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## DENMARK 2003

### 1. Overview of the system

Denmark's unemployment insurance system is voluntary, with around 90 per cent of the workforce covered. The amount of benefit is related to previous earnings subject to a relatively low ceiling. There is no unemployment assistance. Social assistance is administered by local authorities and benefit amounts are determined by national guidelines. Recent reforms ensure that social assistance usually is lower than unemployment insurance. Social assistance is contingent on there having been a "social event". Unemployment is such an event, but it is not normally paid to those in work. Housing costs are taken into account when calculating social assistance and there is also an income-related housing benefit system. Child benefits are lump-sum amounts depending on the number and age of children and on the number of adults. Subsidised child-care is available to all households. The tax unit is the individual. Social security contributions by employees and, especially, employers are low. The 2003 AW is DKK 311 300.

### 2. Unemployment insurance

#### 2.1 *Conditions for receipt*

Unemployment insurance is voluntary. The general condition is membership of an insurance fund for the last year.

##### 2.1.1 *Employment conditions*

After 52 weeks of full-time work within the last three years, the employee is entitled to benefit immediately on becoming unemployed.

##### 2.1.2 *Contribution conditions*

The conditions are fulfilled with payment of the membership fee.

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**2.2      *Calculation of benefit amount***

**2.2.1    *Calculation of gross benefit***

The benefit amounts to 90 per cent of previous earnings after deducting 8 per cent social security contributions from those earnings. The maximum monthly benefit is DKK 13 499 (DKK 3 115 per week). The minimum monthly benefit is DKK 11.072 (DKK 2.555 pr. week).

**2.2.2    *Income and earnings disregards***

Wages reduce the amount of unemployment benefits (one hour of work reduces the benefit by the value of one hour), while other income and earnings are not taken into account.

**2.3      *Tax treatment of benefit***

UI benefits and cash assistance fall under the temporary income relief scheme and are normally taxable. The earnings related contributions are only paid over earned income. Recipients of UI benefits do not pay the 8 per cent social security but do pay supplementary pension scheme contributions (both the 1 per cent and a fixed amount). Contributions to the unemployment insurance fund (both the unemployment and early retirement insurance contributions) are also made by unemployment insurance beneficiaries.

**2.4      *Benefit duration***

The maximum benefit period is four years. Educational programs do not qualify for extending the period. To re-qualify for benefits, a minimum of 26 weeks must be spent in paid employment. For members aged over 60 the period is 2½ years. Periods up to the age of 60 are included.

**2.5      *Treatment of particular groups***

**2.5.1    *Young persons***

The UI benefit amounts to 82 per cent of the maximum UI benefit. The maximum for "new comers" who have joined the insurance immediately after finishing their education is DKK 2 555 per week (DKK 11.072 monthly).

The UI benefit for younger persons within the scope of the scheme for young persons (under 25) without sufficient education for the "newcomers" rights amounts to 50 per cent of the maximum UI benefit, per week DKK 1.560 (DKK 6.760 monthly) This legislation was the same in 2002 and previous years.

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2.5.2 *Older workers*

Members of an unemployment insurance fund who have reached the age of 60 and have been members of an unemployment insurance fund for 25 years within the last 30 years and who have paid contributions for early retirement in a corresponding period are entitled to early retirement pay until they reach the age of 65. The early retirement pay is paid at an individually calculated rate, see section 2.2.1 but for a maximum of 91 per cent of the maximum unemployment benefits which corresponds to DKK 2.835 per week (DKK 12.285 per month) if they go into early retirement at the age of 60. If the transition into early retirement is put off for a minimum of 2 years and if the member in this period has worked for a minimum of 3 120 hours the early retirement pay is paid at the rate of 100 per cent of the maximum unemployment benefits, see section 2.2.1 corresponding to DKK 3.115 per week (DKK 13 499 per month). Members do not have a duty to be available for work may work for an unlimited number of hours with an hour-to-hour deduction.

**3. Unemployment assistance**

There is no unemployment assistance in Denmark.

**4. Social assistance**

**4.1 *Conditions for receipt***

A “social event”, such as unemployment, must have taken place; a low income is not in itself a social event. If social assistance is being received due to unemployment, job search will be enforced.

**4.2 *Calculation of benefit amount***

**4.2.1 *Calculation of gross benefit***

The benefits are calculated for the individual. They amount DKK 10 859 which approximately amounts to 80 per cent of the maximum unemployment insurance benefit for those with dependent children and DKK 8.172 for others which approximately amounts to 60 per cent of the maximum unemployment insurance benefit. Social assistance amounts can be increased to cover rent payments. Rent in excess of an individual’s own payment is covered (see section 5.2.1).

