ESRI Post-Budget Briefing

Budget 2024: Distributional impact analysis

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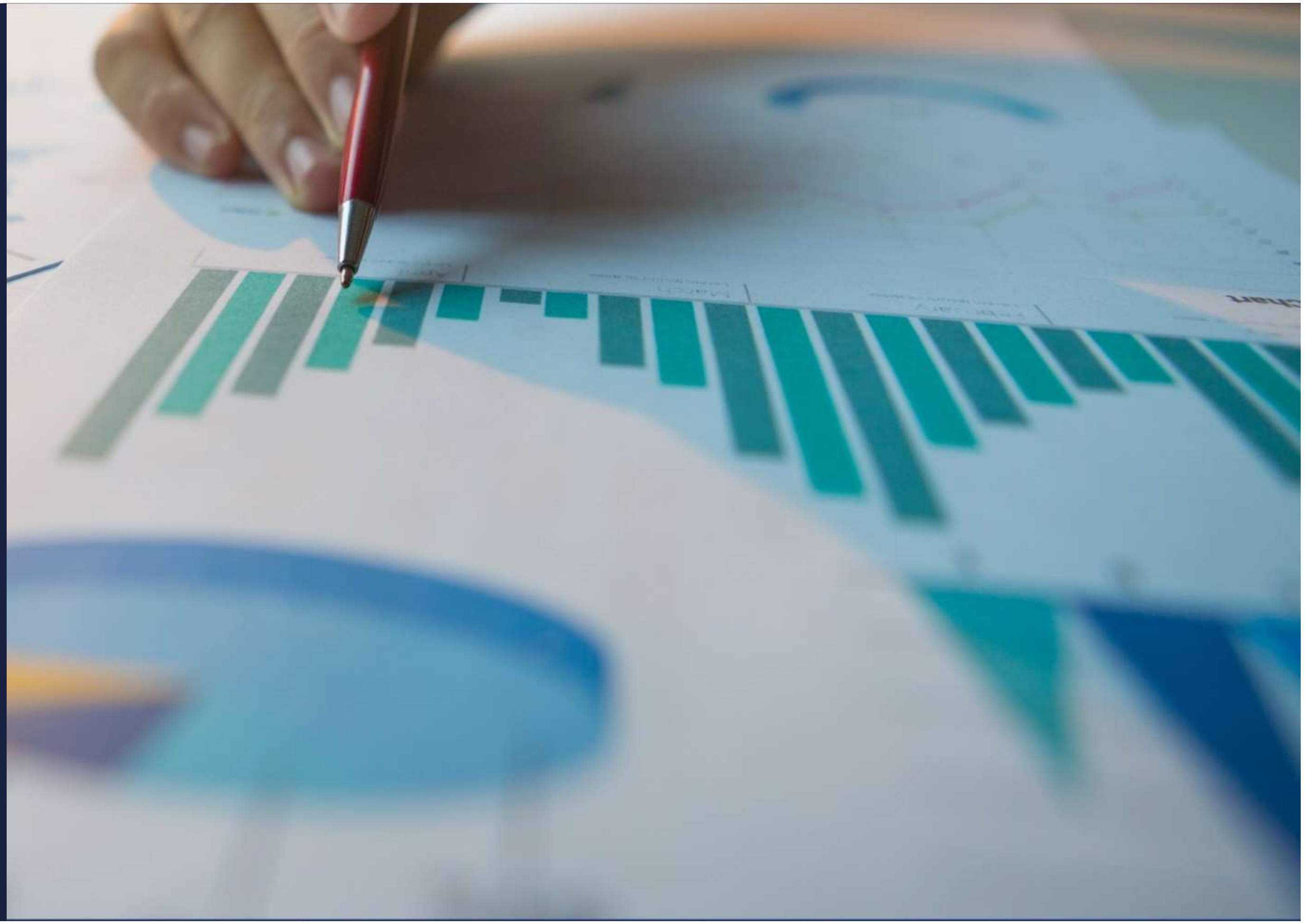
Tax, Welfare & Pensions team
Karina Doorley
Luke Duggan
Agathe Simon
Dora Tuda



The distributional impact of this and the last four Budgets

1. What is the distributional effect of Budget 2024 compared to an indexed Budget?

- Illustration of real change in income and living standards.

2. Have policy changes kept pace with inflation since 2020

- How have tax-benefit policies affected real incomes in the lifetime of this government

The distributional impact of Budgets 2021-24

Methodology

- Use SWITCH, the ESRI's tax-benefit model and ITSIM, the indirect tax model jointly developed by DoF and ESRI.
- One off policies excluded from baseline but included in reform

Indexation

- Policies indexed in line with income growth between 2023-24 and 2020-24 to provide 'distributionally neutral' benchmarks
- Benchmark that keeps income distribution constant
- Income growth forecasts and price growth forecasts more similar from 2024 onwards.

Prices growth expected to fall to below wage growth in 2024

1. What is the distributional effect of Budget 2024 compared to an income-indexed Budget?

Budget 2024 – main measures analysed using SWITCH and ITSIM

Income tax

Bands/credits increased for workers; 2nd USC band extended and rate reduced, rent tax credit, landlord tax credit, PRSI increase of 0.1 ppt

Welfare

Personal rate of benefits increased €12 with proportional increases for qualified adults. QCI up €4; Working Families Payment increase; earnings disregard for CA, CB for 18 y.o.'s in education

One-off policies

Energy credit, extension of excise reduction and 9% VAT rate, lump-sums for certain payments and IQCs, double payment of child benefit and core welfare, student contribution fee cut, 20% cut to public transport extended

Non-cash benefits

Universal Childcare Subsidy increase of 74c per hour; free school books at junior cycle.

