

GERMANY

1. Overview of the system

Unemployment insurance and unemployment assistance benefits are related to previous income levels and are augmented when there are dependent children. Social assistance guarantees a minimum income level. Family benefits are income tested. Families and individuals with high rents and low incomes may receive housing benefits, remaining rent payments can be fully covered by social assistance. The tax unit is the couple. The 1995 APW earnings level is DM 56 344.

2. Unemployment insurance

2.1 *Conditions for receipt*

Claimants have to be between 18 and 65 years of age and have to be registered unemployed looking and available for work. Unemployment insurance is compulsory.

2.1.1 *Employment conditions*

A claimant must have worked at least 360 calendar days in the last 3 years to be eligible.

2.1.2 *Contribution conditions*

Contributions must have been made for at least 12 months.

2.2 *Calculation of benefit amount*

2.2.1 *Calculation of gross benefit*

The benefit is paid to the individual. The replacement rate depends on family status. The standard rates are 60 per cent of their previous earnings net of tax, and 67 per cent for a worker who receives tax allowance for at least one dependent child. The monthly ceilings are 60 per cent and 67 per cent of DM 7 800 respectively. The day-to-day administration is based on applicants' before tax incomes using simplified income tax assumptions. Benefits are calculated as if all workers are paying church tax (which is not the case) and possible 13th month salary payments are not included in the reference earnings. OECD calculations define "net income" as gross earnings minus income tax,

minus deductible social security contributions minus the tax allowance for work-related expenses (see 10.1.1).

2.2.2 *Income and earnings disregards*

50 per cent of the supplementary income from part-time employment or self-employment is deducted from unemployment insurance benefits if it exceeds DM 30/week, net of income tax, social security contributions and work related expenses. Working more than 18 hours a week ends all entitlements. If the remaining UI benefit, together with the net earned income exceed 80 per cent of the net reference income, the supplementary income will be fully deducted from the UI benefit.

2.3 *Tax treatment of benefit*

Unemployment insurance pays a net benefit: it is not taxable.

2.4 *Benefit duration*

There is no waiting period. The duration of payment depends on age and employment record according to the following table. Benefits are paid 6 days per week.

Contribution period (days)	Employment period (years)	Benefit payment duration (weekdays exc. Sundays) varying with age				
		under 42	over 42	over 44	over 49	over 54
360	3	156	156	156	156	156
480	7	208	208	208	208	208
600	7	260	260	260	260	260
720	7	312	312	312	312	312
840	7		364	364	364	364
960	7		416	416	416	416
1080	7		468	468	468	468
1200	7			520	520	520
1320	7			572	572	572
1440	7				624	624
1560					676	676
1680						728
1800						780
1920						832

2.5 *Treatment of particular groups*

2.5.1 *Young persons*

No special treatment.

2.5.2 *Older workers*

Unemployed people may qualify for retirement at 60 years provided the recipient has a 96 months employment record or alternatively has been unemployed for 12 months. Benefits are

often supplemented by the employer to 100 per cent of the former salary. Women have right to a full pensions at 60 after 15 years work. Anyone who has contributed for at least 35 years to a pension fund can retire before normal pension age.

3. Unemployment assistance

3.1 *Conditions for receipt*

Claimants have to be between 18 and 65 years of age and have to be registered unemployed looking for work and available for work.

3.1.1 Employment conditions

Persons who remain unemployed after exhaustion of their insurance benefits are transferred to unemployment assistance. Otherwise, a claimant must have worked at least 6 months in the last calendar years to be eligible to unemployment assistance.

3.2 *Calculation of benefit amount*

3.2.1 Calculation of gross benefit

The benefit is paid to the individual and the replacement rate depends on family status. The standard rates are 53 per cent of the previous earnings net of tax, and 57 per cent for a worker who receives a tax allowance for at least one dependent child. The monthly ceilings are 53 per cent and 57 per cent of DM 7 800 respectively. The day-to-day administration is based on applicants' before tax incomes using simplified income tax assumptions. Benefits are calculated as if all workers are paying church tax (which is not the case) and possible 13th month salary payments are not included in the reference earnings. OECD calculations define "net income" as gross earnings minus income tax, minus deductible social security contributions minus the tax allowance for work-related expenses (see 10.1.1).

3.2.2 Income and earnings disregards

Unemployment assistance (UA) benefit is income-tested using income from all sources; family, housing and child-care benefits are excluded from the income test. The spouse's income disregard amounts to the UA-benefit the spouse would receive in case of unemployment or to the basic deduction allowed for income taxation, whichever is higher (the applicant's benefit is reduced by $(100-53)=47$ per cent of the spouse's net income exceeding DM 11 000 per year).

3.3 *Tax treatment of benefit*

Unemployment assistance is a net benefit: it is not taxable.

