

Analysis of Budget 2006

Jim Walsh
 Head of Research and Policy

CPA analysis of Budget 2006

- analysis part of CPA policy advisory role; complements pre-budget submission
- assessing poverty impact of budget is a requirement of NAPS (builds on Dept Finance analysis)
- use tax-welfare simulation model (SWITCH)
 - representative sample of population
 - compare outcome with wage-indexed neutral budget
 - first round impact (no behaviour change)

Summary of tax/welfare package in Budget 2006 (full year)

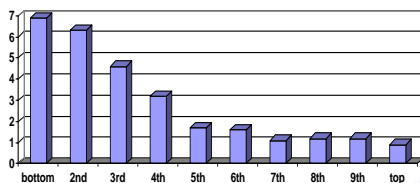
Category	Measures	Cost	Total cost (%)	Cost net of wage indexation ¹
Social welfare	Personal rates	€744m	€958m (41%)	€554m (44%)
	Qualified adult rates	€64m		
	Other	€150m		
Child support	Child benefit	€109m	€507m (21%)	€382m (31%)
	Family income suppl't	€25m		
	Early childcare suppl't	€353m		
	Other	€20m		
Income tax	Tax credits	€381m	€887m (38%)	€312m (25%)
	Rate bands	€456m		
	Other	€52m		
All			€2,352m	€1,248m

Distributive Impact

- divide population into equally sized income groups, from poorest to richest (deciles/quintiles) based on income sharing unit
- weekly gain is €10.80 per unit
- 2nd-4th deciles do best: €13-€14.50; also top decile
- 5th-8th deciles lowest (€7-€9)
- almost half of total resources to bottom 40%
- contextualise by looking at percentage gain

Distributive impact of Budget 2006

(compared with wage-indexed 'neutral' budget; percentage change in disposable income by decile)

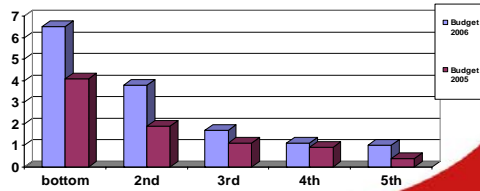


Distribution by family type

- distinguish households by composition/income source
- gains now more concentrated
- Non-earning households, esp with children, get €14 to €34 per week
- Single and dual earners less well, except where children (LPs/SEC/DEC - €21)
- Worst are SEMNC and DENC

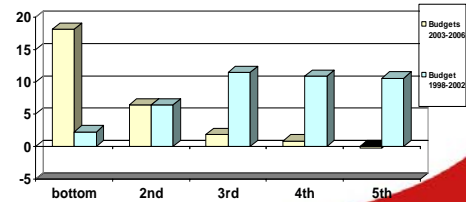
Distributive impact of Budgets 2005/6

(compared with wage-indexed budget;
percentage change in disposable income by quintile)



Distributive impact of Budgets 2003-6 and 1998-2002

(compared with wage-indexed budgets;
percentage change in disposable income by quintile)

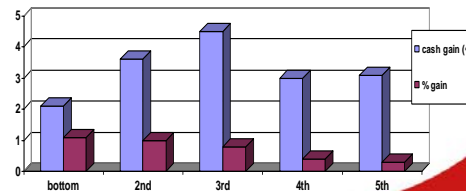


Distribution of child income measures

- €365 million new of wage indexation (29%)
- new policy; also child poverty concern
- average cash gain is €3.30
- average percentage gain is 0.5%
- losses for small minority
- family type gives better picture: €10-€18 pw or 4-5.5%
- ECS has similar outcome as child benefit

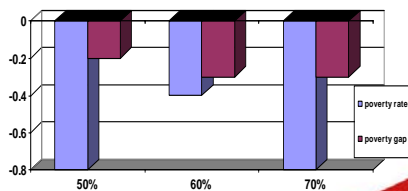
Distributive impact of child income measures in Budget 2006

(compared with wage-indexed budget;
percentage change in disposable income by quintile)



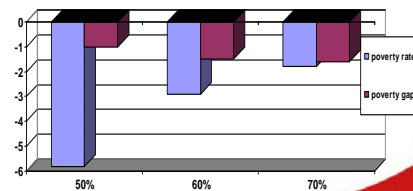
Effect on income poverty in Budget 2006

(compared with wage indexed budget; change in poverty rate
and poverty gap at various median income thresholds)



Effect on income poverty in Budgets 2003-6

(compared with wage indexed budgets; change in poverty rate
and poverty gap at various median income thresholds)



Policy issues arising from Budget

- Welfare rates
- Child income support
- Other welfare reforms
- Taxation
- Pensions and savings
- Social expenditure

Minimum welfare target

Year	Welfare rate	Target amount (inflation)	Target amount (wages)
2002	€118.80	€150	€150
2006	€165.80	€167.02	€183.60
2007		€171.20	€191.86
Shortfall		€5.40	€26.06

Child income support

Category	CDA	FIS	CFA	CB	ECS	Total	Increase
Welfare < 6	16.80	-	2.30	34.50	19.15	72.75	43%
> 6	16.80	-	2.30	34.50	-	53.60	5%
Low paid < 6	-	40.82	2.30	34.50	19.15	96.77	
> 6	-	40.82	2.30	34.50	-	77.62	
Other < 6	-	-	-	34.50	19.15	56.65	74%
< 6	-	-	-	34.50	-	34.50	6%

Conclusions

- Key role of tax/welfare policy in redistributing resources and tackling income poverty
- Budget 2006 strongly redistributive, builds on previous three years
- Engine is high welfare rates + child supports
- Reduce poverty in line with EU norm
- Buoyancy and tax measures should ensure more of the same, without the pain!!