
GERMANY 2004

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 2003 AW earnings level is EUR 40 056; all information on benefit entitlements describes the situation as on the 1st July 2003.

1.1. *Average worker wage (AW)*

The 2004 AW earnings level is EUR 40 954; all information on benefit entitlements describes the situation as on the 1st July 2004.

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 to be eligible.

 2.1.2 *Contribution conditions*

Contributions must have been made for at least 12 months in the last 3 years.

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 after deductions of corresponding taxes and contributions as in individual basis), and 67 per cent for a worker with at least one dependent child. The monthly ceilings are 60 and 67 per cent of EUR 5.150 (west) and 4.350 (east) 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 € 165 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 the 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 an 8-year employment record and have been unemployed for 12 months within the last 18 after the age of 58 years and 6 months. The beginning of retirement in the age of 60 causes a reduction of the old age pension by 18 per cent.

Women have the right to a pension at age 60 if they are born before 1952, have an employment record after the age of 40 for at least 10 years an one month and have contributed at least 15 years to the old age security system. The beginning of retirement at the age of 60 causes a reduction of the old age pension by 18 per cent.

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 at the age of 63 causes a reduction of the old age pension by 7.2 per cent.

Persons have the right to a pension at age 60 after a qualifying period of 35 years if they are registered as severely disabled, occupationally disabled or as an invalid when pension payments are due to begin. The beginning of retirement at the age of 60 causes a reduction of the old age pension by 10.8 per cent.

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 and 57 per cent of EUR 5.200 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 section 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/partner's income is usually counted towards unemployment assistance. Here, however, an income disregard applies which amounts to the unemployment assistance that corresponds to the income of the spouse/partner of the unemployment assistance beneficiary, but not less than 80 per cent of the tax-free subsistence minimum (a current 6,131 euros 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 1 July 2004 ("basic standard rate") is EUR 295 for the Länder of the former territory and EUR 285 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 per cent of the basic rate for children from age 14 up to the age of 17, 80 per cent of the basic rate for adults from 18 and up. For the purpose of this study, only the value for the old Länder (EUR 295) is used.

Disabled people and persons who are alone living with and caring for a child under seven or two or three children under 16 years of age get 40 per cent of the basic benefit rate on top. If a single parent takes care of four or more children, he/she gets an increased need allowance of 60 per cent 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 social assistance statistics for recipients of social assistance (Federal Statistical Office, Fachserie 13: Reihe 2.1 "Sozialleistungen - Statistik der Sozialhilfe", 2003). The average heating costs are calculated on the base of the income and expenditure survey 1998 (Einkommens-und Verbrauchsstichprobe 1998), updated by the consumer price index for electricity, gas and other fuels. Based on these statistics, the estimation of average benefits for rent and heating costs (2003) are as follows (in EUR):

	Solitary Person	married couple	married couple with one child under 18 years	married couple with two children under 18 years
Rent	243	330	384	442
Heating cost	44	60	66	67

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 (EUR 307 per month) up to two years after birth, from the Mother and Child foundation, is 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 considered 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 EUR 148 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.

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

4.5.2 *Older workers*

Persons either aged 65 and older, or under age 65 and with fully reduced earning capacity in terms of the statutory pensions insurance, who hold an ID according to section 69 para 5 of Social Code Book IX marked G, qualify for an additional needs allowance amounting to 20 % of the relevant standard rate.

4.5.3 *Disability*

On 1st January 2003, a new Law (*Grundsicherungsgesetz*) was made legally effective. The primary objective of this law is to take countermeasures against senior citizens' poverty, especially so-called "hidden" poverty for "false shame". The law safeguards the subsistence of senior citizens and people (aged over 18) permanently **incapable to work for medical reasons. The law exists independently of the Federal Social Welfare Act.**

Persons with disabilities who are 15 or older and who are granted an integration assistance under section 40 para 1 Nos 1 – 3, qualify for an additional needs allowance amounting to 40 % of the relevant standard rate.

Pregnancy

After the 12th week of pregnancy, pregnant women receive an additional needs allowance of 20 % the relevant standard rate.

Expensive nutrition

Persons who need an expensive diet have an appropriate additional needs allowance recognized.

