

THE OECD TAX-BENEFIT DATABASE

Description of policy rules for
Germany 2023



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Description of policy rules for 2023

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Preface

This report provides a detailed description of the tax and benefit rules in Germany as they apply to working-age individuals and their dependent children. It also includes output from the [OECD Tax-Benefit model \(TaxBEN\)](#), which puts all these complex legal rules into a unified methodological framework that enables international comparisons of how tax liabilities and benefit entitlements affect the net disposable income of families in different labour market circumstances, .e.g. in employment versus unemployment.

The **main body** of the report describes the rules that are relevant for the family and labour market characteristics that are within the scope of the **TaxBEN** model (see below for the methodology and user guide). The **annex** provides information on other cash benefits and taxes on employment income that are relevant for other groups of the working-age population, but are outside the scope of the **TaxBEN** model.

TaxBEN is essentially a large cross-country calculator of tax liabilities and benefit entitlements for a broad set of *hypothetical* families (“vignettes”), e.g. a married couple of 40-years-old adults with two children aged 4 and 6 (click [here](#) for a quick overview of the **TaxBEN** model). **TaxBEN** incorporates rules on the main taxes on employment income, social contributions paid by employees and employers, as well as the main cash and near-cash benefit programmes, including unemployment benefits, family and childcare benefits, guaranteed minimum-income benefits, cash housing benefits, and employment-conditional benefits. Disability benefits, maternity and parental leaves benefits are included in the model for a sub-set of countries and years. The main policy instruments that are currently not included in the **TaxBEN** model are taxes on wealth (e.g. taxes on immovable and unmovable properties), indirect taxes (e.g. VAT), early-retirement benefits, short-time work compensation schemes, sickness benefits, and in-kind benefits (e.g. subsidised transport and free health care).

Useful online resources for the OECD tax-benefit model (TaxBEN)



[TaxBEN web calculator](#)



[Methodology and user guide](#)



[OECD tax-benefit data portal](#)



[Network of national experts](#)

Guidelines for updating this report (for national experts)



[General guidelines](#)

Detailed [guidelines for updating Section 5](#) “Net costs for Early Childhood Education and Care”

Reading notes and further details on the content of this report

- **Reference date** for the policy rules described in this report: **January 1, 2023**.
- The symbol  in the text provides a link to the 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.
- **TaxBEN** variables are indicated in the text using the format **[variable name]**.
- Text in **blue font colour identifies COVID-related measures** that are still in place on the reference policy date of this report.

The OECD tax-benefit model for Germany: Policy rules in 2023

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.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 2023 (as of January 1, 2023) is EUR 12 per hour. Assuming 40 working hours per week and 52 weeks per year, the annual minimum wage, as used in TaxBEN, is computed as $12 * 40 * 52 = \underline{\text{EUR 24,960}}$.

2. Unemployment benefits

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

Unemployment benefit is described in Section 2.1, citizen's benefit in Section 2.2.

2.1. Unemployment benefit (*Arbeitslosengeld*)

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

This is an unemployment insurance benefit (unemployment benefit). It is contributory, not means-tested and not taxable. Its legal basis is the Third Book of the Social Code (*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 30 months (Marginally employed (monthly earnings <EUR520) are to a large extent 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. Registered as unemployed;
2. willing and able to take up a new, acceptable employment at any time;

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 \(2018\)](#), [Langenbacher \(2015\)](#) and [Venn \(2011\)](#).

3. available for placement by the employment agencies;
4. actively seeking work;
5. willing and able to take part in all measures necessary for occupational reintegration.

2.1.2. Benefit amount

Calculation base: The benefit is paid monthly 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 fictitious taxes and contributions on an individual basis. The basis of the fictitious 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 % of previous earnings net of tax and social security contributions, and 67 % for a worker with at least one dependent child. The monthly ceilings are 60 and 67 % of EUR 7.300 (West) and 7.100 (East) monthly gross earnings, respectively (TaxBEN assumes EUR 7.300). Additional contributions to the pension 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.

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

None.

⁴ See *SGB III, Paragraph 153*.

