

ESRI Post-Budget Briefing

DATE

14th October 2020

Tax, Welfare & Pensions team

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Agenda

- 1. Budget tax & welfare measures**
- 2. Impact of pandemic on incomes**
- 3. Distributional, poverty and inequality impacts of Budget measures on households**

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Budget 2021 tax & welfare measures

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Record levels of spending to continue in 2021

Current spending will be c.25% higher than in 2019

- Public services & grants make up bulk of new measures
- But welfare spending will be €510m higher & taxes €265m lower because of policy changes announced on Tuesday

This presentation outlines these tax & welfare reforms

1. Direct tax (some tweaks and changes)
2. Indirect tax (more tweaks and changes)
3. Welfare payments (some significant reform)

Direct taxes on personal income

Most tax thresholds and bands frozen in cash terms

- Small effective tax rise given forecast inflation of 0.2%

But Minister for Finance did announce some tax cuts

- Increase in point main USC & employer PRSI rates begin to apply
- Extension of reduced USC rate for medical card holders
- Increase in some tax credits, notably for self-employed who will now pay same income tax as employees (but still far less PRSI)

Extension of various tax reliefs also announced

‘Enhanced’ Help to Buy to end of 2021 (+€43m)

- Introduced in 2016 to help First Time Buyers obtain a deposit
- Has cost >€300m to date vs anticipated cost of €130m
- 56% of claims for homes worth more than €300k
- 40% of claims had LTV <85% (i.e. already had deposit)
- Poorly targeted policy likely to fuel house price growth

Some other reliefs for companies and land-owners

- Knowledge Development Box; Film Relief; some Capital Allowances and various Stamp Duty Reliefs (unknown cost)

Like last year, more tweaks to indirect taxes

Well flagged €7.50/tonne increase in rate of carbon tax

- Evidence shows will reduce emissions with little economic cost
- Compensation measures informed by [recent ESRI research](#)

Cash freeze to excise duties except tobacco (+50c/pack 20)

- Ideally set to target social harms, not just raise revenue

Reduction in VAT on hospitality & hairdressing

- Forecast to cost €400m through to the end of 2021
- Timely, targeted and temporary?

Change in how cars registered from January are taxed

Vehicle Registration Tax (VRT) and motor tax

- Move to new system of emissions measurement post-'dieselgate'
- Reform to rate schedules for both VRT and motor tax

Does not address fundamental problems with system

- Improving emissions standards will continue to erode base:
>€3bn per year in revenue at risk in the coming decades
- Largest external cost of motoring is congestion in urban areas:
strong case for a road pricing or congestion charge

Welfare: most rates frozen but some targeted increases

Significant ↑ in Living Alone Increase & Fuel Allowance

- Will benefit low income & single retirees, as well as long-term recipients of certain welfare payments (esp. disability allowance)

Increase in payments for low-income adults with kids

- Cliff-edge removed from One-Parent Family Payment
- Maximum rate of Working Families Payment increased by €10pw
- €5/2pw ↑ in main welfare payments for each kid aged 12+/u12

These changes well targeted at reducing child poverty

Welfare: most rates frozen but some targeted increases

↑ in amount you can earn before Disability Allowance & PUP for self-employed (but not employees) means-tested

Xmas bonus for those receiving payments for >4 months

- Means some who lose job in coming weeks may be excluded

But biggest decision to delay rise in state pension age

- Costs €220m in 2021, potential much larger in long-run

Conclusions

Budget contained more policy changes than anticipated

- Lots of tweaks to both direct and indirect taxes
- Despite freeze to 'core' welfare rates, Social Protection changes significant and will act to reduce child poverty

But pales in comparison to role of automatic stabilisers

- Department of Social Protection spending set to be €25bn in 2021, more than double its 2019 level (€10.7bn)
- Vast majority of this extra spending not due to policy changes but the benefit system doing its job of supporting incomes

