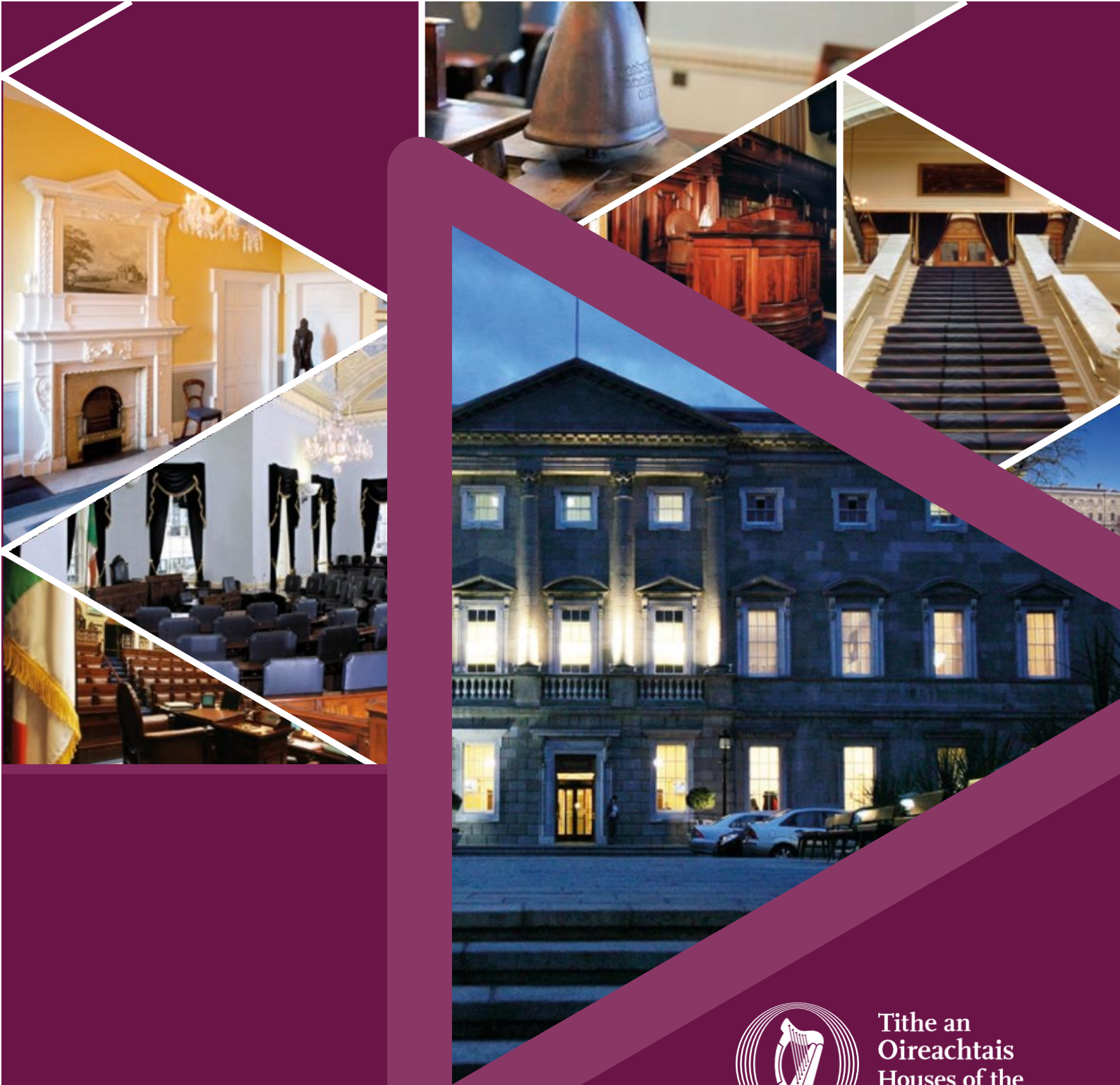




Tithe an
Oireachtais
Houses of the
Oireachtas

An Oifig Buiséid Pharlaiminteach
Parliamentary Budget Office

Economic Modelling and Policy Costing Unit

Budget 2026 Flash Impact Analysis

Publication 28 of 2025

Séanadh

Is í an Oifig Buiséid Pharlaiminteach (OBP) a d'ullmhaigh an doiciméad seo mar áis do Chomhaltaí Thithe an Oireachtais ina gcuid dualgas parlaiminteach. Ní bheartaítear é a bheith uileghabhálach ná críochnúil. Féadfaidh an OBP aon fhaisnéis atá ann a bhaint as nó a leasú aon tráth gan fógra roimh ré. Níl an OBP freagrach as aon tagairtí d'aon fhaisnéis atá á cothabháil ag tríú páirtithe nó naisc chuig aon fhaisnéis den sórt sin ná as ábhar aon fhaisnéise den sórt sin. Tá baill foirne an OBP ar fáil chun ábhar na bpáipéar seo a phlé le Comhaltaí agus lena gcuid foirne ach ní féidir leo dul i mbun plé leis an mórfhobal nó le heagraíochtaí seachtracha.

