

An Economic Analysis of Income Tax Relief for Childcare Undertaken for an Independent TD

Abstract

The aim of this project was to examine the micro and macroeconomic impact of introducing income tax relief for childcare costs. Two different tax models were considered, a tax credit and a tax allowance system, with tax credits adopted as most appropriate. An income tax model was designed to calculate the impact of such relief for a range of family situations. Applying income and family distribution data, an estimate of the number of parents eligible to receive the credit was made. A series of "what-if" analyses was then carried out to examine the net impact on the exchequer should parents choose to enter employment. The research suggested that a large portion, if not all, of the cost of relief to the Exchequer could be offset given an appropriate labour force response. Thus, it is possible that such relief would be financially self-sustaining.