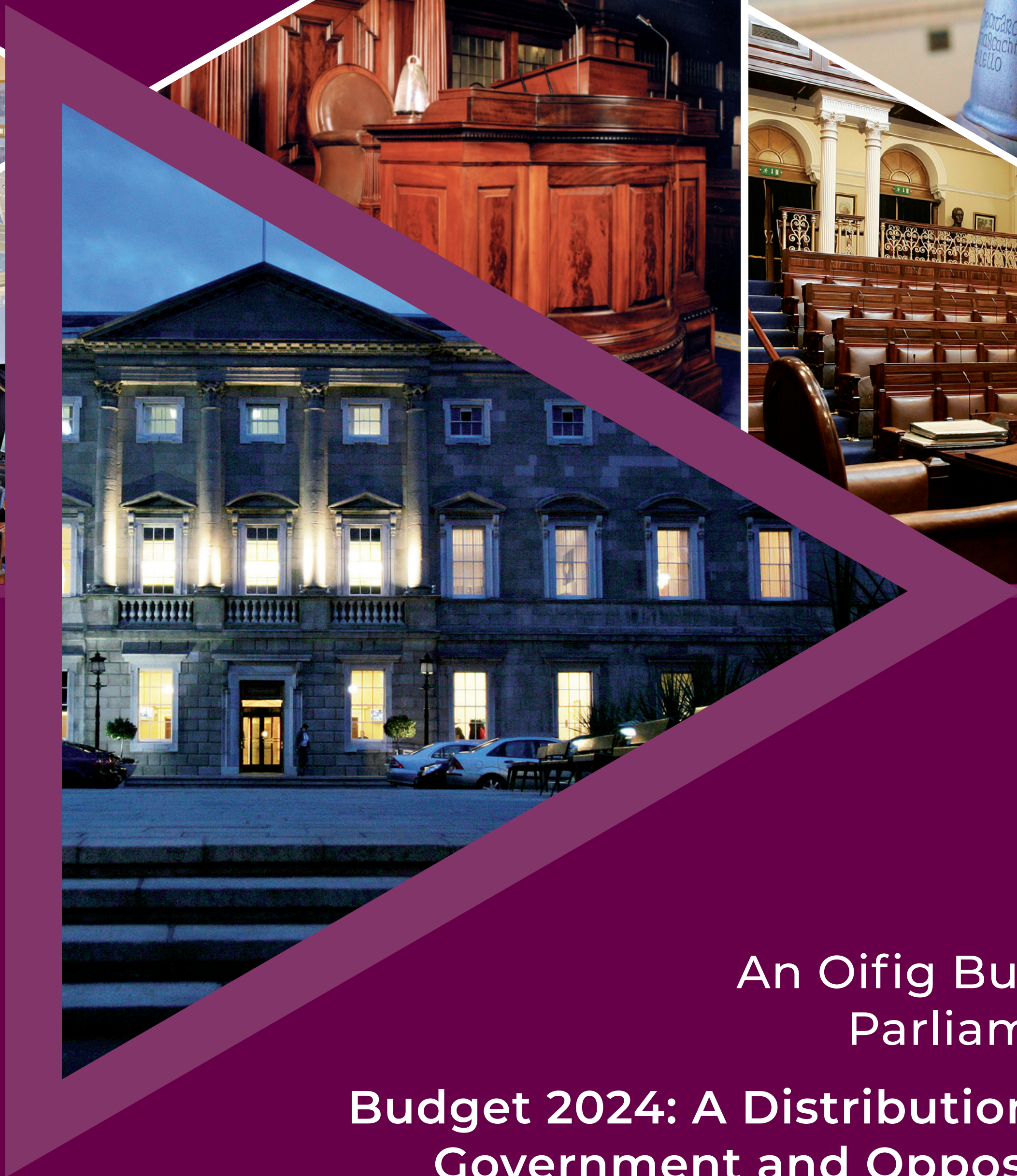

Tithe an Oireachtais
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An Oifig Buiséid Pharlaiminteach
Parliamentary Budget Office

Budget 2024: A Distributional Impact Analysis of Government and Opposition Tax and Welfare Packages on Irish Households

Publication 22 of 2024

Preface

This following analysis estimates the effect of tax and welfare changes across government and opposition budgets upon the income of Irish households.

We don't model how different proposals may affect behaviour or the broader economy.

While there are caveats, the analysis is useful in contextualizing packages put forward by political parties.

Click here to view a fully interactive analysis of the results presented in this note, including exact values from all graphs.

Note: This publication includes results based on SWITCH, the ESRI tax-benefit model. Information on the design, underlying data and model construction can be found at *www.esri.ie/switch* . Responsibility for the results and interpretation in this document rests with the Parliamentary Budget Office and not with the ESRI.

Contents

Key Messages

- We use two microsimulation models- SWITCH and EVE- to analyse the distributive impact of the tax and welfare packages put forward by government and opposition parties as part of Budget 2024. These models enable us to model the cost and distributive effects of each tax and welfare package using a common analytical framework.

- Our analysis indicates that People Before Profit had the largest package- with a net cost of €6.4 billion with all measures included, but a net cost of €9.5 billion when large revenue raising measures from employer's pay-related insurance are excluded. Sinn Féin had the least costly package- with a net cost of €3.6 billion. Labour's package was the next costly (€3.7 billion), followed by the government (€4.2 billion) and the Social Democrats (€6.1 billion).

- Core, or put simply, permanent expenditure increases, can be viewed as being particularly important for the medium-term health of the public finances. On a core basis, Sinn Féin also had the smallest tax and welfare package- with a cost of €2.2 billion, followed by the government (€2.4 billion), Labour (€3.2 billion), the Social Democrats (€4.7 billion) and People Before Profit (€6.4 billion). The People Before Profit package was the only package which did not avail of non-core expenditure measures, such as temporary cost-of-living measures.

- Both government and opposition alike, increased core welfare rates- this supported income growth among low-income households. Sinn Féin and the government had the most modest increases to core welfare rates. Labour (+€27.50 per week by October 2024), the Social Democrats (+€25 per week) and People Before Profit (increase all rates to €300 per week) had the largest increases to core welfare rates. Labour availed of a phased increased to these welfare rates, which decreases the cost of this measure in the short-term. Overall, these large rates of welfare increase, particularly if they outpace wage growth, may induce behavioural response via a reduction in hours worked per week.

- All opposition parties proposed higher rates of taxation on high-income earners. Both Sinn Féin and Labour proposed a gradual withdrawal of tax credits past €100,000. Sinn Féin also proposed the introduction of a new tax, a Solidarity

Tax of 3% on individual income in excess of €140,000 per annum. The Social Democrats proposed a new third rate of income tax of 43%, to be applied to incomes above €100,000 for singletons, with proportionate adjustments for couples. People Before Profit put forward a series of new income tax rates for those with earnings in excess of €100,000- with the first €50,000 subject to an income tax rate 50%, the next €50,000 subject to 55%, the next €75,000 subject to 60% and all income in excess of €275,000 subject to an income tax rate of 65%. These policies meant that high-income households- the richest ten per cent- were worse off under opposition proposals. We highlight that these taxation measures would likely induce behavioural response and the increasing revenue estimates of these measures are uncertain in the static setting presented in this analysis.

- Overall, our analysis indicates that all analysed tax and welfare packages were progressive, with larger proportionate income gains among low-income households throughout. When considering the entire package of modelled measures, the poorest ten per cent of households accrued income gains of 10.4% under the government's package, 11.0% under Sinn Féin's, 11.6% under Labour's, 17.1% under the Social Democrats' and 30.9% under People Before Profit's. The richest ten per cent of households accrued income gains of 2.0% under the government's package, 0.7% under Labour's and 1.0% under the Social Democrats'. Progressive taxation options more than offset other expansionary measures in the Sinn Féin and People Before Profit packages, with income losses of 0.2% under the Sinn Féin package and 2.3% under the People Before Profit package for the richest ten per cent of households.

1. Introduction

In this note we analyse the distributional implications of the tax and welfare package included in Budget 2024 – an exercise routinely carried out in an Irish context. We also systematically analyse the distributional implications of alternative tax and welfare packages outlined by opposition parties in their alternative budgets. The latter focus of the analysis is new ground in the analysis of fiscal policy in Ireland. As such, this publication should be relevant to a large share of parliamentarians, the Irish electorate, and other independent fiscal institutions- our national and international peers- who may be interested in carrying out similar analysis.

We analyse proposals in publicly available budgetary documentation. To ensure an objective analysis, we did not engage with either government or opposition parties during this analysis. **The opposition political parties of Sinn Féin, Labour, the Social Democrats and People Before Profit all published alternative budgets[1].** We include these in the analysis alongside the government's tax and welfare package. As a caveat, our analysis is static and represent the "next morning" effect, meaning that households face new policies, but their behaviour is unchanged. We also abstract from the macroeconomic impact of the packages analysed.

In prefacing the analysis, our focus in this piece is solely on tax and welfare spending measures. Tax is a broad area- and we focus solely on direct taxes such as income tax- and a range of indirect taxes, such as carbon tax, which affect households. These measures tend to be in focus directly after the government's annual Budget, and subject to analysis by independent analysts, such as the Economic and Social Research Institute (ESRI)[2]. Expanding such an analysis to include alternative packages as outlined by opposition parties is a new frontier, however. **To our knowledge, this analysis is the first systematic analysis of both government and opposition tax and welfare packages in an Irish context.** In carrying out this analysis, our aim is to subject alternative budgetary proposals by opposition parties to the same degree of rigour as that of the government. This independent, model-based analysis is intended to improve fiscal transparency by quantifying the impacts of these packages on Irish households. By analysing the proposals from various parties using a common analytical framework, we ensure an objective comparison. This is also an important exercise for the parliamentary process. This analysis can be used as an objective reference

[1] The set of tax and welfare policy measures analysed are publicly available and outlined in the below:
Government Budget 2024, Sinn Féin Budget 2024, Labour Budget 2024, Social Democrats Budget 2024, People Before Profit Budget 2024
[2] See for instance Doorley et al., (2023) for an analysis of the distributional impact of Budget 2024: Doorley, K., Duggan, L., Simon, A., & Tuda, D., (2023). Distributional impact of tax and welfare policies: Budget 2024. Quarterly Economic Commentary Special Article Winter 2024.

point for opposition parties in evaluating the outcomes of their proposed tax and welfare packages. As parties put significant work into their alternative budgets, it is important that this work is also scrutinized. We hope this analysis will help foster constructive analysis and debate of realised and alternative positions in the Irish fiscal landscape.

Political parties clearly have different preferences. As a result, they may allocate expenditure across different sectors of the economy. **As such, the results we highlight here are only a partial analysis of the overall suite of budgetary measures outlined in opposition and government budgets.** For instance, we do not analyse changes in capital expenditure, or changes in allocations to various Departments. This means that changes in capital expenditure, such as policies aimed at increasing housing supply, are not captured in the analysis. Given the relatively narrow remit of the analysis, and the variation in the objectives of political parties, the findings included in this analysis should not be viewed as an assessment of entire budgetary packages.

To conduct the analysis, we use the ESRI's SWITCH model[3] and the PBO's EVE model[4]. SWITCH models direct tax and welfare changes, while EVE is used to analyse reforms to indirect taxes. Both SWITCH and EVE are microsimulation models of the household sector and are useful tools to analyse how households are affected by changes to the tax and welfare system. These models allow us to model a very significant share of tax and welfare changes from opposition parties and government alike. Certain areas of taxation, such as the taxation of capital gains and wealth, are not modelled at present, and are excluded from the analysis. In Appendix 1, we document the policy measures which we considered to fall under the direct tax, indirect tax and welfare remit of the analysis. We were unable to model certain elements of a given tax and welfare packages. These policies tend to be relatively small when compared to the total fiscal cost of each tax and welfare package. These exclusions are due to modelling constraints or insufficient detail provided in opposition alternative budget documentation.

In Figure 1, we detail the modelled costs associated with each tax and welfare package analysed. We also highlight the share of expenditure outlined in each of the analysed packages which we were unable to model. These unmodelled costs are reported costs taken from government and opposition budgetary documentation. Based on the final costs, as per Figure 1B, our

[3] Documentation on the SWITCH model is available at: Keane, C., Doorley, K., Kakoulidou, T., & O'Malley, S., (2023). SWITCH: A Tax-Benefit Model for Ireland Linked to Survey and Register Data. International Journal of Microsimulation 16(1) p65-88
[4] Documentation on the EVE model is available at: Regan, M., (2024). EVE: a model of indirect taxes using household micro-data. PBO Working Paper 1 of 2024.

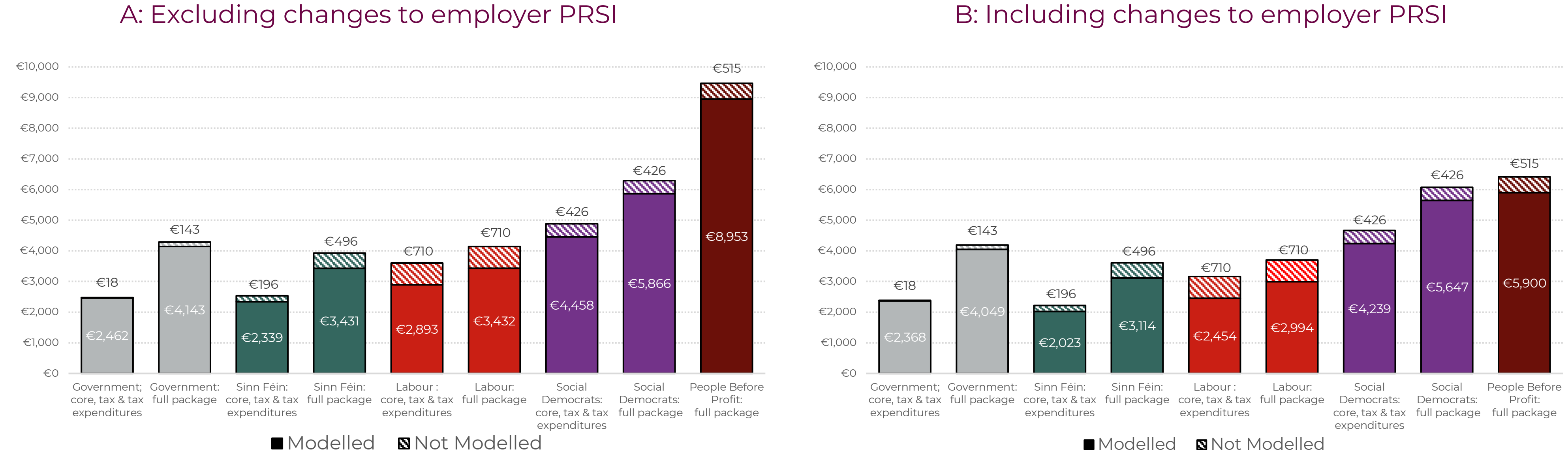
modelling represents each of the packages well. Proposals which we consider relevant to the analysis, but which were not included in the analysis represent:

- 3% of the governments package- with Mortgage Interest Relief and changes to certain welfare payments excluded due to modelling constraints.
- 14% of Sinn Féin's package- with Mortgage Interest Relief and changes to certain social welfare measures excluded due to modelling constraints and uncertainty around proposals.
- 19% of Labour's package- with new tax credits and a Universal Back to School Clothing and Footwear Allowance being the largest items which were excluded due to modelling constraints.
- 7% of the Social Democrats' package- with refundable tax credits and expenditure measures such as increases to Adoptive, Paternity and Parent's Benefit representing the majority of measures which were excluded due to modelling constraints.
- 8% of the People Before Profit package- with significant increases to payments to new parents excluded due to modelling constraints.

