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Tax-Free Childcare Statistics

December 2018

This is the first quarterly publication of Tax-Free Childcare statistics. Tax-Free Childcare provides help with childcare costs for working parents. For every £8 a parent pays into their Tax-Free Childcare account the government will add an extra £2, up to a maximum of £2,000 per child per year. For disabled children the maximum is £4,000 per year.

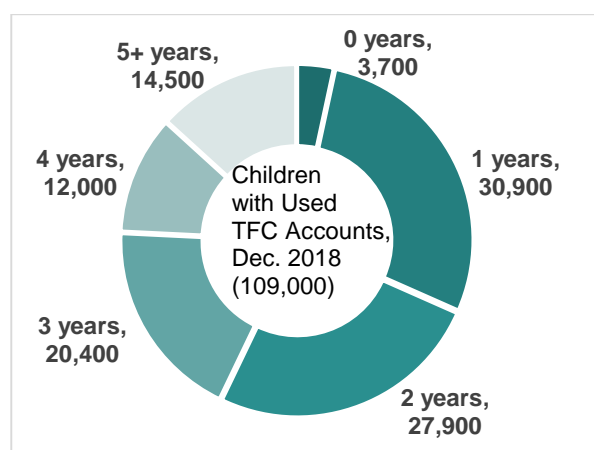
For more information about tax free childcare see the summary information in Annex 1 or visit www.gov.uk

For more information about the data included in this release see Annex 2 at the end of this document.

Summary

- **91,000 families** used Tax-Free Childcare for **109,000 children** in December 2018.
- The government spent **£10.0m** on top-up for these families in the same month.
- **14,000** of these families had a self-employed parent (**16%**).
- **600** of these children had a disability (**0.6%**).
- Take up was highest amongst children aged **one (31,000)** and **two (28,000)**.

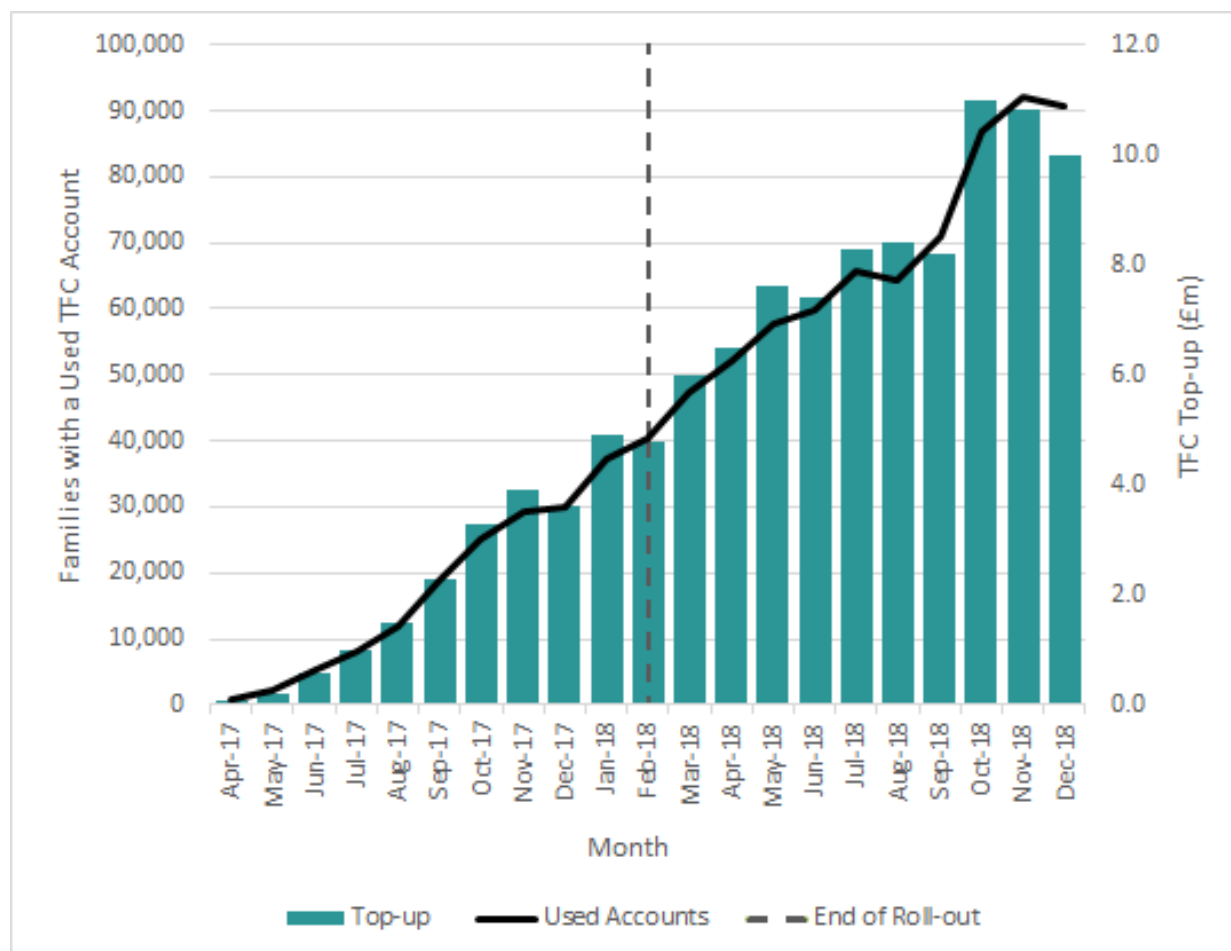
Figure 1: Children with Used Tax-Free Childcare Accounts by Age, December 2018



This is an official statistics publication. Statistical tables to accompany this commentary are available [online](#).

