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Ireland's Child Income Supports: The Case for a New Form of Targeting

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Ireland's Child Income Supports: The Case for a New Form of Targeting

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National Economic and Social Council

Constitution and Terms of Reference

1. The main tasks of the National Economic and Social Council shall be to analyse and report on strategic issues relating to the efficient development of the economy and the achievement of social justice.

2. The Council may consider such matters either on its own initiative or at the request of the Government.

3. Any reports which the Council may produce shall be submitted to the Government, and shall be laid before each House of the Oireachtas and published.

4. The membership of the Council shall comprise a Chairperson appointed by the Government in consultation with the interests represented on the Council, and

   - Five persons nominated by agricultural and farming organisations;
   - Five persons nominated by business and employers organisations;
   - Five persons nominated by the Irish Congress of Trade Unions;
   - Five persons nominated by community and voluntary organisations;
   - Ten other persons nominated by the Government, including the Secretaries General of the Department of Finance, the Department of Enterprise, Trade and Employment, the Department of Public Enterprise, the Department of Social and Family Affairs, and a representative of the Local Government system;

4. Any other Government Department shall have the right of audience at Council meetings if warranted by the Council's agenda, subject to the right of the Chairperson to regulate the numbers attending.

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6. The numbers, remuneration and conditions of service of staff are subject to the approval of the Taoiseach.

7. The Council shall regulate its own procedure.

1 Introduction

Total and per child spending on child income support are now at high levels in Ireland. Yet one in five children is 'at risk of poverty', and one in ten is being reared in a household where no adult works.

Child-contingent cash transfers to households are not the only type of weapon in the armoury for combating child poverty.

However, it is hugely important that their contribution to doing so is maximised and that the large volume of resources being channelled through them is used efficiently and effectively.

In this context, the Government asked the National Economic and Social Council (NESC) to study how Child Dependant Additions (CDAs) and the Family Income Supplement (FIS) could be merged into a single programme to provide a seamless source of child income support to low-income families. This, in effect, requires investigating a form of targeting new to the Irish system, which would enable priority to be given families on the basis of low income alone. Most of the child income support currently received by low income families comes to them through universal payments. These create no employment disincentive but, by channelling almost as much resources to well-off families as to low-income ones, effectively dilute the priority of combating child poverty. They mix it with the allied but distinct objectives of supporting employed parents with the costs of childcare and recognising the social value of caring carried out in the home.

Despite significant changes and extensions to the current instruments of child income support in recent years (principally the introduction of the Early Childcare Supplement and improvements to FIS and CDAs), interest in a new form of targeting has not waned. The Programme of the new government formed in May 2007 has again stated the intention to 'amalgamate Qualified Child Allowances [alias CDAs] and Family Income Supplements in order to develop a second tier of income support targeted at the poorest families'. NESC, therefore, is pleased to be able to publish this research paper as a support to the on-going search by government, public administration and the social partners for greater effectiveness in using resources on behalf of the nation's poorest children.

Section Two briefly revisits the long interest in a new form of targeting that would enable priority be given families on the basis of low income alone. Section Three discusses the argument that, given the extensive development of Ireland's child income supports in recent years and the international evidence that the levels of support currently provided are high, the action lies elsewhere for making further inroads into child poverty. Section Four reviews the latest available data on the level and severity of child income poverty and the role that social welfare is currently playing in alleviating it.

Sections Five and Six constitute the core of this study. Section Five looks closely at how money is being spent on child income support and the changes that have occurred since the mid-1990s. It examines in detail the strengths and weaknesses of each current instrument *if further resources were to be channeled through it with the intention of reaching the children who are still below the income poverty line.* Section Six addresses the question of reform, using some selected international examples to make the case for introducing a new form of targeting. It identifies the practical innovations required of public data and delivery systems if they are to implement the payment of what would, in effect, be a supplement to Child Benefit but received only by low income families. The sought-for advantages in such a new payment include that it would avoid the employment disincentive associated with CDAs, the high-withdrawal rate and potential for subsidising low wages of FIS, and that it would treat all low income families the same, regardless of the source of their low incomes. Section Six makes clear that identifying 'family income' and delivering support to parents in work and those reliant on social welfare smoothly and equitably would entail significant innovations in public administrative systems. It should also be appreciated, however, that achieving the necessary retooling of data and delivery systems would allow the new form of targeting to be applied to other supports as well (e.g., childcare subventions).

2 The Recurring Theme of a 'Second Tier' to Child Income Support

The effectiveness of CDAs and FIS in functioning as a loosely coordinated second tier of child income support has been under discussion for quite some time. A good starting point for reviewing the debate is the 1986 *Report of the Commission on Social Welfare* (CSW, 1986), which examined child income supports comprehensively and in depth. The Commission proposed two broad objectives for child income supports provided by the state. The state should make (i) 'a contribution' to the income of all families, and (ii) 'full provision' for children in families wholly reliant on social welfare (op. cit., p. 293). The first objective recognises children as a 'public good' and society's willingness to transfer resource from households without children to households in which children are being reared. The second objective recognises that child poverty is unjust to the children concerned, damaging for society and that it is in society's interest that no child be reared in poverty.

The instrument through which the state makes 'a contribution' to the costs of rearing all children is Child Benefit[1]. The 1986 Commission did not address the question of the proportion of the cost of rearing a child that *should* be socialised (borne by the taxpayer), nor has this proportion subsequently been addressed in any major Irish policy document. The CSW recommended only that the CB rate 'be improved' in real terms, noting that it had been allowed decline from a previous peak in 1982. Neither did the CSW try to establish the cost of rearing a child directly but deduced it by applying the appropriate equivalence scale[2] to what it considered constituted a minimally adequate weekly income for an adult.

The instruments through which 'the State should provide the *full cost* of rearing children for families dependent on social welfare payments' (1986: 201, italics added) were Child Dependant Allowances and Child Benefit. The CSW accepted that each instrument had inherent strengths and weaknesses in helping poor families. On the one hand, increasing CDAs gave greater

1. Termed 'Children's Allowance' from its introduction in 1944 until 1987.

2. The CSW noted the absence of Irish research on the appropriate equivalence scale for Irish conditions.

priority to low-income families and, thus, successfully 'selectivised' child income support. However, if they became 'very high', the CSW accepted that they would create a work disincentive for large families (it emphatically rejected that CDAs at that time were exercising a significant disincentive effect, *op. cit*, p. 298).[3] On the other hand, CB created no work disincentive, was an independent income for mothers and adjusted the *post-tax* incomes of households in recognition of children being reared in them (1986: 298).[4] However, CB spread child income support thinly across all families at a 'substantial' cost to the Exchequer. On balance, the CSW favoured 'the continuation of a significant element of child-dependant allowances' with, 'in the long term, a modest relative shift towards (Child Benefit) and away from child dependant allowances' (298).

The 1986 Commission did not back the intention in a government plan of the time (*Building on Reality*, 1985-1987) to merge CDAs and CB into a single, taxable Child Benefit. It believed the large presence of children in the population, and the extent of poverty among them, made meeting the full cost of rearing a child for families on social welfare through a taxable Child Benefit alone too expensive. It chose to back instead the new Family Income Supplement, just being introduced, as a third instrument that would provide support for workers on low earnings who were not entitled to CDAs (because not in receipt of welfare) but whose families needed more support than CB alone could provide. The CSW was not enthusiastic in giving FIS this role, noting that its introduction added 'a layer of complexity to child income supports' and 'made more difficult (their) proper long-term evolution' (300).[5] It recommended that, as the rate of CB improved over time and marginal tax rates came down for low-paid employees, FIS should eventually be dispensed with.

3. A strong critique of the huge variety of rates at which CDAs were paid, led to an extensive rationalisation and simplification of the payment structure in subsequent years.

4. With this last observation, the Commission rehearsed the position against taxing CB taken by the Commission on Taxation in 1982.

5. The CSW cited the National Planning Board's (1984) evaluation of FIS as 'a further ad hoc adjustment to an already complicated and anomalous social welfare code' (287).

In summary, the scenario envisaged from 1986 onwards was of three instruments providing support to three groups of families—CB as a first tier reaching all families, and then CDAs and FIS forming a second tier for low-income families split into two groups, those reliant on social welfare receiving CDAs along with their CB and those on low earnings receiving FIS along with their CB.[6] Twenty years later, this continues to describe the essential contours of Ireland's child income support system.

Ten years after the Commission on Social Welfare, an Expert Working Group on the *Integration of the Tax and Social Welfare Systems* (1996) reviewed the system and explored some major alternatives. It was concerned that CDAs and FIS were creating significant work disincentives: CDAs created an 'unemployment trap' because families only received them if they remained on social welfare; FIS created a 'poverty trap' because the withdrawal of the benefit as earnings rose added to the onset of other tax obligations to absorb a major part of any increase in earnings.

The context to the 1996 Report was significant. The unemployment rate in 1995 was 13.5 per cent, the same rate as in 1990, and seemed to be responding little to the improvement in the economy. For much of the period between 1986 and 1996, and contrary to the CSW's recommendation, priority has been given to increasing CDAs rather than CB. A concern that they had become a work disincentive led to a 1994 decision to freeze their value. The impact of doing so was softened with a major increase in Child Benefit (35 per cent) and a *commitment* to move towards a 'Child Benefit Supplement... that would be paid to social welfare recipients and low- to middle-income families' (Budget Speech, February 1995[7]). In the event, increases in Child Benefit alone were relied upon to compensate recipients of CDAs for the continuing erosion of their value and the Child Benefit Supplement did not materialise.

Much of the analysis of the 1996 Report centered on the calculation of replacement rates (RRs) and it was clear that CDAs were causing these to be particularly high for welfare recipients with children.[8] CDAs at the time were also costing the Exchequer more than CB (105 per cent of expenditure on CB)

6. Over the period, 1986-1992, the lowest CDA (a weekly payment) was increased from £8.70 to £12.50 (an increase of 44 per cent); by contrast, the lower CB rate was raised from £15.05 to £15.80 (an increase of 5 per cent).

7. Minister for Finance, Mr. Ruairí Quinn, T.D.

8. By 1995, for example, CDAs alone accounted for 28 per cent of the total income of an unemployed couple with three children.

