Introducing a Basic Income System Sector by Sector in Ireland

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Introduction

Over the past two years major advances were achieved in the case for introducing a basic income in Ireland. These include the publication of a *Green Paper on Basic Income* by the government in September 2002 and the publication of a book by Charles M.A. Clark entitled *The Basic Income Guarantee*. The Government's commitment to increase the lowest social welfare payment to 30 percent of Gross Average Industrial Earnings by 2007 is a major milestone in addressing the income poverty issue. Likewise the move from a tax allowance system to a tax credits system in 2001 eliminated some of the major problems in the tax system that might have been used to argue that a Basic Income system was not 'do-able'. The recent European Commission proposal to “decouple” agricultural payments and pay Irish farmers an annual payment also enhances the basic income argument. In this paper we provide a short overview of the case we have been making for many years for the introduction of a Basic Income system in Ireland. We review the current context in Ireland by looking at relevant aspects of the welfare and tax systems as well as developments directly related to Basic Income mentioned above. We then go on to outline a pathway towards introducing a basic income sector by sector. The pathway presented in this paper is one of three 'pathways' that were identified in 'Pathways to a Basic Income'. The other two pathways were:

- All at once introduction of a Basic Income system.
- Phased introduction of a Basic Income system over a three year period.

The case for a basic income

CORI Justice Commission has argued for a long time that the present tax and social welfare systems should be integrated and reformed to make them more appropriate to the changing world of the twenty-first century. To this end CORI has argued for the introduction of a basic income system.

A basic income is an income that is unconditionally granted to every person on an individual basis, without any means test or work requirement. In a basic-income system every person receives a weekly tax-free payment from the Exchequer, and all other personal income is taxed, usually at a single rate. For a person who is unemployed, the basic-income payment would replace income from social welfare.

For a person who is employed the basic-income payment would replace tax credits in the income-tax system.

Basic income is a form of minimum income guarantee that avoids many of the negative side effects inherent in social welfare payments. In summary then, a basic income differs from other forms of income support in that

- it is paid to individuals rather than households
- it is paid irrespective of any income from other sources
- it is paid without conditions. It does not require the performance of any work or the willingness to accept a job if offered one
- it is always tax free.

Twenty-first-century society needs a radical approach to ensure the inclusion of all people in the benefits of present economic growth and development. Basic income is such an approach. There is real danger that the plight of large numbers of people excluded from the benefits of the modern economy will be ignored. Images of rising tides lifting all boats are often offered as government's policy makers and commentators assure society that prosperity for all is just around the corner. Likewise, the claim is often made that a job is the best poverty fighter and consequently all priority must be given to getting everyone a paid job. These images and claims are no substitute for concrete policies to ensure that all are included. As CORI Justice Commission has designed it, a basic income system recognises the right of every person to a share of the resources of society.

The Basic Income system is employment friendly as it ensures that looking for a paid job and earning an income, or increasing one's income while in employment, is always worth pursuing, because for every euro earned the person will retain a large part. It thus removes the poverty traps and unemployment traps in the present system. Furthermore, it promotes gender equality as women and men get equal payments in a basic income system.

It is a system that is altogether more guaranteed, rewarding, simple and transparent than the present tax and welfare systems.. It also respects other forms of work besides paid employment. This is crucial in a world where other forms of work need to be recognised and respected. It is also very important in a world where paid employment cannot be permanently guaranteed for everyone seeking it.

Basic income also addresses the dependency mode of survival in which many social welfare recipients find themselves. In doing this it also restores their self-esteem and broadens their horizons. Poor people however are not the only ones who should welcome a basic income system. Employers for example should welcome it because its introduction would mean they would not be in competition with the social welfare system. Since employees would not lose their basic income when taking a job, there would always be an incentive to take up employment.

The Irish Context

The current welfare system - universal, 'insurance' and means-tested[1]

There are three kinds of income support payments in the Irish social welfare system. These are social insurance, social assistance and universal. Here we simply outline each of these components.

Social insurance schemes have been developed on the basis of social insurance contributions being paid. They are financed by compulsory contributions from both employers and employees (including the self-employed). Once the insurance payments have been made, the entitlement has been established and the social insurance scheme payments are made irrespective of any other income the person may receive.

The use of the term 'insurance' is a misnomer in this context. The social insurance system is not insurance in the commercial or actuarial sense in which that term is usually applied. There is no proportional link between the contributions paid by individual insured persons and what these individuals receive in payments under any

[1] For a much fuller treatment of this issue and its implications for developing a Basic Income system in Ireland see: Sean Healy and Brigid Reynolds, *From Poverty Relief to Universal Entitlement: Welfare, Minimum Income and Basic Income in Ireland*, in Guy Standing (ed.), Minimum Income Schemes in Europe, International Labour Office, Geneva, 2003. The material presented here on this point is reproduced, for the most part, from that publication and updated to include 2004 data.

of the social insurance schemes. In practice, the schemes are based on the principle of solidarity and are organised on a pay-as-you-go basis.

