

THE OECD TAX-BENEFIT MODEL FOR DENMARK

Description of policy rules for 2019



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Preface

The [OECD Tax-Benefit model \(TaxBEN\)](#) incorporates detailed policy rules for tax liabilities and benefit entitlements as they apply to individual families across OECD member countries. Its main use is to calculate the amount of taxes that people are liable to pay, and the government transfers they are likely to receive, in different family and labour-market situations. The model includes legal policy rules that are relevant for people of **working age** (from 18 years old until the statutory retirement age) and their dependent children. Income tax liabilities and benefit entitlements are calculated for a broad set of *stylised* families (“vignettes”, e.g. a married couple of 40 years old adults with two children aged 4 and 6 respectively). Model users are free to change many of these characteristics, including the age and number of children, activity status of adult members, hours of work, current and past earnings levels, unemployment duration, social contribution records, and housing-related costs. The model has been updated annually since the early 2000s for most OECD countries.

TaxBEN’s policy scope includes the main taxes on employment income (earnings), social contributions paid by individuals and by employers, as well as the main cash and near-cash benefit programmes, including unemployment benefits, family benefits, guaranteed minimum-income benefits, cash housing benefits, and employment-conditional benefits. Disability benefits and support for non-parental childcare are included for a sub-set of countries and years. The most important policy areas that are outside the scope of the model include taxes on wealth (e.g. taxes on immovable and unmovable properties, including local taxes), indirect taxes (e.g. VAT), early-retirement benefits, sickness benefits and in-kind transfers (e.g. free school meals, subsidised transport and free health care).

This report describes the taxes and benefits that are included in the model and focuses on the rules that are relevant for family, individual and labour-market circumstances that are within its scope. The **Annex** provides information on other cash benefits and taxes on employment incomes that can be relevant for some members of the working-age population, but which are not included in the TaxBEN model.

Reading notes and further details on the scope and content of this report

- The **reference date** for policy rules described in this report is **January 1, 2019**.
- **Guidelines for completing and updating this report** are provided [here](#).
- Further information on the model, model results, and references to reports and analytical uses is available on the [project website](#). A [methodology](#) document provides a full description of the assumptions underlying the model as well as the model choices that users can make. The symbol  in the text provides a link to a glossary of technical terms.
- Section titles provide the names of taxes and benefits as they are known in the country: first, direct translation into English, then (in brackets) the name in the national language.
- In order to facilitate transparency between the policy descriptions and the associated code in the model, the variable names are indicated in the text in square brackets using the following format: **[variable name]**, for instance: **[AW]** for the average wage.

The OECD tax-benefit model for Denmark: Policy rules in 2019

1. Reference wages

Average wage: The 2019 average full-time wage [AW] was DKK 423,940 (Secretariat estimate).¹

Minimum wage: There was no statutory minimum wage in Denmark in 2019.²

2. Unemployment benefits

2.1. Unemployment insurance (*Arbejdsløshedsdagpenge og andre Akasseydelser*)

This is an unemployment insurance benefit. It is contributory, not means-tested and taxable. 

Variable name:³ [UB; UI_p; UI_s]

The regulation for eligibility, calculating benefits and duration were partly changed with the unemployment benefits reforms in 2017 and 2018.

2.1.1. Eligibility conditions

Unemployment insurance is voluntary in Denmark. The general condition to receive unemployment benefit coverage is membership of an insurance fund and this condition is satisfied with the payment of the membership fee. Unemployment insurance can cover both employees and self-employed and in a combination. Below we only describe the legislation for employees as self-employed are not considered in TaxBEN.

Age: Persons can receive unemployment benefits if they are between 18 and 65 years prior to the age of retirement.⁴ Persons under the age of 18 can also be admitted if they have completed vocational training of at least 18 months (not considered in TaxBEN).

¹ AW refers to the Average Wage estimated by the [Centre for Tax Policy and Administration](#). For more information on methodology see the latest [Taxing Wages publication](#).

² Minimum wages are typically regulated in the general agreements. The general agreement for the manufacturing sector ('industriens overenskomst') is sometimes used as benchmark, and defines a minimum wage of DKK 117.65 / hour in 2019. TaxBEN does not take this minimum wage into account.

³ The variable names ending with "_p" refer to the first adult (so-called "principal" adult) whereas those ending with "_s" are related to the spouse.

Contribution/employment history: One of the main changes implemented in the reform is that the qualifying criteria for access to unemployment benefits are based upon “income” rather than “hours worked”. The criterion is an income of at least DKK 233,376 (2019) earned within the past 36 months. However, a ceiling of approx. DKK 19,448 per month (2019) applies, which means that prospective recipients of benefits need to have been employed for at least 12 months (i.e. $12 * \text{DKK } 19,448 = \text{DKK}233,376$).⁵

Persons can also stipulate a part-time insurance and in this case they become entitled to unemployment insurance after an income of 155,580 DKK of within the last three years. Prospective recipients need to have been employed for at least 12 months as well.

Hereafter, the qualifying criteria for obtaining a new unemployment benefit period is based upon hours worked (1,924 hours within 36 months for full time insurance and 1,258 hours within 36 months for part-time insurance).

A requirement of at least one year’s membership of an unemployment insurance fund also applies.

Behavioural requirements:⁶ 

1. Registration with the public employment service as a job seeker and be available for work;
2. Access once a week to the “*jobnet*” online portal to confirm work availability;
3. Be available every 3rd month for an interview with the insurance fund, and after 6 months of unemployment available for interviews on request;

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

TaxBEN assumes “involuntary” job loss and that the behavioural requirements above are satisfied.

2.1.2. Benefit amount

Unemployment benefit amounts depend, among other things, on: previous earnings; whether the person is full-time or part-time insured; age. Special rules apply for persons below age 25 who have just completed their education or a vocational training of 18 months’ duration, and have not been employed previously (“Graduates”).

Calculation of unemployment benefit rate is based on the 12 months with the highest income (wages and income from self-employment) within the past 24 months. The aim of this is to ensure that no one is punished for taking temporary low-paid jobs immediately

⁴ Older unemployed can be eligible for a voluntary early retirement scheme. TaxBEN does not assume that persons enrol in this scheme but continue to be available to the labour market until normal legal retirement age. Please see the Annex for details.