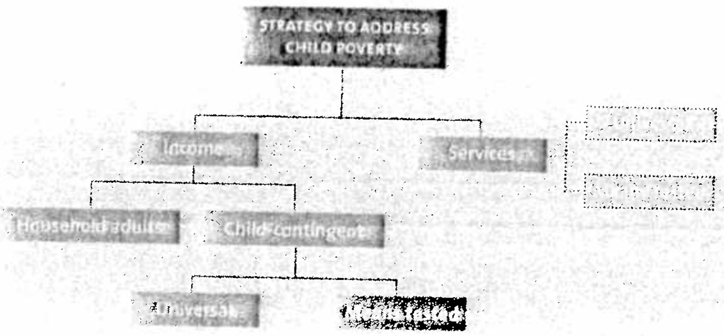
In the final analysis, the 1996 Report did not recommend fundamental reform but proposed instead (in an Interim and Final Report) a range of partial measures that could be implemented immediately to smooth the transition from welfare to work (e.g., retention of secondary benefits for a period, retention of CDAs for 13 weeks for the long-term unemployed, retention of part of the main welfare payment on a declining basis, higher earnings disregards, etc.). It made several pertinent observations on the balance to be struck between piecemeal and fundamental reform, however, that remain useful and relevant to the contemporary challenge of further improving Ireland's child income supports:

i. Benefit withdrawal rates cannot be avoided 'in any social welfare system (where) earning money implies losing entitlement to benefit' (1996: 7). Either high benefit withdrawal rates are imposed on a relatively small part of the population, or lower tax/withdrawal rates are faced by a much larger section of the population.
ii. Making supports universal (like Child Benefit) avoids imposing benefit withdrawal rates on small or large subgroups in the population, but only by imposing higher taxes on the whole of it. A society that provides an extensive range of supports and services, without either income testing or user charges, must levy taxes at a higher level to provide such 'free' access.
iii. Effective social protection, which respects people's capacity and need for self-reliance, requires that its different strands develop in an integrated fashion and not in parallel. The 1996 Expert Group essentially wrestled with the unforeseen by-product of what, in isolation, were each a necessary social development, viz. the protection of the real incomes of people out of work and tax reductions for workers on low earnings: 'several policy objectives being pursued in parallel on their own merits [contribute] to unemployment and poverty traps' (1996: 21).
iv. There is a path-dependence in how instruments of social protection develop: '[Our] options are discrete options, not steps towards a single solution; in other words, it is not a question of beginning with the least expensive option and hoping to move from there towards the more expensive options' (1996: 137). Once an instrument is adopted, it creates constituencies that press for its extension and improvement and a return to basic alternatives becomes more difficult.

In confirmation of this last point, there have been—since 1996—several major extensions and developments in the existing instruments. The calculation of FIS was changed to a net income basis in 1998 and its per-child payments to large families given particularly substantial increases in 2006. A major increase in the value of Child Benefit took place over the period 2001-03, and an Early Childcare Supplement for all children under the age of 6 was introduced in 2006. The freeze in the value of CDAs was rescinded in the 2007 Budget and they were given their first increase since 1994. The implication of these substantial improvements is, indeed, that it has become more difficult to propose and seriously explore fundamental alternatives to the present instruments.

3 Child Income Supports: Not The Whole Answer To Child Poverty

Countries with low child poverty rates tend not to have relied on a 'magic bullet' but on the cumulative contributions of a range of policies: good services for children *and* good child income supports, high employment rates *and* good adult social welfare payments. They typically achieve low poverty rates for adults as well as for children. The particular contribution of a remodeled second tier child income payment to alleviating child poverty, therefore, needs to be part of an integrated strategy that embraces the several channels through which public support is provided to households in which children are being reared.



As the diagram above helps to illustrate, low rates of child poverty rest on the overall balance struck between services and income supports, support to parents and support provided directly to children, universal measures and those that are means-tested. In fact, as the level of spending on child income support is now high, it can be argued that Ireland's overall strategy for ending child poverty must bring complementary factors into sharper focus as increasing the effectiveness of any given level of spending on child income supports. Though the remit of this study is to explore the contribution a reform internal to the system of child income support can make, it is important not to lose sight of the other factors with a major role to play. These are services, parental well-being, employment, and adult welfare payments. In a brief digression, they are examined in turn.

3.1 Services for Children

Where low household incomes are associated with children living in crowded and poorly heated homes, being exposed to severe health and safety risks, receiving poor quality child care, attending schools characterised by high levels of absenteeism and staff turnover, receiving prompt medical attention only be attending hospital A&E services, recreating in neighbourhoods that expose them to antisocial behaviour and crime, and so on, the primary response should *not* be to boost household income so that the families in question may escape those homes, schools, neighbourhoods, etc. The real challenge is to improve the standards of housing, childcare, schools, health services and neighbourhood security available to families on low incomes *even when they are on low incomes*. This has been attempted in Ireland primarily by restricting eligibility for many publicly funded services to people on low incomes (social housing, the medical card, childcare, etc.) with the attendant risks that dual service systems develop and services to poor families become poor services. However, it is clear that the route to essential services for children's development cannot be *via* higher household incomes, as though the norm were that families have access to quality services for their children only when they are in a position to pay for them. If anything, the perspective should be that the route to higher household incomes is *via* access by all children to services of the range and quality they need.

This perspective is particularly important with respect to the speed and success with which Ireland develops its infrastructure of child care. For example, the average cost of paid childcare was just over €120 a week (€145 in Dublin), at a time when the lowest adult social welfare payment was €148.80 (CSO, 2006). It is clear that no conceivable increase in adult welfare payments, much less in child income supports, would enable parents on social welfare to purchase quality childcare. At the same time, there is extensive evidence that low-income families, children and parents, are likely to benefit more from quality childcare than richer families. This evidence includes that children's health and safety can be better monitored, their preparedness for school improved and parents themselves, where necessary, improve their health and parenting skills and acquire greater confidence in an eventual return to

12. The Community Childcare Subvention Scheme (announced in July 2007) will need careful and transparent evaluation in this regard. It will pay a community childcare provider up to €80 a week towards the cost of full-day care provided to the child of parents in receipt of social welfare. Previous experience with making supports conditional on social welfare receipt make it important that the effects of this subvention on the duration of parental welfare receipt and on the social mix achieved by childcare providers should be integral to its evaluation.

education or employment. In this instance of childcare, access to a quality service is more a means to escaping from a low income than a reward for having done so.[12]

A variation on this argument for the priority of services over child income supports also deserves attention. Low family income is not an unambiguous indicator that children are in need. It should not be assumed that a child in a household where the equivalent income is, for example, below 60 per cent of the median is, on that evidence alone, in need. This could entail 'stigmatising low-income families with high levels of parenting skills' (UNICEF, 2005). The child may be the least likely member of the household to experience deprivation as when parents successfully shield their children from the consequences of low household income, through their self-sacrifice and the quality of the parent-child relationships. Conversely, children with an income attributed to them that places them above the poverty line may not be receiving supports essential to their development because of poor parenting or exceptional claims on household income. The least ambiguous indicators of child poverty are, in fact, provided by non-monetary outcomes (low birth weight, sickness and accidents in childhood, neglect and abuse, poor 'school readiness', hazardous environments, etc.). Where the data allows it, such final child outcomes are more reliable as evidence of child poverty than low household income, which remains an intermediate or instrumental factor.

It is important, then, that the convenience of framing child poverty measures in terms of income does not 'skew the policy response excessively towards tax and transfer changes, and away from improving public services for children which might have a greater impact on their well-being over the longer term' (Brewer, 2003: 1). In fact, 'research cannot yet tell us whether directing extra resources to parents is better for children's well-being in the longer term than improving services for children' (*op. cit.*, 14).

3.2 Parental Well-Being

While access to quality services for children regardless of family income is extremely important, three distinct ways in which low household income impacts negatively on children need to be acknowledged and addressed.

The first is simply that items that aid children's development, and which parents know would do so and want for their children, are unaffordable (e.g., medicines, books, children's furniture, space within the house to do homework, heating, school trips, a computer, etc.). Research makes clear that adequately resourced home environments significantly improve opportunities for children's development and justify prioritising low-income households with resources available for child income support. In other words, at low levels of household income additional income is important while, above a certain threshold, additional income does little to improve the environment for children further. The best available data in 2007 suggests that a large minority of children in Ireland by international standards do not have sufficiently well-endowed home environments.[13]

A second route by which low household income impacts negatively on children hinges crucially on the children themselves. They, also, notice what money does directly for them. They, too, have direct economic concerns (food they prefer, bedroom accessories, trips, etc.) whose denial they find hard. More crucially, children, too, are social beings and feel acutely the judgement of their peers. They can be anguished when denied an item or activity that would strengthen their group belonging and not having which marks them out as different. The school, in particular, is a hugely important world to children in which not being able to afford what protects their status can cause deep unhappiness.

A third route by which low household income impacts negatively on children is by undermining the quality of parenting they receive. Parents who struggle with debt, who are themselves poorly fed, unable to purchase medicines or to socialise beyond a minimum extent, who must work long and awkward hours, etc., are more likely to be tired much of the time, experience ill-health or suffer depression. This can affect their parenting skills. Some striking research in Ireland found that it is the degree of financial stress experienced by a mother rather than the level of household income itself that has the stronger influence on child well-being (McKeown and Haase, 2006). While closely related, the two are not one and the same thing. Among households with similar levels of income, the extent to which the mother is struggling to make ends meet has a strong and independent influence on the parent-child relationship and on the mother's own health.[14] The authors comment:

13. UNICEF (2007) uses 2001 data from the WHO's survey on *Health Behaviour in School-age Children* (HBSC) and 2003 data from the OECD's *Programme for International Student Assessment* (PISA) to conclude that Irish children have poor educational and cultural resources in their homes by OECD standards (19th out of 24). See, especially, its Figure 1.3b.

14. McKeown and Haase

> It is clear from (our analysis) that helping people to cope financially involves much more than money, however important that may be in particular cases. Helping people to cope financially also requires, as a pre-requisite, helping them to cope with themselves and the life events that they experience (2006: 60).

The development of such services as the Money Advice and Budgeting Service (MABS) and its integration with counselling, mental health and other services becomes, then, a requirement if additional child income supports are to have their desired impact on child well-being.

3.3 Parental Employment

Children do not have incomes, and a child is considered to be below an income poverty line only after aggregating all sources of its *household's* income and reckoning the share that is specifically available to meet the child's needs (this is what adjusting household income using an equivalence scale does). Parental earnings and welfare payments to adults constitute larger proportions of total household income than child-contingent cash transfers. Consequently, a given rate of increase in parental take-home pay or adult welfare entitlements does more to raise 'children's incomes' than the same rate of increase applied to child income supports. This is the application to children's position in the income distribution of the fundamental observation that 'children are not actors in their socio-economic situation, they benefit or suffer from that of their parents (Jeandidier *et al*, 2000).

What parents earn is the single most important determinant of whether children are reared in relative income poverty or not. As Ireland's economic boom unfolded and employment rose, more and more children benefited from the rising wages and income tax reductions enjoyed by their parents. By the year 2000, parental non-employment had become the single most important factor associated with child poverty in Ireland, much more important than family structure. For example, children with two non-employed parents faced a risk of consistent poverty in 2000 four times higher than that faced by children of employed lone parents.

By contrast, the risk of consistent poverty risk had become almost negligible for children with two employed parents, and the proportion of children in households with more than one earner is growing. Across Europe, it is argued that 'the dual earner household is now the norm' and that 'the relative position of the family in terms of income and status no more depends on the earnings of the 'male breadwinner', but on the earning power of both partners and the long-term stability of their relationship' (Liddle and Lerais, 2007: 14). This does not mean the earnings of one parent should not be sufficient to raise her or his children above the relative income poverty line, but it is making it increasingly difficult for the incomes of families with no earners to keep pace with median incomes in societies that have both higher employment rates and growing proportions of dual earner households.

