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## Tax-Free Childcare Statistics

### December 2019

This is a 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.

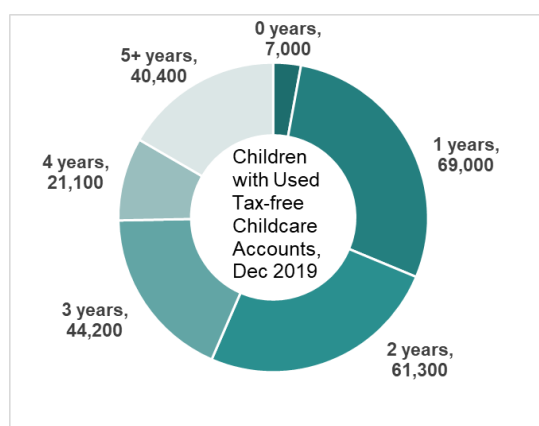
For more information about tax free childcare see the summary information in Annex 1 or visit [www.gov.uk](http://www.gov.uk)

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

### Summary

- **205,000 families** used Tax-Free Childcare for **243,000 children** in December 2019. This compares with **91,000 families** for **109,000 children** in December 2018.
- The government spent **£21.8m** on top-up for these families in the same month.
- Account usage was highest in December 2019 amongst children aged one (**69,000**) and two (**61,000**). Account usage was considerably lower for children aged 5 and over (**40,000**).

