

THE OECD TAX-BENEFIT MODEL FOR GERMANY

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 movable 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 Germany: Policy rules in 2019

1. Reference wages and other reference amounts

Average wage **[AW]**: The OECD tax-benefit model (TaxBEN) uses Secretariat estimates of the average full-time wage (available [here](#)).¹ If Secretariat estimates are not available yet, the model uses wage projections obtained by applying forecasted wage growth² to the latest available wage estimate.

The federal minimum wage **[MIN]** in 2019 is EUR 1,557 per month. The annual minimum wage is computed by multiplying the minimum monthly wage (as of January 1, 2019) by 12, i.e. EUR 1,557 * 12 = EUR 18,684.

2. Unemployment benefits

The unemployment benefit system in Germany consists of two schemes. i) a contributory scheme (unemployment benefit I, *Arbeitslosengeld I*) and ii) a non-contributory, needs-based and means-tested scheme (unemployment benefit II, *Arbeitslosengeld II*).

Unemployment benefit I is described in Section 2.1, unemployment benefit II in Section 2.2.

2.1. Unemployment benefit (*Arbeitslosengeld I*)

Variable names: **[UB; UI_p; UI_s]**

This is an unemployment insurance benefit (unemployment benefit I). It is contributory, not means-tested and not taxable. Its legal basis is the law named *Dritte Buch Sozialgesetzbuch (SGB III)*. 

2.1.1. Eligibility conditions

Age: Younger than legal retirement age.

Contribution/employment history: A claimant must have worked at least 12 months to be eligible. Contributions must have been made for at least 12 months in the last 2 years (Marginally employed (monthly earnings <EUR450) are contribution and insurance free).

Behavioural requirements and related eligibility conditions:  TaxBEN assumes that the following compulsory conditions are satisfied when simulating unemployment benefits.³ The benefit claimant is:

¹ Average Wages are estimated by the [Centre for Tax Policy and Administration](#) at the OECD. For more information on methodology see the latest [Taxing Wages publication](#).

² Wage growth projections are based on [OECD Economic Outlook](#) and [EU economic forecasts](#) (for non-OECD countries).

³ 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 \(2011\)](#).

1. Registered as unemployed;
2. Looking and available for work.

2.1.2. Benefit amount

Calculation base: The benefit is paid to the individual. The calculation base is previous earnings net of tax and social security contributions (*Note:* Net of tax means the monthly salary after deductions of corresponding taxes and contributions on an individual basis. Taxes include payroll taxes and the solidarity surcharge. For social security contributions, a flat-rate applies, which is currently set at 20%).⁴⁾.

Benefit amount: The replacement rates are 60 per cent of previous earnings net of tax and social security contributions, and 67 per cent for a worker with at least one dependent child. The monthly ceilings are 60 and 67 per cent of EUR 6.700 (West) and 6.150 (East) monthly gross earnings, respectively (TaxBEN assumes EUR 6.700). Additionally contributions to the pensions insurance, the statutory health insurance and long-term care insurance are fully paid by the public employment service agencies (*Bundesagentur für Arbeit*).

2.1.3. 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 30 days per month.

Contribution period (months)	Benefit payment	
	Varying with age	Duration (months)
12		6
16		8
20		10
24		12
30	50	15
36	55	18
48	58	24

2.1.4. Means test

The benefit is not means-tested.

2.1.5. Tax treatment

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

⁴⁾ See *Sozialgesetzbuch III, Paragraph 153* (<http://www.sozialgesetzbuch-sgb.de/sgbiii/153.html>).

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

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

People earning less than EUR 450/month do not qualify for unemployment insurance contributions. People receiving UI may work less than 15 hours a week; working 15 hours or more stops all benefit entitlements. People may earn EUR 165 per month in addition to UI. UI will be shortened by the excess amount for any earnings above EUR 165.

2.2. Unemployment assistance (Arbeitslosengeld II)

Variable names: **[UB; UA]**

As of 1st January 2005, unemployment assistance and social assistance (see Section 3.1) for persons who are able to work were combined into one benefit, the basic jobseekers allowance (unemployment benefit II). It is non-contributory, needs-based, means-tested, and not taxable. Its legal basis is the law named *Zweites Buch Sozialgesetzbuch (SGB II)*.⁵



2.2.1. Eligibility conditions

Persons who continue to be unemployed when their claim to unemployment insurance benefits (unemployment benefit I) has expired or persons who are able to work and whose income is not sufficient to secure their own and their family's livelihood (all persons, who live in a 'need unit' together with the applicant) are eligible to unemployment benefit II. Note that persons who are unable to work but live together with an unemployment benefit II recipient in a 'need unit', are formally not eligible to jobseekers allowance but receive social allowance (*Sozialgeld*). However, the basic elements of both benefits are similar and covered by the rules outlined below (i.e. the BNA levels indicated also apply to members of a 'need unit' who are not able to work and receive social allowance).

Prerequisites for receiving unemployment benefit II:

- age between 15 up to but not including 65 years and 7 months (will increase with statutory retirement age),
- able to work
- in need of aid
- usually resident in the Federal Republic of Germany
- Foreign nationals also must have or be eligible to the permission to work.

Behavioural requirements and related eligibility conditions:  TaxBEN assumes that the following compulsory conditions are satisfied when simulating unemployment assistance. The benefit claimant is:

1. Registered as unemployed;

⁵ Note that in TaxBEN, unemployment benefit (UB) II is modelled in variable **UA** for those individuals who are assumed to generally claim UB I (variable **UI**) and, e.g., receive UB II after expiration of eligibility to UB I. For those individuals who are assumed not to claim UB I, UB II is covered in variable **SA** (see Section 3.1).

2. Looking and available for work.

2.2.2. Benefit amount

Calculation base: Unemployment benefit II is made up of a basic allowance (*Regelbedarf*) and several additional allowances. In the following, only the allowances that are modelled in TaxBEN are described in detail.

Basic needs assistance (BNA, *Regelbedarf*) to secure the recipients' livelihood (covers the demand for food, personal care, household goods, everyday needs). It includes a lump-sum for non-recurring and recurring needs.

BNA level 1	BNA level 2	BNA level 3	BNA level 4	BNA level 5	BNA level 6
424	382	339	322	302	245

The basic needs assistance is adjusted annually on 1st January in line with the weighted average of i) the increase of employee gross salaries (30%) and ii) the increase of prices of the relevant goods and services for usual requirements in the calculation of the basic needs assistance (70%).

Basic needs assistance level 1

An adult entitled person, single or lone parent who runs his/her own household; this also applies if other adult members live in the household which are entitled to basic needs assistance level 3.

Basic needs assistance level 2

Two adult household members (partner/spouses).

Basic needs assistance level 3⁶

Adult member of a household, who neither doesn't run his/her own household, nor living as spouse or spousal equivalent in a household.

Basic needs assistance level 4

Member of household starting from their 15th year of life up to the completion of their 18th year of life.

Basic needs assistance level 5

Member of household starting from their 7th year of life up to the completion of their 14th year of life.