Is de chineál ginearálta í an Fhaisnéis. Baineann éiginnteacht le ráitis réamhbhreathnaitheacha agus d'fhéadfadh go dtiocfaidh nithe suntasacha chun cinn mar thoradh ar an bhFaisnéis. Ní sholáthraítear ráiteas cinntitheach leis an bhFaisnéis i ndáil le haon saincheist ar leith nó i ndáil le himthoisc phearsanta. Ní comhairle atá san Fhaisnéis. Ní mór a dheimhniú duit féin go bhfuil an Fhaisnéis a sholáthraimidne, an Oifig Buiséid Pharlaiminteach agus Coimisiún an Oireachtais (lena n-áirítear seirbhísigh, gníomhairí agus conraitheoirí na hOifige agus an Choimisiúin) oiriúnach agus iontaofa. Ní ghlacaimid aon fhreagracht as cruinneas ná oiriúnacht, ná eile, na Faisnéise agus ní thugaimid aon ráthaíocht ná aon ghealltanas ná aon bharánta i leith an chéanna; ná go mbeidh ár leathanaigh ghréasáin nó an Fhaisnéis nó ábhar eile saor ó earráidí, saor ó víris nó saor ó shárú. Ní ghlacaimid aon dliteanas (lena n-áirítear i leith éilimh maoine intleachtúla) a eascróidh as aon ábhar tríú páirtí nó aon suíomh gréasáin tríú páirtí a gcuirfimid nasc ar fáil chuige nó dá ndéanfaimid tagairt. Ní ghlactar le haon dliteanas ar bith, a mhéid is mó a cheadaítear faoin dlí is infheidhme nó (i) as aon iontaoibh a chuirfear san Fhaisnéis nó san ábhar ar ár leathanaigh ghréasáin nó (ii) as aon chaillteanas nó damáiste a eascróidh as an úsáid a bhainfidh tú as na leathanaigh ghréasáin sin nó i dtaca leis an úsáid sin. Féach ár [bhFógra Séanta cuimsitheach anseo](#). I gcás aon easaontacht a bheith idir an Séanadh seo agus ár bhFógra Séanta cuimsitheach, is ag an gceann deireanach a bheidh an forlámhas.

Disclaimer

This document has been prepared by the Parliamentary Budget Office (PBO) for use by the Members of the Houses of the Oireachtas to aid them in their parliamentary duties. It is not intended to be either comprehensive or definitive. The PBO may remove, vary or amend any information contained therein at any time without prior notice. The PBO accepts no responsibility for any references or links to or the content of any information maintained by third parties. Staff of the PBO are available to discuss the contents of these papers with Members and their staff but cannot enter into discussions with members of the general public or external organisations.

The Information is general in nature. Forward-looking statements involve uncertainties and matters may develop significantly from the Information. The Information does not provide a definitive statement in relation to any specific issue or personal circumstance. It does not constitute advice. You must satisfy yourself as to the suitability and any reliability of the Information that we, The Parliamentary Budget Office and Oireachtas Commission (including its servants, agents and contractors), provide. We accept no responsibility for, and give no guarantees, undertakings or warranties concerning, the accuracy or suitability or otherwise, of the Information; or that our webpages or the Information or other content will be error free, virus free, or infringement free. We accept no liability (including in respect of intellectual property claims) arising out of any third-party content or any third-party website to which we link or refer. To the fullest extent permitted by applicable law, no liability whatsoever is accepted (i) for any reliance placed on the Information or content on our webpages or (ii) for loss or damage arising out of or in connection with your use of these webpages. See our comprehensive [Disclaimer Notice here](#). In any conflict between this Disclaimer and our comprehensive Disclaimer Notice, the latter will prevail.

Contents

IN BRIEF 1

1. INTRODUCTION3

2. DISTRIBUTIONAL ANALYSIS OF BUDGET 20265

3. TRENDS IN WELFARE RATES FROM 2016-202612

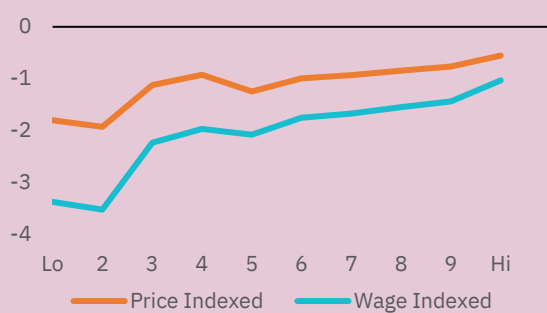
4. CONCLUSION14

In Brief

Context: We analyse how tax and welfare policies announced in Budget 2026 affect households' income. To account for stand-still costs of maintaining living standards in a growing economy, we compare Budget 2026 to baselines where tax and welfare policies from 2025 are indexed to forecast inflation and wage growth.