Overall, as there is significant information on realised changes from Budget 2024- per the government's package- it was much easier to integrate the government's package into the analysis. With the variation in the coverage rate of our modelling, particularly across opposition parties, we analyse the distributional impact of the modelled policies separately and discuss package in turn in the analytical component of the note. **While there is variation in the coverage rate across packages, the high portion of each package modelled ensures the robustness of our distributional analysis.**

The costs associated with the modelled portion of each package are shown in Figure 1. These can be thought of as the fiscal spend which forms the basis of our distributional analysis. We also adjoin the unmodelled portion of each package in Figure 1. This gives a sense of the overall cost of each package and is a useful first step in comparing the packages. Modelled costs in Figure 1 are derived from EVE and SWITCH, which allows for an objective comparison of the size of expenditure across tax and welfare packages- with caveats around the share of total package represented. The costs associated with unmodelled components are taken directly from government or opposition party budget documentation. **Overall, when the full package of measures relevant to this analysis are included, the packages range in size from People Before Profit (€6.4 billion), Social Democrats (€6.1 billion), the government (€4.2 billion), Labour (€3.7 billion) and Sinn Féin (€3.6 billion).**

Figure 1: Tax and welfare packages- modelled and unmodelled components, net costs (€ million)



Source: Results based on SWITCH, the ESRI tax-benefit model, and EVE, the PBO's indirect tax model. Modelled components are based on PBO analysis using 1) EVE model based on the 2015/2016 HBS 2) SWITCH v7.0 based on 2019 SILC for modelled elements. Both models have uprating procedures to approximate 2024 income and consumption patterns. PBO analysis using alternative budget documentation and Budget 2024 documentation for unmodelled elements.

Notes: Net costs are in euro millions. In Panel A, the tax and welfare package for each party, excluding revenue raising measures from PRSI are shown. Panel B includes revenue raising measures from employer PRSI. The distinction between Panel A and B is important, as the sums of money in Panel A represent net redistribution to households, while Panel B is the net cost of the package in total. The portion of the package modelled in the analysis is represented by a solid bar, with the non-modelled portion represented by a dashed bar. Modelled cost estimates are derived using SWITCH and EVE. Policies which are not modelled are attributed a cost based on the reported cost in Budget 2024 documentation or in alternative budgets by each of the political parties. In each panel, the net costs are presented for 1) all core expenditure, direct tax and indirect tax measures (which include tax expenditures) and 2) non-core expenditure plus 1). A list of modelled and unmodelled policies for each tax and welfare package are available in Appendix 1. The modelled elements are the basis of our distributional analysis.

While the size of each package is an interesting first step, the composition of each package is a logical second. In recent Budgets, temporary fiscal measures such as universal energy credits, have been used by government to address cost-of-living issues. These types of expenditure items are accounted for as non-core expenditure and are a temporary form of expenditure. Given the temporary nature of non-core expenditure, they are forecast to have a zero fiscal impact beyond the year of implementation, and do not occupy fiscal space in proceeding years. The Department of Finance (2023) note that non-core expenditure has been a useful mechanism to effectively respond to externally driven challenges facing the Irish economy and wider society[5]. This new practice is complex and the Fiscal Council (2023)[6] highlighted that expenditure which increases the deficit should be viewed as permanent as a default, and expenditure which occurs for more than two years is difficult to view as "one-off". In this analysis, the term "non-core" to describe one-off lump-sum payments to welfare recipients, more universal payments such as energy credits and other temporary payments to households. Temporary tax measures, such as concessions on mineral oil excise duty, are classified as tax expenditures, and we classify these within indirect tax changes. While government budgets may have set the precedence for the strategic use of non-core expenditure, all political groups bar for People Before Profit, adopted the concept in their alternative budgets.

The use of non-core expenditure is common, and also tends to be quite large across the packages we analyse. In the case of the government, the net cost of the analysed tax and welfare package is €2.4 billion excluding non-core expenditure and €4.2 billion after including non-core measures. **Sinn Féin and the Social Democrats also made significant use of non-core expenditure measures- comparable to the government's.** Sinn Féin's tax and welfare package has a net cost of €2.2 billion excluding non-core expenditure, rising to €3.6 billion when non-core measures are included. For the Social Democrats', excluding non-core measures, their tax and welfare package has a net cost of €4.7 billion, rising to €6.1 billion with non-core measures included.

Labour made limited use of non-core measures, and instead opted for a relatively large core package- of €3.2 billion. Labour deflate the cost of their core package by using "phased increases" to social welfare rates, with rates increasing by €15 per week from January 2024, another €7.50 per week in June and another €5 per week from October. From a medium-term stability perspective, this phased introduction is irrelevant. Removing the phased element of the welfare rate rise increases the cost of non-core measures by €400 million for Labour- bring a more medium-term cost of core measures to €3.6 million. Including non-core measures increases the net cost of the Labour package, from €3.2 billion to €3.7 billion. In contrast, People Before

[5] Available at: Department of Finance. (2023). Stability Programme Update 2023.
[6] Available at: Irish Fiscal Advisory Council. (2023). Box C of Fiscal Assessment Report, December 2023.

Profit did not avail of any non-core expenditure measures. The People Before Profit package is the largest and most complex to analyse. While the final spend, as per Figure 1B, of €6.4 billion appears broadly in line with Social Democrats package, this is predominantly due to extremely large revenue-raising reforms to employer pay-related social insurance (PRSI). In particular, a new 19.75% rate of employer PRSI on salaries greater than €90,000 per annum being accounted for as a reliable revenue-raising measure. The key point to make here is that for the distributional analysis we consider, the People Before Profit package is close to €9.5 billion in net costs as per Figure 1A- as employer PRSI revenues are not generated from households in our analysis[7]. As such, the revenue from employer PRSI reduces the net cost of the package. The behavioural response to this type of large policy cannot be captured in SWITCH or EVE. As such, the net expenditure distributed to households by the People Before Profit package is more than double that of the government's in the analysis- with employer PRSI reducing the net fiscal cost.

The rest of the paper proceed as follows; Section 2 gives a brief overview of each tax and welfare package analysed. Section 3 discusses the findings from our distributional analysis. Section 4 concludes.

[7] Within SWITCH, employer PRSI is paid by employers, and the incidence falls entirely on employers.

2. Tax and welfare package overview

In this section, we give an overview of the key measures from each tax and welfare package analysed. For the full suite of measures we consider, alongside notation on any modelling assumptions made, we refer readers to Appendix 1 where these are presented in tabular format. **For brevity, we will highlight the key measures included in the analysis by both government and opposition parties alike**. These measures are highlighted as they tend to be the most relevant to the distributional analysis in Section 3.

While there are differences across packages, all packages sought to increase core welfare expenditure. Sinn Féin and the government most conservative in this regard, whereas People Before Profit sought to increase core welfare rates and pension payments to €300 per week. Labour, the Social Democrats and People Before Profit, all stood out as having very large core welfare rate increases – with Labour gradually increasing rates by €27.50 per week through 2024 and the Social Democrats increasing rates by €25 per week. These large welfare increases may induce behavioural responses, particularly if these rate rises outpace wage growth. In terms of non-core expenditure, all packages aside from the People Before Profit package, offered targeted lump-sum welfare payments. The government also offered universal energy credits. The Social Democrats offered a means-tested version of the energy credit scheme based on taxable earnings and Sinn Féin specified an electricity price cap as an alternative measure.

In terms of direct taxes, strategies were mixed. Labour, the Social Democrats and People Before Profit chose to index the cut-off point for the standard rate of income tax, while Labour also indexed tax credits and universal social charge (USC) bands. The government also increased the standard rate cut-off point for income tax bands by €2,000. In contrast, Sinn Féin kept tax bands frozen at current levels. A particularly interesting point was the treatment of high-income earners in all opposition packages. Both Sinn Féin and Labour proposed a gradual withdrawal of tax credits after €100,000- this would have the effect of increasing marginal tax rates gradually, in proportion to the cumulative value of the tapered tax credits. Sinn Féin also proposed the introduction of a new tax- a Solidarity Tax of 3% on individual income in excess of €140,000 per annum. The Social Democrats proposed a new third rate of income tax of 43%, to be applied to incomes above €100,000 for singletons, with proportionate adjustments for couples. People Before Profit proposed substantial changes to direct tax in their package. In their package, USC is abolished for those earning less than €100,000 per annum, with a new USC rate of 10% applying to incomes greater than €100,000. There are also higher income tax rates on incomes in excess of €100,000- with the first €50,000 subject to 50%, the next €50,000 subject to 55%, the next €75,000 subject to 60% and all income in excess of €275,000 subject to an income tax rate of 65%. This progressive taxation of high earners is likely to affect work incentives, with a contraction in labour supply likely from this policy. Given behaviour may change in response to these policies, there is high uncertainty affecting the accuracy of the forecast revenue in a purely static framework. To a lesser extent, there could also be behavioural implications to all opposition proposals to increase tax rates on high-income earners. **Research from the Department of Finance (2018)[8] highlighted that the taxable income from high-income earners, those with incomes greater than €100,000, is very elastic vis-à-vis lower income groups. This means that static estimates of yields from tax increases on this group will likely overestimate the outturn yields due to unincorporated behavioural change.**

Childcare was another interesting theme which arose in all the packages analysed. The government, Sinn Féin and the Social Democrats all committed to percentage reductions in childcare. In contrast, Labour cited an expenditure cap on childcare- capping expenditure at €50 per week. People Before Profit went one step further and proposed to fully nationalize childcare. All packages also proposed revenue raising measures by PRSI. These varied also, with the government increasing all PRSI rates by 0.1% while opposition parties all cited larger increases to employer PRSI. The Social Democrats outlined a 0.25% increase to employer PRSI, Labour opted for a phased 0.5% increase while Sinn Fein cited a 2% increase applying to salaries greater than €100,000. People Before Profit stood out in this domain, with employer PRSI reforms being a significant revenue-raising measure. The party cited an increase to employer PRSI of 2%- to 13.05% on salaries below €90,000 and a new rate of 19.75% to apply to salaries above €90,000. This large policy could affect labour demand. These effects and second-round effects of policy on the macroeconomy are not considered in this analysis, but are important to keep in mind in contextualizing the People Before Profit package, given the degree of change outlined.

Below, we list key elements of each package. As noted, the entire suite of measures included in the analysis are documented in Appendix 1 and the below are intended to help a reader follow the analytical component of the paper in Section 3.

2.1. Key elements of the government's package

Welfare expenditure:

- Increases to the rate of payment of all social welfare schemes by €12 per week
- Increases to Qualified Child Increases of €4 per week

[8] Available at: Department of Finance. (2018). The Elasticity of Taxable Income.

Non-core expenditure[9]:

- €400 lump-sum payment to recipients of the Working Family Payment, Carer's Support Grant, Disability Allowance, and Invalidity Pension
- €300 lump-sum payment to recipients of Fuel Allowance
- €200 lump-sum payment to recipients of the Living Alone Allowance
- €100 lump-sum payment to recipients of an Increase for a Qualified Child
- An additional week of welfare payments
- An additional month of Child Benefit payment
- Universal household energy credits worth €450 in total

Direct taxes:

- Increase to the standard rate cut-off point for income tax by €2,000
- Rent tax credit increased by €250, a €100 increase to the Personal, PAYE, Earned Income and Home Carer tax credit
- Reduce the third rate of the Universal Social Charge from 4.5% to 4% and increase the entry point to the third rate to €25,760

Indirect taxes:

- Increase the carbon tax by €7.50 per tonne
- An extension of both the 9% VAT rate on gas and electricity and reduced petrol/diesel excises into 2024

[9] Mortgage Interest Relief was not included in our analysis due to modelling constraints. This had a reported cost of €125 million in in the government's budget documentation.

Social Insurance:

- Increase all PRSI rates by 0.1%

2.2. Key elements of Sinn Féin's package

Welfare expenditure:

- Increase working-age payments by €15 per week, disability payments by €20 per week and pension payments by €10 per week
- Increases to Qualified Child Increases of €5 per week for children under 12 and €10 per week for children over 12

Non-core expenditure[10]:

- €500 lump-sum payment to recipients of the Disability Allowance, Invalidity Pension and Blind Pension
- €400 lump-sum payment to recipients of Working Family Payment, Carer's Allowance and Carer's Benefit
- €300 lump-sum payment to recipients of the Fuel Allowance
- €150 lump-sum payment to recipients of the Living Alone Allowance
- An additional month of Child Benefit payment
- Electricity price reduction through capping of prices

Direct taxes:

- Reduce the first rate of USC from 0.5% to 0%
- Reduce the second rate of USC from 2% to 1%
- Increase the entry point to the third rate of USC to €25,959

[10] Mortgage Interest Relief was not included in our analysis due to modelling constraints. This had a reported cost of €300 million in Sinn Féin's alternative budget document.

- €50 increase in Personal, Employee and Earned Income tax credits
- Rent Relief Tax Credit equivalent to one month of rent
- Taper tax credits from €100,000
- Introduce a Solidarity Tax of 3% on individual income in excess of €140,000

Indirect taxes:

- Do not proceed with legislated carbon tax increase
- An extension of both the 9% VAT rate on gas and electricity and reduced petrol/diesel excises into 2024

Social Insurance:

- Increase employer's PRSI to 13.05% (+2%) on salaries over €100,000 per annum

2.3. Key elements of Labour's package

Welfare expenditure:

- Phased increase to social welfare rates by €27.50 per week by October 2024
- Increases to Qualified Child Increases of €10 per week for children under 12 and €15 per week for children over 12

Non-core expenditure:

- An additional week of welfare payments
- An additional month of Child Benefit payment
- €250 lump-sum payment to recipients of the Fuel Allowance

Direct taxes[11]:

- 3% indexing of income tax and universal social charge credits and bands
- Increase the rent tax credit by €500
- Withdrawal of tax credits beyond €100,000

Indirect taxes:

- Increase the carbon tax by €7.50 per tonne

Social Insurance:

- Phased 0.5% increase to employer's PRSI

2.4. Key elements of the Social Democrats' package

Welfare expenditure:

- Increase social welfare rates by €25 per week
- Increases to Qualified Child Increases of €10 per week for children under 12 and €15 per week for children over 12

Non-core expenditure[12]:

- €400 lump-sum payment to recipients of the Fuel Allowance

[11] A new €400 carbon tax credit was not included in our analysis due to modelling constraints. This had a reported cost of €200 million in Labour's alternative budget document.
[12] A policy of re-instating the Mortgage Interest Supplement scheme, with funding coming from restructuring the Bank Levy, was not included due to modelling constraints. As the additional outlay of financing this scheme is financed from the Bank Levy, we do not account for it in any of the net costs- as the increased yield from the Bank Levy less the cost of the scheme would be cost neutral.

