

## DENMARK 2009

### 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 2009 AW in Denmark is 367051 DKK<sup>1</sup>.

### 2. Unemployment insurance

Unemployment insurance is voluntary. The general condition is membership of an insurance fund for the last year. Unemployment insurance includes both employees and self-employed. There are particular rules for self-employed relating to both calculations of benefits and employment conditions. Below we only describe the legislation for employees.

A person can receive unemployment benefits until he reaches his retirement age presently 65 years.

#### 2.1 *Conditions for receipt*

The unemployed person must be registered with the public employment service as a job seeker and be available for work.

Another element is that the PES must interview each unemployed member every 3<sup>rd</sup> month in order to control that members receiving unemployment benefits are available for the labour market.

Unemployed UI members have to register once a week at 'Jobnet' to confirm they are still unemployed and available for the labour market.

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<sup>1</sup> AW refers to the Average Wage estimated by the Centre for Tax Policy and Administration ([www.oecd.org/ctp](http://www.oecd.org/ctp)). For more information on methodology see *Taxing Wages 2007-2008*, OECD, 2008, part 4, sections 2 and 3.

If the job loss is 'voluntary' the person will not receive unemployment insurance benefits for the first 3 weeks.

### *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 satisfied 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 15,708 (DKK 3,625 per week). The minimum monthly benefit is DKK 12,892 (DKK 2,975 per week).

### *2.2 Income and earnings disregards for benefit recipients and those starting a new job*

Wages reduce the amount of unemployment benefits (one hour of work reduces the benefit by the value of one hour).

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

Unemployment 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 unemployment 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 and waiting periods**

The benefit period is four years within six 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 within the duration of 3 years.

## **2.5 Supplementary benefits**

A member who is working reduced hours may receive supplementary benefits for a limited period if the employer waives any notice of termination. Supplementary benefits are paid on the basis of the member's individual rate of unemployment benefits. A person who is working part-time on a permanent basis may receive supplementary benefits for 30 weeks within a period of 104 weeks. It is also possible to receive supplementary benefits in connection with temporary lay-offs due to bad weather or lack of materials, unless the employer has a duty to pay a special benefit compensation.

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## **2.6 Treatment of particular groups**

### **2.6.1 Young persons**

For graduates who have joined the UI immediately after graduating the unemployment benefit amounts to 82 per cent of the maximum unemployment benefit i.e. DKK 2,975 per week (DKK 12,892 monthly).

The unemployment benefit for younger persons (under 25) without sufficient education for the “graduate” rights amounts to 50 percent of the maximum unemployment benefit, per week DKK 1,815 (DKK 7,865 monthly)

### **2.6.2 Older workers**

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 3,300 per week (DKK 14,300 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 3,625 per week (DKK 15,708 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.

**2.6.3 Temporary benefit for unemployed persons with a permanently reduced capacity to work, who have been admitted to the so called “flexible -job” 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 exists for persons admitted to the flexiblejob scheme.

## **3. Unemployment assistance**

There is no unemployment assistance in Denmark (see social assistance below).

## **4. Social assistance**

Payment rates are depending on the ages, so that people between 18 and 24 year old receive less than people who are 25 years or more.

### **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.

The Danish system is for both people who are ready for the labour market and people who have other problems than unemployment. For people who are ready for the labour market job-search is a

condition for becoming (and remaining) entitled to the benefit. The other group has to satisfy other conditions such as sickness treatment and/or activation to be entitled.

Social assistance is the lowest security net in the Danish system, but low income as such is not a condition for becoming entitled to social cash benefits. It is possible to “top-up” low unemployment benefits, but normally people who are entitled to unemployment benefit do not satisfy the conditions for receiving cash benefit (i.e. cash benefit is depending on savings and spouse income and savings) and normally the unemployment benefit is higher than cash benefit.