⁵ TaxBEN assumes that people always stipulate full-time insurance, i.e. part-time insurance is not modelled.

⁶ Details on behavioural requirements and sanction provisions for unemployment benefits are reported in regularly updated companion reports, see [Immervoll and Knotz \(2018\)](#), [Langenbucher \(2015\)](#) and [Venn \(2011\)](#).

before becoming unemployed. As a consequence more unemployed people will receive a higher rate of benefit after the reform.

In general, unemployment benefit will be paid at a rate of 90 percent of the recipient's former income from employment. However, a ceiling applies of a maximum rate of DKK 18 866 per month (DKK 226,392 per year) in 2019. Graduates who do not fulfill the regular eligibility criteria have access to unemployment benefits immediately after graduation and will receive 71.5 per cent of the maximum rate (DKK 13,489 per month and DKK 161,868 per year), while graduates who are also parents will receive 82 per cent of the maximum rate (DKK 15,470 per month and DKK 185,640 per year).

For jobseekers ("Youth") who are under 25 and do not have sufficient education for the "graduate" rights (see above) the unemployment benefit is 50% of the maximum unemployment benefit (DKK 9,433 per month and DKK 113,196 per year). This is not modelled as TaxBEN assumes that the necessary education level for graduate rights is always obtained.

Amounts are reduced to two-thirds for those who are part-time insured.

The following table shows all applicable amounts (per month) in 2019 (figures in grey (part-time insured and Youth) are not taken into account in TaxBEN):

Max unemployment benefit levels for employees	DKK/month
Full time insured	18.866
Part time insured	12.557
Graduate benefit level, full time insured (with dependent children)	15.470
Graduate benefit level, part time insured (with dependent children)	10.313
Graduate benefit level, full time insured (with no dependent children)	13.489
Graduate benefit level, part time insured (with no dependent children)	8.993
Youth benefit level, full time insured	9.433
Youth benefit level, part time insured	6.289

2.1.3. Benefit duration

The benefit period is 2 years within a 3-year period with an option to prolong the benefit period by up to 1 year by working for a period of half a year during the benefit period. Hours worked are recorded in an "employment account" that can be exchanged for unemployment benefits at a ratio of 1:2. This means that "every hour of work counts" towards extending the benefit duration. A tool has been created on jobnet.dk where the benefit period can be calculated.

Participation in activation schemes or training does not qualify for extending the period. To re-qualify for a full 2 years benefit period, the person will have to fulfill the eligibility conditions for re-qualification (see Section 2.1.1; re-qualification is not modelled in TaxBEN).

2.1.4. Means test

See Section 2.1.7.

2.1.5. Tax treatment

Unemployment benefits 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% social security contribution (see Section 7) but do pay supplementary pension scheme contributions (a fixed amount). Contributions to the unemployment insurance fund (both the unemployment and early retirement insurance contributions) are also made by unemployment insurance beneficiaries. Contributions are tax deductible.

2.1.6. Interactions with other components of the tax-benefit system

Unemployment benefit recipients can receive / claim other benefits without specific constraints. Unemployment benefits are taken into account for the means test of social assistance (see Section 3.1).

2.1.7. Combining benefit receipt and employment/starting a new job

The benefit is compatible with work but earnings reduce the amount of unemployment benefits on an hour-to-hour basis.

Unemployed persons who work part-time, can top-up their income with **supplementary unemployment benefits**, provided that certain conditions are fulfilled: The person must still be registered at jobnet.dk, must be available for full-time employment, and must be actively looking for a full-time job.

The right to the supplementary benefit is calculated on a monthly basis. A person is considered working part time if the person works less than 160.33 hours in a given month (i.e. 37 hours per week). Supplementary benefits can only be paid out in months where the person is eligible for at least 14.8 hours' worth of benefits (that is having worked less than $160.33 - 14.8 = 145.53$ hours per month or $145.53 / 160.33 * 5 = 4.5$ days per week).

Unemployed persons who have a part-time job can receive supplementary benefits for a maximum of 30 weeks (7 months) within a 104-week (two-year) period. Unemployed persons who have a part-time job and a fixed term of notice will need a "notice waiver" certificate from their employer in order to receive supplementary benefits.⁷ This applies to all persons independently of whether they are full-time or part-time insurance members.

2.2. Unemployment Assistance

None.

⁷ This certificate serves as a proof that the unemployed person can quit their part-time job at a moment's notice in order to take up full-time employment. When an employer signs a notice waiver they renounce to the right of a term of notice in case of the employee's resignation.

3. Social assistance and housing benefits

3.1. *Guaranteed minimum income benefit (Kontanthjælp)*

Variable name: [SA; SA_p; SA_s]

This is a non-contributory benefit, means-tested and taxable.

Payment rates depend on age and family composition.

3.1.1. *Eligibility conditions*

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. Instead, a “social event”, such as unemployment, sickness or disability, must have happened. Unemployed individuals can receive social assistance as long as they meet the eligibility requirements for the unemployment insurance (Section 2.1.1). For couples claiming social assistance, the obligation to be available for work holds for both capable partners (but not their children). Individuals who are not unemployed and have experienced other types of “social events”, e.g. as sickness or disability, may not be required to be available for work but will have to meet other requirements, e.g. participation in rehabilitation activities.

3.1.2. *Benefit amount*

Benefits are calculated at the individual level. The benefit is DKK 15 510 per month (i.e. approximately 80% of the maximum unemployment insurance benefit) for single persons of 30 years or more with dependent children (‘providers’), and DKK 11 423 (i.e. 60% of the maximum unemployment insurance benefit) for singles of 30 years or more without children (‘non-providers’), minus any earned income. For married couples the benefit amount depends on the income and savings of both spouses (assets up to DKK 10 000 for a single person and DKK 20 000 for a married couple to shall not be taken into account; financial assets are not considered in TaxBEN). A married couple with children may get up to two times DKK 15 510 (DKK 11 423 without children) minus any earned income.