Families using Tax-Free Childcare

Figure 2: Families with Used Tax-Free Childcare Accounts and Government Top-up (£m), by Month



- The number of families using a Tax-Free Childcare account to make a payment to a childcare provider has been on an increasing trend since Tax-Free Childcare was launched in April 2017.
- Roll out was initially phased by the age of the youngest child in the family, with full roll out reached in February 2018.
- Since then the number of used accounts and government top up spent have continued to increase as applications to Tax-Free Childcare have increased.
- For this reason comparisons should not be made between months before March 2018 and more recent months.

91,000 families used Tax-Free Childcare in December 2018

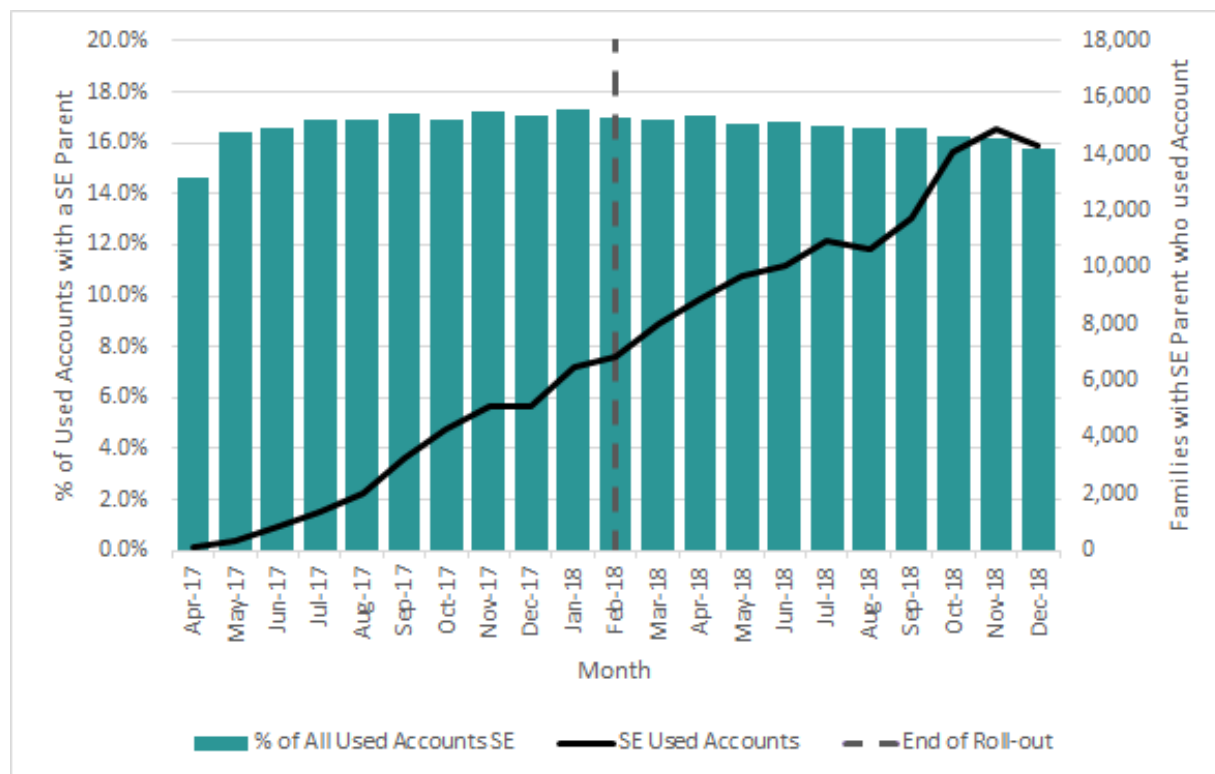
Between March and December 2018 the average monthly amount of top-up a family using tax-free childcare received ranged from £110 to £132

Self-employed Users of Tax-Free Childcare

Self-employed parents weren't eligible for childcare vouchers but are eligible for Tax-Free Childcare and so Tax-Free Childcare provides a new source of support towards childcare costs for families with self-employed parents.

The chart below shows the number of TFC applicants in families with at least one self-employed parent.

Figure 3: Families with a used Tax-Free Childcare account and a Self-Employed (SE) Parent, Number and Percentage of overall Used Accounts



- In December 18 there were 14,300 families with a self-employed parent using a Tax-Free Childcare account to pay a childcare provider.
- Generally the proportion of used accounts with a self-employed parent has remained around 16% to 17%.

