

Childcare costs in 2015

OECD TAX WEDGE AND EFFECTIVE TAX RATES ON LABOUR

James Browne & Dirk Neumann



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1. INTRODUCTION

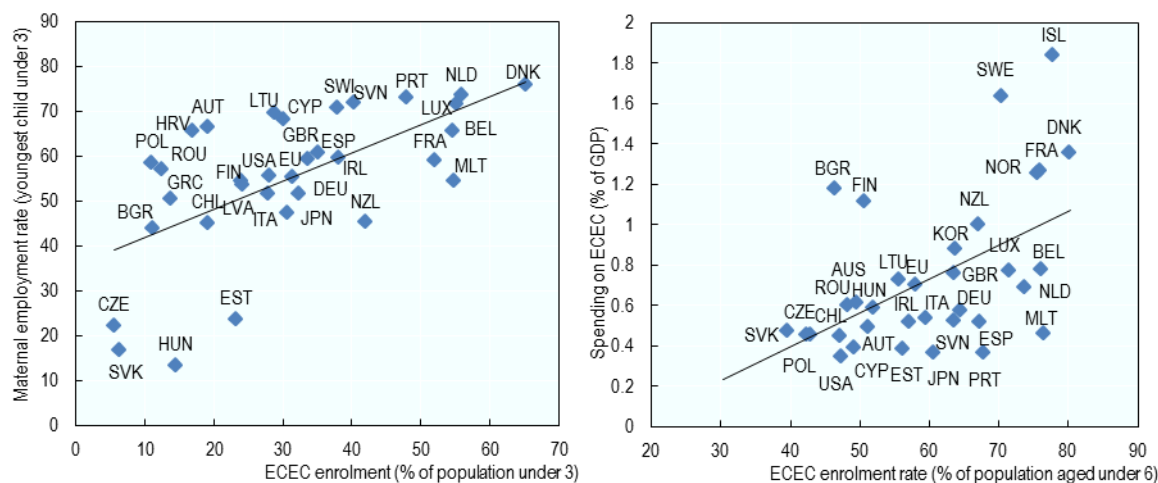
1. Parents face competing demands on their time as they perform tasks to ensure the well-being of their children and their family as a whole. Although these tasks are often common across families, different families make different choices about how to fulfil them. In addition to parents' preferences and socio-economic circumstances, these choices can also be shaped by government policies that deliberately or inadvertently create specific incentives, and which themselves have several, often conflicting, objectives.

2. Childcare policies generally seek to advance child development and wellbeing, allow parents to reconcile paid work and family life, reduce gender inequalities by supporting female employment, and support disadvantaged families. Policy measures affecting the provision and cost of childcare span a range of different policy domains, including childcare regulations, tax rules and benefit provisions, each with their own set of objectives and trade-offs. The net effects of these provisions on the availability and cost of different childcare options are complex. This report uses the [OECD tax-benefit model](#) (TaxBEN) to examine the costs of different forms of childcare from a family perspective. It summarises measures that are in place to support parents with childcare needs, assesses the resulting net cost of non-parental childcare for families, and quantifies the extent to which these costs shape financial work incentives for mothers in particular. The report updates previous results (OECD, 2007, Chapter 4; Richardson and Pacifico, 2014) and discusses key policy trends and their implications at the family level.

3. All EU and OECD countries provide support to reduce the cost of childcare for children younger than school age, but they do so to varying degrees and with different policy mixes. As shown in **Figure 1**, public expenditures on Early Childhood Education and Care (ECEC) range from 0.3% of GDP in the United States to 1.8% of GDP in Iceland. In the EU, spending is lowest in Portugal at 0.4% of GDP and highest in Sweden at 1.6% of GDP. Across OECD and EU countries, higher public expenditure on childcare and pre-primary education is associated with higher enrolment rates, and countries with higher enrolments, in turn, have also higher levels of maternal employment. In the Nordic countries, where there is a strong commitment to ensuring ECEC access for children from an early age (legally enshrined in all these countries but Iceland), relatively high expenditure on ECEC is typically accompanied by high ECEC enrolment rates for children less than six years old, and with high employment rates of mothers with children aged less than three. More sophisticated econometric modelling (Thévenon, 2013) shows that the link between greater participation in ECEC and higher maternal employment holds even after other factors such as education, the overall unemployment rate and other policy settings are controlled for.

Figure 1. More public spending on ECEC is associated with higher enrolment and maternal employment

2014



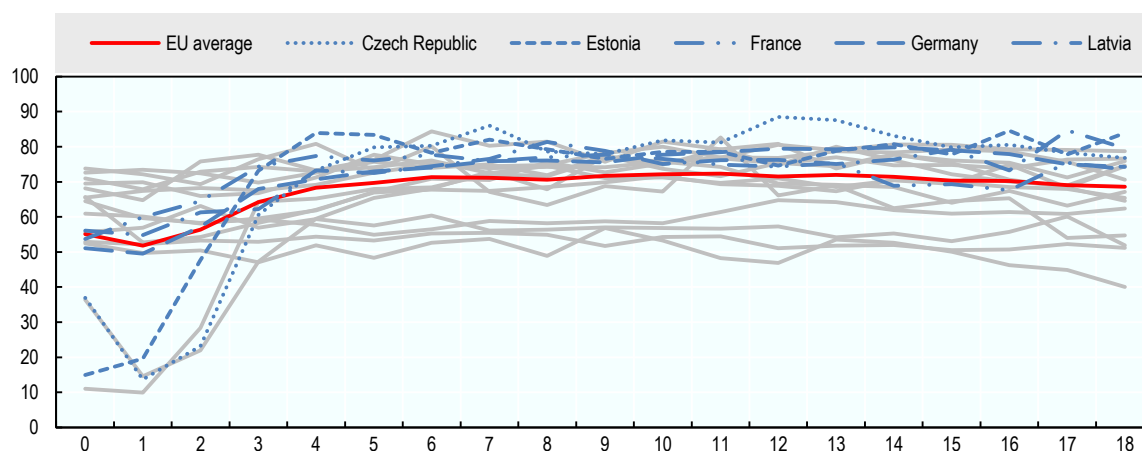
Notes: Expenditure is direct public expenditure. Tax breaks for childcare expenses that are delivered as tax credits are included. Other childcare-related tax advantages (e.g., tax deductibility of childcare expenses) are not accounted but data on tax breaks available for a few countries suggest that their effect on overall spending levels is small.

Source: [OECD Family Database](#).

4. In many EU and OECD countries labour market participation of mothers increases when their youngest child starts school, which can be thought of as providing free childcare for a certain number of hours per week. When free or low-cost pre-school care is available, mothers often return to the labour market earlier, pointing to the lack of affordable childcare as an important employment barrier. This is, for instance, the case in **Czech Republic, Estonia, France, Germany and Latvia**, which are highlighted in **Figure 2**.

Figure 2. Employment rate of mothers (in %) by age of youngest child

EU countries, 2014



Source: Secretariat calculations using EU-LFS 2014.

5. A number of empirical studies point to the cost of childcare as an important driver of mothers' employment decisions. For example, the introduction of free pre-school education for 3 year-old children in Spain, a country with very low levels of childcare usage and maternal employment led to a 2.8ppt increase in maternal employment rates (Nollenberger and Rodríguez-Planas, 2015). As the employment rate of mothers was relatively low in Spain at this time, this represented a 9.6% increase in employment among this group. Similar results were found in earlier research into the effects of childcare subsidies in Quebec; Canada effectively introduced a (low) ceiling on prices paid by parents: Lefebvre and Merrigan (2008) show that these subsidies increased employment rates among mothers with children aged 1-5 by around 8ppts. Bettendorf et al. (2015) estimate that higher childcare subsidies for working parents in the Netherlands increased mothers' labour market participation by between 2 and 5ppt, with larger impacts for groups where employment rates were initially lower. Brewer et al. (2016) show that extending free childcare provision from part time to full time in the UK increased mothers' employment by 3.5ppts. Smaller effects were observed from an extension of childcare subsidies in France (Givord and Marbot, 2015). However, in countries where maternal employment rates are already high such as Norway (Havnes and Mogstad, 2011), Sweden (Lundin et al., 2008) and the United States (Fitzpatrick, 2010), lowering childcare costs alone had no measurable effect on maternal employment rates.

6. Support for families with young children may be motivated by policy objectives that are not primarily employment related. For instance, home-care allowances are available to parents who are *not* working and using non-parental childcare. Long-lasting home-care allowances increase the relative cost of purchased childcare for families, and may discourage maternal labour force participation (Gathmann and Sass, 2012; Müller and Wrohlich, 2014; Hardoy and Schøne, 2010).

7. Studies also point to the positive effect of ECEC participation for child development, though the age of children, the household context, and the quality of care matters. Magnuson, Ruhm, and Waldfogel (2007) suggest that pre-kindergarten participation raises children's cognitive development, and that these effects can continue into later life.¹ Reviewing the literature in this area, Ruhm and Waldfogel (2011) examined the long-term effects of ECEC and concluded that in virtually all studies, expansions of programmes to younger children, or to cover more children of a given age, yield benefits at school entry. The benefits are generally largest for children with a disadvantaged family background (e.g. those who come from low-income or immigrant households; see also Magnuson, Ruhm, and Waldfogel, 2007 and Havnes and Mogstad, 2015) and the positive effects in fact often accrue mainly these groups. Other studies show more mixed or even negative results: the childcare subsidies in Quebec described above negatively affected the cognitive ability of children as they started school (Baker, 2006; Lefebvre et al., 2008), largely because the childcare provided was not of high quality. A meta-analysis of many studies of the impact of participation in ECEC on child outcomes (van Huisen and Plantenga, 2015) showed that the quality of childcare provision is critical for the direction and magnitude of these effects. However, it has been found that participation in ECEC can have negative behavioural effects on children at very early ages (see for example Loeb et al., 2007 and Saraceno, 2011), though again effects can be positive for the most disadvantaged even below the age of two (NICHD, 2003; Almond and Currie, 2011).

1. In an evaluation of the Perry preschool programme, Heckman et al. (2010) found that it increased earnings in adulthood and offered a high rate of return of 7-10%. Havnes and Mogstad (2011) found that, relative to informal care, the Norwegian public childcare system delivered higher educational attainment (primarily for children of low-educated mothers) and earnings (primarily for girls) at ages 30–40. Garcia et al. (2016) show that participants in ECEC programmes are less likely to commit crimes in later life and have better health than those who do not participate.

8. Following the patterns of results in key empirical studies, this report examines the consequences of childcare costs and related tax and benefit provisions using a family lens and distinguishing between different family circumstances. It considers families at different low to moderate income levels and with pre-school children aged two years or older. It focuses on the situation of mothers by considering earnings levels that are representative for women, and it assesses financial work incentives after accounting both for the costs of non-parental formal care, and for any home-care allowances that may be available to stay-at-home parents. To assess recent policy changes, the report also compares results with those of a similar earlier exercise relating to policies in 2012 (Pacifico and Richardson, 2014).

9. Results point to a major impact of policy choices on the costs of childcare to parents, and to a wide range of policy approaches across EU and OECD countries. Many EU countries provide childcare through public institutions that charge low fees to parents and offer discounts to low-income families. However, in others, including some non-EU OECD countries, the fees charged for two pre-school children approach women's median full-time earnings. The highest *net* childcare costs (that is, after accounting for cash support for users of non-parental childcare), however, are observed in countries where gross fees are lower, but where governments provide little support to help parents afford them. In several countries, net costs for two children in full-time care exceed 20% of disposable income for low-income families. For lone parents, high net childcare costs mean that escaping poverty becomes significantly more difficult. In some countries, lone parents would need to earn 80% or more of the average wage for women or more to bring their disposable income above the poverty line.

10. Financial work incentives are weakened by high childcare costs. On average across the EU, 70% of a low-earning lone parent's earnings are lost to taxes, withdrawn benefits or childcare costs when they move into work. Several EU and OECD countries have introduced policy changes in recent years to reduce the net childcare costs faced by parents. These have often taken the form of extensions of free universal provision, which has had the effect of equalising the support given to families at different income levels. Despite policy reforms, childcare costs remain a key driver of weak financial work incentives in several EU and OECD countries. Once childcare costs are taken into account, family disposable income in these countries declines when the mother takes up employment at less than the median wage. This is true for both lone mothers and those in couples.

11. The remainder of this report proceeds as follows. Section 2 describes the OECD tax-benefit model, in particular the childcare module, and outlines the methodology used to produce the results in the subsequent sections. Section 3 sets out the main results on the levels of childcare costs in EU and OECD countries, the support that is available to parents to help them with these costs, and the impact of childcare costs on the financial work incentives of mothers. Section 4 shows how these measures have changed since 2012. Section 5 concludes.

2. ASSESSING CHILDCARE COSTS USING THE OECD TAX-BENEFIT MODEL: METHODOLOGY

12. Parents' out-of-pocket costs for childcare depend on many factors, including childcare prices, taxes, social benefits and parents' employment status and earnings. The OECD's tax-benefit model, TaxBEN, provides a unified framework for estimating the cost of childcare to parents in a consistent way across countries, taking into account both the gross childcare fee amounts and entitlements to fee subsidies and childcare benefits and tax credits. These entitlements can be calculated precisely for specific family types, accounting for all interactions with other taxes and benefits. The resulting estimates of net costs of childcare taking into account the support that is available to help parents pay for childcare enable an assessment of the affordability of childcare and how childcare costs affect financial work incentives in different EU and OECD countries.

13. TaxBEN uses a synthetic household approach, that is to say, it simulates taxes, transfers and childcare costs for a number of hypothetical individual and household circumstances. The model accounts for a broad range of policy levers including income taxes and social security contributions, unemployment benefits, social assistance benefits, housing benefits, in-work benefits and family benefits. The childcare module of the model used in this report simulates gross childcare fees and entitlements to fee subsidies, childcare benefits and tax concessions for these hypothetical household circumstances.

14. As TaxBEN focuses on policy mechanics and hypothetical household circumstances, it is well suited to cross-country comparisons of policies as policy effects can be shown for the same household situations across different countries. The policy indicators produced by the model can in turn be used in statistical analyses that use cross-country variation in policies to examine associations or causal links between socio-economic outcomes and policy settings. For more details on the assumptions made in standard TaxBEN calculations, see Browne et al. (2016).

15. The model output examined in this report is a measure of "out-of-pocket" expenses, or net costs of childcare. This is defined as the net reduction in family budgets resulting from the use of centre-based care. It is quantified by comparing all relevant tax and benefit amounts between a situation where a family purchases childcare and an otherwise similar situation where no childcare services are bought (for example, if the family is able to use unpaid informal care). The net childcare cost is the value of childcare-related benefits and tax concessions, plus any impact of parents' childcare use and expenses on other benefits. The net costs are driven by three main categories of childcare supports and are identified separately in the model:

- Government subsidies that directly reduce the fees (prices) that parents pay and that depend on individual family circumstances. These subsidies are identified whenever sufficient information is available to identify the difference between fees charged to parents and the "gross fees" before subsidies are applied. In countries where a differentiated fee structure is in place, the "gross fee" corresponds to the maximum fee charged by the childcare provider.
- Childcare benefits paid to parents to assist them with the childcare costs they incur;²
- Tax concessions that are conditional on childcare use and/or spending levels.

2. Note that this includes support given through childcare vouchers rather than cash, for example in Luxembourg. Though, pure in-kind transfers (other than e.g. the provision of free meals as part of free childcare provision) are not considered in the model.

16. Results in this report refer to policies that were in place on 1 July 2015 and are compared with those of a similar earlier exercise relating to policies in 2012. Subsequent to the 2015 policy setting captured here, several EU countries have introduced or proposed further measures to support parents with childcare costs, including **Austria** (increase in the maximum childcare tax deduction), **Hungary** (expansion of free meals in childcare centres), **Ireland** (expansion of free provision and introduction of a new childcare benefit), **Portugal** (guaranteed childcare place for all 3 year olds) and the **United Kingdom** (expansion of free provision, introduction of a new childcare benefit and changes to existing means-tested support), as have some non-EU OECD countries, including **Norway** (introduction of some free provision and a new childcare benefit for lone parents).

17. Fees vary not only by country but also frequently by characteristics of children or parents and according to the type of care provided. For an international comparison it is therefore useful to focus on specific circumstances that can be compared across different countries. Specifically, results in this report relate to:

- **Mothers**, as women still overwhelmingly remain the main care-givers when non-parental childcare is unaffordable or unavailable. Family income calculations are therefore made at particular percentiles of the female-specific earnings distribution.
- **Families with two children aged 2 and 3**, as the needs of very young children are best served by a carefully balanced broader set of policies including effective maternal and paternal leave entitlements and measures that actively encourage employment before childbirth and after child-related career breaks.
- **Full-time care in a typical childcare centre**: in some cases “full-time care”, defined here in line with country provisions but of at least 40 hours per week³, may not be enough to cover the needs of full-time working parent(s) as a result of commuting time, and actual costs for parents may be higher in these cases depending on working hours and availability of informal care arrangements. The focus on centre-based care is a consequence of data availability. First, information on the prices charged for other types of care services is not available on a comparative basis. Second, differences in quality standards make cost comparisons across multiple forms of childcare less informative. Country-by-country information on the use of both formal and informal care is available in the [OECD Family Database](#) (indicators PF3.2 and PF3.3).

