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ESRI SPECIAL ARTICLE

Distributional Impact of Tax and Welfare Policies: Budget 2026

Maxime Bercholz, Karina Doorley, Claire Keane, Cian Mowlds, Richard O'Shea, Agathe Simon

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THE AUTHORS

Maxime Bercholz is a Research Analyst at the Economic and Social Research Institute (ESRI). Karina Doorley and Claire Keane are Associate Research Professors at the ESRI and Adjunct Professors at Trinity College Dublin (TCD). Cian Mowlds and Richard O'Shea are Research Assistants at the ESRI. Agathe Simon is a Postdoctoral Fellow at the ESRI.

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ABBREVIATIONS

CSO	Central Statistics Office
CSP	Child Support Payment
ESRI	Economic and Social Research Institute
IFAC	Irish Fiscal Advisory Council
IQA	Increase for a Qualified Adult
PRSI	Pay-Related Social Insurance
SILC	Survey of Income and Living Conditions
USC	Universal Social Charge

ABSTRACT

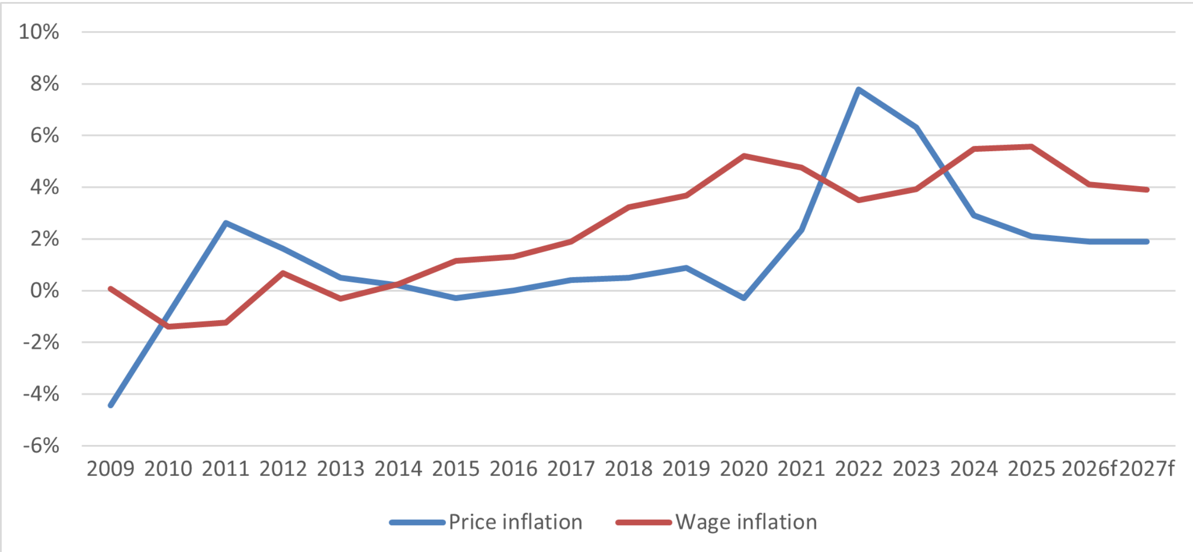
In this Special Article we analyse the distributional impact of Budget 2026. In 2026, average household income is estimated to be 1.3% lower than it would be under a tax–welfare system indexed to price growth, and 1.9% lower than it would be under a system indexed to anticipated wage growth. While increases to welfare rates ahead of price inflation had a positive impact on lower income families, these were offset by the withdrawal of temporary cost-of-living supports, resulting in a loss overall. Middle- and higher-income households were negatively affected by the freezing of income tax credits and bands, as well as the withdrawal of these temporary cost-of-living supports. Overall losses are relatively flat across income groups and family types but are slightly larger for the lowest income 10% compared to the highest 10%. Examining the tax–welfare changes between 2020 and 2026, an interesting pattern emerges. Compared to a 2025 tax–welfare system indexed in line with either price or wage growth over this time period, households, on average, experienced a slight reduction in disposable income due to tax–welfare policy changes since 2020, with middle- and higher-income groups seeing small losses. However, the lowest income decile saw income gains compared to price or wage growth, due partly to welfare for children increasing about three times faster than prices or wages.

1. Introduction

Budget 2026 set out an expenditure package of €9.4 billion. The Irish Fiscal Advisory Council (IFAC, 2025) was critical of the size of the expenditure package, while Barrett et al. (2025) warned that recurrent expenditure is being financed by potentially transitory revenues. IFAC (2025) also pointed out that government spending is regularly surpassing Budget Day projections – for example, Budget 2025 projected a €3 billion increase in spending but the true increase is likely to be over double this, at €7.4 billion.

Between 2020 and 2022, price inflation grew rapidly in Ireland, outpacing wage growth (see Figure 1) and creating affordability issues for consumers. Recent budgets have been characterised by temporary cost-of-living packages seeking to address these inflationary pressures. These measures included credits to assist with energy bills, double payments and lump sums for welfare recipients, and reduced student contribution fees. Doorley et al. (2025) pointed to the importance of these measures in protecting vulnerable groups such as individuals over retirement age and those with a disability – these groups would have seen significant rises in their at-risk-of-poverty rates in recent years were it not for these measures. Budget 2026 sees the withdrawal of temporary cost-of-living policies, with implications for the distribution of income.

FIGURE 1: WAGE AND PRICE INFLATION 2009 TO 2027



In this Special Article, we examine the tax and welfare measures announced in Budget 2026. We begin by outlining the taxation and welfare measures in Section 2. Section 3 presents our analysis of the distributional impact of the combined measures using SWITCH – the Economic and Social Research Institute's (ESRI) tax and benefit microsimulation model. It also estimates the cumulative impact of tax and welfare reforms announced since 2020. Section 4 concludes.

2. Taxation measures

Table A1 in the appendix lists the main taxation measures announced in Budget 2026, alongside the full year cost estimated by the Department of Finance.[1]

2.1 Income tax

The income tax standard rate cut off – the threshold at which the higher rate of 40% begins to be charged on income – remained unchanged in this year's budget. The cut off remains at €44,000 for a single person. In the context of

1 As our focus is on the distributional impact, we focus on the tax measures that will have an effect on individual/household incomes.

increasing average earnings, this represents an effective tax increase, as a higher proportion of taxpayers' income will be subject to the higher rate. Consequently, even without adjustments to tax bands, Exchequer revenue from income tax is expected to increase. This scenario, known as fiscal drag, occurs when wage growth is accompanied by a corresponding change to income tax structures, causing more of an individual's income to be taxed at a higher rate.

The Universal Social Charge (USC) has seen small changes in Budget 2026. The 2% ceiling has been increased by €1,318 to €28,700. This change was enacted to ensure that the 65c increase to the minimum wage would not put a full-time minimum wage worker into the higher USC band. Additionally, the USC concession has been extended to medical card holders, ensuring that individuals who hold a medical card and receive an annual income of less than €60,000 will have their highest USC rate capped at 2%. Overall, these changes will result in a reduction in liability for all those who pay USC, as higher earners will also benefit from the widening of the 2% band.

