

Outline of Child Care Tax Credit Proposal

Fianna Fáil propose to introduce a Progressive Tax Credit Childcare expenses incurred by working families.

The Tax Credit is based on the income of the designated primary carer of the child (or children) and can only be claimed back on their income.

Under this scheme, a parent earning up to €40,000 will be eligible to receive 40% of their childcare costs via a tax credit, a parent earning between €40,000 and €50,000 per annum would be eligible for 30% support while a parent earning between €50,000 and €70,000 would be eligible for 20% support.

The tax credit can only be claimed on costs incurred on childcare by a registered provider up to €5,000, meaning that the maximum euro amount that can be claimed is €2,000. This does not mean that childcare has to be undertaken in a formal (crèche) setting, childcare undertaken by a childminder or relative is also eligible once they go through a simple registration with Tusla.

Anyone working more than 25 hours per week (“extended part-time”) can avail of the credit.

We propose that the Childcare Support Credit should be a positive tax subsidy, meaning that for parents who do not pay enough tax to avail of the full tax credit return (e.g. a lone parent earning between €30,000 and €33,000), they will receive a cash subsidy payment for the balance (which could be up to a maximum of €2000).

How We Costed the Childcare Tax Credit Proposal

We followed the same method as the Indecon Economic Consultants in a previous exercise¹ they undertook in costing a similar tax credit for childcare expenses.

Ideally, to cost this proposal we would have the following information:

1. the number of households with children, where the primary carer is working full time or extended part-time, in each relevant income category
2. the percentage of those families who would take up the tax credit

¹ Indecon, 2013. ‘Supporting Working Families: Releasing a Brake on Economic Growth’, Report commissioned by Donegal County Childcare Committee (Available [here](#)).

Since this information was not available from public (or private sources) we made a number of assumptions to infer the information in case of point 1 and 2 above.

This involved the following steps:

1. We used data on 'Income Earners by Gross Income Range in 2016' from the Revenue Commissioners 'Ready Reckoner' Tables² to get the percentage of the population of households (income distribution) in each income bracket.
2. We assumed that the income distribution of households was reflected amongst households with children under 5 years of age (i.e. if 20% households gross income is between €21,000 - €30,000, 20% of children 5 years and under are also in households with this income distribution). This gives us the number of children under 5 in each income bracket. For the purpose of clarity, we assume that each household has 1.3 children, however this assumption is not germane to the costing analysis as the tax credit is per child, not per household.
3. Since the primary carer has to be working at least 25 hours per week to avail of the tax credit, we assumed that only 64% of households would be eligible to avail of the credit. This is the percentage of mothers with children under 5 who are working full time or extended part-time hours.
4. We then made an assumption on the 'Take-Up Rate' of the Tax Credit. We assumed that 40% of eligible households (actually 40% of children under 5) would avail of the full child care tax credit. The Take-Up Rate (is based on the fact that only 48% of children under 5 are cared for by non-parental child care on a full-time basis and of children cared for by non-parental childcare, a large proportion are cared for by relatives). This gives us the number of children using childcare whose primary carer is working over 25 hours per week, in each income bracket.
5. We multiplied the number of children using childcare in each income bracket by the maximum euro amount they can claim as a credit (i.e. €2,000 for households where primary carer has a gross income under €40,000, €1,500 for those between €40-50,000, and €1,000 for those between €60-70,000).

² Office of the Revenue Commissioners, 2016. 'Ready Reckoner - Post Budget 2016'. Available [here](#).

For households with children 5 years and under, this amounts to a cost to the exchequer of €103 million.

6. We used the same method to separately cost the childcare tax credit for households with children aged between 5 and 10 years (born between 2001 and 2010). The reason for this was that we assumed a lower take-up rate of childcare (known as 'After School Care') for children in this age cohort. This assumption is based on the fact that a low number of children use formal afterschool arrangements³. As well as this, costs for Afterschool are significantly lower than for pre-school care, as these children spend most of their day being cared for in school. Based on the assumption of a lower take-up rate for Afterschool Childcare, we estimated that extending the Childcare Tax Credit to households with children aged 5 to 10 years, would cost €39 million. This would mean a total cost of €142 million per annum.

³ According to a DYCA report based on the ERSI Growing Up in Ireland Survey 2013: "At 5 years of age, 64% of the infant cohort (who had started primary school) were cared for at home by a parent after school, 27% were in informal after-school childcare arrangements and 9% were in centre-based settings. At 9 years of age, the percentage of primary school children cared for at home by a parent after school was 77% while the percentages in informal and formal after-school care arrangements were 19% and 3% respectively" in DYCA 2015. 'Report of Inter-Departmental Working Group: Future Investment in Childcare in Ireland', pg. 19. Available [here](#).

