

## Child Care Tax Credit Response

For the most part the outline of Child Care Tax Credit proposal follows a logical step by step process. However there are a few issues with the calculation. The primary issue is the estimated Take Up Rate. Each step is addressed below.

1. There seems to be a miscalculation of the number of people in tax bands. The paper quoted the 'Ready Reckoner' report from the Revenue commissioner and for the most part their tax band figures match, except that they seem to have included approx. 90,000 extra tax units in the 21,000 – 30,000 bracket. This will mean some recalculations will need to be done as it impacts on the % in each band of the income distribution which then affects the number of children under 5 in each bracket.
2. Using the national income distribution and assuming that this is reflected in houses with children under 5 is an acceptable assumption to make.
3. The paper has not quoted a source for the figure of 64% of mothers with children under 5 who are working full time or extended part time hours. However this figure seems to be close to recent female labour participation figures from the Quarterly National Household Survey.
4. The Take Up rate of 40% is too low. (This 40% rate is actually 25% of households with children under 5, as 40% of 64% is 25%). The tax credit is intended to cover all forms of non-parental care and so the 40% rate is too low in this context.

This Take-Up Rate used is based on a figure of 48% of children under 5 being 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 the paper states. However this child care tax credit is only available when the primary caregiver is working 25 hours per week or more. This implies that both parents (for two parent families) and the single parent for single parent families will be working in order to receive this tax credit. This means that as all parents are working, they will have to engage in non-parental child care in some form and so this 40% take up rate figure does not hold in this context. It is better to assume that if both parents are working close to full time, then they will have to use non-parental care.

- a. Evidence from the Growing up in Ireland Study suggests at three years of age, 50 per Cent of children were in regular non-parental childcare. This study further found that take up of non-parental childcare was strongly influenced by the primary caregivers hours of work<sup>1</sup>
- b. One point the costing fails to take account of, is that the 64% of mothers who are working full time or extended part time hours make up a significant share of this 50% figure quoted in (a). It is likely that the other 36% of mothers not working have a very low engagement rate with non-parental child care.
- c. Research from Byrne and O'Toole (2015) using GUI data shows that use of non-parental care is strongly dictated by the employment status of the primary care giver. They find that once the Primary Caregiver is working more than 16 hours a

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<sup>1</sup>Growing Up in Ireland , National Longitudinal Study of Children in Ireland, Non-parental childcare and cognitive outcomes at age 5 Available at : <https://www.esri.ie/pubs/BKMNEXT300.pdf>

week that the rate of use of non-parental care is **over 75% and as high as 81 % in households where all parents present are working**<sup>2</sup>. (Graphs below)

- d. Incentive effects would also take hold once this tax credit is introduced and lead to switching behaviour away from parental care and towards non-parental care.
  - e. For these reasons a figure of 40% take up rate is **not** a high enough figure, given that this is 40% of 64% of households which will mean that only 25% of taxable units will receive the tax credit. **A fairer figure would be 75% of the 64% of qualifying households** as evidenced in the above cited research. This would mean that a total of 48% of children under 5 parent's, would be eligible for the tax credit
5. The method of multiplying the number of children using childcare in each income bracket by the maximum euro amount they will receive is acceptable.
  6. The method used in step six is subject to the same counting error in the 21,000-30,000 income bracket, and the same flaw in Take Up Rate calculation as the under 5 year olds, in that it uses participation figures for the total group of over 5 year olds and not the subset where both parents are working.

However given the childcare rates evidenced and the falling use from 5 to 9 years of centre based after school care, the 10% is likely an acceptable number to use as an assumption.

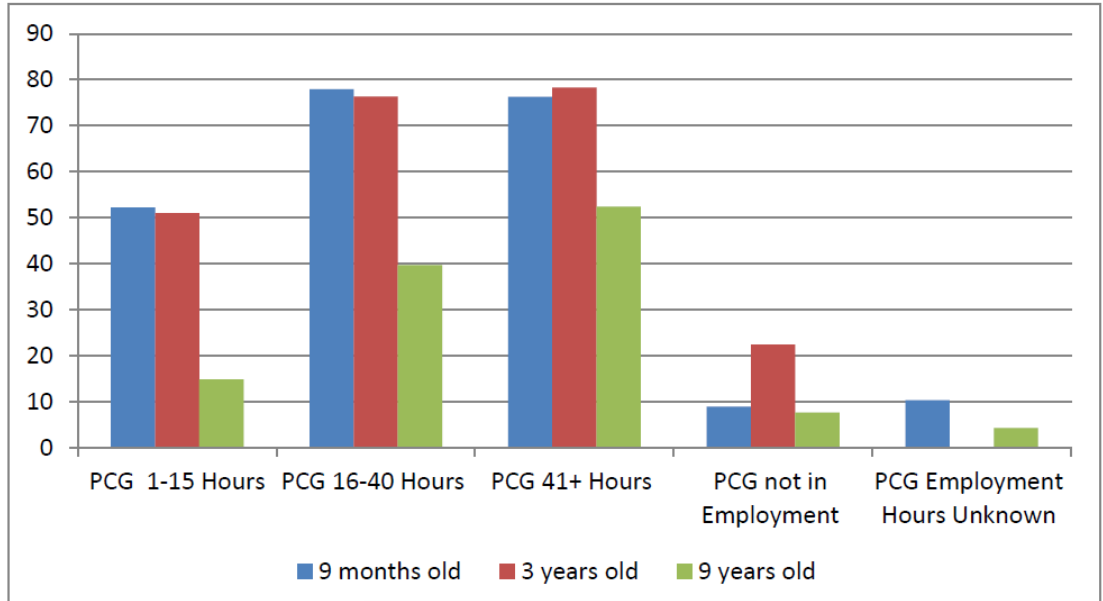
In summary, the main issues are the error in the 20,000 to 30,000 income band and the low estimated Take Up Rate. The low take up rate is the major item of concern and this should be higher, as at the current rate of 40% of 64% of all households with children under 5 it most likely results in the underestimation of the cost of such a scheme. Increasing the Take Up Rate for under 5 year olds to 75% of those who qualify (64%) would lead to an increase in the estimated cost. However applying this rate is likely to produce a more accurate estimate of the cost as the take up rate of centre-based care in the subset of parents who work is likely to be higher than it is for the full pool of parents.

