



Tracking the Distributive Effects of Budget Policy

2022 edition



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1. Introduction

Each year, on the day after the annual Budget is announced, *Social Justice Ireland* produces an analysis and critique of that Budget. Included in that document is an assessment of the direct distributive impact of the measures announced by Government. These principally capture changes to income taxes, welfare payments and other universal payments/entitlements.

This document complements our most recent analysis, following Budget 2022, and provides a distributive analysis of the two Budgets delivered to date by the current Government (Budget 2021 in October 2020 and Budget 2022 in October 2021).

We also include an assessment of how the gaps between jobseekers and those on middle and very high incomes have changed over recent years including the impact of the measures of the most recent two Budgets.

The final section of the document also provides further details on the approach taken by *Social Justice Ireland* to generate these results.

2. Distributive Analysis of Budgets 2020-2022

Budget 2022 marks the second Budget of the current coalition Government. Here, we track the cumulative impact of changes to income taxation and welfare over the Government's two Budgets, both presented in the context of the challenging Covid-19 pandemic. As different policy priorities can be articulated for each Budget, it is useful to bring together the cumulative effect of policy changes on various household types. The analysis complements our assessments on pages 6-8 of our *Analysis and Critique of Budget 2022 (October 2021)*.

The households we examine are spread across all areas of society and capture those with a job, families with children, those unemployed and pensioner households. Within those households that have income from a job, we include workers on the minimum wage, on the living wage, workers on average earnings and earners with incomes ranging from €30,000 to €200,000. In the case of working households, the analysis is focused on PAYE earners only and therefore does not capture the Budget 2021 measures targeted at the self-employed.

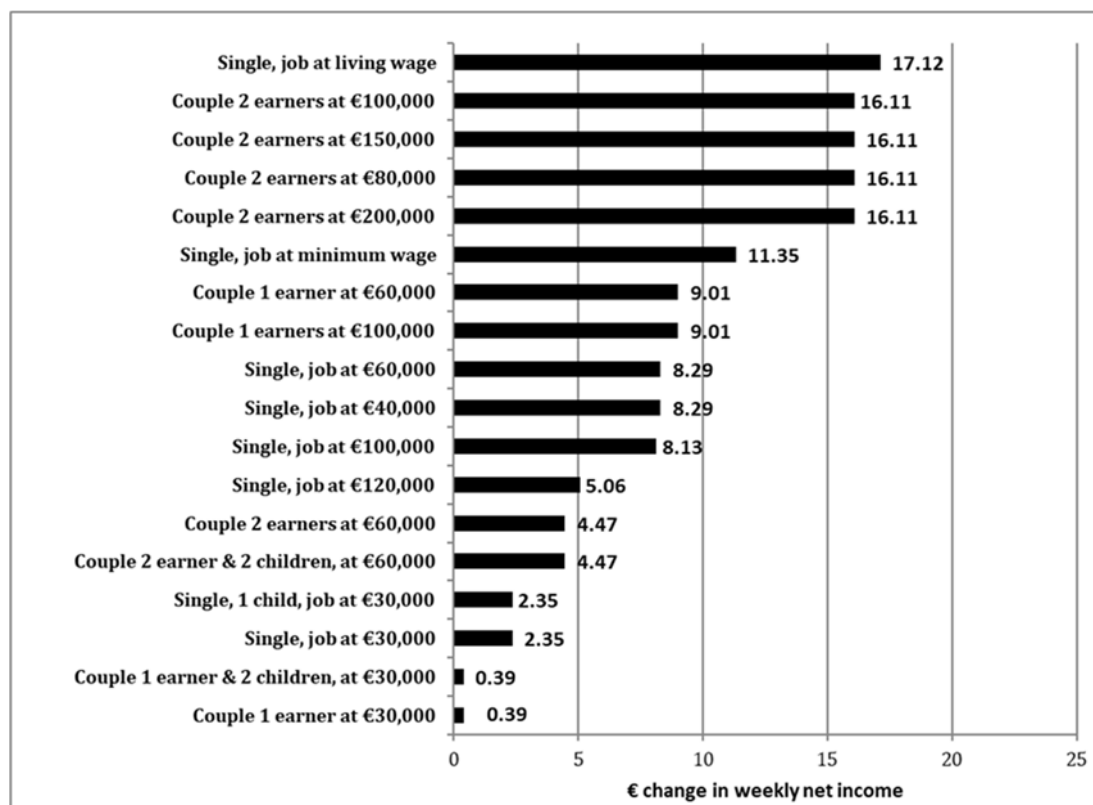
At the outset it is important to stress that our analysis does not take account of other budgetary changes, most particularly to indirect taxes (VAT and excise), other charges (such as prescription charges) and property taxes. Similarly, it does not capture the impact of changes to the provision of public services or the many emergency measures that have been introduced to respond to the Covid-19 emergency. As the impact of these measures differs between households it is impossible to quantify precise household impacts and include them here.