## 4.2 *Calculation of benefit amount*

### 4.2.1 *Calculation of gross benefit*

For single people the benefits are calculated for the individual. The benefit amounts to DKK **12,629** which approximately corresponds to 80 per cent of the maximum unemployment insurance benefit for those with dependent children and DKK **9,505** for others which approximately corresponds to 60 per cent of the maximum unemployment insurance benefit. For married couples the benefits are based on the income and savings of both spouses. A married couple with children may get two times DKK 12,629 subtracted any income the couple earn.

After 6 months the sum of social assistance and housing benefits cannot be higher than DKK **12,629** per person per month for recipients and their spouses/cohabitants with dependent children and DKK **9,505** for recipients and their spouses/cohabitants without dependant children. For a single person with dependant children the maximum is DKK **15,755**, and for single persons without dependant children the maximum is DKK **12,629**.

#### 4.2.1.1 *Irregular additional payments*

The municipal authority may provide assistance towards reasonable individual expenses incurred by a person due to a change of circumstances if the payment of such expenses by the person concerned would seriously reduce the possibilities of that person and his/her family of providing for themselves in future. Normally assistance shall only be granted if the expense has arisen as a result of unforeseeable needs. Provided always that, having considered the individual circumstances of each case, the municipal authority may exceptionally cover foreseeable expenses where the payment of such expenses is of vital importance to the status of the person concerned or his/her family.

The municipal authority may provide assistance towards any health care expenses, medicine, dental treatment, etc., which are not covered under any other legislation if the claimant is financially incapable of paying such expenses. Assistance shall only be granted if the treatment is necessary and reasonable on health grounds. Only exceptionally will assistance be provided towards health care. The municipal authority may provide assistance towards expenses incurred in connection with the claimant's exercise of access rights to his/her own children under 18 who are not living with the claimant. It is a condition of assistance being provided hereunder that the claimant is financially incapable of paying the said expenses.

The municipal authority may provide assistance towards travel costs for the purpose of maintaining contact with children who have been removed to another country without the consent of the custodial parent. It is a condition that the matter has been reported to the Danish police, and that the municipal authority has presented the case to the Ministry of Foreign Affairs. It is also a condition that the custodial parent is financially incapable of paying the said costs.

The municipal authority may provide assistance towards the expenses of maintaining a child where upon the death of the custodial parent custody has been awarded to one or more persons who are not subject to a

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duty to maintain the child. It is a condition that the child's income, including special child benefits under the Act on Child Benefits Act and advance payment of child maintenance, is not sufficient to cover the necessary expenses for maintaining the child.

The municipal authority may provide assistance for any relocation for the purpose of improving the housing or employment situation of the claimant or his/her family. It is a condition that neither the claimant nor his/her spouse is financially capable of paying the expenses.

If the claimant is moving to another country, it is a condition of assistance being provided by the municipal authority that the claimant is a national of or has a particular connection to the country in question, or that the claimant has been secured permanent employment opportunities in the said country.

Upon application the municipal authority shall pay a survivor's allowance to any person whose husband/wife or cohabiting partner has died.

Payment of the allowance shall be subject to the surviving dependant having cohabited with the deceased at a joint address in Denmark for the last three years immediately preceding the death.

The maximum amount of the allowance is DKK 10,000, and it shall be payable to any dependent survivor whose estimated annual income does not exceed DKK 160,000. If the estimated annual income exceeds the amount set out in the first sentence hereof, the allowance will be reduced, and if the estimated annual income exceeds DKK 250,000, no survivor's allowance shall be payable.

The calculation of the estimated annual income shall include the survivor's estimated personal annual income, including any amounts devolving on the survivor as a result of the death. In addition, any property or property rights of the survivor exceeding DKK 100,000, including any property rights vesting as a result of the death. Where there is no administration of the estate, any property and property rights belonging to the deceased and his/her surviving spouse exceeding DKK 100,000 will be included. The amounts to be calculated according to the second and third sentences hereof shall be included at 30 per cent.

The allowance will be paid as soon as possible following the date of application.

Where there are indications that the estimated annual income of the surviving dependant can only be established with considerable uncertainty, the dependant's allowance will be payable by an amount on account.