- €300 lump-sum payment to recipients of State pension schemes
- €250 lump-sum payment to recipients of the Working Family Payment, Disability Allowance, Invalidity Pension, One-Parent Family Payment, Jobseeker's Benefit, Jobseeker's Allowance, Carer's Support Grant, Carer's Allowance and Carer's Benefit.
- €100 lump-sum payment to recipients of the Living Alone Allowance.
- An additional month of Child Benefit payment
- Energy Crisis Subsidy Scheme- a means-tested household energy credit of between €200 and €600 for households with earnings less than €120,000 per annum

Direct taxes[13]:

- Index income tax bands by 4%
- Introduce a third rate of income tax of 43% on income above €100,000, with proportionate adjustments for couples
- Personal and PAYE tax credits increased by €225, with the Home Carer's tax credit increased to €2,000
- Increase the rent tax credit to cover one month's rent

Indirect taxes:

- An extension of both the 9% VAT rate on gas and electricity and reduced petrol/diesel excises into 2024

Social Insurance:

- Increase employer PRSI by 0.25% in 2024

[13] A new measure called Refundable Tax Credits was not included due to modelling uncertainty, specifically around how the scheme would be implemented. This had a reported cost of €150 million in the Social Democrats' alternative budget document. Another measure highlighted in the Social Democrats' package was "an increase in the minimum effective income tax rate for people earning €400,000 from 30% to 32%". This was not specific enough to be included in the analysis. This had a reported yield of €100 million in the Social Democrats' alternative budget document.

2.5. Key elements of People Before Profit's package

Welfare expenditure:

- Increase rates of payment of social welfare and pension schemes to €300 per week
- Remove the means-test for Carer's Allowance
- Increase the rate of payment of Child Benefit by 20%

Direct taxes:

- Index link the standard rate of income tax cut-off point
- Increase the rent tax credit to €2,000
- Abolish universal social charge for those earning under €100,000
- Create a new universal social charge rate of 10% for earnings above €100,000
- Introduce an income tax rate of 50% on earnings between €100,000 and €150,000
- Introduce an income tax rate of 55% on earnings between €150,000 and €200,000
- Introduce an income tax rate of 60% on earnings between €200,000 and €275,000
- Introduce an income tax rate of 65% on earnings in excess of €275,000

Indirect taxes:

- Abolish the carbon tax

Social Insurance:

- Increase employer's PRSI to 13.05% (+2%) on salaries under €90,000 per annum
- Establish a new employer PRSI rate of 19.75% (+8.7%) on salaries greater than €90,000 per annum

3. Distributional impact of modelled tax and welfare packages

In this section we discuss the distributional impact of each package. **Our baseline for this analysis is the tax and welfare system in place just before Budget 2024.** This baseline excludes non-core expenditure measures announced in Budget 2023, such as energy credits and lump-sum payments to certain welfare schemes. However, as there were many similar "one-off" measures announced in Budget 2024, and also in alternative tax and welfare packages, how these affect the baseline in Budget 2025 should be considered by analysts. For instance, if one-off measures, which were included in Budget 2023 and 2024, were to be included in the baseline pre-Budget 2025, a discontinuation of these one-off measures would negatively affect household income. This makes sense. In contrast, if the one-off measures are excluded from the baseline, their discontinuation would have zero effect on household income, while their continuation would increase household income. This does not make sense. As such, thorough consideration of how these new types of fiscal instruments are dealt with is important for transparency. A situation should not emerge where an increase in spending- however it is accounted for- can be shown to increase household income, but a discontinuation of such spending doesn't have a mirror image negative effect. Callan et al. (2019)[14] make a similar point and highlight that the baseline for distributional assessment shouldn't be based on the government's default position.

In dealing with the complex issue of non-core expenditure measures, we proceed by comparing the distributional impact of tax and welfare packages across two domains:

1. Where the impact of all tax and welfare changes in the package are considered as changes- this is the entire package of modelled measures.

2. As above, but we exclude non-core measures announced as part of the 2024 tax and welfare package. In the text, we refer to these as "permanent measures" as these generally related to permanent- or at least not transitory- elements of the tax and welfare system.

The policies we model in the analysis are anchored to the choice of policies analysed by the Department of Finance[15] in their assessment of the distributional impact of Budget 2024. These mainly relate to direct taxes, welfare schemes under the remit of the Department of Social Protection, indirect taxes and cost-of-living measures in the form of non-core expenditure

[14] Available at: Callan, T., Keane, C., & Regan, M., (2019). Assessing the Distributional Impact of Budgetary Policy: The Role of Benchmarks and Indexation. Budget Perspectives 2020/2.
[15] Available at: Department of Finance. (2023). Budget 2024: Beyond GDP- Quality of Life Assessment.

measures[16]. As such, for each opposition party, we endeavoured to include all tax changes in the analysis. We limited the expenditure measures to those which were paid directly to households and possible to model. As such, changes to schemes such as Community Employment Scheme, Tús, Foster Allowance, the Rural Social Scheme, the Free Travel Scheme and Back to Education Allowance were beyond the scope of the analysis.

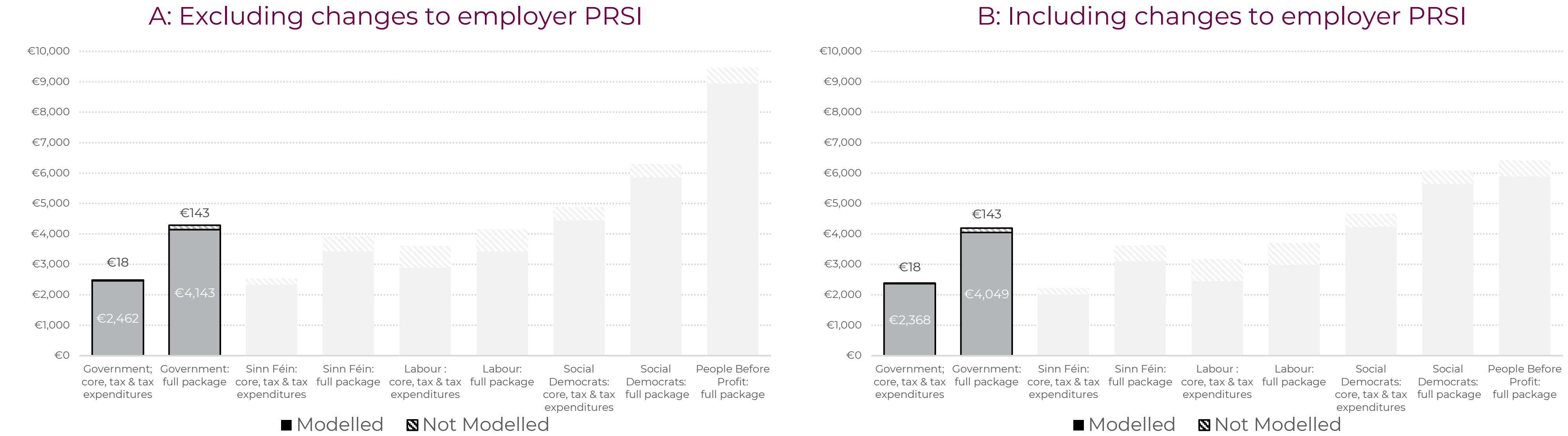
Overall, the methodology employed is a continuation of the approach we took in analysing the distributional impact of Budget 2024 on Budget Day included in our Preliminary Review of Budget 2024[17]. Whether non-core expenditure, such as energy credits, should be incorporated into the baseline is conceptual, but of very practical importance. We have excluded these from the baseline in this analysis- a continuation of our approach included in our initial analysis of Budget 2024[18], but may examine inclusion in the baseline in future publications. In terms of incidence, in our analysis we sort households into ten equally sized groups or deciles, based on equivalized household disposable income, and report average effects across these groups or deciles[19]. As the direct tax and welfare package is significantly larger than the indirect tax package, we also deep-dive in this area by analysing the average effects on different family types[20].

A key point to reinforce is that this section focuses on modelled costs only. As noted earlier, this means that the overall expenditure in the Sinn Féin and Labour packages are underestimated due to modelling constraints and uncertainty on how to implement measures. This is important to bear in mind as the scale of redistribution which can occur through a tax and welfare package will be directly linked to the associated fiscal spend.

[16] A temporary reduction in the Student Contribution for third-level education is included as a non-core measure. For other opposition parties, where this measure is specified as a permanent measure, we include it in the analysis for consistency.
[17] Available at: Parliamentary Budget Office. (2023). Preliminary Review of Budget 2024. PBO Publication 36 of 2023.
[18] idib
[19] Equivalization adjusts for household size and composition- meaning that for larger households or households with a greater share of adults- a given income level provides a lower standard of living. Disposable income is income from all market sources e.g., employment, self-employment, alongside income from social welfare schemes. Income taxes, social insurance and pension contributions are then deducted to arrive at disposable income. Housing costs and other expenditures are excluded from the definition.
[20] There are also conceptual differences in how “families” are defined in SWITCH and EVE which make this comparison intractable. SWITCH defines families based on tax-unit status, whereas EVE defines these at the household level. As such, direct comparison of family-level effects across the two models isn’t possible at present. As such, we opted to just analyze family-level effects using SWITCH.

3.1. Modelled Government tax and welfare package

Figure 2: Modelled government tax and welfare package, net costs (€ million)



Source: Results based on SWITCH, the ESRI tax-benefit model, and EVE, the PBO's indirect tax model.

- As noted in the Introduction, our analysis has extremely good coverage of the government's package, with just €143 million of considered measures excluded from the distributional analysis[21]. Based on the set of tax and welfare measures considered in this analysis (see Table A1 of Appendix 1), the government's full 2024 tax and welfare package is larger, but comparable in size to Sinn Féin and Labour, but is less costly than the Social Democrats and People Before Profit packages. As noted, non-core expenditure measures, such as energy credits, are used heavily in the government package.

[21] €125 million of this is related to non-core expenditure on Mortgage Interest Relief. The remainder are smaller core expenditures- an increase in the Domiciliary Care Allowance by €10 per month and an extension to the duration of Parent's Benefit.

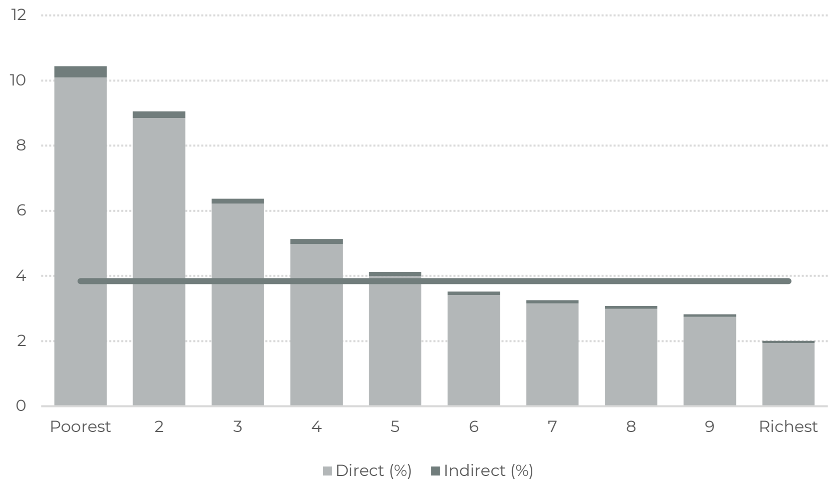
- Based on the policies modelled, the government's package is progressive[22]. The poorest income decile experience income gains of 10.4% on average, with the highest income decile experiencing gains of 2.0% on average, with overall household income increasing by an average of 3.8% (see Figure 3A). In euro terms, the mixture of tax, welfare and energy credits resulted in broad-based income growth, resulting in average income gains of €40.9 per week across households, with little variation in average gains across deciles (see Figure 3C). The government budget followed the trend set in Budget 2023 and made use of a series of temporary payments to households. This has the useful macro-fiscal property of limiting the growth of core expenditure while assisting households but has resulted in an erosion of structural parameters of the direct tax and welfare system. This point is well developed in Doorley et al., (2023)[23], where the authors highlight that discretionary policy changes did not keep up with a wage-indexed benchmark from 2020 to 2024 for the majority of households. Removing these non-core measures from the analysis results in more modest gains across households, from 5.0% for the poorest decile to 1.5% for the richest decile (see Figure 3B), with more targeted weekly income changes also evident after removing broad, untargeted policies such as energy credits and additional Child Benefit payments (see Figure 3D). As noted in our analysis immediately after Budget 2024, even without non-core measures, the changes in tax and welfare rates are sufficient to keep pace with a wage-indexed baseline and exceed a price-indexed baseline[24].

- Lone parent households are the largest gainers under the government's Budget, with incomes gains of 6.7% with all measures included, and 4.0% excluding non-core payments. Qualified Child Increases, Working Family Payment income limit increases and increases to the National Childcare Scheme drive this trend. Income gains among single retirees are heavily driven by lump-sum measures, with average income gains of 6.3% falling to 2.5% after the removal of these non-core measures (see Figures 3E and 3F). Working-age singletons gain least when non-core measures are excluded.

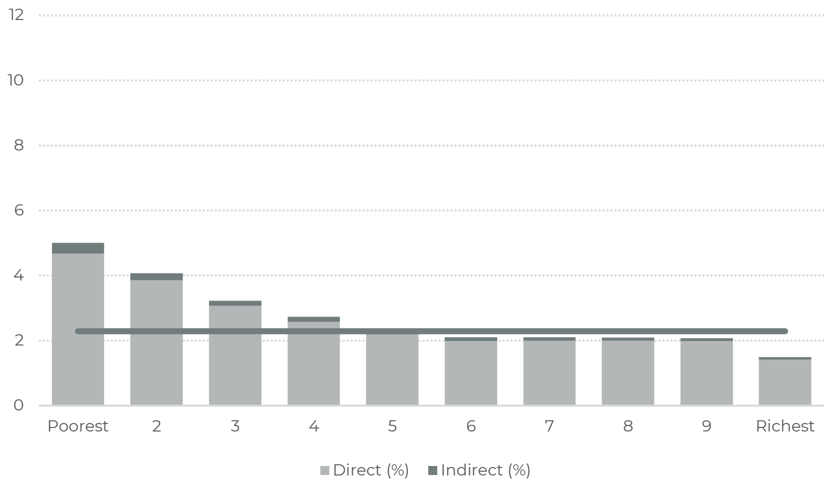
[22] In assessing progressivity, we deemed a package progressive if the average percentage income gains decreased along the income distribution.
[23] Available at: Doorley, K., Duggan, L., Simon, A., & Tuda, D., (2023). Distributional impact of tax and welfare policies: Budget 2024. Quarterly Economic Commentary Special Article Winter 2024.
[24] Available at: Parliamentary Budget Office. (2023). Preliminary Review of Budget 2024. PBO Publication 36 of 2023.

