

ESRI Post-Budget Briefing

Budget 2022 tax & welfare measures

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Tax, Welfare & Pensions team

Michael Doolan

Karina Doorley

Theano Kakiloudou

Claire Keane

Seamus O'Malley

Dora Tuda

Mark Regan

Barra Roantree



Small tweaks to several direct taxes

Income tax credits & bands to rise above forecast inflation

- First time PAYE & personal credits increased since 2008
- Maintains purchasing power of after-income tax earnings
- earnings growth means avg. tax rates will still rise ('fiscal drag')

However, most PRSI & USC thresholds frozen (i.e. real cut)

- Exceptions are 2% USC & 8.8% employer PRSI ceilings (+3%)

Reduced USC rate for MC holders & Bank Levy extended

- Bank Levy previously set to raise €150m: target reduced to €87m

... and expansion/extension of assorted tax reliefs

Reliefs for new firms, farmers, flight crews, landlords, home workers, micro-generators & game developers

- D/Finance estimate combined cost as €75 million per year

Help to Buy extended for another year (+€175m)

- Has cost >€500m to date vs anticipated cost of €130m
- Poorly targeted policy likely to fuel house price growth:
 - 58% of claims for homes bought for more than €300k
 - 43% of claims had LTV <85% (i.e. already had deposit)

Important all are regularly & credibly reviewed

... as well as promise of new Zoned Land Tax (ZLT)

Has potential to raise housing supply & lower land costs

- Research shows that land taxes encourage owners to develop or dispose of underutilised sites (e.g. [Morley et al., 2015](#))
- Could also capture share of windfall gains that zoning bestows on landowners (e.g. rezoning of industrial estates near M50)

However precise details & implementation will be key

- Exemptions for e.g. sites used as car parks or truck yards?
- How will process to de-zone sites eligible for ZLT work?
- And how will ZLT interact with 'Land Value Sharing' measures promised in Housing for All?

... plus tax increases on cigarettes, carbon & cars

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

- Amounts to a real cut in alcohol & fuel duties of 2.2%

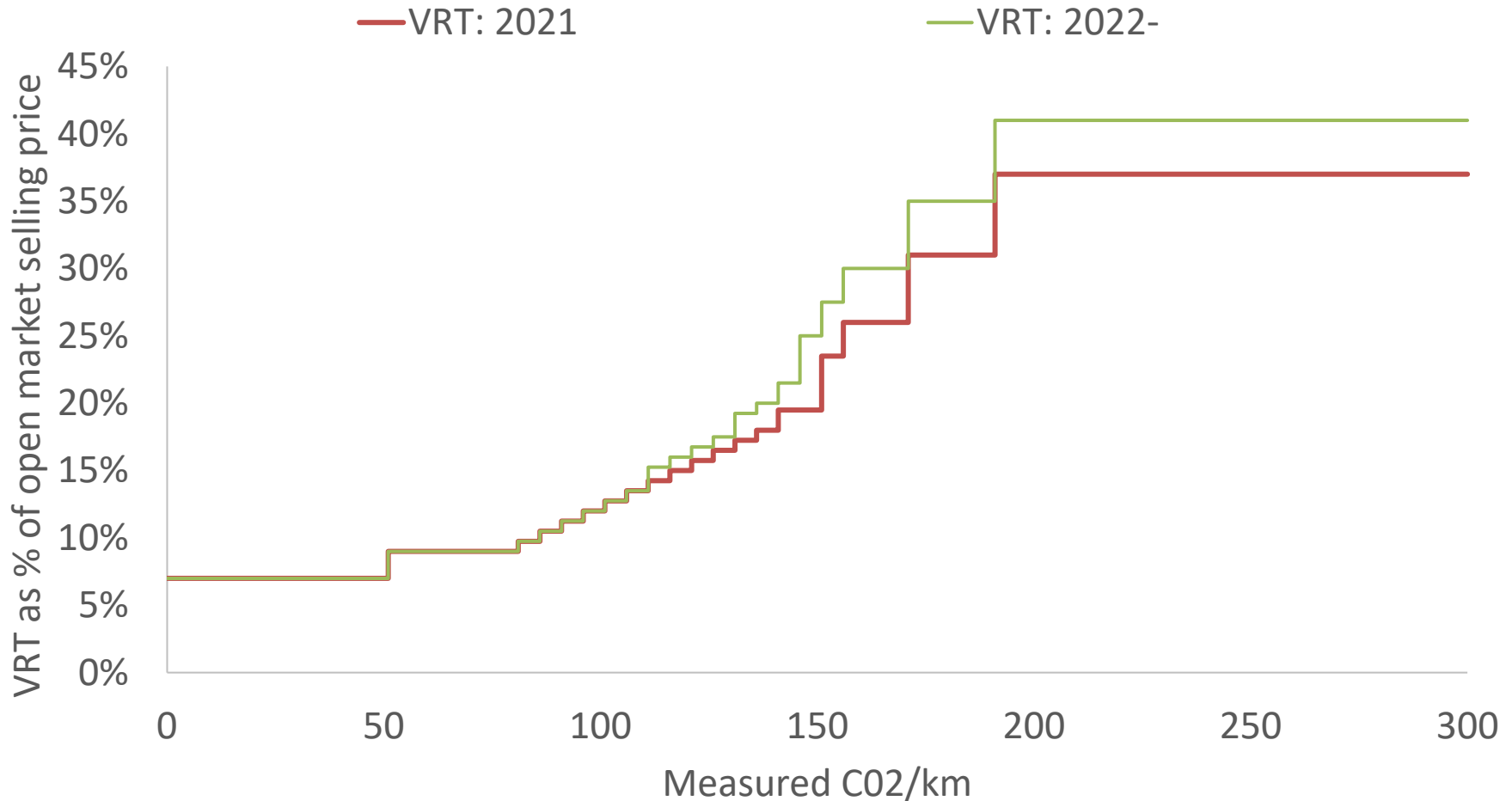
Well flagged €7.50/tonne increase in rate of carbon tax