The State provides the additional funding required if there is a shortfall between what has been provided by employer and employee payments and the total cost of the schemes in any particular year. In reality, the social insurance fund represents a tri-partite arrangement between employers, employees (including the self-employed) and the state. The exceptional performance of the Irish economy since the late 1990s has meant that the State has not been required to provide any funding to pay for social insurance payments in those years. The years since 1994 have seen reductions in the main rates of social insurance contributions paid by employers and employees as well as the introduction of a threshold below which an employee pays no social insurance contribution.

The Irish social insurance system is very complex. Here we outline some of its main features. In 2004 the social insurance contribution threshold for an employee is €42,160 a year. Below that level the employee pays a social insurance contribution of 4 per cent plus a health levy of 2 per cent (with the qualifications listed later in this paragraph). Above that level the employee pays no social insurance but does pay a levy of 2 per cent. Employees are exempt, however, from paying a social insurance contribution (PRSI) on the first €127 per week. Employees earning €287 or less per week are exempt from PRSI and Health Contribution. However, where earnings exceed €287 per week, the employee's PRSI Free Allowance remains at €127 per week or €26 per week for employees on a modified PRSI rate. Employees earning €356 or less per week are exempt from the Health Contribution of 2%.

For an employer there is no ceiling and the rate is 10.75%. However, there is a lower contributin of 8.5 per cent for employers of people who earn less than €356 a week

In 2004 the benefits paid for the main categories of social insurance range from €173.70 a week for a contributory old age pensioner over 80 years of age to €134.80 a week for a person receiving unemployment benefit. For couples, they range from €302.90 a week for a pensioner over 80 years of age with a qualified adult over 66, to €224.20 for a couple on unemployment benefit.

In the Irish social insurance and social assistance systems payments are made to people with entitlement to social welfare. These are known as recipients because they receive the payments. However, in many cases the payments cover more than the person receiving them. There are many situations when a single payment may cover the recipient, his/her spouse and their children. So, for example, when a particular payment is intended to cover two adults and two children there is only one recipient but four people benefit from the payment. In this case there is one recipient but four beneficiaries.

The total number of social insurance recipients in 2002 was 501,286[2] and the total number of beneficiaries was 719,498[3].

For **social assistance**, eligibility is determined on the basis of an assessment of needs. These are means tested schemes. The claimant becomes eligible for payments from these schemes only if his/her means are less than the threshold set for accessing the scheme. People receiving payments from these schemes have either no social insurance record, or have used up their entitlement or their social insurance payments are inadequate, e.g. their contributions had not been paid for an adequate period of time.

The rates of social assistance payments for single people range from €134.80 for long-term unemployed people to €160.40 for old-age non-contributory pensioners 80 years and over. For couples they vary from €224.20 for the long-term unemployed to €262.20 for non-contributory old-age pensioners.

The total number of recipients of social assistance payments in 2002 was 437,685 and the total number of beneficiaries was 777,216.

Combining social insurance and social assistance in the year 2002 there were a total of 938,971 recipients and 1,496,714 beneficiaries.

[2] Stationery Office, 2003: Statistical Information and Social Welfare Services 2002, p. 10
[3] Op. cit p.12

Universal schemes require neither insurance contributions nor a means test. Payments are made without reference to the income of either the recipient or the beneficiary.

Child benefit is the biggest universal social welfare scheme in Ireland. It is paid in respect of all children under the age of 16. It is also paid in respect of 16, 17 and 18 year-olds if they are in full-time education or have a physical or mental disability. The payments are made on a monthly basis. The rates in 2004 are €131.60 a month for the first and second child and €165.30 for the third and subsequent child. In the year 2002 there were 522,441 families receiving child benefit in respect of 1,019,551 children.[4]

So we see that in 2002 there were 1,496,714 beneficiaries from the social assistance and social insurance systems and 1,019,551 children benefiting from child benefit payments. giving a total of 2,450,949. This, however, involves a certain amount of double counting as some 405,158[5] children appear twice in the numbers i.e. they are included under child benefit and under the beneficiaries of social welfare payments. The real total number of beneficiaries, therefore, is 2,045,791.

To put all of these numbers in **context** it is useful to note that the total population of Ireland in 2002 was a little over 3,917,203[6].

Pressures for change in the social welfare system

There have been a number of pressures for change to the Social Assistance system. These have focused, firstly, on the failure of its payment levels to increase relative to general earnings. Many advocates of welfare increases believe that such increases should be of a sufficient scale to underpin satisfactory participation in society and enable people to live life with dignity rather than simply cover the basic necessities.

A second point of controversy is the extent to which the household basis of the means test creates work disincentives for members of the household other than the welfare

[4]Op. cit. p.39
[5] op. cit. p. 41
[6] Central Statistics Office, Census 2002, information available on www.cso.ie

recipient. Some argue that greater individualisation of the social welfare code is needed to reflect new labour market realities where one-and-a-half or two earners rather than one are increasingly the norm.