Figure 3: Government package distributional impact

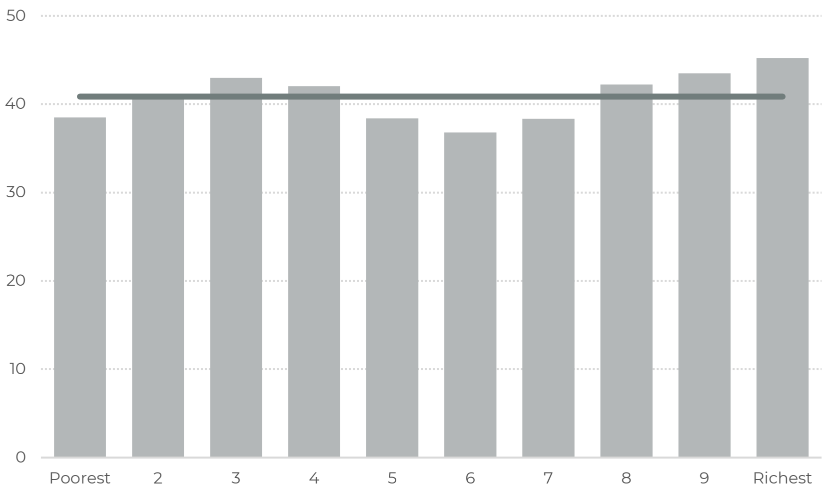
A: Average % change in disposable income, all measures



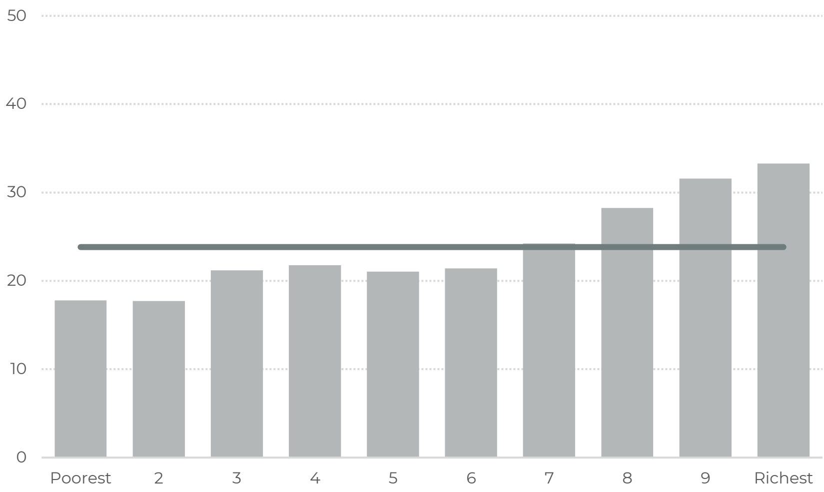
B: Average % change in disposable income, permanent measures only



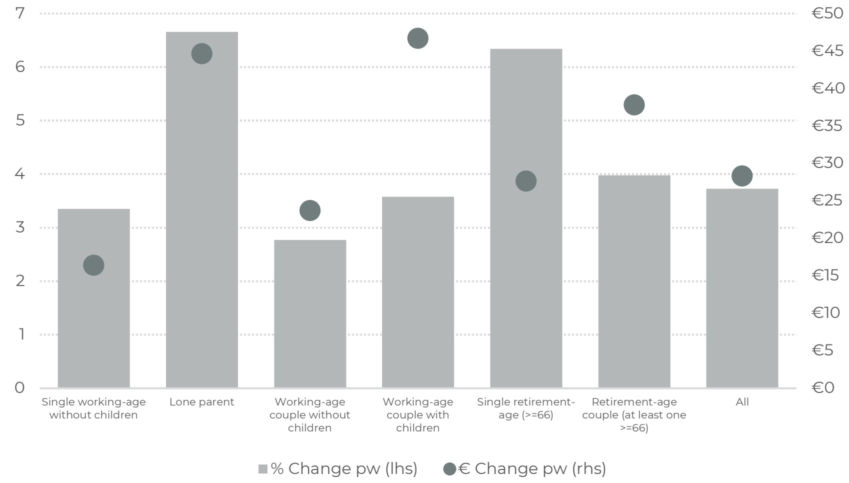
C: Average € change in disposable income, all direct measures



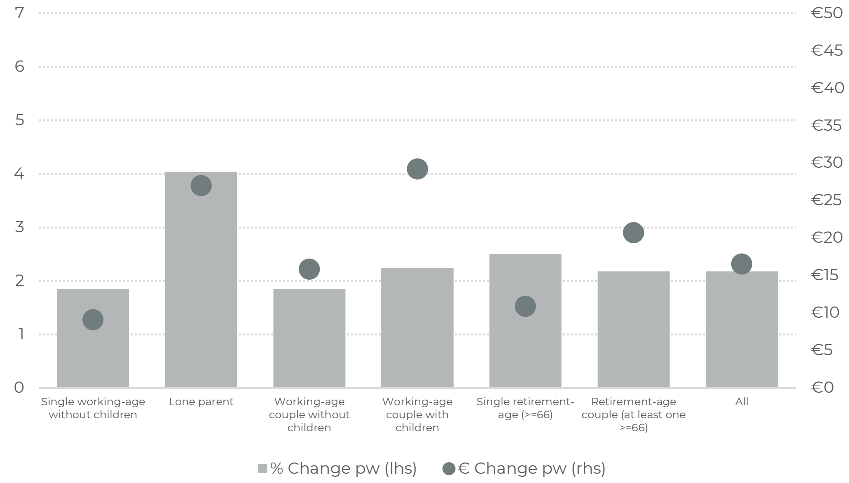
D: Average € change in disposable income, permanent direct measures only



E: Average income change by family type, all direct measures



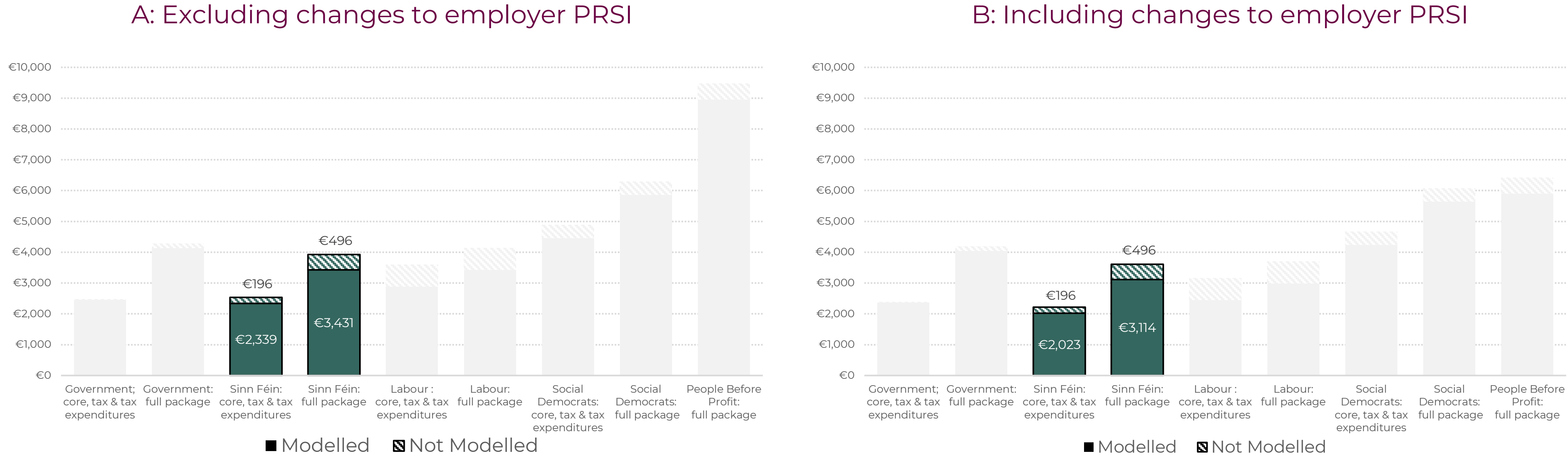
F: Average income changes by family type, permanent direct measures only



Source: Results based on SWITCH, the ESRI tax-benefit model, and EVE, the PBO's indirect tax model. PBO analysis using 1) EVE model based on the 2015/2016 Household Budget Survey and 2) SWITCH v7.0 based on 2019 Survey of Income and Living Conditions. Both models have uprating procedures to approximate 2024 income and consumption patterns.
Notes: Panels A and B show the percentage change in disposable income by income decile with and without the non-core measures as defined in Appendix Table A1. The horizontal line in each chart represents the national average income increase. Panels C and D show the euro change in income from direct measures only- with panel C including all direct measures and D excluding non-core expenditure measures as defined in Appendix Table A1. Panels E and F show average percentage and euro income changes by family type. Bars represent percentages and dots represent the corresponding euro amounts. Direct measures are examined, with panel F excluding non-core measures as per Appendix Table A1.

3.2. Modelled Sinn Féin tax and welfare package

Figure 4: Modelled Sinn Féin tax and welfare package, net costs (€ million)



Source: Results based on SWITCH, the ESRI tax-benefit model, and EVE, the PBO's indirect tax model.

- As noted in the Introduction, our analysis has good coverage of the Sinn Féin's package, with €496 million of considered measures excluded from the distributional analysis[25]. However, these are accounted for in Figure 4 when comparing the overall size of packages. Based on the set of tax and welfare measures considered for the analysis (see Table A2 of Appendix 1), **Sinn Féin's package, excluding non-core expenditure is 7% smaller than the government's package. Including non-**

[25] €300 million of this is related to Mortgage Interest Relief- which is non-core expenditure. The remainder is made up of core measures, with the largest being €129 million allocated towards re-introducing the State Pension (Transition) for 65-year-olds. Smaller measures such as establishing a Child Maintenance service, relaxing the Carer's Allowance means-test by raising disregards, the introduction of a Long-Term Carer's Pension and compassionate social welfare reforms to support the bereaved were excluded. These were excluded due to either modelling constraints or a lack of clarity on the exact details of the policy change.

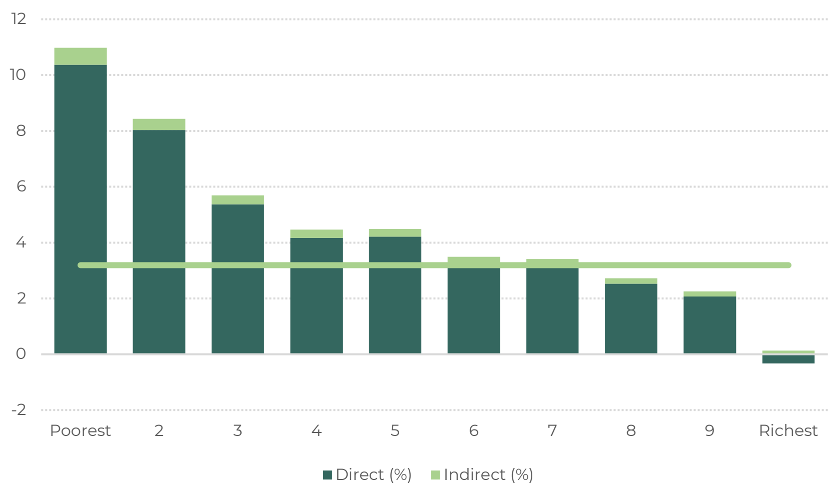
core measures, the Sinn Féin package is 14% smaller than the government's package. Sinn Féin made use of a number of temporary, non-core expenditure measures such as an electricity price cap and targeted lump-sum welfare payments alongside an additional Child Benefit payment. This non-core expenditure, while large, was smaller than the government's non-core expenditure package.

- Based on the policies modelled, the Sinn Féin package is progressive. The poorest income decile experience income gains of 11.0% on average. The richest decile of households incur income losses, equivalent to 0.2% of income due to tapering of tax credits after €100,000 and an introduction of a 3% Solidarity Tax on individual income greater than €140,0000 (see Figure 5A). In euro terms, the direct tax and welfare changes benefit all deciles on average, except for the top decile. The total package of direct measures – both core and non-core - result in average income gains of €32.4 per week across households. The largest gains of €40.5 per week occur in the fifth decile, with the richest decile of households facing losses of €7.7 per week (see Figure 5C). Non-core expenditure is still a significant part of the Sinn Féin package. As such, removing these reduces income gains, with income gains for the poorest decile of households of 7.7% and losses of 0.6% for the richest decile of households. (see Figure 5B). Non-core expenditure tends to have limited effects on the degree of targeting, with a similar pattern of income changes evident from all changes (see Figure 5C) and permanent changes only (see Figure 5D). Most notably, the average income losses of the top decile of households are evident once non-core expenditure is excluded, with these households gaining from both the electricity price cap and additional Child Benefit payments.

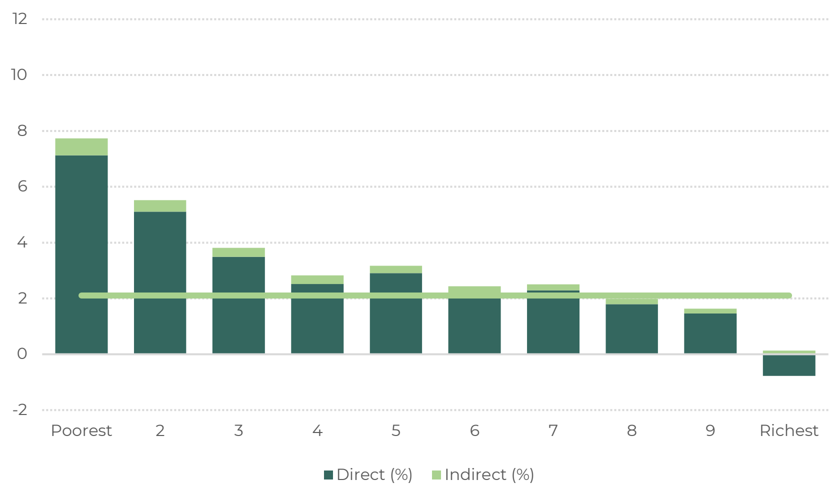
- Lone parents gain significantly under the Sinn Féin package, with average income gains of 4.4% over the full package and 3.6% excluding non-core measures. For this group, the €15 increase in working-age welfare payments, rises of between and €5 and €10 in Increases for Qualified Child payments and increases to the National Childcare Scheme are particularly relevant.