Finding 1: On average, low-, middle- and high-income households face average income losses from Budget 2026.

Average % change in income by household income decile



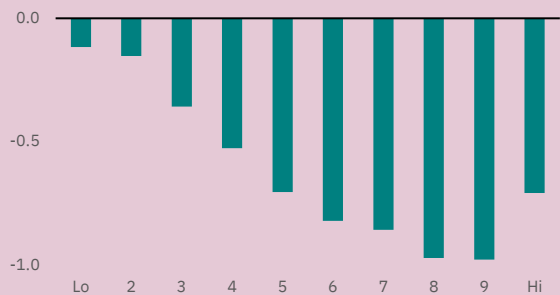
Finding 2: The withdrawal of cost-of-living measures is forecast to increase income poverty rates, rising from 11.7% in 2024 to 13.2% in 2025 and 12.6% in 2026.

Income poverty rates for the population



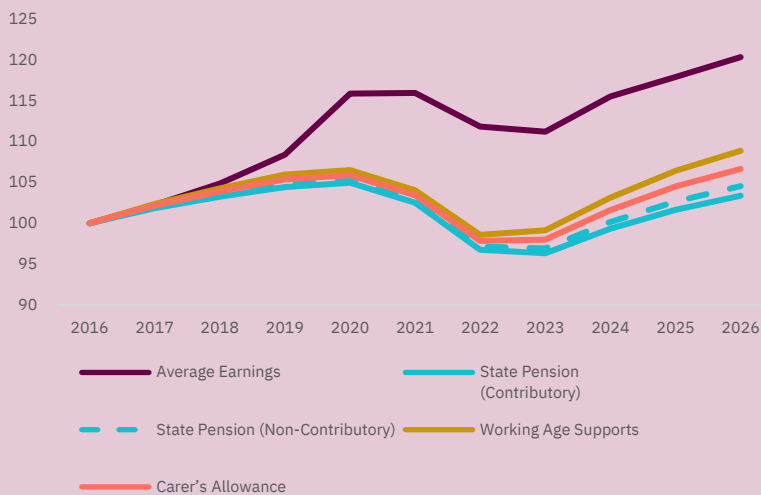
Finding 3: The freeze on income tax bands and credits affects middle- and high-income households, increasing the average tax rate from 22.5% in 2025 to 23.1% in 2026.

Average % change in income due to tax freezes, by income decile



Finding 4: After accounting for inflation, earnings have outpaced welfare rate growth over the past decade.

Real growth in welfare rates and average earnings, 2016=100



1. Introduction

Budget 2026 announced an increase in current spending of €6.1 billion, capital spending of €2 billion¹, and a tax package of €1.3 billion. In this Note, we model how the announced measures will affect households resident in Ireland, focusing on how these changes will affect households' income. In doing so, we model how changes to taxes and social welfare policies announced as part of Budget 2026 will affect households, focusing particularly on the distributional implications – namely, how did announced policies affect low-, middle- and high-income households?

In answering this question, we utilise two microsimulation models: the ESRI's SWITCH² model for welfare and direct taxation changes, and the Parliamentary Budget Office's **E**xpenditure **V**AT and **E**xcise (EVE)³ model for indirect tax policy changes. Both models use household survey data, collected by the Central Statistics Office, and allow for a robust estimation of the effect of Budget 2026 on household incomes. These models do not account for public service provision and as such, policies in areas such as health, education, and infrastructural spending are outside the scope of the analysis. A lack of integrated data on incomes and public service use makes such an analysis unfeasible, and is also uncommon internationally.

The distributive impact of the Budget is always in focus post-Budget. This assessment is particularly important in an Irish context. Irish fiscal policy operates on a purely discretionary basis, with no automatic indexation of tax and welfare

¹ [Budget Expenditure Report 2026](#), Public Expenditure, Infrastructure, Public Service Reform and Digitalisation, 2025.

² This publication includes results based on SWITCH, the ESRI tax-benefit model. Information on the design, underlying data, model construction and validation is provided in [SWITCH: A Tax-Benefit Model for Ireland Linked to Survey and Register Data](#), Keane, C., Kakoulidou, T., O'Malley, S., International Journal of Microsimulation; 16(1); 65-88, 2023.

Responsibility for the results and interpretation in this document rests with the Parliamentary Budget Office and not with the ESRI.

Results are based on analysis of strictly controlled Research Microdata Files provided by the Central Statistics Office (CSO). The CSO does not take any responsibility for the views expressed or the outputs generated from this research

³ [EVE: a model of indirect taxes using household micro-data](#), Regan, M., PBO Working Paper 1 of 2024., 2024.

parameters in line with market aggregates such as inflation or expected wage growth, as is common in peer countries. For instance, research by Checherita-Westphal (2022)⁴ highlighted that Ireland is the only Euro-area country to have no full or partial automatic indexation of public pensions.