A third pressure for change is the need to integrate the delivery of income transfers for people of working age more deliberately with support services so that any resemblance to an ‘exclusion wage’ is avoided, the respective obligations of the state and welfare recipient are mutually clarified and the opportunity to progress off welfare is always positive.

There have also been emerging and significant challenges to the Social Insurance system. Firstly, Ireland's population is ageing and this process will have major implications for the payment level of the contributory pension that will be sustainable in the future as the ratio of pensioner beneficiaries to current contributors steadily rises. For example, if current benefits do no more than keep pace with prices, the percentage of benefit accounted for by pension payments will increase to 51 per cent in 2031 and 61 per cent in 2056 from 38 per cent in 2002[7]. Much of Government's response to this challenge has been focused on encouraging people to make their own pension provision while simultaneously developing a national pension fund to resource pension payments as Ireland's dependency ratios change rapidly.

Secondly, there are significant challenges to the social insurance system because of the fact that changes in the labour market are putting particular groups of workers at a disadvantage in building up the contribution records that secure them entitlements to adequate insurance-based payments. The rapid growth in women’s employment rates has exposed the extent to which postponement of labour market entry or interruptions in employment for caring purposes (of young children, household members with disabilities or older persons) weaken an employee's contributions record under the current social insurance code. While women with caring responsibilities are, by far, the largest single group affected, other groups (e.g. early school leavers, older employees, low skilled migrant employees and people with disabilities) are also affected.

[7] Department of Social, Community and Family Affairs (2002*) Actuarial Review of the Financial Condition of the Social insurance Fund as at 31 December 2000*. Appendix F.

Government responses to pressures for change in the social welfare system

The level of social welfare payments was reviewed in recent years and in the National Anti-Poverty Strategy review, completed in 2002, government decided to set itself the following as key targets:

> To achieve a rate of €150 per week in 2002 terms for the lowest rates of social welfare to be met by 2007 and the appropriate equivalence level of basic child income support (i.e. Child Benefit and Child Dependent Allowances combined) to be set at 33 per cent - 35 per cent of the minimum adult social welfare payment rate.[8]

CORI Justice Commission welcomed this target. It is a major breakthrough in social, economic and philosophical terms. We also welcomed the reaffirmation of this target in *Sustaining Progress*,[9] the current national agreement between Government and Social Partners (of whom CORI Justice Commission is one, in the Community and voluntary Pillar of Social Partners). The target of €150 a week is equivalent to 30 per cent of Gross Average Industrial Earnings (GAIE) in 2002. This means that social welfare rates are to be benchmarked to increase in line with average industrial wages from now on. If this commitment is delivered upon it will mean that the gap between the present level of the lowest social welfare payments and 30 per cent of GAIE will be bridged between now and 2007.

A second response from Government to the growing pressures to tackle the challenges arising in the social welfare system has been on the issue of individualising payments so that all recipients receive their own social welfare payments. This issue has been on the policy agenda in Ireland for several years. CORI Justice Commission welcomed the report of the Working Group, *Examining the Treatment of Married, Cohabiting and One-Parent Families under the Tax and Social Welfare Codes*, which

[8] Department of Social, Community and Family Affairs, (2002) *Building an Inclusive Society: Review of the National Anti Poverty Strategy* p.10.

addressed some of the individualisation issues. Another report is being prepared on the development of a fully-inclusive social insurance model but it appears to be restricted in its focus. More work is needed to ensure this issue is addressed.

The current income tax credits system

Ireland's traditional income tax allowance system has been replaced by a tax credit system in recent years. This was a welcome change as it meant that people at all income levels could benefit to the same extent from these credits, which was not the situation with the tax allowance system. The move from tax allowances to tax credits was completed in Budget 2001.

In Ireland's taxation system a person is entitled to tax credits depending on their personal circumstances e.g. married person's tax credit, employee (PAYE) tax credit etc. These tax credits are used to reduce tax on a person's gross pay. Tax is calculated on a person's gross pay. The tax credit is subtracted to determine tax payable. Gross tax less tax credits = tax payable.

One problem persists however, from the old system of tax allowances. If a person does not earn enough to use up his or her full tax credit then he or she will not benefit from any tax reductions introduced by government in its annual budget. In effect this means that, under the present system, those with the lowest pay will not benefit in any way at budget time.

A solution exists to rectify this problem: make tax credits refundable. This would mean that the part of the tax credit not needed to meet an employee tax liability would be "refunded" to him/her by the state. A Working Group, consisting of Government and Social Partners has examined the feasibility of making this happen but did not complete its report.

The major advantage of making tax credits refundable would lie in addressing the disincentives currently associated with low-paid employment. The main beneficiaries of refundable tax credits would be low-paid employees (full-time and part-time). All

[9] Department of the Taoiseach, 2002, *Sustaining Progress: Social Partnership Agreement 2003-2005*, Stationery Office, Dublin, p.57.

of the benefits from introducing this policy would go directly to those on the lowest incomes.

