ESRI SPECIAL ARTICLE

DISTRIBUTIONAL IMPACT OF TAX AND WELFARE POLICIES: BUDGET 2025

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ABSTRACT

In this Special Article we analyse the distributional impact of Budget 2025. Similar to last year, many reforms in this Budget were temporary measures specifically aimed at combatting cost of living pressures. Compared to a baseline pegged to wage growth, the permanent measures, such as increases in the tax band, tax credits and social welfare rates, are broadly progressive, with households in the bottom quintile of income expected to see an increase of around 0.9% of equivalised disposable income, and those in the top quintile to see increases of 0.5%. When accounting for temporary measures, the average household is estimated to see an increase of just 0.2% in their equivalised disposable income, and the broadly progressive effect of the permanent measures becomes less clear. These results are driven by the fact that many temporary measures have either been frozen (and therefore reduced in real terms) or have been explicitly reduced, such as the reduction in energy credits. We show that from 2020 to 2025 permanent changes to the tax and welfare system have resulted in small average income losses (-0.3% of disposable income) compared to policy changes pegged to wage growth. While temporary measures have been successful in helping households deal with rising prices, their inevitable phasing out will cause issues if headline welfare payments fail to keep pace with income growth. We also find that households with children tended to benefit more from the Budget 2025 measures, such as the double Child Benefit payment, but that the measures have little anticipated downward effect on child poverty rates, suggesting a targeting issue.

1. INTRODUCTION

Budget 2025 sets out an expenditure package of €10.5 billion. This additional expenditure is comprised of a package of once-off measures worth €2.2 billion, a net tax package of €1.4 billion and an expenditure package of €6.9 billion.

In the context of declining inflation, rising wages, and record levels of employment in Ireland (McQuinn et al, 2024), fiscal restraint was urged by the Irish Fiscal Advisory Council, among others, amid concerns that further breaches of the National Spending Rule could contribute to growing underlying deficits, increased consumer prices, and fragility in the case of future recessions (Irish Fiscal Advisory Council, 2024). Nevertheless, the Government has exceeded its own 5% spending rule with Budget 2025, citing the need to compensate households for the rising cost of living.

In this Special Article, we examine the tax and welfare measures announced in Budget 2025. We begin by outlining and assessing the taxation measures in Section 2, which is followed by an examination of the social welfare measures in Section 3. Section 4 presents our analysis of the distributional impact of the combined measures using SWITCH – the Economic and Social Research Institute (ESRI) tax and benefit microsimulation model – and ITSim, the indirect tax model jointly developed by the ESRI and the Department of Finance. We also estimate the cumulative impact of tax and welfare reforms announced to date by the coalition government over the period 2021 to 2025. Section 5 concludes.

2. TAXATION MEASURES

Table A1 in the appendix lists the main taxation measures announced in Budget 2025, alongside the full year cost estimated by the Department of Finance.

2.1 Income tax

The income tax standard rate cut-off, the point at which the higher income tax rate of 40% begins to apply, rose by €2,000 for a single adult, from €42,000 to €44,000, and by a proportionate amount for married couples and civil partners. This represents a rise of 4.8%, substantially ahead of forecast price inflation of 1.2% and just over forecast wage growth of 4.2%.[1] This amounts to an effective tax cut, as

1 See McQuinn et al. (2024) for price inflation forecasts and Department of Finance (2024) for wage inflation forecasts.

these credits are worth more to taxpayers in real terms and a lower share of earnings will be exposed to the top 40% rate of tax.

Most income tax credits rose in nominal terms, and the proportional increase of around 7% was substantially above both inflation and wage forecasts for 2025. This again amounts to an effective tax cut as these credits are worth more to taxpayers in real terms.

The Universal Social Charge (USC) threshold for moving from the second to the third band rate increased by 6.3% (from €25,760 to €27,382). In addition, the rate for the third income band decreased from 4% to 3%. As a result of these changes, most USC payers will benefit from a reduction in their liability.

2.2 Taxation and housing

The Government also announced a range of tax measures aimed at addressing issues relating to housing. The income tax credit for private renters, introduced in Budget 2023, was increased from a maximum of €750 to a maximum of €1,000 per person per year for those eligible and living in unsupported private rental accommodation. The credit will benefit middle income households most as households need to earn enough to incur a tax liability to benefit from the credit.

The Mortgage Interest Tax Credit, introduced on a temporary basis in Budget 2024, is being extended by one further year. This tax credit is available for homeowners with an outstanding mortgage balance of between €80,000 and €500,000 at the end of 2022. The relief is available only to holders of tracker and variable 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 rental 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 tracker or variable rate mortgages (Byrne et al., 2023).

The Minister for Finance also announced an increase in the rate of the Vacant Homes Tax, which will increase from five to seven times the basic rate of Local Property Tax for the property. This tax is a welcome supply side measure and among the recommendations of the Commission on Taxation and Welfare (2022).

2.3 Indirect tax

There was a well-flagged increase to the carbon tax, which went from €56 per tonne of carbon to €63.50 per tonne. Excise duties on tobacco products also increased, amounting to an extra €1 on a packet of 20 cigarettes. Other indirect tax measures announced include the introduction of excise on e-cigarette products and the restoration of the 13.5% VAT rate on gas and electricity from May 2025. The 20% reduction to public transport fares first introduced on a temporary basis in 2022 was once again extended for the whole of 2025, thus maintaining fares at the current level.

3. SOCIAL WELFARE MEASURES

The Budget also included many changes to social welfare parameters alongside several temporary measures aimed at cushioning household incomes from supply-side driven inflation (Table A1 in the appendix).

As part of the permanent package, personal rates of payment for social welfare schemes were increased by €12 per week, with proportionate increases to qualified adult increases. Maternity, Paternity and Parent's Benefit rates were increased by €15 per week. Weekly payments of Child Support Payment (previously known as Increase for a Qualified Child) increased by €4 for under 12s and by €8 for those aged 12 and over, and the Working Family Payment income limits increased by €60 per week. A new Newborn Baby Grant of €280 in addition to the first month of Child Benefit was introduced for parents with children born on or after 1 December 2024. Further measures were introduced to support carers. The income disregard for Carer's Allowance was increased to €625 for a single person and €1,250 for couples, alongside a €150 increase in the Carer's Support Grant. Carer's Allowance has also been added to the list of qualifying payments for the Fuel Allowance. The higher income threshold for the Fuel Allowance has been extended to those aged 66 and over, and has been increased to €524 for a single person and €1,048 for couples, which means more people will qualify. For most social welfare recipients, these increases are relatively larger than the forecast wage growth of 4.2% in 2025 (Department of Finance, 2024). However, since retirement age payments tend to be higher than working age payments in nominal terms, the undifferentiated €12 rise results in a lower percentage increase for this group.

