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# Tax-Free Childcare Statistics

## June 2020

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.

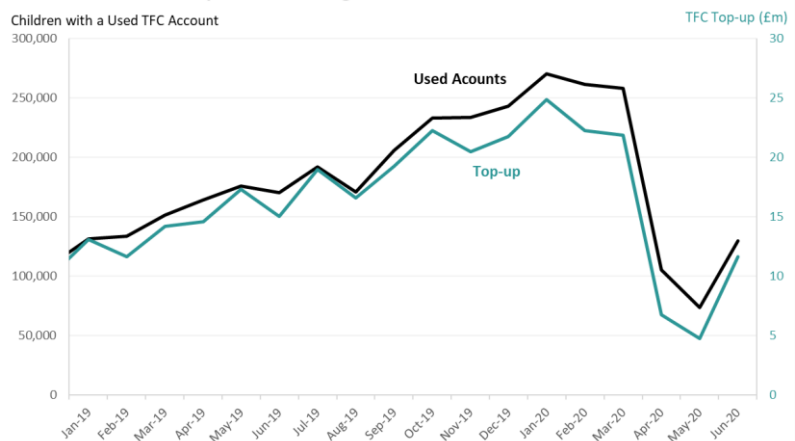
For more information about Tax-Free Childcare see the summary information in Annex 1 or visit [www.gov.uk](http://www.gov.uk)

### Summary

- **115,000 families** used Tax-Free Childcare for **130,000 children** in June 2020. This compares with **218,000 families** using childcare for **258,000 children** in March 2020.
- This decline is largely due to the closure of childcare settings for the majority of children in response to the Coronavirus (COVID-19) Pandemic. The COVID-19 lockdown led to a large decrease in the number of TFC accounts used in April and May with a slight recovery beginning in June.
- The government spent **£11.6m** on top-up for families in June 2020, £10.3m lower than in March.

### Figure 1: Children with used TFC Accounts and government top-up

There has been a large drop in children using TFC accounts since the closure of many childcare settings



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

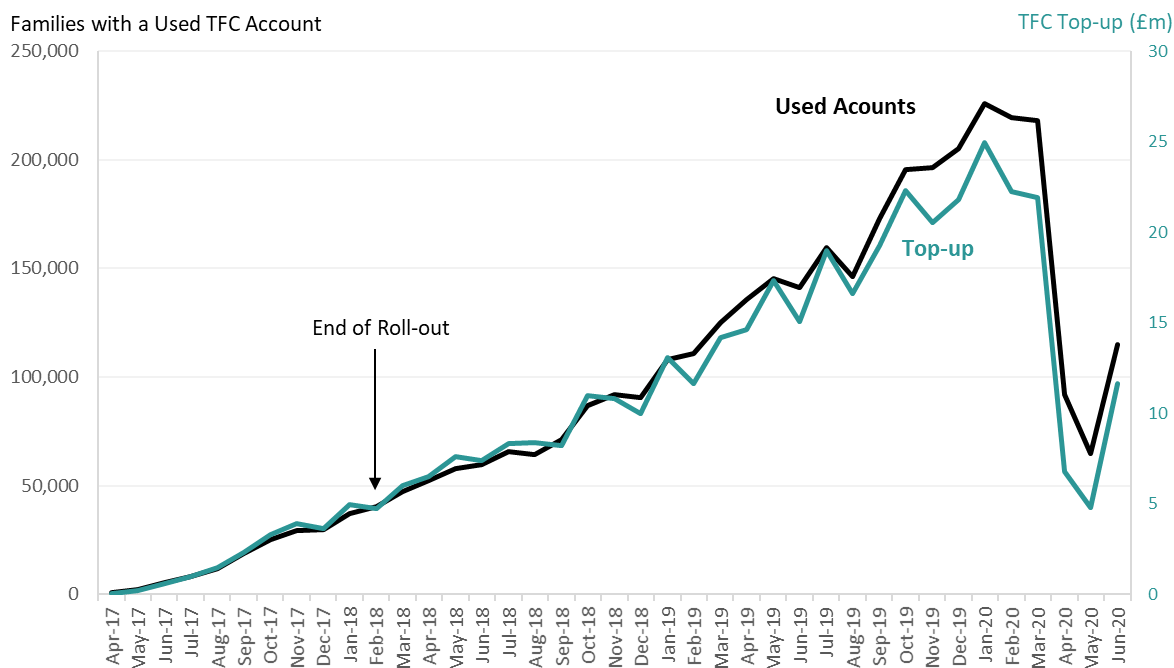
<https://www.gov.uk/government/statistics/tax-free-childcare-statistics-june-2020>

