
DENMARK 2007

1. Overview of the tax-benefit 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 and the number of children 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.

1.1. *Average worker wage (AW)*

The 2007 AW in Denmark is 346 400 DKK¹.

¹ AW refers to the Average Wage estimated by the Centre for Tax Policy and Administration (www.oecd.org/ctp). For more information on methodology see Taxing Wages 2005-2006, OECD, 2007, part 5, sections 2 and 3.

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 **14.798** (DKK **3.415** per week). The minimum monthly benefit is DKK **12.133** (DKK **2.800** per week).

2.2.2 *Income and earnings disregards*

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

2.3 *Tax treatment of benefit and interaction with other benefits*

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

2.4 *Benefit duration*

The benefit period is four years. Educational programs do not qualify for extending the period. To re-qualify for benefits, a minimum of 26 weeks must be spent in paid employment. From 1. January 2007 the benefit period is four years for all members whereas it before 1. January 2007 was 2½ years for members aged over 60. This is the result of a large reform aiming to secure employment and welfare in Denmark for the years to come. The reform also includes immediate and future changes in the early retirement scheme.

2.5 Treatment of particular groups

2.5.1 Young persons

For "new comers" who have joined the insurance immediately after finishing their education the UI benefit amounts to 82 per cent of the maximum UI benefit i.e. DKK **2.800** per week (DKK **12.133** monthly).

The UI benefit for younger persons within the scope of the scheme for young persons (under 25) without sufficient education for the "newcomers" rights amounts to 50 per cent of the maximum UI benefit, per week DKK **1.710** (DKK **7.410** monthly) This legislation was the same in 2003 and previous years.

2.5.2 Older persons

Members of an unemployment insurance fund who have reached the age of early retirement (currently 60 years) and as a main rule have been members of an unemployment insurance fund for 30 years and who have paid contributions for voluntary early retirement in a corresponding period are entitled to voluntary early retirement pay until they reach the retirement age (currently 65 years). The early retirement pay is paid at an individually calculated rate, see section 2.2.1 but for a maximum of 91 per cent of the maximum unemployment benefits which corresponds to DKK **3.110** per week (DKK **13.477** per month) if they go into voluntary early retirement as soon as they reach the age of early retirement (currently the age of 60). If the transition into voluntary early retirement is put off for a minimum of 2 years and if the member in this period has worked for a minimum of 3.120 hours the voluntary early retirement pay is paid at the rate of 100 per cent of the maximum unemployment benefits, see section 2.2.1 corresponding to DKK **3.415** per week (DKK **14.798** per month). Members do not have a duty to be available for work may work for an unlimited number of hours with an hour-to-hour deduction.

2.5.3 Temporary benefit for unemployed persons with a permanently reduced capacity to work, who have been admitted to the so called "flexible-jobs" scheme.

A "flexible-job" is exclusively offered to persons with a permanently reduced capacity to work, who have exhausted all possible offers of rehabilitative training without gaining reentry to the ordinary labour market. In the event of unemployment a temporary benefit ("ledighedsydelse") is paid by the municipality until another "flexible-job" is offered. The "flexible-job" scheme and the "ledighedsydelse" are administered by the municipalities. It is not a requirement for the person to be a member of an unemployment insurance fund. A special early retirement scheme also exist for persons admitted to the "flexible-jobs" scheme.

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

For single people the benefits are calculated for the individual. They amount DKK **11.904** which approximately amounts to 80 per cent of the maximum unemployment insurance benefit for those with dependent children and DKK **8.959** for others which approximately amounts to 60 per cent of the maximum unemployment insurance benefit. For married couples the benefits are based on the income and fortune conditions of both spouses. A married couple with children may get two times DKK 11.904 subtracted any income the couple may earn.