For persons under 25 who do not reside with one or both parents the benefit is DKK 5.266. It is DKK 2.543 for persons under 25 who are residing with one or both parents.

If the sum of special housing benefits and the person’s other income after tax exceed DKK 10 859 after tax, total social assistance may not exceed 90 per cent of previous net earnings when in work. When cash benefits have been paid to a person for an uninterrupted period of three months, the sum of special housing benefits and the person’s other income after tax must not exceed the amount of maximum unemployment benefit payable under the act on unemployment insurance.

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**4.2.2** *Income and earnings disregards*

If the applicant or his or her spouse has income from work or income derived as a result of an activation scheme, a sum of DKK 11.87 per hour worked shall not be deducted from the total benefits payable.

**4.3** *Tax treatment of benefit*

Recipients of social assistance (SA) pay income tax. They do not pay the 8 per cent social security but do pay the supplementary pension scheme contributions if they have received social assistance for an uninterrupted period of six months

**4.4** *Benefit duration*

Indefinite.

**4.5** *Treatment of particular groups*

**4.5.1** *Young persons*

Social assistance is reduced to DKK 5 103 per month for those aged under 25 and living alone.

**4.5.2** *Calculation of gross benefits — special housing benefits for people receiving social assistance*

For families without children, net rent (gross rent minus general housing benefits) exceeding DKK 2 100 per month is paid. For families with children, all net rent above DKK 3 000 per month per adult is paid, reduced by DKK 550 for each child other than the first. The total amount of social assistance after tax and special housing benefits is subject to one of two maxims, depending either on previous income or the maximum unemployment benefit. The first three months the maximum is previous income after tax. After three months the total amount can never exceed maximum unemployment benefit after tax.

**5. Housing benefits**

**5.1** *Conditions for receipt*

There are two housing benefit schemes: general and special housing benefits:

The general housing benefit is divided into two sub schemes: the first sub scheme is aimed at tenants paying high rent and especially at families with children. This sub scheme is discussed below.

The other sub scheme is exclusively for recipients of old age pension and disability benefits and is somewhat more generous.

Special housing benefits are linked to social assistance. In case of a so called “social event” such as unemployment or illness, anyone can in principle become eligible, if the household’s income is appropriately low. This scheme is discussed above.

## 5.2 Calculation of benefit amount

### 5.2.1 Calculation of gross benefits — general housing benefits

Rent excluding consumption of electricity, gas, and water is corrected for the indicative size of the apartment expressed in square meters (150 m<sup>2</sup> for the calculations in this publication). The correction factor is the sum of 65 m<sup>2</sup> and 20 m<sup>2</sup> per family member exceeding one divided by the actual m<sup>2</sup>. Corrected rent will if it exceeds certain limits depending on family size - be reduced to the maximum rent-level (see table).

**General housing benefits (in DKK)**

Number of children	0	1	2	3	4 or more
Maximum rent in benefit calculation	62 600	65 730	68 860	71 990	75 120
Annual benefit limit	15% of the rent, or max. 33 036	33 036	33 036	33 036	41 295

The benefit is calculated as the difference between 63 per cent of the corrected rent and an own payment calculated from the household income. The own payment is calculated as 2 per cent of household income below DKK 111 900 plus 28,6 per cent of income exceeding this amount. If there is more than one child in the household the threshold is raised by DKK 29 400 per child up to four children. If there are no children in the household the benefit is set to a maximum of 15 per cent of the rent, or DKK 33 036. The maximum benefit is 25 per cent higher if there are four or more children in the household (see table). Regardless of the benefit calculated the household must pay at least DKK 18 800 out of the payable rent. Otherwise the benefit is reduced accordingly.

[Please note: This paragraph has been changed and the changes also applies to 2002 and 2001. An overview of the relevant figures is shown in the table below:]

Year	Per cent own payment	Threshold	Per cent below	Per cent above	Threshold raised per child (2-4)	Maximum benefit	Minimum own payment
2001	69	113 500	7	26,1	27 600	30 996	17 600
2002	66	113 500	5	27,3	28 400	31 920	18 200
2003	63	111 900	2	28,6	29 400	33 036	18 800

### 5.2.2 Income and earnings disregards

There are no earnings disregards. The sum of special housing benefits and social assistance is reduced with 100 per cent of gross household income.

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**5.3 Tax treatment of benefit**

Housing benefits are targeted schemes and are not taxable.

**5.4 Treatment of particular groups**

Another more generous housing benefit scheme is paid to recipients of disability benefits and old age pensions (*Boligydelse*).

**6. Family benefits**

**6.1 Conditions for receipt**

Each child aged 0-17 years qualifies the family for benefits.