3.4 *Benefit duration*

There is no waiting period. The duration of payment is indefinite. Benefits are paid 6 days per week.

3.5 *Treatment of particular groups*

3.5.1 *Young persons*

No special treatment.

3.5.2 *Older workers*

See Section 2.5.2.

4. **Social assistance**

Two forms of social assistance exist: assistance with the cost of living and assistance in special circumstances. Only the former is considered.

4.1 *Conditions for receipt*

Anyone has a legal right to social assistance; it is paid to anyone in need (irrespective of age or nationality).

4.2 *Calculation of benefit amount*

4.2.1 *Calculation of gross benefit*

SA is regulated and administered by the *Länder*; the decision to grant assistance and how much can differ regionally. The basic average rate is DM 590 per month supplemented with 80 per cent of this amount for the spouse. The supplements for children are age related. For each dependent child under 7 years old, 50 per cent of the basic amount can be added to the maximum payment, 65 per cent for each dependent child from 7 to 13 years of age, 90 per cent for children from 13 to 17 years of age and 80 per cent for children over 17 years of age. Lone parents receive supplements (see Section 9). Reasonable housing costs in excess of the earnings-related housing benefit are covered fully.

4.2.2 *Income and earnings disregards*

All net earned income exceeding DM 250 per month, plus all income from other sources, result in (pre-tax) social assistance being reduced by an equivalent amount. Family, housing and child-care benefits are excluded from the income test.

4.3 *Tax treatment of benefit*

Not taxable.

4.4 *Benefit duration*

Indefinite.

4.5 *Treatment of particular groups*

4.5.1 *Young persons*

There is no special treatment.

4.5.2 *Older workers*

There is no special treatment.

5. Housing benefits

5.1 *Conditions for receipt*

Anyone with low income and high rent may be eligible.

5.2 *Calculation of benefit amount*

Housing benefits are calculated as the difference between the subsidisable rent and an own payment. The calculation of the own payment involves several steps and depends on many parameters.

5.2.1 *Calculation of gross benefit*

The amount of housing benefit covers the gap between the eligible rent and the amount which the household is expected to contribute toward rent. The level of the eligible rent is higher when dependants are present in the household. The household's own contribution toward rent is a function of the gross household income. The calculation is written out in formula form in the technical appendix.

5.2.2 *Income and earnings disregards*

The benefit is based on an assessable earnings definition. There are no additional income tests.

5.3 *Tax treatment of benefit*

Not taxable.

5.4 *Treatment of particular groups*

None.

6. Family benefits

6.1 *Conditions for receipt*

Family benefits are paid only to families with dependent children. Each child aged between 0 and 16 qualifies.

6.2 *Calculation of benefit amount*

6.2.1 *Calculation of gross benefit*

The yearly amounts are:

- DM 840 a year for the first child;
- DM 1 560 a year for the second child;
- DM 2 640 a year for the third child;
- DM 2 880 a year for the fourth and subsequent child;
- non-taxpayers receive an additional DM 780 per child.

6.2.2 *Income and earnings disregards*

If the net income exceeds certain ceilings the cash transfers for the second and third children are cut by 50 per cent of the net income in excess of the ceiling. The transfer payments cannot be reduced further than to DM 840 for the second child and to DM 1 680 for the third and subsequent children. “Net income” is defined as gross family earnings minus income tax, minus deductible social security contributions minus the tax allowance for work-related expenses, plus the family total of unemployment insurance and assistance benefits. The net income ceilings amount to:

- DM 19 000 for a single person;
- DM 26 600 for a couple;
- plus DM 9 200 per child.

6.3 Tax treatment of benefit

Family benefits are not taxable.

6.4 Treatment of particular groups

None.

7. Child-care benefits

Child-care can be covered by social assistance.

8. Employment-conditional benefits

Benefits specifically targeted to people in work, do not exist; nor are there any income disregards in the social assistance means test.

9. Lone-parent benefits

The SA supplement for children is higher for lone parents than for other families. The first child under 7 receives 55 per cent instead of 50 per cent of the basic amount (DM 590 per month); families with at least one child under 7 or at least two children under 16 receive 40 per cent more than the basic amount; families with four or more children under 16 receive 60 per cent more than the basic amount.

10. Tax system

10.1 Income tax rate schedule

10.1.1 Tax allowances and credits

Six different general tax allowances exist apart from the zero rate bracket:

- child tax allowance per dependent child: DM 4 104;
- lone parent allowance: DM 2 052 per dependent child;
- lone parents' extra allowance (*Haushaltfreibetrag*): DM 5 616;
- work related tax allowance, fixed for all earnings levels: DM 2 000;
- tax allowances for social security contributions: the calculation proceeds in three steps:
 - a) DM 6 000/12 000 (single/couple) are deductible, lowered by 16 per cent of the gross wage (to correct for employer's contributions);

- b) social security contributions exceeding those amounts are deductible up to DM 2 610/5 220 (single/couple);
- c) of the still remaining expenses in excess of DM 2 610/5 220 (single/couple) are deductible up to DM 1 305/2 610 (single/couple);
- church tax is completely deductible.