**Figure 1: Children with used Tax-Free Childcare Accounts by Age, December 2019**

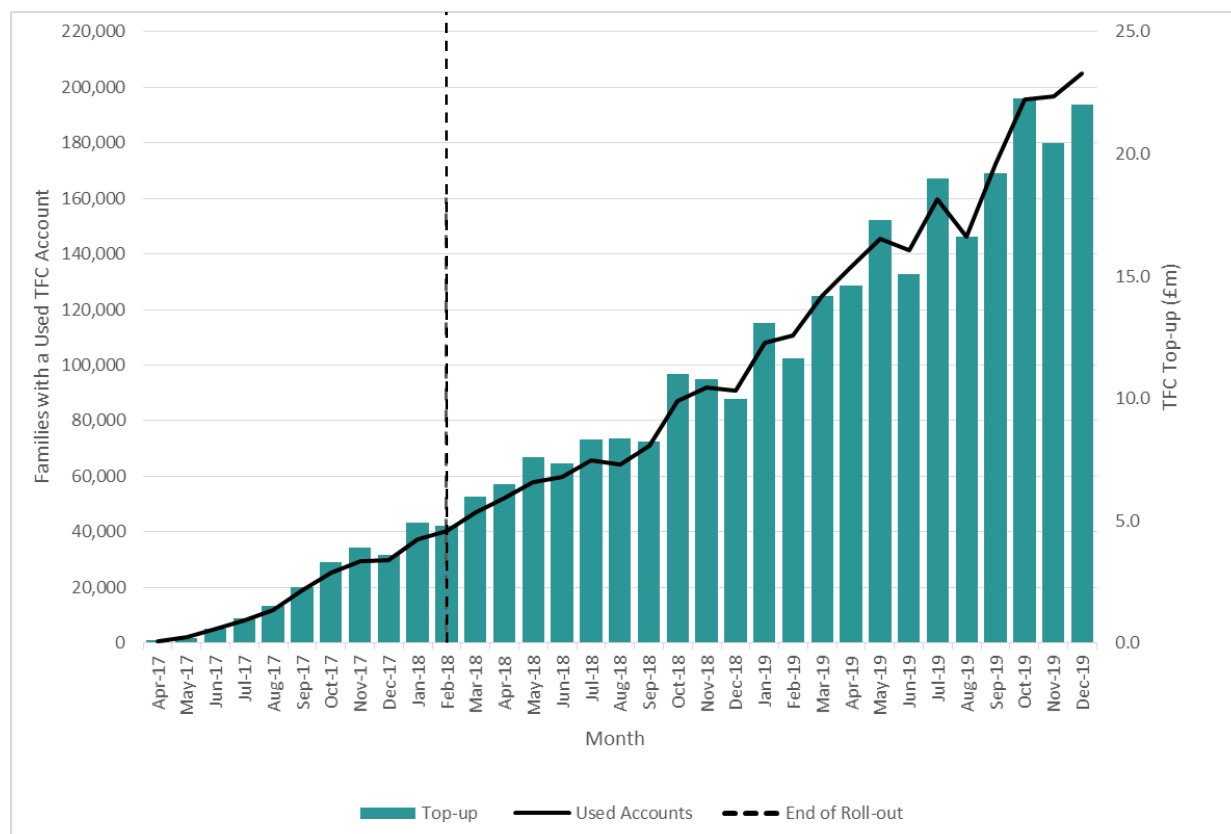


This is an official statistics publication. Statistical tables to accompany this commentary are available at:

<https://www.gov.uk/government/statistics/tax-free-childcare-statistics-december-2019>

## Families using Tax-Free Childcare

**Figure 2: Families who have used Tax-Free Childcare accounts and amount of Government Top-up paid (£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 it 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. Comparisons therefore should not be made between months before March 2018 and more recent months.
- Since then the number of used accounts and government top up spent has continued to increase as applications to Tax-Free Childcare have increased.
- Although there is a clear upward trend in the number of used accounts, monthly growth rates are still quite volatile. As the data series gets longer seasonal patterns are emerging which are helping us to better understand monthly changes.

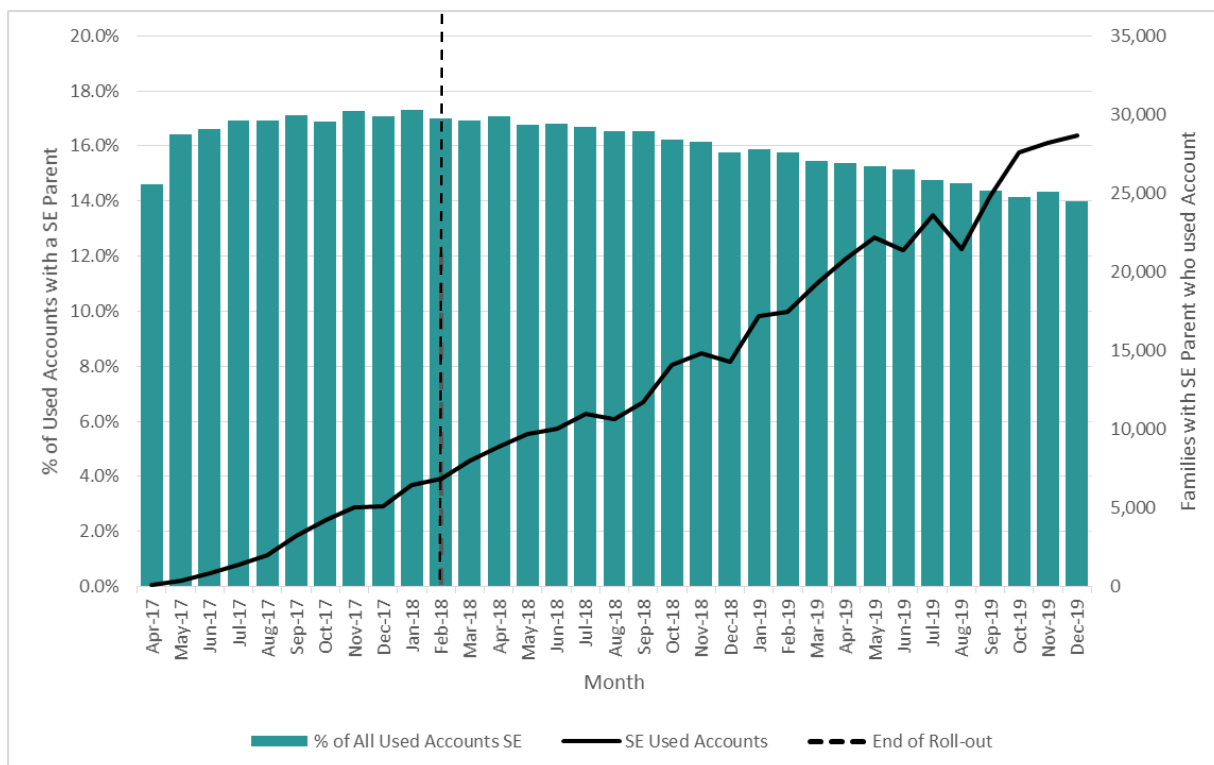
205,000 families  
used Tax-Free  
Childcare in  
December 2019

