An Chomhairle Náisiúnta Eacnamaíoch agus Shóisialta
National Economic & Social Council
NESC

Confidential not for Publication

Social Welfare and Employment Project

Irish Social Welfare: Future Trajectory and Specific Reform Proposals

Confidential Draft Report For

Working Group Meeting of Thursday 28th November 2019

Background to this Paper

The Department of Employment Affairs and Social Protection requested that NESC examine emerging challenges in the social welfare system, and identify how to respond to these.

In response, the Secretariat prepared a number of background papers on relevant policy issues, including the changing world of work; gender equality; income, wealth and redistribution; and a more integrated income support system. These have been discussed by the Council over the last 18 months; and shared with members of the Working Group.

The Working Group was formed in 2019 to support the work of the Council. The Group, chaired by Professor Anthony McCashin, has met twice and has already provided valuable insights which have shaped the work of the Council very significantly.

The Council is now seeking to finalise an overarching report which will consider the direction of travel of the Irish welfare system and trajectories for reform, and identify specific reform proposals.

This paper summarises a working draft of the report which is being finalised for the Council. The views of the members of the Working Group are sought on the overall argument, the trajectories of reform, and in relation to a set of specific proposals for reform. Appendix 1 summarises the full list of draft proposals.

The views of the Working Group members will be used to finalise the Draft Council report which will be further deliberated on by the NESC Council at its meeting on December 19th.

Draft Council Report: Argument in Outline

In 2005 NESC developed a framework which helped to describe the Irish welfare state. The Developmental Welfare State (DWS) offered a way to think about social protection and economic development, seeing these as mutually dependent. The work acknowledged the role of income supports but argued that to respond to emerging pressures, greater focus was needed on the development of services and complementary activist measures.

The Council's work, which was developed at a time of high employment and strong growth, set an ambitious agenda for Irish society. It argued that Ireland should aim to create a high-participation, high-skilled, high-performance economy in which worthwhile employment would be a genuine option for everyone. It argued for a focus on the labour market choices of people with caring responsibilities, those with less than secondary education, and older workers; and for the importance of services and measures that helped people into and in the labour market. It focused attention on the importance of tackling deep-seated disadvantage: in particular among those with low education and people in employment without sufficient income to purchase needed services.

This report by the Council sets out its belief that the overarching nature of the Irish welfare state is still well characterised by the DWS. The report considers emerging changing external–economic, social and environmental and climatic—and internal contexts, and the implications these have for the Irish welfare system.

The report will argue that the Council believes that the Irish welfare state will retain its hybrid nature—in terms of reliance on social assistance and insurance— and that further integration between the benefits and tax system will be achieved by implementing the proposals outlined.

Based on the aims of the DWS, the principles guiding the social welfare system, and the changing context in which social welfare operates, this Council report identifies five trajectories for reform that will move the welfare system towards the vision of the Irish welfare state supported by the Council in the DWS. The five areas are:

- address poverty;
- promote gender equality;
- enhance financial sustainability;
- enable high participation; and
- administrative changes.

The Council report highlights that economic changes to work and new social risks (including climate)—and in particular the inability of markets to insure against them— have created pressure to re-think the social insurance model and its role in underpinning adequate incomes for all citizens. The question of whether the Irish system could move further towards what is termed a 'social insurance-heavy' model requires further consideration by the Council (and members of the Working Group).

In addition, the nature of follow-on work on aspects of the DWS, beyond income support, namely supportive services and activist measures, and its potential contribution to the policy system, is something that requires further consideration and discussion by the Council (and members of the Working Group).

Section 1—Draft Council Report: Understanding the Developmental Welfare State and the Irish social welfare system

NESC's 2005 *Developmental Welfare State* (DWS) provided a framework for the future development of the Irish welfare state. It saw social protection and economic development as mutually dependent. It acknowledged the important role of income supports but argued that to respond to emerging pressures, greater focus needed to be placed on the development of services and complementary activist measures, thus developing the concept of three overlapping areas of welfare provision.

The DWS argued that Ireland should focus on a number of key policy areas in future. First, Ireland should aim to create *a high-participation, high-skilled, high-performance economy*, in which worthwhile employment would be a genuine option for everyone. It argued for a focus on the labour market choices of people with caring responsibilities, those with less than secondary education, and older workers; and for the importance of services and measures that helped people into and in the labour market. This meant a focus on ensuring that secondary *benefit withdrawal rates* supported participation. It also wanted to see *less 'all or nothing' classification of people's capacity to work*. Instead, it recommended downplaying a person's 'contingencies' and instead focusing on their current position on a spectrum of unable to access labour force, to being able to re-enter it at some stage. Payments and services should be provided in a way that supports partial and sporadic take-up of employment opportunities, and which facilitates people's eventual participation in employment or other social activities.

The DWS also focused attention on the importance of *tackling deep-seated disadvantage*: in particular among those with *low education*, and people in employment without sufficient income to purchase needed services. It saw a particular need to *tackle child poverty*, noting that this is often related to the lack of market income in the child's household. It argued for the need to *reduce tax expenditures* on social spending, such as private health and pension coverage, as these expenditures are regressive and can lead to the development of a dual welfare system. And it saw a need for greater *gender equality*.

The Council believes that the analysis of the Irish welfare state put forward in the DWS is still valid. It also notes the continuing relevance of the principles underpinning the social welfare system, including income adequacy, solidarity, contribution, redistribution, equity, and financial sustainability.

The current Irish welfare system

Ireland's system of social welfare currently comprises the following:

i) Social insurance benefits, with eligibility based on PRSI contributions;

ii) A parallel set of means-tested social assistance payments;

iii) A universal payment for dependent children, Child Benefit; and

iv) Ancillary benefits such as free travel.

