Budget 2026: Post-Budget Briefing

DATE
10th October 2025
VENUE
ESRI, Whitaker Square, Sir John Rogerson's Quay, Dublin 2

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ESRI ECONOMIC & SOCIAL RESEARCH INSTITUTE

ESRI Post-Budget Briefing

Budget 2026: Distributional impact analysis

DATE
10th October 2025

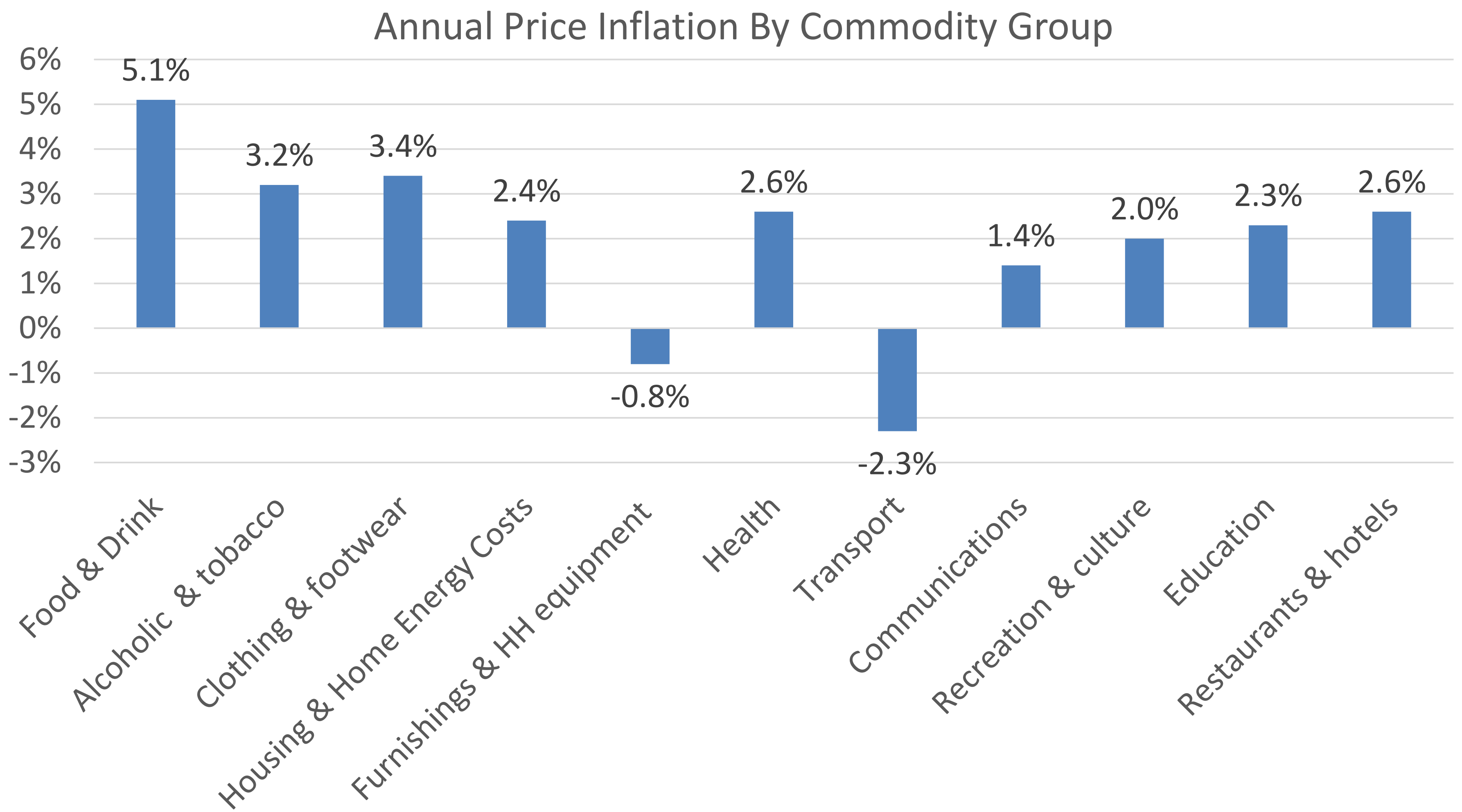
Tax, Welfare & Pensions team

Distributional impact analysis

- Focus on the impact of the Budget on the disposable income of households in Ireland.
- Focus mainly on policies affecting the cash incomes.
- Representative sample of the population.

Price inflation returning to more normal levels with continuing wage growth higher than price growth

With price growth remaining high in some areas…



The distributional impact of this and the last six Budgets

1. What is the distributional effect of Budget 2026 compared to an indexed Budget?

2. What is the distributional effect of Budget changes since 2020

- Cumulative impact of budgets since the start of the sharp rise in the cost of living

The distributional impact of Budgets

Methodology

- Use SWITCH, the ESRI’s tax-benefit model. Examine:
  - Permanent direct tax/welfare measures.
  - Withdrawal of the temporary supports put in place in Budget 2025.
  - Indirect tax changes.
  - Anticipated pass-through of reduced VAT for food/catering/hairdressers?