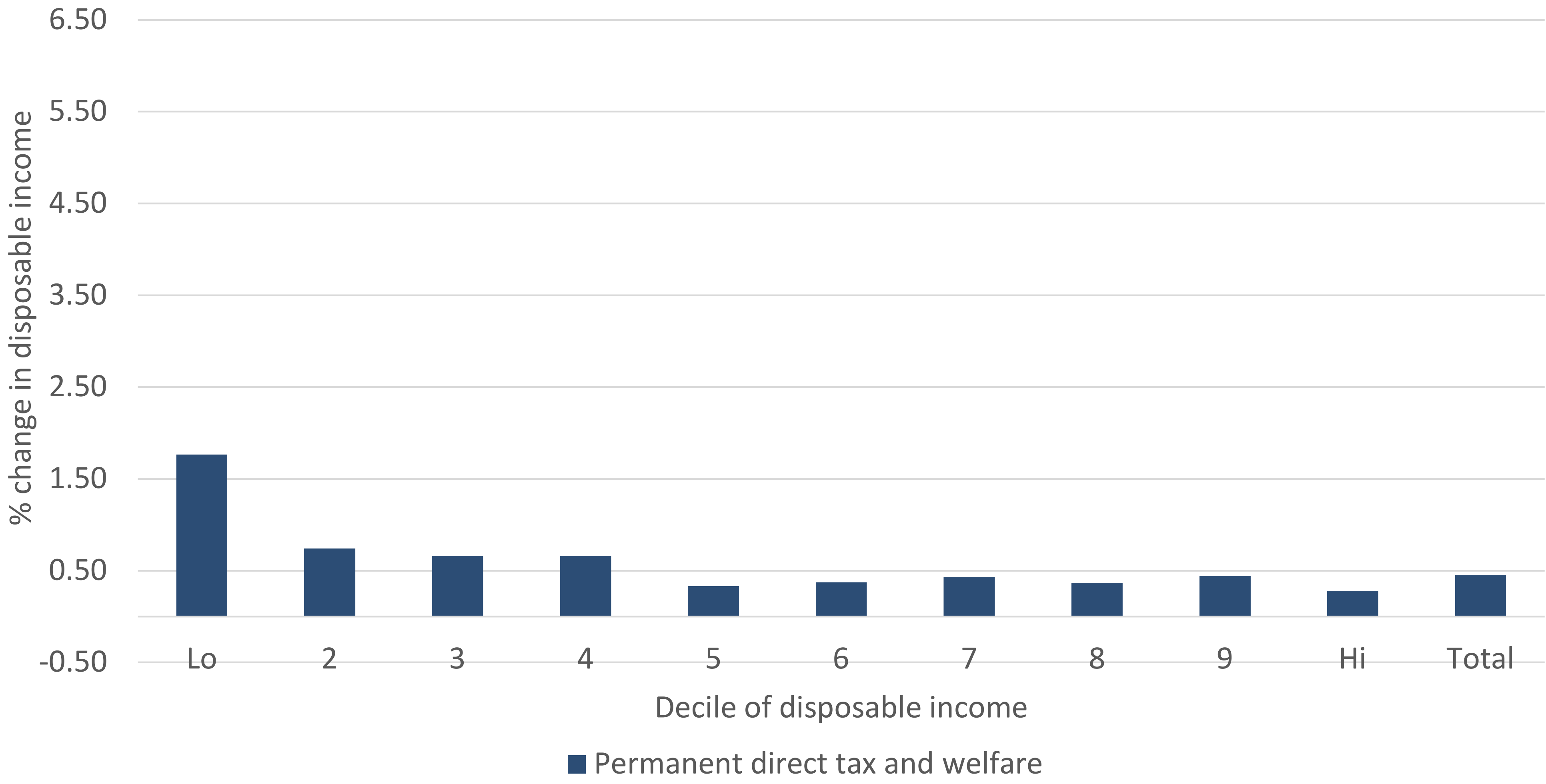
Indirect tax

Tobacco excise + 75c; carbon tax + 7.50/tonne.