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

“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 well 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 tax credit (Kindergeld)*

The family tax credit is paid to all children up to age eighteen. The period during which the family tax credit 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 EUR 7 188 per year are generally not eligible for family allowance.

Family tax credit (non wastable) is not income-related and is awarded in the form of a monthly payment. It is staggered by the number of the children. The rates applying since 1 January 2002 are EUR 154/month for the first, second and third child, and EUR 179/month for the fourth and subsequent children.

The family tax credit is usually paid out by the local family office, otherwise by the private and public employers. The family tax credit 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 EUR 10 per month in the case of one child and EUR 20 in the case of two or more children.

6.2 *Child-raising allowance (Erziehungsgeld)*

Mothers or fathers who take care of their newly-born children themselves, receive a child-raising allowance of up to EUR 300/month till the end of the 24th month of life of the child. An alternative offer is the payment of a child-raising allowance in the form of a budget of up to EUR 450 per month until the child's first birthday. The mother or father receiving this benefit, is entitled to work up to 30 hours/week. The child-raising allowance is income-dependent. In the first six months after birth, they receive the full rate of EUR 300/month, if the annual net income does not exceed EUR 30 000 (married couples with one child) or EUR 23 000 (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 EUR 16 500 or EUR 13 500 in the case of single parents. For the budget of EUR 450/month the limit of annual net income is EUR 22 086 (married couples with one child) or EUR 19 086 (single parents). The income ceiling rises by EUR 3 140 with each additional child in the family. Child-raising allowance is generally reduced by the amount of maternity allowance paid to workers for the two months following childbirth.

7. Childcare for pre-school children

7.1 *Out-of-pocket childcare fees paid by parents*

Fees differ regionally, i.e. for each *Bundesland*. The fees in the following table are those for *Nordrhein-Westfalen (NRW)*, which country correspondents suggested could be taken as representative for Germany. Fees are **only paid for one child**, irrespective of the number of children per family in child care. There is **no price differentiation between full- and part-time care**, i.e. for the fee in the table a child can stay in care for as many hours as requested by the parents up to the maximum number of hours provided (see table).

Family income per year* in 2002 (in Euro)	Parents' fees (full-time = part-time) 2002 (in Euro)			
	<i>Kindergarten</i> (>3 – 6) at least 35 h/w provided	<i>Kindergarten über Mittag</i> (>3 – 6) at least 42,5 h/w provided, no food	<i>Krippen</i> (<3) at least 42,5 h/w provided	<i>Hort</i> (6 – 14, school children) 35 h/w provided
Up to 12 271 Euro	0 Euro	0 Euro	0 Euro	0 Euro
Up to 24 542 Euro	26,08 Euro	15,85 Euro	68,00 Euro	26,08 Euro
Up to 36 813 Euro	44,48 Euro	26,08 Euro	141,12 Euro	57,78 Euro
Up to 49 084 Euro	73,11 Euro	41,93 Euro	208,61 Euro	83,85 Euro
Up to 61 355 Euro	115,04 Euro	62,89 Euro	276,61 Euro	115,04 Euro
Over 61 355 Euro	151,34 Euro	83,85 Euro	312,91 Euro	151,34 Euro

*Family income per year**: Parents' gross income per year, less Werbungskosten, plus alimony payments, plus non-taxable income, plus government subsidies related to the subsistence of parents and children, less deductible amounts / basic untaxed amounts (Freibeträge) which the state foresees for the second and any further children.

7.2 *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, the cost for children up to the age of 14 years can be deducted as expenses from taxable income if they exceed 1,548 €. The maximum deduction is 1,500 € for jointly assessed spouses.

8. Employment-conditional benefits

Since 1 April 1997 it is possible to receive EUR 13 daily for 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

9.1 Conditions for receipt

9.2 Calculation of benefit amount

9.2.1 Calculation of gross benefit

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 per cent 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 per cent in the case of four or more children under the age of 16. The standard rate for children up to the age of 7 in single parent households amounts to 55 per cent 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.)

9.2.2 Income and earnings disregards

9.3 Tax treatment of benefit and interaction with other benefits

This benefit tops up social assistance. It is granted because the social assistance recipient involved is alone responsible for the child's care and upbringing.

