revenue IT systems development minimised as current PAYE mechanisms would apply.	Ongoing data interfaces between DSP and Revenue.
	One state agency paying benefits in full while another state agency tries subsequently to recoup the tax on the payments.
	Significant Revenue taxpayer service overhead in addition to additional resources required for compliance and debt management.
	Could prove to be a disincentive to enter work force as tax credits and SRCOP greatly reduced or eliminated leading to reduced take home pay in many cases.
	Difference in treatment as between self employed, those in PAYE and those drawn into tax system by taxation of CB; preceding year taxation for self employed and social welfare recipients would mean, for example, not all tax on 2012 CB would not be collected until Oct 2013.
	Lack of an effective method to tax those social welfare recipients drawn into tax net by taxation of CB and PAYE cases with insufficient tax credits or income for coding–in purposes.
	To avoid step effects, an exemption system and marginal relief system may be needed for very low income families and those on social welfare benefits.

Appendix 7: Detailed Impact Assessment of the proposed changes

The impact of the approach to changing child income supports on poverty outcomes and on employment incentives can be estimated through simulations using the ESRI's SWITCH model. SWITCH (Simulating Welfare and Income Tax Changes) is a microsimulation model, which simulates the impact of policy changes to the tax and social welfare systems.[12] The model is based on data drawn from the CSO's Survey on Income and Living Conditions and is adjusted and uprated to represent the situation with regard to the relevant baseline year.

The following two sets of simulations were run to model the effects of the proposed changes:

- Two-tier CIS payment based on a payment rate of €63 per week split 40% universal and 60% selective (€25:€38). The upper income threshold is set at €25,000 (€480 a week) on a gross income basis together with a withdrawal rate of 20%. The payment was modeled on the basis of 2011 as the base year.[13]
- Taxation of child benefit based on a standardised rate of €140 per child per month and adjusted to reflect 2012 as the base year. Simulating the taxation of child benefit involves the inclusion of the payment in gross household income so that the payment is taxed at either 20% or 41%.

Budgetary impact

Table 1 shows that the two-tier CIS payment would result in a saving of €186 million a year compared to the existing CIS payments structure. The total annual savings to social welfare expenditure would be of the order of €193 million because of savings to secondary benefit such as rent supplement/mortgage interest supplement). There would be substantial savings to the universal payment, although these would be offset by the cost of the selective payment.

[12] Guidelines drawn up by the ESRI on the use of SWITCH suggest that the model be used in conjunction with estimates derived from administrative data sources.

[13] The results presented here are drawn from the results of the simulations of 'Package A' contained in the technical report on the feasibility of an integrated Child income Support payment, prepared by the Department of Social Protection.

Table 1: SWITCH based estimates of budgetary implications of two-tier CIS payment

	Spending on existing payments (SWITCH estimates – not official estimates)	Two-tier payment	Net impact on exchequer
	€m	€m	€m
Child Benefit	1,857	1,392	-465
QCIs	584		
FIS	190		
Total Selective Payment	774	1,053	279
Total CIS Payment	2,631	2,445	-186
Total Social Welfare	14,855	14,662	-193

Source: Results based on SWITCH, the ESRI tax-benefit model www.esri.ie/switch

Table 2 shows that the taxation of child benefit would yield a net saving of €301 million a year, taking into account an increase in FIS expenditure of some €11 million.

Table 2: SWITCH based estimates of budgetary implications of taxing child benefit

	Standardised child benefit rate (SWITCH estimates – not official estimates)		
	Baseline	Reform	Change
Expenditure	€m	€m	€m
Child Benefit	1,788	1,788	0
FIS	191	202	10
Total Expenditure	14,949	14,960	11
Revenue			
Income Tax	13,006	13,318	312
Total Revenue[14]	20,422	20,734	312
Net revenue	5,472	5,773	301

Source: Results based on SWITCH, the ESRI tax-benefit model www.esri.ie/switch

[14] In the context of SWITCH modelling 'Total Revenue' is comprised of income tax, employee PRSI and the public service pension levy.

Findings:

- The taxation of child benefit has the potential to deliver savings of the order of €300 million on the universal element of child income support payments.
- Under the two-tier CIS payment approach there would be savings of the order of €465 million in terms of the universal element of the payment. These savings would be offset by the increased cost of almost €280 million for the selective payment, producing a net saving of €193 million.

Poverty impact

The impact of the two-tier CIS payment is set out in Table 3 while the effects of taxing child benefit are set out in Table 4. Both tables outline the risk of poverty rates calculated by SWITCH using the median equivalised income measure for the population as a whole and for children. Poverty thresholds at the 60% mark, and the 40% mark to reflect deep poverty, are examined.

The two-tier CIS payment (Table 3) would see poverty levels reduce marginally for both the whole population and children. The reductions for children are more pronounced, particularly for those at the 40% thresholds, which points towards an improvement in the targeting of resources for those children most at risk of poverty. Although the changes in poverty rates would appear to be very modest, the two-tier CIS payment assumes a considerable reduction in spending of around €200 million (SWITCH estimate).

Table 3: Poverty outcomes – two-tier CIS payment

	Whole population		Children	
Current	60%	15.47%	60%	20.87%
	40%	2.60%	40%	2.60%
Change	60%	15.37%	60%	20.67%
	40%	2.18%	40%	1.54%
Difference	60%	-0.10%	60%	-0.20%
	40%	-0.42%	40%	-1.06%

Source: Results based on SWITCH, the ESRI tax-benefit model www.esri.ie/switch

Under the taxation of child benefit scenario (Table 4), poverty levels at the 60% median income threshold would rise by 0.5% for the population as a whole and by almost 3% for children. On the other hand no differences are reported in poverty levels at the 40% thresholds.

Table 4: Poverty outcomes - taxing child benefit

	Whole population		Children	
Current	60%	14.92	60%	19.25
	40%	2.93	40%	2.88
Change	60%	15.50	60%	22.07
	40%	2.93	40%	2.88
Difference	60%	0.58	60%	2.82
	40%	0	40%	0

Source: Results based on SWITCH, the ESRI tax-benefit model www.esri.ie/switch

Findings:

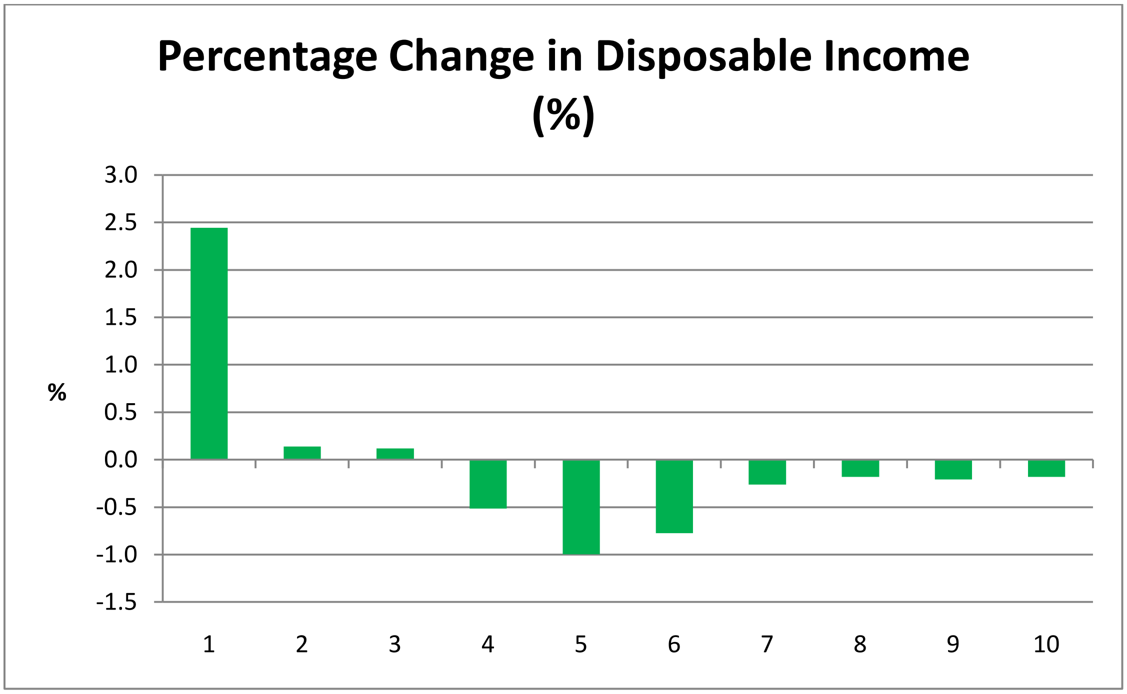
- Poverty levels would reduce marginally under the two-tier CIS payment approach, particularly for children at the deeper level of poverty reported at the 40% threshold. In contrast, poverty levels would rise as a result of the taxation of child benefit, particularly for children at the 60% median income threshold.