The welfare package in the Budget also included temporary welfare and universal payments to mitigate an inflation-induced strain on household finances. The universal energy credits were renewed this year, as part of the cost-of-living measures, payable in November 2024 and January 2025. However, the amount decreased from €150 to €125 and the number of payments decreased from three to two compared to 2024. This is a significant fiscal outlay, making up around one-quarter of the temporary cost of living expenditure. Two double Child Benefit payments will also be made in November and December 2024. Additionally, one-off lump sum payments for recipients of certain social welfare benefits were announced, with payment occurring during December 2024. Those in receipt of the Working Family Payment, the Disability Allowance, the Carer's Support Grant, the Blind Pension and the Invalidity Pension will receive a €400 lump sum, while those in receipt of the Living Alone and Fuel Allowance will receive €200 and €300 respectively. A lump sum of €100 was also made to recipients of the Child Support Payment in November 2024. The usual 'Christmas Bonus' to recipients of long-term social welfare payments was announced. The temporary reduction in the student contribution fee for third level students, announced in Budgets 2023 and 2024, was repeated in Budget 2025.

4. DISTRIBUTIONAL IMPACT ANALYSIS

We use SWITCH – the ESRI's tax benefit microsimulation model – and ITSim – an indirect tax microsimulation tool jointly developed by researchers at the ESRI and the Department of Finance – to assess the combined impact of taxation and welfare policy changes on household income.[2] The range of policy reforms modelled is detailed in the appendix. SWITCH is linked to data from the 2022 Survey on Income and Living Conditions (SILC), the primary source of information on household incomes collected annually by the Central Statistics Office (CSO). The data is 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 the year of analysis. The scale, depth and diversity of this survey allows it to provide an overall picture of the impact of the policy changes on Irish households, which cannot be gained from selected example cases. ITSim estimates the indirect taxes (VAT and excise duties, including carbon taxes) paid by Irish households on the basis of their reported expenditure, collected by the CSO's nationally representative Household Budget Survey (HBS) in 2015–2016.[3]

Given the range of temporary and permanent measures announced as part of Budget 2025, we separate base and reform scenarios to estimate the distributional effect of Budget 2025. These are summarised in Panel A of Table 1. Scenario 1 captures permanent policy changes between 2024 and 2025, while Scenario 2 outlines the effect of changes to both permanent and temporary measures between 2024 and 2025.

We also set up a baseline and reform scenario (Panel B of Table 1), which presents a more medium-term picture. In Scenario 3 we estimate the effect of permanent

2 See Keane et al (2023) for a description and validation of the SWITCH model.
3 Income rates are uprated to 2025 levels using earnings indices. Expenditures are uprated to 2025 levels using price growth indices.

policy changes only, between 2020 and 2025, on the distribution of income compared to a scenario in which 2020 policies were pegged to wage growth.

In each case, 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 wage growth (Table 1). As argued by Bargain and Callan (2010) and Callan et al. (2019), this provides a distributionally neutral benchmark against which to assess policy reforms. For the indirect tax system, we index our baseline scenario in line with price growth, which is a more appropriate indexation factor for expenditure.

A new feature of this year's analysis is the inclusion of temporary measures in the baseline for the scenario that evaluates the distributional impact of both permanent and temporary measures. Government has now extended or repeated certain temporary measures for several consecutive years, and households have begun to depend on measures labelled as temporary. Therefore, the analysis accounts for the distributional impacts of the withdrawal or reduction of temporary measures in Budget 2025.

We use SWITCH to calculate households' social welfare entitlements, tax liabilities and net incomes under each system. ITSim calculates households' VAT and excise liabilities.

TABLE 1 SUMMARY OF BASELINE AND REFORM SCENARIOS

	A: 2024–2025				B: 2020–2025	
	Scenario 1		Scenario 2		Scenario 3	
	Base	Reform	Base	Reform	Base	Reform
Policy	2024	2025	2024	2025	2020	2025
Indexed to	2025	-	2025	-	2025	-
Indexation factor direct tax and welfare*	4.2%	-	4.2%	-	22.9%	-
Indexation factor indirect tax*	1.2%	-	1.2%	-	21.4%	-
Temporary policies included?**	No		Yes		No	
Figures	1, 3-6		2, 3-6		7	

Notes: * We use CSO data on annualised quarterly average weekly earnings and the Department of Finance 2025 forecast for increase in compensation per employee to index the direct tax and welfare system. We use CSO data on CPI growth until 2024 and forecasts from the ESRI's Quarterly Economic Commentary for CPI growth in 2025 to index the indirect tax system.
** Temporary policy measures introduced in Budget 2024 (2025) to be paid at the end of 2023 (2024) and beginning of 2025, e.g. energy credit, double social welfare payments, additional Fuel Allowance payments.

4.1 The distributional effect of Budget 2025[4]

Figure 1 shows the distributional effect of permanent changes to indirect taxes, direct taxes and welfare announced as part of Budget 2025, compared to a wage-indexed 2024 policy system. This corresponds to Scenario 1 in Table 1.

While not part of Budget 2025, 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 Pay-Related Benefit scheme and tackle State Pension funding pressures.[5] Our analysis therefore includes the planned 0.1% PRSI rise for 2025 as well as the move in 2025 to pay-related benefits.[6]

As shown in Figure 1, we estimate that households will experience a rise in real income of 0.5% on average in 2025 due to the permanent measures announced in Budget 2025. The permanent measures are broadly progressive, with households in the bottom quintile of income expected to see an increase of around 0.9% of equivalised disposable income, and those in the top quintile to see increases of 0.5%.

