

Post-Budget Briefing

DATE

4th October 2024

VENUE

ESRI, Whitaker Square, Sir
John Rogerson's Quay,
Dublin 2



ESRI Post-Budget Briefing

Budget 2025: Distributional impact analysis

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Tax, Welfare & Pensions
team

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The distributional impact of this and the last five Budgets

1. What is the distributional effect of Budget 2025 compared to Budget 2024?

- Focus on real change in income and living standards.

2. Have policy changes kept pace with income growth since 2020

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

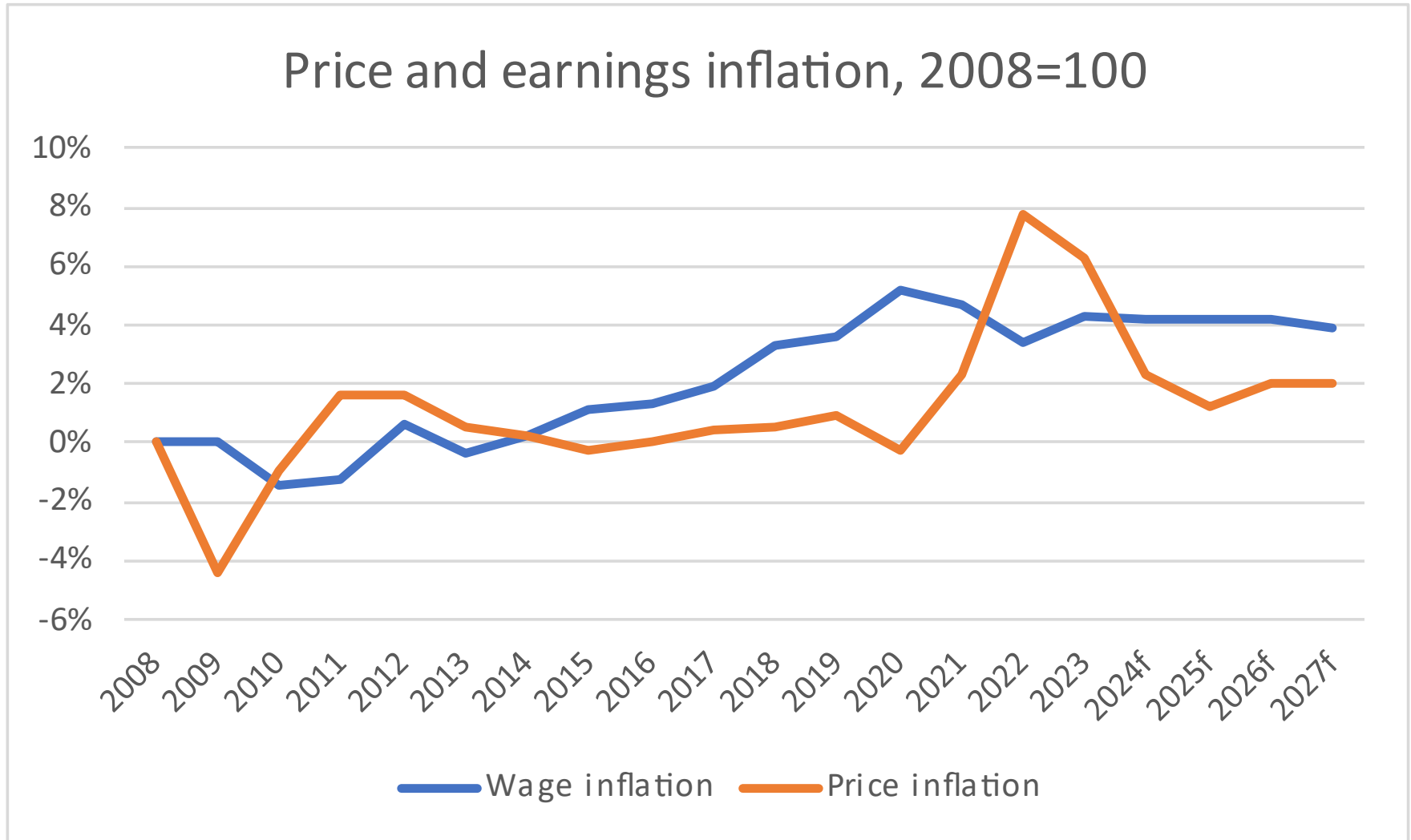
Methodology

- Use SWITCH, the ESRI's tax-benefit model and ITSIM, the indirect tax model jointly developed by DoF and ESRI.
- Two baseline-reform scenarios:
 - Permanent measures only (2024 v 2025)
 - Permanent plus temporary measures together (2024 v 2025)

