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## GERMANY 2002

### 1. Overview of the system

Unemployment insurance and unemployment assistance benefits are related to previous after tax income levels and are augmented when there are dependent children. Social assistance guarantees a minimum income level and is also available to working people with incomes below the level. Family benefits take the form of tax credits and allowances. Families and individuals with high rents and low incomes may receive housing benefits, remaining rent payments can be fully covered by social assistance. Recipients of social assistance usually are not entitled to individual housing benefits, instead they receive a lump sum benefit as part of their social assistance. Married couples are jointly taxed. The 2002 AW earnings level is EUR 36 400; all information on benefit entitlements describes the situation as on the 1<sup>st</sup> July 2002.

### 2. Unemployment insurance

#### 2.1 *Conditions for receipt*

Claimants have to be:

- Younger than 65 years of age.
- Registered unemployed.
- Looking and available for work.

Unemployment insurance is compulsory.

##### 2.1.1 *Employment conditions*

A claimant must have worked at least 12 months to be eligible.

##### 2.1.2 *Contribution conditions*

Contributions must have been made for at least 12 months in the last 3 years.

### 2.2 *Calculation of benefit amount*

#### 2.2.1 *Calculation of gross benefit*

The benefit is paid to the individual. The replacement rates are 60 per cent of their previous earnings net of tax and social security contributions (*Note:* Net of tax means the monthly salary after deductions of corresponding taxes and contributions as in individual basis), and 67 per cent for a worker

with at least one dependent child. The monthly ceilings are 60 and 67 per cent of EUR 4 700 monthly gross earnings, respectively.

### 2.2.2 *Income and earnings disregards*

People receiving UI can work up to 15 hours a week; working more stops all benefit entitlements. Earnings up to € 165 are not taken into account. Other income or assets are neither taken into account.

### 2.3 *Tax treatment of benefit*

Unemployment insurance pays a net benefit: it is not taxable.

### 2.4 *Benefit duration*

There is no waiting period. The duration of payment depends on age and employment record according to the following table. Benefits are paid 7 days per week.

| Contribution period (months) | Employment period (years) | Benefit payment duration (months)<br>Varying with age |             |             |             |             |
|------------------------------|---------------------------|---|-------------|-------------|-------------|-------------|
|                              |                           | Up to 45  | 45 and over | 47 and over | 52 and over | 57 and over |
| 12                           | 3                         | 6   | 6           | 6           | 6           | 6           |
| 16                           | 7                         | 8   | 8           | 8           | 8           | 8           |
| 20                           | 7                         | 10  | 10          | 10          | 10          | 10          |
| 24                           | 7                         | 12  | 12          | 12          | 12          | 12          |
| 28                           | 7                         |   | 14          | 14          | 14          | 14          |
| 32                           | 7                         |   | 16          | 16          | 16          | 16          |
| 36                           | 7                         |   | 18          | 18          | 18          | 18          |
| 40                           | 7                         |   |             | 20          | 20          | 20          |
| 44                           | 7                         |   |             | 22          | 22          | 22          |
| 48                           | 7                         |   |             |             | 24          | 24          |
| 52                           | 7                         |   |             |             | 26          | 26          |
| 56                           | 7                         |   |             |             |             | 28          |
| 60                           | 7                         |   |             |             |             | 30          |
| 64                           | 7                         |   |             |             |             | 32          |

### 2.5 *Treatment of particular groups*

#### 2.5.1 *Young persons*

No special treatment.

#### 2.5.2 *Older workers*

Unemployed people may qualify for retirement at 60 years under the following conditions: they are born before 1952, have contributed for at least 15 years to the old age security system, have within the last 10 years an 8-year employment record and have been unemployed for 12 months within the last 18 after the age of 58 years and 6 months. The beginning of retirement in the age of 60 causes a reduction of the old age pension by 18 per cent.

