



Analysis of poverty impact of Budget 2009

December 2008

Key points

- For the first time in many years, the Budget tax/welfare package yields savings of €841 million. Only on social welfare measures are additional resources provided (€362 million); changes in income tax and child income support save money for the Government (€1,138 million and €65 million respectively).
- The aggregate effect of tax/welfare measures is to reduce total household income by €925 million, equating to a loss of 1.1 per cent in average income. The Budget 'pain' is not equally shared: low-income households fare better as their incomes are maintained; the losses are concentrated on middle and higher earner groups (down by 1.5 per cent). The richest 10 per cent contributes €365 million (40 per cent) of the total loss.
- The rate adjustment for welfare recipients – both the basic payment and the state pension - is the lowest for the last seven years. The increase may not be enough to maintain living standards if inflation in basic commodities is similar to 2008.
- There has been a major change in budgetary impact since 2007, with all income groups doing worse, but in particular those on low-incomes.
- The 'at-risk-of-poverty' rate is down by 4.5 per cent as a result of Budget 2009. The main reason for this, however, is a lower poverty threshold rather than improvements in welfare payments.
- Unemployed households record modest gains from the Budget, compared to those at work. There is little difference between those with children and those without. The poverty rate falls by 4 to 5 per cent for women, older people and people of working age, though the rate for children is unchanged.
- Households with children will be worse off by a total of €126 million with the full implementation of the budget measures in 2011. Lower income households will be worst affected in proportionate terms.
- Budget changes have added to the complexity of child income support, with six rate levels and four payment instruments.
- There is a large increase in the income tax burden due to the combination of the non-indexation of tax credits and the imposition of an income levy. This leads to losses of between 1 and 1.6 per cent for the richest 60 per cent of households, which cumulatively amount to €950 million.
- The existence of different eligibility criteria for medical cards for people aged 70 and over and those under 70 years creates inequities in the assessment of social need. Furthermore, between 20 and 30 per cent of those in poverty do not have a medical card.

1. Introduction

This is an analysis of the impact of Budget 2009 on poverty and on inequalities likely to lead to poverty. The analysis is undertaken as part of the statutory remit of Combat Poverty to provide evidence-based advice on all aspects of public policy as it relates to poverty. It also supports the requirement on government departments to assess the poverty impact of public policy, including the annual Budget. The analysis uses various policy tools, in particular the ESRI tax/welfare model SWITCH. The SWITCH model provides a comprehensive assessment of the effects of tax/welfare changes, taking into account the wide diversity of individual and family circumstances relevant to tax liabilities and welfare entitlements.¹

The backdrop to Budget 2009 was a marked deterioration in the exchequer financial position due to a sharp fall in tax revenue, itself a result of declining economic activity. Contemporaneously, the demands on government expenditure are increasing due to rising unemployment, which is expected to reach 7.3 per cent in 2009. In response to these trends, the government announced significant reductions in public expenditure and higher taxation in Budget 2009, amounting to €3 billion. Even with these measures, the government will have to substantially increase borrowing to meet a forecast budget deficit of €12 billion in 2009 (equivalent of 6.5 per cent of GDP).

The analysis primarily focuses on the income tax and social welfare policy changes announced in Budget 2009 and does not look at general changes in public expenditure. The central role of tax/welfare policy in tackling poverty has been highlighted in a number of national and EU reports.² The first half of the document assesses the distributive and poverty impact of tax/welfare changes for the general population and across the lifecycle. The second half discusses specific policy issues, such as welfare payments, child income support, taxation and medical cards.

1. Tax/welfare package in Budget 2009

For the first time in many years, the Budget tax/welfare package yields government savings of €841 million. The main component of this is a net revenue from income tax measures of €1,138 million. In addition, there are net savings of €65 million on child income expenditure. Social welfare is the only item in the package for which net additional resources are provided (€362 million).³

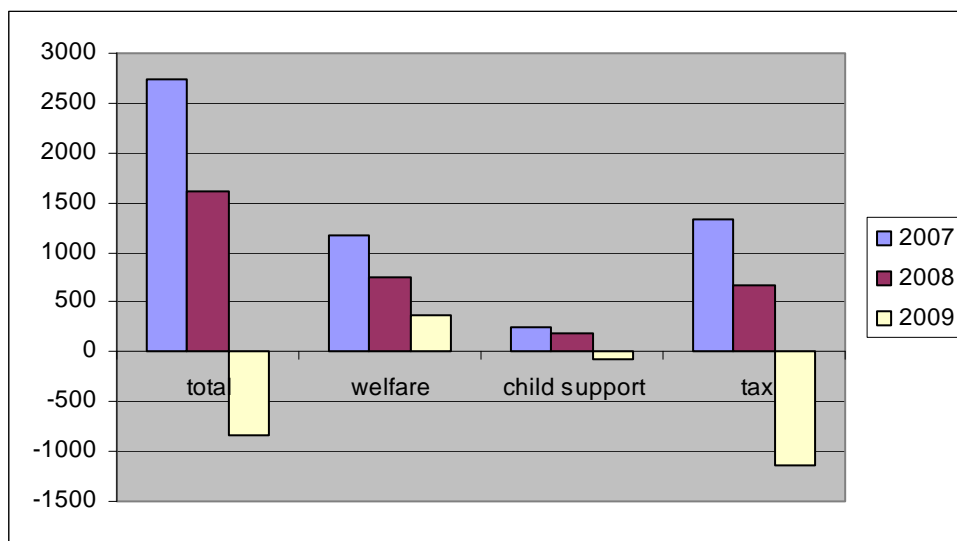
¹ The SWITCH tax/welfare model has been developed by the Economic and Social Research Institute based on a nationally representative sample of households. For further information on the model and its use as a tool for analysing tax/welfare policy, see T Callan et al, 2001 *Reforming tax and welfare*, Dublin: Economic and Social Research Institute.

² Callan et al (2008), *Tackling low income and deprivation: developing effective policies*, Dublin: Economic and Social Research Institute

³ The Budget estimate of the welfare improvements is €459 million and an additional €56 million for child income support (total €515 million). We discount welfare savings of €97 million to get a net figure of €362 million. For expenditure on children, we include savings of €27.5 on child benefit and €93 million on the early childcare supplement from the Dept of Health and Children budget. This gives net savings on child income support of €65 million.

The turnaround in the tax/welfare package is illustrated by comparison with previous years (diagram 1). There is a difference of €2,450 million compared to Budget 2008, when total tax/welfare measures cost €1,618 million. The difference is €3,590 million when compared to Budget 2007 (total tax/welfare expenditure of €2,748 million). This change is reflected across tax/welfare measures, but not by equal amounts. Expenditure on welfare improvements have decreased by €800 million over the last three years and the allocation for child income support changes has declined by €309 million. The greatest change is in relation to income tax, which has gone from a spend of €1,342 million in 2007 to projected savings of €1,138 million in 2009, a turnaround of €2,480 million.

