



Tracking the Distributive Effects of Budget Policy

Including the effect of cost of living crisis measures to July 2023

2023 edition



Table of Contents

1. Introduction	2
2. Distributive Analysis of Cost of Living Measures, February 2022-July 2023.....	2
3. Distributive Analysis of Government Measures, 2020-2023	4
4. The Rich-Poor and Middle-Poor Gap	6
5. Social Justice Ireland’s Income Distribution Model	9

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 2023. It also provides two further assessments of recent distributive choices:

- a distributive analysis of Government's various cost of living and energy crisis measures, those implemented and scheduled, between February 2022 and July 2023; and
- a distributive analysis of the three Budget's delivered to date by the current Government (Budget 2021 in October 2020, Budget 2022 in October 2021, and Budget 2023 in September 2022),

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 in the most recent Budget and cost of living initiatives.

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

2. Distributive Analysis of Cost of Living Measures, February 2022- July 2023

Since February 2022, Government have announced a series of taxation, welfare and electricity credit measures intended to assist all households with cost-of-living pressures. Here we bring together the impact of all these changes, from February 2022 to those announced in February 2023 (including those additional welfare payments scheduled up to July 2023). These capture:

- the household energy credits and lump sum increases in fuel allowances announced between February and April 2022 (2022 pre-Budget 2023 measures);
- the additional welfare payments and energy credit measures announced as part of Budget 2023 but for implementation before the end 2022 (Budget 2023 for 2022);
- the welfare, taxation and energy credit measures announced in Budget 2023 for implementation in 2023 (Budget 2023 for 2023); and
- the lump-sum welfare payments and one-off increases in the Back-to-School Clothing and Footwear allowance announced in February 2023, with payments running to July 2023.

The households we examine are those tracked annually in our income distribution model. They 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, and earners on incomes ranging from €30,000 to €200,000. In the case of working households, the analysis is focused on PAYE earners only. We present the results of this analysis in Table 1.

Overall, the weekly impact on the households examined is large, ranging from €67.85 to €35.29 a week for welfare dependent households and from €47.18 to €16.12 a week for households with jobs. Within welfare dependent households the largest assistance has been received by those with children. Among working households tax changes have favoured those with income subject to the higher income tax rate.

Table 1 Combined Weekly Impact of Cost-of-Living Measures plus Tax and Benefit Changes, February 2022 to July 2023

	2022 pre- Budget 2023 measures	Budget 2023 measures for 2022	Budget 2023 measures for 2023	February 2023 measures	Total
Welfare Dependent Households					
Couple, 2 children (both over 12yrs)	3.84	16.77	31.87	15.37	67.85
Couple, 2 children (both under 12yrs)	3.84	16.77	31.83	15.37	67.81
Couple pensioner	8.17	20.76	30.65	7.69	67.27
Lone parent, 1 child (over 12yrs)	15.86	11.44	21.83	7.69	56.81
Lone parent, 1 child (under 12yrs)	15.86	11.28	21.81	7.69	56.64
Single pensioner	8.17	20.66	19.77	3.85	52.45
Couple, no children	3.84	10.49	27.75	7.69	49.77
Single unemployed	3.84	7.83	19.77	3.85	35.29
Household with Jobs					
Couple 2 earners at €200,000	3.84	3.83	39.51	0.00	47.18
Couple 2 earners at €150,000	3.84	3.83	39.51	0.00	47.18
Couple 2 earners at €100,000	3.84	3.83	39.51	0.00	47.18
Couple 2 earners at €80,000	3.84	3.83	39.51	0.00	47.18
Single, job at minimum wage	3.84	3.83	31.46	0.00	39.13
Couple 1 earners at €100,000	3.84	3.83	26.94	0.00	34.62
Couple 1 earner at €60,000	3.84	3.83	26.94	0.00	34.62
Single, job at €120,000	3.84	3.83	23.59	0.00	31.26
Single, job at €100,000	3.84	3.83	23.59	0.00	31.26
Single, job at €60,000	3.84	3.83	23.59	0.00	31.26
Single, job at €40,000	3.84	3.83	23.59	0.00	31.26
Couple 2 earner & 2 children, at €60,000	3.84	9.20	14.20	3.85	31.08
Couple 1 earner & 2 children, at €30,000	3.84	9.20	8.45	3.85	25.33
Couple 2 earners at €60,000	3.84	3.83	14.20	0.00	21.87
Single, 1 child, job at €30,000	3.84	3.83	11.32	1.92	20.92
Single, job at living wage	3.84	3.83	11.32	0.00	19.00
Single, job at €30,000	3.84	3.83	11.32	0.00	19.00
Couple 1 earner at €30,000	3.84	3.83	8.45	0.00	16.12