As there were limited changes in income after Budget 2021, most changes reflect measures from Budget 2022. Among households with jobs (see chart 1), the gains experienced range from a mere 39 cent per week (for low income couples on €30,000) to €16.11 per week for couples with incomes over €80,000. Earners on the living wage gain more on account of the increase in the level of that payment. The analysis highlights how low income families, those with incomes below the standard rate income tax threshold gain least from the budget measures over the past two years.

Among households dependent on welfare (see chart 2), the gains have ranged from €5 per week for single unemployed individuals to €24.65 per week for unemployed couples with 2 children over 12 years of age. The gains experienced by welfare dependent households over recent years explain much of the reason why the levels of income inequality and poverty have fallen in recent years.

Social Justice Ireland has consistently argued for the prioritisation of low income welfare dependent families in Budgetary policy and welcome these outcomes. However, we are concerned that recent Budgets have shifted away from this approach and regrettably expect that much of this recent progress will be reversed.

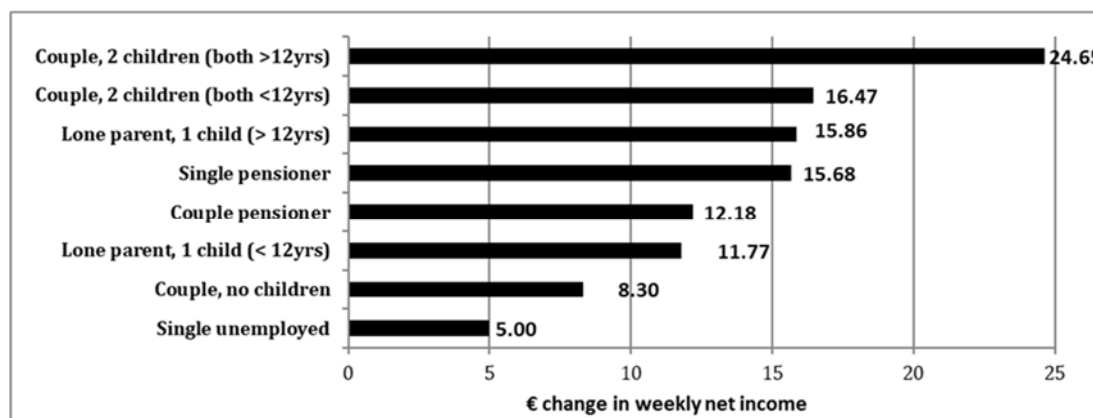
Chart 1: Cumulative Impact on Households with Jobs, 2020-2022



Source: *Social Justice Ireland* Income Distribution Model.

Note: Minimum wage and Living wage increases reflects changes to this wage rate and its taxation.

Chart 2: Cumulative Impact on Welfare Dependent Households, 2020-2022



Source: *Social Justice Ireland* Income Distribution Model.

3. The Rich-Poor and Middle-Poor Gap

As well as tracking the post-Budget income levels of different households, *Social Justice Ireland* is also focused on assessing how the income divides between different household types have changed following the adoption of Budgetary policies. Again, there is merit in undertaking this analysis over multiple years so that the cumulative effect of budgetary policies is captured. To achieve this, we track the following two gaps:

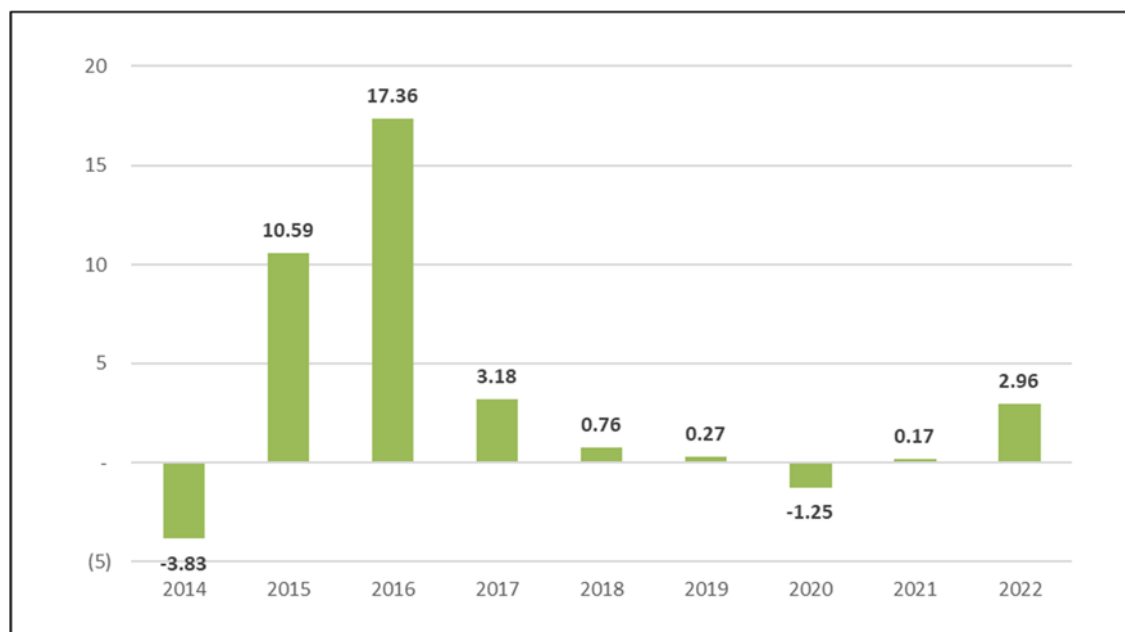
The Rich-Poor gap

This gap monitors the income of single individuals on jobseekers' benefit ('poor') and the disposable income (after income taxation and employee social insurance) of a single PAYE worker earning €100,000 ('rich'). An annual income of €100,000 is chosen as representing very high income earners given:

- how uncommon this income level is in Irish society (the top 180,000 earners representing 6.5 per cent of all earners in 2021 according to the Revenue Commissioners); and
- how it represents approximately two-and-a-half times average earnings (€40,283 in 2019 according to the CSO).

The analysis tracks both the change to this gap each year (see chart 3) and the overall size of this gap following the most recent budget (see chart 4). The analysis covers the period from Budget 2014 to the most recent Budget.

Chart 3: Budget-by-Budget Change in the Weekly Rich-Poor Gap, 2014-2022



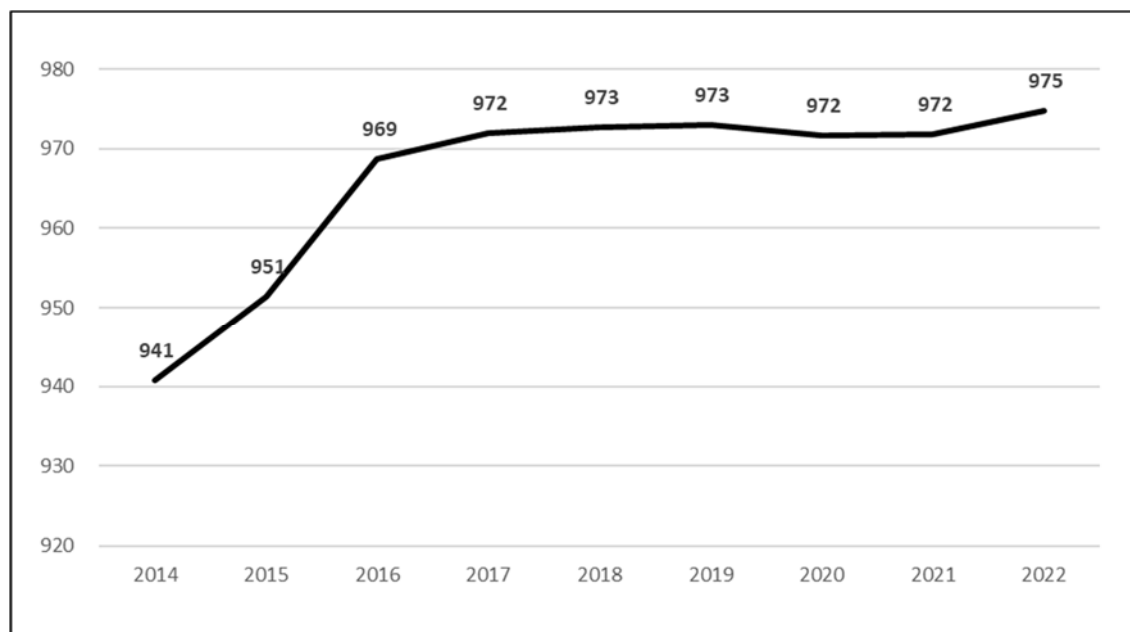
Source: *Social Justice Ireland* Income Distribution Model.