Impact on income deciles

Figures 5 and 6 show the impact of the two-tier CIS payment on households broken down by income deciles. Figure 5 sets out the percentage change in household disposable income for each decile while Figure 6 presents the average monetary change in weekly income for these households. Both figures point to gains for the lowest three deciles as a result of the change. These gains are particularly significant for the lowest income decile and equate to around €9 per week or a 2.4% increase in their disposable income. The gains for those in the lowest income decile could be attributed to low income individuals who are not currently on welfare payments becoming eligible for the selective element of the integrated CIS payment. This group could include the self-employed and farmers. For all other deciles there are losses, particularly for the three middle income deciles (4 to 6). In the case of decile 5, there would be a reduction of €8 per week or 1% in their disposable income. The loss for the highest income deciles are not as significant and reflect reductions in the universal payment rather than changes to the selective element of the integrated payment, which these households would generally not have been in receipt of prior to the change.

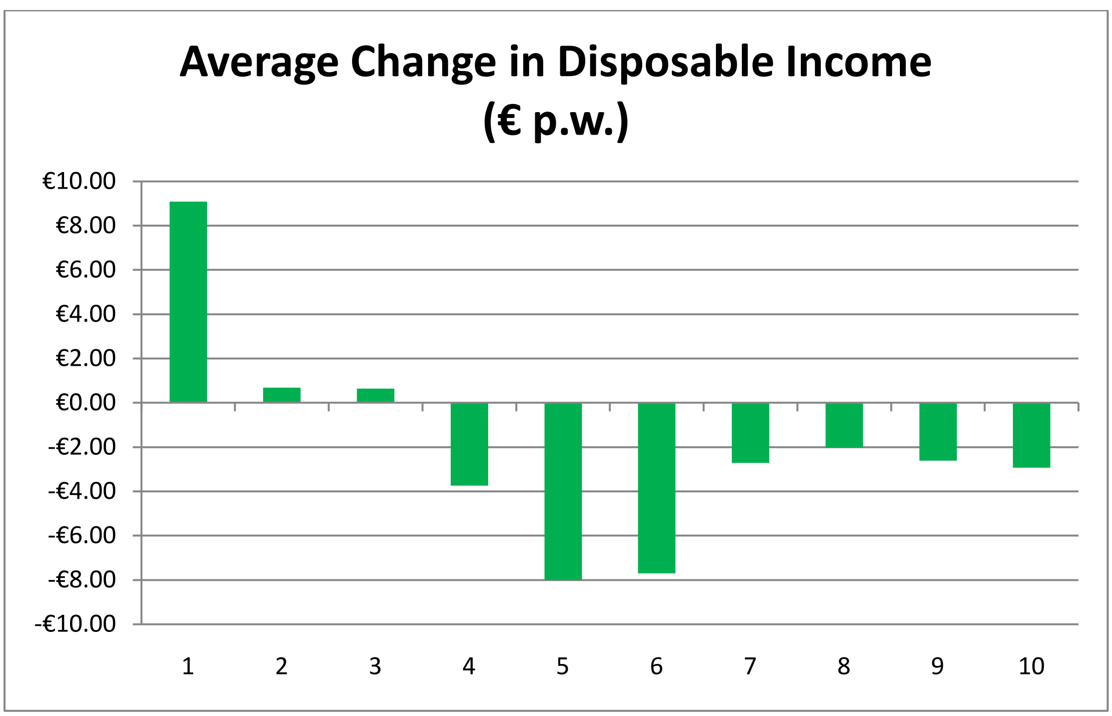
Further analysis of the SWITCH output tables shows that in the first income decile the increases would not be across the board as some 18% of this decile would lose more than €0.50 per week, 48% would experience no change in their weekly disposable income and only 34% would experience gains of more than €0.50 per week. It should also be noted than the policy changes involved in moving to the two-tier CIS payment would affect in total some 35% of households or some 568,000 out of 1,626,000 households as modelled by SWITCH: 21% or 352,910 households would experience a loss of more than €0.50 pw while 13% or 215,550 households would experience a gain of more than €0.50 pw.

Figure 5: Change in household disposable income on a percentage basis - two-tier CIS payment



Source: Results based on SWITCH, the ESRI tax-benefit model www.esri.ie/switch

Figure 6: Average change in household disposable income – two-tier CIS payment

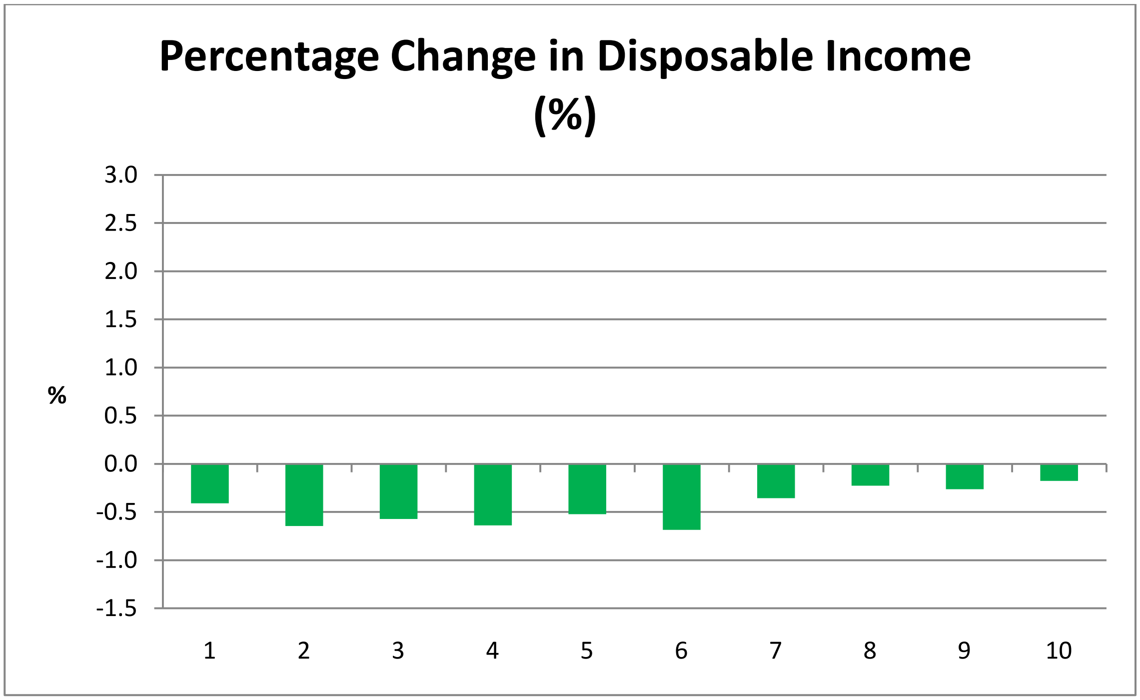


Source: Results based on SWITCH, the ESRI tax-benefit model www.esri.ie/switch

Figures 7 and 8 show the situation as simulated under the taxation of child benefit approach. Figure 7 sets out the percentage change in household disposable income on a percentage basis for each decile while Figure 8 presents the average monetary change in weekly income for these households. A discernable pattern on income deciles is evident from this proposed change: all income deciles experience losses with lower to middle income deciles experiencing the most significant losses in their disposable weekly income, particularly the sixth decile. However, the losses for the highest income deciles are not as significant.

