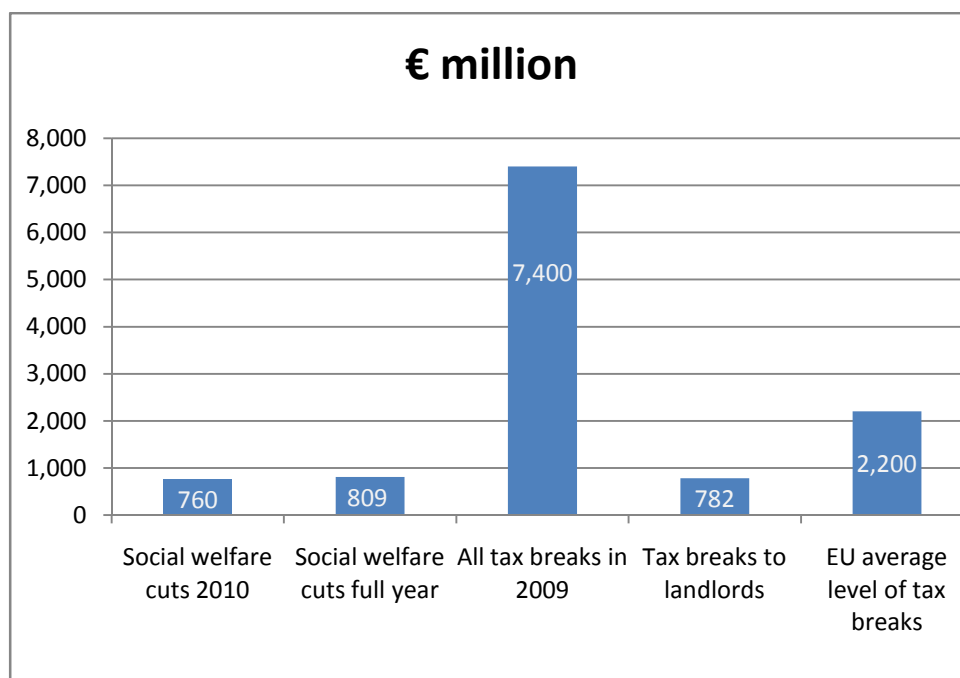


## TASC Post Budget Analysis

When the Ministers of Finance and Social and Family Affairs announced the Budget cuts to social welfare it was not because there was no alternative; it was because they chose to.

**Tax breaks cost the State an estimated €7.4 billion in 2009, far more than the EU average level. The cuts to social welfare will save €760 million in 2010 and €809 million in a full year. All or most of the cuts to social welfare could have been avoided if the Government had cut tax breaks to landlords, which were worth €877 million in 2007.**

Figure 1: Comparison of tax breaks with welfare cuts in Budget 2010



The Government has not provided full details of the savings they believe they will achieve from cutting welfare payments in Budget 2010. However, it is claimed that in total **€760 million** will be saved by cuts to social welfare in 2010, and **€809 million** will be saved in a full year (*Summary of 2010 Budget Measures Policy Changes*).

In answering questions to the Dáil on 3 November 2009, the Minister for Finance gave the latest estimate for the “amount of tax foregone by allowing a deduction for interest on borrowings to be offset against rental income” for commercial and residential landlords to be **€877 million** in 2007 (Dáil questions, 3 November 2009). That is, when landlords borrow money to purchase property to

rent, they may reduce the amount of tax they pay on their rental income based on the interest they are paying on the loans to buy the property in the first place.

The Minister said that recent restrictions on the level of interest that can be claimed against residential properties (from 100% to 75%) will reduce the cost of this tax break by €95 million, however the Government has not presented a more recent estimate of the remaining full cost for this tax break. Hence, the cost of this tax break can be estimated as €877 million - €95 million = **€782 million**. That is, the value of the tax breaks to owners of residential and commercial property in 2009 is close to equal the savings from cutting social welfare.

Ireland has a surplus of commercial rented property, as well as a widely-reported problem of upward-only rent reviews which are constraining otherwise viable commercial activity. Likewise, Ireland has a surplus of empty housing units. It is therefore difficult to justify on economic grounds the continuing subsidy to landlords. This is not a major job-creating sector of the economy, and it is difficult to justify tax breaks for those who are benefiting from a 'passive income' – that is, an income based on ownership not on productive activity within the economy.

### **Welfare cuts are three times the fall in relevant consumer prices**

Consumer prices fell 5.7 per cent in 2009, according to the latest information from the Central Statistics Office. However, once mortgage interest is removed, the fall was only 2.2 per cent in the year (CSO, December 2009, *Consumer Price Index November 2009*). Few people on social welfare incomes have a mortgage, so they benefit less from falling prices.

