

DENMARK 1997

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 1997 APW is Dkr 257 000.

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 Dkr 11 375 (Dkr 2 625 per week) (thus, maximum insurable earnings are Dkr 156 995).

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. However, if the recipient is providing care for a dependent child, this period may be extended after completing the maximum benefit period. 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 is Dkr 2 155 per week for “new comers” who have joined the insurance immediately after finishing their education.

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 to 80 per cent of the maximum unemployment insurance benefit for those with dependent children, and 60 per cent for others. 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 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 Dnk 10.51 per hour worked shall be deducted from the total benefits payable.

4.3 Tax treatment of benefit

Recipients of social assistance (SA) benefits neither pay the 8 per cent social security, the unemployment insurance contribution nor 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 Dkr 4 489 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 (150m² for the calculations in this publication). The correction factor is the actual square meters divided by the sum of 65 and 20 per dependant. 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 Dkr 140 800 and 26.67 per cent of the balance, with a minimum of Dkr 7 900 on an annual basis.

5.2.2 *Calculation of gross benefits — special housing benefits*

For families without children, gross rent exceeding Dkr 1 800 per month is paid. For families with children, all rent above Dkr 2 500 per month per adult is paid, reduced by Dkr 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, net of taxes, between 80 per cent and 60 per cent of the maximum unemployment benefit; 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 Dkr 10 500 per child aged 0-2; Dkr 9 400 per child aged 3-6; and Dkr 7 400 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 Dkr 3 464 per year (independent of the number of children) plus Dkr 4 536 per child aged 0-17 and Dkr 8 700 per child (the last amount only if child alimony is not received). Parents with multiple births (twins) receive Dkr 5 604 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 Dkr 100 301 [personal income concept: gross income net of general social security contributions (8 per cent)]. From Dkr 100 301 to Dkr 101 408 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 Dkr 205 601. 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:

- 10.0% of Dkr 30 600 = 3 060 for central government income tax;
- 31.9% of Dkr 30 600 = 9 761 for local government income tax and church tax.

10.1.2 Definition of taxable income

There are three different income definitions:

- taxable income (equals personal income less UI premium plus capital income);
- personal income (equals gross earnings plus UI/maternal leave/sickness benefit income less pension scheme contribution less earnings related social security);
- capital income.

10.1.3 Tax schedule

Five different taxes are levied:

- a low income tax is levied on low taxable incomes exceeding a low income exemption;

- a middle income tax is levied on personal and capital income exceeding a middle income exemption;
- a high income tax is levied on personal income exceeding a high income exemption;
- a local income tax is levied at an average rate of 31.2 per cent on taxable income exceeding the low income exemption.
- an additional church tax of 0.7 per cent on taxable income

If a married person cannot utilise the tax income exemptions, he can transfer them to his spouse. This is not possible for the top tax income exemptions, these are not transferable.

Income tax schedule

	Rate	Exemption
Low	10.0	30 600
Middle	6.0	135 300
High	15.0	244 600
Max. rate	60.0	-

If the marginal tax rate including local tax but excluding church tax exceeds 60.0 per cent, the top income tax rate is adjusted such that the total marginal tax does not exceed 60.0 per cent.

10.2 *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.

10.3 *Social security contributions*

General social security contributions for employees are 8 per cent of gross earnings. The supplementary pension scheme and the unemployment insurance contributions are a lump sum of Dkr 894 per annum and a lump sum of Dkr 3 801 per annum respectively.

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*

A reform of taxation is phased in during the period 1994-1998. This will reduce marginal tax rates through a shift from income taxation to social security contributions (“labour market contributions”). The tax deductible contributions are proportional to gross earnings. The UI scheme was reformed in January 1994. The benefit amount was not affected but its duration was extended from two-and-a-half to seven years. Moreover, participation in active labour market programmes will no longer extend the period of benefit receipt. Substantial changes for young persons, also in the social assistance scheme, were introduced in 1995.

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 5 years in 1999.

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

	Initial rate (7 years)	Social assistance (indefinite)
A. Taxable benefits		
Means-tested benefits		
Social assistance	0	81 900
Non-means tested benefits		
Unemployment insurance	133 875	0
Total taxable benefits	133 875	81 900
B. Income tax and social security contributions		
Income tax allowances	4 695	0
Taxable income	129 180	81 900
State taxes	12 918	8 190
Local tax	31 447	16 365
Income tax credits	3 060	3 060
Social security contributions	4 695	0
Total income tax and social security contributions	46 000	21 495
C. Non-taxable benefits		
Non-means tested benefits		
Housing benefits	0	6 877
Special housing benefits	0	0
Total non-taxable benefits	0	6 877
D. Net income out of work (A-B+C)	87 875	67 282
E. Net income in work	141 488	141 488
F. Net replacement rate (D/E) (per cent)	62	48

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

	Initial rate (7 years)	Social assistance (indefinite)
A. Taxable benefits		
Means-tested benefits		
Social assistance	0	218 400
Non-means tested benefits		
Unemployment insurance	133 875	0
Total taxable benefits	133 875	218 400
B. Income tax and social security contributions		
Income tax allowances	4 695	0
Taxable income	129 180	218 400
State tax	12 918	21 840
Local tax	21 686	50 147
Income tax credits	6 120	6 120
Social security contributions	4 695	0
Total income tax and social security contributions	33 179	65 867
C. Non-taxable benefits		
Non-means tested benefits		
Family benefits	18 800	18 800
Housing benefits	16 165	0
Special housing benefits	0	0
Total non-taxable benefits	34 965	18 800
D. Net income out of work (A-B+C)	135 661	171 333
E. Net income in work	179 128	179 128
F. Net replacement rate (D/E) (per cent)	76	96

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

	Initial rate (7 years)	Social assistance (indefinite)
A. Taxable benefits		
Means-tested benefits		
Social assistance	0	109 200
Non-means tested benefits		
Unemployment insurance	133 875	
Total taxable benefits	133 875	109 200
B. Income tax and social security contributions		
Income tax allowances	4 695	0
Taxable income	129 180	109 200
State tax	12 918	10 920
Local tax	31 447	25 073
Income tax credits	3 060	3 060
Social security contributions	4 695	0
Total income tax and social security contributions	46 000	32 933
C. Non-taxable benefits		
Non-means tested benefits		
Family benefits	31 336	31 336
Housing benefits	11 025	13 881
Special housing benefits	0	0
Total non-taxable benefits	42 361	45 217
D. Net income out of work (A-B+C)	130 236	121 484
E. Net income in work	172 824	172 824
F. Net replacement rate (D/E) (per cent)	75	70