2.2 Housing

Budget 2026 included a number of measures aimed at addressing ongoing issues in the housing market. The Rent Tax Credit, which was first introduced in 2023 as a relief for private renters, has been extended to 2028. Eligible renters living in private, non-supported rental accommodation will be entitled to €1,000 per person per year. This will primarily benefit middle income households who are not eligible for housing assistance schemes and earn enough income to incur a tax liability to benefit from the credit.

The Mortgage Interest Tax Credit, originally introduced on a temporary basis in Budget 2024, is being extended by one further year to the end of 2026. This tax credit is available for homeowners with an outstanding mortgage balance of between €80,000 and €500,000 at 31 December 2022. The credit is only accessible to people who hold variable and tracker rate mortgages, and amounts to 20% of the increased interest paid in 2024 compared to 2022. This relief is capped at €1,250. Like the Rent Tax Credit, this relief will mainly benefit middle- and higher-income households, as there are very few households in the lowest two-fifths of the income distribution with a tracker or variable rate mortgage (Byrne et al., 2023).

To address a recent fall in the number of new apartments being built, the Government has introduced a reduced VAT rate of 9% (previously 13.5%) on the sale of new apartments. This measure is aimed at addressing viability issues and increasing the supply of apartments in the housing market.

The Minister of Finance also announced that a new Derelict Property Tax is to be introduced, to replace the Derelict Sites Levy. This tax will be charged at 7% of a property's market value, and is aimed at reducing the volume of vacant and derelict properties around the country. This tax will not be administered until 2027.

Other housing measures announced in the budget include the exemption of rental profits from homes in the Cost Rental Scheme from corporation tax, the expansion of the Living City Initiative and the extension of the Residential Development Stamp Duty Refund Scheme to 2030.

2.3 Indirect tax

The indirect tax measure in this year's budget that has attracted most attention is the reduced VAT rate applied to sections of the hospitality and services sector. Businesses in the food, catering and hairdressing sectors will be subject to a 9% VAT rate from 1 July 2026. This much debated change to VAT rates is aimed at addressing ongoing pressures faced by these industries as a result of rising operating costs. Little evidence has been provided on the necessity or effectiveness of such a cut, however. The measure is projected to cost €681 million on an annual basis, equivalent to 60% of the total cost of welfare measures enacted in Budget 2026.

Additionally, the reduced VAT rate of 9% on the supply of gas and electricity will be maintained until the end of 2030. This was first introduced as a temporary measure in response to the energy crisis following the Russian invasion of Ukraine. The continuation of the reduction is intended to ease the burden of energy costs borne by households, which remain at an elevated level.

In line with commitments made under the Finance Act 2020, there was a pre-announced increase in carbon tax of €7.50 per tonne. This brings the carbon tax per tonne of CO_2 emitted to €71. This is the latest of successive planned annual increases until 2030. The €5,000 VRT relief for electric vehicles was also extended to the end of 2026.

Excise duties on tobacco increased, this year by 50c per pack of 20 cigarettes, a smaller increase than the previous year's €1 increase. Excise duties on alcohol and other nicotine-based products remained unchanged.

The 20% reduction in public transport fares, which was first put in place in 2022 as a temporary measure and as part of a broader effort to increase the viability and accessibility of public, was extended, as was the 50% reduction in fares for young adults.

3. Social welfare measures

A defining feature of this year's budget was the rollback of temporary cost-of-living measures which had been a core element of Budget Day announcements in recent years. In response to rising prices of energy, groceries and other goods, previous budgets had focused on increasing incomes through double or one-off lump-sum welfare payments and direct cost reduction mechanisms such as the energy credit. This year's approach marked a shift away from such measures with no universal energy credits, double Child Benefit payments or one-off lump sum payments awarded.

There was a €10 increase in the maximum rate of core social welfare payments. There will be proportional increases for people on reduced or partial payments. These include benefits for jobseekers, pensioners and people with disabilities. The usual 'Christmas Bonus' double payment will be paid to people in receipt of the old age pension and other long term social welfare payments.

For most social welfare recipients, these increases are larger than either the forecast price growth[2] of 2.2% or the wage growth[3] of 3.7% in 2025 – for example the €10 increase in the personal rate of working age payments

[2] Taken from Barrett et al. (2025).
[3] Taken from Central Bank (2025). 'Compensation per employee' series.

represents an increase of 4.1%. However, since retirement age payments tend to be higher than working age payments in nominal terms, the undifferentiated €10 rise results in a lower percentage increase for this group – an increase of 3.5% for the personal rate of the State Pension (Contributory) and 3.6% for the State Pension (Non-Contributory). Both are ahead of anticipated price growth but below anticipated wage growth. This issue is further exacerbated by the Living Alone Increase,[4] mainly received by those over state pension age and which remains unchanged since 2022.

The Child Support Payment (CSP, previously known as Increase for a Qualified Child) increases by €8 (16%) for children under the age of 12 and €16 (26%) for children 12 and over, significantly ahead of price and wage growth forecasts. The income threshold for the Working Family Payment, an in-work support for low-income families, increases by €60 per week. For families with young children, the Back-to-School Allowance, a programme that assists in the expenses of schooling, was extended to include two and three year olds. The universal Child Benefit remains unchanged, falling in real terms.

Increased supports for carers were also included in this year's budget package. The income disregard for the Carer's Allowance was increased by €375 to €1,000 for single individuals (€2,000 for couples). A €20 monthly increase to the Domiciliary Care Allowance was also introduced.

The temporary reductions in the student contribution fee for third-level students, introduced in Budgets 2023, 2024 and 2025, were not continued in 2026. Instead, a permanent reduction in the student contribution fee was introduced, setting the maximum annual fee at €2,500. While this represents an increase relative to the temporary reductions of recent years, it remains below the previous level of €3,000.

Finally, supports to mitigate against the elevated cost of home energy were introduced. The weekly Fuel Allowance was increased by €5 per week. This payment was also extended to recipients of the Working Family Payment.

4. Distributional impact analysis

[4] The Living Alone Increase is an extra payment paid to certain welfare recipients who live alone.

