Research Briefing

Social impact assessment of the welfare and income tax measures in Budget 2020

October 2020
This briefing presents a social impact assessment of the main welfare and tax measures in Budget 2020.

Social impact assessment is an evidence-based methodology which estimates the likely effects of policies on household incomes, families, poverty and access to employment.

The assessment was prepared by the Department of Employment Affairs and Social Protection. It is based on the tax/welfare microsimulation model SWITCH developed by the Economic and Social Research Institute.

Responsibility for the analysis rests solely with the Department of Employment Affairs and Social Protection. It should be noted that the analysis includes the impact of the increase in the national minimum wage but does not include the indirect effect of the carbon tax and therefore differs from previous Budget 2020 analysis prepared by the Department of Public Expenditure and Reform and Department of Finance.

**Main findings**

- Average household incomes increase by 0.2 per cent (€2.20 per week) as a result of Budget 2020.
- Households in the lower end of the income distribution gain most, with smaller gains for those at the higher end. Households in the lowest 20% of the distribution will see higher gains than those in the highest 20% (0.7% compared to 0.06%).
- Social welfare measures primarily benefit households in the lowest 20% of the income distribution.
- Looking at family type, non-earning households gain most from Budget 2020: non-earning couples with children and non-earning lone parents both gain 1.1 per cent.
- Other family types that experience above average gains include unemployed singles and employed lone parents.
- Social transfers continue to reduce poverty with the population at-risk-of-poverty rate falling by 0.2 percentage points.
- Budget 2020 has a progressive pattern with bigger gains for the bottom 20% of the income distribution and smaller gains for the remainder.
Introduction
The Programme for Partnership Government provided a commitment to developing a process of budget and policy proofing as a means of advancing equality, reducing poverty and strengthening economic and social rights. This builds on existing practices for ex-ante consideration of budget proposals including pre-budget forums, submissions and the advance publication of Tax Strategy Group papers, which include analysis of illustrative budgetary measures.

This briefing presents the social impact assessment of the welfare and direct tax measures in Budget 2020. The assessment also includes the effects of the increase in the national minimum wage.

Social impact assessment is an evidence-based methodology to estimate the likely distributive effects of policy proposals on income and social inequality. It is a widely used tool at the European level. It builds on poverty impact assessment and is similar in concept to ‘equality budgeting’.

The assessment supports the implementation of the national social target for poverty reduction, which is to reduce consistent poverty to 2 per cent or less. It also informs Government policy on improving living standards among low and middle income families, reducing inequality and improving poverty outcomes.

Social transfers and taxes have a key role in reducing income inequality and preventing poverty. Data from the 2018 Survey on Income and Living Conditions (SILC), published by the CSO in November 2019, show that social transfers (excluding pensions) reduced the at-risk-of-poverty rate from 30 per cent to 14 per cent in 2018.

This briefing was prepared by the Department of Employment Affairs and Social Protection, after consultation with the Department of Finance on the direct tax elements. It builds on ex-ante analyses to inform ministerial deliberations on the tax and welfare elements of the Budget. It is intended to inform public understanding of the distributive impact of budgetary policy.

Methodology
The assessment uses a direct tax and benefit microsimulation model developed by the Economic and Social Research Institute (ESRI) known as SWITCH. The model simulates the impact of changes in welfare and income tax for a representative sample of 9,770 households, drawn from the 2013/2014/2015 CSO Survey on Income and Living Conditions, with the data uprated to reflect growth in population, employment and incomes. Responsibility for the analysis rests with the Department of Employment Affairs and Social Protection.

The assessment covers the welfare and direct tax measures announced in Budget 2020. Social expenditure measures in relation to healthcare, affordable childcare, education and social housing and indirect taxation changes (such as the carbon tax) are not included.

The assessment includes the impact of budgetary measures on financial incentives to work, which is directly relevant to policy on unemployment and poverty. The Budget 2020 assessment includes the impact of the increase in the national minimum wage (from €9.80 to €10.10 per hour
from 1 February 2020. While paid for by employers, this is a Government-sanctioned initiative designed to boost the incomes of workers on low earnings.

The comparator policy in the analysis is the Budget 2019 policy which freezes taxes and welfare payments in nominal terms. This differs from the post-budget analysis undertaken by the ESRI which indexes 2019 tax and welfare parameters in line with wage inflation. 