## Families and children using Tax-Free Childcare

**Figure 2: Families using Tax-Free Childcare accounts and Government Top-up paid (£m), by Month**

There has been a large drop in families using TFC accounts since the closure of many childcare settings

Families with a Used TFC Account



- The number of families using a Tax-Free Childcare account to make a payment to a childcare provider was on an increasing trend between early 2018, the point at which the service achieved full roll out<sup>1</sup> and the start of 2020.
- The COVID-19 lockdown led to a sharp decline in Tax-Free Childcare account usage in the quarter April-June 2020 following the closure of most childcare settings on 20 March<sup>2</sup>.
- Account usage fell by 60% between March and April, and by a further 30% between April and May.

Tax-Free  
Childcare use  
fell sharply  
during COVID-  
19 lockdown

Use increased  
as lockdown  
eased in June

<sup>1</sup> Roll out was initially phased by the age of the youngest child in a 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 March 2018 the number of used accounts and government top up spent have increased as applications to Tax-Free Childcare have increased. There is a clear upward trend in the number of used accounts but monthly growth rates are still quite volatile.

<sup>2</sup> In response to the COVID-19 outbreak the government asked early years settings, schools and colleges to close from Friday 20 March 2020 to all children except those from priority groups: children of critical workers and those classified as vulnerable.

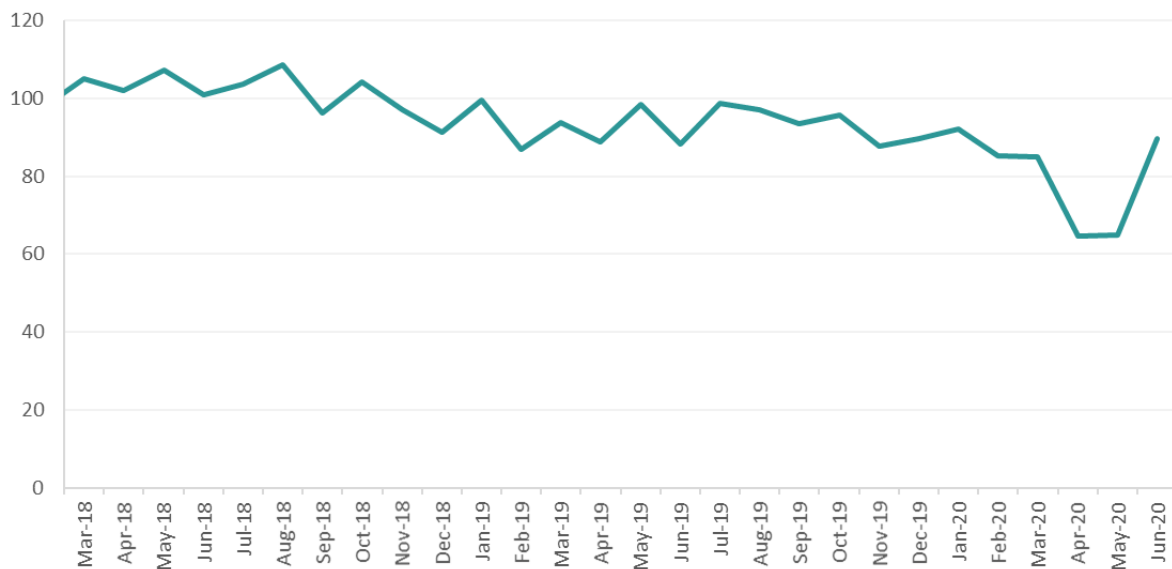
- Schools and childcare settings began to reopen on 1 June in England<sup>3</sup>. We see an increase in account usage during the month of June, a 75% increase in families using accounts compared to May.
- As account use fell during lockdown so too did government top-up for Tax-Free Childcare. Government top-up decreased by 69% between March and April, and by a further 30% between April and May, larger decreases than observed in account usage. This was because on average, those who continued to use Tax-Free Childcare in April and May had lower childcare costs during lockdown than they had previously.