Social assistance for people under the age of 30 who do not reside with one or both parents is DKK 7,363 (DKK 3 681 when they reside with one or both parents⁸). Social assistance for lone parents below the age of 30 years is DKK 14 331.⁹ For a married couple under the age of 30, the amounts are up to two times DKK 10,026 (with children) and two times DKK 7,272 (without children).

The following table summarizes the maximum amounts for social assistance in 2019, as applied in TaxBEN:

⁸ Note that in TaxBEN, young adults (from age 18) are assumed to live on their own.

⁹ Social assistance benefit recipients can receive additional cash support from the municipal authority for particular expenses such as medicines and dental treatments, relocation costs for improving the housing or employment situation; expenses for maintaining a child where custody has been awarded upon the death of the custodial parent. In case of death of the partner the municipal authority can pay also a survivor allowance (see Annex). All these expenses are assumed to be zero in TaxBEN and accordant cash support is not simulated.

Maximum SA amounts, DKK per month¹⁰

	2019		2019
Single, >= age 30, with children	15,510	Couple, >= age 30, with children	2 * 15,510
Single, >= age 30, without children	11,423	Couple, >= age 30, without children	2 * 11,423
Single, < age 30, with children	11,423	Couple, < age 30, with children	2 * 11,423
Single, < age 30, without children	7,363	Couple, < age 30, without children	2 * 7,363

Note: For singles below age 30, rates are shown for those who do not reside with their parents.

Social assistance is reduced after receiving the benefit for one year within the previous three years if a person who is able to work has not worked a minimum of 225 hours in the previous 12 months (i.e. approximately 1 day per week; 225-hour rule). In such case the benefit (before the means-test) is reduced by DKK 1 042 for single persons receiving the high benefit levels of DKK 15180 or DKK 11423 and by DKK 520 for single persons receiving lower benefits. For married couples the benefit will be reduced to one benefit for one person of 30 years or more depending on whether the couple has children if one or both partners fail to fulfill the 225-hour rule.

3.1.3. Benefit duration

No limit. There is a waiting period of 9 years for non-native persons who come from abroad. During this waiting period the applicant can get an *integration allowance*.¹¹

3.1.4. Means test

Income is deducted krone to krone. If the applicant or his or her spouse has income from work, a sum of DKK 26,78 per hour worked shall not be deducted from the total benefits payable. The total number of hours for which such an amount may be ignored shall not exceed 160 hours per month per person.

3.1.5. Tax treatment

Recipients of social assistance 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.

¹⁰ There is a limit to how much a person can receive overall in special support (Guaranteed minimum income benefit (Kontanthjælp) Special housing benefit for people on social assistance (Særlig støtte) and Housing benefit (Boligsikring)). The limit depends among other things on age, whether a person is a dependent, married/cohabiting or single.

¹¹ This is not modelled in TaxBEN as claimants are assumed to be native and lifelong residents.

3.1.6. Interactions with other components of the tax-benefit system

Unemployment benefits are taken into account for the means test (see Section 2.1).

3.1.7. Combining benefit receipt and employment/starting a new job

See Section 3.1.4.

3.2. Special housing benefit for people on social assistance (*Særlig støtte*)

Variable name: [\[HB; HB_SPEC\]](#)

This benefit is granted as a supplement to persons who fulfill the conditions to receive social assistance and are in a particularly difficult situation due to high housing costs.

For families without children, net rent (gross rent minus general housing benefits, see section 4) exceeding DKK 3050 per month is paid. For families with children, all net rent above DKK 4400 per month per adult is paid (DKK 4400 if the child is not living at home¹²), reduced by DKK 850 for each child (DKK 650 if the child is not living at the home) other than the first. During the first three months of receipt the total amount of social assistance after tax and special housing benefit cannot exceed 90% of the previous net earnings. From the fourth month onwards the total amount cannot exceed the maximum unemployment benefit after tax.

3.3. Housing benefit (*Boligsikring*)

Variable name: [\[HB; HBEN\]](#)

This is a non-contributory benefit, means-tested and not taxable.

3.3.1. Eligibility conditions

There are two main housing benefits in Denmark: the first, the “*boligsikring*”, is primarily targeted at working-age households without pensioners, whereas the second, the “*boligyldelse*”, is mainly for pensioners (or for recipients of disability pensions granted before 2003). As the “*boligyldelse*” is dominantly paid to pensioners it is not described in this report and is not simulated in TaxBEN.

3.3.2. Benefit amount

The actual rent before electricity, antenna, gas and warm water expenditures is the basis for housing benefits. The rent is corrected for the indicative size of the apartment expressed in square meters. The correction factor is the sum of 45 m² plus 20 m² per household member divided by the actual m². A household can therefore receive full subsidy up to 85 m². Furthermore the corrected rent will - if it exceeds certain limits depending on family size - be reduced to a maximum allowed (subsidized) level.

The maximum subsidized rent is DKK 81500 for households without children and if there are children the maximum is increased by 5% per child, max 20 per cent. Households can receive housing benefits up to DKK 42 984. If there are more than three children this amount is raised by 25% to DKK 53 730

¹² Note that in TaxBEN, children are assumed to live with their parents.

General housing benefits – rent subsidy (*boligsikring*) (in DKK), 2019

Number of children	0	1	2	3	4 or more
Max. subsidized rent per year	81500	85575	89650	93725	97800
Max. benefit per year ¹	42 984	42 984	42 984	42 984	53 730

1. Note: Benefits cannot exceed 15% of the rent in families without children.

The subsidy is calculated as 60% of the rent with an income-related deduction of 18% of the household income beyond DKK145 200. For household without children the subsidy cannot exceed 15% of the rent. For households with children the subsidy is also calculated as 60% of the rent and then reduced by 18% of the household income beyond DKK145200. However, if there is more than one child in the household, this threshold is raised by DKK 38 300 per child up to max DKK 260 100 (which equals an increase for 3 additional children). Households must always pay at least DKK 24 500 out of the payable rent.

Thresholds and parameters for the calculation of the rent subsidy (in DKK), 2019

% benefits of rent	Threshold for deduction	% deducted above	Threshold raised per child (2-4)	Minimum own payment
60	145200	18	38300	24 500

Finally, a minimum triviality limit of DKK 3 120 applies under which no benefit is paid.

3.3.3. Benefit duration

No limit.

