
DENMARK 2004

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 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 2004 AW in Denmark is 316 500 DKK.

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 13.889 (DKK 3.205 per week). The minimum monthly benefit is DKK 11.613 (DKK 2.630 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 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 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. For members aged over 60 the period is 2½ years. Periods up to the age of 60 are 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 2.630 per week (DKK 11.397 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 1.605 (DKK 6.955 monthly) This legislation was the same in 2003 and previous years.

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 section 2.2.1 but

for a maximum of 91 per cent of the maximum unemployment benefits which corresponds to DKK 2.915 per week (DKK 12.632 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 section 2.2.1 corresponding to DKK 3.205 per week (DKK 13.889 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 11.174 which approximately amounts to 80 per cent of the maximum unemployment insurance benefit for those with dependent children and DKK 8.409 for others which approximately amounts to 60 per cent of the maximum unemployment insurance benefit. Social assistance amounts can be increased to cover rent payments.

After 6 months the sum of social assistance and housing benefits cannot be higher than DKK 11.174 per person for recipients and their spouses/cohabitants with dependent children and DKK 8.409 for recipients and their spouses/cohabitants without dependant children. For single persons with dependant children the maximum is DKK 13.939, and for single persons without dependant children the maximum is DKK 11.174.

If it is the case that one of the spouses is not available for the labour market, the other spouse will receive a supplement of 2,630 DKK/month, and the ‘non-available’ spouse will receive no additional social assistance payments.

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 12,21 per hour worked shall not be deducted from the total benefits payable. All other earned income (minus the 8 per cent social security contribution) reduces benefits on a one for one basis.

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 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 persons

Social assistance for persons under 25 who do not reside with one or both parents the benefit is DKK 5.419. It is DKK 2.616 for persons 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 4.506 for persons, who do not reside with one or both parents. It is DKK 2.240 for persons under 25 who are residing with one or both parents.

4.5.2 Married couples

There can be a reduction on the social assistance for married couples after they have received assistance in 6 months. The reduction is DKK 531 per person per month. The first recipients and their spouses had their social assistance reduced in juli 2003.

4.5.3 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 2.200 per month is paid. For families with children, all net rent above DKK 3.200 per month per adult is paid, reduced by DKK 600 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 11.174 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 sub schemes: the first sub scheme is aimed at tenants paying high rent and especially at families with children. This sub scheme is discussed below.

The other sub scheme is exclusively for recipients of old age pension and disability benefits 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, if the household's income is appropriately low. This scheme is discussed above.

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 (150 m² for the calculations in this publication). The correction factor is the sum of 65 m² and 20 m² per family member exceeding one divided by the actual m². Corrected rent will if it exceeds certain limits depending on family size - be reduced to the maximum rent-level (see table).

General housing benefits (in DKK), 2004.

Number of children	0	1	2	3	4 or more
Maximum rent in benefit calculation	64.100	67.300	70.500	73.700	76.900
Annual benefit limit	15 % of the rent or max. 33.828	33.828	33.828	33.828	42.288

The benefit is calculated as the difference between 60 per cent of the corrected rent and an own payment calculated from the household income. The own payment is calculated as 18 per cent of household income beyond DKK 114.300. If there is more than one child in the household the threshold is raised by DKK 30.100 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. The maximum benefit is 25 per cent higher if there are more than three children in the household (see table). Regardless of the benefit calculated the household must pay at least DKK 19.300 out of the payable rent. Otherwise the benefit is reduced accordingly.

Thresholds in the general housing benefit scheme (DKK), 2001-2004.

Year	Per cent own payment	Threshold	Per cent below	Per cent above	Threshold raised per child (2-4)	Maximum benefit	Minimum own payment
2001	69	113.500	7	26,1	27.600	30.996	17.600
2002	66	113.500	5	27,3	28.400	31.920	18.200
2003	63	111.900	2	28,6	29.400	33.036	18.800
2004	60	114.300	0	18,0	30.100	33.828	19.300

Note: Up til 2003 the benefits were calculated as X% of the corrected rent subtracted Y% of income beyond limit, i.e. Housing benefits = X % of (Rent-Y% of Income>Z). In 2004 the formula changes to Housing benefits = X% of Rent - Y% of Income>Z. (Parentheses disappears).

From 2004 and forth the housing benefit is calculated in the same way and only the limits are adjusted to inflation.

5.2.2 Income and earnings disregards

There are no earnings disregards. The sum of special housing benefits and social assistance is reduced with 100 per cent of gross household income (excluding social security contributions).

5.3 Tax treatment of benefit and interaction with other benefits

Housing benefits are targeted schemes and are not taxable.