10.1.2 *The definition of taxable income*

Taxable income is defined as the total gross earned income of both spouses minus the total allowances.

10.1.3 *The tax schedule*

Tax payments in Germany are determined by a formula. The calculations are based on rounded taxable income: if taxable income cannot be divided by 54, it is rounded down to the next full DM amount which can be divided by 54.

The tax formulae:

- X is the rounded taxable income;
- T is the total tax liability.

In addition the following definition is included in the tax formulae:

- $Y = (X - 8\,100) / 10\,000$

The income tax liability (T) is calculated as follows:

- $T = 0$ if $X \leq 5\,616$
- $T = 0.19X - 1\,067$ if $5\,617 \leq X \leq 8\,153$
- $T = (151.94Y + 1\,900)Y + 472$ if $8\,153 \leq X \leq 120\,041$
- $T = 0.53X - 22\,842$ if $X \geq 120\,042$
- $T = (T - 1\,135) * 2.5$ if $T > (T - 1\,135) * 2.5$ and $(T - 1\,135) > 0$

These formulae are used directly to calculate a single person's tax liability.

A solidarity surcharge of 7.5 per cent of the income tax liability is paid if the calculated income tax is higher than DM 111/122 for single/couple.

10.2 Treatment of family income

Spouses are normally assessed jointly using the splitting method but have the option to separate tax assessment. To calculate income tax liability of a couple, the formulae income tax are calculated with respect to half of the joint taxable income. The resulting amount is doubled to arrive at the income tax liability of the couple (splitting method).

10.3 Social security contribution schedule

Employees' contributions, payed on individual earnings, are:

- 9.3 per cent of gross earnings up to DM 93 600 for the pension fund;
- 3.25 per cent of gross earnings up to DM 93 600 for unemployment insurance;
- 6.85 per cent of gross earnings up to DM 70 200 for sickness;
- 0.5 per cent of gross earnings up to DM 70 200 for home care insurance.

11 Part-time work

11.1 Special benefit rules for part-time work

Those working less than 18 hours per week do not qualify for unemployment insurance, or for the pension fund. People receiving UI may work up to 18 hours; beyond that, all entitlement is lost (see Section 2.2.2).

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

None.

12. Policy developments

12.1 Policy changes introduced in the last year

A long-term care insurance (0.5 per cent of earnings up to DM 70 200) was introduced in 1995. In 1993 unemployment replacement rates changed from 63 per cent to 68 per cent and from 60 per cent to 67 per cent for claimants without and with dependants respectively. Recent legislation changes enable unemployed lone parents to qualify for child-care benefits. The income tax system is undergoing a change reducing the tax burden on incomes below the level of social assistance (DM 11 555 / 23 111 for singles/married couples) to nil. This temporarily raises marginal tax rates on income levels just above the exemption level. In 1996 this transition process was ended by introducing a zero tax bracket for taxable income below DM 12 096.

12.2 *Policy changes announced*

The early retirement provisions for unemployed will be phased out gradually, starting in 2001.

Technical appendix: German housing benefit calculation formulae

The amount of housing benefit covers the gap between the eligible rent and the amount which the household is expected to contribute toward rent. The level of the eligible rent is higher when dependants are present in the household. The household's own contribution toward rent is a function of the gross household income.

The calculation of the household's own contribution is complicated and involves four basic steps.

1. The eligible rent cannot be higher than a certain family-dependent threshold value (this value is indicated as P2 and is included in the table below). Very low rents do not attract housing benefit; the threshold rent depends on the family size (P1, see table).
2. The household's own contribution toward rent is a function of income. A household with an income below a certain value (P3, see table) is not expected to contribute. A household with an income above a certain maximum level can not receive housing benefit (P4, see table). The assessable income is calculated per month for households with no members in paid employment as:

94 per cent of the gross monthly benefit income

and for others as:

70 per cent x (gross monthly income - 167)

where gross monthly income includes gross income from any source (e.g., earnings plus the partner's benefit income) plus child benefits.

3. The own payment cannot exceed certain maximum values which depend on the size of the households. The own-contribution threshold (TIL) is calculated as:

$$TIL = P5 + P6 \times (\text{eligible rent} - P7)$$

(for the parameter values P5, P6 and P7, see table).

4. The calculation of the own contribution is non-linear. There are six sequential stages, which can best be described in a schematic overview. Note that the own contribution is DM 10/month if the outcome of these calculations is lower.