⁶ While initially not the case, children under the age of 25 have been reintegrated into their parents need unit (i.e. qualifying for BNA level 3). Moving out of their parents' and establishing an own need unit is only possible, if there are serious social reasons or if it is necessary for their integration into the labour market (see the law *Gesetz zur Änderung des Zweiten Buches Sozialgesetzbuch und anderer Gesetze*).

Basic needs assistance level 6

Member of household up to the completion of their 6th year of life.

Additional allowances:

- **Additional needs allowances** (*Mehrbedarfe*) for extra expenses not covered by the basic allowance for lone parents depending on the age and number of children.⁷ Persons with resident underage children whom they raise and care for alone qualify for an additional needs allowance amounting to 36 per cent of the standard benefit due to the person concerned, if they live with one child under age seven or with two or more children under age 16, or 12 per cent of the standard benefit applicable for each child, if this works out to a higher percentage rate than under the first regulation, but not more than 60 per cent of the standard benefit for which the person concerned qualifies.
- **Housing and heating allowance** (*Leistungen für Unterkunft und Heizung*) covering the actual expenses, if reasonable (see Section 3.2).

BNA, additional needs allowance and housing and heating allowance determine the final amount of unemployment benefit II to be paid:

BNA rate for the head-of-household or persons living alone
+ BNA rate for any other household member
+ Any extra allowances for additional needs
+ Housing and heating costs
= Social assistance need
<i>minus</i>
Net income (<i>minus earning disregards</i>)
= Actual cost-of-living assistance to be paid

Beyond this, other allowances might be granted additionally:

- **One-off benefits** for needs not covered by the standard benefit, e.g. initial flat furnishing, initial set of clothes etc. (not modelled in TaxBEN).
- **Insurance contributions** towards the statutory health insurance and long-term care insurance. The contributions for the health and the long-term care insurance are paid for unemployed recipients of Unemployment Benefit II, who are compulsorily insured in the statutory health insurance (including the average additional supplementary contribution to the sickness funds). Working recipients of Unemployment Benefit II generally have to pay social insurance contributions, see Section 7.1 for details.

⁷ Other needs allowances exist for: expectant mothers from the 13th week of pregnancy; persons with disabilities; persons with expensive nutrition if demonstrably required for medical reasons. Those are not modelled in TaxBEN.

- **Education and participation package:** From 1st January 2011, families with children and youths below age 18 or 25 years are in principle entitled to benefit from the ‘education and participation package’ (*Bildungspaket*) if they receive:
 - Jobseekers allowance (unemployment benefit II) or
 - Cost-of-living assistance (Hilfe zum Lebensunterhalt, SGB XII)
 - Basic security benefits for old-age and in the event of reduced earning capacity (*Grundsicherung im Alter und bei Erwerbsminderung, SGB XII*) or
 - Allowance according to the section 2 of asylum-seeker law or
 - Housing allowance (*Wohngeld*) or
 - Supplementary Child allowance (*Kinderzuschlag*)

The education and participation package comprises several benefits, of which TaxBEN models: 1) For children and youths below age 25 years, visiting general schools and vocational training schools, a lump-sum payment for school requisites of 100 € (as of 1st August 2019: 150 €) per school year (70 € (as of 1st August 2019: 100 €) for the first term of a school year and 30 € (as of 1st August 2019: 50 €) for the second term of a school year). 2) For children and youths below age 18, participation in sports and cultural activities is supported with 10 € (as of 1st August 2019: 15 €) per month.⁸

2.2.3. Benefit duration

Unemployment benefit II is granted for an indefinite period of time, if the eligibility criteria are permanently fulfilled. To allow need for aid to be verified at reasonable intervals, the benefits are usually granted for six months.

2.2.4. Means test

See Section 2.2.2.

2.2.5. Tax treatment

The benefit is not taxable.

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

Other benefits are counted towards the unemployment benefit II if they serve the same purpose (which is to secure the recipients' livelihood), i.e. the payment of unemployment benefit II is subordinate. Where the income serves another purpose, it will be disregarded if the beneficiary does not do so well out of these benefits that additional receipt of the unemployment benefit II is unreasonable.

⁸ Note that in TaxBEN, both benefits are classified as family benefits, i.e. counted into **FB**, see also Section 4.3. Starting already in 2009, 100 € for the support of school attendance were paid on the basis of the Family Benefits Act (*Familienleistungsgesetz*). Other payments within the education and participation package comprise: For children and youths below age 25 visiting general and vocational training schools cover costs for school trips, costs for the way to school that are not covered otherwise and costs for learning assistance. For children and youths below age 25 visiting nursery schools or child day care, costs of the lunch offered at the day-care centre or at school are covered (with 1 € own participation; starting from 1st August 2019, no more own participation is required). As these benefits are calculated on an individual basis taking into account the actual cost of the activities, they are not modelled.

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

Income is regarded if it serves the same purpose and the ceilings for extra income are exceeded.

A basic allowance of 100 € was introduced. For gross incomes above the first 100 € the rate of withdrawal of unemployment benefit II was reduced to 80 % up to a gross income of 1000 € and to 90 % in a range between 1000 € and 1200 € for single workers (up to 1500 € for working recipients with children).

3. Social assistance and housing benefits

In Germany, there exist one guaranteed minimum income benefit (social assistance, *Sozialhilfe*) and two types of housing benefits, i) Housing benefit under the Housing Allowance Act (*Wohngeld*), and ii) Housing benefit under the unemployment benefit II (*Leistungen für Unterkunft und Heizung*).

The social assistance is mentioned in Section 3.1 and further explained in Annex II, Section 3.2 covers the housing benefit under the Housing Allowance Act, Section 3.3 the housing benefit under the unemployment benefit II.

3.1. Social assistance (*Sozialhilfe*)

Variable name: **[SA]**

Social assistance / assistance in old age and partial reduction in earning capacity is a non-contributory benefit which is means-tested, needs-based and not taxable. Its legal basis is the law named *Zwölftes Buch Sozialgesetzbuch (SGB XII)*.

As of 1st January 2005, unemployment assistance and social assistance for persons who are able to work were combined into one benefit, the basic jobseekers allowance (unemployment benefit II (*SGB II*), see Section 2.2). As TaxBEN focusses on this population group, social assistance is not further explained here while additional details can be found in Annex II.

3.2. Housing benefit under the unemployment benefit II (*Leistungen für Unterkunft und Heizung*)

Variable names: **[HB; SA_HB]**

Housing and heating allowance (*Leistungen für Unterkunft und Heizung*) is a non-contributory benefit, means-tested and not taxable.

The amounts vary by municipality. In the model, Berlin is used as a reference region for the simulation of this housing benefit. Its legal basis is the law named *Zweites Buch Sozialgesetzbuch (SGB II)*, see also Section 2.2.

3.2.1. Eligibility conditions

The housing and heating allowance is exclusively targeted to recipients of unemployment benefit II as specified in provisions of SGB II, additional housing benefits under the Rent Allowance Act (see 3.2) are excluded.