Indexation

- Policies indexed in line with income growth between 2024-25 and 2020-25 to provide 'distributionally neutral' benchmarks
- Avoid fiscal drag
- Benchmark that keeps income distribution constant

Wage growth outstrips price growth from 2024 after two years of the opposite



1. What is the distributional effect of Budget 2025 compared to a wage-indexed 2024 Budget?

Budget 2025 – main measures analysed using SWITCH and ITSIM

Income tax

Bands/credits increased for workers; 2nd USC band extended and 4% rate reduced, rent tax credit, PRSI increase (non-Budget 2025)

Welfare

Personal rate of benefits increased €12 with proportional increases for qualified adults. €15 increase in Maternity/Paternity/Parent's Benefit, CSP up €4/8; Newborn Baby Grant of €280; Working Families Payment increase; earnings disregard increased for CA. Move to pay-related benefit.

One-off policies

Energy credit, 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

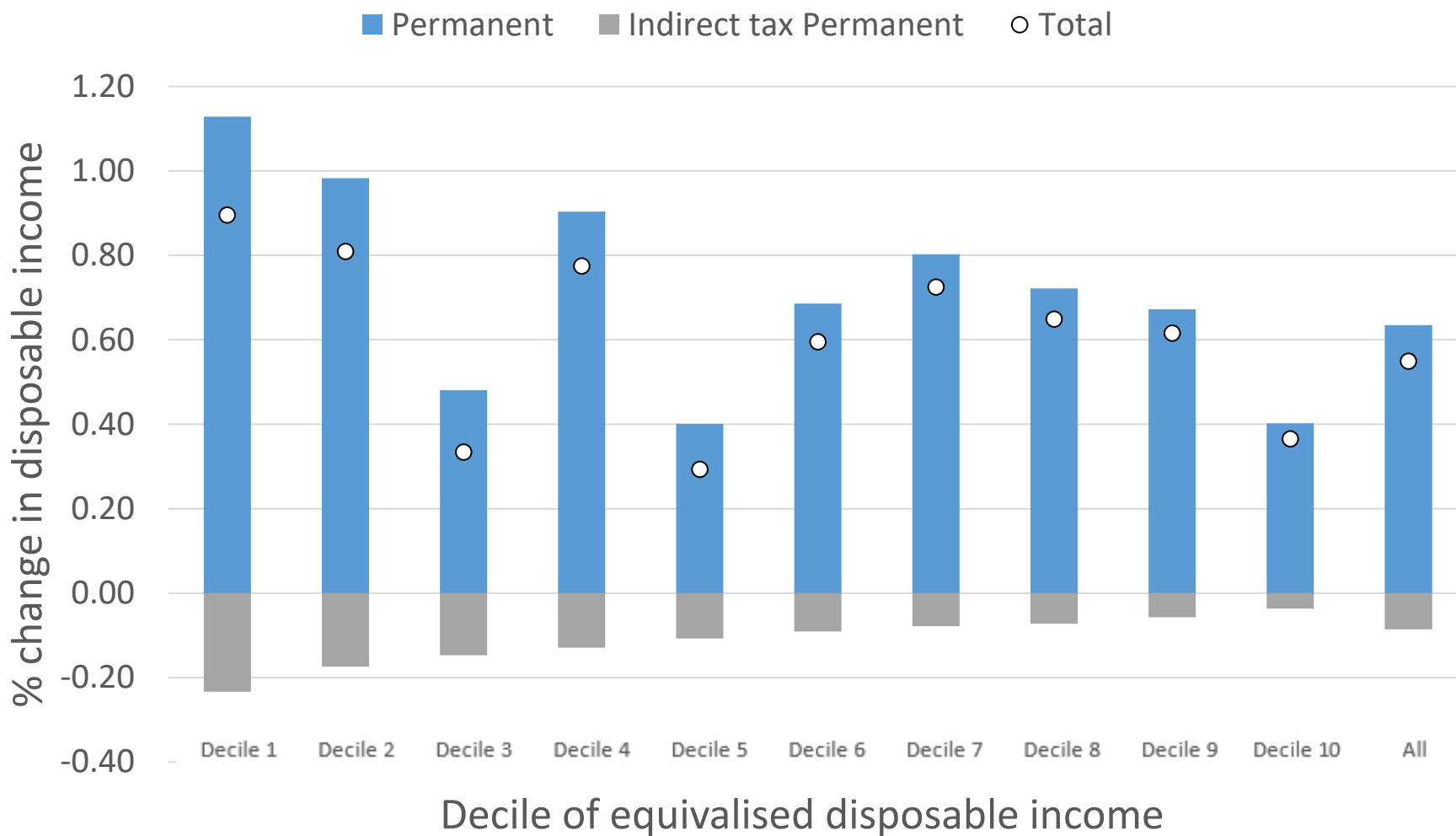
Non-cash benefits

Free school books at senior secondary cycle.