We also show the effect of combined changes to the permanent and temporary tax and welfare systems in Figure 2, corresponding to Scenario 2 in Table 1. When accounting for temporary measures, the average household is estimated to see an increase of just 0.2% in their equivalised disposable income. Furthermore, the broadly progressive effect of the permanent measures seen in Figure 1 becomes less clear. While households in the bottom decile of income see the largest relative rise in income, of 0.5%, the remainder of the bottom half of the income distribution see either no significant change in income, or, in the case of the third decile, a reduction in real income of 0.4%. This negative effect is driven by the concentration of retirement aged households and households with disabilities in the third decile; these groups are most significantly impacted by the partial withdrawal or nominal freezing of temporary measures.

By this measure, Budget 2025 is neither strongly progressive nor regressive: the effect of permanent measures is reasonably progressive, although real income

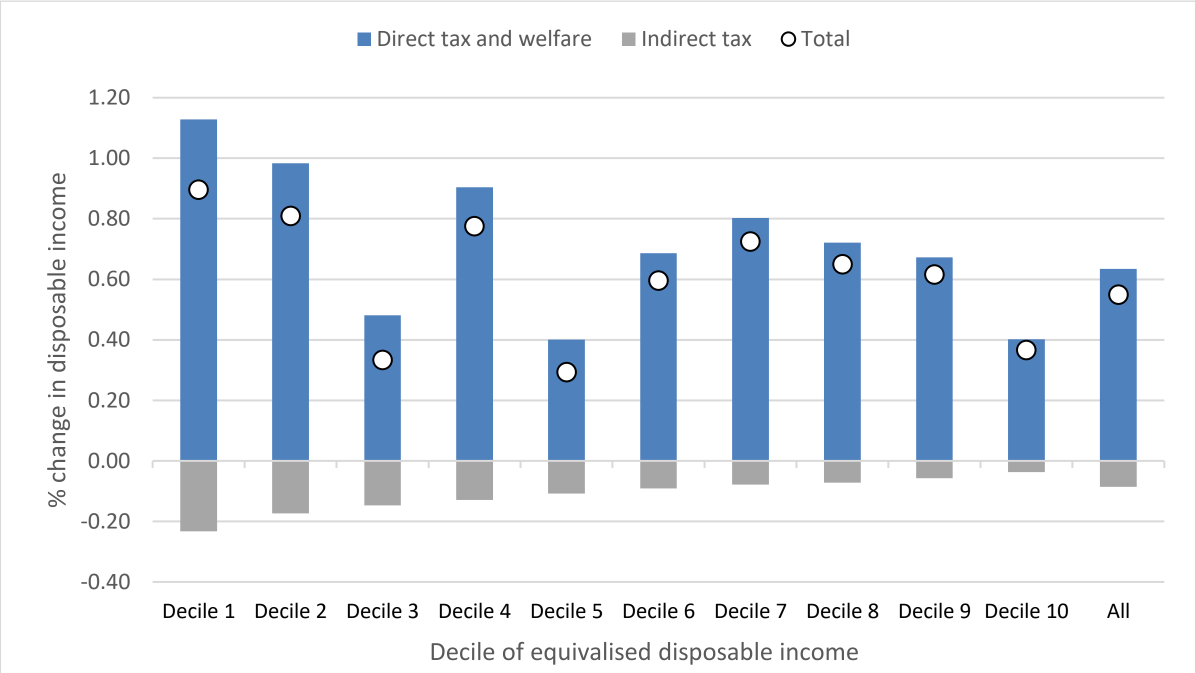
4 As mentioned, reference to 'Budget 2025' measures includes the planned increase in PRSI and introduction of the Pay-Related Benefit scheme.

5 All PRSI rates are set to increase by 0.1 percentage point in 2024 and 2025, 0.15 percentage point in 2026 and 2027 and 0.2 percentage point in 2028 (Department of Social Protection, 2023 (press release), https://www.gov.ie/en/press-release/022d7-minister-humphreys-secures-cabinet-approval-for-major-social-welfare-reforms/.

6 The Pay-Related Benefit Scheme is set to be introduced in March 2025. Those who qualify will receive 60% of their previous earnings for the first three months of unemployment, dropping to 55% for the next three months and 50% for the three months following that (sixth to ninth month of unemployment). These rates are subject to maximum levels.

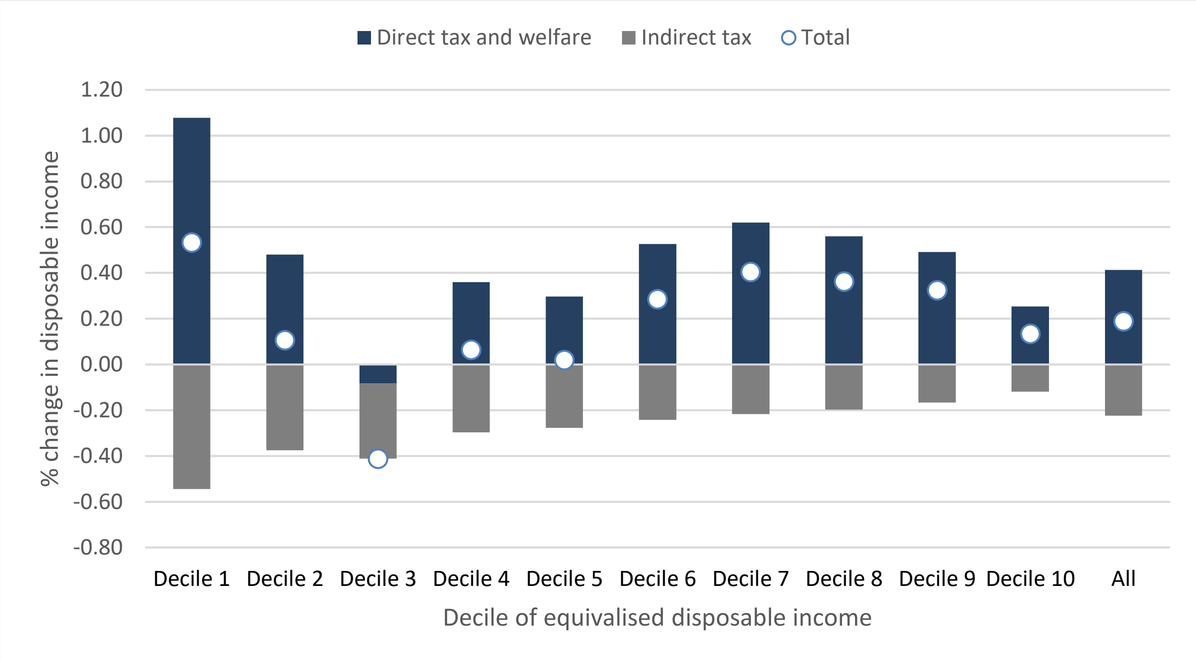
gains are modest across the board. When factoring in temporary measures, the impacts of the budgetary package on real incomes are modest and don't appear to be progressive. This effect is driven by the partial withdrawal of the energy credits and the nominal freeze to most other temporary measures.