We use SWITCH – the ESRI's tax benefit microsimulation model – to assess the combined impact of taxation and welfare policy changes on household income.[5] The appendix details the range of policy reforms modelled. SWITCH is linked to data from the 2022 Survey of Income and Living Conditions (SILC), the primary source of information on household incomes collected annually by the Central Statistics Office (CSO). The data are reweighted to be representative of the 2022 population (in terms of demographics, employment, income and social welfare), and uprated to reflect price and income growth between 2022 and 2026. Thanks to the scale, depth and diversity of this survey, its data can be used to provide an overall picture of the impact of the policy changes on Irish households, something that cannot be gained from selected example cases. The model includes expenditure estimates by sub-category collected by the CSO's nationally representative Household Budget Survey in 2015–2016,[6] which also allows for the analysis of indirect taxes.[7]

While not part of Budget 2026, it was announced in 2023 that Pay-Related Social Insurance (PRSI) rates will rise from October 2024 onwards to help fund the introduction of the Jobseeker's Pay-Related Benefit and tackle state pension funding pressures.[8] Our analysis therefore includes the planned 0.15% PRSI rise for 2026.

As temporary measures have been a substantial feature of recent budgets, some households may have depended on such measures to meet cost-of-living pressures. In addition, while price growth has slowed (see Figure 1) prices remain at a permanently higher level than before the large growth in inflation. It is therefore important that the analysis accounts for the distributional impacts of the withdrawal or reduction of such measures in Budget 2026. We therefore separate the impact of 'permanent' changes

[5] See Keane et al. (2023) for a description and validation of the SWITCH model.

[6] The SWITCH model uses the EUROMOD platform and uses EUROMOD's consumption microdata estimates. A full description of the imputation and validation of expenditure microdata is available here

[7] Income rates are uprated to 2026 levels using earnings indices. Expenditures are uprated to 2026 levels using price growth indices.

[8] All employee PRSI rates increased by 0.1 percentage points in 2024 and 2025, and will increase 0.15 percentage points in 2026 and 2027, and to 0.2 percentage points in 2028. See Department of Social Protection (2023). 'Minister Humphreys secures Cabinet approval for major Social Welfare reforms', press release, 21 November.

to the tax and welfare system from the impact of the withdrawal of temporary measures.

Two factors make it seem unlikely that relevant cuts will be passed on to the consumer: the fact that the food industry lobbied for the VAT cut, with the aim of 'securing long-term viability' for businesses in the sector; and the Minister for Enterprise's statement that the measure was to 'inject viability' into the hospitality sector rather than to be passed through to workers (in the form of higher wages) or consumers (through lower prices).[9] This is supported by research from IFAC (Carroll, 2025), which found evidence of an asymmetric VAT pass-through – i.e. VAT increases tend to be passed through from companies to consumers more than VAT cuts. We therefore assume in our analysis that none of the VAT reduction in the food, catering and hairdressing sector is passed through to the consumer.[10]

We begin by presenting results for the impact of Budget 2026 in isolation. To assess the medium-term picture – and to understand how the tax and welfare system has evolved independent of the cost-of-living crisis – we also estimate the impact of permanent direct tax and welfare policy changes between 2020 and 2026.

For both the 2025–2026 comparison and the 2020–2026 comparison, we compare to a scenario in which policy parameters of the direct tax and welfare system are indexed in line with actual and/or forecast price or wage growth.[11] Examining whether the tax and welfare system has kept pace with price inflation allows us to see if increases allow individuals maintain their standard of living. As argued by Bargain and Callan (2010) and Callan et al. (2019), comparing to a baseline scenario pegged to wage growth provides a distributionally neutral benchmark against which to assess policy reforms. Tax and welfare adjustments in line with wage growth would prevent fiscal drag and ensure that social welfare incomes would not fall behind those of employment incomes. This would help prevent poverty rates and inequality rising. We then use SWITCH to calculate households' social welfare

[9] Curran, I.(2025). 'Hospitality VAT cut about sector's viability, Burke says', *Irish Times*, 8 October.

[10] Table A1 in the appendix shows the impact of indirect tax changes in Budget 2026, including a full pass-through of this VAT reduction. Effects are very small compared to the impact of direct tax and welfare measures.

[11] For the analysis of indirect tax changes (2025–2026 analysis), we index our baseline scenario in line with price growth, which is a more appropriate indexation factor for expenditure.

entitlements, tax liabilities (both direct and indirect) and net incomes under each system.

Indexation of the tax and welfare system would help provide certainty to welfare recipients and workers but would also, of course, come at a cost. For Budget 2026, this cost is estimated to be €1.2 billion for price indexation and €2 billion for indexation in line with wage growth; significantly ahead of the actual costs of the tax–welfare measures analysed here.

4.1 The distributional effect of Budget 2026

Figure 2 shows the distributional effect of tax and welfare changes announced as part of Budget 2026, compared to a price-indexed 2025 policy system. Figure 3 shows the results compared to a wage-indexed 2025 policy system. Households are ranked by their equivalised disposable income, from lowest to highest, and split into ten equally sized groups (income deciles).[12] Overall, Budget 2026 results in a small reduction in disposable income (-1.3% under price indexation or -1.9% under wage indexation). The 'permanent' Budget 2026 measures are progressive, resulting in real increases in income for those at the lower end of the income distribution and losses for those on middle–high incomes. This result is driven by the increases in social welfare (discussed in Section 3) that were ahead of both price and wage inflation. For those higher up the income distribution, where social welfare makes up a smaller (or nil) proportion of income, the freezing of the standard rate income tax band and tax credits,[13] along with no increase in the universal Child Benefit payment (reflecting a reduction compared to price or wage growth), results in a fall in disposable income.

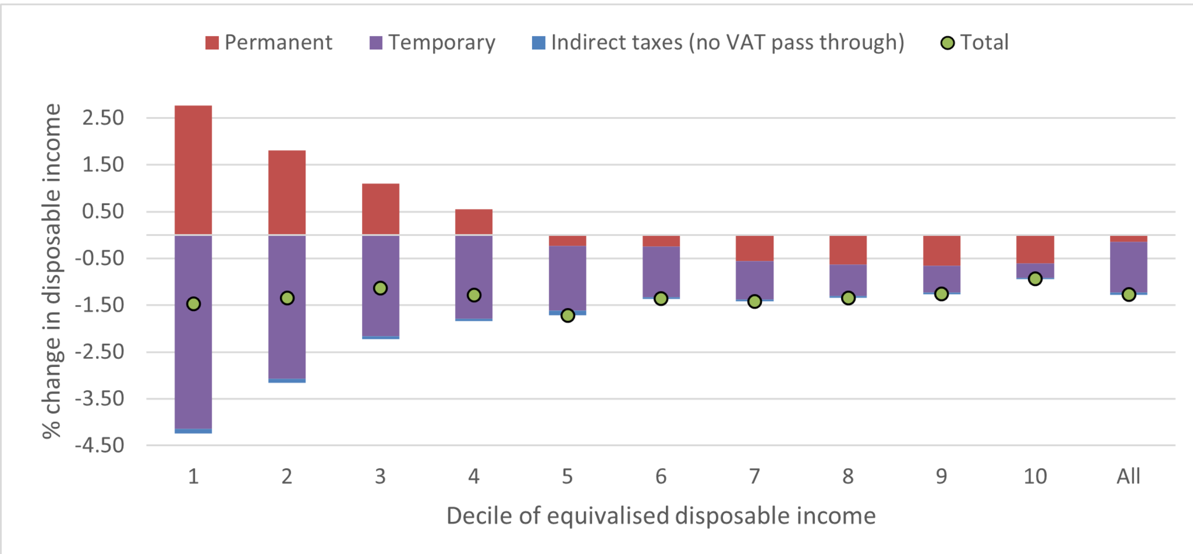
Despite the positive impact of the permanent tax and welfare system for those in lower income families, the withdrawal of the temporary cost-of-living supports (along with small negative impacts of indirect tax reforms) results in an overall loss, right across the income distribution. These temporary measures were playing an important role in supporting the

[12] Equivalisation adjusts total household income to take account of the number of adults and children in the household.