## Self-employed Users of Tax-Free Childcare

Self-employed parents were not 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**



- The number of families with a self-employed parent using a Tax-Free Childcare account to pay a childcare provider has been on an increasing trend since April 2017.
- In December 19 there were 29,000 families with a self-employed parent using a Tax-Free Childcare account.
- There has been a declining trend in the proportion of used accounts with a self-employed parent since April 18. This could be due to early take up by this group compared to employed parents who were more likely to have had access to childcare support before the scheme was rolled out.

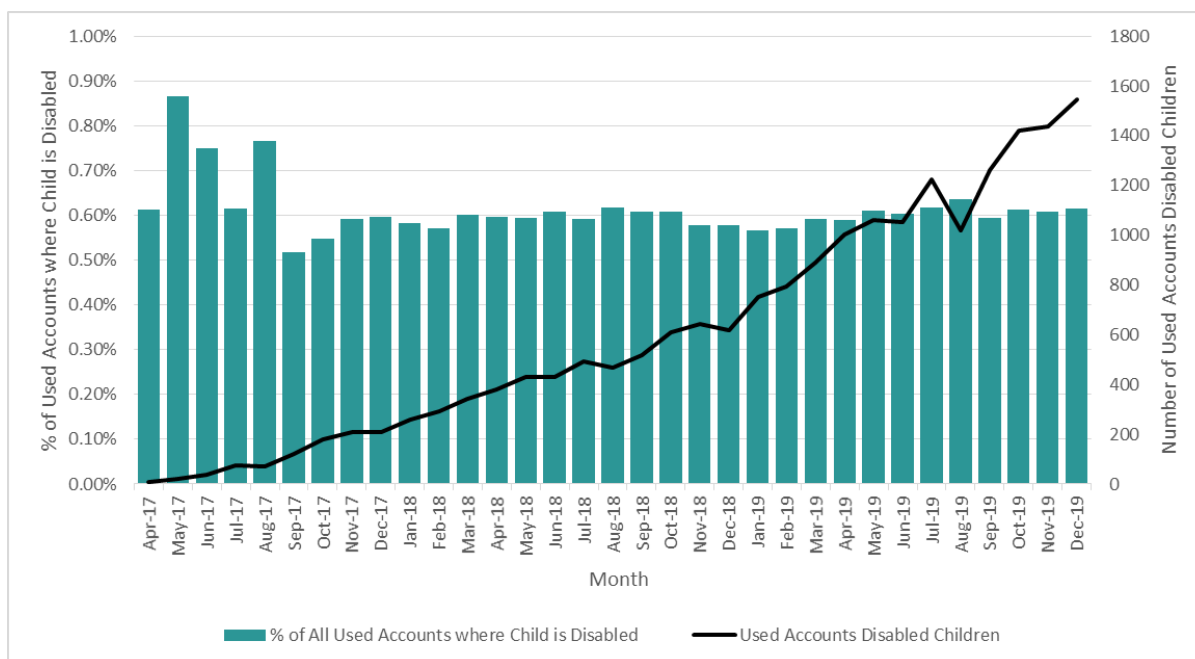
About 14% of families using Tax-Free Childcare have a self-employed parent