The updated take up rate into the analysis results in the programme costing an **estimated additional €95 million to fund**. Suggested changes to the costing have been applied for example below. This would bring the total cost of the Tax Credit programme to approximately €235 million.

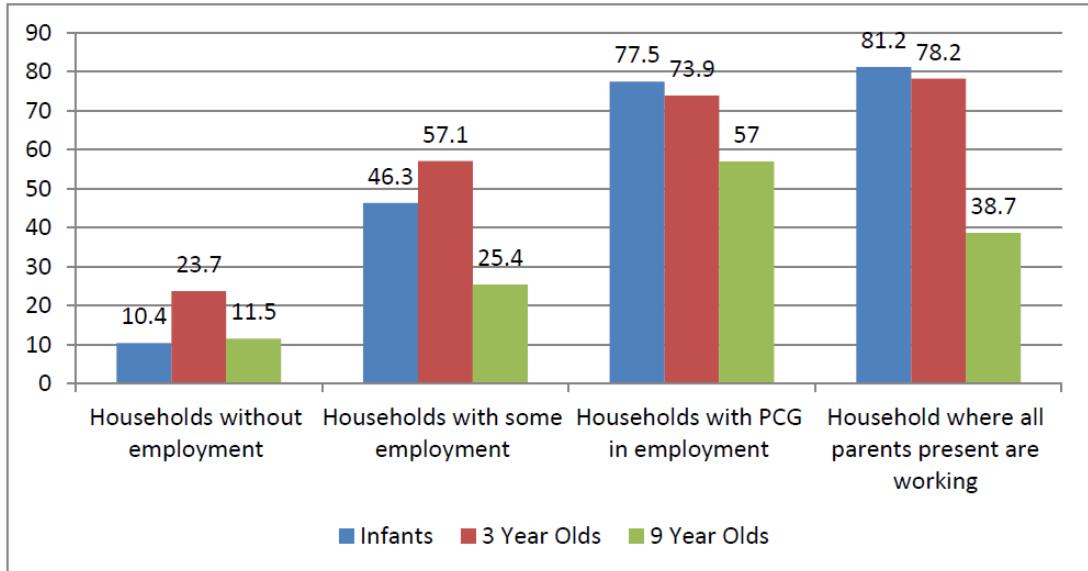
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<sup>2</sup> Byrne, D. & O'Toole, C. (2015). The Influence of Childcare Arrangements on Child Well Being from Infancy to Middle Childhood. TUSLA in association with Maynooth University. Available at [https://www.maynoothuniversity.ie/sites/default/files/assets/document/Delma%20Byrne%20Childcare%20Report%20Jun%202015.pdf?utm\\_source=Barnardos+Library+Members&](https://www.maynoothuniversity.ie/sites/default/files/assets/document/Delma%20Byrne%20Childcare%20Report%20Jun%202015.pdf?utm_source=Barnardos+Library+Members&)

**Figure 3.6: Percentage of Children in Non-Parental Childcare by PCG Employment Status, all cohorts**



**Figure 3.7: Percentage of Children in Non-Parental Childcare by Household Employment Status, all cohorts**



## Workings for under Fives

Suggested changes to workings for children under 5 are applied below

Income Band	Number of Children Under 5	Total Tax units	Proportionate	Children in Income Bracket
0-10000	435747	413000	0.180357378	78590
10000-20000	435747	408033	0.178188286	77645
21000-30000	435747	409672	0.178904039	77957
31000-40000	435747	328110	0.143285858	62436
41000-50000	435747	236001	0.103061796	44909
51000-60000	435747	166411	0.072671796	31667
71000-100000	435747	182624	0.079752024	34752
100001-275000	435747	131804	0.057558896	25081
Over 275000	435747	14243	0.006219928	2710
Total		2289898		

Time Employed	Participating	TakeUp Rate	in Program	Payment	Total Tax Credit
0.64	50298	0.75	37723.29		
0.64	49693	0.75	37269.61		
0.64	49892	0.75	37419.31	2000	€74,838,622
0.64	39959	0.75	29969.46	2000	€59,938,928
0.64	28742	0.75	21556.26	1500	€32,334,385
0.64	20267	0.75	15199.93	1000	€15,199,928
0.64	22241	0.75	16680.82	1000	€16,680,818
0.64	16052	0.75	12038.94		
0.64	1735	0.75	1300.951		
			209158.6		<b>€198,992,682</b>