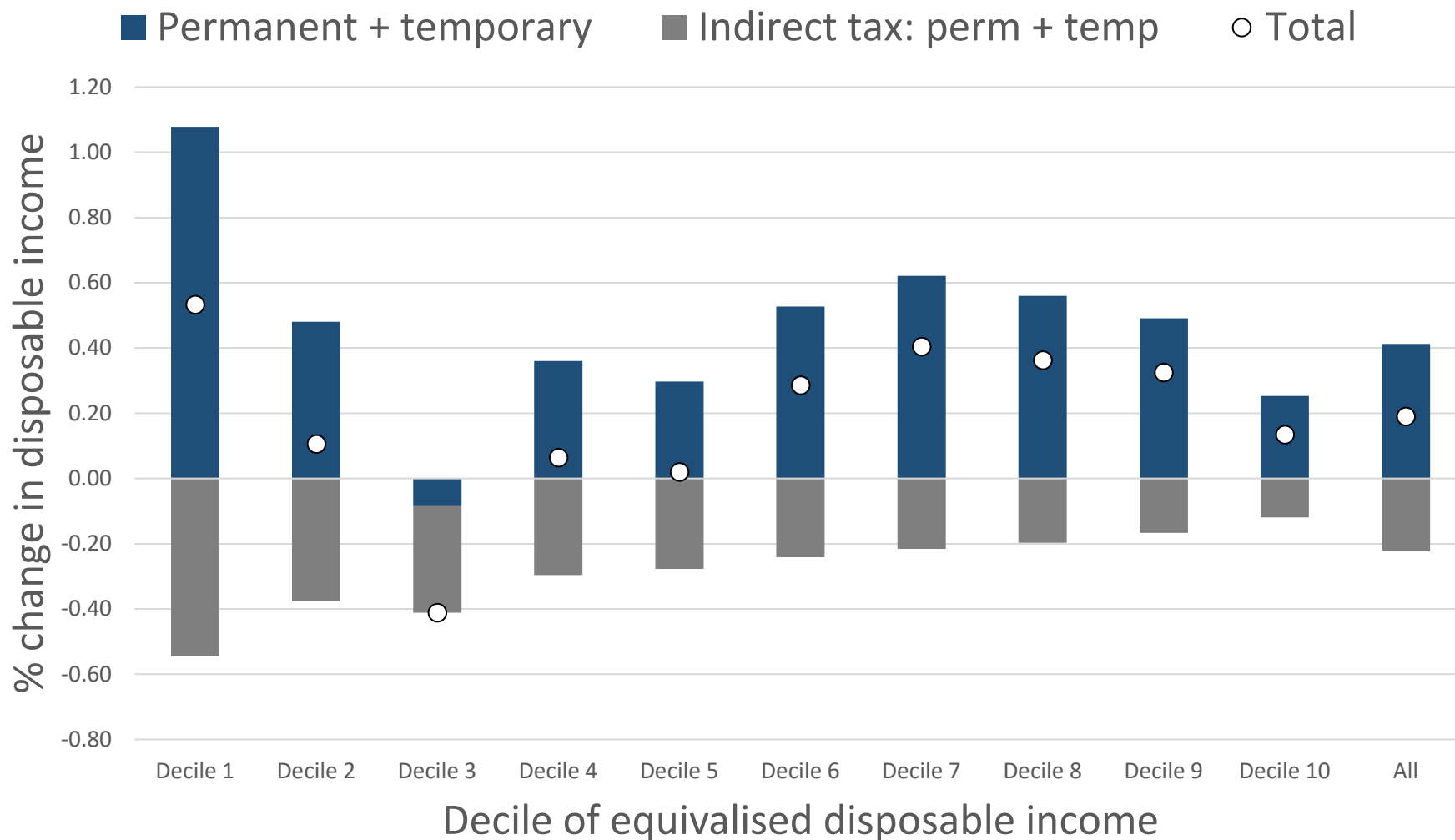
Indirect tax

Tobacco excise + €1; carbon tax + 7.50/tonne (permanent);
Return to full excise on petrol/diesel