## 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**

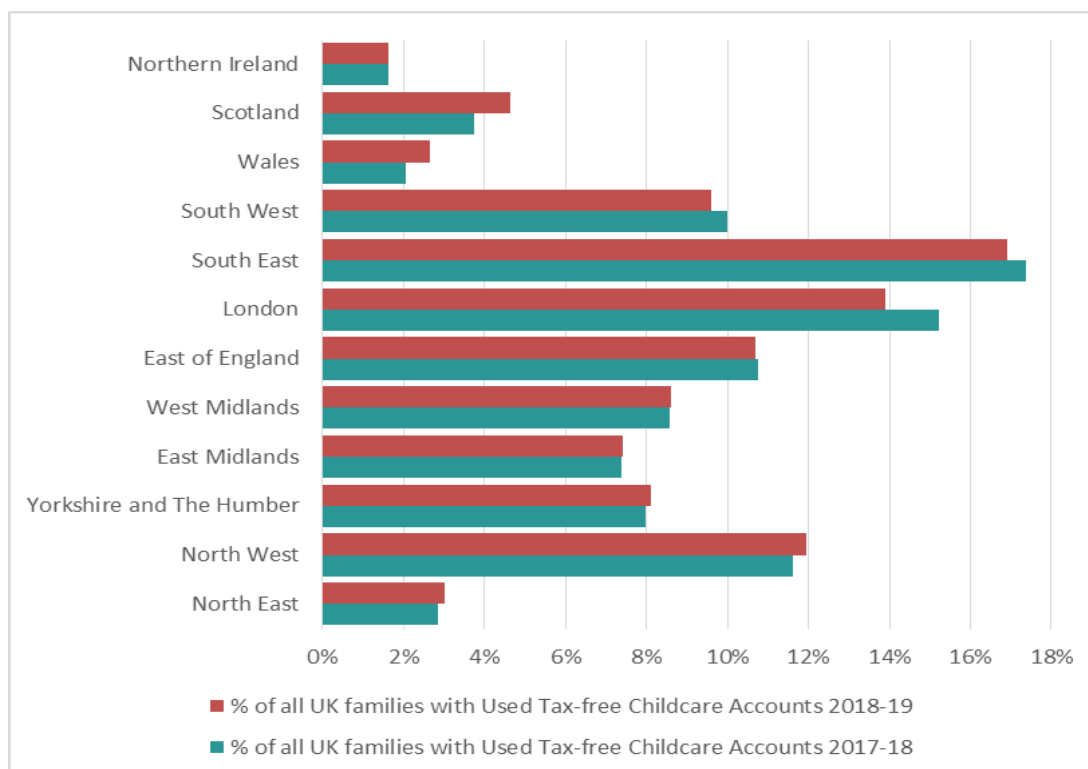


- The number of used Tax-Free Childcare accounts for disabled children has been on an increasing trend since April 2017.
- Around 1,500 Tax-Free Childcare accounts were used in December 2019 for disabled children.
- The percentage of used accounts belonging to disabled children has remained around 0.6% since October 2017.

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

## Account usage split by UK region

Figure 5: UK Families with used Tax-Free Childcare Accounts by Region



- In 2018-19 the South East accounted for the largest proportion of families using their accounts to pay a childcare provider (16.9%) followed by London (13.9%). These are very populous regions of the UK, so we would expect a high percentage share of total account usage for both.
- Combined, these two regions accounted for about 31% of all account usage in the UK in 2018-19. This is a lower proportion of all used accounts than in 2017-18 (33 %).
- Regions outside of London and South and East England have increased their share of total TFC account users in 2018/19 compared to the previous year.
- Northern Ireland, Wales, North East of England and Scotland, at 1.6%, 2.6%, 3.0% and 4.6% respectively had the lowest percentages in terms of UK proportional account usage in 2018/19.
- One of the reasons for the differences in used accounts between regions is the large variability of population sizes between regions. Differences in childcare usage and incomes across the regions are also contributory factors.
- 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 in England but not in other countries.