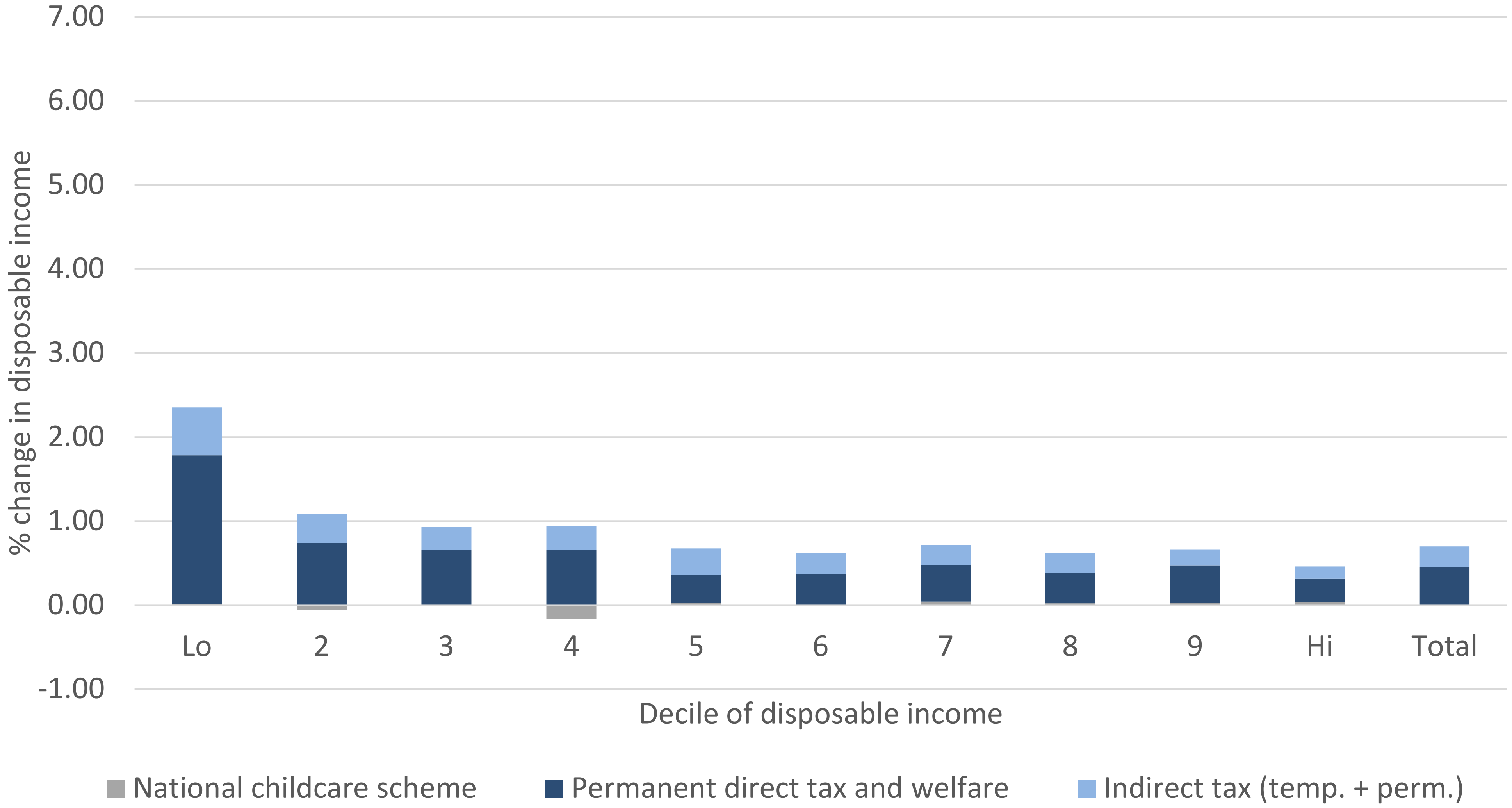
Not modelled

Mortgage Interest Relief

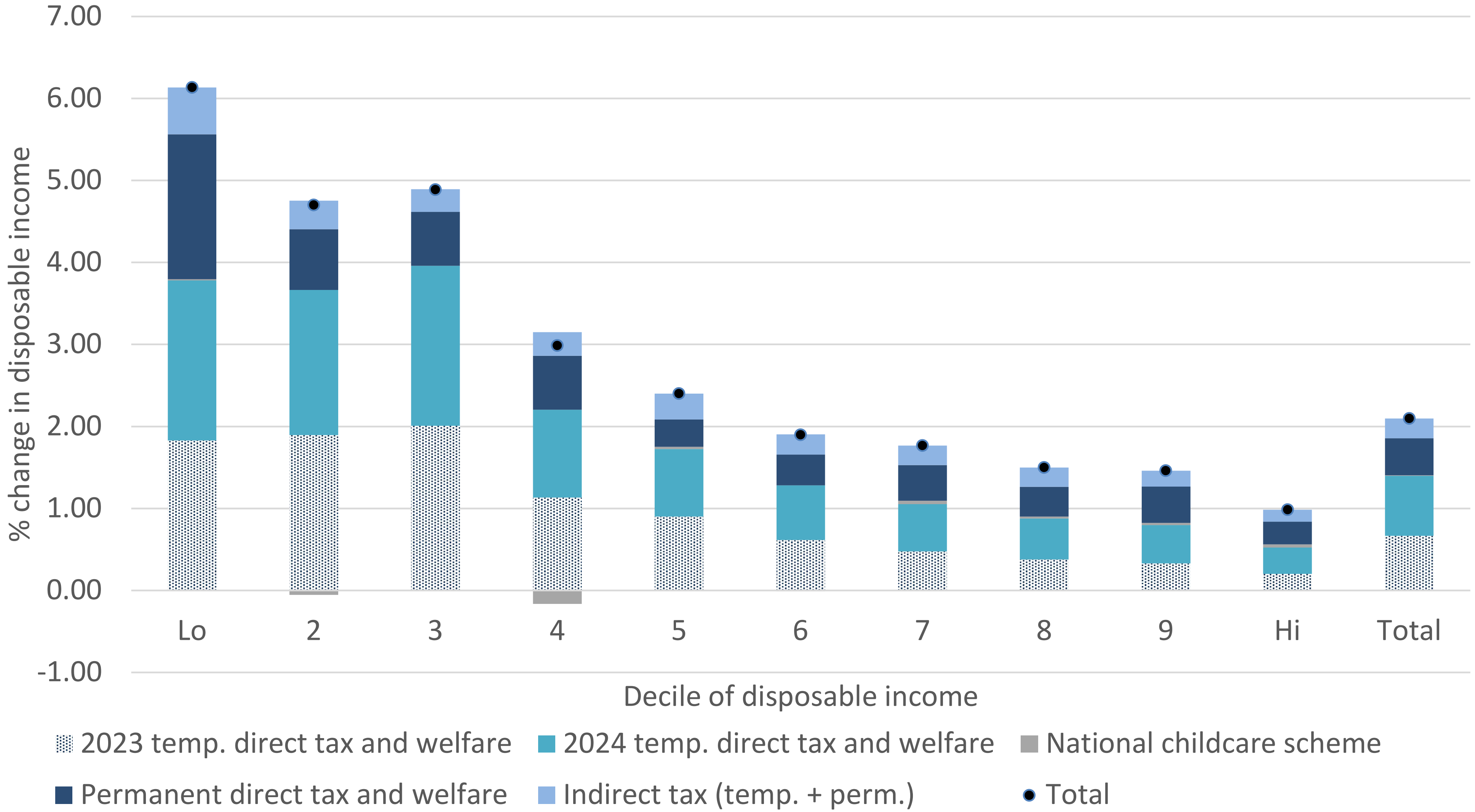
Direct tax and welfare measures benefit the lowest income households most