During April and May average top-up payments fell well below trend.

**Figure 3: Average government top-up per child per month**

**There was a drop in the average amount of Government top-up per child in April and May**

Average Top-up per Child (£)



<sup>3</sup> In England from 1 June the government asked schools to welcome back children in nursery, reception and years 1 and 6 alongside children from priority groups in all years. Early years settings were also asked to begin welcoming back all children from 1 June. Department for Education statistics on attendance in education and early years settings during the COVID-19 outbreak are published online: <https://www.gov.uk/government/collections/attendance-in-education-and-early-years-settings-during-the-coronavirus-covid-19-outbreak>.

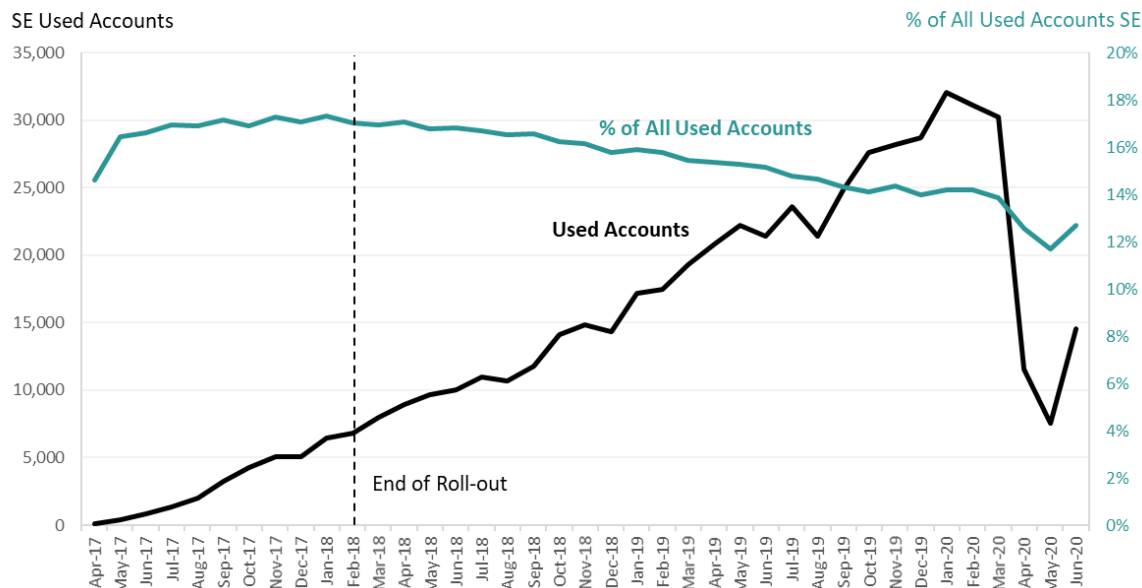
In Wales childcare services were able to increase the number of children they look after from 22 June. In Northern Ireland restrictions on access to childcare were removed on 29 June. In Scotland childcare providers were able to open, subject to individual provider arrangements, from 15 July.

## Self-employed Users of Tax-Free Childcare

The chart below shows the number of Tax-Free Childcare users in families with at least one self-employed parent.