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Women have the right to a pension at age 60 if they are born before 1952, have an employment record after the age of 40 for 10 years and have contributed at least 15 years to the old age security system. The beginning of retirement at the age of 60 causes a reduction of the old age pension by 18 per cent.

Anyone who has contributed for at least 35 years to the old age security system can retire at 63 years, the normal pension age is 65. The beginning of retirement at the age of 63 causes a reduction of the old age pension by 7.2 per cent.

### **3. Unemployment assistance**

#### **3.1 *Conditions for receipt***

Claimants have to be:

- Younger than 65 years of age.
- Registered unemployed.
- Looking and available for work.
- In need.

##### **3.1.1 *Employment conditions***

Persons who remain unemployed after exhaustion of their insurance benefits are transferred to unemployment assistance.

#### **3.2 *Calculation of benefit amount***

##### **3.2.1 *Calculation of gross benefit***

The benefit is paid to the individual and the replacement rate depends on family status. The standard rates are 53 per cent of the previous net earnings, and 57 per cent for a worker who receives a tax allowance for at least one dependent child. The monthly ceilings are 53 and 57 per cent of EUR 4 500 monthly gross earnings, respectively. OECD calculations define "net income" as gross earnings minus income tax, minus deductible social security contributions minus the tax allowance for work-related expenses (see section 10.1.1).

##### **3.2.2 *Income and earnings disregards***

Unemployment assistance (UA) benefit is income-tested using income from all sources; family, housing and child-care benefits are excluded from the income test. The spouse's income disregard amounts to the UA-benefit the spouse would receive in case of unemployment (the applicant's benefit is reduced by  $(100-53) = 47$  per cent of the spouse's net income exceeding EUR 7 235 per year).

#### **3.3 *Tax treatment of benefit***

Unemployment assistance is a net benefit: it is not taxable.

3.4 **Benefit duration**

There is no waiting period. The duration of payment is usually indefinite. Benefits are paid 7 days per week.

3.5 **Treatment of particular groups**

3.5.1 *Young persons*

No special treatment.

3.5.2 *Older workers*

See Section 2.5.2.

4. **Social assistance**

Two forms of social assistance exist: cost-of-living assistance (including food, clothing, and everyday necessities) and assistance in special circumstances. Only the former is considered here.

4.1 **Conditions for receipt**

Cost-of-living assistance may be received by people who cannot cover their cost of living at all or only inadequately through their own capabilities and resources, particularly through income and assets. Cost-of-living assistance towards living expenses is primarily:

- Granted to people living in private households. (Special regulations are provided for asylum seekers in the Asylum Seekers Benefits Act.)
- There is no general threshold to determine the qualification. The need for regular cost-of-living assistance which remains after the personal income has been utilised can be illustrated in simplified form as follows:

|   |
|---|
| Standard basic rate for the head-of-household or persons living alone |
| + Standard rates for any other household members                      |
| + Any extra allowances for additional needs                           |
| + Rent and utilities  |
| Heating costs   |
| <b>= Social assistance need</b>                                       |
| <i>minus</i>  |
| <b>Net income</b>   |
| <b>= Actual cost-of-living assistance to be paid</b>                  |

4.2 **Calculation of benefit amount**

4.2.1 *Calculation of gross benefit*

Cost-of-living assistance is essentially provided in the form of benefits based on standard rates, so called one-time benefits, extra allowances for additional needs and the assumptions of housing costs (*i.e.* housing costs and heating). The regular benefits based on standard rates are intended to cover

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"standard need". The ordinance (Standard Rates Ordinance) issued by the Federal Government defines what this standard need includes. The responsible public agencies of the Länder decide the actual amount of the **standard rates** on the basis of the ordinance on 1 July each year. The average monthly standard rate for the head-of-household or assistance recipients living alone in effect since 1 July 2001 ("basic standard rate") is EUR 292 for the Länder of the former territory and EUR 282 for the new Länder, including east-Berlin. The standard rates for household members are a percentage of the basic standard rate. They amount to 50 per cent, or 55 per cent in single parent households, of the basic rate for children up to the age of 6, 65 per cent of the basic rate for children from age 7 up to the age of 13, 90 per cent of the basic rate for children from age 14 up to the age of 17, 80 per cent of the basic rate for adults from 18 and up. For the purpose of this study, only the value for the old Länder (EUR 292) is used.