The Irish welfare system is a hybrid system of universalist, insurance-based and means-tested payments. However, over time, there has been a greater emphasis on social insurance, with coverage extended to more groups, such as married women, the self-employed, and part-time workers.

Ireland's social welfare system is funded through a mix of social insurance contributions; and general Exchequer revenue. The latter is raised through a mix of income, capital, consumption, corporation and property taxes. In 2017, just over €19.9bn was spent on social welfare. 55 per cent of this was from Exchequer funding; and the remaining 45 per cent from the Social Insurance Fund, of which employers contributed 73 per cent, employees 22 per cent and the self-employed 5 per cent. Table 1 below summarises the key social welfare payments[1] made in 2017, by expenditure, number of recipients and number of beneficiaries.[2]

[1] They made up 87 per cent of all payments by DEASP in that year. The remainder was spent on smaller schemes and administrative costs.

[2] Recipients are the main claimants of the payment; beneficiaries are the recipients plus their dependents, for whom allowances are also paid.

Table 1: Main Social Welfare Payments (2017)

Scheme	Expenditure (€000)	Recipients	Beneficiaries
State Pension (Contributory)	4,915,853	394,378	462,620
Jobseeker's Allowance	2,103,451	184,310	351,458
Disability Allowance	1,469,440	133,929	188,355
Widows', Widowers' and Surviving Civil Partners' Contributory Pension	1,466,597	121,091	131,999
State Pension (Non-Contributory)	994,740	95,140	98,937
Carer's Allowance	729,449	75,254	120,116
Invalidity Pension	672,771	57,504	78,020
Illness Benefit	599,369	52,809	71,449
One Parent Family Payment	497,647	39,310	111,049
Family Income Supplement/Working Family Payment	414,630	57,745	120,116
Community Employment	350,489	21,832	42,028
Jobseeker's Benefit	340,458	35,463	46,139
Maternity Benefit	256,131	21,548	22,771
Total	**14,811,025**	**1,290,313**	**1,845,057**
Child Benefit	*2,086,390*	*1,197,866*	*1,197,866*
Total including Child Benefit	***16,897,415***	***2,488,179***	***3,042,923***

Source: Statistical Information on Social Welfare Services (2017)

When the payments are grouped by type, it is clear that the main expenditure is on pension payments, followed by those for disability and caring, then family payments, and finally unemployment payments.

Over time, spending has grown, and will continue to grow, on the state pension in particular, and on disability and carer's payments. However, given the cyclical nature of unemployment, spending on this has been reducing.

Impact of the Irish social welfare system

In conjunction with the tax system, the Irish social transfer system is very effective. In 2010 social transfers and the tax-benefit system reduced the Irish Gini co-efficient for market income inequality (i.e. before taxes and transfers) from 0.58, to a Gini co-efficient of 0.29 for household disposable income. EU data also shows that social transfers (excluding pensions) reduced the at-risk-of-poverty rate from 33.6 per cent to 16.5 per cent in Ireland in 2016, with Ireland the third best performer among EU member states in this regard.

The Irish Gini co-efficient for post-transfer income has been very stable since the end of the 1980s, at approximately 0.32 in 1987 and 0.31 in 2017. The share of income going to different deciles has also been very constant. In 2014, as in 1987, the bottom quintile received 8 per cent of all disposable income in Ireland, and the top quintile received 39 per cent. However, there has been an increase in the proportion of income going to the top 1 per cent of income earners. This rose from about 6 per cent in the early 1990s to about 11 per cent in 2012.

In addition, despite the extent to which the tax-benefit system combats poverty, in households heavily dependent on welfare income, poverty rates remain high. Currently, the at-risk-of-poverty rate for households headed by an unemployed person is 42 per cent. The personal (Adult) rate for Jobseeker's Benefit is €193 weekly, but this is well below the poverty line[3] of €241.

Section 2—Draft Council Report: The Changing Context

The context in which DWS was written and agreed has changed. There has been growth in 'atypical' (i.e. temporary, part-time) employment, leading to lower social welfare contributions, and sometimes to lower social welfare coverage. The growth in digital platform work (e.g. Uber) exacerbates this, as many work for these platforms as self-employed contractors rather than employees.

Since the 1980s, there has been an increase in wealth at the top of the income and wealth spectrum. This has led to more pressure on welfare states, which have been spending more on transfers to reduce market income inequalities. This is evident particularly in Ireland, where market income inequality is particularly high and brought down to more moderate levels by social transfers.

There have also been changes in lifecycle patterns. Fertility rates are lower, families smaller, and many more women are in the labour force. There are fewer traditional families, and more lone parent families. There are also more dual-income, highly educated couples, and at the same time low rates of employment among those with lower skills. People are living longer, but falling fertility rates means the proportion of those at work compared to older people is falling rapidly. This means difficulty financing the costs of the current pension system. All of these changes have led to demands for welfare to cover new social risks, including the cost of eldercare and

[3] The nominal at-risk-of-poverty threshold, at €241 per week, is 60 per cent of median income.

childcare for working families, and combating poverty among lone parents and jobless households.

The rising cost of housing may also lead to welfare state pressures. High levels of home ownership amongst older people has meant that State pensions could be lower. However, if pensioners need more financial support to cover housing costs, this could increase pressure on Governments to raise pensions and/or to support home ownership at earlier stages of the lifecycle.

Some argue that there is now also more individualism, with the collective organisations which underpinned the welfare state as it developed (churches, trade unions, extended families) much weaker now[4]. There are continued debates about the extent to which welfare recipients are 'deserving' and 'undeserving'. The characteristics of many welfare services—collectivised, top-down, and with little possibility for citizen involvement, participation or choice—also does not always fit the desires of those receiving them. Together, these factors can lead to reduced support for the redistributive element of the welfare state, less confidence and faith in its services, and less desire to support its costs.