18. The analysis in this report does not account for limited availability of childcare, other than through the effect of supply-side constraints on childcare prices. The results in this report therefore give a calculation of the cost of a particular type of centre-based childcare that is assumed to be available to all parents. Although designed to be comparable across countries, country-specific institutional settings and constraints should be borne in mind when interpreting results. For example, free or heavily subsidised childcare places may not be available to all parents who want them in some countries in reality. Also, the quality of the childcare provision described by the model will differ between countries. These factors, which cannot be systematically examined in the TaxBEN model, are of course also decisive factors influencing the employment and childcare decisions of parents with young children.

3. The number of hours per week covered by the calculation varies across countries depending on each country's typical fee structure. For example, the calculations for Australia correspond to full-time “long day” care and as such correspond to up to 50 hours of care per week. Where free full-time pre-school is available for 3 year olds (e.g. in Belgium and France) any additional costs for out-of-hours care after school have not been taken into account.

19. Fees and, in some cases, public support measures do also vary across regions or municipalities in some countries. Where this is the case, region-specific fees and policy settings are used. Regional childcare settings have been incorporated for Austria (where price and policy information for Vienna is used), Belgium (Wallonia), Canada (Ontario), Finland (Helsinki), Germany (Hamburg), Iceland (Reykjavik), Italy (Rome), Poland (Warsaw), Switzerland (Zürich) and the United States (Michigan).⁴ For the United Kingdom, the cost of childcare used in the model is the average for England rather than the UK as a whole. Differences across regions can be important: for example, in Austria, free full-day care is provided for all children aged under 6 in Vienna (the situation captured in the model), but only half-day care is provided free of charge in Upper Austria and Tyrol from ages 2 ½ and 4 respectively. In Germany, the age at which free provision starts differs between different *Bundesländer*: in Hamburg (the situation captured in the model), free provision for 5 hours a day is available for all children under 6, but in Lower Saxony, Hesse and North Rhine-Westphalia, ECEC is only free for the final year before a child enters school, three years of kindergarten are provided free of charge in Berlin, and free provision in Rhineland-Palatinate starts at the age of 2.

20. This report covers all OECD and all EU countries with the following exceptions: results are not available for Cyprus, Mexico, Romania and Turkey as information needed to model childcare costs was not provided; when comparisons are made to 2012, Croatia and Italy are additionally excluded as no information on childcare was available for these two countries for 2012. The results for Chile apply to families in the bottom 60% of the income distribution as free full-time preschool is restricted to these families (for children aged 2 and 3). In all cases, calculations make use of the institutional information on childcare settings and support, including all relevant cost components that national delegates to the OECD Working Party on Social Policy provided in response to comprehensive policy questionnaires administered by the OECD Secretariat. Country responses to these questionnaires are gratefully acknowledged and country-specific policy information is available through <http://www.oecd.org/social/benefits-and-wages.htm>.

4. A similar approach is taken by Hufkens and Verbist (2017), who incorporate childcare costs into EUROMOD (a population-based microsimulation model) and use policies and/or costs from a particular city or region in six EU countries. This approach allows the net cost of childcare to be calculated for a representative sample of the whole population. By contrast, the OECD tax-benefit model, which is household-based, facilitates comparisons of policies across countries by examining the net childcare costs faced by families with similar characteristics across countries.

3. CHILDCARE COSTS IN 2015: AFFORDABILITY, POLICIES TO SUPPORT PARENTS AND IMPACT ON WORK INCENTIVES

21. All EU and OECD countries operate policies that reduce the cost of non-parental childcare for parents. This can take the form of universal supply-side support, either via public provision or subsidies to private providers, which act to reduce the gross fees charged by providers relative to the cost of provision, or targeted demand-side policies that further reduce the cost of purchased childcare for specific users, sometimes to levels that are much lower than gross fees. A full description of the policies that exist in each country is given in **Table A.1** in the appendix. This section examines the impact that these policies have on the cost of childcare to parents, and on parents' financial incentives to do paid work.

22. Some countries focus on child development goals and thus provide childcare at low cost to all families, with little targeting toward particular families or children. In most Nordic countries (**Denmark, Finland, Sweden and Norway**) childcare is considered an essential public service and full-time Early Childhood Education and Care (ECEC) is guaranteed from one year of age, if not before. Similar provisions exist in **Estonia, Slovenia** and in most regions of **Germany**. These childcare "guarantees" are often combined with binding price guidelines or ceilings. For example, in **Denmark** parents pay a maximum of 25% of the budgeted gross operating expenditure for childcare services and in **Estonia** the fee cannot exceed 20% of the minimum wage. In several continental European countries, legal entitlements to free ECEC, usually for the duration of a typical school day, start when children reach 3 years of age, or a few months earlier (**Belgium, France, Luxembourg, Portugal and Spain**). Free ECEC is also available in some Anglophone countries though the free entitlement covers 10-15 hours a week only (**Ireland, New Zealand and the United Kingdom**). In several other countries, guaranteed access applies only to pre-primary education in the last year or two prior to compulsory schooling (in **Austria, Hungary, Greece, Latvia, Lithuania, Poland and Switzerland** one or two years of pre-primary education is compulsory; in the **Czech Republic** children are legally entitled to the last year or two of ECEC). Elsewhere, particularly in countries where private provision predominates, guarantees of childcare places and binding price guarantees do not exist.

23. Support directed at encouraging women's participation in the labour market (and allowing them to combine a career with having a family) often target benefits towards mothers whose employment behaviour is considered to be particularly responsive to changes in childcare costs, namely lone parents and low-income second earners. In most OECD countries at least some childcare support is targeted primarily on the basis of income, including where supply-side support reduces costs significantly (such as **Sweden and Denmark**). Support can also be targeted on other aspects of disadvantage (for example, location in **Israel**) or on the basis of other demographic characteristics such as lone parenthood (the sole basis in **Bulgaria, Iceland and Lithuania** and combined with income targeting in **Denmark and Japan**), or family size (for large families or for families with multiple children in care, as in **Switzerland**, but also via the use of per capita income in the means test as in **Portugal**) or waived for recipients of certain means-tested benefits (**Hungary**). In a few countries childcare is provided at a flat rate (per child) for all families, either free of charge (for almost all families in **Chile and Korea**); for minimal fees, to cover the costs of meals provided (**Austria** (Vienna), **Hungary and Poland**), or at higher levels (**Czech Republic, Ireland, Latvia and Spain**). In most Anglophone countries support is mainly targeted on the basis of income though some of them, notably **Ireland, New Zealand** and parts of the **United Kingdom**, have increased the extent of universal support through the introduction/expansion of free pre-school hours for all children within particular age ranges.

24. As already outlined in Section 2, the most common mechanisms used to deliver support to reduce the cost of purchased childcare for specific users are fee subsidies, cash benefits and tax concessions. Such support may be conditional on using certain types of childcare, such as that provided by approved institutions or specially qualified individuals. Some countries *activity test* at least part of the support they provide, that is, the provision of support is conditional on all parents working or studying. Activity testing can take a number of forms. In some countries (e.g. **New Zealand** and **Sweden**), families where all parents are working or studying receive more subsidised childcare (more hours per week) than those where one parent stays at home. In other countries, support for childcare costs is conditional on all parents being in paid work (e.g. the **United Kingdom** and the **United States**). Finally, other countries only give access to free or subsidised childcare for working parents (e.g. **Japan** and **Malta**).

25. Both *fee subsidies*, delivered through differentiated fee structures, and *cash benefits* that operate independently of the tax system tend to provide immediate support. The principle difference is that cash benefits can be paid directly to parents though, as with fee subsidies, they can also be paid directly to providers on behalf of eligible parents (as is the case in **Australia** and **New Zealand**). In contrast, where support is delivered through *tax concessions* (deductions or credits) the benefit is often not realised until after a tax return has been submitted. The delays between purchasing childcare services and receipt of support payments can weaken potential incentive effects if the link between their childcare choices and receiving the tax credit is not clear to parents.

26. Where concessions reduce taxable income (deductions or allowances) or tax liability but are constrained by the value of the gross tax liabilities (credits which are not fully refundable), support levels can be higher for higher-income families than those with lower incomes. Those who do not earn enough to pay income taxes receive no benefit through this form of support while, for those who do pay tax, the value of tax deductions is greater for high-income families who are subject to higher marginal income tax rates. A more general drawback of tax-based support for low-income earners is that, when they do qualify for such support, it may only be paid with considerable delay (e.g., after filing a tax return at the end of the year). It may therefore not be available when needed. The distinction between subsidies, cash childcare benefits and even tax concessions (notably fully refundable tax credits where any portion of the credit that exceeds gross tax liabilities are paid out in cash) is often not obvious. For individual parents considering the cost of childcare, measures that direct financial support towards the users of childcare services can be functionally equivalent to policies that affect the level and structure of fees charged by providers. For instance, a graduated fee structure (such as in **France**) can result in a similar pattern of “out-of-pocket” childcare expenses as an income related child benefit (such as in **Australia**).

27. Low-income parents can also be indirectly assisted if childcare expenses are deductible from incomes relevant for calculating entitlements to means-tested benefits. For instance, in the **United Kingdom**, childcare costs reduce the income basis used to assess entitlement to housing benefits. As a result, these benefits can be higher for families purchasing non-parental care effectively reducing their net childcare costs.

28. Other tax or benefit policies can *increase* the net cost of childcare for parents. Some countries have home-care or child raising allowances, which are given conditional on parents *not* using publically provided, or heavily subsidised, formal childcare. These increase the net cost of formal childcare – as well as having to pay for the childcare itself, parents lose these allowances if they use formal childcare rather than look after their children themselves – and weaken parents’ incentives to work.

Affordability of non-parental care: Childcare prices and government support

29. Before accounting for any support measures, the typical price charged by childcare centres for full-time childcare for two children represents nearly 30% of the median full-time wage earned by women (MWW) in EU countries on average and some 35% on average in the OECD area (**Figure 3**). Childcare fees range from 0% in **Chile** and **Malta**, where childcare is provided free of charge to some families by public institutions, to more than 90% of median female earnings in **Switzerland** (Zürich).

30. Almost all countries offer some support to parents that reduces these gross costs for at least some families, the only exceptions being **Austria** (Vienna), where all parents have to pay the cost of meals, but the care itself is provided free of charge, and **Latvia**.^{5,6} These on average reduce the cost to low- or middle-earning lone parent families by more than one half, and to low- or middle-earning couple families by more than one third. These cost reductions tend to be more substantial in countries where the gross fees are higher. Nevertheless, in eight (eleven) of the 26 EU countries where data is available, the net childcare fee for a low-earning lone parent (couple with children) is more than 25% of median female earnings, and the net childcare fee is more than 25% of median female earnings for middle-earning couples with children in seven EU countries.

31. However, in two EU countries the net cost of childcare is *higher* than the gross cost for some family types: **Finland** and the **Slovak Republic**. This arises as a result of home care allowances that are forfeited when families use subsidised childcare, reducing disposable income when families use childcare (parents not only have to pay childcare fees, but lose these home care allowances when they decide to do so).

32. In eight of the EU countries, and in two non-EU OECD countries, net childcare costs do not vary between the family types and earnings levels studied here. In most of these countries, free or subsidised provision is available to all parents⁷ irrespective of income (**Austria**, **Chile**, **Korea**, **Ireland**, **Latvia**, **Malta** and **Poland**). In others, the only families who receive reduced fees have income below the levels examined (**Hungary**), or available to all families considered here (**Estonia** and **Spain**), though not some lower-income families who cannot take advantage of tax deductions.

33. Half of the EU countries and two thirds of non-EU OECD countries target support for childcare towards low-income families (either through income-dependent fee structures or means-tested childcare benefits). On average, these supports lower net childcare costs from 29% of the MWW to 17% for a couple family (where the parents earn the MWW and the median full-time wage for men respectively). The reduction is greater for low-earning lone-parents, for whom the net costs amount to 12% of the MWW across EU countries on average. Income-based targeting is particularly evident in most countries with above-average fees and predominantly private provision. For example, in the **United Kingdom**, a two-earner couple with median earnings pay as much as 61% of the MWW, whereas a low- or median-earning lone parent pays 22%.

34. Lone parents often receive more support than partnered mothers at the same earnings level. In most countries this arises because fee subsidies and means-tested benefits depend on family income rather than individual earnings. However, in a small number of countries (**Bulgaria**, **Iceland** and **Lithuania**) lone parents receive a discount but childcare fees or benefits are not income-dependent. **Denmark** and **Japan** provide both discounted fees for lone parents and income-related support.

5. Care fees do exist in other regions of Austria, and are means-tested.

6. Hungary offers reductions in the cost of meals to some families, but not those examined in Figure 3.

7. Or in some cases (Malta) where all parents are in paid work.

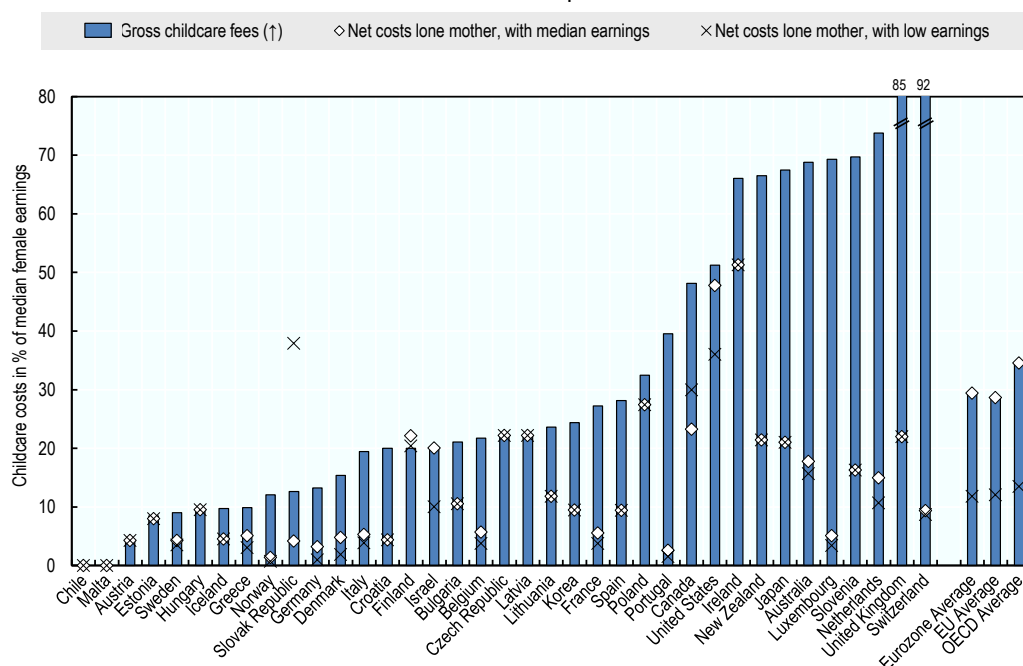
Additional lone-parent support is sometimes also provided indirectly and in a less obvious way, through the tax deductibility of childcare expenses. In **Belgium, Canada, Germany and Luxembourg**, a lone parent pays tax at a *higher* marginal tax rate than a mother in a two parent family with the same taxable income, so the deductibility of childcare expenses is more beneficial for the lone mother. By contrast, in **Finland, Israel, Portugal, Slovenia and Switzerland** lone mothers can face higher childcare expenses than a two parent-family with the same family income (as fees are related to per-capita income of families), though only in Slovenia is it the case that fees for lone parents are higher than for a partnered mother at the same level of earnings.