Disabled people and persons who are *alone* living with and caring for a child under seven or two children under 16 years of age get 40 per cent of the basic benefit rate on top. If a single parent takes care of four or more children, he/she gets an increased need allowance of 60 per cent of the basic benefit rate.

In addition to the benefits based on the standard rates, regular cost-of-living assistance also includes the costs of **housing and heating** as another component. As a rule, benefits equal to the actual expenses for rent, utilities and heating are granted. Even in cases where these costs exceed a level reasonable for the specific features of the individual situation, they are fully covered by the social assistance agency as long as it is impossible or unreasonable for the assistance recipient to reduce his expenses by changing residences, sub-letting or some other means.

The average rent of social assistance recipient households can be determined on the basis of the rent allowance statistics for recipients of the lump-sum rent allowance (Federal Statistical Office, Fachserie 13: Reihe 4 "Wohngeld", 1995). Based on these statistics, the estimation of average benefits for rent and heating costs are as follows (in EUR):

|              | 1 <sup>st</sup> person in the household | 2 <sup>nd</sup> person | Per child |
|--------------|---|------------------------|-----------|
| Rent         | 260                                     | 80                     | 56        |
| Heating cost | 42                                      | 16                     | 4         |

#### 4.2.2 *Income and earnings disregards*

As regards cost-of-living assistance, the lower rank principle of the social assistance system dictates that the assistance seeker must first utilise his own income and assets, meaning that the assistance only steps in if these resources do not cover the cost of living at all, or only incompletely. All income in the form of money or items of monetary value is generally to be used as income. This includes, in particular, all income as defined by law, such as that from employment, renting and leasing, business activity or capital assets, as well as most social benefits, such as social insurance benefits, child allowances and housing allowances<sup>1</sup>. The child raising allowance (EUR 307 per month) up to two years after birth, from the Mother and Child foundation, is expressly excluded from being counted as income.

As the income provisions are based on disposable income, the tax paid on income, compulsory social security contributions, premiums for other insurances (which are either required by law or considered reasonable as regards purpose and cost) and the expenses associated with earning the income are deducted from the gross income. To cover work-related expenses and, at the same time, to give

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1. One time benefits are not included in this study.

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assistance recipients a material incentive to take up employment, a special deductible is defined for the employed (up to EUR 146 per month).

#### **4.3 Tax treatment of benefit**

Not taxable.

#### **4.4 Benefit duration**

Indefinite.

#### **4.5 Treatment of particular groups**

##### **4.5.1 Young persons**

There is no special treatment.

##### **4.5.2 Older workers**

There is no special treatment.

##### **4.5.3 Disability**

On 1<sup>st</sup> January 2003, a new Law (*Grundsicherungsgesetz*) was made legally effective. The primary objective of this law is to take countermeasures against senior citizens' poverty, especially so-called "hidden" poverty for "false shame". The law safeguards the subsistence of senior citizens and people (aged over 18) permanently incapable to work for medical reasons. The law exists independently of the Federal Social Welfare Act.

### **5. Housing benefits**

#### **5.1 Conditions for receipt**

Anyone with low income and high rent or high financial obligations resulting from his/her own dwelling (*i.e.* owner occupied) may be eligible.

#### **5.2 Calculation of benefit amount**

Households are eligible to apply for housing allowances irrespective of the type of housing tenure in which they live. Hence owner-occupiers, private tenants and social housing tenants are all eligible.