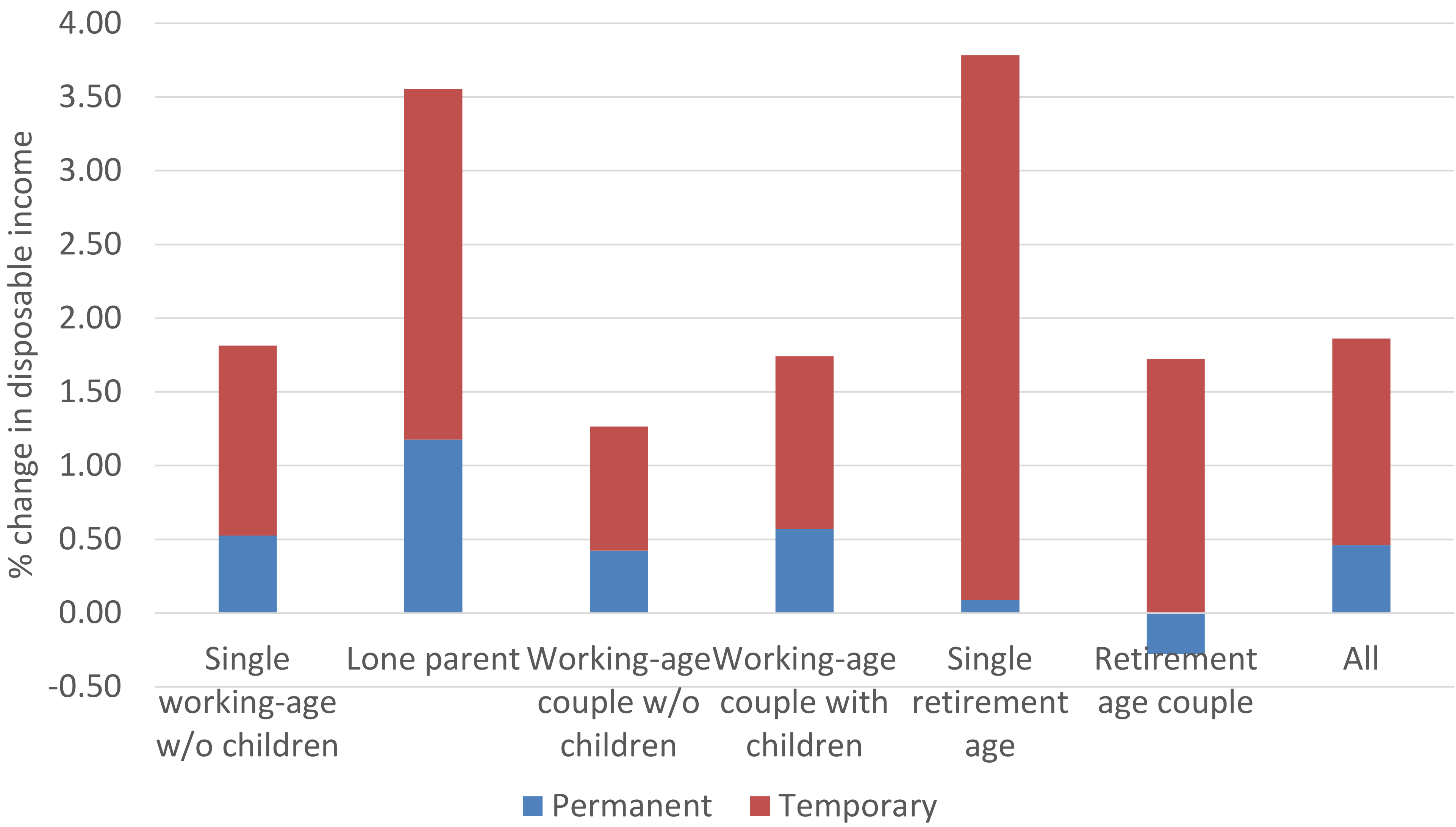
…as do indirect tax reforms



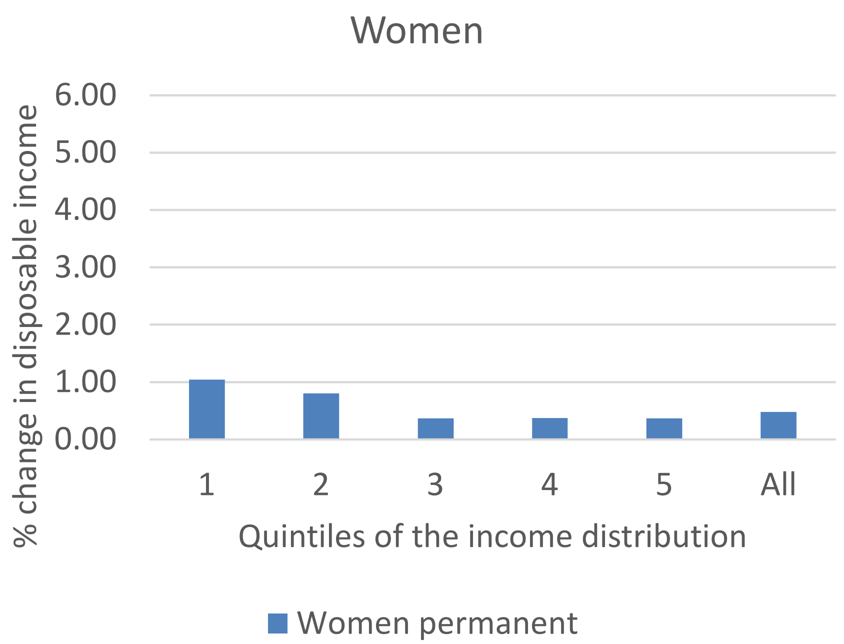
There are more progressive gains due to Budget 2024 one-off measures