Indexation

- Policies indexed in line with price and wage growth between 2025-26 (2.2%/3.7%) and 2020-26 (25%/28).
- Growth in line with price inflation will maintain living standards. Growth in line with wage inflation will help keep the income tax take and income distribution constant and prevent poverty/inequality increases.

Budget 2026 – main measures analysed using SWITCH

Income tax

2% USC band increased by €1,318; No changes to other USC bands or tax bands/credits, PRSI increase (non-Budget 2026).

Welfare

Personal rate of benefits increased €10/ IQA proportional. CSP up €8/€16 for </>12s; Working Families Payment thresholds increase. FA extended to WFP recipients. FA increase of €5 per week. BTS extended to 2/3 year olds.

Indirect tax

9% VAT on gas/electricity extended. VAT on food, catering, hairdressers cut to 9%.

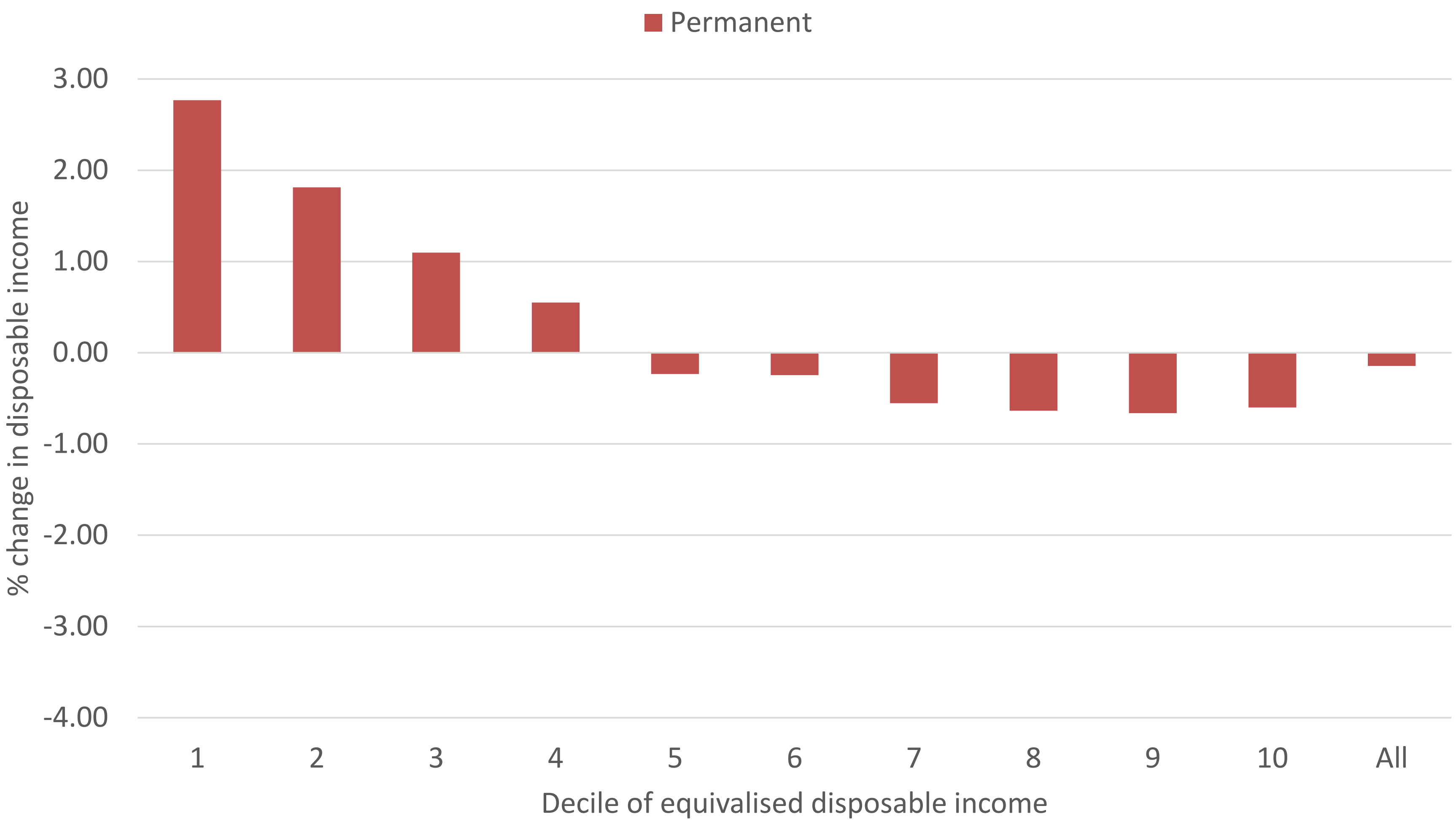
Tobacco excise + €50c on 20 pack ; carbon tax + 7.50/tonne.