Cross-country differences in child poverty rates are particularly related to differences in mothers' employment rates (Förster and d'Ercole, 2005). Whether mothers work, for how long, their hourly earnings and the treatment of second earners by tax codes explain more of the differences in child poverty rates across countries than the labour market earnings of fathers. It is important to be clear whether, and under what conditions, it is better for young children that their mothers, especially if they have only limited earnings power, should take employment rather than remain in the home. At the same time, it is clear that generous maternity benefit and parental leave, access to good childcare and flexible work arrangements (including for fathers) make major contributions to reducing child poverty because they facilitate maternal earnings. The low child poverty rates of the Nordic countries are due in a major way to ensuring these conditions of possibility for women to earn. By contrast, the relatively high child poverty rates of Anglo-Saxon counties (with the prominent exception of the US) are *despite* high levels of cash transfers for their most disadvantaged children. Thus:

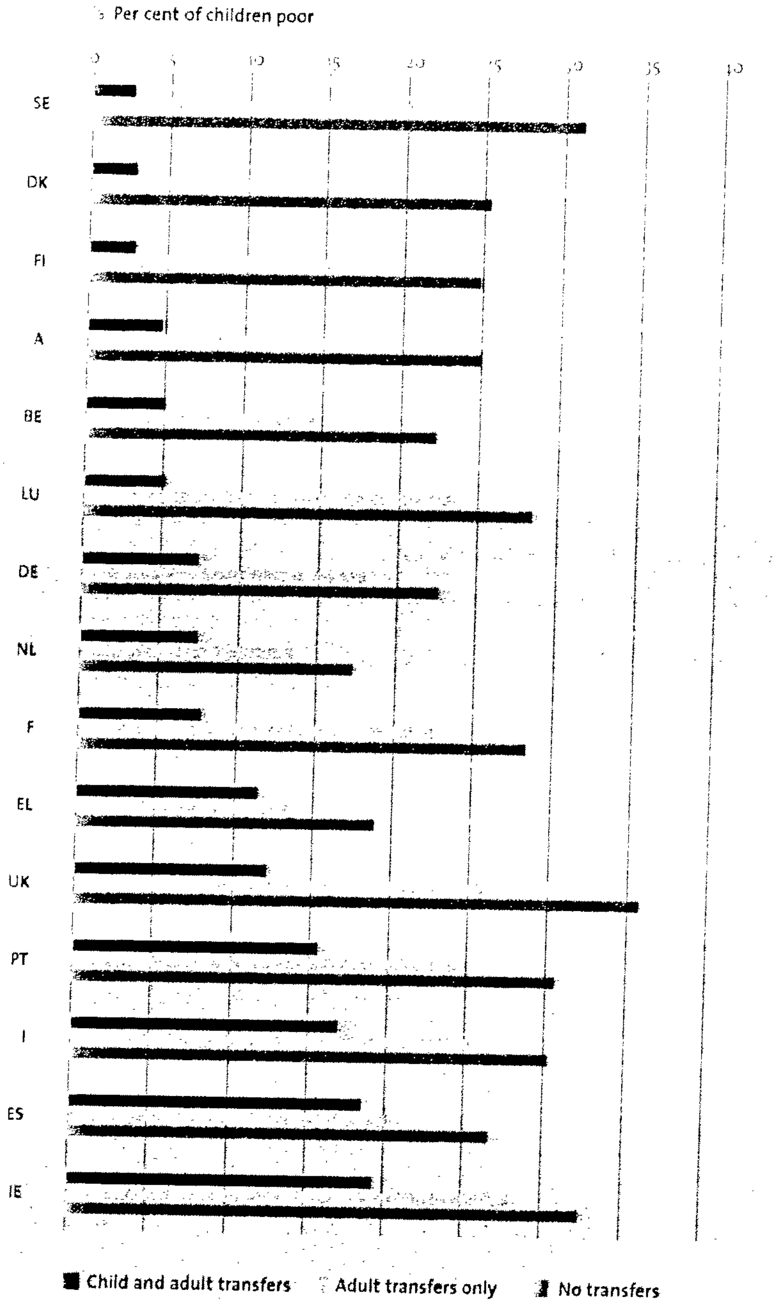
> The English-speaking countries other than the US, all of which have fairly high poverty rates...actually have a *high level of social transfers* going to their most disadvantaged children...[For example] transfers per child in the lowest quintile group are about as large in Australia and the UK (child poverty rates of 17 per cent and 21 per cent) as they are in Sweden and Denmark (child poverty rates of 3.7 per cent and 5.9 per cent). ...Instead, the reasons for their high level of child poverty lies in the low levels of *market* incomes received by the most disadvantaged families. (Bradbury and Jäntti, 2001: 28. Italics added)

Parental earnings are particularly key to reducing the poverty risk for children of lone parents. Experience in the countries that have achieved high employment and low poverty for lone-parent households point to the importance of focusing the challenge as primarily combating *adult* poverty rather than child poverty, by ensuring that responsibility for rearing a child does not trap a parent in poverty or impede their ability to achieve a greater degree of self-reliance. This gives proposals for reforming Ireland's One-Parent Family Payment a prominent place in combating child poverty. Over one fifth of Ireland's children are in lone parent households (Census 2006) .and their at-risk-of-poverty rate (60 per cent line) is 2.2 times the national average (2005). A the same time, Ireland's combined package of income support available to a lone parent outside the labour force is one of the best in Europe (Bradshaw and Finch, 2002: 131.) It is their low employment rate and low earnings when in employment that most account for the major exposure of their children to poverty.

3.4 Adult Welfare Payments

An emphasis on parental earnings, however, cannot hide the fact that a significant number of children in poverty have parents who, for different reasons, are simply not in a position to take employment. The level of social welfare payments to which their non-employed parents are entitled, therefore, impacts strongly on the likelihood of the children falling below the income poverty line. This has been cogently illustrated in a study of the effectiveness of tax and transfer systems in the EU 15 Member States in reducing child poverty (Corak *et al*, 2005). The authors noted the child poverty rate (at the 50 per cent of median line) on the basis of final income in each country in 2001. They, then, recalculated it, first, removing only child income supports from household income and, secondly, every other type of transfer as well. The results are shown in Chart 1. The countries are ranked from left to right by ascending actual child poverty rates.

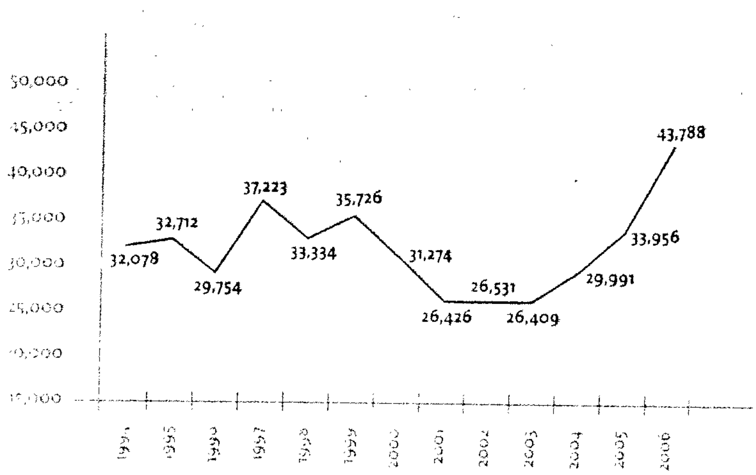
Chart 1 **Child Poverty Rates in the EU 15 Member States in 2001, With and Without Child Income Transfers, and All Transfers.**



Source: Corak *et al* (2005)

For most of its lifetime, FIS has been considered to have a low take-up. Since 2003, however, there has been a strong rise in the number of children benefitting from it (Chart 2). The reasons underlying this are not yet clear. Previous improvements in the programme's generosity, for example, (including its shift to a net income basis in 1998) did not lead to such a sustained rise in the numbers of children benefitting; employment growth was as rapid in years prior to 2003 as subsequently; the increased generosity of FIS to large families in 2006 and 2007 have come after, rather than preceded, the onset of the rise. The large in-migration after the 2004 EU enlargement has played a part; for example, 46 per cent of the new recipients between July 2005 and March 2007 have been foreign nationals (which this begs the question why an application process which Irish workers have found complex and potentially off-putting appears to offer less difficulties to migrant workers).

Chart 2 **Child Beneficiaries of FIS, 1994 to 2006**



FIS enjoys a high profile as the state's main in-work income support for families with children. At the same time, the numbers of children benefiting from it remain small (compared, for example, to the numbers of CDAs) and its undoubted effectiveness in ensuring that employment is a route out of poverty for its recipients (witness its generous levels of payment, Table 11) sits uneasily with continuing evidence that a significant number of children are still in the households of a 'working poor'.

Observations can also be made about FIS that serve to draw attention to some of the features that should be looked for in any new instrument that would subsume it.

- FIS may still have a low take-up, though a significant rise in the number of recipients and child beneficiaries has been occurring since 2003.
- Payment of FIS is not automatic. The initiative lies entirely with the employee who must enlist their employer— and their spouse or partner's employer when s/he is also employed—to complete an extensive application form.[34]
- Where a new work relationship is tentative on both sides, and employees in particular may be anxious to please a new employer, the application process may be off-putting. In effect, an employer and employee have to agree that the latter's pay is insufficient for their family's needs. An ambitious employee may be unwilling to accept they will be on low earnings (or in the same job) for sufficient time to make application for FIS worthwhile; others may lack the self-confidence and degree of personal organisation successful application requires. The issue has certainly been little researched.
- While FIS is intuitive on one level (the earnings of low-paid workers need to be supplemented if they are to be able to support large families), the amount people stand to receive is difficult to communicate. The basis to the calculation of the thresholds has become even less transparent since 2005.

34. The application form has 55 questions. The applicant must have a bank or building society account; they must provide two recent pay slips, their P60 and their Tax Credit Certificate; they are asked if they are cohabiting and, if ever married, the date of the marriage; they are required to give full details of all their own income sources and of all income sources of their spouse or partner.

- FIS feeds complexities. For example, its availability to employees working at least 19 hours a week sharpened the search for complementary in-work supports to people working fewer hours. Hence, unemployment benefit/ assistance can be paid partially to people who work 3 days or less (with no number of hours specified); formerly unemployed people working less than 24 hours a week may be entitled to part-time Job Incentive; self-employed people with low household means may be entitled to unemployment assistance (and its CDAs) regardless of their hours worked.
- FIS has a high withdrawal rate (60 per cent). This improves its targeting and reduces the number of people higher up the earnings ladder who receive a partial payment. However, in reapplying for a further year, people may experience a significant drop in their recalculated FIS payment.
- FIS is particularly generous towards Lone Parents as its thresholds were originally calculated as a multiple of what a couple, not a single person, would receive on unemployment assistance.
- FIS attempts only a limited responsiveness in its level of payment to changes in a family's circumstances. This both increases income security for recipients and reduces administration costs. Once granted, FIS is paid for 52 weeks and *remains the same even if weekly earnings increase* (or decrease). If another child is born, the FIS payment is increased as soon as the DSFA is notified.
- Loss of employment or a severe curtailment in regular hours worked (to below 19 hours a week), means a person no longer meets the qualifying conditions and ceases to receive FIS. They then become entitled to Unemployment Benefit or Assistance and their associated CDAs.
- FIS is based on 'family income', which is defined for the programme's purposes and ascertained on the basis of the application form as validated by an employer.
- FIS can be paid in respect of children not resident in the state. It is only necessary that children are supported by employees who meet the other qualifying conditions, not that they reside with them. The large numbers of migrants entering lower paid jobs, since 2004 in particular, make it likely that a growing number of the children being supported by FIS are outside the state.

5.4 Child Benefit (CB) and the Early Childcare Supplement (ECS)

Child Benefit is a monthly cash transfer to households with children from which practically every child in the state benefits.[35] Third and further children receive a higher payment (22 per cent higher in 2007) than first and second children, and multiple births also attract higher support. Any person legitimately present in the state and with responsibility for a child can apply for Child Benefit. The payment is exempt from income tax and is usually applied for by, and paid directly to, the mother. It is the main instrument through which the state socialises the costs of rearing children. As such, it is, primarily, an exercise in horizontal redistribution—from households without children to households in which children are being reared.