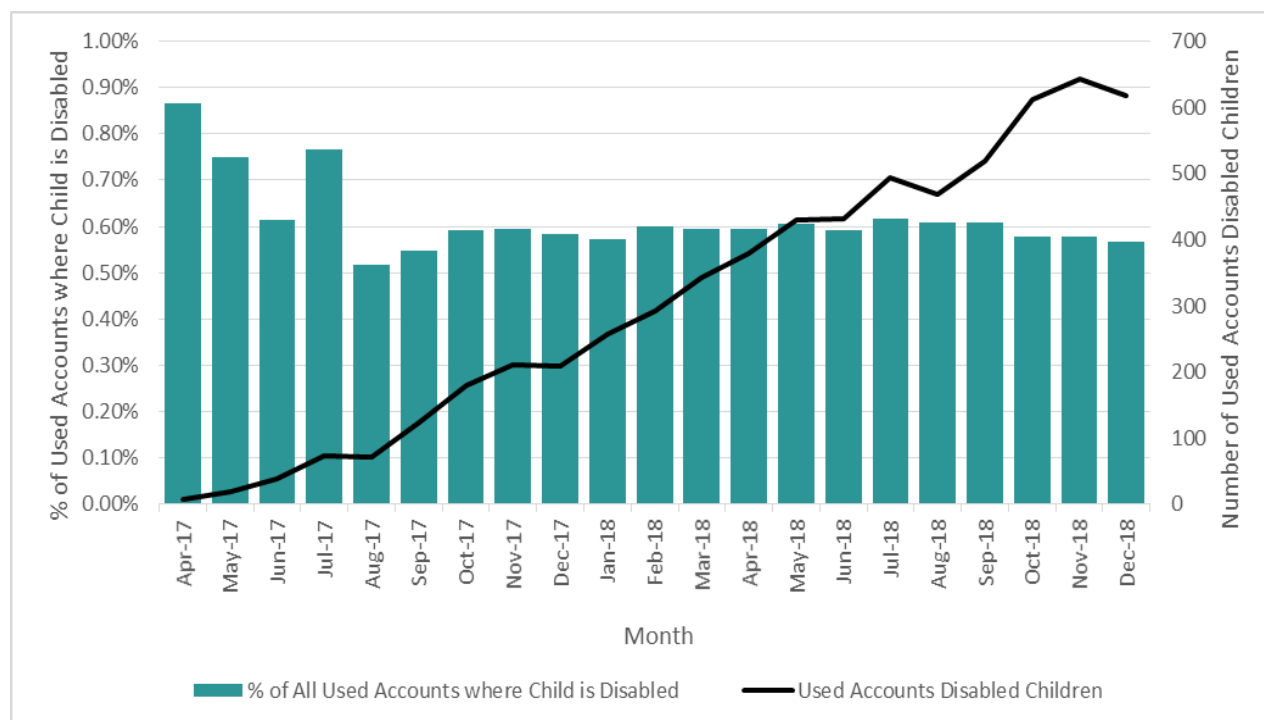
Around 16% to 17% of families using Tax-Free Childcare have a self-employed parent

Disabled Children using Tax-Free Childcare

Disabled children are eligible for Tax-Free Childcare up to the age of 16 and can get up to a maximum of £4,000 top up per year.

Families with a disabled child have been able to apply for Tax-Free Childcare since its launch in April 2017.

Figure 4: Disabled Children with a Used Tax-Free Childcare Account, Number and Percentage of Overall Children with Used Accounts