In the case of persons who are subject to the rules set out in the Act on Payment of Property Taxes, the difference between the amount of survivor's allowance hereof and a calculation whereby the allowance is calculated subject to deductions of any property and property rights consisting of immovable property and serving as the survivor's dwelling may be granted by way of a loan subject to prior application. Any such loan will be granted subject to the rules provided for by the Act on Loans Granted for the purpose of Payment of Property Taxes.

To the extent that it follows from Council Regulation No. 1408/71 of 14 June 1971 and the associated EEA Agreement, the provisions on survivor's allowance shall be dispensed with in respect of any persons covered by Danish social security legislation under this Regulation and the EEA Agreement.

The Minister for Social Affairs shall lay down rules governing the definition of recipients, calculation of income and property, adjustment and subsequent of the allowance, including rules governing procedures in connection with the granting of loans, hereof. In addition, the Minister for Social Affairs shall lay down

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rules governing the decision-making powers, etc., for persons covered by Council Regulation No. 1408/71 of 14 June 1971 and the associated EEA Agreement.

#### *4.2.1.2 Obligations of family members*

As mentioned social assistance is family based, so the obligation to be available for the labour market/activation for the applicant is the same for any spouse, but not for any children.

If a spouse refuses to satisfy the conditions for getting social assistance, none of the spouses can get social assistance.

To ensure availability spouse who are not unable to work is entitled to social assistance, if he/she has had ordinary work for 300 hours within the last two years. If neither of the spouses has worked at least 300 hours, only one of the spouses loses the social assistance after 2 years. To avoid losing the social assistance both spouses have to satisfy the 300H requirement. The couple get the same amount, whether one spouse or both do not satisfy the 300H requirement. This rule will change around med 2011.

#### *4.2.2 Income and earnings disregards for benefit recipients and those starting a new job*

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 **13.79** per hour worked shall not be deducted from the total benefits payable. Work hours per day should be 7.4 (rather than 8). 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 **33.61** per hour worked shall not be deducted from the total benefits. The total number of hours for which the said amount may be ignored shall not exceed 160 hours per month per person.

### *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 and waiting periods*

No limit.

There is a waiting period of 7 years if you arrive from abroad. In the waiting period the applicant can get starting allowance.

### *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 **6,124**. It is DKK **2,956** for people under 25 who are residing with one or both parents.

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For recipients under 25 years the assistance is reduced after 6 month so that the assistance is DKK **5,177** for people, who do not reside with one or both parents. It is DKK **2,574** 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 600 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 satisfy the obligation he will get the starting allowance instead. The benefit is DKK 5,079 for married people or people living together – each, if they are 25 years or more. It is DKK **6,124** for single people. People with children receive extra for up to 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 **2,450** per month is paid. For families with children, all net rent above DKK **3,600** 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 maxima, 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 **12,629** 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.

#### 4.5.4 *Older workers*

There are no rules for older workers in this scheme.

#### 4.5.5 *Others if applicable*

No special schemes.

## **5. Housing benefits for rented accommodation**

### **5.1 *Conditions for receipt***

There are two housing benefits in Denmark: “boligsikring” and “boligydelse”.

The first scheme “boligsikring” is primarily aimed at tenants with children and/or tenants with high rent and low income, i.e. typically single persons, no kids. However from 2003 this scheme also covers disability pensioned persons, if pension is granted according to the rules implemented January 2003.

The second – and most expensive – scheme “boligydelse” is only for recipients of old age pension and disability benefits (pension rules before 2003). This scheme is considerably more generous than rent subsidy and is dominant in the field of housing for elderly people.

The housing benefits are in general depending on the household’s income, the rent itself, number of children amongst a lot of individual criteria – and as mentioned above whether there is a pensioner in the house or not.

## 5.2 Calculation of benefits

### 5.2.1 Calculation of gross benefits — general housing benefits

#### General terms:

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 m<sup>2</sup> plus 20 m<sup>2</sup> per household member divided by the actual m<sup>2</sup>. Corrected rent will - if it exceeds certain limits depending on family size - be reduced to a maximum allowed (subsidized) level.

