

GERMANY **1997**

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 this 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 1997 APW earnings level is DM 58 338; all information on benefit entitlements describes the situation as on the 1st of July 1997.

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 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 rate depends on family status. The standard rates are 60 per cent of their previous earnings net of tax and social security contributions, 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 DM 8 500, respectively.

2.2.2 Income and earnings disregards

People working for less than 15 hours a week and receiving not more than 630 DM income per month qualify neither for unemployment insurance, nor for the pension fund. People receiving UI can work up to 15 hours a week; working more stops all benefit entitlements.

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 provided the recipient has a 96 months employment record or alternatively has been unemployed for 12 months. Benefits are often supplemented by the employer to 100 per cent of the former salary. Women have right to a full pensions at 60 after 15 years work. Anyone who has contributed for at least 35 years to a pension fund can retire before normal pension age.

3. **Unemployment assistance**

3.1 *Conditions for receipt*

Claimants have to be:

- between 18 and 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. Otherwise, a claimant must have worked at least 6 months in the last calendar years to be eligible 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 DM 8 250 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 DM 12 095 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, but in some cases is only given for 12 months. 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 towards living expenses (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 towards living expenses 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.)

4.2 *Calculation of benefit amount*

4.2.1 *Calculation of gross benefit*

Cost-of-living assistance towards living expenses 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, 1997 (“basic standard rate”) is DM 538 for the Länder of the former territory and DM 519 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 7, 65 percent of the basic rate for children from age 7 up to the age of 13, 90 percent of the basic rate for children 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 (DM 538) is used.

4.2.2 Income and earnings disregards

As regards Assistance towards living expenses, 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. The child raising allowance (DM 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 assistance provisions are based on disposable income, the tax paid on income, compulsory social security contributions, premiums for other insurance, 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 (DM 270 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.

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*

Housing allowance is granted as a tabulated housing allowance and also, since 1991, as a lump-sum housing allowance for tenant households whose members receive public assistance payments or war victim's support. Owner occupied housing may entitle the owner to a housing allowance as a home-ownership subsidy.

The tabulated housing allowance is calculated as a percentage of the difference between the rent or financial obligation eligible for assistance and a contribution covered by the tenant or owner occupier.

5.2.1 *Calculation of gross benefit*

The amount of tabulated housing benefits depends on the number of persons in the household, the family income and the rent or burden of financial obligations. (up to ceilings differentiated according to regional cost level, quality and age of the dwelling, household size)

Owing to the special situation in the new Länder (rent reform, modernisation needs), some special regulations for the calculation of tabulated housing allowances will continue to apply until the year 2000.

Recipients of public assistance payments or war victims' support receive a housing allowance as a fixed percentage of the rent. (between 41.8% and 53% depending on the region, of the rent accepted by on the social security regulation)

5.2.2 *Income and earnings disregards*

The benefit is based on an assessable earnings definition. Used here, assessable earnings include gross earnings of all household members, family benefits, and unemployment benefits. There are no additional income tests.

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 DM 12 360 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 (see section 10). 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 children. The rates applying since 1 January 1997 are DM 220/month for families with one or two children, DM 300/month for three children, and DM 350/month for four or more 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 cash desks at the labour office. The family allowance is paid out to the person who cares for the children.

Mothers or fathers who take care of their newly-born children themselves, receive a child-raising allowance of up to DM 600/month up to the end of the child's 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 DM 600/month, if the net annual income does not exceed DM 100 000 (married couples) or DM 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 DM 29 400 or DM 23 700 in the case of single parents. The income ceiling rises by DM 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 DM 25 daily for UI beneficiaries who by their own means have found temporary (seasonal) employment during at least three months. This amount is added to their benefit entitlement.

9. Lone-parent benefits

Due to their special circumstances in life, 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 parents 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:

- personal tax allowance: DM 13 067;
- child tax allowance per dependent child: DM 6 912;
- lone parents' allowance (*Haushaltfreibetrag*): DM 5 616;
- work related tax allowance, fixed for all earnings levels: DM 2 000;
- tax allowances for social security contributions: the calculation proceeds in three steps:
 - a) DM 6 000/12 000 (single/couple) are deductible, lowered by 16 per cent of the gross wage (to correct for employer's contributions);
 - b) social security contributions exceeding those amounts are deductible up to DM 2 610/5 220 (single/couple);
 - c) of the still remaining expenses in excess of DM 2 610/5 220 (single/couple) are deductible up to DM 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

Tax payments in Germany are determined by a formula. The calculations are based on rounded taxable income: if taxable income cannot be divided by 54, it is rounded down to the next full DM amount which can be divided by 54.

