

Ireland's Carbon Tax & Poverty:

hidden recycling



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Outline

1. Introduction
2. Poverty in Ireland
3. Ireland's Carbon Tax
4. Hidden Recycling
5. Some Lessons

Sources cited

1. Introduction

- Poverty & low-income receive recurring focus in Irish fiscal policy formation and implementation
 - Why?
 - Strong NGOs who do the work
 - Politicians watch it, policy makers watch it...part of the narrative
 - Not perfect...
- Drawing on a few recent publications for this presentation:

ARTICLE

A Hidden Cost: Estimating the Public Service Cost of Poverty in Ireland

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Abstract

Living life on a poverty income remains commonplace in most modern welfare states. A growing literature highlights the impact on individuals, families, and communities of poverty, costs that are both current and cumulative and reflecting its scarring effects. A further cost, one that is frequently hidden, is the experience and recurring public expenditure associated with policy responses to poverty. These costs derive from the identification of poverty as a determining factor in the need for, and demand for, a wide range of public services. Estimating the nominal value of these costs, based on an assessment of public expenditure in one EU-15 state, Ireland, is the focus of this article. The findings establish annual costs between €3bn–€7bn and highlight for all members of society, whether above or below the poverty line, the recurring public expenditure costs incurred by society as a result of poverty.

Keywords: Poverty; public expenditure; public services; social investment; Ireland

Introduction

Researchers and policy makers are faced with a variety of approaches to measuring the extent of poverty in modern welfare states. Ranging from updated absolute poverty benchmarks, to relative income poverty lines, minimum income standards thresholds, material deprivation measures, various combinations of these approaches, all indicate that there remains a large proportion of society living in poverty (Summers, 2019; Collins, 2020; European Commission, 2021; Lister, 2021). Policy commitments, like children and older people, while others take a population-wide focus. However, despite some progress, a mismatch between poverty reduction targets and policy outcomes remains commonplace, and where progress is achieved this is not always sustained. For example, the Europe 2020 target to reduce by twenty million the headcount of individuals experiencing 'poverty and social exclusion' (defined as a combined income, deprivation, household work intensity indicator), one in five Europeans, experiencing these conditions (European Commission, 2010, 2021; Eurostat, 2022). Judged over time, the experience in most countries is an endless cycle of good intentions, policy initiatives, missed targets, reviews, and new strategies. Describing the situation in the UK since the 'Great Recession' of 2007/08, Pemberton & Arraga-García (2022: 220) summarise poverty as being 'stable yet stubbornly high', a description that fits the experience of most European welfare states. However, it is of note that the

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Taxation, Environmental Sustainability, and Distributive Outcomes: Balancing Behavioural Change and Fairness

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Abstract

The pursuit of measures to enhance the environmental sustainability of societies has shifted to become a core aspect of contemporary public policy. Taxation measures, intended to alter the behaviour of individuals and households, have become a central plank of many nations' policy objectives focused on equity. The purpose of this article is to explore the taxation policy design challenges raised by attempts to pursue simultaneously environmental goals and traditional social policy objectives regarding social justice in line with sustainable development principles. The article develops a social policy framework, inspired by the energy justice literature, to facilitate a holistic delineation of the social implications of carbon taxation in the two countries.

Keywords: carbon taxes, greenhouse gas emissions, fairness, United Kingdom, Ireland.

Introduction

The pursuit of measures to enhance the environmental sustainability of societies has shifted to become a core aspect of contemporary public policy. Reflecting this, commitments and initiatives focused on the design and redesign of an array of public and private activities are now framed in the context of an enhanced awareness of the climate crisis, and national and international commitments to radically address it. Among these actions, taxation measures intended to encourage more environmentally sustainable behaviour have become a central plank of the policy response. However, these initiatives arise alongside other taxation and redistributive policy objectives focused on equity (Ruane et al., 2020; Collins et al., 2020; Collins et al., 2022).