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

The entitlement period is extended by the remaining entitlement days of an earlier entitlement up to the individual maximum entitlement period. A residual claim does not extend the period of entitlement if five years after its creation have elapsed.

People earning less than EUR 520/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.

2.1.8. Benefit indexation

There is no indexation of the benefit amount since the calculation of unemployment benefit depends on the previous wage.

2.2. Citizen's benefit (*Bürgergeld*)

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

As of 1st January 2005, unemployment assistance and social assistance (Section 3.1.) for persons who are able to work were combined into one benefit, the basic jobseeker's allowance (unemployment benefit II, UB II). As of 1st January 2023, this basic income support for job seekers (*SGB II*) was brought up to date. Unemployment benefit II is now called citizen's benefit (*Bürgergeld*). It is still non-contributory, needs-based, means-tested, and not taxable.⁵ 

2.2.1. Eligibility conditions

Persons who continue to be unemployed when their claim to unemployment insurance benefits (unemployment benefit) 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 citizen's benefit. Persons who are unable to work but live together with a citizen's benefit recipient in a 'need unit', receive citizen's benefit as well.

Prerequisites for receiving citizen's benefit:

- age between 15 up to (but not including) 65 years up to 67 years (depending on age, increasing with statutory retirement age; as of 2023: 65 years and 11 months),
- able to work,
- in need of aid (e.g. unable to secure their livelihood and the livelihood of their household, or unable to secure it sufficiently from their own resources and means),
- habitual place of residence in the Federal Republic of Germany,
- Foreign nationals also must have or be eligible to the permission to work.

⁵ Note that in TaxBEN, the Citizen's benefit 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.).

Behavioural requirements and related eligibility conditions:  TaxBEN assumes that the following conditions are satisfied when simulating citizen's benefit. The benefit claimant is:

1. willing and able to take up an acceptable employment at any time;
2. available for placement by the employment agencies;
3. actively seeking work;
4. willing and able to take part in all measures necessary for occupational reintegration or
5. not fulfilling the above mentioned requirements, but receiving reduced citizen's benefit.

2.2.2. Benefit amount

Calculation base: citizen's benefit 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
502	451	402	420	348	318

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 does not run his/her own household, and is not living as spouse or spousal equivalent in a household, including adult children living in the household (aged 18-24).

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 (14-17 years old).

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 (6-13 years old).

Basic needs assistance level 6

Member of household up to the completion of their 6th year of life (0-5 years old).

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, § 22 *Zweites Buch Sozialgesetzbuch*).

Additional allowances as part of citizen's benefit:

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 % of the standard for an adult living alone (BNA level 1), if they live with one child under age seven or with two or more children under age 16, or 12 % 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 % 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).

Final amount: BNA, additional needs allowance and housing and heating allowance determine the final amount of citizen's benefit to be paid. The benefit (Actual cost-of-living assistance) is paid monthly at the beginning of the month:

	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</i> earning disregards)
=	Actual cost-of-living assistance to be paid

Beyond citizen's benefit, **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 citizen's benefit, who are compulsorily insured in the statutory health insurance (including the average additional supplementary contribution to the sickness funds). Working recipients of citizen's benefit generally have to pay social insurance contributions, see Section 7.1 for details.
- **Education and participation package:** 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:
 - Citizen's benefit (*Bürgergeld, Grundsicherung für Arbeitsuchende; SGB 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

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.

- Benefits under the Asylum Seekers' Benefits Act or
- Housing allowance (*Wohngeld*) or
- Child supplement (*Kinderzuschlag*)

The education and participation package comprises several benefits, which are dedicated to the single individual, 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 supplies of 174 EUR is granted for the calendar year 2023 (58 EUR on 1st February and 116 EUR on 1st August).

2) For children and youths below age 18, participation in sports and cultural activities is supported with 15 EUR per month.⁸

2.2.3. Benefit duration

Citizen's benefit 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 twelve months.

2.2.4. Means test

See Section 2.2.2. and 2.2.7. for information on the earnings test.