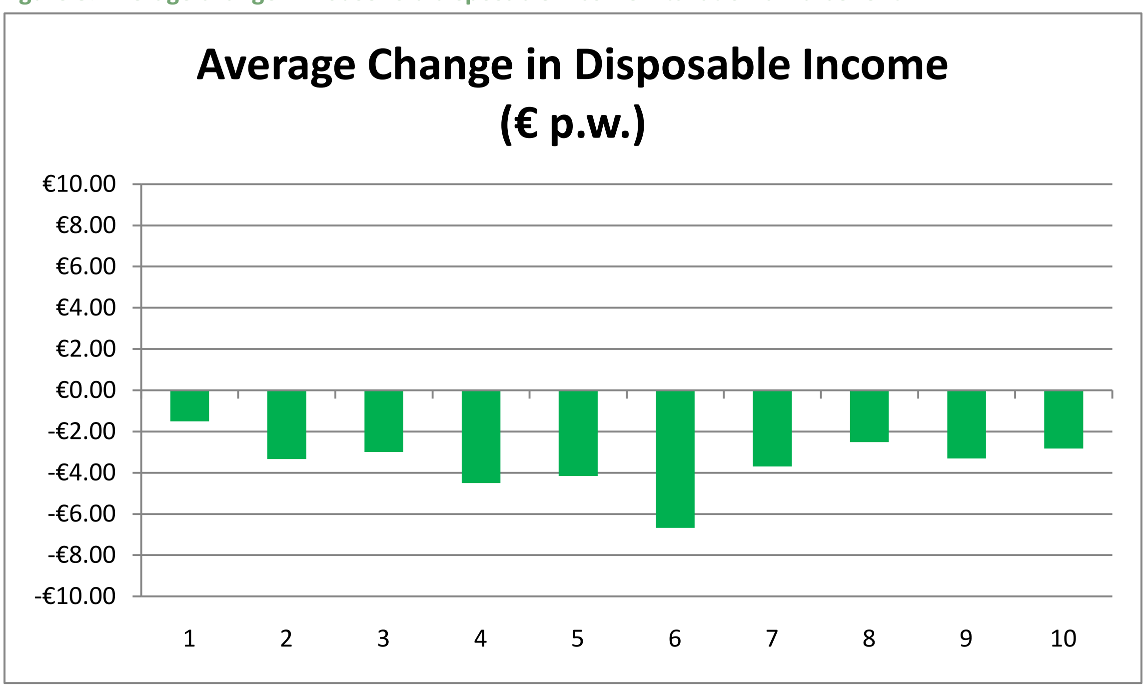
Further analysis of the SWITCH output tables shows that in the first income decile only 11% of households would be affected by the change in policy. In comparison around 40% of households in the sixth decile would experience a change in the disposable income while some 85% of those in the top income decile would experience no change in disposable income.

Figure 7: Change in household disposable income on a percentage basis - taxation child benefit



Source: Results based on SWITCH, the ESRI tax-benefit model www.esri.ie/switch

Figure 8: Average change in household disposable income – taxation child benefit



Source: Results based on SWITCH, the ESRI tax-benefit model www.esri.ie/switch

Findings:

- Under the two-tier CIS payment approach, there would be gains for the lowest three deciles particularly for the lowest income decile. For all other deciles there would be losses, particularly for the three middle income deciles (4 to 6) while the loss for the highest income deciles are not as significant.

- Under the taxation of child benefit approach all income deciles would experience a loss to their disposable weekly income. However, the level of losses would vary across the income distribution with lower to middle income deciles experiencing the most significant losses, particularly the sixth decile while the losses for the highest income deciles would not be as significant.

Impact on incentives

Tables 9 and 10 set out the replacements rates[15] using the percentages of employees with children under the two-tier CIS payment and taxing child benefit scenarios respectively. Particular attention is paid to the high replacement rates of above 70% and above 80%.

In the case of the two-tier CIS payment the disincentive effect at the above 70% level would appear to worsen slightly by almost 1% while incentives would appear to improve by 0.5% at the above 80% level. Therefore, the adoption of this change would appear to have mixed results in terms of parental employment disincentives.

In contrast, under the taxation of child benefit employment incentives would appear to result in a slight improvement. Focusing on the high replacement rate thresholds of above 70% shows a significant improvement of the order of 1.2% while the above 80% threshold shows an improvement of only 0.1%.

[15] The financial incentive for an unemployed person to move into employment can be measured in the form of replacement rates which takes out-of-work income as a proportion of in-work income at the level of the family unit.

Table 9: Distribution of RRs for employees with children (two-tier CIS payment)

RR Category	Base	Reform	Difference
< 10%	0.0%	0.0%	0.0%
< 20%	0.7%	0.7%	0.0%
< 30%	3.5%	3.3%	-0.2%
< 40%	13.6%	12.1%	-1.6%
< 50%	30.1%	29.2%	-0.8%
< 60%	53.7%	51.6%	-2.1%
< 70%	70.5%	71.2%	0.7%
< 80%	83.7%	83.2%	-0.5%
< 90%	91.8%	92.3%	0.5%
< 100%	96.2%	96.6%	0.4%
< 110%	97.9%	97.9%	0.0%
< 120%	99.6%	99.3%	-0.2%
> 120%	100.0%	100.0%	0.0%

Source: Results based on SWITCH, the ESRI tax-benefit model www.esri.ie/switch

Table 10: Distribution of RRs for employees with children - taxing child benefit

RR Category	Base	Reform	Difference
< 10%	0.0%	0.0%	0.0%
< 20%	1.0%	0.7%	-0.3%
< 30%	3.9%	3.8%	-0.1%
< 40%	15.3%	13.6%	-1.8%
< 50%	29.8%	28.2%	-1.7%
< 60%	50.3%	49.8%	-0.5%
< 70%	68.5%	67.3%	-1.2%
< 80%	82.0%	81.9%	-0.1%
< 90%	89.8%	89.3%	-0.5%
< 100%	94.7%	94.6%	-0.1%
< 110%	96.6%	96.6%	0.0%
< 120%	98.7%	98.7%	0.0%
> 120%	100.0%	100.0%	0.0%

Source: Results based on SWITCH, the ESRI tax-benefit model www.esri.ie/switch

Findings:

- The introduction of the two-tier CIS payment would have mixed results for employment incentives reported at the high replacement rate thresholds of above 70% and above 80%.
- Under the taxation of child benefit approach employment incentives would improve, particularly at the above 70% threshold.