Source: Social Justice Ireland Income Distribution Model.

Notes: Table includes all measures since the first energy credit in April 2022 to those announced in February 2023. The analysis includes the increase to the minimum wage as a Budget measure. Low Income working households may also receive the Working Family Payment. Rounding may impact totals.

However, there is a marked difference in the way that the cost-of-living measures have been delivered to households. They have included **temporary measures**, such as electricity credits and one-off additional welfare and fuel allowance payments, alongside **permanent measures** announced as part of Budget 2023 such as changes to the value of core welfare payments and changes to tax credits and bands. It is a concern that in time the temporary measures will disappear, but the permanent changes will remain, as these permanent measures have favoured better off households.

To illustrate this, among single people in 2023 Budget 2023's permanent changes to taxes and welfare deliver the following average weekly gains:

- An unemployed person: + €12.10
- An earner on €30,000: + €3.65
- An earner on €80,000: + €15.92
- An earner on €100,000: + €15.92

Among couples in 2023 the Budget's permanent changes to taxes and welfare deliver the following average

weekly gains:

- A pensioner couple: + €22.98
- An unemployed couple: + €20.08
- With 1 earner on €30,000: + €0.78
- With 1 earner on €60,000: + €19.27
- With 2 earners on €100,000: + €31.84.

Budget 2023's legacy will be to widen further the gap between the better off and those on the lowest welfare and work incomes. In particular, the Budget has provided least for the large cohort of workers earning around €15 to €20 per hour. Given the challenges that so many households face in making ends meet, particularly those on the lowest incomes, much of this assistance is welcome and badly needed. Yet, in the absence of future Budgetary measures targeted at low-income households, the legacy of these cost of living measures will be to widen further the gap between the better off and those on the lowest welfare and work incomes.

3. Distributive Analysis of Government Measures, 2020-2023

Budget 2023 marked the third Budget of the current coalition Government. The first two of these were presented in the context of the challenging Covid-19 pandemic while the third was presented during the cost-of-living crisis. Here, we track the cumulative impact of changes to income taxation and welfare over the Government's three Budgets – we do so by comparing the disposable income of households in 2023 with their disposable income in 2020. Therefore, our analysis captures the taxation and welfare measures announced in those Budgets plus various cost-of-living crisis energy credits and welfare payments announced in 2022 and 2023 (including those additional welfare payments scheduled up to July 2023). As different policy priorities can be articulated for each Budget and policy initiative, it is useful to bring together the cumulative effect of all these policy changes on various household types.

