Budget 2027: Post-Budget Briefing

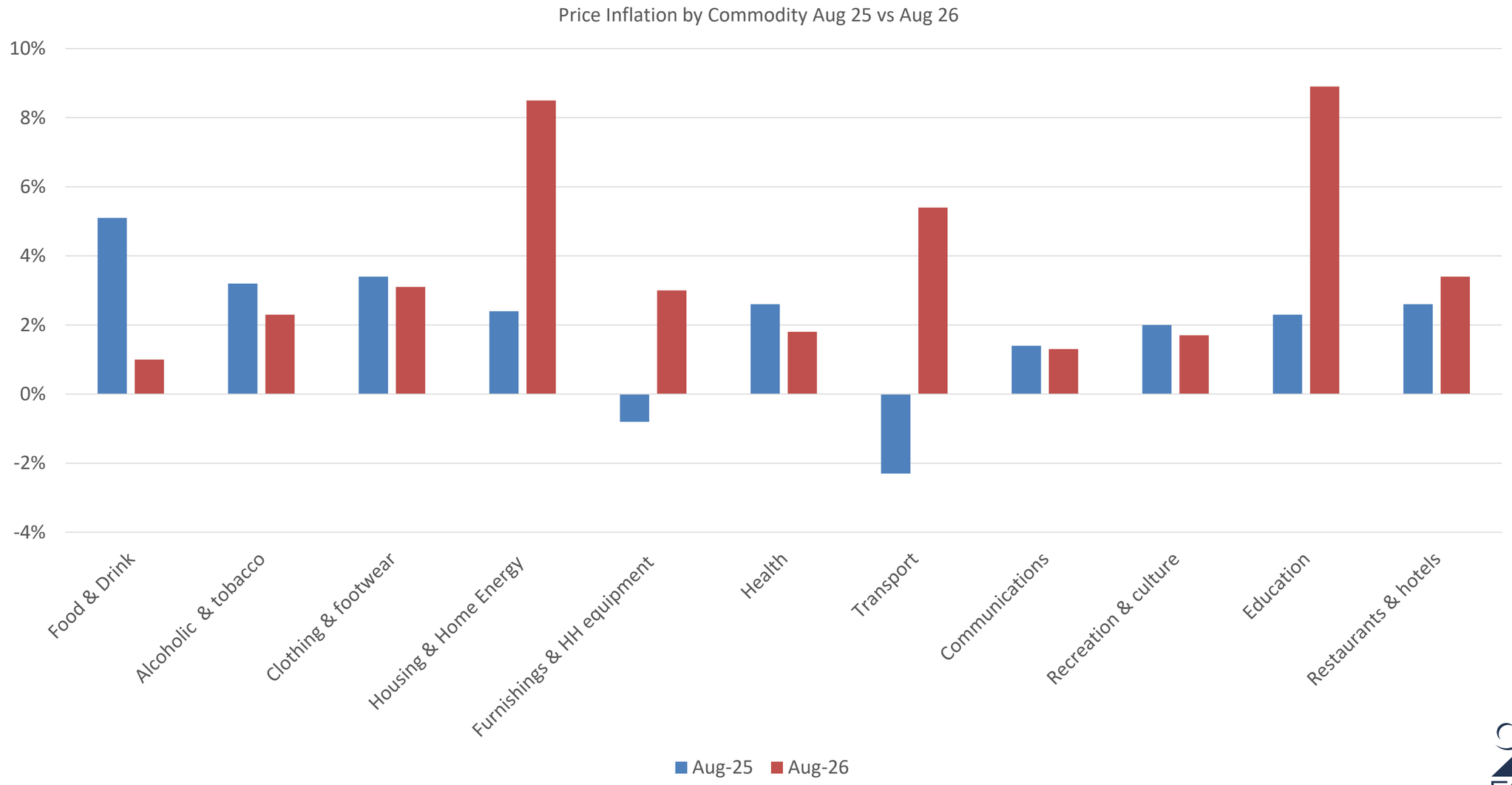
Taxation, Welfare and Pensions Team

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Distributional Impact of Budget 2027

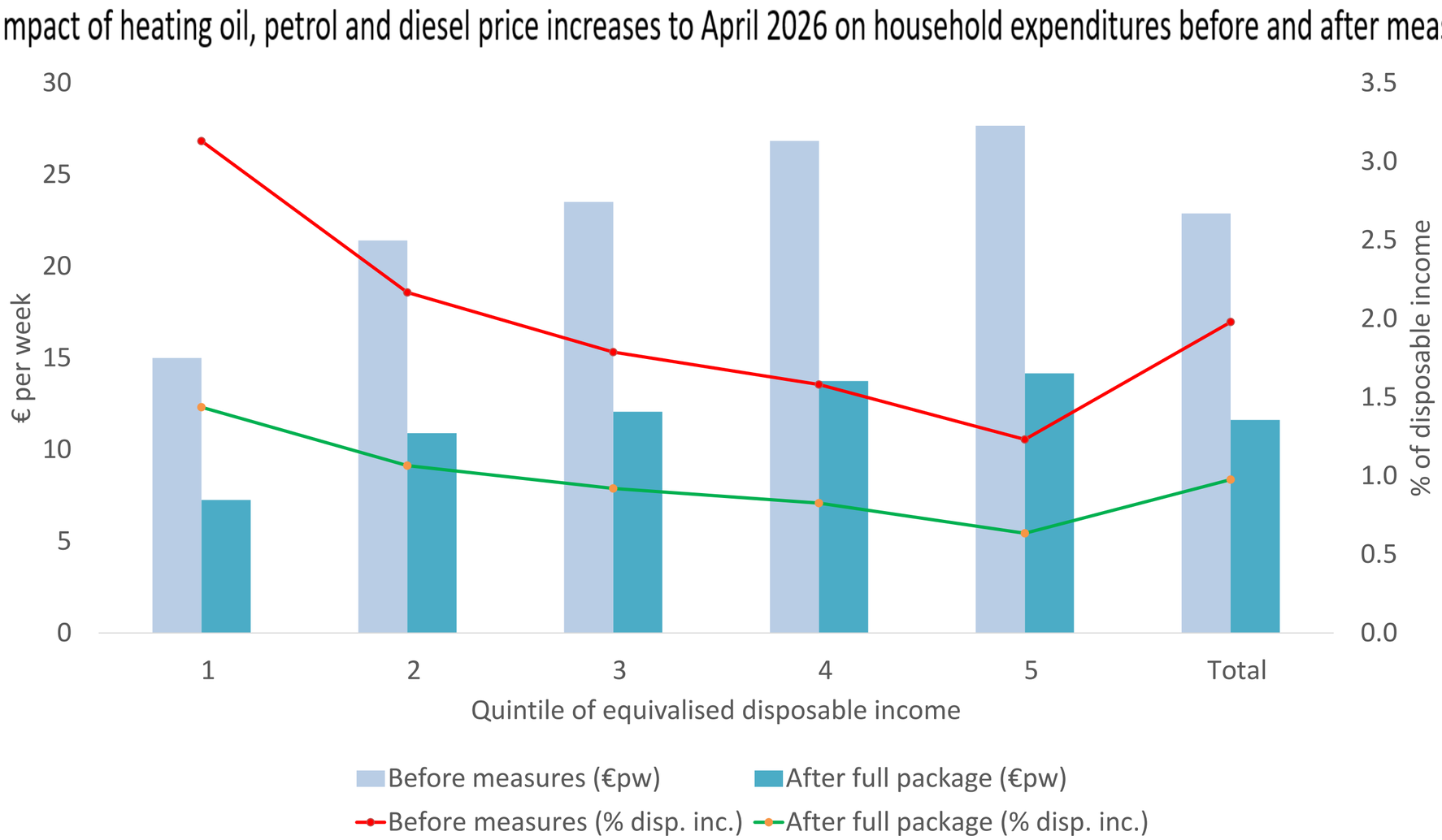
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Food and Drink Inflation Slowing but Housing and Home Energy & Transport Growing



