Net childcare costs in EU countries. Impact on family incomes and work incentives, 2019
Net childcare costs in EU countries
Impact on family incomes and work incentives, 2019

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1. Introduction

1. Early childhood education and care (ECEC, or “childcare”) is attracting growing policy attention. First, it is becoming more common. Young children are increasingly cared for out-of-home in day-care centres, kindergartens or pre-primary schools, rather than by parents or relatives at home. On average across EU countries, one-third of children under the age of three participate in out-of-home ECEC, rising to almost 90% for three- to five-year-olds.¹

2. Second, high-quality ECEC carries many social and economic benefits. A growing body of research recognises that participation is beneficial for young children, especially those from low-income backgrounds (OECD, 2018[1]; Browne and Neumann, 2017[2]). Accessible, affordable and good-quality ECEC also protects against poverty and strengthens equality of opportunity by facilitating parental employment, boosting family income, and by promoting child development, child well-being, and success later in life (OECD, 2018[3]; OECD, 2015[4]; OECD, 2011[5]).

3. All EU countries provide support to reduce the cost of childcare for children below school age, but they do so to varying degrees and with different policy mixes. As shown in Figure 1.1, public expenditures on ECEC range from 0.3-0.4% of GDP in Ireland, Romania, Cyprus, Portugal, and the Czech Republic to more than 1% of GDP in Finland, Denmark, France, and Sweden.

Figure 1.1. Public spending on early childhood education and care, as a percentage of GDP, 2015

Note: In some countries local governments play a key role in financing and providing childcare services. Such spending is comprehensively recorded in the Nordic countries, but in some other (often federal) countries it may not be fully captured by the OECD social expenditure data. Data for Poland refer to 2014. For Croatia, data on expenditure on pre-primary education is not available. For Bulgaria, Cyprus, Malta and Romania, the data are not adjusted for any differences in the entry age for primary schooling and cover all public expenditure on childcare and pre-primary education regardless of the age of those using/enrolled in services. For Austria, Czech Republic, Denmark, Estonia, Ireland, Luxembourg, Slovenia, Poland, and Portugal, data cannot be disaggregated by educational level.

4. This report summarises measures that provide support to 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 focus is on families at low and median income levels and with pre-school children aged two and three years old. Results refer to policies that were in place on 1 January 2019\(^2\), updating and extending previous similar results (Browne and Neumann, 2017\(^2\); Pacifico and Richardson, 2014\(^6\); OECD, 2007\(^7\)). Based on the results, this edition discusses key policy trends and their implications. A novelty is an overview of the regional variability of childcare policies at the regional level, drawing on newly collected data in selected sub-national jurisdictions (“regions” for simplicity).

5. Policy measures affecting the provision and cost of ECEC 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. Assessing the net effects of these provisions on the cost of childcare to parents is complex and requires, among other things, the adoption of a family perspective (rather than an institutional one). This report uses output from OECD tax-benefit model (TaxBEN) which puts relevant provisions spanning a broad range of policy domains into a unified methodological framework that enables international comparisons of net childcare costs and their impact on family resources.

6. To facilitate cross-country comparisons, most of the analysis provided in this report focuses on childcare centres for two- to three- year-old children in a typical region – often the national capital - giving preference to publicly provided care, where such an option exists. The final chapter then provides a broader perspective of childcare arrangements and associated fees across selected regions.

7. 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 for calculating net childcare costs. Section 3 describes the childcare policy settings and sets out the main results on the levels of childcare costs in EU countries. It also assesses their impact on the financial work incentives of mothers and the ability of low-income families to cover childcare costs. Section 4 discusses aspects of regional variability of childcare policies within EU countries. Section 5 concludes.

8. Four Annexes complete this report and are referenced as relevant in Sections 3 and 4. Annex A provides additional figures on net childcare costs, expressed as a share of net household income. Annex B and C, accessible online, contain an overview of childcare support policies covered by TaxBEN (Annex B) and a similar overview of childcare policies in selected regions of EU countries (Annex C). Finally, Annex D, also accessible online, provides supplementary information on selected region-specific policies beyond the summary provided in Annex C.

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\(^2\) The exception is for the United Kingdom, where the policy reference date corresponds to the beginning of the fiscal year: 6 April 2019.
2. Assessing net childcare costs with the OECD TaxBEN model: Methodology

9. The OECD Tax-Benefit model examines the costs of Early Childhood Education and Care (ECEC) from the parents’ perspective. ECEC includes any arrangements providing care and/or education for children under compulsory school age. This section explains the methodology for calculating childcare costs, and explains the decisions taken, and assumptions made, to make such an exercise feasible and to ensure the comparability of results across countries.

10. Parents’ out-of-pocket costs for childcare depend on many factors, including gross childcare fees (or childcare prices), fee reductions and childcare benefits available to them, taxes, social benefits, parents’ employment status, earnings and other family characteristics. The OECD 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 fees and entitlements to fee subsidies, childcare benefits and tax concessions related to childcare use. These entitlements can be calculated for specific family types, accounting for interactions with other elements of tax-benefit systems. The model enables assessment of the affordability of childcare to families and the effects of childcare costs on financial work incentives in EU countries.

11. TaxBEN uses a “synthetic” household approach: it simulates taxes, transfers and childcare costs for a number of hypothetical policy-relevant family types, e.g. a couple with two children. This approach is well suited to cross-country comparisons of policies as policy effects can be shown for the same household situations across different countries. Moreover, this enables analysis of the most recent policies avoiding time delays related to microdata access and its transformation.

12. The model accounts for a broad range of policy levers including income taxes, social security contributions, unemployment benefits, social assistance benefits, housing benefits, in-work benefits and family benefits. For more details on the assumptions made in standard TaxBEN calculations, see OECD (2020[8]).

13. The TaxBEN childcare module simulates gross childcare fees and entitlements to fee subsidies, childcare benefits and tax concessions related to childcare for hypothetical household circumstances. Gross fees are defined as the fees charged to parents after any public subsidies received by the provider but before any fee reductions or discounts to the user. Gross fees include the cost of meals, but exclude other optional services, e.g. related to health care, transportation, special classes or activities, etc.

14. This report focuses on a measure of net costs of childcare (or “out-of-pocket” expenses). Net childcare cost is defined as the net reduction in family budgets resulting from the use of centre-based care. It is calculated by comparing net income of a family that purchases childcare and an otherwise similar family where no childcare services are bought.

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3 A different approach is taken by Hufkens and Verbist (2017[12]), 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. They calculate the net cost of childcare for a representative sample of the population. However, in this case the comparison of policy effects between countries is affected by the composition of population, which itself might be an outcome of child-related policies.
(for example, if the family is able to use unpaid informal care). The net childcare cost is an estimate of the amount that parents have to pay for formal childcare less all childcare-related benefits, fee reductions and tax concessions, plus any impact of childcare use on other benefits and taxes (e.g. a loss of homecare allowance provided to parents who do not use formal childcare).