Diagram 1: Budget tax/welfare packages, 2007-2009 (€m)



The main welfare measure in Budget 2009 is the increases in personal and qualified adult rates at a cost of €428 million. A further €28 million is provided for the fuel allowance. Off-setting these costs are savings of €97 million arising from restrictions in eligibility conditions for various welfare schemes.

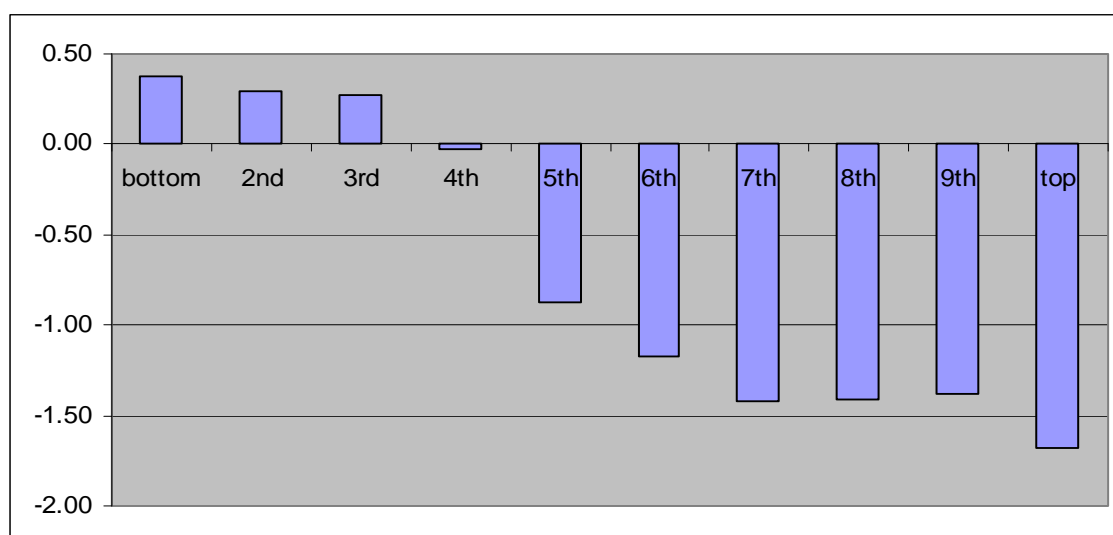
The child income support changes are also a mixture of improvements and savings. There is additional expenditure of €56 million on means-tested schemes such as the qualified child allowance. There are reductions in the age eligibility for universal payments (child benefit and early childcare supplement), resulting in savings of €121 million in 2009. These savings will increase by further €51 million in 2011, when the full effects of the changes come into place and temporary alleviation measures are phased out.

The income tax changes are dominated by the imposition of an income levy, which will yield €1,180 million. Further savings of €160 million arise from the standard rating of health expenses relief and a new car parking levy. The only cost item is an increase in the standard rate tax bands (€200 million). Changes made in mortgage interest relief are on a revenue-neutral basis.

2. Impact of tax/welfare changes on income distribution

The aggregate effect of budgetary tax/welfare changes is to reduce total household income by €925 million, compared with a budget which indexes welfare rates and tax credits/bands in line with wage growth.^{4 5} This equates to a decline in average household income of 1.1 per cent (€7.40 per week). The key question from an equity perspective is how this loss is shared across income groups, as measured by percentage change in disposable income.⁶ Diagram 2 shows the impact on households ranked in equal size groups from the poorest 10 per cent to the richest 10 per cent (referred to as income deciles).^{7 8} The bottom 30 per cent of the population see small improvements in their position of around 0.4 per cent, equivalent to €1 per week. By contrast, middle and higher-income households record losses of between 1 and 1.7 per cent (ranging from €4 to €30 per week). These findings indicate that Budget 2009 maintains the position of low-income households, while penalising better-off households to a modest extent.

Diagram 2: Percentage change in disposable income compared to wage-indexed budget by income decile



⁴ For this analysis of Budget 2009, the 2008 tax and welfare rates are increased by 2.5 percent, the wage growth forecast for 2009. This benchmark gives a similar increase in income for all population categories in line with growth in national income. Such a budget is both distributionally-neutral and maintains the overall share of taxes and welfare expenditure as a percentage of GNP. Other approaches (eg the Department of Finance) examine budget changes against a backdrop of no policy change, ie welfare and tax rates are frozen in nominal terms based on the previous year's budget. This is misleading in that it assumes a starting point of losses in real income for those depending on welfare payments, as inflation erodes the real value of fixed nominal payments. At the same time income growth with fixed credits and bands means that taxes rise as a proportion of income ('fiscal drag').

⁵ Most budgetary changes in income tax and social welfare are incorporated into the SWITCH model, including all rate changes. However, changes in eligibility rules are not included.

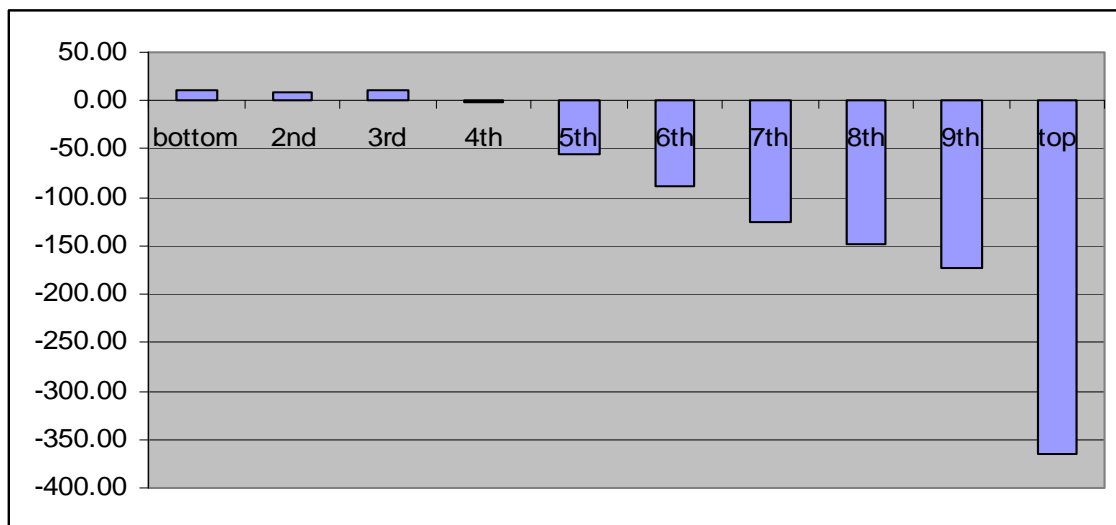
⁶ Percentage change rather than cash amount is the key indicator of distributive effect. The cash amount is also provided, however.