3.2.2. Calculation of gross benefit

Reasonable housing costs are determined according to the circumstances of each individual case, particularly family size, the age and state of health of the family members. Based on these individual data of the beneficiary and their relatives, the number of rooms, the local rent level and the possibilities of the local housing market must be evaluated.

The reasonable rent per square metre is determined based on the rent for comparable lower end flats at the place where the beneficiary lives and can be obtained from the local representative rent list. If not available, other reference measures must be used, such as the maximum rates stipulated in the Housing Allowance Act (*Wohngeldgesetz*) that differ according to household size and local rent level. However, it must be borne in mind that amounts higher than those stipulated in the Housing Allowance Act tend to be the local rule in major cities, tourist centres or near-city communities with more than 20,000 population.

The following would be average reasonable flat sizes:

1 person	ca. 45 – 50 sqm
2 persons	ca. 60 sqm or 2 rooms
3 persons	ca. 75 sqm or 3 rooms
4 persons	ca. 85 – 90 sqm or 4 rooms

plus ca. 10-12 sqm or one room for each additional family member.

If the person in need of aid who is able to work, lives in a (reasonable) house of their own or condominium, housing costs include the liabilities involved (such as adequate mortgage interest, real property tax and other public charges, residential building insurance, ground rent, incidentals as in the case of rented flats, refuse collection fee, chimney sweep fee, street cleaning). Also regular expenses for heating are to be covered. By contrast, redemption rates cannot be considered. Their purpose is capital formation, which is not compatible with that of a welfare benefit.

3.2.3. Benefit amount

The following figures provide the upper limits for reasonable monthly expenses for housing and heating by household type (January 2019)⁹ as applied in the city of Berlin¹⁰, which determine the amount of housing benefit for recipients of unemployment benefit II (in brackets heating costs to be added). These rates are applied in TaxBEN.

• 1-Person household	404 € (60.5 €)
• 2-Person household	472.2 € (72.6 €)
• 2-Person household (lone parent)	491.4 € (78.65 €)
• 3-Person household	604.8 € (96.8 €)
• 4-Person household	680.4 € (108.9 €)
• 5-Person household	795.6 € (123.42 €)

⁹ For heating, a building's total floor area of more than 1,000 sqm and use of oil is assumed.

¹⁰<https://www.berlin.de/sen/soziales/themen/soziale-sicherung/grundsicherung-fuer-arbeitsuchende-hartz-iv/av-wohnen/>

For each additional person 93.6 € (14.52 €) per month.

3.2.4. Benefit duration

As long as the eligibility conditions hold.

3.2.5. Means test

See Section 2.2.

3.2.6. Tax treatment

The benefit is not taxable.

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

See Section 2.2.

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

See Section 2.2.

3.3. Housing benefit under the Housing Allowance Act (Wohngeld)

Variable names: **[HB; hb_orig]**

Housing allowance (*Wohngeld*) is a non-contributory benefit, means-tested and not taxable.

The amounts vary by municipality. In the model, Berlin is used as a reference region for the simulation of this housing benefit. Its legal basis is the Housing Allowance Act (*Wohngeldgesetz*).

3.3.1. Eligibility conditions

Anyone with low income and high rent or high financial obligations resulting from his/her own dwelling may be eligible for housing allowance, hence owner-occupiers, private tenants and social housing tenants.

A person who receives basic jobseekers allowance (unemployment benefit II) or social assistance under Chapter 3 (*Hilfe zum Lebensunterhalt*) or 4 (*Grundsicherung im Alter und bei Erwerbsminderung*) of SGB XII is not eligible to housing allowance. The actual costs of housing and heating, if reasonable, are already included in the unemployment benefit II (cf. Sections 2.2, 3.1 and 3.3).

3.3.2. Calculation of gross benefit

Housing allowance (HA) is granted as a tabulated housing allowance. The housing allowance entitlement is calculated using a formula with parameters for: size of household, eligible income and eligible housing costs (rent or burden of financial obligations). This formula is then translated into tables for different sizes of household, which show how much allowance a household is entitled to receive for different levels of income and housing costs. The tables group income and rent in bands, so that within each income band and each housing cost band, households are entitled to the same amount of allowance. The formula is specified as follows, with values as of January 2016 (not changed in 2018):

$$HA = 1.15 * (M - (a + b * M + c * Y)) * Y \quad [for HA >= EUR 10 otherwise 0]$$

Where:

Household size ¹ (persons)	Parameters of the rent burden function			Monthly household income (EUR) Maximum ² Y_{max}
	a	b	c	
1	4/100	6.3/10 000	1.38/100 000	955
2	3/100	4.4/10 000	1.03/100 000	1 307
3	2/100	3.8/10 000	8.3/100 000	1 585
4	1/100	3.4/10 000	4.3/100 000	2 075
5	0/100	3/10 000	4.2/100 000	2 362
6	-1/100	2.8/10 000	3.6/100 000	2 664

1. Parameters also exist for household sizes from 7 to 12 persons (not modelled in TaxBEN).

2. Y_{max} denotes the income threshold for the receipt of HA. For Level of rent (“Mietenstufe”): category IV.

“a, b, c” are parameters depending on the household size.

“M” is the rounded monthly rent or home loan repayment to be taken into account.

“Y” is the rounded monthly income in Euros.¹¹

Any values for “M” and “Y” which are below the values set out in the following table shall be replaced by the figures in the table. Values as of January 2016:

Household size ¹ (persons)	M	Y
1	48	239
2	59	310
3	70	360
4	81	389
5	91	463
6	91	537

1. Parameters also exist for household sizes from 7 to 12 persons (see Annex I).

Note: Lump sum deductions on income are 10, 20 and 30 per cent. These deductions are made from the individual income of each household member. Deductions depend on the payment of 1. taxes, 2. contributions to health insurance and nursing care insurance and 3. old-age insurance (see section 16 of the Housing Allowance Act). If one of these conditions is fulfilled 10% are deducted, 20% if two conditions are fulfilled, and 30% if all three conditions are fulfilled.

¹¹ For a,b,c,M,Y see <https://www.gesetze-im-internet.de/wogg/WoGG.pdf>, Anlage 1+2. For maximum rent (“Mietenstufe”) and maximum income see <https://www.bmi.bund.de/SharedDocs/downloads/DE/publikationen/themen/bauen/wohnen/wohngeld-ratgeber.pdf?blob=publicationFile&v=2>, p18+24.

The calculation is carried out in a specified order and subject to strict rounding methods at various stages (see Annex I).

3.3.3. Benefit amount

The final amount of housing allowance depends on the number of the persons in the household, the eligible income and the eligible rent or burden of financial obligations (up to ceilings differentiated according to regional rent level and household size, see 3.2.2). The maximum rent levels are given in the table below for the Level of rent (“Mietenstufe”) of category IV as of January 2016 (not changed in 2018):

Household size (persons)	Maximum monthly rent (EUR)
1	434
2	526
3	626
4	730
5	834
For each extra person	101

3.3.4. Benefit duration

As long as eligibility conditions are fulfilled. Though, a new claim usually has to be submitted after 12 months of receipt.

3.3.5. Means test

See Section 3.2.2.

3.3.6. Tax treatment

The benefit is not taxable.