Asset test:

The Citizen's Benefit is granted without prior contributions to the national unemployment insurance scheme. The groundrule is therefore that it is only granted if the person is unable to help herself or to obtain help elsewhere.

A full asset test is therefore required and affects the eligibility, but not the monthly benefit amount once benefits have been granted. Only income is discounted from the monthly allowance amount. Generally speaking, income is what the recipient receives after beginning to rely on the benefit, while assets are what they already owned on the day they made the claim.

The asset test is carried out by the welfare officer at the jobcentre. It consists of three elements.

In a first step, the applicant has to declare all assets that have a monetary value on a form. Full proof can be requested by the welfare officer at the jobcentre. False statements during that stage can result in criminal proceedings for attempted fraud. During that step, all goods and rights that have an economic value must be declared.

In a second step, exempt assets are excluded from consideration. This includes:

- appropriate household items (furniture etc.),

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 EUR 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. As these benefits are calculated on an individual basis taking into account the actual cost of the activities, they are not modelled.

- an appropriate car for each member of the family who is able to work (value of up to 15,000 EUR),
- funds invested in private pension plans (life insurance),
- an additional 8,000 EUR in savings (regardless of their nature - could be items of art, stocks, cryptocurrency or even cash) is discounted for formerly self-employed applicants per as many years in which no contributions were made to the public pension scheme for employees or any comparable pension plan of public nature (e.g. obligatory pension plans offered by the self administration bodies for doctors or lawyers) for a full year,
- a self owned property of up to 140 sqm or self owned flat of up to 130 sqm if inhabited by the applicant himself. If there are more than 4 people living in the house or flat an additional 20 sqm for each person are deemed appropriate,⁹
- any assets that are needed for the purchase or upkeep of a self owned flat or a self owned property that a person with a handicap or a need for medical care needs to live in,
- any assets or rights which cannot be sold without extraordinary hardship. An example of this would be money invested in burial insurance.

In a third and last step, the asset eligibility limit for the family is determined. The first twelve months on benefits are considered a grace period (“Karenzzeit”) during which higher asset limits apply. This does not apply to applicants that claim benefits for one month only. During that grace period, only considerable assets are relevant. If the person declares that their assets are not considerable, this is accepted until otherwise proven. Assets are considerable if they exceed 40,000 EUR for the applicant plus an additional 15,000 EUR for each other member of the family.

After one year the asset limit goes down to 15,000 EUR for each person in the family.

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 citizen’s benefit if they serve the same purpose (which is to secure the recipients' livelihood), i.e. the payment of citizen’s benefit 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 citizens’s benefit is unreasonable.

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.

There is a basic allowance of 100 EUR. For gross incomes above the first 100 EUR the rate of withdrawal of citizen’s benefit is reduced to 80 % up to a gross income of 1000

⁹ If the size is larger, there is a discretionary element which allows the jobcentre to disregard the property if its consideration as an asset would mean hardship. An example for a hardship could be a terminally ill person who spent her entire life in that house and would otherwise have to move out.

EUR and to 90 % in a range between 1000 EUR and 1200 EUR for single workers (up to 1500 EUR for working recipients with children).

2.2.8. *Benefit indexation*

Basic needs rates are updated annually on 1 January on the basis of the relevant price and net wage developments. This is done in two steps:

As a first step (so-called basic update), the standard needs rates are updated on the basis of a mixed index. 70 % of this mixed index is based on the average price development at federal level, while 30 % is based on the average development of the net wages and salaries per employee. As a second step, the amount resulting from the basic update (so-called supplementary update) is further updated on the basis of the most recent price development data. This is the second quarter of the year preceding the date of the update compared with the second quarter of the previous year. The supplementary update enables households entitled to benefits to better cope with rising prices until the next update.

3. Social assistance and housing benefits

In Germany, there are two minimum income schemes that guarantee a minimum income including housing benefits: the basic income support for jobseekers/citizen's benefit for people capable of working and their household (see above, 2.2.) and social assistance for people not capable of working. These income schemes are only applicable if the person in need does not get housing benefit under the Housing Benefit Act.