Following the introduction of refundable tax credits, all subsequent increases in the level of the tax credit would be of equal value to all employees. There would be real equity attached to using this tax-credit instrument to distribute budgetary taxation changes. The benefit to all categories of income earners (single/couple, one-earner/couple, two-earners) is the same. Consequently, in relative terms, those earners at the bottom of the distribution do best.

We shall return to this issue when we identify a pathway for introducing a basic income system sector by sector in Ireland

Ireland's Green Paper on Basic Income

CORI Justice Commission welcomed the publication of the government's *Green Paper on Basic Income* (2002). In particular it welcomed the fact that the Green Paper vindicates the Commission's previous claims that a basic income system would have a far more positive impact on reducing poverty than the present tax and welfare systems.

The Green Paper shows that a basic income system with a Social Solidarity Fund (top-up payments for certain low-income households) would have a substantial impact on the distribution of income in Ireland. As a result of its introduction it would improve the incomes of 70 per cent of households in the bottom four deciles (i.e. the four tenths of the population with lowest incomes) and raise half of the individuals below the 40 per cent poverty line under "conventional" options above this poverty line. According to the Green Paper these impacts would be achieved without any additional resources to those available to "conventional" options.

A critical test of any tax and welfare system is its impact on people with lower incomes. In this context the Green Paper shows that a basic income system is far more effective at tackling poverty than the present tax/welfare system.

Without additional resources sit is inevitable that Basic Income would produce some 'losers' compared to conventional options. However, when one looks at the 'losers' identified in the Green Paper, two key issues need to be borne in mind. The first of these is that over a three-year implementation period of a basic income system practically all the 'losers' would be better off than they are at present. They would simply not gain as much under Basic Income as they would under the present system. The second issue is that the 'losers' in the bottom four deciles can be easily targeted and compensated through the Social Solidarity Fund that forms part of the proposed basic income structure. In addition the analysis concluded that a basic income system could encourage some people to move from the unofficial economy into regular employment.

On the macro-economic aspects the Green Paper acknowledges that the findings of previous studies were very tentative, speculative and hard to quantify. The Green Paper uses the tax rate (including PRSI replacement) of 47.7 per cent which previous studies showed was required to fund basic income, based on January 1999 estimates. Since then the economy has grown significantly and the revised rate, based on the Revenue Commissioner’s estimates of the tax base, is likely to be below 43 per cent.

The choice between a basic income system and the “conventional” tax/welfare options is a trade-off between greater equity and a possible risk of slightly lower economic growth versus less equity and less risk to higher economic growth. At a time when so much concern is expressed about the country’s failure to use its recent economic growth to build a fairer society, the argument in favour of introducing a basic income system is further strengthened.

The resources of recent years were more than adequate to introduce a full basic income system in Ireland. Its introduction would have produced a much fairer tax and welfare system. It would have moved beyond models that were appropriate to the twentieth century but are not capable of effectively addressing the new economic realities of the twenty-first century. Also, basic income would be far more effective than the present tax/welfare system at addressing the income inequality, increased insecurity and social exclusion that accompany the “new economy”.

Major new publication on the Basic Income Guarantee and Ireland

The publication of *The Basic Income Guarantee: ensuring progress and prosperity in the 21st century* by Charles M.A. Clark adds another influential voice to the debate on basic income.

Initially Clark states that "the great challenge of the twenty-first century economy is to promote real efficiency and equity not only to ensure future progress, but also to ensure that all get to benefit from this progress (2002: 22). To achieve this he identifies and outlines a basic income guarantee proposal.

A further significant contribution of Clarke's research is that it calculates the impact of the basic income proposal on poverty and income inequality. These calculations indicate that a basic income system that incorporated a social solidarity fund would result in the complete elimination of relative income poverty as measured using the 50 per cent of mean income. Furthermore the system would also reduce child income poverty from a 1995 level of 23.2 per cent to 0 per cent. Finally the impact of the basic income proposal on the distribution of disposable income is to enhance equality by increasing the share of the total income received by the poorest sixty percent of society (2002: 122 and 124).

Basic income and decoupling of EU agricultural payments to farmers

The Irish Government's recent decision to accept the European Commission's proposals to 'decouple' agriculture payments means that from now on all Irish farmers will be receiving a payment unconnected to what they produce. In effect this sees the introduction of a Basic Income payment for all Irish farmers.

There will be about 150,000 payments made under this heading. The average household size in Ireland in the 2002 census was 2.9. No estimate has been produced for the average farming household. Consequently, if we use the national household average we estimate that about 435,000 people would benefit from these 'decoupled' payments.