3.3.4. Means test

The benefit is phased-out against the total household income augmented to taking into account financial wealth minus the deductions outlined above. The total household income should include earnings from employment, unemployment related benefits and social assistance. From this income, one should deduct the employee labour market contribution.

3.3.5. Tax treatment

All housing benefits are non-taxable.

3.3.1. Interaction with other components of the tax-benefit system

3.3.2. Combining benefit receipt and employment/starting a new job

See Section 3.3.4.

4. Family benefits

4.1. Child and youth allowance (*Børnechecken*)

Variable name: **[FB]**

This is a non-contributory benefit, means-tested and not taxable.

4.1.1. Eligibility conditions

Families who live in Denmark with children below the age of 18 qualify for child and youth allowance. As a main rule the recipient of the allowance is the mother.

4.1.2. Benefit amount

The allowance is age dependent: for children aged from 0 to 14 the allowance is given in accordance with the child allowance scheme, which contains three subgroups (children aged 0-2, 3-6, and 7-14); for children aged 15 to 17 the allowance is given in accordance with the youth allowance scheme.

For children aged from 0 to 14 the allowance is paid out in quarterly amounts, while for children aged 15-17 the amount is paid out in monthly rates of DKK 946 (i.e. the quarterly amount divided by 3).

Age group	Quarterly amount (DKK) for each child
0 – 2	4 557
3 – 6	3 609
7 – 14	2 838
15 – 17	2 838

4.1.3. Means test

The benefit amount is reduced with 2 percent of income above a fixed income ceiling which in 2019 amounted to DKK 782 600. The income test follows the following rules: a) If parents are non-married, then the recipient of the benefit's (often the mother's) income is used.¹³ b) If parents are married, and only one parent has income above the threshold, then that income is used for the tests, while the income of any other cohabiting partner is not taken into account. c) If parents are married and both have income above the threshold, the withdrawal rate is applied to the sum of the income of each partner which is above the threshold.

4.1.1. Tax treatment

Family benefits are not taxable.

4.1.2. Interaction with other components of the tax-benefit system

The benefit is universal and can be received together with any other benefit.

¹³ Note that in TaxBEN, partners in couple households are assumed to be married.

4.1.3. Combining benefit receipt and employment/starting a new job

Employment doesn't affect benefit receipt.

4.2. Child allowances (*Børnetilskud*)

Variable name: **[FB]**

Parents in Denmark may be entitled to other family benefits that depend on whether they belong to a particular group or are in a particular situation. In such cases parents typically receive child allowances as applicable whose amounts depend on the specific situation. Examples are allowances for single parents, orphans; cases where paternity has not been established; mothers with multiple births; parents receiving an old-age or disability pension, etc. These allowances are typically non-contributory, not means-tested and not taxable.

Most of these supplements are not applicable within TaxBEN and are therefore described in the Annex. The focus of this section is on the ordinary and extra child allowance to lone parents (*ordinært børnetilskud; ekstra børnetilskud*) and advance payment of child support (*forskudsvis udbetalt børnebidrag*).

4.2.1. Eligibility conditions

To be eligible for the **extra child allowance** (*ekstra børnetilskud*) as a single parent, the recipient must be:

- entitled to the ordinary child allowance as a single parent
- have custody
- have the child living with them.

To receive the **ordinary child allowance** (*ordinært børnetilskud*) as a single parent one has to be a single parent and meet the following conditions: be the sole provider; not married; be resident in Denmark; the child (or children) lives in Denmark; Danish citizenship (or have lived in Denmark for a minimum of one year); the child is not married. The single-parent situation must be proven once a year.

It is possible to receive **advance payment of child support** (*forskudsvis udbetalt børnebidrag*) if the 'absent parent' does not pay the child support on time.¹⁴

4.2.2. Benefit amount

The **ordinary child allowance** (*ordinært børnetilskud*) is DKK 5 764 per child aged 0-17 per year and is supplemented by an **extra child allowance** (*ekstra børnetilskud*) of DKK 5 876 per year (irrespective of the number of children).

Advance payment of child support (*forskudsvis udbetalt børnebidrag*): There is a state transfer of DKK 16 644 per year for each dependent child. The state advances the money and then demands the absent parent to pay it in full or in part. The alimony payment in 2019 consists of a basic amount which is DKK 14 736 per year and a supplement which is DKK 1 908 per year (i.e. in sum DKK 16644).

¹⁴ This is the usual assumption in TaxBEN, i.e. if public alimony payments are in place, they are granted in the model upon meeting further possible eligibility conditions.

4.2.3. *Benefit duration*

As long as eligibility conditions hold.

4.2.4. *Means test*

Not means-tested.

4.2.5. *Tax treatment*

Non-taxable.

4.2.6. *Interaction with other components of the tax-benefit system*

Both supplements are universal and can be received together with any other benefit.

4.2.7. *Combining benefit receipt and employment/starting a new job*

Employment doesn't affect benefit receipt.

5. Net costs of Early Childhood Education and Care

The **reference date** for the policy rules described in this section is **January 1, 2019**.

In Denmark, the guaranteed day-care availability ensures that all children from 26 weeks until school age are entitled to be enrolled in a day care facility.

5.1. *Gross childcare fees*

Variable name: `[DKcc_cost]`

The average gross fee across municipalities paid per year by parents for full time day-care in 2019 is shown in the table below. Parents with low incomes pay less (see Section 5.3) and there is also a price-reduction if the parent(s) have more than one child in day-care.

In the average fee paid for a child in day-care institutions the price includes lunch, even if the parent(s) pay this rate separate. In family day-care lunch is always included in the fee. TaxBEN applies the fee for day-care institutions only.

Average fee paid per year 2019, DKK

Age	Day-care institution	Family day-care
0-2	36.267	30.752
3-5	20.424	31.739

Source: statistikbanken.dk table RES88

Childcare fees are not tax deductible and are not taken into account when determining entitlement to benefits such as social assistance. The actual fees depend on the household income, see Section 5.3.

5.1.1. *Discounts for part-time usage (not modelled)*

None.

5.2. *Fee discounts and free provision*

See Section 5.3.