The purpose of this article is to explore the taxation policy design challenges raised by attempts to pursue simultaneously environmental sustainability and traditional social policy objectives regarding decarbonising transitions in accordance with sustainable development principles (Uršič et al., 2014). First enunciated in the 1987 Brundtland Report, these principles call for a coordination in transition processes of economic, environmental, and social goals (Mandelli, 2022) in pursuance of an environmentally

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12 Inequality

Micheál Collins*

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1 Introduction

The relationship between economic performance, incomes and wealth, on the one hand, and quality of life and individual and societal well-being, on the other, is an increasingly topical concern in public policy. Reflecting this, reducing inequality and enhancing fairness are key policy objectives for a small open economy like Ireland. Greater levels of equity may afford more individuals the opportunity to participate in the modern economy, reduce costly social problems, and foster trust, cooperation and a greater sense of community. Yet Ireland is characterised by significant inequalities in health, status and across gender and ethnicity among others. Increases in inequality, both within countries and between countries, and widening gaps in income and wealth have sparked renewed interest internationally in issues of distribution and equality. There is a growing

2. Poverty in Ireland



Table 12.2 Measures of Inequality and Poverty in Ireland, 2005–23

	2005	2010	2015	2020	2023
Income quintile ratio	5.0	4.8	4.7	3.9	3.8
Gini coefficient	32.3	31.4	30.8	27.7	27.5
At Risk of Poverty					
before social transfers %	n/a	n/a	n/a	35.3	34.1
after social transfers %	18.3	14.7	16.3	12.8	10.6
Child Poverty %	22.9	18.4	18.4	16.0	14.3
Pensioner Poverty %	19.4	8.7	10.6	9.1	8.3
Working Poor %	6.9	5.7	5.7	6.3	5.8
Poverty Gap %	20.5	17.7	16.5	14.8	15.7
Deprivation %	14.8	22.6	25.4	14.3	17.3
Consistent Poverty %	7.0	6.3	8.5	4.4	3.6
Low Pay %**	18.1	17.7	17.0	15.4	16.5
Gender Pay Gap % [#]	17.2	13.9	13.9	9.9	9.3

Source: CSO SILC survey – various years; OECD incidence of low pay indicator; Eurostat indicator sdg_05_20.



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Table 3. The public service cost of poverty in context