Child Care Tax Credit for Aged 5 and Under (€5,000 Cap)

Number of children under 5	Income Brackets	Number of Tax Units in Bracket*	% of Income Distribution	Number of Children under 5 in income bracket	% of Full Time Employed Females	Number of Participating children	Take-Up Rate (% using non-parental care; For children aged 0-1 this is also likely to be)	Number Using Childcare in Each Bracket
435,747	0-10000	413,000	0.17	72,286	0.64	46,480	0.40	18,592
435,747	10000-20000	408,033	0.16	71,275	0.64	45,830	0.40	18,332
435,747	21000-30000	499,289	0.20	87,215	0.64	56,080	0.40	22,432
435,747	31-40000	328,140	0.13	57,319	0.64	36,856	0.40	14,743
435,747	41-50000	236,001	0.09	41,224	0.64	26,507	0.40	10,603
435,747	51-60000	166,411	0.07	29,069	0.64	18,691	0.40	7,476
435,747	61-70000	114,186	0.05	19,946	0.64	12,825	0.40	5,130
435,747	71-100000	182,624	0.07	31,901	0.64	20,512	0.40	8,205
435,747	100001-200000	118,051	0.05	20,621	0.64	13,259	0.40	5,304
435,747	201000-275000	13,753	0.01	2,402	0.64	1,545	0.40	618
435,747	Over 2750000	14,243	0.01	2,488	0.64	1,600	0.40	640
				435,747		280,185		112,074
Number of Households with Children under 5***				335,190				
Income Brackets	Number Using Childcare in Each Bracket	Maximum Tax Credit	Total Cost to Exchequer (€,millions)					
0-10000**	18,592							
10000-20000**	18,332							
21000-30000	22,432	€2,000	€44.86					
31-40000	14,743	€2,000	€29.49					
41-50000	10,603	€1,500	€15.90					
51-60000	7,476	€1,000	€7.48					
61-70000	5,130	€1,000	€5.13					
71-100000	8,205	-	€0.00					
100001-200000	5,304	-	€0.00					
201000-275000	618	-	€0.00					
Over 2750000	640	-	€0.00					
	112,074	-	€0.00					
Total Cost for Under 5s			€103					

*Married persons or civil partners who have elected or who have been deemed to have elected for joint assessment are counted as one tax unit.

**Assume only small number will claim full amount because of Community Childcare/ Not in Full-Time employment/ do not have large outgoings on private child care

***We assume 1.3 children under 5 per household

After School Care Tax Credit for Children Aged 5 and Upwards (€5,000 Cap)

Number of Children between 5 and 10 (born between 2001 and 2010)	Income Brackets	Number of Tax Units in Bracket	% of Income Distribution	Number of Children under 5 in income bracket	% of Full Time Employed Females	Number of Participating children	Take-Up Rate (% using non-parental care)*	Number Using Childcare in Each Bracket
665,945	0-10000	413,823	0.17	110,474	0.64	71,034.78	0.10	7,103
665,945	10000-20000	408,033	0.16	108,928	0.64	70,040.90	0.10	7,004
665,945	21000-30000	499,289	0.20	133,290	0.64	85,705.45	0.10	8,571
665,945	31-40000	328,140	0.13	87,600	0.64	56,326.87	0.10	5,633
665,945	41-50000	236,001	0.09	63,003	0.64	40,510.75	0.10	4,051
665,945	51-60000	166,411	0.07	44,425	0.64	28,565.28	0.10	2,857
665,945	61-70000	114,186	0.05	30,483	0.64	19,600.60	0.10	1,960
665,945	71-100000	182,624	0.07	48,753	0.64	31,348.32	0.10	3,135
665,945	100001-200000	118,051	0.05	31,515	0.64	20,264.04	0.10	2,026
665,945	201000-275000	13,753	0.01	3,671	0.64	2,360.77	0.10	236
665,945	Over 2750000	14,243	0.01	3,802	0.64	2,444.88	0.10	244
				665,945		428,203		42,820
Number of Households with Children between 5 and 10				512,265				
Income Brackets	Number Using Childcare in Each Bracket	Maximum Tax Credit	Total Cost to Exchequer (€,millions)					
0-10000	7,103							
10000-20000	7,004							
21000-30000	8,571	€2,000.00	€17.14					
31-40000	5,633	€2,000.00	€11.27					
41-50000	4,051	€1,500.00	€6.08					
51-60000	2,857	€1,000.00	€2.86					
61-70000	1,960	€1,000.00	€1.96					
71-100000	3,135	€0.00	€0.00					
100001-200000	2,026	€0.00	€0.00					
201000-275000	236	€0.00	€0.00					
Over 2750000	244	€0.00	€0.00					
Total Cost for children 5-10 years			€39					