Comparing 2005 with 1994, the number of families receiving Child Benefit rose 12 per cent, though the total number of children benefiting was only marginally higher (Table 12). Until 2001, a fall in average family size more than offset the growing number of families so that the number of child beneficiaries fell. Since 2001, the number of families has continued to grow at about 1 per cent a year but family size appears to have stabilised or marginally increased and the child population has been rising. The proportion of families with only one eligible child rose from 34 per cent to 41 per cent over the period, 1994-2005, while those with 3 or more eligible children declined from 33 to 25 per cent. One third of all benefiting children were aged under 6 in 2005.

The rate of payment of Child Benefit was significantly increased in 1995 but truly substantial increases did not occur until 2001 and 2002 (Table 13 and Chart 3). Expenditure on Child Benefit over the five year period, 2001-2005, almost doubled and accounted for 22 per cent of the *increase* in total spending by DSFA. This does not include the cost of its exemption from income tax, estimated at €343m for the tax year 2004 (up from €127.4m in 1999/00).[36] This was approximately the same as total expenditure on CDAs that year.

35. The children of refugees and asylum seekers whose claims are being processed and of illegal immigrants do not receive CB. Children of the first group were estimated to number 2,200 in 2006.

36. *Tax Strategy Group*, paper 22 of 2004.

Table 12 **Number of Families Receiving Child Benefit, by Number of Eligible Children, 1994 and 2005**

	[illegible]	[illegible]	[illegible]	[illegible]
Total number of recipient families	482,592	*100*	547,540	*100*
Per cent with 1 eligible child		*0.34*		*0.41*
2 eligible children		*0.33*		*0.34*
3 or more eligible children		*0.33*		0.25
Total number of eligible children	1,055,156	*100*	1,060,740	*100*
Eligible children under 6	301,202	*0.29*	347,019	*0.33*
Eligible children 6-12	432,226	*0.41*	385,631	*0.37*

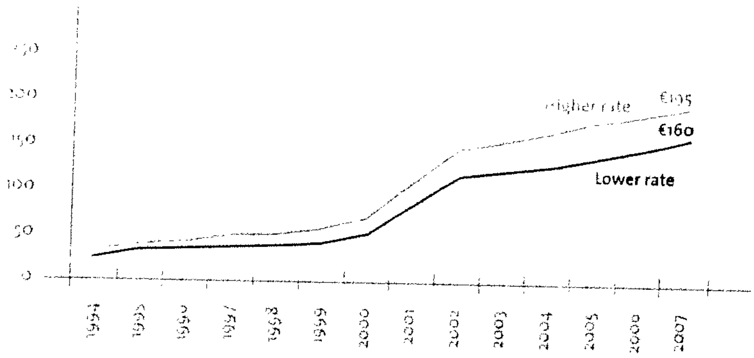
Source: Statistical Information on Social Welfare Services

A further policy development occurred in 2006 that can be viewed as part of the unfolding story of Child Benefit. Budget 2006 introduced a new payment of €1,000 annually to be made on behalf of every child under 6. Though termed an 'Early Childcare Supplement', the payment is not conditional on parents incurring formal childcare costs. It is, in effect, distinguishable from Child Benefit only in its restriction to children aged under 6 and being paid quarterly rather than monthly.

Child Benefit Rates, Current € Monthly, 1994-2007

1994	25.40	31.75
1995	34.29	40.64
1996	36.83	43.18
1997	38.10	49.53
1998	40.01	53.34
1999	43.82	58.42
2000	53.98	71.12
2001	85.73	109.22
2002	117.60	147.30
2003	125.60	157.30
2004	131.60	165.30
2005	141.60	177.30
2006	150.00	185.00
2007	160.00	195.00

Chart 3 Child Benefit Rates, Current € Monthly, 1994-2007



There are significant features of Child Benefit from which a new instrument seeking to assist children in low-income families exclusively might usefully learn.

- CB is easy for people to understand. It is easily grasped that support is available and how much that support is. The qualifying condition (rearing a child) has no stigma attached to it.
- CB is the same for people in employment and people on social welfare, for people parenting alone and for couples. It provides uniform support independently of the circumstances of a child's parents and of the choices they make.
- Its direct payment, in most instances, to the mother is regarded as a significant contribution to ensuring that children benefit from the internal sharing of household income.
- CB must be applied for, and key information has to be furnished by the applicant but the process—in its case—appears to deter virtually no eligible applicant.
- Arrangements are under way whereby the registration of a first child's birth will result in the DSFA automatically sending an application form without waiting for a parent to request it. No new application will be needed for second or subsequent children but the registration of the child's birth will trigger payment of CB on its behalf.
- As a poverty-alleviation measure, CB is inefficient. It is paid wherever children are present and irrespective of children's actual needs. It has helped reduce the poverty gap experienced by poor children but is insufficient on its own to impact significantly on the child poverty rate.
- The alignment of CB with all children in the state has been blurred by two recent developments. The large numbers of EU nationals working in the Irish economy mean it is now paid on behalf of a non-negligible number of children not resident in Ireland.[37] The introduction of the Habitual

37. The value of Ireland's CB is significant from the perspective of several of the new Member States also. For example, its value for two children in 2006 (€150 * 2), was greater than the monthly earnings on the minimum wage—adjusted for purchasing power—in Latvia (€240) and Lithuania (€292). Eurostat (2006), *Statistics in Focus. Population and Social Conditions. 9/2006.*

Residency Condition for application has made its payment on behalf of the children of 'third country' nationals living in Ireland no longer automatic.

- Because CB is paid on behalf of almost every child in the state, or being supported by an EU national at work in the state, and regardless of parental income, it is an expensive programme. For example, the payment of a 10 per cent increase on its 2006 rates would, in three years, pay for a doubling the five-year National Childcare Investment Programme.

5.5 Child Income Supports and the Income Distribution

It is interesting to examine where in the income distribution the principal child income supports are received. The distribution of Child Benefit and the Early Childcare Supplement simply reflect the presence of children in households and it is difficult, in principle, to say whether one should expect their distribution *across families* to follow a progressive or regressive pattern. Large families have become less prevalent in Ireland today and, even though still more associated with poverty than small families, can be expected to be pulling a lower proportion of total CB/ECS spending into the lower income deciles.[38] By contrast, spending on the other child income supports—CDAs, BSCFA and FIS—can be assumed to adopt a largely progressive pattern and to be received in almost their entirety in the bottom half of the income distribution. These expectations are largely confirmed by Table 14 and Chart 4, which show the distribution across family income deciles of spending on the four principal child income supports (as estimated by the ESRI SWITCH model for 2006).[39] We see that practically all spending on CDAs and FIS (98 per cent) went to the bottom half of the income distribution, as against just over one half (56 per cent) of spending on Child Benefit and the Early Childcare Supplement. Of the latter two non-means tested payments, CB is more progressive than the ECS—27 per cent of spending on it went to the poorest 30 per cent of families as against 20 per cent of ECS spending. In fact, over one half of spending on the ECS (52 per cent) goes to the top half of the income distribution (as against 41 per cent of CB spending).

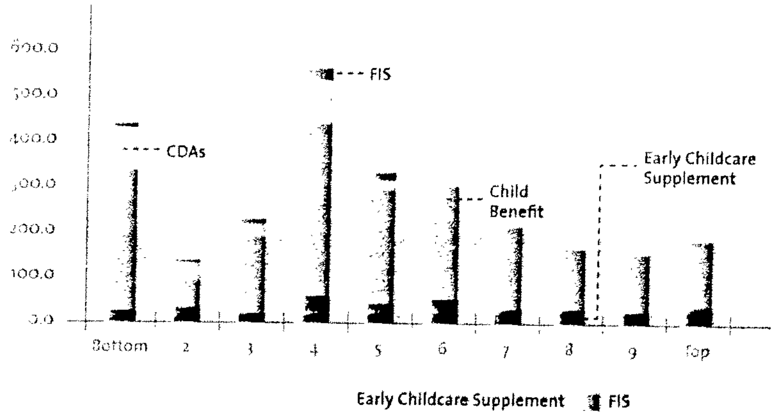
38. It would be particularly interesting to know if the distribution across income deciles of spending on the higher rate CB differs significantly from the distribution of spending on the lower rate.

39. Based on March 2006 estimates of full 2006 expenditure. The SWITCH model aligns tax units and households so that the net impact of tax and welfare changes on what it terms 'income units' can be estimated. For this reason, its estimates of spending on child income supports can differ slightly from published data.

Table 14 **Distribution of Child Income Supports, 2006.**

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	€m	€m	€m	€m	€m	%	%	%
Bottom	22.0	313.9	89.1	6.9	431.8	14%	28%	16%
2	30.5	59.8	39.6	4.0	133.9	4%	13%	5%
3	19.8	165.7	29.2	8.0	222.8	8%	11%	8%
4	59.2	373.3	93.4	25.6	551.6	18%	35%	21%
5	42.9	245.6	20.4	17.4	326.3	12%	11%	12%
6	53.3	245.9	6.6	0.5	306.4	13%	2%	11%
7	33.2	177.8	1.5	0.0	212.5	9%	0%	8%
8	33.2	131.1	0.6	0.0	164.9	7%	0%	6%
9	27.0	123.5	1.2	0.0	151.7	6%	0%	6%
Top	39.5	141.7	0.0	0.0	181.1	8%	0%	7%
Total	**360.6**	**1978.4**	**281.6**	**62.4**	**2683.0**	**100.0**	**100.0**	**100.0**

Chart 4 **Distribution of Spending on Child Income Supports, 2006.**



5.6 The Adequacy of Child Income Supports

The adequacy of child income supports refers, almost always, to their antipoverty objective. The adequacy of Child Benefit, however, has an additional and—arguably—more important meaning; it refers to the extent to which society believes the costs of children in general should be socialized. As such, there is no accepted yardstick against which to measure it. In the words of the 1986 Report of the Commission on Social Welfare, CB is how the state makes 'a contribution' to the cost of rearing each child. Subsequently, three interrelated but different objectives have variously been cited in support of increasing its rates: (i) an antipoverty objective or, more specifically the transformation of support for poor families in a way that minimises employment disincentives, (ii) support for working parents with the cost of childcare, and (iii) recognition of the value of women's work caring for children in the home (an objective that assumed larger prominence with the removal of children's tax allowances from the income tax code). While these several objectives have been evoked in support of the decision to prioritise CB, a clear target level for the rate of CB has not been adopted. As noted already, it is not clear what proportion of the costs of rearing a child it is intended that the state should socialise.

The Adequacy of Child Income Supports for Low-Income Families

As also noted above, since 1986 at least, there has been an acceptance that child income support from the state—from all sources—should be sufficient to meet the full costs of rearing a child in families reliant on social welfare. This is a more difficult proposition than may appear at first sight. In the first place, one cannot lift children out of poverty without lifting their families and households out of poverty. In second place, sums greater than what is potentially needed to cover the 'cost' of a child will be needed in an indeterminate number of cases, as when households have crippling debts or extra-ordinary needs arising from illness or other household conditions. Nevertheless, several benchmarks have been adopted by which the adequacy of the combined child income support package received by low income families can be judged.

The most widely used is that the combined support should be equivalent to a set proportion of what the state considers a minimally adequate income for an adult. This was the approach taken in 1986 (see page 4 above). In a direct continuation of this approach, the Revised National Anti-Poverty

Strategy (2002) undertook to raise the combined value of CB and CDAs to 33–35 per cent of the minimum social welfare rate.