Table 1: Summary of welfare & income tax measures for 2020 & official costs (full year)

<table>
<thead>
<tr>
<th>Measures</th>
<th>Official full year cost €m</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Welfare</strong></td>
<td></td>
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<tr>
<td>Qualified Child Increase</td>
<td></td>
</tr>
<tr>
<td>(a) Increase the weekly rate of the qualified child increase for children aged 12 and over by €3 per week, from €37 to €40 per week.</td>
<td>17.6</td>
</tr>
<tr>
<td>(b) Increase the weekly rate of the qualified child increase for children under the age of 12 by €2 per week, from €34 to €36 per week.</td>
<td>20.6</td>
</tr>
<tr>
<td>One Parent Family Payment</td>
<td>5</td>
</tr>
<tr>
<td>Increase the earnings disregard for One Parent Family Payment and Jobseeker's Transition by €15, from €150 per week to €165 per week.</td>
<td></td>
</tr>
<tr>
<td>Working Family Payment</td>
<td>19</td>
</tr>
<tr>
<td>Increase the Working Family Payment income threshold for families with up to 3 children by €10</td>
<td></td>
</tr>
<tr>
<td>Living Alone Allowance</td>
<td>56.2</td>
</tr>
<tr>
<td>Increase the Living Alone Allowance by €5 per week from €9 to €14</td>
<td></td>
</tr>
<tr>
<td>Jobseeker’s Allowance reduced rates</td>
<td>4.2</td>
</tr>
<tr>
<td>Increase Jobseeker’s Allowance rate for 25 year olds to full rate from €157.80 to €203</td>
<td></td>
</tr>
<tr>
<td>Fuel Allowance</td>
<td>21</td>
</tr>
<tr>
<td>Increase the rate of Fuel Allowance by €2 per week</td>
<td></td>
</tr>
<tr>
<td>Income tax</td>
<td>43</td>
</tr>
<tr>
<td>For the self-employed, increase Earned Income Credit by €150</td>
<td>35</td>
</tr>
<tr>
<td>Increase Home Carer Credit by €100</td>
<td>8</td>
</tr>
</tbody>
</table>
The welfare and income tax measures
Details of the budgetary measures are in the Budget 2020 documentation. The measures included in this analysis are presented in Table 1 above together with official costings. There are six social welfare measures included in the analysis, with full-year expenditure of €143.8 million. There are two direct tax (income tax) items with a total cost of €43 million. The final component relates to increasing the national minimum wage for adults from €9.80 to €10.10 per hour (3 per cent increase).

The impact modelled is on the level and distribution of 2020 incomes, with an allowance made for increased earnings in the economy over the survey data base year. The distributive impact on household income is measured by income quintile (five equally sized groups ranked by equivalised income) and by family types (14 categories differentiated by composition & employment status). The impact on at-risk-of poverty is based on the 60% median income threshold, disaggregated by social group.

Distributive impact of the Budget 2020 measures
Based on the SWITCH model, as a result of the budgetary measures, the gain in average household disposable income is 0.2 per cent, the equivalent of €2.20 per week. Diagram 1 shows the distributive impact as measured by percentage change by disposable income quintile. The greatest gains are for the lowest income quintile at 0.7 per cent, with gains between 0.1 and 0.3 percent for the second, third and fourth quintiles. The top quintile shows a slight gain (less than 0.1 per cent).

Diagram 1: Distributive impact of the composite 2020 measures
(Percentage gain in household disposable income by equivalised disposable income quintile)

Source: DEASP analysis based on SWITCH, the ESRI tax-benefit model
In all, 36 per cent of households benefit from the Budget measures outlined in this document, with 64 per cent of households in the lowest quintile benefitting and lower percentages of households in the other four quintiles (36, 30, 26 and 22 per cent, respectively).

**Distributive impact of the component measures**

*Table 2* summarises the net cost and impact of the two main budgetary components using SWITCH. The welfare measures amount to €47.7 million (net), resulting in an average gain of 0.2 per cent in household disposable income. The income tax measures have a net cost of €22.8 million, resulting in an average household gain of 0.1 per cent.

*Table 2: SWITCH estimate of net cost and impact of the tax and welfare component measures in Budget 2020*<sup>xii</sup>*

<table>
<thead>
<tr>
<th>Measure</th>
<th>Net cost</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social welfare</td>
<td>€47.7m</td>
<td>0.2%</td>
</tr>
<tr>
<td>Income tax</td>
<td>€22.8m</td>
<td>0.1%</td>
</tr>
</tbody>
</table>

Source: SWITCH, the ESRI tax-benefit model

*Diagram 2* shows the distributive impact of the component measures by income quintile. The distributive impact varies considerably by measure for the lowest income quintile (<€350).

*Diagram 2: Distributive impact of the main Budget 2020 components*  
(Percentage gain in household income by equivalised income quintiles)

Source: DEASP analysis, based on SWITCH, the ESRI tax-benefit model
Impact on family types

Diagram 3 presents the distributive impact of the composite 2020 measures on family types. The main findings are:

- Non-earning households gain most from Budget 2020 with non-earning couples with children and non-earning lone parents gaining 1.1 per cent (€6.20 and €4.20 per week respectively).
- Other family types that experience above average gains include unemployed singles, and employed lone parents.