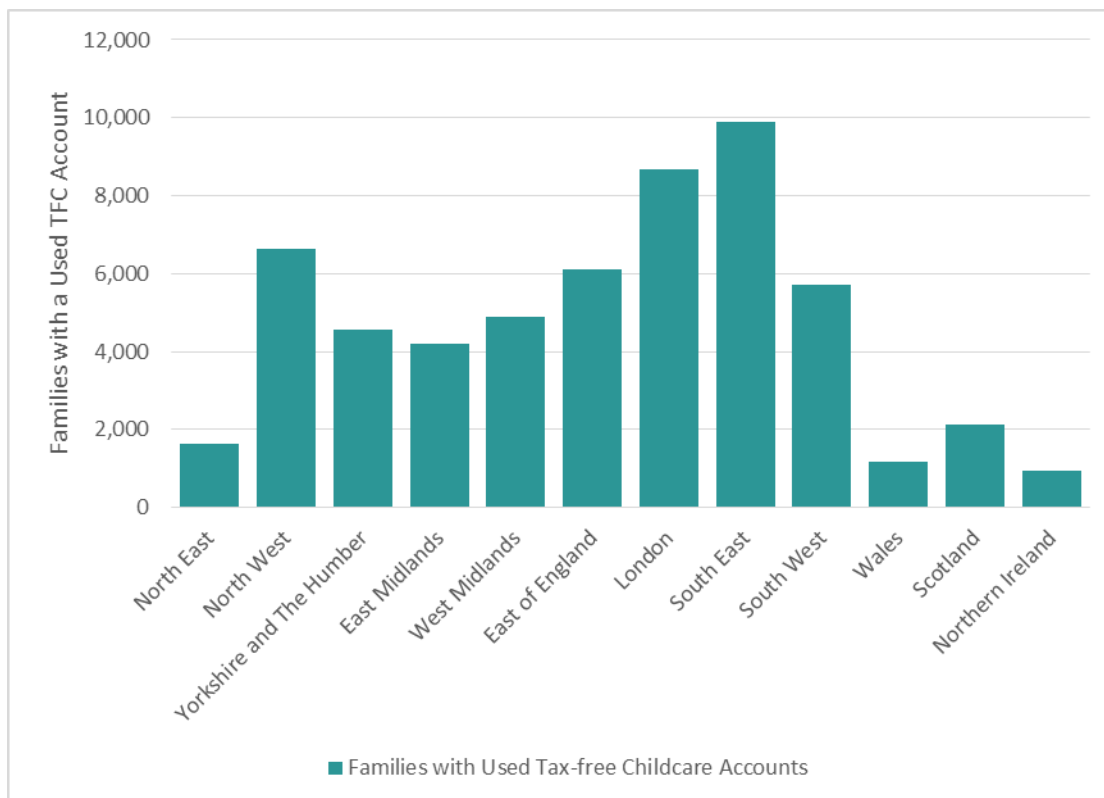


- The number of used a Tax-Free Childcare accounts for disabled children has been on an increasing trend since April 2017.
- Around 600 Tax-Free Childcare accounts were used in December 2018 for disabled children.
- The percentage of used accounts belonging to disabled children has remained around 0.6%.

0.6% of children using tax-free childcare have a disability

Account use by UK region

Figure 5: Families with used Tax-Free Childcare Accounts by Region, April 2017 to March 2018



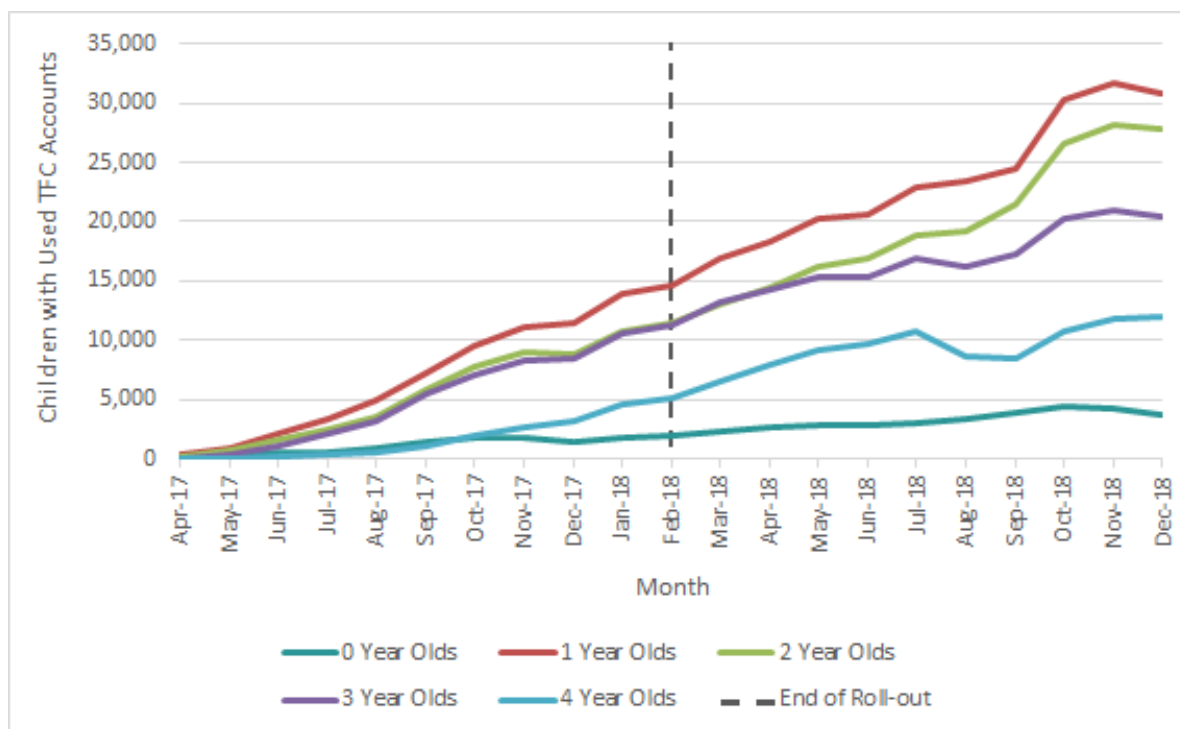
- During the first year of Tax-Free Childcare the South East was the region with the highest number of families using their accounts to pay a childcare provider.
- 9,900 and 8,700 families used their account in the South East and London respectively.
- The number of used accounts was lower in Wales, Scotland, Northern Ireland and the North East of England, at 1,200, 2,100, 900 and 1,600 respectively.
- One of the reasons for the differences in used accounts between regions is the large variability of population sizes between regions.
- An additional reason for fewer accounts being used outside of England could be that Tax-Free Childcare accounts are linked to the 30 hours free childcare accounts. The offer of 30 hours free childcare is currently only available in England.

