

Analysis of distributive and poverty impacts on families of Budget 2011 tax/welfare package

Department of Social Protection

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1. Approach

This document analyses the Budget 2011 tax/welfare package using the SWITCH tax/benefit model. It looks at:

- the distributive impact of the measure based on a ranking of all families in 10 equal sized groups from poorest to richest. The following issues are considered: the percentage change in family income, the aggregate income change, the percentage of affected families and the cash changes for affected families.
- the impact on families characterised by a) family composition and b) employment status.
- Finally, the impact on the at-risk-of-poverty rate and the poverty gap of the various tax/welfare options. This impact is disaggregated by age (children, working age, older people) and by gender.

The comparator policy a 2010 policy indexed by wage trends for 2011 (minus 1 per cent). This 'neutral budget' is considered best for assessing the impact of policy while taking into account income trends in the economy for 2011.

Finally, the run settings for all analyses is 2011, which reflects forecast trends in terms of employment, population and family income.

The components of the Budget 2011 welfare and tax package are:

- €10 reduction in child benefit rates (€20 for third child)
- €8 reduction in personal welfare rates for working age (€10 SWA)
- €5.30 reduction in IQA rates for working age
- 10 per cent reduction in tax credits
- 10 per cent reduction in tax bands
- merger of levies & new rates/bands
- abolition of PRSI ceiling
- increase in PRSI rate for self-employed from 3% to 4%
- change in treatment of pension contributions (ceiling and levies)

2. Savings

Table 1 presents the savings estimated by SWITCH from the various measures and the aggregate figure. These amount to just less than €1,600 million combined to a wage-indexed 2010 policy. compared to a no policy change scenario total €1,873 million (column 1). The breakdown between the tax and welfare components of

Budget 2011 is 84 per cent on tax and 16 per cent on welfare. On the welfare side, welfare rate reductions contribute €165 million and child benefit reductions provide €119 million. The main tax measures is income tax which provides €1,170 million. A further €170 million comes from the introduction of the USC and the abolition of the PRSI ceiling. Not show in the calculations is the yield from changes in the tax treatment of pensions, which amounts to a further €220 million approximately.

Table 1: Savings from tax/welfare policy derived from SWITCH (€m)

Item	Savings
child benefit	118.5
FIS	-19.9
welfare	165.3
PSP adjust	-3.7
<i>total welfare</i>	<i>260.2</i>
tax	1168.4
levies	168.7*
pension levy	-6.5
<i>total tax</i>	<i>1330.7</i>
<i>total welfare & tax</i>	<i>1590.9</i>
welfare as % total	16%
tax as % total	84%

* there is a further yield of €220 million from changes in the tax treatment of pensions

3. Distributive impact of Budget 2011 tax/welfare package

First we look at the distributive impact of the Budget 2011 package.

- The average income loss for families of the tax/welfare package is 2.3 per cent or c €13 per week.
- The greatest percentage losses are in the bottom decile and the 9th decile, at 3 per cent (€7 to €11 per week). Other above average losses are in the 2nd, 5th, 6th and 8th deciles at c 2.5 per cent.
- The smallest losses are in deciles 3, 4 and ten at 2 per cent or less. This outcome reflects on one hand the maintenance of the state pension at its current rate (3rd and 4th deciles) and on the other, the introduction of the USC which benefits the top decile.

The data are presented in tabular format in table 2 below.