#### **Thresholds and parameters in calculation of housing benefits (in DKK), 2009**

Scheme	Per cent benefits of rent	Threshold	Per cent above	Threshold raised per child (2-4)	Maximum benefit	Minimum own payment
Boligsikring	60	124,600	18	32,800	36,876	21,000
Boligydelse	75	132,000	22½	34,800	39,060	14,000 <sup>1)</sup>

<sup>1)</sup> And at least 11 percent of accumulated household income.

#### “Boligsikring”:

The maximum subsidized rent is DKK 69,900 for household with no children and increasing by 5 percent per child.

#### **General housing benefits – rent subsidy (boligsikring) (in DKK), 2009**

Number of children	0	1	2	3	4 or more
Max. subsidized rent per year	69,900	73,400	76,900	80,800	83,400
Max. benefit per year	15% of the rent, or max. 36,876	36,876	36,876	36,876	46,092

For households in the “boligsikring” scheme the subsidy is calculated as 60 percent of the rent deducted by 18 percent of the household income beyond DKK 124,600. However as a special case for household with no kids (or pensioners) the subsidy can not exceed 15 percent of the rent.

For households with children the rent subsidy is calculated as 60 percent of the rent deducted by 18 per cent of the household income beyond DKK 142,600. Is there more than one child in the household, this threshold is raised by DKK 32,800 per child number 2, 3 and 4 and so on.



Households in this scheme can receive housing benefits up till DKK 36,876. If there are more than three children in the household, this amount is raised by 25 percent to DKK 46,092.

Regardless of the benefit calculated the household must always pay at least DKK 21,000 out of the payable rent. Otherwise the benefit is reduced accordingly.

#### ”Boligydelse”:

For all households the rent allowance is calculated as 75 percent of the rent, deducted by 22.5 percent of the household income beyond DKK 132,000. Are there two or more children in the household, this threshold is raised by DKK 34,800 per child (only per 2nd, 3rd and 4th child).

Households can receive benefits up till DKK 39,060. If there are more than three children in the household, this amount is always 25 percent higher. If pensioners are referred to specific housing due to specific needs, there is no limit to this amount.

Regardless of the benefit calculated the household must always pay at least DKK 14,000 out of the payable rent or 11 percent of the household income. Otherwise the benefit is reduced accordingly.

### **5.3 Tax treatment of benefit and interaction with other benefits**

All housing benefits are non-taxable.

### **5.4 Treatment of particular groups**

There are no housing benefits exclusively for young people, older workers or others. These groups are entitled to rent subsidy on the same terms as other applicants, with no regards to age. Income, capital, rent, size of the apartment and number of children (if any) are the only factors which are taken into account when measuring out the rent subsidy.

Physically handicapped persons fall under the same rules. However, there are favourable adjustments in some rates and percentage rules, meaning that larger housing and higher rent is subsidised.

## **6. Family benefits VFM**

### **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 16,428 per child aged 0-2; DKK 13,004 per child aged 3-6; and DKK 10,232 per child aged 7-17. The benefit is paid out on a quarterly basis.

#### **6.2.1.1 Irregular additional payments**

#### **6.2.2 Income and earnings disregards**

Child benefits are not subject to any means test.

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### 6.3 Tax treatment of benefit and interaction with other benefits

Family benefits are not taxable.

### 6.4 Treatment of particular groups

#### 6.4.1 Young persons

#### 6.4.2 Older workers

#### 6.4.3 Others if applicable

Lone parents receive normal family benefits, but also qualify for additional payments of DKK 4,780 per year (independent of the number of children) plus DKK 4,696 per child aged 0-17.

Parents with multiple births receive DKK 0 for the first child and DKK 7,736 for the following child from 0-6 years of age.

Orphan's supplement: Full orphans receive DKK 27,072 a year; half-orphans receive DKK 13,536.