5.3. *Subsidy for formal centre-based care (Tilskud til egenbetaling)*

Variable name: `[cc_benefit/ cc_subsidy]`

5.3.1. *Eligibility*

Subsidised day-care is available to all households with young children (26 weeks until school age) in day-care.

5.3.2. *Benefit amount*

Parents pay a maximum of 25% of the budgeted gross operating expenditure for day-care services for children from 26 weeks to age six. The average parent's gross payments are given in Section 5.1.

There is no charge for day-care if the personal income (gross income net of general social security contributions) is below DKK 177,601. From DKK 177,601 to DKK 181,538 the payment is 5% of the full rate. From that income level, the payment is linearly increased until the full price is paid at a personal income of DKK 551,700, i.e. the payment is increased by 1 percentage point for every income increment of DKK 3,938.

There are special discount rates for single-parents: the scale for calculating the payment in per cent of the full rate for financially aided place subsidy increases with DKK 62,139 for each level of income.

There are special discount rates for siblings: First, if the household at the application time has more than 1 child under 18 years of age, the scale for calculating the payment in per cent of the full rate for financially aided place subsidy increases with DKK 7,000 for each level of income. Second, 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 discount for siblings is calculated subsequently.

Parents of children with special social problems can have a supplemental subsidy in addition to the above-mentioned subsidy (not modelled in TaxBEN).

5.3.3. *Tax treatment*

The benefit is not taxable.

5.4. *Subsidies for private childminding and minding own children (Tilskud til pasning af egne børn)*

The local council may decide to allow parents with children aged 24 weeks to school age the opportunity to choose a financial subsidy for minding their own children instead of accepting a place in a day-care facility. The municipal council may decide that such subsidies shall be payable only to parents with children of a specific age group.

Subsidies for minding own children are conditional upon the applicant

1. having Danish skills that are sufficient in order to develop the child's Danish language skills;

2. not receiving public transfer payments at the same time or having earned income ;
3. having resided in Denmark for seven of the past eight years. Each municipality can decide to grant subsidies to parents taking care of their children instead of using a day care facility.

This subsidy is not implemented in TaxBEN.

5.5. Tax concessions for childcare expenditures

None.

6. In-work benefits

None.

7. Social security contributions and payroll taxes

7.1. Employee's social security contributions (*A-kassebidrag*, *Efterlønsbidrag*, *ATP-bidrag*)

Variable names: [SC; SS_ee_p; SS_ee_s; SS_ue_p; SS_ue_s; SS_sa_p; SS_sa_s; neg_it]

Full-time employees pay contributions to an unemployment insurance fund in order to be eligible for unemployment insurance and early retirement pension.¹⁵ The contribution consists of two parts: one of DKK 4,176 per year for unemployment insurance (*A-kassebidrag*) and the other of DKK 6,096 for voluntary early retirement scheme (*Efterlønsbidrag*). In addition an average administration fee of DKK 1,518 is added. In TaxBEN, the contribution to the unemployment insurance fund is modelled as an 8% tax rate in 2019.

In addition, there is a compulsory fixed contribution of DKK 1 136 to the Supplementary Labour Market Pension Scheme (*ATP-bidrag*) for full-time workers who work at least 117 hours per month; for workers who work less than 117 hours but not less than 78 hours, the rate is DKK 757; for those who work less than 78 hours but not less than 39 hours, the rate is DKK 379 whereas for those working less than 39 hours per month the rate is DKK 0. These contributions are modelled as a standard tax relief from the personal income tax. As the employee (and employer, see below) contribution is paid to a private-

¹⁵ Although contributions to the unemployment funds are not mandatory in Denmark, these payments have been defined as social security contributions and classified as taxes in the Danish national accounts until the 2014 revision of the Danish national accounts. Currently, contributions to the unemployment funds are no longer classified as taxes in the Danish national accounts.

ly-managed pension scheme, they are not considered as taxes but rather non-tax compulsory payments (NTCP) in TaxBEN.¹⁶

If the employee only works part-time and for the remaining hours receives benefits, or does not work and receives benefits, s/he also pays a fixed amount of the benefits to the general Supplementary Pension Scheme. Typically this amount is DKK 1.34 for every hour s/he receives the benefit based on a working week of 37 hours. In the TaxBEN calculations this amount applies to recipients of Social Assistance and Unemployment Benefits working part-time (compare Sections 2 and 3).

7.2. *Employer's social security contributions (ATP-bidrag)*

Variable names: [SSCR; SSCR_p; SSCR_s]

The employer also contributes to the Supplementary Labour Market Pension Scheme. For a full-time employee this contribution is DKK 2 272 (i.e. twice the fixed amount of DKK 1 136 for the employee). It is compulsory for the employer to contribute also to the Employers' Reimbursement System (DKK 2 837); the industrial injury tax (DKK 204), and the Employees' Guarantee Fund (DKK 200). Also, all private sector employers contribute to Financing Contribution (DKK 533) and barsel.dk (DKK 750). Those contributions are considered as non-tax compulsory payments (NTCP) in TaxBEN and are not considered in the tax calculations.¹⁷

7.3. *Payroll taxes*

None.

8. Taxes

Taxation in Denmark is mainly at the individual level. The taxation period is the calendar year.

8.1. *Personal income tax*

Variable name: [IT; INCTAX_p; INCTAX_s; TAX_p; TAX_s; LMC_p; LMC_s; HEALTH_tx_p; HEALTH_tx_s]

¹⁶ NTCPs refer to compulsory payments made by employers or employees in connection with the employees' labour activity that do not qualify as taxes and social security contributions. See the ["Associated paper: non-tax compulsory payments"](#) to the latest OECD *Taxing Wages* report for more details on NTCPs.

¹⁷ Both these payments are paid to privately managed funds. The Financing Contribution covers part of the Danish state's expenses to ATP-contributions as well as expenses to Employees' Guarantee Fund for the unemployed. Barsel.dk is a statutory scheme covering the part of the private sector labour market that is not covered by other approved maternity/paternity compensation schemes.

8.1.1. Tax allowances

Variable names: [ALL_p; ALL_s; EarnCredit_p; EarnCredit_s; EarnCreditLP_p; EarnCreditLP_s]

Standard tax allowances:

Deductibility of social security contributions: The employees' social security contributions and their payments to labour market supplementary pension schemes (see Section 7.1) are not included in personal income or taxable income, i.e. are fully deductible.