FIGURE 1 DISTRIBUTIONAL IMPACT OF PERMANENT BUDGET 2025 COMPARED TO INDEXED 2024 POLICIES



Source: Authors' calculations using ITSim linked to the 2015–2016 Household Budget Survey uprated to 2025 prices, and SWITCH run on 2022 Survey on Income and Living Conditions data, uprated to 2025 income levels.
Notes: Deciles are based on equivalised household income, using CSO national equivalence scales.

FIGURE 2 **DISTRIBUTIONAL IMPACT OF PERMANENT AND TEMPORARY BUDGET 2025 COMPARED TO INDEXED 2024 POLICIES**



Source: Authors' calculations using ITSim linked to the 2015–2016 Household Budget Survey uprated to 2025 prices, and SWITCH run on 2022 Survey on Income and Living Conditions data, uprated to 2025 income levels.
Notes: Deciles are based on equivalised household income, using CSO national equivalence scales.

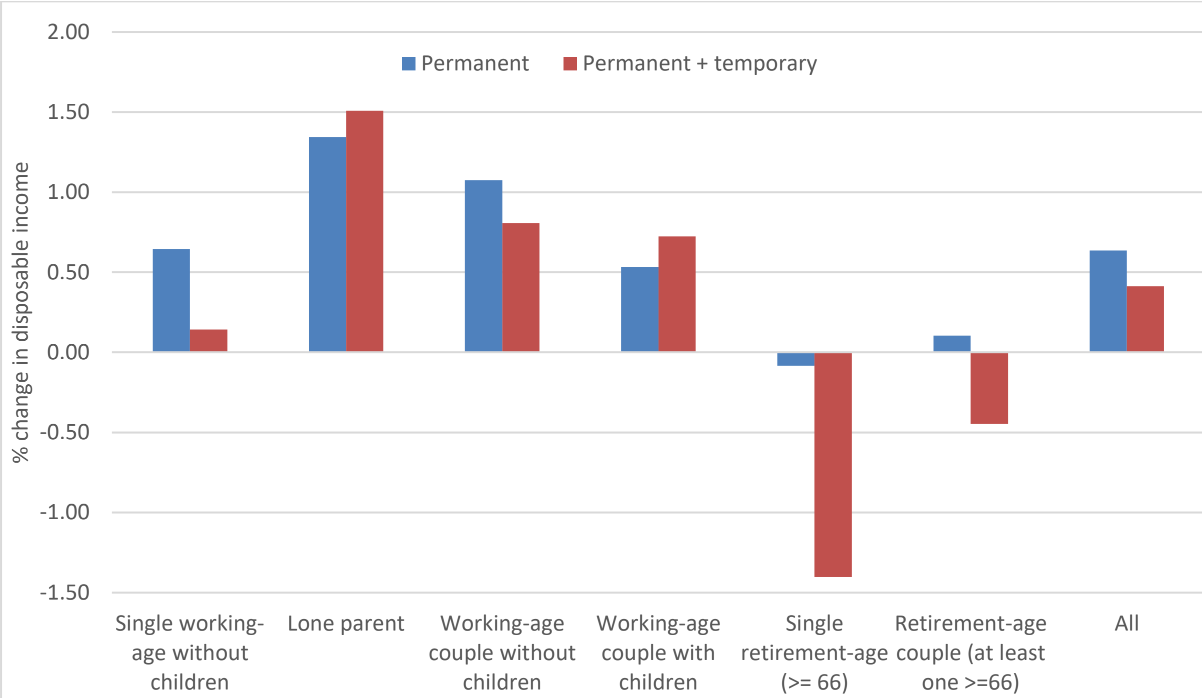
4.2 The effect of Budget 2025 by household type, gender and disability status

We further examine the distributional impact of Budget 2025 by household type, gender and disability status. Figure 3 displays the impact of direct tax and welfare measures and indirect tax policies of Budget 2025 by household type.

On average, most household types benefit from the permanent measures in Budget 2025, especially working age couples without children and lone parent households as they are gaining from the income tax/USC measures and welfare increases that are above wage inflation. Retirement aged households were least likely to benefit from the permanent measures in Budget 2025, with single retirement aged households experiencing a marginal decline in real disposable income and retirement aged couples seeing an increase of 0.1%. This is due to two factors. The €12 increase in State Pension rates for this group represents a smaller percentage gain than increases to working age welfare payments. Secondly, additional benefits often received by this group – such as the Living Alone Allowance and the Fuel Allowance – were frozen in nominal terms, representing a real decline in value.

When considering both the permanent and temporary changes to the tax and welfare system announced in Budget 2025, the distribution of gains and losses is more uneven across household types. On average, retirement aged households experience losses, while working aged households see gains, particularly households with children. The results for households with children are driven by the two double Child Benefit payment, increases in the Child Support Payments and the introduction of the Newborn Baby Bonus. The pattern for retired households reflects the withdrawal of temporary measures, such as the reduction in energy credit – highlighting the importance of these measures for such groups.