**Figure 4: Families with a used Tax-Free Childcare account and a Self-Employed (SE) Parent, Number and Percentage of overall Used Accounts**

### Families using TFC Accounts where at least one parent is Self-Employed



- The number of families with a self-employed parent using a Tax-Free Childcare account was on an increasing trend between April 2017 and February 2020.
- In March 2020 there were 30,000 families with a self-employed parent using a Tax-Free Childcare account.
- There has been a slow 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.
- Between March and May 2020, during the months of COVID-19 lockdown in the UK, there has been a more pronounced decrease in the proportion of used accounts with a self-employed parent (75% decrease for families with a self-employed parent compared to 70% for all others).

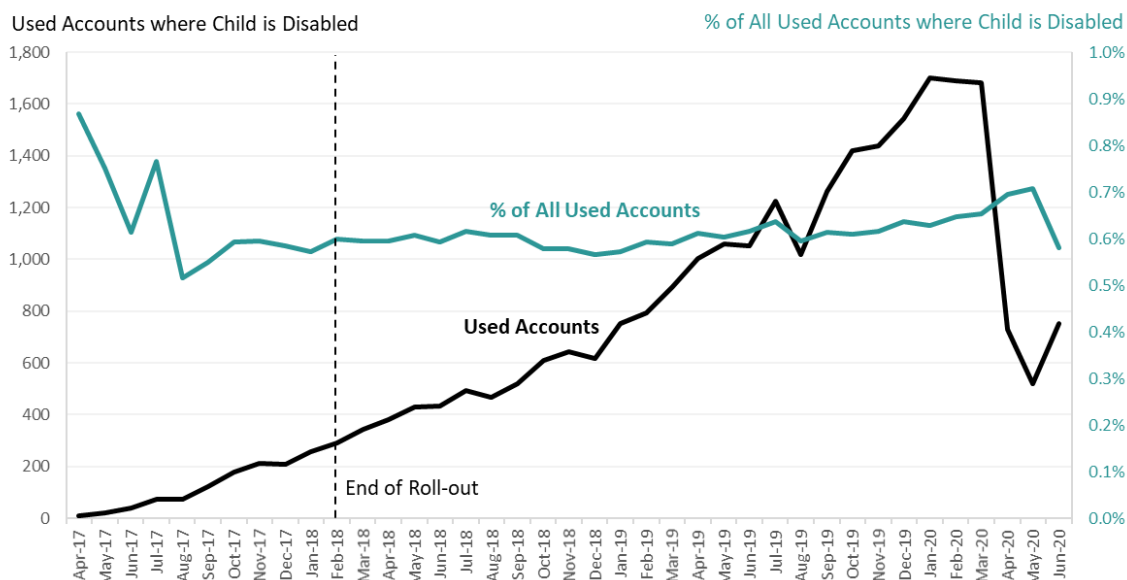
Decrease in Tax-Free Childcare use during lockdown was greater for families with a self-employed parent

## 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 5: Disabled Children with a used Tax-Free Childcare Account, Number and Percentage of Overall Children with Used Accounts<sup>4</sup>**

### Disabled children with a used TFC account



- The number of used Tax-Free Childcare accounts for disabled children was on an increasing trend until early 2020 but fell sharply during the COVID-19 lockdown in April and May.
- The percentage of used accounts belonging to disabled children increased slightly in April and May 2020 to 0.71%, up from 0.65% in March. This may be because more childcare settings catering for children with disabilities remained open during lockdown.

There was a decrease in Tax-Free Childcare use for disabled children during COVID-19 lockdown

<sup>4</sup> Figure 5, showing account use by children with a disability, has changed since last publication when it was identified that values were not being assigned to the correct month.