Figure 5: Sinn Féin package distributional impact

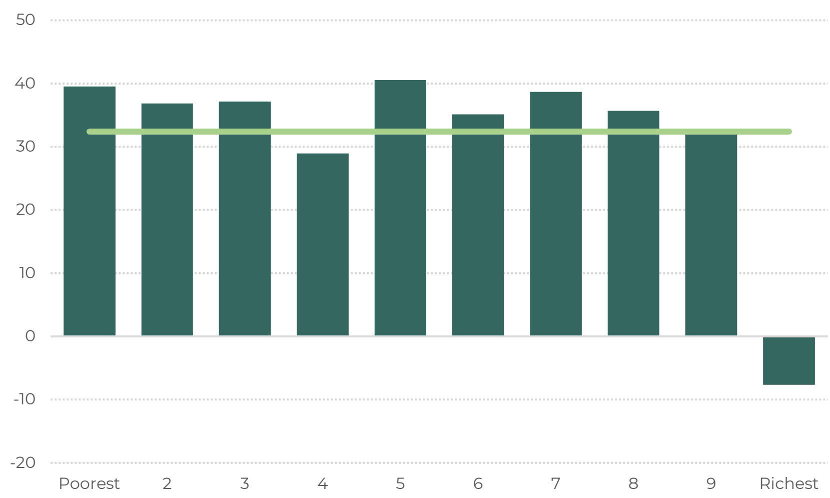
A: Average % change in disposable income, all measures



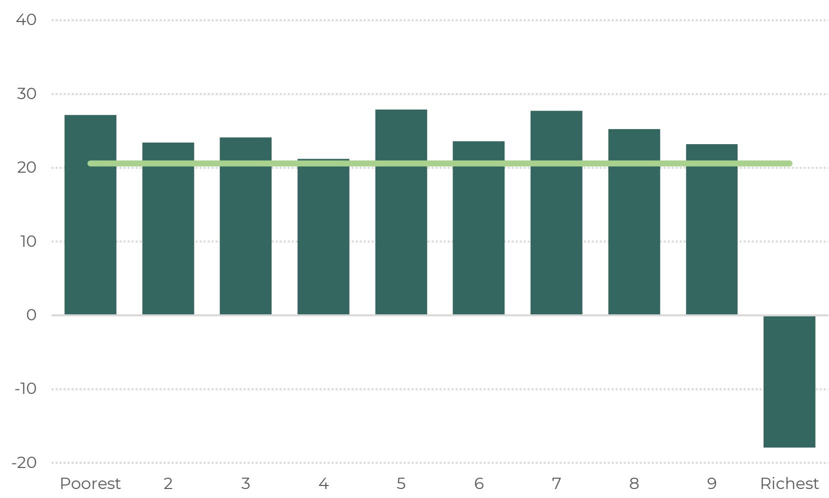
B: Average % change in disposable income, permanent measures only



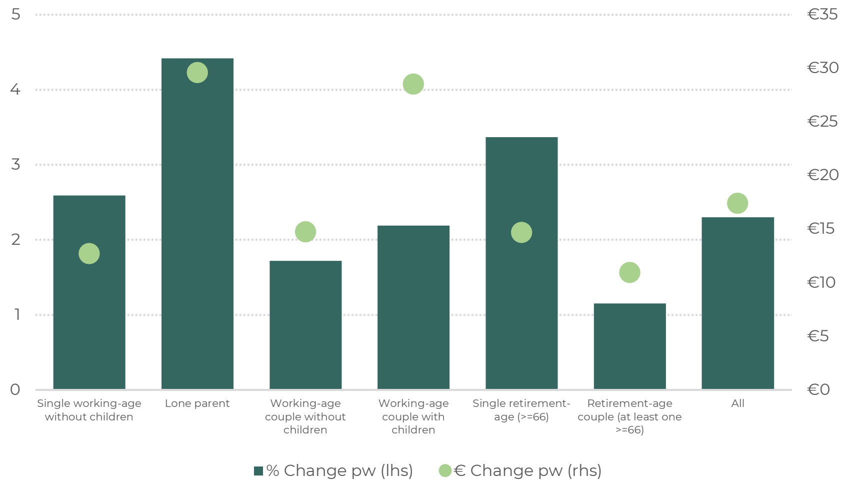
C: Average € change in disposable income, all direct measures



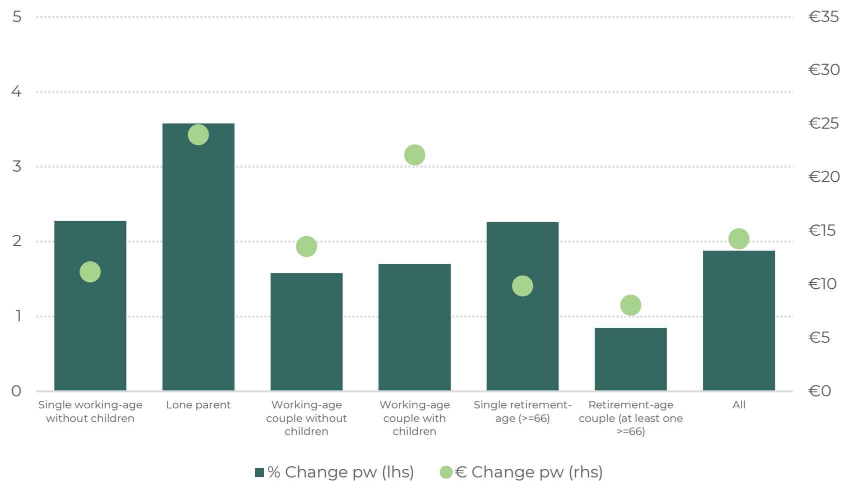
D: Average € change in disposable income, permanent direct measures only



E: Average income change by family type, all direct measures



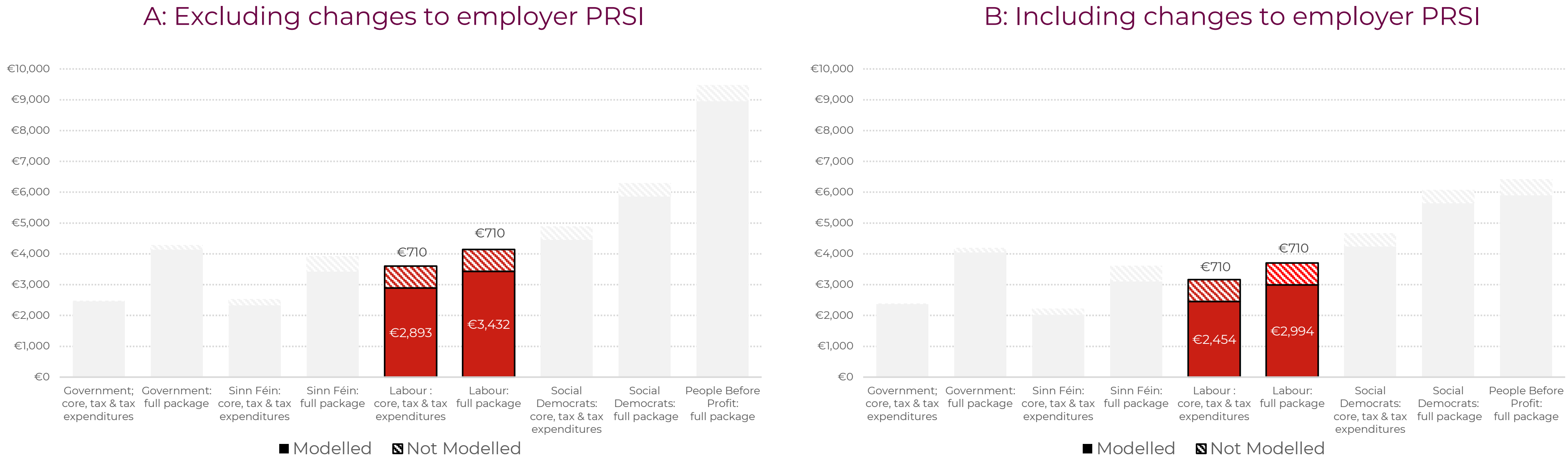
F: Average income changes by family type, permanent direct measures only



Source: Results based on SWITCH, the ESRI tax-benefit model, and EVE, the PBO's indirect tax model. PBO analysis using 1) EVE model based on the 2015/2016 Household Budget Survey and 2) SWITCH v7.0 based on 2019 Survey of Income and Living Conditions. Both models have uprating procedures to approximate 2024 income and consumption patterns.
Notes: Panels A and B show the percentage change in disposable income by income decile with and without the non-core measures as defined in Appendix Table A2. The horizontal line in each chart represents the national average income increase. Panels C and D show the euro change in income from direct measures only- with panel C including all direct measures and D excluding non-core expenditure measures as defined in Appendix Table A2. Panels E and F show average percentage and euro income changes by family type. Bars represent percentages and dots represent the corresponding euro amounts. Direct measures are examined, with panel F excluding non-core measures as per Appendix Table A2. Note that effect of the electricity price cap is not included in Chart E due to modelling constraints.

3.3. Modelled Labour tax and welfare package

Figure 6: Modelled Labour tax and welfare package, net costs (€ million)



Source: Results based on SWITCH, the ESRI tax-benefit model, and EVE, the PBO's indirect tax model.

- As noted in the Introduction, our analysis has reasonably good coverage of Labour's budget, with €710 million of considered measures excluded from the distributional analysis[26]. **Based on the set of tax and welfare measures considered in this analysis (see Table A3 of Appendix 1). Labour's full package was 12% smaller than the government's package. This mainly arises due to Labour's more limited use of non-core expenditure than was the case for the**

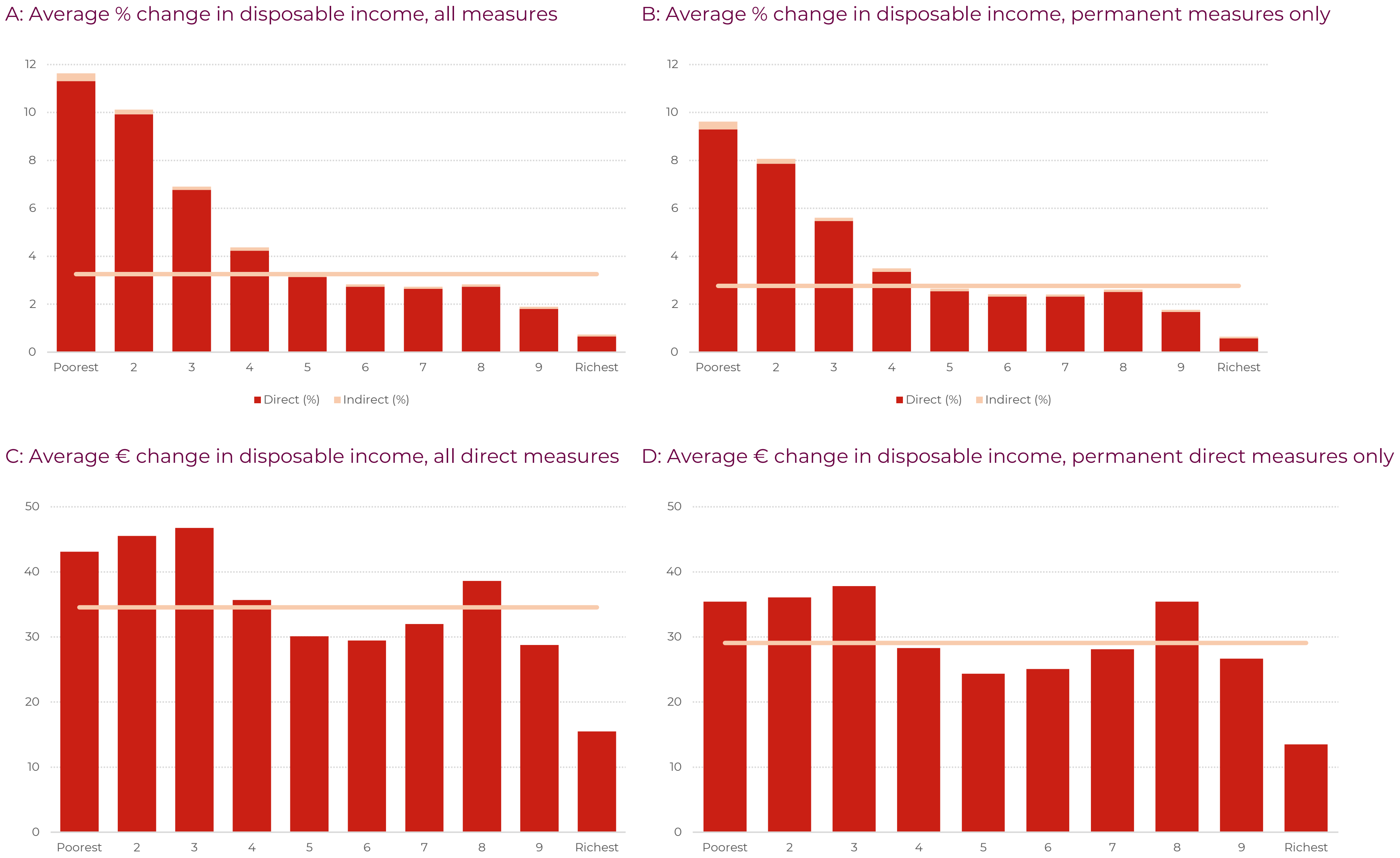
[26] A range of expenditure measures and unmodelled revenue raising measures make up this figure. €237 million new expenditure on taxes reliefs/credits were not modelled- these include a Refundable Income Tax Credit and restoration of trade union tax relief on subscriptions. We were also unable to model €473 million of new expenditure. The largest component of this was a universal Back to School Clothing and Footwear Allowance (at increased levels)- with a reported cost of €243 million.

government or Sinn Féin. In contrast, Labour's core package was 33% larger than the government's. The use of phased increases to core welfare payments, to increase rates by €27.50 per week, also understates the medium-term size of the Labour package. The full-year cost of this €27.50 increase in core welfare rates would be €400 million larger than the phased increase, and is an important caveat on the size of Labour's core package. Labour's non-core package is limited to lump-sum payments related to an additional week of social welfare payment, a one-off payment for Fuel Allowance recipients and an additional month of Child Benefit. **Overall, while the full Labour package appears broadly in line with Sinn Féin and the government's, the medium-term scale of the package is larger due to a limited use of non-core spending and phased increases to welfare payments through 2024 downward biasing the medium-term cost of the package**.

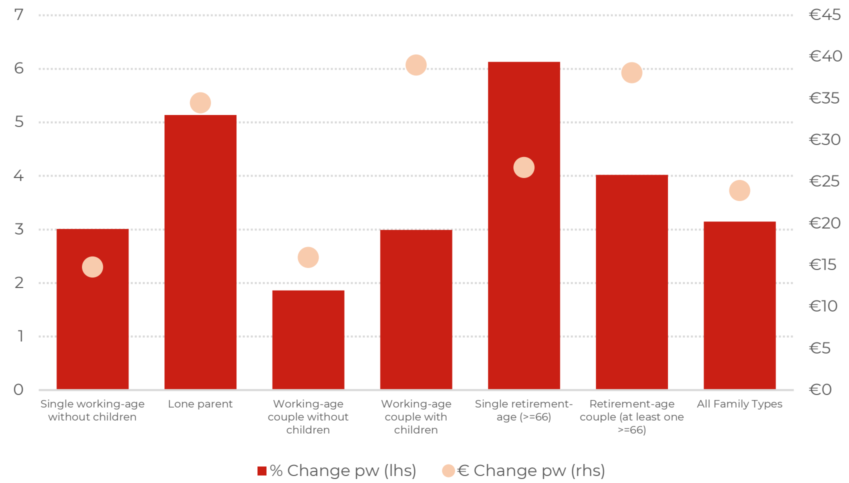
- Based on the policies modelled, the Labour package is progressive. The poorest income decile experience income gains of 11.6% on average, while the richest decile of households experience gains of 0.7% on average (see Figure 7A). Stripping out non-core measures reduces the gains across all households- due to the mix of targeted and broad-based payments. Gains for the poorest decile fall to 9.6% and reduce to 0.7% for the richest decile (see Figure 7B). In euro terms, the direct tax and welfare changes excluding non-core measures favoured low-income households. On average, income gains amounted to €29.1 per week, with gains of €35.4 for the poorest decile, €24.4 for the fifth decile and €13.5 for the richest decile (see Figure 7D). Including non-core measures increases gains for all income deciles, with weekly income gains of €43.1 for the poorest decile, €30.1 for the fifth decile and €15.5 for the richest decile (see Figure 7C). Given non-core expenditure was a relatively small share of the Labour package, these have limited effects on the degree of targeting vis-à-vis the core package. The euro gains per week also tend to be very large for the bottom three deciles – reflecting the large welfare package- but tend to reduce for the next three deciles – reflecting the relatively smaller tax package. High gains in deciles seven and eight are driven by the childcare cap of €50 per week, while the tapering of tax credits beyond €100,000 per annum tends to lower gains for the richest households.