15. The net costs are driven by three main categories of childcare supports:
   - **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 the 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, who use formal childcare, to assist them with the childcare costs they incur.
   - **Tax concessions** that are conditional on childcare use or spending levels.

16. Other tax-benefit instruments can also affect net childcare costs if the rules governing these instruments depend on the use of childcare. For example, net childcare costs will increase if a family loses eligibility to a homecare allowance once they start using formal childcare. In some countries, childcare expenses might be subtracted from income for the purpose of means test, resulting in the opposite situation.

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 caregivers when non-parental childcare is unaffordable or unavailable. Childcare costs are a greater constraint for women whose earnings tend to be lower than men’s and therefore women’s employment is more responsive to childcare costs.
   - **Families with two children aged two and three**, 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. The choice of child ages (two and three) reflects the structure of ECEC systems and support policies in many EU countries, which frequently makes a distinction between services and support for very young children (up to two years of age) and older children (aged three and above). By focusing on children age two and three, the model attempts to cover a wider range of policies available in the countries.
   - **Low- and middle-income families**: The focus of this report is on low-income and single parent families, in large part because these families have been shown to benefit most from good-quality non-parental childcare. Low-income (middle-
income) scenarios are estimated for mothers with full-time earnings at the 20th (50th) percentile of the female full-time earnings distribution. In two parent families, fathers’ earnings correspond to the 20th (50th) percentile of the male full-time earnings distribution. The model assumes that both parents are working full-time.

- **Full-time care in a typical childcare centre:** The report assumes the use of public providers where these are commonly available. In some cases, this may not be enough to cover needs of full-time working parent(s) and other forms of care may be important, so actual costs may be higher. The full-time is assumed to be 40 hours per week. The focus on public 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.

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 low-income and middle-income 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. 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.

19. Fees and, in some cases, public support measures do vary across regions or municipalities in some countries. Where this is the case, region-specific fees and policy settings are used in the TaxBEN model (see Box 2.1). This “region-focused” approach is important to account for support provided by local governments, which is often targeted at low-income families. The results presented in Section 3 of this report, refer to selected regions (often capital region or other typical region).

20. However, differences across regions can be important. For example, in Austria, free full-day care is provided for all children under age 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 Berlin (the situation captured in the model), three years of kindergarten are provided free of charge, whereas in Hamburg free provision is available only for 5 hours a day and in Lower Saxony, Hesse and North Rhine-Westphalia, ECEC is only free for the final year before a child enters school. Section 4 of this report provides a broad overview of these differences and highlights difficulties in collecting information on childcare costs across regions in EU countries.

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5 Public childcare facilities are defined in this report as facilities owned and operated by public authorities at central, regional or local level. Private facilities are owned by profit-oriented companies or by non-profit organizations; they can be either self-financed or publicly subsidized.

6 Country-by-country information on the use of both formal and informal care is available in the [OECD Family Database](https://www.oecd.org) (indicators PF3.2 and PF3.3).
Box 2.1. Regions covered in the TaxBEN model

Childcare fees and childcare support are often regulated and provided at a local level. Since 2019, the TaxBEN model adopts a “region-focused” approach. This means that instead of modelling average fees in the country, the model focuses on a specific sub-national jurisdiction (region, municipality or other), which is in charge of regulations on childcare fees and provisions to reduce such fees. This approach has advantages and disadvantages. Focusing on a particular region narrows the scope of the model. At the same time, it ensures a family perspective in a specific jurisdiction, instead of averaging across very different policy settings. Focussing on a specific jurisdiction also enables taking into account support that is provided at the sub-national level, which is often particularly important for vulnerable groups, such as lone parents, low-income families, and large families. The list below provides the jurisdictions that are chosen for modelling in TaxBEN:

<table>
<thead>
<tr>
<th>country</th>
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<tbody>
<tr>
<td>Austria</td>
<td>Vienna</td>
<td>Italy</td>
<td>Rome</td>
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<tr>
<td>Belgium</td>
<td>French community</td>
<td>Latvia</td>
<td>Riga</td>
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<td>Bulgaria</td>
<td>Sofia</td>
<td>Lithuania</td>
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<td>Croatia</td>
<td>Zagreb</td>
<td>Luxembourg</td>
<td>national rules</td>
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<tr>
<td>Cyprus</td>
<td>national rules</td>
<td>Malta</td>
<td>national rules</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>Prague</td>
<td>Netherlands</td>
<td>maximum fee</td>
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<tr>
<td>Denmark</td>
<td>average fees</td>
<td>Poland</td>
<td>Warsaw</td>
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<tr>
<td>Estonia</td>
<td>Tallinn</td>
<td>Portugal</td>
<td>national rules</td>
</tr>
<tr>
<td>Finland</td>
<td>Helsinki</td>
<td>Romania</td>
<td>national rules</td>
</tr>
<tr>
<td>France</td>
<td>national rules</td>
<td>Slovak Republic</td>
<td>Bratislava (Dubravka)</td>
</tr>
<tr>
<td>Germany</td>
<td>Berlin</td>
<td>Slovenia</td>
<td>average fees</td>
</tr>
<tr>
<td>Greece</td>
<td>Athens</td>
<td>Spain</td>
<td>Madrid</td>
</tr>
<tr>
<td>Hungary</td>
<td>Budapest (District 8)</td>
<td>Sweden</td>
<td>Stockholm</td>
</tr>
<tr>
<td>Ireland</td>
<td>average fees</td>
<td>United Kingdom</td>
<td>average fees (England)</td>
</tr>
</tbody>
</table>

Section 4 provides more information on variation of childcare costs across regions. At the moment, the TaxBEN model does not account for this regional variability. However, the model infrastructure can be extended in the future to incorporate a broader range of sub-national policy settings.

21. This report covers all 28 EU countries as of 1 January 2019\(^7\) and refers to policies that were in force at that time. In all cases, calculations make use of the institutional information on childcare settings and support, including all relevant cost components as kindly provided by national delegates to the OECD Working Party on Social Policy in response to comprehensive policy questionnaires administered by the OECD Secretariat.\(^8\) For more details on the methodology for collecting information on childcare cost, see the guidelines for country experts. Information on childcare costs across regions follow the same guidelines, but refers to a specific region of the country.

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\(^7\) The exception is for the United Kingdom, where the policy reference date corresponds to the beginning of the fiscal year: 6 April 2019.