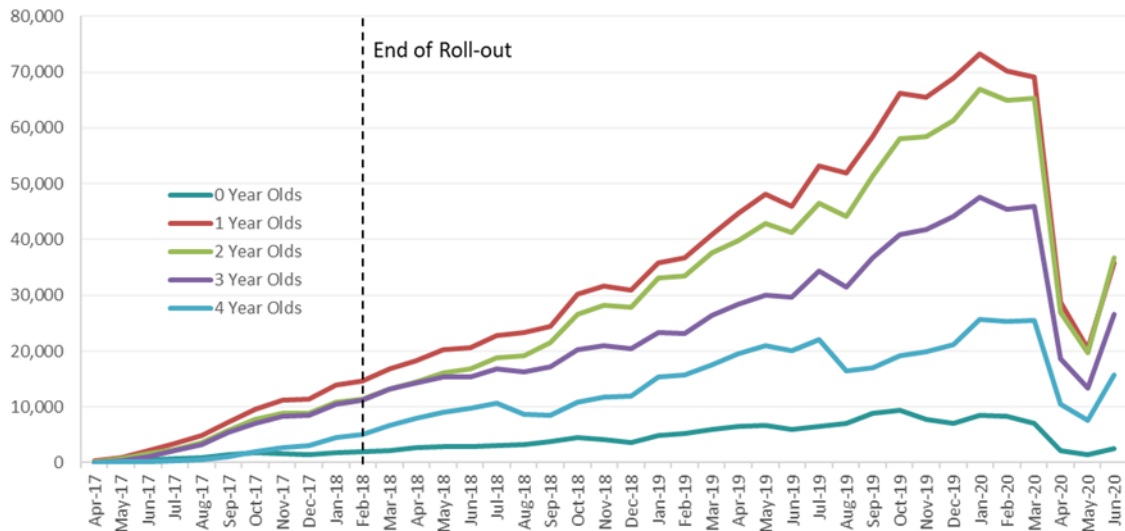
## Account Use by Age of Child

There has been an impact from the COVID-19 lockdown on all age groups, although this has been more pronounced for school aged children, aged 5 and over, than for pre-school children. The recovery in June has also been weaker for school aged children.