The benefit is treated equally as social assistance benefits in terms of taxation and interaction with other social benefits (cf. 4.3).

9.4 Benefit duration

Depends on the age of the child

9.5 Treatment of particular group

no special treatment for young persons or older workers.

9.5.1 *Young persons*

9.5.2 *Older workers*

9.5.3 *Others if applicable*

10. Tax system

10.1 Income tax

10.1.1 Tax allowances and credits

10.1.1.1 Standard allowances

Standard reliefs and work-related expenses:

- Basic reliefs: none.
- *Standard marital status reliefs*: in the case of joint assessment, specific allowances are doubled. Income tax according to the schedule is computed by the income splitting method.
- *Relief for lone parents*: allowance of EUR 1 308 (household allowance) for taxpayers who live alone with at least one child for whom they receive tax allowances or a tax credit.
- *Reliefs for social security contributions and life insurance contributions*: social security contributions and other expenses incurred in provision for the future (*e.g.* life insurance), are deductible up to specific ceilings.

The calculation of the latter relief proceeds in three steps. First, EUR 3 068/6 136 (singles/couples) are deductible. These amounts are, however, lowered by 16 per cent of gross wage (serving as a proxy for employers' social security contributions). This provision is meant as a partial compensation for the self-employed, who do not receive tax-free employers' contributions to social security. Second, the remaining expenses are deductible up to EUR 1 334/2 668 (singles/couples). Third, half of the remaining expenses are deductible up to EUR 667/1 334 (singles/couples).

- *Work-related expenses*: EUR 920 lump-sum allowance per gainfully-employed person.
- *Special expenses*: lump sum allowance (EUR 36/72 [singles/couples]) for special expenses, *e.g.* for tax accountancy or disbursed church taxes. When the taxpayer proves that his expenses are higher, they are fully deductible.

10.1.1.2 Standard tax credits

- *Relief(s) for children*: tax credit of EUR 1 848 for the first, second and third child, EUR 2 148 for the fourth and subsequent children. In cases where the value of the tax credit is less than the relief from the tax allowances (EUR 1 824 for the subsistence of a child and additionally EUR 1 080 for minding and education or training needs). For jointly assessed married couples the amount is doubled. The tax allowances are used instead to compute the income tax in the tax assessment.

10.1.2 *Income tax schedule*

The German tax schedule is formula-based.

The calculations are based on a down to the next full EUR rounded amount of taxable income.

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

$$Y = \frac{X - 7\,664}{10\,000}$$

$$Z = \frac{X - 12\,739}{10\,000}$$

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

1. $T = 0$ for $X \leq 7\,664$
2. $T = (793.10Y + 1\,600Y)$ for $7\,665 \leq X \leq 12\,739$
3. $T = (265.78Z + 2\,405)Z + 1\,016$ for $12\,740 \leq X \leq 52\,151$
4. $T = 0.45X - 8\,845$ for $52\,152 \leq X$

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).

Solidarity surcharge:

The solidarity surcharge is levied at 5,5 % of the income tax liability, when this liability exceeds an exemption limit of EUR 972/1 944 (singles/couples). Once the income tax liability exceeds the exemption limit, the solidarity surcharge is phased in at a higher rate of 20 per cent of the difference between the income tax liability and the exemption limit till such time that it equals 5.5 per cent of the total liability.

10.1.3 *State and local income taxes*

None

10.2 *Treatment of family income*

Spouses are normally assessed jointly. They have, however, the option of being separately assessed. The income of dependent children is not assessable with that of the parents. The calculations in this report assume joint taxation.

10.3 *Social security contribution schedule*

Employees pay full social security contributions if their annual earnings are greater than EUR 9 600. On earnings up to EUR 4 800, no contributions are made and the contributions are fully phased in between EUR 4 800 and EUR 9 600.

Employees' contributions, paid on individual earnings

Type of insurance	Percentage contribution	On gross earnings up to EUR
Statutory pension	9.75	61 800
Unemployment	3.25	61 800
Health	7.00	41 856
Long-term care	0.85	41 856

The contribution to the unemployment insurance is 6.5% of the gross salary. Employer and employee pay 50% each (3.25%)

10.4 *Treatment of particular group*

10.4.1 *Young persons*

10.4.2 *Older workers*

Employers who establish, for the first time, an employment relationship with a previously unemployed person aged 55 or older are exempt from paying the relevant contributions. The employee who is subject to insurance contributions pays half the contribution which would be payable but for the provision of sentence 1 (section 421 k Social Code Book III).