\(^8\) Policy information for Member States that are not members of the OECD was kindly provided by national experts as identified by the European Commission. Country-specific policy information is available through: [http://www.oecd.org/els/soc/benefits-and-wages-country-specific-information.htm](http://www.oecd.org/els/soc/benefits-and-wages-country-specific-information.htm).
3. Net Childcare Costs in 2019: Policies to support parents, affordability and impact on work incentives

22. This section summarises childcare policies covered by the TaxBEN model and examines the impact that childcare policies have on parents’ childcare costs. It also explores the effect of childcare fees and support on mothers’ financial incentives to take up paid work and the ability of lower-income families to escape poverty. For many countries, the results presented in this section refer to a selected region or municipality, often the area around the capital or other typical region (see Box 2.1). This “region-focused” approach allows taking into account support provided by local governments, which often targets low-income families. Annex B provides a full description of the policies covered by TaxBEN and analysed in this chapter. Section 4 offers an overview of a broader set of policies across selected regions of each EU Member State.

3.1. Overview of childcare policies covered in the OECD Tax-Benefit database

23. All EU countries operate policies that reduce the cost of non-parental childcare for parents. This can take the form of universal supply-side support, via either public provision or subsidies to private providers, which act to reduce the gross fees charged by providers relative to the cost of provision. The support can also be offered through 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. This report focuses on the demand-side measures, such as childcare fee reductions, childcare benefits and tax reliefs related to childcare use.

Type of childcare facilities

24. Childcare systems and support measures are strongly related to child age. In eight EU countries (Belgium, Bulgaria, Croatia, Hungary, Poland, Portugal, Slovak Republic, and Spain), two- and three-year olds attend different types of childcare facilities. The most common differences between the two are the inclusion of an educational element in the childcare for older children and lower teacher-student ratios in childcare facilities for younger children. In some countries, two- and three-year olds usually attend different types of childcare, but some childcare facilities include programs for both age groups (Cyprus, Czech Republic, Denmark, Germany, and Greece). In the remaining countries, two- and three-year olds attend the same type of childcare facility. However, even in these countries, the prices for two- and three-year old children are often different (Cyprus and Lithuania) or they are eligible to different types of childcare support (Finland, Ireland, Italy, Sweden, and the United Kingdom).

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9 Places for two-year olds are often more limited than for three-year olds, and parents of younger children may need to opt for alternative arrangements. The TaxBEN model assumes that childcare places for both age groups are available.
Legal entitlements

25. Legal entitlements, which grant parents guaranteed access to childcare, vary across the EU. For instance, the Nordic countries (Denmark, Finland\textsuperscript{10} and Sweden) consider childcare an essential public service and provide guaranteed access to childcare for all children from one year of age or earlier. Similar provisions exist in Estonia, Slovenia and Germany. In Belgium, France, Luxembourg, Portugal and Spain, legal entitlements to childcare, usually for the duration of a typical school day, start when children reach three years of age, or a few months earlier. In other countries, a legal right to childcare applies only to pre-primary education in the period immediately preceding compulsory schooling. For example, in the Czech Republic children are legally entitled to two years of childcare, while in Austria, Greece, Latvia, Lithuania, and Poland one year of pre-primary education is both an entitlement and compulsory. In Hungary, three years of pre-primary education are compulsory. Elsewhere, particularly in countries where private provision predominates, legal guarantees of childcare places do not exist (Ireland, Netherlands).

Fee reductions

26. Legal entitlements do not necessarily ensure free childcare, though in some countries this is the case. Parents of pre-school children in Austria, Latvia, Malta\textsuperscript{11}, Romania and Germany do not pay childcare fees for full-time publicly provided childcare, though parents do pay for meal costs (if meals are provided). Free childcare is also available in Ireland and the United Kingdom, though the free entitlement typically covers fifteen hours a week only. In Poland, Portugal and Spain free public provision starts at the age of three.

27. Though only a few countries provide free childcare, all countries offer some kind of support to reduce the cost of purchased childcare for parents. This support may be conditional on using certain types of childcare, such as that provided by approved institutions or specially qualified individuals. The most common mechanism is to offer fee reductions, although the extent varies across countries. In the Nordic countries (Denmark, Finland, Sweden) childcare is heavily subsidised by the government. Other countries set ceilings for the fees that providers can charge parents. These ceilings can take the form of fixed amounts, set by the national government (France, Luxembourg), local authorities (Bulgaria, Croatia, Greece, Italy, Lithuania, Poland) or a mix thereof (Finland, Sweden). Ceilings in some countries are anchored to other measures such as the non-investment costs of the individual childcare providers (Czech Republic, Hungary), their gross operating costs (Denmark), the national minimum wage (Estonia) or subsistence minimum amounts (Slovak Republic).

28. Childcare centres in many EU countries often provide fee rebates to some vulnerable groups of the population, e.g. low-income families, single parents and large families. To take into account families financial resources, fees are often calculated as a function of household income (Belgium, Denmark, Finland, France, Greece, Hungary, Italy, Luxembourg, Portugal, Slovenia, Spain and Sweden). Other countries provide fee discounts only for low-income families with income below a certain threshold (Estonia, Poland). In countries such as Croatia, Ireland and Lithuania, fee discounts depend on the receipt of other support payments, such as social assistance. Some other countries fully

\textsuperscript{10} Since 2016, the guaranteed access in Finland covers 20 hours of childcare per week; full-time access is guaranteed to parents who work or study full-time, or are considered to benefit from ECEC for pedagogical or social reasons.

\textsuperscript{11} In case of Malta, free childcare is available to all parents in paid work.
exempt social assistance benefit recipients from the payment of childcare fees (Czech Republic, Germany, Hungary, Latvia, Slovak Republic and Spain).

29. Household composition also informs the targeting of support measures. A number of countries provide fee discounts for lone parents (Bulgaria, Croatia, Denmark, Greece and Lithuania). Many countries provide discounts for siblings, that is, reduced fees for second or subsequent children (Belgium, Bulgaria, Croatia, Denmark, Finland, France, Greece, Ireland, Italy and Poland). Similarly, in Estonia, Hungary, Latvia and Lithuania there are discounts for large families with at least three children.

Cash childcare benefits

30. Cash childcare benefits are support measures whose eligibility is conditional on parents using centre-based childcare for their children. As a policy tool, cash childcare benefits are less common than fee rebates, though they exist in a number of EU countries (Belgium, Cyprus, Ireland, Italy, Netherlands, Slovak Republic and United Kingdom). Both fee reductions, which are applied directly by the childcare providers, and cash benefits, which are paid directly by national or local governments, tend to provide immediate support to eligible parents. The main difference between the two measures is that parents receive cash benefits directly and can decide how to spend these amounts, whereas fee reductions mean paying lower fees upfront.