Post Budget Briefing

Distributional, poverty and inequality impacts

DATE

16th October 2020

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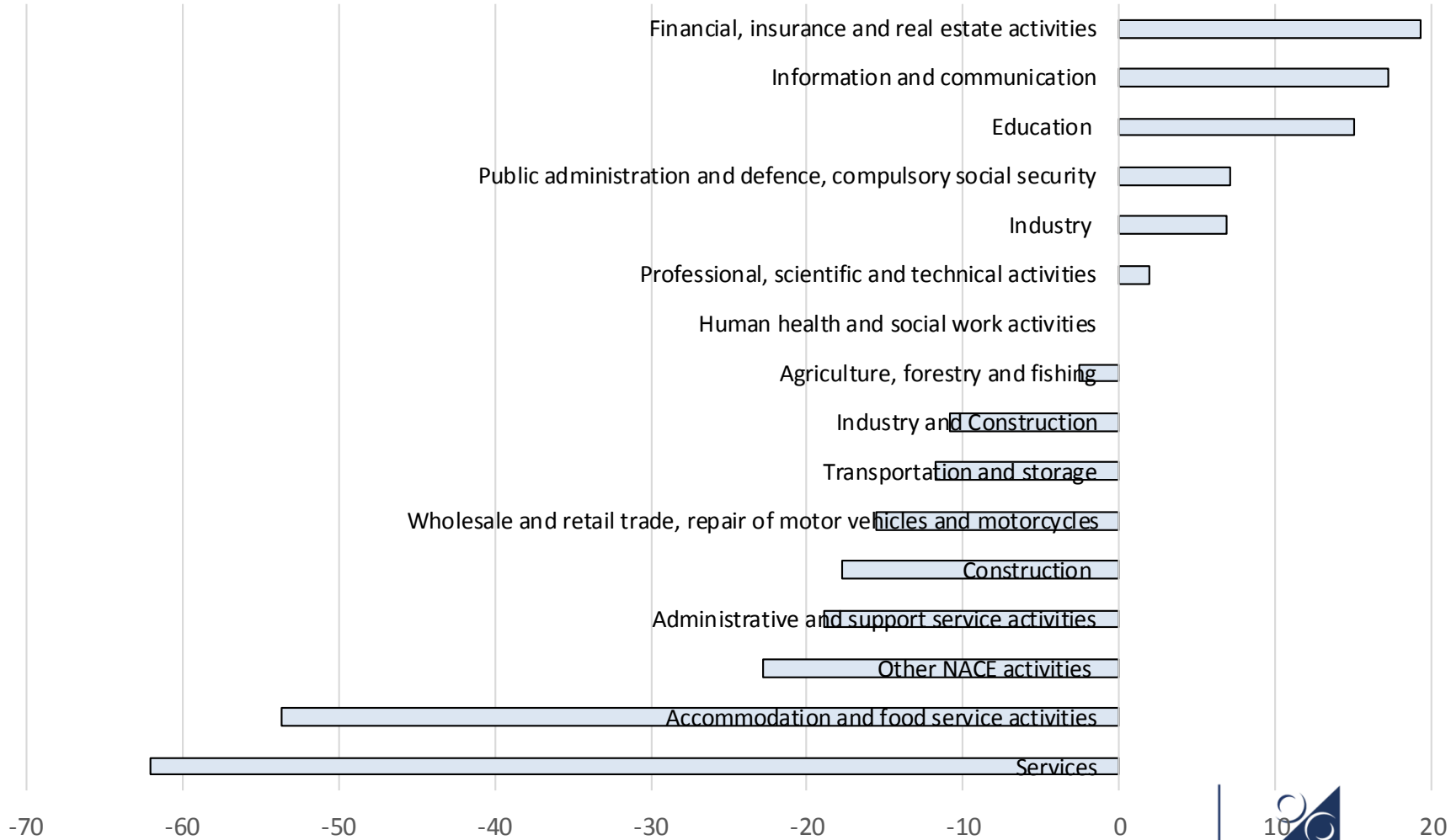
Dora Tuda



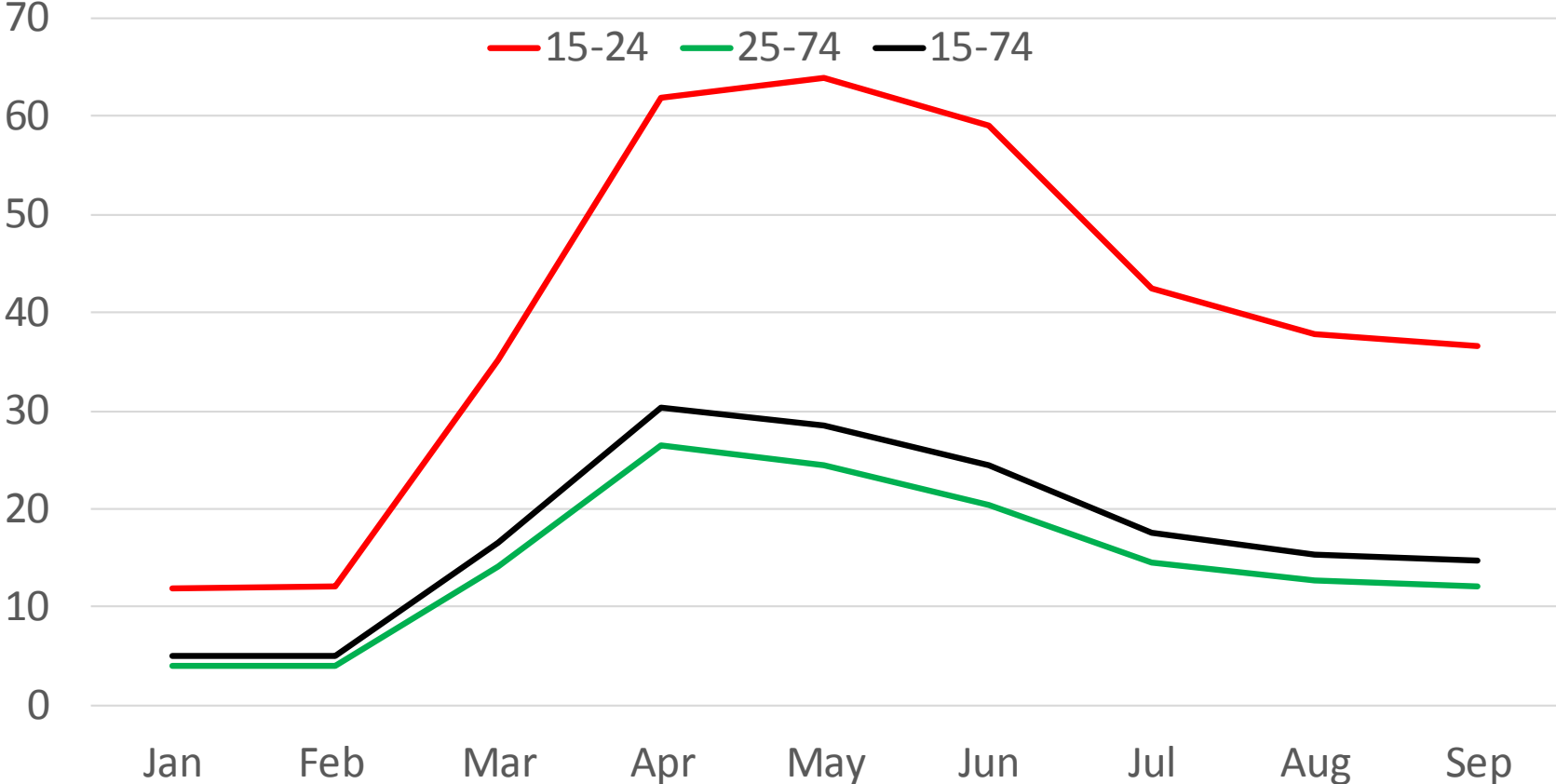
Introduction

- What does the distributional impact of Budget 2021 look like?
- Budget 2021 taking place in the shadow of the COVID pandemic.
- We focus on:
 - The impact of Budget 2021
 - The impact of COVID on the incomes
 - The impact of COVID related policy responses such as the PUP and wage subsidies