⁷ The weekly equivalised net income of these deciles is: bottom <= €202; 2nd <= €229; 3rd <= €274; 4th <= €325; 5th <= €389; 6th <= €456; 7th <= €529; 8th <= €631; 9th <= €801; top > €801

⁸ The distributive analysis focuses on the first-round impact of budgetary changes, based on the technical assumption of no change in behaviour.

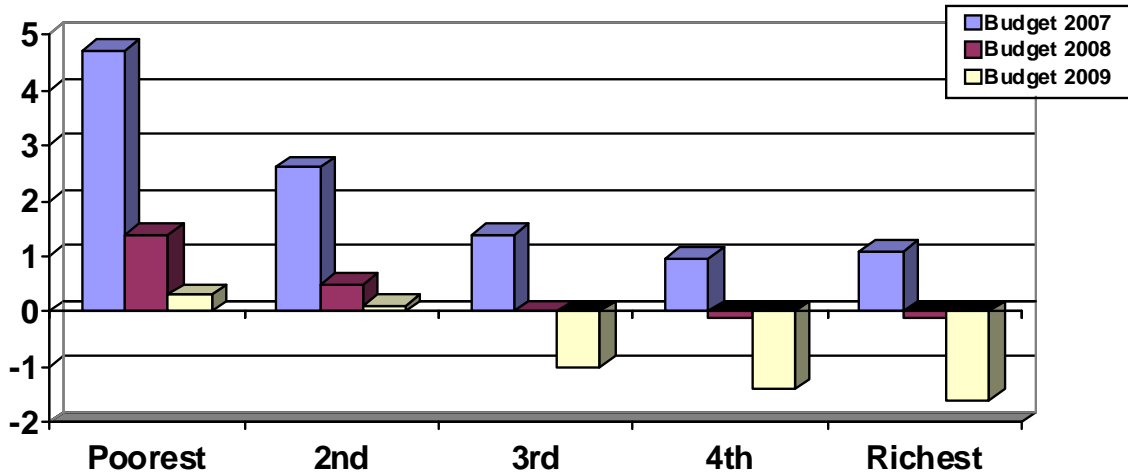
In Diagram 3, we look at the aggregate change in disposable income across income deciles. This reveals the volume of resources going to or coming from each income decile. The poorest 30 per cent of households gain a total of €30 million. Middle and higher income households contribute €953 million to the Exchequer, mainly through high taxes. The main contribution comes from the richest decile: €365 million, almost 40 per cent. This shows the scale of income redistribution arising from the tax/welfare changes in Budget 2009, though the main beneficiaries are not the poor, but the Exchequer.

Diagram 3: Aggregate change in disposable income compared to wage-indexed budget by income decile



How does the distributive impact of Budget 2009 compare to previous years? Diagram 4 illustrates the distributive impact of the last three Budgets, 2007 to 2009. This time the population is broken this time into five income groups for ease of comparison. This shows two main trends. First, the distributive benefits of budgetary policy have reduced for all income groups since 2007 by an average of 2.5 percentage points. The poorest fifth of the population has been affected more than all other groups, with a fall over four percentage points in their gains. Second, the modest gains received by middle and better-off households in Budget 2007 have been more than negated by the losses in Budget 2009, leaving them slightly worse off over the three year period. By contrast, the earlier gains for the bottom 40 per cent of the population have been consolidated to give a cumulative improvement of 3 to 6 per cent.

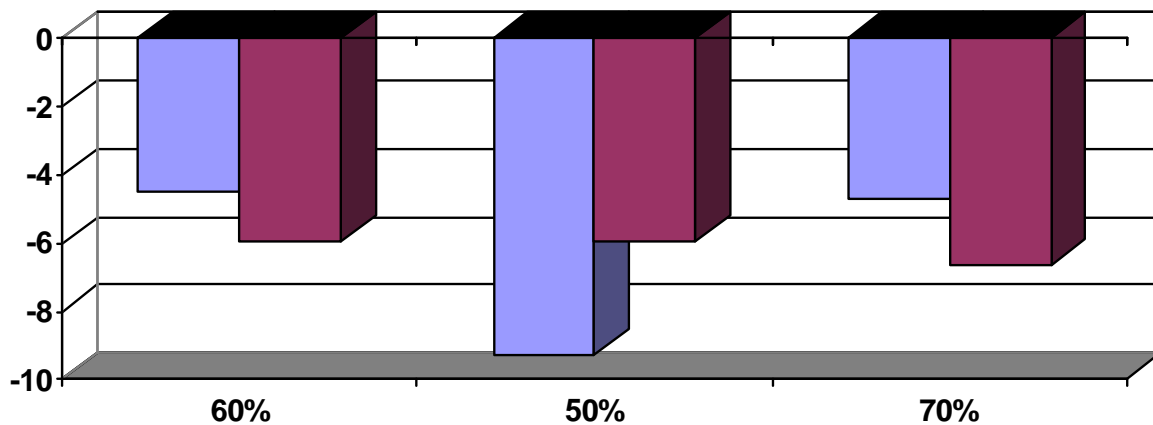
Diagram 4: Percentage change in disposable income compared to a wage-indexed budget by income quintile, Budgets 2007-2009



3. Impact of tax/welfare changes on poverty

How does the distributive pattern described above affect the numbers in poverty? This is shown in Diagram 5 using the official EU at-risk-of-poverty measure of 60 per cent of median income, along with two alternative thresholds of 50 per cent and 70 per cent of median income to give a fuller picture.⁹ To begin, we can note that median income – and hence the poverty threshold – is 1.5 per cent less than under a wage-indexed budget.¹⁰ Looking at the population below the post-Budget thresholds, there is a modest reduction in the numbers in poverty. At 60 per cent of median income, the fall in the poverty rate is 4.5 per cent. In addition to changes in the headline poverty rate, another indicator is the depth of household poverty, ie the extent to which people are below the various income thresholds (known technically as the poverty gap). As a result of Budget 2009, the poverty gap falls by 6 per cent at the 60 per cent threshold.

Diagram 5: Percentage change in income poverty (60%, 50% and 70% thresholds) compared to wage-indexed budget



⁹ It is not possible to model the poverty effect using the consistent poverty measure.

¹⁰ The cash equivalent of 60 percent of median income for a single person is €257 per week. The 50 and 70 per cent thresholds are €214 and €300 respectively.

The decline in poverty risk is greater at the lowest (50 per cent) threshold, with a fall of 9 per cent, while there is a decrease of 6 per cent in the poverty gap. At the 70 per cent threshold, there is a reduction in the numbers in poverty of 5 per cent. The poverty gap decreases by 7 per cent.

The main driver of this poverty decline is the reduction in the poverty thresholds, as the incomes of the poorest households are largely unchanged under Budget 2009. Thus, the fall in poverty is the indirect outcome of higher income taxes rather than major improvements in welfare rates.