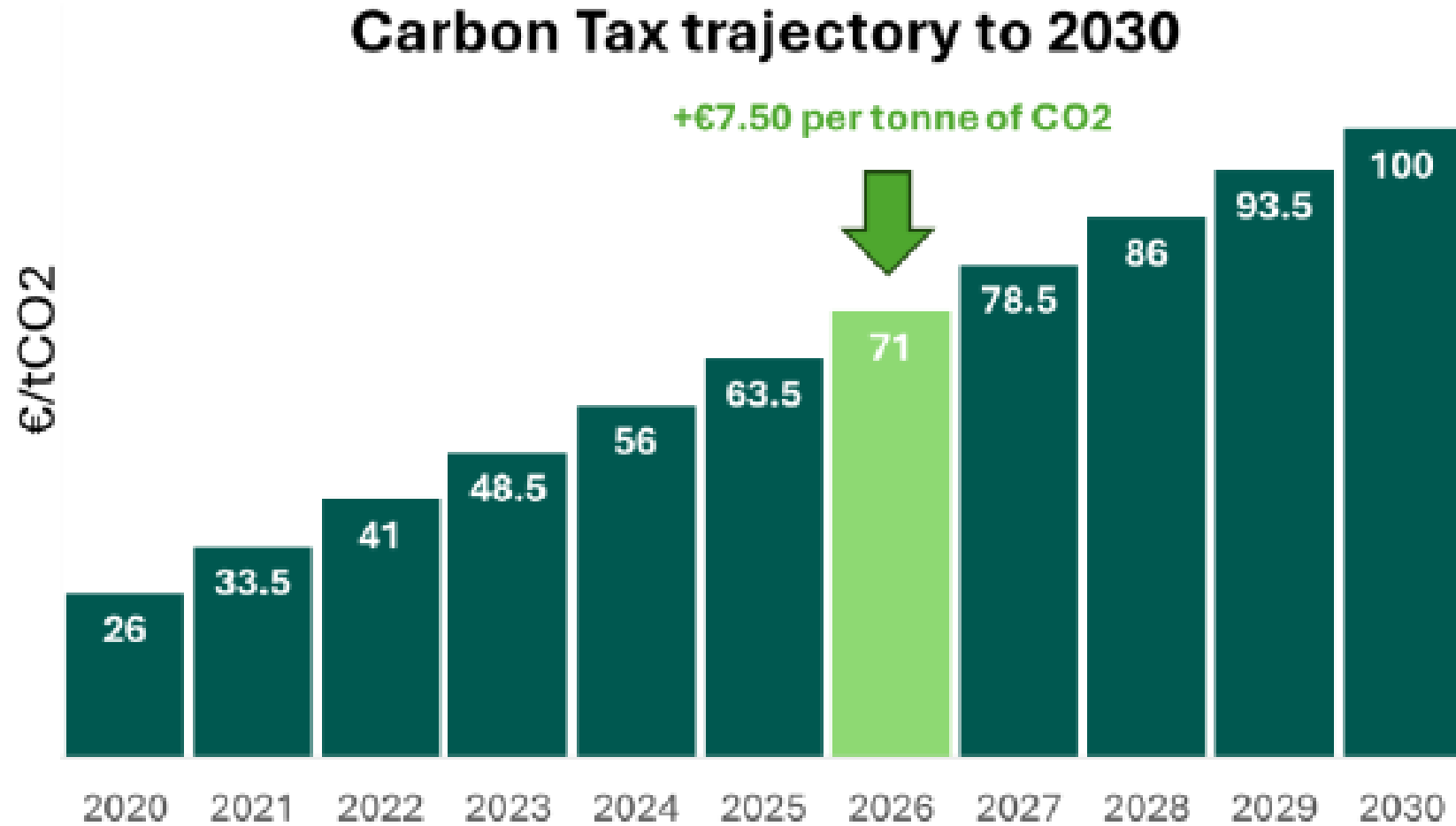
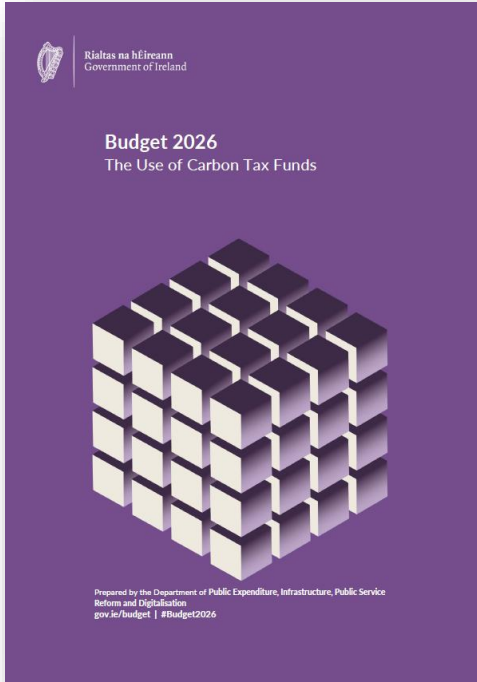
	Main estimate	Low estimate	High estimate
Public service cost of poverty	€4,491m	€3,077m	€7,245m
per capita cost	€913	€625	€1,472
per household cost	€2,638	€1,808	€4,256
as % Total gov revenue	5.1%	3.5%	8.2%
as % Total gov expenditure	5.0%	3.4%	8.0%
as % Gross national income	1.6%	1.1%	2.6%

Notes: Calculated using CSO population projections for April 2019, CSO household count from Census 2016, CSO national income measures for 2020 and budget 2020 projections for (pre Covid-19) general government revenue and expenditure (Department of Finance, 2019: 58). GNI is used for national income comparisons as Ireland's GDP is artificially inflated by MNC activity.