After 6 months the sum of social assistance and housing benefits cannot be higher than DKK **11.904** per person for recipients and their spouses/cohabitants with dependent children and DKK **8.959** for recipients and their spouses/cohabitants without dependant children. For a single person with dependant children the maximum is DKK **14.850**, and for single persons without dependant children the maximum is DKK **11.904**.

Recipients whose spouse is not available for the labour market receive benefit as if he/she was single, with a supplement of DKK 2.786. This particular scheme is and has not been used much. It is abolished so that nobody can receive it after 1. april 2009.

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 **13.00** per hour worked shall not be deducted from the total benefits payable. If there is a reduction on the social assistance for married couples after they have received assistance in 6 months and income from work, a sum of DKK **31,68** per hour worked shall not be deducted from the total benefits

4.3 Tax treatment of benefit and interaction with other benefits

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

4.4 Benefit duration

No limit.

4.5 *Treatment of particular group*

4.5.1 *Young people*

Social assistance for people under the age of 25 who do not reside with one or both parents the benefit is DKK 5.773. It is DKK 2.786 for people under 25 who are residing with one or both parents.

For recipients under 25 years the assistance is reduced after 6 month so that the assistance is DKK 4.852 for people, who do not reside with one or both parents. It is DKK 2.412 for people under 25 who are residing with one or both parents.

4.5.2 *Married couples*

There will be a reduction on the social assistance for married couples after they have received assistance in 6 months. The reduction is DKK 566 per person per month.

4.5.3. In 2002 a kind of qualifying principle was introduced regarding social assistance. It became a condition for receiving social assistance, that the applicant had been a resident in Denmark for the last 7 out of 8 years. If the applicant does not fulfil the obligation he will get starting allowance in stead. The benefit is DKK 4.787 for married people or people living together – each, if they are 25 years or more. It is DKK 5.773 for single people. People with children receive extras for up till two children.

4.5.4 *Calculation of gross benefits - special housing benefits for people receiving social assistance*

For families without children, net rent (gross rent minus general housing benefits) exceeding DKK 2.350 per month is paid. For families with children, all net rent above DKK 3.400 per month per adult is paid, reduced by DKK 650 for each child other than the first. The total amount of social assistance after tax and special housing benefits is subject to one of two maxims, depending either on previous income or the maximum unemployment benefit. The first three month the maximum is previous income after tax. After three months the total amount can never exceed maximum unemployment benefit after tax.

If the sum of special housing benefits and the person's other income after tax exceed DKK 11.904 after tax, total social assistance may not exceed 90 per cent of previous net earnings when in work. When cash benefits have been paid to a person for an uninterrupted period of three months, the sum of special housing benefits and the person's other income after tax must not exceed the amount of maximum unemployment benefit payable under the act on unemployment insurance.

5. Housing benefits

5.1 Conditions for receipt

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

The general housing benefit is divided into two schemes: the first scheme (boligsikring) is primarily aimed at tenants with children and other tenants with high rent. From 2003 this scheme also covers disability pensioned.

The other scheme (boligyldelse) is exclusively for recipients of old age pension and disability benefits (before 2003) and is somewhat more generous.

Special housing benefits are linked to social assistance. In case of a so called “social event” such as unemployment or illness, anyone can in principle become eligible, depending on the household’s income, the rent paid, number of children etc.

5.2 Calculation of benefits

5.2.1 Calculation of gross benefits — general housing benefits

Rent excluding consumption of electricity, gas, and water is corrected for the indicative size of the apartment expressed in square meters. The correction factor is the sum of 45 m² plus 20 m² per household member divided by the actual m². Corrected rent will - if it exceeds certain limits depending on family size - be reduced to a maximum allowed (subsidized) level.

General housing benefits (in DKK), 2007 (boligsikring).