and 13.5% VAT rate on gas/electricity (temporary)

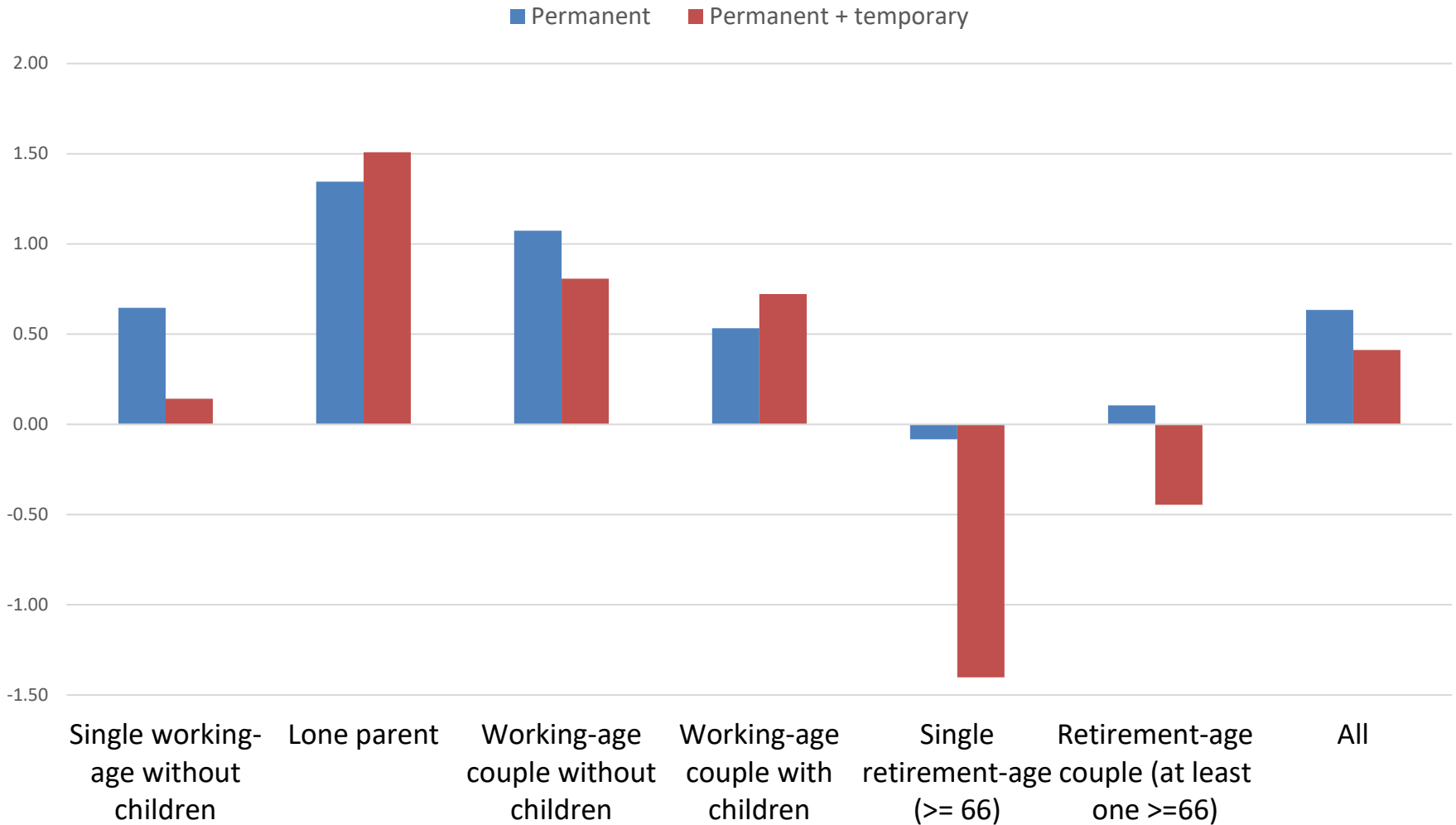
Broadly progressive pattern of permanent measures