Gains for retirement age households entirely driven by temporary measures



Policy changes impact men and women similarly



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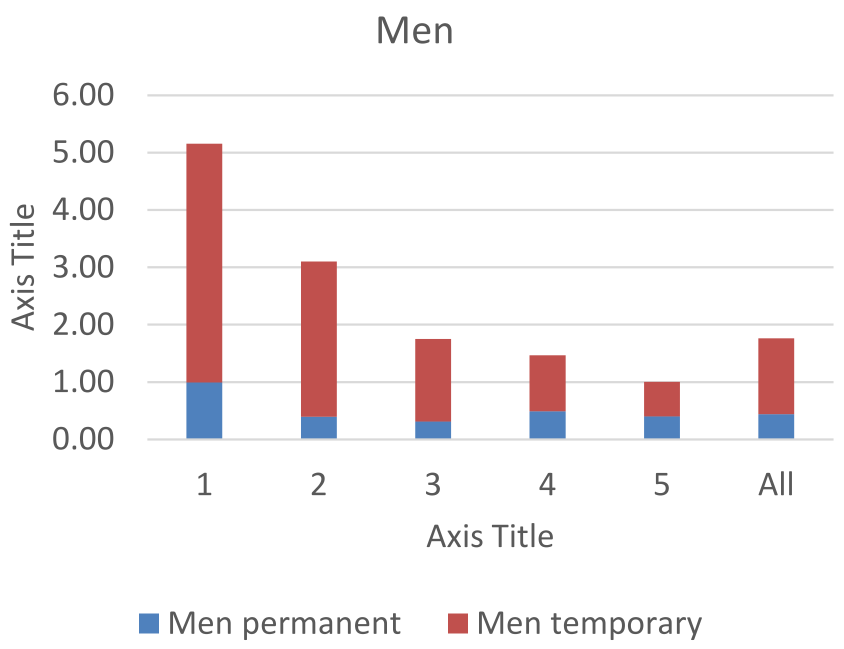
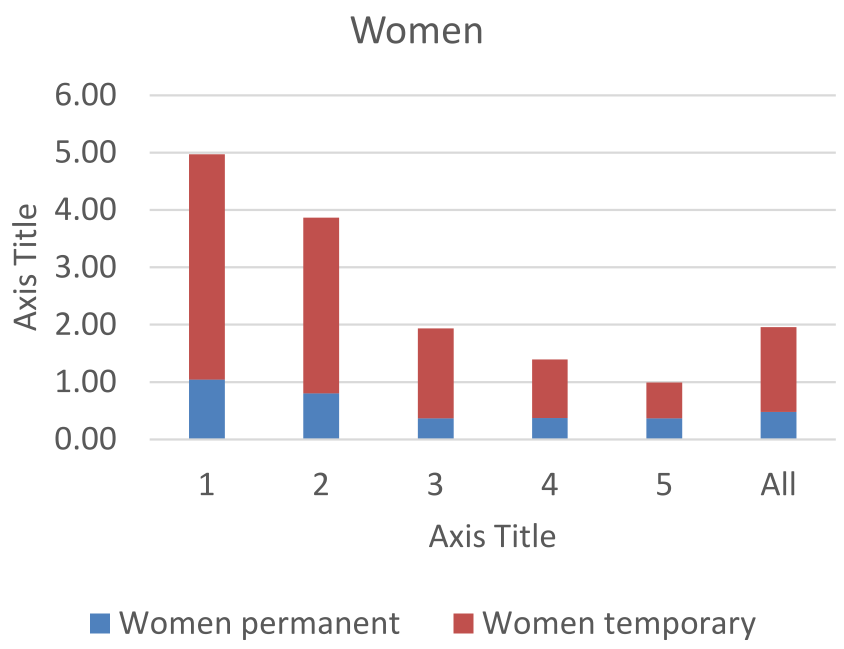
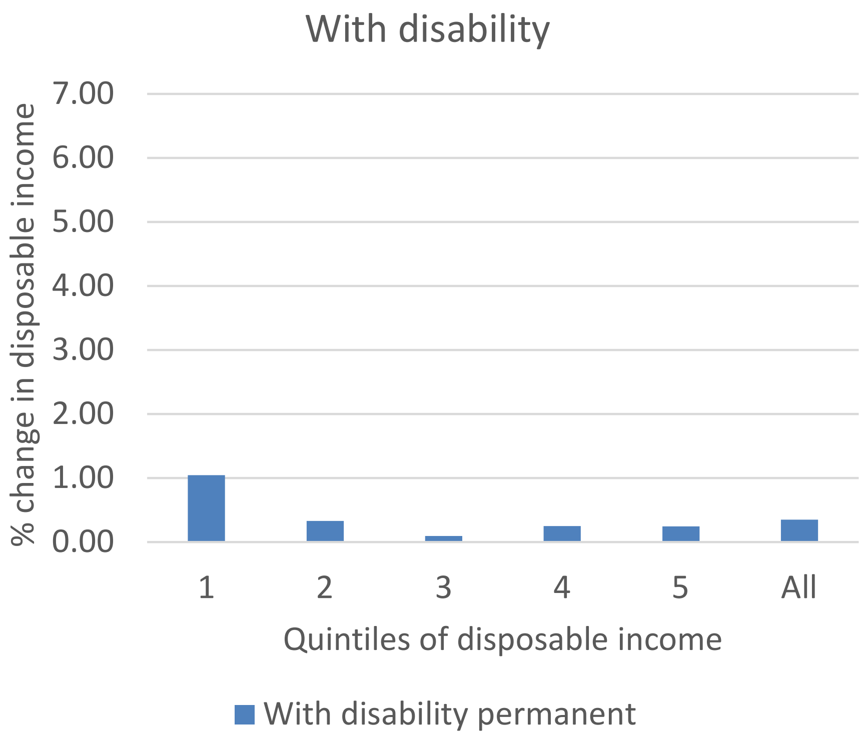
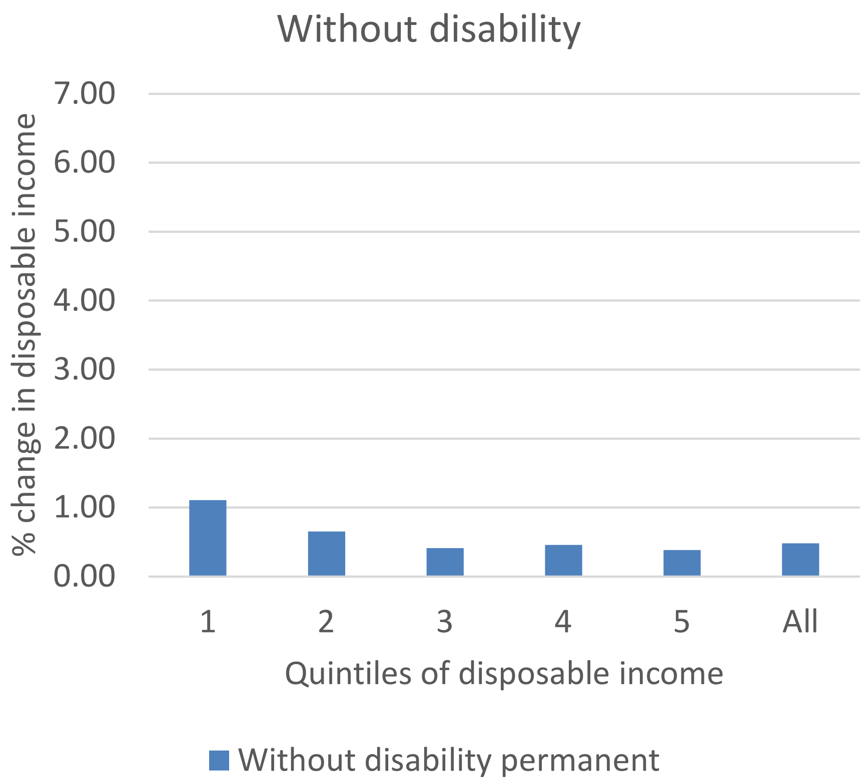