Social welfare was effectively reduced by 1.9 per cent when the Christmas bonus payment was cut. In addition, Budget 2010 cuts many welfare rates by approximately 4 per cent. For example: Carer's Benefit was cut by 3.7 per cent, Carer's Allowance was cut by 3.9 per cent, Disability Allowance was cut by 4.1 per cent and the new rate of Jobseekers Allowance was also reduced by 4.1 per cent.

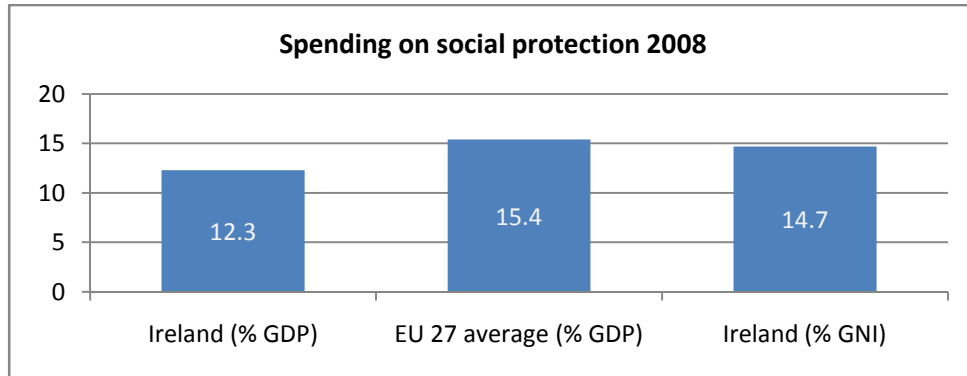
The combined effect of these cuts is as follows:

- Carer's Benefit has been cut by 5.6 per cent, 3.4 per cent more than the fall in consumer prices.
- Carer's Allowance has decreased by 5.8 per cent, 3.6 per cent more than consumer prices.
- Disability Allowance has decreased by 6 per cent, 3.8 per cent more than consumer prices.
- Jobseekers' Allowance (which is the main payment to those who are unemployed and not eligible for Jobseekers' Benefit) has been cut by just under 6 per cent, which is 3.8 per cent more than the fall in consumer prices.

## Ireland does not have a generous level of social welfare payments

The latest Eurostat figures show that Ireland's spending on social protection was only 12.3 per cent of GDP, compared to an EU-27 average of 15.6 per cent. If Gross National Income is used (instead of GDP) the Irish level of social protection is 14.7 per cent, nearly 1 per cent less than the EU-27 average.

Figure 2: Social protection in Ireland in 2008



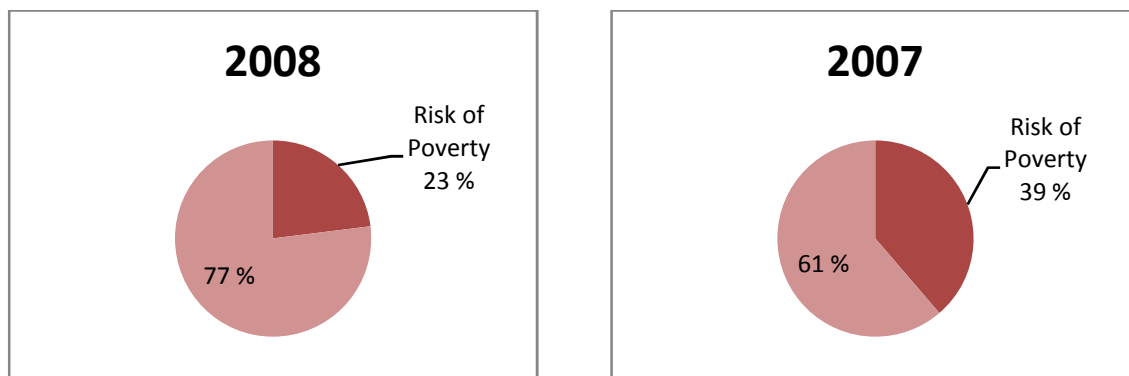
Source: Eurostat (data from Quarter 4, 2008)

## Welfare cuts will greatly increase poverty among people who are unemployed

Welfare spending in Ireland was already inadequate before the cuts made in Budget 2010. Nearly a quarter of people who were unemployed in 2008 were at risk of poverty (that is, living on less than €12,455 a year; or less than €240 a week).

If the cuts made in Budget 2010 put people back to 2007 income levels, nearly 2 out of every 5 people who are unemployed will be at risk of poverty.

Figure 3: Risk of poverty among people who were unemployed in Ireland in 2008 and 2007



Source: CSO (November 2009) *Survey on Income and Living Conditions 2008*