31. Cash benefit amounts depend often on the actual childcare costs borne by parents, usually up to a maximum amount (Cyprus, Italy, Netherlands, Slovak Republic). Similar to fee reductions, childcare benefits also target particularly vulnerable groups. For example, benefits are typically granted to parents receiving social assistance or other support benefits (Cyprus, Ireland, and the United Kingdom). Lone parents are eligible to childcare benefits in Belgium.

Tax concessions

32. In many European countries parents can use their expenses on childcare services to reduce income tax liabilities (Belgium, Czech Republic, Estonia, France, Germany, Italy, Lithuania, Luxembourg, Malta, Portugal, Spain, and Sweden). These tax concessions can take the form of tax allowances (deducted from taxpayer’s taxable income) or tax credits (deducted directly from the tax liability). Tax-based support is often received with considerable delay, e.g. after filing a tax return at the end of the fiscal year. This means that parents must manage their finances to account for these timing differences, which may be more difficult for low-income families. The delays between purchasing childcare services and receipt of support payments can also weaken potential work incentive effects.

33. Tax credits related to childcare expenses are often non-refundable. This can create a “reversed targeting” mechanism that allows higher-income families to receive more support than low-income families. For instance, those who do not earn enough to pay income taxes or who pay lower taxes than the related childcare tax concession, receive no or little support through this fiscal measure. Out of the countries considered in this report,

12 These benefits are different from other more general family benefit programmes whose purpose is to reduce the cost of childcare regardless of the type of care.

13 This may not be always the case, especially when cash childcare benefits require complex application procedures and/or require the filling of a tax return.

14 When countries provide both tax concessions and cash benefits related to childcare expenses, parents are typically asked to select the most favourable option.
only France offers a fully refundable tax credit. In other countries, tax concessions provide no or little support to people who pay no or low income taxes.

**Interactions between childcare cost provisions and other tax-benefit policies**

34. Low-income parents can receive indirect support when childcare costs 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 childcare services, effectively reducing their net childcare costs.

35. Other tax or benefit policies can increase the net cost of childcare for parents. Some countries have ‘homecare’ or ‘child raising’ allowances, which are paid conditional on parents not using centre-based childcare. These benefits may increase the incentives for parents to use informal childcare as they would lose the allowance and pay childcare fees if they were to enrol their children in a childcare centre. In some countries, homecare and child raising allowances are only available to parents who do not work (Croatia and Denmark)\(^{15}\), hence weakening parents’ incentives to work. In other countries (Finland and Slovak Republic), the care-taking benefit can be combined with employment. In Belgium and Slovenia other elements of the tax and benefit system effectively work as homecare allowance as they are available only to families that do not use formal childcare. Examples include a tax deduction in Belgium and a supplement to the general family benefit programme in Slovenia. While homecare and child raising allowances for two- and three-year olds generally take the form of flat-rate amounts (Croatia, Slovak Republic, and Slovenia), in some countries they depend on parents’ income (Finland).

**Support conditions**

36. In some countries eligibility to childcare support and its level depend on hours or type of economic activity of parents. Activity testing can take a number of forms. In some countries (Sweden and Finland), families where parents are working or studying full time are entitled to more hours of subsidised childcare per week than families where one parent stays at home, or works fewer hours. In some other countries (Malta and Netherlands), the hours of subsidised childcare depend on the hours of work of one parent, but eligibility to subsidised care requires both parents to be engaged in paid work or education. In the United Kingdom, support is conditional on all parents being in paid work: it can be independent of the number of working hours (Universal Credit) or require earning a certain level of income (Tax-Free Childcare Scheme). Belgium provides additional support to long-term unemployed who take up a job, whereas in Ireland, eligibility for childcare subsidies is conditional on the receipt of other social benefits, such as the Job Seekers Benefit or benefits targeting working families.

**3.2. Affordability of non-parental care: Childcare costs and government support**

37. Before accounting for any support measures, the typical gross childcare cost charged to parents for using centre-based childcare is nearly 30% of the median full-time

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\(^{15}\) In both countries, homecare allowances do not affect the results presented in this report. In Croatia, only families with three children are eligible to homecare allowance. In Denmark, homecare allowances are provided on ad-hoc basis by some municipalities, and are therefore not modelled in TaxBEN.
wage earned by women in EU countries on average (Figure 3.1).\textsuperscript{16} Gross childcare fees range from less than 5% in Austria and Germany, where parents living in the capitals benefit from free public childcare, to more than 80% of median female earnings in the Netherlands and the United Kingdom, where the market is dominated by private childcare providers and there are no fee regulations.

Figure 3.1. Gross and net costs of childcare, as percentage of median female earnings, 2019

For two children in full-time care

A. Lone mothers

B. Couples

\textit{Note:} Net childcare cost are equal to gross fees less childcare benefits/rebates and tax deductions, plus any resulting changes in other taxes and benefits following the use of childcare. Calculations are for full-time care in a typical childcare centre for a two-child family, where both parents are in full-time employment and the children are aged two and three. Full-time care is defined as care for at least 40 hours per week. Low earnings refer to the 20th percentile, and median earnings to the 50th percentile, of the full-time gender-specific earnings distribution. Couples contain two earners, male and female; single parents are females. In countries where local authorities regulate childcare fees, childcare settings for a specific municipality or region are modelled (see Box 2.1).


\textsuperscript{16} Calculations refer to full-time care in a typical childcare centre for a two-child family, where all parents are in full-time employment and children are two and three years old, respectively.
38. Almost all countries offer some support to parents that reduces the gross costs for at least some family types. Childcare support, on average, lowers the fees charged to low- and middle-earning lone-parents by around 70%, and to low- and middle-earning couples by about 50-60%. Childcare support tends to be more substantial in countries where gross fees are higher, e.g. in Luxembourg, the Netherlands, and Slovenia. In Finland and Slovak Republic, the net cost of childcare is higher than the gross childcare cost for some family types. This arises because some families may lose the homecare allowance when using subsidised childcare, thus lowering their disposable income. In several countries net childcare costs are equal to gross, i.e. there is no childcare support that reduces gross fees for families considered in this report. For example, in Austria and Romania the care itself is provided free of charge, but all parents pay for the cost of meals. In Cyprus, childcare benefits exist only for social assistance benefit recipients, but these benefits do not apply to the families considered in this report as social assistance is available only for families with no or very low earnings.

39. Net childcare costs, i.e. gross childcare fees minus fee rebates as well as cash benefits and tax concessions, on average in the EU account for 14% of women’s median full-time earnings for a middle-income two-earner couple. This percentage goes down to 12% for low-income couples, and to 8-9% for lone parents (see Figure 3.2).

Figure 3.2. Net childcare costs, as percentage of women’s median full-time earnings, 2019

For two children in full-time care

Note: See notes to Figure 3.1.