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

**There has been a large drop in TFC account use across all pre-school age groups**

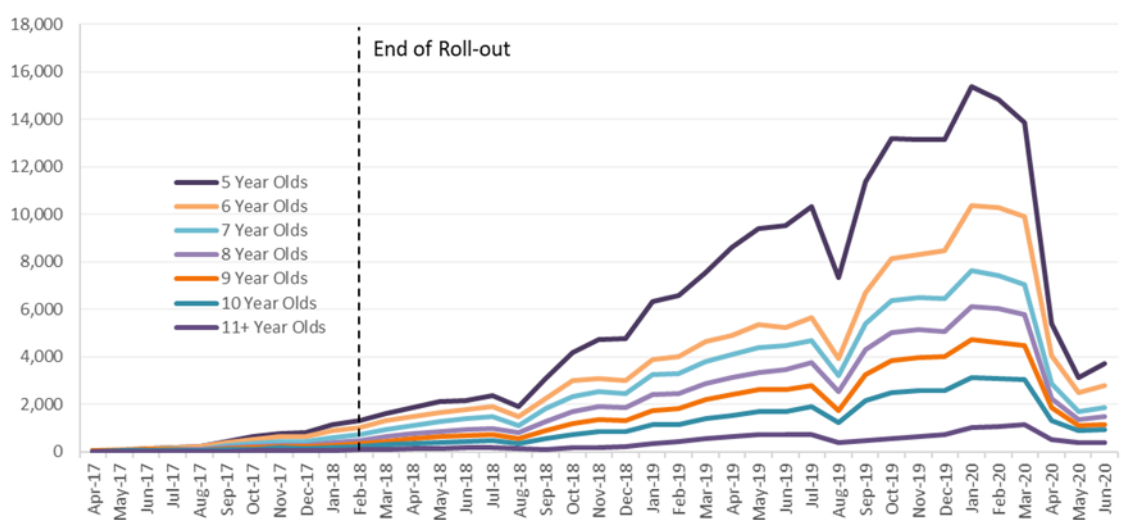
Children with Used TFC Accounts



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

**There has been a large drop in TFC account use across all school age groups**

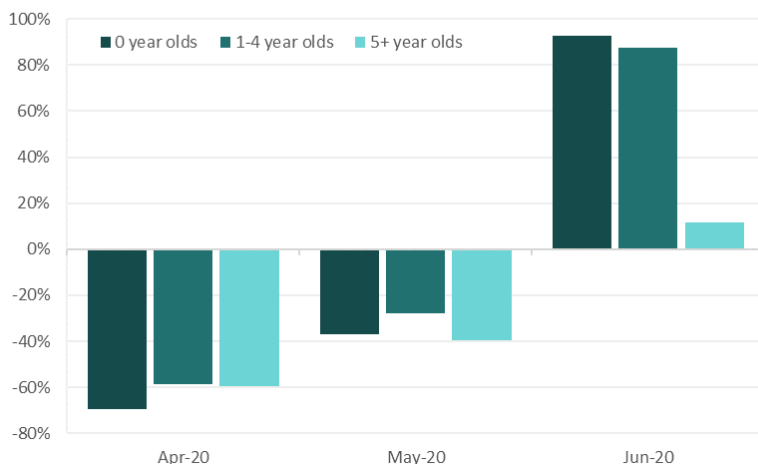
Children with Used TFC Accounts



**Figure 8: Month on month percentage change in TFC account use, split by children under 1 year, pre-school and school age children.**

**TFC use fell sharply in April and May for all ages, with a large recovery in June for 0-4 year olds**

Monthly % change in children using TFC accounts



- The impact of the COVID-19 lockdown has been considerable for all age groups.
- Account use was highest in June 2020 among children aged 2 years (**36,700**) and 1 year (**35,800**). Account usage was considerably lower for children aged 5 and over (**12,300**).
- The relative impact on 0 year olds has been more pronounced than for other age groups, with account usage falling by 70% between March and April compared to decreases of around 60% for other age groups.
- Account use increased between May and June for all pre-school age groups (aged 1 to 4) reflecting the fact that childcare settings were permitted to open to all children in England from 1 June.
- The increase in account use during June has been less pronounced for school aged children than for pre-school age groups. This is likely to reflect the continued closure of before and after school childcare provision while the majority of primary school children have not been able to return to school.
- In general the number of children aged 5 and above with used Tax-Free Childcare accounts is substantially lower than those aged 0 to 4 years. 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.
- Looking back most of the age groups aged 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.

Account use in June has increased more strongly for pre-school children than school age children

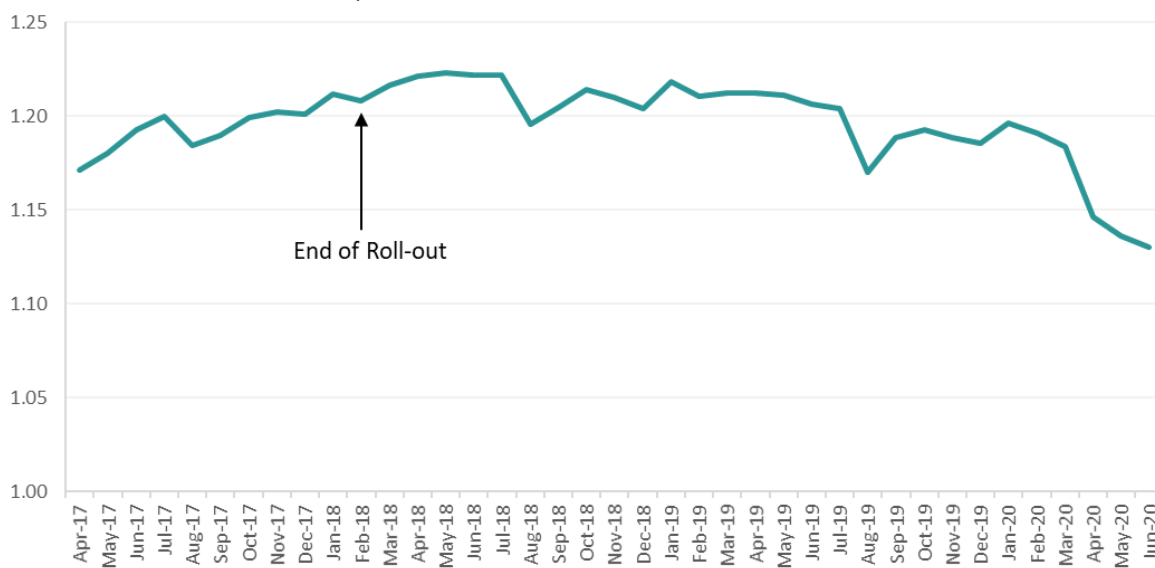
## Use of Tax-Free Childcare within families