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

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

4. Family benefits

In Germany, general family benefits (*Kindergeld*) are awarded in the form of a monthly tax refund (while families may receive a child tax allowance (*Kinderfreibetrag*) instead in case this is more favourable, see Section 8.1). Further direct cash transfers are the parental allowance (*Elterngeld* and *ElterngeldPlus*), the supplementary child allowance (*Kinderzuschlag*), the education and participation package (*Bildungspaket*) and the alimony advance for lone parents (*Unterhaltsvorschuss*).

General family benefits, supplementary child allowance, the education and participation package and alimony advance for lone parents are covered in Sections 4.1-4.4. Parental allowance is a parental leave benefit and not simulated in TaxBEN while some further details are given in Annex II.

4.1. Child tax credit (*Kindergeld*)

Variable names: [FB; CHD_CRD]

This is a non-contributory benefit, not means-tested and paid as a (non-wastable, i.e. refundable) tax credit.

4.1.1. Eligibility conditions

The child tax credit is paid to all children up to age 18. The period during which the family tax credit is paid is prolonged up to the age of 25 for children undergoing training, and up to age 21 for children without a job. Should military or civilian service be done by the child during this period, the maximum age-limit is adjusted correspondingly. There is no age-limit for handicapped children who are unable to earn their living.

The family tax credit is usually paid out by the local family office, otherwise by the private and public employers. The family tax credit is paid out to the person who cares for the children.

4.1.2. Benefit amount

Child tax credit is awarded in the form of a monthly payment. It is staggered by the number of the children. The rates applying on 1 January 2019 are EUR 194/month (as of 1st July 2019, EUR 204/month) for the first and second child, EUR 200/month (as of 1st July 2019, EUR 210/month) for the third child and EUR 225/month (as of 1st July 2019, EUR 235/month) for the fourth and subsequent children.

4.1.3. Benefit duration

As long as the eligibility conditions hold.

4.1.4. Means test

The benefit is not means-tested.

4.1.5. Tax treatment

The benefit is not taxable (non-wastable tax credit).

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

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

Employment doesn't affect benefit receipt.

4.2. Supplementary child allowance (*Kinderzuschlag*)

Variable names: [FB; FB_add]

Since 1st January 2005, parents whose income and property are sufficient to secure their own livelihood but not the maintenance of their children can receive the so-called supplementary child allowance (*Kinderzuschlag*) on their behalf. The supplementary child allowance prevents parents from having to apply for unemployment benefit II/social

assistance (see sections 2.2, 3.1) only because of the maintenance of their children.¹² Adjustments to the design of the calculation of the benefit took effect from October 1st 2008 onwards.

Supplementary child allowance is a non-contributory benefit, means-tested and not taxable.

4.2.1. Eligibility conditions

The following conditions must be met to be eligible for the benefit:

- a) Married parents or lone parents are raising a child or several children up to the age of 25 living in their household for which they are eligible to receive the general family benefit (*Kindergeld*).
- b) **Minimum income threshold (“Mindesteinkommensgrenze”)**: For eligibility parents’ gross income must reach at least the minimum income threshold which is EUR 900 per month for a married couple and EUR 600 per month for a lone parent. Earnings from work, unemployment benefit I and invalidity benefits count towards the parents’ income. General family and housing benefits are not considered as income.
- c) **Maximum income threshold (“Höchsteinkommensgrenze”)**: If parents have a higher relevant income and wealth (“zu berücksichtigendes Einkommen und Vermögen”) than the maximum threshold, they are not eligible to receive the benefit.

Net income from work and unemployment insurance benefits count towards the relevant income, general family and housing benefit not. For work income the same earnings disregards apply as with the basic job seekers allowance (see section 2.2).

The maximum income threshold is defined as the sum of

- i) the **intermediate threshold (“Bemessungsgrenze”)** which consists of
 - o the parents’ need according to the rules for unemployment benefit II (*Regelbedarf*) plus potential additional needs (*Mehrbedarf*),
 - o plus the rent multiplied by the parents’ fraction of housing cost (*Wohnanteil der Eltern*),

and ii) the maximum of the supplementary child allowance the family could possibly receive. The supplementary child allowance to be paid out can reach up to EUR 170 per child per month.

The formula for calculating the intermediate threshold (BM) is implemented as follows in the model:

$$BM = SA_parents + rent * fraction_rent_parents,$$

Where:

SA_parents is the social assistance rate parents would receive without having children (*Regelbedarf der Eltern*, see Section 2.2.2),

rent is approximated using the upper limits of reasonable monthly housing expenses under unemployment benefit II (see Section 3.2.3), and

¹² See https://www.arbeitsagentur.de/datei/kiz2-merkblattkinderzuschlag_ba015395.pdf

fraction_rent_parents, the fraction of rent attributed to the parents, is based as stipulated by law on the 12th Report on minimum incomes (12. *Existenzminimumbericht*)¹³:

rent for parents	EUR 444
heating for parents	EUR 71
rent for lone parent	EUR 296
heating for lone parent	EUR 55
rent per child	EUR 87
heating per child	EUR 14

The parents' fraction of housing cost of living with one child is thus calculated as $(424 + 68)/(424 + 68 + 1*(85+14))$.

d) Parents are only entitled to receive the additional family benefit, provided that it avoids reciprocity of unemployment benefit II (“Vermeidung der Hilfebedürftigkeit im Sinne der Vorschriften über das Arbeitslosengeld II”).

e) Income of children is withdrawn against the supplementary child allowance at a 1:1 basis¹⁴. Income of children includes child alimony, any orphans' pensions, and alimony advance for lone parents, which is modelled in TaxBEN. In TaxBEN, child alimony advance payments received by lone parents are subtracted from the maximum amount of supplementary child allowance for each child separately from 2005 to 2019.

4.2.2. Benefit amount

If parents are eligible and their relevant income is below the intermediate threshold, the family receives the full amount of the benefit per child (EUR 160). If the relevant parental income is above the intermediate threshold but below the maximum income threshold, the benefit is reduced by the following amount: For every EUR 10 that the relevant income exceeds the intermediate threshold, the maximum family benefit is reduced by EUR 5, i.e. earnings are only counted half between the intermediate and maximum threshold.

4.2.3. Benefit duration

As long as the eligibility conditions hold.

4.2.4. Means test

Both the income and assets of the child and the parents' income are regarded under certain prerequisites and, if appropriate, counted towards the claim to supplementary child allowance; see 4.2.1.

4.2.5. Tax treatment

The benefit is not taxable.

¹³ Source: <http://dipbt.bundestag.de/doc/btd/19/054/1905400.pdf>, Übersicht 4.

¹⁴ Source: <https://polskiobserwator.de/wp-content/uploads/2017/12/16019022dstbai378775.pdf>, page 9 [accessed : 21st February 2020]

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

See 4.2.1; supplementary child allowance and unemployment benefit II are mutually exclusive in particular while the benefit can be received alongside the general family benefit (*Kindergeld*).

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

Employment doesn't affect benefit receipt (apart from means-test).

