

## **DENMARK 1999**

### **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 1999 APW is DKK 274 200.

### **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.

## **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 11 960 (DKK 2 760 per week).

### **2.2.2 Income and earnings disregards**

Wages reduce the amount of unemployment benefits, 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 8 per cent social security but do pay supplementary pension scheme contributions. Contributions to the unemployment insurance fund are also made by unemployment insurance beneficiaries.

## **2.4 Benefit duration**

The maximum benefit period is five years in 1999, this will gradually be reduced to four years during 2000. 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.

## **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 2 335 per week (DKK 10 118 monthly) (thus, maximum insurable earnings are DKK 121 420 per year)

### **2.5.2 Older workers**

Those aged over 60 who have made at least 20 years of contributions can join the early retirement scheme and receive unemployment insurance benefits after two-and-half years. Most will receive 82 per cent of maximum UI benefit. Those aged over 63 when they start to participate in early retirement schemes, receive the maximum UI benefit until pension age (67). There are no job-search requirements of this group.

### **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 9 559 which approximately amount to 80 per cent of the maximum unemployment insurance benefit for those with dependent children and DKK 7,180 for others which approximately amount 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 5.2.1.). Total social assistance may not exceed 90 per cent of previous gross earnings when in work.

When cash benefits have been paid to a person for an uninterrupted period of six months, the sum of special housing benefits and the person’s other income after tax must not exceed the maximum amount of unemployment benefit payable under the act on unemployment insurance.

##### ***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 10.51 per hour worked shall be (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 and the unemployment insurance contribution but do pay the supplementary pension scheme contributions.

#### ***4.4 Benefit duration***

Indefinite. Social assistance is limited to be no more than the maximum UI benefit after one year.

## **4.5 Treatment of particular groups**

### **4.5.1 Young persons**

Social assistance is reduced to DKK 4 606 per month for those aged under 25 and living alone (exemptions for those who have earned a substantial income.)

### **4.5.2 Older workers**

If a person has children under the age of 18, a special child benefit is payable if the person concerned is not eligible for normal child benefits.

## **5. Housing benefits**

### **5.1 Conditions for receipt**

There are two housing benefit schemes: general and special housing benefits. Special housing benefits are linked to social assistance; general housing benefits are receivable by any family with high rent and low gross income from whatever source. Recipients of other benefits may also receive special benefits if a “social event” unemployment or illness is the reason for receiving benefits. A separate housing benefit scheme operates for invalidity benefit and old age pension recipients (not discussed here).

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

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

Rent without operating costs (electricity, gas, water, etc.) is corrected for the indicative size of the apartment expressed in square meters (150m<sup>2</sup> for the calculations in this publication). The correction factor is the sum of 65 square meters and 20 square meters per dependant divided by the actual square meters. Corrected rent may not exceed limits depending on family size (see table).

#### **General housing benefits**

| Number of children       | 0      | 1      | 2      | 3      | 4      |
|--------------------------|--------|--------|--------|--------|--------|
| Annual benefit limit     | 7 788  | 27 384 | 27 384 | 27 384 | 34 236 |
| Annual own payment limit | 51 900 | 54 500 | 57 100 | 59 700 | 62 300 |

The actual benefit is calculated as 75 per cent of corrected rent exceeding an own payment. The housing benefit maxima are given in the table. The own payment amounts to 16 per cent of income [gross earnings minus 8 per cent social contribution and supplementary pension contribution or gross unemployment (UI and SA) benefits minus supplementary pension contributions] up to DKK 140 800 and 26.67 per cent of the balance, with a minimum of DKK 7 900 on an annual basis.

### 5.2.2 *Calculation of gross benefits — special housing benefits*

For families without children, gross rent exceeding DKK 1 950 per month is paid. For families with children, all rent above DKK 2 500 per month per adult is paid, reduced by DKK 500 for each child, and adult, other than the first. If general housing benefit is paid to the family, the amount is subtracted from the rent assistance. The total amount of assistance and related housing benefits is subject to one of two maxima, depending either on previous income or the maximum unemployment benefit. The higher of the two is binding. The maximum for households without dependent children is the difference between the social assistance amount for families with dependent children and the amount for families without dependent children. The amount is doubled for couples.

All households are subject to a maximum calculated as 90 per cent of the difference between previous income net of taxes and the maximum social assistance for the family, net of taxes. Special housing benefits are included in total social assistance and then reduced by 100 per cent of earnings.

### 5.2.3 *Income and earnings disregards*

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

## 5.3 *Tax treatment of benefit*

Housing benefits are targeted schemes and are not taxable.

## 5.4 *Treatment of particular groups*

Another and in most cases more generous housing benefit scheme is paid to pensioners receiving invalidity 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 11 300 per child aged 0-2; DKK 10 200 per child aged 3-6; and DKK 8 100 per child aged 7-17.

#### 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 3 640 per year (independent of the number of children) plus DKK 4 764 per child aged 0-17 and DKK 9 132 per child (the last amount only if child alimony is not received). Parents with multiple births (twins) receive DKK 5 888 per child from 0-6 years of age.