Children of pensioners supplement: Children of pensioners receive DKK 11,988 a year per child (one pensioner parent) or DKK 13,536 a year per child, plus DKK 4,696 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 11,988 and 13,536).

Adoption grant: For the adoption of a foreign child, a single lump sum of DKK 44,565.

Study supplement: A total of up to DKK 6,160 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 VFM

The fraction of children in childcare (by age and type of childcare) is shown in the table below (2008).

Age	Nursery	Kindergarde n	Afterschool centers	Special day		Family day care	All
				Ageintegrate d day institutions	careinstitutions (2006)		
0	1,4%	0,0%	0,0%	4,8%	0,0%	10,5%	16,8%
1-2	8,6%	3,1%	0,1%	35,7%	0,2%	42,8%	90,4%
3-5	0,0%	43,5%	6,5%	47,8%	0,4%	0,2%	97,0%

Compulsory schooling starts the year the child turns 6 years.

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## **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	33.526	-	26.043
3-5	-	17.757	-

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 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*

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 143,001. From DKK 143,001 to DKK 146,166 the subsidy is 23.75 percent of the actual expenses in a given day. From that income level, the subsidy is linearly reduced until the full price is paid at a personal income of DKK 443,800, i.e. the subsidy is reduced by 0.25 percentage point for every income increment of DKK 3,166.

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 VFM

Lone parents receive normal family benefits but also qualify for additional payments of DKK 4,780 per year (independent of the number of children) plus DKK 4,696 per child aged 0-17 (section 6.4.3). In addition, there is a state transfer of DKK 11,988 per year for each dependent child in case an 'absent parent' does not contribute (this amount) to the family. The state advances the money and then demands the absent parent to pay it in full or in part. This transfer is included in the calculations for single parents.

The alimony payment consists of a basic amount which is DKK 11,988 /year and a supplement which is DKK 1548 /year (2009 numbers). All together for each child the alimony payment is DKK 13.536 /year.

Every year a set of guidelines are published, which suggest the size of income that leads to a raise in the alimony payment. It is important to emphasise that it is only a recommendation, not a fixed rule.

According to the guidelines, the alimony payment is raised with 25 percent of the basic amount, when an absent parent with one child earns more than DKK 360,000 /year. This income limitation is raised according to the number of children of the absent parent.

The percentage of the basic amount, which is added, is raised according to the income of the absent parent, up to 300 %

The table below shows the suggested income limits for 2009

<b>Alimony payment +</b>	<b>1 child</b>	<b>2 children</b>	<b>3 children</b>	<b>4 children</b>	<b>5 children</b>
<b>25 %</b>	app. 360.000 kr.	app. 385.000 kr.	app. 420.000 kr.	app. 465.000 kr.	app. 530.000 kr.
<b>50 %</b>	app. 385.000 kr.	app. 420.000 kr.	app. 465.000 kr.	app. 530.000 kr.	app. 610.000 kr.
<b>100 %</b>	app. 420.000 kr.	app. 465.000 kr.	app. 530.000 kr.	app. 610.000 kr.	app. 725.000 kr.
<b>200 %</b>	app. 6-700.000 kr.	app. 7-800.000 kr.	app. 8-900.000 kr.	<b>app. 0,9-1,0 mill. kr.</b>	<b>app. 1,0-1,1 mill. kr.</b>
<b>300 %</b>	app. 1,0-1,2 mill. kr.	app. 1,2-1,4 mill. kr.	app. 1,4-1,6 mill. kr.	<b>app. 1,6-1,8 mill. Kr.</b>	<b>app. 1,8-2,0 mill kr.</b>

### 9.1 Conditions for receipt

All parents who in reality are lone-parents are in titled to the benefit.

## 9.2 Calculation of benefit amount

*The benefit is not affected by parent income.*

## 9.3 Tax treatment of benefit and interaction with other benefits

The benefit is not taxable.