4.3. Education and participation package (Bildungspaket)

Variable names: **[FB; SA_sch]**

This is a non-contributory benefit, means-tested and not taxable. Entitlement to this family benefit is conditional on receipt of unemployment benefit II, social assistance, housing benefit under the housing allowance act or supplementary child allowance and described as part of Section 2.2.

4.4. Alimony advance for lone parents (Unterhaltsvorschuss)

Variable names: **[FB; LPB]**

Children of lone parents until the age of 17 will receive additional child support if they did not receive (or partially or irregularly) alimony from the other parent, which is the assumption made in TaxBEN.

Alimony advance is a non-contributory benefit, means-tested and not taxable. Its legal basis is the law named *Unterhaltsvorschussgesetz*.

4.4.1. Eligibility conditions

Alimony advance is granted to children of lone parents until they have completed the age of 12, if they live in Germany and did not receive (or partially or irregularly) alimony from the other parent, and until age 17 if the children do not receive any SGB II benefits or will no longer be dependent on SGB II benefits with the help of the alimony advance, or that the single parent receiving SGB II benefits does earn a monthly gross income of at least 600 euros.¹⁵

4.4.2. Benefit amount

On 1 January 2019 the support advance for children under the age of 6 is EUR 154 per month, for children aged 6 to 11 is EUR 205 per month and for children aged 12 to 17 is EUR 273 per month.

4.4.3. Benefit duration

As long as conditions hold (in particular the age restriction).

¹⁵ See <https://www.bmfsfj.de/blob/93500/a619f8fe38a830425383d9a1ef8ef273/der-unterhaltsvorschuss-data.pdf> .

4.4.4. Means test

See Section 4.4.6.

4.4.5. Tax treatment

The benefit is not taxable.

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

The alimony advance will be deducted from unemployment benefit II and social assistance (see Section 2.2). It counts as income of a child for the eligibility test for the supplementary child allowance, and is withdrawn at a 1:1 rate.

4.4.7. 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**.

Fees differ regionally, i.e. for each Bundesland and sometimes even at the local level. Central regulations only provide very general guidelines: They state that parents can be charged fees for ECEC services (cf. SGB VIII §90). These fees should take into account parents' income, the number of siblings, and hours of attendance, and be graded accordingly. The Bundesländer have established their own regulations that specify these central regulations. As of 2019 TaxBEN simulates childcare fees using the Bundesland and city of Berlin as a reference. Note that in previous years, the Bundesland and city of Hamburg was used.

5.1. Gross childcare fees

Variable names: **[GEcc_cost; cc_actual_cost]**

Since August 2018, the Bundesland and city of Berlin offers childcare free of charge for parents from birth until school entry, which is normally at 6 years of age.

Childcare up to 7 hours/day is granted without a needs assessment (*Bedarfsprüfung*). To receive supplementary free childcare, parents must fulfil the means test for unemployment assistance (see Section 2.2.2).

Parents pay a lump sum of 23€ per month for meals. Children whose parents receive unemployment assistance, social benefit, social assistance, child supplement, housing benefit or benefits under the Asylum Seekers Benefits Act are exempt from co-payment in Berlin. Depending on the provider, ECEC services might charge for extra services such as additional sport activities, organic food or language lessons. But these payments are capped to protect parents against inappropriate financial claims. A staggered payment model defines clear rules for additional contributions of up to € 30, up to € 60 or between € 60 and € 90 per month. Parents can refuse to pay these additional payments without losing their childcare place. The Land Berlin covers for the missing fees. TaxBEN does not model fees and reductions for extra services.

5.1.1. Discounts for part-time usage

Not applicable in Berlin.

5.2. Fee discounts and free provision

Variable names: **[cc_subsidy]**

See Section 5.1.¹⁶

5.3. Childcare benefits for formal centre-based care

Variable names: **[cc_benefit]**

In Germany, general payments to subsidise or reduce the cost of childcare do not exist. Day care and related services are offered on a lawful basis by local youth agencies, mostly funded by public means. Parents are asked to contribute according to their financial/economic situation.¹⁷

5.4. Childcare allowance for children not using child care centres

See Section 5.3.

5.5. Tax concessions for childcare expenditures

Variable name: **[cc_dedn]**

Since 2006 two thirds of the cost for children up to the age of 14 years can be deducted as expenses from taxable income in Germany. The maximum deduction is EUR 4,000 per child.

¹⁶ 1) Hamburg also offers free ECEC for all children. In Hamburg this free ECEC covers five hours per day (*Grundbetreuungszeit*).

2) In Rhineland-Palatinate for children from the age of 2, and in Bremen, Niedersachsen, Hesse for children from the age of three there is free full-time ECEC.

3) Brandenburg, North Rhine-Westphalia, and Thuringia offer free ECEC for the year before school-entry (last kindergarten year). In the Saarland the scope of fee discounts for the last year of kindergarten depend on the income of parents (on a range of complete, partly or no cost exemptions).

4) Bavaria, Mecklenburg-Western Pomerania and Schleswig-Holstein partly cover ECEC cost by paying subsidies (amount and age group differs).

5) Baden-Wuerttemberg, Saxony, Saxony-Anhalt offer no exemption from charges for parents, except those that are below a certain income (targeted measures).

¹⁷ Note that not all Bundesländer have income-related fees. However, the new Federal Law on Quality and Participation (*Gesetz zur Weiterentwicklung der Qualität und zur Teilhabe in der Kindertagesbetreuung*) that came into force in 2019, obliges Länder, municipalities and providers to expand income-based, staggered fees. In quite a number of Länder there is a discussion on expansion of free ECEC places for certain age groups of children or even all children. Hence, in the future, the number of Länder with free ECEC might be growing (see also footnote 15).

6. Employment-conditional benefits

In Germany, the so-called work-entry assistance (*Einstiegsgeld*) exists as an employment-conditional benefit. As it is individually granted and determined, this benefit is not modelled in TaxBEN while some further details can be found in Annex II.

7. Social security contributions and payroll taxes

7.1. Social security contributions (*Sozialversicherungsbeiträge*)

Variable names: [SC; SOCSEC_p; SOCSEC_s; SSCR_p; SSCR_s]

The amount of social security contributions depends on the wage and the insurance contribution rate. All contributions are subject to a contribution ceiling, i.e. the maximum income for which statutory insurance contributions are calculated. The contribution rates for pension, health, care and unemployment insurances are fixed by the government and as a general rule (details and exceptions below) contributions are equally shared by employee and employer. The legal basis are the respective chapters in the law named *Sozialgesetzbuch (SGB)*.