### 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*

There is no charge for day-care if personal income is below DKK 106 001 [personal income concept: gross income net of general social security contributions (8 per cent)]. From DKK 106 001 to DKK 108 344 the subsidy is 95 per cent. From that income level, the subsidy is linearly reduced until the full price is paid at a personal income of DKK 328 701. There are special discount rates for siblings.

##### 7.2.2 *Income and earnings disregards*

The full price will be paid by someone with approximately 80 per cent of APW earnings or more.

#### 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 (7.2.1).

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

There are no benefits targeted on people in work.

#### 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                             | 7.5 per cent of DKK 32 300 = DKK 2 423   |
| For local government income tax and church tax (average rate) | 32.6 per cent of DKK 32 300 = DKK 10 530 |

###### 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 § 10.1.3.

Employees' basic social security contributions (18 %) 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 7.5 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 151 000, at the rate of 6 per cent. If a married individual cannot utilise the total allowance of DKK 151 000, the unutilised part is transferred to the spouse.

Top bracket tax to the central government is assessed on the excess of DKK 258 400 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 1.4 percent in 1999. (Note: For this study, then, we apply to the top bracket the rate of 13.6 % - difference between 15 % and 1.4 %).

## **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: 27.6 per cent

Highest rate: 35.82 per cent

Average rate: 32.6 per cent (municipalities: 21.8; counties: 10.1; church: 0.7)

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*. Note: The base to calculate contributions is gross earnings less labour markets supplementary pension scheme contributions.

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 5 139

## **11. Part-time work**

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

Instead of 26 weeks membership of an insurance fund in the last three years 17 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 general social security contributions are proportional to earned income. If the employee is insured part-time, s/he pays two thirds of the unemployment insurance contributions. Supplementary pension contributions are paid in proportion to the number of hours worked per week.

## **12. Policy developments**

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

The Labour Market Reform, which entered into force in 1994, represented a marked shift in focus towards decentralisation, individualisation, and targeted initiatives. This shift was most pronounced with the withdrawal of the right to re-qualify for a period of daily cash benefits during an employability enhancement program. Up until this time, employability enhancement programs were offered at fixed dates during a period of unemployment, and participation in a program provided a new period of daily cash benefits. However, experience showed that this could lead to inappropriate

EEPs with standardised programs, which did not take account of the qualifications of the individual or the needs of the local labour market. With the withdrawal of the opportunity to re-qualify for a period of daily cash benefits during EEPs, decentralisation of initiatives, and improved possibilities to base programs on the needs of the individual unemployed person and the opportunities in the local labour market, a good framework for solving past problems was established.

The Finance Act of 1995 introduced the right and duty to full-time EEPs after four years' unemployment. The 'overhaul' (*serviceeftersynet*) was rapid intervention in order to avoid the considerable drop in unemployment resulting in labour shortages as occurred in the recovery of the mid-1980s. In order to further target the initiatives to upgrade the qualifications of the unemployed, the right and duty to full-time EEPs after four years' unemployment was introduced.

The 1996 Finance Act brought the right and duty to EEPs forward to an earlier date in the unemployment period, introduced the youth initiatives, and tightened employment availability requirements for daily cash benefits, as well as the requirements to re-qualify for daily cash benefits. The primary objective of the 1996 Finance Act was to secure the reduction in the number of long-term unemployed and make periods of passive support from the benefits system as short as possible. Furthermore, the Act was to encourage training initiatives.

In the Finance Act of 1997, pilot projects with subsidies for the adult apprenticeship scheme were made permanent. Availability rules were again adjusted in the 1998 Finance Act in order to support the positive demand for labour and to secure a basis for continued advances in employment without situations with a shortage of labour, which could lead to wage pressure. Moreover, the rules for training leave were adjusted so that training leave for the unemployed lasting more than four weeks should in future be approved by the Public Employment Service.

In 1999 the requirements of labour market policy were further tightened. Right and duty to EEPs was brought forward to apply after just one year. The youth initiatives were extended to include everyone under 25.

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

The access to the unemployment insurance scheme was tightened in 1997 and the benefit period will gradually be reduced from 7 to 4 years as of January 1<sup>st</sup> 2001.

From 2000 more flexibility was added to the initiatives and a new EEP instrument was introduced; work practice. Finally, there was a new offer for long-term unemployed people over 48 years' old; service jobs.

## DENMARK

### The annual tax/benefit position of an unemployed single person 1999

(in Danish kroner)