**6.2 Calculation of benefit amount**

**6.2.1 Calculation of gross benefit**

The annual amounts are DKK 12 900 per child aged 0-2; DKK 11 700 per child aged 3-6; and DKK 9 200 per child aged 7-17. The benefit is paid out on a quarterly basis [also in previous years]

**6.2.2 Income and earnings disregards**

Child benefits are not subject to any means test.

**6.3 Tax treatment of benefit**

Family benefits are not taxable.

**6.4 Treatment of particular groups**

Lone parents receive normal family benefits but also qualify for additional payments of DKK 4 108 per year (independent of the number of children) plus DKK 4 040 per child aged 0-17. In addition there is a state transfer of DKK 10 308 per year for each dependent child in case an 'absent parent' does not contribute (this amount) to the family. This transfer has been included in the calculations for single parents.

Parents with multiple births (twins) receive DKK 6 646 per child from 0-6 years of age.

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**7. Child-care benefits**

**7.1 *Conditions for receipt***

Subsidised day-care is available to all households with young children in day-care.

**7.2 *Calculation of benefit amount***

**7.2.1 *Calculation of gross benefit***

The maximum payable price for public day care is calculated as a proportion of the actual expenses in a given day care facility or as a proportion of the average expenses for all day care facilities of a given type in the municipality. The proportion can be at a maximum of 30 pct. However, if there is guaranteed day care in the municipality, the proportion can be at a maximum of 32 pct.

There is no charge for day-care if the personal income [gross income net of general social security contributions (9 per cent)] is below DKK121 001. From DKK 121 001 to DKK 123 678 the subsidy is 95 per cent of the maximum payable price. From that income level, the subsidy is linearly reduced until the full price is paid at a personal income of DKK 375 400, i.e. the subsidy is reduced by 1 per cent for every income increment of DKK 2 678.

There are special discount rates for siblings: if a family has more than one child in day care, the full price is charged for the child in the most expensive day care facility and half the price is charged for all the remaining children in day care. The income related payment is calculated subsequently.

**7.2.2 *Income and earnings disregards***

See above

**7.3 *Tax treatment of benefit***

The benefit is not taxable.

**7.4 *Treatment of particular groups***

Parents of children with special social problems can have a supplemental subsidy in addition to the above-mentioned subsidy (see section 7.2.1).

**8. Employment-conditional benefits**

There are no benefits targeted on people in work.

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**9. Lone-parent benefits**

Lone parents receive additional family benefits (see section 6), but there is no separate benefit.

**10. Income tax and social security contributions**

**10.1 Income tax schedule**

*10.1.1 Tax allowances and credits*

Work related expenses and social security contributions are fully tax deductible. Each person is granted a personal allowance which is converted into a wastable tax credit. The credit amounts to:

For central government income tax	5.5 per cent of DKK 35 600 = DKK1 958
For local government income tax and church tax (average rate)	33.3 per cent of DKK 35 600 = DKK 11 855

*10.1.2 Definition of taxable income*

In the Danish personal income tax system, the income of the individual taxpayer is split into three categories:

- i) Personal income, which consists of employment income, business income, pensions unemployment benefits and so on.
- ii) Capital income (e.g. interest payments and dividends received, imputed rent of owner-occupied dwellings); calculated as a net amount.
- iii) Taxable income – the aggregate of personal income and capital income less deductions (e.g. work-related expenses).

All three categories are relevant for various tax rates, see section 10.1.3.

Employees' basic social security contributions (18 per cent) and contributions to labour market pension schemes are not included in personal income or taxable income. Unemployment insurance contributions are included in personal income but not in taxable income.

*10.1.3 Tax schedule*

Low bracket tax to the central government is assessed on the basis of taxable income, at the rate of 5.5 per cent.

Medium bracket tax to the central government is assessed on the part of aggregate personal income and positive net capital income exceeding DKK 198 000, at the rate of 6 per cent. If a married individual cannot utilise the total allowance of DKK 198 000, the unutilised part is transferred to the spouse.



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Top bracket tax to the central government is assessed on the excess of DKK 295 300 of the aggregate of personal income and positive net capital income at the rate of 15 per cent.

If the marginal tax rate including local tax but excluding church tax exceeds 59 per cent the top bracket tax rate is reduced by the difference between the marginal tax rate and 59 per cent. At the average local tax rate, this reduction equals 0.1 per cent in 2003.

## **10.2 State and local income taxes**

### **10.2.1 General description**

Local income taxes are levied by the counties and the municipalities (and the church). They are flat-rate taxes levied by the local authorities.

### **10.2.2 Tax base**

The tax base is the tax base used for central government income tax assessment. The tax credit varies with tax rates. The average amount is given above.

### **10.2.3 Tax rates**

Lowest rate: 30.0 per cent.