Many developing states also have a form of capitalism which is not burdened by welfare costs, and this erodes the competitiveness of developed countries with expensive welfare states, putting pressure on them to reduce welfare coverage. The changing balance of power internationally may intensify this, and Ireland, with its very open economy, could be particularly affected.

In future, changing political and natural conditions may lead to increased pressure to spend more on defence and environment, perhaps to the detriment of welfare spending.

At a more essential level, climate change may challenge economic growth and so welfare states' past dependence on this. The welfare state has seen its heyday during the economic growth of the twentieth century, and a number of authors wonder if it depends on this growth. If so, climate change will challenge this.

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[4] See Gamble, A (2016) *Can the welfare state survive?*, Polity Press

Section 3— Draft Council Report: Trajectories for Reform of Irish Social Welfare

Based on the aims of the DWS, the principles guiding the social welfare system, and the challenges the system faces, the Council report identifies five broad trajectories for reform. The report identities the rationale for a focus on these, as follows.

First, the Council emphasises addressing poverty, particularly child poverty. This has parallels with the social welfare principles of income adequacy, equity and redistribution. To promote these aims and principles, the Council proposes that child poverty be addressed through the development of an integrated child income support. In addition, it advocates the introduction of carefully targeted refundable tax credits, and proposes that the costs and benefits of these be assessed.

Second, the Council also seeks to prioritise gender equality. To support this, it proposes individualisation of social welfare payments, continued supports to help the combination of care and employment, and changes in the taxation of families with children.

Key principles of social welfare include redistribution and financial sustainability. Therefore the Council proposes, as it did in the DWS in 2005, that tax expenditures are capped, and regularly reviewed. It also proposes that rates of capital taxes and their exemptions are reviewed; and that the recommendations of the Intergovernmental Group on Local Property Tax are implemented. It proposes that the rationale for taxation of welfare benefits and assistance is reviewed. Finally, it proposes that the PRSI contribution rate of the self-employed be increased.

Fourth, the Council focuses on a key tenet of the DWS framework: a high participation economy. A number of proposals are made to support this. First, it is important that supportive services such as tailored education, accessible childcare supports, health care and housing, are available. Secondly, the public employment service needs to ensure that its services are inclusive and able to meet the needs of all groups accessing it. There is also a need for the changing world of work to be addressed in the welfare system, in relation to atypical employment, 'false' self-employment, and digital platform work. Taxes and contributions should also interact in a way which does not dis-incentivise employment. In addition, the Council proposes that a 'participation income', which recognises the contribution of those not currently in the labour force, be piloted.

Fifth, the Council identities a number of proposals for administrative change. This builds on the DWS aim to rationalise the terms and conditions of welfare payments, which parallels the social welfare principles of consistency and simplicity. The DWS also proposed that more data be gathered to allow better targeting of public expenditure, and evaluation of its impact. This Council identifies some specific areas where this can be done.

Section 4—Draft Council Report: Specific Reforms Proposals

The table below provides an illustration of key aspects of the specific reform proposals put forward. See also Appendix 1 for a more detailed summary of the proposals.

Policy Areas	**Developmental Welfare State aims, and social welfare principles**				
	Adequacy/Equity/ Redistribution	**Gender equality**	**Financial sustainability**	**High participation economy**	**Administration**
Child income	Integrated Child Income support				
Social insurance			Higher PRSI contribution from self-employed	Tripartite groups to advise on adapting to new forms of work; & combatting false self-employment	
Taxation	• Review refundable credits for very low paid; • Assess multiple tax rates over income range	• Assess transferability of married credits & bands, Home Carer Tax Credit, for couples with children only	• Review capital/ property taxes; • Review tax exemptions • Implement LPT recommendations		Review taxation of benefits & allowances
Services		Support for parents to combine care and employment		• Supportive services (education, housing, childcare, health) • Inclusive PES	Collect data to allow better targeting & evaluation
Payment administration		Individualise		• Participation income pilot; • Rationalise interaction of PRSI + USC at low incomes	• Consistency between payments; • Assess portable means test

The Council report provides a rationale for each proposal, and these are summarised below, including further detail on each proposal.

Area A: Reduce poverty and support income adequacy

As noted above, despite the extent to which the Irish benefit and transfer system reduces poverty, rates of poverty are still high among households most likely to be dependent on welfare payments. The issue of the level of benefits and the Council's possible position on this is raised in Section 5 of this paper (Conclusions and Next Steps), as an issue on which the guidance of the Working Group is sought.

Integrated child income support

For children in poverty, the problem is generally less that there is a low level of child income supports, but the fact that often their parents have a low level of market earnings, and also face high net costs for services such as childcare and housing when they are in employment.

All parents receive Child Benefit in relation to dependent children, and if unemployed they will receive the Increase for a Qualified Child (IQC). However, if they move from welfare to employment it is likely that they will lose the IQC, although they retain Child Benefit. They are likely to qualify for Back to Work Family Dividend, and may also receive the Working Family Payment (WFP) if they are on a low income. However, Back to Work Family Dividend is not income based; and although WFP is, it requires a job to last at least 3 months and be of at least 38 hours per fortnight. It is also only awarded based on an application signed by a person's employer. These factors mean that take-up rates are lower than they could be.

Therefore, NESC proposes the introduction of a two-tier child income support, which would comprise a universal child benefit paid in respect of all children, with an automatic supplement payable in respect of children whose families are in receipt of a social welfare payment or in low paid employment. This supplement would merge the Increases for a Qualified Child with Working Family Payment. As it would be automatic, and income-related, it is likely to make it easier for people to move from welfare to work without worsening the level of support. Similar proposals were made by the Advisory Group on Tax and Welfare in 2012. The roll out of the IT system for the National Childcare Scheme since then means that it is now easier to assess a family's income, and this system may provide a good administrative base for the rollout of an integrated child income support.