|   | Initial rate<br>(7 years) | Social<br>assistance<br>(indefinite) |
|---|---------------------------|--------------------------------------|
| <b>A. Taxable benefits</b>                                |                           |                                      |
| <b>Means-tested benefits</b>                              |                           |                                      |
| Social assistance   | 0                         | 84 404                               |
| <b>Non-means tested benefits</b>                          |                           |                                      |
| Unemployment insurance                                    | 143 520                   | 0                                    |
| <b>Total taxable benefits</b>                             | <b>143 520</b>            | <b>84 404</b>                        |
| <b>B. Income tax and social security contributions</b>    |                           |                                      |
| Income tax allowances                                     | 7 462                     | 0                                    |
| Taxable income  | 136 052                   | 84 404                               |
| Central government tax                                    | 7 781                     | 3 908                                |
| Local tax   | 33 823                    | 16 986                               |
| Income tax credits  | 2 422                     | 2 423                                |
| Social security contributions                             | 7 462                     | 0                                    |
| <b>Total income tax and social security contributions</b> | <b>49 073</b>             | <b>20 894</b>                        |
| <b>C. Non-taxable benefits</b>                            |                           |                                      |
| <b>Non-means tested benefits</b>                          |                           |                                      |
| Housing benefits  | 1 497                     | 7 788                                |
| Special housing benefits (for people in SA)               | 0                         | 20 760                               |
| <b>Total non-taxable benefits</b>                         | <b>1 497</b>              | <b>28 548</b>                        |
| <b>D. Net income out of work (A-B+C)</b>                  | <b>95 944</b>             | <b>92 059</b>                        |
| <b>E. Net income in work</b>                              | <b>152 988</b>            | <b>152 988</b>                       |
| <b>F. Net replacement rate (D/E) (per cent)</b>           | <b>63</b>                 | <b>60</b>                            |

## DENMARK

### The annual tax/benefit position of an unemployed married couple with two children (6 and 4 years old)

1999

(in Danish kroner)

|   | Initial rate<br>(7 years) | Social<br>assistance<br>(indefinite) |
|---|---------------------------|--------------------------------------|
| <b>A. Taxable benefits</b>                                |                           |                                      |
| <b>Means-tested benefits</b>                              |                           |                                      |
| Social assistance   | 0                         | 141 191                              |
| <b>Non-means tested benefits</b>                          |                           |                                      |
| Unemployment insurance                                    | 143 520                   | 0                                    |
| <b>Total taxable benefits</b>                             | <b>143 520</b>            | <b>141 191</b>                       |
| <b>B. Income tax and social security contributions</b>    |                           |                                      |
| Income tax allowances                                     | 7 468                     | 0                                    |
| Taxable income  | 136 052                   | 141 191                              |
| Central government tax                                    | 5 359                     | 5 744                                |
| Local tax   | 23 293                    | 24 969                               |
| Income tax credits  | 4 845                     | 4 845                                |
| Social security contributions                             | 7 468                     | 0                                    |
| <b>Total income tax and social security contributions</b> | <b>36 120</b>             | <b>30 713</b>                        |
| <b>C. Non-taxable benefits</b>                            |                           |                                      |
| <b>Non-means tested benefits</b>                          |                           |                                      |
| Family benefits   | 20 400                    | 20 400                               |
| Housing benefits  | 12 465                    | 22 866                               |
| Special housing benefits (for people in SA)               | 0                         | 0                                    |
| <b>Total non-taxable benefits</b>                         | <b>32 120</b>             | <b>43 266</b>                        |
| <b>D. Net income out of work (A-B+C)</b>                  | <b>140 264</b>            | <b>153 744</b>                       |
| <b>E. Net income in work</b>                              | <b>192 203</b>            | <b>192 203</b>                       |
| <b>F. Net replacement rate (D/E) (per cent)</b>           | <b>73</b>                 | <b>80</b>                            |

## DENMARK

### The annual tax/benefit position of an unemployed lone parent with two children (6 and 4 years old)

1999

(in Danish kroner)

|   | Initial rate<br>(7 years) | Social<br>assistance<br>(indefinite) |
|---|---------------------------|--------------------------------------|
| <b>A. Taxable benefits</b>                                |                           |                                      |
| <b>Means-tested benefits</b>                              |                           |                                      |
| Social assistance   | 0                         | 112 670                              |
| <b>Non-means tested benefits</b>                          |                           |                                      |
| Unemployment insurance                                    | 143 520                   | 0                                    |
| <b>Total taxable benefits</b>                             | <b>143 520</b>            | <b>112 670</b>                       |
| <b>B. Income tax and social security contributions</b>    |                           |                                      |
| Income tax allowances                                     | 7 462                     | 0                                    |
| Taxable income  | 136 052                   | 112 670                              |
| Central government tax                                    | 7 781                     | 6 028                                |
| Local tax   | 33 823                    | 26 200                               |
| Income tax credits  | 2 422                     | 2 420                                |
| Social security contributions                             | 7 862                     | 0                                    |
| <b>Total income tax and social security contributions</b> | <b>49 073</b>             | <b>32 227</b>                        |
| <b>C. Non-taxable benefits</b>                            |                           |                                      |
| <b>Non-means tested benefits</b>                          |                           |                                      |
| Family benefits   | 51 832                    | 51 832                               |
| Housing benefits  | 12 465                    | 22 866                               |
| Special housing benefits (for people in SA)               | 0                         | 5 946                                |
| <b>Total non-taxable benefits</b>                         | <b>64 297</b>             | <b>80 644</b>                        |
| <b>D. Net income out of work (A-B+C)</b>                  | <b>158 744</b>            | <b>161 084</b>                       |
| <b>E. Net income in work</b>                              | <b>204 820</b>            | <b>204 820</b>                       |
| <b>F. Net replacement rate (D/E) (per cent)</b>           | <b>77</b>                 | <b>79</b>                            |