Number of households/families affected

Table 11 sets out the number of families with children that would be affected by the introduction of a two-tier CIS payment, while Table 12 sets out the situation with regard to taxing of child benefit. It should be noted that the SWITCH model does not provide information on number of recipients of Qualified Child Increases, as these payments form part of the primary social welfare payments to which the QCIs are attached.

Table 11: SWITCH estimates of the number of recipients of Social Welfare payment (two-tier CIS payment)

Social Welfare Payment	Number of families Base	Number of families Reform	Change
Child Benefit (Universal Payment)	555,550	555,550	0
Family Income Supplement	48,260	0	-48,260
Selective Payment	0	338,580	338,580

Source: Results based on SWITCH, the ESRI tax-benefit model www.esri.ie/switch

Table 12: SWITCH estimates of the number of recipients of Social Welfare payment – taxing child benefit

Social Welfare Payment	Number of families Base	Number of families Reform	Change
Child Benefit	555,550	555,550	0
Family Income Supplement	47,520	48,690	1,170

Source: Results based on SWITCH, the ESRI tax-benefit model www.esri.ie/switch

Findings:

- Under the two-tier CIS payment, over half a million families would continue to receive a universal payment. About 338,000 families would benefit from the selective payment – that is 61% of families with children.

- The taxation of child benefit would result in no change to the number of families in receipt of a universal payment but there would be a slight increase in the number of FIS recipients, given the formulation of the FIS income assessment. However, it should also be noted that there would be no change to the numbers in receipt of a QCI (although SWITCH does not model this aspect of the package).

Data on income distribution

There is no administrative data available to accurately determine the number of children in households relative to gross income bands. However, there are two datasets available that give some indication of the numbers of children in households at various income levels. The first is the Central Statistics Office's *Survey on Income and Living Conditions (SILC) in Ireland* which is a household survey covering a broad range of issues in relation to income and living conditions. It is the official source of data on household and individual income and may be used to generate an income distribution of all households with children up to and including the age of 17 years. The reference year for this data is 2009. The second dataset is produced by the Revenue Statistics Unit and sets out details of taxpayers in various income bands with corresponding numbers of children.

Survey on Income and Living Conditions (SILC)

Table 13 shows the distribution of children in households by gross income group and by number of children.

Table 13: Percentage of households with children broken down by gross income and number of children (Source - SILC 2009)

Gross Income Band € a year	*1 Child HH*	*2 Children HH*	*3+ Children HH*	*Total*	*Aggregate Total*
0-19,999	*5.49%*	*2.41%*	*	***8.51%***	***8.51%***
20,000-24,999	*1.91%*	*2.89%*	*1.52%*	***6.33%***	***14.84%***
25,000-29,999	*2.11%*	*2.16%*	*1.71%*	***5.98%***	***20.82%***
30,000-34,999	*3.30%*	*3.15%*	*1.59%*	***8.04%***	***28.86%***
35,000-39,999	*4.22%*	*2.95%*	*0.89%*	***8.07%***	***36.93%***
40,000-44,999	*2.27%*	*1.46%*	*0.87%*	***4.60%***	***41.53%***
45,000-49,999	*1.82%*	*1.03%*	*1.37%*	***4.22%***	***45.75%***
50,000-54,999	*3.31%*	*0.85%*	*1.55%*	***5.71%***	***51.46%***
55,000-59,999	*1.81%*	*1.94%*	*1.89%*	***5.65%***	***57.11%***
60,000-64,999	*2.89%*	*1.65%*	*0.72%*	***5.26%***	***62.37%***
65,000-69,999	*	*1.85%*	*0.70%*	***3.25%***	***65.62%***
70,000-74,999	*1.78%*	*	*	***2.87%***	***68.49%***
75,000-79,999	*1.84%*	*1.65%*	*	***4.18%***	***72.67%***
80,000+	*12.64%*	*9.01%*	*5.69%*	***27.34%***	***100.00%***
Total	*45.39%*	*33.02%*	*18.51%*	***100.00%***	

** Sample size too small*

There are a number of caveats that should be borne in mind in using the SILC data. Firstly, the data is derived from a sample survey conducted in 2009 of 5,183 households and 12,641 individuals and does not provide information on the aggregate population. Secondly, with the decline in national income, it is likely that the income distributions would now show significantly less households at higher income levels. Thirdly, children are defined as aged 0-17 and therefore adult children living with their parents could be contributing to gross household income. Finally, SILC does not capture all children, such as children living in care, Traveller children, and homeless children.

Findings:

- 8.5% of all households with children have gross incomes of below €20,000 a year.
- 72.7% of all households with children have gross incomes of below €80,000 a year.
- 27.3% of all households with children have gross incomes of above €80,000 a year.

Revenue profile of taxpayers with children and income bands

The following summary table 14 from the Revenue Statistics Unit sets out details of the income bands of taxpayers with corresponding numbers of children.

Table 14: Revenue profile of taxpayers with children and income bands

2011 as projected from 2009						
Gross Income Band € a year	**1 Child**	**2 Children**	**3+ Children**	**Total**	**Percentage**	**Aggregate Percentage**
0-20,000	68,776	62,187	58,986	189,949	19.5%	19.5%
20,001-25,000	26,537	23,440	20,753	70,730	7.3%	26.8%
25,001-30,000	25,312	22,639	21,873	69,824	7.2%	34.0%
30,001-35,000	22,686	19,966	19,179	61,831	6.4%	40.3%
35,001-40,000	21,214	19,293	19,012	59,519	6.1%	46.5%
40,001-45,000	18,184	18,725	17,814	54,723	5.6%	52.1%
45,001-50,000	15,350	17,847	17,048	50,245	5.2%	57.2%
50,001-55,000	13,295	17,323	16,391	47,009	4.8%	62.1%
55,001-60,000	11,338	16,082	15,115	42,535	4.4%	66.5%
60,001-65,000	9,968	14,455	13,802	38,225	3.9%	70.4%
65,001-70,000	8,566	13,611	13,116	35,293	3.6%	74.0%
70,001-75,000	7,411	12,033	12,150	31,594	3.2%	77.3%
75,001-80,000	6,487	10,783	10,464	27,734	2.9%	80.1%
80,001 +	38,295	69,678	85,502	193,475	19.9%	100.0%
Total	293,419	338,062	341,205	972,686	100.0%	

The table was established by matching computer based records on child benefit from the Department of Social Protection with corresponding income distribution statistics based on tax records using common PPS numbers.

The income band figures are estimates from the Revenue tax-forecasting model using actual data for the year 2009 adjusted as necessary for income and employment trends in the interim. These are, therefore, provisional and likely to be revised.

Note:

- A married couple who has elected or has deemed to have elected for joint assessment is counted as one tax unit.
- Gross Income is income which is prior to certain deductions such as capital allowances[1] and after deduction of superannuation contributions by employees but not by the self-employed.
- The data include income of individuals whose total income falls below the exemption limits.
- The data do not include certain other income which is not income for tax purposes or is exempt from tax such as profits or gains from stallion fees.[1]
- The data do not include or not fully include other income sources such as interest income that does not need to be declared or is not recorded(but from which tax has been deducted), jobseeker's benefit (non-recording of non-taxable amounts and of amounts taxed by restriction of repayments or indirectly through employers in the PAYE system), and the incomes of certain self-employed persons, including some farmers as well as some individuals in receipt of pensions, who are not processed annually on tax records because their incomes are below the income tax thresholds.

Findings:

- 19.5% of children live in taxpayer units with incomes below €20,000.
- 80% of children live in taxpayer units with incomes below €80,000.
- 20% of children live in taxpayer units with incomes above €80,000.
- Total number of children living in taxpayer units is 972,686. This is less than the total number of children in receipt of child benefit – see below.