Temporary policies

Withdrawal of cost-of-living supports - energy credit, lump-sum welfare payments , double payment of child benefit and core welfare, student contribution fee decreased.

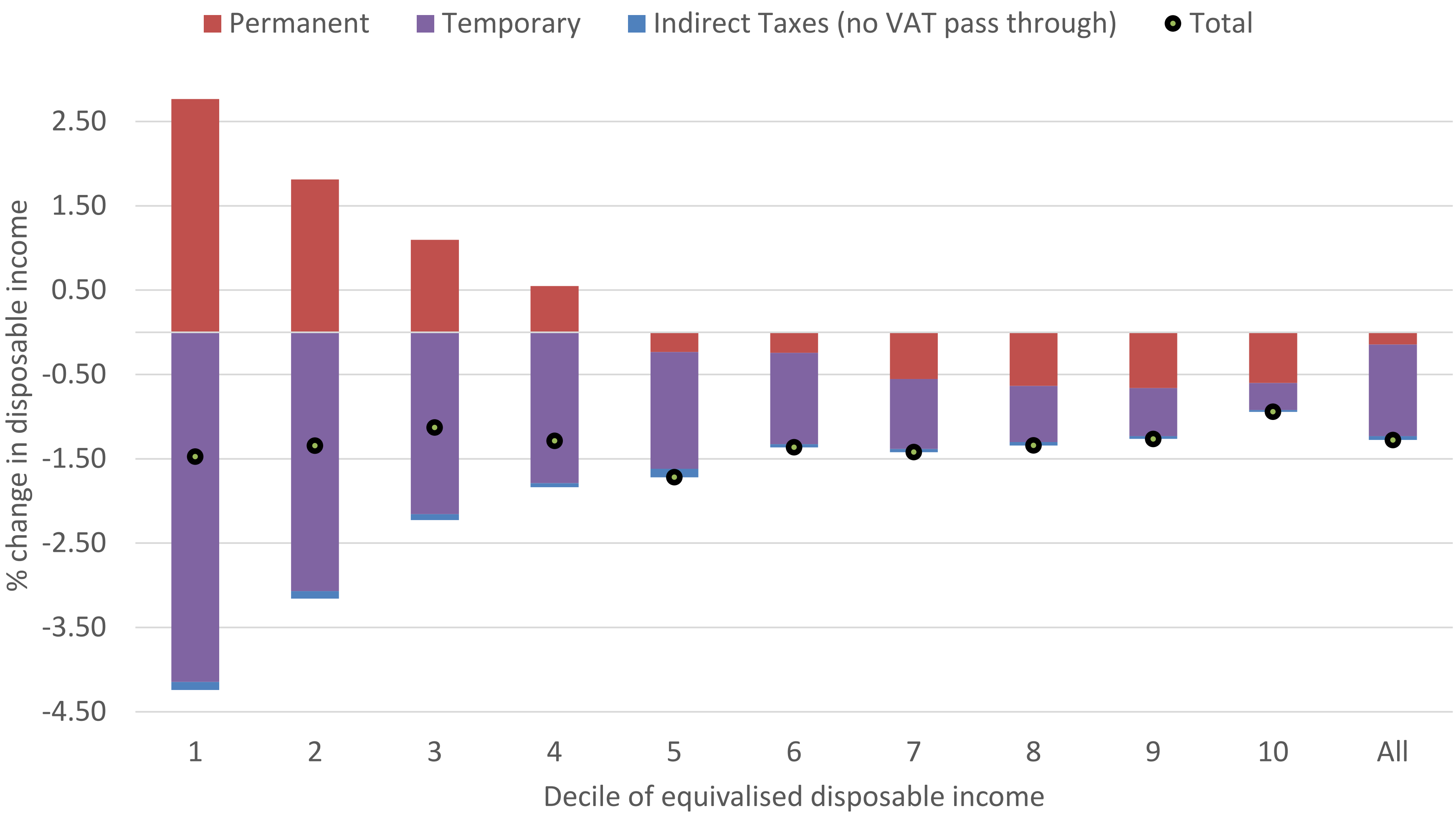
1. What is the distributional effect of Budget 2026 compared to an indexed 2025 system?