Tax Credit Scheme (*Beskæftigelsesfradrag*): Wage or salary earners who make expenses in order to earn their income (e.g. transport expenses, trade union membership dues, unemployment premiums) can fully deduct these expenses from taxable income. The tax credit scheme allows taxpayers to deduct 10,10 per cent of earned income to a maximum of DKK 37 200 in order to calculate taxable income, it thus serves as a tax allowance. Lone parents get an extra employment allowance of 6.25 per cent in 2019 with a maximum allowance of DKK 22 400. The effective value of the allowance is equal to the average municipality tax (24.926%) multiplied by the value of the deduction.¹⁸

Job allowance (*Jobfradrag*) Taxpayers with an income (plus pension payments) of at least DKK 191 600 receives a job allowance of 3.75% on taxable income. The maximum allowance of DKK 2 100 is achieved at an income of DKK 247 600 and the effective value of the credit is equal to about DKK 523 (24.926% x DKK 2 100 = 523 DKK).

8.1.2. Tax base

Variable names: [TAXABLE_p; TAXABLE_s; PERS_p; PERS_s]

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

- *Personal income*, which consists of employment income, business income, pensions, unemployment benefits etc. less employees' social security contributions and their payments to labour market supplementary pension schemes (see Section 8.1.1).
- *Capital income* (e.g. interest income and some capital gains) is calculated as a net amount (the sum of positive and negative capital income net of interest expenses). Dividend income and the property value of owner-occupied dwellings are taxed at different tax rates (capital income is not considered in TaxBEN).
- *Taxable income* – the aggregate of personal income and capital income less deductions (see Section 8.1.1).

Regarding the tax unit, the earned income of each spouse is taxed separately. However, some unutilised personal allowances can be transferred between them.

¹⁸ Various non-standard tax allowances also exist, e.g. related to the actual costs that are made in order to acquire income, interest payments or contributions/premiums paid to private pension saving plans. These are not modelled in TaxBEN.

8.1.3. Income tax schedule

Individuals pay an 8% Labour Market Contribution (*Arbejdsmarkedsbidrag*), levied on the gross wage or other income from work *before* the deduction of any allowance (compare Section 7.1).

Low bracket tax of the central government (*Bundskat*) is levied on the sum of the personal income base plus any positive net capital income minus the general tax allowance. The rate is 12.16%.

Top bracket tax of the central government is levied at the rate of 15% on the sum of the personal income base plus any positive net capital income and contributions to capital pension schemes, minus DKK 513 400. If a married individual cannot utilise the total allowance of DKK 413 400, the unutilised part is not transferred to the spouse.

If the marginal tax rate including local tax but excluding church tax exceeds 52.05 per cent, the top bracket tax rate is reduced by the difference between the marginal tax rate and 52.05 per cent.

8.1.1. Tax credits

Variable names: `[CREDITS_p; CREDITS_s; HEALTH_cr_p; HEALTH_cr_s; GREEN_p; GREEN_s]`

General personal allowance: Each person is granted general personal allowance, which is converted into a non-refundable 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:

Central government income tax	12.16 per cent of DKK 46 200 = DKK 5618
Local government income tax	24.926 per cent of DKK 46,200 = DKK 11 515,81

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

There is a *special* personal allowance for an individual younger than 18 years: DKK 35 300 (not considered in TaxBEN as working individuals are assumed to be at least 18 years old).

Green check: Individuals older than 18 years receive a ‘green check’ of DKK 525 as refundable tax credit to compensate the increase in energy, transport and environmental taxes (DKK 900 for pensioners); this amount is increased with DKK 145 per child for up to two children (DKK 210 for pensioners). Only one partner in a married couple receives the increased ‘green check’ for children. The ‘green check’ is nominally fixed and is quickly phased out at a rate of 7.5 per cent for income above DKK 414 100. If the yearly income of the individuals is lower than DKK 237 100 the individuals receive an ‘additional green check’ of DKK 280.

8.2. Local income taxes (*Kommuneskat and Kirkeskat*)

Variable names: `[LOC_TAX_p; LOC_TAX_s]`

Local income taxes are levied by the municipalities (Kommuneskat) and the church (Kirkeskat). The rate varies by jurisdiction. The tax base is the taxable income base after the deduction of the general personal allowance. Unused allowances can be transferred between spouses. The tax credit varies with tax rates. The minimum, maximum and average amount of the municipality tax (Kommuneskat) are given below:

- Lowest rate: 22.5 per cent
- Highest rate: 27.8 per cent
- Average rate: 24.926 per cent

The average rate is used in TaxBEN; it is applied to the tax base minus the personal allowances.

The church tax (Kirkeskat) is a voluntary contribution and is not simulated in TaxBEN. It is paid by about 80% of taxpayers and the average rate was 0.87 in 2019.

9. Selected output from the OECD tax-benefit model (TaxBEN)

This section shows selected output of the TaxBEN model for Denmark in 2019 (see figure below). TaxBEN by default produces the following output: 1) net household incomes (**black line**) and 2) related income components (**coloured stacked areas**) for selected family and individual circumstances (users are free to select many of these circumstances). The model and the related web calculator is accessible from the [project website](#). The figure below shows output for a two-adult family with two children (adults are both 40 years old whereas children are 4 and 6 years old respectively) and four different scenarios:

- By percentage of the average wage (**Panel A**);
- By unemployment duration (in months) for a jobseeker claiming unemployment benefits (**Panel B**);
- By previous gross earnings levels for a jobseeker claiming unemployment benefits (**Panel C**);
- By previous employment record (in months), for a jobseeker claiming unemployment benefits (**Panel D**).

The stacked areas show the following household income components: **GROSS** = gross earnings; **UB** = unemployment benefits; **SA** = social assistance / guaranteed minimum income benefits; **HB** = housing benefits; **FB** = family benefits; **IW** = in-work benefits; **SSC** = social security contributions; **IT** = income tax. Note that these components may be the result of the aggregation of more than one benefit/tax into a composite category. Please refer to the sections above for the benefits/taxes included in each category.