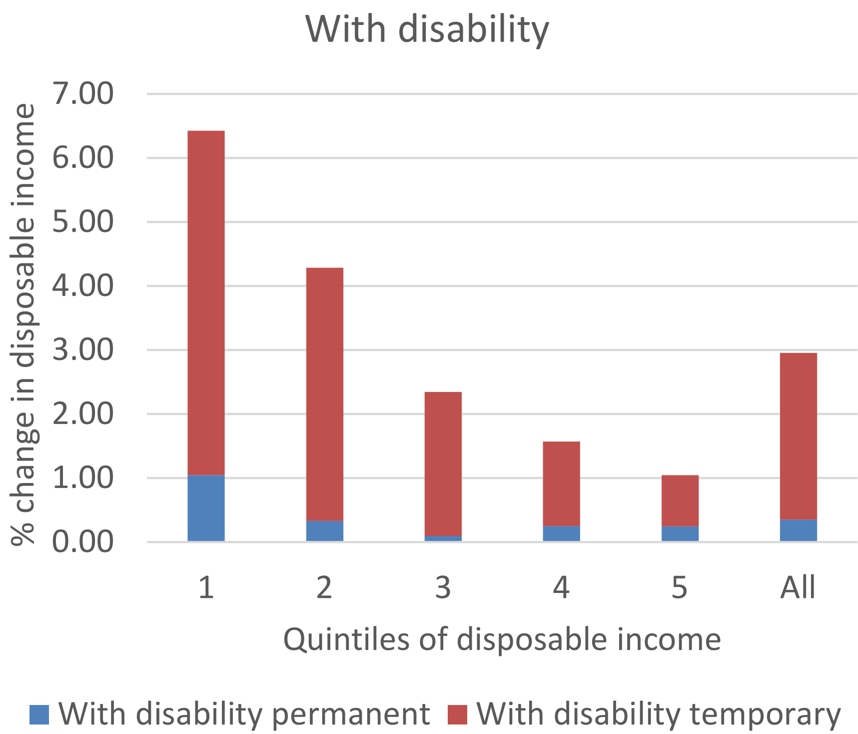


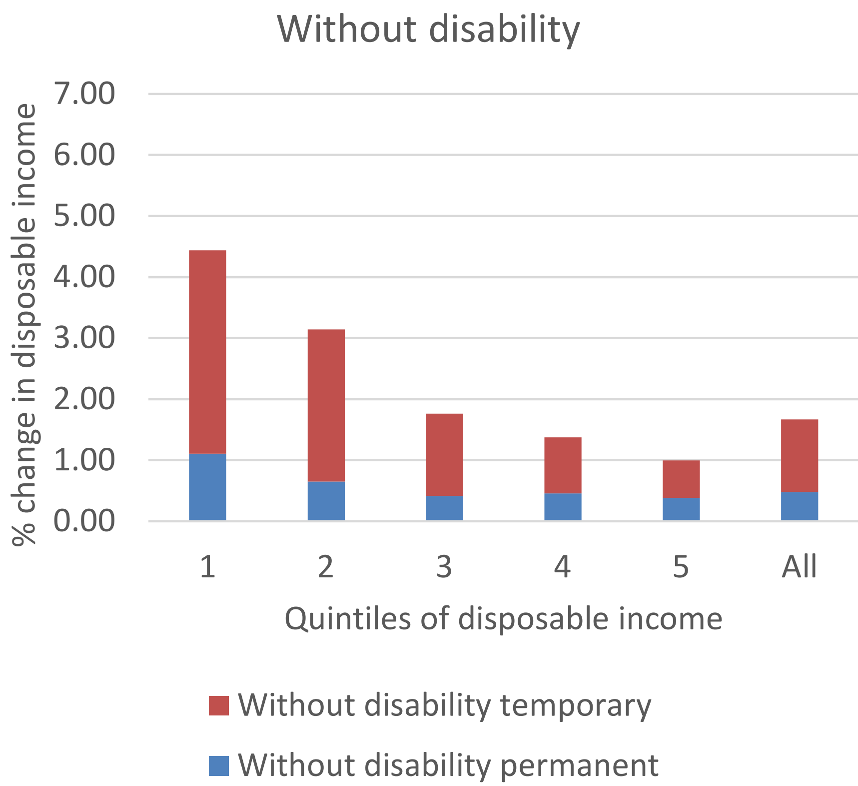
Households with disabilities gain less from permanent changes to the tax and welfare system