- The large welfare package proposed by Labour, in conjunction with an indexed tax system means that all family types incur income gains. The largest gains are for families with higher dependency on the welfare system- such as pensioners and lone parents. With all measures included, the incomes of retired couples increases by 4.0%, with larger gains for retired singletons (6.1%) and lone parents (5.1%).

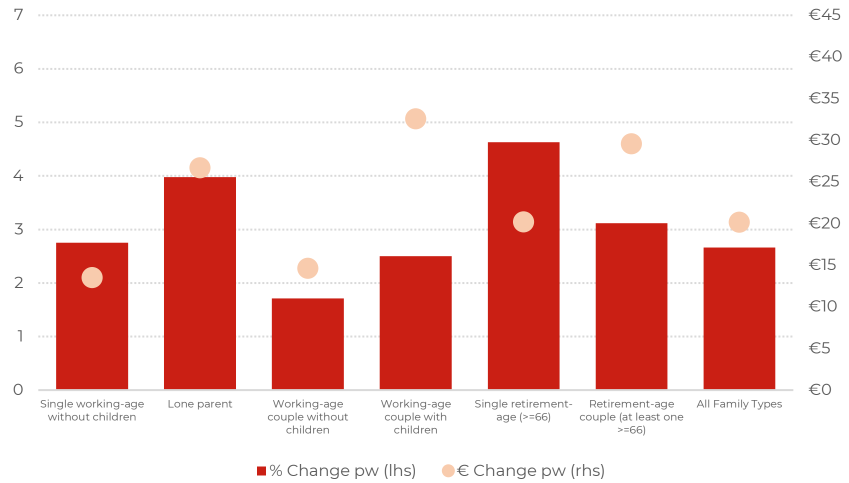
Figure 7: Labour package distributional impact



E: Average income change by family type, all direct measures



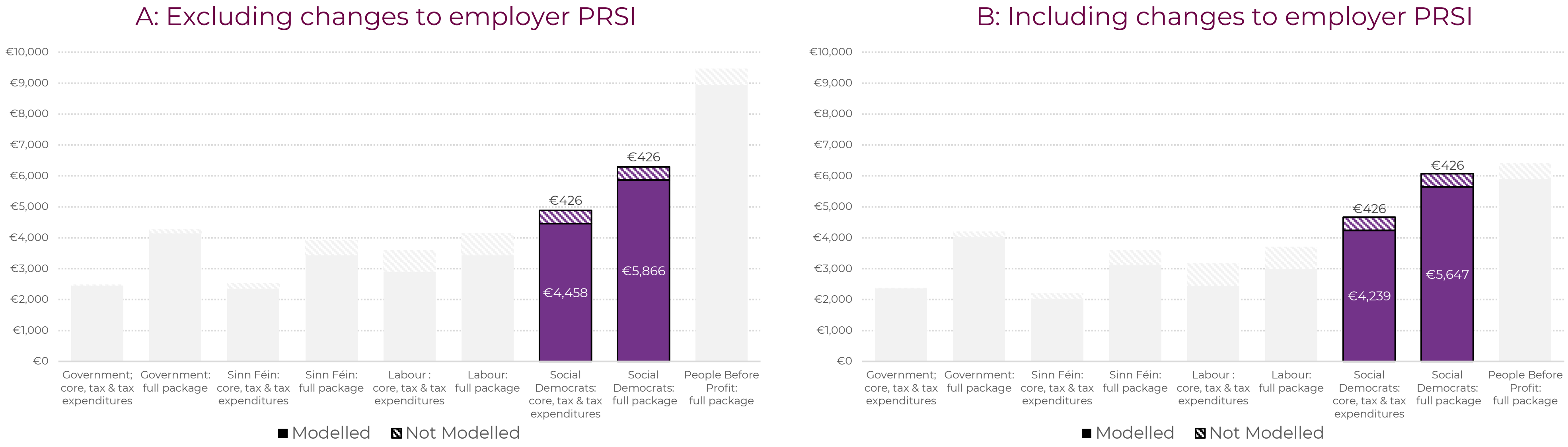
F: Average income changes by family type, permanent direct measures only



Source: Results based on SWITCH, the ESRI tax-benefit model, and EVE, the PBO's indirect tax model. PBO analysis using 1) EVE model based on the 2015/2016 Household Budget Survey and 2) SWITCH v7.0 based on 2019 Survey of Income and Living Conditions. Both models have uprating procedures to approximate 2024 income and consumption patterns.
Notes: Panels A and B show the percentage change in disposable income by income decile with and without non-core measures as defined in Appendix Table A3. The horizontal line in each chart represents the national average income increase. Panels C and D show the euro change in income from direct measures only- with panel C including all direct measures and D excluding non-core expenditure measures as defined in Appendix Table A3. Panels E and F show average percentage and euro income changes by family type. Bars represent percentages and dots represent the corresponding euro amounts. Direct measures are examined, with panel F excluding non-core measures as per Appendix Table A3.

3.4. Modelled Social Democrats tax and welfare package

Figure 8: Modelled tax and welfare packages, net costs (€ million)



Source: Results based on SWITCH, the ESRI tax-benefit model, and EVE, the PBO's indirect tax model.

- As noted in the Introduction, our analysis has good coverage of the Social Democrats' package, with €426 million of considered measures excluded from the distributional analysis[27]. **Based on the set of tax and welfare measures considered for this analysis (see Table A4 of Appendix 1), the Social Democrats package is the second largest examined- behind People Before Profit. The full Social Democrat package is 45% larger than the government's package, and their core package is 96% larger than the government's**. The size of the Social Democrats' package is

[27] Increased expenditure on 1) an increase in minimum effective tax rates on those earnings >€400,000 per annum and 2) refundable income tax credits are not modelled, due to uncertainty regarding policy design. Expenditure measures related to extending Child Benefit to Direct Provision, increases to the Domiciliary Care Allowance, an allocation for a Long-Term Carer's Pension scheme and increases to Adoptive, Paternity and Parent's Benefit are excluded due to modelling constraints.

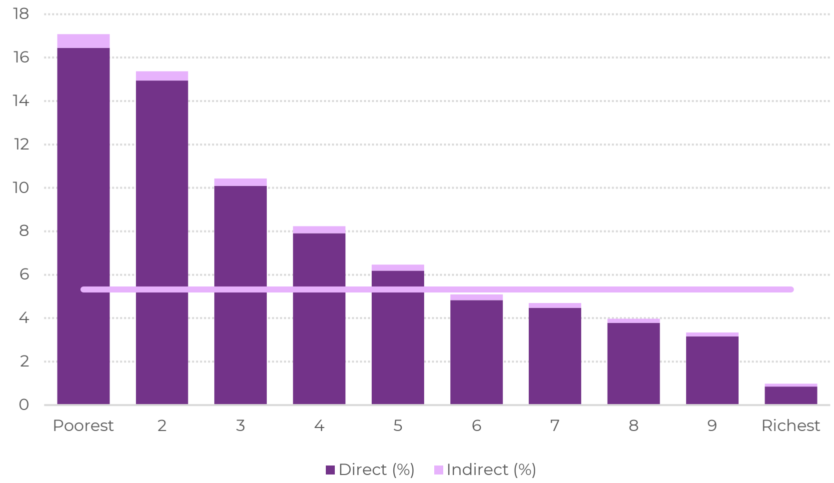
driven by large welfare spending measures, with a €25 per week increase to core welfare rates alongside large increases to the Increase for Qualified Child payment. Non-core measures are also a prominent feature in the Social Democrats package, with only the government package featuring as much spend on such measures. These non-core measures are comprised of targeted measures including lump-sum payments to welfare recipients and broader measures such as the Energy Crisis Subsidy Scheme- a means-tested energy credit available to households with earnings below €120,000 per annum and an additional month of Child Benefit.

- Based on the policies modelled, the Social Democrats package is progressive. The combination of a large core welfare package and a large non-core expenditure package mean that low-income households accrue very large income gains from the Social Democrats package. Household income increases by 5.3% on average, while the poorest decile of households experience income gains of 17.1% while the richest decile see gains of 1.0% (see Figure 9A). Removing non-core measures reduces average gains to 4.0%, with the poorest households gaining by 12.0% and the richest by 0.8% (see Figure 9B). In euro terms, the Social Democrat direct package results in average income gains of €55.7 per week across households (see Figure 9C). For direct tax and welfare changes, there is a large range on these gains, with the largest accruing in the third decile- a gain of €69.7 per week – and the smallest in the richest decile – a gain of €19.9 per week (see Figure 9C). Removing non-core measures reduces the average gains across households to €41.5 per week, with a broadly similar pattern of gains across the income distribution (see Figure 9D).

- Given the large core welfare package- pensioners and lone parent do particularly well from the Social Democrat package, as do working-age singletons. With all direct measures included, lone parents gain by 8.5%, retired couples by 5.9%, retired singletons by 10.2% and working-age singletons by 5.5%. Woking-age couples do less well, with gains of 3.6% for those without children and 4.0% for those with children (see Figure 9E). Removing non-core measures reduces the gains to pensioners most significantly, with income gains falling to 3.8% for retired couples and 6.0% for retired singletons (see Figure 9F). As many pensioners have low earnings, they gain significantly from the Energy Crisis Subsidy Scheme whilst also gaining from lump-sum payments for Fuel Allowance, State Pension schemes and the Living Alone Allowance.

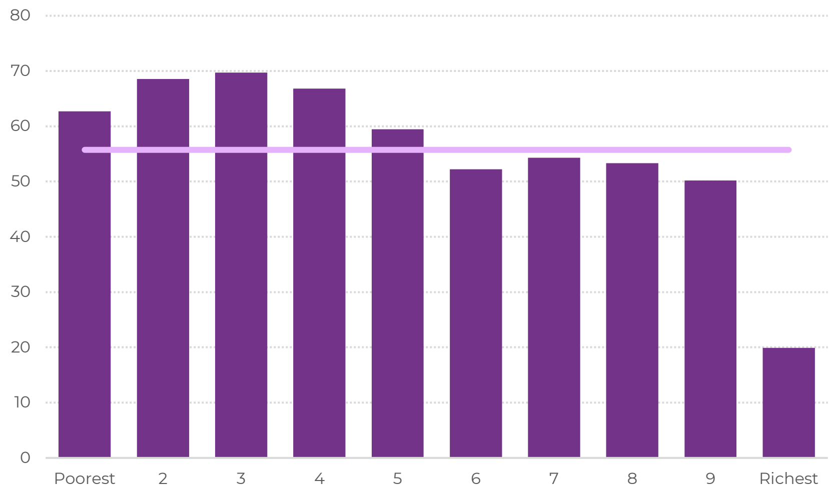
Figure 9: Social Democrat package distributional impact

A: Average % change in disposable income, all measures

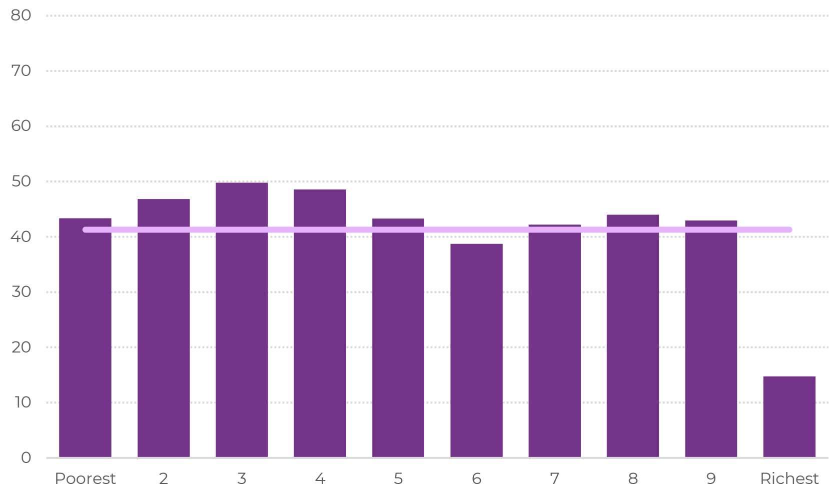


B: Average % change in disposable income, permanent measures only

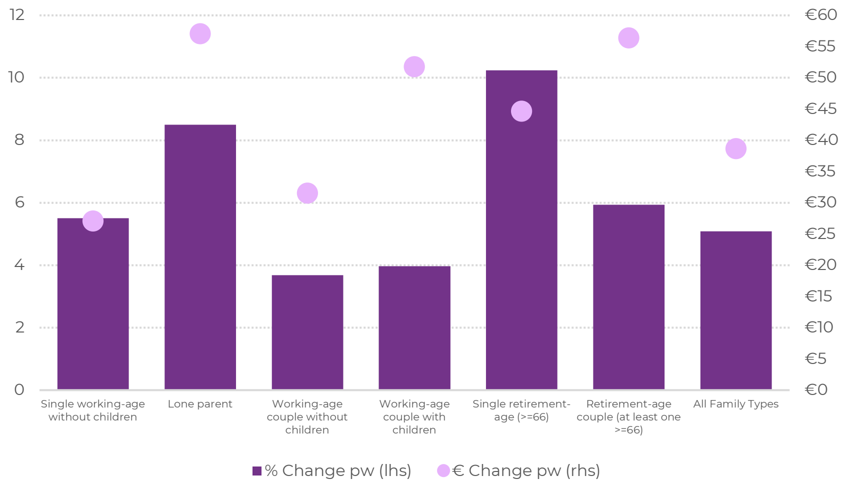
C: Average € change in disposable income, all direct measures



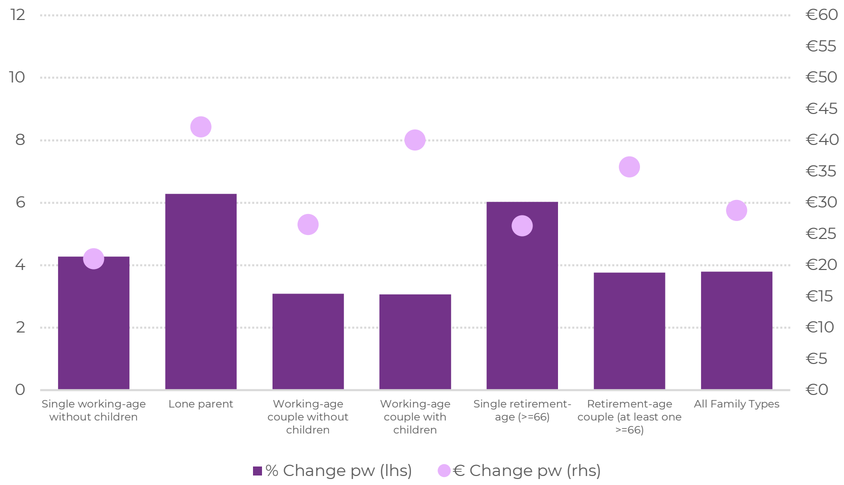
D: Average € change in disposable income, permanent direct measures only