FIGURE 3 DISTRIBUTIONAL IMPACT OF BUDGET 2025 BY HOUSEHOLD TYPE COMPARED TO INDEXED 2024 POLICIES

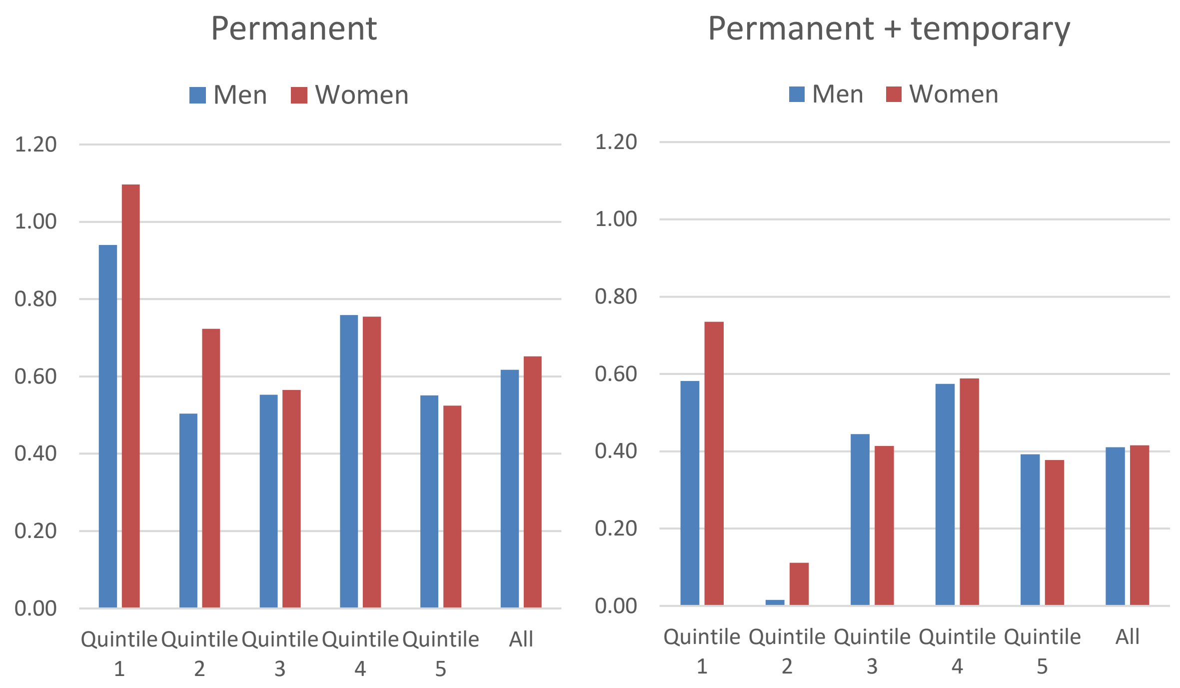


Source: Authors' calculations using ITSim linked to the 2015–2016 Household Budget Survey uprated to 2025 prices, and SWITCH run on 2022 Survey on Income and Living Conditions data, uprated to 2025 income levels.

Figure 4 shows the estimated effects of direct tax and welfare policy changes from Budget 2025 by gender.[7] For this analysis, we assume that income is split evenly between individuals in a couple. Compared to a wage-adjusted budget, our analysis suggests that Budget 2025 measures affected men and women in a broadly similar manner, with women in the bottom quintiles of income seeing larger gains because of both permanent and temporary policies, likely a reflection of benefit receipt patterns and the higher Child Support Payments, and double Child Benefit payment implemented in Budget 2025.

7 It is not possible to estimate the gender impact of indirect tax changes using ITSim as expenditure data are collected at the household level.

FIGURE 4 DISTRIBUTIONAL IMPACT OF BUDGET 2025 BY GENDER COMPARED TO A WAGE INDEXED 2024 POLICY



Source: Authors' calculations using SWITCH run on 2022 Survey on Income and Living Conditions data, uprated to 2025 income levels.

Notes: Income is assumed to be fully shared between members of a couple. Quintiles are based on equivalised household income, using CSO national equivalence scales.

Figure 5 shows the estimated effects of the Budget 2025 direct tax and welfare measures by disability status.[8,9] 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. Overall, permanent measures were estimated to have broadly similar impacts on households with and without disabilities. However, households with disabilities gained more at the bottom end of the distribution.

When additionally considering temporary measures, on average, households with disabilities experienced smaller gains compared to households without disabilities. This is largely driven by a negative impact on households with disabilities in quintile 2. Households in this quintile, many of whom are of retirement age, are more reliant on temporary measures, such as energy credits, which were reduced in Budget 2025.

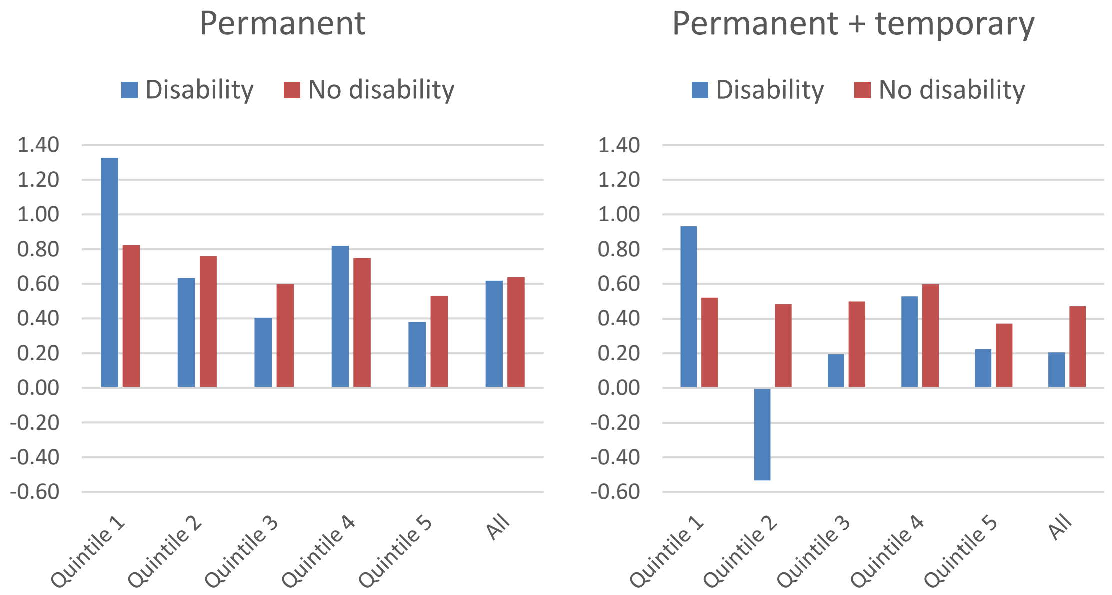
8 ITSim does not currently allow the estimation of indirect taxation measures by disability status.