[13] We estimate that it would have cost €521 million in 2026 to increase the standard rate band and tax credits in line with the 2.2% price growth forecast, or €870 million to increase the standard rate band and tax credits in line with the 3.7% forecast wage growth for 2026.

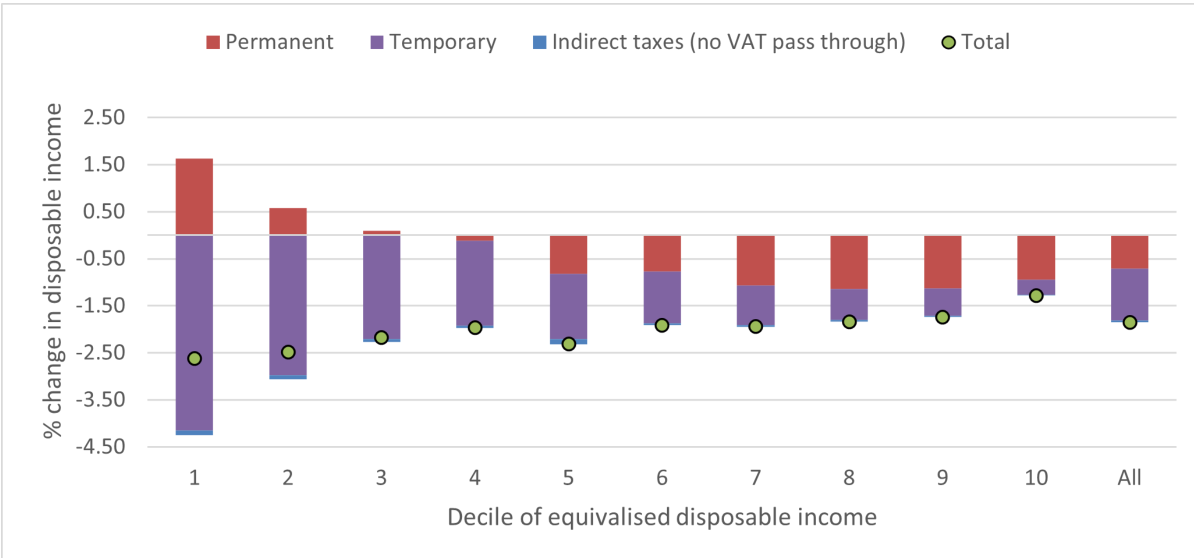
income levels of lower-income families; therefore, their withdrawal is more strongly felt at the lower end of the income distribution. This results in a larger negative impact of Budget 2026 for the lowest income group (-1.5%/-2.6% under price/wage indexation) compared to the highest income group (-0.9%/-1.3% under price/wage indexation).

FIGURE 2: DISTRIBUTIONAL IMPACT OF BUDGET 2026 COMPARED TO PRICE INDEXED 2025 POLICIES



Source: Authors' calculations using SWITCH run on 2022 SILC data, uprated to 2026 income levels. Expenditure shares are imputed using the 2015/16 Household Budget Survey.
Note: Deciles are based on equivalised household income, using CSO national equivalence scales.

FIGURE 3: DISTRIBUTIONAL IMPACT OF BUDGET 2026 COMPARED TO WAGE INDEXED 2025 POLICIES



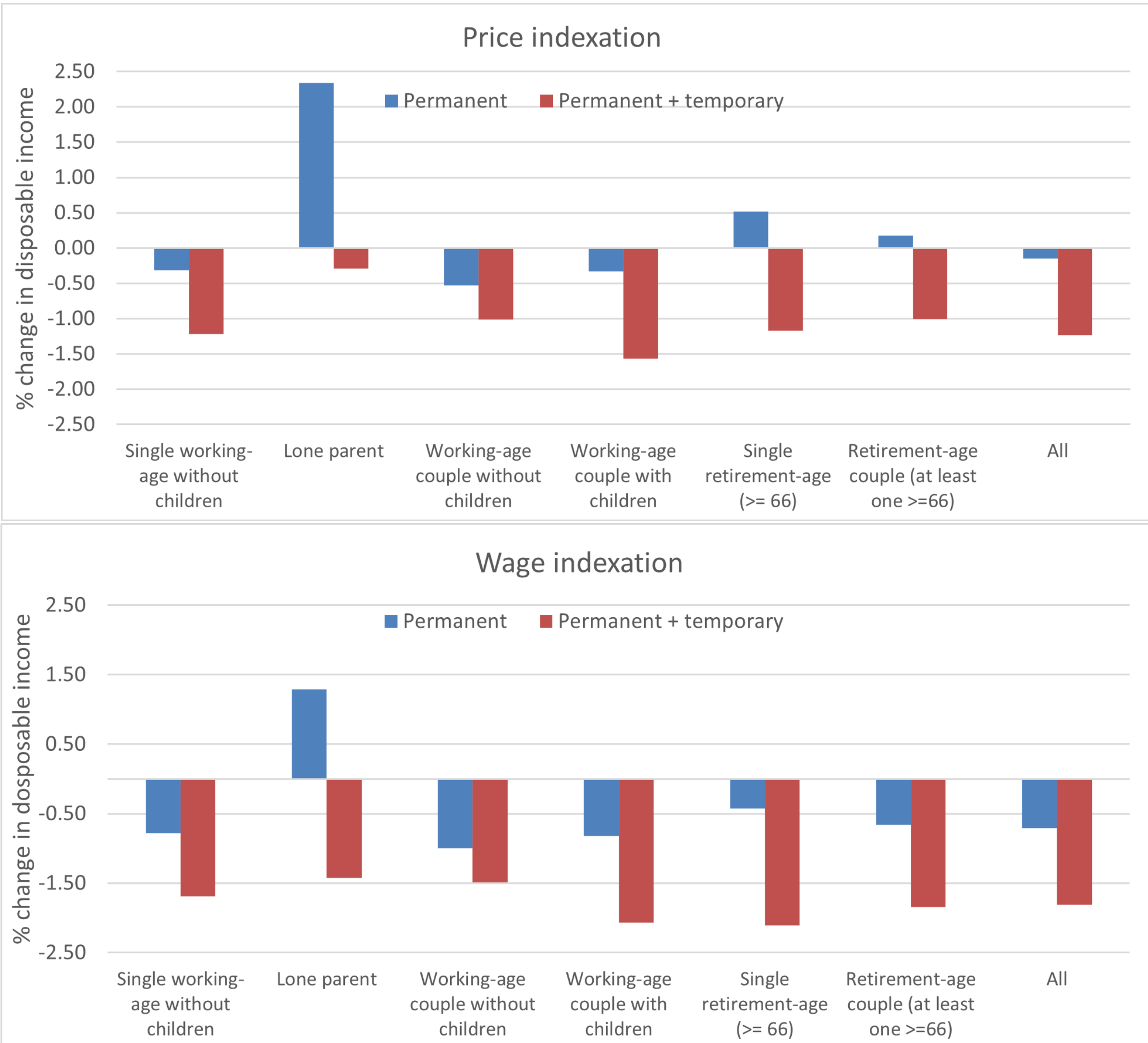
Source: Authors' calculations using SWITCH run on 2022 SILC data, uprated to 2026 income levels. Expenditure shares are imputed using the 2015/16 Household Budget Survey.
Note: Deciles are based on equivalised household income, using CSO national equivalence scales.