A related but similar approach is to apply the same weighting (that accorded a child in an equivalence scale), not to the lowest adult social welfare payment, but to the income poverty line below which people in general are considered to be 'at risk of poverty'. For example, 0.33 of the 60 per cent of median equivalised income is then interpreted as the marginal addition a child makes to the income needs of a household and a valid benchmark for assessing the adequacy of child income supports.[40] A third approach, little used in Ireland, is to establish the direct costs associated with rearing a child at a point in time and see how much of them child income supports cover. This last approach needs not just a tailored price index to capture changes in the price of a 'child's basket of goods and services' over time but regular reviews of the products and services considered essential for rearing children.

40. The value of Ireland's CB is significant from the perspective of several of the new Member States also. For example, its value for two children in 2006 (€150 * 2), was greater than the monthly earnings on the minimum wage—adjusted for purchasing power—in Latvia (€240) and Lithuania (€292). Eurostat (2006), Statistics in Focus. Population and Social Conditions. 9/2006.

Table [illegible] The Adequacy of Combined Child Income Support (CB and CDA), 1994-2005

	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1. Child Dependant Addition (lower rate)	16.80	16.80	16.80	16.80	16.80
2. Child Benefit (lower rate, weekly value)	5.86	8.79	12.46	28.98	32.68
3. Lowest Combined Support (rows 1 & 2)	22.66	25.59	29.26	45.78	49.48
4. Child Dependant Addition (Lone Parent rate)	19.30	19.30	19.30	19.30	19.30
5. Child Benefit (higher rate, weekly value)	7.33	11.43	16.41	36.28	40.92
6. Highest Combined Support (rows 4 & 5)	26.63	30.73	35.71	55.58	60.22
7. Lowest Adult Social Welfare Payment	77.47	85.73	98.43	124.8	148.80
Combined Support (as %: lowest/highest)	29 / 34	30/ 36	30 / 36	37 / 45	33/ 40
8. Child's imputed marginal addition to income needs of household[1]	25.36	33.80	47.38	58.00	63.60
Combined Support (as %: lowest/highest)	89 / 105	76 / 91	62 / 75	79 / 96	78 / 95
9. Cost of a child (Basic Minimum Standard, Carney *et al*, 1994)[2]	38.10	40.28	44.25	50.26	52.65
Combined Support (as %: lowest/highest)	59 / 70	64 / 76	66 / 81	91 / 111	94 / 114
Consumer price index (1994=100)	100.0	106.6	112.6	130.5	133.8

Notes: 1. 0.33 of 60 per cent of median equivalised household disposable income.

2. Carney *et al* estimated both a Basic Minimum Standard and a Modest-but-Adequate Standard in 1992 terms for children in three age groups respectively (0-6, 7-12, and 13-18). The Basic Minimum Standard for the three age groups is averaged here.

3. The revised NAPS (2002) proposed that CB and CDA should sum to 33-35 per cent of the lowest adult social welfare payment.

Table 15 shows how the value of Ireland's combined CB and CDA have evolved relative to the minimum cost of rearing a child using these three different benchmarks. By 2005, this package was worth between €49.48 and €60.22 a week per child depending on whether the lowest or highest CDA and CB rates applied. The benchmark provided by a proportion of median income is the most exacting over the twelve-year period in question (Row 8). In 1994, CB and CDA combined was equivalent to between 89 and 105 per cent of one fifth of median income (i.e., 0.33 times 0.60) whereas, by 2005, it had fallen to between 78 and 95 per cent of it. The substantial, almost six-fold increase in CB, with no help coming from the frozen CDA, could not keep pace with the rise in median income. The least onerous benchmark is that provided by up-rating what was considered a 'basic minimum standard' for children in 1994 in line with inflation (Row 9). The combined income support package for children was between 94 and 114 per cent of this standard in 2005, up from between 59 and 70 per cent in 1994. The most used benchmark, however, is that set by the evolution in the lowest adult social welfare payment (Row 7). This shows the income support package for children at between 29 and 34 per cent in 1994 but 33 to 40 per cent in 2005.

Table 15 also illustrates the major shift in composition of the combined child income support package. The weight of CB in the package grew from one-quarter to two-thirds; conversely, the weight of CDA fell from some three-quarters in 1994 to one-third by 2005. This makes it interesting to examine what the combined income support package for children would have looked like in 2005 had *the freeze on CDAs had not been implemented* and their value increased in line with the lowest adult welfare rate.[41] CDAs would, then, be 92 per cent higher in 2005 than in 1994 and the lowest rate amount to €32.27 weekly (Table 16). The combined income support package would be evenly composed of CDAs and CB. In the least favourable circumstances (lowest CDA and CB rates), it would have fully covered the income needs of a child as implicit in the equivalence scale.

41. We must also assume the same rises in CB would yet have taken place and that there were no behavioural responses to the improvement in CDAs (e.g., that the CWS Report of 1986 was right in discounting their disincentive effect).

A 2007 assessment of the adequacy of child income supports carried out for the social partners includes the weekly value of the Early Childcare Supplement and of the BSCFA and then aggregates *four* sources of income support for children in different age groups. The results, shown in Table 17, are that child income support in the wake of Budget 2007 ranged from under 34 per cent to almost 44 per cent of the lowest personal social welfare rate.[42]

Table 16 **The Adequacy of Combined Child Income Support (CDAs increased), 1994-2005**

		1994 €	1997 €	2000 €	2003 €	2005 €
1	Child's imputed marginal addition to income needs of household	25.36	33.80	47.38	58.00	63.60
2	Child Dependant Allowance (lowest rate)	16.80	18.60	21.34	27.06	32.27
3	Child Benefit (lower rate, weekly value)	5.86	8.79	12.46	28.98	32.68
4	Total Child-Contingent Income Support (2+3)	22.66	27.39	33.80	56.04	64.95
	2 as per cent of 4	*74%*	*68%*	*63%*	*48%*	*50%*
	4 as per cent of 1	*89%*	*81%*	*71%*	*92%*	*102%*

42. The Table also shows that younger children attract more support in the current Irish system than older children. This is because of the degree of priority accorded childcare costs, though the actual costs of children increase as they get older.

Table 17 Child Income Supports as Percentage of Lowest Social Welfare Rate, Post Budget 2007

Source of support (€ weekly)	Until 2 years	2 to 6 years	7 to 11 years	12 years plus
Child Benefit	36.92	36.92	36.92	36.92
Early Childcare Supplement	19.33	19.23	0	0
CDA	22.00	22.00	22.00	22.00
BSCFA	0	3.46	3.46	5.48
Total	78.15	81.61	62.38	64.40
Lowest Personal SW rate	185.80	185.80	185.80	185.80
Total Child Income Support as %	42.06%	43.92%	33.57%	34.66%

Source: Towards 2016. Ten-Year Framework Social Partnership Agreement. First Progress Report. February 2007. (p.83)

5.7 The Impact of Child Income Supports on Child Poverty

The continuing high levels of child poverty in 2005—both in 'consistent poverty' and 'at risk of poverty' (Tables 1 and 2 above)—might appear to constitute clear evidence that the level of child income support in Ireland is poor and not having the desired impact in reducing child poverty. The picture, however, is more complex. The most widely adopted benchmark of adequacy reviewed above, for example, depicts child income support as, certainly, 'more adequate' in 2005 than 12 years earlier. More intriguing still is evidence from international studies in which child income support in Ireland, even before the large increases in CB that began in 2001, compared favourably with that of other countries (Bradshaw and Finch, 2002; Corak *et al*, 2005). By international standards, Ireland—by 2001—was already providing a level of child-contingent income support that was high relative to average disposable earnings, to recipient households' total disposable incomes and as a proportion of the overall level of social welfare spending.

There are several reasons why Ireland continues to record internationally high levels of child poverty despite quite substantially increased investment in child income support.

- It has been particularly difficult to record a decline in income poverty of any sort over a period when median income by which it is measured rose exceptionally rapidly. Over the period, 1994-2001, for example, Ireland— in one study—simultaneously recorded the largest *reduction and increase* in child poverty of eleven countries, depending on whether a fixed or relative income poverty threshold was applied (Smeeding, 2006).

- The emphasis in Ireland's child income support shifted in a major way from support targeted on low income families with children to support provided regardless of income to all children. As Child Benefit became more important as a source of income in poor households with children, it has become much more expensive—and increasingly inefficient—to use it as an anti-poverty instrument.

- In a significant number of households in which children are being reared, adult welfare payments continue to account for a major proportion of total household income and these rose by considerably less than disposable earnings. If adult social welfare incomes grow more slowly than median income, child income supports in welfare dependent households have to grow by more than median income just to keep child income poverty constant.

- In this context, it is significant that children's greater likelihood of being below the income poverty line than adults *has* been largely erased, for which the major improvements in CB can claim part of the credit. This only confirms, however, that the challenge of ending child income poverty in Ireland is now more tied in with the challenge of reducing *adult* poverty. Countries whose mix of policies is effective in reducing poverty in general also have the lowest child poverty rates.

- Ireland has invested less in the services (principally childcare) that enable parents to combine employment and caring, and parents with low earnings potential who are unable to source unpaid or subsidised childcare face major financial obstacles in attempting to do so.

Clarifying the contribution Ireland's child income supports have made, and can be expected to make, therefore, in reducing child income poverty must reckon with these issues. The evidence that Ireland's current child income supports are good by international standards, while our levels of child income poverty remain high, suggests that significant reform of the current system should precede or accompany devoting further resources to it. This is what the final section of this paper addresses. The power, however, of improvements to the existing social welfare code to reduce the severity of poverty for many of the children currently caught in it should not be underestimated. This is illustrated with two final tables.

In Table 18, the actual 'poverty gap' in 2005 (the percentage of the income poverty threshold by which actual income is below that line) for two types of family is estimated as the number of children increase, i.e., for a couple on unemployment assistance and a lone parent not in employment. While declining marginally as the number of children increases, the poverty gaps were substantial —ranging from 21 to 23 per cent for children of the unemployed couple and from 18 to 22 per cent for the children of the non-employed lone parent. The Table then shows what would have happened to these poverty gaps had the government, in 2005, been in a position to achieve that year its targets for social welfare outlined in the Revised National Anti-Poverty Strategy of 2002 for 2007. Altering the social welfare code in 2005 to bring (i) the basic adult rate to €150 in 2002 terms (the Qualified Adult Allowance remaining at 0.66 of the adult rate) and (ii) the combined CB+CDA package to 35 per cent of the adult rate for each child, would have approximately halved the poverty gaps for each type of family, but the gaps would have remained in the range of 11 to 13 per cent.