10.4.3 *Others if applicable*

11. **Part-time work**

There are no general rules within the tax system referring to part-time work. For low paid worker please refer to the OECD-publication “taxing wages”.

11.1 *Special benefit rules for part-time work*

People earning less than EUR 400/month do not qualify for unemployment insurance. 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*

- For earnings up to EUR 400/month the employer pays 25% contribution (12% pension insurance, 11% health insurance, 2% tax). For part-time work in private households the employer's contribution is 12% (5% health and pension insurance, 2% tax). Furthermore the part-time worker has the option to increase the contribution for full entitlement to pension insurance.
- People earning between EUR 400,01 and EUR 800 per month pay contributions increasing by arithmetic progression from 4% to full employee's contribution to all branches of social insurance with full insurance benefits. The employer pays full employer's contribution.

12. Policy developments

12.1 *Policy changes introduced in the last year*

The policy changes explained in 11.2 were introduced with effect from 01.04.03.

From 1 January 2004 the second stage of tax reform 2000 that had been postponed against the background of the 2002 flood catastrophe for one year will come into effect. In addition to this part of the further tax relief planned for 2005 will be brought forward. Furthermore, the basic tax allowance will be increased to € 7,664 and the basic tax rate will be reduced to 16 % while the top rate will fall to 45 %. The top rate is applied only to taxable income in excess of 52,152 €. This will help to mitigate the progressive increase in the tax rate for middle-income earners and in addition there will again, as in 2001, be a general lowering of tax rates. This sends a powerful growth signal to consumers and investors which, in turn boosts domestic growth in particular, promotes job creation and increases the incentives to take up legal employment.

12.2 *Policy changes announced*

To mention forehand is the pension insurance sustainability law which has been enacted on 11. June 2004. It provides

- alterations in the pension adjustment formula, starting to be in effect from 2005. These lead to a closer relation between the development of revenues of the statutory pension insurance from contributions and future pension adjustments and also the consideration of fluctuations between the number of standardized contribution payers and the number of standardized pensioners in respect of the annual pension adjustment,
- stepwise monthly raising of pension age from age 60 to age 63 for elderly (born 1946 or later) unemployed, that means from 2006,
- restrictions in recognizing educational periods when calculating the first pension, starting to be in effect from 2005
- restrictions in the recognition of periods of professional education for new pensions, starting to be in effect from 2005.

To mention also is changes in taxation of pensions and contributions. In short this will mean the stepwise introduction of the principles of deferred taxation in respect of pensions and contributions.

In 2005 the final stage of tax reform 2000 will come into effect. The bottom and top rates of income tax are being further reduced to historical lows of 15 % and 42 %. With the adoption of the law on the reform of the taxation of contributions to pension schemes and old-age pensions in 2004 the German parliament followed the government's proposal of a fundamental reorganisation of the taxation of pensions. The law provides a gradual transition to ex post taxation of pensions paid by the statutory pensions insurance, which will ensure during working life and afterwards that is evenly spread, constitutional to both generations.

On 1st January 2005, the Fourth Modern Services on the Labour Market Act (*Viertes Gesetz für moderne Dienstleistungen am Arbeitsmarkt*) and the Law on the optional funding by municipalities (*Kommunales Optionsgesetz*) introduced the new basic jobseekers allowance.

As a result of the merging of unemployment assistance and social assistance for persons who are able to work, persons in need of aid from the ages of 15 up to but not including 65 who are able to work receive the basic jobseekers allowance (*Grundsicherung für Arbeitssuchende*). Under this reform, persons qualify for the latter allowance if they are able to work and cannot, from their own resources, fully support themselves and their family who live together with the claimant in a need unit. Relatives who share a need unit with a person in need of aid who is able to work and are unable to work themselves can also qualify for benefits.

Social security is ensured under the new system as well. All persons in need of aid who are able to work will be mandatorily covered in the statutory health and long-term care insurance, unless they are already covered by a family insurance. In addition, they are also insured in the statutory pensions insurance on the basis of the minimum contribution. Members of the need unit are also usually insured for health and long-term care through the family insurance.