3. Ireland's Carbon Tax

- Designed by the *Commission on Taxation 2009*
- Implemented in Budget 2010 (*December 9th 2009*)
 - Levied on the quantity of CO₂ emissions
 - Slowly expanded across fuel types (petrol/diesel, kerosene, coal, gas)
 - Sits on top of VAT and existing taxes
 - Covers 50% of all CO₂ emissions
 - Initially linked to price of *carbon credits*
 - 2010: €15 per tonne
 - 2012: €20 per tonne
 - 2020: €26 per tonne and trajectory to 2030 agreed (Finance Bill)
linked to *mitigation costs* given national climate change policy commitments

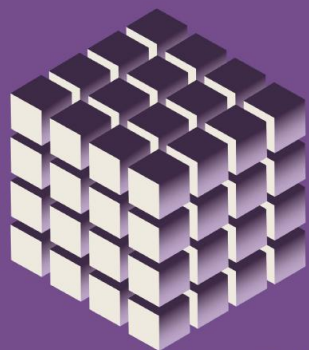






Rialtas na hÉireann
Government of Ireland

Budget 2026 The Use of Carbon Tax Funds



Prepared by the Department of Public Expenditure, Infrastructure, Public Service
Reform and Digitalisation
gov.ie/budget | #Budget2026