In our analysis, we compare the tax and welfare package announced in Budget 2026 to two indexed baselines. These baselines index the tax and welfare policies of Budget 2025, to forecast price and wage growth for 2026. This allows us to assess how discretionary policy changes perform relative to a simple, transparent indexation of the tax-benefit system⁵. As such, we index the tax-benefit system in place before Budget Day by 1.8% to account for price growth and 3.9% to account for earnings growth. This approach is in line with past analyses undertaken by the PBO⁶ and consistent with annual assessments of the Budget by the Economic and Social Research Institute⁷.

Our key finding highlights that the full winding down of cost-of-living supports in Budget 2026 will significantly impact low-income households, equivalent to an average decrease in annual income of 4.5% for the poorest ten per cent of households and 3.9% for the next poorest ten per cent, while middle-income households see a decrease of 1.3% on average. Income losses among low-income households leads to a rise in income poverty rates, rising from 11.7% in 2024 to a forecast level of 13.2% in 2025 and 12.6% in 2026. A rise in income poverty is evident for the elderly (those aged over 64), rising from 13.3% in 2024, to a forecast 19.0% in 2025 and 17.6% in 2026. Child poverty also rises from 15.3% in 2024, to a forecast 16.1% in 2025 and 15.6% in 2026.

⁴ [Public wage and pension indexation in the euro area](#), Checherita-Westphal, C., European Central Bank Economic Bulletin Issue 01/2022, 2022.

⁵ For 2026, we average earnings forecasts as well as the HICP forecasts from the [Department of Finance's Annual Progress Report 2025](#) and the [Central Bank's Quarterly Economic Commentary Q3 2025](#).

⁶ See for instance: [General Election 2024: a model-based assessment of proposed tax and welfare policies](#), PBO Publication 16 of 2025, 2025.

⁷ See for instance: [Distributional impact of tax and welfare policies: Budget 2025](#), Doorley, K., Dunne, S., Keane, C., Sándorová, S., Simon, A., QEC Special Article, 2024.

2. Distributional Analysis of Budget 2026

The policy changes we include in the analysis are listed in Table 1. The key measure, in terms of having the largest cost to the Exchequer, is the core welfare package announced as part of the Budget, amounting to just over €1.15 billion. The other major welfare policy decision taken was to discontinue the cost-of-living measures which were part of Budget 2025. These measures, a combination of universal measures (energy credits and additional Child Benefit payments) and targeted lump-sum welfare payments, would have cost the Exchequer €1.46 billion to implement in Budget 2026, and represent a significant cost saving and represents a move away from pro-cyclical spending.

From a tax perspective, the freeze on income tax bands and credits will increase tax rates for workers who currently pay income tax. Our analysis indicates that this freeze brings close to a €1 billion increase in tax receipts to the Exchequer, compared to a rise in bands and tax credits needed to keep average tax rates constant in the economy. As such, this policy choice was relatively counter-cyclical and represents an effective tax rise in a growing economy. However, reductions in VAT to food, catering and hairdressers is a pro-cyclical measures and costs €681 million on a full-year basis.

Table 1: Budget 2026 policies modelled in the analysis and full-year cost

Policy	Modelled	Cost/ (Yield) (€ million)
Welfare		
€10 increase to welfare rates	Yes	
Child Support Payment rates from €50 to €58 for children under 12 and from €62 to €78 for those aged over 12	Yes	
Working Family Payment thresholds increased by €60 per week	Yes	
Extension of Fuel Allowance to Working Family Payment recipients	Yes	
Increase rate of Fuel Allowance by €5 per week	Yes	
Increase the Carer's Allowance income disregard to €1,000 (single) and €2,000 (couple)	Yes	
Increase Domiciliary Care Allowance payment by €20 per month	No	
All new announced measures above		1,152
Withdrawal of Budget 2025 cost-of-living package	Yes	(1,459)**
Direct Tax		
Increase 2% ceiling for USC by €1,318	Yes	26
Freeze on all other income tax credits, bands and USC ceilings	Yes	(994)*
Extension of USC concession for Medical Card holders	Yes	50
Extension of Rent Tax Credit	Yes	350
Pay-Related Social Insurance		
0.15 percentage point rise in employee & employer PRSI (from 1 October 2026)	Yes	N/A
Indirect Tax		
Extend 9% VAT on gas and electricity to 2030	Yes	254
VAT on food, catering, and hairdressers to 9%	Yes	681
Carbon tax increased by €7.50 per tonne	Yes	(157)

Increase excise duty on cigarettes by €0.50 per pack of 20 cigarettes	Yes	(36.9)
---	-----	--------

Source: [Budget 2026 Tax Policy Changes – Summary](#), [Budget 2026 Expenditure Report](#) and PBO calculations using SWITCH v9.0, the ESRI’s tax-benefit model. All costs (yields) are expressed in full-year terms.