Highest take-up in London and South East England

Lowest number using TFC in Wales and Northern Ireland

Account Use by Age of Child

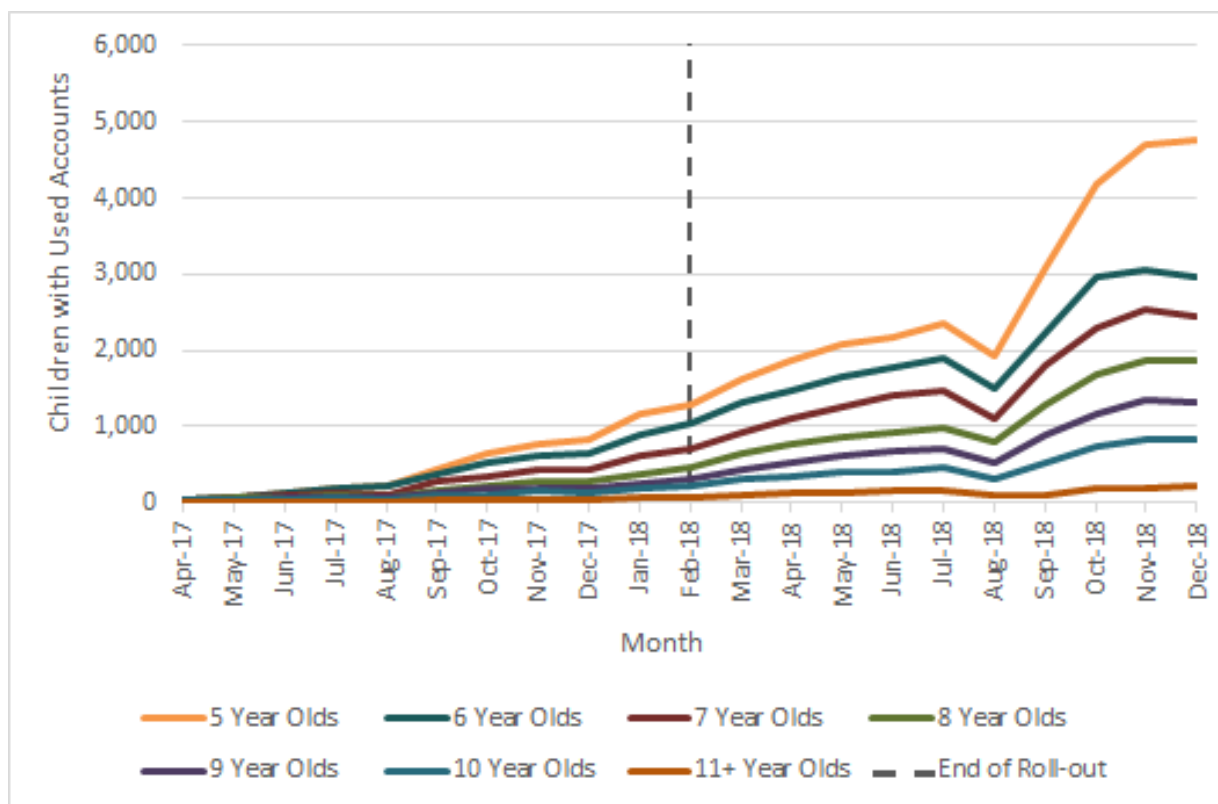
Figure 6: Children Aged 0 - 4 with Used Tax-Free Childcare Accounts, by Month and Child Age



- The age group with the highest number of used Tax-Free Childcare accounts is currently 1 year olds, with a total of 30,900 in December 2018.
- This is closely followed by 2 year olds with 27,900 used accounts in December 2018.
- Excluding 0 year olds, as age increases, the number of children using a Tax-Free Childcare account decreases.
- All of the age groups 0 – 4 year olds show growth in used accounts since March 2018. This continued growth shows that take up of Tax-Free Childcare is continuing to increase beyond the completion of roll out for all age groups.

1 and 2 year olds use TFC more than older children

Figure 7: Children Aged 5 – 11+ with Used Tax-Free Childcare Accounts, by Month and Child Age