Growth at the bottom for permanent measures

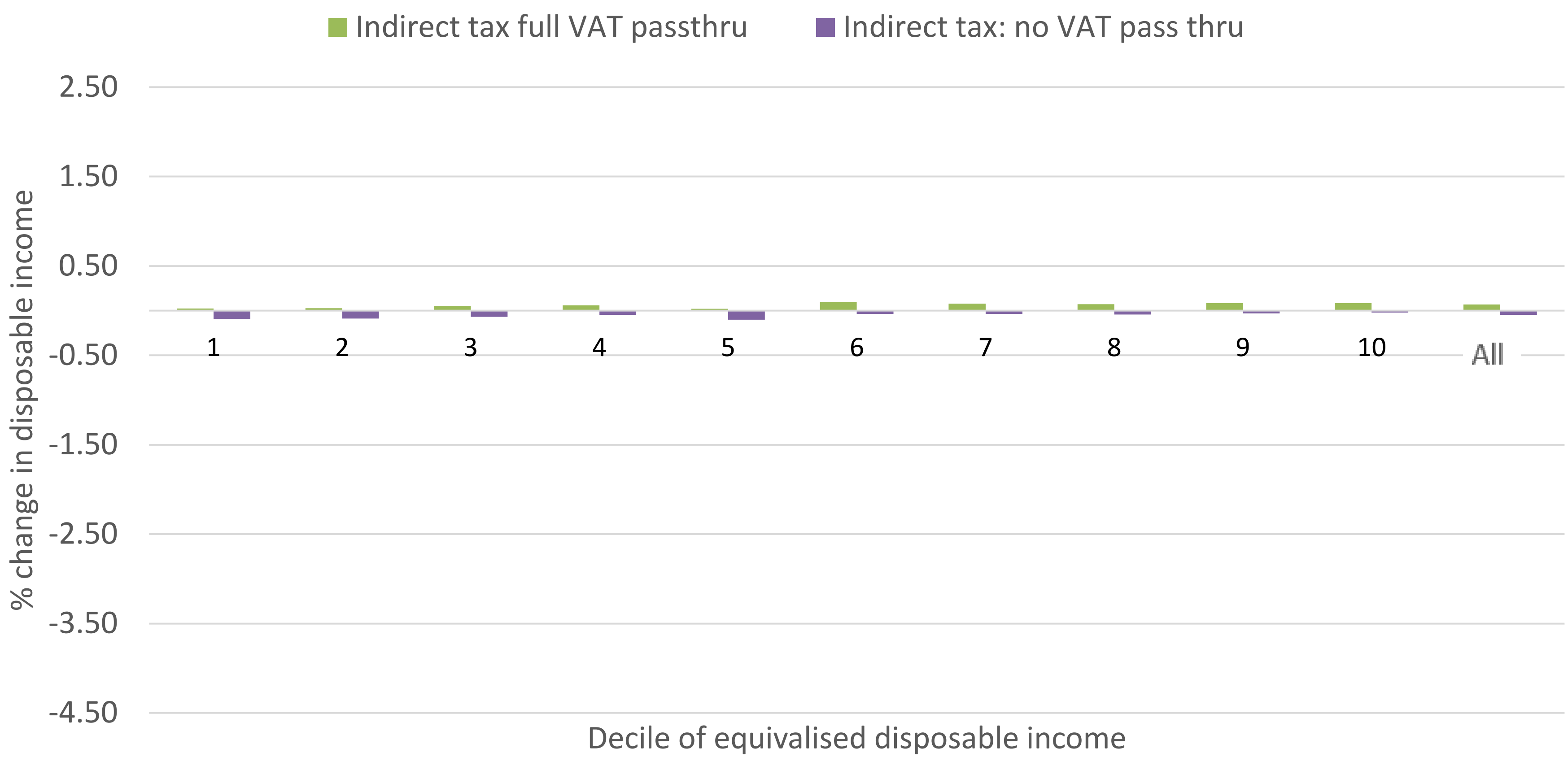


Growth at the bottom for permanent measures, temporary support withdrawal causing losses across the income distribution