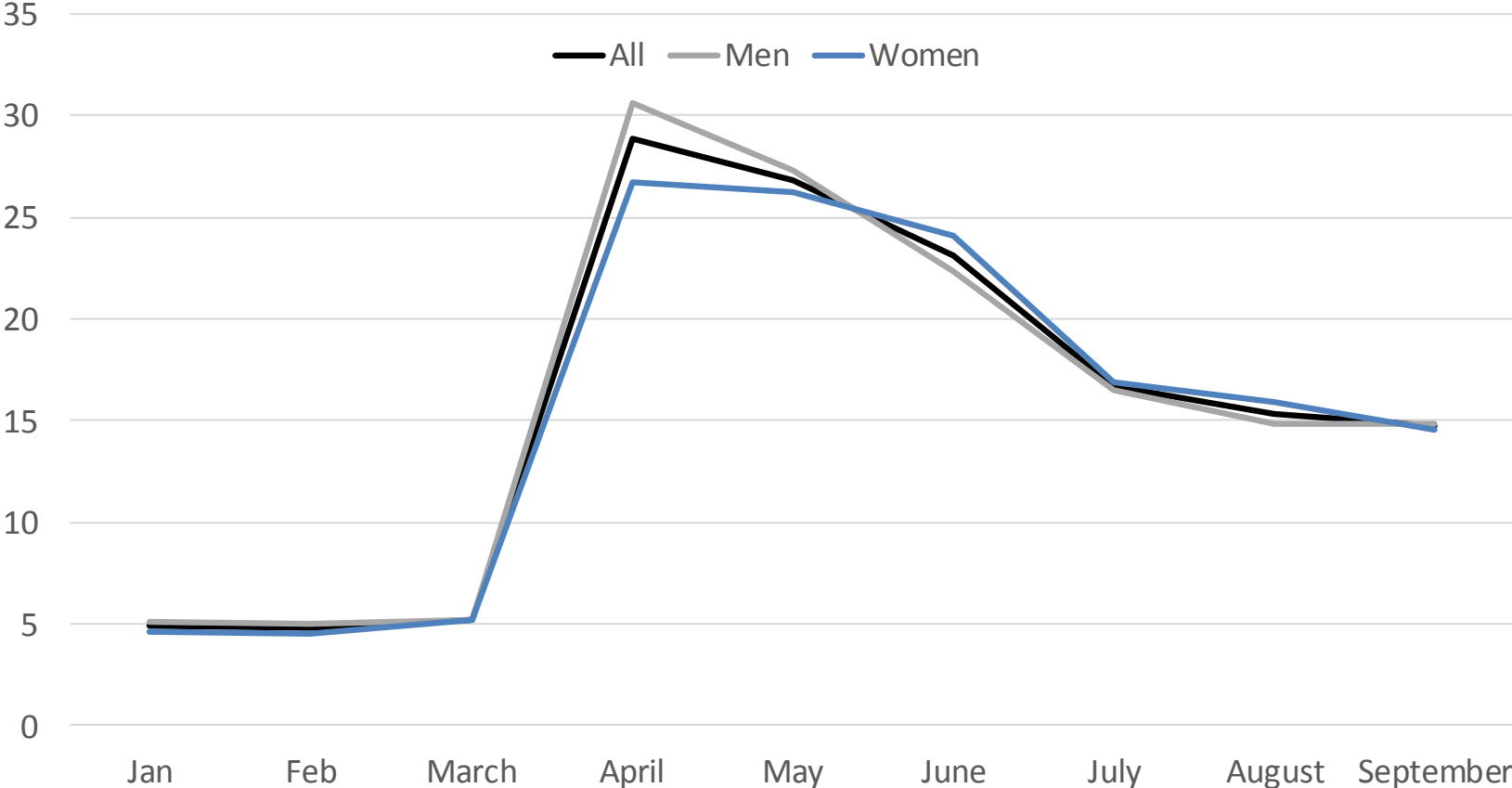
Change in employment by sector (thousands): Q2 2019 to Q2 2020