4. Impact of the Budget over the lifecycle

Recent government policy on poverty has adopted a lifecycle approach which places the individual at the centre of policy development and delivery.¹¹ It is therefore relevant to look at the changes in disposable income arising from Budget 2009 in terms of family type and demographic group. In Table 1, family type is differentiated by employment status and household composition. Generally, unemployed households gain slightly from the Budget, while those in employment are losers. This reflects the increases in welfare payments, while those in work are burdened by higher income taxes. There is little difference in the treatment of households with children and those without, as well as between households with different adult combinations. The group which experiences the greatest loss is dual earning couples with children, whose income falls by 1.6 per cent or €23 per week.

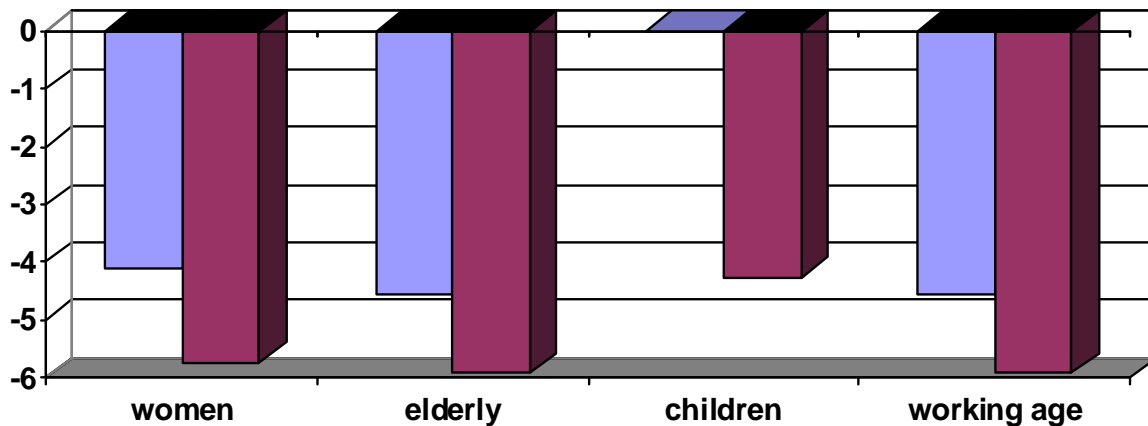
Table 1: Change in disposable income by family type, compared to a wage-indexed budget

	%	€
single employed, no child	-1.35	-7.08
single unemployed, no child	0.27	0.58
employed lone parent	-0.63	-3.98
non-earning lone parent	0.18	0.65
single retired tax unit	0.44	1.33
single earner couple, no child	-1.24	-10.32
single earner couple, with child	-1.32	-12.50
dual earner couple, no child	-1.37	-17.95
dual earner couple, with child	-1.62	-23.35
dual earner couple, with relative	-1.38	-10.60
non-earning couple, no child	0.44	1.76
non-earning couple, with child	0.04	0.26
retired couple	-0.09	-0.57
Other	0.18	0.33
All	-1.12	-7.30

¹¹ National Action Plan for Social Inclusion 2007-2016

We can also look at the poverty impact of the Budget for women, children, older people and people of working age. Diagram 6 shows that all groups bar children experience a decline in poverty of between 4 and 5 per cent. The poverty risk for children is unchanged, reflecting the cuts in child income support. A more consistent pattern is apparent for the poverty gap, with a decline of between 4 and 6 per cent being recorded for all social groups.

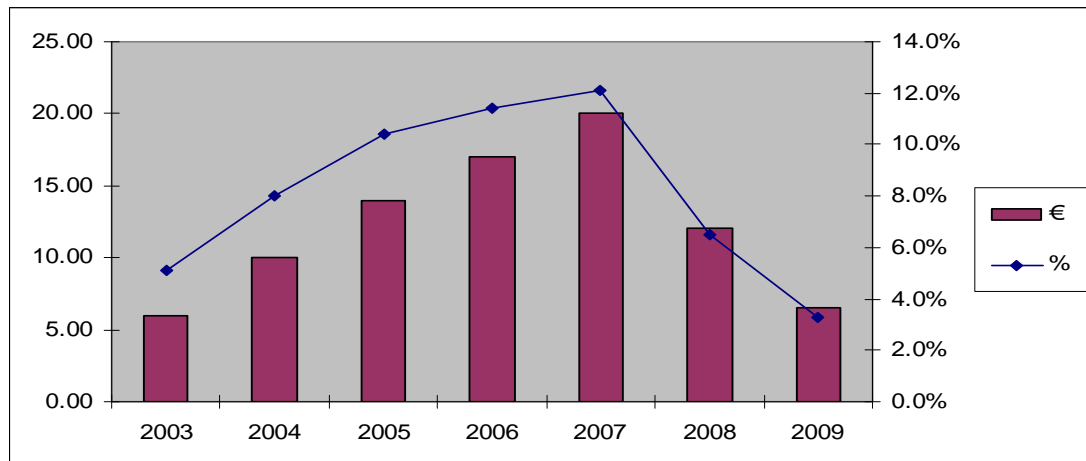
Diagram 6: Percentage change in income poverty (60% threshold) for demographic groups, compared to wage-indexed budget



5. Welfare payments

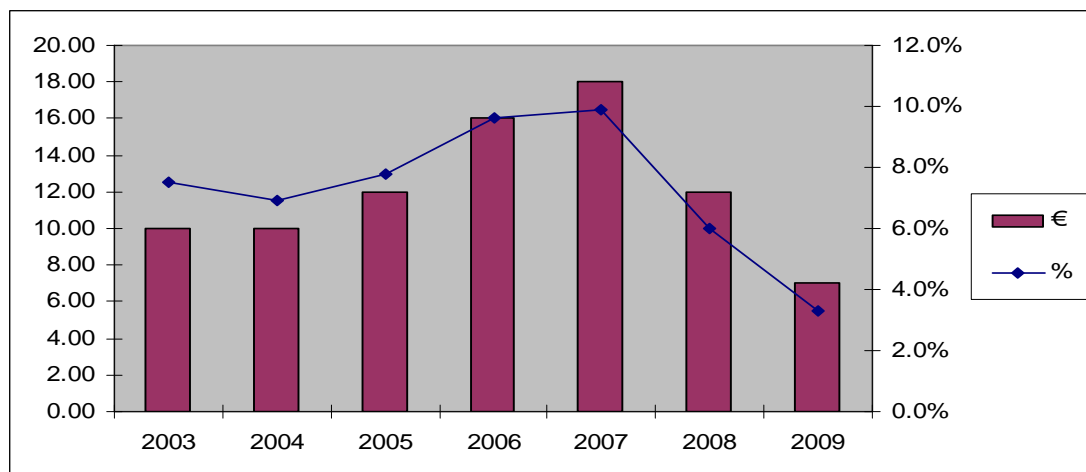
The analysis now looks at specific policy changes, beginning with welfare payments. The Budget increased welfare rates by €6.50 on the minimum welfare rate and €7 on the state pension (equivalent of 3.3 per cent). How these increases compare to welfare improvements in recent Budgets is presented in diagram 7. The increases provided in Budget 2009 are comparable only to Budget 2003, which featured a €6 per week increase. All other years show substantially higher rate increases. Budget 2009 continues a downward trend in welfare increments since the peak increase of €20 in 2007. The comparison in percentage increase is more stark, with the 2009 increase of 3.3 per cent the lowest in recent years. The previous lowest was 5 per cent in 2002, while the peak was 12 per cent in 2007. The backdrop to the higher increases in the period 2003-2007 was the policy commitment to a minimum welfare payment of €150 per week. There is no similar target figure to cover the budgetary period 2008-2012.