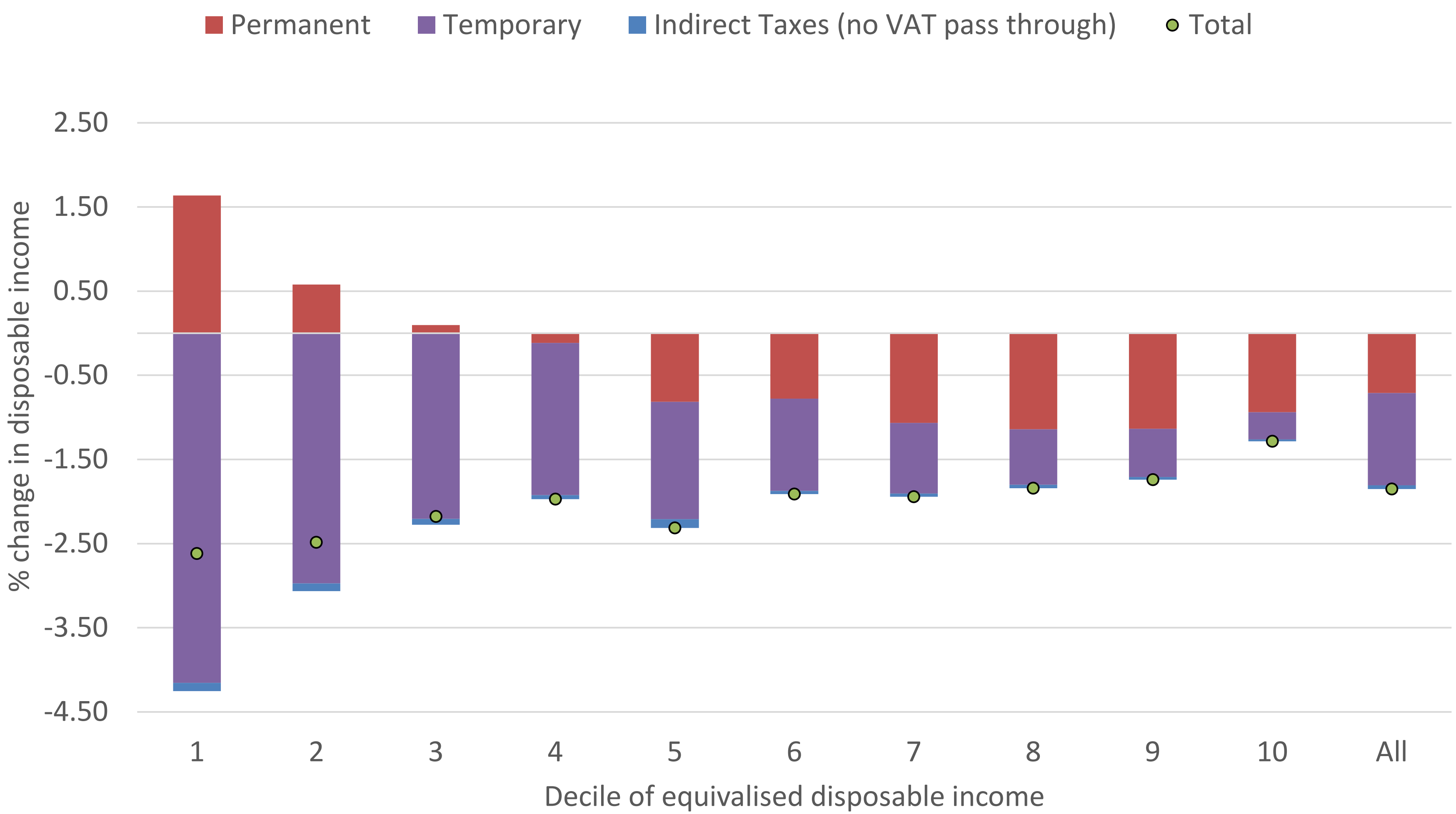
Growth at the bottom for permanent measures, temporary support withdrawal causing losses across the income distribution. Indirect effects negligible.



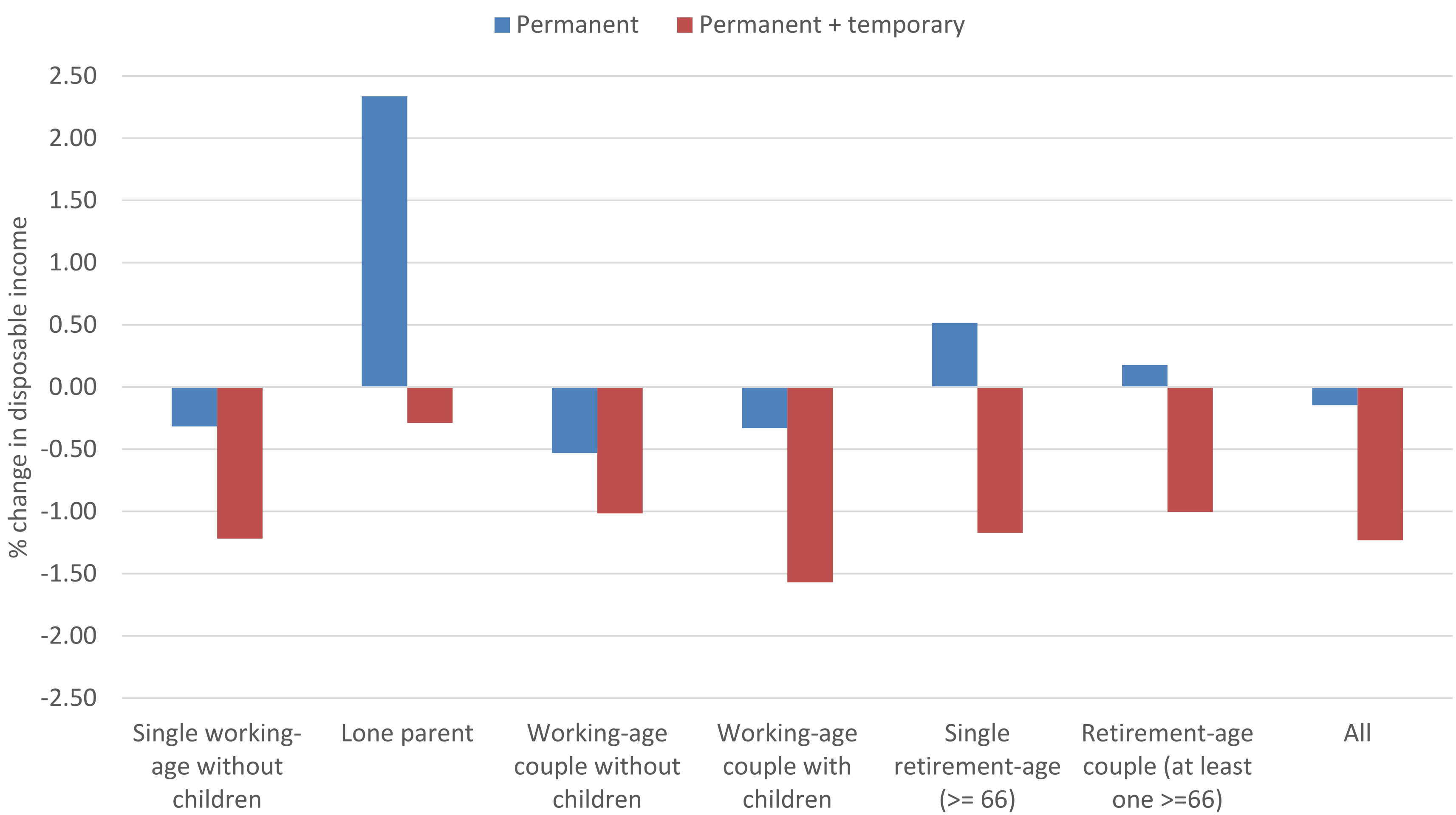
Indirect effects with/without pass through