E: Average income change by family type, all direct measures



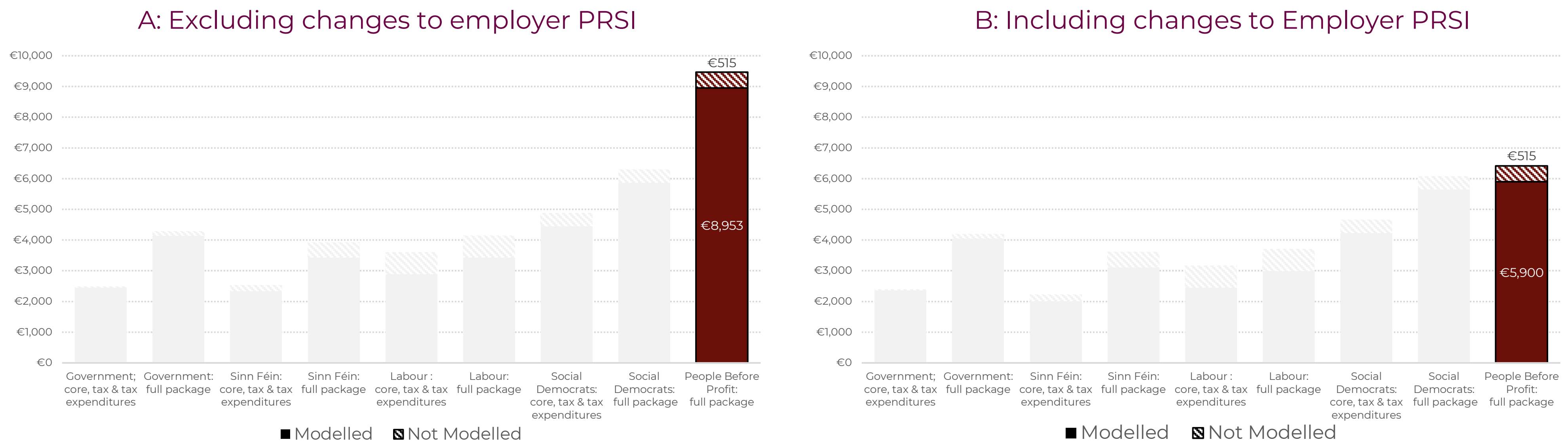
F: Average income changes by family type, permanent direct measures only



Source: Results based on SWITCH, the ESRI tax-benefit model, and EVE, the PBO's indirect tax model. PBO analysis using 1) EVE model based on the 2015/2016 Household Budget Survey and 2) SWITCH v7.0 based on 2019 Survey of Income and Living Conditions. Both models have uprating procedures to approximate 2024 income and consumption patterns.
Notes: Panels A and B show the percentage change in disposable income by income decile with and without non-core measures as defined in Appendix Table A4. The horizontal line in each chart represents the national average income increase. Panels C and D show the euro change in income from direct measures only- with panel C including all direct measures and D excluding non-core expenditure measures as defined in Appendix Table A4. Panels E and F show average percentage and euro income changes by family type. Bars represent percentages and dots represent the corresponding euro amounts. Direct measures are examined, with panel F excluding non-core measures as per Appendix Table A4.

3.5. Modelled People Before Profit tax and welfare package

Figure 10: Modelled tax and welfare packages, net costs (€ million)



Source: Results based on SWITCH, the ESRI tax-benefit model, and EVE, the PBO's indirect tax model.

- As noted in the Introduction, our analysis has good coverage of People Before profit package, with €515 million of considered measures excluded from the distributional analysis [28]. Based on the set of tax and welfare measures included in this analysis (see Table A5 of Appendix 1), the People Before Profit package is the largest analysed. **The net cost of measures analysed is very large, and all changes are permanent changes to the tax and welfare system. The People Before Profit package is 53% larger than the government's full package, and 169% larger than the government's core**

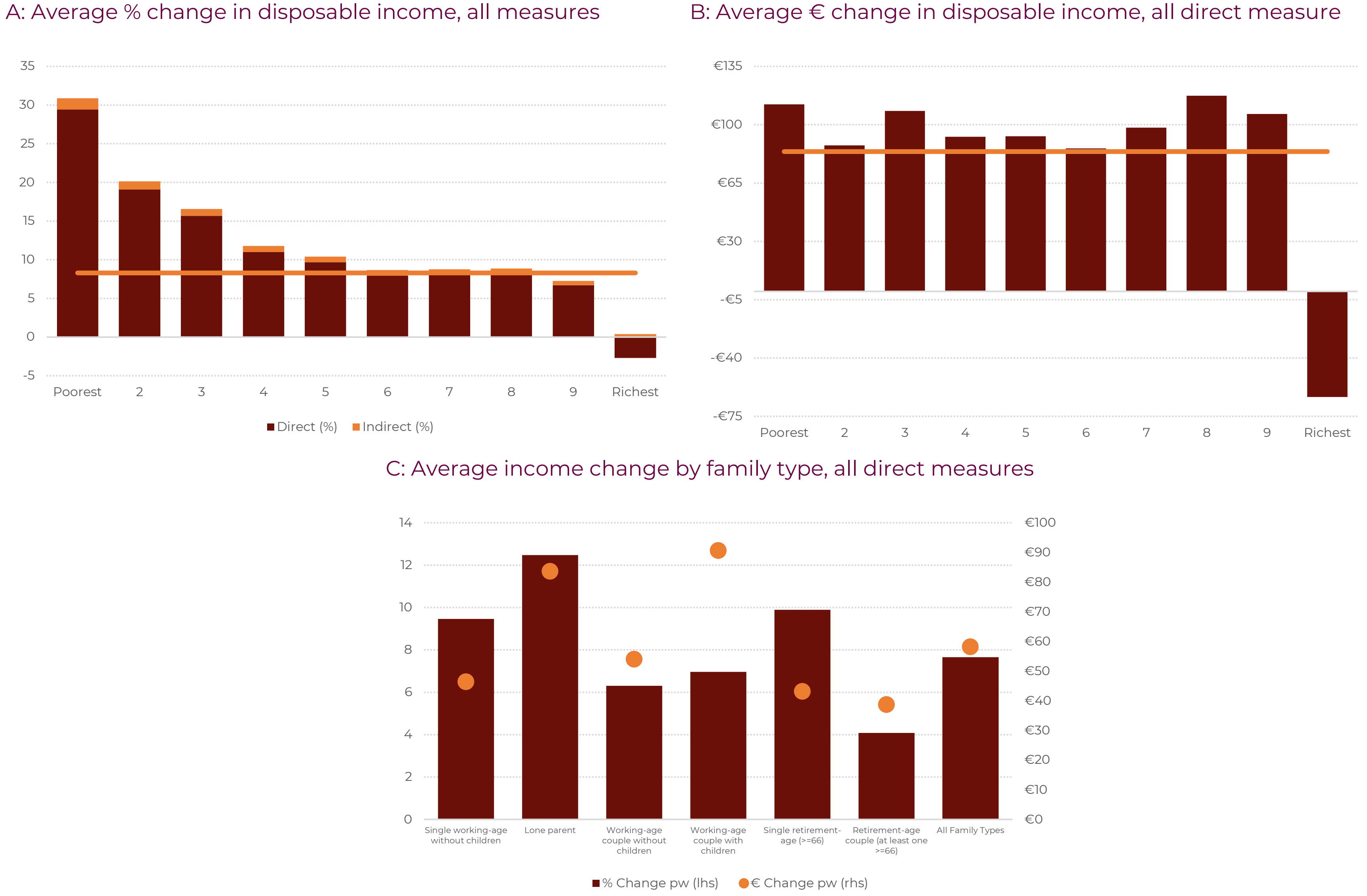
[28] €487 million of this is from a scheme to bring paid leave for maternity leave to a full year and paid leave for paternity leave to 28 weeks. We were unable to model this change due to difficulties identifying eligible cohorts. Other policies such as extending Child Benefit to children in the international protection process and abolishing the waiting period of a year for receipt of Fuel Allowance for Jobseeker's Allowance recipients added to the unmodelled cost.

package. The scale of the People Before Profit package makes analysis difficult. In particular, the revenue raising elements of the package may induce a high degree of behavioural response, which brings uncertainty to the revenue raising potential of these reforms. The cost of the package before reforms to employer PRSI is €9.5 billion, which is significantly larger than the next largest package from the Social Democrats. The dramatic increase to employer PRSI- particularly the 19.75% rate on salaries over €90,000- brings the net cost closer to the full Social Democrat package. Such large measures are difficult to incorporate fully in a static setting, with behaviour held constant. As neither SWITCH nor EVE have a behavioural element, we're unable to incorporate behavioural margins- such as labour supply and demand – into the analysis.

- Based on the policies modelled, the People Before Profit package is progressive. Given the extremely large welfare package, low-income households gain significantly. On average, household income increases by 8.3%, with income gains largest for the poorest decile of households- with an average gain of 30.9% (see Figure 11A). The income gains are broadly felt across the majority of the income distribution (see Figure 11B), with the exception at the top decile of the income distribution, where income decreases by 2.3%. Households in the top decile see income losses averaging €63.4 per week from direct tax and welfare policy. The additional income taxes on earnings above €100,000 result in income losses that more than offset other expansionary measures outlined in the People Before Profit package.

- Given the scale of the People Before Profit package, the average effects across different family types are large. Given the large increase to working-age welfare payments both lone parents and singletons gain significantly (by 12.5% and 9.5% respectively). Single age retirees gain by 9.9%, while the changes to taxation tend to mitigate gains for retired couples (+4.1%), working-age couples without children (+6.3%) and working-age couples with children (+7.0%) (see Figure 11C).

Figure 11: People Before Profit package distributional impact



Source: Results based on SWITCH, the ESRI tax-benefit model, and EVE, the PBO's indirect tax model. PBO analysis using 1) EVE model based on the 2015/2016 Household Budget Survey and 2) SWITCH v7.0 based on 2019 Survey of Income and Living Conditions. Both models have uprating procedures to approximate 2024 income and consumption patterns.
Notes: Panels A shows the percentage change in disposable income by income decile, with the measures modelled outlined in Appendix Table A5. Panel B show the income changes, in euro per week, from direct measures. Panel C show average income changes by family type -both euro per week and in percentage terms- for direct measures only. The People Before Profit package didn't include any non-core expenditure measures.

4. Conclusion

In this piece we have expanded the scope of distributional analysis of fiscal policy in Ireland by systematically analysing the tax and welfare packages of opposition political parties alongside the government. The exercise was analytical in nature and intended to highlight the distributional effects of policies proposed by both government and opposition. As a Parliamentary Budget Office, working in the Houses of the Oireachtas, it is important that the work of all parliamentarians is recognised. This publication gives a platform for all political parties to have their budgetary plans- which require significant work- to be objectively analysed using advanced microsimulation models.

The independence of the PBO also ensures that all packages included in the analysis were analysed objectively and impartially. As we used two large models- SWITCH and EVE- to complete nearly all the analysis, the analysis is data-driven and quantitative in nature. In preparing this document, we did not consult with any political party and only used publicly available documentation to complete the analysis.

During this exercise, it became apparent that greater analytical capacity would have enriched the analysis. Two areas stood out. Firstly, modelling behavioural responses to fiscal policy, particularly for large policy changes would have improved the analysis. Secondly, linking the absolute size of the alternative budget packages- including elements beyond tax and welfare policy – to the macroeconomy would have been useful. A hurdle in this regard was harmonizing the accounting of expenditure across different opposition party budgets. There was significant variation in how parties estimated the size of their overall budgetary package, which made a high-level comparison difficult. This accounting disparity meant that we could not use the PBO's debt sustainability model to analyse the debt implications of different overall budgetary packages. Future iterations of this publication will seek to build on these two points and develop a more integrated framework for assessing budgetary proposals of both government and opposition parties.

Appendix 1: Measures considered in the analysis

Table A1: Government policy measures considered

Area	Measure	Modelled	Modelling Notes
Welfare-Permanent	Increase the rate of payment of all social welfare schemes by €12 per week	✓	
	Weekly Qualified Child Increases, +€4 under 12 and +€4 over 12	✓	
	Increase Working Family Income thresholds by €54 per week	✓	
	Increase income disregards to €450/€900 for singletons/couples in the Carer's Allowance means-test	✓	
	Extend Child Benefit to all 18-year-olds in secondary education	✓	
	Increase the Domiciliary Care Allowance by €10 per month	✗	
Welfare-Non-Core	€400 payment for recipients of Working Family Payment, Carer's Support Grant, Disability Allowance and Invalidity Pension	✓	Carer's Support Grant only modelled via Carer's Allowance in SWITCH.
	€300 payment for recipients of Fuel Allowance	✓	
	€200 payment for recipients of Living Alone Allowance	✓	
	€100 for recipients of the Qualified Child Increase		
	Additional week of social welfare payments	✓	
	Additional month of Child Benefit payment	✓	
Other-Non-core	Universal household energy credits worth €450 in total	✓	
	Reduction in third-level student contribution by €1,000	✓	Applied to all third-level students.
	Mortgage Interest Relief	✗	Excluded due to a lack of data around changes in mortgage interest payments across households over time.
Direct Taxes	USC rate reduction of 4.5% to 4%	✓	
	Raise entry point to 3rd USC rate to €25,760	✓	
	Income tax bands increased by €2,000	✓	
	Rental Tax Credit increased by €250	✓	
	Personal, PAYE , EITC, Home Carer and Single Child Carer tax increased by €100	✓	
Indirect Taxes	Increase excise duty on a packet of cigarettes by €0.75	✓	Modelled using latest excise rates of changes as per the Revenue Commissioners.

	Carbon tax increased by €7.50 per tonne	✓	
	Extend VAT reduction on gas and electricity	✓	
	Extend excise reduction on petrol and diesel	✓	
PRSI	Increase all PRSI rates by 0.1%	✓	Employee PRSI results included in the distributional analysis, employer PRSI affects net cost of package only.
Other	Introduce the Junior Cycle Schoolbooks scheme	✓	
	Increase the National Childcare Scheme universal subsidy to €2.14	✓	

Table A2: Sinn Féin policy measures considered

Area	Measure	Modelled	Modelling Notes
Welfare-Permanent	Increase working-age payments by €15 per week	✓	
	Increase disability payments by €20 per week	✓	
	Increase pension payment by €10 per week	✓	
	Weekly Qualified Child Increases, +€5 under 12 and +€10 over 12	✓	
	Living Alone Allowance increase by €5 per week	✓	
	Fuel Allowance increased by €5	✓	
	Extend Fuel Allowance eligibility to Working Family Payment recipients	✓	
	Child Benefit increased by €10	✓	
	Free school books for all post-primary school students	✓	
	Carer's Support Grant increased to €2,000	✓	
	Increase age threshold for One Parent Family Payment	✓	
	Increase age threshold for the Jobseeker's Transitional Payment	✓	
	Reform Jobseeker's Benefit scheme	✗	Not enough detail provided to incorporate into the analysis.
	Establish Child Maintenance Service	✗	Outside remit of the SWITCH model.
	Re-introduce the State Pension (Transition) for 65-year olds	✗	Uncertainty around eligibility for the scheme, so excluded from the analysis.
	Relax the Carer's Allowance means-test by raising the income disregard thresholds to increase eligibility and payments.	✗	Uncertainty around the level of increases, so excluded from the analysis.