Highest number of users in London and South East England

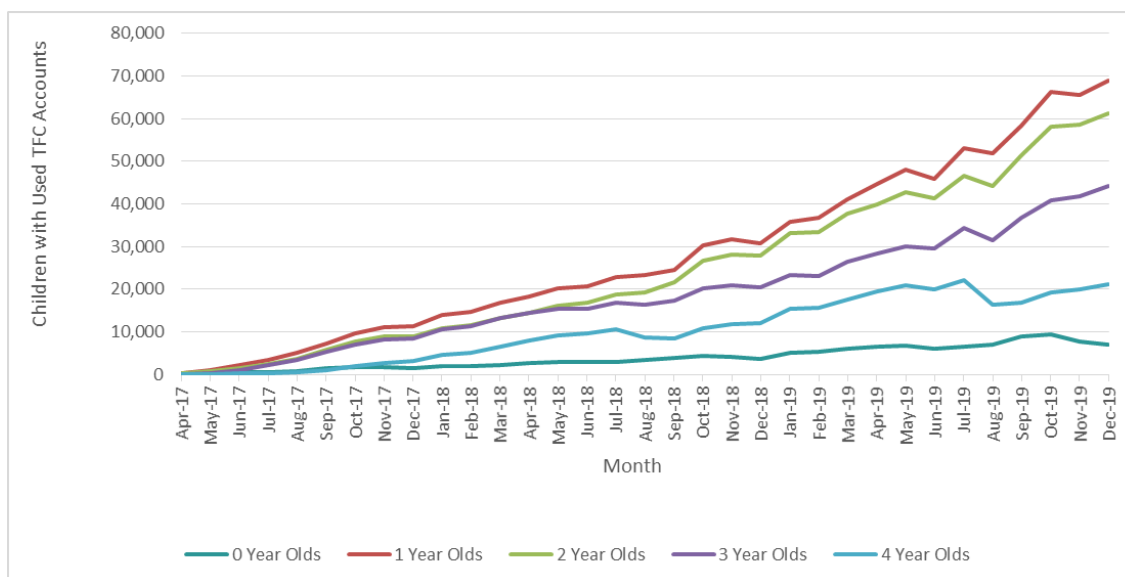
Lowest number using TFC in Wales and Northern Ireland

The share of TFC users in Scotland and Wales up in 2018-19

**Note: data for 2018/19 was first published in May 2019**

## Account Use by Age of Child

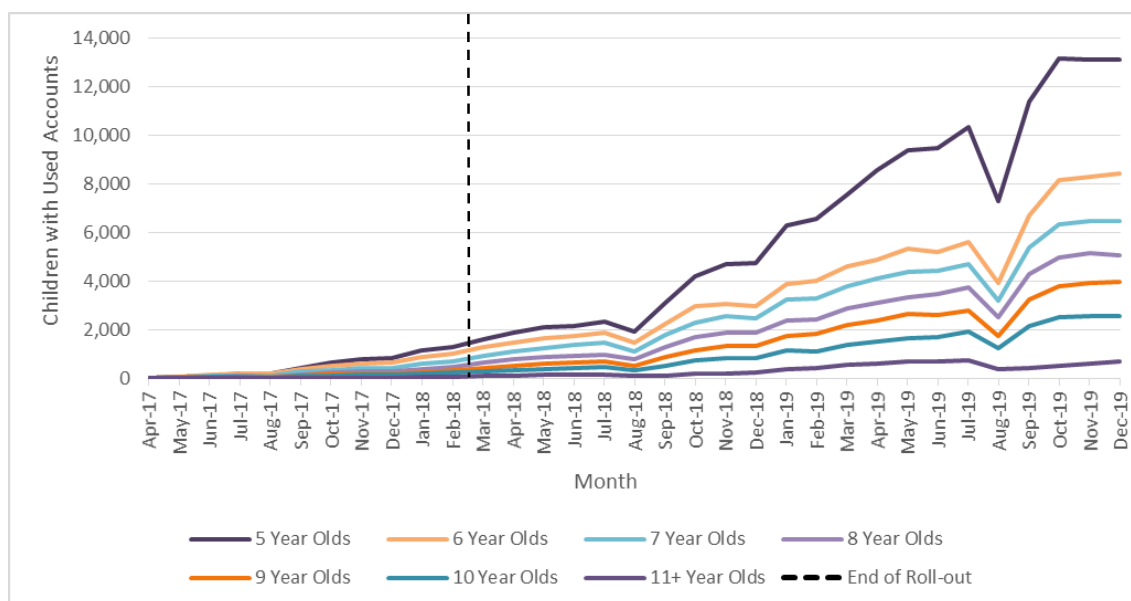
Figure 6: Children Aged 0 - 4 using Tax-Free Childcare accounts, by Month and Child Age



- The age group with the highest number of used Tax-Free Childcare accounts is currently 1 year olds, with a total of 69,000 in December 2019.
- This is followed by 2 year olds with 61,000 used accounts in December 2019.
- Excluding 0 year olds, as age increases, the number of children using a Tax-Free Childcare account decreases.
- The number of children aged 0-4 using TFC has continued to grow since TFC became available to them, with 1 and 2 years olds seeing the largest increase in usage.