Housing allowance is granted as a tabulated housing allowance. The housing allowance entitlement is calculated using a formula which has three parameters: size of household, eligible income, and eligible housing costs (rent or burden of financial obligations). This formula is then translated into tables for different sizes of household, which show how much allowance a household is entitled to receive for different levels of income and housing costs. The tables group income and rent in bands, so that within each income band and each housing cost band, households are entitled to the same amount of allowance.

$$HA = M - (a+b*M+c*Y) *Y \quad [\text{for } HA \geq \text{EUR } 10 \text{ otherwise } 0]$$

Where:

| Household size (persons) | Parameters of the rent burden function |              |               | Monthly income (EUR) |            |
|--------------------------|--|--------------|---------------|----------------------|------------|
|                          | a                                      | b            | c             | Family Y             | Maximum YX |
| 1                        | 6.3/100                                | 7.963/10 000 | 9.102/100 000 | 120                  | 830        |
| 2                        | 5.7/100                                | 5.761/10 000 | 6.431/100 000 | 150                  | 1 140      |
| 3                        | 5.5/100                                | 5.176/10 000 | 3.250/100 000 | 200                  | 1 390      |
| 4                        | 4.7/100                                | 3.945/10 000 | 2.325/100 000 | 250                  | 1 830      |
| 5                        | 4.2/100                                | 3.483/10 000 | 2.151/100 000 | 290                  | 2 100      |
| 6                        | 3.7/100                                | 3.269/10 000 | 1.519/100 000 | 320                  | 2 370      |

“M” is the monthly rent or home loan repayment to be taken into account.

“Y” is the monthly income in euros.

Any values for “M” and “Y” which are below the values set out in the following table shall be replaced by the figures in the table.

| Household size (persons) | M    | Y     |
|--------------------------|------|-------|
| 1                        | 22.5 | 120   |
| 2                        | 22.5 | 150   |
| 3                        | 27.5 | 200   |
| 4                        | 32.5 | 250   |
| 5                        | 32.5 | 285   |
| 6                        | 32.5 | 320   |
| 7                        | 35   | 355   |
| 8                        | 35   | 385   |
| 9                        | 37.5 | 555   |
| 10                       | 37.5 | 730   |
| 11                       | 75   | 1 000 |
| 12                       | 155  | 1 175 |

*Note:* Lump sum deductions on income are 6, 10, 20 and 30 per cent.

The calculation is carried out in a specified order and subject to strict rounding methods at various stages.

### 5.2.1 Calculation of gross benefit

The amount of tabulated housing benefits depends on the number of the persons in the household, the eligible income and the rent or burden of financial obligations (up to ceilings differentiated according to regional rent level, quality and age of the dwelling, household size). The maximum rent levels used for the purposes of this study are given in the table below:

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| Household size<br>(persons) | Maximum monthly rent*<br>(EUR) |
|-----------------------------|--------------------------------|
| 1                           | 245                            |
| 2                           | 330                            |
| 3                           | 390                            |
| 4                           | 455                            |
| 5                           | 520                            |
| For each extra person       | 65                             |

\* Year of construction 1/1/1966-31/12/1991, level of rent: category III.

### 5.2.2 *Income and earnings disregards*

The housing benefit is linked to taxable income, to which numerous non-taxable income-components (with the exception of family benefits) are added, in order to approximate the net-household income as well as possible. For certain groups (e.g. households with disabled persons, lone-parents) free allowances are deducted from the imputed income.

### 5.3 *Tax treatment of benefit*

Not taxable.

### 5.4 *Treatment of particular groups*

None.

## 6. **Family benefits**

Family benefits, known as *Kindergeld*, are awarded in the form of a monthly tax refund.

### 6.1 *Family tax credit (Kindergeld)*

The family tax credit is paid to all children up to age eighteen. The period during which the family tax credit is paid is prolonged up to the age of 27 for children undergoing training, and up to age 21 for children without a job. Should military or civilian service be done by the child during this period, the maximum age-limit is adjusted correspondingly. There is no age-limit for handicapped children who are unable to earn their living. Children over the age of 18 with an income of their own exceeding EUR 7 188 per year are generally not eligible for family allowance.