9 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?

FIGURE 5 DISTRIBUTIONAL IMPACT OF BUDGET 2025 (DIRECT TAX AND WELFARE) BY DISABILITY STATUS COMPARED TO A WAGE INDEXED 2024 POLICY



Source: Authors' calculations using SWITCH run on 2022 Survey on Income and Living Conditions data, uprated to 2025 income levels.

Notes: 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.

4.3 The effect of Budget 2025 on income inequality and at-risk-of-poverty rates

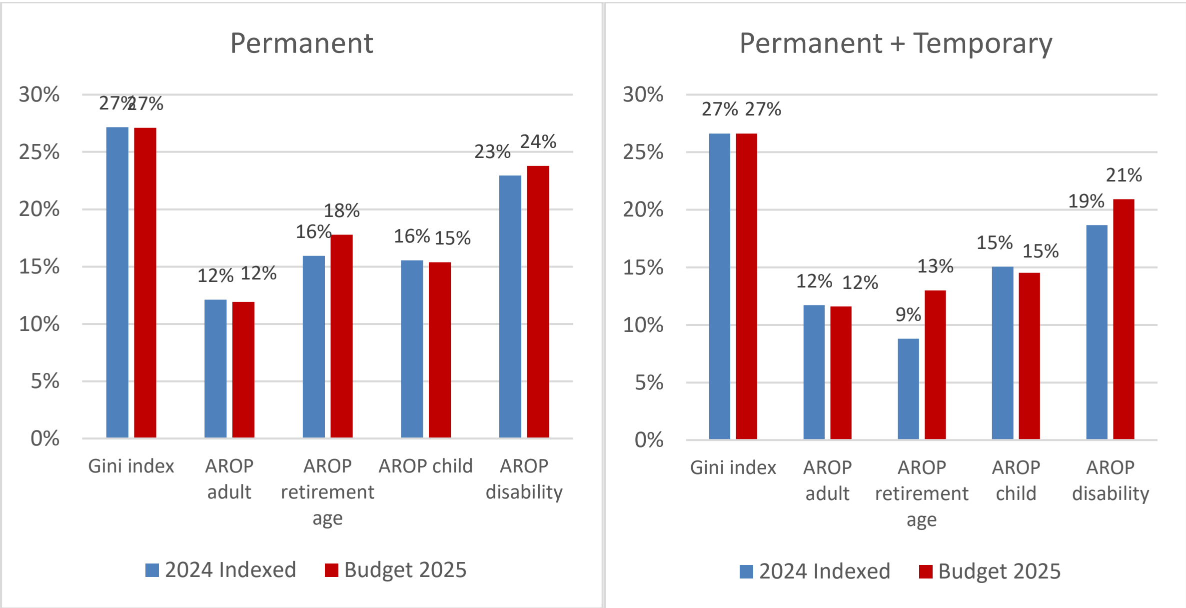
Figure 6 (and Table A2 in the appendix) shows the impact of Budget 2025 on income inequality, as measured by the Gini index, and at-risk-of-poverty (AROP) rates. Compared to an indexed 2024 policy, we estimate no change in the Gini index as a result of Budget 2025.

AROP rates for working age adults and children will remain broadly unchanged as a result of Budget 2025 when considering both the permanent measures and the combined permanent and temporary measures. Retirement age poverty is projected to rise once both permanent and temporary measures are considered – the AROP rate among those of retirement age is estimated to increase from 9% to 13% compared to a wage-indexed 2024 policy. If, however, the temporary measures introduced as part of Budget 2025 were not in place, retirement age poverty rates would have jumped much more significantly, to 18%. The same was true of Budget 2024, whereby retirement age poverty rates would have increased significantly if it weren't for the introduction of temporary measures.

Budget 2025 is also anticipated to increase AROP rates for people with disabilities, from 19% to 21%. Similar to retirement age AROP rates, temporary measures have helped prevent rises in AROP rates for people with disabilities over recent years. There is a strong overlap between retirement and disability status; therefore households with disabilities will also be disproportionately affected by the freezing of the Living Alone Increase and the Fuel Allowance, and the partial withdrawal of temporary policies such as energy credits.

This highlights both the impact of temporary measures in preventing sharp poverty increases in recent years, and the likely impact on poverty rates, for households with disabilities and the older population, of withdrawing or reducing these temporary measures.

FIGURE 6 IMPACT OF BUDGET 2025 ON INCOME INEQUALITY AND POVERTY COMPARED TO WAGE-INDEXED 2024 POLICIES



Source: Authors' calculations using SWITCH run on 2022 Survey on Income and Living Conditions data, uprated to 2025 income levels.

Notes: 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.

