



## Position Paper on the Child Benefit Payment

July 2009

The deteriorating economic situation in Ireland has led to a closer analysis by Government of all welfare payments, including those targeted at children. In the Supplementary Budget, delivered in April 2009, Minister for Finance, Brian Lenihan TD made his intention to tax the Child Benefit payment clear: "The Government does not think that it is fair to pay the same level of benefit irrespective of the level of income of the recipient. For that reason, the Government has decided that child benefit will be means-tested or taxed in the Budget for next year."

The Alliance believes that to tax or means-test Child Benefit would demonstrate a failure by Government to recognise its unique value to children and families. The Child Benefit payment is a clear statement by the Irish State that it values all children in Ireland equally. Taxing or means-testing this payment would demonstrate that it does not. Particularly now, in difficult and uncertain economic times, a regular, reliable payment to families is of critical importance. The Alliance is firmly opposed to any changes in the Child Benefit payment.

Whatever immediate action is taken must also prove to be the best use of resources in the medium to long term. Now is not the time for a perceived quick fix solution, which in reality will prove burdensome to set up and costly to maintain.

Our arguments against taxing or means-testing the Child Benefit payment are summarised below, and outlined in more detail later in this paper.

1. **Horizontal equity:** Child Benefit is a payment that reflects our values as a society. It is based on the principle of horizontal equity: income is distributed from those without children to those with children. Taxing or means-testing the payment undermines this principle.
2. **Child Benefit is children's money:** This is recognised by the Irish Supreme Court.
3. **Associated administrative costs:** Taxing or means-testing Child Benefit would be a costly administrative exercise as it would require the policing of family and tax status of those in receipt of the payment, and could generate more costs than savings.
4. **Potential political fallout:** Taxing or means-testing Child Benefit would be deeply and politically unpopular, as it would suggest that Government does not value parents' role in raising their children.

### Why Child Benefit should not be taxed or means-tested

#### 1. Horizontal equity

Child Benefit is a payment that reflects our values as a society; its universality demonstrates that children are cherished and that the Irish public wants to support their wellbeing.

The Child Benefit payment is based on the principle of **horizontal equity**: income is distributed from those who do not have children to those who do, based on an understanding that those with children have higher costs than those without and, therefore, require additional financial support. Still, some consider having children to be a choice taken by some and not by others. They see the rearing of children as a private choice

rather than a collective responsibility. Yet this position fails to acknowledge that in economic terms children are a ‘merit good’: children have value to others, beyond their family, as future taxpayers and workers. In this sense, the Child Benefit payment reflects a **lifecycle approach**: individuals without children pay into a common pot, for a time when they may have children and will receive the payment or for the time when children, who have become adults, will help pay their pensions. Put aptly by Frank Field, MP in England: “I may not have children; but I need someone to have them if my pension is to be paid.”<sup>1</sup>

## 2. *Child Benefit is children’s money*

Child Benefit makes up part of a pot of Exchequer money dedicated to children and supporting childhood. Put simply, **it is children’s money**. Supreme Court judgments in 1980 and 1989, and recent statutory provisions, support the view that Child Benefit is the property right of the child, this is also reflected in the emerging jurisprudence of the European Court of Human Rights.<sup>2</sup> A 1998 Supreme Court, confirming that the increase for a qualified child for pensions is taxable, should be noted.<sup>3</sup> The law recognises the reality that children are wholly reliant on society – through families, communities, services and institutions – for a positive experience of childhood. Meanwhile, real life experience, demonstrated by UK research, shows that Child Benefit is generally paid to mothers and spent on children.<sup>4</sup> Put simply, taxing or means testing Child Benefit means less money for children.

## 3. *Associated administrative costs*

There are significant **administrative costs** and concerns associated with taxing or means-testing the Child Benefit payment; such a move would place additional administrative burden on the Revenue Commissioners, employers and the Department of Social and Family Affairs.<sup>5</sup> Either option would require mammoth changes to the existing system, along with ongoing staffing and maintenance to ensure its correct implementation. The administrative issues associated with changing the payment are outlined below:

- *Defining a household*

Taxing Child Benefit according to ‘household’ status is fraught with difficulty. The Irish tax system allows people to be taxed as individuals or as couples, according to their preference. This means that the system cannot identify all married couples, though it can identify some. Co-habiting couples, or those that are divorced or separated, present further difficulties, and ensuring their payment of the appropriate tax on the Child Benefit payment would require ongoing policing of their living and income arrangements.<sup>6</sup> The simplest solution in this instance would be to tax the person who receives the payment – usually the mother – based on her earnings. But this risks introducing a tax on working women, while excluding non-working women, many of whom may have spouses who earn. Officials have also noted with concern that this option could discourage women from taking up low paid work.<sup>7</sup>

- *Building a responsive system*

Means-testing presents additional difficulties. Its introduction would oblige each family entitled to receive Child Benefit to submit household and income data regularly to determine their eligibility for

---

1 Frank Field MP, Speech to Politeia think tank, London, May 1998.

2 *Hyland v. Minister for Social Welfare* [1989] IR 624 & *Murphy v. the Attorney General* [1982] IR 241.

3 *O’Siochain v Neenan* 13 May 1998 see <http://historical-debates.oireachtas.ie/D/0633/D.0633.200703060141.html>

4 J. Goode, C. Callender & R. Lister (1998), *Distribution of income within families receiving benefits*, UK: Joseph Rowntree Foundation.

5 It is also important to consider the opportunity cost of what these staff could be doing, for example addressing serious social welfare fraud concerns or policing tax evasion.

6 On separation or divorce, which parent receives the child benefit payment is often part of the financial agreement reached between two former partners. Moving to tax or means-testing would require separated or divorced couples to revise this agreement, and re-enter into the emotional and administrative process that this would involve.