	Introduce a Long-term Carers Pension	✗	Insufficient detail to model.
	Compassionate social welfare reforms to support the bereaved	✗	Insufficient detail to model and also likely to be outside the remit of SWITCH.
Welfare- None-core	€500 payment for recipients of Disability Allowance, Invalidity Pension and Blind Pension	✓	Partially modelled, Blind Pension is not modelled in SWITCH.
	€400 payment for recipients of Working Family Payment, Carer's Allowance and Carer's Benefit	✓	Partially modelled, Carer's Benefit not modelled in SWITCH.
	€300 payment for recipients of Fuel Allowance	✓	
	€150 payment for recipients of the Living Alone Allowance	✓	
	Additional month of Child Benefit payment	✓	
Other- Non-core	Electricity Price Cap	✓	Attributed the reported spending allocation across the household income distribution, with decile-level expenditure shares derived from the HBS 2015/2016.
	Mortgage Interest Relief	✗	Excluded due to a lack of data around changes in mortgage interest payments across households over time.
Direct Taxes	USC rate cuts: 0.5% rate reduced to 0%, 2% rate reduced to 1%	✓	
	Raise entry point to 3rd USC rate to €25,959	✓	
	Taper tax credits from €100,000	✓	Modelled as a smooth taper between €100,000 and €140,000, the rate or upper limit of the taper was not specified in the text. We modelled proportional increases to the thresholds for couples and lone parents based on the relativities in the current standard rate band. We chose €140,000 as the upper limit as this is the cut-off for the Solidarity Tax for individual income.
	Introduce Solidarity Tax of 3% on individual income >€140,000	✓	Modelled outside the income tax system, new tax only on individual income.
	Personal, PAYE and EITC increased by €50	✓	
	Rent Relief Tax Credit- equivalent to one month's rent	✓	Modelled as an increase in the current tax credit scheme.
	Extend USC concession for Medical Card holders	✓	This is included in our baseline so has a zero-cost attached to it.
Indirect Taxes	Increase excise duty on a packet of cigarettes by €0.30	✓	Modelled as a VAT-exclusive increase.
	Halt the carbon tax increase	✓	Modelled as carbon tax frozen at €48.50 for all of 2024.
	Extend VAT reduction on gas and electricity	✓	
	Extend excise reduction on petrol and diesel	✓	
	Reduce excise on home-heating oil	✓	Modelled as a 53% reduction in the rate, text referred to a reduction of more than a half, but exact rate was not specified.
PRSI	13.05% employer's PRSI on earnings >€100,000	✓	Decreases net cost of package, no effect on distributional analysis as incidence modelled entirely to firms.
Other	Reduce childcare costs by 10% from January and 66% from Sept.	✓	Modelled as an increase to the universal subsidy within the National Childcare Scheme, increased to €2.25 to reflect a weighted average of the 10% and 66% reduction over the course of 2024.

	Reduction in college fees of €1,000	✓	Applied to all third-level students

Table A3: Labour policy measures considered

Area	Measure	Modelled	Modelling Notes
Welfare-Permanent	Phased increase of social welfare rates by €27.50 per week by September 2024	✓	
	Weekly Qualified Child Increases, +€10 under 12 and +€15 over 12	✓	The Back to Work Family Dividend is also noted in this measure. This scheme isn't modelled in SWITCH and as such is not included in the analysis.
	Increase Working Family Payment thresholds by €20 per week	✓	
	Child Benefit increased by €10 per month	✓	
	Living Alone Allowance increased by €5	✓	
	Fuel Allowance, increase by €5 per week and extended for an additional four weeks	✓	
	Restore full adult Jobseekers to those under 25.	✓	
	Increase the income disregard for Disability Allowance to €200	✓	
	Increase Carer's Allowance Income Disregards to €500/€1,000 for a singleton/couple.	✓	
	Increase the Carer's Support Grant by €150 (to €2,000 per annum)	✓	
	Introduce a new €20 per week cost of disability payment	✓	
	Extend Carer's Allowance to all those in receipt of the Carer's Support Grant.	✗	Receipt of Carer's Support Grant not available in SWITCH.
	Increase Domiciliary Care Allowance by €20, extend up to 18-year-olds.	✗	Scheme not modelled in SWITCH.
	Pay Child Benefit to new parents in the month of birth	✗	Difficult to identify parents in this category in SWITCH, so this measure was excluded
	Extend Child Benefit to young adults in second level education	✓	
	Increase by €10 the monthly Household Benefits Gas or Electricity payment to €45	✗	Scheme not modelled in SWITCH.
	Universal Back to School Clothing and Footwear Allowance at increased levels paid in 2023.	✗	Scheme not modelled in SWITCH. Other elements under the heading of "Free Education" fell outside the remit of this analysis.

	Waive the three-day waiting period for Jobseeker's Benefit	✗	Not possible to model in SWITCH.
	Double the provision of Paternity Leave Benefit to four weeks and allow the second fortnight to be taken within the first year	✗	Scheme not modelled in SWITCH.
	Extend Parent's Leave Benefit up to eight weeks	✗	Scheme not modelled in SWITCH.
	Pilot phased introduction of Pay Related Jobseeker's Benefit providing a €30 per week increase for incomes over €30,000	✗	Could not incorporate into SWITCH.
	Widow/Widowers pension eligibility for surviving cohabitants	✗	Could not incorporate into SWITCH.
Welfare-Non-core	€250 payment for recipients of Fuel Allowance	✓	
	Extra month of Child Benefit	✓	
	Extra week of social welfare payments	✓	
Other- Non-core	-	✓	
Direct Taxes	3% indexing of income tax, USC credits and bands	✓	
	Withdrawal of Income Tax Credits on incomes over €100,000	✓	Modelled as a withdrawal between €100,000 to €140,000 as exact details on the tapering were not provided.
	Refundable €400 Carbon Income Tax Credit	✗	Not possible to model as BER data is available in neither SWITCH nor EVE.
	Restore trade union tax relief on subscriptions	✗	Possible to model in EVE, but excluded as EVE only models indirect tax at present.
	Increase the Rental Tax Credit by €500	✓	
Indirect Taxes	Increase the Carbon Tax by €7.50	✓	
	Apply the zero-rate of VAT to bicycles, e-bikes and safety equipment	✓	
	50c increase in Tobacco Duty and new duty on vapes and e-cigarettes.	✓	Partially modelled. Modelled a €0.50 (VAT exclusive) increase to a packet of cigarettes. Not enough detail provided to model a new excise on vapes/e-cigarettes.
PRSI	Phased 0.5% increase to employer's PRSI	✓	Decreases net cost of package, no effect on distributional analysis as incidence modelled entirely to firms.
Other	Permanently reduce Student Contribution fee by €1,000 per annum	✓	
	Free schoolbooks for all post-primary children	✓	
	Cap childcare fees at €50 per week	✓	Modelled as an out-of-pocket expenditure cap of €50 per week through the National Childcare Scheme

Table A4: Social Democrats policy measures considered

Area	Measure	Modelled	Modelling Notes
Welfare-Permanent	Increase social welfare rates by €25 per week.	✓	
	Introduce a new €30 per week cost of disability payment	✓	
	Increase Maternity Benefit up to €350	✓	
	Increase the Fuel Allowance to €48 per week	✓	
	Weekly Qualified Child Increases, +€10 under 12 and +€15 over 12	✓	
	Increase the Living Alone Allowance by €30	✓	
	Equalize Jobseeker payments for people under 25	✓	
	Increase the Working Family Payment income limits by €40 per week	✓	
	Increase Carer's Allowance Income Disregards to €500/€1,000 for a singleton/couple.	✓	
	Carer's Support Grant increased to €2,000	✓	
	Make Carer's Allowance a qualifying payment for the Fuel Allowance.	✓	
	Extend Fuel Allowance to all pensioners and to those in-receipt of the Working Family Payment	✓	
	Increase Adoptive, Paternity and Parent's Benefit to €350 per week	✗	Not all schemes are modelled in SWITCH.
	Extend parent's benefit by 6 weeks, bringing paid parents leave to 13 weeks per parent.	✗	Not modelled in SWITCH.
	Implement the social protection measures outlined in the White Paper on Direct Provision, including extending Child Benefit to families in the international protection process	✗	Excluded due to modelling uncertainty and private households being the unit of analysis in SWITCH and EVE.
	Increase the Domiciliary Care Allowance from €330 to €355.	✗	Scheme not modelled in SWITCH.
	Ringfence funding for the dedicated Long-term Carers' Pension Scheme.	✗	Uncertainty regarding how to model such a scheme.

Welfare- Non-core	€400 payment for recipients of the Fuel Allowance	✓	
	€300 payment for recipients of State Pension schemes	✓	
	€250 payment for recipients of Working Family Payment, Disability Allowance, Invalidity Pension, One-Parent Family Payment, Jobseeker's Benefit, Jobseeker's Allowance, Carer's Support Grant, Carer's Benefit or Carer's Allowance.	✓	
	€100 payment for recipients of the Living Alone Allowance	✓	
	Additional month of Child Benefit payment	✓	
Other- Non-core	Energy Crisis Subsidy Scheme (between €200 and €600)	✓	
Direct Taxes	Index income tax bands by 4%	✓	
	Increase rent Relief Tax Credit to be equivalent to one month's rent	✓	
	A third rate of income tax of 43% on income above €100,000, with appropriate higher thresholds for couples	✓	Modelled thresholds for other groups- couples and lone parents- based on relatives present in the standard rate cut-off point.
	Personal and PAYE tax credit increased by €225	✓	
	Home carer's tax credit increased to €2,000	✓	
	Make the two main tax credits refundable	✗	Excluded due to uncertainty of how to model, particularly in instances with zero tax liabilities.
Indirect Taxes	Extend VAT reduction on gas and electricity	✓	
	Extend excise reduction on petrol and diesel	✓	
	The raising of the betting tax on both in-shop and online betting from 2% to 3%.	✗	Betting tax isn't included in the EVE model.
	An increase in the minimum effective income tax rate for people earning more than €400,000 from 30% to 32%.	✗	Excluded due to modelling uncertainty and a lack of detail around the policy.
PRSI	Increase employer PRSI by 0.25%	✓	Decreases net cost of package, no effect on distributional analysis as incidence modelled entirely to firms.
Other	Reduce childcare costs by 30%	✓	Modelled as an increase to the universal subsidy within the National Childcare Scheme, increased to €2.29
	Permanently reduce Student Contribution fee by €1,000 per annum	✓	

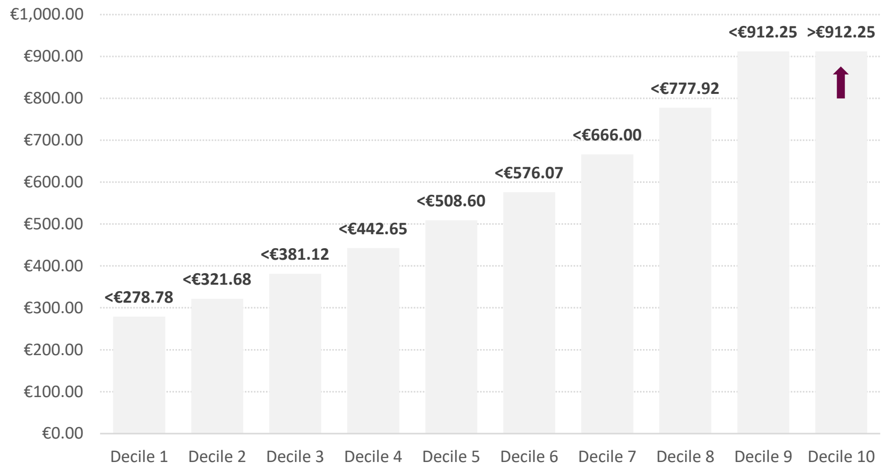
	Free schoolbooks for all post-primary children	✓	
	Introduce mortgage interest supplement on a temporary basis.	✗	Couldn't identify mortgage interest payments, or changes over time in such payments in SWITCH.

Table A5: People Before Profit policy measures considered

Area	Measure	Modelled	Modelling Notes
Welfare-Permanent	Increase rates of payments of social welfare and pension schemes to €300 per week	✓	
	Allow €50 on welfare schemes for a cost of disability premium	✓	Partially modelled as per the document- a €50 increase to the rate of payment to Disability Allowance and Invalidity Pension. Blind Pension is not modelled in SWITCH so the premium on this scheme is excluded.
	Increase the rate of payment for Child Benefit by 20%	✓	
	Extend Child Benefit to 19-year-olds	✓	
	Remove the means-test for Carer's Allowance	✓	
	Extend Fuel Allowance to all pensioners and to those in-receipt of the Working Family Payment	✓	
	Increase the Fuel Allowance by €20 per week	✓	
	Restore the pension age to 65	✓	Modelled, but difficult to fully incorporate this reform in SWITCH due to the static nature of the model.
	Extend Child Benefit to 4,190 children under the age of 18 in the international protection process	✗	Only private households are included in the distributional analysis.
	Abolish the waiting period of a year for Fuel Allowance for those on Jobseeker's Allowance	✗	Difficulties in incorporating this reform into SWITCH, so was excluded.
	Bring paid leave for mothers leave to a full year and paid leave for fathers to 28 weeks	✗	Excluded due to modelling uncertainty and difficulty in identifying eligible cohorts.
Welfare-Non-core			
Other- Non-core			
Direct Taxes	Index link tax standard rate tax bands	✓	Used a rate of 5% based on forecast nominal wage growth for 2024.

	Rental tax credit increased to €2,000	✓	
	Abolish USC for those earning under €100,000	✓	
	Create a new USC rate of 10% for earnings over €100,000	✓	
	Introduce an income tax rate of 50% on earnings between €100,000 and €150,000	✓	We partially model this new income tax package in SWITCH by creating one extra rate of income tax for incomes over €100,000. Based on the density of tax-units over €100,000- taken from the Revenue pre-Budget 2024 ready reckoner- we derive a weighted average marginal effective tax rate under the proposed scheme of 57%. As such, as a simplification, we model a 57% rate of income tax on incomes >€100,000, with proportionate adjustment for couples and lone parents based on existing relativities in the standard rate band threshold. With behaviour static, this weighted average tax rate is revenue-neutral relative to the full specification. Given we examine, deciles of households, this will not affect the analysis.
	Introduce an income tax rate of 55% on earnings between €150,000 and €200,000	✓	
	Introduce an income tax rate of 60% on earnings between €200,000 and €275,000	✓	
	Introduce an income tax rate of 65% on earnings in excess of €275,000	✓	
	Cut Pension Relief threshold from €115,000 to €60,000	✓	
Indirect Taxes	Abolish the carbon tax	✓	
PRSI	Establish a new employer PRSI rate of 19.75% on salaries >€90,000	✓	
	Increase employer's PRSI to 13.05% on salaries <€90,0000	✓	
Other	Free school books for all post-primary students	✓	
	Abolish student contributions for third-level education	✓	

Appendix 2: Weekly equivalised disposable household income decile thresholds



Source: Results based on SWITCH, the ESRI tax-benefit model

This chart shows the thresholds for each weekly disposable household income decile used in the SWITCH modelling. The lowest income decile of households in the analysis have a weekly disposable income of less than €279. The highest decile of households have a weekly disposable income of more than €912. Disposable income refers to employment income and social transfers, after taxation, and is equivalised based on the CSO's method of household equivalisation for SILC data analysis[29]. This involves weighting household members in each household to make households with different structures more comparable.

[29] CSO Survey on Income and Living Conditions (SILC) 2022, background notes.

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