Number of children	0	1	2	3	4 or more
Max. subsidized rent per year	67.400	70.800	74.100	77.500	80.900
Max. benefit per year	15% of the rent, or max. 35.580	35.580	35.580	35.580	44.472

The benefit in the first mentioned scheme (‘boligsikring’) is calculated as the difference between 60 per cent of the subsidized rent and an own payment calculated as 18 per cent of the household income beyond DKK 120.200. Are there two or more children in the household, this threshold is raised by DKK 31.700 per child up to four children (per 2nd, 3rd and 4th child).

Households with children can receive benefits up till DKK 35,580 or DKK 44.472 if there are more than three children in the household (see table above). Households without children face an extra rule after which benefits cannot exceed 15 per cent of the calculated rent.

Regardless of the benefit calculated the household must always pay at least DKK 20.200 out of the payable rent. Otherwise the benefit is reduced accordingly.

Thresholds and parameters in calculation of housing benefits I Denmark (DKK), 2007.

Scheme	Per cent benefits of rent	Threshold	Per cent above	Threshold raised per child (2-4)	Maximum benefit	Minimum own payment
Boligsikring	60	120.200	18	31.700	35.580	20.200
Boligydelse	75	123.700	22½	32.600	36.612	13.100 ¹

¹ And at least 11 percent of household income.

From 2000-2003 the housing benefit scheme where changed significantly and since 2004 benefits are by large granted in the same way and only minor changes have been implemented.

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 13.892 per child aged 0-2; DKK 12.552 per child aged 3-6; and DKK 9.876 per child aged 7-17. The benefit is paid out on a quarterly basis

6.2.2 Income and earnings disregards

Child benefits are not subject to any means test.

6.3 Tax treatment of benefit

Family benefits are not taxable.

6.4 Treatment of particular groups

Lone parents receive normal family benefits but also qualify for additional payments of DKK 4.504 per year (independent of the number of children) plus DKK 4.428 per child aged 0-17. In addition, there is a state transfer of DKK 11 304 per year for each dependent child in case an 'absent parent' does not contribute (this amount) to the family. This transfer is included in the calculations for single parents.

 Parents with multiple births receive DKK 0 for the first child and DKK 7.292 for the following child from 0-6 years of age.

Orphan's supplement: Full orphans receive DKK 25.512 a year; half-orphans receive DKK 12.756.

Children of pensioners supplement: Children of pensioners receive DKK 11.304 a year per child (one pensioner parent) or DKK 12.756 a year per child, plus DKK 4.428 per year independent of the number of children (two pensioner parents). The supplement is paid quarterly and is depending of the income of the parents (only the large supplements of 11.304 and 12.756).

Adoption grant: For the adoption of a foreign child, a single lump sum of DKK 42.007.

Study supplement: A total of up to DKK 5.808 is payable a year for each parent who is studying. The supplement is paid quarterly and is depending of the income of the parents.

7. Childcare for pre-school children

The fraction of children in childcare (by age and type of childcare) is shown in the table below (2006).

	Nursery	Kindergarden	Afterschool centers	Ageintegrated day institutions	Special day care institutions	Family care	day All
0 år	2,1%	0,0%	0,0%	3,3%		9,8%	15,3%
1-2 år	11,9%	3,5%	0,0%	26,7%		45,1%	87,4%
3-5 år	0,1%	50,3%	5,2%	39,7%		0,4%	96,2%

7.1 Out-of-pocket childcare fees paid by parents

The average fee paid per year by parents for full time day-care is shown in the table below. Parents with low incomes pay less (see section 7.2) and there is also a price-reduction if the parent(s) have more than one child in day-care.

	Nursery	Kindergarden	Family day care
0-2	31.427	-	23.630
3-5	-	16.514	-

Childcare fees are not tax deductible

Fees are not taken into account when determining entitlement to benefits such as social assistance, but the fee you pay depend on your income, see section 7.2.

7.2 *Child-care benefits*

7.2.1 *Condition for receipt*

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

7.2.1.1 *Calculation of gross benefit*

For children in the age until school age the proportion can be at a maximum of 25 pct. The parents of a child are from July 1. 2006 guaranteed day-care when the child is 26 weeks until school age.