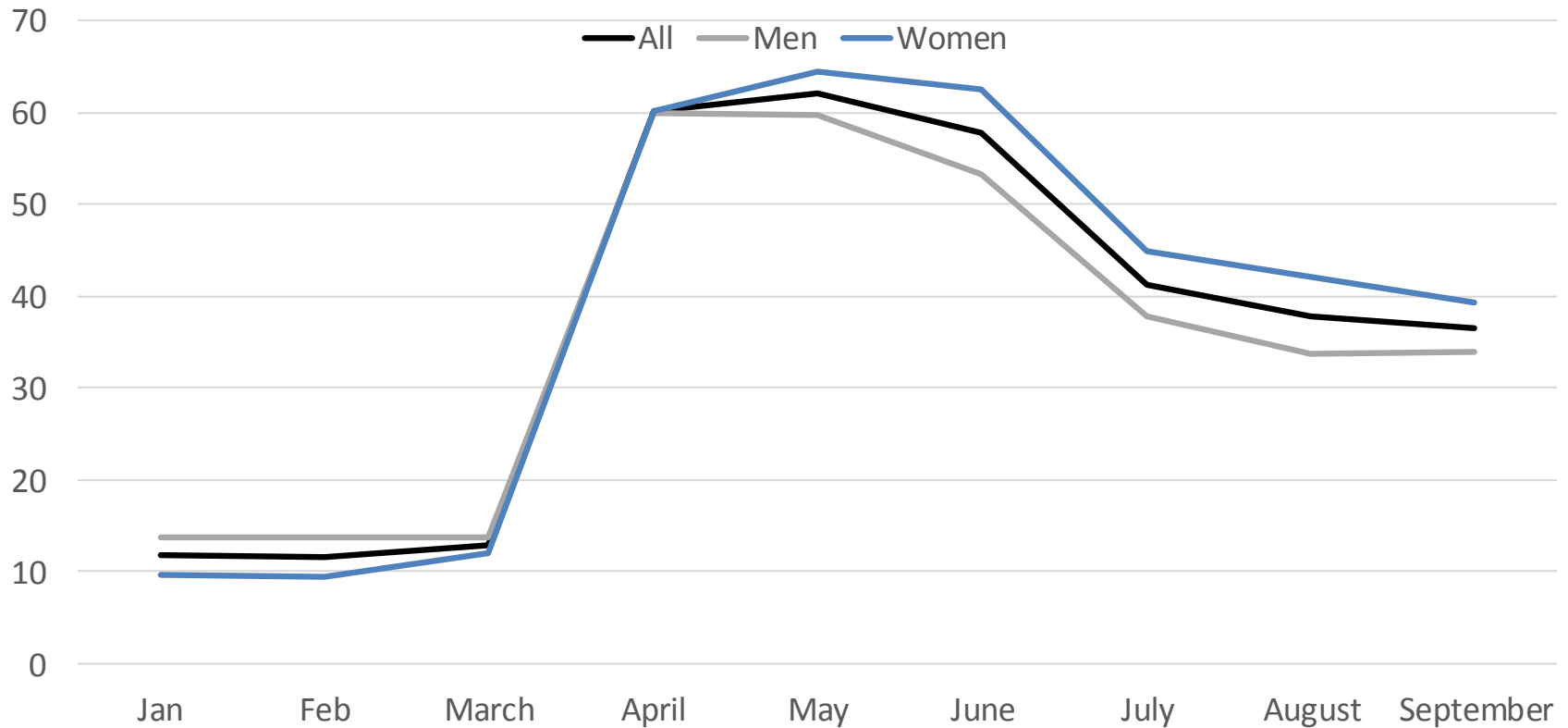
Unemployment rate by age



Unemployment Rate by Gender



Youth Unemployment Rate by Gender



Initial Policy Responses to COVID

- Pandemic Unemployment Payment (PUP):
 - initially a two-tier payment depending on previous earnings (€203 or €350 weekly payment)
 - changed to a three-tier payment in September
 - due to close to new applicants by end 2020, be removed by April 2021
- Temporary Wage Subsidy Scheme (TWSS), replaced by the Employment Wage Subsidy (EWSS) in September.
- Standard VAT rate cut from 23% to 21%

Budget 2021 – Main measures analysed

Income Taxes:

- EITC increase
- USC second rate band increase

Social Welfare:

- QCI increase
- Living Alone Allowance increase
- Fuel Allowance increase
- OPFP earnings cap removal
- Working Family Payment increases
- Carer's support grant increase
- Disability Allowance disregard increased

Budget 2021 – Main measures analysed

Indirect Taxes:

- Carbon tax increase
- VAT reduction for hospitality/tourism
- Tobacco tax increases

This research

Using SWITCH, the ESRI tax-benefit model, estimate

- the effect of COVID on family incomes (Calibrated the employment shock to latest CSO data)
- The impact of the initial ‘COVID policies’
- The impact of Budget 2021

Advantage of SWITCH: does not rely on examining a particular individual/family type, rather it works off a representative sample of the entire Irish population.

We examine the distributional impact relative to a starting point of CPI adjustment.

We assume 50% of jobs “saved” by EWSS would have been lost in the absence of the scheme