40. Despite the multiple types of childcare support (Figure 3.3 shows net childcare costs decomposed by type of support), net childcare costs for parents remain high in some EU countries. For example, net childcare fees are more than 25% of the median female earnings in the United Kingdom, Cyprus, Ireland and the Slovak Republic for most low- and median-income families considered in this report. In the Slovak Republic, as well as in Finland for couples, the high costs are related to the loss of generous homecare allowances. In Cyprus, Ireland, and the United Kingdom, where mainly private facilities provide childcare, governments have lower control over fees, whereas public support is targeted to the most disadvantages and does not cover full-time.
41. At the other end of the spectrum, net costs are very low or zero in Malta, Italy, and Germany, where families with children in public childcare centres can benefit from heavily subsidised childcare fees or may be exempt from fee payments altogether, at least as long as there is sufficient supply. Typical childcare costs are also comparatively low for low-income families or lone parents in Denmark, Latvia, Estonia, Greece, Portugal and Luxembourg. In the Czech Republic, costs are low for median-income families but not the low-income families. This is the result of tax deductions that are worth more to those with higher incomes who are in higher tax bracket.

42. In eight EU countries, net childcare costs do not vary (or vary little) between the family types and earnings levels studied in this report. In most of these countries, free or subsidised provision is available to all parents irrespective of income (Austria, Germany, Malta, Poland for three-year-old children, and Romania). In others (Croatia and Italy as well as Poland for two-year-old children), support is provided to all family types considered in this report either because of their composition (e.g. two-child families) or the income levels examined (low and medium earnings). In Cyprus, the low-income families considered in this report do not qualify for childcare support, as only families that are eligible for social assistance have access to a specific component of the social assistance programme that covers part of the of the childcare expenses.

43. Nearly all remaining EU countries target support for childcare towards low-income families. This is done either through income-dependent fee structures (Belgium, Denmark, Finland, France, Greece, Hungary, Italy, Luxembourg, Portugal, Slovenia, Spain, and Sweden), means-tested childcare benefits (Netherlands, Italy and United Kingdom) or by providing special support to low-income families eligible to other social benefits or with income levels below certain thresholds (Estonia, Latvia, Lithuania and Ireland). Income-based targeting is particularly evident in some 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 51% of the median full-time wage earned by women, whereas a low-earning lone parent pays 27%. Similarly, in the Netherlands the respective values are 23% and less than 5%.

44. Finally, in a small number of countries, support is effectively targeted to higher-income families (so-called “reverse targeting”). This is generally the result of tax deductions that are worth more to those with higher incomes who are in higher tax brackets (e.g. for the Czech Republic and, to a lesser extent, Estonia). In the Slovak Republic, a lone mother earning the median wage experiences lower net childcare costs than a lone mother earning a low wage. This is because a lone parent with higher income loses the homecare 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. By contrast, the low-income mother would be eligible for the alimony replacement benefit in all of the considered scenarios. Therefore, placing their children into childcare would only lead to the loss of homecare allowance, thus resulting in high net childcare costs.

45. Lone parents often receive more support than partnered mothers at the same level of earnings. 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

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17 In case of Malta, free childcare is available to all parents in paid work.

18 By default, TaxBEN calculations assume that families receive no financial support from outside the household. The situation described here does not arise in case the lone parent receives support from their former partner.
countries (Bulgaria, Croatia and Lithuania) lone parents receive a special discount but childcare fees or benefits are not income-dependent. Denmark and Greece provide both discounted fees for lone parents and income-related support.

Figure 3.3. Net childcare costs decomposed by instrument, as percentage of women’s median full-time earnings, 2019

For two children in full-time care
Note: See notes to Figure 3.1.

46. Net childcare costs can be expressed not only in terms of median female earnings (Figure 3.2 and Figure 3.3), but also in terms of the disposable household income (Figure A A.1 and Figure A A.2). Changing the denominator typically increases the indicator for low-earning lone parents, as their net income is usually below the median wage, and reduces the indicator for couples, as income of two-earner families is naturally higher. In some countries, this result in a similar degree of affordability across family types. For example, in the United Kingdom all families considered in this report spend around 25-30% of their net income on childcare. In other countries, on the contrary, low-earning families have greater difficulty affording childcare than medium-earning families (e.g. Romania and Cyprus). On average, net childcare costs represent about 9% of disposable income for low-earning families and 8% for medium-income families. However, net childcare cost vary considerably between countries, ranging from zero in Malta and Italy to almost 40% of disposable income for a lone parent family in Cyprus and the Slovak Republic.
3.3. Can parents afford to work? Childcare costs and work incentives

47. Accessible and affordable childcare makes it easier for parents to participate in paid work. While causal links between childcare use and employment among parents are complex, a growing body of research suggests that providing families with access to affordable childcare can boost maternal employment (Browne and Neumann, 2017(2)).

48. This section examines the link between the costs for centre-based childcare and work incentives using the OECD participation tax rate (PTR) indicator calculated for single mothers and mothers in couple who take up full-time employment at low and median earnings. As this indicator measures the fraction of additional earnings lost through taxes paid and benefits withdrawn when taking up employment, larger values imply weaker incentive to take up work. Box 3.1 describes the PTRs that are calculated in this report and describes some relevant properties of this indicator.

<table>
<thead>
<tr>
<th>Box 3.1. The OECD Participation Tax Rate indicator</th>
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<tr>
<td>The OECD Participation Tax Rate (PTR) indicator, also known as the Effective Tax Rate (ETR) on entering employment, measures the fraction of gross earnings that a family loses to either higher taxes or lower benefits when one family member (here a mother) takes up employment. Formally, the PTR is calculated as 1 (or 100%) minus the change in the net household income (N) relative to the change in the gross household income (G) resulting from a transition from out of work (a) into work (b):</td>
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| \[
| PTR = 1 - \frac{N_a - N_b}{G_a - G_b}|
| As the equation above is equal to zero when \((N_a - N_b) = (G_a - G_b)\), i.e. when the family keeps 100% of the additional earnings from the new employment, and is equal to 1 when \(N_a = N_b\), i.e. when the family loses 100% of the additional earnings to higher taxes and lower benefits. Thus, a lower PTR value is associated with stronger financial work incentives. |
| A useful property of the PTR indicator is the additive decomposition into policy components. Let us rewrite the net household income as \(N = G + B - T\), where B denotes the overall benefit entitlements and T the overall tax liabilities. In this case, the PTR becomes: |
| \[
| PTR = 1 - \frac{N_a - N_b}{G_a - G_b} = 1 - \frac{(G_a + B_a - T_a) - (G_b + B_b - T_b)}{G_a - G_b} = \frac{T_a - T_b}{G_a - G_b} - \frac{B_a - B_b}{G_a - G_b}
| where each additive component of the PTR measures the contribution of a selected policy lever to the overall indicator. For instance, lower benefit entitlements and higher tax liabilities after the labour market transition, i.e. when \(B_a < B_b\) and \(T_a > T_b\), increase the PTR indicator. |
| The PTRs analysed in this report are calculated for families with two children aged two and three. Adults are 40 years old. PTRs are calculated for mothers who take up full-time employment at low (or median) earnings equal to the 20th (or the 50th) percentiles of the female full-time earnings distribution. Fathers in couples are assumed to work full time at the same percentiles of the male full-time earnings distributions as mothers. When the mother is out of work, PTRs are calculated assuming no eligibility to unemployment benefits. Social assistance and housing benefits are available if the family satisfies the relevant income and eligibility conditions. When in work, |

