
DENMARK 2001

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 2001 AW is DKK 292 100.

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 12 740 (DKK 2 940 per week).

2.2.2 Income and earnings disregards

Wages reduce the amount of unemployment benefits (one hour of work reduce the benefit with the value of one hour), 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 the 8 per cent social security but do pay supplementary pension scheme contributions (both the 1 per cent and a 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 maximum 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. Fore members over 60 years the period is 2 ½ year. Periods up to the year of 60 is included.

2.5 Treatment of particular groups

2.5.1 Young persons

The UI benefit amounts to 82 per cent of the maximum UI benefit. The maximum for "new comers" who have joined the insurance immediately after finishing their education is DKK 2 410 per week (DKK 10 443 monthly).

2.5.2 Older workers

Members of an unemployment insurance fund who have reached the age of 60 and have been members of an unemployment insurance fund for 25 years within the last 30 years and who have paid contributions for early retirement in a corresponding period are entitled to early retirement pay until they reach the age of 65. The early retirement pay is paid at an individually calculated rate, see 2.2.1. but for a maximum of 91 per cent of the maximum unemployment benefits which corresponds to

DKK 2 675 per week (DKK 11 593 per month) if they go into early retirement at the age of 60. If the transition into 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 early retirement pay is paid at the rate of 100 per cent of the maximum unemployment benefits, see 2.2.1. corresponding to DKK 2 940 per week (DKK 12 740 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.

3. Unemployment assistance

There is no unemployment assistance in Denmark.

4. Social assistance

4.1 *Conditions for receipt*

A “social event”, such as unemployment, must have taken place; a low income is not in itself a social event. If social assistance is being received due to unemployment, job search will be enforced.

4.2 *Calculation of benefit amount*

4.2.1 *Calculation of gross benefit*

The benefits are calculated for the individual. They amount DKK 10.245 which approximately amount to 80 per cent of the maximum unemployment insurance benefit for those with dependent children and DKK 7.711 for others which approximately amount to 60 per cent of the maximum unemployment insurance benefit. Social assistance amounts can be increased to cover rent payments. Rent in excess of an individual’s own payment is covered (see 5.2.1.).

If the sum of special housing benefits and the person’s other income after tax exceed DKK 10.245 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.

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 11,20 per hour worked shall not be deducted from the total benefits payable.

4.3 Tax treatment of benefit

Recipients of social assistance (SA) pay income tax. They do not pay the 8 per cent social security 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

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

4.5 Treatment of particular groups

4.5.1 Young persons

Social assistance is reduced to DKK 4 969 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 tenancy. Recipients of other benefits may also receive special benefits if a “social event” such as unemployment or illness has made the family eligible for special housing benefits. The general housing benefit scheme contains a special benefit scheme 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 excluding consumption of electricity, gas, and water 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 sum of 65 square meters and 20 square meters per family member exceeding one divided by the actual square meters. Corrected rent will - if it exceeds certain limits depending on family size - be reduced to the maximum rent-level (see table).

General housing benefits

Number of children	0	1	2	3	4 or more
Annual benefit limit	15	30 996	30 996	30 996	38 736
	percent of the rent				
Maximum rent in benefit calculation	58 800	61 700	64 600	67 600	70 500

The benefit is calculated as the difference between 69 per cent of the corrected rent and an own payment calculated from the household income. The own payment is calculated as 7 per cent of household income below DKK 113 500 plus 26,1 percent above this amount. If there is more than one child in the household the threshold is raised with DKK 27 600 per child up to four children. If there are no children in the household the benefit is set to a maximum of 15 per cent of the rent, or DKK 30 996. The maximum benefit is 25 per cent higher if there are four or more children in the household (see table). Regardless of the benefit calculated the household must pay at least DKK 17 600 out of the payable rent. Otherwise the benefit is reduced accordingly.

5.2.2 *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 2050 per month is paid. For families with children, all net rent above DKK 2 500 per month per adult is paid, reduced by DKK 550 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.

5.2.3 *Income and earnings disregards*

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

5.3 *Tax treatment of benefit*

Housing benefits are targeted schemes and are not taxable.

5.4 *Treatment of particular groups*

Another and in most cases more generous housing benefit scheme is paid to pensioners receiving invalidity benefits and old age pensions (*Boligydelse*).

6. Family benefits

6.1 Conditions for receipt

Each child aged 0-17 years qualifies the family for benefits.

6.2 Calculation of benefit amount

6.2.1 Calculation of gross benefit

The annual amounts are DKK 12 100 per child aged 0-2; DKK 11 000 per child aged 3-6; and DKK 8 600 per child aged 7-17.

6.2.2 Income and earnings disregards

Child benefits are not subject to any means test.

6.3 Tax treatment of benefit

Family benefits are not taxable.

6.4 Treatment of particular groups

Lone parents receive normal family benefits but also qualify for additional payments of DKK 3 876 per year (independent of the number of children) plus DKK 3 812 per child aged 0-17. In addition there is a state transfer of DKK 9 720 per year for each dependent child in case an 'absent parent' does not contribute (this amount) to the family. This transfer has been included in the calculations for single parents.

Parents with multiple births (twins) receive DKK 6 272 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

The maximum payable price for public day care is calculated as a proportion of the actual expenses in a given day care facility or as a proportion of the average expenses for all day care facilities of a given type in the municipality. The proportion can be at a maximum of 30 pct. However, if there is guaranteed day care in the municipality, the proportion can be at a maximum of 32 pct.