Less so once temporary measures are factored in.....



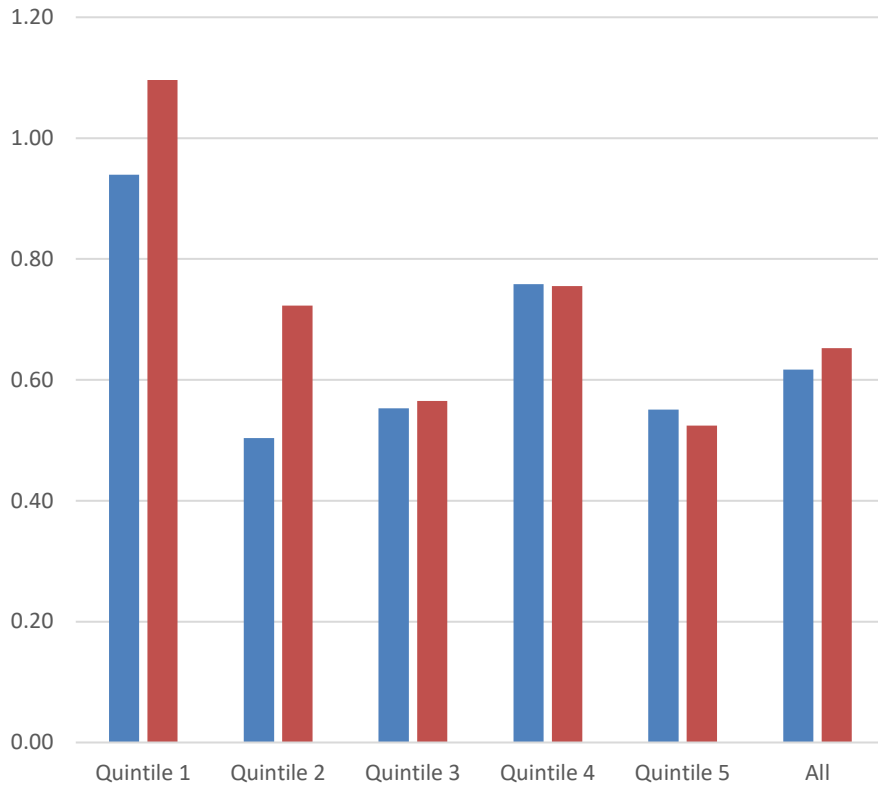
Households with children seeing larger gains.....