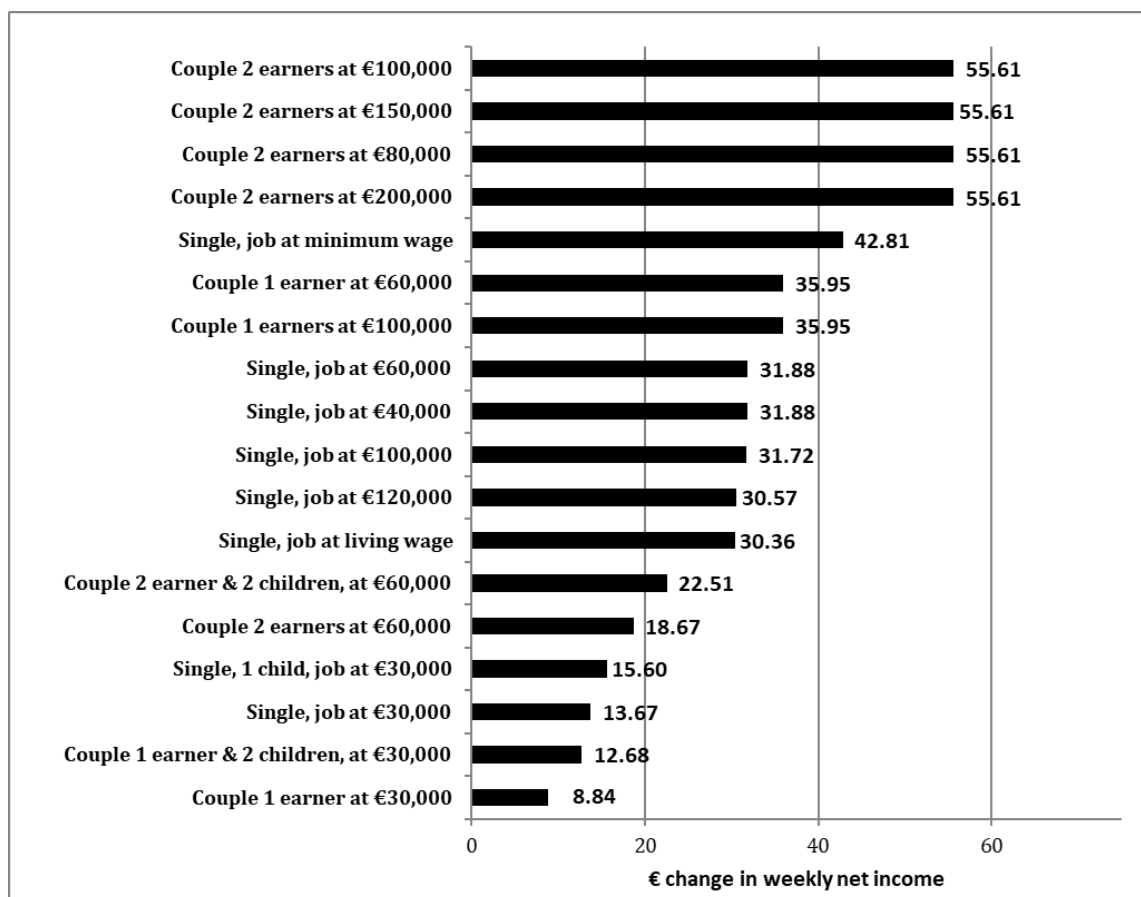
The households we examine are the same as those included in Table 1 and are spread across all areas of society and capture those with a job, families with children, those unemployed and pensioner households.

At the outset it is important to stress two points:

- (i) 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 state exam fees) and property taxes. Similarly, it does not capture the impact of changes to the provision of public services or the many emergency measures that were 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.
- (ii) that our analysis does not take account of one-off cost of living income support measures that represented temporary increases to income in 2022 only, for example the additional one month child benefit payment. While this features in households 2022 income (see Table 1) it does not feature in households' income for 2023.

As there were limited changes in income after Budget 2021, most changes reflect measures from Budget 2022, measures in Budget 2023 which impacted on income in 2023, and the cost of living measures announced in February 2023.

Chart 1: Cumulative Impact on Households with Jobs, 2020-2023



Source: *Social Justice Ireland* Income Distribution Model.