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19 The OECD’s *Faces of Joblessness* project examines a broad range of employment barriers and finds that unmet care responsibilities affect up to one quarter of all jobless people, and much higher shares of jobless women.
mothers do not receive temporary ‘into-work’ benefits, thus PTRs estimated in this report show work incentives in the ‘long-term’.

PTRs are calculated assuming that families incur childcare costs only when all parents are in full-time paid work. When one of the parents is not in work, it is assumed that they take care of children at home. 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.

The OECD tax-benefit data portal provides the full list of indicators calculated with the OECD tax-benefit model.

49. On average across the EU, when a low-earning single mother takes up full-time work, she loses 53% of her gross employment earnings through the combined effect of higher taxes and lower benefits. After factoring in childcare costs, the average loss across the EU increases to 65% of gross earnings (Figure 3.4 – Panel A). For mothers with a working partner the loss associated with taking up full-time work is slightly smaller: 40% of the additional gross earnings before accounting for childcare costs, and about 55% after (Figure 3.4 – Panel B).

50. In some countries, low-wage employment offers mothers no or very little financial gain once childcare costs are taken into account. For example, in Cyprus, Ireland, Slovenia and the United Kingdom, low-earning single mothers and mothers in low-earning couples entering work lose more than 90% of their earnings to childcare costs, higher taxes and withdrawal of social benefits that depend on earned income or working hours (Figure 3.4 – Panels A and B). In all these countries, childcare costs have a particularly large impact on work incentives. In Cyprus and Slovenia, they push PTRs for single mothers above 100%, implying that mothers are financially better off not working at all. The same happens in the United Kingdom for second earners.\(^\text{20}\)

51. The effect of childcare costs on work incentives is often stronger for mothers in couples (Figure 3.4 - Panels B and D) than for single mothers (Figure 3.4 - Panels A and C). Several reasons explain why financial work incentives are stronger for two-earner couples compared to lone parents. First, in countries where benefits are heavily means-tested, second earners receive less out-of-work support compared to lone parents. In addition, lone parents can receive additional ad-hoc support in the form of lone-parent allowances (e.g. in Belgium, France, Ireland and Portugal), supplements to other benefits (e.g. in Croatia, Denmark, Estonia, Finland, Germany, the Netherlands, Poland and Romania), and tax concessions (e.g. in Austria, Germany, Ireland, Luxemburg and Poland). Figure 3.5 shows the contribution of each policy lever to the overall PTR indicator (see Box 3.1 for details about the decomposition of the PTR indicator).

52. Some EU countries provide in-work benefits that strengthen work incentives for lone parents, but may weaken them for second earners. This happens when benefit entitlements are assessed at the household level.\(^\text{21}\) For example, if the earnings of the second earner increase the household income above certain benefit eligibility thresholds,

\(^\text{20}\) The distance between the markers in Figure 3.4 shows the effect of net childcare costs on work incentives. The larger the distance the more childcare costs weaken work incentives.

\(^\text{21}\) See, for example, Brender and Strawczynski (2018\(^\text{[9]}\)); De Luca, Rossetti and Vuri (2014\(^\text{[10]}\)); Immervoll and Pearson (2009\(^\text{[13]}\)); Eissa and Hoynes (2004\(^\text{[11]}\)). However, assessing eligibility against the overall household income improves the targeting of the benefit towards poorer households and may increase employment rates of the primary earner.
all earners in the household may become ineligible for the benefit. This can happen in Ireland, France, Malta, and the United Kingdom. Family benefits in Italy and child tax allowances in Hungary have similar effects on work incentives for second earners.22

53. However, high net childcare costs are not the only reason behind weak work incentives for low-earning single mothers. For example, in Austria, Croatia, Luxemburg, Belgium and Denmark, low work incentives for single mothers (Figure 3.4 - Panel A) occur mainly because of other design features of the tax and benefit systems, notably the withdrawal of other cash benefits whose amounts depend on earned incomes (Figure 3.5 - Panel A). The same happens in Denmark and Poland for mothers in low-earning couples (Figure 3.4 and Figure 3.5, Panel B).

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22 As workless families in Italy do not qualify for family cash benefits, this strengthens work incentives for the primary earner. However, family benefits are gradually withdrawn if the second parent also starts working. In Hungary, one of the parents can claim child tax allowances, therefore lone parents can earn a significant amount without having to pay income tax. However, second earners in couples are taxed as soon as they start working because the primary earner already uses the child tax allowance.
Figure 3.4. Effective tax rates on entering full-time employment, 2019

Panel A: Lone mother, low earnings

Panel B: Second earner in couple with children, low earnings

Panel C: Lone mother, median earnings
Notes: See notes to Figure 3.1. The PTRs with and without childcare costs are calculated for two otherwise identical families except that one uses centre-based childcare when both parents are working and the other does not, e.g. because other relatives provide informal child care.


54. Some benefit entitlements can make using non-parental childcare more financially burdensome for families, rather than less. This happens in countries that provide ‘homecare’ and ‘child raising’ allowances to parents who use informal childcare at home instead of formal centre-based childcare (Finland, Slovenia and Slovak Republic). As these entitlements are lost when parents start using formal childcare services, homecare benefits are effectively an additional cost that adds to the effective cost paid for the childcare itself.

55. However, when homecare allowances are available on a part-time or flexible basis they can help parents combine part-time work with part-time care for children at home. For example, in Finland, parents with children under age three who work no more than 30 hours per week are entitled to a “flexible care allowance” that can be paid to both parents at the same time as long as they make work arrangements that allow them to look after the child at different times.
Figure 3.5. Effective tax rates on entering employment for parents using childcare, decomposed into policy levers, 2019
3.4. How much do parents have to earn to escape poverty and to cover childcare costs?

56. Families at risk of poverty can face significant additional financial burdens because of high childcare costs. The affordability of childcare, particularly for lone parents, therefore matters for poverty alleviation strategies focused on encouraging employment. In EU countries, working single parents have to earn on average at least 28% of female median full-time earnings to escape poverty (Figure 3.7 - Panel A).