1 and 2 year olds use TFC more than older children

**Figure 7: Children Aged 5 – 16 using Tax-Free Childcare accounts, by Month and Child Age**



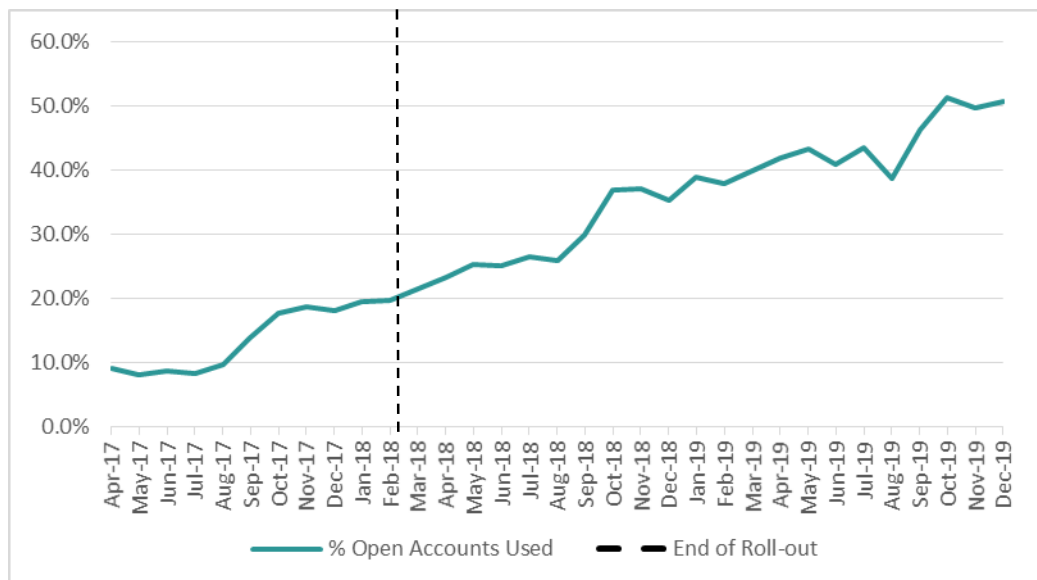
- The number of children aged 5 and above with used Tax-Free Childcare accounts is substantially lower than those aged 0 - 4. One likely factor is that children of school age generally have lower childcare costs and hence parents are less incentivised to take-up Tax-Free Childcare.
- In addition, Tax-Free 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.
- 40,000 children aged 5 and above used a Tax-Free Childcare account in December 2019. Usage decreases with age of child.
- The age group with the lowest number of used accounts was 11 year olds and above, with around 700 used accounts in December 19.
- Most of the age groups 5 and above show a dip in used accounts in both August 2018 and August 2019. This is likely due to a difference in childcare arrangements in school summer holidays.
- Since December 18, we have seen 179% growth for children aged 5 and above, significantly higher than those aged below 5 (114%). Children aged 9 to 11 have all seen growth over 200% in the past 12 months.

TFC usage  
decreases  
with age of  
child

Since December 18,  
growth has been  
much higher for  
children aged 5 and  
above than for  
those aged below 5.