Social assistance is mentioned in Section 3.1 and further explained in Annex II, Section 3.2 covers the housing benefit under the two minimum income schemes, Section 3.3 the housing benefit under the Housing Benefit Act.

3.1. *Social assistance (Sozialhilfe)*

Variable name: **[SA]**

Social assistance (assistance for subsistence / basic security in old age and in case of reduced earning capacity) is a non-contributory benefit that is means-tested and not taxable. It is granted to those who are unable to work. Its legal basis is the Twelfth Book of the Social Code (*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 jobseeker's allowance (citizen's benefit as of 1st January 2023, unemployment benefit II until 2022, 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 two minimum income schemes (Bedarfe für Unterkunft und Heizung)*

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

The benefit for accommodation and heating is part of the total amount of citizen's benefit or social assistance. The amounts vary depending on the municipality. In the model, Berlin is used as the reference region for the simulation of this housing benefit. The legal bases are the Second Book of the Social Code (*SGB II*), see also Section 2.2. , and the Twelfth Book of the Social Code (*SGB XII*), see Section 3.1. .

3.2.1. Eligibility conditions

Recipients of citizen's benefit or social assistance also receive benefits for accommodation and heating needs as part of the total benefit, additional housing benefits according to the Housing Benefit Act (see Section 3.3) are excluded. Within the framework of SGB II or SGB XII, the municipalities recognise the reasonable expenses for accommodation and heating for the entire joint household of an applicant. The decision on adequacy is incumbent on the municipalities. Expenses for unreasonably large or expensive accommodation are taken into account for a maximum of six months, unless a change in the living conditions is not reasonable. After these six months, it must be decided on a case-by-case basis whether the living conditions can be changed or whether the amount taken into account must be reduced to the amount deemed reasonable. A change in living conditions can be a move or a subletting. As of January 2023 there is a new rule for first-time recipients of citizen's benefit and social assistance: the actual (not only reasonable) costs for housing will be paid for a period of 12 months. However, heating costs will only be paid if they are adequate in order to encourage energy savings behaviour.

OECD note: TaxBEN does not cover policies targeting first-time recipients of a benefit. Hence, the provision added in 2023 for first-time recipients of the citizen's benefit and social assistance concerning the coverage of full housing costs is not included in the model.

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 Benefit 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 heating¹⁰ by household type (January 2023) as applied in the city of Berlin¹¹, which determine the amount of housing benefit for recipients of citizen's benefit (in brackets heating costs to be added). These rates are applied in TaxBEN.

- 1-Person household 426 EUR (69.5 EUR)
- 2-Person household 515.45 EUR (90.35 EUR)
- 3-Person household 634.40 EUR (111.2 EUR)
- 4-Person household 713.70 EUR (125.1 EUR)
- 5-Person household 857.82 EUR (141.78 EUR)

For each additional person 100.92 EUR (16.68 EUR) per month.

3.2.4. *Benefit duration*

The benefit amount as part of the Actual cost-of-living assistance (Section 2.2.2) is paid monthly at the beginning of the month 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.

3.2.9. *Benefit indexation*

In the German social code, housing costs are not subject to indexation. The advance in prices for heating and accommodation is allowed directly, if reasonable. The advance of prices for electricity is taken into account by indexation of basic needs assistance (BNA, see section 2.2.8.).

3.3. *Housing benefit under the Housing Benefit Act (Wohngeld)*

Variable names: `[HB; hb_orig]`

¹⁰ Source: Housing Benefit Act ("Wohngeldgesetz"). See § 12 paragraph 6-7, annex 1-3. <https://www.gesetze-im-internet.de/wogg/index.html#BJNR185610008BJNE001307126>

¹¹https://www.berlin.de/sen/soziales/service/berliner-sozialrecht/kategorie/ausfuehrungsvorschriften/av_wohnen_anlage1-571941.php; https://www.berlin.de/sen/soziales/service/berliner-sozialrecht/kategorie/ausfuehrungsvorschriften/av_wohnen_anlage2-571942.php → Used are the max. amounts for heating with fuel oil in buildings > 1000 sq. meters in total.

