
GERMANY 2001

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 2001 AW earnings level is DEM 74 720; all information on benefit entitlements describes the situation as on the 1st of July 2001.

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 in the last 3 years to be eligible.

2.1.2 *Contribution conditions*

Contributions must have been made for at least 12 months.

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 often deductions of corresponding taxes as in individual basis), and 67 per cent for a worker with at least one dependent child. The monthly ceilings are 60 per cent and 67 per cent of DEM 8 700 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 DEM 315 (€ 161) 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)				
		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 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 8 years employment record and have been unemployed for 12 months within the last 18 months. The beginning of retirement in the age of 60 causes a reduction of the old age pension at a height of 18 %. Women have the right to a pension at 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 in the age of 60 causes a reduction of the old age pension at a height of 18 %. 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 in the age of 63 causes a reduction of the old age pension at a height of 7,2 %.

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 per cent and 57 per cent of DEM 8 700 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 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 DEM 14 093 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
= Social assistance need
<i>minus</i>
Net income
= Actual cost-of-living assistance to be paid

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 "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 July 1, 2001 ("basic standard rate") is DEM 560 for the Länder the former territory and DEM 541 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 percent of the basic rate for children from age 14 up to the age of 17, 80 percent of the basic rate for adults from 18 and up. For the purpose of this study, only the value for the old Länder (DEM 560) 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 % of the basic benefit rate on top. If a single parent takes care of 4 or more children, he/she gets an increased need allowance of 60 % 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 im früheren Bundesgebiet”, 1995, and Reihe 4, S. 1, “Wohngeld in den neuen Ländern und Berlin-Ost”, 1995). Based on these statistics, the estimation of average benefits for rent, heating costs and one time benefits are as follow:

	1 st person in the household	2 nd person	Per child	In the use of single parent
Rent	497	152	105	59
Heating cost	76	28	6	27

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 allowances¹. The child raising allowance (DEM 600 per month) up to two years after birth, benefits from the Mother and Child foundation are 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 consider 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 assistance recipients a material incentive to take up employment, a special deductible is defined for the employed (up to DEM 275 per month).

4.3 *Tax treatment of benefit*

Not taxable.

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

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.

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
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“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:

Household size (persons)	Maximum monthly rent* (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 good 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 allowance (Kindergeld)*

The family allowance is paid to all children up to age eighteen. The period during which the family allowance 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 DEM 13 500 per year are generally not eligible for family allowance.

Family allowance is not income-related and is awarded in the form of a monthly tax refund. In certain instances, parents who are not subject to income tax liability are paid their family allowance as a monthly social security benefit. It is staggered by the number of the children. The rates applying since 1 January 2001 are DEM 270/month for the first and second child children, DEM 300/month for the third child, and DEM 350/month for the fourth and further children.

The family allowance is usually paid out by the private and public employers (small and medium sized businesses can be exempted), otherwise by the local family office. The family cash desks at the labour office. The family allowance is paid out to the person who cares for the children.

Also people in SA get the family allowance, but it is deducted from the SA until DEM 20 per month in the case of one child and DEM 40 in the case of two and more children.

Mothers or fathers who take care of their newly-born children themselves, receive a child-raising allowance of up to DEM 600/month up to the end of the 24th month of life. While receiving this benefit, they are entitled to work up to 19 hours/week. The child-raising allowance is income-dependent. In the first six months after birth, they receive the full rate of DEM 600/month, if net annual income does not

exceed DEM 100 000 (married couples) or 75 000 (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 DEM 29 400 or DEM 23 700 in the case of single parents. The income ceiling rises by DEM 4 200 in both cases with each additional child. Child-raising allowance is generally reduced by the amount of maternity allowance paid 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 1/4/1997 it is possible to receive DEM 25 daily for UI and UA beneficiaries who by their own means have found temporary (seasonal) employment during at least three months. This amount is added to their earnings.

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 percent 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 percent in the case of four or more children. The standard rate for children up to the age of 7 in single parent households amounts to 55 percent of the basic standard rate.

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 allowances and credits

Five different general tax allowances exist apart from the zero rate bracket:

- child tax allowances per dependent child: DEM 9 936;
- lone parents' allowances (*Haushaltsfreibetrag*): DEM 5 616;

- work related tax allowances, fixed for all earning levels: DEM 2 000 for each person in work;
- tax allowances for social security contributions: the calculation proceeds in three steps:
 1. DEM 6 000/12 000 (single/couple) are deductible, lowered by 16 per cent of the gross wage (to correct for employer's contributions);
 2. social security contributions exceeding those amounts are deductible up to DEM 2 610/5 220 (single/couple);
 3. of the still remaining expenses in excess of DEM 2 610/5 220 (single/couple) are deductible up to DEM 1 305/2 610 (single/couple);
- church tax is completely deductible.

10.1.2 *The definition of taxable income*

Taxable income is defined as the total gross earned income of both spouses minus the total allowances.

10.1.3 *The tax schedule*

The calculations are based on a rounded amount of taxable income. If the taxable income cannot be divided by 54 it is rounded down to the next (full DEM) amount which can be divided by 54. Subsequently it is increased by DEM 27.

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

$$Y = \frac{X - 14\,040}{10\,000}$$

$$Z = \frac{X - 18\,036}{10\,000}$$

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

1. $T = 0$ for $X \leq 14\,093$
2. $T = (387.89Y + 1\,990)Y$ for $14\,094 \leq X \leq 18\,089$
3. $T = (142.49Z + 2\,300)Z + 857$ for $18\,090 \leq X \leq 107\,567$

$$4. T = 0.485X - 19\,299 \text{ for } 107\,568 \leq X$$

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).

A solidarity surcharge of 5.5 per cent of the income tax liability is paid if the calculated income tax is higher than DEM 1 836/3 672 for single/couple.

10.2 Treatment of family income

Spouses are normally assessed jointly using the splitting method but have the option to separate tax assessment. To calculate income tax liability of a couple, the formulae income tax are calculated with respect to half of the joint taxable income. The resulting amount is doubled to arrive at the income tax liability of the couple (splitting method).

10.3 Social security contribution schedule

Employees' contributions, paid on individual earnings, are:

- 9.55 per cent of gross earnings up to DEM 104 400 for the pension fund;
- 3.25 per cent of gross earnings up to DEM 104 400 for unemployment insurance;
- 6.9 per cent of gross earnings up to DEM 78 300 for sickness;
- 0.85 per cent of gross earnings up to DEM 78 300 for home care insurance.

11. Part-time work

11.1 Special benefit rules for part-time work

People working less than 15 hours/week do not qualify for unemployment insurance, or for the pension fund. 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

12.2 Policy changes announced

As from 1 January 2003, the basic personal allowance will be increased to DEM 14 500. The basic tax rate will be cut to 17 percent while the top rate will be brought down to 47 percent.

As from 1 January 2005, the basic personal allowance will be increased to 15 000. The basic rate will be reduced to 15 percent while the top rate will be cut to 42 percent as a result of the Bundesrat resolution. The top rate will be applied only to taxable income in excess of DEM 102 000. This will help to mitigate the progressive increase in the tax rate for middle-income earners.