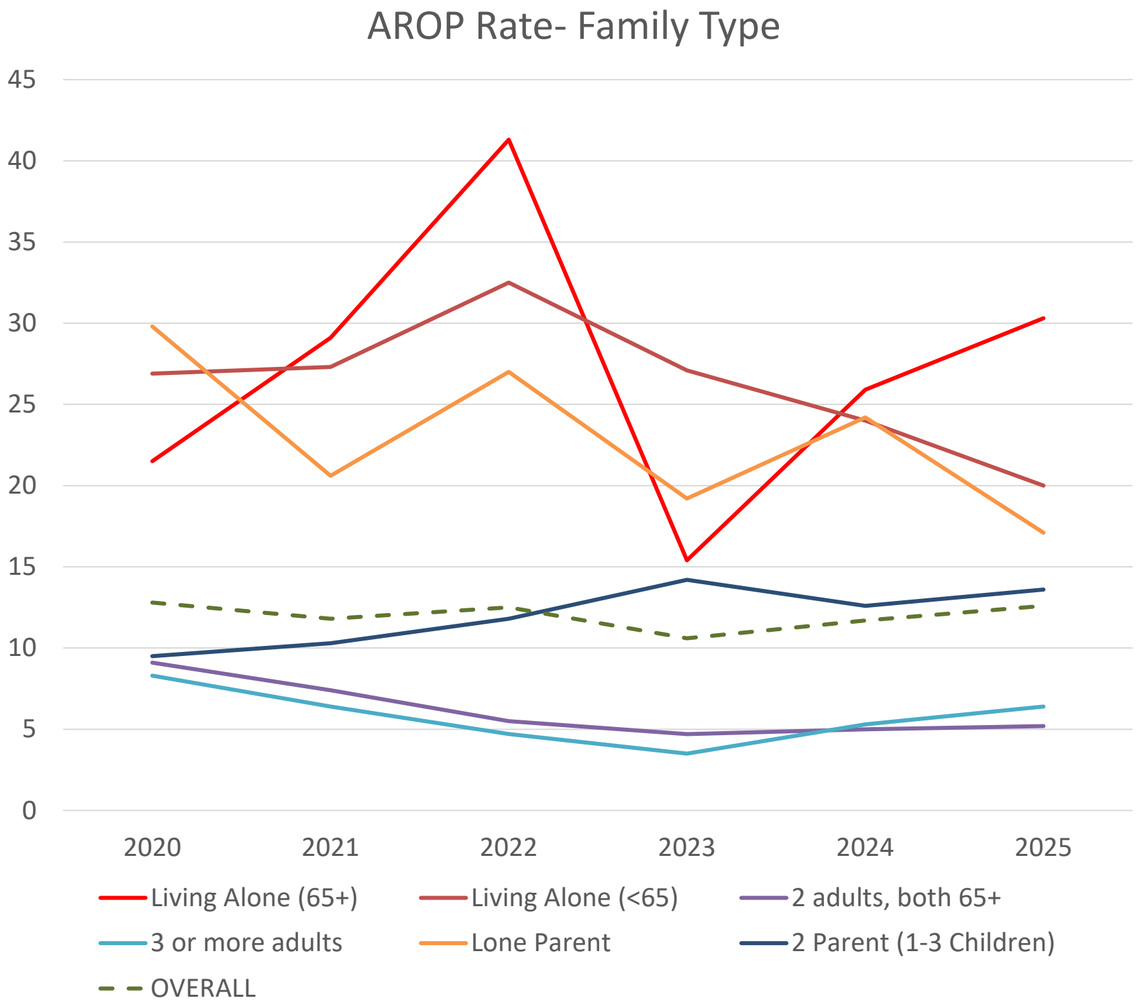
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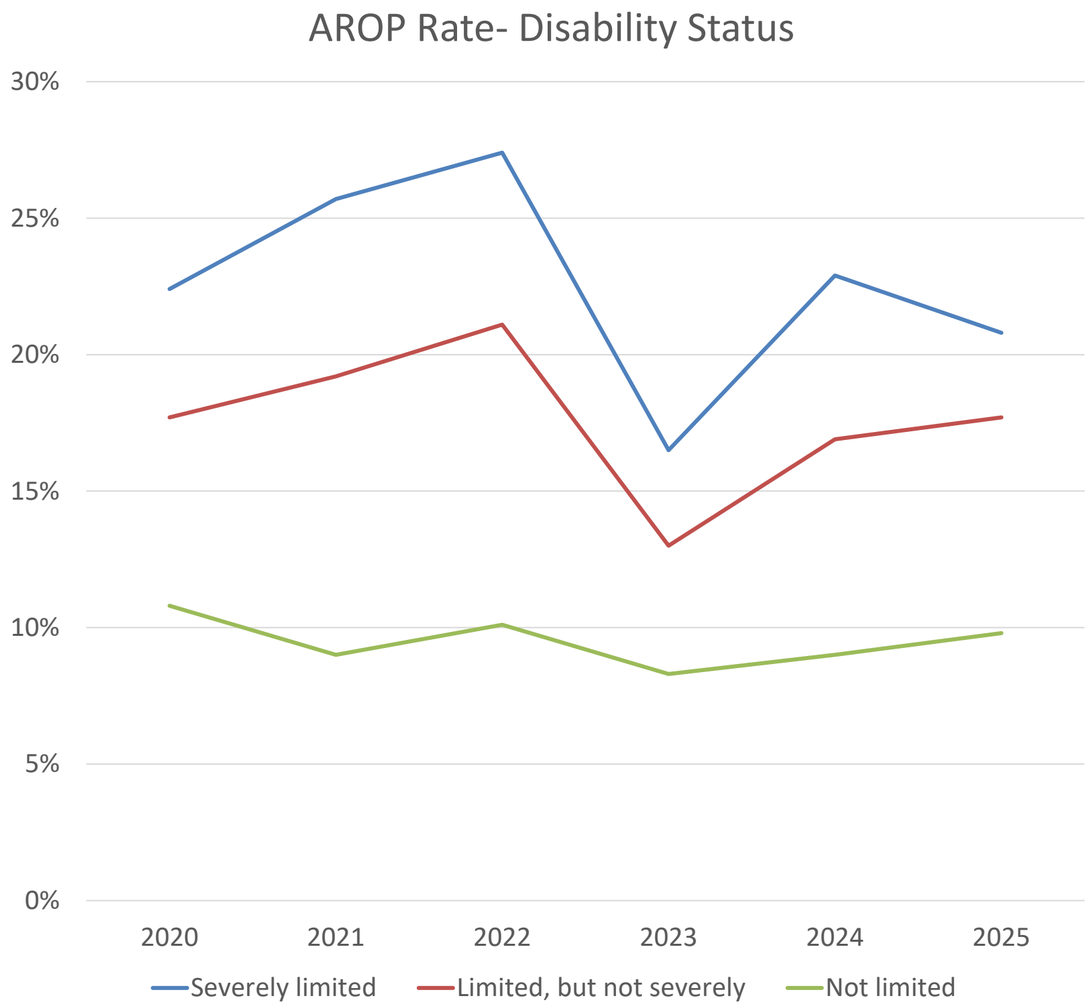
The 2026 measures cushioned around half of the energy price rise for each income group



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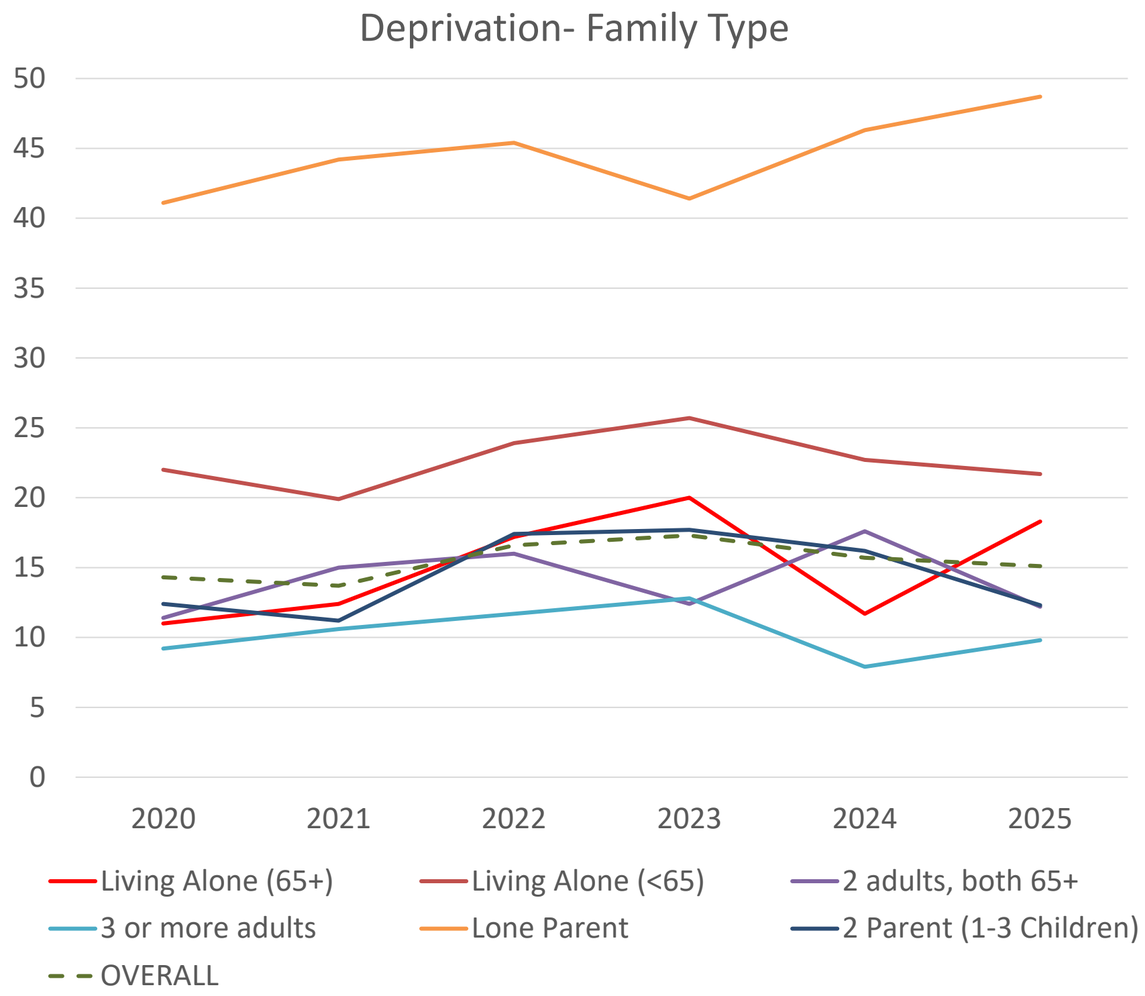
At-Risk-of-Poverty Rate