Over the past fourteen years CORI Justice Commission, has advocated the introduction of such an approach as the only sensible way of ensuring a viable future for people living in rural Ireland. In discussing this issue with the Irish Farmers Association (IFA), with Irish Rural Link (IRL) and with the Irish Creamery Milk Suppliers Association (ICMSA) CORI Justice Commission emphasised our willingness to work with these and other organisations with an interest in this area to ensure that this basic income approach will be maintained into the future. As each of these three organisations are social partners in their own right we hope to be able to work with them in securing the future of this very positive development.

This decision by Government also means that the sectors in receipt of a 'basic income type' payment in Ireland now include all farmers, children and older people (entitled to some form of old age pension). While we have always advocated the introduction of a basic income system through provision of payments to all, we would be happy to see its development sector by sector.

Moving Forward

The latest figures available are for 2002. The census of 2002 provides the following age-breakdown for the population of Ireland.

Table 1: POPULATION BY AGE - Ireland, 2002			
Age Group	**Persons**	**Males**	**Females**
0-14	827,428	424,044	403,384
15-19	313,188	160,413	152,775
20-24	328,334	165,292	163,042
25-44	1,180,259	588,308	591,951
45-54	480,447	241,566	238,881
55-59	197,294	99,827	97,467
60-64	154,252	77,559	76,693
65 years and over	436,001	189,155	246,846
Total	**3,917,203**	**1,946,164**	**1,971,039**
Source: CSO			

From the foregoing analysis of the Irish context we see that, in a total population of 3,917,203:

- 1,019,551 children benefit from a universal payment
- 1,496,714 people are benefiting from social welfare payments. Of these beneficiaries:

    - 777,216 people benefit from social assistance payments;
    - 719,498 people benefit from social 'insurance'.
- The latest moves to 'decouple' agricultural payments and pay Irish farmers an annual payment, amounts to the introduction of a Basic Income system for this category of farm households which will benefit about 435,000 people.
- 2,591,574 people between the ages of 16 and 64 are eligible to benefit from tax credits.

We also note that the introduction of the tax credits system to replace the tax allowance system has removed many of the obstacles traditionally associated with the development of a Basic Income system.

It is our contention that only a small number of changes are required to ensure that every person in the society will have a right to a Basic Income. The main change required is:

- Make tax-credits refundable.

A number of other issues need to be monitored to ensure the present situation is maintained or that developments are positive vis a vis the introduction of a Basic Income system. These issues include:

- Ensure child benefit payments are not taxed.
- Ensure that all those who do not have access to employment can access credits in lieu of social insurance payments.
- Ensure the annual 'decoupled' agricultural payments for farmers are maintained into the future.

Once tax credits are made refundable then everyone will have access to a payment as of right. The remaining challenge will be to ensure that the integrated tax and welfare systems ensure that relative income poverty is eliminated. That is much easier to achieve under a Basic Income system as the Government's own Green Paper on Basic Income acknowledged.

Making Tax Credits Refundable

Chart 1: Personal Tax Credits	**Tax Year 2004** €
Single Person's Tax Credit **Married Person's Tax Credit** **Widowed Person's Tax Credit** - qualifying for One Parent Family Tax Credit - without dependent children - in year of bereavement	1,520 3,040 1,520 1,820 3,040
One-Parent Family Tax Credit (with qualifying dependent children) (See Note 1) Widowed, Deserted, Separated or Unmarried	1,520
Widowed Parent Tax Credit Bereaved in 2003 Bereaved in 2002 Bereaved in 2001 Bereaved in 2000/2001 Bereaved in 1999/2000 Bereaved in 1998/1999	 2,600 2,100 1,600 1,100 600 -
Home Carer's Tax Credit (Max)	770
PAYE Tax Credit	1040
Age Tax Credit (a) Single/Widowed (b) Married	 205 410
Incapacitated Child Tax Credit (See Note 1)	500
Dependent Relative Tax Credit (See Note 1)	60
Blind Person's Tax Credit (one spouse blind) (both spouses blind) **Additional Allowance for Guide Dog**	800 1,600 *825
Incapacitated Person - **Allowance for Employing a Carer**	*30,000 max
* Relief in respect of a Guide Dog and for Employing a Carer are allowable at the individual's highest rate of tax i.e. 20% or 42% as appropriate in both years.	

	Tax Year 2004
Note 1: The relative's income limits are:	€
Dependent Relative Tax Credit	*10,372

*In the case of Dependent Relative Tax Credit, if the relative's income exceeds the relevant limit **no tax credit is due.**

A refundable tax credit is one where, if an income-earner has insufficient income to use all of his/her tax credit, the unused portion of the credit is paid to the taxpayer by means of a cash transfer. Chart 1[10] gives details of the main personal tax credits for the tax year 2004.

There is also a **home carer's tax credit**. This tax credit at the standard rate of tax (20%) is available in 2004 for married couples where:

- One spouse (the 'home carer') works in the home caring for one or more dependent persons, i.e., a child for whom they are entitled to Social Welfare child benefit, a person aged 65 or over, or a person who is permanently incapacitated by reason of mental or physical infirmity and the qualifying person normally resides with the couple for the year.
- The home carer's income is not in excess of €5,080. A reduced tax credit applies where the income is between €5,080 and €6,620.