Notes: *PBO estimates using the SWITCH model. Yield is calculated relative to the increase in bands and credits needed to keep average tax rates constant i.e., tax and bands are wage indexed.
**PBO estimate using the SWITCH model. The modelled cost-of-living package matches payments made in Budget 2025 – namely, two energy credits of €125 each, two double Child Benefit payments, an additional week of social welfare payment (Autumn double week), €400 lump-sum payment for Carer’s Support Grant, Invalidity Pension, Working Family Payment (payments to Blind Pension and Domiciliary Care Allowance are not modelled), €300 lump-sum to Fuel Allowance recipients, €100 Child Support Payment lump-sum and a €200 lump-sum for Living Alone Allowance recipients.

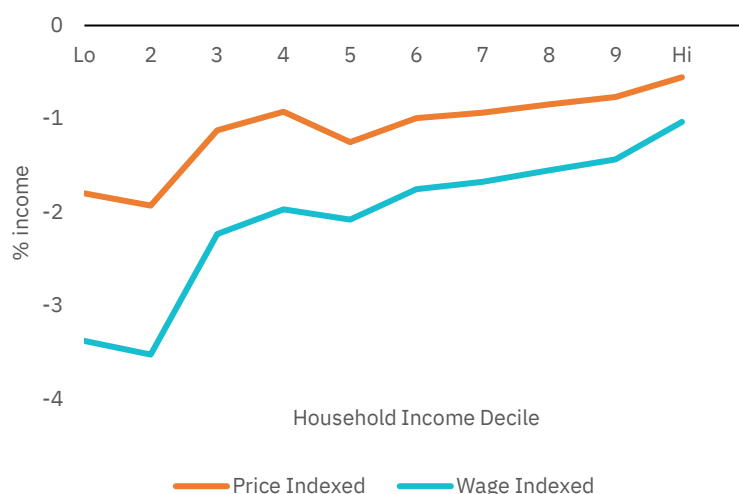
In Figure 1, we display results from modelling how the above policy changes affect low-, middle- and high-income households. We sort households into ten income groups (deciles), ranging from the lowest income ten percent of households to the highest income ten percent of households, after adjusting for household size and composition. Income changes from Budget 2026 are plotted relative to two baselines, which index tax and welfare rates from 2025 to forecast inflation and wages in order to account for the stand-still costs of maintaining living standards in a growing economy.

Figure 1 shows that, on average, low-, middle-, and high-income households face average income losses relative to Budget 2025 indexed to either price growth or wage growth. Relative to the price-indexed baseline, the poorest ten per cent of households experience average income losses of 1.8% as a result of announcements in Budget 2026, with average income losses of 1.2% for middle-income households⁸, and average losses of 0.6% for the top ten per cent of households. Larger losses are evident relative to the wage-indexed baseline, reflecting average income losses of 3.4% for the poorest ten per cent of households, 2.1% for middle-income households and 1.0% for the top ten per cent of households.

⁸ Households in the fifth decile.

Figure 1: Income changes from Budget 2025 to Budget 2026

Average income losses for low-, middle- and high-income households



Source: PBO analysis using SWITCH v9.0, the ESRI tax-benefit model and the PBO's EVE model.

In Figure 2, we analyse a selection of the key measures for households in Budget 2026. The rise in core welfare payments of €10 supported income growth among low-income households. Before accounting for stand-still costs through indexation, these measures, alongside other welfare measures outlined in Budget 2026, lead to average income gains of 3.9% among the poorest ten per cent of households.

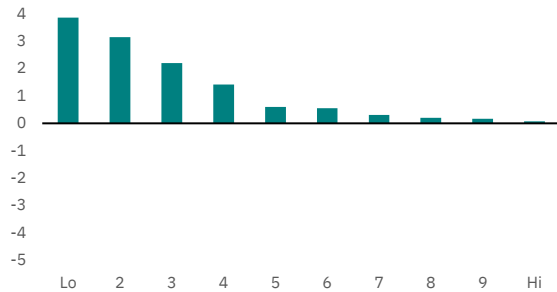
However, the withdrawal of cost-of-living measures – lump-sum welfare payments and universal payments – offset much of these gains, with average losses of 4.5% for the poorest decile of households and 1.3% for middle-income households. As such, the main welfare policy decisions in Budget 2026 had offsetting effects upon households. After accounting for stand-still costs via indexation and the withdrawal of cost-of-living measures, low-income households were worse-off, on average, as a result of Budget 2026. An important point to highlight is that the winding down of costly universal energy credits – which in total cost €1.4 billion in the past two Budgets⁹ – is welcomed by the PBO and was a prudent measure outlined in Budget 2026.