Diagram 7: Change in basic welfare rate, 2003-2009



The pattern is repeated with regard to the state pension (non-contributory) (Diagram 8). The €7 increase in 2009 is the lowest increase for the last seven years, with the next lowest increase being €10 per week in 2003 and 2004. In percentage terms, the 3 per cent increase is between a half and a third of the rate increases in recent years.

Diagram 8: Change in state pension (non-contributory), 2003-2009



What will be the effect of the lower rate increases in Budget 2009 on welfare adequacy? One measure of adequacy is to maintain the relative value of welfare rates, which is main government welfare commitment in the *National Action Plan for Social Inclusion*. One way of assessing this is to relate the welfare increases with the forecast inflation for 2009 of 2.5 per cent (down from 4.5 per cent in 2008). However, we also need to take account of the composition of inflation for 2009. Up until recently, food and energy costs have been the main drivers of higher inflation, increasing by between one and a half and two times the average rate of inflation. These higher basic costs

impact most on low-income households, who spend a greater share of their household income on these items (a third on food, a tenth on energy). Combat Poverty estimates that the average inflation rate needs to be adjusted by a factor of 1.44 and 1.66 to reflect this pattern, suggesting an inflation rate for low-income households of between 3.6 and 4.5 per cent next year. This would imply a small decline in the relative value of welfare payments in 2009.

In this context, we can note the increase in the fuel allowance in Budget 2009 of €100 per annum or 19 per cent. Combined with the increase in the personal welfare rate, this gives a cumulative gain of 4.1 per cent for a single person household. However, the problem of rising fuel costs is a deeper problem than low income alone and, as implied by the term fuel poverty, involves issues to do with domestic energy efficiency and energy pricing policy.¹² The funding of €5 million in the Budget for the Warmer Homes Scheme is therefore to be welcomed. However, given that up to 20 percent of households are estimated to be at risk of fuel poverty, further government intervention is required. The report of the recently established departmental working group on fuel poverty will hopefully set out a comprehensive strategy on this issue.

Similar issues arise with regard to food costs and the wider problem of food poverty.¹³ As yet, little policy attention has been devoted to food poverty in the Irish context, outside of limited schemes such as school meals. Further action is needed to address the higher costs of food facing low-income groups and the limited availability of healthier food choices in poorer neighbourhoods.

Another criterion that can be used to assess welfare adequacy is the income required to provide a minimum acceptable living standard. Research by the Vincentian Partnership for Social Justice shows that only 15 out of a sample of 27 low-income household types are able to afford minimum essential budgets in 2008.¹⁴ The remaining 12 household types experience significant shortfalls and are vulnerable to indebtedness in order to make ends meet. It is unlikely that there will be any change in this situation post-Budget 2009.

We can also comment on the government's target for the state pension of €300 per week by 2012. Following Budget 2009 (the second of a five-year budgetary cycle), there is a shortfall of between €70 and €80 per week compared to the 2012 target. Achieving the €300 target over the next three Budgets would require annual increases of €23 and €26 per week, an unlikely scenario given the deterioration in the Exchequer finances.

Budget 2009 contains a number of measures which will impact negatively on unemployed households and those in receipt of the rent and mortgage supplement. There are two restrictions on eligibility for the jobseeker's benefit: applicants will have to have a minimum two-year employment history to claim the benefit and the duration of the benefit will be one year. These changes will compound the financial difficulties facing those who lose employment in 2009.

¹² Healy, J (2003), *Fuel poverty and policy in Ireland and the European Union*, Dublin: Policy Institute and Combat Poverty Agency

¹³ Fried, S and Conlon, C (2004), *Food poverty and policy*, Dublin: Combat Poverty Agency

¹⁴ See www.budgeting.ie

It will also mean a greater exposure to poverty traps for the unemployed who are only eligible for the means-tested jobseeker's allowance. This is likely to be especially acute for spouses of claimants of jobseeker's allowance. Finally, the minimum contribution by welfare recipients to the rent and mortgage supplement was increased by €5 per week to €18. This change effectively negates the improvement in the personal welfare rate for the 72,000 households in receipt of the supplement.

6. Child income support

The main budgetary measure for children is an increase of €2 per week (8.3 per cent) in the qualified child allowance for families on welfare payments. Other targeted improvements for children are €6 per child increase in the family income supplement and a more generous income assessment for the clothing and footwear allowance (which should add 18,000 beneficiaries). There is no rate adjustment in the main instruments of child income support, child benefit and the early childcare supplement. This dilutes the improvement in the total child income package for welfare-dependent families to between 2 and 3 per cent.

The Budget also introduced restrictions on eligibility to child benefit and the early childcare supplement by dropping the age cut-offs (19 down to 18 years for child benefit and 6 down to 5.5 years for the early childcare supplement). This will result in losses of between €21 and €38 per week, though the immediate impact will be alleviated for welfare-dependent families through temporary measures until 2010.