Impact of increase on typical fuel bundles in 2026*



+€1.28/ +€1.48

60L fill

Petrol/ Diesel



+€16.98

11,000 kWh

Gas



+€19.41

900L fill

Kerosene



+€0.90

40Kg bag

Coal

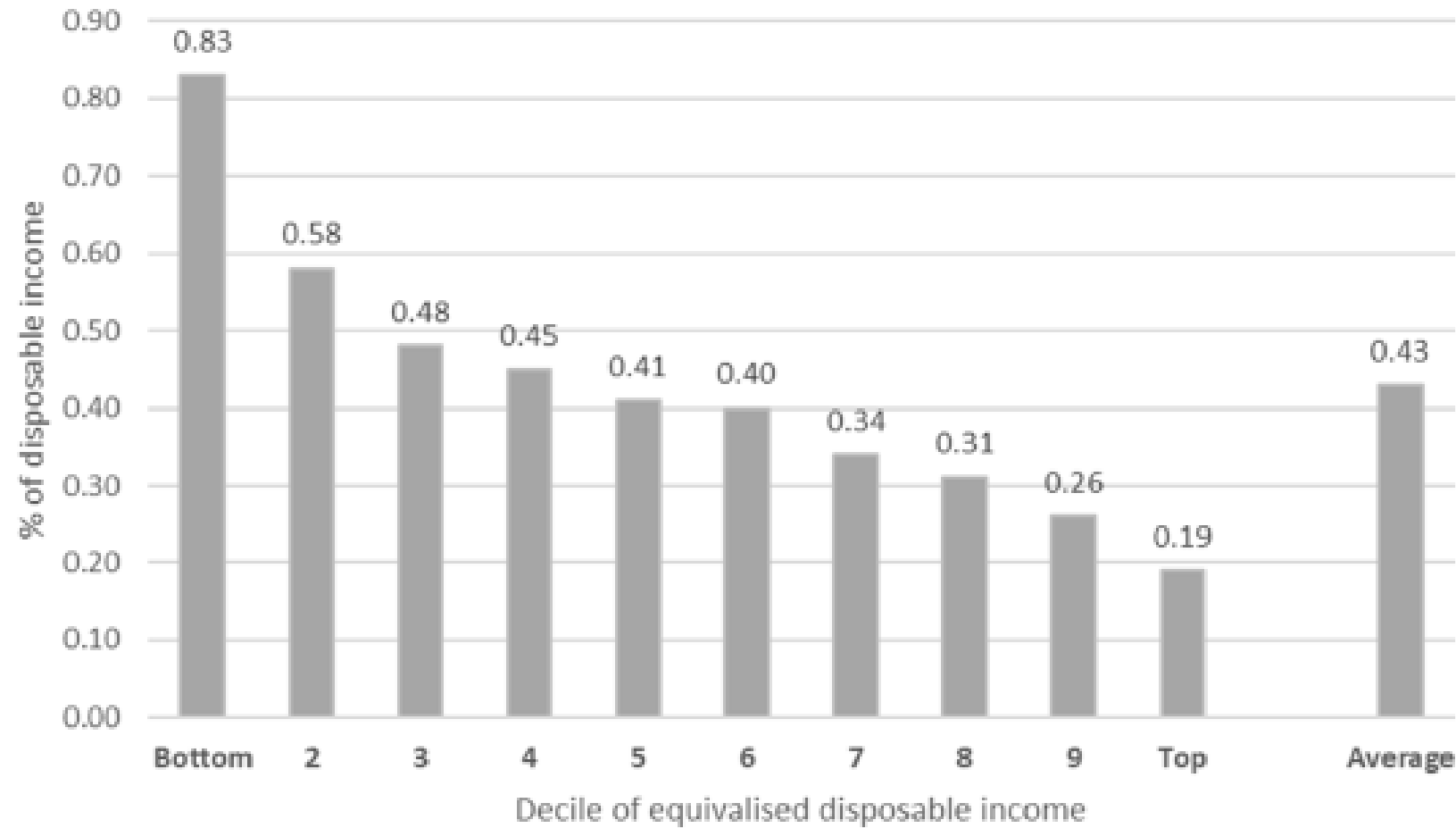


Figure 2. The Distribution of Carbon Tax Liabilities, Ireland 2015/16.
Source: O'Malley et al., 2020: 32

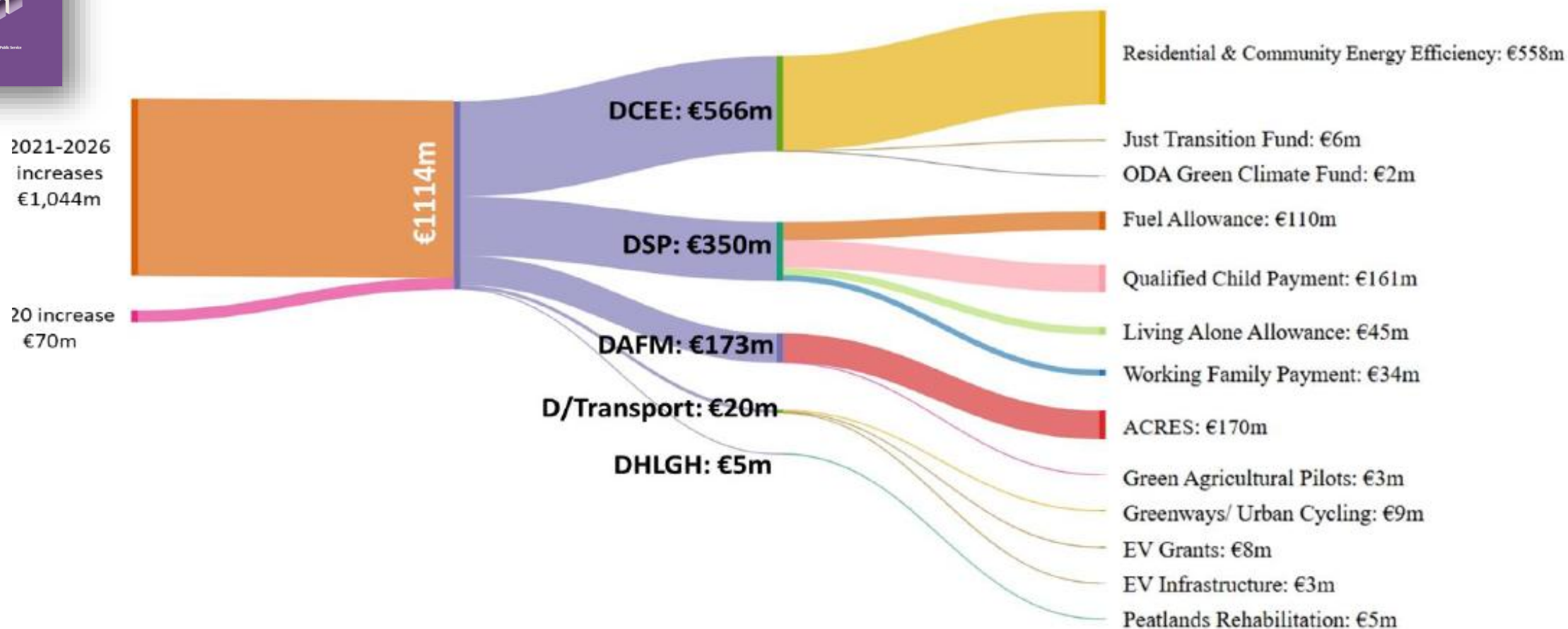
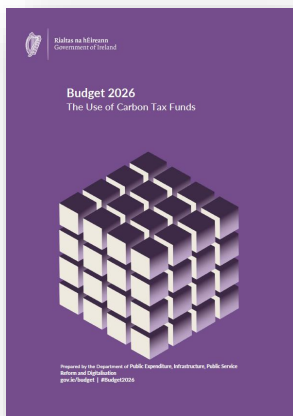