Diagram 1: Distributive impact of Budget 2011 tax/welfare package
 (percentage loss by income decile; compared to indexed policy)

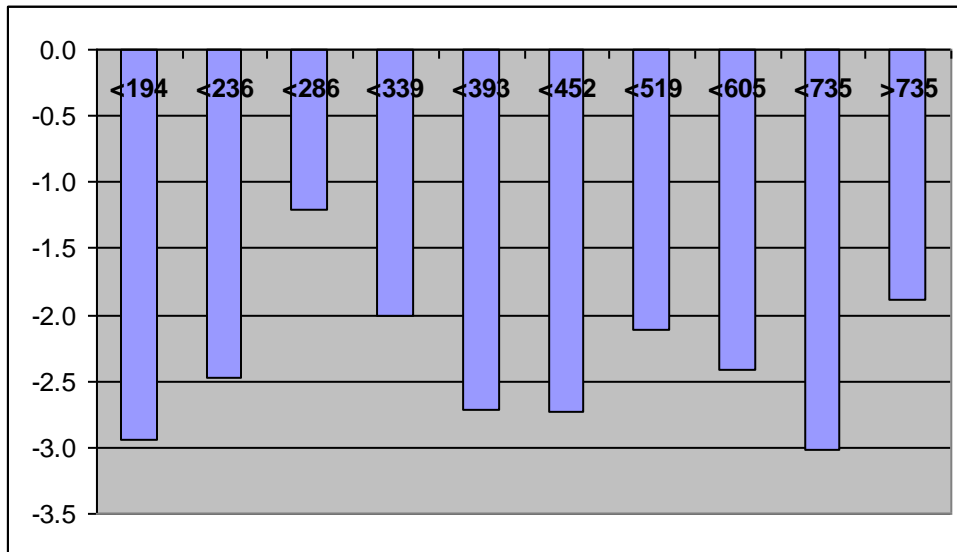
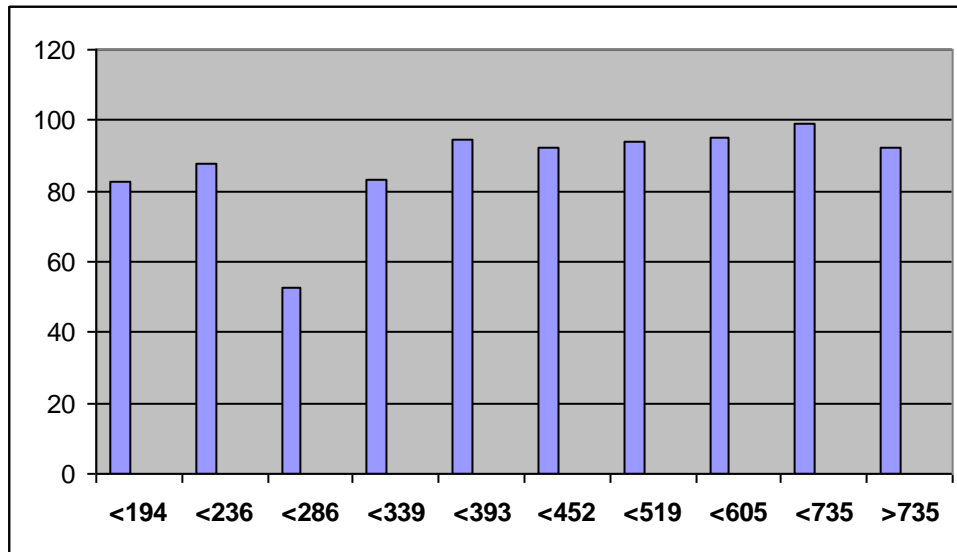


Table 2: Distributive impact of the Budget tax/welfare package
 (percentage loss by income decile;
 compared to no policy change and indexed policy)

Deciles	Losses
<194	-2.9
<236	-2.5
<286	-1.2
<339	-2.0
<393	-2.7
<452	-2.7
<519	-2.1
<605	-2.4
<735	-3.0
>735	-1.9
all	-2.3