There is no charge for day-care if the personal income [gross income net of general social security contributions] is below DKK 134.001. From DKK 134.001 to DKK 136.967 the subsidy is 23,75 per cent of the actual expenses in a given day (28,5 per cent for children I the age of 3 year until school age). From that income level, the subsidy is linearly reduced until the full price is paid at a personal income of DKK 415.899, i.e. the subsidy is reduced by 0,25 per cent point for every income increment of DKK 2.967.

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

7.2.2.2 *Income and earnings disregards*

See above

7.2.3 *Tax treatment of benefit and interaction with other benefits*

The benefit is not taxable.

7.2.4 *Treatment of particular groups*

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

8. Employment-conditional benefits

There are no benefits targeted on people in work.

9. Lone-parent benefits

Lone parents receive normal family benefits but also qualify for additional payments of DKK 4.504 per year (independent of the number of children) plus DKK 4.428 per child aged 0-17.

10. Tax system

10.1 Income tax

10.1.1 Tax allowances and credits

10.1.1.1 Standard allowances

If a wage or salary earner has expenses related to earning his income (e.g. transport, trade union membership dues, unemployment premiums) these expenses are fully deductible against taxable income. In this report contributions to unemployment insurance are considered as a standard tax allowance (*and as a social security contribution*).

From 2004 and on there is a tax credit scheme whereby the taxpayer can deduct 2.5 per cent of earned income to a maximum of DKK 7 500 (2007) in the calculation of taxable income. The effective value of the credit is equal to the local income tax rate including the state health contribution of 8% (33.3 per cent on average) multiplied by the value of the deduction.

10.1.1.2 Standard tax credits

Each person is granted a personal allowance, which is converted into a wastable tax credit by applying the marginal tax rate of the first bracket of the income tax schedule. For a person 18 years of age and older the tax credit amounts to:

For central government income tax	5.48 per cent of DKK 39 500 = DKK 2 165
For central government health tax	8.0 per cent of DKK 39 500 = DKK 3 160
For local government income tax and church tax (average rate)	25.314 per cent of DKK 39 500 = DKK 9 999

Special personal allowance for an individual younger than 18 years: DKK 29 300

If a married person cannot utilise the personal allowance, the unutilised part is transferred to the spouse.

10.1.2 Income tax schedule

Low bracket tax to the central government is assessed on the aggregate of personal income and positive net capital income at the rate of 5.48 per cent.

Medium bracket tax to the central government is assessed on the part of the aggregate of personal income and positive net capital income above DKK 272 600, at the rate of 6 per cent. If a married individual cannot utilise the total allowance of DKK 272 600, the unutilised part is transferred to the spouse.

Top bracket tax to the central government is assessed on the excess of DKK 327 200 of the aggregate of personal income and positive net capital income at the rate of 15 per cent. If a married individual cannot utilise the total allowance of DKK 327 200, the unutilised part is not transferred to the spouse.

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 equalled 0.0577 per cent in 2007.

10.1.3 State and local income taxes

The Local Government Reform and the Financing Reform in effect per 1 January 2007 have some implications for the distribution of income taxes between the municipalities and the government. Most importantly, the number of taxation levels has been reduced from three to two as the new regions, as opposed to the counties, cannot impose taxes. As per 1 January 2007 municipalities took over the share of the county revenue that did not correspond to the new state health contribution of 8% - i.e. approx. 4%.

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

The tax base is taxable income. Tax credit varies with tax rates. The average amount is given below including the state health contribution of 8%.

- Lowest rate: 29.21 per cent
- Highest rate: 35.94 per cent
- Average rate: 33.314 per cent (municipalities: 24.577; church: 0.737 and state health contribution of 8)

The average rate is used in this study. It is applied to the tax base less personal allowances.