7.1.1. Employee and employer contributions

In general, earnings up to EUR 4800 per year were free of employee social security contributions until 31 December 2012. As of 1 January 2013, some essential changes came into effect concerning minimally paid employment, also called '**mini-jobs**'. The earnings limit increased from EUR 400 to EUR 450 per month. Persons whose mini-job started before 2013 and do not exceed the previous earnings limit of EUR 400 stay contribution-free in all classes of social insurance. Otherwise, persons who take up a new mini-job are generally subject to mandatory insurance coverage in the statutory pension scheme with the full pension contribution rate of 18.6 per cent (in 2019). The employer's share amounts to 15 % of the whole 18.6% whereas the employee's part adds up to 3.6%. If the earnings are below the amount of EUR 175 (EUR 2 100 per year; minimum contribution limit, *Mindestbeitragsbemessungsgrundlage*), a minimum contribution of EUR 32.55 has to be paid (18.6 per cent of EUR 175), where the employer share amounts to 15% of the *actual* earnings while the employee pays the difference between the minimum contribution of EUR 32.55 and the employer share. By applying for an exemption from obligatory insurance coverage the mini-job holder may reduce his share to EUR 0 (this is not assumed in TaxBEN). For mini-jobs, employers furthermore have to pay contributions to statutory health insurance (13%) and a lump sum for payroll tax, solidarity surcharge, and church tax (2%). The overall employer rate for social security contributions thus amounts to 30%. Note that people earning less than EUR 450/month ('mini-jobbers') do not qualify for unemployment insurance, hence no contributions are paid.

As of 1 April 2003, there was an additional concession for employees with monthly income between EUR 400.01 and EUR 800 per month (the so-called 'sliding pay scale' or '**midi-jobs**', EUR 4 800.12 and EUR 9 600 per year). Due to the new regulations mentioned above the earnings limits shifted to EUR 450.01 and EUR 850.00 per month (EUR 5 400.12 and EUR 10 200 per year). If the employee's income falls within this range, part of the income will be exempt from social insurance contributions while employers are required to pay the regular contributions on the employee's earnings. The employees'

contributions to social insurance rise on a straight-line basis over the income band reaching the full rate at EUR 850 per month.¹⁸ As of 1st July 2019, this threshold will increase to EUR 1,300 per month. Details on social security contributions for workers earning more than EUR 10 200 per year (i.e. **fully contributory jobs**) are provided below.

Pension insurance (Deutsche Rentenversicherung)

Employers and employees pay each half of the contribution rate of 18.6 per cent in 2019, that is 9.3 per cent of the employee's gross wage earnings, up to a contribution ceiling of EUR 80 400.

Health insurance (Gesetzliche Krankenversicherung)

As of 1 January 2015, the applicable contribution rate is 14.6% in principle (portion of 7.3% for employers and employees). Depending on the financial situation of each sickness fund, employees are obliged to pay a supplementary contribution to the sickness fund. In 2019, this supplementary contribution amounts to 0.9% on average. Therefore, the contribution rate averages 8.2% for employees in 2019. The contribution ceiling in 2019 is EUR 54 450. While all calculations shown in this Report assume membership in the public health insurance, workers with earnings above the contribution ceiling may opt out of the mandatory public health insurance system and may choose a private insurance provider instead (those opting for a private health insurance provider are required to obtain private long-term care insurance as well).

Unemployment insurance (Arbeitslosenversicherung)

Employees pay half of the insurance contributions; the employer pays the other half. In 2019, the contribution rate is 2.5 per cent of assessable income. Employee and employer each pay 1.25 per cent. The contribution ceiling is EUR 80.400.

Health care insurance (Pflegeversicherung)

A long-term care insurance (a 1 % contribution rate) went into effect on 1 January 1995. The rate was raised to 1.7 per cent of the gross wage when home nursing care benefits were added six months later. As of 1 July 2008, the rate was increased to 1.95 per cent. In 2013 and 2014, the contribution rate amounted to 2.05%. As of 1 January 2017, the contribution rate adds up to 2.55% and of 1 January 2019 to 3.05%. The employers pay half of the contributions for long-term care insurance. In other words, employers and employees both pay a rate of 1.525 per cent. The assessable income is scaled according to the gross wage earnings but there is a contribution ceiling of EUR 54 450 in 2019.

As from 1 January 2005, child-raising is given special recognition in the law relating to statutory long-term care insurance. Childless contribution payers are required to pay a

¹⁸ More specifically, contributions for 'midi-jobs' are calculated as follows on 1st January 2019:

Relevant earnings ("Gleitzonenentgelt") = F x 450 + ([850/(850-450)] - [450/(850-450)] x F) x (Gross earnings - 450);

where F = 0.7566, derived as Overall employer social contribution rate for 'mini-jobs' (30%) divided by the Overall general social contribution rate for employee and employer (39.65%).

Total contribution = Overall general social contribution rate x Relevant earnings.

Employer share = Gross earnings x Overall employer social contribution rate.

Employee share = Total contribution – Employer share.

supplement of 0.25 per cent, raising the contribution rate paid by a childless employee from 0.975 per cent to 1.225 per cent as of 1 July 2008. In 2013 and 2014, the contribution rate of a childless employee added up to 1.275%, in 2015 and 2016 to 1.425% and in 2017 and 2018 to 1.525%. In 2019, the contribution rate of a childless employee adds up to 1.775 per cent.

Work-injury insurance (Gesetzliche Unfallversicherung)
Employer only, see Section 7.1.2.

7.1.2. Contributions solely payable by employers

Germany has established a statutory occupational accident insurance. It is provided by industrial, agricultural and public-sector employers' liability insurance funds. This insurance protects employees and their families against the consequences of accidents at work and occupational illnesses. It is funded through the contributions paid by employers only. The amount of the employer's contributions depends on the sum total of employee annual pay and the employer's respective hazard level. As it is not possible to identify a representative contribution rate, these amounts are not considered in TaxBEN.

7.2. Payroll taxes (Lohnsteuer)

German employers withhold wage tax (*Lohnsteuer*) on a monthly basis. The wage tax withheld is qualified as prepayment of the personal income tax of the employee (see Section 8.1) in case the taxpayer files an annual income tax return.

8. Taxes

8.1. Personal income tax (Einkommensteuer)

Variable names: [IT; F_INC_TAX]

Spouses are generally assessed jointly. They however have the option of being assessed separately. The income of dependent children is not assessable with that of the parents. TaxBEN assumes joint taxation of the income of the spouses. The legal basis of personal income tax is the law named *Einkommensteuergesetz (EStG)*.

8.1.1. Tax allowances

Variable names: [ALLW]

Standard reliefs and work-related expenses:¹⁹

Basic relief: The basic tax exemption (*Grundfreibetrag*) amounts to 9 168 EUR in 2019. Below this income, no income tax has to be paid. It is automatically included in the income tax formula (see Section 8.1.3).

¹⁹ Other main non-standard tax reliefs exist, which are not modelled in TaxBEN as they depend on the individual case. They e.g. include medical expenses (partially deductible if not covered by insurance) or work related expenses that exceed the lump-sum allowance of 1000 EUR (fully deductible, no ceiling).

Standard marital status reliefs: In the case of joint assessment, specific allowances are doubled. The income tax liability is computed by applying the income splitting method.

Relief(s) for children: There are non-wastable child tax credits (*Kindergeld*) which are modelled as a family benefit in TaxBEN (see Section 4.1). Additionally, there is a child tax allowance (*Kinderfreibetrag*) for the subsistence of a child and an additional allowance for minding and education or training needs (EUR 3810 in sum). The amount of this allowance is doubled in case of jointly assessed parents (EUR 7620). If the value of the tax credit is less than the relief calculated applying the tax allowances, the taxpayer obtains the tax allowance instead of the tax credit. It is also doubled for lone parents in cases where the other parent does not pay alimony. This is also the assumption in the calculations of TaxBEN.