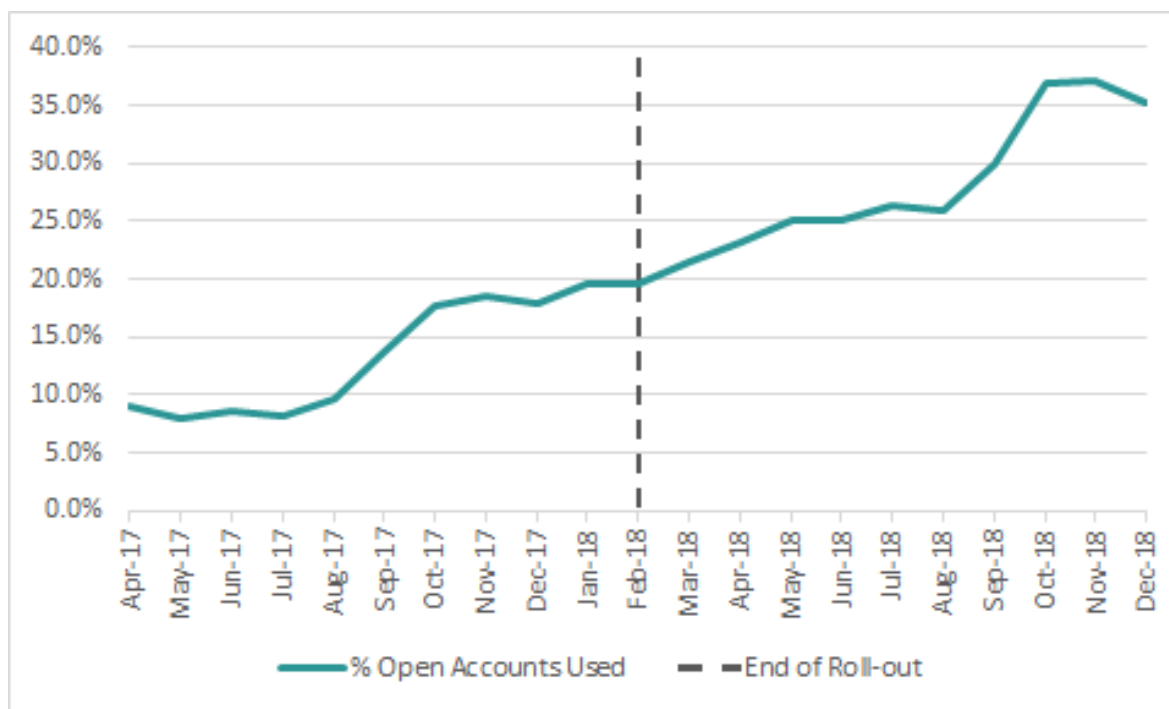


- The number of children aged 5+ with used Tax-Free Childcare accounts is substantially lower than those aged 0 - 4. One likely factor is that children of school age generally have lower childcare costs and hence parents will have lower benefits from taking up TFC.
- In addition, Tax-Free Childcare became fully available to these age groups later than it did for 0 to 4 year olds. See Annex 1 for more information on the roll-out schedule.
- Only 14,500 children aged 5+ used a Tax-Free Childcare account in December 2018.
- The age group with the lowest number of used accounts was 11+ year olds, with 200 used accounts.
- Most of the age groups 5+ appear to show a dip in used accounts in August of 2018. This is likely due to a difference in childcare arrangements in school summer holidays.