Social assistance and housing benefit supplements are assumed to be available in all the four scenarios provided that the necessary income and eligibility requirements are met. Where receipt of social assistance or other benefits is subject to activity tests (such as active job-search or being available for work), these requirements are assumed to be met.

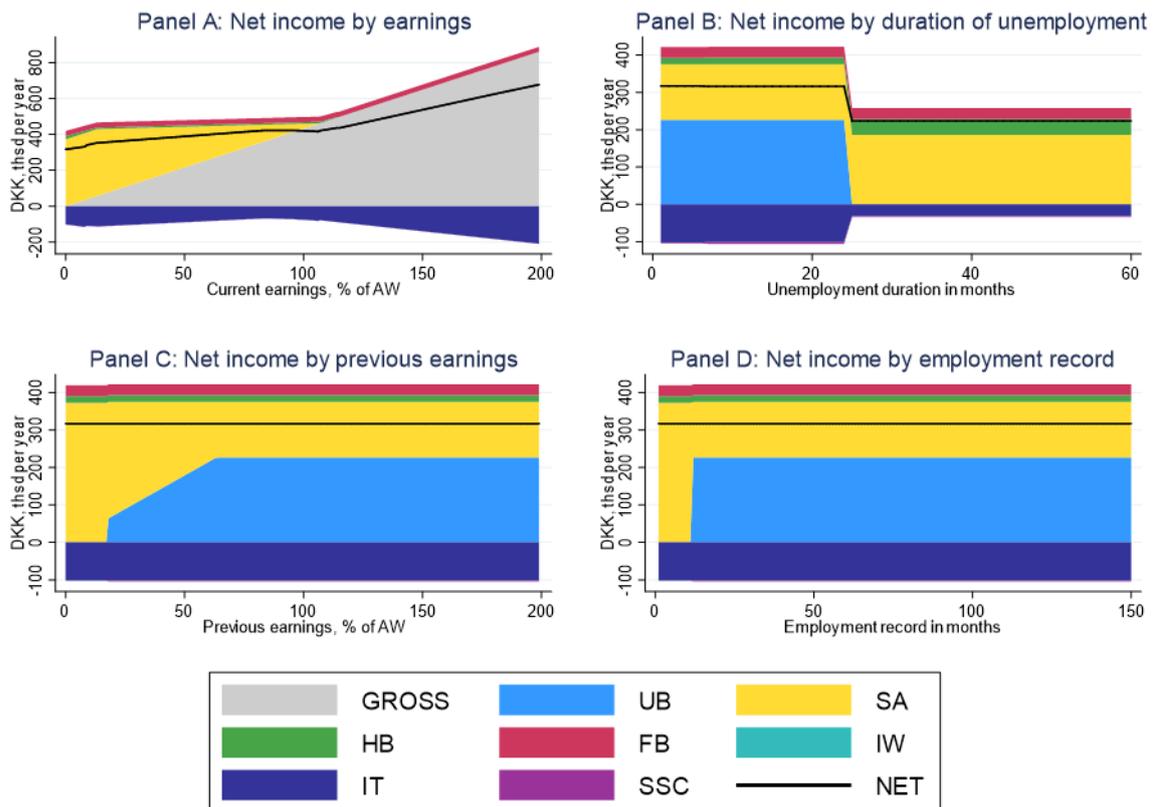
Panel A assumes that one adult family member (the so-called ‘second adult’ using the TaxBEN terminology) is out of work and not eligible for unemployment benefits (e.g. because they have expired) whereas the other adult member (the so-called ‘first adult’) is

employed full-time throughout the entire year at different earnings levels ranging between 0 and 200% of the average wage (AW). When earnings of the first adult are precisely 0% of the AW this person is assumed to be out of work without receiving unemployment benefits (again, e.g. because they have expired) but claiming social assistance or guaranteed minimum income benefits, as applicable.

Panels B to D assume that the second adult is out of work and not eligible to unemployment benefits whereas the first adult is also out of work and claiming unemployment benefits. In Panel B and C the first adult is assumed to have a ‘long’ employment record of 264 consecutive months before the job loss. The x-axis in Panel B measures the time of benefit receipt, starting from the first month. The x-axis in Panel C shows the amount of previous gross earnings (before any social contribution payments). Results in Panels C and D refer to the 2nd month of unemployment benefit receipt. In Panel B and D, previous earnings are assumed to be equal to the average wage.

Figure 9.1. Selected output from the OECD tax-benefit model

Couple with two children



Source: Calculations based on the OECD tax-benefit model.

Annex: Other benefits and direct taxes

This section provides a brief description of other cash benefits and taxes on employment incomes in Denmark that are relevant for some members of the population below the statutory retirement age, but which are not included in the OECD tax-benefit model.

Unemployment benefit – extended duration through temporary benefits

In 2010, the maximum duration of unemployment benefits in Denmark was reduced from 4 years within a reference period of 6 years to 2 years within a reference period of 3 years. Several **temporary benefits** were implemented to ensure a milder implementation of the shortened period.

In the 2nd half of 2012 the benefit period for regular unemployment benefit was prolonged with 6 months for insured unemployed persons, who have exhausted their entitlement to unemployment benefit by the end of the 2nd half of 2012 (prolongation due to National Budget agreement for 2012; *FL12 forlaengelse*). Benefits paid out before July 2010 were not taken into account, i.e. a person who, e.g., was unemployed for already 2 years without interruption at the end of 2010, was still entitled to an overall maximum of 4 years of regular and prolonged unemployment benefit.

Insured unemployed persons, who have exhausted their entitlement to (prolonged) unemployment benefit up until the 2nd half of 2013, are entitled to the special education benefit I+II (*saerlig uddannelsesydelse 1&2*), payable to persons available for the labour market and accepting a special plan of training/education.

The temporary labour market benefit (*arbejdsmarkedssydelse*) is given to persons, who have exhausted their entitlement to (prolonged) unemployment benefit and/or the special education benefit during the 1st half of 2014 and before the end of the 1st half of 2016. It is a condition that the unemployed person is a member of an unemployment insurance fund, is registered as a job seeker at the public employment centre and is available to the labour market. The temporary labour market benefit is also granted for up to 30 weeks to unemployed persons working part-time (cp. Section 2.1).