Table 18 The Poverty Gap in 2005 for Selected Households with Children—Actual, and if NAPS 2007 Targets Attained in 2005[1]

	Household type					
	Couple on UA			Lone Parent not working		
	1 child	2 children	3 children	1 child	2 children	3 children
Actual position, 2005						
Income	€	€	€	€	€	€
Adult rate	148.80	148.80	148.80	148.80	148.80	148.80
QAA	98.70	98.70	98.70			
CDAs	16.80	33.60	50.40	19.30	38.60	57.90
CB	32.68	65.36	106.28	32.68	65.36	106.28
Equivalised household income	149.24	149.34	152.52	150.96	152.27	157.28
Poverty threshold (60 per cent)	192.74	192.74	192.74	192.74	192.74	192.74
Poverty gap	-43.50	-43.40	-40.22	-41.78	-40.47	-35.46
Gap as per cent of threshold	-23%	-23%	-21%	-22%	-21%	-18%
Position, 2005, if NAPS 2007 targets already attained						
Income	€	€	€	€	€	€
Adult rate	165.96	165.96	165.96	165.96	165.96	165.96
QAA	109.53	109.53	109.53			
CDA+CB	58.09	116.17	174.26	58.09	116.17	174.26
Equivalised household income	167.63	168.82	169.72	168.46	169.96	170.96
Poverty threshold (60 per cent)	192.74	192.74	192.74	192.74	192.74	192.74
Poverty gap	-25.11	-23.92	-23.02	-24.28	-22.78	-21.78
Gap as per cent of threshold	-13%	-12%	-12%	-13%	-12%	-11%

Notes: 1. Targets for 2007 as set in Revised NAPS (2002):these are for the adult rate to reach €150 in 2002 terms (assumed adjusted for inflation, 2002-04, inclusive), and combined CDA+CB at 0.35 adult rate.

Table 19 Closing the 2005 Poverty Gap by: (i) doubling Child Benefit (ii) a 35% Increase in Adult Welfare Rate—Selected Households

	Household Type					
	Couple on UA			Lone Parent not working		
	1 child	2 children	3 children	1 child	2 children	3 children
Actual position, 2005						
Income	€	€	€	€	€	€
Adult rate	148.80	148.80	148.80	148.80	148.80	148.80
QAA	98.70	98.70	98.70			
CDAs	16.80	33.60	50.40	19.30	38.60	57.90
CB	32.68	65.36	106.28	32.68	65.36	106.28
Equivalised household income	149.24	149.34	152.52	150.96	152.27	157.28
Poverty threshold (60 per cent line)	192.74	192.74	192.74	192.74	192.74	192.74
Poverty gap (€ weekly)	-43.50	-43.40	-40.22	-41.78	-40.47	-35.46
Gap as per cent of threshold	-23%	-23%	-21%	-22%	-21%	-18%
Double Child Benefit						
	€	€	€	€	€	€
CB	65.36	130.72	212.56	65.36	130.72	212.56
Equivalised household income	165.66	177.51	192.63	175.53	191.64	210.68
Poverty gap (€ weekly)	-27.08	-15.23	-0.11	-17.21	-1.10	17.94
Gap as per cent of threshold	-14%	-8%	0%	-9%	-1%	9%
Increase Adult Welfare Rate by 35%						
	€	€	€	€	€	€
Adult rate	200.88	200.88	200.88	200.88	200.88	200.88
QAA	132.58	132.58	132.58			
CDAs	16.80	33.60	50.40	19.30	38.60	57.90
CB	32.68	65.36	106.28	32.68	65.36	106.28
Equivalised household income	192.43	186.39	184.96	190.12	183.64	183.45
Poverty gap (€ weekly)	-0.31	-6.35	-7.78	-2.62	-9.10	-9.29
Gap as per cent of threshold	0%	-3%	-4%	-1%	-5%	-5%

This begs the question as to what order of change in welfare rate payments would have been required in 2005 to eliminate the poverty gap altogether. Table 19 provides two illustrative examples. It first shows what would happen the poverty gaps experienced by the selected families if Child Benefit alone were relied upon to raise the children in them above the 2005 poverty line. A *doubling* of Child Benefit would be needed to raise the family unit made up of an unemployed couple and three children to just the poverty threshold, and the one-child unemployed couple would still be 14 per cent below it. Lone parent families would fare a little better (as Child Benefit accounts for a larger proportion of their total income) with the three-child household being raised 9 per cent above the poverty threshold and the one-child household still 9 per cent below it.

If the adult welfare payment were relied upon instead to be the sole instrument for levering the household above the poverty threshold, then an increase of 35 per cent would see all families with one child (lone parents and couples) raised to, approximately, the poverty line rather than being left €17 and €27 a week respectively below it as when Child Benefit was doubled. These examples serve to show how weak is the 'lifting power' of Child Benefit alone to raise children above the 'at risk of poverty' income line and how important it is to reckon also with the lifting power of higher adult welfare rates. The two extreme strategies considered in Table 19, of concentrating wholly on Child Benefit or wholly on adult welfare rates to alleviate child income poverty, do not cost the same. Raising adult welfare payments by 35 per cent would have cost some €500m more in 2005 than doubling CB.[43] However, it would also have made a significant contribution to reducing *adult* poverty by reaching into households where children are not present, which makes comparison of the overall effectiveness of the two strategies difficult.

43. Budget 2006 costed its increases in adult social welfare weekly rates and their associated Qualified Adult Allowances at €808.18m in a full year. These rates are seldom increased uniformly; usually, some sub-group of welfare recipients is singled out for above average increases and Budget 2006 was no exception (Carers in its case). The range of increases in adult rates effected by the 2006 Budget can be generalised at 11 to 12 per cent; thus, the cost of a 35 per cent increase across the board in adult welfare rates and their associated QAAs can be reckoned as triple the cost of the increases actually accorded.

6 The Question of Reform

6.1 The Appetite for Change

A fundamental question that must first be answered is whether the import of what has been reviewed justifies undertaking major innovation in how child income supports are structured. There is, currently, a high level of child income poverty. This is despite much higher spending on child income support and a well functioning labour market. Each of the current instruments has strengths but also significant flaws if it is to be relied upon to make further inroads into the child poverty that remains. Yet the achievements to date of a pragmatic approach based on repeatedly fine-tuning the current instruments in an effort to reach more of the children still in low-income households should not be underestimated. The introduction of the Early Childcare Supplement, the significant recalibration of the FIS thresholds and the ending of the freeze on the value of CDAs are incremental measures that will have alleviated financial pressures for a significant number of low income families.

Yet, the case for a more fundamental restructuring remains strong. Further increases in CB will reduce the average child poverty gap but not impact much on the child poverty count. The ECS was introduced without any official estimate of the proportion of its child beneficiaries below the income poverty line; it is more regressive than CB and costs as much again as CDAs. Both CB and ECS are paid regardless of the level of family income and, as such, are hugely inefficient as anti-poverty instruments involving, as they do, paying Paul as a condition of helping Peter. The anti-poverty credentials of FIS continue to be challenged by continuing evidence of in-work poverty affecting children, the opaqueness of its thresholds and its demanding application process. If the first increase in CDAs in fourteen years is the beginning of regular annual increases, the work disincentive argument that led to the 1994 freeze is certain to return and need to be addressed. It is these underlying weaknesses in the effectiveness of current instruments as anti-poverty measures which continue to suggest that social pragmatism should now also envisage undertaking the merging of CDAs and FIS at least.[44]

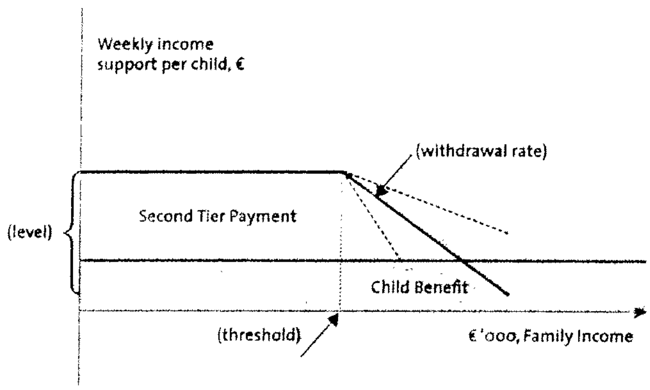
44. A proposal has also been made to introduce a refundable tax credit for every child irrespective of the employment status of their parents, or their family's income. The intention is that the vast majority of people would add the tax credit to their other tax credits and, thus, reduce their tax payment by the full amount of the credit, while people on social welfare or in very low-paid employment would claim the payment directly. The level of the payment would depend on the resources available to government, but it would be additional to CB (CORI, *Socio-Economic Review 2007*: 92).

6.2 The Direction of Change

Ireland currently lacks an instrument that can channel income support to children in low-income households and that is *triggered solely by low family income.* Ideal objectives for child-income support policy over the coming years would be (i) to give priority to children in low-income households in allocating additional recourses, and (ii) treat low-income families equitably.

CDAs currently supplement social welfare incomes only, while FIS tops up the low earnings of only certain workers. One approach to merging them would start by defining the constituency to be served by the new instrument as *the full population of low-income families of which CDA and FIS currently reach only subsets.* The objective would be to ensure the second-tier payment is paid to families with children where family income is below a threshold, regardless of parents' employment or social welfare status, and withdrawn at higher levels of family income. This new measure, therefore, would have a single objective (unlike CB and FIS), to redistribute income towards low-income families with children. And it would do so in a characteristic way, viz., treating all families on the same level of income the same (unlike CDAs and FIS).

Chart 4 The Basic Parameters of an Income-Related Second-Tier Child Payment

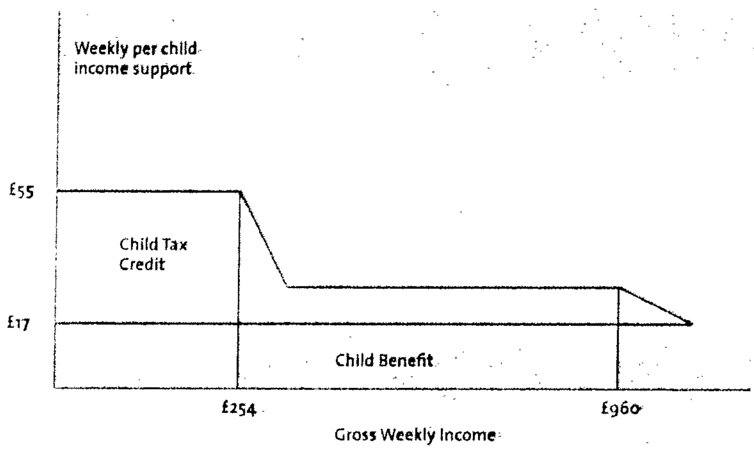


The operation of such a targeted, second-tier payment is illustrated in Chart 4. Where family income is below a certain threshold, the family receives a maximum payment per child, in addition to Child Benefit for that child. Unlike Child Benefit, however, this second-level payment is not universal but is gradually withdrawn accordingly as family income is higher than the set threshold. At high levels of family income families, therefore, do not receive the payment at all but only Child Benefit. As the Chart makes clear, three key parameters largely determine the impact and overall cost of such a payment: the level of family income below which the full payment is made, the level of the full payment, and the rate at which the payment is withdrawn.

The Choices Made in Other Countries

There are several design challenges in implementing the simple framework outlined in Chart 4. An appreciation of how some other countries have structured income-related child support helps to illustrate some of the choices that can be made.

Chart 5 **Weekly Child Income Support for First Child, UK: 2005**



Note: 1. The chart depicts the combined child income package available for an eldest qualifying child, in rounded figures for 2003-04.