35. In a small number of countries, support is effectively targeted to *higher*-income families. This is generally the result of tax deductions that are worth more to those with higher incomes who are in higher tax brackets (**Canada, the Czech Republic and Germany**). In the **Slovak Republic**, a median-earning lone mother experiences lower net childcare costs than one earning at the 20th percentile of the female full-time earnings distribution because a lone parent with higher income loses the home care allowance when they start to use non-parental childcare, but they can then qualify for the alimony replacement benefit, which is available for lone parents who do not receive child support from a former spouse, and whose income is below a certain level.⁸

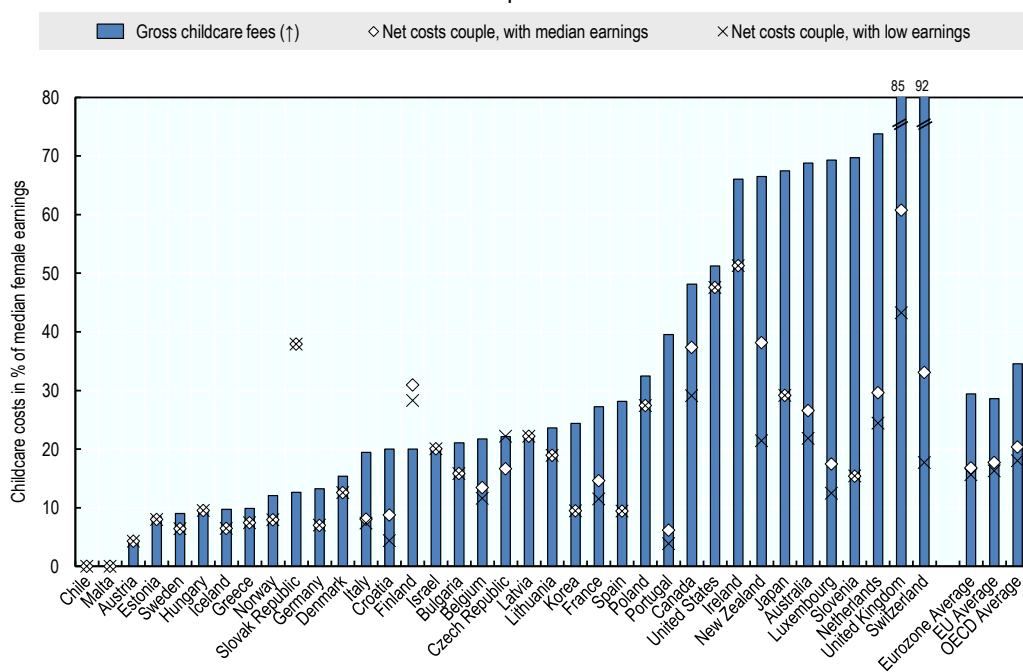
8 . By default, TaxBEN calculations assume that families receive no financial support from outside the household, and that in situations where support is expected from other family members or former spouses, it is not forthcoming. The situation described here does not arise in the case where the lone parent does receive support from their former partner.

Figure 3. Gross and net cost of childcare, % of median female earnings

Panel A: Lone parent



Panel B: Couple with children



1. 'Low' ('median') earnings level is 20th (50th) percentile of gender-specific full-time earnings distribution. Two earners are assumed for couples, male and female.
 2. In all cases, family has two children aged 3 and 2 using full-time centre-based care.
- Source: Secretariat calculations using OECD tax-benefit model.

36. The affordability of childcare to families depends not just on the gross childcare fees, but on the benefits and tax concessions provided to support parents with these costs, and on families' disposable incomes. On average in EU countries, childcare costs net of benefits and tax concessions

represent 12% of disposable income for a low-earning two child family, considerably less than the gross cost, which is on average more than 30% of disposable income for a low-earning lone mother, and more than 20% for a low-earning couple (Panels A and B of **Figure 4**). However, the net cost of childcare to parents varies considerably between countries, ranging from zero to more than 40% of disposable income for a lone parent family in **Ireland** and the **United States**. Fee reductions and childcare benefits are the most common policies that are used to support parents with childcare costs, but some countries also use tax concessions to support parents with childcare spending or means test benefits on income *after* childcare costs, meaning that parents who use formal childcare receive higher amounts than those who do not.

37. Net childcare costs still represent a significant, though slightly smaller share of net income for parents earning at median earnings levels (Panels C and D of **Figure 4**): on average in EU countries, net childcare costs represent 11% of disposable income for families with median earnings levels. Although gross childcare costs represent a smaller share of disposable income for these higher-income families, so does the support available as it is often means tested.

38. Many of the countries that have the highest gross childcare costs offer support towards these costs to low-income families that reduce net costs to around the average level for EU and OECD countries (e.g. **Australia, The Netherlands, Slovenia** and **Switzerland**, see Figure 2). Indeed, in some countries (**Luxembourg** and **Portugal**) high childcare costs are offset by generous childcare benefits for low-income families to leave the net cost to parents relatively low.

39. The countries with the highest net childcare costs are those where gross costs are moderately high, but there is little support available for low-income parents (e.g. **Ireland, Poland** and the **United States**). Other countries with high net costs have very high gross costs of childcare which are offset by benefits that reduce the cost to parents somewhat (e.g. **Japan, New Zealand** and the **United Kingdom**).

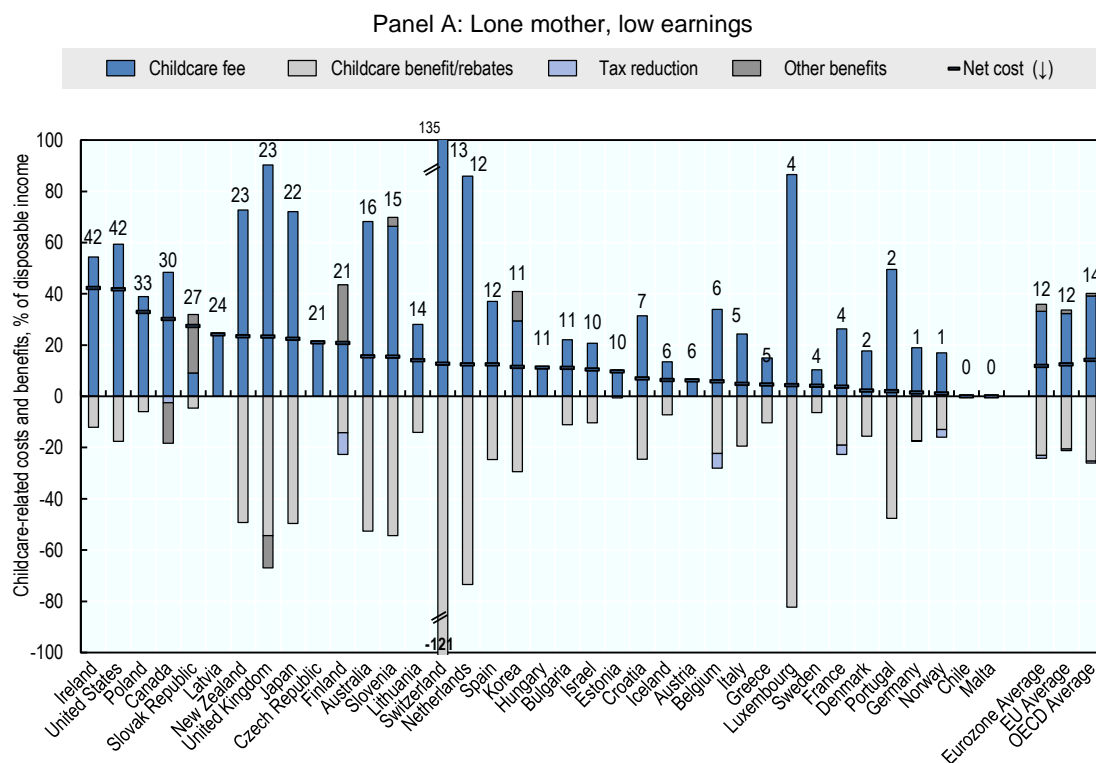
40. Countries with the lowest net childcare costs either provide free childcare for all working families (**Malta**) or all low-income families (**Chile**) or, more frequently, combine subsidised gross fees with means-tested support for lower-income families (**Denmark, France, Greece, Italy** and **Norway**).

41. In most countries with high net childcare costs, these take up a higher percentage of disposable income for a low-earning lone parent than for a low earning couple, as the disposable income of a two-earner family is naturally higher. An exception to this is the **United Kingdom**, where there is significant support for childcare costs that is means-tested against family income, and so the higher income of the couple family reduces the amount of support that they receive.

42. In countries with high net childcare costs, they typically represent a higher percentage of disposable income for a family with median earnings than a low-earning family. The **United Kingdom** is again an exception to this rule for couples, as are **Australia, The Netherlands, New Zealand, Switzerland** and the **United States**, all countries with significant means-tested support. Higher net costs for lone parents earning the MWW than those earning at the 20th percentile of the female earnings distribution are observed in two other countries for different reasons. In the **Slovak Republic** this arises because a lone parent earning the MWW loses the home care allowance but becomes entitled to the alimony replacement benefit when they use formal childcare as discussed above. In **Ireland**, the net income of a lone parent earning the MWW is actually lower than if they earned at the 20th percentile of the female earnings distribution as lone parents cease to be eligible for One Parent Family Payment once earnings exceed a certain threshold.

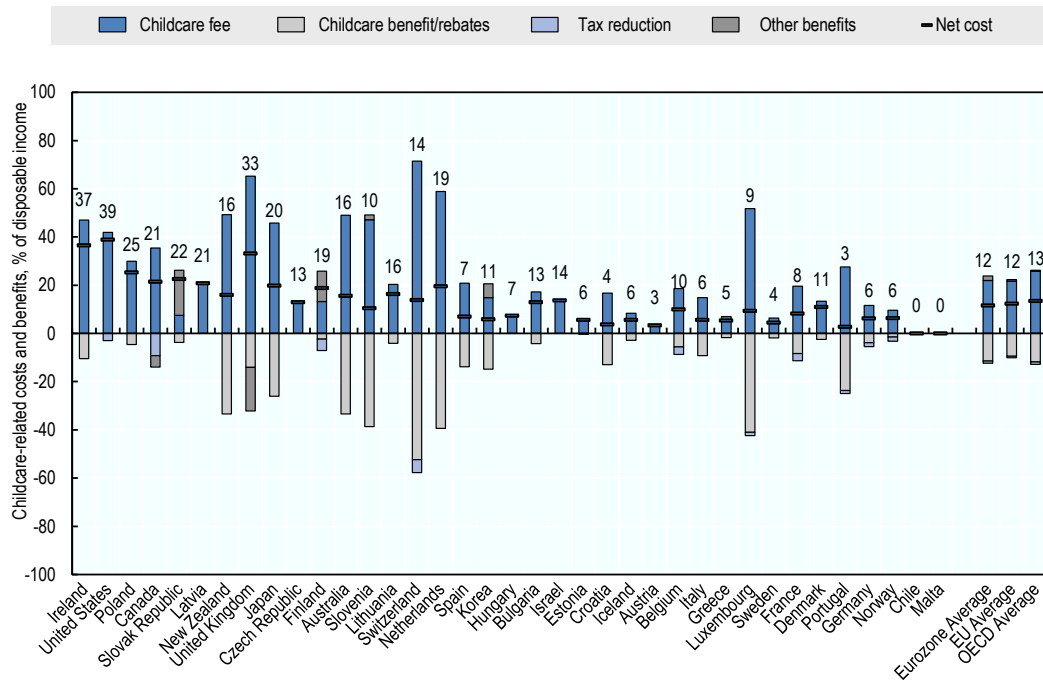
43. The opposite pattern is typically seen in countries with low net childcare costs: net childcare costs represent a larger proportion of net income for couples than lone parents, and for median earners than low earners. This arises, as in the UK, because these countries means-test fees charged to parents according to family income, meaning that dual-earner couples and higher-income families have to pay a higher fee.⁹

Figure 4. Net childcare costs for low- and middle- income families

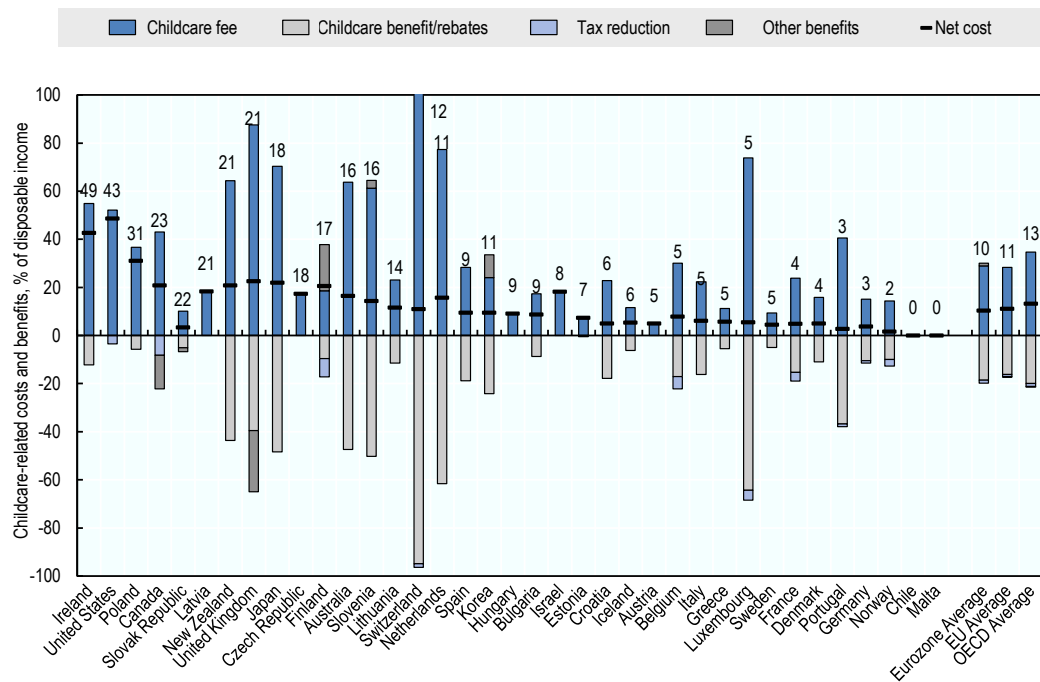


9. Some countries also charge lone parents lower fees irrespective of their income level (e.g. Bulgaria, Denmark, Iceland and Lithuania, though in Bulgaria and Iceland net childcare costs still represent a larger share of disposable income for lone parents than for couples at one or even both earnings levels).

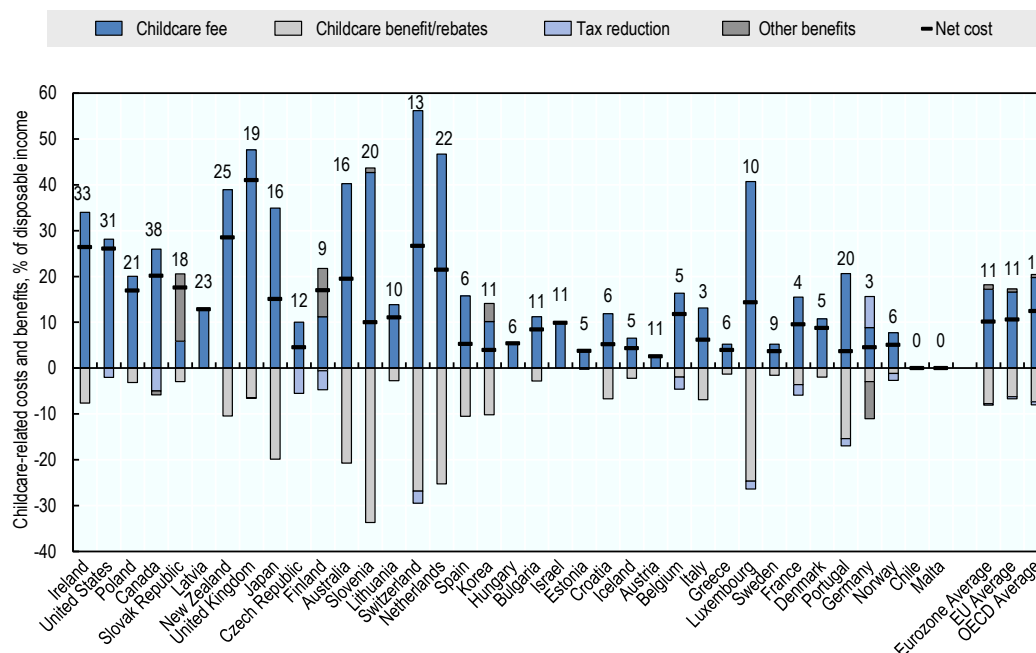
Panel B: Couple with children, low earnings



Panel C: Lone mother, median earnings



Panel D: Couple with children, median earnings



1. 'Low' ('median') earnings level is 20th (50th) percentile of gender-specific full-time earnings distribution. Two earners are assumed for couples, male and female.
2. In all cases, family has two children aged 3 and 2 using full-time centre-based childcare.
3. All costs and benefits are shown as a percentage of net family income before deducting any childcare expenses.

Source: Secretariat calculations using OECD tax-benefit model.