Family tax credit (non wastable) is not income-related and is awarded in the form of a monthly payment. It is staggered by the number of the children. The rates applying since 1 January 2002 are EUR 154/month for the first, second and third child, and EUR 179/month for the fourth and subsequent children.

The family tax credit is usually paid out by the local family office, otherwise by the private and public employers. The family tax credit is paid out to the person who cares for the children.

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Also people in SA get the family allowance, but it is deducted from the SA until EUR 10 per month in the case of one child and EUR 20 in the case of two or more children.

Mothers or fathers who take care of their newly-born children themselves, receive a child-raising allowance of up to EUR 307/month up to the end of the 24<sup>th</sup> month of life of the child. The mother or father receiving this benefit, is entitled to work up to 30 hours/week. The child-raising allowance is income-dependent. In the first six months after birth, they receive the full rate of EUR 307/month, if the annual net income does not exceed EUR 51 130 (couples) or EUR 38 350 (single parents). Parents who exceed this income ceiling, do not qualify for child-raising allowance. Child-raising allowance is gradually reduced from the child's seventh month of life onwards for parents who have an annual net income exceeding EUR 16 470 or EUR 13 498 in the case of single parents. The income ceiling always rises by EUR 3 140 with each additional child. Child-raising allowance is generally reduced by the amount of maternity allowance paid to workers for the two months following childbirth.

## **7. Child-care benefits**

In Germany, general payments to subsidise or reduce the cost of child care do not exist. Day care and related services are offered on a lawful basis by local youth agencies, mostly funded by public means. Parents are asked to contribute according to their situation. Moreover, these costs can be deducted as expenses from taxable income.

## **8. Employment-conditional benefits**

Since 1 April 1997 it is possible to receive EUR 13 daily for UA beneficiaries who by their own means have found temporary (seasonal) employment during at least three months. This amount is added to their earnings.

Mainzer Modell implies reduction of social security contributions and addition to child benefit. The beneficiaries are Working individuals/ couples with low income. The benefit consists of a refund of full amount of employees' social security contributions, plus additional benefit of EUR 924 per child. The requirement to be eligible for Mainzer Modell are: minimum earnings of EUR 3 900 and a minimum of 15 working hours per week. The benefit phases out when household income amounts to EUR 5 364 for individuals, EUR 8 844 for couples (phase-out rate: Approximately 14.7% for individuals without children). The approximate maximum earnings when benefit is phased out completely are EUR 10 764 for individuals and EUR 20 484 for couples.

## **9. Lone-parent benefits**

Due to their special circumstances in life, some groups of assistance recipients are recognised as having an **additional** need, which is satisfied by adding a corresponding extra allowance to the standard rate. The additional need amounts to 40 per cent of the standard rate for single persons with one child under the age of 7, or two or three children under the age of 16; the additional need goes up to 60 per cent in the case of four or more children under the age of 16. The standard rate for children up to the age of 7 in single parent households amounts to 55 per cent of the basic standard rate.

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There is an additional benefit (known as the Advanced Child Maintenance payment) available to single parents, in the case where the other parent fails to make his/her maintenance payments. (These payments are not included in our calculations, but are mentioned for information.)

## 10. Tax system

### 10.1 Income tax rate schedule

#### 10.1.1 Tax unit

Spouses are normally assessed jointly. They have, however, the option of being separately assessed. The income of dependent children is not assessable with that of the parents.

#### 10.1.2 Tax allowances and tax credits

Standard reliefs and work-related expenses:

- Basic reliefs: none.
- *Standard marital status reliefs*: in the case of joint assessment, specific allowances are doubled. Income tax according to the schedule is computed by the income splitting method.
- *Relief(s) for children*: tax credit of EUR 1 848 for the first, second and third child, EUR 2 148 for the fourth and subsequent children. In cases where the value of the tax credit is less than the relief from the tax allowances (EUR 1 824 for the subsistence of a child and additionally EUR 1 080 for minding and education or training needs [EUR 3 648 and EUR 2 160 in the case of jointly assessed married couples]), the tax allowances are used instead to compute the income tax in the tax assessment.
- *Relief for lone parents*: allowance of EUR 2 340 (household allowance) for taxpayers who live alone with at least one child for whom they receive tax allowances or a tax credit.
- *Reliefs for social security contributions and life insurance contributions*: social security contributions and other expenses incurred in provision for the future (e.g. life insurance), are deductible up to specific ceilings.