Cost

Exchequer Costings

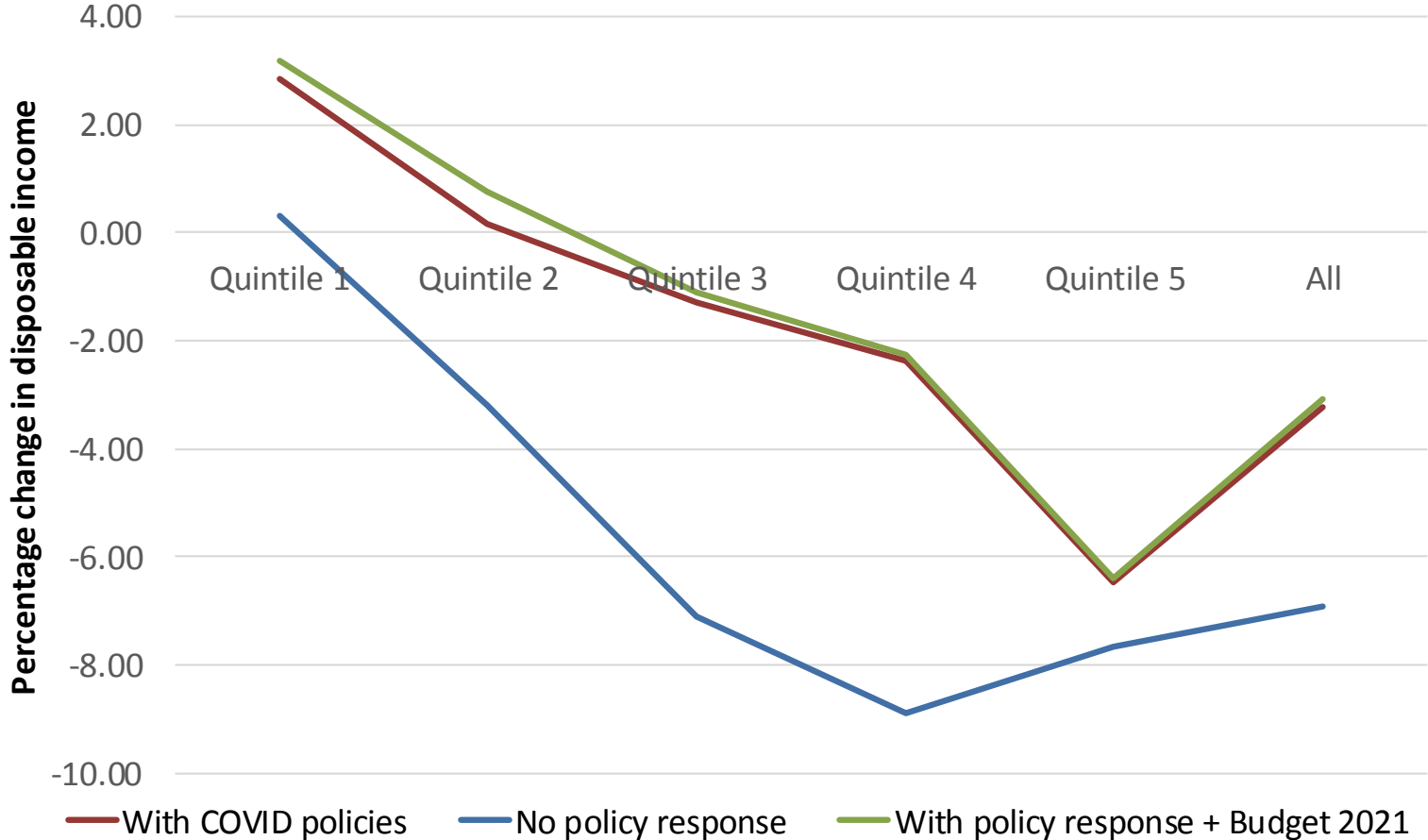
	Cost (€m per month)			
	No Policy Response*	No Policy Response**	COVID Policies	COVID Policies + Budget 2021
Change in earnings	-503	-1,080	-778	-778
Change in tax/SIC revenue	-173	-365	-277	-276
Change in welfare expenditure	168	380	335	345
Pandemic Unemployment Payment	0	0	272	270
Medical/GP visit cards	7.1	17.8	11.2	13.1
National childcare scheme	1.1	2.7	0.6	0.5
Employment Wage subsidy scheme	0	0	219	219
Net exchequer impact	-341	-745	-831	-839

*no EWSS recipients become unemployed

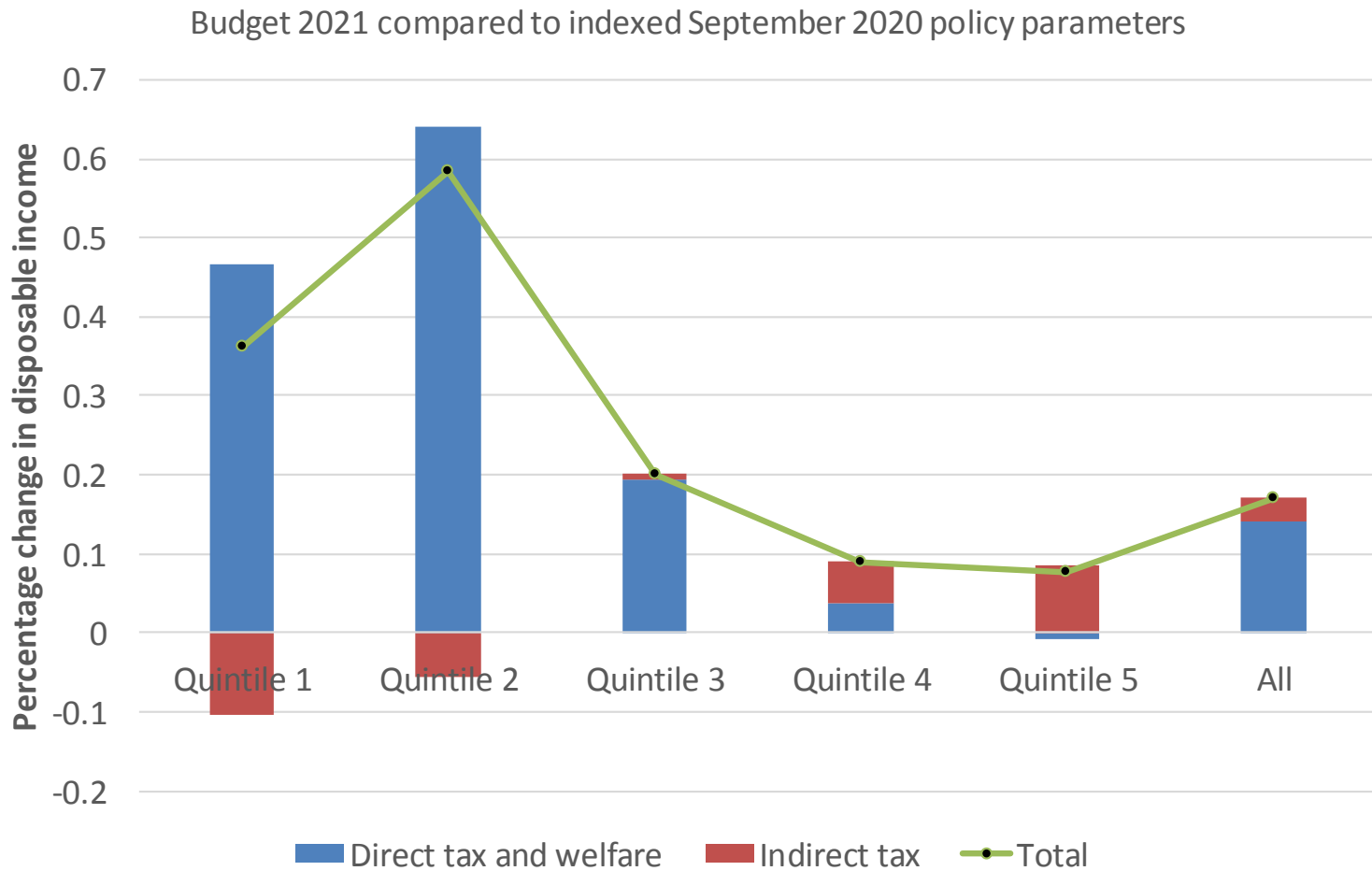
** 50% EWSS recipients become unemployed