## Percentage of Open Accounts which are used

Figure 8: Percentage of open accounts which are used, by month



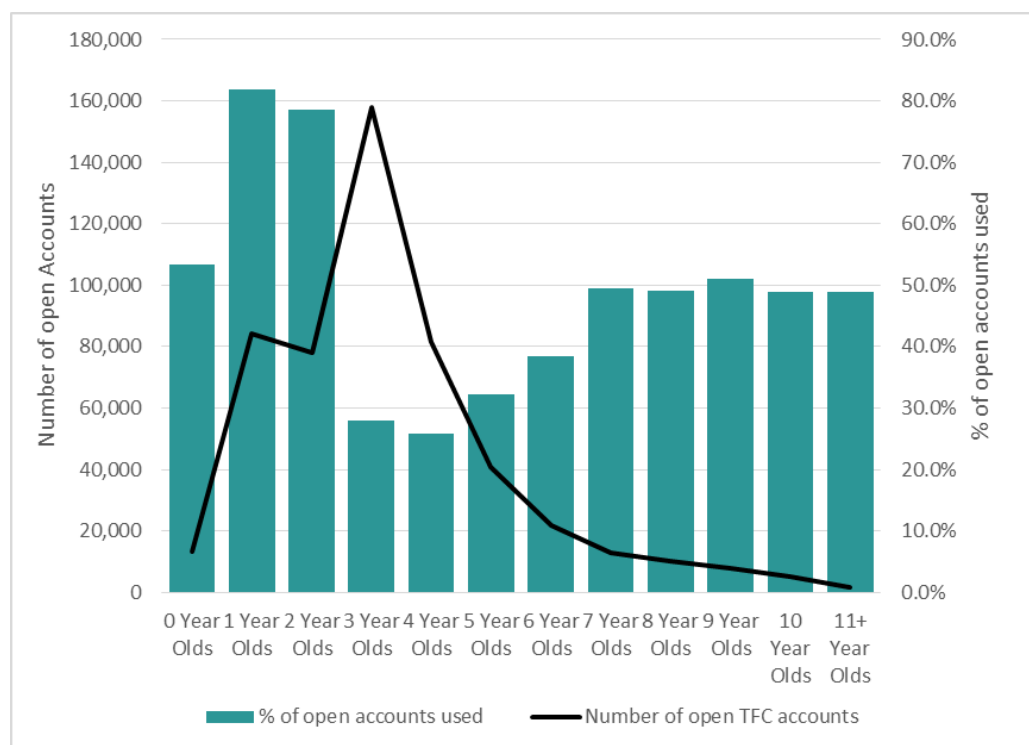
- The percentage of open accounts which are used is generally on an increasing trend.
- Due to the way Tax-Free Childcare is linked to 30 hours free childcare, a large number of Tax-Free Childcare accounts for 3 and 4 years olds are opened but not used to pay a childcare provider.
- This happens because 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.
- The reason for this feature of the service is to ensure a smooth customer journey for families signing up for 30 hours free childcare, so that they have a Tax-Free Childcare account ready for use when their child is no longer eligible for 30 hours free childcare.
- Additionally, when a Tax-Free Childcare account is opened for a child, of any age, accounts will be opened for their siblings if their details are also entered during the application. This means that Tax-Free Childcare accounts may be opened even in circumstances where parents have no intention of using them.

% of accounts used on upward trend

49% of open accounts are not currently used



**Figure 9: Percentage of Open Accounts which are used, by Age of Child, December 2019**



- In December 2019, 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 82% and 79% respectively.
- These age groups typically have higher childcare costs than older children and so, on average receive the highest benefit from Tax-Free Childcare of any age group.
- The lowest proportion of open accounts which were used belonged to 4 year olds, followed by the 3 year olds and 5 year olds at 26%, 28% and 32% respectively.
- The percentage of 5 year olds using their accounts is lower than for other school age children. We think this is due to children moving out of 30 hours free childcare and into school<sup>1</sup>.

<sup>1</sup> The Tax-Free Childcare system allows parents to renew eligibility for a 30 hours account until their child is 5 years and 22 weeks old - to ensure children who defer school entry are able to access 30 hours free childcare. In some cases, this may mean that the child retains an open 30 hours account in HMRC's data, even though they have started school and will therefore be unable to use the 30 hours offer.

## 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 children benefiting from funded early education, including those in a 30 hours place. These statistics can be found here:

<https://www.gov.uk/government/statistics/education-provision-children-under-5-years-of-age-january-2019>

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.

This is because the Tax-Free Childcare system allows parents to renew eligibility for a 30 hours account until the start of the term following the child's 5<sup>th</sup> birthday - to ensure children who defer school entry are able to access 30 hours free childcare. In some cases, this may mean that the child retains an open 30 hours account in HMRC's data, even though they have started school and will therefore be unable to use 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 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 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.

**Will published figures change?**

Figures will be revised only if an error is discovered. In this release, figures for September 2019 have been revised. Some payments made from TFC accounts were not included in the figures published in November 2019. This changes figures for September appearing in tables 1,2,3 and 6.