Refundable tax credits

The taxation and benefits system interact in important ways. For example, the social assistance payments that run in parallel with social insurance benefits are funded from general taxation. The income tax system also confers the equivalent of cash benefits by means of tax allowances and credits, often relating to the same needs and contingencies as the social insurance and assistance payments. The tax and benefit systems also interact in ways that affect the incomes of individuals and households, and so important social and economic choices and outcomes.

For those in low paid employment, and at risk of poverty, there have been concerns about the financial benefits of working compared to being in receipt of benefits (replacement rates), and in ensuring that people who are working are not at risk of poverty.

A measure which would help address this is making personal and employee tax credits refundable. A person who is single and in employment is entitled to a personal tax credit of €1,650 and an employee tax credit of €1,650, so that when the total amount of tax owed is calculated, €3,300 is deducted. People who earn less than €16,500 per year do not pay any income tax because their tax credits of €3,300 are more than or equal to the amount of tax that they are due to pay.[5] However they cannot benefit from tax credits. If tax credits were made refundable, the unused part of the tax credit (for people who earn less than €16,500 per year) would be refunded by the Revenue Commissioners. Details on who exactly would be eligible for these would have to be considered carefully to ensure that the refundable tax credits would lower poverty rates.

To combat poverty, the Council advocates the introduction of carefully targeted refundable tax credits. Social Justice Ireland and the Department of Finance have previously examined scenarios for this in Ireland. As the figures in this work are now out of date, NESC proposes that a cost benefit analysis is undertaken to estimate the current costs and benefits of making tax credits refundable.

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5 People may have to pay Universal Social Charge if their income is over €13,000, and PRSI, depending on how much they earn each week.

Area B: Promote gender equality

The Council believes that the social welfare system should reflect and accommodate changing patterns of household and family formation, the widespread commitment to equal gender roles and rights, and sharing of family responsibilities.

Over time policy has moved substantially in this direction; for example, the tax system now confers standard rate bands on both tax payers in dual income families; all social insurance contributions from males and females of all married statuses earn identical rights to benefits, and in conjunction with employment legislation, men and women have some provision in relation to maternity and paternity.

However, it remains the case that the core social welfare system is predicated on the adult + 'dependent' partner (the qualified adult, or QA[6]) + children model. Low-income women have lower employment rates and lone parents, who are overwhelmingly women, have some of the highest poverty rates.

This implies that greater individualisation of the tax and benefit system should guide future policy.

Individualisation of welfare payments

In 2006, the *Government Discussion Paper on Supporting Lone Parents* laid out a blue print for the future treatment of lone parents and qualified adults in the social welfare system. It recommended the payment of a means-tested parenting allowance, to both lone parents and qualified adults in low income couples. The payment would be for seven years, and paid at the full adult rate of social welfare. This would remove the disincentive for lone parents to move into relationships (as the social welfare payments for a couple are lower than those for two parents living separately). It would also tackle child poverty in low income families, and remove the concept of a qualified adult in such families. Currently, the QA allowance is paid regardless of whether or not the QA is caring for young children, or ill, or unemployed. This is in contrast to the treatment of lone parents or widowed people with children on means-tested benefits. The Government Discussion Paper also recommended that the rule on genuinely seeking full-time work be amended to reflect more accurately the work sought by women and many in atypical employment. Instead, seeking work of 19 hours per week would be sufficient.

[6] A claimant of a welfare payment is eligible to claim an allowance for his or her 'qualified' adult', i.e. adult dependent, if that adult has no social welfare payment in their own right, or has means of up to €310 per week.

Since 2013, many of these recommendations have been implemented for lone parents[7] – but not for QA. Therefore, NESC proposes that it would be useful to apply these changes to QAs also. NESC suggests that various aspects of individualisation applied internationally are also applied in Ireland, over time, to couples in receipt of welfare payments. These aspects of individualisation are outlined in the box below.

Claiming	Each person in the couple claims independently, even if only one is seeking a full-time job
Means-testing	Means-tests are based partly on independent and partly on joint income
Benefit receipt	By default, the benefit is split, and half paid to each individual in the couple
Conditionality	Each individual is required to meet a form of conditionality, e.g. job seeking, or caring for a child or person with a disability, or volunteering, etc
Activation	Full activation and training supports are offered to each individual
Job-seeking	Part-time and full-time job seeking is allowed

In addition, very little data is currently collected on QAs, so basic information collected about their partners, such as e.g. their gender, age, employment status, work experience, and education level are not known. Nor it is known if they are caring for dependents or not. NESC recommends that this data is collected, and that it feeds into how individualisation is applied to couples in receipt of welfare payments. Learning from pilot projects carried out with qualified adults under the *Action Plan for Jobless Households* should also inform this process.

It will also be important to ensure that adequate secondary benefits and income disregards are in place if QAs are encouraged to participate more in the labour force.

Balancing work and family commitments

SILC 2016 data shows that in most households with children under 18 in Ireland, both adults are at work—32 per cent of these parents both work full-time (the largest group), and 22 per cent have one parent working full-time and one part-time. In a further 22 per cent, one adult is at work and one on home duties.

[7] For example, OPFP became payable until the youngest child reached 7 years of age, instead of 18. Jobseeker's Transition (JST) payment was introduced for lone parents with children aged 7-14. It allows the parent to claim a jobseeker's payment without requiring them to seek full-time work, although the parent is required to meet DEASP for activation during this time, and can take up employment.

In several EU countries, parents are entitled to take part-time leave when they have younger children.[8] Give that the option of one partner working full-time and one part-time is the most popular preference among Irish parents of under-18 year olds[9], this option should be considered in Ireland.

The Council proposes that more flexible work options for parents be developed, taking cognisance of the outcomes of the Citizen's Assembly on gender and care, and the Future Jobs Ireland commitments on developing more flexible work options. (*Note for working group members – this is an amended proposal since the last meeting in July 2019*).