Can parents afford to work? Childcare costs and work incentives

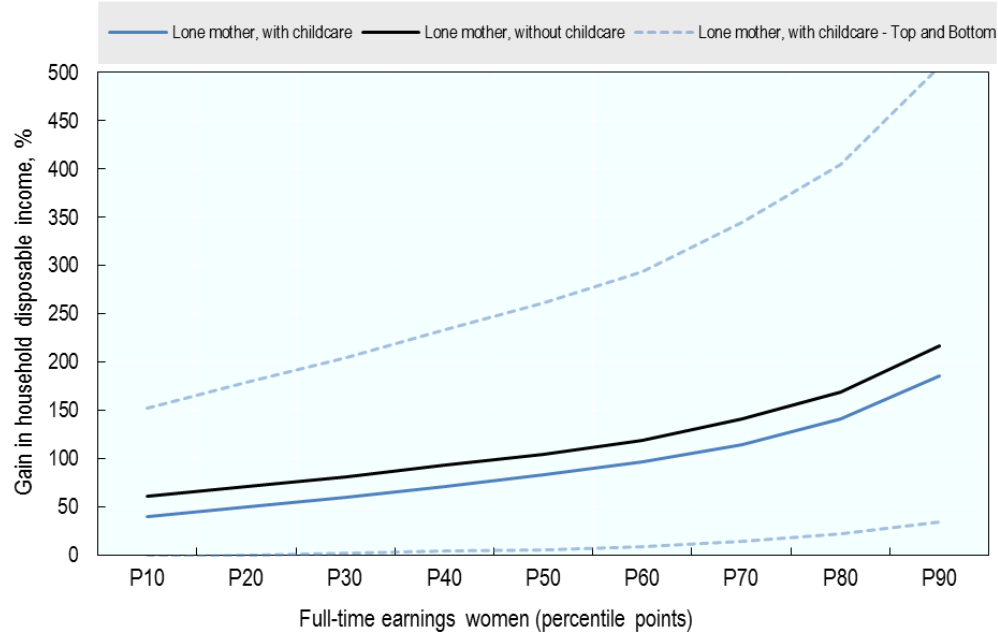
44. By imposing a significant additional financial burden on working parents, childcare costs reduce (and, sometimes, eliminate) the financial gain from working at all.¹⁰ On average in EU countries, the costs of non-parental care for two children halve the income gain for working lone parents at low earnings levels, and reduce it by a third for second earners (in couples with children (gap between the two solid lines in **Figure 5**, Panels A and B).

10. Note that throughout this sub-section, it is assumed that families only incur childcare costs when all parents are in paid work. In reality, parents may choose to use some paid-for non-parental childcare even if not all parents are working full time, which would reduce the extent to which childcare costs lower the gains from paid work.

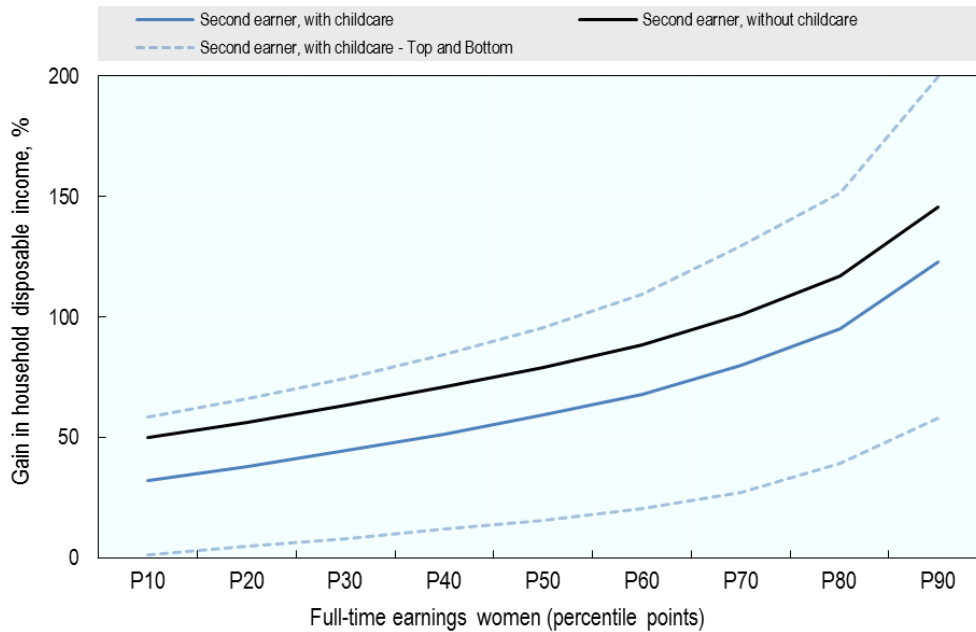
Figure 5. Income gain from entering work, with and without childcare costs

EU average and range, 2015

Panel A: Lone mother



Panel B: Second earner in a couple with children



1. Graph plots the EU average of 26 EU countries with data on childcare and complete full-time earnings distributions (Cyprus and Romania excluded). The Bottom (Top) graphs plot the average of the 4 countries which are constantly among the 8 countries with lowest (highest) net gains across all percentiles. For lone mothers, these are Denmark, Ireland, Slovenia and the United Kingdom (Greece, Hungary, Portugal and Spain). For couples, these are Finland, Ireland, Slovenia and the United Kingdom (Bulgaria, Greece, Portugal and Spain).
2. In couples, the primary earner's earnings level is always at 20th percentile of male earnings distribution.

3. In both cases, family has two children aged 3 and 2 using full-time centre-based childcare.
4. Assumes parents incur no childcare costs when one parent is not in paid work.

Source: Secretariat calculations using OECD tax-benefit model.

45. Another way of examining the impact of tax-benefit policies and childcare costs on financial work incentives is to calculate the percentage of earnings that are lost to higher taxes, lower benefits or childcare costs when an individual enters work. This measure is referred to as the *participation tax rate* (PTR). As the focus of this report is on childcare costs, PTRs are calculated with and without taking childcare costs into account (**Figure 6**).

46. For both a low-earning lone parent and a second earner in a low-earning couple family, childcare costs increase PTRs by around 20ppts on average in EU and OECD countries. As work incentives are generally weaker for lone parents than for second earners, childcare costs are likely to have a bigger impact on the employment decisions of lone parents.¹¹ This is typically because lone parents face withdrawal of out-of-work benefits if they move into work in a way that second earners in couples do not. However, some countries have in-work benefits that strengthen work incentives for lone parents but weaken them for second earners in couples, for example **Canada, Ireland, New Zealand, the United Kingdom** and the **United States**. Family benefits in **Italy** and child tax allowances in **Hungary** have similar effects.¹²

47. Childcare costs have a particularly large impact on work incentives in countries where the net cost of childcare is relatively high, e.g. the **Czech Republic, Finland, Ireland, New Zealand, Poland, the Slovak Republic, the United Kingdom** and the **United States**. In some of these countries, adding on childcare costs takes the overall PTR above 100%, that is to say that mothers would be financially better off not working in these cases.

48. Even in countries where net childcare costs are relatively low, they can push PTRs for lone parents close to or above 100% if work incentives are weak even without these costs. This is the case in **Austria, Japan, Slovenia** and **Switzerland** for example. Childcare costs are therefore not the only reason behind weak work incentives for these groups. This can be seen more clearly in **Table 1**, which groups countries according to the level of PTRs and the extent to which childcare costs drive high PTRs. For lone parents, there are several countries in the top left of the table, indicating that childcare costs are not the reason behind weak work incentives. However, for couples, countries are much more heavily concentrated in the diagonal elements of the table, showing a clear correlation between childcare costs and the strength of work incentives and indicating that childcare costs are a key driver of work incentives for mothers in couples. It is also interesting to note that the groupings in the different cells generally do not correspond to commonly-used categorisations of social protection regimes.

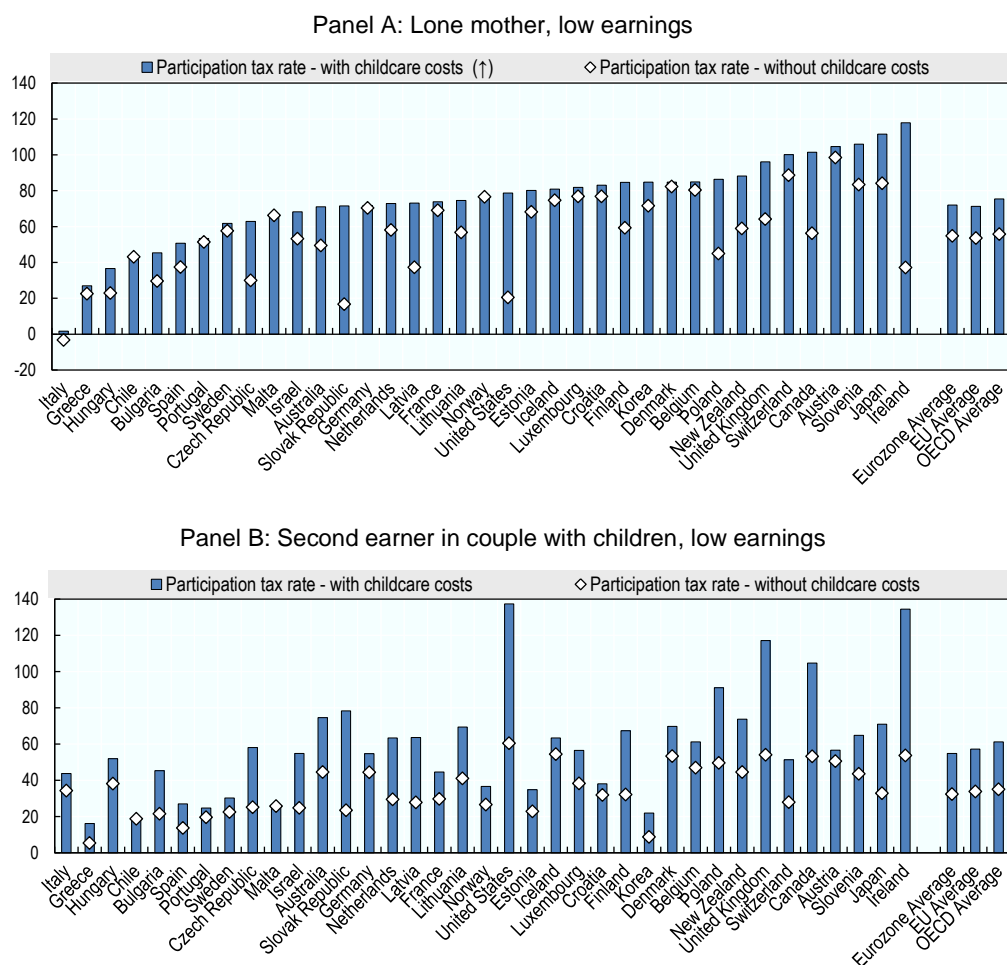
49. PTRs are a little lower for mothers with higher earnings, and childcare costs increase their PTRs by less (Panels C and D of Figure 6): on average in the 26 EU countries studied, PTRs are 6ppts

11. This is because the distortion caused by a tax rises more than proportionately to the tax rate: consider that it has already been shown in Figure 3 that childcare costs halve the return to work for lone parents but only reduce it by a third for a second earner in a couple with children in the median EU country.

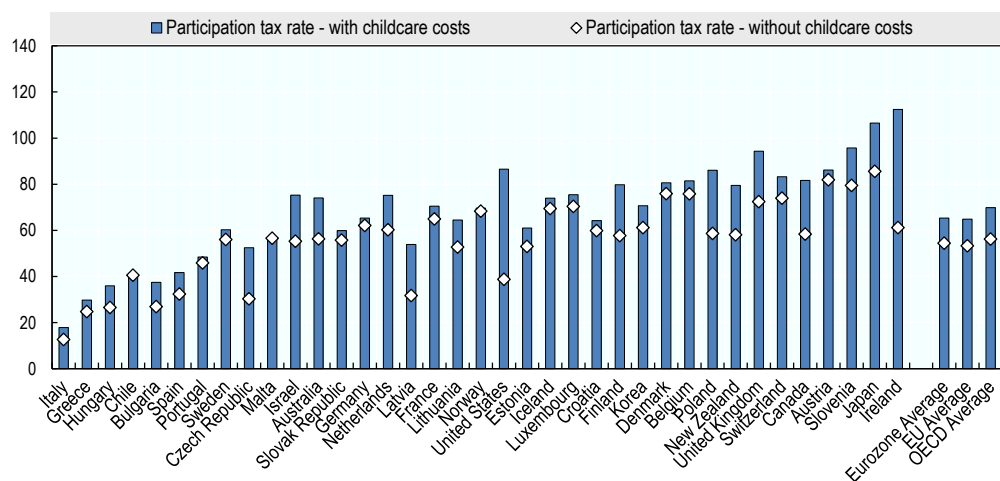
12. Workless families do not qualify for family benefits in Italy, so they strengthen work incentives for the primary earner, but they are then gradually withdrawn if the second parent also moves into work. In Hungary, child tax allowances can be claimed by either parent, meaning that lone parents can earn a significant amount without having to pay income tax, but second earners in couples are taxed as soon as they start earning as the child tax allowance is used by the primary earner.

lower for lone parents with median earnings than those with low earnings, and 7ppts lower for second earners in couples with median rather than low earnings. This occurs because net childcare costs generally represent a lower proportion of gross earnings for higher earners. However, there are exceptions to this in countries where support for childcare costs is highly means tested and hence net childcare costs are significantly larger for higher earners. This is the case for example for couples in **Luxembourg, New Zealand, Switzerland** and the **United Kingdom**.

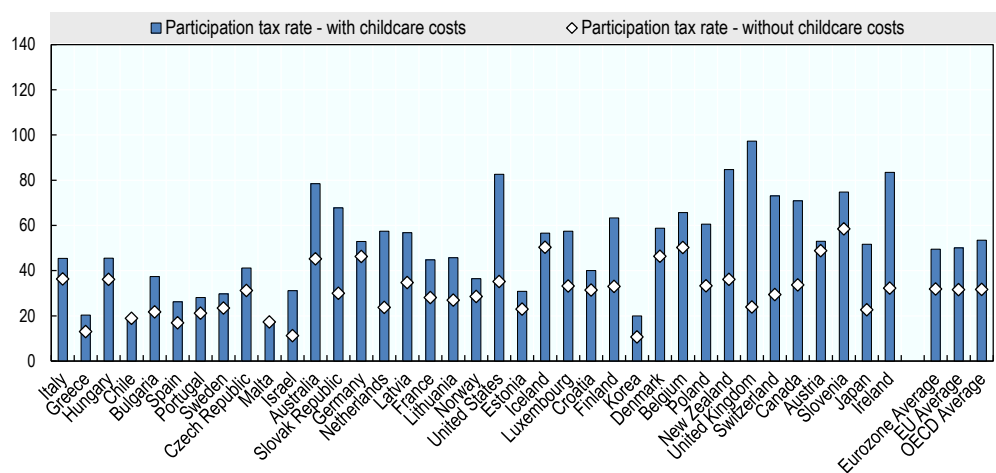
Figure 6. Participation tax rates of 'low earning' mothers with and without childcare costs, 2015



Panel C: Lone mother, median earnings



Panel D: Second earner in couple with children, median earnings



1. 'Low' ('median') earnings level is 20th (50th) percentile of gender-specific full-time earnings distribution. Two earners are assumed for couples, with a male primary and female secondary earner.
2. In both cases, family has two children aged 3 and 2 using full-time centre-based childcare.
3. Assumes parents incur no childcare costs when one parent is not in paid work.

Source: Secretariat calculations using OECD tax-benefit model.

Table 1. Work incentives and childcare costs

Panel A: Lone parent

Impact of childcare costs is	Work incentives are:						
		Weak (PTR > 80%)		Moderate (PTR 60-80%)		Strong (PTR < 60%)	
	Small (< 10ppts)	Austria	Luxembourg (-)	Croatia (+)	Korea (+)	Chile	Portugal
		Belgium	Switzerland (+)	Estonia (+)	Luxembourg (+)	Greece	Slovak Republic (+)
		Croatia (-)		France	Malta (-)	Hungary (+)	Spain (+)
Denmark			Germany	Norway	Italy		
	Iceland (-)		Iceland (+)	Sweden	Malta (+)		
Moderate (10-20ppts)	Estonia (-)		Australia (+)		Bulgaria		
	Korea (-)		Israel (-)		Hungary (-)		
Large (> 20ppts)	Slovenia (+)		Lithuania		Spain (-)		
	Switzerland (-)		The Netherlands				
	Canada	Poland	Australia (-)	New Zealand (+)	Czech Republic (+)		
	Finland (-)	Slovenia (-)	Czech Republic (-)	Slovak Republic (-)	Latvia (+)		
	Ireland	United Kingdom	Finland (+)	United States (-)			
	Japan	United States (+)	Israel (+)				
	New Zealand (-)		Latvia (-)				

Panel B: Second earner in couple with children

Impact of childcare costs is	Work incentives are:						
		Weak (PTR > 65%)		Moderate (PTR 45-65%)		Strong (PTR < 45%)	
	Small (< 10ppts)	Iceland (-)		Austria Germany (+) Hungary (+) Iceland (+) Italy (+)		Chile	Malta
							Norway (+)
Moderate (10-20ppts)	Belgium Denmark (-) Slovenia (+)		Denmark (+) Germany (-) Hungary (-) Lithuania (+)		Luxembourg (-)	Bulgaria (+)	Korea (-)
						Czech Republic (+)	Norway (-)
Large (> 20ppts)	Australia	Poland (-)	Bulgaria (-)	Poland (+)	Israel (+)		
	Canada	Slovak Republic	Czech Republic (-)	Slovenia (-)			
	Finland (-)	Switzerland (+)	Finland (+)	Switzerland (-)			
		The Netherlands (-)		The Netherlands (+)			
	Ireland	(-)	Israel (-)				
	Japan (-)	United Kingdom	Japan (+)				
	Lithuania (-)						
		United States	Latvia				

Note: A country is classified in more than one cell if its position differs between low- (-) and median (+) earnings levels.