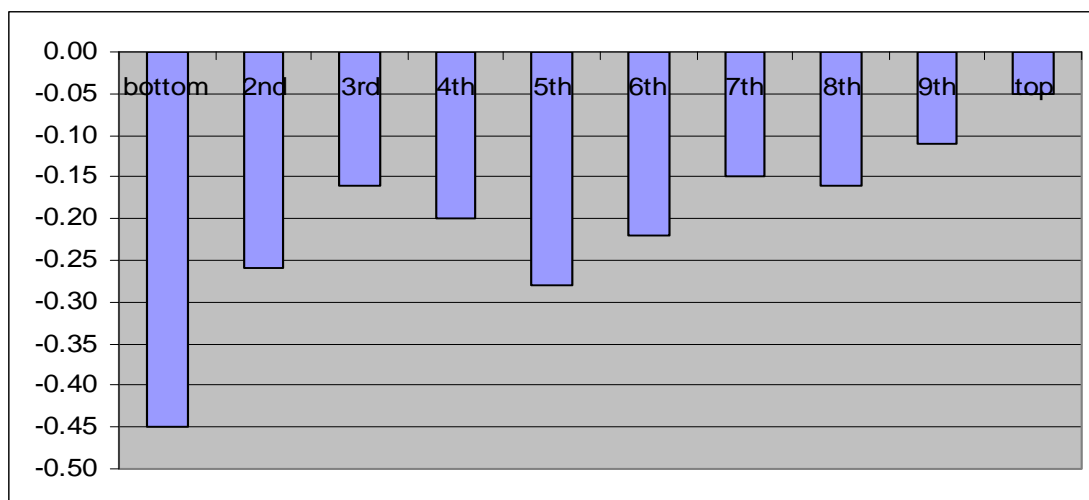
In this context, it is informative to look at the distributive effect of the full range of child income measures to come into effect in 2011.¹⁵ These combined measures result in an aggregate loss in household income of €126 million per annum compared with a wage-indexed budget. This equates to an average loss of 0.15 per cent per household or €1.05 per week.¹⁶ Diagram 9 shows that households across the income range are affected by these changes.¹⁷ However, the bottom two deciles are the worst affected in proportionate terms, with percentage losses of between 0.25 and 0.45.

¹⁵ For technical reasons, the age reduction in the early childcare supplement is modelled as a half payment for all children aged 5 years. Transition measures are excluded.

¹⁶ This is across all households, not just those with children.

¹⁷ These findings are averaged across all households, including those without children, which dilutes the full impact on affected households.

Diagram 9: Percentage change in disposable income arising from changes in child income support, compared to wage-indexed budget

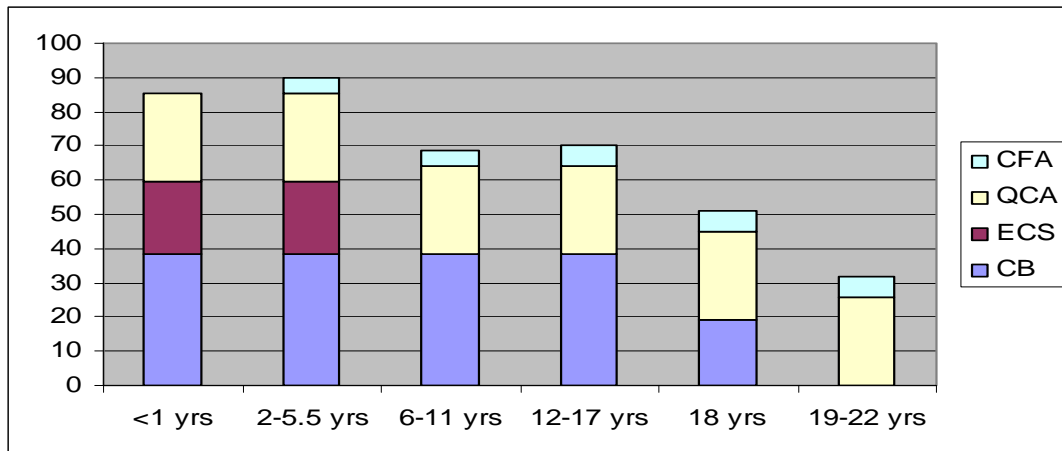


As would be expected, the losses are accentuated when the impact on families with children is examined. Now the percentage loss is up to 0.5 per cent. There is also a negative impact on the at-risk-of-poverty rate, with a 20 per cent increase in the number of children falling below the lowest (50 per cent) income threshold.

The rates and component parts of child income support post-Budget 2009 are detailed in diagram 10 below. There are now six different rates of child income support for welfare-dependent children depending on the age of the child.¹⁸ Furthermore, these rates incorporate a wide fluctuation in amount provided. In general, the level of support decreases from a high of €85-€90 for younger children to a low of €32 for dependent 'children' aged 20 to 22 years.

¹⁸ Included in this are the transitional measures for children aged 18 years.

Diagram 10: Rates and composition of child income support (€ per week)



The government target is to maintain rates of child income support at between 33-35 per cent of the adult welfare rate. This is either met or surpassed for children up to the age of 17 years.¹⁹ For older children, the equivalent percentage is 16 and 25 per cent, well below the target level. Another perspective on the adequacy of child support is to relate the different rates of payment to the needs of children. Here, there is evidence that the reduced rates for older children runs counter to their greater costs and higher poverty risk. This is reflected in

- the 30 to 80 per cent higher costs associated with raising older children²⁰
- the income shortfalls of between €44 and €123 per week in the minimum essential budget for families with older children²¹
- the high at-risk-of-poverty rate for older children (12-18 years) of 25.5 per cent, which is 1.5 times that of younger children (0-5 years).²²

Another feature of the child income system is the mixture of payment instruments, as also indicated in diagram 10.²³ A defining feature of child income supplement is the mix of means-tested and universal payments. Universal benefits account for the majority of total child support for children up to age 18 years (between 55 and 70 per cent), though this share will have

¹⁹ The percentage figure for younger children is between 42 and 44 per cent. It is in the region of 34 per cent for children aged 6 to 18 years.

²⁰ From the Combat Poverty study on the cost of child carried out in 1992 (Carney et al, 1994)

²¹ The Vincentian Partnership for Social Justice research on minimum essential budgets found that household types containing older children have income shortfalls of between €44 and €123 per week, compared to surpluses for similar household types with younger children (www.budgeting.ie). These studies exclude indirect costs, such as childcare.

²² Combat Poverty's in-house analysis of EU-SILC shows that the at-risk-of-poverty rate for children aged 12-18 years is 25.5 per cent, compared to 22.9 per cent for children aged 6-11 and 16.8 per cent for children aged 0-5. The rate of consistent poverty for older and younger children is roughly identical at between 10 and 12 per cent.

²³ Only four are included here: child benefit, early childcare supplement, qualified child allowance and clothing and footwear allowance. The fifth measure is the family income supplement. Including the family income supplement increases the diversity of rates.

decreased under Budget 2009. Means-tested payments are the sole delivery mechanisms for dependent ‘children’ aged 19 to 22.