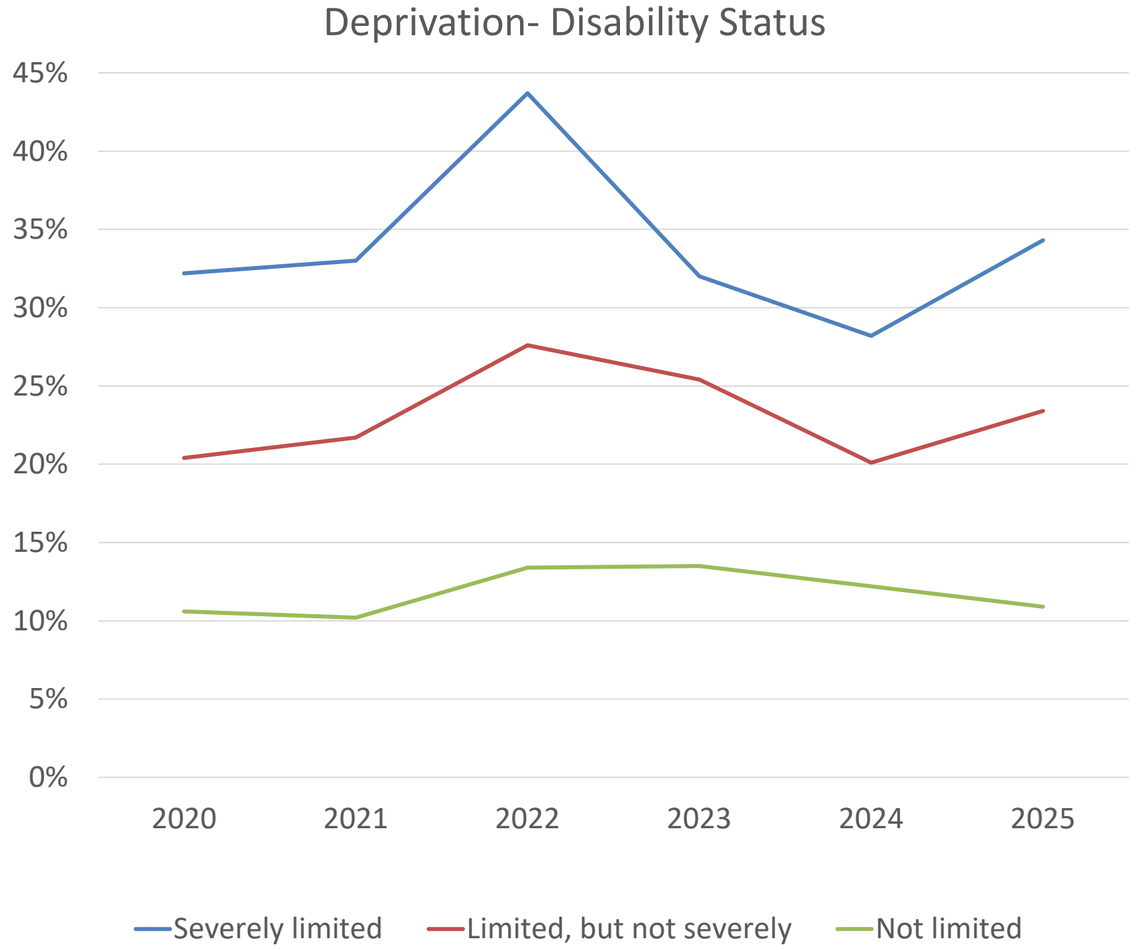




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Deprivation





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The Distributional Impact of Budgets

Methodology

- Use SWITCH, the ESRI's tax-benefit model. Examine:
  - Representative sample of the population.
  - Direct tax/welfare changes.
  - Indirect tax changes also possible.
  - Starting point – Budget day (energy supports in place)

Indexation

- Policies indexed in line with forecast price and wage growth between 2026-27 (3%/4.1%) and actual 2020-27 (%31/30%).
- 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.

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1. **What is the distributional effect of Budget 2027 compared to an indexed Budget?**

   i.e. compared to price/wage growth

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

   Cumulative impact of the 7 Budgets (compared to wage growth)

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What is the distributional effect of Budget 2027 compared to an indexed Budget?

i.e. compared to price/wage growth

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Budget 2026 – main measures analysed using SWITCH
Indirect Tax Changes

Withdrawal of the energy shock supports:

Excise restoration up to June.

Restoration of NORA levy on petrol, diesel and home heating oil.

Other indirect tax measures:

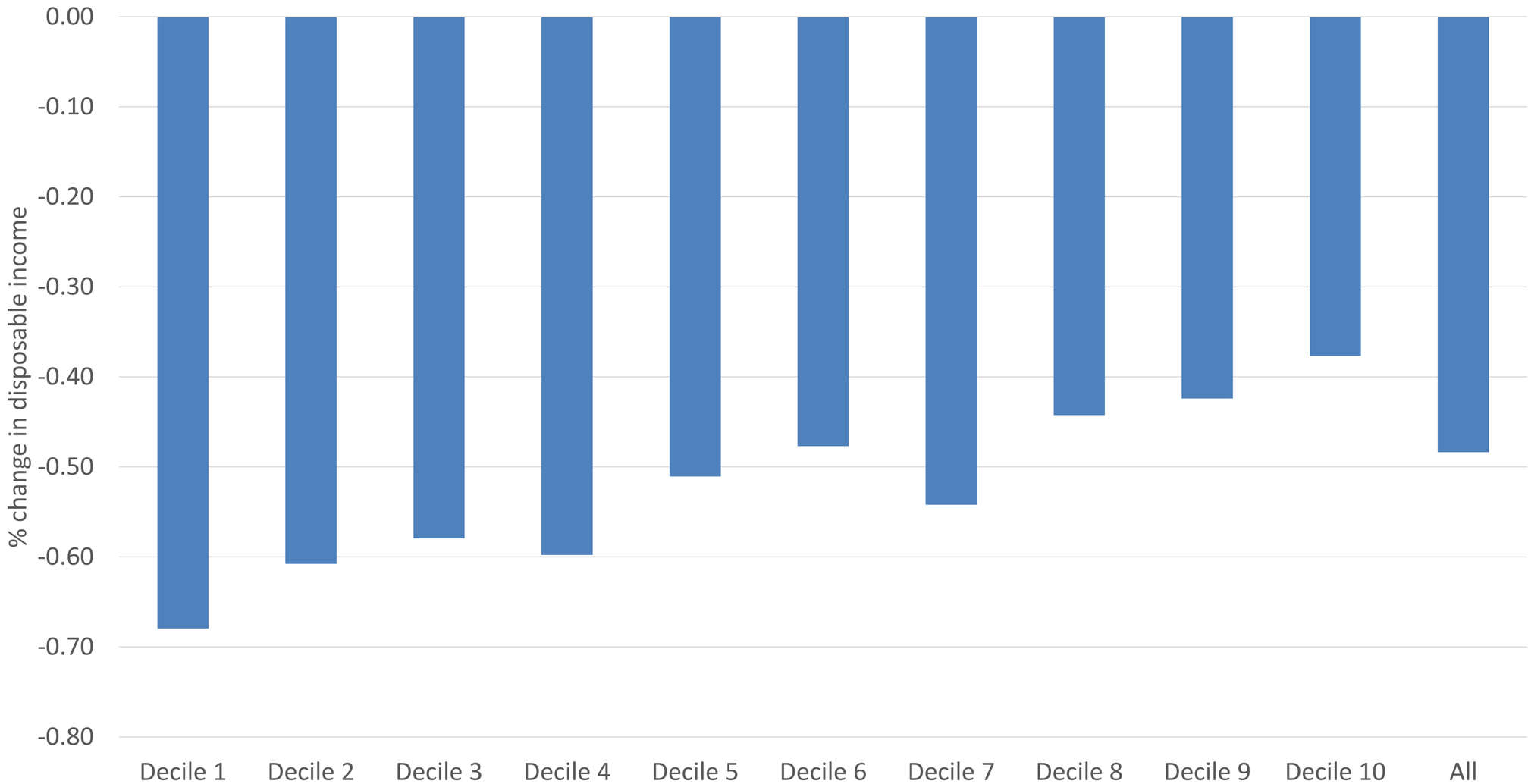
Carbon tax decrease to 2023 levels (home heating oil & natural gas).

Carbon tax increase for all other items.

Cigarettes +€1 per pack.