Source: Secretariat calculations using OECD tax-benefit model.

How much do parents have to earn to escape poverty after childcare costs?

50. High childcare costs can increase the risk or depth of in-work poverty. The affordability of childcare, particularly for lone parents, therefore matters for poverty alleviation strategies focused on encouraging employment. Because of childcare costs, lone parents have to earn more before their disposable income (i.e. after taxes, benefits and childcare costs) reaches the poverty line (**Figure 7**). In most EU countries, the additional amount that parents at risk of poverty need to earn to offset childcare costs is relatively small (on average, 8% of the average wage in the 26 EU countries studied here). Indeed, in some countries the level of support given to lone parents who are not in paid work (out-of-work benefits including any home-care allowances) is already sufficient to take them out of poverty without any earnings.¹³

51. However, in a number of countries, mothers would need to earn 50% of the AWW or more to have disposable income above the poverty line. In several Anglophone non-EU countries (**Australia, Canada and the United States**), and in **Luxembourg and Poland**, METRs are above 60% for lone parents at low earnings levels,¹⁴ so higher gross earnings translate into relatively small disposable income gains, making it more likely that these are not enough to pay for childcare costs. In other countries, lone parents need to earn more to escape poverty simply because childcare costs are substantial. This is the case in the **Czech Republic, Latvia, New Zealand and the Slovak Republic**. In **Poland** and the **United States** both METRs and childcare costs are high. Finally, in a third group of countries, earnings needed to escape poverty are substantial because out-of-work benefits are modest (**Croatia, Korea, Malta, Norway and Switzerland**), or because PTRs for lone parents are high (**Belgium, Croatia, Korea, Norway and Switzerland**).

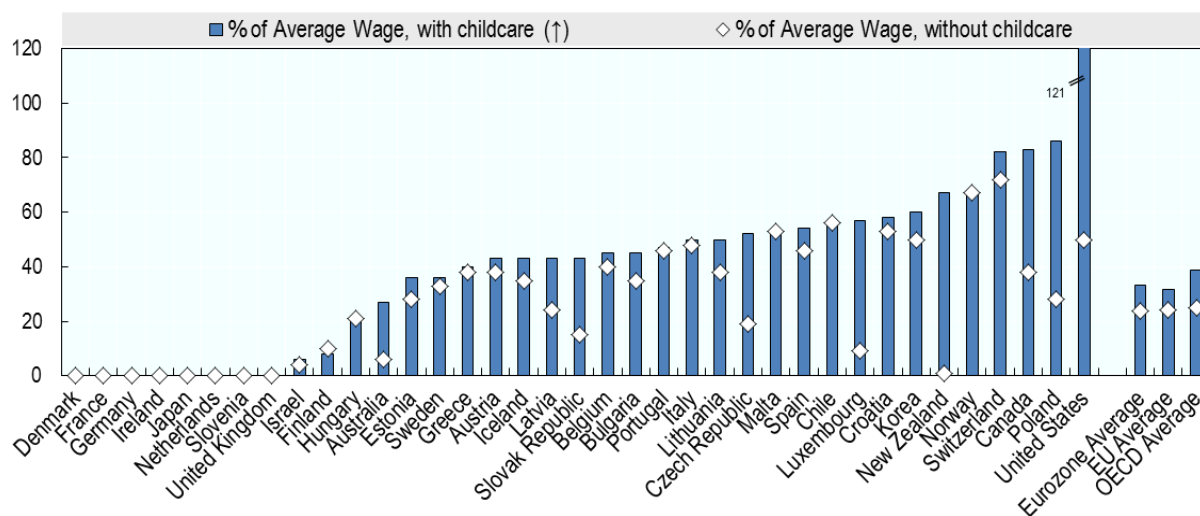
52. In most EU countries, the earnings of one parent are sufficient to lift a couple with two children out of poverty even if their earnings are relatively low (Panel B of **Figure 7**). However, in a small number of countries, both parents would need to work for the family to escape poverty in this case. High childcare costs for couple families in **Latvia** and the **United States** significantly increase the amount the second member of the couple has to earn to escape poverty. In some other countries (**Bulgaria, Norway and Switzerland**), both members of the couple have to work to escape poverty if the primary earner's earnings are low, but the amount that the second earner has to earn is relatively small and not significantly affected by childcare costs.

13. The poverty line used here is 50% of median household income adjusted for household size by the square root of household size.

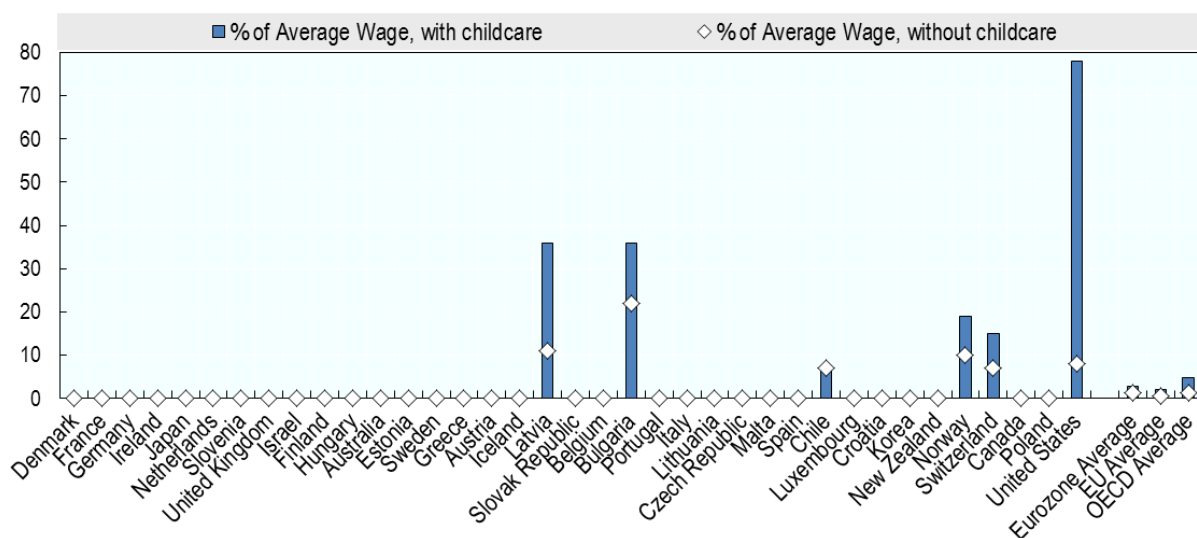
14. Source: [OECD tax-benefit model](#). See also footnote 11.

Figure 7. Earnings required to escape poverty after childcare costs, % of female Average Wage

Panel A: Lone parent family



Panel B: Two-earner couple family, primary earner at 20th percentile of the male earnings distribution



1. Poverty line is 50% of median household income adjusted for household size using square root of household size.
2. In both cases, family has two children aged 3 and 2 using full-time centre-based childcare only when all parents are working.

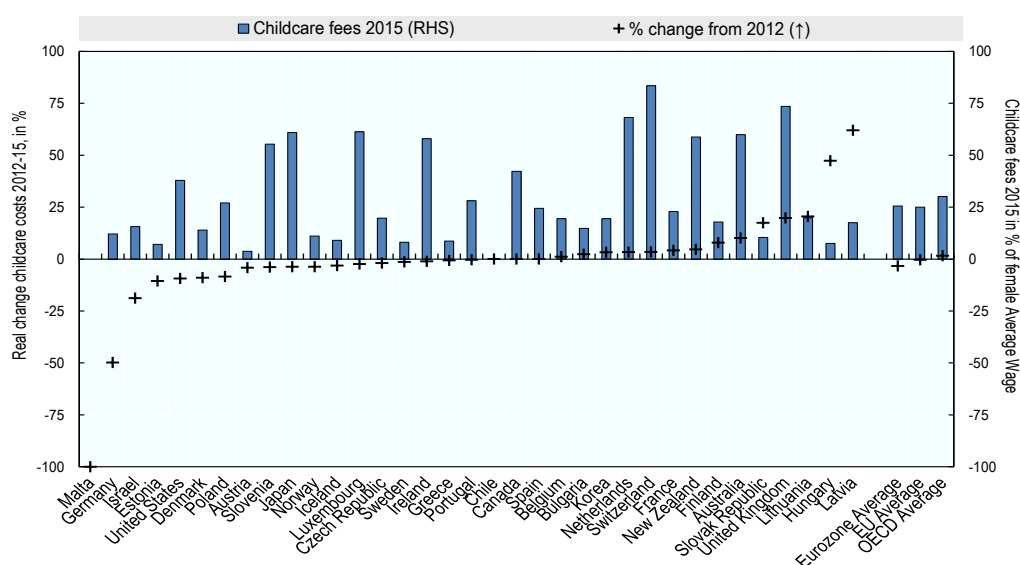
Source: Secretariat calculations using OECD tax-benefit model.

4. CHANGES IN NET CHILDCARE COSTS SINCE 2012

53. Previous OECD analysis has examined related indicators of gross and net childcare costs and the impact of childcare costs on financial work incentives for an earlier period (Pacifico and Richardson, 2014). This section examines how these indicators changed between 2012 and 2015 and points to key policy reforms driving these changes.

54. Typical fees for families with two children in an accredited childcare centre decreased in real terms by almost 4% across the EU, and increased by 1.6% across the OECD area (**Figure 8**). Fee increases outpaced inflation in 18 out of all 35 countries shown, growing by over 5% in real terms in six of these countries. The largest percentage increases occurred in **Hungary, Latvia** and **Lithuania**, but in all cases from a relatively low base. In all three countries, centre-based childcare is free of charge but parents have to pay for meals,¹⁵ and the price of meals has been increased. However, in many other countries with high costs, fees also increased though by a smaller amount in percentage terms. Fees fell in real terms in 19 countries, mainly because nominal fees were not adjusted, or increased by less than inflation. Nominal fees were reduced in **Denmark, Estonia** and the **United States**, but also in **Germany**.

Figure 8. Real change in gross fees, 2012-15



1. 2012 fees are uprated to 2015 prices using the CPI. Croatia and Italy excluded as no data on childcare for 2012 available.

2. Fees for two children aged 3 and 2 when using full-time centre-based childcare.

Source: Secretariat calculations using OECD tax-benefit model.

55. Between 2012 and 2015 relatively few countries adjusted policies that directly impact on these fees for centre-based childcare and hence the affordability of childcare. However, in **Germany**,

15. In Lithuania, at least 80% of the costs paid by parents are to cover the cost of meals.

Israel and **Malta**, additional free provision significantly lowered childcare costs. The main policy changes, and their expected impact on the parental cost of childcare, are summarised in **Table 2**. In almost all countries listed, policy changes continue the trend toward provision of free early childhood education or set upper limits for fee levels. The most extreme case is **Malta**, where childcare fees for young children have been abolished for families where all parents are working or studying. In **Czech Republic**, **Germany**, **Israel** and **Korea**, partly free provision of childcare has been extended or introduced. In **Poland**, the hourly fee paid for children beyond 2 years of age in nursery schools has been limited to 1 PLN, and in **Norway**, out-of-pocket fees are now limited to 6% of taxable income. In **Canada (Ontario)**, a specific childcare benefit at the provincial level was replaced by a general family benefit in 2013, but childcare benefits were increased at the federal level in 2015. Nominal uprating of benefit parameters are not listed as policy changes in **Table 2** but can still have impact on net costs and work incentives as outlined below. However, reforms to other taxes of benefits may also have an effect on net childcare costs, even if they are not directly childcare-related.¹⁶

Table 2. Childcare related policy changes 2012 - 2015

Country	Nature of the reform	Effect on the net cost of centre-based care
Canada	Replacement of childcare benefit with general family benefit in Ontario, introduced 2013; Increase of Universal Child Care Benefit (UCCB) for children under 6 years of age, introduced 2015.	No increase up to 2014 (top-up); Decrease
Czech Republic	New non-refundable tax credit, introduced 2015	Decrease, especially for high earners
Germany (Hamburg)	Free provision of 25 hours per week, introduced 2014	Decrease
Israel	Free provision extended to 3-4 year old children, introduced 2012	Decrease
Korea	Free provision extended to 3-4 year old children, introduced 2013	Decrease
Malta	Free childcare for children below 4 years of age if both parents working or studying	Decrease to zero
Poland	Subsidised fee of 1 PLN/hour above 20 hours a week of nursery	Decrease for children older than 2 years of age
Norway	Maximum fee of 6% of taxable income below a certain threshold, introduced 2015.	Decrease

Source: OECD tax-benefit model; country-specific information.

56. **Figure 9** shows how these reforms (and changes to gross fees and other tax-benefit changes) have affected the affordability of childcare for low income families (defined here as families where parents work full-time at the 20th percentile of their gender-specific earnings distributions). On average, net childcare costs fell by about 1% relative to net income across the EU and did not change on average across the OECD area. This is true for both lone parent and couple families. Indeed, for 14 (16) out of the 35 countries shown, net costs changed by less than 1% for lone mothers (couples). In a number of countries where net costs decreased more substantially for lone mothers, the driver for this result was a decrease in childcare fees, not an increase in subsidies (e.g. the **Czech Republic** and the **United States**, see Panel A). Among these countries is also **Germany**, where universal free care hours were introduced, but the income-related fee that lone parents previously had to pay was already very low.¹⁷ In **Canada**, falling net costs resulting from reductions in fees are further reduced by increased

16. For example, if tax rates are increased, this increases the value of a childcare tax deduction.

17. The additional free provision shows up as a reduction in the gross fee; the lone parent receives a lower rebate because the gross fee is lower.

childcare benefits. Gross fees increased in **Norway**, but the introduction of a means-tested discount that ensures no family has to pay more than 6% of their income in childcare fees offset the impact of this for a low-income lone parent. Also, the home care benefit was abolished for children aged 2 and over (the example we consider here), so this family no longer loses this benefit if they use full time childcare, reducing their net cost of childcare.

57. In a number of countries the amount of childcare subsidies depends on the level of actual childcare costs. Thus when costs are reduced, as in **Bulgaria, Luxembourg, Israel, Poland** and **Slovenia**, so too does the amount of subsidy received, limiting the benefit to low-income lone parents.