## 9.4 Benefit duration

As long as the parent in reality are a lone-parent, they are entitled to the benefit

# 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. The effective value of the deductions is equal to the municipality tax (24.8 pct.), the church tax rate (0.7 pct.) plus the 8.0 pct. health tax rate that is paid to the state (33.5 pct. on average) multiplied by the value of the deduction. In this report contributions to unemployment insurance are considered as a standard tax allowance (*and as a social security contribution*).

The tax credit scheme allows the taxpayer to deduct 4.25 pct. of earned income to a maximum of DKK 13,600 in order to calculate taxable income. The effective value of the credit is the same as for the deductible expenses.

#### 10.1.1.2 Standard tax credits

Each person is granted a personal allowance, which is converted into a 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	5.04 per cent of DKK 42 900 = DKK 2 162
For central government health tax	8.0 per cent of DKK 42 900 = DKK 3 432
For local government income tax and church tax (average rate)	25.549 per cent of DKK 42 900 = DKK 10 961

Special personal allowance for an individual younger than 18 years: DKK 32 200.

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 5.04 pct.

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 347 200, at the rate of 6 per cent. If a married individual cannot utilise the total allowance of DKK 347 200, the unutilised part is transferred to the spouse.

Top bracket tax to the central government is assessed on the excess of DKK 347 200 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 347 200, 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 per cent in 2009.

### 10.1.3 *State and local income taxes*

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: 22.7 per cent
- Highest rate: 27.8 per cent
- Average rate: 25.549 per cent (municipalities: 24.818; church: 0.731 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 8 556 for unemployment insurance. From 1999 onwards, the contribution for unemployment insurance is split into two: one part consists of the contribution for unemployment insurance (DKK 3 480) while the other part consists of a voluntary contribution to an early retirement scheme (DKK 5 076).

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 696 to DKK 1 817. The mean charge across all 29 funds in Denmark is approximately DKK 1 338. The typical charge for an industrial worker is DKK 1 338.

Additional social security contributions are assessed on the basis of employees' gross earnings at the rate of 8.0 per cent<sup>2</sup>. Social security contributions are not assessed on social transfers nor on capital income.

Normally, a compulsory contribution of 1 per cent of employees' 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 but rather as savings being made by the individual. However, from 2004 to 2009, this contribution was suspended and from 2010 onwards it is cancelled. In addition, there is a compulsory fixed contribution to a *general* Supplementary Pension Scheme of DKK 1080 for workers who work at least 117 hours per month; their employer makes a corresponding contribution that is double this amount (for workers who work less than 117 hours but not less than 78 hours, the rate is DKK 720; for workers who work less than 78 hours but not less than 39 hours, the rate is DKK 360). 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 of DKK 1 080 is included in the tax calculations.

From 2000 and on the employer social security contribution is zero. The employer only contributes to a *general* Labour Market Supplementary Pension scheme, which for a full-time employee corresponds to a fixed amount of DKK 2 160 (Twice the fixed amount of DKK 1 080 mentioned above).

## **11. Part-time insurance**

### ***11.1 Special benefit rules for part-time insurance***

The general condition is membership of an insurance fund for the last year. After 34 weeks of full-time work within the last three years, the employee is entitled to benefits immediately on becoming unemployed. The maximum unemployment benefit is reduced to two-thirds.

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

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 1 080 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 720 for employees working from 78 and up to 117 hours per month, DKK 360 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.

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<sup>2</sup> 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.

Reference date for all information is 2009

Country chapter for OECD series *Benefits and Wages* ([www.oecd.org/els/social/workincentives](http://www.oecd.org/els/social/workincentives))

The fixed amount paid to the *general* 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 *general* Supplementary Pension Scheme. Typically this amount is DKK 1.28 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 after July 1<sup>st</sup>*

In 2009 the earned income tax credit was increased from 4 % to 4.25 %, the personal allowance was increased from DKK 42 400 to DKK 42 900 and the middle tax bracket allowance was increased from DKK 289 300 to DKK 347 200. Furthermore, savings of almost DKK 50 billion in the compulsory supplementary pension scheme in place from 1998-2003 can be withdrawn in 2009 with a favourable tax treatment.