⁹ See [Budget 2024 Expenditure Report, p. 33](#) and [Budget 2025 Expenditure Report, p. 37](#)

Figure 2: Effect of selected policy decisions, % change in disposable income by household income decile

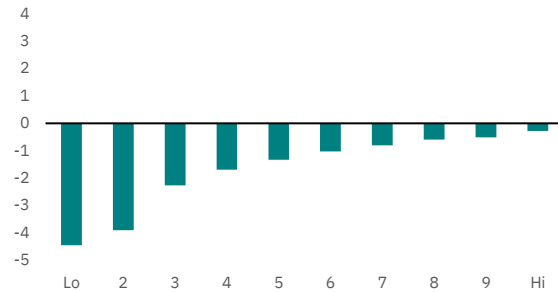
A: Budget 2026 welfare package

Progressive, targeted measures



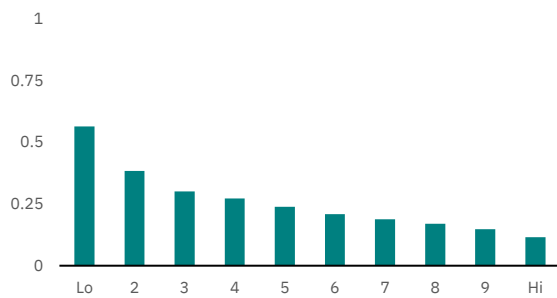
B: Removal of cost-of-living package

Losses of 4% for low-income groups



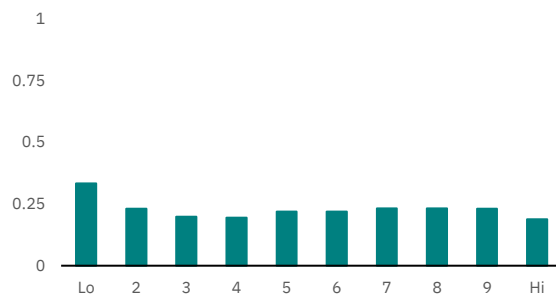
C: Gas and electricity VAT to 9%

Untargeted measure to aid affordability



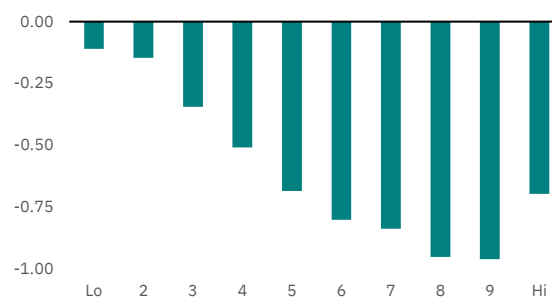
D: Hospitality¹⁰ VAT to 9%

With pass-through, small gains for households



E: Income tax band and credit freeze

Average tax rate increases from 22.5% to 23.1%



Source: PBO analysis using SWITCH v9.0, the ESRI tax-benefit model and the PBO's EVE model.

¹⁰ Food hospitality, hairdressers, and catering included.

Related to energy, VAT on gas and electricity had a reduced rate of VAT of 9% extended to the end of 2030. While this measure aims at improving affordability of gas and electricity, particularly as the heating season begins, the measure is untargeted and will give price reductions to low- and high-income households alike.

Our analysis indicates that, on average, this VAT cut reduces average expenditure for the poorest decile of households by €98 per annum (0.6% of income) and by €159 per annum (0.1% of income) for the top decile of households. More targeted options for offering relief from high energy costs would be preferable from a policy design perspective, in line with practices outlined by Arregui et al., (2022)¹¹.

The Government also reduced food hospitality and hairdressing VAT to 9% from 13.5% in Budget 2026. Our modelling assumes this VAT decrease would be fully passed through to consumer prices, but even with this assumption the gain for households is rather limited, amounting to an expenditure reduction in the order of 0.3% of income for low-income households, 0.2% for middle-income households and 0.2% for the top decile of households.

In contrast to recent years, Budget 2026 saw a freeze in income tax credits and the cut-off point for entering the higher rate of income tax. Holding tax bands and credits fixed as wages grow results in a greater portion of earned income “creeping” into higher tax brackets. This is called “bracket creep” and results in a rise in average tax rates in an economy. In Panel E of Figure 2, we show the income losses accruing from bracket creep in 2026, with middle- and high-income households predominantly affected- losses of close to 1% of income are evident for high-income households. This freeze results in average tax rates in Ireland rising from 22.5% in 2025 to 23.1% in 2026, after accounting for tax liabilities under income tax and the Universal Social Charge.

¹¹ [Targeted, Implementable, and Practical Energy Relief Measures for Households in Europe](#), Arregui, N.; Celasun, O.; Iakova, D. M.; Mineshima, A.; Mylonas, V.; Toscani, F. G.; Wong, Y. C.; Zeng, L.; Zhou, J. IMF Working Paper No. 2022/262. 2022.