Distributional analysis

Distributional effect of employment losses with and without COVID policies & Budget 2021



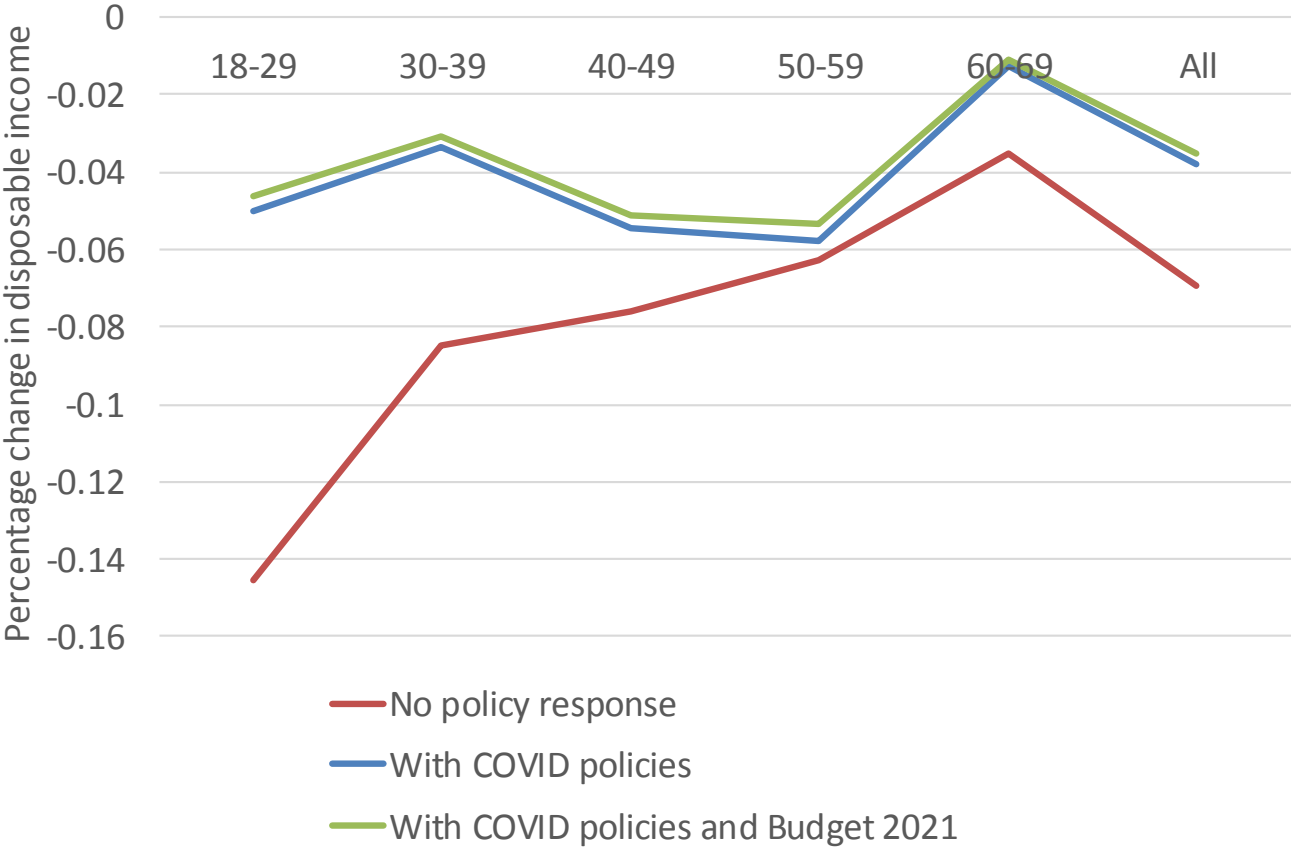
Distributional effect of Budget 2021



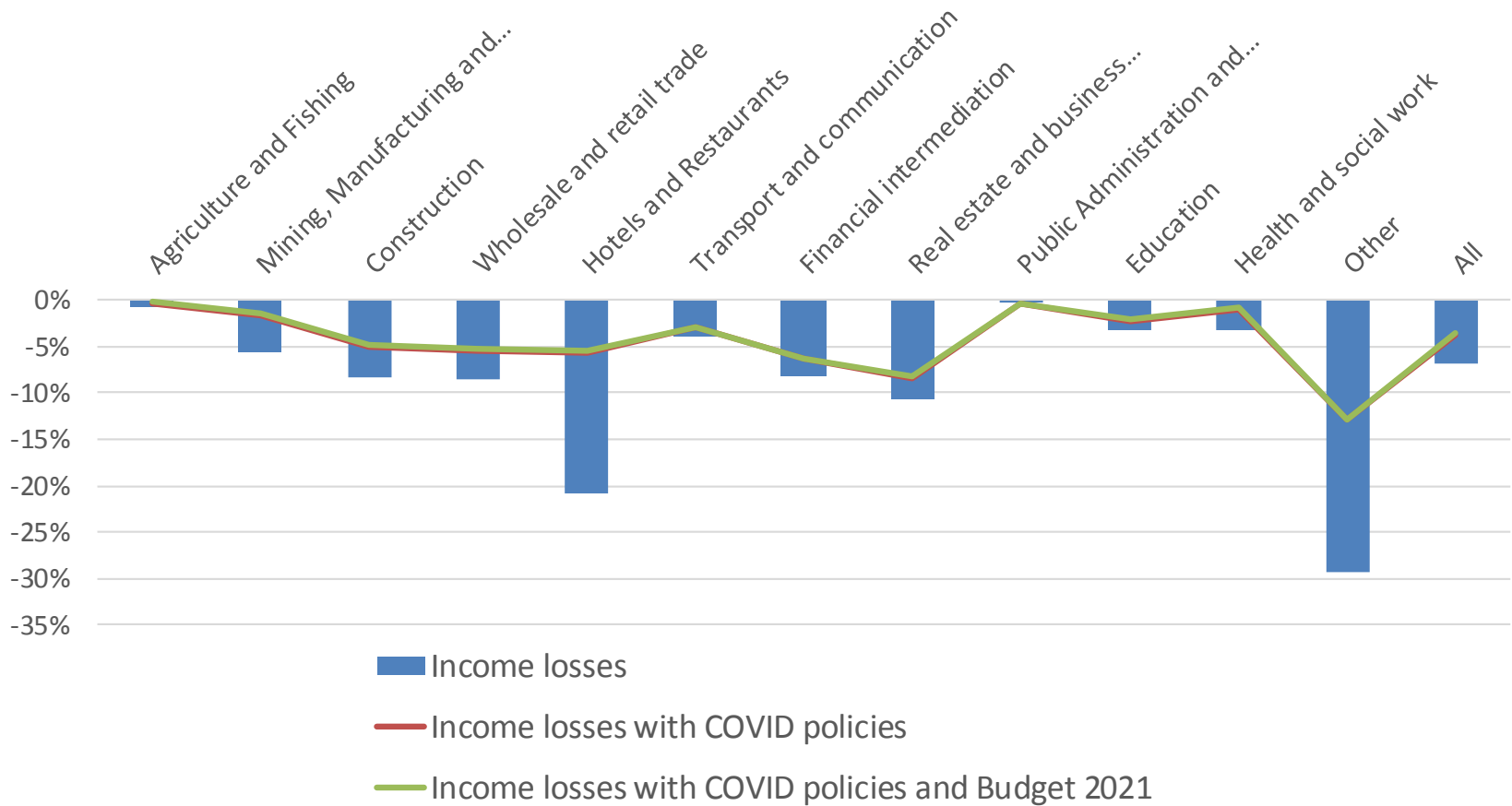
Income inequality and poverty

	No employment loss	Employment loss without COVID policies	Employment loss with COVID policies	Employment loss with COVID policies & Budget 2021