7 Carl O’Brien, ‘Moves to tax or limit Child Benefit face difficulties’, *The Irish Times*, 18 April 2009.

the payment. If household income changed during the year the system would need to respond instantly to reflect the changed circumstances of the family. Equally, families with unpredictable incomes – those in and out of work over the course of the year, or the self-employed – would require additional monitoring and responses, and may risk having to pay back money received to the welfare system if their income predictions proved incorrect. The risk of poverty for children in such a complex and unpredictable system is high. Additionally, means-testing would require parents to apply for the payment rather than receive it automatically, and to re-apply each year. Payments of this nature generally have lower take-up and are less effective at reaching their target group. Such a move changes the nature of the payment from an easy to access support for all children, to a cumbersome process for a selection of families. Difficulty defining a household (outlined above) is also an issue with means-testing, as is ensuring equity between different types of households with different combinations of income and assets. Creating poverty traps is a further concern; families may choose not to work in low paid or part-time work, as their earnings could push them over the eligibility threshold for the Child Benefit payment. Growing up in homes where parents are employed is deeply advantageous for children. Given this, the short and longer-term impact of means-testing, which risks discouraging parental employment, should be seriously considered.

#### 4. *Potential Political Fallout*

Child Benefit is a deeply valuable and familiar payment to families in Ireland to help them with the cost of raising children. It is easy to claim, creates little administrative burden, and is completely without stigma. Taxing, means-testing or reducing the value of this payment is likely to have **significant political implications**. Government should not need to be reminded of the consequences of John Bruton’s proposed tax on children’s shoes in 1982.

### **Objectives of Child Benefit in Ireland**

The rationale for the Child Benefit payment has changed over the years. Its original purpose as the ‘children’s allowance’, was to support large families and was justified on the basis that “the amount a wage earner can obtain is frequently inadequate to provide for the reasonable requirements of a large family”.<sup>8</sup>

The Child Benefit Review Committee (1995) was of the view that Child Benefit fulfilled a number of roles, the most important of which were:

- assistance to all households with children in recognition of the higher costs incurred; and
- the alleviation, without contributing to labour market disincentives, of household poverty associated with children.<sup>9</sup>

In his 2001 Budget speech, the then Minister for Finance, Charlie McCreevy TD, associated the payment with formal childcare, the use and cost of which grew significantly in Ireland during the 1990s and into the 2000s. Minister McCreevy outlined the diversity of views on the childcare issue and the Government’s objective of offering real choice to parents. On that basis he claimed that increases in the Child Benefit payment would “help all parents with the cost of rearing their children, and represent a major move towards ending child poverty.”<sup>10</sup> In 2005, Brian Cowen TD, then Minister for Finance stated that “the provision of Child Benefit expenditure, which has been identified as a key mechanism for reducing consistent poverty in Ireland, has been supported hugely by this Government.”<sup>11</sup>

---

8 Sean Lemass, Dáil debate, Vol. 92, 23 November 1943.

9 Child Benefit Review Committee (1995), quoted in Curry, J. (2003), *Irish Social Services*, Institute of Public Administration: Ireland.

10 Minister for Finance, Charlie McCreevy T.D., Budget Speech, 2001.

11 Minister for Finance, Brian Cowen T.D., Budget Estimates Speech, 2005.

## UK Learning: the possibility of taxing or means-testing Child Benefit

Ireland is not alone in considering taxing or means-testing the universal child benefit payment. These options were explored a decade ago in the UK in response to Gordon Brown's Budget 1998 statement that Child Benefit would be taxed for higher rate taxpayers. Ultimately a decision was taken not to tax or means-test the payment. A tax on Child Benefit in the UK was not introduced because none of the options suggested proved viable. They are outlined below:

1. Counting Child Benefit as **individual income and taxing it at the recipients' marginal rate of income tax** meant taxing working women and excluding non-working women, many with high-earning spouses. This was not politically viable.
2. Counting Child Benefit as **individual income and taxing it only at the higher rate of income tax** also targeted women. In addition, it would yield low returns as the numbers of women in receipt of the payment *and* in the highest tax bracket were small.
3. **Taxing Child Benefit as joint income at all marginal tax rates** was deemed difficult and costly to implement. It required identifying the recipient of Child Benefit and their partner in the tax year who could also be liable to pay tax on this payment. Co-habiting, separated or divorced couples would prove difficult to identify, and monitoring living arrangements would be necessary for the system to function effectively.
4. **Taxing Child Benefit as joint income at the higher rate only** where there is one earner in the top tax bracket could have worked in practice but also required assessment of the cohabiting status of higher-rate tax payers. It was difficult to argue for this option without challenging the principle of independence – that all income is taxed independently, regardless of marital status – that underpins the UK tax system.

Means-testing the Child Benefit payment by withdrawing it at a certain income level was also explored in the UK. This was not adopted in the UK because:

- Means-tested payments are inefficient at reaching their targets because their take-up is lower than that for universal payments.
- Means-tested payments are costly to administer.
- The withdrawal of benefit as incomes rise is equivalent to a tax on additional income, which, in its extreme form, creates a poverty trap.

## Conclusion

The Child Benefit payment should not be taxed or means-tested. It is a non-stigmatising, regular and valued payment, wholly focused on children. Taxing or means-testing Child Benefit undermines the principles of universalism, horizontal distribution and recognition of the extra costs associated with having children. Such a move would also generate huge administrative costs, and risks triggering mass political discontent. Government would be well-advised to seriously reconsider its decision to change the nature of the Child Benefit payment. The Alliance challenges whether the costs, economic and social, will outweigh any potential savings.