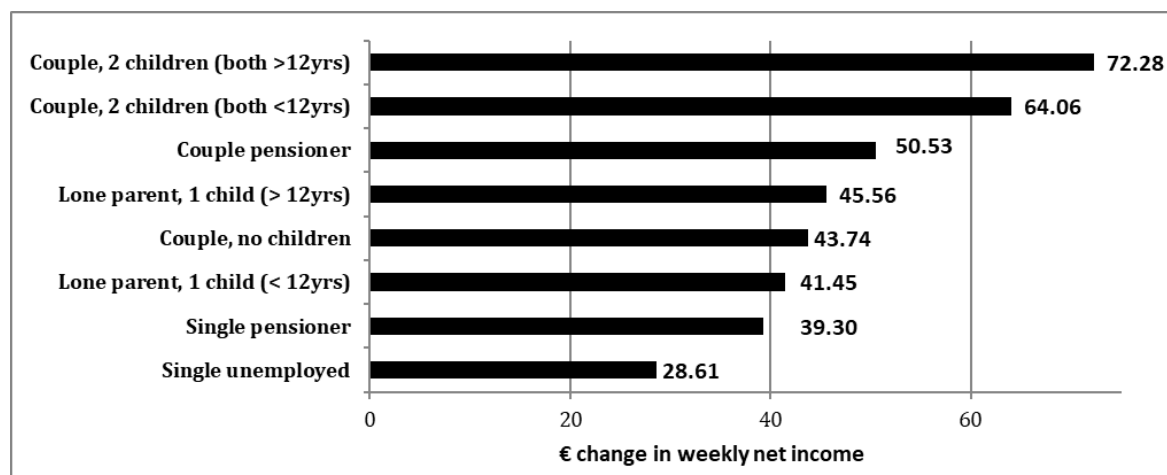
Notes: Minimum wage and Living wage increases reflects changes to this wage rate and its taxation. The analysis includes the effect of temporary cost of living measures announced for 2023.

Comparing 2020 to 2023 for households with jobs (see chart 1), the weekly income gains experienced range from a €8.84 cent per week (for low-income couples on €30,000) to €55.61 per week for couples with incomes over €80,000. Earners on both the living wage and the minimum wage gain more than the value of taxation, welfare, and one-off cost of living changes on account of the increase in the level of those hourly rates. The analysis highlights how low-income working families, those with incomes below the standard rate income tax threshold, gain least from the Government’s measures over the past three years.

Among households dependent on welfare (see chart 2), the gains have ranged from €28.61 per week for single unemployed individuals to €72.28 per week for unemployed couples with 2 children over 12 years of age. The gains are largest for welfare dependent household with children who benefit from a one-off child benefit top-up and a one off back to school allowance increase in 2023. However, these payments will not carry over to 2024 income and the relative standing of these households is likely to deteriorate in future years.

Social Justice Ireland has consistently argued for the prioritisation of low-income welfare dependent families in Budgetary policy and welcome how recent cost of living supports have particularly assisted this group. However, we are concerned that the permanent changes to income taxation levels in recent Budgets have shifted away from this approach and regrettably expect that much recent progress will be reversed.

Chart 2: Cumulative Impact on Welfare Dependent Households, 2020-2023



Source: *Social Justice Ireland* Income Distribution Model.

Note: The analysis includes the effect of temporary cost of living measures announced for 2023.

4. 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:

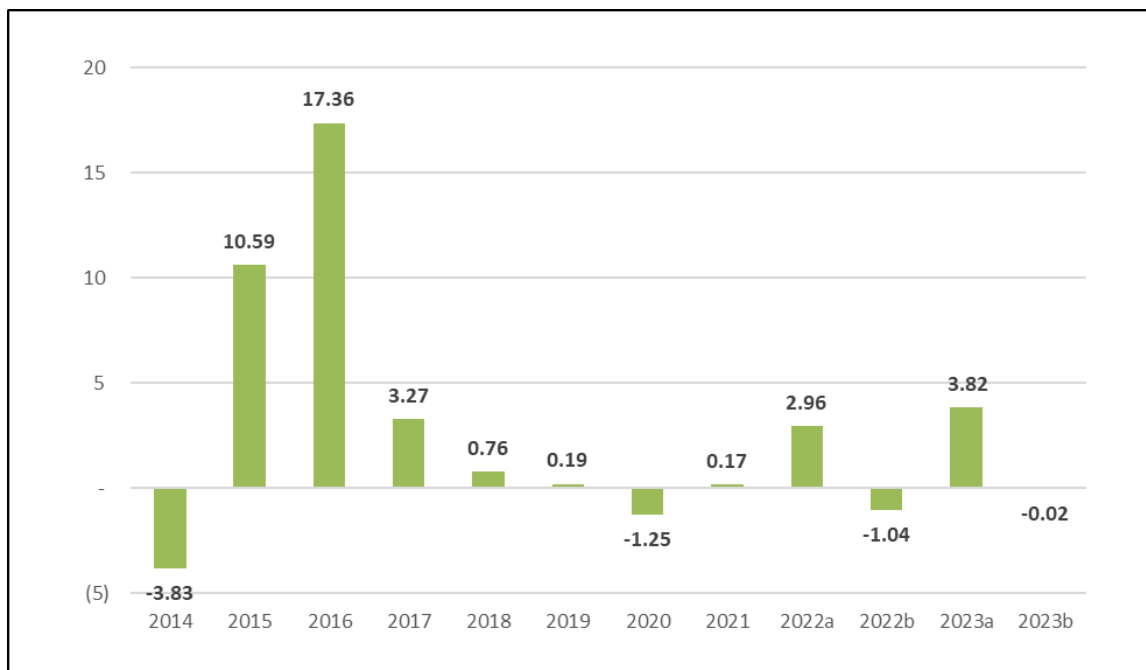
The Rich-Poor gap

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 and February 2023's cost of living measures (see chart 4). The analysis covers the period from Budget 2014 to the most recent measures.

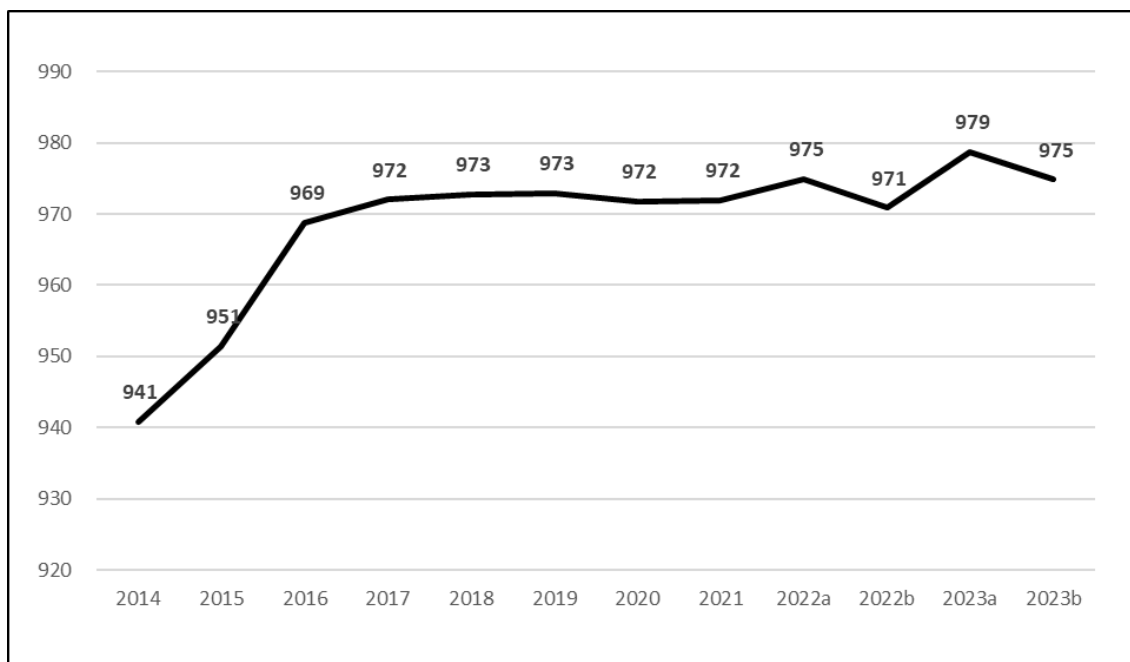
Chart 3: Budget-by-Budget Change in the Weekly Rich-Poor Gap, 2014-2023



Source: *Social Justice Ireland* Income Distribution Model.

Notes: This analysis tracks the annual disposable income change in the gap between single jobseekers and PAYE earners on €100,000 per annum. 2022a is the outcome from Budget 2022, 2022b is the outcome at the end of 2022 including all cost of living measures. 2023a is the outcome from Budget 2023, 2023b is the outcome after including the additional 2023 cost of living supports announced in February 2023.