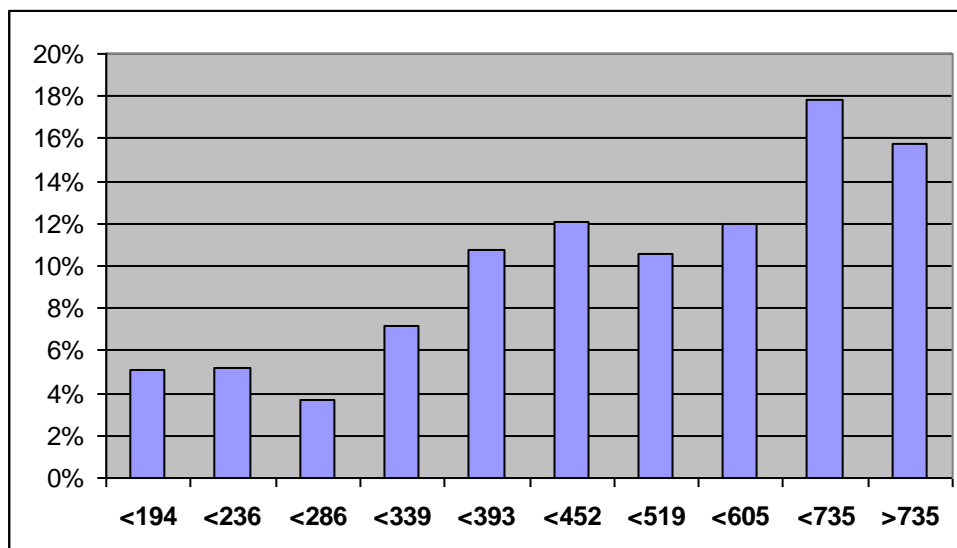
A total of 2 million families lose under Budget 2011, which is 87 per cent of the total population (diagram 2). A small share of families in the bottom four deciles lose, especially in the 3rd decile, where only half of the families lose. In all other deciles, over 90 per cent of families lose, rising to 100 per cent in the 9th decile.

Diagram 2: Share of families losing under Budget 2011
(percentage share by income decile)



The net yield from the tax/welfare policy is €1,591 million. Diagram 3 presents the distribution of this aggregate yield by income decile. The bottom four deciles contribute 20 per cent of this total. By contrast, the richest two deciles provide a third of the total savings. The remaining 5th to 8th deciles contribute 46 per cent of the total, slightly more than a pro-rata share.

Diagram 3: Distribution of total yield of tax/welfare package
(percentage share by income decile)

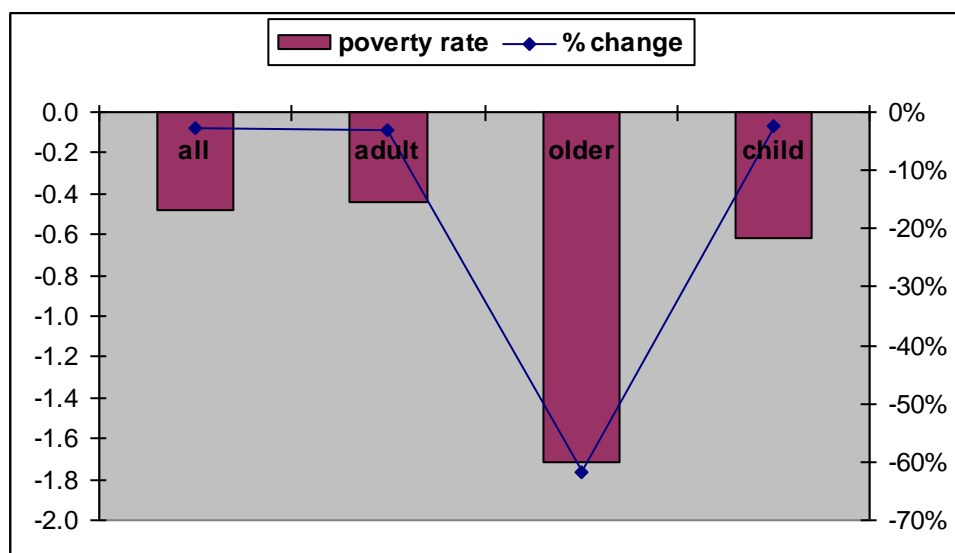


4. Poverty impact

We now consider the impact on at-risk-of-poverty of the tax/welfare package. The at-risk-of-poverty threshold (60 per cent of median income) is estimated to be €252 per adult per week. This is a reduction of 2 per cent as compared to an indexed 2010 policy. The lowering of the threshold would, if nothing else changed, reduce the at-risk-of-poverty rate.