Relief for lone parents: As of 1 January 2015, taxpayers who live alone with at least one child that entitles them to the tax allowances or tax credits for children, receive an additional allowance of EUR 1908 (*Entlastungsbetrag für Alleinerziehende*). This additional allowance is increased by EUR 240 for each child in case of more than one child living in the household.

Relief for childcare costs: Parents may partially deduct the costs for childcare from taxable income, see Section 5.5.

Reliefs for social security contributions and life insurance contributions (*Sonderausgabenabzug*): Social security contributions and other expenses incurred in provision for the future (e.g. life insurance) are deductible up to specific ceilings.²⁰ The allowance is calculated on the basis of two different schemes and the more favourable is eventually used. Up to 2004, the calculation of the relief for social security contributions and other expenses proceeded in three steps. First, EUR 3 068/6 136 (singles/couples) was deducted. These amounts were, however, lowered by 16% of gross wages (serving as a proxy for employers' social security contributions). This deduction was provided as a partial compensation for the self-employed who do not receive tax-free employers' social security contributions. Second, the remaining expenses were deductible up to EUR 1 334/2 668 (singles/couples). Third, half of the remaining expenses were deductible up to EUR 667/1 334 (singles/couples). In 2005, a new calculation scheme came into force:

- Step 1: all contributions made to pension funds (i.e. both employee's and employer's contributions) are added up. Step 2: the resulting amount is limited to EUR 20 000. Step 3: a certain percentage is applied to this amount (starting from 60 per cent in 2005, this percentage will be increased by 2 percentage points each year; it will reach 100 per cent in 2025). Step 4: the resulting amount, diminished by the (tax-free) contributions of the employer, is deductible from income.
- The tax treatment of social security expenses (health, unemployment and care insurance) changed as of 1 January 2010. Employees' annual contributions to statutory health insurance excluding sickness benefit (assumed to amount to 96 per cent of statutory health contributions) and employees' contributions to mandatory long-term care insurance are deductible from the tax base. In case these contributions do not exceed EUR 1900 (3800) single (couples), contributions to unemployment

²⁰ TaxBEN assumes the maximum deductible amount to be 20% of gross earnings.

insurance and other insurances premiums can be deducted in addition up to this ceiling.

- If the resulting sum of deductible amounts according the legislation in force since 2005 is lower than the allowance calculated under the scheme that was valid up to 2004, the former regulations are applied in favour of the taxpayer.
- **Work related expenses:** EUR 1000 lump sum allowance per gainfully employed person (*Werbungskostenpauschale*).
- **Special expenses:** Lump sum allowance (EUR 36 (72) singles (couples)) for special expenses, e.g. for tax accountancy (*Sonderausgabenpauschbetrag*). The actual expenses will be fully deductible from taxable income if the taxpayer proves that these expenses exceed the lump sum allowance.

8.1.2. Tax base

Variable names: **[F_TAXINC]**

Taxable income (*zu versteuerndes Einkommen (zvE)*) as defined in *Einkommensteuergesetz (EStG)*. In the model, taxable income is accordingly derived as earnings minus allowances.

8.1.3. Income tax schedule

The tax schedule is formula-based. Taxable income is rounded down to the EUR.

- X is the taxable income, T is the income tax liability;
- As of 1 January 2019 the following definitions are used in the income tax liability formulas:

$$Y = \frac{X - 9168}{10000}$$

$$Z = \frac{X - 14254}{10000}$$

The income tax liability (amounts in EUR) is calculated as follows:

1. $T = 0$ for $X \leq 9\,168$
2. $T = (980.14 Y + 1\,400) Y$ for $9\,169 \leq X \leq 14\,254$
3. $T = (216.16 Z + 2\,397) Z + 965.58$ for $14\,255 \leq X \leq 55\,960$
4. $T = 0.42 X - 8\,780.90$ for $55\,961 \leq X \leq 265\,326$
5. $T = 0.45 X - 16\,740.68$ for $265\,327 \leq X$

These formulas are used to calculate the income tax for single individuals.

The income tax liability for spouses who are assessed jointly is computed as follows: the income tax is calculated with respect to one-half of the joint taxable income according to the above formula. The resulting amount is doubled to obtain the income tax liability of the family ('splitting' method).

8.1.4. Tax credits

Child tax credit, see Sections 4.1 and 8.1.1.

8.2. Solidarity surcharge (*Solidaritätszuschlag*)

Variable names: **[SOL_S]**

The solidarity surcharge is levied at 5.5 per cent of the income tax liability subject to an exemption limit of EUR 972 (1944) for singles (couples). The income tax liability is calculated applying the tax allowance for children. If the income tax liability exceeds the exemption limit, the solidarity surcharge will be phased in at a higher rate of 20 per cent of the difference between the income tax liability and the exemption limit until it equals 5.5 per cent of the total liability.

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

This section shows selected output of the TaxBEN model for Germany 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.

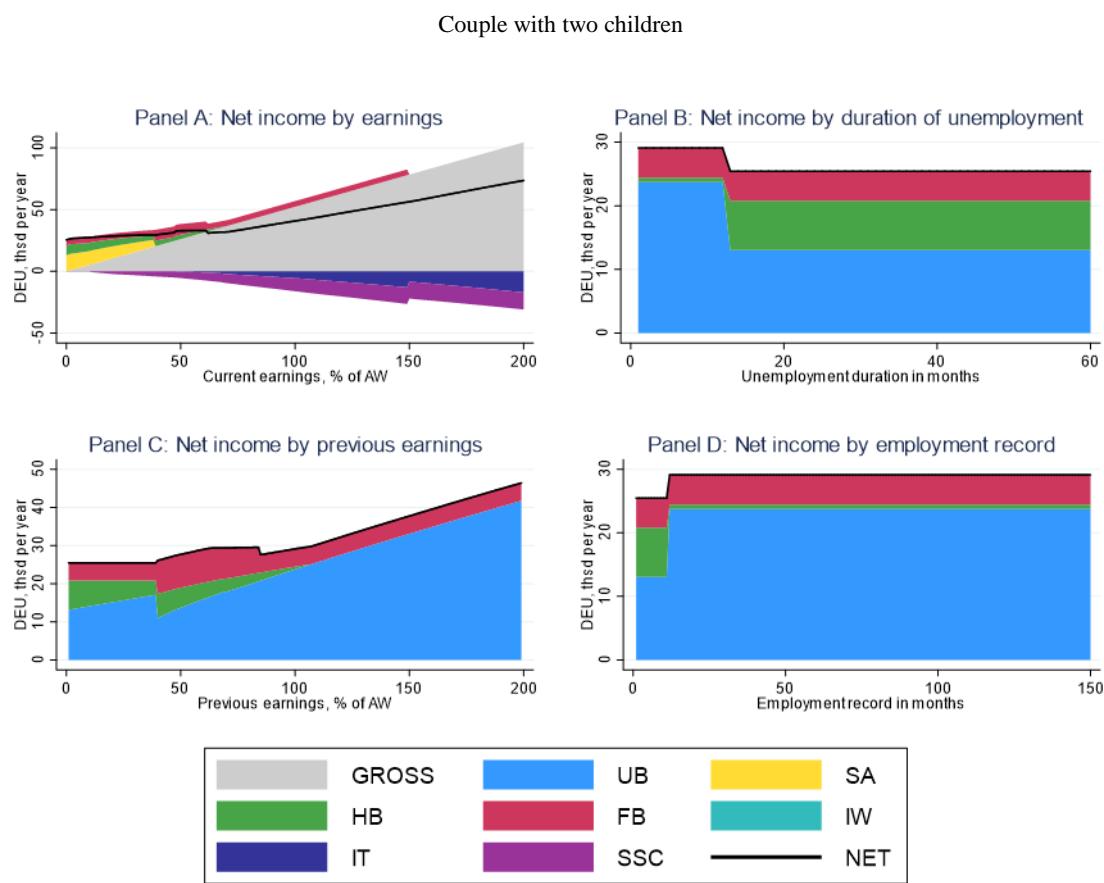
Social assistance and housing benefit supplements are assumed to be available in all the four scenarios provided that the necessary income and eligibility requirements are met. Where receipt of social assistance or other benefits is subject to activity tests (such as active job-search or being available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