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

Employees are required to make a fixed contribution of DKK 8 052 for unemployment insurance. From 1999 and on the contribution to unemployment insurance is split into two: one part consisting of the contribution to unemployment insurance (DKK 3 276), while the other part is a voluntary contribution to an early retirement scheme (DKK 4 776).

In this Report, both contributions are included. However, an administration charge paid to the unemployment fund is not included. It varies between funds from DKK 620 to DKK 2 015. The mean charge across all 30 funds in Denmark is approximately DKK 1 330. The typical charge for an industrial worker is DKK 1 600.

Additional social security contributions are assessed on the basis of employees' gross earnings at the rate of 8.0 per cent². Social security contributions are not assessed on social transfers nor on capital income.

Normally a compulsory contribution of 1 per cent of employee's gross earnings is paid to an individual Labour Market Supplementary Pension Scheme established for the employee – this contribution is not considered as a social security contribution rather it is savings being made by the individual. However, in 2006 and 2007 this contribution is suspended (see Section 4). In addition, there is a compulsory fixed contribution to a general Labour Market Supplementary Pension Scheme of DKK 975.6 for workers with at least 117 hours of work each month and their employer makes a corresponding contribution that is double this amount (for workers who work less than 117 hours and at least 78 hours, the rate is DKK 650.5 while for those workers whose hours amount to at least 39 hours but less than 78, the rate is DKK 325). Under this scheme, each employee has a plan and it should be noted that the contribution that is ascribed to this plan is determined by the level of employment and does not necessarily relate to the actual amount described above. For the purposes of this Report, only the fixed contribution amount is considered as a social security contribution.

From 2000 and on the social security contribution is zero. The employer only contributes to a Labour Market Supplementary Pension scheme, which for a full-time employee corresponds to a fixed amount of DKK 1 951.2 (Twice the fixed amount of DKK 975.6 mentioned in Section 2.1

11. Part-time work

11.1 *Benefit rules for part-time work*

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

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

The 8 per cent general social security contribution is proportional to earned income. If the employee is insured part-time, s/he pays two thirds of the unemployment and early retirement insurance contributions. The DKK 975,60 fixed amount supplementary pension contributions are paid in proportion to the number of hours worked per week. Regarding the part-time employees the fixed amount paid is DKK 650,40 for employees working from 78 and up to 117 hours per month, DKK 325,20 for employees working from 39 and up to 78 hours per month and DKK 0 for employees working less than 39 hours per month. Also for these groups the employer pays twice.

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

If the employee is insured part-time, s/he pays two thirds of the unemployment and early retirement insurance contributions. The individual employee decides how much s/he wants to be insured –

² In the *Revenue Statistics* this payment is not reported as a social security contribution, but as a separate type of personal income tax. For presentational reasons it is included here as a social security contribution.

full-time or part-time. The same contribution is paid for everyone - for employed, unemployed, part-time employed and for those who receive benefits and work part-time.

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

12. Policy developments

12.1 *Policy changes introduced during the previous year*

The 1 per cent contributions to the mandatory pension savings scheme are also suspended in 2006-2007.

From the 1st of January 2007 a Local Government Reform has come into force which changes the structure of labour taxation. The reform however had only a minimal impact on the overall level of taxation. The number of municipalities has been cut from 270 to 98 and the 14 counties have been replaced by five regions. The regions will not impose taxes but will be financed through state subsidies and by contributions from the municipalities. The reform implied an increase in the average municipal tax rate from 22.134 per cent in 2006 to 24.577 per cent in 2007; the county tax with an average rate of 10.464 per cent in 2006 has been replaced by a new health care tax of 8 per cent, which is part of state income taxation. The levels of taxation have thus been reduced from three to two: only the state and the local governments now levy taxes.

12.2 *Policy changes announced*

Day care

1 January 2006 the parent payment will be reduced from 33 to 25 pct. of the operating costs for children below 3 years. 1 January 2007 the payment for children from 3 years to school age will equally be reduced to 25 pct.