The impact of the new policy on poverty rate is presented in diagram 4. The poverty rate for the total population falls by half of a percentage point on an indexed 2010 policy, which is the equivalent to a 3 per cent decline. The poverty rate falls for all lifecycle groups, with the largest fall for older people, at almost 2 percentage points (two-thirds in percentage terms). The results for people of working age and children are in line with the overall decrease in the poverty rate.

Diagram 4: Impact on at-risk-of-poverty rate of tax/welfare policy
(poverty rate and % change compared to indexed 2010 policy)



5. Distributive impact of Budgets 2009-2011 tax/welfare package

Here we look at the cumulative impact of the tax/welfare package across the four Budgets in the period 2009-2011 compared to an indexed 2008 policy.

Table 3 summarises the savings from the combined package. The tax/welfare measures introduced in the four Budgets garner €5,336 million compared to a wage-indexed policy. The main elements of the savings from the combined policies are due to tax increases (80 per cent) as compared to welfare reductions (20 per cent). Furthermore, within the welfare savings, the main element is the reduction in public sector pay. The welfare adjustments are overall neutral. On the tax side, the main revenue sources are the various income levies and the pension levy. Regular income tax shows no change.

Table 3: Savings from tax/welfare policy derived from SWITCH (€m)

Combined policy over indexation	Indexed 2008 policy
child benefit	294.4
FIS	-90.1
welfare	-294.0
PSP adjust	1,160.0
<i>total welfare</i>	<i>1,070.0</i>
tax	23.0
levies	3105.0
pension levy	1183.9
<i>total tax</i>	<i>4,265.9</i>
<i>total welfare & tax</i>	<i>5,336.1</i>
welfare as % total	20%
tax as % total	80%

The distributive impact of the four Budgets is outlined in diagram 2. The main findings are:

- The average income loss for families of Budgets 2009-2011 is almost 7 per cent or c €43 per week.
- Two deciles do not lose under the package: the 2nd and 3rd deciles. Otherwise, the bottom decile and the top seven deciles all lose.
- For the top 70 per cent of families, the income loss rises progressively from 3.5 to 11 per cent (€17 to €160 per week).
- The bottom decile loses 5 per cent, primarily due to the reduction in welfare payments for the under 25s.

The data are presented in tabular format in table 2 below.

Diagram 5: Distributive impact of Budget 2009-2011 tax/welfare package
(percentage loss by income decile; compared to an indexed policy)