The operation of Britain's child income supports are illustrated in Chart 5 as a further example of the type of payment proposed for Ireland. The UK pays a universal child benefit at a lower level than Ireland. This constituted about 30 per cent of its combined income support package to children in its poorest households (2003 values). The other 70 per cent is made up of an income-related second-tier payment that is in two parts. The largest part is an amount per child paid in full below an income threshold which makes approximately half the country's families eligible—above the threshold it is withdrawn at a 37 per cent rate. A smaller part is an amount per family paid in full up to a much higher threshold, which effectively excludes only the richest 10 per cent of families, before being withdrawn at a rate of 6.7 per cent.[45]

Chart 5 depicts child income supports in the UK that apply to lone parent and couple families alike—the sole qualifying criterion is low family income and neither family type nor the source of the low income affect the payment. It follows that the income in question may be means-tested social welfare income with different types of obligation on the adult recipient attached. A lone parent, therefore, with neither work nor other means can apply for the UK's Income Support and, if on low earnings, for the Working Tax Credit (a subsidy to low earnings). The obligations on lone parents and support services offered them by these other programmes reflect their particular family responsibilities but not the levels of payment they receive which have now been released from the need to acknowledge child dependants by the introduction of the Child Tax Credit.

45. The income thresholds (2004) were £13,230 p.a. for the per child payment and £50,000 p.a. for the family element.

Chart 6A **Australia's Family Tax Benefit A, 2005**

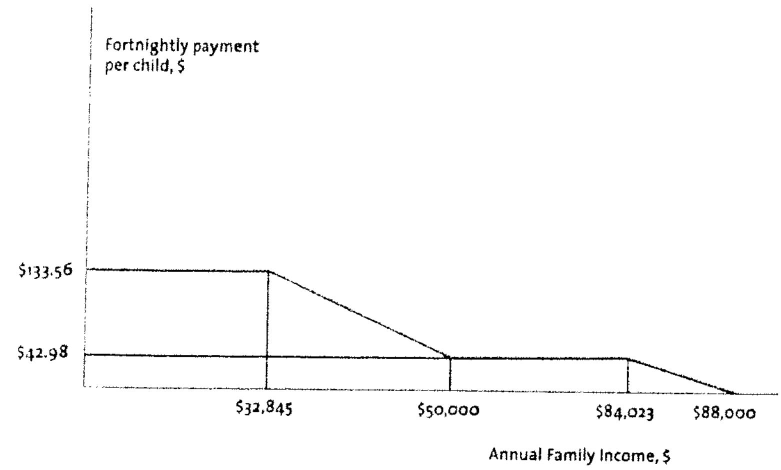
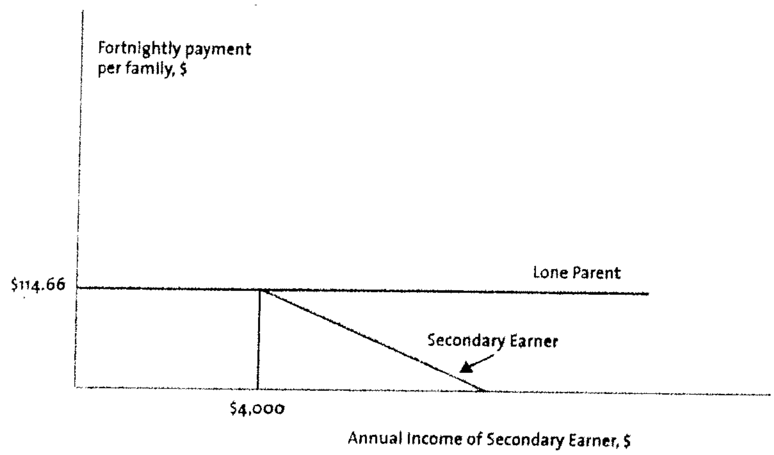


Chart 6B **Australia's Family Tax Benefit B, 2005**



A second international example is provided by Australia's Family Tax Benefit. Its operation is illustrated in Charts 6a and 6b. Australia pays no universal Child Benefit. It helps families with the cost of children in two ways—a payment per child which all but around the top 20 per cent of families receive at least partially ('Family Tax Benefit A', see Chart 6a), and a payment per family which goes to all one-parent families and two-parent families where the secondary earner is on low earnings ('Family Tax Benefit B', see Chart 6b). Family Tax Benefit A is paid in full on family income below $32,485 p.a. and then withdrawn in two stages—approximately two thirds of it at a rate of 20 per cent, after which it levels off until family income passes €84,023 and the remainder is withdrawn at a rate of 30 per cent (Chart 6A).[46] Family Tax Benefit B is paid to all one-parent families regardless of their income and the same maximum payment is made to two parent families where the lower earner is earning less than $4,000 p.a., after which it is withdrawn at a rate of 20 per cent as the earnings of the secondary earner rises (Chart 6B).

6.3 Illustrative Costing

The following costing is illustrative only. It is assumed that the second tier income-related payment is set at 1.00 times the weekly value of CB in 2006. This gives a maximum payment of €34.61, more than double the value of CDA at the time. Interestingly, it makes the combined weekly value of CB and the new second-tier payment (€69.22) similar to what the value of CB and CDAs would have been to social welfare dependant families had CDAs been increased in line with the lowest adult social welfare payment since 1996 (Table 16 above).

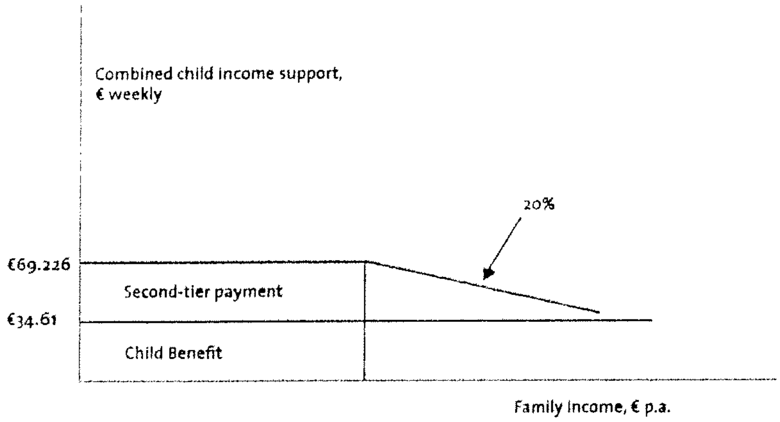
46. The Charts must slide over many of the details. Thus, Chart 3a depicts the payment for a child aged under 13 (a higher rate is paid for 13-15 year olds) and does not include a supplement that was specific to 2004-05.

Table 10 Estimates of Gross Cost of a Second-Tier Payment, 2006

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	'000	€ annual	€ annual	€m
[illegible]	78.2	4014.7	4014.7	313.9
2	15.2	3928.6	3928.6	59.8
3	36.4	4552.0	4552.0	165.7
4	95.2	3923.4	3138.7	298.7
5	76.5	3210.4	1926.2	147.4
6	72.0	3415.8	1366.3	98.4
7	52.3	3396.5	679.3	35.6
8	45.9	2859.8	0.0	0.0
9	44.8	2758.2	0.0	0.0
Top	51.1	2775.1	0.0	0.0
Total	**567.6**	**3485.4**		**1119.35**

Source: ESRI SWITCH

Chart 7 Second-Tier Payment Equal to CB and 20 Per Cent Withdrawal Rate



Using the SWITCH model's identification of the income distribution of families in receipt of Child Benefit, we assume that the threshold to family income below which there is entitlement to the full second-tier payment is set so that the poorest 30 per cent of families receive it in full. On the basis of a withdrawal rate of 20 per cent, it is assumed that families in each succeeding higher decile receive, on average, a second-tier payment that is 20 per cent less than families in the decile immediately below them. Thus, families located in the top three income deciles receive no second tier payment at all.

The maximum net cost of the programme is estimated to be €775m, having deducted the €344m that SWTICH estimates would be saved from spending on CDAs and FIS. Additional savings are, of course, possible—from, for example, the amalgamation of the BSCFA also in the second-tier payment, the rescinding of the higher rate of Child Benefit for 3rd and subsequent children (it has traditionally been justified on the basis that larger families faced a higher poverty risk), taxing Child Benefit, and lower spending on adult welfare if more parents move from welfare to work as a result of the new measure. In fact, the extent to which the introduction of the second-tier payment with its specific anti-poverty objective is used to simplify the child income support system in general powerfully influences its true and final cost.

6.4 Guiding Principles

Some guiding principles can be suggested, that would help to steer the design of the new payment through the practical circumstances policy-makers in Ireland must deal with.

- Combating child income poverty in Ireland should be its primary and overriding objective.
- Families on the same the level of income—be they parents in employment or on social welfare, employees or self-employed, lone parents or couples, casual workers or full-time workers—should receive the same level of support.
- It should help simplify, rather than add further complexity to, the child income support system. Minimally, it should replace CDAs and FIS in its role as family support. Maximally, it could replace the BSCFA and the higher rate of Child Benefit.

- The level of family income below which the full payment is made and the withdrawal rate should be set at levels that make receipt of the payment sufficiently widespread so that stigma is avoided, i.e., it should be received by low- *and* middle-income families.

- It should have a significantly lower withdrawal rate than that which currently attaches to FIS (60%) to avoid creating a significant poverty trap.

- The level at which the payment is made has to reflect the political decision as to how much resources should be allocated to fund it but, minimally, it should ensure that families in receipt of means-tested CDAs are significantly better off.

- Undertaking to ensure there are no 'losers' from the introduction of the payment should be carefully understood and handled. For example, it would not be a fair test to insist that the level of the payment be sufficient on its own to ensure one-child FIS families and all families receiving CDAs with insurance-based payments are no worse off.[47] *All* would benefit from the employment-neutrality of the new payment and its low withdrawal rate. The terms of payments to current recipients could be met but no new entitlements conferred.

- The level of the payment should be expressed as a multiple of Child Benefit in order to tie the payment as closely as possible to the latter's wide acceptance. While it can and should be presented as a second tier to Child Benefit, it should be clearly communicated that is not a second tier *in* Child Benefit but withdrawn as income of the parents/guardians of a child rise.[48]

47. The almost 14,000 CDAs (2005) paid along with the Widow/er's Contributory Pension are a case in point. Sensitive handling, however, should ensure small constituencies do not block a major reform.

48. Income support provided by the state on behalf of a child can loosely be termed the 'child's income'. The term is most accurate when applied to child trust fund arrangements in which monies are kept until a child reaches the age of majority and is then given autonomy for the first time to use the money as she or he chooses. Child Benefit is sometimes referred to as a 'child's income' and there is anecdotal evidence that parents in households without pressing financial needs frequently do save Child Benefit on behalf of their child. Its status in social welfare legislation supports the view that it is a 'child's income' to the extent that that legal challenges would have to be anticipated if it were to be made subject to tax (discussed in 1996 by the Expert Working Group on integrating tax and social welfare, paragraphs 4.33-4.34). Generally, however, Child Benefit is spent as and how the adult claimant sees fit and there is no legal restriction on its adult claimants as to how they use it. It is, thus, effectively, a subsidy to the costs of parenting.

- The payment should not undertake to be responsive to fluctuations in the level of family income during the course of a year but only to major changes in circumstances (such as losing a job, the birth of a child, etc.). People should reapply for the payment after each 52-week period.
- Evaluating the effectiveness of spending on child income supports in reducing child poverty *within* the State must reckon with the increased EU migration into Ireland. Any family benefit from which an Irish national in employment can benefit must also be available to EU nationals working in Ireland, including when their children are resident outside of Ireland. This is a salient new feature of the Irish policy context. It is valid to want to assess the differential types of 'leakage' that may be associated with new instruments and their design whose purpose is poverty reduction within the state. Doing so does not deny the substantial benefits that the Irish economy and society derive from EU immigration.
- The payment should be simple to understand, its purpose and structure clearly communicated, and its introduction carefully prepared for. This will minimise concern, confusion and the number of inevitable teething problems. Ideally, it should be introduced at a time when additional resources are available for child income support in total.