- Evidence shows will reduce emissions with little economic cost, but regressive unless accompanied by compensation measures
- Should consider distributional impact of changes as a whole

Increase in rates of VRT on high-emission cars

- Forecast to raise €82 million, but also likely to encourage new car buyers to buy smaller and less-emitting cars

Increase in rates of VRT on high-emission cars



Source: Budget 2022 Tax Policy Changes document and Revenue website

Employment Wage Subsidy Scheme (EWSS) to end

October/November 2021

- Current payment rates & reduced PRSI on eligible workers

December 2021 – February 2022

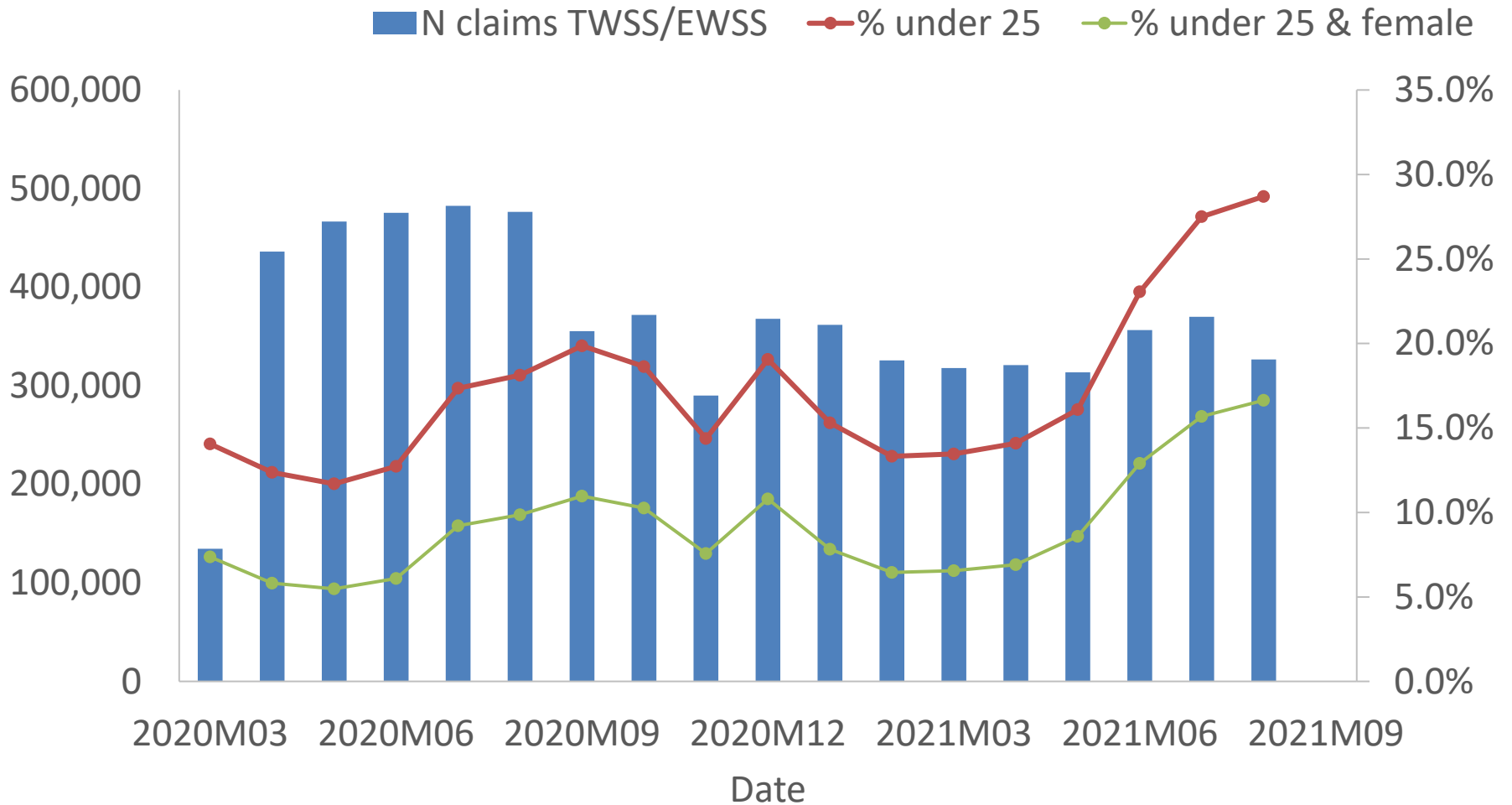
- Rates cut to €151.50/€203pw & closed to new entrants 1st Jan

March/April 2022

- Rates further cut to €100pw & PRSI restored to full level

Increasingly supporting young & female workers

EWSS increasingly supporting young & female workers



Source: authors' calculations based on <https://data.cso.ie/table/LRM20>

Increase in generosity of some other supports

Student maintenance grant

- €200pa increase in payments; €1000pa increase in income limits; reduction in travel distance to qualify for non-adjacent rate
- Small changes to system frozen for more than a decade: full grant was roughly same as jobseekers' rate in 1970s, now only 30%!

Support for childcare costs

- NCS Universal Childcare Subsidy extended to children up to age 15 & increase in hours covered by NCS for children in school
- Substantial increase in funding for providers
- Extension in duration of Parents Leave & Benefit to 7 weeks

... and to most social welfare payments

Large real rise in IQCs, Living Alone & Fuel Allowances

- Will particularly benefit recipients of 'core' payments with children or living alone: groups at higher risk of poverty