Note: this analysis tracks the annual disposable income change in the gap between single jobseekers and PAYE earners on €100,000 per annum.

As a result of the taxation and welfare measures adopted in Budget 2022, the rich-poor gap increased by €2.96 per week (€154 per annum). The cumulative rich-poor gap stood at €975 per week (€50,800 per annum) in 2022. The gap has grown by €3 per week following the Budgetary policies of the current Government (Budgets 2021 and 2022) and it has grown by a total of €30 per

week (€1,550 per annum) over the period 2014-2022.

Chart 4: The Rich-Poor Gap, 2014-2022 (€ per week)



Source: *Social Justice Ireland* Income Distribution Model.

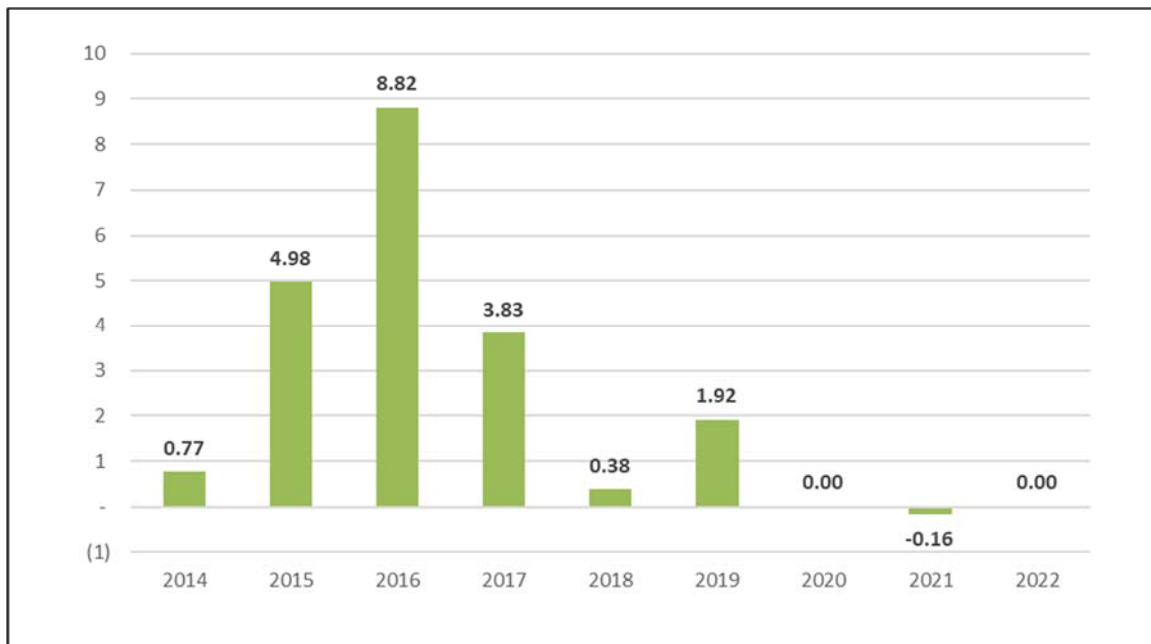
Note: this analysis tracks the cumulative disposable income gap between single jobseekers and PAYE earners on €100,000 per annum.

The Middle-Poor gap

This gap monitors the income of single individuals on jobseekers' benefit ('poor') and the disposable income (after income taxation and employee social insurance) of a single PAYE worker earning €40,000 ('middle'). This middle income figure approximates average earnings which stood at €40,283 in 2019 according to the CSO. The analysis tracks both the change to this gap each year (see chart 5) and the overall size of this gap following the most recent budget (see chart 6). The analysis covers the period from Budget 2014 to the most recent Budget.