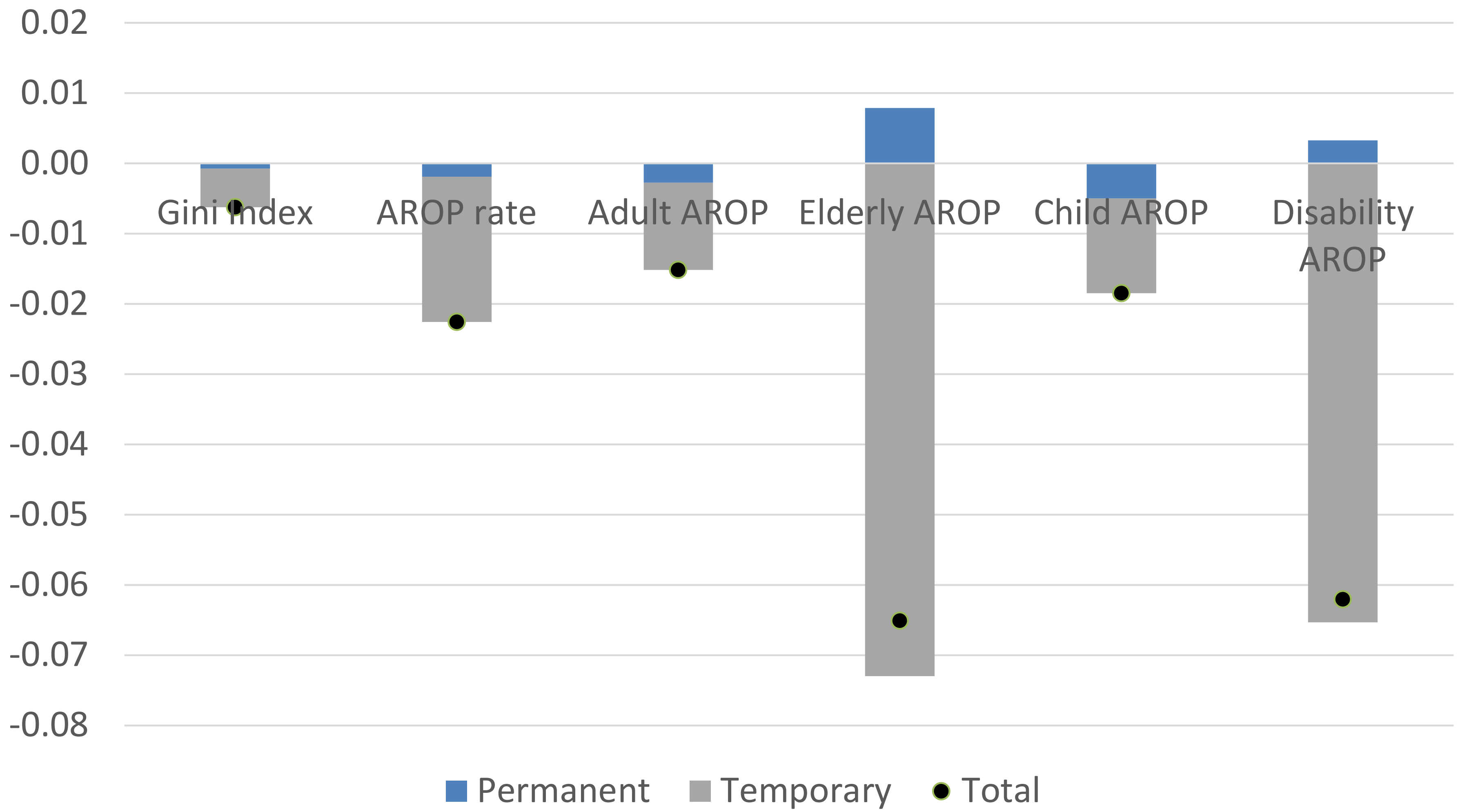


…but gain more through temporary measures





AROP rates are stable with permanent changes but fall after temporary measures

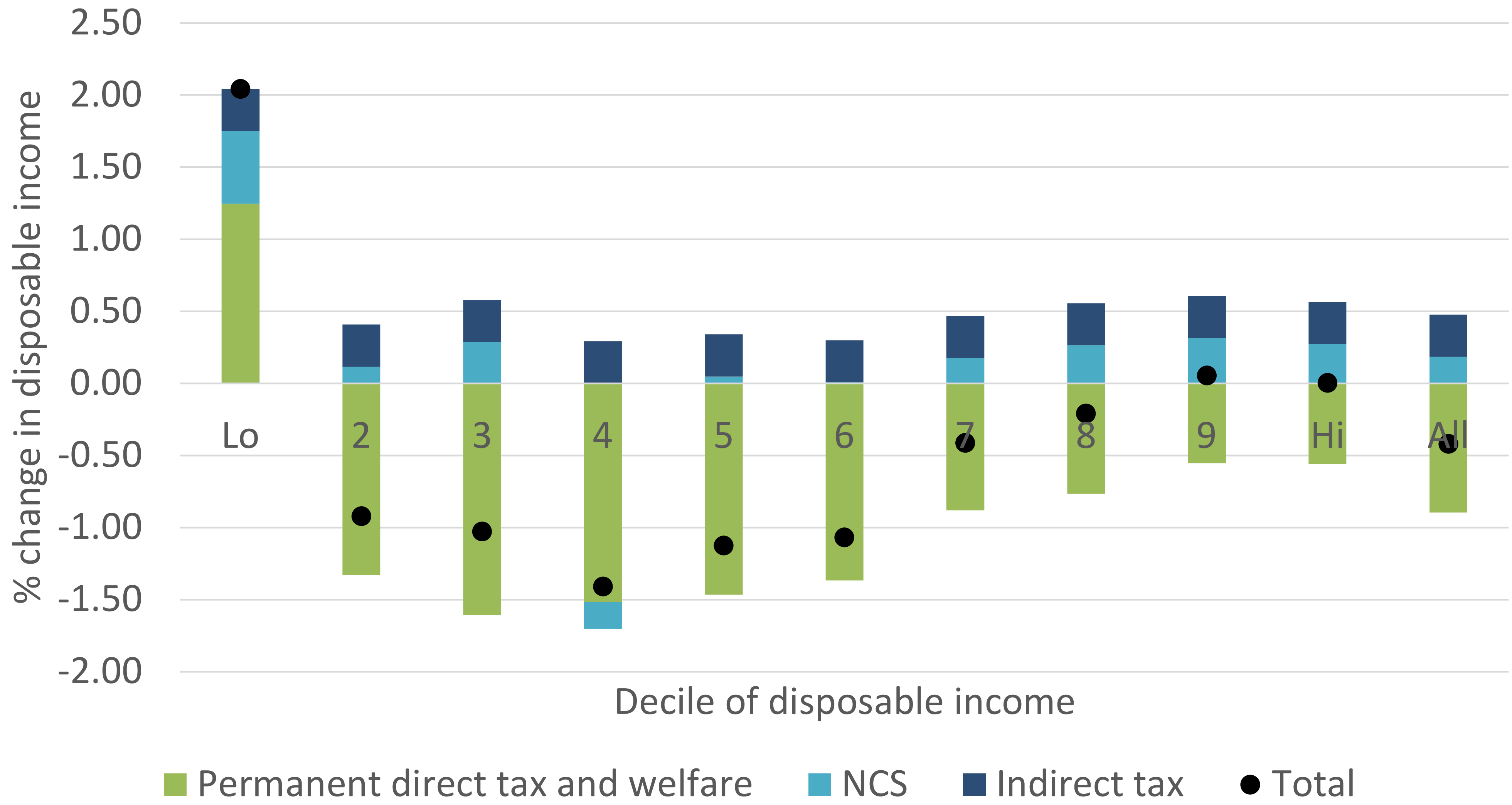


Children and people with disabilities remain at most risk of poverty in 2024

Inequality/poverty	Indexed 2023 permanent policies	Budget 2024 without temporary measures	Budget 2024 with temporary measures
Gini Index	0.273	0.272	0.267
AROP rate	0.139	0.137	0.117
Adult	0.124	0.121	0.109
Elderly	0.162	0.170	0.097
Child	0.166	0.161	0.148
Disability	0.233	0.236	0.171

2. Have policy changes kept pace with inflation since 2020

Permanent Budget 2024 changes result in average income losses for low-middle income households compared to wage-indexed 2020 policies



Conclusion

Conclusions

- One-off policies this year and next will substantially cushion incomes, particularly for low-income households
    - Worth 1.5% household disposable income this year compared to 2% between 2021-2022 and 1% in 2023.
- Even without one-off policies, households will be slightly better off next year compared to income-indexed 2023 policies
    - Exception of pensioners
    - Implications for inflation

Conclusions

- But, for low- and middle-income households, we are still in a catch-up phase after successive below-inflation increases to social welfare and tax.
- With inflation moderating, there is a need to move away from one-off payments and benchmark social welfare payments to provide certainty.
- Despite Budget 2024's stated aims of substantially reducing child poverty, <0.5 ppt reduction from permanent measures.

Thank you!

Questions?