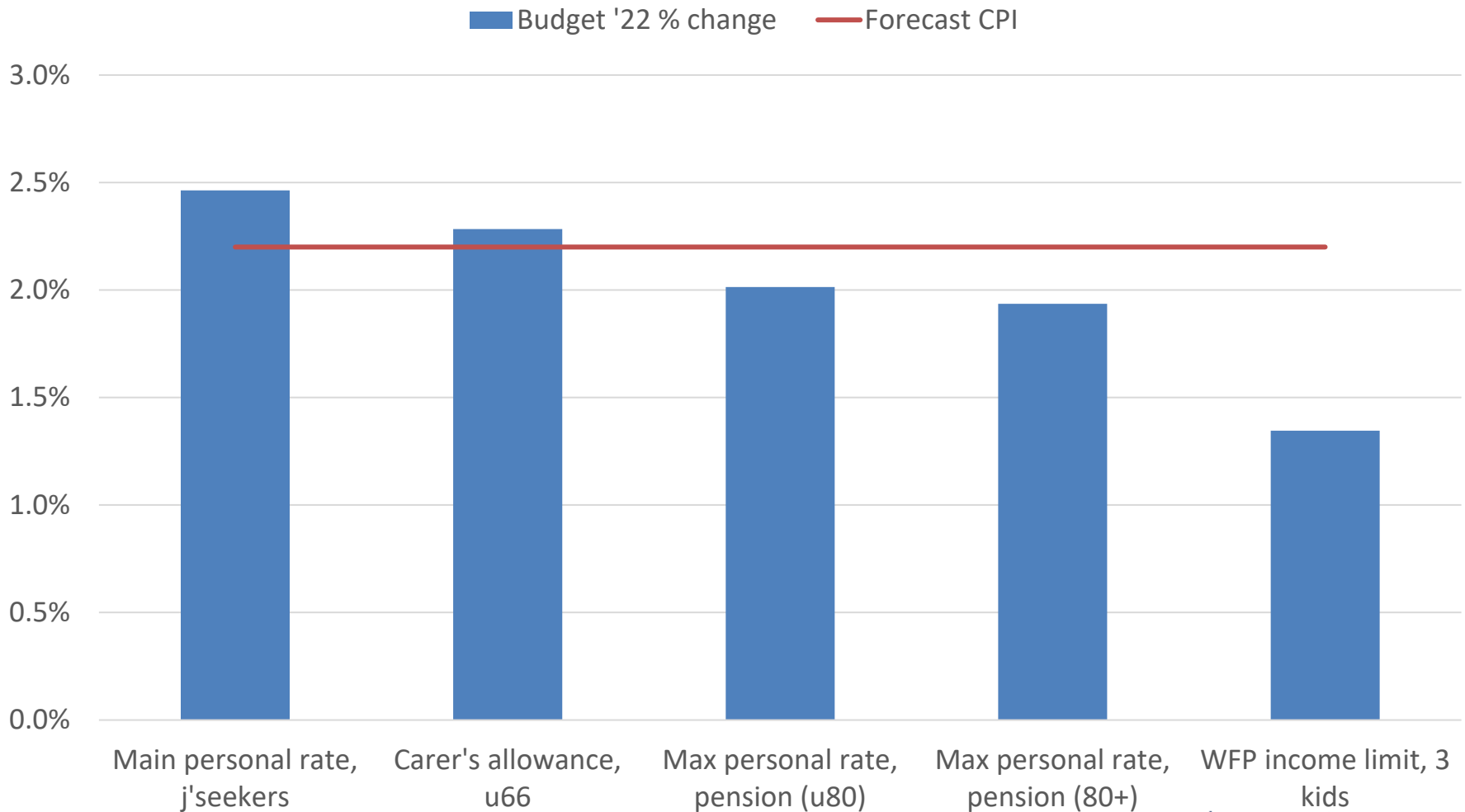
Small real rise in 'core' payments for couples w/o kids

- €5pw increase in personal rates of 'core' working-age benefits just above forecast inflation

However, below inflation rise (real cut) in some payments:

- €5 rise in State Pension for non-single retirees = 2.0% < inflation
- €10 rise in Working Families Payment = at most 1.8% < inflation

... but some real ↑ & some real ↓ in core rates: why?



Conclusion

Some well-targeted reforms with clear objectives eg:

- ↑ Living Alone Increase & IQCs effective way to tackle poverty
- Raising tax on carbon & cars effective way to cut emissions
- Zoned Land Tax likely to help in addressing housing challenges (though detail crucial & extension of Help to Buy will mitigate)

But changes to tax credits/bands, excise duties and welfare payments lacked consistency

- Why index income tax but not PRSI and USC credits/bands?
- Tradition of announcing intermittent €5pw rise in 'core' rates weakens connection between levels of payment & adequacy
- All require more regular review to ensure achieving policy aims