Highest rate: 36.68 per cent.

Average rate: 33.3 per cent (municipalities: 22.120; counties: 10.461; church: 0.736).

The average rate is used in this report. Total local tax is calculated as a percentage of the tax base less personal allowances.

## **10.3 Treatment of family income**

The tax unit is the individual. Spouses are taxed separately, but the tax liability of a married individual may depend on the spouse's income.

## **10.4 Social security contributions**

Social security contributions are assessed on the basis of employees' gross earnings at the rate of 8 per cent.

A compulsory contribution of a further 1 per cent of employees' gross earnings is paid to a *Labour Market Supplementary Pension Scheme*. The 1.0 per cent contribution to the Labour Market Supplementary Pension Scheme is, from 2001 onwards, ascribed to an individual saving plan. Therefore, from 2001 onwards, it is no longer defined as a tax. (But still it has to be deducted in the base for calculating personal and taxable income). In the tax-benefit model calculations we nevertheless consider this contribution as a part of total contributions since we are mainly interested in computing take-home

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pay. *Note:* The base to calculate both the 8 and 1 per cent contributions is gross earnings less the fixed-amount labour markets supplementary pension scheme contributions of DKK 894. (See section 11.2 regarding part-time employees.)

Social security contributions are not assessed on transfers and on capital income.

Other contributions are:

- Labour market supplementary pension scheme: DKK 894
- Unemployment insurance: DKK 2.988
- Early retirement benefit: DKK 4.356

Furthermore there is an administration charge paid to the unemployment fund (together with the DKK 2 988 and DKK 4 356). It varies between the funds. The typical charge for an industrial worker used in the model calculations is DKK 1 602 (the same as in 2002).

## 11. Part-time work

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

Instead of 52 weeks membership of an insurance fund in the last three years 34 weeks (on a full-time basis) qualifies. The maximum UI benefit is reduced to two-thirds.

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

The 8 per cent general social security contributions and the 1 per cent Labour Market Supplementary contribution are proportional to earned income. If the employee is insured part-time, s/he pays two thirds of the unemployment and early retirement insurance contributions. The DKK 894 fixed amount supplementary pension contributions are paid in proportion to the number of hours worked per week. Regarding the part-time employees the fixed amount paid is DKK 596 for employees working from 78 and up to 117 hours per month, DKK 298 for employees working from 39 and up to 78 hours per month and DKK 0 for employees working less than 39 hours per month. Also for these groups the employer pays twice.

The 8 per cent general social security contribution is proportional to earned income – and is only paid on earned income.

The 1 per cent Labour Market Supplementary contribution is proportional to earned income - and is also paid on benefits (similar to the computation of the 1 per cent Labour Market Supplementary contribution paid on earned income, the fixed amount labour markets supplementary pension scheme contributions needs to be deducted from the base).

If the employee is insured part-time, s/he pays two thirds of the unemployment and early retirement insurance contributions. The individual employee decides how much s/he wants to be insured – full-time or part-time. The same contribution is paid for everyone - for employed, unemployed, part-time employed and for those who receive benefits and work part-time.

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As already mentioned, the fixed amount paid to the Supplementary Pension Scheme varies with the number of hours worked. If the employee only works part-time and for the remaining hours receives benefits s/he also pays a fixed amount of the benefits to the Labour Market Supplementary Pension Scheme. Typically this amount is DKK 1.08 for every hour s/he receives the benefit. In the model calculations we assume that the same amount applies to recipients of Social Assistance and Unemployment Benefits.

## **12. Policy developments**

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

The governments Work force Enlargement Plan (*Flere i arbejde*) consists a.o of initiatives concerning “it should pay to work”. It consists primarily of a reduction of social assistance, a maximum assistance for people on social assistance and a reduction in social assistance for young people.

1. Reduction on the social assistance for married couples after having received assistance in 6 months. The reduction is DKK 500 per person per month (2002). The first recipients and their spouses had their social assistance reduced in juli 2003.

2. A maximum assistance for people on social assistance, so that the sum of social assistance and housing benefits after 6 months cannot be higher than DKK 10.859 per person (2003) for a recipients and their spouses/cohabitants for those with dependent children and DKK 8.172 for recipients and their spouses/cohabitants for those without dependant children. For single persons with dependant children the maximum is DKK 13.546, and for single persons without dependant children the maximum is DKK 10.859. The first recipients have their assistance/benefit reduced january 2004.

3. For recipients under 25 years the assistance is reduced after 6 months so that the assistance is DKK 4.379 for persons, who do not reside with one or both parents. It is DKK 2.177 for persons under 25 who are residing with one or both parents (2003). The first recipients have their assistance/benefit reduced january 2004.

### ***12.2 Policy changes announced***

None