57. After single parents reach the poverty line, they have to continue earning more to cover childcare costs. 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, 10% of the female median earnings. However, the required earnings are much higher in Cyprus, Austria, the Czech Republic, Romania, and the United Kingdom (20% or more). In Austria and the Czech Republic, additional income from employment at low earnings translates into relatively small disposable income gains, making it more likely that these are not enough to pay for childcare costs (i.e. high marginal effective tax rates). In Romania, lone parents need to earn substantial additional earnings simply because childcare costs are high relative to lone parents’ income. In Cyprus, both the childcare costs and marginal effective tax rates are high.

58. In some countries, the level of support given to lone parents who are not in paid work (out-of-work benefits including any homecare allowances) is already sufficient to take them out of poverty without any earnings. In Ireland, Germany, Luxembourg, and Slovenia, no earnings from work are required to escape poverty and to cover childcare costs because out-of-work support is sufficient to keep the family above the poverty line. In Denmark, Finland, Greece, Italy, Latvia, and Malta, single parents do not need additional earnings to cover childcare costs as at low earnings (corresponding to net incomes around the poverty line) childcare is provided free of charge or reimbursed through childcare benefits.

59. 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 (Figure 3.7 - Panel B). However, in a small number of countries, both parents would need to work for the family
to escape poverty and to cover childcare costs. High childcare costs for couple families in Cyprus and the Slovak Republic significantly increase the amount the second member of the couple has to earn to escape poverty and cover childcare. In Bulgaria, the second earner also has to earn substantial additional income, but this is largely driven by overall low wages in the country and limited social protection. In some other countries (Croatia, Latvia, Romania, Spain and Sweden), both members of the couple have to work to escape poverty and cover childcare costs if the primary earner’s earnings are low, but the amount that the second earner has to earn is relatively small.

Figure 3.7. Earnings required to escape poverty and cover childcare costs, 2019

As percentage of median female earnings

Notes: See notes to Figure 1.1. Results are based on a poverty threshold of 50% of median household disposable income. Household disposable income is equalized using square root of household size. Both panels are sorted according to the total earnings required by a single parent to escape poverty and cover childcare costs.

4. Variability of childcare policies across regions

60. In most EU countries, childcare costs vary across regions due to differences in the regulations of fees, fee discounts or childcare-related benefits. However, data on variability of childcare costs across regions is very scarce. To fill in this gap, this section summarises information on childcare policies in three regions where childcare fees are likely to be the lowest, the highest and approximately average. The detailed information on selected regions is organised in two Annexes, accessible online. Annex C contains an overview of childcare support policies in selected regions of EU countries. Annex D provides supplementary information on selected region-specific policies beyond the summary provided in Annex C.

61. Since information on childcare costs across regions is usually not available even to country administrations, surveyed regions were selected using a proxy variable: regional gross domestic product (Box 4.1). Although the correlation between childcare costs and regional GDP is not necessarily strong and positive, it is still likely that focusing on regions with the lowest, the highest and the average GDP, facilitates selection of regions with diverse economic contexts and childcare policy settings.

<table>
<thead>
<tr>
<th>Box 4.1. Strategy for selecting relevant regions</th>
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<tr>
<td>Regions for each EU country were selected using the Eurostat statistics on GDP per inhabitant at current market prices by NUTS-3 regions.¹</td>
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<tr>
<td>If regulation of childcare fees takes place at a different sub-national level, the area corresponding to the relevant level was chosen within the NUTS 3 region (if the level is smaller) or including the selected NUTS 3 region (if the level is higher). When a smaller area was selected within the NUTS 3 region, preference was given to the capital of the region or the biggest area in terms of size and/or population within the region. Countries could suggest a different selection of regions if they considered the regions selected by the OECD not representative in terms of regional variation of childcare costs, or if the information requested in the questionnaire was not available.</td>
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¹ NUTS 3 are small territorial units defined by the Nomenclature of territorial units for statistics. The data accessed from Eurostat have the code [nama_10r_3gdp].

62. Countries provided information for childcare policies in each region according to the same methodology and guidelines as for the standard TaxBEN questionnaire (see Section 2 for details). However, given the complexity of the questionnaire, in countries where two- and three-year olds receive different types of childcare services, the information on regional childcare policies refers to childcare for two-year olds only. This is the case for Belgium, Bulgaria, Croatia, Hungary, Poland, Portugal, the Slovak Republic, and Spain.²³

²³ In these countries, centre-based childcare for three-year olds combines the standard care component with early education. The different type of service can imply a different structure of childcare costs.
63. In most EU countries, the administrative level responsible for delivering childcare is the municipality. In some countries, childcare is the responsibility of intermediate administrative levels, such as provinces or counties (Bundesland in Austria, communauté in Belgium and comunidad autonoma in Spain). In some other countries, the level responsible for childcare is below the municipal level, for example in Hungary and the Czech Republic there are differences between districts within the same city.

64. France, Luxembourg, Malta, and Portugal are the countries with national-level regulations and hence no or little regional variation in childcare costs. In a number of countries (e.g. Bulgaria, Croatia, Italy, Latvia, Lithuania, and Poland), childcare fees are regulated only at the local level. In most countries, a mix of national and local regulations determines the cost of childcare. In some countries with mainly private childcare providers, such as Cyprus, Ireland, the Netherlands and the United Kingdom, childcare fees are not subject to any regulations. In these countries, childcare cost depends on the market, which in turn might exhibit strong regional variation. For example, in the United Kingdom, the average childcare costs in London are significantly above the national average.

65. In the countries with mixed national-local regulations, national governments either set guidelines that local authorities have to follow in legislating fee regulations (Austria and Germany) or regulations are set directly at the national level but local authorities have the possibility to modify these rules or to replace them with local regulations (e.g. Czech Republic, Denmark, Finland, and Sweden). The extent of variation across regions differs. In countries with national guidelines, for example in Germany, where national regulation stipulates that childcare fees have to depend on factors such as household income and number of siblings, variation across regions is large. Several countries, including Finland, Slovenia and Sweden, have national regulations that stipulate a maximum fee, but local authorities can choose to charge lower fees. In these cases, the variation is typically less pronounced.

66. Comparison of childcare costs across regions without explicitly simulating rules in the model is challenging as fees often depend on family income with discounts for particular family circumstances. Even comparison of maximum fees across regions is not straightforward as fees are defined in different ways. Some countries differentiate fees between care and meal costs (e.g. Latvia, Lithuania, and Poland), while others do not make this differentiation or do not collect information about meal fees for every region (e.g. Denmark, Estonia, and Germany). In addition, some other countries did not provide complete information on regional childcare costs (Belgium Bulgaria, and Denmark).

