

Select Committee on Budgetary Oversight

Opening Statement on the Report of the Commission on Taxation and Welfare by Dr. Aedín Doris, Department of Economics, Maynooth University, January 25, 2023

Introduction

I was invited to comment on Chapters 9-12 of the Commission on Taxation and Welfare's report, and I am grateful to the Committee for the invitation to do so.

My comments are based partly on my experience as a member of the Pensions Commission that reported in 2021. I was on the Technical Expert Group of that Commission, and some of the papers we produced are relevant to the Commission on Taxation and Welfare's report.

I also co-authored a report on the Introduction of a Living Wage for the Low Pay Commission last year. This report considered how earnings interact with the tax and benefit systems, which is also discussed in the Commission's report.

Finally, my academic research has often addressed the issue of how the benefit and tax systems affect incentives to work.

In my full submission, I commented on the Commission recommendations that are most strongly related to these areas. Today I will begin by outlining the points I made in that submission.

Sustainability: Recommendations 10.2, 10.3, 10.4, 10.5 and 11.4

Regarding sustainability, the Pensions Commission heard convincing evidence that the public finances are not sustainable, partly due to the ageing of the population, but also because of challenges related to climate change.

For this reason, I strongly agree with the arguments the Taxation and Welfare Commission makes in favour of broadening the tax base.

The Pensions Commission recommended increasing PRSI receipts by removing the age exemption for those aged over 66 and removing the exemption on pension income other than the state pension. We also recommended increasing the self-employed PRSI contribution rate, initially from the current 4 percent to 10 percent and then to the same rate as the Class A Employer rate.

I note that the Commission on Taxation and Welfare has made similar recommendations.

The Commission also proposed other PRSI base-broadening measures, including applying PRSI contributions to employees earning below the current threshold (10.2), albeit at a lower rate. This recommendation would improve sustainability and would also eliminate the problem associated with the current cliff-edge of PRSI eligibility.

Coherence of Secondary Benefits: Recommendation 11.1

The Commission makes a recommendation that secondary benefits provided by departments other than Social Protection should be designed jointly with DSP to ensure appropriate integration (11.1). I strongly concur.

In our research on the possible introduction of a Living Wage, it was striking that in some counties, the introduction of the Living Wage could make a working parent who is currently eligible for Housing Assistance Payment ineligible. This shows that the structure of HAP is a strong disincentive to seek higher earnings for some parents.

Further Individualization of the Income Tax System: Recommendation 11.6

As regards the tax system, the Commission recommends that the Standard Rate Cut-off Point should be fully individualized and I agree.

Irish women have been shown to be particularly responsive to wages, so any measure that increases the net wage rate to secondary earners – who tend to be women – tends to increase female participation. This would be beneficial for the sustainability of the public finances and would also help to reduce the gender earnings gap.

Welfare Payment Adequacy: Recommendation 12.1

Turning to the adequacy of welfare payments, the Commission recommends that the Government undertake a benchmarking exercise in respect of all working-age income supports, with multi-annual targets subsequently set for social welfare rate increases based on an evidence-led process.

The Pensions Commission made a slightly different recommendation. We suggested a standing body rather than a one-off benchmarking exercise. This body would be along the lines of the Low Pay Commission, carrying out periodic, but regular evaluations as regards the adequacy of the state pension.

I note that if a body along the lines suggested by the Pensions Commission were set up, it would be feasible to cover working-age income supports as well as the state pension as similar data would be needed to evaluate the adequacy of both types of payments.

Pay-Related Jobseeker Payments: Recommendation 12.3

As regards the possibility of a pay-related jobseeker payment, the Commission gives cautious support (12.3).

There are good economic reasons for linking benefits to previous earnings: this would allow workers to be less risk averse in their labour market decisions and may allow unemployed individuals more time to make better labour market matches with employers. Both of these would enhance productivity.

However, I agree with the Commission that the design of an earnings-related component would need to be carefully considered. This is because any increase in benefit entitlement will reduce the incentive to find work to some extent; there is strong evidence that incentives matter to the duration of unemployment.

Child Income Supports: Recommendation 12.5

Finally, the Commission makes a strong recommendation (12.5) that the existing system of child income supports should be reformed to provide a second-tier support that would be linked to household income rather than parental labour market status. This payment would be in addition to the universal Child Benefit. I strongly support this recommendation.

A second-tier payment for low-income households would allow the elimination of child dependent allowances in jobseekers payments. This second-tier payment would, in turn, reduce the replacement rate for parents and so enhance employment incentives. In addition, a second-tier payment would allow better targeting of child poverty.

I thank you again for the invitation today, and I welcome any questions.