Housing allowance / benefit (*Wohngeld*) is a non-contributory benefit, means-tested and not taxable. Households fulfilling beneficiary requirements have legal claims.

The individual household claim depends on household income, individual level of rent and number of household members to be taken into account (see formula below). Its legal basis is the Housing Benefit 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.

Eligibility is determined by an individual claim according to the Housing allowance formula based on individual household properties. Since Housing allowances are a social protection instrument right above basic subsistence, eligibility furthermore depends on if a specific household overcomes the applying income threshold which defines the respective margin of subsistence according to basic jobseeker's allowance (citizen's benefit under SGB II) or social assistance under Chapter 3 (*Hilfe zum Lebensunterhalt*) or 4 (*Grundsicherung im Alter und bei Erwerbsminderung*) of SGB XII. If this condition is not met, households are eligible to basic subsistence.

A person who receives allowances of SGB II or SGB XII is not eligible to housing allowance.

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 costs¹² (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 2022:

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

Where:

¹² For a list of the housing costs considered see: Housing Benefit Act ("Wohngeldgesetz"). See § 12 paragraph 6-7, annex 1-3. <https://www.gesetze-im-internet.de/wogg/index.html#BJNR185610008BJNE001307126>

Household size ¹ (persons)	Parameters of the rent burden function			Monthly household income (EUR)
	a	b	c	Maximum ² Y _{max}
1	4/100	4.991/10 000	4.620/10 000	1467
2	3/100	3.716/10 000	3.450/100 000	1977
3	2/100	3.035/10 000	2.780/100 000	2470
4	1/100	2.251/10 000	2.000/100 000	3334
5	0/100	1.985/10 000	1.950/100 000	3818
6	-1/100	1.792/10 000	1.880/100 000	4295

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 EUR.¹³

Any values for “M” and “Y” which are below the values set out in the following table shall be replaced by the minimum values in the table. Values as of January 2023:

Household size ¹ (persons)	M	Y
1	52	350
2	64	600
3	76	800
4	88	1000
5	99	1200
6	99	1400

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 %. 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.

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 thresholds 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 2023:

¹³ For maximum rent (“Mietenstufe”) see [BMWSB - Home - Housing benefit 2020 - Advice and hints \(bund.de\)](#), p. 27. (these values are increased by the climate component - see page 18).

Household size (persons)	Maximum monthly rent (EUR)
1	491
2	595
3	708
4	825
5	944
For each extra person	114

On 1st January 2023 a climate component was added to support more climate friendly housing. The climate component increases the maximum rent (see footnote 13) by the amount stated below (so e. g. the total maximum monthly rent for 1 person with the Level of rent IV is 510,20 EUR: 491 EUR plus 19,20 EUR).

Household size (persons)	Climate Component
1	19,20
2	24,80
3	29,60
4	34,40
5	39,20
For each extra person	4,80

As of 1st January 2021 a lump-sum to mitigate the burden of carbon pricing on heating was added to the eligible rent or burden of financial obligations (not adjusted in 2023). On 1st January 2023 also a heating cost component was introduced as a lump-sum to mitigate the burden of rising costs for energy added to the eligible rent or burden of financial obligations.

Household size (persons)	CO ₂ -Component (EUR)	Heating cost component (EUR)	Full amount (EUR)
1	14,40	96	110,40
2	18,60	124	142,60
3	22,20	148	170,20
4	25,80	172	197,80
5	29,40	196	225,40
For each extra person	3,60	24	27,60

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

None.

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

Combination is possible until the eligibility requirements are fulfilled (section 3.3.2.).

3.3.9. *Benefit indexation*

There is no indexation.

4. Family benefits

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

Child benefits, child supplement, the education and participation package and maintenance 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 benefit (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 refund.

4.1.1. *Eligibility conditions*

The child benefit is paid to all children up to age 18. The period during which the child benefit is paid is prolonged up to the age of 25 for children undergoing training, and up to age 21 for children without a job. There is no age-limit for handicapped children who are unable to earn their living.