Policy changes impact men and women similarly

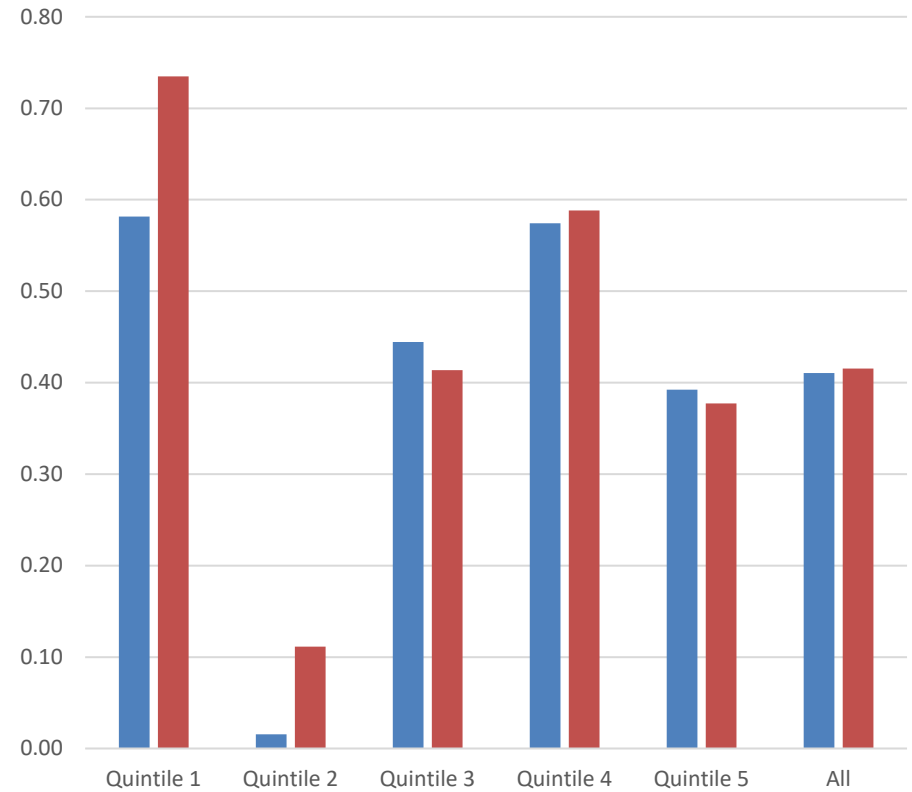
Permanent

■ Men ■ Women



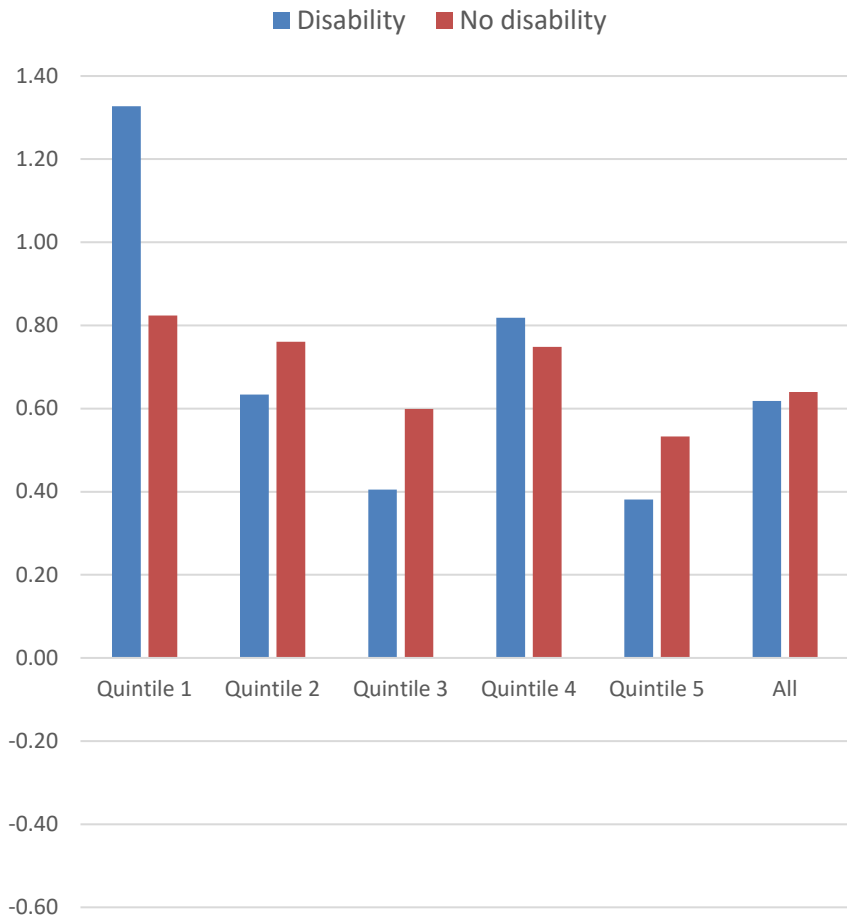
Permanent + temporary

■ Men ■ Women

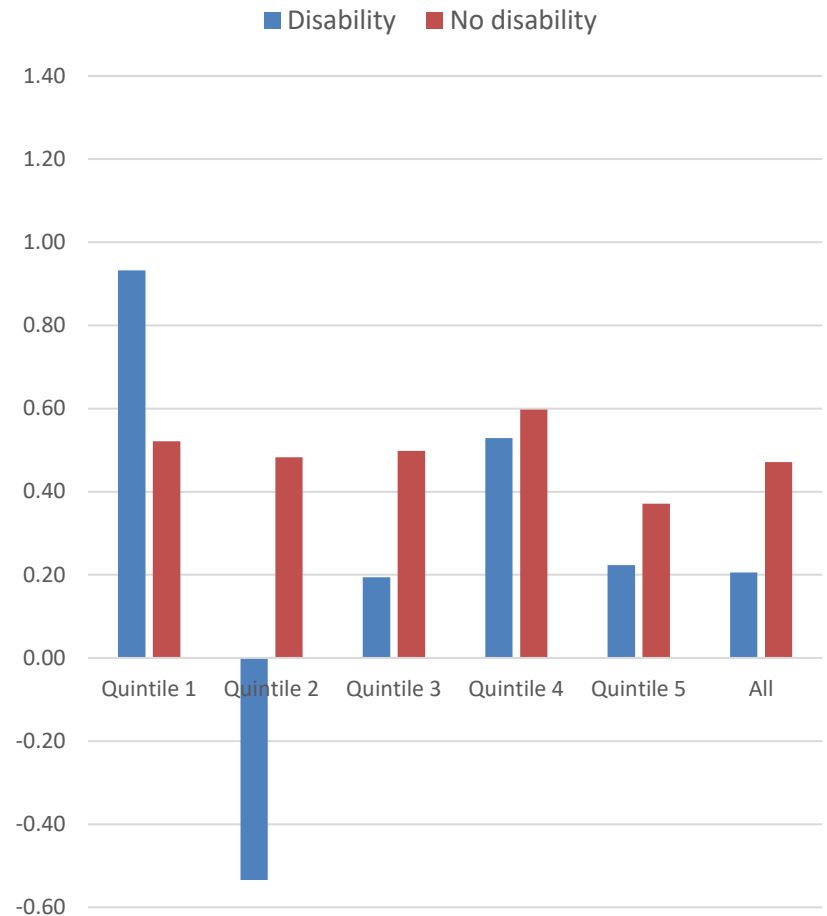


Households with disabilities gain more at the bottom end of distribution. Less generous temporary measures have a negative impact in quintile 2

Permanent



Permanent + temporary



AROP rates point out the importance of temporary measures

	Budget 2024 total	Budget 2025 total
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AROP rate

Adult	12%	12%
Elderly	9%	12%
Child	15%	15%
Disability	19%	21%

AROP rates point out the importance of temporary measures

	Budget 2024 total	Budget 2025 total
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AROP rates point out the importance of temporary measures

	Budget 2024 total	Budget 2024 excl. temporary
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AROP rates point out the importance of temporary measures