[1] For full caveats, methodology and definitions please see Revenue Statistical Report 2010, Income Distribution Statistics.

Data comparison

There is no common unit of assessment across the tax and social welfare codes. The most notable difference relates to the treatment of cohabiting couples who are treated in the same way as married couples for social welfare purposes but as individual taxpayers under the tax system.

The unit of assessment under the social welfare code can vary depending on the scheme but it tends to be organised primarily around a claimant who is resident with the immediate family (consisting of the claimant, his/her spouse or partner and dependent children). In contrast the unit of assessment under the tax code is always on an individual basis with married couples having the option of availing of joint assessment thereby benefiting from the sharing of tax credits, some transferability of tax bands and the availability of the “home carer credit” in certain circumstances.

The different bases used in the compilation of the datasets in Table 13 and 14 above means that the tables are not directly comparable and explains the reason for the differing results at the various income bands. Both assist, however in determining the costs and effects associated with, on the one hand, taxation of child benefit at the various income levels and on the other hand, the CIS integrated payment.

In addition, the tax and social welfare codes operate differently in relation to when information is required. Tax details are only linked where two individuals have elected to be jointly assessed; in social welfare cases, household information in relation to adult dependants/children is only captured where these are relevant for eligibility for a scheme or have a material impact on the amounts to be paid. This situation is reflected in the IT systems in both organisations and reflects the difference in the statistical information produced by both systems.

Risk of poverty line associated with different family sizes

Table 15 shows the derived risk of poverty line for various household types based on SILC data for 2010. For a single adult household the weekly disposable income sufficient to ensure that the household is above the poverty line is €207.57 equivalent to €10,831 a year. The equivalence scales used by CSO attributes 0.66 to each additional adult in a household and 0.33 for each child. Based on this ratio a single parent with one child has an equivalised poverty line of €14,045. A household with two adults and two children would have to have a disposable income of €25,128 in order to remain above the risk of poverty line while a couple with four children requires a disposable income of just over €32,000 in order to avoid falling below the poverty line.

Table 15: Derived risk of poverty line for various household types, 2010

	Annual	Monthly	Weekly
1A	€10,831	€903	€207.57
1A1C	€14,405	€1,200	€276.07
1A2C	€17,979	€1,498	€344.57
1A3C	€21,554	€1,796	€413.06
1A4C	€25,128	€2,094	€481.56
2A1C	€21,554	€1,796	€413.06
2A2C	€25,128	€2,094	€481.56
2A3C	€28,702	€2,392	€550.06
2A4C	€32,276	€2,690	€618.56
Note: derived from CSO survey of income and living conditions, 2010 A = adult C = children			

Numbers in receipt of child benefit

Table 16 sets out the number of children and the number of families in receipt of child benefit. The increase in the number of beneficiaries over the period 2000 – 2011 reflects recent demographic trends including an increase in the birth rate and an increase in inward migration, particularly in the period prior to 2008.

Table 16: Numbers of child benefit recipients.

Year	Child Benefit - Number of Children	Child Benefit – Number of Families
2000	1,018,175	510,840
2001	1,014,340	514,919
2002	1,019,551	522,441
2003	1,034,851	534,009
2004	1,051,005	540,911
2005	1,060,740	547,540
2006	1,083,980	562,860
2007	1,110,715	579,612
2008	1,141,938	596,108
2009	1,156,917	602,932
2010	1,124,003	591,432
2011*	1,136,065	597,333

* Provisional

Findings:

- The total number of children in receipt of child benefit is around 1.13 million children in respect of almost 600,000 families.
- The total number of children living in taxpayer units is 972,686 in respect of some 564,500 taxpayer units. The inability to match the child benefit recipient spouse's PPS number to the assessable spouse number and data anomalies accounts for the difference.

Numbers affected by change options

Taxation of child benefit

Revenue data on a post Budget 2012 basis estimate that 393,500 taxpayer units would be affected by the taxing of child benefit – this is 69.4% of the estimated number of all income earners on Revenue's record who are in receipt of child benefit. The estimated number of children affected by the taxing of child benefit would be of the order of 688,500, representing 70.4% of the numbers of children of all Income Earners on Revenue's record. (See Table 17)

However, these are tentative estimates because of the difficulty of identifying and quantifying tax unit cases that are currently exempt from income tax, which would become liable to income tax if their child benefit was brought into the charge. It is therefore likely that the percentage of total income earners and children affected by the added taxation would be even higher than the numbers given above.

Table 17: Number/Percentage of Taxpayer Units/Children that would be affected by the taxation of child benefit

	Taxpayer Units with children		Children	
	Number	Percentage	Number	Percentage
Not liable	173,771	30.6%	289,005	29.6 %
Marginal relief Rate	841	0.2%	1,184	0.1%
Standard Rate (20%):	254,779	44.9%	430,829	44.1%
Top/Higher Rate (41%):	137,919	24.3%	256,580	26.2%
Total	567,310	100 %	977,598[16]	100 %

Source: Revenue data

It should be noted the Top/Higher Rate (41%) does not include cases where top rate of tax is fully offset by tax credits. These cases are included within the numbers given for the standard rate (20%). The

[16] The total child population identified here is slightly greater than in Table 14 due to a different forecasting model being used to create each table.

exemption limits and the associated marginal relief apply to those income earners aged 65 years and over.

Two-tier CIS payment

An estimate of the percentage of households and children that would receive the proposed two-tier CIS payment is set out in Table 18. This is based on SILC data for 2009 and the caveats identified earlier in this appendix apply. Given that SILC is a representative sample survey, it is not possible to provide an indication from SILC data of the potential numbers of households or children that might be receipt of the differing elements of the payment. However, apportioning the percentages of children to the number of recipients of child benefit, (based on end 2011 figures), a rough approximation may be formulated. It can thus be determined that close to half of all children would receive either the full payment of the two-tier CIS payment or a partial payment consisting of both the universal element and a reduced selective element tapered according to their means. On the other hand, it should be noted that the data upon which these calculations are based refer to 2009 and given the fall in incomes since then, the numbers of those in receipt of the full payment of the two-tier CIS payment or a partial payment consisting of both the universal element and a reduced selective element would likely be higher than the figures presented in the table. Furthermore, under the proposed payment, a full payment of the two-tier CIS payment would be paid to those in receipt of QCIs attached to means assessed primary social welfare payments, which currently accounts for around 400,000 children out of the almost 500,000 children to whom a QCI is attributed.

Table 18: Estimated percentage of households/children in receipt of two-tier CIS payment

	Households	Children	Numbers of Children*
Universal CIS Payment only	60%	54%	613,796
Universal CIS payment and partial payment of selective element	25%	32%	364,800
Universal CIS payment and full payment of selective element	15%	14%	157,469

Source: SILC
**Based on numbers of children in receipt of child benefit.*

Appendix 8: Other possible packages for two-tier CIS payment

The baseline package which was examined in detail is Package A which involves a payment rate of €63 a week split 40% universal and 60% selective (€25:€38). The upper income threshold is set at €25,000 (€480 a week) gross with a withdrawal rate of 20%. The Department of Social Protection also carried out some more limited analysis of other possible packages – these are set out in Table 1.