The duration of the special education benefit I+II is up to 12 months and was gradually phased out by the end of 2014. The duration of the labour market benefit is up to 15 months in 2014 and is gradually shortened as well as phased out by the end of 2017.

The cash benefit (*kontantydelse*) is given to persons, who have exhausted their entitlement to regular unemployment benefit and/or temporary labour market benefit during the 1st half of 2015 and before the end of the 1st half of 2017. The duration of the cash benefit is granted between ¼ and ½ year.

Temporary benefits are entirely phased out by the end of 2017 and are not granted anymore in 2018.

As a result, the total benefit period including regular and prolonged unemployment benefit, special education benefit, temporary labour market benefit and cash benefit was as follows (at the time of exhaustion of regular unemployment insurance benefits; listed are the reference periods relevant in TaxBEN):

- 4 years until end of 2012 (2 ½ years regular and prolonged unemployment benefit, 1 ½ years special education benefit and temporary labour market benefit),
- 3 ½ years in the second half of 2013 (2 years regular unemployment benefit, 1 ½ years special education benefit and temporary labour market benefit),
- 3 years in the second half of 2014 and in 2015 (2 years regular unemployment benefit, 1 year temporary labour market benefit and/or cash benefit),
- 2 ½ years in the second half of 2016 (2 years regular unemployment benefit, ½ year temporary labour market benefit and/or cash benefit),
- 2 ¼ in the second half of 2017 (2 years regular unemployment benefit, ¼ year temporary labour market benefit and/or cash benefit),
- 2 years in 2018 (regular unemployment benefit).

Unemployment benefit for disabled persons admitted to the flexible-job scheme (Ledighedsydelse)

Unemployed persons with reduced work capacity can be admitted in so-called flexible-job schemes if they have a permanently reduced work capacity and 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 flexible job scheme.

Voluntary early retirement benefit (Efterløn)

Members of an unemployment insurance fund who have reached the age of early retirement, currently 63 years, have been members of an unemployment insurance fund for 30 years and have paid contributions for voluntary early retirement in a corresponding period, are entitled to a voluntary early retirement payment until they reach the retirement age (currently 65 years). The early retirement payment is calculated as in Section 2.1.2 but for a maximum of 91% of the maximum unemployment benefits, i.e. DKK 3,962 per week (DKK 206,016 per year) if they go into voluntary early retirement as soon as they reach the age of early retirement (currently the age of 63). However, if the transition into voluntary early retirement is postponed for at least two years and if the person in this period has worked for a minimum of 3,120 hours, the voluntary early retirement payment is paid at the rate of 100% of the maximum unemployment benefits, i.e. DKK 4 354 per week (DKK 226,392 per year). Members in early retirement do not have a duty to be available for work. But they may work for an unlimited number of hours with an hour-to-hour deduction.

Survival allowance (Efterlevelseshjælp)

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 14 667, and it shall be payable to any dependent survivor whose estimated annual income does not exceed DKK 241 636. 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 377 554, no survivor's allowance shall be payable.

Other child allowances

Special allowance for parents still studying (*Særligt børnetilskud til uddannelsessøgende*): A total of up to DKK 7568 is under certain conditions payable a year for a parent who is undertaking formal education, but only for one child. The supplement is paid quarterly and is depending of the income of the parents.

Supplementary child allowance (*Supplerende børnetilskud i visse praktik- og skoleperioder*): This is a supplementary child allowance for parents in trainee or school practice. Family breadwinners can in certain periods of training or education receive a supplementary child benefit of 55 percent of the difference between his or her trainee or school practice allowance (incl. any other income) and the state education grant with a breadwinner allowance. The supplementary child benefit will lift their total income to a level equivalent to the comparable state education grant with a breadwinner allowance.

Child allowance for multiple births (*Flerbørnstilskud*): Parents with multiple births receive DKK 0 for the first child and DKK 9 508 for the following child from 0-6 years of age.

Special child allowance (*Særligt børnetilskud*) to parents, who e.g. have chosen to adopt as a single parent, are retired etc.:

- Children of pensioners receive DKK 14 736 a year per child (one pensioner parent) or DKK 16 664 a year per child if both parents are pensioners. The supplement is paid quarterly and is means tested against the income of the parents. The total amount of received special child allowance is reduced by 3% if the family income is over the limit set for Social Pensions supplements. In the event where a family receives several special child allowances the reduction is shared equally among these.
- Full orphans receive DKK 33 288 a year; half-orphans receive DKK 16 664
- An allowance of DKK 16 664 is also payable when paternity cannot be determined, when the mother is a single woman following artificial insemination and when the child has been adopted by a single person.

Adoption Grant (*Adoptionstilskud*): In case of adoption of a foreign child, there is a possibility to receive a one-time allowance of DKK 54 740.

Child maintenance (*Børnebidrag*). Every year a set of guidelines are published, which suggest the size of income that leads to a raise in the alimony payment of absent parents. It is important to emphasize that it is only a recommendation, not a fixed rule. According

to the guidelines, the alimony payment is raised with 100% of the basic amount, when an absent parent with one child earns more than DKK 510 000 per year. This income limit 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 actual suggested approximately income limits (2019).

Alimony payment	1 child	2 children	3 children	4 children	5 children
	Approximately income limits (DKK)				
100%	510 000	570 000	645 000	750 000	890 000
200%	700 000	900 000	1 000 000	1 100 000	1 200 000
300%	1 300 000	1 600 000	1 900 000	2 000 000	2 200 000

Compensation for loss of income for parents of children with disabilities (*Dækning af tabt arbejdsfortjeneste*): Parents taking care of a child under age 18 who have a substantial and permanent disability can get a compensation for loss of earnings up to DKK 31 249 per month if they choose to give up their job fully or partially to provide domiciliary care and/or training of the child. The parents can also get a subsidy covering any necessary extra costs they have as a consequence of the functional impairment of a child under 18 with permanent physical or mental disabilities. Up to a maximum of DKK 4 900 per year, the subsidy covers all relevant extra costs relating to the personal day-to-day maintenance of everyday life for children with permanent physical or mental disabilities such as extra costs for transport and medicine.