4.2 The effect of Budget 2026 by household type, gender and disability status

We further examine the distributional impact of Budget 2026 by family type, gender and disability status.[14] Figure 4 displays the impact of direct tax and welfare measures of Budget 2026 by household type compared to both a price-indexed and wage-indexed 2025 tax–benefit system. While lone parent families see some gains from the permanent Budget 2026 tax and benefit measures (as well as families headed by those aged 65+ under price indexation), these revert to overall losses once the withdrawal of temporary measures are implemented.

[14] It is not possible to estimate the impact of indirect tax changes for these groups as expenditure data are collected at the household level. As can be seen from Figures 2 and 3, indirect tax changes account for a very small part of the overall distributional impact of Budget 2026.

FIGURE 4: DISTRIBUTIONAL IMPACT OF BUDGET 2026 BY HOUSEHOLD TYPE COMPARED TO PRICE AND WAGE GROWTH INDEXED 2025 POLICIES



Source: Authors' calculations using SWITCH run on 2022 SILC data, uprated to 2026 income levels.
Note: Excludes indirect tax changes.

Figure 5 shows the estimated effects of direct tax and welfare policy changes, both permanent and temporary, from Budget 2026 by gender. For this analysis, we assume that income is split evenly between individuals in a couple. On average, men experience sharper losses than women (-1.8%

compared to -1.2% for women, under wage indexation), reflecting their higher wages and higher labour supply, which increase their exposure to fiscal drag.

FIGURE 5: DISTRIBUTIONAL IMPACT OF BUDGET 2026 BY GENDER

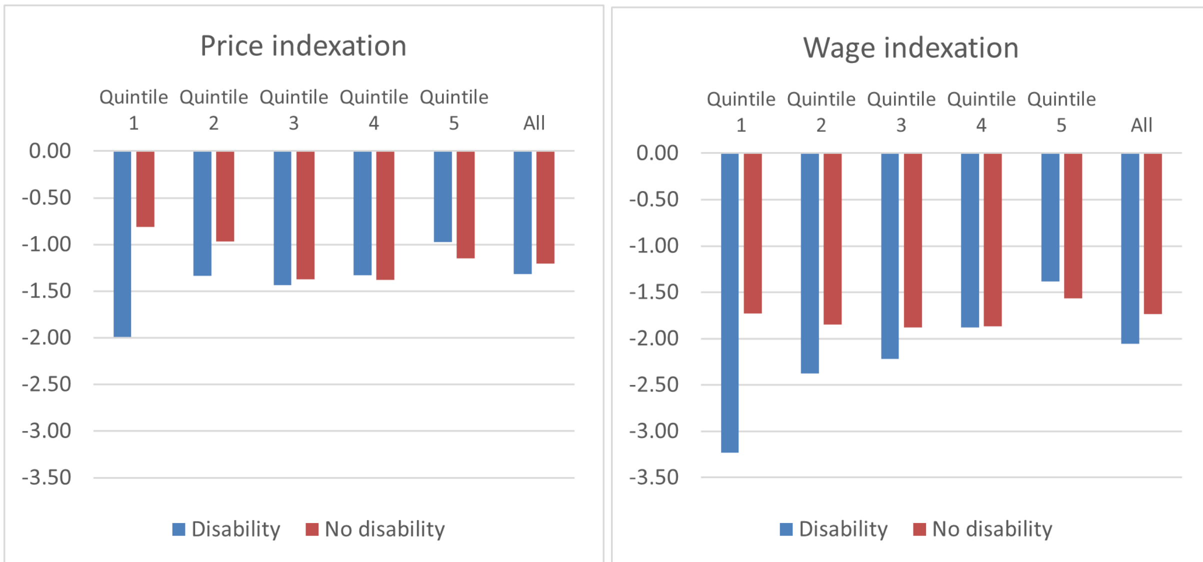
Source: Authors' calculations using SWITCH run on 2022 SILC data, uprated to 2026 income levels.
Note: Income is assumed to be fully shared between members of a couple. Quintiles are based on equivalised household income, using CSO national equivalence scales. Excludes indirect tax changes.

Figure 6 shows the estimated effects of Budget 2026's direct tax and welfare policy changes, both permanent and temporary, by disability status. We identify households with disabilities as those in which there is at least one member who self-declares to have a medical condition that limits them in their daily activities.[15] Households affected by disability experience sharper losses in income, particularly those in lower income groups. Doorley et al. (2025) highlighted the importance of the temporary cost-of-living measures in protecting the income of vulnerable groups such as those with a disability

[15] The precise definition we employ in the SILC data is to identify as having a disability those who respond positively to the following two questions:
Do you have any chronic physical or mental health problem, illness or disability?
Are you hampered [limited] in your daily activities by this physical or mental health problem, illness or disability?

– therefore, it is unsurprising that households containing a person with a disability are more negatively impacted by their withdrawal.

FIGURE 6: DISTRIBUTIONAL IMPACT OF BUDGET 2026 BY DISABILITY STATUS



Source: Authors' calculations using SWITCH run on 2022 SILC data, uprated to 2026 income levels.

Note: We identify people with a disability as those who respond positively to the following two questions: 'Do you have any chronic physical or mental health problem, illness, or disability?' and 'Are you hampered [limited] in your daily activities by this physical or mental health problem, illness or disability?' Quintiles are based on equivalised household income, using CSO national equivalence scales. Excludes indirect tax changes.

4.3 The effect of Budget 2026 on income inequality and at-risk-of-poverty rates

Table 1 shows the impact of Budget 2026 on income inequality, as measured by the Gini index, and at-risk-of-poverty (AROP) rates. Compared to an indexed 2025 policy, we estimate no real change in inequality as a result of Budget 2026, with the Gini index hovering around 27.