Table 1: Alternative CIS policy packages

Package	Basic Payment	Selective Payment	Threshold (weekly)	Threshold (annual)	Withdrawal Taper	Income Basis
A.	€25	€38	€480	€25,000	20%	Gross
B.	€25	€38	€480	€25,000	30%	Gross
C.	€25	€38	€480	€25,000	40%	Gross
D.	€25	€38	€575	€30,000	20%	Gross
E.	€25	€38	€480	€25,000	20%	Net
F.	€25	€38	€575	€30,000	20%	Net
G.	€31.50	€31.50	€480	€25,000	20%	Gross

Source: Results based on SWITCH, the ESRI tax-benefit model www.esri.ie/switch

Tables 2 and 3 provide information on the numbers who would qualify for the alternative packages.

Table 2: SWITCH estimates of the number of recipients of the two-tier CIS payment using alternative packages

Package	Brief description	Number of families in receipt of Basic Payment	Number of families in receipt of Selective Payment	Selective Payment as a Percentage of Basic Payment
A.	40/60; €480; 20%; gross	555,550	338,580	60.9%
B.	40/60; €480; 30%; gross	555,550	296,720	53.4%
C.	40/60; €480; 40%; gross	555,550	278,590	50.1%
D.	40/60; €575; 20%; gross	555,550	372,080	67.0%
E.	40/60; €480; 20%; net	555,550	405,560	73.0%
F.	40/60; €575; 20%; net	555,550	432,100	77.8%
G.	50/50; €480; 20%; gross	555,550	321,650	57.9%

Source: Results based on SWITCH, the ESRI tax-benefit model www.esri.ie/switch

Table 3: Estimating percentage/numbers of recipients in receipt of automatic/ means tested selective payment and basic payment only

Package	Percentage of families in receipt of automatic selective payment	Number of families in receipt of automatic selective payment	Percentage of families in receipt of means tested selective payment	Number of families in receipt of means tested selective payment	Percentage of families in receipt of basic payment only	Number of families in receipt of basic payment only
A.	37.0%	205,630	23.9%	132,950	39.1%	216,970
B.	37.0%	205,630	16.4%	91,090	46.6%	258,830
C.	37.0%	205,630	13.1%	72,960	49.9%	276,960
D.	37.0%	205,630	30.0%	166,450	33.0%	183,470
E.	37.0%	205,630	36.0%	199,930	27.0%	149,990
F.	37.0%	205,630	40.8%	226,470	22.2%	123,450
G.	37.0%	205,630	20.9%	116,020	42.1%	233,900

Source: Results based on SWITCH, the ESRI tax-benefit model www.esri.ie/switch

Table 4 sets out the main fiscal results for all the packages being examined.

Table 4: Fiscal impact of alternative packages

Package	Brief description	Total Cost of Selective Payment (€m)	Total SW Cost/Savings (€m)	Difference vis-a vis package A
A.	40/60; €480; 20%; gross	€1,052.8	-€186.6	
B.	40/60; €480; 30%; gross	€956.8	-€282.6	€96.0m
C.	40/60; €480; 40%; gross	€906.7	-€332.7	€146.1m
D.	40/60; €575; 20%; gross	€1,177.8	-€61.6	-€125.0m
E.	40/60; €480; 20%; net	€1,228.5	-€10.9	-€175.7m
F.	40/60; €575; 20%; net	€1,388.8	€149.4	-€336.0m
G.	50/50; €480; 20%; gross	€831.7	-€50.2	-€136.4m

Source: Results based on SWITCH, the ESRI tax-benefit model www.esri.ie/switch

Appendix 9: Implications for different households

The implications of the taxing child benefit or the two-tier CIS payment on different households is considered in the following examples. However, the effects of either approach are not directly comparable. This is due to each approach being significantly different in that the two-tier CIS payment approach essentially reduces the universal payment for all recipients and targets the low to middle income with a second tier payment, taking into account family size. In contrast the effects of the taxation of child benefit approach is largely governed by the rate applicable (41%, 20% or zero). Apart from the first two examples in the section on the two-tier CIS payment, which consider the situation for households dependent on social welfare income and who are therefore outside the tax net, the other household examples are the same in terms of composition and income levels.

For illustrative purposes, the examples set out below assume that the rate of child benefit is €140 per child per month. The income tax rates, credits and bands pertaining to January 2012 are applied. Other social welfare payment calculations used in the examples are the rates pertaining to January 2012.

Taxation of Child Benefit: Illustrative Cases

The following cases illustrate the effect of taxing Child Benefit on various families. These examples assume that the Employee (PAYE) tax credit cannot be used against any tax liability on child benefit and that the Home Carers tax credit is not affected. In addition, the tax deducted on child benefit is not taken into account when determining the amount of Family Income Supplement. The tax rates, credits and bands are those pertaining at March 2012.

Example 1 – Margaret

Margaret is a single parent with one child aged 2 years. Margaret works full time earning €20,000 a year. She is in receipt of Family Income Supplement and the One Parent Family Payment.

Taxing child benefit would have the effect of reducing the payment by €336 (-20%).

	Assessed as a single person	**Child Benefit Taxed in the hand of the recipient**
	€	€
Gross Pay	20,000	20,000
One Parent Family Payment	5,346	5,346
Gross Taxable Income	25,346	25,346
Income Tax liability	119	119
PRSI liability	536	536
Universal Social Charge	719	719
Net Income	23,972	23,972
Child Benefit	1,680	1,680
Tax	336	336
Net Payment	1,344	1,344
Family Income Supplement	1,404	1,404
Net Income	26,720	26,720
Annual loss from taxing CB	-336	-336

Example 2 – Maeve and Alan

Maeve and Alan are married with two children under 16 years. Alan is employed earning €30,000 a year and Maeve works in the home. Taxing child benefit would have the effect of reducing the payment by €672 (-20%) if they are jointly assessed and Alan is taxed on the child benefit. If they are jointly assessed and Maeve is taxed on the child benefit, the tax liability could be reduced to zero as she could use some of her personal tax credit to offset any liability. However, this would increase the income tax liability on Alan's salary by €672 a year which is equivalent to 20% of the child benefit payment. However, as their after tax income from employment is lower due to the increased income tax liability, the family's Family Income Supplement payment is increased by €416 giving them an annual loss from taxing child benefit of €256 from their current position.

	Jointly Assessed	**Child Benefit Taxed in the hand of the recipient (mother)**
	€	€
Gross Salary	30,000	30,000
Income Tax liability	240	912
PRSI liability	936	936
Universal Social Charge	1,419	1,419
Net Pay	27,405	26,733
Family Income Supplement	2,340	2,756
Child Benefit	3,360	3,360
Tax	672	0
Net Payment	2,688	3,360
Net Income	32,433	32,849
Annual loss from taxing CB	-672	-256

Example 3 – Rachael and Jason

Rachael and Jason are married with one child under 16. Rachael works in the home. Jason is employed and earns €35,000 a year (average industrial wage). They receive child benefit to the value of €1,680 a year. Taxing child benefit would have the effect of reducing the payment by €336 (-20%) if they are jointly assessed and Jason is taxed on the child benefit. If they are jointly assessed and Rachael is taxed on the child benefit, the payment could be reduced to zero as she could use some of her personal tax credit to offset any liability. However, this would increase the income tax liability on Jason's salary by €336 a year which is equivalent to 20% of the child benefit payment.

	Jointly Assessed	**Child Benefit Taxed in the hands of the recipient (Rachael)**
	€	€
Gross Salary	35,000	35,000
Income Tax liability	1,240	1,576
PRSI liability	1,136	1,136
Universal Social Charge	1,769	1,769
Net Pay	30,855	30,519
Child Benefit	1,680	1,680
Tax	336	0
Net Payment	1,344	1,680
Net Income	32,199	32,199
Annual loss on tax on CB	-336	-336

If Rachael and Jason were co-habiting and not married or in a civil partnership, Rachael's liability to tax on her child benefit would be zero while Jason's income tax liability on his salary would be increased by €2,586.