The home carer's tax credit is not available to married couples that are taxed as single persons. Neither is the home carer's tax credit available to married couples with combined incomes over €37,000 in the tax year 2004 and who claim the increased standard rate tax band for dual income couples.

It is clear from this table that all those in employment and all of those to whom they are married have a personal tax credit. There are a range of additional tax credits available for people in particular categories. We believe these tax credits should be made refundable.

Making tax credits refundable would eliminate an anomaly in the present system where a relatively small group of people, in employment but with low income, could be the only ones not to benefit from increases in the value of tax credits in an annual Budget.

When this proposal is presented in the Irish policy-making process it tends to generate four main responses:

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[10] The material in this chart is drawn from the Irish Revenue Commissioners and can be accessed at **www.revenue.ie**

- o It has the characteristics of a Basic Income system and, therefore, should not be implemented.
- o Its introduction would be too costly.
- o It has no positive re-distributive impact.
- o It would be very difficult to administer.

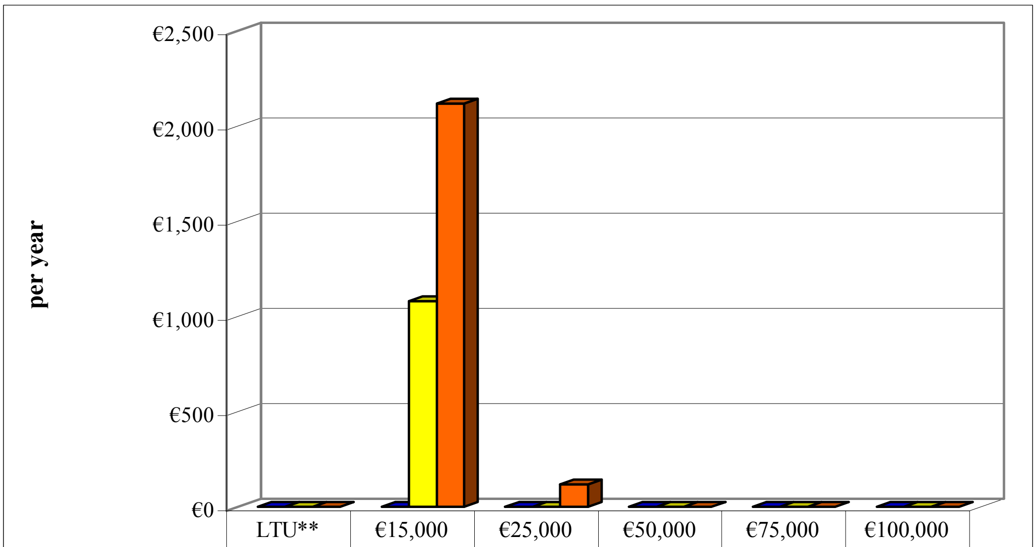
There are problems with each of these responses. It is not acceptable that a proposal be dismissed for ideological reasons and without an informed and balanced debate.

There is a similar failure when it comes to addressing the issue of cost. The figure of €1.3 billion has been suggested as the total cost of introducing a refundable tax credit. This amount, however, is not based on a calculation of any proposal being made. Rather it assumes that refundable tax credits will be available regardless of age or hours worked, to all tax cases. In practice, as we envisage it, refundable tax credits would not be an additional payment for several categories of people. Among these would be all those in receipt of social welfare payments. These would have the tax credit imputed as part of their social welfare payment. We return to this issue when we address administrative issues below.

Likewise, it would make sense that refundable tax credits not be available to young people who can legally earn less than the hourly minimum wage. There is a large (c. 325,000) youth population aged 16-20 who are in this category and many of them are in some form of employment. When calculating the cost of introducing a refundable tax credit both of these groups should be eliminated from the overall total of tax cases. This would produce an accurate costing for the proposal which could then be judged on its actual merits. We will return to these and related issues under the section on administrative mechanisms.

The major advantage of making tax credits refundable would lie in addressing the disincentives currently associated with low-paid employment. The main beneficiaries of refundable tax credits would be low-paid employees (full-time and part-time). Chart 2 displays the impacts of the introduction of this policy across the various gross income levels. It clearly shows that all of the benefits from introducing this policy would go directly to those on the lowest incomes.

Chart 2: How much better off would people be if tax credits were made refundable?