5.4 Treatment of particular groups

Another more generous housing benefit scheme is paid to recipients of disability 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 in 2004 are DKK 13.204 per child aged 0-2; DKK 11.932 per child aged 3-6; and DKK 9.388 per child aged 7-17. The benefit is paid out on a quarterly basis [also in previous years]

6.2.2 Income and earnings disregards

Child benefits are not subject to any means test.

6.3 Tax treatment of benefit and interaction with other benefits

Family benefits are not taxable.

6.4 Treatment of particular groups

Lone parents receive normal family benefits (see section 6.2.1) but also qualify for additional payments of DKK 4.228 per year (independent of the number of children) plus DKK 4.156 per child aged 0-17. In addition there is a state transfer of DKK 10 608 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 receive DKK 5.128 for the first child and DKK 6.840 for each of the following children from 0-6 years of age.

7. Childcare for pre-school children

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

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 33 pct.

The national average of the actual expenses for public day care for children aged 0 to 10 years old is 40 049 DKR (2004). Pre-school children are aged 0 to 6 years old.

7.2 *Child-care benefits*

7.2.1 *Conditions for receipt*

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

7.2.2 *Calculation of benefit amount*

7.2.2.1 Calculation of gross benefit

There is no charge for day care if the personal income [gross income net of general social security contributions] is below DKK 124.901. From DKK 124.901 to DKK 127.663 the subsidy is 28,5 per cent of the actual expenses in a given day care facility or 28,5 per cent of average expenses for all day care facilities of a given type in the municipality. From that income level, the subsidy is linearly reduced until the full price is paid at a personal income of DKK 387.401, i.e. the subsidy is reduced by 0,3 per cent point for every income increment of DKK 2.763.

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 7.2.2.1).

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 6.4).

10. Tax system

10.1 Income tax

10.1.1 Tax allowances and credits

10.1.1.1 Standard allowances

Work related expenses and social security contributions are fully tax deductible.

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 7 000 in the calculation of taxable income. The effective value of the credit is equal to the local income tax rate (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. The credit amounts to:

For central government income tax	5.5 per cent of DKK 36 800 = DKK2 024
For local government income tax and church tax (average rate)	33.3 per cent of DKK 36 800 = DKK 12 254

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:

1. Personal income, which consists of employment income, business income, pensions unemployment benefits and so on.
2. Capital income (e.g. interest payments and dividends received, imputed rent of owner-occupied dwellings); calculated as a net amount.
3. 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 section 10.1.3.

Employees' basic social security contributions (8 per cent) 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 Income Tax schedule

Low bracket tax to the central government is assessed on the basis of personal income (plus positive net capital income), at the rate of 5.5 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 254 000, at the rate of 6 per cent. If a married individual cannot utilise the total allowance of DKK 254 000, the unutilised part is transferred to the spouse.

Top bracket tax to the central government is assessed on the excess of DKK 304 800 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 304 800, 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 equals 0.1 per cent in 2004.

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 (the rate varies by jurisdiction).

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: 29.5 per cent.

Highest rate: 36.7 per cent.

Average rate: 33.3 per cent (municipalities: 22.129; counties: 10.45; church: 0.733).

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, e.g. the part of the personal allowance and the medium tax allowance which cannot be fully used, can be transferred to the spouse (see 10.1.3).

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 the *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. As an element of the March 2004 fiscal package, the 1 per cent contributions to the mandatory pension savings scheme are suspended in 2004 and 2005.

Note: The base to calculate both the 8 and 1 per cent contributions is gross earnings less the fixed-amount contribution to the Labour Market Supplementary Pension Scheme of DKK 895. (See section 11.2 regarding part-time employees.)

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

Other annual contributions are:

- Labour Market Supplementary Pension Scheme: DKK 895
- Unemployment insurance: DKK 3.075
- Early retirement benefit: DKK 4.491

Furthermore there is an administration charge paid to the unemployment fund (together with the DKK 3.075 and DKK 4.491). It varies between the funds. The typical charge for an industrial worker used in the model calculations is DKK 1.602 (the same as in 2002).

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 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.

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 during the previous year

Family benefits

In 2004 there was made an adjustment of the multiple birth allowance. Before that there was an allowance for every child in a multiple birth. In the future there will only be one multiple birth allowance to twins, two multiple birth allowances to triplets etc. The adjustment will be implemented by reducing one of the earlier multiple birth allowance over a period of 4 years.

The reducing are implemented in the following way:

- In 2004 there will be paid $\frac{3}{4}$ of the full allowance to the first child
- In 2005 there will be paid $\frac{1}{2}$ of the full allowance to the first child
- In 2006 there will be paid $\frac{1}{4}$ of the full allowance to the first child

- In 2007 and the following years there will be no multiple birth allowance to the first child.

12.2 Policy changes announced

It is announced that the 1 per cent contributions to the mandatory pension savings scheme probably also will be suspended in the years to come.