

Analysis of Budget 2005

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Why a CPA budget analysis?

- remit of CPA to promote evidence-based policy making to combat poverty; annual Budget is main tax/welfare policy platform
- assessing poverty impact of Budget 2005 is a requirement of NAPS; seek to build on Dept Finance partial analysis using SWITCH model
- complements CPA pre-Budget submission: was our advice taken and if not, why not?

Budget 2005: an overview

- 3rd budget of NAPS 2/new government
- economic context much improved ('04/'05)
- tax/welfare package of €1,570m (+71% on '04)
- welfare €874m (+39%); tax €694 (+50%)
- also significant disability package + medical card improvements in BoE
- total social inclusion spend of €20.7 billion

Welfare changes

- €14 on lowest payments < 66 (9-10%)
- €12 on higher payments > 65 (7-8%)
- significant change compared to '03/'04
 - higher amounts (€6/€10 to €12/€14)
 - different priorities (lower payments get more)
- €7.90 and €9.30 for qualified adult
- cost is €738m, including targeted improvements for CA, half-rate CDAs, UA and SWA of €60m

Progress on NAPS income target

Year	Budget increase	Lowest rate	Target amount	Gap
2002		€18.80	€50	€31.20
2003	€6	€24.80	€55.25	€30.45
2004	€10	€34.80	€58.67	€23.87
2005	€14	€48.80	€62.63	€13.83
2006	€10.80	€59.60	€66.54	€6.94
2007	€10.80	€70.40	€70.37	-

Child income support

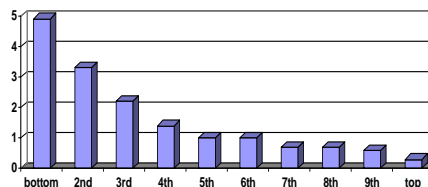
- €10 per month CB, €12 on higher rate (7%)
- CB now €141.60 pm or €32.55 pw (€177.30 or €40.76 for higher rate)
- €8 shortfall on 2003 target of €149.20; adjusted by inflation target is €160, therefore gap is €19
- CB/CDA package + 5% (in line with wages)
- equivalence now 32-33%, below target 33-35%
- FIS + 9.6%
- CB cost €136m

Tax measures

- €230 on EE tax credit (22%)
- €60/€120 on personal tax credit (4%)
- €1,400 to widen tax band (5%)
- €44 on health levy threshold (12%)
- full exemption of minimum wage
- cost €682m, including targeted reliefs of €100m

Distributive impact of Budget 2005

[compared with wage-indexed 'neutral' budget (4.5%); % change by equivalised disposable income per decile]



Main details

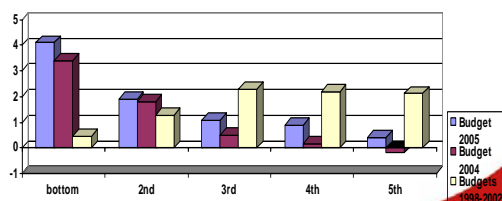
- average gain of 1% or €5.42 per adult from additional €600m
- bottom 40% gain more (up to 4.9%); cash €5.50-€6.50
- top 40% get slightly less (0.4-0.7%); cash €4-€5
- pro-rata share-out of total resources: 45% to bottom 4 deciles; 35% to top 4 deciles
- non-working families do best; those with children gain less than those without

Key factors

- additional welfare package of €364m; this mainly benefits lower incomes
- significant additional tax allocation (€232m); goes to better-off as provide most tax revenue
- child benefit only increased by additional €53m; this is spread out across all households

Distributive impact of Budget 2005 compared to Budgets '04 + '98-'02

[compared with wage-indexed 'neutral' budget; % change by equivalised disposable income per quintile]