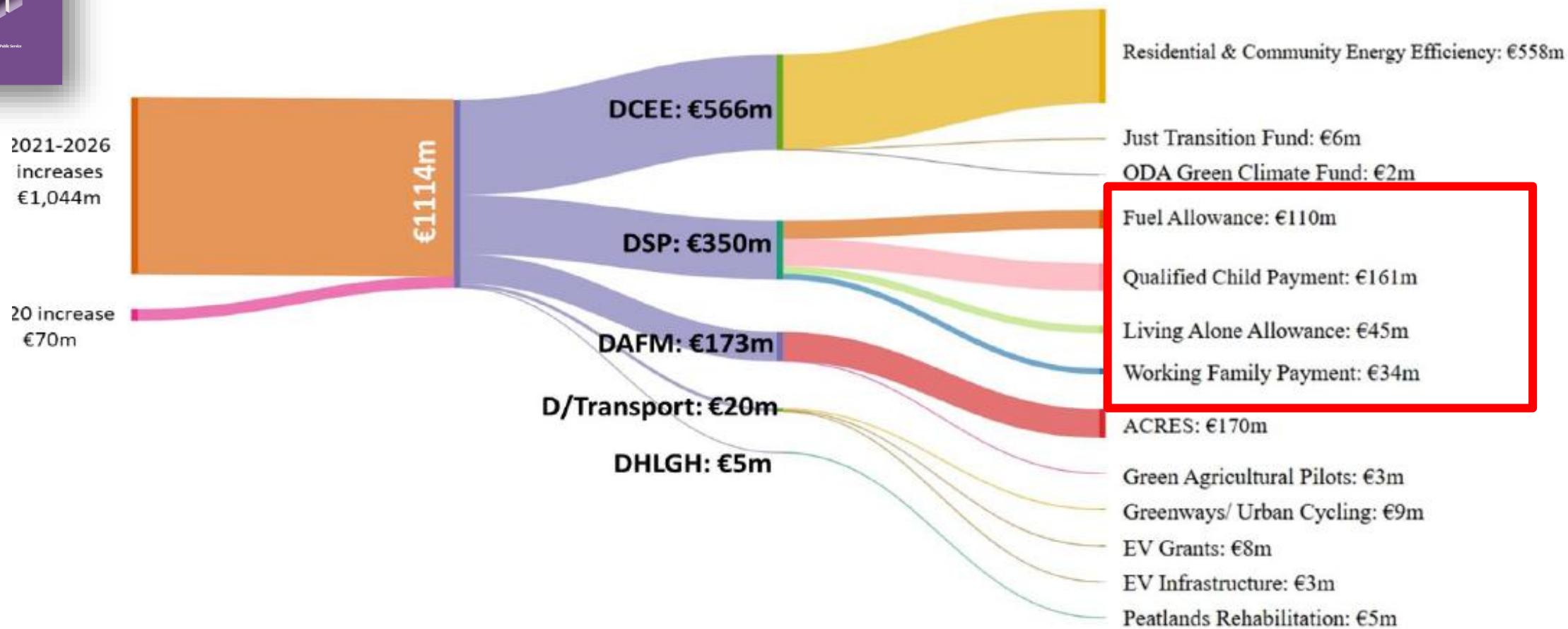
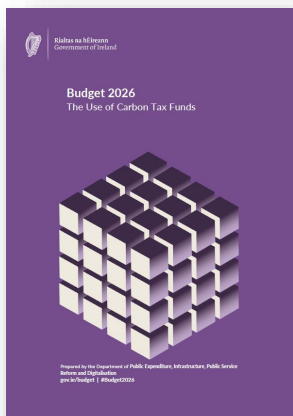
■ Carbon Tax Design