For low-income households, the withdrawal of cost-of-living measures is a large measure in Budget 2026. Despite other measures, such as €10 increases in core welfare rates and a rise in the Fuel Allowance payment, a return to more normalised fiscal policy results in a rise in income poverty rates, which cost-of-living measures had been masking.

We model the withdrawal of cost-of-living measures as affecting incomes and income poverty in 2025, under the assumption that a Budget 2026 cost-of-living package would have been paid out just after the Budget, as was the case in Budget 2025. We find that income poverty¹² rises nationally from 11.7% in 2024 to a forecast level of 13.2% in 2025 due to the withdrawal of the cost-of-living package. This finding is supported by previous research by the Central Statistics Office¹³, which also highlighted that in the absence of cost-of-living measures, the income poverty rates would have been higher in 2024. Income poverty rates rise most for the elderly, from 13.3% in 2024 to a forecast level of 19.0% in 2025 and 17.6% in 2026. Child poverty also increases, rising from 15.3% in 2024 to a forecast level of 16.1% in 2025 and 15.6% in 2026.

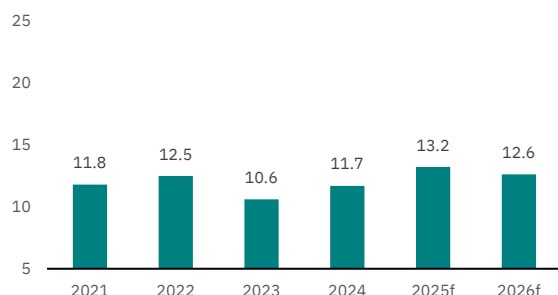
¹² Income poverty is defined using at-risk-of-income poverty rates. The poverty line is calculated as 60% of the median equivalized household disposable income. Poverty rates are headcount ratios meaning that the number of individuals living in poor households is used to define the poverty rate in the population.

¹³ [Survey on Income and Living Conditions \(SILC\) 2024 - Central Statistics Office](#)

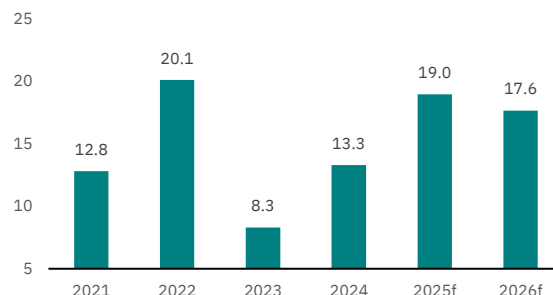
Figure 3: Income poverty forecasts based upon Budget 2026 announcements

Rising income poverty rates are forecast for 2025 and 2026, largest rise is for the elderly population

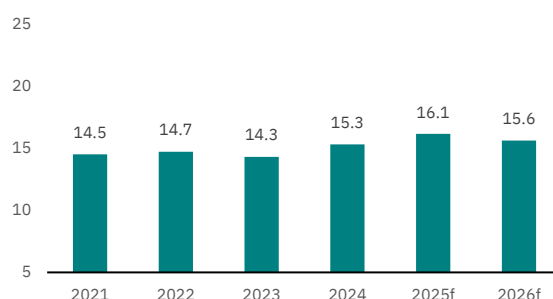
A: Population



B: Elderly (65+)



C: Children (0-17)



Source: PBO analysis using SWITCH v9.0, the ESRI tax-benefit model and the PBO's EVE model.

3. Trends in welfare rates from 2016-2026

Table 2 shows average weekly earnings¹⁴ alongside selected core social welfare rates from 2016 to 2026. Budget 2026 sees weekly social welfare rates increase by €10, compared to the €12 increase seen in each of the previous three Budgets. For 2026, this results in nominal increases of between 3.6% and 4.1% across the core welfare rates examined, with the greatest relative increase seen in working-age supports. Accounting for forecasted inflation, these translate into real increases of between 1.7% and 2.3%. Strong forecasted earnings growth sees weekly earnings reaching €1,018.7 per week – a nominal increase of 3.9%. In real terms, earning growth is anticipated to be 2.1% in 2026.

¹⁴ [CSO - Earnings Analysis using Administrative Data](#)

Budget 2026 continues the trend of real increases in welfare payments seen in Budgets 2024 and 2025. This stands in contrast to the real declines largely seen in rates in Budgets 2021 through 2023, which were driven by rate freezes in Budgets 2020 and 2021 and the sharp increases in HICP inflation of 8.1% in 2022 and 5.2% in 2023 – that outpaced nominal welfare increases.