6.5 Getting There: Implementation and Delivery

What has been described and tentatively costed is a new, second-tier child income support that would be paid *only* where family income is below a certain threshold (unlike Child Benefit which goes to every family) and *everywhere* family income is below it (unlike CDAs and FIS which go to subgroups among low income families). The practical construction and administration of such a payment requires clarifying terms and making a sequence of decisions on a range of issues. On each issue, there are precedents in how current instruments handle them and part of the challenge is to adopt or adapt from among current alternatives the definition of each term that is best suited to the particular objective of the second-tier payment. Four relatively clear cut issues are discussed below before the most complex one is addressed—i.e., finding the measure of income on which to base the support. A way of proceeding in the last instance is tentatively outlined.

6.5.1 Eligible Children

The definition of a dependent child differs significantly across the current instruments—by *age* (under 6 if the ECS is to be paid, under 16 if CB is to be paid unconditionally, under 18 if CDAs and FIS are to paid in the ordinary way, while the BSCFA pays nothing for under 2s and more at ages 12-17 than ages 2-11), *place in the birth order* (the higher CB is for 3rd and subsequent children only), *conditionality* (participation in full-time education is required for CDAs and FIS between ages 18 and 22; participation in full-time education, FÁS Youth Reach or being disabled at ages 16-18 for receipt of CB at those ages) and country of *habitual residence* (must be the Irish state for receipt of CDAs).

The definition of a dependent child for the purposes of the second-tier payment should balance its clear anti-poverty objective, the practical benefits of linking its administration with that of Child Benefit, and the desirability of rationalising some of the complexities sketched above. One clear position, for example, would be to adopt the same age cut-off point as CB (up to and including age 18). Some families currently receiving a CDA, FIS or BSCFA on behalf of 19 to 22 year olds in full time education might lose in net terms (the loss of the older child's entitlement more than offsetting increased entitlements of younger children). Arguably, though, the dependent status of such young people in full-time education would be better addressed through some type of educational payment rather than through the welfare entitlements of their parents.

6.5.2 Structure of the Payment

Though described as a second tier to Child Benefit, the purpose of this payment makes, in fact, more similar to FIS, i.e., it is to supplement *family* income so that children are not in need. This suggests (i) that it should *not* be classified as income of the child with the complications that may entail for including it as taxable income, and (ii) exploring the merits of a payment featuring a per family and per child element (similar to Australia's Family Tax Benefit) rather than one that is strictly uniform per child. This would give the new payment a bias towards the small family but one similar to the current One-Parent Family Tax Credit rather than to FIS. The former is fixed, irrespective of the number of children, in recognition of the overheads of running a household (though confined, of course, to lone parents); FIS's bias towards small families, as seen, is based on its objective to reward the step to employment. The empirical evidence on child poverty in Ireland today, reviewed above, suggested it is more accurate to think now of children as being born into poor households rather than as pulling their households below the poverty line. This would seem to support incorporating a significant per family (and, thus, fixed) element for qualifying families into the payment's structure.

6.5.3 Variation in the Amount of the Payment

The smooth withdrawal of the payment as family income rises would, in fact, be an extremely demanding administrative exercise. As we have seen, data on family income in Ireland is simply not routinely gathered, reliable or easily accessible for administrative purposes. Data on the number and ages of children, however, are and the second-tier payment can and should be adjusted soon after changes in the number of eligible children. Transitions between employment and receipt of social welfare can also be captured by existing administrative data relatively promptly. In this case, loss of employment and receipt of social welfare might trigger a rise in the payment but without the converse (exit from welfare and entry to employment) triggering a fall—so that maintaining the full payment until the due renewal date could be seen as providing a window during which a family could recoup some of the resources lost through unemployment. Otherwise, the approach to family income adopted for the purposes of FIS and tax credits could be built on, i.e., keeping the amount of the payment constant for a 52-week period on the basis of data on family income provided at the time people (re-)applied for it. This would impart an upward bias to the programme's costs on the assumption that many recipients experience rising incomes during the course of a year.

6.5.4 The Timing of the Payment

The current child income supports differ significantly in when they are paid. CDAs and FIS take the form of weekly payments, CB is monthly, the ECS quarterly and the BSCFA annual. It is not clear whether the different timing of child income supports influences the likelihood of their being spent on items or services of exclusive benefit to children. This, for example, is the intention of the timing of the BSCFA but, in effect, it is a cheque made out to households at the start of the school year that is available to cover any household expense. Where low income households are concerned, it can be argued that a higher weekly payment is the more important as children may be most at risk because of stress and deficits caused by the struggle to cover normal household running costs. On the other hand, monthly, quarterly and annual payments can be seen as substituting for savings which the households are unable to make out of weekly income and to provide parents with the money to cover larger and more lumpy expenditures on their children.

Either way, trust that the parents will use the extra cash in their children's best interests is, in fact, the basis of all the payments. Because the second tier payment would be replacing the weekly reception of CDAs and FIS for some families, the option should be provided for those families to receive it weekly or elect to have it amalgamated with their monthly Child Benefit.

6.5.5 Identifying the Level of Family Income

The single most difficult challenge in administering a second-tier payment is to find a measure of family income on which to base the payment. Doing so will require new forms of collaboration between the Department of Social and Family Affairs and the Revenue Commissioners. The principal reasons why measuring family income is, currently, a major administrative challenge can be viewed from the position of each organization respectively.

On the side of the Revenue Commissioners:

- In the ordinary run of events, Revenue does not need to know whether a tax payer has children or not. Child data on the Revenue record is confined to exemptions/marginal relief cases (low incomes) and incapacitated children (relatively few numbers);[49]
- Individuals choose between being taxed as individuals or as a married couple. Where they elect the former, Revenue currently has no basis on their tax records for identifying tax payers who are, in fact, parents rearing a child together (apart from the cases referred to above);
- Additional challenges arise for Revenue in measuring *current* earnings. The processing of P35 forms[50] is currently reasonably complete in November of the year after the one in which the earnings occur. The lag is longer, of at least 12 to 14 months, in the case of self-employed people whose self-assessment returns are due by an end of October deadline for the previous calendar year.

49. Submitted by employers to Revenue from mid-February on detailing the deductions made from their employees' total earnings in the previous calendar year.

50. It is estimated that 9000 tax payers claimed the additional credit for an incapacitated child in 2003 (cost of c4.6m) and 2,800 tax payers availed of a child addition to the exemption limit (cost of c1.3m) (Office of the Revenue Commissioners, Statistical Report 2005).

On the side of the DSFA:

- The DSFA pays Child Benefit on behalf of most children in the State but no data on applicant's incomes are required or collected. The PPSN of the applicant *is* captured[51] but not that of the applicant's spouse or partner (though asked for on the CB application form, it is not obligatory to supply it nor is it captured even when supplied);
- The DSFA has detailed information on the means of CB households in which individual adults are in receipt of assistance payments but no information on which to measure family income in that large majority of CB households where no adult is in receipt of a means-tested payment.

One possible form of collaboration between the two bodies may be suggested, based on three steps: (i) using the current CB application form to acquire the data that link parents and their children; (ii) providing the second-tier support as a tax credit as a default position; (iii) having DSFA make a direct payment to qualifying parents not in a position to benefit from the full amount of the tax credit and, of course, to parents dependent on welfare and not registered for tax. These steps are briefly elaborated on below, not because they have been tested and are foolproof, but as an illustration of the pragmatism and creativity needed to build out from what current administrative systems are, in fact, good and to equip them to achieve what currently eludes them.

First Step

Every Child Benefit recipient would be invited by the DSFA to register as also potentially eligible for the second-tier child income support on the basis that their 'family income' (that of the CB applicant along with that of her or his partner/spouse) is, or could fall, below a clearly communicated threshold. Registering would entail supplying the PPSNs of each of a child's parents (or those acting in *loci parentis* and effectively raising the child). Currently, payment of CB is completely automated for second and higher births.

51. Data 'capture' means the information is both obtained and entered into the data storage and retrieval system.

Consequently, a once-off re-contacting of the existing stock of CB applicants would be required.[52]

Second Step

The DSFA would pass this information on the adults responsible for rearing each CB child to Revenue. On the basis of the most up-to-date data possible on tax payers' incomes, Revenue would administer the second-tier payment as a tax credit to an indicated parent in each qualifying family. Where two parents did not agree on who should receive the new credit, it could simply be halved between them.[53] This would build on the experience of the Revenue in administering tax credits and their wide acceptability. They carry no stigma and their administration is generally considered to be efficient.[54]

52. Henceforth, new applicants for CB would find the invitation to register for potential receipt of the second-tier payment integrated into the CB application form.

53. In applying for several forms of current support—social welfare payments, FIS and tax credits—applicants are required to provide information on their marital status. The key information for the purpose of the second-tier child income support would be whether or not the applicant shared financial responsibility for rearing a child with another tax payer or welfare recipient. Current practice ranges from giving the full support to each partner (the One Parent Family Tax Credit is granted in full to both a child's father and mother if the child resides with each at least part of the year), splitting it equally between the two, or paying all of it to the one partner who is identified by both as the principal carer (in effect what CB).

54. Two current tax credits, in fact, already support children. The Home Carer's Tax Credit is applied for by a married couple who have opted for joint assessment, paid on behalf of a CB beneficiary, paid in full if the carer's income is below a threshold and withdrawn at the rate of 50 per cent as the carer's income rises until there is not eligibility for it at all. The One-Parent Family Tax Credit is applied for by a person living on her/his own and who has a dependent child living with them for the whole or part of the year.

Third Step

Revenue would inform parents with incomes too low to benefit from the full tax credit of this fact and invite them to apply to DSFA for a direct payment in lieu of part or all of the tax credit. DSFA will, any way, have to administer the second-tier support as a direct payment in all instances where parents are not registered for tax and reliant on social welfare. The families routed back to DSFA because they cannot avail of the full tax credit will, thus, be additional to the customary clients of the Department's categorical schemes. The application process for the former would be significantly simpler than the current means-test or application process for FIS. This would be important to ensure maximum take-up. It would be possible because eligibility would rest, simply, on the joint income of a child's parents and not on the totality of household 'means'. At the same time, applying for the second-tier as a direct payment would have to entail volunteering some verifiable information on income. Normal penalties would apply where there was evidence of willful misreporting. As the amount of the payment would be tapered according to the level of reported family income, it would—like CB—not be taxable income, nor would it be assessable as income for social welfare purposes

7 Conclusions

This study has underlined:

(i) significant dimensions to child poverty to which additional family income is not the answer and which require vigorous responses;

(ii) nevertheless, a continuing serious problem of children being reared in households with low money incomes;

(iii) the limited impact that existing child income support instruments (CDAs, ECS, FIS and CB) have made, and can be expected to make, in addressing the issue; and

(iv) the potential of a new second-tier support replacing CDAs and FIS to significantly enhance the contribution that child income support can make in alleviating child poverty.

Its analysis finds that the current instruments that target child income support on low-income households have features that do not justify significant extra resources being channelled through them. Consequently, it accepts the argument, long made, that, minimally, CDAs and FIS should be replaced by a new second-tier payment that would be paid only where family income is low (thus, distinct from Child Benefit and the ECS) and everywhere family income is low (thus, distinct from CDAs and FIS). This will make significant demands of public data and administrative systems that will take time to implement. It will also need the vigorous and effective communication of the long-term benefits of retooling the public system to conduct a new form of targeting.

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