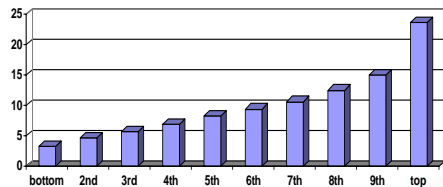


Comparative perspective

- Budget 2005 three-times as generous as 2004
- both favour low-income groups; but Budget 2005 also had benefit for better-off (less targeted)
- major contrast to Budgets 1998-2002 in terms of distributive effect and scale of resources
- recent Budgets have long way to go to address inequalities in income distribution, which are especially wide in comparative terms (ratio top-to-bottom of 4.57, compared to norm of 4.10)

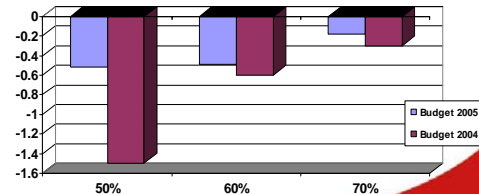
Income distribution in Ireland 2001

(% share of equivalised disposable income per decile)



Impact of Budgets 2005 + 2004 on relative income poverty

(compared with wage-indexed 'neutral' budget; % change at 50%, 60% and 70% of median income)

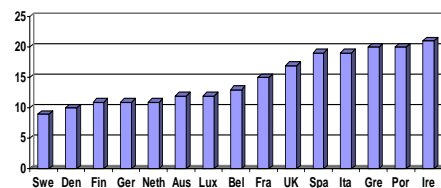


Poverty impact

- marginal fall of 0.5% at 50% & 60% lines; 0.2% at 70%
- comparable fall at 50% line in 2004 much higher (three times), though similar at other lines
- why? As all groups benefited, income threshold also rose, thereby off-setting welfare increases
- comparative Irish poverty rates the highest in EU: 21% Vs EU average of 13%
- cost €2.4 billion to get down to EU norm, which is over 8 times welfare allocation in Budget 2005

Relative income poverty in EU 2001

(% persons below 60% of median income)



Broader issues

- claw-back of welfare gains
- attention to regressive indirect taxes
- high cost of discretionary tax expenditures (€7 billion loss; inequitable benefits)
- SSIA a black hole (€2.5-€3 billion)
 - 8 times Budget 2005 welfare package; equivalent to cost of ESRI poverty reduction measures
 - weak analysis of its policy and distributive effects

Conclusions

- significant progress on welfare target; child benefit again deferred and devalued
- tax exemption of minimum wage a heavy price
- redistributive focus in Budget 2005, though similar cash gains for all income groups and families do less well whatever income source
- minimal impact on poverty rate
- fundamental problems not being addressed

Conclusions

- Ireland has economic capacity to achieve more equal society 'without pain', but growth dividend must be used in a more targeted manner
- need explicit policy focus on income poverty, rather than ad-hoc welfare or tax targets; SSIA 'windfall' shows missed opportunity
- address policy blindspots of indirect taxes and tax reliefs
- redefine child benefit as tax instrument

CPA budget proposals

- | <i>CPA proposals</i> | <i>Budget 2005</i> |
|--------------------------------------|-------------------------|
| • €12 personal rate | • €12/€14 personal rate |
| • €9 QAA | • €7.90 - €9.30 QAA |
| • €17.60 CB | • €10 CB |
| • Clothing/footwear and school meals | • no change |
| • €240 pa EE tax credit | • €230 EE TC + €60 PTC |
| • medical card | • medical card |
| • Early childhood education | • no change |

Main differences

- size and share-out of package: €1.2 billion Vs €1.57 billion (+30%); 74:26 Vs 56:44 welfare:tax
- hard to anticipate size of budget package
- absolute welfare packages similar, main difference is child benefit allocation
- significant change in welfare priorities
- smaller CPA package gives slightly more to bottom 40%; Budget 2005 has more for higher incomes
- better poverty impact: 1.5% Vs 0.5%

Distributive impact of Budget 2005 compared to CPA proposals

[compared with wage-indexed 'neutral' budget (4.5%); % change by equivalised disposable income per decile]