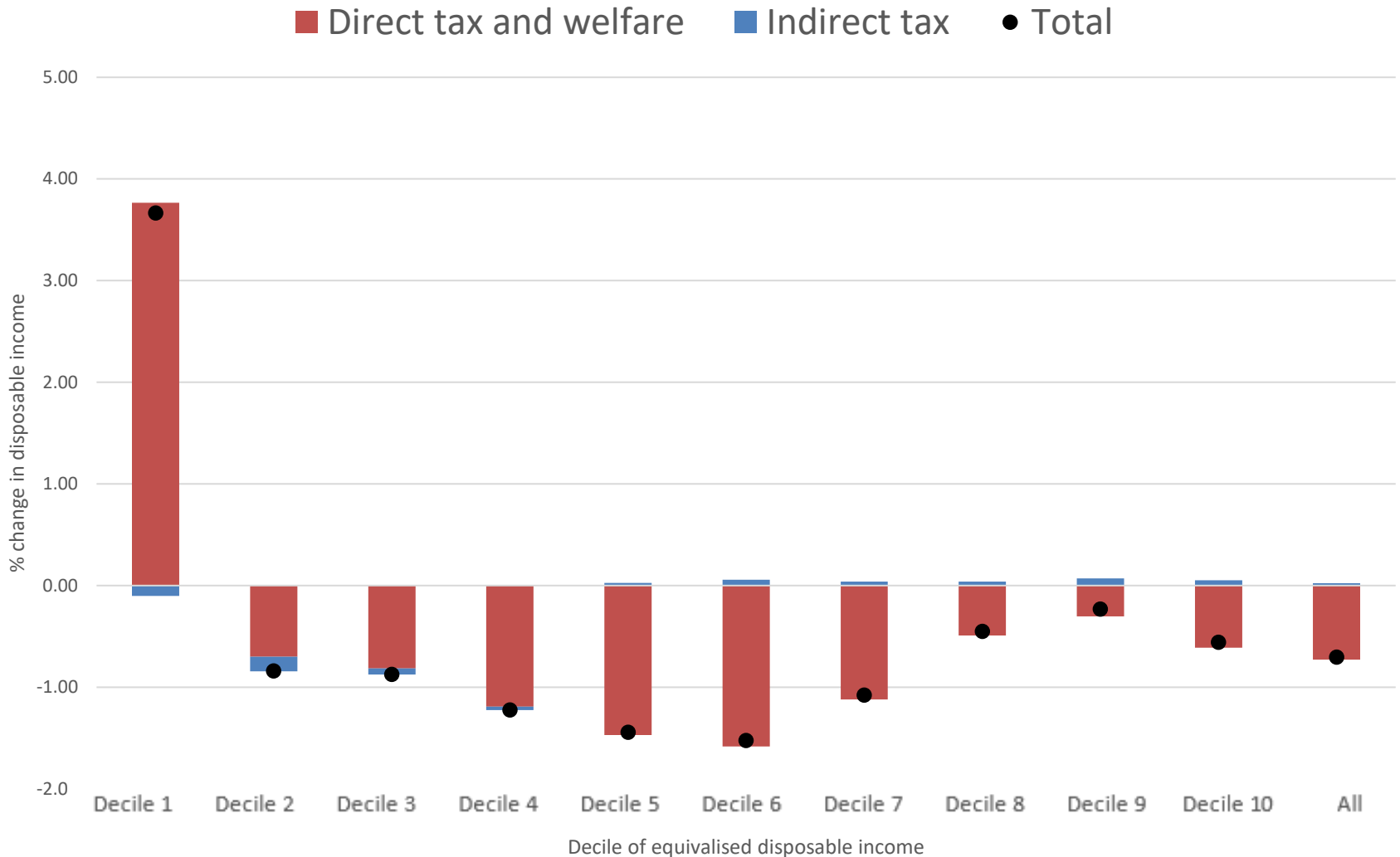
Budget 2025 total Budget 2025
excl. temporary

AROP rate

Adult	12%	12%
Elderly	13%	18%
Child	15%	15%
Disability	21%	24%

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

Permanent Budget 2025 changes result in gains for the lowest decile but losses elsewhere relative to wage growth



Free school books and meals give gains right across the income distribution, with larger impacts at the bottom



Conclusion

Conclusions

- Budget 2025 impact is broadly progressive when examining changes to the permanent measures in the tax-welfare system.
- This progressive pattern disappears once the temporary measures are included.
- Households with children tending to gain more from temporary measures but child poverty unaffected – targeting issue?
- Reduction in energy credits and freezing of FA and LAA affecting those of retirement age and those with disabilities.
- Poverty rates of these 2 groups expected to rise, importance of the temporary measures for these groups.

- Cumulative impact of Budgets between 2020 and 2025 is broadly progressive – with a gain for the lowest income decile but losses seen across the rest of the income distribution.
- School books and meals progressive and helping reduce overall losses.
- Role to play for annual indexation of the tax and welfare system?

Thank you!
Questions?

Cumulative

Price and earnings inflation, 2008=100

