

Submission from the Society of St Vincent de Paul to the Advisory Group on Tax and Welfare

Working Age Income Supports

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December 2012



Society of St Vincent de Paul

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Introduction

The Society of St Vincent de Paul welcomes the opportunity to make this submission to the Advisory Group on Tax and Welfare in relation to working age supports and related issues. As the largest charity of social concern and action in Ireland, the Society of St Vincent de Paul works with many people of working age, children and families experiencing poverty and social exclusion.

In 2010 SVP spent €9.7 million on food, €4.4 million on education and €8.8 million on fuel helping individuals and families in need. An analysis of the requests for assistance received by the SVP's four urban regional offices in Dublin, Galway, the Mid West and Cork reveals that the majority of people requesting assistance are families with children, with lone parents emerging as a particularly vulnerable group. Households with children are a particular concern for the SVP and many of the issues around working age payments impact particularly on households with children.

Working Age Supports

Questions 1 and 2

This section of our submission deals with removing barriers from entering employment, making employment more attractive and the supports needed to help people in work on a low income move into better paid employment as per Questions 1 and 2 in the call for submissions document.

The barriers which are faced by people moving from welfare into employment include the additional costs of employment including the cost of childcare; increased housing costs whether through loss of Rent Supplement or an increase in differential rent paid to a local authority; difficulties and costs accessing transport; the flexibility required by employers which may make it difficult for parents and those with other caring responsibilities to balance employment with caring and can result in fluctuations in weekly income; the difficulty of calculating how means tested payments will interact with income earned from employment; and the loss of secondary benefits such as the medical card and fuel allowance. It is clear that these barriers are not restricted to the tax and welfare systems but that a cross-departmental response to tackle these barriers is required.

The Society of St Vincent de Paul rejects claims that social welfare rates serve as a disincentive to taking up employment and that welfare rates are unnecessarily high in Ireland. New research from the Economic and Social Research Institute¹ finds that 94 per cent of people in Ireland are better off in employment than out of work. Of the remaining 6 per cent, even though they are likely to be struggling to make ends meet, most are actually in employment. This research supports the earlier report of the National Economic and Social Council² which found that the large majority of claimants on the Live Register in Ireland face low replacement rates.

¹ Callan, T. Keane, C. Savage, M, Walsh, J.R., Timoney, K. (2012) *Work Incentives: New Evidence for Ireland*

² National Economic and Social Council (2011) *Supports and Services for Unemployed Jobseekers*

For those in employment who are seeking to move to better paid employment, the best incentive is if the net income of an individual and/or the family increases. An increase in employment income may be due for example, to increasing the hours worked or an increase in the pay rate which may be due to increased responsibilities, duties, shift allowances etc. In addition to an increase in net income, parents and others with caring responsibilities must be able to combine additional hours, shift working or additional responsibilities at work with their caring and other responsibilities. The withdrawal of social welfare payments as employment income increases is a difficulty for people on a lower income who often rely on the reliability of a regular social welfare payment, while employment income may be more likely to fluctuate.

In order to address the barriers and promote incentives for those moving from welfare to work and for those in work to increase their earnings from employment the following are needed:

- The elimination of unemployment traps, so that an individual/family can be sure that they will be better off and not just 'no worse off' when they enter employment. This requires an in work income support such as Family Income Supplement, or an alternative such as a refundable tax credit, which rewards employment and responds to the changing circumstances of households, for example, reductions in earned income from employment
- The elimination of poverty traps, so that when an individual/family's gross income increases, their net income also increases. Universal payments such as Child Benefit are important here, as are considerations around taxes. Now that PRSI is payable on all income once the employee earns over €352 per week this risks creating a poverty trap, particularly in the absence of a responsive in work income support.
- Individuals and families need certainty in their weekly income. This should be taken into consideration when looking at working age income supports and their interaction with income from employment.
- Concerns that working longer hours or for higher pay does not yield increases in net income are especially important when income is low. Lower withdrawal rates of supports and tapers should be considered.