Income inequality				
Gini Market Income	0.51	0.56	0.53	0.53
Gini Disposable Income	0.28	0.29	0.28	0.27
Poverty rate				
Anchored Poverty rate	0.14	0.18	0.16	0.15
Anchored Poverty rate - working age	0.15	0.20	0.17	0.16
Anchored Poverty rate - child	0.18	0.23	0.20	0.19

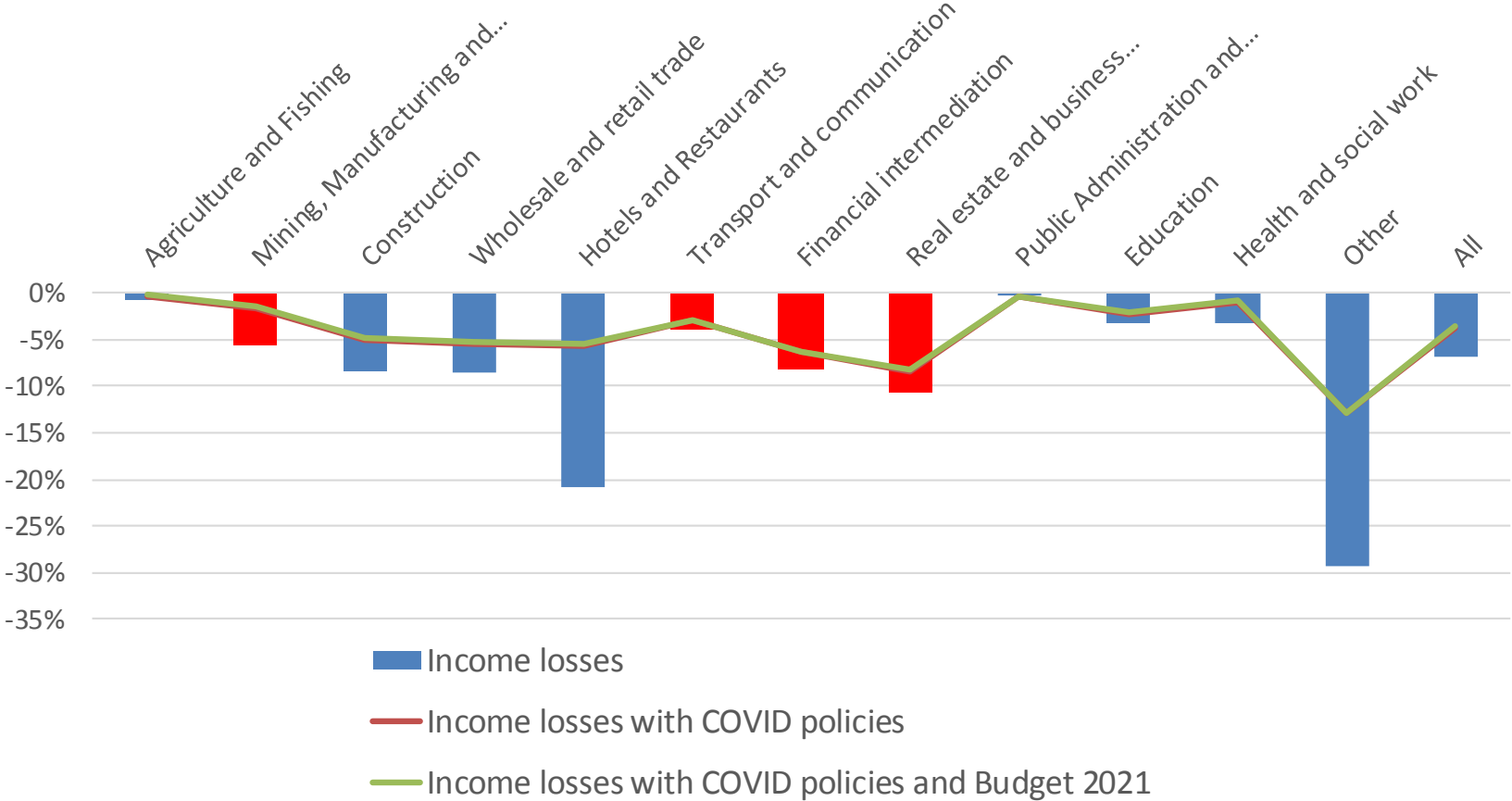
Impact of employment losses and direct tax and welfare measures by age