As a result of the taxation and welfare measures adopted in Budget 2022, the middle-poor gap remained unchanged. The cumulative middle-poor gap stood at €572 per week (€29,800 per annum) in 2022. The gap has marginally decreased by 16 cent per week following the Budgetary policies of the current Government (Budgets 2021 and 2022), this can be explained by the full payment of the Christmas Bonus to jobseekers in 2020/21 and no other changes to income taxation or welfare payments for these individuals. Overall, the middle-poor gap has grown by a total of €21 per week (€1,070 per annum) over the period 2014-2022.

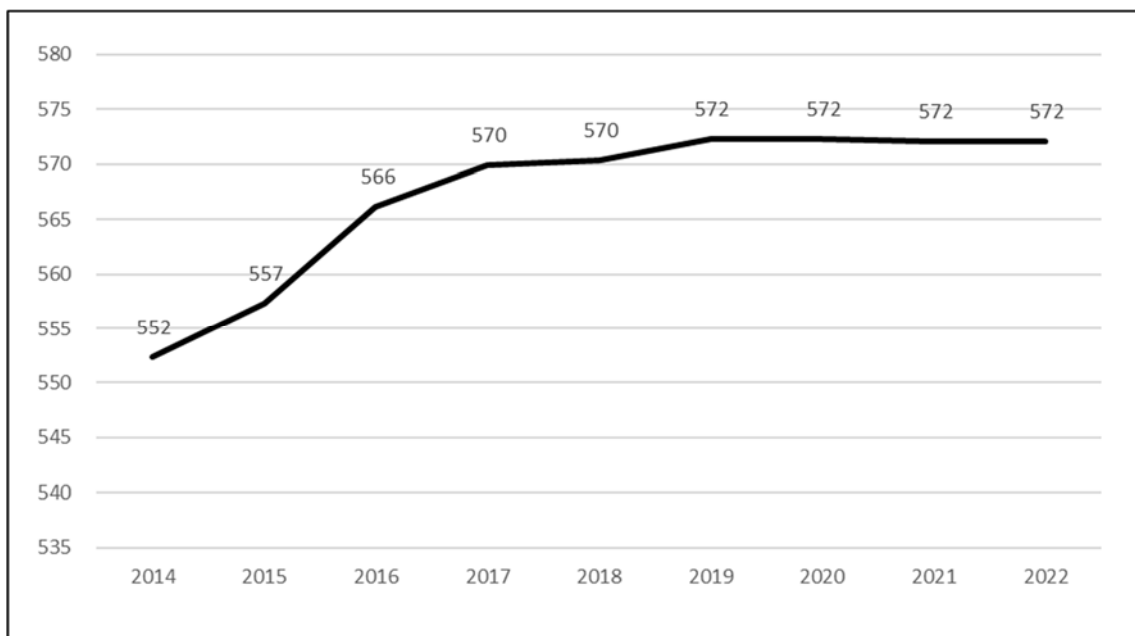
Chart 5: Budget-by-Budget Change in the Weekly Middle-Poor Gap, 2014-2022



Source: *Social Justice Ireland* Income Distribution Model.

Note: this analysis tracks the annual disposable income change in the gap between single jobseekers and PAYE earners on €40,000 per annum.

Chart 6: The Middle-Poor Gap, 2014-2022 (€ per week)



Source: *Social Justice Ireland* Income Distribution Model.

Note: this analysis tracks the cumulative disposable income gap between single jobseekers and PAYE earners on €40,000 per annum.

4. Social Justice Ireland's Income Distribution Model

Over the past few years *Social Justice Ireland* has developed its ability to track the distributive impact of annual Budget's on households across Irish society. Our analysis tracks changes from year to year (pre and post a Budget) and across a number of recent years (the lifetime of a Government etc). In this section, we describe the components of the model as it currently stands. We plan to continue to develop this model over time and details of these updates will be included in future editions of this document.

There are currently 30 household types included in the model. These have been selected on the basis of their representativeness in the income distribution and their importance for policy analysis. While some households (e.g. high income ones) are uncommon, there is a relevance in tracking the benefits or losses they incur as a result of policy measures. Household with and without children are included. Households at key points in the earnings distribution are included:

- at the minimum wage
- at the living wage
- at levels of earnings approximately equivalent to average earnings (€40,000) and multiples of this.
- at an income of €100,000

The households examined divide into those with a job and those who are dependent on welfare income. The full set of households currently tracked by this analysis is outlined in **Table 1**.