Taxation

There are currently a number of anomalies in the Irish taxation system for couples. While both married and co-habiting couples must be jointly assessed for social welfare, a married couple can choose to be jointly assessed for taxation purposes, but a co-habiting couple cannot. Each member of the co-habiting couple must be assessed individually for taxation, and they cannot transfer unused tax credits and the standard rate cut-off point between each other, with the result that they can lose out financially compared to a similar married couple. The transferable tax credits and standard rate cut-off point available to married couples are also not linked to the presence of children, but to the state of marriage only. The Home Carer Tax Credit is linked to the presence of children[10] – but only within a marriage or civil partnership. As a result,

- childless dual-income earning married couples can benefit from the transferable tax credits and standard rate cut-off point;
- married couples with children can benefit from the transferable tax credits with the standard rate cut-off point or the Home Carer Tax Credit, but
- co-habiting couples with or without children cannot avail of either.

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[8] For example, in Austria, Belgium, France, Germany, Iceland, Italy, the Netherlands, Poland, Slovenia and Sweden. See OECD Family database, Table PF2.1.F: Statutory parental leave arrangements, 2016

[9] This data is from the European Social Survey of 2010-2012, and was supplied to NESC by Nadia Steiber, co-author of Steiber, N. & Haas, B. (2015), 'Overworked or Underemployed? Actual and Preferred Household Employment Patterns in the Context of the Economic Crisis', *Working Papers, 7/2015*, Vienna: Vienna Institute of Demography

[10] Or the care of a dependent person in the home

The current position is related to a Supreme Court ruling that the marital family cannot be treated less favourably than two single people, although it has since been argued that it would be possible to extend the tax treatment of married couples to cohabiting couples without offending the Articles in the Constitution dealing with the family.

Here, the purpose of the transferability of credits and cut-off points arises. If their original purpose was to support the care of children, it could be more beneficial for them to be available to those with dependent children, rather than just two people who are married. Therefore, the Council proposes a review of the transferability of credits and cut-off points, and of the Home Carer Tax Credit, to assess if they can be re-focused to be available to married and cohabiting couples with dependent children only. If this re-focus led to savings, these could be targeted at children in low income families. (*Note for working group members – this is an amended proposal since the last meeting in July 2019*)

Area C: Enhance financial sustainability

The Council believes that, to support both financial sustainability and income redistribution, a broad funding base is needed for the social welfare system. This section makes a number of proposals in this regard.

Cap tax expenditures

The Council believes that tax expenditures with a social purpose (such as pension and health insurance tax relief) should be capped, for a number of reasons. First, they are expensive, and regressive, as they usually apply at the marginal tax rate, and so stand to benefit wealthier members of society to a greater extent. In fact, Avram *et al* (2014) finds that Ireland is one of the three countries in the EU where tax reliefs do most to increase inequality.[11] Second, tax expenditures can also support dual provision of service, such as private pensions, and privately sourced health care. One impact of this is that, if only a significant minority rely on public provision while the better off do not want to use it due to negative perceptions of its quality, this can reduce the funding towards, and the quality of, public services.

The final report will note that the Council agrees with the proposals made in the Report of the Oireachtas Committee on Budgetary Oversight on tax expenditures, i.e. that tax expenditures are regularly reviewed, and that there is a yearly report on the

[11] The other two are France and Belgium.

expenditure and income foregone under them. However, the Council seeks to go further, by proposing a yearly analysis of the impact of expenditure and income forgone through tax expenditures on the different income deciles (*Note for working group members – this is an amended proposal since the last meeting in July 2019*).

In line with the proposals of the 2009 Commission on Taxation, the Council agrees that, in general, direct Exchequer expenditure should be used instead of tax expenditures, that tax expenditures should be capped, and that they should be time-limited and discontinued if the circumstances under which they were introduced no longer apply.

Reassess taxes on capital in Ireland

Internationally, wealth inequalities are growing as the share of national income going to capital increases, compared to that going to labour. In Ireland, the top 10 per cent of wealth holders hold approximately 54 per cent of all wealth; and the share of capital income going to the 10th decile increased from 52 per cent in 1997 to 58 per cent in 2017. Data shows Ireland is moving from being a country with low wealth and high income inequality, to one of high wealth and high income inequality[12].

However, taxes on wealth (CAT, CGT, LPT and stamp duty) currently make up a very small proportion of all tax paid in Ireland—5 per cent in 2018[13]. Property tax, only recently introduced, is set at just 0.18 per cent of the property value, per year, and the values on which it is based have not been updated 2013, despite significant property value inflation in the interim. There is no wealth tax, although CAT and CGT apply to capital gains and acquisitions. However, CAT is subject to large exemptions when wealth is inherited or gifted from parents and other close relatives, and only those in the top quintile in Ireland inherit an amount near to the exemption threshold[14], indicating that this element of the tax system is very regressive. Capital gains and capital acquisitions are also not taxed at the same rate as income, with the rate (33 per cent), lower than the marginal tax paid on higher incomes (40 per cent income tax, and 52 per cent when USC and PRSI are included).

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12 See Bogliacino, F & Maestri, V (2016) 'Wealth Inequality and the Great Recession', Intereconomics: *Review of European Economic Policy*, 51, March/April 2016, Number 2, pp. 61-66

13 See *Revenue Headline Results 2018*, at https://www.revenue.ie/en/corporate/press-office/annual-report/2018/headline-results-2018.pdf*.* The percentages are based on all taxes collected by Revenue, including those collected by them for other organisations, such as LPT and PRSI.

14 The exemption thresholds is €320,000, and the average inheritance of those in the top wealth quintile is approximately €250,000 (Balestra *et al*, 2018).