Chart 4: The Rich-Poor Gap, 2014-2023 (€ per week)



Source: *Social Justice Ireland* Income Distribution Model.

Notes: See notes to Chart 3.

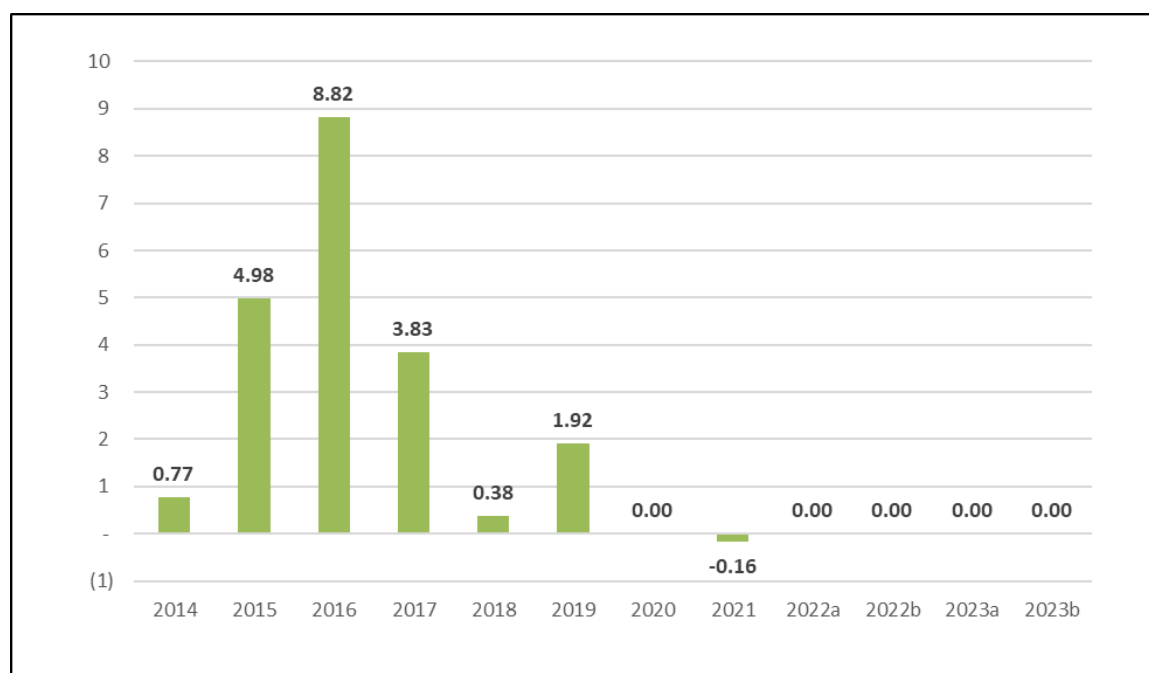
As a result of the taxation and welfare measures adopted in Budget 2023, the rich-poor gap increased by €3.82 per week (€199 per annum). After than Budget the cumulative rich-poor gap stood at €979 per week (€51,000 per annum). The cost-of-living measures announced in February 2023 reversed much of this increase by providing a €200 lump-sum payment to long-term social welfare recipients in April 2023.

The gap has grown by €3 per week following the Budgetary policies of the current Government (Budgets 2021, 2022, 2023 and announcements in February 2023) and it has grown by a total of €34 per week (€1,775 per annum) over the period 2014-2023.

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 and February 2023’s cost of living measures.