58. In **Korea**, higher net costs were caused by an expansion of home care benefits to children aged 3-7 and higher-income families.¹⁸ The two countries with the largest increase in net costs did not implement any reforms to childcare support itself, but reforms to other benefits affect net childcare costs. In **Finland**, the home care benefit is taken into account when calculating housing benefit entitlements. Thus, parents who do not use formal childcare and are claiming housing benefits see their entitlement to home care benefits reduce their housing benefit entitlement. A recent reform withdrawing housing benefits more quickly when people move into work has meant that a lone parent earning at the 20th percentile of the female earnings distribution is no longer entitled to housing benefits. The home care allowance thus now increases the net cost of childcare for this family as there is no longer an offsetting increase in housing benefit entitlement when the home care benefit is withdrawn. In the **United Kingdom**, childcare fees substantially increased between 2012 and 2015 while the rates and thresholds for the most important subsidy, the Child Care Tax Credit, have not been adjusted. As a result, this low-earning couple, who are towards the end of the benefit taper have seen the amount of tax credit they receive fall. Similarly, reductions in the generosity of housing benefits have reduced the amount of childcare support received in this way as this family is again towards the end of the housing benefit taper.¹⁹

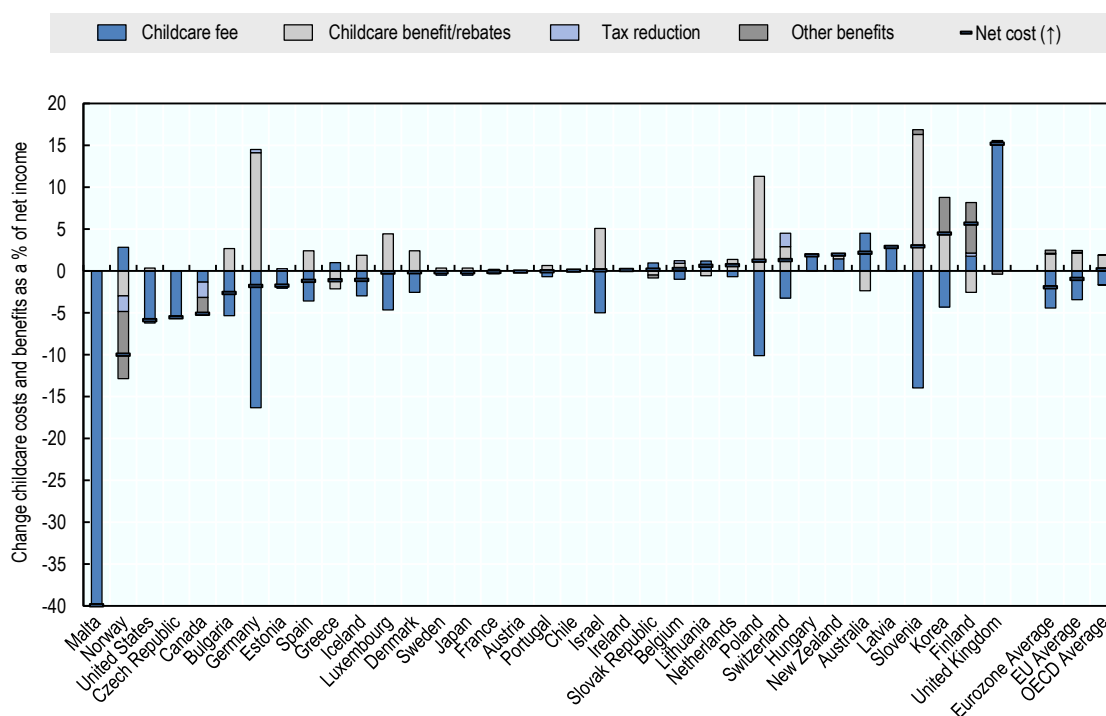
59. In general, the development of net costs for two-parent families (Panel B of **Figure 9**) follows the picture for lone mothers. However, there are a few interesting differences: additional free provision did reduce the net cost of childcare for couples significantly in **Germany** and **Israel** as this low-earning couple family did not receive (as much) means-tested support previously. In **Slovenia**, earnings growth has pushed the low-earning lone parent examined here into a higher fee band, but not the low-earning couple. Finally, in **Finland**, the change to housing benefits discussed above does not affect the low-earning couple as they were not entitled to housing benefits in 2012.

18. The home care benefit in Korea was means-tested in 2012, but is now available to all families not using formal childcare.

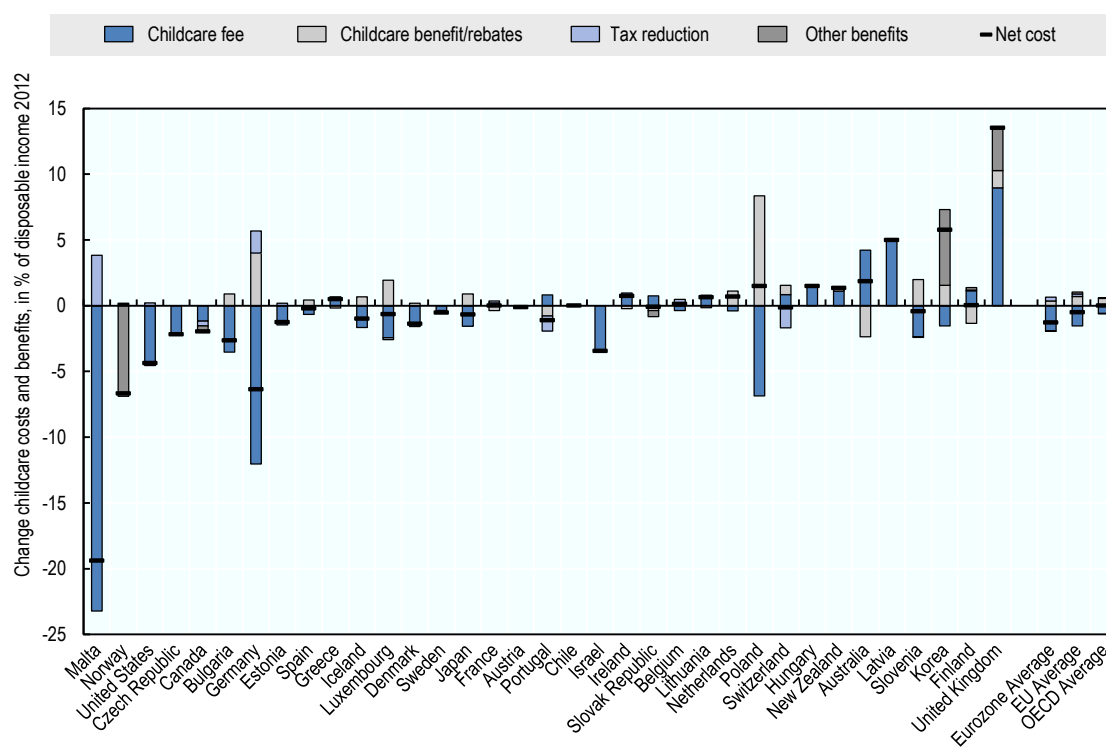
19. These changes do not affect lone parents as they receive the maximum childcare support available in each case.

Figure 9. Change in net childcare costs for 'low income' families, 2012-15

Panel A: Lone mother



Panel B: Couple with two children



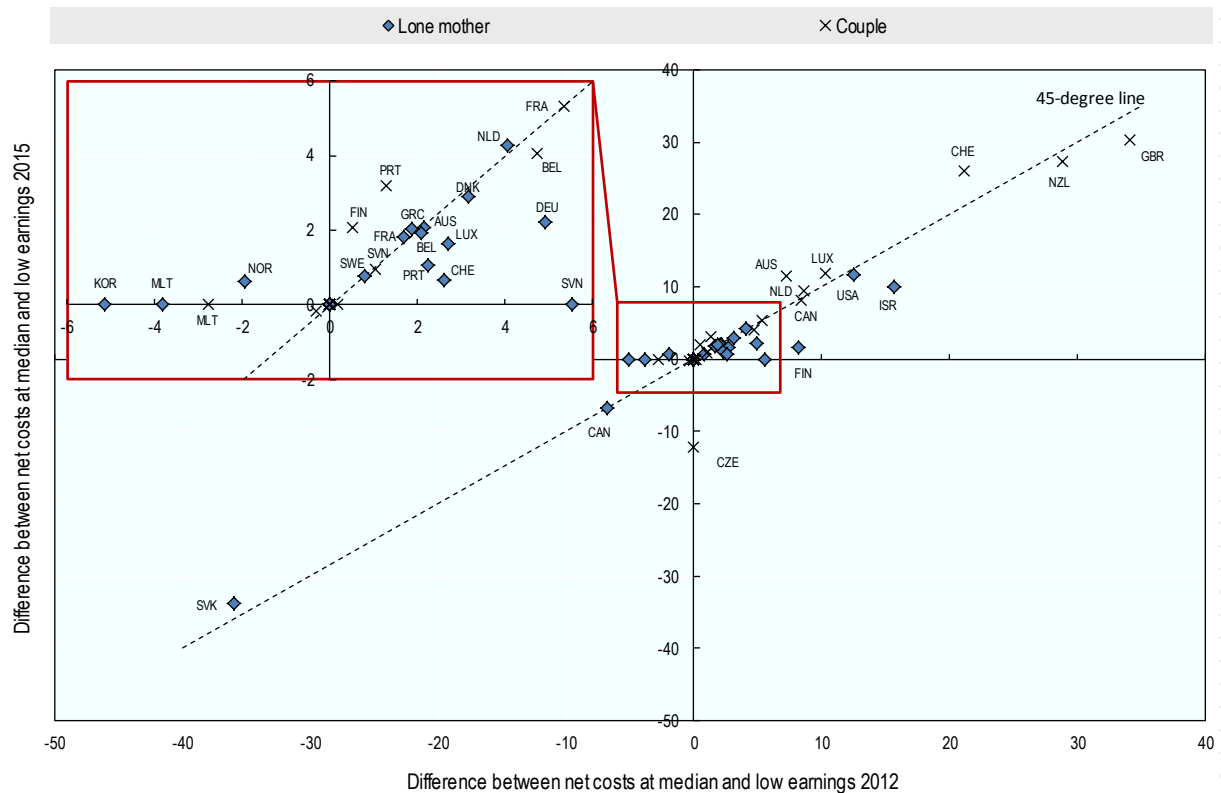
1. Chart shows difference between costs and benefits as % of disposable income in 2012 and 2015. Croatia and Italy excluded as no data on childcare for 2012 available.
2. In both cases, family has two children aged 3 and 2 using full-time centre-based childcare.
3. All parents work full-time at the 20th percentile of the gender-specific earnings distribution.
4. All costs and benefits are shown as a percentage of net family income before deducting any childcare expenses.

Source: Secretariat calculations using OECD tax-benefit model.

60. These reforms have also affected how support for childcare costs is targeted towards different income groups. **Figure 10** plots the difference in net childcare costs between median and low income families in 2012 against the difference 2015. Most countries are around the origin, indicating that childcare costs are similar at different income levels, and that this has not changed significantly since 2012. In the majority of countries where targeting appears, net costs are generally higher for median income than for low income families, i.e. support is targeted towards lower income groups. However, the contrary is most obviously the case in **Slovak Republic**, as a result of the interaction between alimony replacement benefits and home care benefits outlined in Section 3. Reversed targeting also appears in **Canada**, where lone parents earning the MWW benefit from childcare tax deductions while those with lower earnings do not. In **Korea** and **Malta**, the reforms undertaken have improved targeting of low income lone parents. In **Malta**, universal free provision has replaced a tax credit that did not benefit low-income families. In **Korea**, a universal childcare benefit has been introduced that fully covers the cost of childcare to replace means-tested support, and a means-tested home care benefit was made universal: the cost of childcare is now the same regardless of income level. **Germany** and **Israel** have made moves towards universal provision from the other direction: more free provision for all families has reduced the extent of income-related fees, reducing the gap in childcare costs between higher- and lower-income families. By contrast, the **Czech Republic** has introduced a childcare tax credit that only benefits higher income families, leading to a big reduction in net costs for couples with median earnings, while childcare costs remain the same for other family types.

Figure 10. 'Targeting gap', 2012 versus 2015

Percentage points of median female earnings



1. A positive (negative) difference indicates higher (lower) net costs for parents working at 50th ('median') than for parents working at 20th ('low') percentile of the gender-specific earnings distribution. Croatia and Italy excluded as no data on childcare for 2012 available. Countries with absolute gaps of less than 0.5ppt are not labelled
2. All parents are assumed to be in full-time work.
3. In both cases, family has two children aged 3 and 2 using full-time centre-based childcare.

Source: Secretariat calculations using OECD tax-benefit model.

61. How have the changes in costs, and associated policy initiatives, translated into changed work incentives? **Figure 11** presents the change in the PTR of a mother taking up low paid employment (working full-time at the 20th percentile of the female earnings distribution) between 2012 and 2015 as a lone parent, and as the second earner in a low-earning couple (where the primary earner works full-time at the 20th percentile of the male earnings distribution). It shows that, when taking into account childcare costs and supports, PTRs decreased by around 3 (4) ppt for lone mothers (second earners in couples) on average in the 26 EU countries considered here and by around 1 (2) ppt for lone mothers on average (second earners) across the OECD area. More substantial changes in PTRs occurred in some countries, but these are not always related to the cost of childcare as they also occur in some cases in the case where childcare costs are not taken into account.

62. The most obvious case where childcare policies had a positive impact on work incentives is **Malta**. PTRs without taking into account childcare changed only slightly while the introduction of free provision of childcare for working mothers strengthened their incentive to take up work very

significantly (the PTR fell by more than 40ppt). The increase in childcare benefits also strengthened work incentives for lone mothers in **Canada**, despite other changes that increased PTRs. The childcare-related reforms in **Germany, Israel** and **Norway** especially strengthened work incentives for second earners in couples and partly limited the impact of other policy changes in lone-parent families, such as changes to the ‘transitional benefit’ which have weakened work incentives for lone parents in Norway.²⁰ In the **United States** and **Bulgaria**, increased work incentives are almost entirely driven by reduced childcare fees for both lone mothers and mothers in couples.

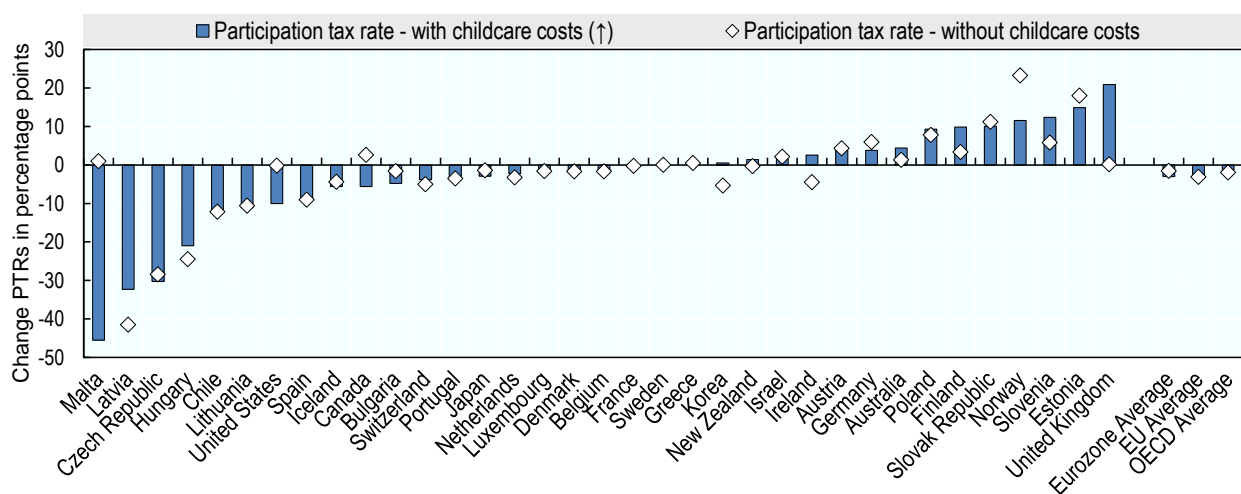
63. At the other end of the spectrum, increases in childcare fees pushed PTRs upwards in some Anglo-Saxon countries, notably the **United Kingdom**, where PTRs increased by more than 20ppt when childcare is taken into account. This more than offset other changes that strengthened work incentives for second earners in couples. In **Latvia** and **Hungary**, the increase in childcare fees partly offset the impact of other changes that strengthened work incentives, namely tax cuts and benefit erosion²¹ in Latvia and the abolition of housing benefits in Hungary. In **Korea**, the extension of home care benefits to higher-income families and older children more than offsets the impact of extended free childcare hours and thus PTRs increase, especially for mothers in couples. In most of the other countries though, changes in PTRs with and without taking into account childcare do not differ by much, in line with the rather limited changes in childcare fees and policies outlined above.

20. For a broader discussion of non-childcare related policy reforms that affected work incentives in EU countries during this period, see Browne et al. (2017).

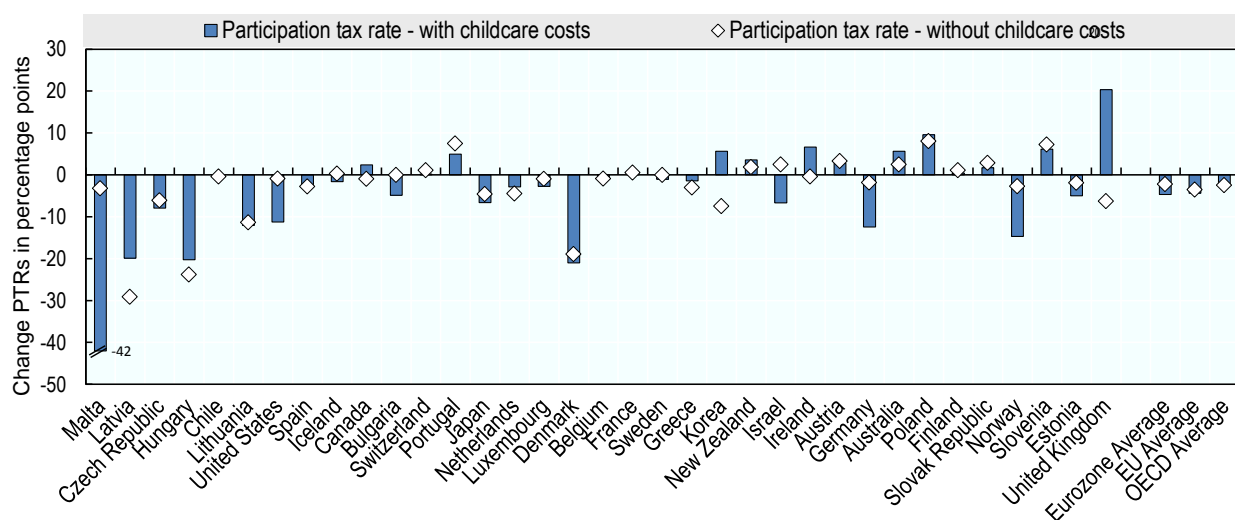
21. That is, benefits for those not working increasing more slowly than the earnings of those in work.