The sources of income and welfare included in the analysis are outlined in **Table 2**. For many households, such as working households with children, income is received from both work and welfare and this composition of income is reflected in the analysis. Following Budget 2015 we included the 'water conservation payment' although it is not included in the analysis in subsequent years. Budgets 2017, 2018 and 2019 announced welfare increases to take place part way through the year and the weekly value of the annual increase in this payment is included. A similar approach is taken to welfare payments paid for part of the year (e.g. fuel allowance). As the model is tracking income changes over time, there are a number of welfare payments included in the analysis that do not current exist, for example the Early Childhood Supplement.

Finally, **Table 3** details the income taxation and social insurance measures that are included. Again, as the model is tracking income changes over time, there are a number of income taxation measures included in the analysis that do not current exist, for example the income levy.

Table 1: List of Households Included in the Analysis

Working Households	Welfare Dependent Households
<i>Household type - single PAYE</i>	<i>Working age Welfare Dependent</i>
Single, job at the minimum wage	Single no job
Single, job at the living wage	Couple, no children, no job
Single, job at €30,000*	Couple, 2 children (both <12yrs), no job*
Single, job at €40,000*	Couple, 2 children (both >12yrs), no job*
Single, job at €60,000*	Lone parent, 1 child (< 12yrs), no job*
Single, job at €100,000*	Lone parent, 1 child (> 12yrs), no job*
Single, job at €120,000*	
	<i>Retired Welfare Dependent</i>
<i>Household type - lone parent</i>	Single pensioner (66yrs plus)
Single, 1 child, job at €30,000*	Couple pensioner
<i>Couple - 1 earner (caring for an adult parent)</i>	
Couple 1 earner at €30,000	
Couple 1 earner and 2 children, at €30,000	
Couple 1 earner at €60,000	
Couple 1 earners at €100,000	
<i>Couple - 1 earner (no caring role)</i>	
Couple 1 earner at €30,000	
Couple 1 earner and 2 children, at €30,000	
Couple 1 earner at €60,000	
Couple 1 earners at €100,000	
<i>Couple - 2 earners (65%/35%)</i>	
Couple 2 earners at €60,000	
Couple 2 earner and 2 children, at €60,000	
Couple 2 earners at €80,000	
Couple 2 earners at €100,000	
Couple 2 earners at €150,000	
Couple 2 earners at €200,000	

Note: * indicates households that were revised or added as part of the 2021 model rebase.

Table 2: Sources of Income and Welfare Included in the Analysis

Households with a Job
Earnings (including the minimum and living wage rates)
Child Benefit (where applicable)
Early Childhood Supplement (where applicable)
Water Conservation Payment (2015 only)
Welfare Dependent Households
Jobseekers Benefit - over 25yrs
Jobseekers Benefit with qualified adult - over 25yrs
One Parent Family Payment - with 1 qualified child under 7yrs
State Pension - Contributory and under 80yrs
State Pension - Contributory and under 80yrs couple with qualified adult 66+
Qualified child (all to up to 2018; less than 12 years from 2019)
Qualified child - more than 12 years from 2019
Child Benefit 1st child
Child Benefit 2nd child
Child benefit 3rd child
Early Childhood supplement (per child up to 6yrs / 5.5yrs from Oct 2008)
Living alone allowance
Fuel allowance
Household Benefits Package
<i>The Christmas Bonus is applied to these welfare payments as appropriate</i>
Water Conservation Payment (2015 only)

Table 3: Income Taxation and Social Insurance Measures Included in the Analysis

<i>Income Taxation</i>
Standard rate
Higher rate
Standard band couple one earner
Standard band couple two earners
Standard band lone parent
Tax credits:
Personal
PAYE
Couple/civil partnership
Home Carer
Single person child carer credit
<i>Universal Social Charge (USC)</i>
USC and its predecessors (income levy, training levy etc) are included
various USC thresholds
various USC rates
USC surcharge for Self Employed
<i>Pay Related Social Insurance (PRSI)</i>
PRSI exemption for low earners PAYE
PRSI rate PAYE
PRSI low income exclusion: Self-employed
PRSI rate Self Employed
Minimum PRSI contribution Self Employed

Social Justice Ireland is an independent think-tank and justice advocacy organisation of individuals and groups throughout Ireland who are committed to working to build a just society where human rights are respected, human dignity is protected, human development is facilitated and the environment is respected and protected.

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