There is no charge for day-care if the personal income is below DKK 113 501 [personal income concept: gross income net of general social security contributions (9 per cent)]. From DKK 113 501 to DKK 116 012 the subsidy is 95 per cent. From that income level, the subsidy is linearly reduced until the full price is paid at a personal income of DKK 352 101.

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 Income and earnings disregards

The full price will be paid if the parent or parents has an income of approximately 80 per cent of AW earnings or more.

7.3 Tax treatment of benefit

The benefit is not taxable.

7.4 Treatment of particular groups

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

8. Employment-conditional benefits

There are no benefits targeted on people in work.

9. Lone-parent benefits

Lone parents receive additional family benefits (see Section 6), but there is no separate benefit.

10. Income tax and social security contributions

10.1 Income tax schedule

10.1.1 Tax allowances and credits

Work related expenses and social security contributions are fully tax deductible. Each person is granted a personal allowance which is converted into a wastable tax credit. The credit amounts to:

For central government income tax	6.25 per cent of DKK 33 400 = DKK 2 088
For local government income tax and church tax (average rate)	33.2 per cent of DKK 33 400 = DKK 11 089

10.1.2 Definition of taxable income

In the Danish personal income tax system, the income of the individual taxpayer is split into three categories:

- (i) Personal income, which consists of employment income, business income, pensions unemployment benefits and so on.
- (ii) Capital income (e.g. interest payments and dividends received, imputed rent of owner-occupied dwellings); calculated as a net amount.
- (iii) Taxable income – the aggregate of personal income and capital income less deductions (e.g. work-related expenses).

All three categories are relevant for various tax rates, see § 10.1.3.

Employees' basic social security contributions (18 %) and contributions to labour market pension schemes are not included in personal income or taxable income. Unemployment insurance contributions are included in personal income but not in taxable income.

10.1.3 Tax schedule

Low bracket tax to the central government is assessed on the basis of taxable income, at the rate of 6.25 per cent.

Medium bracket tax to the central government is assessed on the part of aggregate personal income and positive net capital income exceeding DKK 177 900, at the rate of 6 per cent. If a married individual cannot utilise the total allowance of DKK 177 900, the unutilised part is transferred to the spouse.

Top bracket tax to the central government is assessed on the excess of DKK 276 900 of the aggregate of personal income and positive net capital income at the rate of 15 per cent.

If the marginal tax rate including local tax but excluding church tax exceeds 59 per cent the top bracket tax rate is reduced by the difference between the marginal tax rate and 59 per cent. At the average local tax rate, this reduction equals 0.75 percent in 2001.

10.2 State and local income taxes

10.2.1 General description

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

10.2.2 Tax base

The tax base is the tax base used for central government income tax assessment. The tax credit varies with tax rates. The average amount is given above.

10.2.3 Tax rates

Lowest rate: 28.2 per cent

Highest rate: 36.3 per cent

Average rate: 33.2 per cent (municipalities: 22.1; counties: 10.4; church: 0.7)

The average rate is used in this report. Total local tax is calculated as a percentage of the tax base less personal allowances.

10.3 Treatment of family income

The tax unit is the individual. Spouses are taxed separately, but the tax liability of a married individual may depend on the spouse's income.

10.4 Social security contributions

Social security contributions are assessed on the basis of employees' gross earnings at the rate of 8 per cent.

A compulsory contribution of a further 1 per cent of employees' gross earnings is paid to a *Labour Market Supplementary Pension Scheme*. The 1.0 per cent contribution to the Labour Market Supplementary Pension Scheme is, from 2001 onwards, ascribed to an individual saving plan. Therefore, from 2001 onwards, it is no longer defined as a tax. (But still it has to be deducted in the base for calculating personal and taxable income). In the tax-benefit model calculations we

nevertheless consider this contribution as a part of total contributions since we are mainly interested in computing take-home pay. *Note:* The base to calculate both the 8 and 1 per cent contributions is gross earnings less the fixed-amount labour markets supplementary pension scheme contributions of DKK 894. (See section 11.2 regarding part-time employees.)

Social security contributions are not assessed on transfers and on capital income.

Other contributions are:

- Labour market supplementary pension scheme: DKK 894
- Unemployment insurance: DKK 2 940
- Early retirement benefit: DKK 4 116

Furthermore there is an administration charge paid to the unemployment fund (together with the DKK 2 940 and DKK 4 116). It varies between the funds. The typical charge for an industrial worker used in the model calculations is DKK 1 566.

11. Part-time work

11.1 Special 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 contributions and the 1 per cent Labour Market Supplementary contribution are 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 894 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 596 for employees working from 78 and up to 117 hours per month, DKK 298 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.

The 1 per cent Labour Market Supplementary contribution is proportional to earned income - and is also paid on benefits (similar to the computation of the 1 per cent Labour Market Supplementary contribution paid on earned income, the fixed amount labour markets supplementary pension scheme contributions needs to be deducted from the base).

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 – 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 in the last year

The Labour Market Reform, which entered into force in 1994, represented a marked shift in focus towards decentralisation, individualisation, and targeted initiatives. This shift was most pronounced with the withdrawal of the right to re-qualify for a period of daily cash benefits during an employability enhancement program. Up until this time, employability enhancement programs were offered at fixed dates during a period of unemployment, and participation in a program provided a new period of daily cash benefits. However, experience showed that this could lead to inappropriate EEPs with standardised programs, which did not take account of the qualifications of the individual or the needs of the local labour market. With the withdrawal of the opportunity to re-qualify for a period of daily cash benefits during EEPs, decentralisation of initiatives, and improved possibilities to base programs on the needs of the individual unemployed person and the opportunities in the local labour market, a good framework for solving past problems was established.

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

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

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

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

12.2 Policy changes announced

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

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