Figure 11. Change in participation tax rates (PTRs) of 'low earning' mothers, 2012-15

Panel A: Lone mother



Panel B: Mother in couple with children



1. In both cases, family has two children aged 3 and 2 using full-time centre-based childcare. Croatia and Italy excluded as no data on childcare for 2012 available.
2. All parents work full-time earn the 20th percentile of the gender-specific earnings distribution.
3. Assumes parents incur no childcare costs when one parent is not in paid work.

Source: Secretariat calculations using OECD tax-benefit model.

CONCLUSIONS

64. This report has examined the out-of-pocket childcare costs facing working parents in EU and other OECD countries in 2015, and how these affect parents' financial work incentives and ability to escape poverty. All countries provide some support to assist parents with childcare costs, but there is wide variation in childcare policies between different countries and thus also in the childcare costs that parents face.

65. Many EU countries provide childcare through public institutions at low costs to parents and target support to low-income families (e.g. **Denmark, France, Germany, Portugal and Sweden**). In these countries, net childcare costs are low for low-earning families and income-related fee structures often lead to net childcare costs representing a higher share of income for better-off families.

66. Without any cash support to parents, amounts charged by private childcare institutions can be much higher, approaching median full-time earnings for the provision care for two pre-school children. However, countries with the highest childcare fees tend to offer significant support to parents to help them with these costs (e.g. **Luxembourg, The Netherlands, Switzerland and the United Kingdom**). The countries with the highest *net* childcare costs are those that have moderate high gross costs but offer relatively little cash support to parents in the form of benefits or tax breaks. In these countries, net costs often exceed 20% of disposable income for low-income families (e.g. **Ireland, Poland and the United States**). Childcare costs also increase the amount lone parents have to earn to escape poverty. In some OECD countries, lone parents have to earn more than 80% of the average wage for women to bring their disposable income after childcare costs above the poverty line.

67. Childcare costs can significantly weaken the incentives for mothers of young children to do paid work. On average across EU and OECD countries, more than 70% of the earnings of a low-paid lone mother are lost to a combination of taxes, withdrawn benefits or childcare costs when they move into work. In several countries, parents cannot afford to work as childcare costs can lead to a reduction of disposable income when taking up full-time employment (e.g. for low-earning lone parents in **Austria, Slovenia and Switzerland** and for second earners in couple families in the **United Kingdom and the United States**). This is true for both lone mothers and for partnered women, and at earnings levels up to the median. While childcare costs are a key determinant of the work incentives facing mothers, home-care allowances and other out-of-work benefits that are lost upon taking up employment dampen work incentives even for women with access to informal or low-cost care options (e.g., **Finland, Korea and the Slovak Republic**). This highlights the need to look beyond individual policy areas when considering the incomes, choices and constraints facing parents of young children.

68. Childcare costs also increase the amount lone parents have to earn to escape poverty. In some OECD countries, lone parents have to earn more than 80% of the average wage for women to raise their disposable income after childcare costs above the poverty line.

69. A comparison of childcare costs between 2012 and 2015 shows increases in **Hungary and Latvia**, and reductions in **Estonia, Germany and Malta**. Rising prices/ fees were more common in countries where prices were already high to start with. However, relatively few countries have introduced major changes to childcare benefits or tax provisions designed to lower out-of-pocket costs. Of those countries where reforms were introduced, the most common change was an introduction or expansion of universal free childcare, leading to support becoming more universally available to families at different income levels. This has happened both in countries where support was previously

targeted towards low-income families in the form of income-related fee structures (**Germany** and **Israel**), and in those where support came in the form of tax deductions (**Malta**).

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ANNEX

Table A.1 Summary of non-parental childcare policies 2015

Policy type →	Fee subsidies and cash benefits	Tax concessions	Other	Activity testing	Childcare facilities subsidised?	Benefits income tested?	Part-Time Regulations?
Country ↓	[1]	[2]	[3]	[4]	[5]	[6]	[7]
Australia	Child Care Benefit (CCB) is a means-tested fee subsidy payable to parents using up to 50 hours per week of approved childcare (including most long-day care, family-day care, outside-school-hours care, vacation care, occasional care and in-home care). Maximum hourly CCB rates are independent of actual fees and are determined by the number of children in care and the type of childcare used. CCB is much lower for users of registered care, but CCB for approved care is means-tested while CCB for registered care is not. Families with no stay-at-home parent may claim both types of CCB. The system is demand-driven, i.e. all those entitled can claim the benefit. Maximum rate of CCB in an approved centre-based long-day care service for one child is AUD 4.17 per hour.	Those using approved childcare may also claim the non-means tested Child Care Rebate (CCR) of up to 50% of expenses (after the CCB entitlement is deducted) for "work-related" use of approved childcare, up to an annual cap per child per year. The annual cap for CCR payable for childcare costs incurred in 2014-15 is AUD 7,500 per child per year.	--	Up to 50 hours of CCB per child per week for CCB approved care is available if families meet the work/training/study test (both parents are (or a single parent is) working, training, studying, looking for work at least 15 hours a week or 30 hours a fortnight) or have an exemption or up to 24 hours without meeting the work/training/study test. CCB for up to 50 hours per child per week of registered care if parents are working, training or studying at some time during the week or have an exemption. No minimum number of hours is required. CCR only for CCB approved care where the parents meet the work/training/study test at some time during a week or have an exemption.	Parents can choose between receiving CCB for use of approved childcare services in the form of fee reductions or as a lump sum cash payment at the end of the financial year. Families using registered care can access CCB at the registered care rate from the Department of Human Services upon presentation of childcare fee receipts and a claim form. Families eligible for the CCR may choose to receive it on a fortnightly (sometimes weekly) basis, paid either to a childcare service as a fee reduction or directly to their bank account or as a lump sum paid quarterly or annually.	Rebates for approved care (no income test for registered care fees). Families whose income is less than AUD 43,727, or in receipt of an income support payment, receive maximum rate CCB. For families above this income, CCB rate is reduced depending on number of children. CCB is not payable above certain income levels: AUD 152,147 for one child in approved care, AUD 157,654 with 2 children in approved care and AUD 178,023 with 3 children in approved care (plus additional AUD 33,671 for each further child in approved care).	Part-time loadings apply to CCB payments for both family-day care and long-day care. For children in long-day care, 10% loading for up to 33 weekly hours of care, tapering progressively from 8% to 0% from 34 to 38 hours of care. For one child in part-time family day care a loading of 33.33 per cent applies up to 37.5 hours of care, and tapers progressively from 33.33 per cent to 0 per cent from 37.5 to 50 hours of care.

1. "--" indicates that no information is available or not applicable.
2. *Source:* OECD tax-benefit model; country-specific information.

Table A.1 Summary of non-parental childcare policies 2015 (cont.)

Policy type → Country ↓	Fee subsidies and cash benefits	Tax concessions	Other	Activity testing	Childcare facilities subsidised?	Benefits income tested?	Part-Time Regulations?
	[1]	[2]	[3]	[4]	[5]	[6]	[7]
Austria	Day-care is provided free of charge for at least 4 hours per day for children aged 5 throughout Austria. The criteria in detail are fixed by a treaty between the federal government and the federal states: child-care is provided free of charge in the different states: all-day-care for children 0 - 6 years in Vienna (meal fee remains) and Burgenland; all-day-care for children 2.5 - 6 years in Upper Austria, half-day-care for children 2.5 - 6 in Lower Austria, half-day-care for children 4 - 6 in Tyrol. Elsewhere parents' fees depend on the family net income, the number of cared for children, the number of siblings.	Since 2009 the costs for qualified childcare are deductible from the calculation basis for income tax up to the amount of EUR 2,300 per year for each child up to the age of ten years. Also payments (up to EUR 500 p.a.) from employers to their employees for childcare are tax-free.	--	--	Yes, varies by state (<i>Länder</i>). In 2011, it was decided to continue the expansion of childcare facilities – especially for children aged up to three years – via a mix of in-kind and monetary spending. To this end, the federal and the regional governments each invest a total amount of EUR 305 million from 2014 to 2017.	--	--
Belgium	Fee calculated on the basis of family income and number of children in care.	Costs are deductible from taxable income (up to a limit of EUR 11.20/day and per child of less than 12 years). If the child does not use formal childcare, a standard deduction on taxable income is applied. (420 EUR /child in 2012). The standard deduction is limited to children under 3 years of age.	For children aged three or older fulltime preschool is free of charge.	--	Yes, varies by <i>Communauté</i> . Facilities in the French community is subsidised by ONE if approved and fulfilling certain conditions such as minimum occupancy rate. Facilities in the Flemish community are subsidised by Kind en Gezin which provides a fixed subsidy per childcare place and pays part of the wages of employees.	No, there is a maximum of deductible childcare expenses, which is independent of parent's income.	If attendance does not exceed 5 hours per day, the parental contribution is 60 percent of the amount of the fee normally due. If attendance does not exceed 3 hours per day, the parental contribution is 40 percent of the amount of the fee normally due.

Table A.1 Summary of non-parental childcare policies 2015 (cont.)

Policy type → Country ↓	Fee subsidies and cash benefits	Tax concessions	Other	Activity testing	Childcare facilities subsidised?	Benefits income tested?	Part-Time Regulations?
	[1]	[2]	[3]	[4]	[5]	[6]	[7]
Bulgaria	The fees for childcare at public sector nurseries and kindergartens are set by local governments. Fees may be differentiated depending on whether: it is nursery (<3) or kindergarten (3-5); it is weekly, all day or half-day nursery/kindergarten. In Sofia there are discounts for lone parents, for the second child in care and for children from large families.	Fees are not tax deductible.	--	--	Public kindergartens and schools are funded by public authorities.	--	--
Canada (Ontario)	Fee subsidies vary by province. Individual jurisdictions legislate maximum subsidy amounts, based on age of child, type of care setting, and duration of care (full/part time). Provincial governments may cover all or part of the cost if SA beneficiaries are involved in training or similar programmes.	Federal tax allowance for expenses up to limit. Child care expenses deduction is calculated on the basis of earned income. Child care expenses claimed as a deduction cannot exceed two thirds (2/3) of the earnings of the spouse with the lower earned income. The deduction reduces taxes paid to both levels of government (federal and provincial/territorial) and is limited to CAD 8,000 for each child who is under age seven, and CAD 5,000 per child between seven and sixteen years of age.	--	--	--	For Federal tax allowance: least of childcare expenses, 2/3 of earned income (of spouse with lowest earnings).	--
Chile	All government provided pre-school services are free. Free preschool education exists for the infants in the 60% lowest income families.	--	Children of working women have free access to childcare paid by the employer (in firms employing more than 20 women). Not working women (or from smaller firms) would need to pay for these services.	See column [3]	--	--	--

Table A.1 Summary of non-parental childcare policies 2015 (cont.)

Policy type →	Fee subsidies and cash benefits	Tax concessions	Other	Activity testing	Childcare facilities subsidised?	Benefits income tested?	Part-Time Regulations?
Country ↓	[1]	[2]	[3]	[4]	[5]	[6]	[7]
Croatia	Kindergartens are run by local and regional governments who decide the fees and the extent of any reductions for particular groups. In the city of Zagreb, the fees charged depend on family income per person and there are also discounts available for larger families, disabled children and lone parents. The last year of kindergarten is free and compulsory.	--	--	Priority is given to families where all parents are employed when allocating places.	Yes, even the highest income families do not pay the full economic cost.	--	In the city of Zagreb, families can pay for a full day or a half day programme. The fees for the half day programme costs are around two-thirds of those of the full day programme.
Czech Republic	Both public and private crèches (for children to 3 years) and kindergartens (3 - 6 year olds) exist. Families in receipt of benefits of assistance in material need or families who personally take care of the child and receive foster care allowances are exempt from kindergarten fees. The last year of kindergarten is free.	Non-refundable tax credit up to CZK 9,200 per family per month.	--	--	Costs expended on running the kindergarten founded by an enterprise under the Education Law as a service for its employees, are tax deductible. For kindergartens the basic fee shall be set in such a way as not to exceed 50 % of the real average non-investment costs per child per month in the past calendar year.	--	--
Denmark	For low-income families fees are subsidised up to 100%. The extent of the subsidy diminishes as income increases. There are also special discount rates for single-parents and for siblings.	Childcare fees are not tax deductible	--	No - subsidised day-care is available to all households with young children.	Local authorities finance nurseries, kindergartens, other day-care institutions and pre-school classes from block grants allocated to them by the State. A so called care guarantee has been introduced by many authorities guaranteeing a subsidised day-care place for the child from when the child is 26 weeks until school age. Parents pay a maximum of 25% of the budgeted gross operating expenditure for day-care services.	There is no charge for day-care if the personal income [gross income net of general social security contributions] is below DKK 158,801. From DKK 158,801 to DKK 162,321 the payment is 5% of the full rate. From that income level, the payment is linearly increased until the full price is paid at a personal income of DKK 493,299.	--

Table A.1 Summary of non-parental childcare policies 2015 (cont.)

Policy type → Country ↓	Fee subsidies and cash benefits	Tax concessions	Other	Activity testing	Childcare facilities subsidised?	Benefits income tested?	Part-Time Regulations?
	[1]	[2]	[3]	[4]	[5]	[6]	[7]
Estonia	Local municipality decides upon the childcare fee paid by parent. The fee may not exceed 20% of the minimum wage.	Child care fees excluding food costs are tax deductible.	--	--	Child care facilities are subsidised by local municipalities. Child care expenditure per child per month borne by these amounts to a maximum of EUR 1,985 and an average of EUR 266 in 2011, compared to average parental expenditure of EUR 36 per child per month in 2012.	No	--
Finland	The public day care fees are income related; the higher the family income, the higher the fee. The fee is a portion (percentage value) of the family income exceeding the income limit until the maximum amount is reached. These limits and percentages depend on family size.	--	The private day care allowance consists of a basic allowance and an income-tested supplement, which both are paid for each eligible child. The basic allowance is EUR 174.38 per child per month and the supplement is at most EUR 146.64 per child per month. Some municipalities, in particular Helsinki area, pay additional supplements to home care and private day care allowances. Rates and eligibility varies with municipality.	No - parents of all children under official school age (7 years) have the right to a place in day care for their child provided by their local authority.	Day care fees cover only a small part of the total costs of municipal day care (about 14% in year 2010). Public day care is available to all children aged under 7 (school age).	Public day care fees, up to a maximum amount, are a percent of income exceeding a limit based on family size. Similar income limits apply to the supplements for home care and private day care but not to the allowances.	--
France	The day care fees are income related; the higher the family income, the higher the fee. The fee is a portion (percentage value) of the family income exceeding the minimum amount until the maximum amount is reached. The minimum and maximum fees, as well as the income percent are dependent on the number of children in the family attending childcare.	There is a refundable tax credit amounting to 50% of the cost of child-minders or centre-based care (subject to a ceiling of EUR 1,150 in 2015).	For children born from 1st January 2004, a unified and revised system of parental support ("prestation d'accueil du jeune enfant", PAJE) provides income-tested benefits that cover (some or all of) the social security contribution costs due for the employment of a qualified child-minder to care for children aged under 6, either at the parents' or the carer's home (complément de libre choix du mode de garde).	--	Public sector crèches are subsidised. The majority of children are in free full-time pre-school from age 3.	The amount of the <i>complément de libre choix du mode de garde</i> depends on the parents' income.	--

Table A.1 Summary of non-parental childcare policies 2015 (cont.)

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Germany	Fees differ regionally. Fees for childcare depend on the family income and the household size (parents and number of children) and the number of children per family in childcare. Some <i>Länder</i> have introduced free childcare. In Hamburg (which is used for the model), 5 hours of free childcare per day are provided during term time.	Two thirds of the cost of childcare for children up to the age of 14 years can be deducted as expenses from taxable income. The maximum deduction is EUR 4,000 per child.	--	Child care costs for all children under 14 can be deducted as special expenses since 2012 regardless of whether parents work or are in training.	Day care and related services are mostly funded by public means.	Yes.	--
Greece	Municipal day nurseries may define the criteria for the imposition of a monthly payment (catering fees) to the families of the hosted children. Family income is taken into account in order to determine the amount to be paid. There are additional subsidies for second and subsequent children in care and for parents with disabilities.	--	--	--	Public nurseries are subsidised by the municipalities.	--	--

Table A.1 Summary of non-parental childcare policies 2015 (cont.)