- Looking at the number of children using TFC within families we can see a decrease between March and April 2020 and further decreases through May and June. The average number of children using Tax-Free Childcare accounts in a family was around 1.19 in March compared to around 1.13 in June. While account use overall increased during June, use among older children did not increase. This is most likely because fewer facilities were open for these children (eg. before and after school clubs were not available to children who were not attending school).

**Figure 9: Average number of children using TFC per family**

### The average number of children with a used TFC account per family decreased over the last quarter

Ratio of Used Child to Used Family TFC Accounts





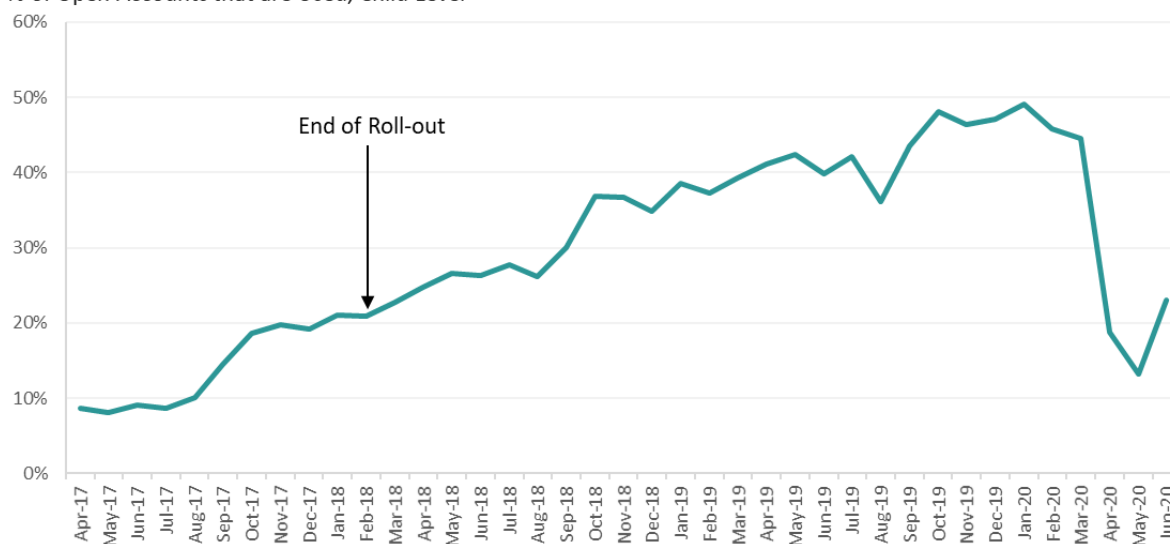
## Percentage of Open Accounts which are used

- The percentage of open accounts which are used was on a generally increasing trend until March 2020 but fell sharply in April 2020.
- There has been a significant decrease in account use during the COVID 19 lockdown but the decrease in open accounts has been less pronounced. This has led to a fall in the percentage of open accounts that are used.