Neither are there any large changes in poverty rates attributable to Budget 2026 compared to the poverty rates that would have prevailed if the 2025 system had just adjusted in line with price or wage growth. These results reflect the fact that losses relating to Budget 2026 are relatively flat across income groups. Doorley et al. (2024) pointed to the protective effect the temporary cost-of-living measures had on the incomes of certain groups. These results show that while the withdrawal of these temporary measures is having a stronger negative impact on lower income groups, the countervailing positive effects of the permanent tax–welfare system (specifically the increases in social welfare rates) for lower income groups is helping ensure no significant rises in poverty rates.

TABLE 1: IMPACT OF BUDGET 2026 ON INCOME INEQUALITY AND POVERTY COMPARED TO WAGE-INDEXED 2025 POLICIES

	2025 price indexation	2025 wage indexation	Budget 2026
Gini index	27.0%	26.9%	27.1%
Poverty rate			
Working age	11.5%	11.3%	11.3%
65+	20.7%	19.6%	20.4%
Child	14.8%	14.5%	14.3%
Population affected by disability	25.2%	24.4%	24.8%

Source: Authors' calculations using SWITCH run on 2022 SILC data, uprated to 2026 income levels.

Note: The poverty rate is calculated based on a poverty line equal to 60% of median equivalised disposable income. The CSO equivalence scale is used. Working age is defined as aged 18–65, and children as those under age 18. People with disabilities are identified as those who self-report to having an illness or disability that limits them in their daily activities.

Although poverty rates are expected to change little, if at all, as a result of Budget 2026, this reflects the budget's relatively even distributional impact, given that poverty is a relative measure. For example, during the Great Recession households saw average income losses of about 10%, yet poverty rates actually fell. This occurred because incomes declined across the entire distribution, even though deprivation rates rose sharply.[16] It is therefore worth noting that the withdrawal of temporary measures may have

[16] As shown in Callan et al. (2014) the at-risk-of-poverty rate fell for the population overall from 19.4% in 2004 to 16% in 2011. Meanwhile, the deprivation rate (the proportion of the population experiencing enforced deprivation of 2 or more items from a set of 11 basic deprivation indicators) rose from 14.1% of the population to 24.5% over the same time period.

knock-on effects on deprivation rates;[17] the permanent tax–welfare changes are not fully compensating for their withdrawal. It is not possible to use SWITCH to estimate the impact on deprivation rates, as we do for poverty rates; this is because poverty rates depend solely on relative incomes while, as discussed in Maître and Alamir (2024), deprivation levels will depend not just on current income but also on savings and potential debt accumulation. Therefore, while actual reported deprivation levels should be monitored, they are inevitably published with a time lag.[18]

4.4 The effect of permanent policy reform, 2020–2026

We next consider the distributional impact of budgetary policy since 2020. To do so, we compare a 2026 policy system to an indexed 2020 system, examining indexation in line with both price growth and wage growth. This shows how changes to the permanent tax and welfare system have affected real income since the initial sharp rise in inflation. Direct tax and welfare policy parameters in the baseline are indexed by the 25% price inflation or 28% wage growth that occurred over this time period.[19][20]

Figure 7 shows the effects of policy changes in Budget 2026 compared to an indexed 2020 policy scenario. On average, households lost 0.2% of disposable income compared to price growth, or 1.2% of disposable income compared to a wage indexed 2020 tax–welfare system. The pattern differs by income decile however – the middle- and higher-income deciles have all experienced a small income reduction due to tax–welfare policy compared to price or wage growth (the average reduction for deciles 5–10 is -0.8% for price indexation and -1.8% compared to wage indexation). The lowest income decile gained most relative to a system pegged to wage growth (+9% compared to price growth and +7% compared to wage growth). This reflects the fact that while welfare payments for those over 65 have slightly lagged behind the price and wage inflation seen since 2020 – for example, the personal rate and Increase for a Qualified Adult (IQA) for recipients of the State Pension (Contributory) rose by 21% between

[17] The material deprivation rate is defined as a household's inability to afford at least 2 out of 11 basic items considered essential for a typical standard of living, such as a warm coat etc.

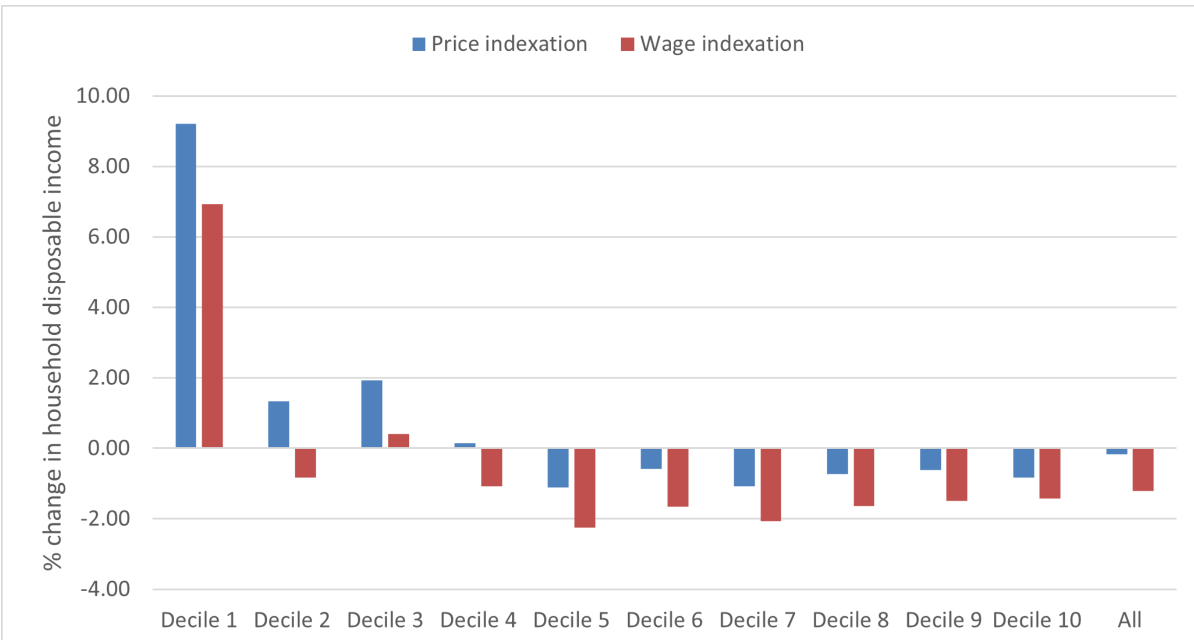
[18] The latest available statistics on deprivation are from SILC data for 2024.

[19] Capacity to model indirect tax changes was only incorporated into SWITCH in 2025; therefore, analysis of indirect tax changes between 2020 and 2026 is not currently possible.