4.4 The effect of permanent policy reform 2020–2025

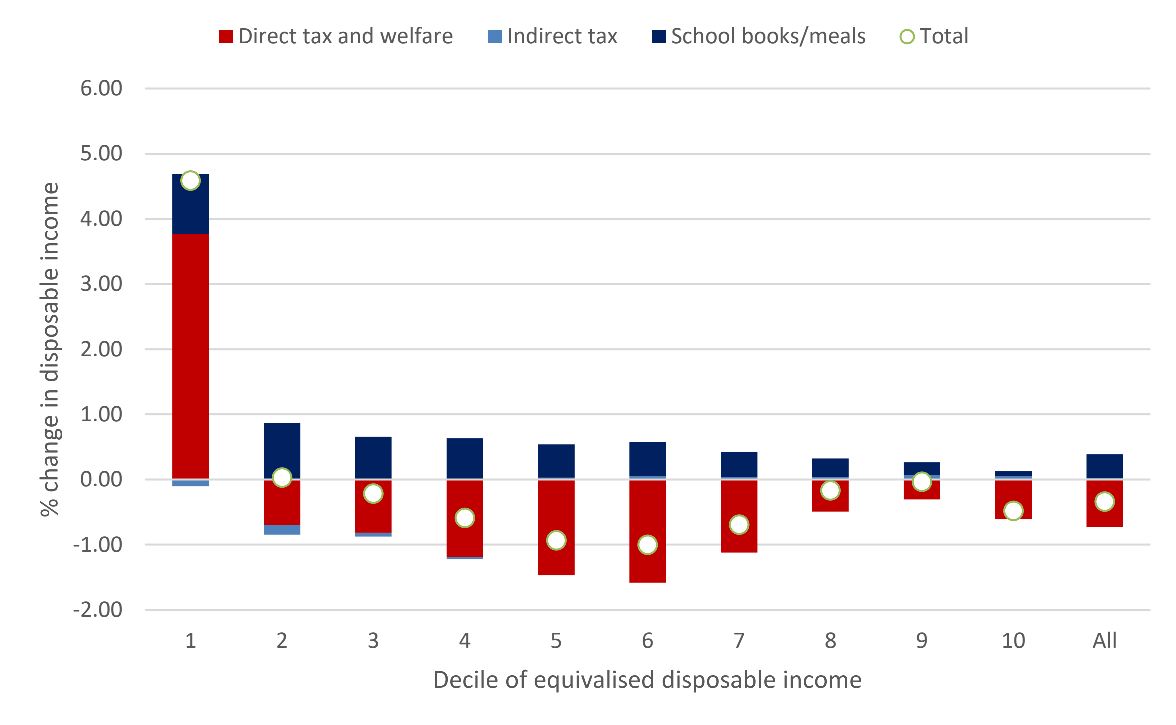
We next consider the distributional impact of budgetary policy since 2020. To do so, we compare a 2025 policy system without temporary policies to an indexed 2020 system (see Panel B of Table 1). This shows how changes to the permanent tax and welfare system have affected real income over the last five years. Given the rollout of free school meals and schoolbooks occurred largely over this time period, we also include the distributional impact of these measures.[10] Direct tax and welfare policy parameters in the baseline are indexed by 22.6%, matching actual and forecast wage growth between 2020 and 2025, while indirect tax policy parameters are indexed by 21.4%, reflecting actual and forecast Consumer Price Index (CPI) growth between 2020 and 2025.

Figure 7 shows the effects of permanent policy changes in Budget 2025 compared to an indexed 2020 policy scenario. This corresponds to Scenario 3 in Table 1. On average, households lose 0.3% of disposable income. The lowest income decile gained most relative to a system pegged to wage growth (+4.6% of income). The second, third, eighth and ninth income deciles saw no real overall change in income. There are small losses, between 0.5 and 1 per cent of disposable income, in the middle of the income distribution and at the very top of the income distribution.

The average losses are overwhelmingly driven by changes to the direct tax and welfare system, particularly in the middle of the income distribution. The changes across the income distribution resulting from reforms to indirect taxes are small overall. The effect of free school meals and books is progressive. Overall, permanent policy changes for the bottom income decile, usually in receipt of welfare benefits, have been ahead of wage growth over the last five years. However, for deciles two and up, permanent changes to the direct tax and welfare system over the last five years have been around or below current and forecast wage growth.

10 Due to data limitations, we assume that no children benefitted from the free school meals programme before 2020. This is a simplification as some schools in under-privileged areas availed of free school meals prior to their blanket introduction.

FIGURE 7 DISTRIBUTIONAL ANALYSIS 2020–2025 – PERMANENT MEASURES



Source: Authors' calculations using ITSim linked to the 2015–2016 Household Budget Survey uprated to 2025 prices, and SWITCH run on 2022 Survey on Income and Living Conditions data, uprated to 2025 income levels.
Notes: Deciles are based on equivalised household income, using CSO national equivalence scales.

Comparing Budget 2025 without temporary measures to a wage-indexed 2020 policy setting conveys the magnitude of the challenge that will be faced if policymakers wish to maintain household living standards once temporary policies lapse. Compared to indexing tax and welfare policies in line with wage growth since 2020, Budget 2025 leaves households worse off on average. Losses are concentrated in the middle deciles of the income distribution, with the first decile experiencing substantial gains and the lower- and upper-income deciles seeing broadly unchanged disposable income.

5. CONCLUSION

Budget 2025 saw a total expenditure package of €10.5 billion. The income tax measures implemented included increases in the standard rate band and tax credits, along with a reduction in USC liabilities. On the welfare side, personal rates of payments for social welfare schemes were increased by €12 per week, with proportionate increases to qualified adult increases. Weekly payments for child dependants rose by €4/€8 for children under/over 12 years of age, and the income limits for the Working Family Payment rose. A new Newborn Baby Grant of €280 was introduced along with an increase in payments received by carers. Those in receipt of Carer's Allowance can now qualify for the Fuel Allowance, and changes will see more people over 66 qualifying.

In line with Budget 2024, a substantial component of Budget 2025 spending was dedicated to temporary measures to assist with ongoing cost-of-living pressures. Energy credits were implemented, although at a lower rate than in 2024. Two double Child Benefit payments were announced along with one-off lump sum payments to those in receipt of qualifying social welfare schemes. The temporary reduction in the student contribution fee for third level students will continue in 2025.

Given that temporary measures are planned to be withdrawn in the future, we analysed the overall impact of Budget 2025 (i.e. all measures, permanent and temporary), as well as the impact of the permanent measures alone. We compare this to the 2024 tax–welfare system adjusted for wage growth. We estimate that households will experience a rise in real income of 0.5% on average in 2025 due to the permanent measures announced in Budget 2025. The permanent measures are broadly progressive, with households in the bottom quintile of income expected to see an increase of around 0.9% of equivalised disposable income, and those in the top quintile to see increases of 0.5%. When accounting for temporary measures, household incomes are estimated to increase by just 0.2%, on average, and the broadly progressive effect of the permanent measures becomes less clear. While households in the bottom decile of income see the largest relative rise in income, of 0.5%, the remainder of the bottom half of the income distribution see either no significant change in income or, in the case of the third decile, a reduction in real income of -0.4%.

When considering both the permanent and temporary changes to the tax and welfare system announced in Budget 2025, the distribution of gains and losses is more uneven across household types. On average, retirement aged households experience losses as a result of the measures, while working aged households see gains, particularly those with children. These findings reflect the fact that State Pensions increased by a lower percentage than working age payments, and that the Fuel Allowance and the Living Alone Increase, often received by those of retirement age, were frozen in nominal terms, and therefore fell in real terms. Households with children benefitted from the two double Child Benefit payments, as well as the introduction of the Newborn Baby Grant and increases for child dependants for those in receipt of social welfare payments.