- Hypothecated revenue (from 2020)
- Split between:
 - compensatory social welfare payments
 - 'socially progressive retrofitting programme'
 - promotion of sustainable agricultural practices
 - green transport initiatives

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4. Hidden Recycling

- Important measures targeted at the bottom two deciles (poor)
 - evidence suggests they sufficiently compensate these households
- But, not visible to either policymakers or recipients
- For example:
 - additional carbon tax revenue in 2026 = €163m
 - €44m of this (27%) to targeted social protection interventions
 - Budget 2026 increases to these measures = €355m
 - 12% coming from carbon tax & 78% from exchequer

	Weekly Increase	Compensation CT	Living standards increase
Fuel allowance	€5.00	€0.62	€4.38
Child Support Payment – under 12	€8.00	€0.99	€7.01

“...the delineation between compensation to maintain current living standards and resources to enhance current living standards is not made clear to either policymakers or recipients”

(Bridgen and Collins, 2025: 312)

Press release

Budget 2026: Minister Calleary secures Social Protection package of over €1.15 billion for new measures

From: [Department of Social Protection](#)

Published on: 7 October 2025

Last updated on: 14 October 2025

- overall €28.9 billion to be spent on Social Protection in 2026
- over €220 million in measures to tackle child poverty, including the largest

Part o

Announcing the Social Protection Budget, Minister Calleary said:

“In my first Budget as Minister for Social Protection, I am delighted to have secured a package of over **€1.15** billion.

<https://www.gov.ie/en/department-of-social-protection/press-releases/budget-2026-minister-calleary-secures-social-protection-package-of-over-115-billion-for-new-measures/>

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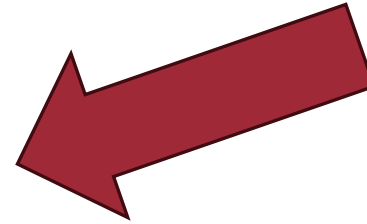
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No mention of carbon in
Department Press
Release or
documentation



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5. Some Lessons

- From a ***tax design*** perspective
 - Ireland's carbon tax has a lot of worthwhile features
 - structured to balance fairness with behavioural change
 - hypothecation is important
 - but, limited consideration of financing/reversing compensation post any behavioural change (if needed)

- From a ***distribution*** perspective
 - social protection system has been unwilling to demonstrate the compensation being provided
 - important for poor households
 - *hidden recycling* of funds = unfortunate

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