

Opening Statement – Oireachtas Committee on Budgetary Oversight

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Introduction

Let me begin by thanking the Chair for the invitation to the ESRI to appear before the Committee. I am Karina Doorley, and I am joined by my colleagues Claire Keane and Rachel Slaymaker. We are grateful for the opportunity to appear before the Committee today to provide our assessment of Budget 2027.

Every year, the ESRI carries out a distributional impact assessment of the Budget using SWITCH, the ESRI's tax-benefit model. This work is possible thanks to core funding provided to the ESRI by the Department of Public Expenditure, Infrastructure, Public Service Reform and Digitalisation and funding for the SWITCH work program provided by the Departments of Health, Finance, Social Protection and Children, Disability and Equality.

We compare the effect of the budgetary reforms to a scenario in which policy reform keeps the distribution of income or purchasing power constant. In practice, this implies comparing changes in the parameters of the tax and welfare system to an 'indexed' baseline, in which these parameters change in line with forecast income or price growth.

Distributional impact of Budget 2027

Changes to direct tax and welfare measures and childcare supports announced as part of Budget 2027 are, on average, ahead of forecast price growth of 3% and broadly in line with forecast wage growth of 4.1% for 2027. This means that, at the household level, direct tax and welfare measures announced as part of Budget 2027 will result in small income gains compared to a budget pegged to price growth and almost no average change compared to a budget pegged to wage growth. There is variation in how Budget 2027 will affect households of different income levels, with the lowest-income households gaining compared to both price and wage indexed policies and higher income households experiencing smaller changes or no change in their disposable income.

Some of the protective effect of Budget 2027 for the lowest income tenth (decile) of the population is due to the new €500 per year cost-of-disability payment for recipients of some

long-term disability payments. This has been introduced to help households with disabled members meet their extra consumption needs, which previous ESRI research has shown can reach half of disposable income.

There are some budgetary measures targeted specifically at children. The increase to the Child Support Payment is above forecast price and wage growth for 2027, while the increase to the Working Family Payment is above price growth but below wage growth. The increase to universal childcare subsidies for children up to senior infants, and the extension of the income-assessed subsidy and fee cap, will reduce childcare costs for families who use formal childcare. However, the overall effect of the budget package, including these measures, is to hold child poverty relatively constant, compared to a wage- or price-indexed baseline. Although the increased support for childcare costs may indirectly reduce child poverty through increased parental labour supply, this will require the supply of formal childcare to expand. Many more measures directed at children will be necessary to achieve the Government target for child consistent poverty of 3% or below. A second tier of child benefit remains the most effective way of meaningfully reducing the number of children experiencing poverty and deprivation.

The reduction in carbon tax on home heating oil and gas is untargeted to the extent that it benefits all households who use heating oil and gas, whether they can afford the recent price increases or not. This makes the measure expensive and reduces the incentive for households who can afford to decarbonise to do so. Targeted measures to support low-income households would maintain this incentive while protecting the most vulnerable groups.

The cumulative package of indirect tax measures for 2027, including the reduction of carbon tax on home heating oil and gas, the phased re-instatement of fuel excises and the increases to carbon tax on goods other than home heating oil and gas, will result in aggregate income losses across the income distribution next year, averaging 0.5% of disposable income.

Medium-term perspective

Although there is no formal policy of indexation of tax and welfare parameters in Ireland, in practice, historically, the tax and welfare system has tended to keep up with both price and wage inflation. Taking the last seven budgets together, we find that, compared to a scenario of wage-indexed budgets since before the pandemic, households are slightly worse off, by around 0.3% of disposable income on average, as a result of direct tax and welfare measures and childcare supports. However, those in the lowest income group have seen substantial income gains which persist up to the middle of the income distribution. As a result, policy changes

have been nudging poverty rates down since 2020 for all groups. Compared to a series of wage-indexed budgets, the overall at-risk-of-poverty rate is down by around 2 percentage points since 2020.

We thank the committee members for their time and the opportunity to discuss Budget 2027 and we look forward to answering related questions.