**Table 2: Changes to Average Earnings, and Selected Social Welfare Rates¹⁵
(2016 – 2026) €**

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Average Earnings	682.2	699.6	722.5	753.6	801.4	821.0	856.2	895.5	942.7	980.9	1,018.7
State Pension (Contributory)	233.3	238.3	243.3	248.3	248.3	248.3	253.3	265.3	277.3	289.3	299.3
State Pension (Non-Contributory)	222.0	227.0	232.0	237.0	237.0	237.0	242.0	254.0	266.0	278.0	288.0
Working Age Supports¹⁶	188.0	193.0	198.0	203.0	203.0	203.0	208.0	220.0	232.0	244.0	254.0
Carer's Allowance¹⁷	204.0	209.0	214.0	219.0	219.0	219.0	224.0	236.0	248.0	260.0	270.0

Source: CSO earnings data, Social Protection welfare rates, Department of Finance & Central Bank earnings forecasts (average of both), used for 2025 and 2026.

Figure 4 highlights a divergence occurring in 2020 between earnings and welfare rates, when real earnings rose by 6.9%, compared to a modest 0.5% increase in real welfare rates. Taking a longer-term view from 2016 to 2026, nominal earnings have increased over the period by 49.3%. This compares with nominal growth of welfare rates of between 28.3% – 35.1% over the same period. In real terms, earnings have risen by 20.3%, compared to real welfare increases of between 3.4% and 8.9%. This may suggest that a system of indexation in place could help protect recipients real purchasing power over time, particularly during periods of high inflation. However, the choice between indexation and discretionary annual

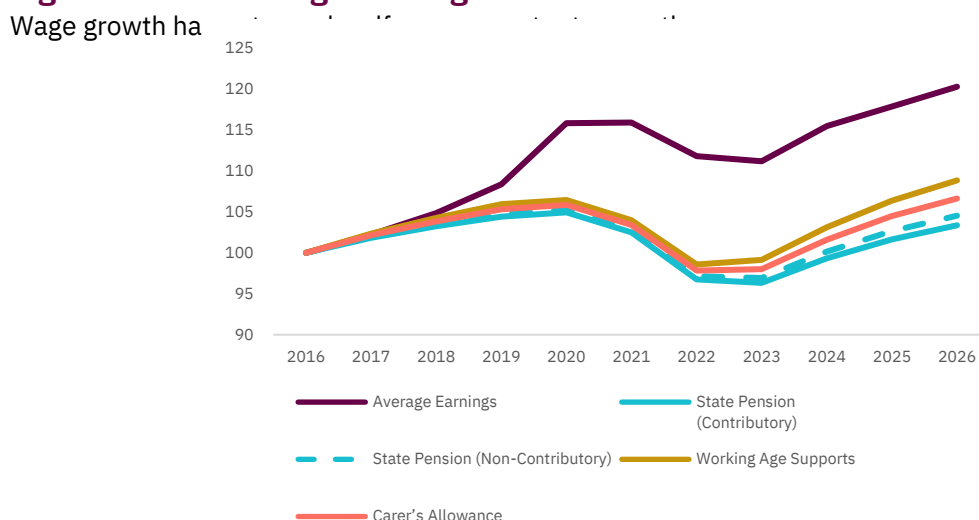
¹⁵ Maximum personal rates from [Department of Social Protection](#).

¹⁶ Jobseekers and Disability Allowance.

¹⁷ Rate for Carer under 66, caring for one person.

adjustments involves broader policy considerations, including fiscal sustainability, work incentives, and responsiveness to changing economic conditions.

Figure 4: Real average earnings and welfare increases 2016-2026, 2016=100



Source: CSO earnings data, Social Protection welfare rates, Department of Finance & Central Bank earnings and HICP forecasts (average of both) used for 2025 and 2026.

4. Conclusion

Our analysis of Budget 2026 has considered how announcements in the Budget contrast to pre-existing policy indexed to forecast inflation and wage growth in 2026. We also consider the withdrawal of the cost-of-living package as an income loss for households within the analysis.

Our findings indicate that while Budget 2026 offered increases in core welfare rates and a number of new targeted measures for low-income households, these benefits were outweighed by income decreasing effects from the withdrawal of cost-of-living-related payments. Adjustments for stand-still costs- such as matching inflation and wage growth – also eroded the effective increase from the welfare package in Budget 2026. These effects result in a rise in forecast income poverty rates for 2025 and 2026, with past cost-of-living packages masking higher income poverty rates in preceding years. A longer run analysis of the relationship between

average wage growth and core welfare payments highlighted that earnings have outpaced welfare rate growth over the past decade. This finding warrants further discussion around the use of indexation and benchmarks in assessing adequacy and annual growth in welfare payments.

Middle- and high- income households also faced income losses in Budget 2026, but these were predominantly due to the freeze on income tax credits and bands, which our analysis indicates will increase the average tax rate in the economy from 22.5% in 2025 to 23.1% in 2026.

Contact: pbo@oireachtas.ie

Go to our webpage: www.Oireachtas.ie/PBO

Publication Date: 7 October 2025