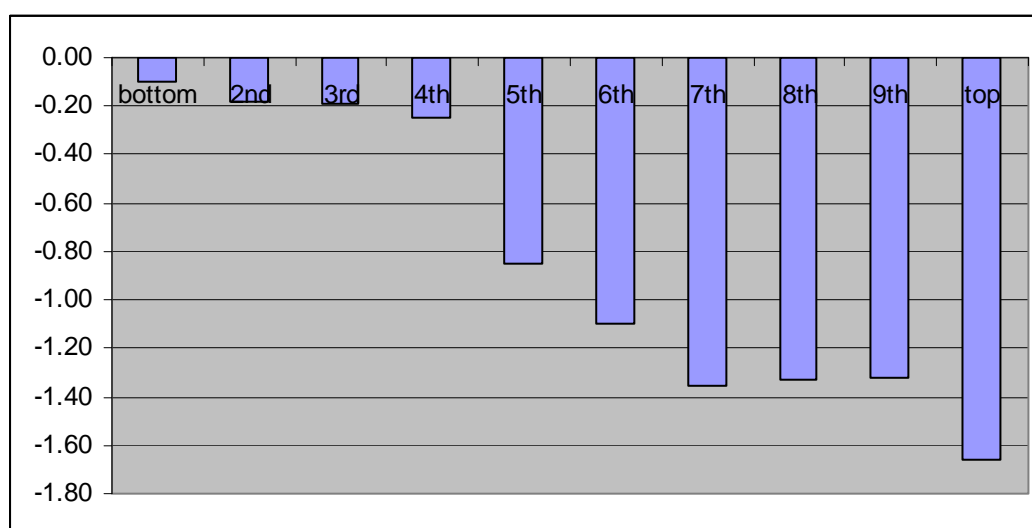
Payments are also differentiated by the frequency of payment, to whom the payment is made and the method of payment.²⁴ It would be important to know if different policy instruments affect the use of resources for the benefit of children. Also, the administrative cost and the take-up level of the different payment instruments is not well documented.

One final feature of Budget 2009 relating to child income support is the withdrawal of funding under the school books scheme for low-income children attending non-DEIS schools. The withdrawal of this in-school benefit will result in losses of up to €50 per eligible child. This restriction runs counter to the decision to **widen** eligibility to the school-related clothing and footwear allowance.

7. Taxation

The burden of income tax will increase significantly as a result of Budget 2009. This arises from the failure to index personal and employee tax credits and the imposition of a new income levy at a rate of between 1 and 3 per cent, depending on earnings. The only relieving measure was an increase in the standard rate tax band of €1,000 per annum for a single earner. How are these measures likely to impact on income distribution? Diagram 11 isolates the distributive effect of the income tax changes in Budget 2009 compared to a wage-indexed budget. It shows that these measures result in total losses of €950 million. These losses average between 1 and 1.6 per cent for the richest 60 per cent of households (in cash terms, between €4 and €30 per week).

Diagram 11: Percentage change in disposable income arising from income tax changes, compared to wage-indexed budget



²⁴ In the Budget, the early childcare supplement was changed from a quarterly payment to a monthly payment. The rationale for this change was not outlined. The supplement will continue to be paid separate to the other monthly payment, child benefit.

A feature of the income tax proposals was the introduction of a new tax instrument rather than the adjustment of existing tax rates. An alternative way to deliver the same revenue would have been to increase the standard tax rate by 1 per cent and the top rate by 2 per cent. In terms of distributive impact, this would have been more favourable to middle to upper income groups, while taking slight more from the richest decile. The rationale for the levy is not clear, except perhaps to emphasise its exceptional nature. It adds to the complexity of the tax system, however, as well as introducing a new poverty trap for the low-paid through the exemption of the minimum wage.

Another controversial policy choice was the decision not to index tax credits, while at the same time widening tax bands. This approach penalises the low-paid, who will pay more income tax in 2009 as earnings rise. This outcome runs counter to the tilting of the national wage agreement in favour of low-earners. Meanwhile widening the tax bands will benefit middle and higher earners. In this context, increasing tax credits would have been a fairer option.

In addition to higher income tax, taxes on consumption are increased significantly in the Budget. These include: an increase in the standard VAT rate by 0.5 per cent (€227 million), higher excise duty on petrol, tobacco and alcohol (€302 million), an air travel tax of €105 million and an increase in betting duty (€40 million). The total rise in tax revenue comes to €2,000 million. Research by Combat Poverty has indicated that indirect taxes, such as VAT and excise duty, have a disproportionate impact on low-income groups.²⁵ They will also dampen consumer demand.

A surprising omission from the Budget is any reform of the tax system in the light of falling revenues from property and corporation taxes and Ireland's low burden of taxation by European standards. Also, there continues to be significant losses to the Exchequer from various tax reliefs. Nor was there any move on the proposal for a carbon tax. The Commission on Taxation will have a critical role to play in addressing these reform issues. A new issue added to their brief from the Budget is to review the tax treatment of child benefit. For its part, Combat Poverty will examine the equity implications of this proposal in preparing its policy advice for Budget 2010.

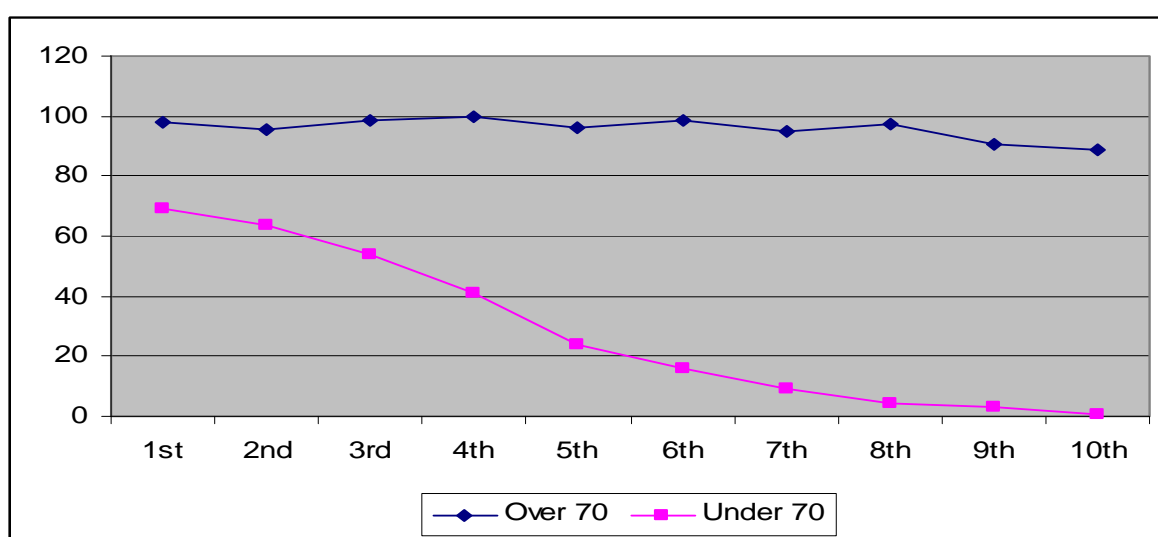
8. Medical cards

Access to medical cards was a major topic for public debate in the aftermath of the budget decision to introduce a means-test for medical cards for people aged 70 years and older, a reversal of the previous policy of universal coverage. The revised income thresholds for eligibility to a medical card for those aged 70 and over are €700 per week for a single person and €1,400 for a couple. These are significantly more generous than the income thresholds for people under 70 years, which are €184 for a single person and €266.50 for a couple. These different guidelines illustrate the continuing discrepancies in medical card coverage for two age cohorts of the population based on income status. To illustrate this, medical card coverage is presented in diagram 12 for

²⁵ Alan Barrett and Caeman Wall (2006), *The distributional impact of Ireland's indirect tax system*, Dublin: Combat Poverty Agency

these two age cohorts, broken down by income decile from poorest to richest.²⁶²⁷ For those aged 70 and over, there is virtually 100 per cent coverage across all income categories. By contrast, for those aged under 70 years, medical card coverage is strongly correlated with income. Up to 70 per cent of the population at the lowest income decile have a medical card. Thereafter, coverage declines rapidly as household income rises, with in the region of 20 per cent of the population having a medical card in middle income groups. For the richest 40 per cent of the population, medical card coverage tapers off on a gradual basis from 10 per cent down to 1 per cent.