In an effort to prevent a situation where families have to rely on the basic jobseekers allowance only because of their children, a supplementary child allowance has been established.

As people move from the unemployment benefit to the basic jobseekers allowance, they receive a supplementary allowance which is limited to two years. It amounts to two-thirds of the difference between the last unemployment benefit including rent allowance and the unemployment benefit II (without supplementary allowance). The supplementary allowance is limited to 160 euros for single persons, to 320 euros for spouses/partners who do not live separately, and to 60 euros per child for underage children who live with the person qualifying for the supplementary allowance. The latter is halved after one year and ceases as the second year after the last payment of unemployment benefit ends..

Persons in need of aid usually receive all benefits and services that are necessary to integrate them into work (such as training and qualification measures). Moreover, child care, debtor or addict counselling or psychosocial care are additional integration assistance options.

ANNEX

Proposed addition to country note to facilitate future updates of the tax/benefit model

$$HA = M - (a+b*M+c*Y) * Y \quad [\text{for } HA \geq \text{EUR } 10 \text{ otherwise } 0]$$

Household size (persons)	Parameters of the rent burden function			Income (EUR)	
	a	b	c	Family Y	Maximum ⁰ 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

1. year of construction 1/1/1966-31/12/1991, level of rent: category III.

Note: Lump sum deductions on income are: 6, 10, 20 and 30 per cent.

Rules for calculating procedures and rounding (Annex 2 Housing Benefit Act):

To determine the housing benefit it is indispensable to follow the steps of calculation in the exact order.

- “M” is the rounded monthly rent or home loan repayment to be taken into account (second sentence of Section 2 (1) of the Housing Benefit Act). When converting (“M*”) to “M”, i.e. the unrounded monthly rent or home loan repayment to be taken into consideration for the purposes of Sections 7 and 8 of the Act, the following shall apply:

Where “M*” is less than or equal to 50, “M*” is rounded upward to the next higher full amount in euros that can be divided by 5 without leaving a remainder, provided “M” cannot simply be divided by 5 without leaving a remainder. If “M*” can be divided by 5 without leaving a remainder, “M*” is not changed. 2.5 euros must be subtracted from the resulting amount in all cases.

Where “M*” is greater than 50, “M*” is rounded upward to the next higher full amount in euros that can be divided by 10 without leaving a remainder, provided “M*” cannot simply be divided by 10 without leaving a remainder. If “M*” can be divided by 10 without leaving a remainder, “M*” is not changed. Five euros must be subtracted from the resulting amount in all cases.
- “Y” is the rounded monthly income in euros (third sentence of section 2 (1) of the Act). “Y” is determined by rounding “Y*” upward to the next higher full amount in euros that can be divided by 10 without leaving a remainder, provided it cannot simply be divided by 10 without leaving a

remainder. If “Y*” can be divided by 10 without leaving a remainder, “Y*” is not changed. Five euros must be subtracted from the resulting amount in all cases.

3. 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:

	1-person household	2-person household	3-person household	4-person household	5-person household	6-person household
M	22.5	22.5	27.5	32.5	32.5	32.5
Y	120	150	200	250	285	320
	7-person household	8-person household	9-person household	10-person household	11-person household	12-person household
M	35	35	37.5	37.5	75	155
Y	355	385	555	730	1000	1175

4. The unrounded monthly rent or home-ownership subsidy is obtained by putting the values for “a”, “b”, “c” (Annex 1) and for “M” and “Y” into the formula set out in the first sentence of Section 2 (1) and by carrying out the following three calculations:

Calculation of the decimal numbers

$$z1 = a + b \cdot M + c \cdot Y,$$

$$z2 = z1 \cdot Y,$$

$$z3 = M - z2$$

In carrying out this calculation, the decimal numbers must be calculated as fixed decimal point numbers to ten decimal places.

5. This unrounded monthly rent or home-ownership subsidy must be rounded upward to the next higher full amount in euros if the remaining amount in cents without rounding is greater than or equal to 50; it must be rounded downward to the next lower full amount in euros if the remaining amount in cents without rounding is less than 50.