Internationally, the growth in concentration of wealth, and lower taxation of it, has a number of negative consequences, including wealth inequality increasing as capital becomes more concentrated, and wealth increasingly deriving from economic rents rather than productive activity. It is also argued that growing income and wealth inequality is correlated with declining GDP growth in developed countries[15].

To help support equitable distribution of wealth in Ireland, and the financial sustainability of the social welfare system, the Council proposes that the rates of capital taxes, and their exemptions, are reviewed. It also proposes that the recommendations of the Interdepartmental Review Group on Local Property Tax be implemented – i.e. that the base on which local property tax (LPT) is based be revalued, that local authorities would not be able to reduce the rate of this tax, and that several exemptions from LPT be removed. (*Note for working group members – the latter is an amended proposal since the last meeting in July 2019*). In the longer term, NESC (2018)[16] has already pointed out the advantages of a land or site value tax.

Examine the feasibility of multiple rates of income tax

Taxes and contributions in Ireland are intended to have a progressive rate structure**,** but the two-rate system of income tax, with the higher rate applicable at around average earnings (for single tax payers) does not conform with this. As the share of top incomes in the income distribution rises, the two-rate system is increasingly inappropriate. It also reduces the possibilities for targeted redistribution of State funds. Multiple rates that span the income distribution would provide a more progressive income tax structure, and are feasible in a context when pay and tax systems are computerised. The structure of rates and bands for USC (in 2018, four rates, the highest commencing at €100,000) offers a benchmark for this.

The Council proposes that the feasibility of implementing multiple rates of income tax be examined. (*Note for working group members – this is a new proposal since the last meeting in July 2019*).

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[15] See Brueckner, M & Lederman, D (2018) 'Inequality and economic growth: the role of initial income', *Policy Research Working Paper 8467,* World Bank Group, Middle East & North Africa Region; and Cingano, F. (2014), "Trends in Income Inequality and its Impact on Economic Growth", *OECD Social, Employment and Migration Working Papers, No. 163*, Paris: OECD Publishing

[16] NESC (2018) Urban Development Land, Housing and Infrastructure: Fixing Ireland's Broken System, Report No. 145, Dublin: National Economic & Social Council

Review the rationale for taxation of welfare benefits and assistance

The treatment of social insurance and assistance payments in the taxation system appears inconsistent. In general benefits are taxable, and allowances are not, but there are variations in this. For example, Maternity Benefit, the Contributory Pension and Carer's Allowance are taxable, but Guardian's Benefit, Domiciliary Care Allowance and Child Benefit are not. Jobseeker's Allowance is not taxable, but Jobseeker's Transition and One Parent Family Payment are. The Child Increases for Illness Benefit are not taxable, but for Invalidity Pension they are.[17] This paper proposes that the rationale for, and taxation of, social welfare benefits and allowances be outlined and reviewed.

Increase the PRSI contribution rate of the self-employed

A key benefit from the PRSI system is the State Contributory Pension (SPC). To cover the cost of providing this, a person on average earnings should pay a PRSI rate of 15.5 per cent. Currently, those in Class A (employees) are effectively paying a rate of 13 per cent, while those in Class S (self-employed) are effectively paying a rate of 3.7 per cent. So while no contributors pay an amount that covers the cost of the SPC, those in Class S gain better value from the PRSI system than those in Class A.

Therefore, several studies and working groups looking at the social insurance fund have recommended that the self-employed pay more into the PRSI system. The suggested contribution to be paid does vary in the different studies, but is at least 1.5 percentage points greater than at present. For the reasons outlined, NESC proposes that the PRSI contribution of the self-employed be increased to a more actuarially-appropriate level.

Area D: Enable a high participation economy

Supportive services

The Council draft report shows that high net costs for services are a disincentive for parents in particular to move from welfare into work, and this is an issue highlighted for action in the Developmental Welfare State. A range of changes have been made to supportive services since 2005, such as the introduction of RAS and HAP, and the new National Childcare Scheme. However some issues remain.

[17] For a list of taxable and non-taxable social welfare payments, see https://www.citizensinformation.ie/en/social_welfare/irish_social_welfare_system/claiming_a_social_welfare_payment/taxation_of_social_welfare_payments.html

In relation to education, in 2018, 85 per cent of those aged 25-64 with a third level qualification were in employment, compared to 35 per cent of those with no formal education/primary education. In addition, those with tertiary education earn more than twice the median income, while those with less than upper secondary education are at the bottom of the income distribution. Therefore NESC proposes that more tailored education and training initiatives, suited to meeting people's needs, be further developed to support people with little education or few skills to gain qualifications and upskill, and to help the numbers from disadvantaged backgrounds to increase in further and higher education.

In relation to childcare, the National Childcare Scheme (NCS) will help to reduce the costs of childcare and does so in relation to household income. However, it cannot be claimed where a child is cared for by an unregistered childminder. These are extensively used in Ireland, and also are more likely to be able to provide childcare for those in atypical work. Therefore NESC proposes that the take up of the NCS by different socio-economic groups is kept under review, to ensure that barriers in relation to taking up employment, because of the costs and/or availability of childcare, do not continue to exist, especially for low income households. Barriers that are identified should continue to be addressed.

In relation to healthcare, the costs of this are a barrier to leaving welfare for work. Research evidence shows that the loss of a medical card can still be a disincentive to those on welfare taking a paid job, especially if they or someone in their family has a permanent, chronic or sporadic condition, and/or the work available is low paid or unpredictable. Although many welfare recipients can keep their medical card for up to three years when moving into employment, the fear of losing it remains, particularly for those with a disability. Therefore, NESC proposes that people with chronic illness or long-term disabilities be able to retain the medical card on taking up employment, with regular reviews, where appropriate.

In relation to housing, while RAS and HAP have addressed the disincentives associated with Rent Supplement, the escalating cost of privately rented accommodation, its insecurity, and its availability has meant that housing remains a barrier for many people on welfare wishing to transition to employment. Further actions are required to address these shortcomings.