Policy type → Country ↓	Fee subsidies and cash benefits	Tax concessions	Other	Activity testing	Childcare facilities subsidised?	Benefits income tested?	Part-Time Regulations?
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Hungary	At the centre-based institutes providing the day-time provisions for children the care is free of charge; the family has to pay only for the meal. The liability for social support gives possibility for fee reduction. Free of charge meals are provided for children entitled to regular child protection allowance in nurseries, kindergartens and in the first eight grades of primary schools. Families are entitled to pay 50% reduced fee for the daily meals for children suffering from permanent disease or being seriously disabled or those living in families with 3 or more children.	The fees are not tax deductible.	--	--	Centre-based institutes are subsidised, parents only pay for meals.	--	--
Iceland	In most municipalities, reduced rates are available to lone parents and students and some, including Reykjavik, offer reduction to parents who have two or more children attending schools at the pre-primary level.	--	--	None (to get student discount must study full-time)	Local municipalities pay for the construction and the operation of pre-primary schools. Parents contribute a substantial amount towards operating costs at the pre-primary level. The share that the parents contribute varies from one municipality to another. On the whole, parents contribute about a sixth of the operating costs of pre-primary schools. Reykjavik and many other municipalities also subsidise child-care with day-care parents, generally when parents are unable to place their children in pre-schools or day-care centres.	--	--

Table A.1 Summary of non-parental childcare policies 2015 (cont.)

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Ireland	Rates are not regulated by Government, and may depend on a number of factors such as the child's age, location, type of provider, type of service, parental income, etc.	--	Early Childhood Care and Education (ECCE) subsidy provides 1 year (3 hours per day over 38 weeks) free pre-school, for children aged 3, 4 or 5.	--	--	--	--
Israel	Kindergarten free for ages 3-4. Means-tested fees based on income per person for day nurseries for children under 3, with families with an income per person less than NIS 1,337 paying 10% of the fee and families with an income per person of at least 2280 paying the full fee.	--	--	--	--	Yes, reductions based on income. For an income superior to NIS 2,280, there is no fee reduction from the Ministry of Education, local authorities can fund benefits beyond this level.	--
Italy	Child-care services are essentially nurseries for children below 3 years of age. They are provided according to rules set by regional laws and implemented at municipal level with different criteria. These provisions mainly consist of in-kind means-tested benefits. Generally speaking, the household income and composition are considered to rank eligibility and fees. Above 3 years of age, while not compulsory, the public system provides for an almost universal and free of charge coverage (except for food) through the State and municipal "maternal" schools.	--	--	In the pre-school years, childcare services are offered almost universally.	--	Yes	--

Table A.1 Summary of non-parental childcare policies 2015 (cont.)

Policy type → Country ↓	Fee subsidies and cash benefits	Tax concessions	Other	Activity testing	Childcare facilities subsidised?	Benefits income tested?	Part-Time Regulations?
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Japan	The fees for day care depend on parents' previous income tax or municipal tax increasing with local and central income tax with additional subsidies for low earning lone parents. Families eligible for social assistance are exempt from the fees.	Childcare fees are not tax deductible	--	Candidates can apply to use day-care centres if they have pre-school children and are unable to take care of their children due to work, illness etc.	Public (municipal) day-care centres are subsidised (covering about 60% of total cost).	--	--
Korea	All households with 0-5, children with disabilities and children of multicultural families receive support, without regard to their income levels, equivalent to fees charged at government supported facilities.	Child care fee deduction' and 'Education fee deduction for preschool babies, infants and kindergarten children' (up to 3,000,000 won per year per child) as tax deductions for childcare fees.	--	No; childcare fee support is provided for 0-5 year olds, children with disabilities and children of multicultural families.	The government supports facilities by providing costs for operating the facility such as labour costs. This makes child-care fees at government supported facilities (state & public, corporations) cheaper than unsupported facilities (private).	No	--
Latvia	Parents generally only pay for catering.	--	--	not mentioned	In the general mixed-type pre-school establishments parents pay for catering of children but all other expenses - maintenance of buildings, administrative expenses, salaries of the administrative staff and teachers are paid for by local governments. Salaries of those teachers for compulsory preschool attendance (5 and 6 year old children) are paid for by the state.	--	--

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Country ↓	[1]	[2]	[3]	[4]	[5]	[6]	[7]
Lithuania	Municipal councils determine the fees for children attending their pre-schools. Meals expenditures account for 80-100 per cent of these fees. Parents pay additional fees for teaching aids. The meals fee is discounted for lone parents, large families and if more than one child from the same family attends the same pre-school. Municipal councils have the right to set additional fees privileges, taking into account the income status of parents, child's health, etc.	--	--	--	Yes	--	--
Luxembourg	The "childcare-service voucher" scheme introduces the same criteria for all service providers as regards parents' financial contributions. The service voucher gives each child the right, whatever the parents' income, to at least 3 free hours of childcare per week. In addition there are 21 hours at the "service voucher tariff" (maximum 4 euro per hour) and 36 hours at the "socio-family tariff" (maximum EUR 7.50 per hour). The hourly fee varies for each child according to the income of the household and the birth order of the child. Children exposed to the risk of poverty are entitled to more free hours.	Childcare fees are tax deductible up to a limit that varies by income level and number of children. Alternatively, the taxpayer can also obtain a standard abatement for childminding expenses which cannot exceed the amount of the real expenses nor EUR 300 per month (EUR 3,600 per year).	--	--	Yes, some childcare centres are subsidised	Yes	--

Table A.1 Summary of non-parental childcare policies 2015 (cont.)

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Malta	--	A tax credit is given on childcare fees paid by the household. The maximum amount is EUR 1,300. The tax credit is wasteable (cannot exceed the tax liability).	Free childcare for families where both parents are either working or studying. Free pre-primary education for 3-4 year olds.	Free childcare only if both parents are working or studying.	Yes.	--	--
Netherlands	Parents receive the subsidy that the government contributes to childcare, which includes the employer's contribution, through the Tax Department. The amount parents receive depends on their income and varies from 90.7% of the costs to 0% for the first child, and varies from 93.3% of the costs to 58.2% for subsequent children.	--	--	Yes - working, looking for work/training (as part of a reintegration program) or studying.	The Childcare Act (2005) assumes that parents, employers and government collectively bear the costs of childcare. An obligatory contribution for employers exists since 2007. Altogether parents paid around 40% of the costs, government and employers around 60% in 2013.	Yes, childcare benefit varies with the income of the parents.	--
New Zealand	Child Care Subsidy is a non-taxable payment which assists low- and middle-income families to pay for their under 5 year old children in approved early childhood programmes, including licensed early childhood services. The payment is made to the provider on behalf of the parent and varies according to the number of children and family income.	--	Children aged 3-5 years are provided 20h/week of early childhood education, funded by the government. This benefit is paid directly to the provider.	Yes - childcare subsidy is for work related activity after first 9 hours/week.	All licensed pre-school facilities are subsidised. Universal funding of between NZD 3.38 and NZD 13.22 per hour per child according to age of the child (under or over 2), the type of service and the proportion of regulated teaching staff who are ECE qualified and registered.	Childcare subsidy rate is related to income and number of children. Maximum 50 hours of subsidised care/week to cover periods of work-related activity. Up to 9 hours of subsidised care per week for other families if they satisfy the income test.	20 hours/week of free early childhood education provided by the government.
Norway	Provision of childcare is mostly municipality based. There is an upper limit on fees (NOK 2,580 per month). There are discounts depending on income levels and for siblings	Documented childcare expenses for children aged below 12 are deductible from taxable income up to a limit (NOK 25000 for one child, NOK 15000 for each subsequent child). Allowance is equally divided between spouses unless otherwise agreed. Allowance applies to single parents as well.	--	--	Subsidised childcare.	No.	The cash amount for children who are not in public kindergarten (and kindergartens that receive a public grant) is reduced for part-time care in public kindergarten; parents receive half the amount if in the kindergarten for less than 20 hours a week.

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Poland	Nurseries and children’s clubs (for children under 3) can be established by: commune (<i>gmina</i>), as well as non-public entities, including private persons, and they set the fees. 20 hours of free nursery school provision for children aged 3-6 with maximum 1 PLN/hour charge beyond this, plus food costs.	--	Unemployed lone parents taking up a new job or participating in training measures may be entitled to temporary compensation for care-related expenditures. The reimbursement amounts to up to 50 percent of the unemployment benefit, and is means-tested (family income criterion within social assistance legislation). It is paid for the period of 6 months.	--	In case of public nursery school (3-6 year olds), local governments generally cover 5 hours of childcare per day and offer a subsidised rate of 1 PLN/hour for additional childcare. The costs for non-public nurseries and nursery schools have to be fully covered by parents. The state budget pays the obligatory social insurance contributions to the amount of a minimum wage for hiring a nanny.	--	If the parent starts working during the parental leave, the family allowance supplement shall not be awarded. In public nursery schools, 5h/day are provided for free by local governments.
Portugal	Fees to be paid for using childcare services provided by public or non-profit organisations are determined as a percentage of the per capita income of the household, with the percentage increasing as income increases. The maximum fee calculated according to these rules cannot be higher than the real average cost (including administration expenses) per user of the service in question. In addition the fee is discounted if more than one child at the establishment.	30% of formal childcare costs are tax deductible up to EUR 800 per year. Limit is higher for families with three or more children by 30% of the minimum wage for each additional child after the second.	--	--	Most childcare institutions (Crèches: non-profitable organisations) receive State Support through Cooperation Agreement (monthly amount of EUR 250 per child in 2015.) and in return they must provide priority in access to children of low income families and comply with the rules for family fee calculation. Nannies can also benefit from these arrangements: they receive EUR 187.80 per month for the first and second child and EUR 210.30 per month for the third and fourth.	--	--
Romania	Pre-school children may benefit of child day care services provided by state centres or non-profit organisations	--	--	--	--	--	--

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Slovak Republic	In pre-school facilities, which include kindergartens and special kindergartens, established by local government authorities, parents pay a monthly fee per child to cover part of the costs related to the material provision for the education process in a pre-school facility. The maximum contribution for the stay of the child is 7.5 % of the amount of the subsistence minimum for a dependent child (EUR 6.78 per month in 2015). For facilities run by municipalities, the monthly fee paid by parents is determined by the director of the facility. Fees can be differentiated according to the number of siblings in the kindergarten, the child's age, duration of stay in the pre-school facility, etc. If the child is one year before the compulsory school attendance or the legal representative of the child is a recipient of assistance in material need the fee is waived.	Child care costs are not tax deductible.	Child care allowance is provided, to persons taking care of a child up to the age of 3 years who pursues economic activity or studies, to compensate for childcare expenses and ensure the care of his/her child by an official childcare service provider. It covers documented expenses to a maximum of EUR 203.20 per month.	See column [3]: persons taking care of a child up to 3 years is entitled to childcare allowance to compensate for childcare expenses, if he/she pursues gainful activity or studies	Yes, parents pay a monthly fee for children in kindergarten to only cover parts of material provision and meals.	--	--

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[1]	[2]	[3]	[4]	[5]	[6]	[7]	
Slovenia	The price of the program for which parents pay a certain percentage (ranging from 0 to 77% depending on net income) is determined by the municipality on the proposal of the kindergarten. The kindergarten calculates the price on the basis of identified costs of education, care and food in the kindergarten. Government provides co-financing for families with more than one child in childcare: Parents pay full income based fee for the oldest child and 30% of that fee for the second , the third and subsequent children are exempted from fees.	Childcare fees are not tax deductible.	--	--	Municipalities pay the difference between the full price of the kindergarten costs and the amount paid by parents according to their income bracket.	--	--
Spain	There are a wide variety of situations throughout the different autonomous or local administrations regarding the expenditure, in centres that attend to children below 3 years of age. The level of income of the family group is subject to the establishment of an appropriate fee. Fees are established, on the basis of the level of income of the family group and a scale in function of various criterion is also used including if; a "family group" is based upon there being a lone-parent, there are siblings in the centre, both parents work, etc.	Maternity tax credit: A non-wasteable tax credit for working mothers and lone parents with children under 3 (maximum EUR 1200 per year) independent of childcare expenses. Deductions of childcare expenses for children under 3 in some Autonomous Communities.	Pre-primary education for children aged 3 to 6 is free of charge both in public and government dependent private schools.	--	Yes. Most children aged 3-5 are in free of charge pre-primary education. Almost all communities have subsidised facilities for children age 0-2. In general, 2/3 of the cost is funded by local or central government.	--	--

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Sweden	For the youngest pre-school child the fee is 3 per cent of the gross income (earned income plus unemployment benefits), for the second youngest the fee is 2% and 1% for the third youngest and monthly caps of SEK 1,260, 840 and 420 for the 1st, 2nd and 3rd child respectively.	Childcare fees are not tax deductible.	For children aged 3-6 there is general pre-school - 15 hours a week for 35 weeks (525 hours a year) are free of cost for the child.	All children from age 1 are legally entitled to 15 hours of publicly subsidised ECEC per week. If parents work or study, children are entitled to a full time provision.	Heavily subsidised by state and local governments, parents pay fees according to their income.	--	Can claim part-time childcare allowance (home care benefit) if using childcare part time.
Switzerland (Zürich)	In Zürich parents pay a maximum of CHF 120 and at least CHF 12 per day for subsidised care. The actual fee between these limits is determined by family income and the number of people in the family.	The costs of childcare, up to CHF 6,500 per year per child, are deductible from taxable income at the cantonal level and up to CHF 10100 at the federal level.	--	--	About 41% (in 2013) of facilities are subsidised. Considerable variation across cantons and municipalities.	--	--
United Kingdom	All 3 and 4-year-olds in England are entitled to 15 hours of free early education each week for 38 weeks of the year. Some 2-year-olds are also eligible. As part of the Working Tax Credit, parents may claim up to 70% of eligible childcare cost. At its maximum level, the monthly value of the CCTC amounts to approximately GBP 760 for one child, GBP 1,300 for 2 or more children (GBP 175 and 300 per week respectively).	--	Employer vouchers for childcare: Under certain conditions tax and National Insurance exemptions are available through employer-supported childcare (childcare vouchers, directly contracted childcare and workplace nurseries).	When both parents working at least 16 hours per week, can claim up to 70% of eligible childcare cost in the scope of the Working Tax Credit.	For children aged three years or more, free part-time care - 15 hours x 38 weeks of early childhood education is provided by the government. Parents pay for supplementary care.	Yes: income and asset test for recipients of the Working Tax Credit.	--

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United States	Child care services are primarily provided through a market-based system at rates determined by market forces. Rates vary substantially based on region, state, age of child, and type of childcare setting. The Child Care and Development Fund (CCDF) is the government childcare subsidy program, which provides subsidies to low-income working families to offset the cost of purchasing childcare, while maintaining the parental choice afforded by the market system. CCDF is a federal block grant program, providing funds directly to states, territories and tribes to operate a childcare subsidy program designed to meet local needs. States have broad flexibility in determining eligibility guidelines (up to a maximum of 85% of state median income, among the 50 States and the District of Columbia, in 2014 initial eligibility thresholds for a family of three ranged from USD 1,990 per month in Michigan to USD 4,915 per month in North Dakota), reimbursement rates, & co-payment amounts, as well as the scope and quality of services. In Michigan, subsidies provided through the CCDF vary with family income, size of the family and age of the child in care.	The (non-refundable) Child and Dependent Care Credit (CDCC) provides assistance to working taxpayers. The amount of credit is based on income, the number of dependents, and the amount of childcare expenses. For example, families with adjusted gross income of less than or equal to USD 15,000 are eligible to receive a childcare credit of 35 percent of qualifying childcare expenses. Families with higher income receive a lower credit, with the rate falling to 20 percent for individuals and couples with adjusted gross incomes above USD 43,000. In 2014, qualifying childcare expenses were capped at USD 3,000 for one child and USD 6,000 for two or more children. Thus the maximum value of the credit was USD 1,050 for an individual or couple with one child and adjusted gross income below USD 15,000 and USD 2,100 for a low-income family with two or more children. The credit is not refundable and so families that do not pay taxes do not benefit from the credit.	--	Yes: eligibility for CCDF dependent on both parents working, looking for work or engaging in education or training, and CDCC only available to families where both parents are working or looking for work.	States may use up to 30% of Temporary Assistance for Needy Families (TANF) funds as childcare subsidies. In addition, the Social Service Block Grant (SSBG) provides funding to states for a range of social services, including childcare. In fiscal year 2014 approximately USD 12 billion of federal and related state funds were available for CCDF, TANF, and SSBG childcare. The Federal government also provides funding for early childhood education through the Head Start program for disadvantaged children and families (USD 8.6 billion in 2014). State-funded pre-kindergarten, or pre-K, programs are another key investment in early childhood education. In 2013-2014, 40 States and the District of Columbia funded pre-K programs for at least some of their preschool-aged children.	Yes: the CDCC is a higher percentage of childcare expenses for low-income families. Eligibility conditions for CCDF subsidies vary widely across States, but in general only families with very low incomes are eligible.	--