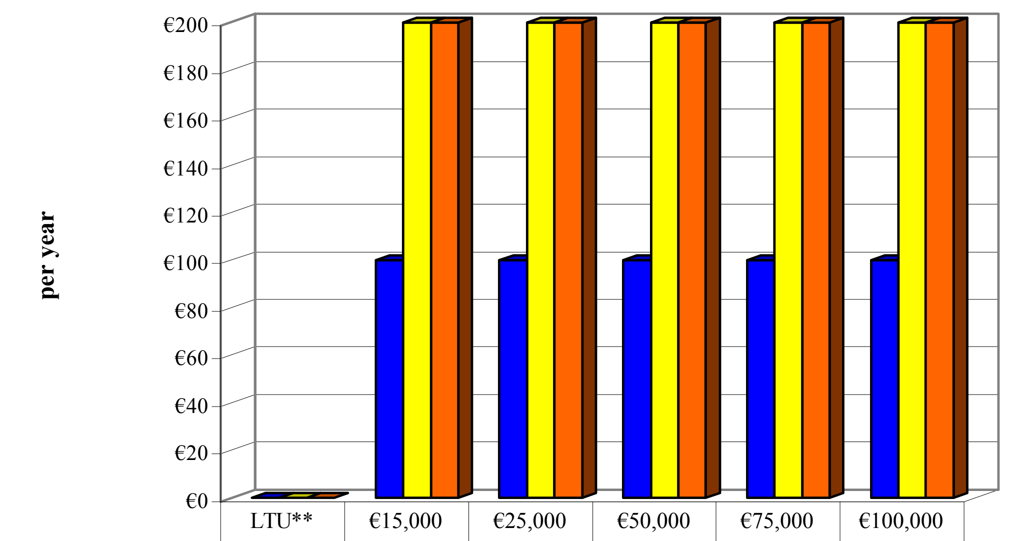
	LTU**	€15,000	€25,000	€50,000	€75,000	€100,000
Single	0	0	0	0	0	0
Couple 1 Earner*	0	1080	0	0	0	0
Couple 2 Earners*	0	2120	120	0	0	0

Notes: * Except in LTU case where there is no earner
** LTU: Long Term Unemployed

Following the introduction of refundable tax credits, all subsequent increases in the level of the tax credit would be of equal value to all employees. Chart 3 shows how the benefits of a €100 a year increase in tax credits would be distributed under a system of refundable tax credits. This simulation displays the equity attached to using the tax-credit instrument to distribute budgetary taxation changes. The benefit to all categories of income earners (single/couple, one-earner/couple, two-earners) is the same. Consequently, in relative terms, those earners at the bottom of the distribution do best.

The benefits of adopting a refundable tax credits system is further underscored by a comparison between chart 3 and chart 4. Chart 4 shows the allocation of gains across all categories of earners under the current system where the credits are not refundable. Chart 4 also shows that the benefits of the gains are allocated equally to all categories of earners above €25,000. However, there is no benefit for these workers whose earnings are not in the tax net.

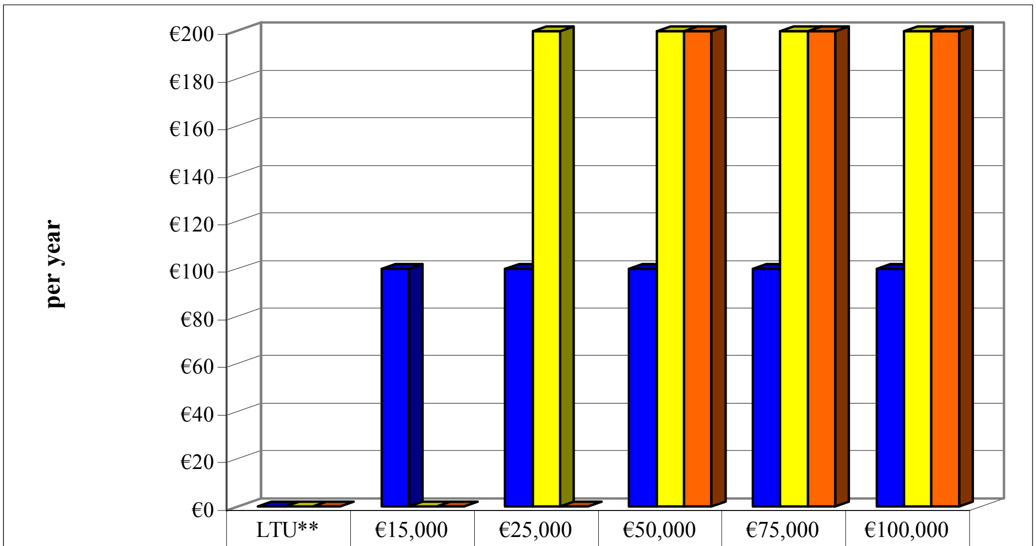
Chart 3: How much better off would people be if tax credits were increased by €100 per person and this was refundable?



	LTU**	€15,000	€25,000	€50,000	€75,000	€100,000
Single	0	100	100	100	100	100
Couple 1 Earner*	0	200	200	200	200	200
Couple 2 Earners*	0	200	200	200	200	200

Notes: * Except in LTU case where there is no earner
** LTU: Long Term Unemployed

Chart 4: How much better off would people be if tax credits were increased by €100 per person?