Wage indexation

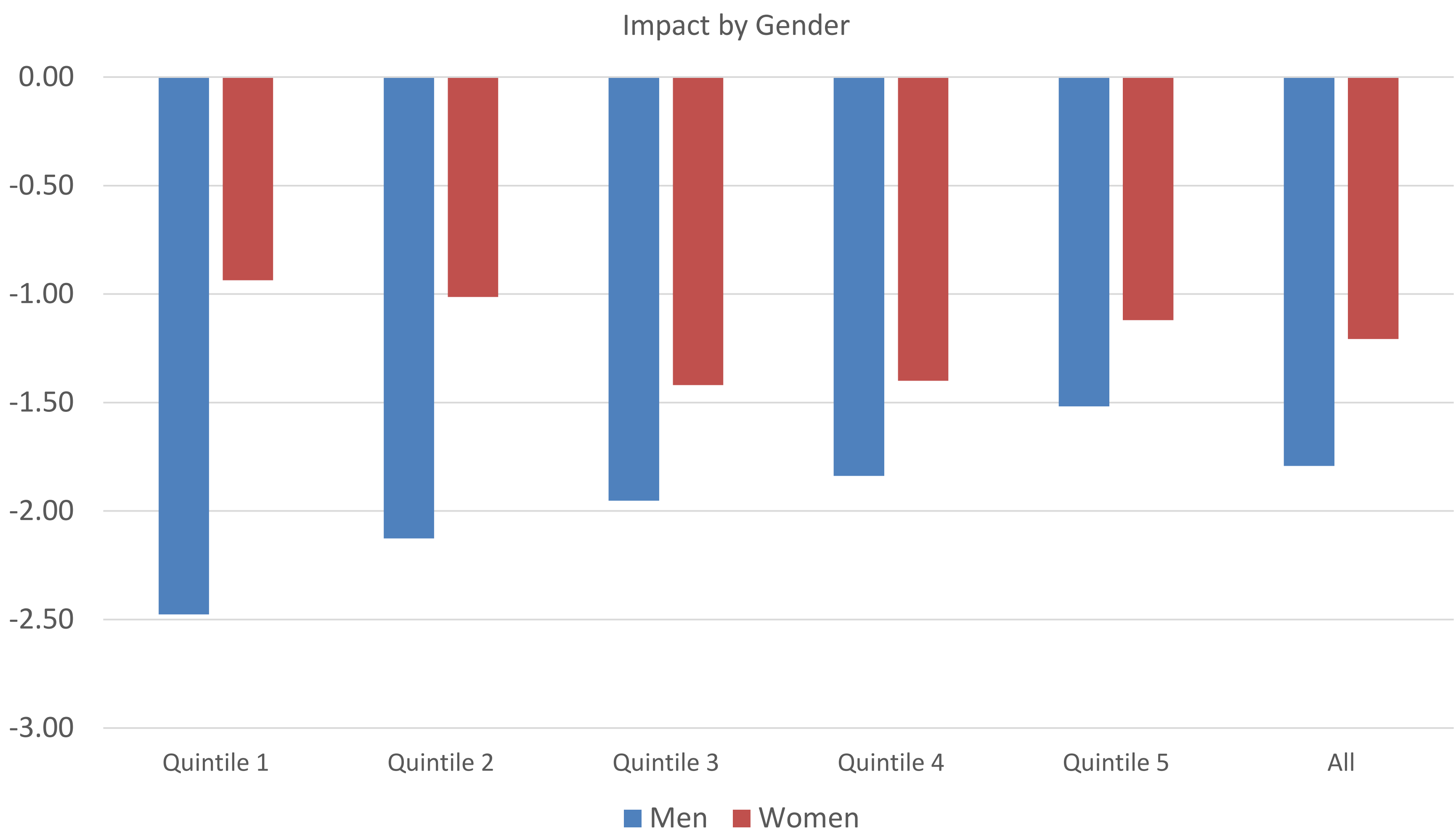


No family type maintaining income compared to price inflation

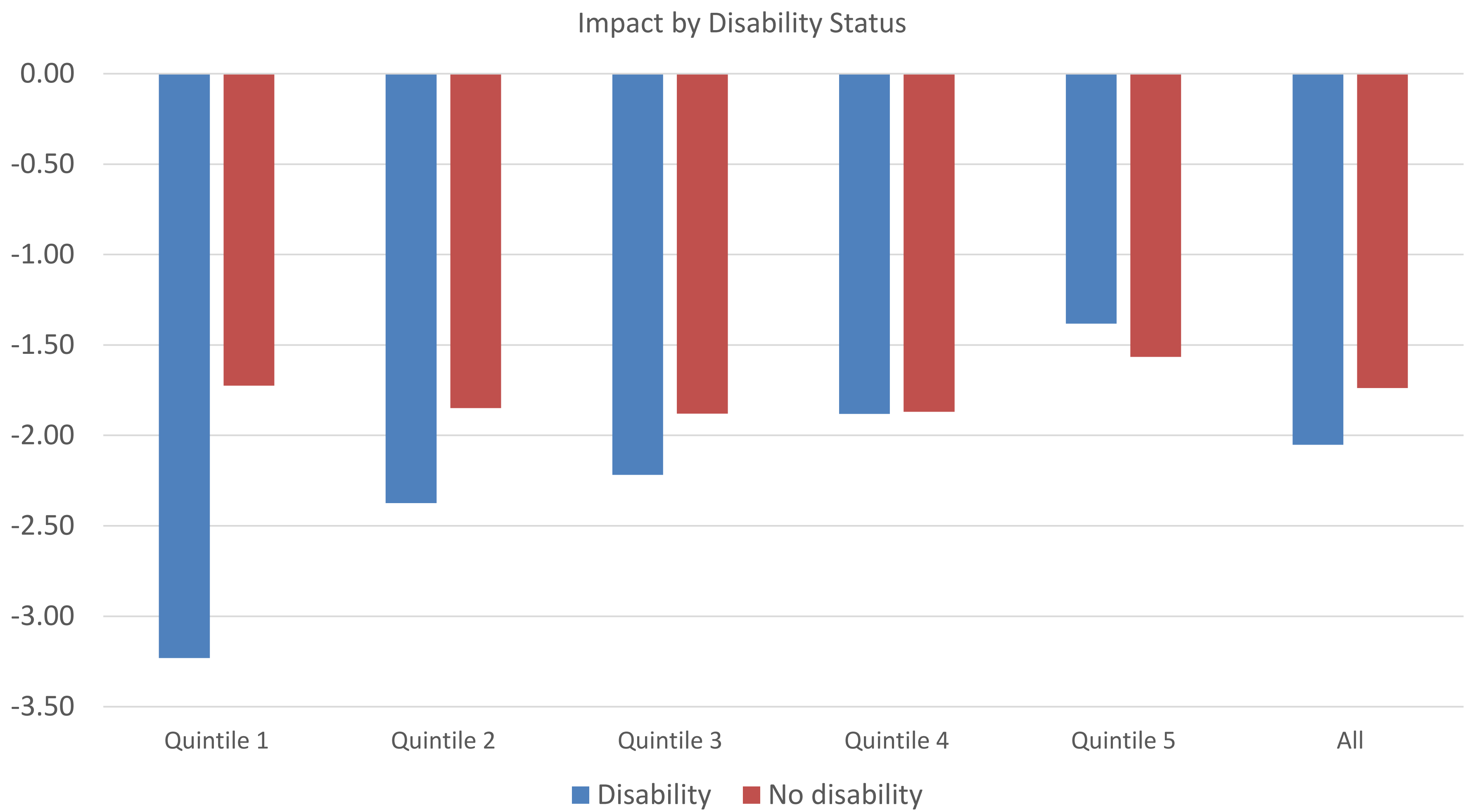


Sharper losses compared to wage growth

Policy changes impact men slightly more than women, particularly at the bottom



Households with disabilities experience sharper losses at the bottom



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Poverty and inequality

	2025 Price Indexed	2025 Wage Indexed	Budget 2026
Gini Index	27.0%	26.9%	27.1%
AROP rate			
Adult	11.5%	11.3%	11.3%
Elderly	20.7%	19.6%	20.4%
Child	14.8%	14.5%	14.3%
Disability	25.2%	24.4%	24.8%