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



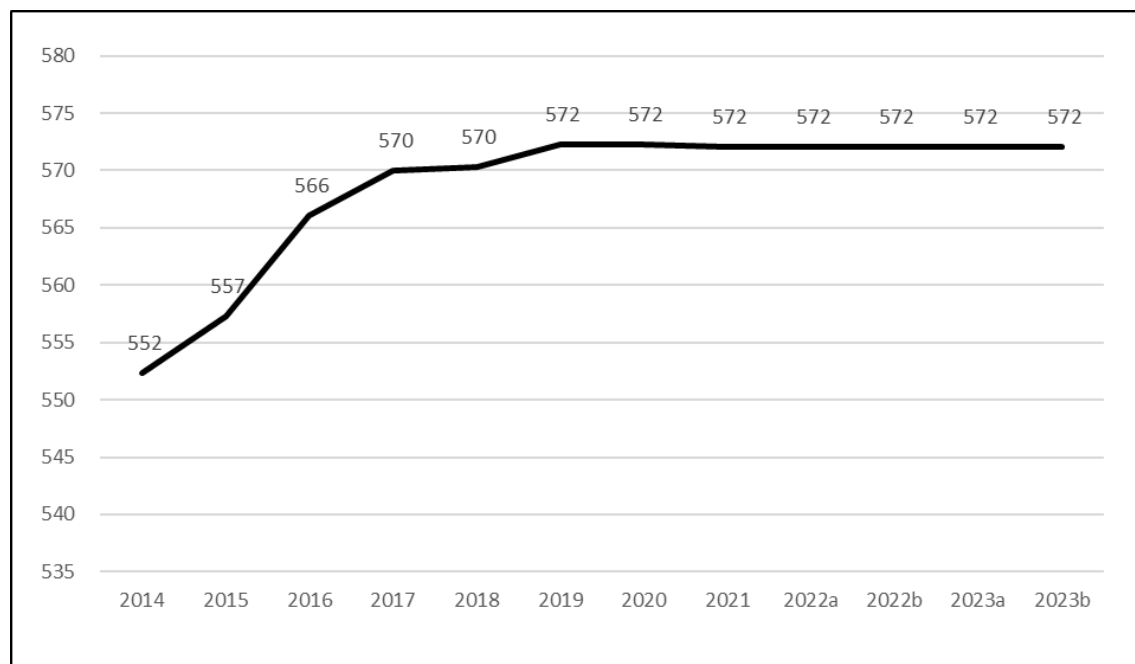
Source: Social Justice Ireland Income Distribution Model.

Note: This analysis tracks the annual disposable income change in the gap between single jobseekers and PAYE earners on €40,000 per annum. 2022a is the outcome from Budget 2022, 2022b is the outcome at the end of 2022 including all cost of living measures. 2023a is the outcome from Budget 2023, 2023b is the outcome after including the additional 2023 cost of living supports announced in February 2023.

As a result of the taxation and welfare measures adopted in Budget 2023, the middle-poor gap remained unchanged. The cumulative middle-poor gap stood at €572 per week (€29,800 per annum) in 2023. The gap also remained unchanged following the February 2023 cost of living measures. The gap has marginally decreased by 16 cent per week following the Budgetary policies of the current Government (Budgets 2021, 2022 and 2023), 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 almost

€20 per week (€1,031 per annum) over the period 2014-2023.

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



Source: *Social Justice Ireland* Income Distribution Model.

Notes: See notes to Chart 5.

5. 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 (as defined by the Living Wage Technical Group)
- 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 2**.

The sources of income and welfare included in the analysis are outlined in **Table 3**. 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) or for cost of living supports provided in 2022 and 2023. 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 4** 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 2: List of Households Included in the Analysis

Working Households	Welfare Dependent Households
Household type - single PAYE	Working age Welfare Dependent
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*	
	Retired Welfare Dependent
Household type - lone parent	Single pensioner (66yrs plus)
Single, 1 child, job at €30,000*	Couple pensioner
Couple - 1 earner (caring for an adult parent)	
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	
Couple - 1 earner (no caring role)	
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	
Couple - 2 earners (65%/35%)	
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 3: Sources of Income and Welfare Included in the Analysis

<u>Households with a Job</u>
Earnings (including the minimum and living wage rates)
Child Benefit (where applicable)
Early Childhood Supplement (where applicable)
Water Conservation Payment (2015 only)
One off payments and credits, such as those announced during the 2022/23 cost of living crisis
<u>Welfare Dependent Households</u>
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
Back to School Clothing and Footwear Allowance
<i>The Christmas Bonus is applied to these welfare payments as appropriate</i>
One off payments and credits, such as those announced during the 2022/23 cost of living crisis
Water Conservation Payment (2015 only)

Table 4: 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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