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Overall impact of indirect taxes is negative



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Budget 2026 – main measures analysed using SWITCH

DIRECT TAX AND WELFARE SYSTEM

Income tax

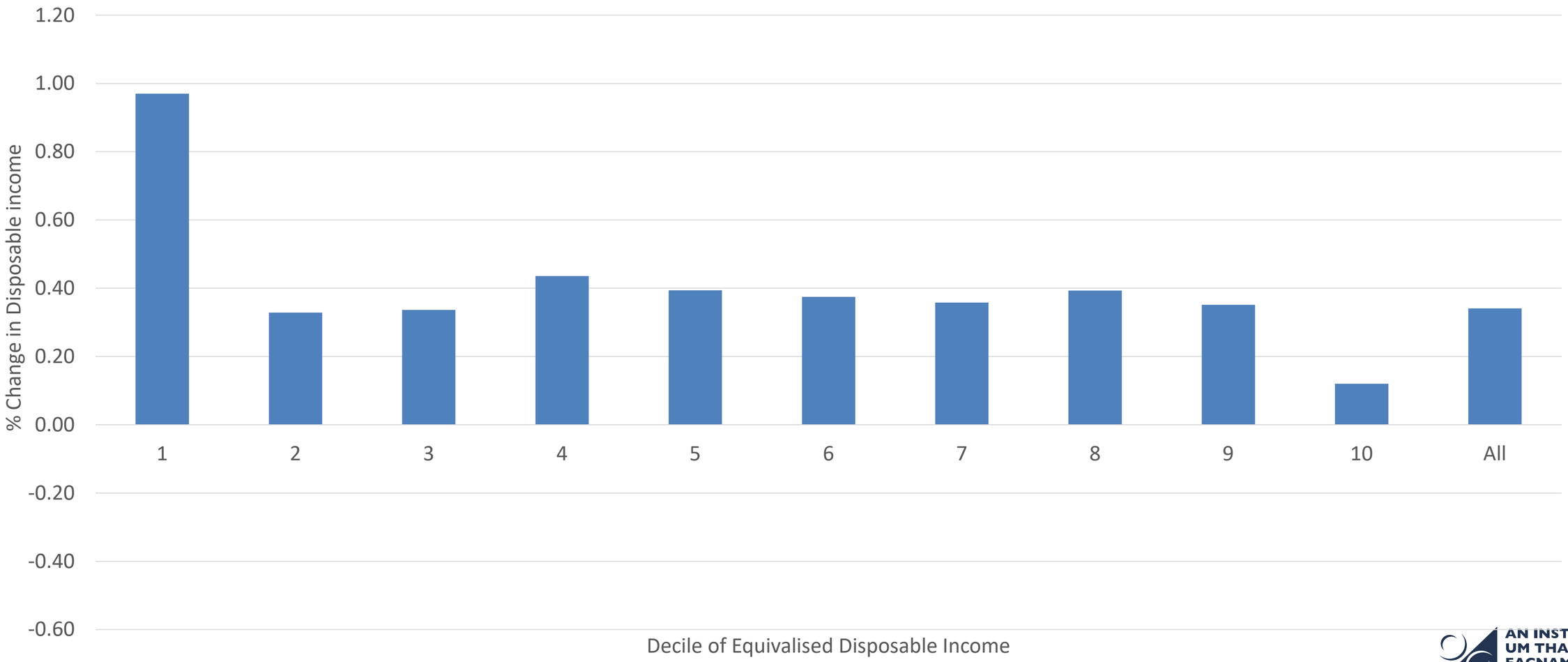
SRB increase (€2,500);
Tax credit increase (Employee/PAYE +€100; Home carer +€125);
2nd USC band +€1,600;
PRSI +0.15%

Welfare

Personal rate of benefits increased €10/ IQA proportional.
CSPs up €6.
LAA +€3;
€500 Cost of Disability Payment (DA/IP/BP recipients);
FA +€5, restoration of the (shorter) season;
WFP limits up €30 per week;
NCS (universal hourly rates & income limits increased; childcare fee caps)

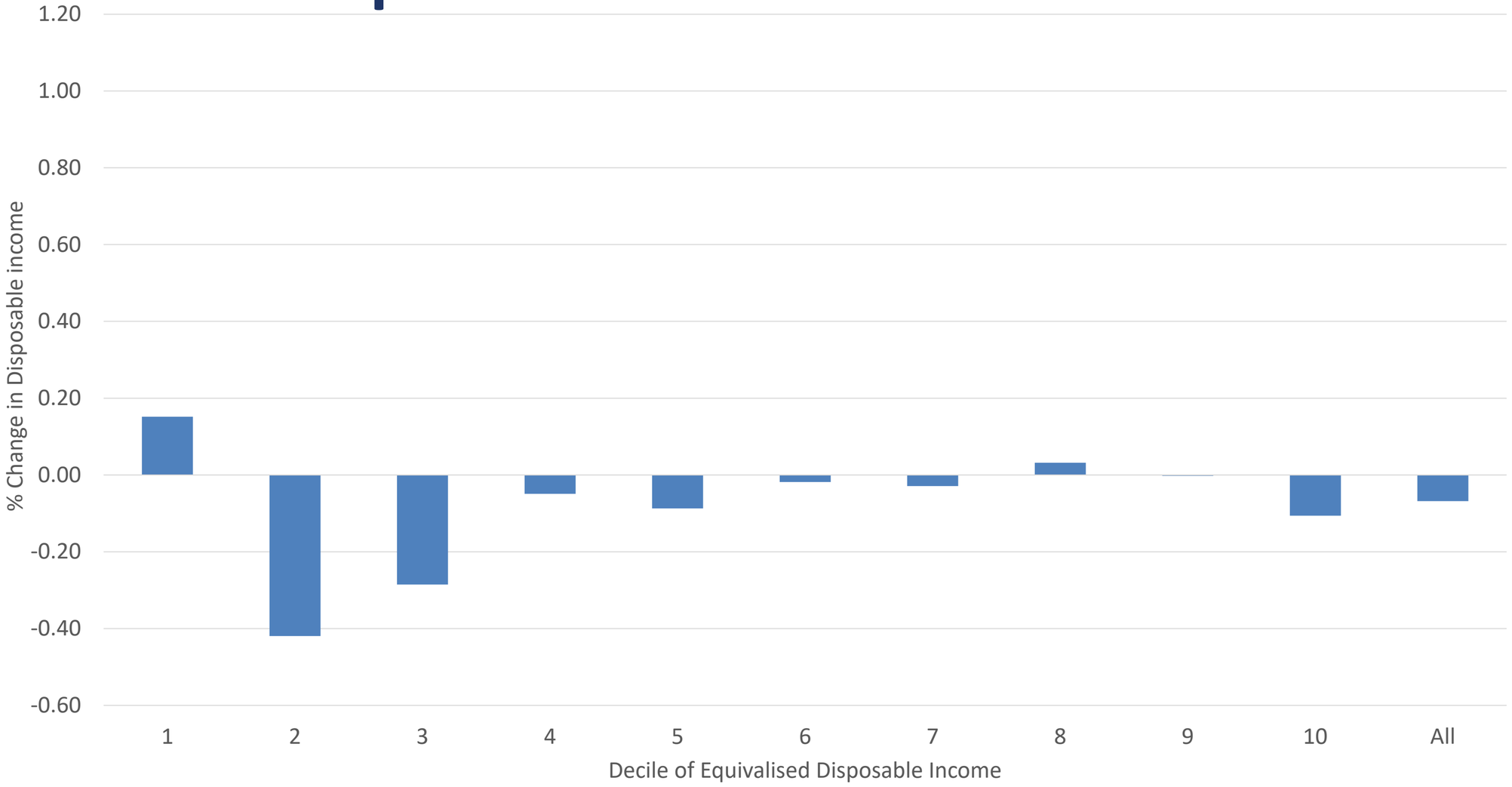
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Welfare and Direct Tax System Growth Ahead of Price Inflation