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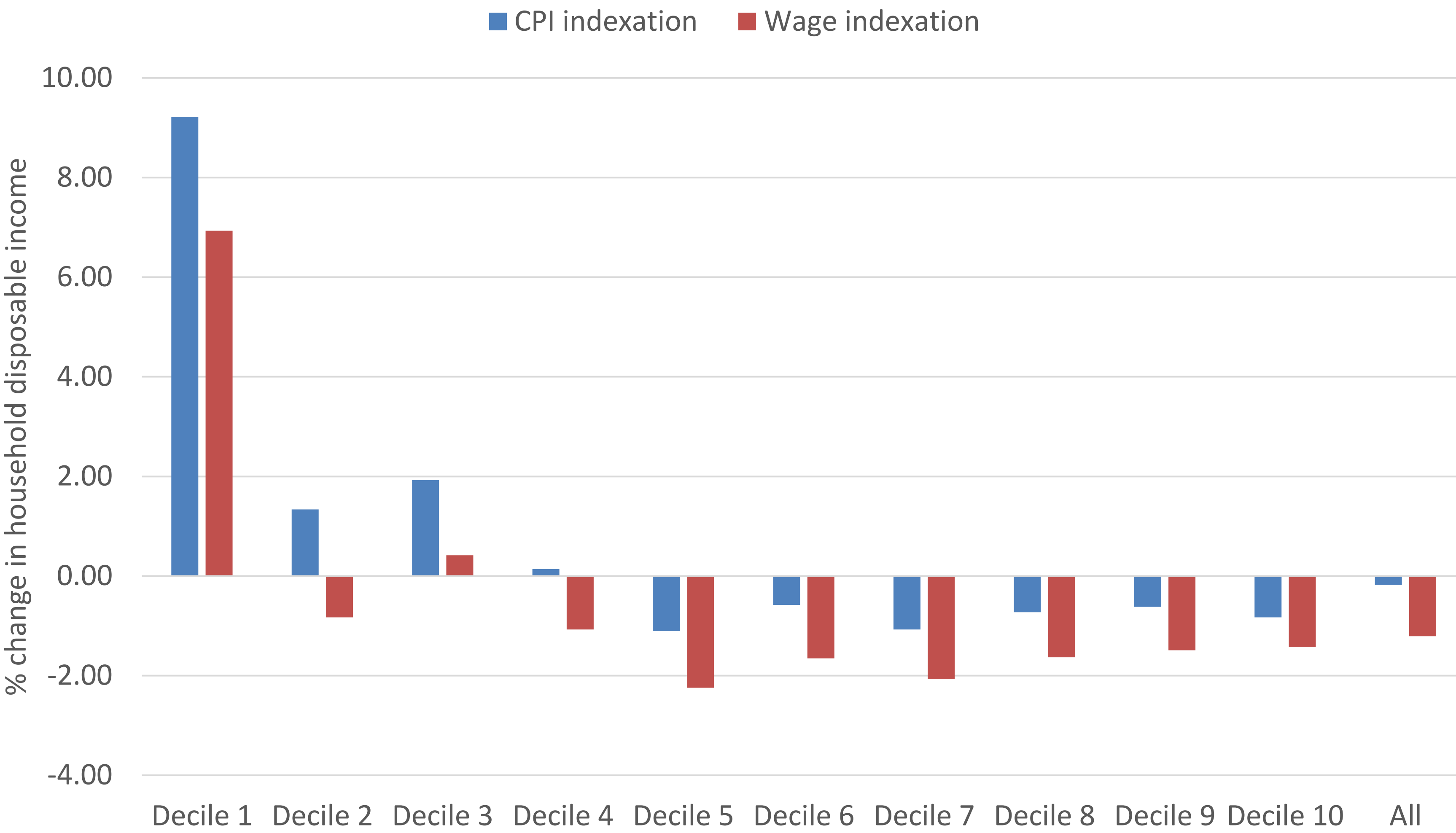
Disability	25.2%	24.4%	24.8%

2. Have permanent policy changes kept pace with price/wage growth since 2020

Real growth for the bottom decile but the tax/welfare system not keeping pace with price and wage growth further up



2020-2026 Inequality/Poverty Impacts

	Price Indexation	Wage Indexation
Gini Index change (pp)	-0.6	-0.4
Poverty change (pp)		
Whole population	-0.9	-0.1
Adult population	-1.0	-0.7
Elderly population	1.7	4.4
Child population	-2.4	-1.3
Population affected by disability	0.5	2.2

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Population affected by disability	0.5	2.2

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Elderly population	1.7	4.4
Child population	-2.4	-1.3
Population affected by disability	**0.5**	**2.2**

Conclusion

Conclusions

- Budget 2026 will result in small income losses next year – averaging 1.8% of household disposable income compared to a wage indexed Budget.
- Broadly regressive pattern.
- Withdrawal of temporary cost-of-living measures of 4.1% for low income HH and 0.3% for higher income HH.
- More targeted child related payments will result in a small decline in child poverty rates.
- Budgets since 2020 result in a 1.2% decline in average incomes but those at the bottom have seen protection

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Conclusions

- Importance of the temporary measures especially for those 66+/with disabilities & of their withdrawal.
- While the CSP and WFP increases will reduce child poverty (and 2020-2026 impacts are poverty reducing) more will need to be done to reach poverty targets.
- Upward impact of policy on elderly and disability poverty rates 2020-2026.
- % rises in welfare compared to fixed amount increases.
- Annual indexation of the tax and welfare system? Price indexation cost 1.2bn; wage indexation cost 2bn.

Thank you!

Questions?