While at-risk-of poverty (AROP) rates are expected to remain the same for most groups, they are anticipated to rise for those above retirement age and those with disabilities. This research shows that, were it not for the temporary measures currently in place, the AROP rate of these groups would have risen more substantially in 2024 and 2025. These groups are particularly dependent on these temporary measures and therefore will feel their withdrawal more acutely. For this reason, careful consideration is needed, regarding both their withdrawal and how the permanent welfare system will develop, as prices remain at higher levels than before the cost-of-living crisis.

Finally, we saw that households with children will benefit more, on average, as a result of Budget 2025 measures. These measures are not, however, expected to have much of a downward impact on child poverty, which brings into question their efficiency and raises targeting concerns.

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APPENDIX

TABLE A1 REFORMS MODELLED IN DISTRIBUTIONAL ANALYSIS

Taxation	Full year cost/yield, €m	Modelled
Income tax	**-1,290**	
€125 increase to Personal, Employee, and Earned Income Tax Credits; €150 increase to Home Carer and Single Person Child Carer Tax Credits; rise in standard rate cut off by €2,000.		✓
€300 increase in the Incapacitated Child Tax Credit and Blind Person's Tax Credit, €60 increase in the Dependent Relative Tax Credit.		
Universal Social Charge		
USC second band increase from €25,760 to €27,382, USC 4% rate reduced to 3%	**-540**	✓
Housing		
Help to Buy amendments and extension to 31 Dec 2029	-185	
Increase Rent Tax Credit to €1,000	-65	✓
Tax relief on pre-letting expenses extended to 31 Dec 2027	-2	
Increase stamp duty on bulk home purchases from 10% to 15%	11.6	
Increase vacant homes tax to 7 times LPT charge	1	
Carbon tax		
+€7.50 per tonne of carbon	157	✓
Excise duties		
+€1 on a packet of 20 cigarettes	69.7	✓
Introduced e-liquid tax of €0.50 per ml	17	
VAT		
VAT reduction on heat pumps to 9%	-4	
Once-off cost-of-living measures		
Extend mortgage interest tax relief for one further year	-40	
Extension of 9% VAT rate for gas and electricity to 3 Apr 25	-110	✓
Rent Tax Credit Increase for 2024	-65	✓
Inheritance tax		
Thresholds for capital acquisitions tax increased	-88	

TABLE A1 (CONTD.) REFORMS MODELLED IN DISTRIBUTIONAL ANALYSIS

Welfare	Full year cost/yield, €m	Modelled
General	**919.6**	
+€12 (under 66) welfare payments, proportionate increase for qualified adults		✓
+€12 (over 66) welfare payments, proportionate increases qualified for adults		✓
+€15 parental benefits[11]		✓
Child Support Payment		
+€4 for qualified child <12 years +€8 for qualified child >12 years	78.5	✓
Working Family Payment		
+€60 per week to income thresholds	14.8	✓
Carers		
Carer's Allowance becomes qualifying payment for Fuel Allowance	3.7	✓
Carer's Support Grant increased from €1,850 to €2,000	25.4	✓
Carer's Benefit extended to self-employed	7.3	
Increase in income disregard for Carer's Allowance to €625 for singles (€1,250 for couples)	11.8	✓
Domiciliary Care Allowance increased by €20 per month	15.9	
Child Benefit		
Newborn Baby Grant of €280	15	✓
Miscellaneous		
Means test for recipients of State Pension (non-contributory), Disability Allowance and Blind Pension – amount not considered from sale of home upon moving into care increased from €190,500 to €337,500	0.2	✓
Free School Books Scheme extended to Leaving Certificate from Sep 2025	51	✓
Extension of Hot School Meals to all primary schools from Apr 2025	72	✓
Pay-related Jobseeker's Benefit from Mar 2025	*	
Free Travel Scheme Companion pass extended to all people over 70	7	
Free transport extended to 5–8-year-olds	*	
Fuel Allowance means test age criteria reduced from 70 to 66; income disregard increased to €524 for a single person and €1,048 for a couple	4.8	✓
Once-off cost-of-living measures		
2x €125 household energy credits	500	✓

11 Modelled for Maternity Benefits only.

TABLE A1 (CONTD.) REFORMS MODELLED IN DISTRIBUTIONAL ANALYSIS

Welfare	Full year cost/yield, €m	Modelled
Fuel Allowance €300 lump sum	126	✓
Child Benefit double month x 2	371	✓
Social Protection – autumn double week	350	✓
Living Alone Allowance €200 lump sum	50	✓
Working Family Payment €400 lump sum	18	✓
Disability Allowance, Carer's Support Grant, Invalidity Pension €400 lump sum	143	✓
Blind Pension, Domiciliary Allowance €400 lump sum		
€100 lump sum for Increase for a Qualified Child recipients	34	✓
Foster Carer Allowance double payment	2	
€1,000 reduction in student contribution fee, 33% reduction in contribution fee for apprentices. €1,000 increase in Post Graduate Tuition fee contribution.	98	✓
Additional funding for Student Assistance Fund	18	
Fee reduction on School Transport Scheme, State Exam Fee waiver, Additional Schools Capitation and other measures	120	

Source: Department of Finance's Budget 2025 expenditure report and Budget 2025 tax policy changes.
Notes: Costs are in millions of euros per annum and are mostly full year costs for 2024. Some small schemes are excluded. Asterisk (*) indicates no costing was available.

TABLE A2 SIMULATED INCOME INEQUALITY AND AROP RATES IN 2025 WITH AND WITHOUT TEMPORARY MEASURES

Inequality/poverty	Indexed 2024 permanent	Budget 2025 permanent	Indexed 2024 Permanent + temporary	Budget 2025 Permanent + temporary
Gini index	0.272	0.271	0.266	0.266
AROP rate				
Adult	0.121	0.119	0.117	0.116
Retirement age	0.159	0.178	0.088	0.130
Child	0.156	0.154	0.150	0.145
Disability	0.229	0.238	0.187	0.209

Source: Authors' calculations using SWITCH run on 2022 Survey on Income and Living Conditions data, uprated to 2025 income levels.
Notes: 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 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.