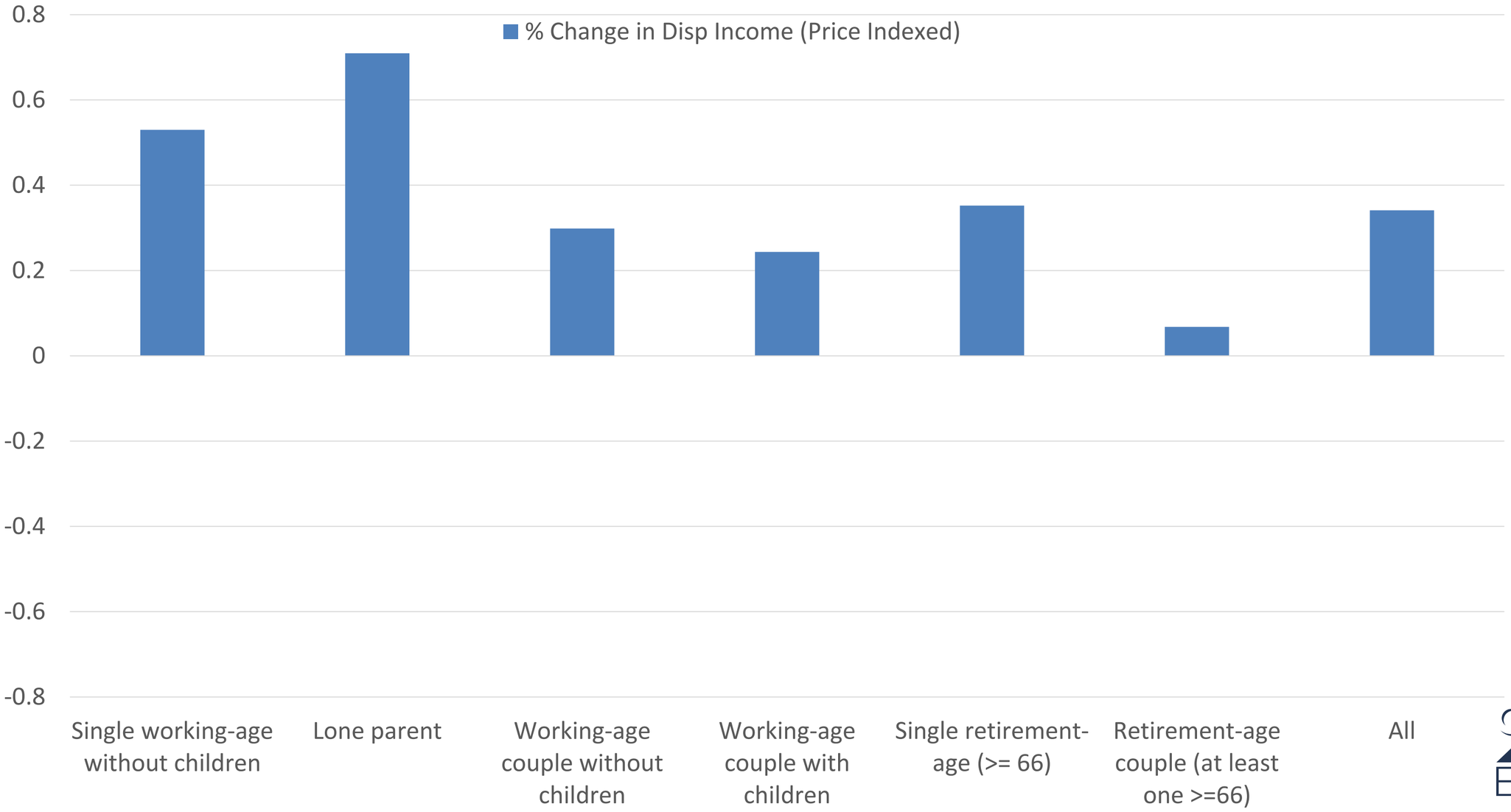
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In Line with Wage Growth on Average; Growth for Lowest Income Group



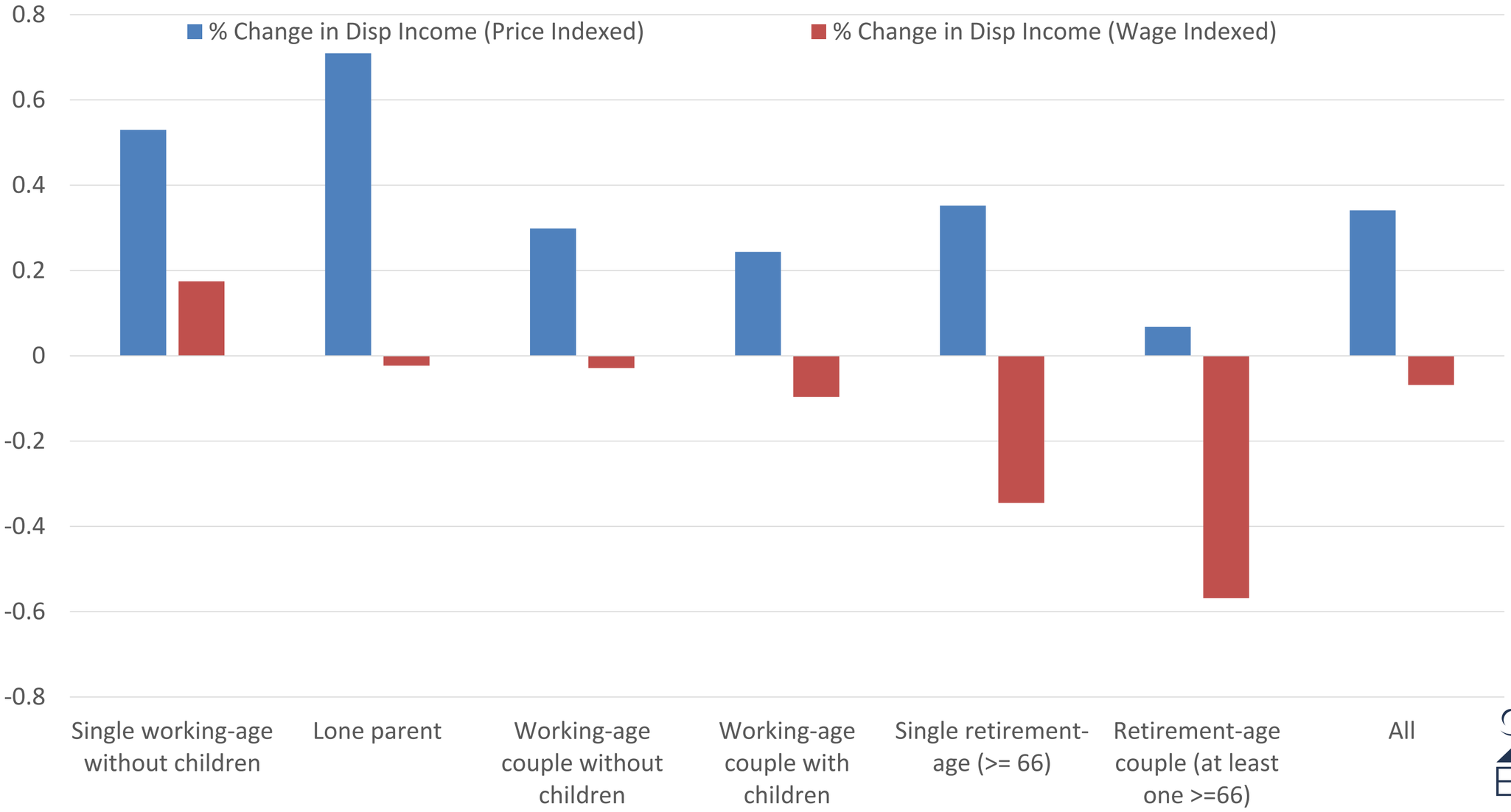
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Largest gain for lone parents (relative to price growth); Smallest for Retirement Age Couples



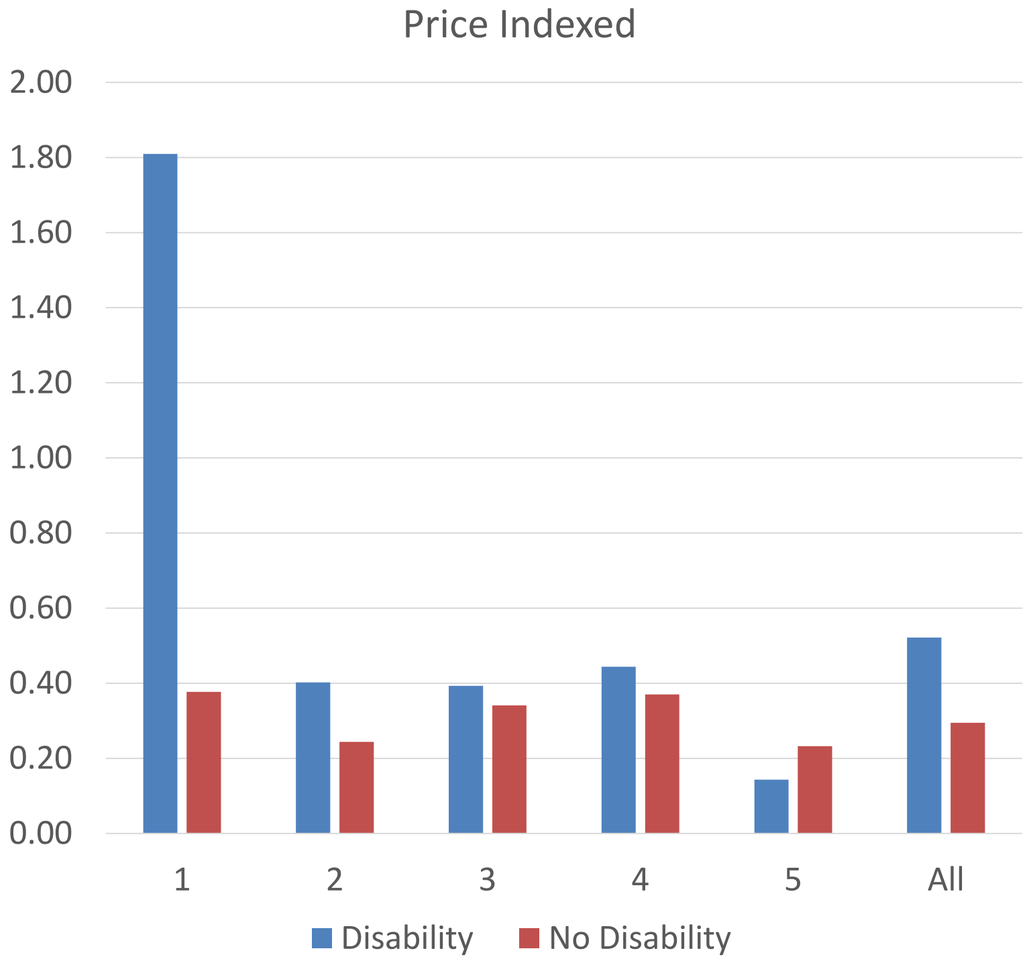
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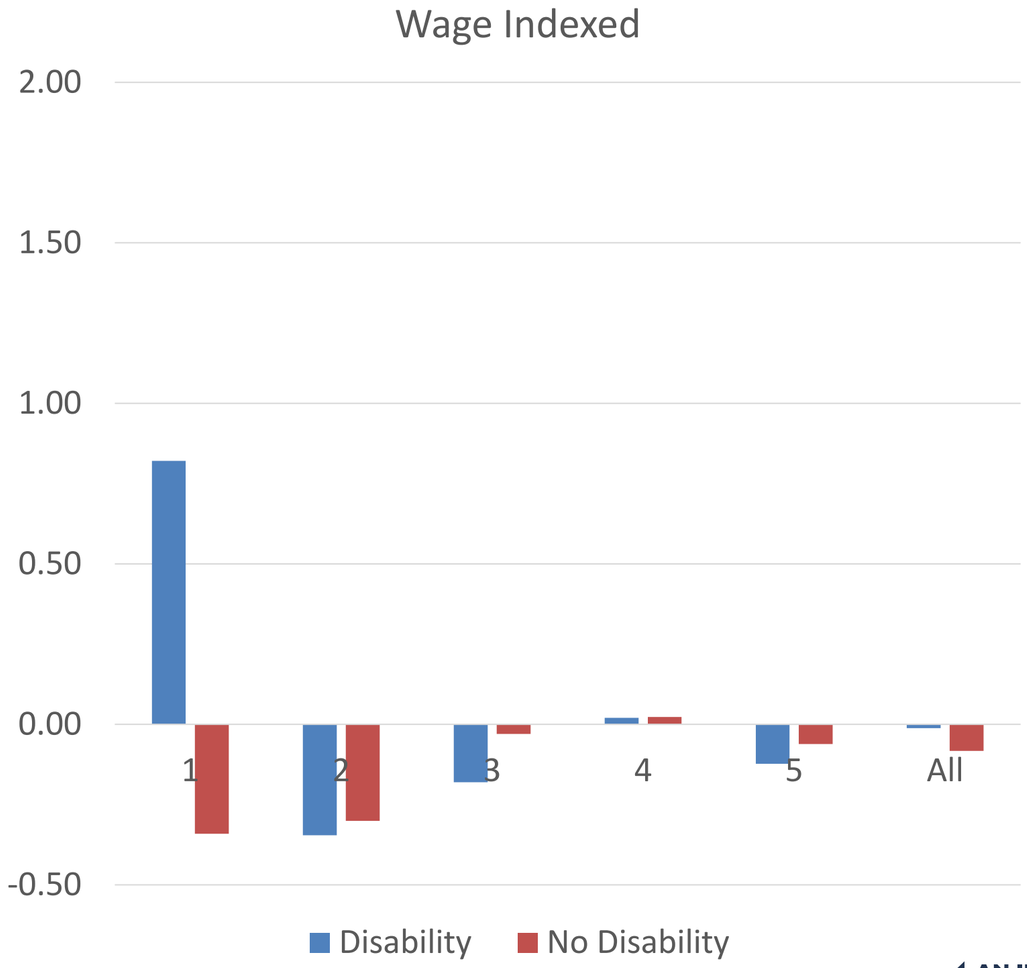
Only Singles of Working Age Gaining Relative to Wage Growth while those 66+ Lose