Questions 3-5

This section of our submission deals with influences on decision-making by individuals and families contemplating a return to work, increasing hours of work and/or moving into better paid work and the role of secondary benefits, as per questions 3-5 in the call for submissions.

The cost, quality and availability of childcare and after school care, balancing caring responsibilities for children and others with paid employment, the availability of family and other supports, the availability and affordability of transport, concerns about the hours they will be required to work, e.g. unsocial, irregular, shift work and the costs of employment are among the considerations for individuals or families contemplating a return to employment. Considerations for those thinking of increasing hours of work and/or moving into better paid employment are similar, and are also combined with concerns about the household being better off as a result, for example due to loss of benefits, increased taxation, increased cost of housing through increases in local authority rents or loss of rent supplement and the interactions with the social welfare income of other adults in the household.

Rent supplement has been identified again and again as a major barrier to those considering taking up employment or considering increasing their hours at work. The loss of rent supplement on taking up full time employment means that some in work on a low income will be unable to meet their housing costs. The Housing Assistance Payment would be a welcome development in this regard as would greater availability of RAS housing. We note the increase in Budget 2013 in €15m in the allocation to €150m.

Considerations around retaining the medical card also influence decisions as to entering employment or increasing employment income. Many of the households being assisted by the SVP have children or adults with health problems. The increase in the Drug Payment Scheme announced in Budget 2013 will make it more difficult for those moving from a full medical card to a GP visit card to afford prescriptions and loss of the full medical card is also a concern for those affected by school transport charges which medical card holders are exempt from paying. One possible solution is a transition period for those increasing their employment earnings to retain the exemption from charges such as the school transport for a certain length of time.

Question 9

Features of an in work income support:

- In-work benefits are most effective when the scheme is made widely known to the target group and administrative procedures to receive in-work benefits are not excessively bureaucratic. The system should also be responsive to changes in family circumstances – such as the birth of a child - in a timely way. In this respect, integration with the tax system and payment through the wage package could be an improvement for recipients, and a cost-saving solution for governments. (OECD 2005: 128)³
- The payment must respond to changes in the weekly income of a household by seeking to compensate people in the event of a reduction in income and avoid the total withdrawal of a payment in the event that weekly hours worked fall under a certain level (In the case of FIS, 19 hours)
- It must not only replace the social welfare payment but must reward employment to ensure that the household is better off in employment than on social welfare
- The payment must be responsive to the type of employment which is available to people, particularly in relation to irregular employment patterns, self-employment, people moving between welfare and work due to taking on short term contracts/employment opportunities
- The payment must reflect the additional costs faced by households with children in moving into employment or increasing working hours

The appropriate unit of assessment in the tax and social welfare codes

SVP members have expressed concern that lone parents in receipt of the One Parent Family Payment may be worried about losing access to an independent income on entering a cohabiting relationship. It is the view of the SVP that at the very least, administrative individualisation of social

³ OECD (2005) Increasing Financial Incentives to work: The role of in work benefits. Available from <http://www.oecd.org/els/employmentpoliciesanddata/36780865.pdf>

welfare payments should take place, so that persons can access the social welfare system in their own right, rather than as a qualified adult.

Conclusion

This consultation occurs immediately after Budget 2013 which will have implications for many of the households we assist who are reliant on income supports and other services. It is likely that a number of measures announced in the budget will impact negatively on the ability of individuals and families to move from welfare to work, and that poverty traps have been introduced or worsened, for example through the elimination of the PRSI allowance. The risk is that discussions around employment incentives, poverty traps and unemployment traps can lead to assertions that social welfare rates are too high and that in work income supports disincentivise people from increasing their employment income. SVP is also concerned at the numbers of people with a job who are at risk of poverty. An in work income support is vital to protect the 'working poor'. The SVP rejects claims that social welfare rates are too high, and notes the importance of ensuring that as many people as possible are supported to take up whatever employment opportunities are available to them with the support of in work benefits and other supports such as childcare, afterschool care and elder care, education and training, transport and other services which support people in employment and allow them to increase their employment income in a way that means the household is better off as a result.