[20] Price inflation is taken from the CSO up to 2024 and the 2025-26 value is as in footnote 2. Wage inflation is taken from the CSO up to 2024 and the 2025-26 value is as in footnote 3.

2020 and 2026 – the personal rate and IQA for those receiving working-age payments kept pace with price inflation. The most notable change in welfare rates over this time period is the rise in increases paid for children (CSPs). These increased by 61% for children under 12, and nearly doubled (95% rise) for children over 12 between 2020 and 2026 – significantly ahead of price and wage inflation over the same time period.

FIGURE 7: DISTRIBUTIONAL ANALYSIS 2020–2026 – PERMANENT MEASURES



Source: Authors' calculations using SWITCH run on 2022 SILC data, uprated to 2026 income levels.
Note: Deciles are based on equivalised household income, using CSO national equivalence scales.

These welfare changes also help to explain the impact of tax and welfare policy on inequality and poverty rates between 2020 and 2026; relative to a 2020 tax–benefit system indexed either by price or wage growth, policy changes have had a slight downward impact on inequality as well as the overall poverty rate (-0.9 percentage points for price indexation or -0.1 percentage points for wage indexation). Tax–benefit policy has tended to increase poverty rates for those over 65:[21] a 1.7 percentage point increase compared to price indexation and a 4.4 percentage point increase compared to wage indexation. It has reduced it slightly for adults of working age: a 1 percentage point decrease compared to price indexation and a 0.7 percentage point decrease compared to wage indexation. It has reduced it more substantially for children: a 2.4 percentage point decrease compared to price indexation and a 1.3 percentage point decrease compared to wage indexation. The latter is due, in part, to the large increases in CSPs.

TABLE 2: CHANGE IN POVERTY RATES DUE TO TAX-WELFARE POLICY, 2020–2026

	Price indexation	Wage indexation
Gini index change (pp)	-0.6	-0.4
Poverty change (pp)		
Whole population	-0.9	-0.1
Working age	-1.0	-0.7
65+	1.7	4.4
Child	-2.4	-1.3
Population affected by disability	0.5	2.2

Source: Authors' calculations using SWITCH run on 2022 SILC data, uprated to 2026 income levels.

Note: The poverty rate is calculated based on a poverty line equal to 60% of median equivalised disposable income. The CSO equivalence scale is used. Working age is defined as aged 18–65; 65+ are households with at least one individual aged 65 or more, and children as those under age 18. People with disabilities are identified as those who self-report to having an illness or disability that limits them in their daily activities.

5. Conclusion

Budget 2026 saw a total expenditure package of €9.4 billion: €8.1 billion in spending measures and €1.3 billion in taxation measures. One key feature of Budget 2026 was the cessation of most of the temporary measures introduced in the previous budgets to assist with cost-of-living pressures. Only the student contribution fee reduction for third level students has

[21] This partially explains the recent rise in the 65+ poverty rate, as shown in Roantree at al. (2025). It is worth noting that we isolate the impact of changes to the tax–welfare system only – actual poverty rates as shown in Roantree at al. (2025) and from the CSO (see Figure A2 in the appendix) will depend on other factors such as demographic changes, changes in occupational pension coverage etc.

become a permanent measure, although the permanent reduction is lower than the temporary reduction in last year's budget.

This article focuses on the distributional impact of Budget 2026 on the incomes of households in Ireland. As anticipated, the withdrawal of the cost-of-living measures has had a negative impact on disposable income across all income groups, one that is larger for those at the bottom of the income distribution. Permanent changes to the tax–welfare system – notably increases in welfare rates ahead of price growth along with the freezing of the standard rate tax band and tax credits – resulted in a progressive pattern for permanent Budget 2026 measures, increasing income in lower deciles and reducing it in middle to higher deciles.

Overall, changes to the mainstream tax–benefit system were not sufficient to fully compensate for the withdrawal of temporary measures, resulting in average losses of between 1.3% and 1.9%. These losses are larger for the lowest income decile compared to the highest, but overall income losses are relatively flat across the income distribution. Impacts of indirect tax changes are very small overall.

Examining the impact of Budget 2026 by family types shows no large differences across different families, though lone parents have been slightly more protected than other family types; this is in part due to increases in CSPs that are significantly above price and wage growth. They still remain as one of the family types with the highest rate of income poverty and material deprivation however (Roantree et al., 2025).

Households affected by disability experience sharper losses in income. This reflects the fact that the temporary cost-of-living measures had a stronger protective effect on the incomes of households containing someone with a disability; their withdrawal is thus more strongly felt here, particularly for households affected by disability that are in the lowest income quintile.

In terms of inequality and poverty risk, no significant impacts of Budget 2026 are found. This reflects the fact that poverty measures are relative and losses are relatively flat across the income distribution. The withdrawal of temporary measures may well have an impact on deprivation rates, however, and these should be monitored closely as data become available.

Finally, when examining the cumulative impact of budgetary tax–welfare policy since 2020, an interesting pattern emerges. On average, households experienced a slight reduction in disposable income due to tax–welfare policy changes since 2020, with middle- and higher-income groups seeing small losses. The lowest income decile gained significantly however — with CSPs increasing much more sharply than either price or wage inflation over this time period. Meanwhile, increases in welfare payments to those over retirement age have tended to lag slightly behind price or wage growth. Overall, this results in tax–benefit policy having an upward impact on poverty rates of those over 65, and a downward effect on the child poverty rate since 2020.

Indexation of the tax and welfare system – i.e. automatically increasing welfare rates, tax credits and bands in line with either price or wage growth – would help provide certainty to welfare recipients and workers. However, it would also, of course, come at a cost. For Budget 2026, this cost is estimated to be €1.2 billion for price indexation and €2 billion for indexation in line with wage growth, significantly ahead of the actual costs of the tax–welfare measures analysed here.