TFC usage
decreases
with age of
child

Percentage of Open Accounts which are Used

Figure 8: Percentage of Open Accounts which are Used, by month

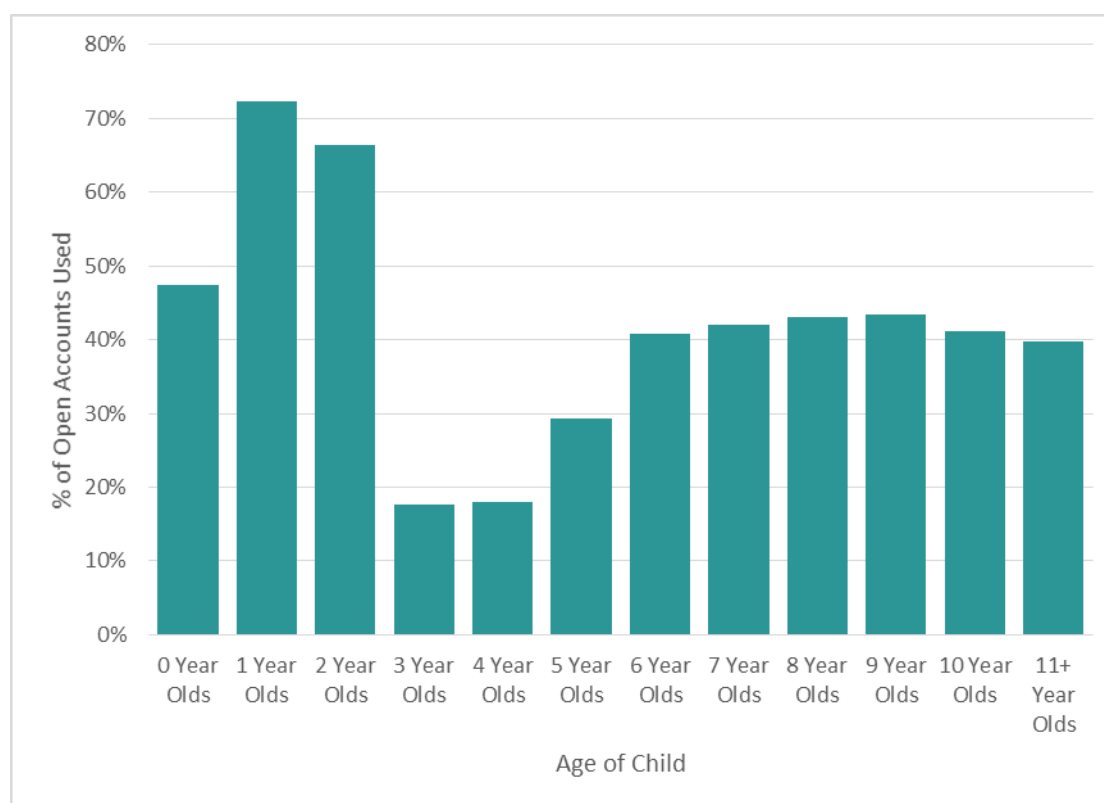


- Due to the way Tax-Free Childcare is linked to 30 hours free childcare, a large number of Tax-Free Childcare accounts are opened but not used to pay a childcare provider.
- This happens because a child who has a 30 hours account opened, will automatically have a Tax-Free Childcare account opened as well, if their parents are eligible. Additionally, Tax-Free Childcare accounts will also be opened for their siblings.
- This means that Tax-Free Childcare accounts may be opened even in circumstances where parents have no intention of using them and causes a large discrepancy between the numbers of open and used accounts.
- The percentage of open accounts which are used is generally on an increasing trend.

% of accounts used on upward trend

More than 60% of open accounts are not currently used

Figure 9: Percentage of Open Accounts which are Used, by Age of Child, December 2018



- For most age groups, the percentage of open accounts used in December 2018 was below 50%.
- This is partially explained by the interaction between Tax-Free Childcare and 30 hours free childcare, explained in more detail below Figure 8.
- In December 2018, 1 year olds and 2 year olds were the groups with the highest percentages of open accounts which were used to pay a childcare provider, at 72% and 66% respectively.
- These age groups typically have higher childcare costs than older children.
- The lowest proportion of open accounts which were used, belonged to 3 and 4 year olds, both at around 18%.
- This is likely due to a large number of these children being signed up for 30 hours, without planning on using Tax-Free Childcare.

User engagement

This is a new statistical product and we would like to hear user's views on the content and value of the statistics presented. If you would like to comment on these statistics please contact the statistician named on the front page.

Annex 1 – Background to Tax-Free Childcare

Tax-Free Childcare was launched to the public in April 2017 with a phased roll out by age of the youngest child in a family, completed in February 2018. The full roll-out schedule is shown below. Families with a disabled child up to the age of 16 were also able to sign up for Tax-Free Childcare in April 2017.

Tax-Free Childcare Roll-out Dates by Age of youngest Child

Age	0	1	2	3	4	5	6	7	8	9	10	11
Date eligible	21-Apr-17				Jun-17	24-Nov-17	15-Jan-18			14-Feb-18		

Families with a Tax-Free Childcare account receive 20% top up on childcare costs up to a total of £2,000 per year per child (£4,000 for a disabled child).

Tax-Free Childcare is run by HMRC with their delivery partners National Savings & Investments. Accounts are fully online for the large majority of users. Parents pay into and make payments to childcare providers out of the same account. Parents are able to withdraw money for other purposes, but lose the government top-up on anything removed.

In order to qualify for Tax-Free Childcare families must have all adults earning the equivalent of at least the national minimum or living wage for 16 hours per week, with income below £100,000 a year. They must not be claiming tax credits or universal credit in any form or other disqualifying benefits such as Job Seeker's Allowance.

Since September 2017, families in England have also been able to use the government's offer of 30 hours free weekly childcare for children aged 3 or 4. Families can access this offer provided all parents are earning at least the equivalent of the national minimum or living wage for 16 hours a week, and don't have a taxable income over £100,000 annually.

Unlike Tax-Free Childcare, families are eligible for 30 free hours if they receive tax credits or universal credit or childcare vouchers. Applications for the two offers are linked and accessed through the same online portal on <http://www.gov.uk>. When a family applies for 30 hours free childcare and also meets the additional eligibility criteria for Tax-Free Childcare, a Tax-Free Childcare account is automatically opened, and vice versa. This leads to a discrepancy between 'open' and 'used' Tax-Free Childcare accounts which can be seen in the tables accompanying this publication.

Tax-Free Childcare is replacing the childcare voucher and directly contracted childcare schemes, which closed to new entrants in October 2018. Tax-Free Childcare is available to families where one or more parents are self-employed. This is different to the employer supported childcare schemes, which are only available from some employers. With childcare vouchers, a basic rate taxpayer can salary sacrifice up to £55 per week, with a maximum benefit of £933 per year per parent, whilst a higher rate payer can get up to £28 a week in vouchers.

Whether a family is better off under Tax-Free Childcare or childcare vouchers will depend on their circumstances. Following the closure of childcare vouchers, parents who change employer and new parents will no longer be able to receive childcare vouchers but may be eligible for Tax-Free

Childcare. This should lead to an increase in take up of Tax-Free Childcare in the longer term, as these families look for childcare support.

Whether a family can access Tax-Free Childcare may also depend on their preferred childcare provider. Childcare providers need to be signed up to Tax-Free Childcare before a family can make payments to them.

Annex 2 – Methodological Notes

What is an open account?