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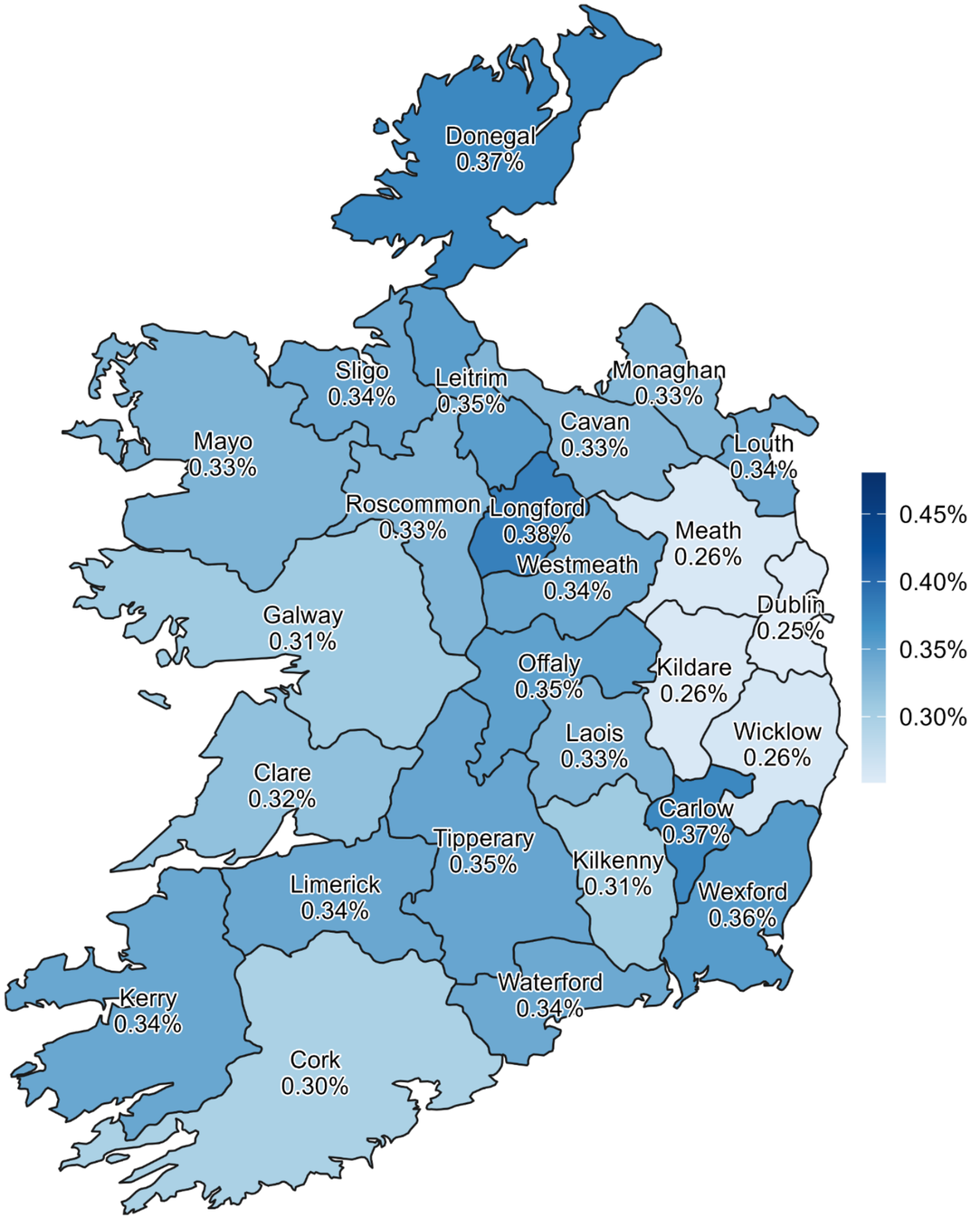
Gains for Households with a Disabled Member compared to both Price and Wage Growth





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Gains largest in Longford and Donegal; Smallest in Dublin/Commuter Belt



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Poverty Impacts Negligible

	2026 Price Indexation	2026 Wage indexation	Budget 2027
Whole Population	**13.3%**	**13.5%**	**13.5%**
Adult Population	10.4%	10.5%	10.5%
Elderly Population	21.5%	22.3%	22.3%
Child Population	16.1%	16.1%	16.1%
Population affected by disability	21.0%	21.2%	21.2%

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Even for Those Living with a Disability

	2026 Price Indexation	2026 Wage indexation	Budget 2027
Whole Population	**13.3%**	**13.5%**	**13.5%**
Adult Population	10.4%	10.5%	10.5%
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Cost of Disability Payment

- €500 annual payment to those on Disability Allowance; Invalidity Pension; Partial Capacity Benefit and Blind Pension – 240k recipients
- **Adequacy?** The cost of disability estimated at up to half of disposable income for households with disabled members. Varies based on disability severity.
- **Coverage?** Census 407k with long-lasting condition/difficulties to a *great extent*. Further 700k with long-lasting condition/difficulties to an *extent.*
- Those >66 (State Pension recipients); Parents of children with disabilities (DCA recipients-65k recipients); employed and no DA entitlement?
- Highest disability employment gaps in OECD countries – added **work disincentive?**