The calculation of the latter relief proceeds in three steps. First, EUR 3 068/6 136 (singles/couples) are deductible. These amounts are, however, lowered by 16 per cent of gross wage (serving as a proxy for employers' social security contributions). This provision is meant as a partial compensation for the self-employed, who do not receive tax-free employers' contributions to social security. Second, the remaining expenses are deductible up to EUR 1 334/2 668 (singles/couples). Third, half of the remaining expenses are deductible up to EUR 667/1 334 (singles/couples).

- *Work-related expenses*: EUR 1 044 lump-sum allowance per gainfully-employed person.
- *Special expenses*: lump sum allowance (EUR 36/72 [singles/couples]) for special expenses, e.g. for tax accountancy or disbursed church taxes. When the taxpayer proves that his expenses are higher, they are fully deductible.

#### 10.1.3 Tax schedule

The German tax schedule is formula-based.

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The calculations are based on a rounded amount of taxable income. If the taxable income cannot be divided by 36 it is rounded down to the next (full EUR) amount which can be divided by 36. Subsequently it is increased by EUR 18.

- X is the taxable income.
- T is the income tax liability.
- In addition the following definition is used in the income tax liability formulae:

$$Y = \frac{X - 7\,200}{10\,000}$$

$$Z = \frac{X - 9\,216}{10\,000}$$

The income tax liability (amounts in EUR) is calculated as follows:

1.  $T = 0$  for  $X \leq 7\,235$
2.  $T = (768.85Y + 1\,990Y)$  for  $7\,236 \leq X \leq 9\,251$
3.  $T = (278.65Z + 2\,300)Z + 432$  for  $9\,252 \leq X \leq 55\,007$
4.  $T = 0.485X - 9\,872$  for  $55\,008 \leq X$

These formulae are used directly to calculate the income tax of single individuals.

The income tax liability for spouses who are assessed jointly is computed as follows: the formula income tax is calculated with respect to one-half of the joint taxable income. The resulting amount is doubled to arrive at the income tax liability of the spouses (splitting method).

#### 10.1.4 *Solidarity surcharge*

The solidarity surcharge is levied at 5,5 % of the income tax liability, when this liability exceeds an exemption limit of EUR 972/1 944 (singles/couples).

#### 10.2 *Social security contribution schedule*

##### **Employees' contributions, paid on individual earnings**

| Type of insurance | Percentage contribution | On gross earnings up to EUR |
|-------------------|-------------------------|-----------------------------|
| Statutory pension | 9.55                    | 54 000                      |
| Unemployment      | 3.25                    | 54 000                      |
| Health            | 7.00                    | 40 500                      |
| Long-term care    | 0.85                    | 40 500                      |

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**11. Part-time work**

**11.1 *Special benefit rules for part-time work***

People earning less than EUR 400/month do not qualify for unemployment insurance. People receiving UI can work less than 15 hours/week; working more destroys all benefit entitlements (see Section 2.2.2).

**11.2 *Special tax and social security contribution rules for part-time work***

None.

**12. Policy developments**

**12.1 *Policy changes introduced in the last year***

In 2002 the tax credit for the first, second and third children was raised to EUR 1 848, for the fourth and subsequent children to EUR 2 148 and the child allowance increased to EUR 5 808.

**12.2 *Policy changes announced***

Since 1999 Germany has embarked on a fundamental tax reform that will be fully implemented in 2005 (according to a government decision which is not yet confirmed by parliament the reform shall be implemented already in 2004) through successive steps.