An open Tax-Free Childcare account is one where a family has met the eligibility criteria and is within their eligibility period according to data held by HMRC on their administrative systems. The eligibility period is the period where families receive top-up on any payments made through their account and usually lasts around 3 months. At the end of this period families are required to reconfirm their eligibility, and the period starts anew.

For the purposes of these statistics monthly open account figures in table 1 are calculated as the number of families with an open account on the last day of each calendar month. A similar calculation is done for table 2 but counting the number of children.

Annual open account figures in tables 1 and 2 are calculated as the numbers with an open account on the last day of any of the 12 months April to March.

Using this measure, families or children are likely to have open accounts in multiple months but will only be counted once in the annual figures. This means that the annual number of open accounts will not equal the sum of the 12 months in the year.

What is a used account?

A used account is one where a payment is made from the account to a childcare provider within the month or year according to transactions data provided to HMRC by National Savings and Investments.

For table 1 this is calculated as the number of families making a payment in the period. For table 2 it is calculated as the number of children whose parents make a payment to a childcare provider on the child's behalf.

Because families or children have used accounts in multiple months this means that the annual number of used accounts will not equal the sum of the 12 months in the year.

How do you identify a child and a family?

Families who register for Tax-Free Childcare are assigned a unique claim identifier within HMRC's internal data. Children whose parents register are also given a unique identifier. It is therefore possible to link data across multiple children where they belong to the same family.

What is the relationship between Tax-Free Childcare and 30 hours free childcare?

In September 2017 the government launched its offer of 30 free hours of childcare in England for children aged 3 and 4 (although parents were able to apply for and therefore open a 30 hours account from April 2017).

Parents apply and have their eligibility checked for 30 hours free childcare via the childcare service, the online application for Tax-Free Childcare and 30 hours free childcare. If a parent is found to be eligible, they will be given a 30 hours eligibility code. A parent should take this code along with their national insurance number and their child's date of birth to their chosen childcare provider. The provider will either directly, or via their local authority, use the Department for Education's Eligibility Checking System (ECS) to confirm the validity of the code. Once the 30 hours eligibility code has been validated via the ECS, the child will be able to take up their 30 hours place.

In applying for 30 hours free childcare, many families find that they are also eligible for Tax-Free Childcare and a Tax-Free Childcare account is also opened for them. This contributes to the discrepancy between open and used Tax-Free Childcare accounts that is seen in the data in the tables accompanying this release.

For this reason, used accounts are considered as the best measure of take up of Tax-Free Childcare.

How do the figures for 30 hours free childcare presented here differ to other sources?

Department for Education publish their own data on the numbers of 30 hours eligibility codes issued and validated and estimated headcounts of the numbers of children in 30 hours places for a given term.

Because Tax-Free Childcare statistics only publishes numbers of open 30 hours free childcare accounts where they also have an open Tax-Free Childcare account, this publication should not be used as the lead source for 30 hours free childcare data. Additionally, HMRC's 30 hours data only shows where an account has been opened, and is within its eligibility period and not all of these families will necessarily be making use of the 30 hours offer.

What is government top up and how is it calculated?

Families who are signed up to Tax-Free Childcare and then make a payment to a registered childcare provider receive a top up of 20% and are able to receive up to £2000 per child per year (£4000 for a disabled child).

The monthly and annual top up amounts are the total top up that the government has spent in this period. Annual totals are equal to the 12 months in the year. The monthly totals also include some backdated payments to families who did not initially receive their expected top-up.

How do you define a family with a self-employed parent?

Families with a self-employed parent are defined according to a flag that exists on HMRC's Tax-Free Childcare administrative data. This is based on details provided by parents during their application, including their unique taxpayer reference (UTR). For monthly data, the latest record on a parent's

self-employed status is looked at at the end of each calendar month. For annual data, the monthly data sets are combined so that the annual number of families with a self-employed parent and open or used account, are any families with a self-employed parent and open or used account in any of the months in the year.

This method reflects the fact that parents may change whether they are self-employed throughout the year.

How do you define a disabled child?

Children with a disability are defined according to a flag that exists on HMRC's Tax-Free Childcare administrative data. HMRC has access to Department for Work and Pensions records to confirm where disability living allowance (DLA) or personal independence payments (PIP) are received for a child, or a child has a Certificate of Visual Impairment (CVI). For monthly data, the latest record on a child's disabled status is looked at at the end of each calendar month. For annual data, the monthly data sets are combined so that the annual number of disabled children with an open or used account, are those with an open or used account at any month in the year.

How do you allocate a family with a used or open Tax-Free Childcare account to a geographical region?

In order to allocate a family to a region parents details are linked to the postcode held on the HMRC central repository of address information. This data receives information from other HMRC tax and benefit administrative systems and from Department for Work and Pensions. For annual data presented in table 6, a family's latest available address record within the 12 month period is used.

How are children's ages calculated?

Children's ages are calculated using the child's date of birth which HMRC holds on its administrative Tax-Free Childcare data. Ages are calculated on the last day of each calendar month, so where a child has a birthday in a particular month, they will be assigned to the older age category.