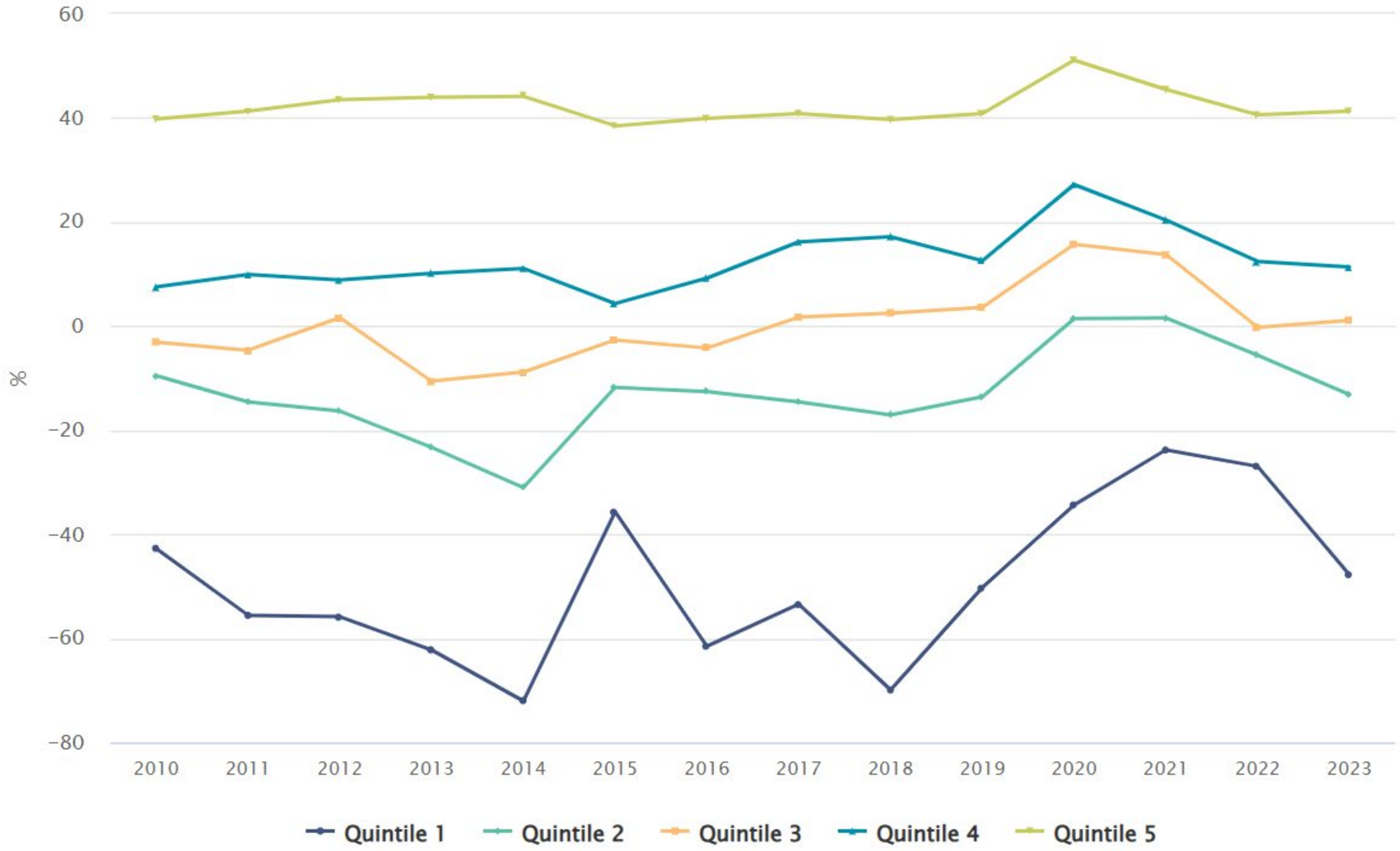
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Childcare Costs and Supply

- Welcome expansion of the NCS (Universal hourly rate increase and increase in income limits; capping of fees)
- Childcare services relief (tax exemption) increasing from 15k to 20k. Removal of number of children cap.
- **Supply side measures**? Heavy reliance on informal care. Of circa 13k childminders only 1k claim the relief. Still no NCS extension to childminders.

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Investment Scheme Likely to Benefit Higher Income Households



Source: CSO Ireland

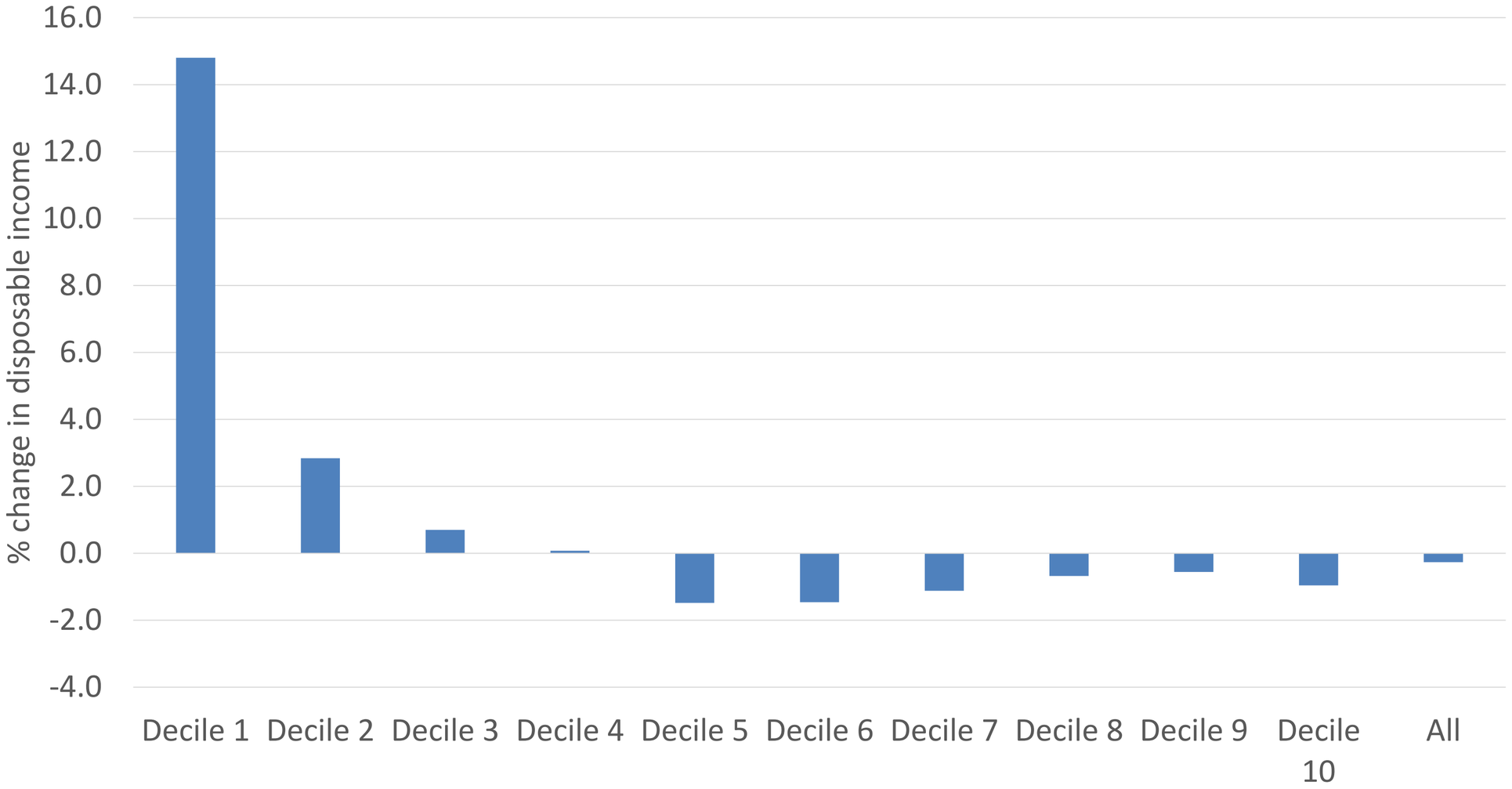
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What is the distributional effect of Budget changes since 2020?