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

Annex I: Housing parameters

This annex provides details to A) the calculation of housing benefits in Section 3.2 and B) childcare fees in Section 5.

A) Calculation of housing benefit (*Wohngeld*) – Details:

Rules for calculating procedures and rounding (Annex 2 Housing Allowance Act, *Wohngeldgesetz*):

To determine the housing allowance it is indispensable to follow the steps of calculation in the exact order.

1. “M” is the rounded monthly rent or home loan repayment to be taken into account (second sentence of Section 19(1) of the Housing Allowance Act). When converting (“M*”) to “M”, i.e. the unrounded monthly rent or home loan repayment to be taken into consideration for the purposes of Sections 7 and 8 of the Act, the following shall apply: To determine “M”, “M*” is rounded upward to the next higher full amount in euros that can be divided by 10 without leaving a remainder, provided “M” cannot simply be divided by 10 without leaving a remainder. If “M*” can be divided by 10 without leaving a remainder, “M*” is not changed. 5 euros must be subtracted from the resulting amount in all cases.
2. “Y” is the rounded monthly total income in euros (third sentence of section 19 (1) of the Act). “Y” is determined by rounding “Y*”, i.e. the unrounded total monthly income to be taken into consideration for the purposes of section 13 of the Act, upward to the next higher full amount in euros that can be divided by 10 without leaving a remainder, provided it cannot simply be divided by 10 without leaving a remainder. If “Y*” can be divided by 10 without leaving a remainder, “Y*” is not changed. 5 euros must be subtracted from the resulting amount in all cases.
3. Any values for “M” and “Y” which are below the values set out in the following table shall be replaced by the figures in the table²¹. Values as of January 2016 (no change 2019):

	1-person household	2-person household	3-person household	4-person household	5-person household	6-person household
M	48	59	70	81	91	91
Y	239	310	360	389	463	537
	7-person household	8-person household	9-person household	10-person household	11-person household	12-person household

²¹ Note: TaxBEN does not simulate this housing benefit for households of 7+ persons.

M	102	113	124	134	155	263
Y	610	684	758	832	1085	1255

4. The unrounded monthly rent or home-ownership subsidy is obtained by putting the values for “a”, “b”, “c” (Annex 1 of the Act) and for “M” and “Y” into the formula set out in the first sentence of Section 19(1) of the Act and by carrying out the following four calculations:

Calculation of the decimal numbers

$$z1 = a + b \cdot M + c \cdot Y$$

$$z2 = z1 \cdot Y$$

$$z3 = M - z2$$

$$z4 = 1.15 \cdot z3$$

In carrying out this calculation, the decimal numbers must be calculated as fixed decimal point numbers to ten decimal places.

5. This unrounded monthly rent or home-ownership subsidy must be rounded upward to the next higher full amount in euros if the remaining amount in cents without rounding is greater than or equal to 50; it must be rounded downward to the next lower full amount in euros if the remaining amount in cents without rounding is less than 50.

Annex II: Other benefits and direct taxes

This section provides a brief description of other cash benefits and taxes on employment incomes in Germany 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.

Social assistance (Sozialhilfe) – further details

Social assistance as mentioned in Section 3.1 is provided so that everyone entitled to it can live in human dignity. Where income (including that from other social benefits) and savings fall short, social assistance covers the minimum needed to maintain a socially acceptable living standard; its payment is hence subordinate. It also aims to compensate as necessary for other impediments such as disabilities, need of nursing care or other exceptional social difficulties so that people can take part in community life as fully as possible (in detail, seven specific types of allowances are specified in SGB XII). Seniors over 65 and adults over 18 years of age who exhibit a permanent and comprehensive work incapacity in consequence of medical reasons, are entitled to a special form of social assistance, the so-called assistance in old age and partial reduction in earning capacity (*Grundsicherung im Alter und bei Erwerbsminderung*). Persons who are able to and available for work, receive social assistance under the unemployment benefit II scheme (see 2.2)²²

Parental allowance (Elterngeld and ElterngeldPlus)

Parental allowance (*Elterngeld*) is an important support for families after the birth of a child, compensating for a loss of income and making it easier for mothers and fathers to temporarily/partly go without gainful employment and thus to have more time to look after their child. The parental allowance is paid to fathers and mothers for a maximum of 14 months; they can divide this period of time up between themselves as they choose. One parent can claim at least two and at most twelve months, and there are two more months if the partner participates in looking after the child and the parents lose at least two months of gainful employment. Single parents can claim up to the full 14 months. A recent reform introduced the *ElterngeldPlus*, which can alternatively be taken if the child was born after 1st of July 2015 and allows to better combine parental allowance with part-time work, and a ‘partnership bonus’ if both parents work part-time. The level of both allowances is based on the current average monthly employment income which the parent providing care was paid in the year before the birth (between 65% and 100%), with certain benefit floors and ceilings.

²² As mentioned in Section 2.2, persons who are unable to work but live together with an unemployment benefit II recipient in a ‘need unit’, receive social allowance (*Sozialgeld*). Social allowance is different from social assistance referred to here in administrative respects only.

Work-entry assistance (Einstiegsgeld)

Since 1st January 2005, work entry assistance (*Einstiegsgeld* – section 16b SGB II) can be granted as a disregarded subsidy towards the unemployment benefit II, if a person in need of aid who is able to work takes up a dependent employment or self-employed activity in an effort to overcome neediness in the foreseeable future. The authority responsible for the basic jobseekers allowance has to decide if and how much work entry assistance will be granted, i.e. the amount of the work entry assistance can be individually determined on a case by case basis. Work entry assistance is exempt from taxes and contributions and can be granted for up to 24 months.