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Appendix

TABLE A1: REFORMS IMPACTING ON HOUSEHOLD INCOMES

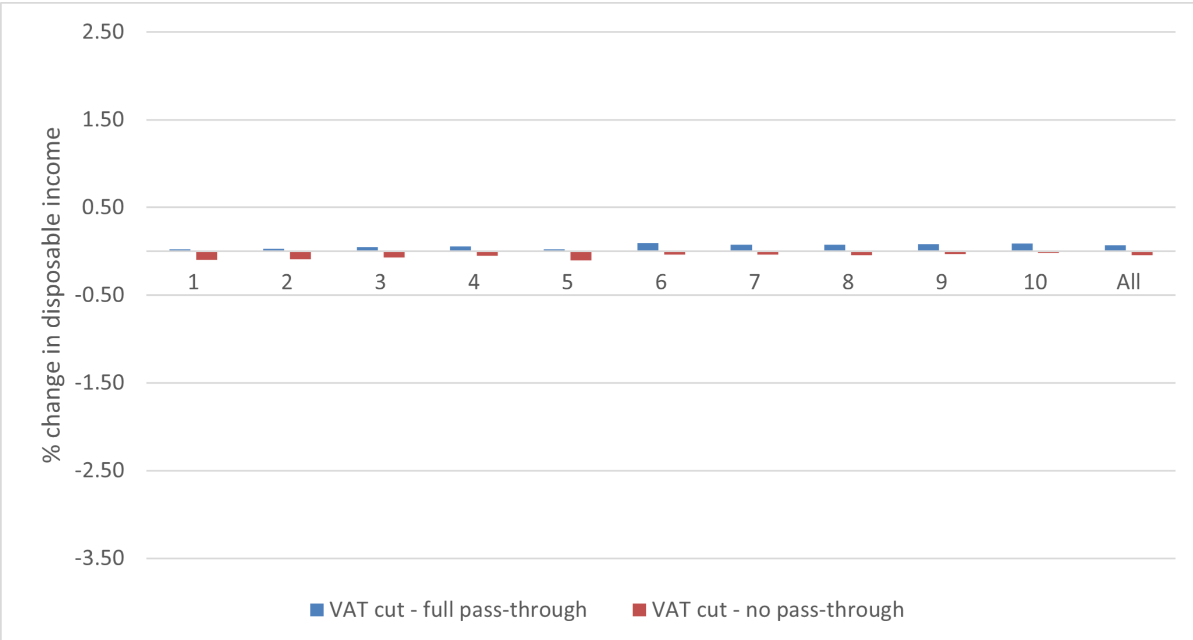
Taxation	Full year cost/yield, €m	Modelled
Universal Social Charge		
Increase the 2% rate ceiling by €1,318	-26	✓
Extension of the USC concession for medical card holders	-50	✓
Housing		
Extend the Rent Tax Credit to 31 December 2028	-350	✓
Extend the Mortgage Interest Tax Relief to December 2026	-13	
Reduce the VAT rate on the sale of new apartments to 9% from 8 October 2025 to 31 December 2030	-390	
Pensions		
Amend tax treatment of the Auto Enrolment Retirement Savings Scheme	-56	✓
VAT		
Extend the 9% VAT rate on the supply of gas and electricity to 31 December 2030	-254	✓
Reduce the VAT rate on food and catering and hairdressing to 9% from 1 July 2026	-681	✓
Climate		
Carbon tax: +€7.50 per tonne of carbon	121	✓
Extend VRT relief for electric vehicles to 31 December 2026	-40	
Excise duties		
+50c on a packet of 20 cigarettes	36.9	✓
Pay Related Social Insurance (PRSI)		
0.15 pp increase in employer and employee PRSI	-	✓

TABLE A1 (CONTINUED): REFORMS IMPACTING ON HOUSEHOLD INCOMES

Welfare	Full year cost/yield, €m	Modelled
General		
+€10 increase to social protection payments	-	✓
Double 'Christmas Bonus' social welfare payment	-	✓
Child Support Payment		
+€8 increase for qualified child <12 years old +€6 for qualified child >12 years old	-	✓
Working Family Payment		
+€60 increase in weekly threshold	-	✓
Fuel Allowance		
+€5 per week	-	✓
Extension of Fuel Allowance to Working Family Payment recipients	-	✓
Carers		
+€375 increase of the income disregard of Carer's Allowance to €1,000 for single people (€2,000 for couples)	-	✓
+€20 monthly increase to Domiciliary Care Allowance	-	
Back to School Allowance		
Back to School Clothing and Footwear Allowance extended to 2- and 3-year-olds	-	✓
Total cost of welfare measures (above)	-1,152	

Source: Department of Finance's Budget 2026 expenditure report (Welfare measures) and Budget 2026 (Taxation measures).
Note: Costs are in millions of euros per annum and are mostly full year costs. Some small schemes are excluded. No individual cost is provided, rather the total cost estimate is shown.

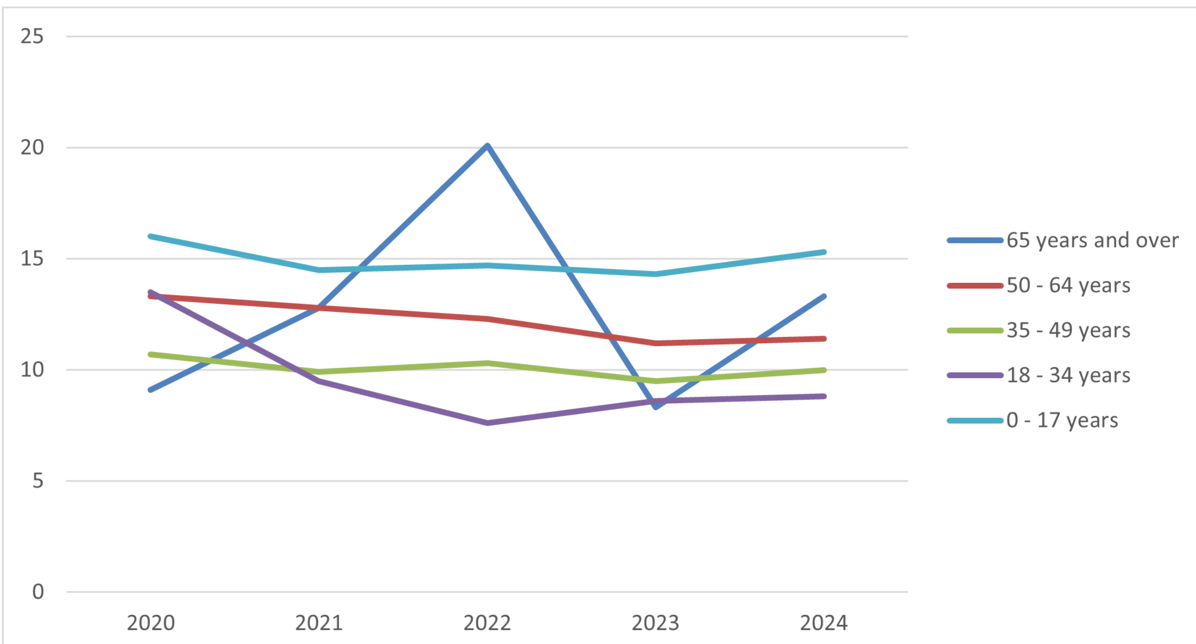
FIGURE A1: DISTRIBUTIONAL IMPACT OF INDIRECT TAX CHANGES



Source: Authors' calculations using SWITCH run on 2022 SILC data, uprated to 2026 income levels. Expenditure shares are imputed using the 2015–2016 Household Budget Survey.

Note: Deciles are based on equivalised household income, using CSO national equivalence scales. The y-axis is deliberately set to the same scale as that in Figures 2 and 3 for comparability purposes.

FIGURE A2: AT RISK OF POVERTY RATES BY AGE GROUP, 2020–2024



Source: CSO's PxStat Open Data Platform; https://data.cso.ie/table/SIA101