67. In most countries with local regulations regarding childcare fees, fee discounts are similar across regions. While the exact amounts or rules can differ, discounts are usually available for similar groups, most commonly siblings or large families, low-income families and family members with disabilities. Other countries show a strong regional variation, such as Austria and Germany, where some regions offer childcare services free of charge and others let childcare providers set their tariffs freely, granting discounts to certain types of families. In few countries (Lithuania, Poland and Spain), some regions provide discounts to special population groups while other regions have none.

68. Childcare-related benefits are less common across countries and less consistent across regions. In most countries, benefits are only available in some regions and

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24 Looking at the countries that provided complete information on regional maximum fees, Croatia, Latvia, and Spain seem to have fairly similar maximum fees across selected regions, whereas Greece, Hungary and Lithuania exhibit high variation (see Annex C).
regulations are less similar across regions than in the case of discounts. In some cases, such as Austria, Croatia and Germany, regions with less comprehensive discount regulation have more generous benefit policies. Tax concessions, if exist, most often apply at the national level.

69. In situations when fees are not regulated or complexity of the rules makes comparison (without simulation models) difficult, average childcare expenses based on surveys or administrative data can provide additional sources of information. Nevertheless, comprehensive statistics comparing childcare costs across regions in EU countries is difficult to find. Many countries have no possibility to collect statistics on average childcare cost charged to parents for centre-based childcare at national level and with reliable regional level estimates (Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Germany, Greece, Latvia, Lithuania, Portugal, and Romania)\(^{25}\). Nine countries have a survey that was designed for this purpose (Austria, Estonia, Finland, Hungary, Ireland, Italy, Slovenia, Spain, and the United Kingdom), six collect administrative data (Denmark, Ireland, Luxembourg, Netherlands, Poland, and Slovak Republic) and one uses microsimulation model to obtain comparable estimates (Sweden). Where data is available, the frequency of data collection and the methodology vary greatly, making reliable comparison very difficult if not impossible.

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\(^{25}\) France and Malta did not provide information on availability of such statistics.
5. Conclusions

70. This report uses OECD tax-benefit model (TaxBEN) to examine the net childcare costs for working parents in EU countries in 2019, and to assess how these costs affect parents’ financial work incentives and ability to escape poverty. The results show that while all countries provide some support to assist parents with childcare costs, there is a wide variation between and within countries in relation to the type and generosity of this support and the resulting net costs to parents.

71. The report focuses the analysis on mothers in low- and middle- income families with two children aged two and three, the age at which parental leaves are usually exhausted but enrolment in primary school is not yet possible. This focus reflects the reality that women overwhelmingly remain the main caregivers when non-parental childcare is unavailable or unaffordable. The household’s decision to place children in formal childcare usually reflects a financial decision with reference to a mother’s earnings. It is especially important to provide strong incentives for women in low-income families to take up work and use childcare as these families are shown to benefit most from good-quality non-parental childcare.

72. Many governments support parents decision to work by providing legal entitlements to access childcare, though the duration and age at which these entitlements commence varies. Beyond guaranteeing access, almost all countries provide fee reductions for families with children in publically funded childcare. These reductions can subsidise the entirety of childcare costs, but more often cover only a portion of the costs, and target particularly vulnerable demographic groups. Less common than subsidies, direct cash benefits also serve to offset childcare costs. Childcare-related tax concessions can privilege higher income families (who have more tax liabilities to deduct from) and introduce time delays in benefit support, as tax rebates are usually received after the end of the tax year.

73. Without any support measures, in EU countries on average, gross full-time childcare fees for two children represent nearly 30% of a woman’s median full-time wage. After accounting for support measures, these costs represent just 14% of a women’s median wage, and less for low-income couples and lone parents. However, there is variation in net childcare costs across both countries and family types. For example, net childcare fees are more than 25% of median female earnings in the United Kingdom, Cyprus, Ireland, and the Slovak Republic for many low- and median-income families. On the contrary, net costs are close to zero in Malta, Italy, and Germany and comparatively low for selected low-income and single parent families in Denmark, Latvia, Estonia, Greece, Portugal, and Luxembourg. Two-earner couples with median earnings generally have higher net childcare costs than other family types, particularly lone parents with low earnings. These differences are broadly consistent across countries, and reflect governments prioritising vulnerable groups.

74. Childcare costs can significantly weaken the incentives for mothers of young children to do paid work. On average across EU countries, almost two-thirds of gross 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 Cyprus and Slovenia, and for second earners in couple families in the United Kingdom). While childcare costs are a key determinant of the work incentives facing mothers, 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., lone parents in Austria, Luxembourg and Croatia). This highlights the need to look beyond individual policy areas when considering the incomes, choices and constraints facing parents of young children.

75. Childcare costs also increase financial burden on families. This is particularly relevant for lone parent and low-income households who may live near the poverty line. On average across the EU, working single parents have to earn at least 28% of female median full-time earnings to escape poverty, and need an additional 10% to further cover net childcare expenses. These figures are smaller for two-parent households. Nevertheless, in some EU countries, childcare costs in combination with other elements of tax-benefit systems make it hard for families to escape poverty and cover childcare expenses (for example, in Cyprus, Austria, the Czech Republic, Romania, and the United Kingdom).

76. The last part of the report gives an overview of a broader set of policies across selected sub-national jurisdictions in EU Member States. In most countries, childcare costs vary across regions, with the exception of France, Luxembourg, Malta, and Portugal, where fees in public institutions are regulated at the national level. In countries with mainly private childcare providers, such as Cyprus, Ireland, the Netherlands, and the United Kingdom, market forces can lead to strong regional variation in childcare fees. Austria and Germany also display a strong variation, with some regions offering free provision for all children and some having no fee regulations at all. On the other hand, Finland, Slovenia and Sweden, have less pronounced variation as national regulations define most childcare policy elements giving local authorities some flexibility within the common framework. While fee structures vary across regions, almost all regions target similar groups, such as lone parents, households with many children or low incomes.

77. Comparison of childcare costs across regions without explicitly simulating rules in the model proves challenging as fees have complex structures dependent on family incomes and composition. The report also shows that statistics on average childcare fees is very limited, frequency of data differs, and methodology varies greatly, making reliable comparison across countries very difficult. This highlights the importance of hypothetical-family simulation models for analysing such a complex policy domain as childcare, where statistical data is scarce and policy rules are complex and inter-related.
References


Annex A. Additional Figures

Figure A A.1. Net childcare costs, as percentage of household disposable income, 2019

For two children in full-time care

See notes to Figure 3.1.

Figure A A.2. Net childcare costs decomposed by instrument, as percentage of household disposable income, 2019

For two children in full-time care
Note: See notes to Figure 3.1.