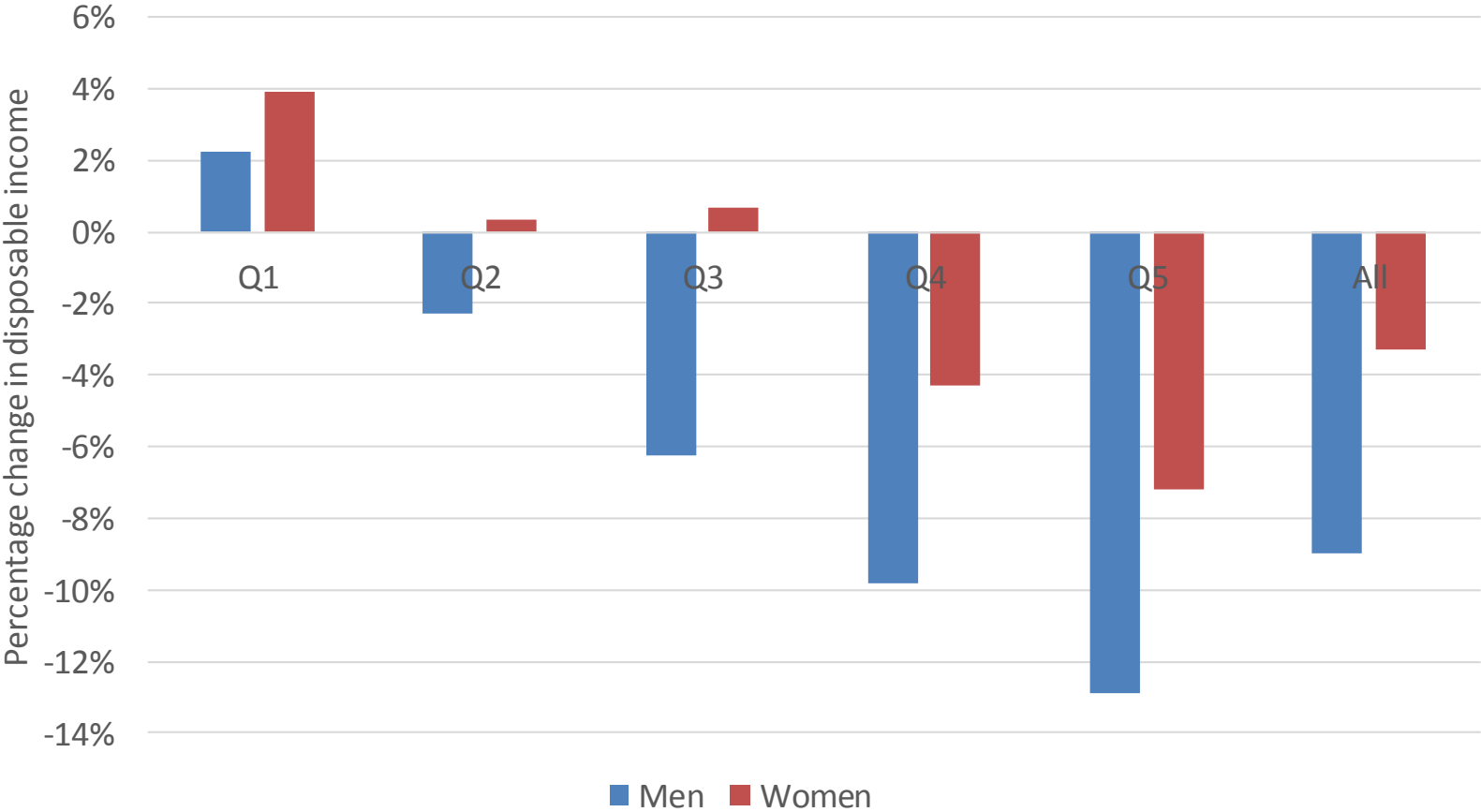
Income losses by industry



Income losses by industry



Impact of employment losses, COVID policies and Budget 2021 by gender



Summary

- Covid-related unemployment costly to the exchequer but existing tax-benefit system accounts for at least half of the cost
- Policy response has sheltered the lowest income groups
 - Budget 2021 has continued this trend

Policy challenges

- PUP to be continued until April 2021 but closed to new applicants at end-2020
 - Improve work incentives
 - Likely to disproportionately hit low-income, young, single workers
- EWSS to be closed end-March 2021
 - Efficiency argument to withdrawing completely at some point
- Men appear to have been hardest hit by employment losses in short-term
 - But, female participation rates/hours of work may have changed due to childcare closures – knock on effect on gender wage and gender work gap in future

Questions?