A more inclusive public employment service

Following on from commitments in *Pathway to Work 2016-2020*, Intreo's activation services are now open to groups who are not on the Live Register. This underlines the importance of ensuring that public employment services are tailored to the needs of different groups accessing the service.

Research shows that effective public employment services focus on the person's interests, provide adequate time to build trust, communicate clearly, and provide good information and career guidance. For those who are particularly vulnerable, more intensive and wrap-around supports, delivered using a multi-agency case management approach, have been found useful internationally. Staff need to be trained and skilled in working with these groups, to have good skills in career guidance, to provide a consistent service, and to have adequate resources. Good inter-agency links, and good relationships with employers, are also necessary.

Therefore, NESC proposes the development of services tailored for different groups accessing the public employment service, particularly for those not on the Live Register. (*Note for working group members – this is a new proposal since the last meeting in July 2019*)

Dealing with the complexities of the changing world of work

Social insurance and assistance schemes are typically based on the model of a full-time permanent employee receiving regular wages. This means that people not in such jobs (such as the self-employed, and atypical workers) can have more difficulty accessing supports when they are unemployed, ill, have a disability or are accessing maternity leave. This can relate to difficulties verifying income, and/or qualification periods requiring continuous employment over a certain period of time. These issues can be a disincentive to participation in the labour force. On the other hand, new forms of employment can provide employers and workers with flexibility and autonomy.

A broad range of changes can be made to address these issues – for example through legisation, social dialogue, and/or alterations to the social insurance system. Therefore NESC proposes that a tripartite group should assess the type of reforms which would achieve flexibility and security for the greatest number of workers, in the interests of promoting quality work which allows flexibility. (*Note for working group members – this is an amended proposal since the last meeting in July 2019*)

There are also concerns that some self-employment is set up to avoid both responsibility for provision of employment rights, and the payment of higher income tax and social insurance contributions, leading to 'false' self-employment. Digital platforms (such as Uber) which categorise those carrying out work under their aegis as independent contractors or self-employed, rather than salaried employees, leads to similar issues. However, a benefit of platform working is that it creates new employment opportunities because it has less barriers to participation for groups that have weaker links to the formal labour market.

Again, legal, regulatory and social dialogue options can tackle the downsides of platform work, and combat 'false' self-employment. Therefore this project proposes that a tripartite group is set up to examine these options (and others) in detail, and to recommend the adoption of the most effective options to combat these issues. (*Note for working group members – this is an amended proposal since the last meeting in July 2019*)

Interaction of taxes and contributions

Finally, the interaction of taxes and contributions for those on lower-incomes should not be unduly complex or give rise to potential disincentives to employment. For all low-paid employees with earnings in the range of €15,000 to €23,000, the marginal withdrawal rate is elevated above 40 per cent, because of the structure of PRSI and USC at that point in the income range. Across that very narrow band of income, taxpayers traverse three different rates of USC and three different rates of PRSI[18]. Therefore the Council proposes a restructuring of the rates and bands of PRSI and USC for those in these income brackets. (*Note for working group members – this is a new proposal since the last meeting in July 2019*)

Participation income

The *Developmental Welfare State* pointed to the merits of supplementing the current contingency-based welfare payments with a 'participation income' based on 'meaningful participation'. Such an income could take the shape of a person receiving an income for making a societal contribution, such as voluntary, caring, or other work of societal value—contributions which are not always recognised.

The Council proposes piloting a participation (or contribution) income in selected areas. The pilot should be targeted at people not currently in the labour force but who could make a contribution to their local community or society. Participation in the pilots should be voluntary, not necessarily time limited, and could offer opportunities for progression, e.g. education and training. The programme would be targeted at groups of the population with low participation rates, e.g. qualified adults, people with disabilities, some ethnic minorities, those with low educational

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[18] In the case of PRSI, there is an exemption below €352 per week, then a rate of 4% offset by a tapered credit till income reaches €424 weekly, then a rate of 4%.

levels. It may be that existing schemes could be adapted or indeed combined, such as Community Employment, Tús, the Rural Social Scheme, rather than setting up a new scheme. Carer's Allowance and One Parent Family Payment could also be considered in the development of such a participation income.

Area E: Administrative issues

There are a number of inconsistencies between welfare payments, such as variable income disregards (ranging from €50 a week for Jobseeker's Allowance to almost €350 a week for Carer's Allowance), and variations in the disregards for the value of capital and property not personally used. These inconsistencies increase the uncertainty and complexity which people face when moving from welfare to work, and so can lead to them deciding to stay with the certainty of their current welfare payment.

This Council proposes that a working group made up of DEASP, the Citizen's Information Board, other relevant departmental representatives and civil society groups, regularly carry out on audit of such inconsistencies, the reasons why they exist, and how they can be addressed.

This working group would also examine how a single-portable means test could be operationalised. Currently when a person becomes unemployed, they might apply for Jobseeker's Benefit/Allowance, and Rent Supplement, and have to provide documentation on means (i.e. incomes, savings or assets) for both applications.

A key aim in the *Developmental Welfare State* was that better data be collected to allow providers and policy makers to know which groups policy should target, and to facilitate evaluation of services and programmes to know which interventions work best. However in some areas, there is still a shortage of data. Therefore, the Council proposes that additional data be collected where it would be useful to help deliver key goals of the Developmental Welfare State. This would include, for example, data on qualified adults, on the outcomes for migrant children in the Leaving Certificate or in further/higher education, on the progress of children from disadvantaged socio-economic backgrounds to third level, on platform work, and on atypical work such as variable hours contracts.

Section 5: Draft Council Report: Conclusions & Next Steps

This Council draft report identifies five trajectories which, if implemented, will continue to move the welfare system towards the vision of the Irish welfare state outlined by the Council in the DWS.