Cumulative impact of the 7 Budgets

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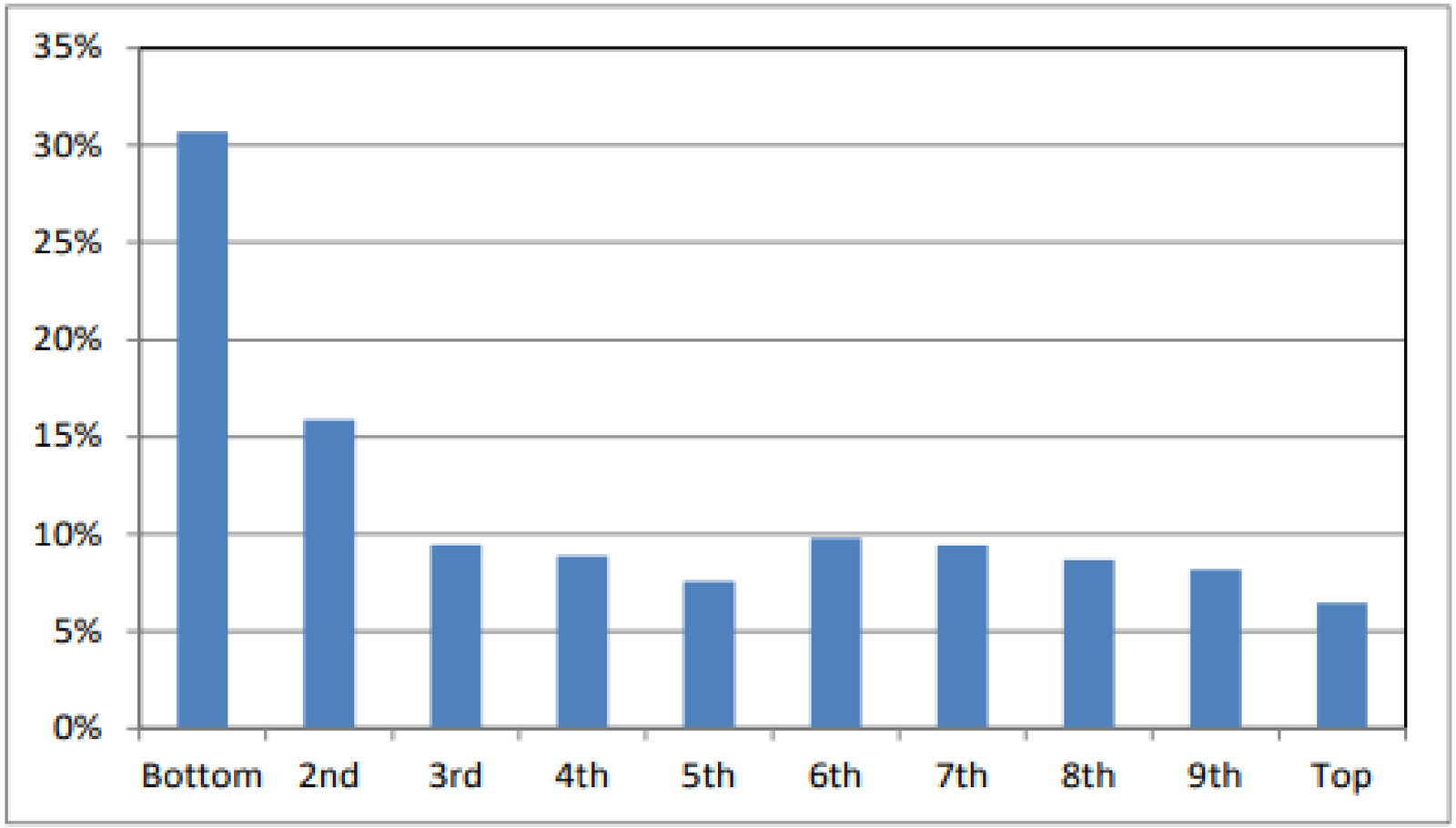
Between 2020 and 2027 Average Growth in Line with Wage Growth; Increases at the Bottom



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Despite No Formal Indexation, Historically the Tax and Welfare System has Grown Ahead of Wage Growth

Distributive impact of 2014 policies vs wage-indexed 1987 policies in Ireland



Source: Callan et al (2018) Income Growth And Income Distribution: A Long-Run View Of Irish Experience, Budget Perspectives.

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Conclusions

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- Budget 2027 direct income tax and welfare changes will result in small income gains next year – averaging 0.4% of household disposable income compared to price inflation and on par with wage growth.
- Broadly progressive pattern bottom decile gaining by twice the average.
- Budgets since 2020 have broadly kept up with wage growth but those at the bottom have seen more protection

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- Indirect measures, including withdrawal of temporary supports will erode gains for all but the bottom however.
- Child poverty set to remain unchanged. 7.8% consistent poverty at the moment, target of 3% - targeted payment likely needed.
- Cost of disability payment - adequacy and coverage.
- Investment Account likely to benefit higher income groups most.

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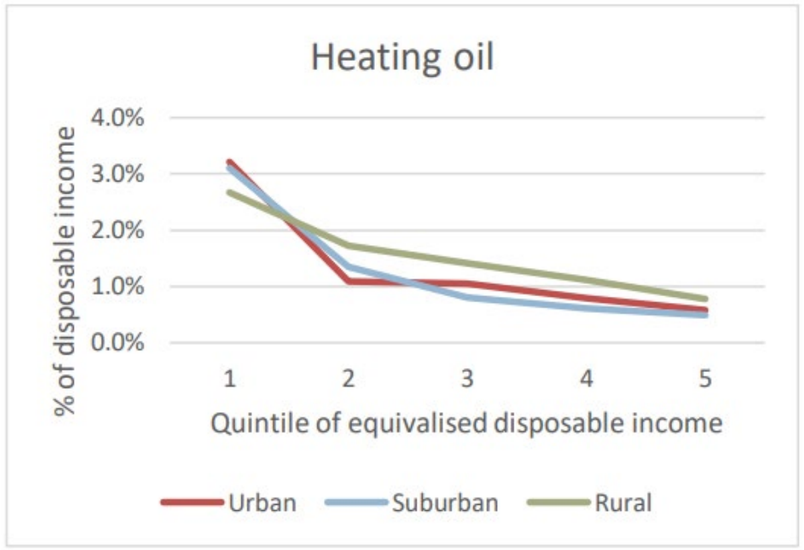
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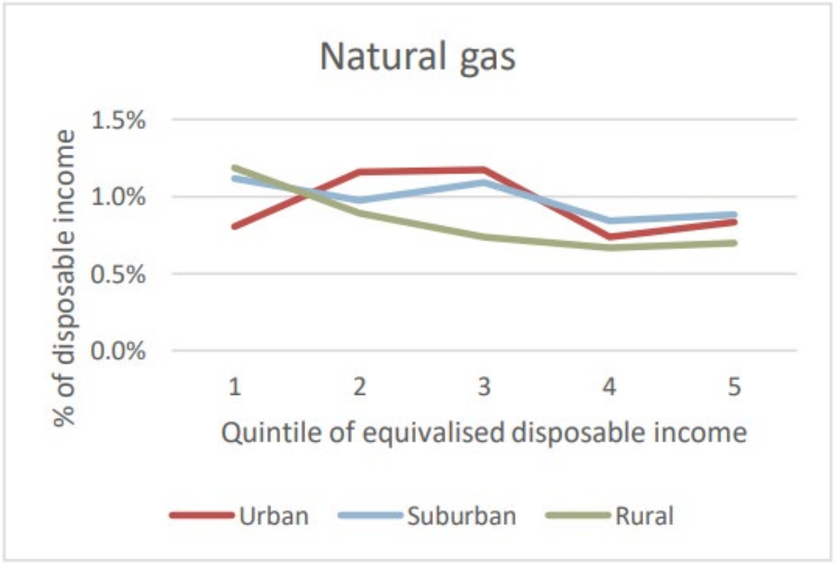
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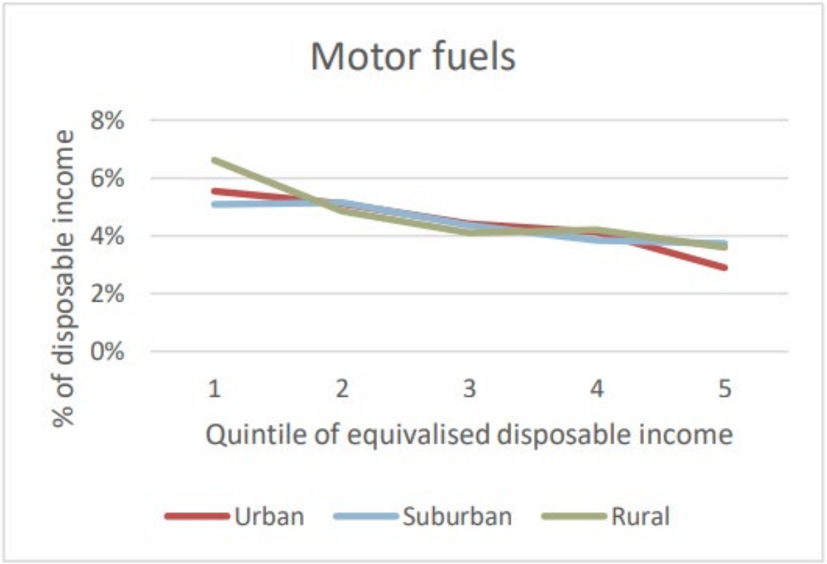
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Average shares of disposable income spent on heating oil, motor fuel and natural gas before energy inflation shock







Source: Bercholz, M., Doorley, K., Keane, C., and Mowlds, C. (2026). The distributional impact of energy price increases in Ireland and the policy response, QEC Research Note RN20260201, Dublin: ESRI, https://doi.org/10.26504/rn20260201

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Carbon Tax/Green Transition

- CT to be frozen at 2023 levels on home heating oil and gas.
- Hypothecated tax – SEAI grants etc.
- Transitioning people to greener technologies would help cushion the impacts of typical fuel crises: Singh and Caulfield (2026)* shows that the uptake of heat pumps, solar panels, and EVs/EV chargers) in Ireland is strongly concentrated in **more affluent, owner-occupied and professionally employed areas**.
- Recommend ‘upfront, means-tested subsidies & geographically targeted outreach to promote a more inclusive energy transition’.
- Upfront costs of these technologies prohibitive.

* Singh, A. and Caulfield, B. (2026). ‘Affluence, spatial spillovers, and inequality in household energy transitions: Exploring the determinants of sustainable technology adoption in Ireland’, Energy Research & Social Science,Vol. 134, https://doi.org/10.1016/j.erss.2026.104637.

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2020-2027 Inequality/Poverty Impacts

	Wage indexed 2020	2027
Gini Index	0.26	0.26
At risk of poverty		
Whole population	0.16	0.13
Adult population	0.12	0.10
Elderly population	0.21	0.22
Child population	0.21	0.16
Population affected by disability	0.22	0.21

Indexation costs

- Annual indexation of the tax and welfare system? Price indexation cost 1.7bn; wage indexation cost 2.3bn. Actual package cost of 2.1bn.

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