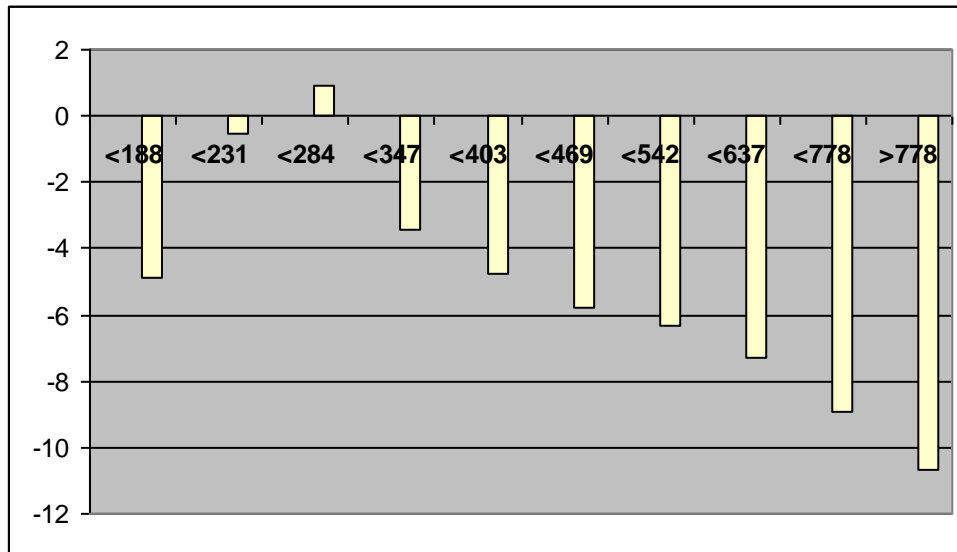


Table 4: Distributive impact of Budgets 2009-2011
(percentage loss by income decile, compared to indexed 2008 policy)

<i>Deciles</i>	<i>Impact</i>
<188	-4.87
<231	-0.53
<284	0.93
<347	-3.42
<403	-4.75
<469	-5.79
<542	-6.33
<637	-7.28
<778	-8.93
>778	-10.68
<i>All</i>	-6.73

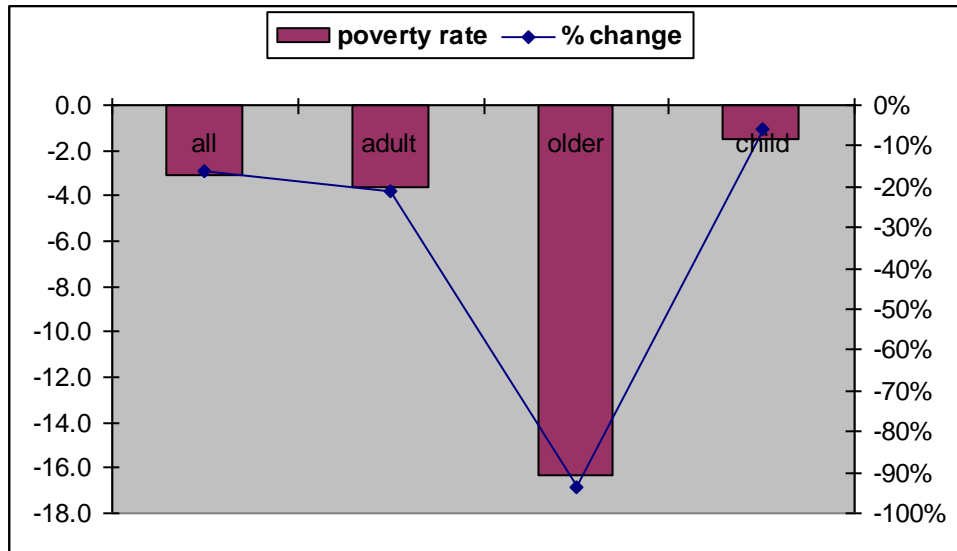
6. Poverty impact of Budgets 2009-2011

We now consider the impact on at-risk-of-poverty of Budgets 2009-2011. The at-risk-of-poverty threshold (60 per cent of median income) is estimated to be €252 per adult per week. This is a reduction of 5 per cent as compared to an indexed 2010 policy (€265). The lowering of the threshold would, if nothing else changed, reduce the at-risk-of-poverty rate.

The impact of the new policy on poverty rate is presented in diagram 6. The poverty rate for the total population falls by three percentage points on an indexed 2010 policy, which is the equivalent to a 16 per cent decline. The poverty rate falls for all lifecycle groups, with the largest fall for older people, at almost 16 percentage points (94 per cent). The results for people of working age are in line with the overall

decrease in the poverty rate. The poverty rate for children falls the smallest amount at 1.5 percentage points. This is equivalent to a 6 per cent reduction.

Diagram 6: Impact on at-risk-of-poverty rate of Budgets 2009-2011 policy
(absolute fall in poverty rate and % change compared to indexed 2008 policy)



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