Diagram 12: Medical card coverage by income decile for those aged 70 and over and those under 70 years (EU SILC 2006)



There are two policy issues arising from these findings. First, there is a wide variation in medical card coverage for households with similar income levels. This is not to suggest that all people aged 70 and over should not have medical cards. Rather, it questions why the income situation of those under the age of 70 years should be assessed in a different manner to older people. The proposed reforms in medical card provision for over 70s only alters this pattern to a limited extent, as it is expected that up to 90 per cent of those aged 70 and over will retain their medical card compared to universal entitlement.

Second, between 30 and 60 per cent of low-income people under 70 years do not qualify for a medical card. This is a high rate of non-coverage for low-income groups. At the same time and rather surprisingly for a means-tested benefit, medical card coverage extends well up the income range. This may

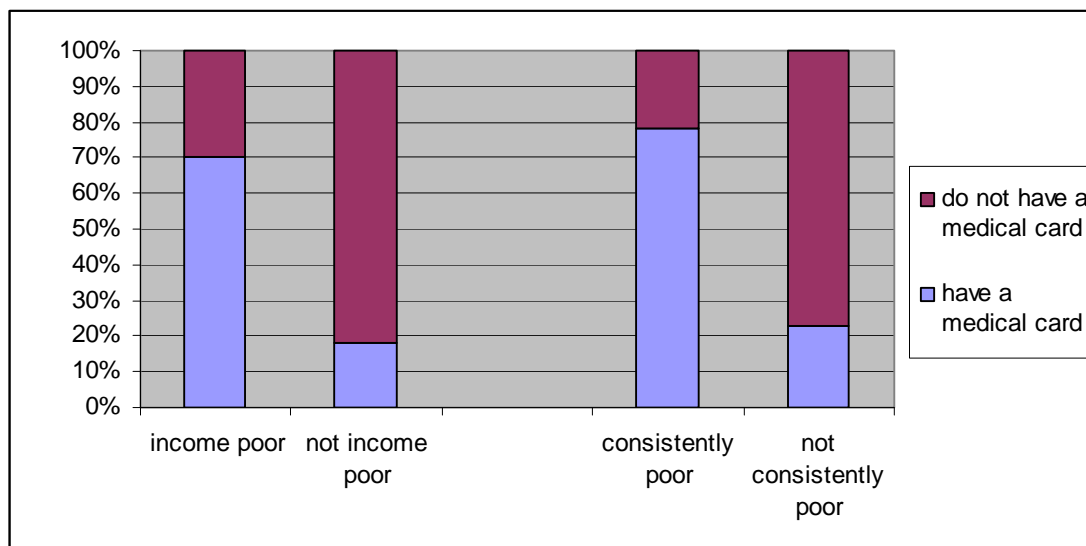
²⁶ These data are reported in a forthcoming report by Patricia Kielthy, Combat Poverty Agency, on medical card coverage and are based on the EU Survey on Income and Living Conditions, 2006, undertaken by the Central Statistics Office.

²⁷ The weekly equivalised net income for these deciles is: bottom <= €174; 2nd <= €213; 3rd <= €248; 4th <= €291; 5th <= €338; 6th <= €390; 7th <= €448; 8th <= €537; 9th <= €684; top > €684.

be related to the discretionary clause within the medical card scheme. However, it is hard to explain the significant level of coverage - 20 per cent of those on a middle income and between 1 and 10 per cent of higher income groups – by reference to a discretionary clause.

A further perspective on medical card coverage can be got by looking at those in poverty. Ensuring coverage for this category would be expected to be a priority in government policy, especially given the well-documented links between poverty and ill-health.²⁸ Diagram 13 shows that 30 per cent of the population below the 60 per cent at-risk-of-poverty threshold do not have medical card (equal to 220,000 people, including 45,000 children). More surprisingly, 22 per cent of those in consistent poverty do not have a medical card (equal to 64,000 people, including 14,500 children). At the same time, significant percentages of the non-poor population have a medical card: 18 per cent of those not in income poverty have a medical card and 23 per cent of those not in consistent poverty have a medical card. Again, this is not to suggest that only those in poverty should have a medical card. Rather, it points to a policy anomaly if significant proportions of those in poverty do not have a medical card, while at the same time a fifth of the non-poor do have medical cards.

Diagram 13: Medical card coverage by poverty status



These findings highlight the need to review the income eligibility criteria for the population aged under 70 years. As well as raising the thresholds, the income allowances provided for households with two adults and those with children should be increased to reflect household need.

²⁸ Layte, R et al (2007), *Poor prescriptions. Poverty and access to community health services*, Dublin: Combat Poverty Agency

9. Conclusion

Budgetary policy has a key role to play in tackling poverty. In a deteriorating fiscal context, Budget 2009 has maintained the position of low income households, while imposing losses on the better-off. The rate of income poverty has fallen to a minor degree, albeit on foot of a drop in poverty thresholds rather than higher welfare payments. There is concern, however, that this position may be undermined by the regressive components of recent inflation trends. This highlights the need to ensure that the vulnerable position of low-income consumers is protected by providers of public and private goods. Structural problems such as fuel and food poverty require targeted interventions as well as additional cash payments.

The dis-improvement in the position of households with children is of particular concern. We find that the targeted improvements in child income support do not compensate for the cuts in universal schemes. It is important that efforts to tackle child poverty are continued and even intensified at a time of economic downturn, so as to ensure that social problems do not emerge as a drag on individual opportunity and economic development down the line.

The government's financial situation makes a decisive impact on income poverty more difficult to achieve. Looking forward, further action will depend on additional resources being sourced from structural reform of the tax system, including the curtailment of tax avoidance opportunities and the introduction of new property and environmental taxes.

The ongoing rise in unemployment poses a severe threat to the reduction of poverty levels. The high risk of poverty associated with unemployment highlights the need to ensure people who lose their job are supported through appropriate training and educational interventions to quickly return to work.