Diagram 3: Distributive impact on families of the composite 2020 measures
(Percentage change in disposable income by family type)*

![Diagram showing distributive impact on families of the composite 2020 measures]

Source: DEASP analysis, based on SWITCH, the ESRI tax-benefit model
* E=employed; UE=unemployed; NE=non-earning; R=retired; SE=single earner; DE=dual earner; RA=relative assisting
1; C=children; NC=no children

Impact on at-risk-of-poverty

There is a slight increase in the poverty threshold of 60% median disposable income (from €291.69 to €292.25 per week) as a result of the Budget measures outlined in this document. The population at-risk-of-poverty falls by 0.2 percentage points. This suggests the continued positive performance of social transfers in alleviating income poverty.

1 “Dual Earner Couple with Relative Assisting” family type is one in which one spouse is in employment, and the other spouse describes themselves as “Assisting relative(s) (in unpaid capacity)”. Less than 0.5% of all families (tax units) fall within this category.
Gender Impact
The social impact assessment for Budget 2020 is the second in which an analysis of gender impact has been possible. **Diagram 4** shows the change in individual disposable income by quintile and individual gender (male/female).

The analysis shows that women gain more than men in the first three income quintiles following the changes made in the 2020 Budget, with smaller gains in quintiles 4 and 5 for both women and men.

![Diagram 4: Percentage Change in Individual Disposable Income by quintile and gender (women/men)](image)

Impact on work incentives
This section analyses the impact of the 2020 budgetary measures on work incentives for those who are unemployed and in receipt of jobseeker’s payment. It uses replacement rates to measure the proportion of in-work income that would be kept or replaced when out of work. A replacement rate of ≤ 70 per cent indicates a strong financial incentive to work.

Looking at the overall distribution of replacement rates, the model shows that the majority of people at work (87 per cent) have a replacement rate of ≤ 70 per cent. For those who are unemployed and receiving a jobseeker payment, 74 per cent have a replacement rate of ≤ 70 per cent indicating a strong financial incentive to work.

Marginal Effective Tax Rate
The Marginal Effective Tax Rate (METR) measures what part of any additional earnings are “taxed away” through the combined effect of increasing tax and decreasing benefit. METRs can be used to evaluate the extent of changes in tax and benefit policies in the Budget on work incentives.
As a result of Budget 2020, 3% of the working population should experience a reduction in their Marginal Effective Tax rate (METR) while there should be little to no impact on the METR for a further 91% of the working population. Only 6% of the working population should experience any increase of their Marginal Effective Tax rate.

**Distributive impact of increases in the national minimum wage** \(^{xvi}\)

The average gain in household equivalised disposable income from the increase to the national minimum wage is negligible at 0.09 per cent. \(^{xvii}\) The first, second and third quintiles show above average gains of 0.14, 0.15 and 0.12 per cent respectively.

**Distributive impact of Budget 2020 compared with Budget 2019**

Finally, the distributive impact of the budgetary package for 2020 is compared with the 2019 policy in **Diagram 5**. The average gain in 2020 is 0.2 per cent. This compares to 0.7 per cent in 2019.

**Diagram 5: Distributive impact of Budget 2019 and Budget 2020**

(Percentage gain in disposable household income by equivalised income quintile)

All quintiles gain less in Budget 2020 compared to Budget 2019. Nevertheless, Budget 2020 still has a progressive pattern with the bottom quintile gaining 0.7 per cent and the top quintile showing a slight gain of 0.1 per cent.
Published budget documentation includes preliminary information on the distributional effects of the Budget 2020. The Department of Public Expenditure and Reform developed a new SIA framework, which aims to broaden the scope of the current SIA practice to take account of not only tax and social welfare measures, but also assess how changes in public expenditure policy can impact on household outcomes and living standards. See: https://www.gov.ie/en/collection/dc3850-budget-2020-tax-strategy-group-papers/.

See: http://ec.europa.eu/social/main.jsp?catId=89&langId=en&newsId=935&furtherNews=yes


Information on the design, underlying data and model construction can be found at: www.esri.ie/research/taxation-welfare-and-pensions/.


The ESRI analysis also included the impact of indirect taxation changes.

The weekly value of each quintile is: 1: <€350; 2: <€465; 3: <€576; 4: <€738; and 5: >€738.

This includes the impact by family status and gender. Analysis of the impact on people with disabilities or ethnic minorities is not technically possible at present. Future developments may rectify this.

The SWITCH costings differ from the official figures due to the Christmas Bonus and the impact of any tax or welfare offsets (e.g. any tax paid on increased welfare rates). In addition not all beneficiaries of the rate increases are captured in the model.

In some cases a number of family types may live in the same household.


To analyse the potential impact of a change in the national minimum wage, SWITCH over-rides the actual wages of those below the national minimum wage level. The model does not take into account the increased payments by employers, or the downstream impact of increased employer costs on other incomes in the economy (e.g., profits, dividends).