Finally the bottom tax is adjusted from 5.48 % to 5.04 % in 2009 to compensate for an increase in the average municipality tax in 2008. Half of this reduction only applies to 2009.

### 12.2 *Future policy changes announced after July 1<sup>st</sup>*

In 2009 the government initiated a major tax reform to be phased in from 2010 to 2019. The reform aims at reducing the high marginal tax rates on personal income and thus to stimulate labour supply in the medium to long-term. The tax reform is planned to be revenue neutral as a whole, but is underfinanced in the short run in order to stimulate the economy. The reform contains tax cuts of DKK 29 billion in 2010 and the financing is DKK 13 billion lower in 2010.

The main measures taken in 2010 include the reduction of the rate of the bottom tax from 5.26 % to 3.76 %, abolition of the medium tax bracket with the 6 % rate altogether, and an increase in the top tax bracket threshold by DKK 28 800. The top tax threshold will be further increased by DKK 19 100 in 2011. The reform will decrease the lowest marginal tax rate from 42.4 pct. to 41.0 pct. and the highest marginal tax rate from 63.0 pct. to 56.1 pct.

The reform is partly financed by higher energy, transport and environmental taxes to support the energy and climate policy objectives of the government, and also by increases of excise rates on health-related goods. These increases are partly compensated to the households by giving a 'green check' of DKK 1 300 to everybody above 18 years and DKK 300 per child for up to two children. The 'green check' is nominally fixed and is rapidly phased out for income above DKK 360 000.

Broadening of the tax base is another main source financing the reform. The measures include a gradual reduction from 2012 to 2019 of the tax value from 33.5 pct. to 25.5 pct. of assessment oriented deductions and limitations of the tax deductibility of net interest payments over a nominal threshold of DKK 50 000 (DKK 100 000 for married couples).



## ANNEX

### DEFINITION OF SOCIAL SECURITY CONTRIBUTIONS AND PAYROLL TAXES.

The following text has been adapted from Annex A of the OECD *Revenue Statistics*.

#### **Social security contributions to general government**

Classified here are all compulsory payments that confer an entitlement to receive a (contingent) future social benefit. Such payments are usually earmarked to finance social benefits and are often paid to institutions of general government that provide such benefits. However, such earmarking is not part of the definition of social security contributions and is not required for a tax to be classified here. However, conferment of an entitlement is required for a tax to be classified under this heading. So, levies on income or payroll that are earmarked for social security funds but do not confer an entitlement to benefit are excluded from this heading and shown under personal income taxes or taxes on payroll and workforce. Taxes on other bases, such as goods and services, which are earmarked for social security benefits are not shown here [...] because they generally confer no entitlement to social security benefits.

Contributions for the following types of social security benefits would, *inter alia*, be included: unemployment insurance benefits and supplements, accident, injury and sickness benefits, old-age, disability and survivors' pensions, family allowances, reimbursements for medical and hospital expenses or provision of hospital or medical services. Contributions may be levied on both employees and employers.

#### **Social security contributions paid to institutions outside general government**

Contributions to social insurance schemes which are not institutions of general government and to other types of insurance schemes, provident funds, pension funds, friendly societies or other saving schemes [are included here if they are compulsory or quasicompulsory (e.g., by virtue of agreement with professional and union organisations)]. Provident funds are arrangements under which the contributions of each employee and of the corresponding employer on his/her behalf are kept in a separate account earning interest and withdrawable under specific circumstances. Pension funds are separately organised schemes negotiated between employees and employers and carry provisions for different contributions and benefits, sometimes more directly tied to salary levels and length of service than under social security schemes.

#### **Payroll taxes**

This heading covers taxes paid by employers or employees either as a proportion of payroll or as a fixed amount per person, and which do not confer entitlement to social benefits. Examples of taxes classified here are the United Kingdom national insurance surcharge (introduced in 1977), the Swedish payroll tax (1969-1979), and the Austrian Contribution to the Family Burden Equalisation Fund and Community Tax.