**Figure 10: Percentage of open accounts which are used, by month**

**There has been a large drop in the percentage of open TFC Accounts that are used since the closure of childcare settings to many children on 20 March**

% of Open Accounts that are Used, Child Level

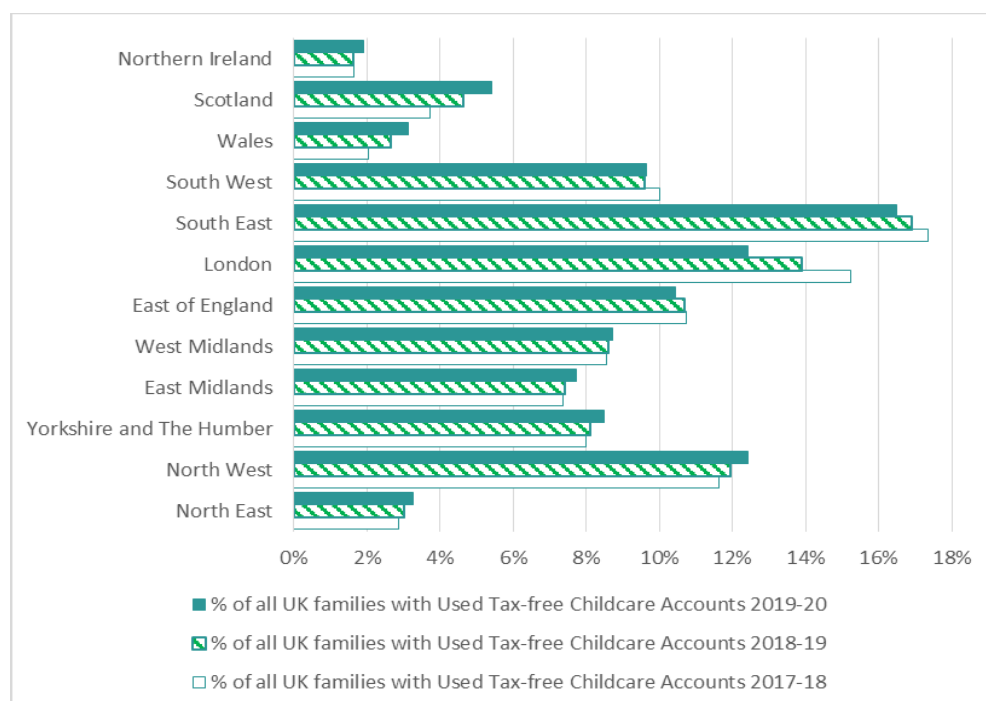


## Account usage split by UK region

This data was first published in May 2020, there is no change to regional data in this publication.

Data for Tax-Free Childcare account usage in local authorities and Westminster parliamentary constituencies at the child and family level is now available through our statistical tables (tables 7 to 10). The link is on page 1 of this document.

**Figure 11: UK Families with used Tax-Free Childcare Accounts by Region**



- In 2019-20 the South East accounted for the largest proportion of families using their accounts to pay a childcare provider (16.5%) followed by London and the North West, both at 12.4%. These are very populous regions of the UK, so we would expect a high percentage share of total account usage each.
- Combined, these three regions accounted for about 41% of all account usage in the UK in 2019-20.
- London, South East and East England have decreased in terms of share of total TFC account users year on year, with all regions outside of these increasing year on year.
- Northern Ireland, Wales, North East of England and Scotland, at 1.9%, 3.1%, 3.2% and 5.4% respectively had the lowest percentages in terms of UK proportional account usage in 2019/20.
- 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 South East England, London and North West

Lowest number using Tax-Free Childcare in NI and Wales

The share of users decreased in London, South East and East England with all other regions increasing

## 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 to 3 years	4	5	6 to 8 years	9 to 11 years
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?**

Self-employed parents were not eligible for childcare vouchers but are eligible for Tax-Free Childcare. 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 the split of used accounts between Tax-Free Childcare only and Tax-Free Childcare and 30 hrs has been updated slightly for months from April 2019. This has resulted in small changes to used accounts values in tables 1 to 5.