The report will argue that the Council believes that the Irish welfare state will retain its hybrid nature—in terms of reliance on social assistance and insurance— and that further integration between the benefits and tax system will be achieved by implementing the proposals.

However, the question of whether the Irish system could move further towards what is termed a 'social insurance-heavy' model has not yet been resolved by the Council. The term 'social insurance-lite' has been used to describe the Irish welfare system[19]. This is due to the low differentiation between the level of social insurance and social assistance payments, the fact that social insurance benefits are not income linked, the low level of contributions into the social insurance fund compared to the EU average, and the fact that there are no social insurance institutions. If Ireland were to move towards a more social insurance 'heavy approach', this would include:

- A consistent difference between assistance allowances and insurance benefits;
- Income-replacement social insurance benefits;
- Increased PRSI contributions from employers and employees; and
- A social insurance institution representing employer and employee contributors, and other stakeholders, with responsibility for policy deliberation.

The Council report notes that internationally and in Ireland, economic changes, changes to work and new social risks—and in particular the inability of markets to insure against them— have created pressure to re-think the social insurance model and its role in underpinning adequate incomes for all citizens.

The benefits of a more 'social insurance heavy' approach are that it would strengthen the social insurance funding base and provide a clear rationale for bringing benefits above the poverty line. In addition, it would reinforce the contribution-benefit link, which can strengthen confidence in the system.

The Council (& Secretariat) would like the Working Group's views on this question of the future direction of travel, and issues related to movement towards a 'social insurance heavy' model in Ireland.

[19] Bonoli, G and Shinkawa, T (2005) *Ageing and Pension Reform Around the World: Evidence from eleven countries*, Cheltenham: Edward Elgar

Bearing in mind that the DWS and the principles of social welfare emphasise the importance of income adequacy (in addition to supportive services), the Council would also like the Working Group's views on the adequacy of social welfare payments. Should these be benchmarked against income and/or consumer prices, and if so, at what level? Is this an area of work on which the Council should focus in future?

In addition, the Council (& Secretariat) need guidance on whether or not a broader consideration of aspects of the *Developmental Welfare State* should be carried out following completion of this work. The current project focuses on income supports, but should other work now focus on supportive services and activist and innovative measures to help particularly disadvantaged groups? The Working Group, previously, highlighted the need to continue and expand these activist measures and to develop mechanisms to incorporate the learning from them in policy and programmes.

Appendix 1: Draft Council Reform Proposals

	Area 1: Address poverty and support income adequacy
1.1	Introduce an integrated child income supplement, through merging Increases for a Qualified Child and Working Family Payment (in addition to universal Child Benefit)
1.2	Undertake a cost/benefit analysis of refundable tax credits, for the benefit of low income workers
	Area 2: Promote gender equality
2.1	Individualise the treatment of qualified adults in the social welfare system, based on learning from Jobseeker's Transition and pilot projects in Ireland, international experience, and improved data on qualified adults.
2.2	Develop more flexible work options for parents, taking cognisance of the outcomes of the Citizen's Assembly and Future Jobs Ireland commitments. (amended proposal)
2.3	Review the transferability of married credits and cut-off points, and of the Home Carer Tax Credit, to assess if they can be refocused to be available to married and cohabiting couples with children only.
	Area 3: Enhance the financial sustainability of the welfare system
3.1	Tax expenditures should be regularly reviewed, with data on their cost and benefit to each income decile analysed (amended proposal). Direct Exchequer expenditure should be favoured over them, and they should be capped and time-limited.
3.2	Review the rates of capital taxes, and their exemptions.
3.3	Implement the recommendations of the Interdepartmental Group Review of Local Property Tax, i.e. changing the property value base on which the tax is charged, remove exemptions, remove local authority discretion to lower LPT rates (amended proposal). In the longer term, consider the advantages of a Site Value Tax.
3.4	Review the feasibility of implementing multiple rates of income tax. (new proposal)
3.5	Review the rationale for, and taxation of, social welfare benefits and allowances.
3.6	The PRSI contribution of the self-employed should be increased.
	Area 4: Enable a high participation economy
4.1	More tailored education and training initiatives should be put in place to support people with little education or few skills to gain qualifications and upskill.
4.2	While welcomed, the National Childcare Scheme should be regularly reviewed to ensure it is supporting progression to employment for all socio-economic groups with young children who wish to access the labour market. Barriers identified should be addressed.
4.3	People with chronic illness or long-term disabilities should be able to retain the medical card on taking up paid employment. This should be reviewed over time, where appropriate.
4.4	The cost, security and availability of privately rented accommodation need to be addressed so that HAP and RAS can operate effectively.

4.5 Services offered by the public employment service should be tailored to the needs of different groups accessing this service, particularly those which are not on the Live Register (new proposal).

4.6 A tripartite group should assess the type of reforms which would achieve flexibility and security for the greatest number of workers, in the interests of promoting quality work which allows flexibility. (amended proposal)

4.7 A tri-partite group should explore and recommend effective options to combat 'false' self-employment. (amended proposal)

4.8 Rationalise rates of USC and PRSI for low income earners, to ensure employment is not disincentivised. (new proposal)

4.9 A participation income should be piloted in selected areas.

Area 5: Administrative changes

5.1 A working group should regularly audit inconsistencies between welfare payments, outlining how they can be addressed.

5.2 This working group should examine the mechanics of making a single-portable means test operational in Ireland.

5.3 Better data should be collected to help target and evaluate policies and programmes, e.g. data on qualified adults, and educational outcomes for migrant children.

Other – Removed Since Last Working Group Meeting

Y. Alter Carer's Allowance so that the person receiving care has more choice on how to spend these funds. (Removed as a pilot personalised budget scheme for people with disabilities is ongoing)