The housing benefit is the difference between the eligible rent and the own contribution.

support value 1 (SV1)	if the assessable rent is smaller than or equal to P8: SV1 equals P9 otherwise: P10
support value 2 (SV2)	$P11 + SV1 * (\text{eligible rent} - P8)$
support value 3 (SV3)	$(P12 - P13) * TIL + SV2$
support value 4 (SV4)	$P14 - (\text{eligible rent}) * P15$
high own contribution (HOP)	if the assessable income (step 2) is smaller than or equal to TIL: $(P12 * (\text{assessable income}) + SV2) * (\text{assessable income})$ otherwise: $(P13 * (\text{assessable income}) + SV3) * (\text{assessable income})$
low own contribution (LOP)	if TIL is greater than or equal to P16: $(SV4 * (\text{assessable income}) + P16 * (P12 - SV4) + SV2) * (\text{assessable income})$ otherwise: $(SV4 * (\text{assessable income}) + P16 * (P13 - SV4) + 0) * (\text{assessable income})$
own contribution	if assessable income exceeds P16: HOP otherwise: LOP

The parameter values in the housing benefit formulae depend on the size of the household

Used in step	code	Description	Values		
			single	1 dependant	2 dependants
1	P1	minimum rent considered	45	45	65
1	P2	maximum rent considered	630	810	1130
2	P3	minimum income level	230	290	490
2	P4	maximum income level	1410	1990	3250
3	P5		621.261	986.267	1405.9
3	P6		0.798	0.798	1.030
3	P7		319.361	409.182	548.90
4	P8		89.910	119.880	159.840
4	P9		6.21E-4	4.23E-4	3.03E-4
4	P10		5.23E-4	3.67E-4	2.43E-4
4	P11		0.119	0.126	0.107
4	P12		1.8E-5	4E-6	0
4	P13		3.5E-5	2.2E5	1E-6
4	P14		1.2E-4	1.53E-4	6.3E-5
4	P15		2.45E-7	2.44E-7	0
4	P16	income threshold	523.906	615.068	686.67

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**The annual tax/benefit position of an unemployed single person, 1995
(Deutsche marks)**

	Unemployment insurance	Unemployment assistance	Social assistance
A. Taxable benefits			
Means-tested benefits			
Non-means tested benefits			
Total taxable benefits	0	0	0
B. Income tax and social security contributions			
Total income tax and social security contributions	0	0	0
C. Non-taxable benefits			
Means-tested benefits			
Unemployment assistance	0	20 517	0
Housing benefits	179	179	6 398
Social assistance	0	0	11 591
Non-means tested benefits			
Unemployment insurance	23 227	0	0
Total non-taxable benefits	23 406	20 696	18 340
D. Net income out of work (A-B+C)	23 406	20 696	18 340
E. Net income in work	33 239	33 239	33 239
F. Net replacement rate (D/E) (per cent)	70	62	55

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**The annual tax/benefit position of an unemployed married couple with two children, 1995
(Deutsche marks)**

	Unemployment insurance	Unemployment assistance	Social assistance
A. Taxable benefits			
Means-tested benefits			
Non-means tested benefits			
Total taxable benefits	0	0	0
B. Income tax and social security contributions			
Total income tax and social security contributions	0	0	0
C. Non-taxable benefits			
Means-tested benefits			
Unemployment assistance	0	23 613	0
Housing benefits	3 452	4 614	9 601
Social assistance	0	0	21 492
Family benefits*	2 400	2 400	2 400
Non-means tested benefits			
Unemployment insurance	27 756	0	0
Total non-taxable benefits	33 608	30 628	33 492
D. Net income out of work (A-B+C)	33 608	30 628	33 492
E. Net income in work	42 066	42 066	42 066
F. Net replacement rate (D/E) (per cent)	80	73	80

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The annual tax/benefit position of an unemployed lone parent with two children, 1995 (Deutsche marks)

	Unemployment insurance	Unemployment assistance	Social assistance
A. Taxable benefits			
Means-tested benefits			
Non-means tested benefits			
Total taxable benefits	0	0	0
B. Income tax and social security contributions			
Total income tax and social security contributions	0	0	0
C. Non-taxable benefits			
Means-tested benefits			
Unemployment assistance	0	25 284	0
Housing benefits	182	182	8 335
Social assistance	0	0	12 845
Family benefits*	3 180	3 180	3 180
Non-means tested benefits			
Unemployment insurance	29 720	0	0
Total non-taxable benefits	33 083	28 646	24 360
D. Net income out of work (A-B+C)	33 083	28 646	24 360
E. Net income in work	41 317	41 317	41 317
F. Net replacement rate (D/E) (per cent)	80	68	58