A solidarity surcharge of 5.5 per cent of the income tax liability is paid if the calculated income tax is higher than DM 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:

- 10.15 per cent of gross earnings up to DM 98 400 for the pension fund;
- 3.25 per cent of gross earnings up to DM 98 400 for unemployment insurance;
- 6.79 per cent of gross earnings up to DM 73 800 for sickness;
- 0.85 per cent of gross earnings up to DM 73 800 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 in a marginal job; 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

Since 1/1/1998, UI beneficiaries can work in paid employment or for their own account for less than 15 hours per week. The net income so obtained will be deducted from the benefit entitlements if it exceeds a disregard. The disregard is 20 percent of the benefit entitlement or 310 DM per week (260 DM in the new Länder).

Al long term care insurance (0.85 percent of earnings up to DM 73 800) was introduced in 1995.

In 1996 and 1997 laws were passed that increase the minimum age -- sooner and more rapidly as foreseen during the plan for pension reform in 1992 -- for early retirement benefits

stepwise to 65 for long term insured, women and unemployed. For handicapped persons this age will be set to 63. The pension formula will include a demographic factor as of 1999 to take account of the increase in payment periods that result from a rising life expectancy.

After the basic allowance (zero rate bracket) had been raised from DM 12 096 in 1996 it was increased again in 1998 to DM 12 365. The rate of the solidarity surcharge was reduced from 7.5 percent to 5.5 percent in 1998. In 1996 the system of child relief was fundamentally changed. The old system of income related benefits and child allowances was replaced by a tax credit (paying out on a monthly basis) or a child allowance.

12.2 Policy changes announced

None.

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The annual tax/benefit position of an unemployed single person, 1997 (Deutsche marks)

	Unemployment insurance	Unemployment assistance	Social assistance
A. Taxable benefits			
Means-tested benefits			
Non-means tested benefits			
Total taxable benefits	0	0	0
B. Income tax and social security contributions			
Total income tax and social security contributions	0	0	0
C. Non-taxable benefits			
Means-tested benefits			
Unemployment assistance	0	18 904	0
Housing benefits	179	447	0
Social assistance (includes housing benefits)	0	0	18 124
Non-means tested benefits			
Unemployment insurance	19 899	0	0
Total non-taxable benefits	20 078	19 351	18 124
D. Net income out of work (A-B+C)	20 078	19 351	18 124
E. Net income in work	33 674	33 674	33 674
F. Net replacement rate (D/E) (per cent)	60	57	54

Note: Calculations do not include church-tax.

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The annual tax/benefit position of an unemployed married couple with two children, 1997 (Deutsche marks)

	Unemployment insurance	Unemployment assistance *	Social assistance
A. Taxable benefits			
Means-tested benefits			
Non-means tested benefits			
Total taxable benefits	0	0	0
B. Income tax and social security contributions			
Total income tax and social security contributions	0	0	0
C. Non-taxable benefits			
Means-tested benefits			
Unemployment assistance	0	20 240	0
Housing benefits	4 164	5 184	0
Social assistance (includes housing benefits)	0	0	18 124
Family benefits*	5 280	5 280	5 280
Non-means tested benefits			
Unemployment insurance	23 790	0	0
Total non-taxable benefits	33 234	30 703	23 404
D. Net income out of work (A-B+C)	33 234	30 703	23 404
E. Net income in work	45 452	45 452	45 452
F. Net replacement rate (D/E) (per cent)	73	68	52

Note: Calculations do not include church-tax.

* If the unemployment assistance is below the social assistance level, it is supplemented within the framework of the cost-of-living assistance.

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The annual tax/benefit position of an unemployed lone parent with two children, 1997 (Deutsche marks)

	Unemployment insurance	Unemployment assistance	Social assistance
A. Taxable benefits			
Means-tested benefits			
Non-means tested benefits			
Total taxable benefits	0	0	0
B. Income tax and social security contributions			
Total income tax and social security contributions	0	0	0
C. Non-taxable benefits			
Means-tested benefits			
Unemployment assistance	0	21 259	0
Housing benefits	182	888	0
Social assistance (includes housing benefits)	0	0	21 601
Family benefits*	5 280	5 280	5 280
Non-means tested benefits			
Unemployment insurance	24 989	0	0
Total non-taxable benefits	30 451	27 427	26 881
D. Net income out of work (A-B+C)	30 451	27 427	26 881
E. Net income in work	42 875	42 875	42 875
F. Net replacement rate (D/E) (per cent)	71	64	63

Note: Calculations do not include church-tax.