Example 4 – Stephen and Patricia

Stephen and Patricia are married with three children. Stephen is self employed earning €27,000 a year and Patricia works in the home. Taxing child benefit would have the effect of reducing the payment by €1,008 (-20%) if they are jointly assessed and Stephen is taxed on the child benefit. If they are jointly assessed and Patricia is taxed on the child benefit, the liability could be reduced to zero as she could use some of her personal tax credit to offset any liability. However, this would increase the income tax liability on Stephen's earnings by €1,012 a year which is equivalent to 20% of the child benefit payment.

	Jointly Assessed	**Child Benefit Taxed in the hand of the recipient (mother)**
	€	€
Gross earnings	27,000	27,000
Income Tax liability	1,290	2,298
PRSI liability	1,080	1,080
Universal Social Charge	1,209	1,209
Net earnings	23,421	22,413
Child Benefit	5,040	5,040
Tax	1,008	0
Net Payment	4,032	5,040
Net Income	27,453	27,453
Annual loss from taxing CB	-1,012	-1,012

Example 5 – David and Fiona

David and Fiona are married with four children under 16 years. David is employed earning €60,000 a year and Fiona works in the home. Taxing child benefit would have the effect of reducing the payment by €2,755 (-41%) if they are jointly assessed and David is taxed on the child benefit. If they are jointly assessed and Fiona is taxed on the child benefit, the liability could be reduced to zero as she could use some of her personal tax credit against the liability. However, this would increase the income tax liability on David's salary by the same amount of €1,344 a year which is equivalent to 20% of the child benefit payment.

	Jointly Assessed	**Child Benefit Taxed in the hand of the recipient (mother)**
	€	€
Gross Salary	60,000	60,000
Income Tax liability	10,062	11,406
PRSI liability	2,136	2,136
Universal Social Charge	3,519	3,519
Net Pay	44,283	42,939
Child Benefit	6,720	6,720
Tax	2,755	0
Net Payment	3,965	6,720
Net Income	48,248	49,659
Annual loss from taxing CB	-2,755	-1,344

Example 6 – Paula and Patrick

Paula and Patrick are married with three children under 16 years. Both Paula and Patrick are employed and are earning €60,000 and €40,000, respectively. They receive child benefit to the value of €5,040 a year. Taxing their child benefit would have the effect of reducing the payment by €2,066 (-41%) if they were jointly assessed. The same reduction would apply if the child benefit was taxed in the hands of Paula as recipient.

	Jointly Assessed	**Child Benefit Taxed in the hands of the recipient (Paula)**
	€	€
Gross Salary	100,000	100,000
Income Tax liability	20,624	20,624
PRSI liability	3,472	3,472
Universal Social Charge	5,638	5,638
Net Pay	70,266	70,266
Child Benefit	5,040	5,040
Tax	2,066	2,066
Net Payment	2,974	2,974
Net Income	73,240	73,240
Annual loss from taxing CB	-2,066	-2,066

If the couple were co-habiting and not married or in a civil partnership, the same reduction would apply.

Example 7 – Mary and John

Mary and John are married with two children under 16. Mary works in the home. John is employed and earns €250,000 a year. They receive child benefit to the value of €3,360 a year. Taxing child benefit would have the effect of reducing the payment by €1,378 (-41%) if they are jointly assessed and John is taxed on the child benefit. If they are jointly assessed and Mary is taxed on the child benefit, the payment could be reduced to zero as she could use some of her personal tax credit to offset any liability. However, this would increase the income tax liability on John's salary by €672 a year which is equivalent to 20% of the child benefit payment.

	Jointly Assessed	**Child Benefit Taxed in the hand of the recipient (Mary)**
	€	€
Gross Salary	250,000	250,000
Income Tax liability	87,962	88,634
PRSI liability	9,736	9,736
Universal Social Charge	16,819	16,819
Net Pay	135,483	134,811
Child Benefit	3,360	3,360
Tax	1,378	0
Net Payment	1,982	3,360
Net Income	137,465	138,171
Annual loss from tax on CB	-1,378	-672

If Mary and John were co-habiting and not married or in a civil partnership, Mary's liability to tax on her child benefit would be zero. John's income tax liability would increase by €3,678 a year.

Two-Tier CIS Payment: Illustrative Cases

The following cases illustrate the effect of the two-tier CIS payment on different family types. The examples are based on the following payment parameters:

- Basic Payment: €25 (weekly) €1,300 (annual)
- Selective Payment: €38 (weekly) €1,976 (annual)
- Threshold: €480 (weekly) €25,000 (annual)
- Withdrawal Taper: 20%
- Income Basis: Gross

Example 1 – Eoin and Mary

Eoin and Mary are married with one child under 18 years. Both Eoin and Mary are unemployed with Mary in receipt of Jobseekers Assistance. An Increase for a Qualified Adult is paid in respect of Eoin. Under the two-tier CIS payment, the reduction in the universal CIS basic payment is compensated by the increase in the selective CIS automatic payment and there is a net increase of €46 a year.

	Current		Two-tier		Change
Household gross earnings	€0.00		€0.00		€0.00
Household - net earnings	€0.00		€0.00		€0.00
JA (without QCI)	€16,265.60		€16,265.60		€0.00
Total Child Income Support	€3,229.60		€3,276.00		€46.40
- CB/CIS basic payment	€1,680.00		€1,300.00		-€380.00
- QCI (implicit)/CIS automatic payment	€1,549.60		€1,976.00		€426.40
- FIS/CIS income-tested payment	€0.00		€0.00		€0.00
Total transfer income	€19,495.20		€19,541.60		€46.40
Total household income	€19,495.20		€19,541.60		€46.40

Example 2 – Jane

Jane is a single parent with a child aged 2 years and is on One Parent Family Payment. Under the two-tier CIS payment, the reduction in the universal CIS basic payment is compensated by the increase in the selective CIS automatic payment and there is a net increase of €46 a year.

	Current		Two-tier		Change
Household gross earnings	€0.00		€0.00		€0.00
Household - net earnings	€0.00		€0.00		€0.00
OPF (without QCI)	€9,776.00		€9,776.00		€0.00
Total Child Income Support	€3,229.60		€3,276.00		€46.40
- CB/CIS basic payment	€1,680.00		€1,300.00		-€380.00
- QCI (implicit)/CIS automatic payment	€1,549.60		€1,976.00		€426.40
- FIS/CIS income-tested payment	€0.00		€0.00		€0.00
Total transfer income	€13,005.60		€13,052.00		€46.40
Total household income	€13,005.60		€13,052.00		€46.40

Example 3 – Margaret

Margaret is a lone parent with one child under 18. Margaret is employed and earns €20,000 a year. She is also entitled to an OPF payment of €3,796, excluding a Qualified Child Increase which amounts to €1,550. Margaret is also entitled to a concurrent FIS payment of €1,404 a year. Under the two-tier CIS Payment, there is a reduction in the universal CIS basic payment of about €380 a year. Given that Margaret's household income (€20,000) is below the threshold of €25,000, Margaret is eligible for the selective part of the two-tier CIS payment of €1,976, which is an increase of €426 over the amount that she currently receives in QCIs in respect of her child. However, Margaret would no longer receive a FIS payment and consequently, there would be a net reduction of €1,358 a year for this household. Taking into account Margaret's OPF payment, Margaret's total income derived from social transfers would reduce from €8,430 to €7,072 while her total household income would reduce from €27,056 to €25,698.