	LTU**	€15,000	€25,000	€50,000	€75,000	€100,000
Single	0	100	100	100	100	100
Couple 1 Earner*	0	0	200	200	200	200
Couple 2 Earners*	0	0	0	200	200	200

Notes: * Except in LTU case where there is no earner
** LTU: Long Term Unemployed

The administrative mechanisms

The central idea of making tax credits refundable recognises that most people with regular incomes and jobs would not receive a cash refund of their tax credit because their incomes are too high; they would simply benefit from the tax credit as a reduction in their tax bill. No change would be necessary for these people and they would continue to pay tax via their employers, based on their net tax liability after their employers have deducted tax credits on behalf of Revenue.

For other people on low or irregular incomes, they would have the option to request that their tax credit be paid directly into their bank account by the Department of Social and Family Affairs (DSFA) or by the Revenue Commissioners. In these cases employers would not subtract the tax credit from the gross tax liability of these people. All tax-payers would be invited to indicate their preference in this regard when completing their tax assessment form for the Revenue Commissioners.

Where people receiving a social welfare payment are concerned the amount of the tax credit would be imputed to the social welfare payment. Imputing would mean that an amount equivalent to the tax credit would be deemed to represent the tax credit in the welfare payment. It would be superimposed on the social welfare payment but would not be in addition to such payments so that the net income position of the payee would be the same as if there were no refundable credit system.

This would allow the whole adult population to have access to tax credits either through the social welfare system or through the tax system.

There are three objections to this approach which might require some adjustments to the proposal being implemented in practice. These are:

- There might be a disincentive for young people to take up or remain in employment.
- Some 'stay at home' spouses might take up 'nominal' paid employment to qualify for refundable tax credits.
- The cost might be too high.

To address these problems the following is just one example of how eligibility could be applied. In order to qualify for direct refund of tax credit by DSFA, a person might have to satisfy the following criteria:

- Must be 21 (25?) years of age or over

and

- If under 65 must be currently working for at least 12 months for the equivalent of at least 8 hours per week, as evidenced by tax/PRSI returns.

To deal with the cost issue it might for example be proposed that people over 65 would not be entitled to a *refundable* tax credit until such time as the economy could afford to pay the cost.

Employees and self-employed, including farmers, are encompassed within the proposal. Eligibility would last for a year or for some other appropriate length of time. Thus, if someone loses a job, becomes invalided, retires etc eligibility is retained for the remainder of that year.

In all cases people would be entitled to claim their own refundable tax credit while being free to opt to receive it in joint tax assessment as is the case in the present system. For example, a spouse working in the home could opt to receive the 'married' part of the personal tax credit and the Home Working Spouse tax credit directly from DSFA.

Merits

- Every beneficiary of tax credits can receive the full value of the tax credit to which they are entitled.
- It would improve the net income of low-paid workers at modest cash cost.
- It would improve the net income of the pensioners whose incomes are lowest, at modest cash cost.
- No additional administrative burden is placed on employers.
- The administrative burden of paying tax credits directly to those who select this option is left with DSFA (who have long experience of making direct

payments and have experienced a fall-off in business in recent years with a reduced Live Register of unemployed people) or Revenue (who already disburse tax refunds to many taxpayers)..

There are a number of other issues that should be kept under review as tax credits are made refundable. Among these we note the following:

- **Ensure child benefit payments are not taxed.**

At present child benefit payments are not taxed. But, from time to time, pressure comes on Government to tax these payments. Such a move has been strongly resisted within the political system. Arguments advanced in favour of taxation include:

- Better off families do not really need this payment and, consequently, should pay tax on it.
- The scale of the payment is too low and taxing it would provide additional resources to allow the basic payment to be increased.

Arguments against taxing child benefit payments include:

- While child benefit is an anti-poverty payment it is also a contribution towards childcare for better off families.
- The payment belongs to the child and, as the child is not being taxed, this payment should not be taxed.

- **Ensure that all those who do not have access to employment can access credits in lieu of social insurance payments.**

If there are people who are unable to access tax credits in the present system because, for one reason or another, they are not in the labour force and do not have access to a social welfare payment, they should be identified and a mechanism identified to ensure they can access a tax credit.

- **Ensure the annual 'decoupled' agricultural payments for farmers are maintained into the future.**

There is a likelihood that this payment will come under pressure in the years ahead. It is important that, if they are removed, they be replaced by a Basic Income payment of comparable size.

As stated earlier, once tax credits are made refundable then everyone will have access to a payment as of right either through this credit or through the social welfare system or through child benefit. The remaining challenge will be to ensure that the integrated tax and welfare systems and the child benefit payments provide payments sufficient to eliminate relative income poverty in Ireland. That is much easier to achieve under a Basic Income system as the Government's own Green Paper on Basic Income acknowledged. Given the development of Ireland's economy over the past decade it is also affordable.