	Current		Two-tier		Change
Household gross earnings	€20,000.00		€20,000.00		€0.00
Household - net earnings	€18,626.24		€18,626.24		€0.00
OPF (without QCI)	€3,796.00		€3,796.00		€0.00
Total Child Income Support	€4,633.60		€3,276.00		-€1,357.60
- CB/CIS basic payment	€1,680.00		€1,300.00		-€380.00
- QCI (implicit)/CIS automatic payment	€1,549.60		€1,976.00		€426.40
- FIS/CIS income-tested payment	€1,404.00		€0.00		-€1,404.00
Total transfer income	€8,429.60		€7,072.00		-€1,357.60
Total household income	€27,055.84		€25,698.24		-€1,357.60

Example 4 – Maeve and Alan

Maeve and Alan are married with two children under 18. Maeve works in the home. Alan is employed and earns €30,000 a year. He is also entitled to a FIS payment of €2,340 a year. Under the two-tier CIS payment, there is a reduction in the universal CIS basic payment of about €760 a year. Given that this family's household income (€30,000) is above the withdrawal threshold of €25,000, the family are eligible for a selective CIS income tested payment, which is €612 higher than the FIS payment Alan is currently in receipt of. However, this increase is not sufficient to fully compensate the family for the reduction in the CIS basic payment and as a consequence there is a net reduction of €148 a year.

	Current		Two-tier		Change
Household gross earnings	€30,000		€30,000		€0.00
Household - net earnings	€27,405.56		€27,405.56		€0.00
JA (without QCI)	€0.00		€0.00		€0.00
Total Child Income Support	€5,700.00		€5,552.04		-€147.96
- CB/CIS basic payment	€3,360.00		€2,600.00		-€760.00
- QCI (implicit)/CIS automatic payment	€0.00		€0.00		€0.00
- FIS/CIS income-tested payment	€2,340.00		€2,952.04		€612.04
Total transfer income	€5,700.00		€5,552.04		-€147.96
Total household income	€33,105.56		€32,957.60		-€147.96

Example 5 – Rachael and Jason

Rachael and Jason are married with one child under 18. Rachael works in the home. Jason is employed and earns €35,000 a year (average industrial wage). Under the two-tier CIS payment, there is a reduction in the universal CIS basic payment of €380 a year. Given that this family's household income (€35,000) is above the withdrawal threshold of €25,000, and given that this income is above the income point at which a CIS income tested payment for one child is tapered away (€34,935) the family are not eligible for a selective CIS income tested payment. Consequently, there is a net reduction of €380 a year for this household.

	Current		Two-tier		Change
Household gross earnings	€35,000.00		€35,000.00		€0.00
Household - net earnings	€30,855.36		€30,855.36		€0.00
JA (without QCI)	€0.00		€0.00		€0.00
Total Child Income Support	€1,680.00		€1,300.00		-€380.00
- CB/CIS basic payment	€1,680.00		€1,300.00		-€380.00
- QCI (implicit)/CIS automatic payment	€0.00		€0.00		€0.00
- FIS/CIS income-tested payment	€0.00		€0.00		€0.00
Total transfer income	€1,680.00		€1,300.00		-€380.00
Total household income	€32,535.36		€32,155.36		-€380.00

Example 6 – Stephen and Patricia

Stephen and Patricia are a married couple with three children. Stephen is self-employed and earns an income of €27,000 a year. Patricia works in the home. Under current arrangements Stephen is not entitled to a FIS payment. With the introduction of a two-tier CIS payment, Stephen would be entitled to a selective means tested CIS payment of €5,528 per year which more than compensates the reduction in the universal basic payment of €1,140, resulting in an increase of €4,388 in this household's total transfer income from €5,040 to €9,428 per year.

	Current	Two-tier	Change
Household gross earnings	€27,000.00	€27,000.00	€0.00
Household - net earnings	€23,421.32	€23,421.32	€0.00
JA (without QCI)	€0.00	€0.00	€0.00
Total Child Income Support	€5,040.00	€9,428.00	€4,388.00
- CB/CIS basic payment	€5,040.00	€3,900.00	-€1,140.00
- QCI (implicit)/CIS automatic payment	€0.00	€0.00	€0.00
- FIS/CIS income-tested payment	€0.00	€5,528.00	€5,528.00
Total transfer income	€5,040.00	€9,428.00	€4,388.00
Total household income	€28,461.32	€32,849.32	€4,388.00

Example 7 – David and Fiona

David and Fiona are married with four children under 18. Fiona is employed and earns €60,000 a year while David works in the home. Under the two-tier CIS payment, there is a reduction in the universal CIS basic payment of about €1,520 a year. Given that this family's household income (€60,000) is above the withdrawal threshold of €25,000, and given that this income is below the income point at which a CIS income tested payment for 4 child is tapered away (€64,740) the family are eligible for a selective CIS income tested payment of €904. Prior to this, this family would not have been eligible for a FIS payment. So while there is an increase on the selective side of the two-tier CIS payment, there is a net reduction of €616 a year for this household by taking into account the reduction in the universal CIS basic payment.

	Current		Two-tier		Change
Household gross earnings	€60,000.00		€60,000.00		€0.00
Household - net earnings	€44,283.36		€44,283.36		€0.00
JA (without QCI)	€0.00		€0.00		€0.00
Total Child Income Support	€6,720.00		€6,104.00		-€616.00
- CB/CIS basic payment	€6,720.00		€5,200.00		-€1,520.00
- QCI (implicit)/CIS automatic payment	€0.00		€0.00		€0.00
- FIS/CIS income-tested payment	€0.00		€904.00		€904.00
Total transfer income	€6,720.00		€6,104.00		-€616.00
Total household income	€51,003.36		€50,387.36		-€616.00

Example 8 – Paula and Patrick

Paula and Patrick are married with three children under 18. Both Paula and Patrick are employed and are earning €60,000 and €40,000 respectively. Under the two-tier CIS payment, there is a reduction in the universal CIS basic payment of about €1,140 a year. Given this family's household income (€100,000) and their family size, this household is not eligible for a selective CIS payment.

	Current		Two-tier		Change
Household gross earnings	€100,000.00		€100,000.00		€0.0
Household - net earnings	€70,266.00		€70,266.00		€0.00
JA (without QCI)	€0.00		€0.00		€0.00
Total Child Income Support	€5,040.00		€3,900.00		-€1,140.00
- CB/CIS basic payment	€5,040.00		€3,900.00		-€1,140.00
- QCI (implicit)/CIS automatic payment	€0.00		€0.00		€0.00
- FIS/CIS income-tested payment	€0.00		€0.00		€0.00
Total transfer income	€5,040.00		€3,900.00		-€1,140.00
Total household income	€75,306.00		€74,166.00		-€1,140.00

Example 9 – Mary and John

Mary and John are married with two children under 18. John is employed and earns €250,000 a year. Mary works in the home. Under the two-tier CIS payment, there is a reduction in the universal CIS basic payment of about €760 a year. Given this family's household income (€250,000) and their family size, this household is not eligible for a selective CIS payment.

	Current		Two-tier		Change
Household gross earnings	€250,000.00		€250,000.00		€0.00
Household - net earnings	€135,483.36		€135,483.36		€0.00
JA (without QCI)	€0.00		€0.00		€0.00
Total Child Income Support	€3,360.00		€2,600.00		-€760.00
- CB/CIS basic payment	€3,360.00		€2,600.00		-€760.00
- QCI (implicit)/CIS automatic payment	€0.00		€0.00		€0.00
- FIS/CIS income-tested payment	€0.00		€0.00		€0.00
Total transfer income	€3,360.00		€2,600.00		-€760.00
Total household income	€138,843.36		€138,083.36		-€760.00