The child benefit is usually paid out by the local family office. The child benefit is paid out to the person who has made the children part of his/her household.

4.1.2. *Benefit amount*

Child benefit is awarded in the form of a monthly payment. The rate applying on 1 January 2023 is EUR 250/month for each child.

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.

4.1.8. Benefit indexation

German child benefit isn't indexed .

4.2. Child supplement (*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 child supplement (*Kinderzuschlag*) on their behalf. The child supplement prevents parents from having to apply for citizen's benefit/social assistance (see sections 2.2, 3.1) only because of the maintenance of their children.¹⁴ Adjustments to the design of the calculation of the benefit took effect from 1st October 2008 onwards. The Strong Families Act (*Starke-Familien-Gesetz*) redesigned child supplement in two stages, which came into effect on 1st July 2019 and on 1st January 2020.

Child supplement 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 child benefit (*Kindergeld*).

b) **Minimum income threshold ("Mindesteinkommengrenze")**: For eligibility parents' gross income must reach at least the minimum income threshold which is EUR 900 per month for a 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.

Income and assets exceeding the overall need of the parents reduce the amount of child supplement down to zero. Only 45 % of the parents' earned income is factored into the calculation.

The parents' overall need is made up of:

- the parents' need according to the rules for citizen's benefit (*Regelbedarf*) plus potential additional needs (*Mehrbedarf*),
- plus the rent multiplied by the parents' fraction of housing cost (*Wohnanteil der Eltern*).

The fraction of rent attributed to the parents is calculated as (hypothetical housing costs without children) / (actual housing costs with children), based on the existence minima according to tax law (as stipulated by law on the 12th Report on minimum incomes (*12. Existenzminimumbericht*):

¹⁴ See <https://www.arbeitsagentur.de/datei/ba146349.pdf> [last accessed: 21 October 2022].

Rent if two parents	EUR 444 / per month
Heating costs	EUR 71 / per month
Rent for lone parents	EUR 296 / per month
Heating costs for lone parents	EUR 55 / per month
Rent per child	EUR 89 / per month
Heating per child	EUR 15 / per month

d) Parents are only entitled to receive the additional family benefit, provided that it avoids reciency of citizen's benefit II ("*Vermeidung der Hilfebedürftigkeit im Sinne der Vorschriften über das Bürgergeld*").

Since 1st January 2020 there has been the option of extended eligibility. This becomes effective if the parents' income from employment, child supplement and housing benefit falls short by an amount of up to EUR 100 to avoid need of assistance as defined in Book Two of the Social Code (*SGB II*). A prerequisite for this is that tax allowances for income from employment are taken into account in the calculation of income. In this case, those entitled may claim child supplement instead of SGB II benefits. This option is never chosen in TaxBEN, because in TaxBEN, households choose the benefit that leads to the highest net income, which in this case would be to claim SGB II benefits.

e) Income and assets of children reduce the amount of child supplement. Only 45 % of the children's income is factored into the calculation. Income of children includes child maintenance payments, any orphans' pensions, and maintenance advance for lone parents, which is modelled in TaxBEN.

4.2.2. Benefit amount

Child supplement amounts to up to EUR 250 per child and month in 2023. Income exceeding the overall needs of the parents, reduce the amount of child supplement. Only 45 % of earned income is factored into the calculation. Other income and assets are deducted in full from child supplement. Child supplement is paid monthly.

4.2.3. Benefit duration

Child supplement is usually granted for a set period of six months. After this, parents have to reapply.

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 child supplement; see 4.2.1.

4.2.5. Tax treatment

The benefit is not taxable.

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

See 4.2.1; child supplement and citizen's benefit are mutually exclusive in particular while the benefit can be received alongside the general family benefit (*Kindergeld*). However, during the six-month allocation period, it is possible to claim SGB II benefits in addition to child supplement. This is particularly relevant in cases where circumstances during receipt of child supplement change considerably and result in child supplement not being sufficient to cover basic needs. This situation is not modelled in TaxBEN.

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

Employment does not affect benefit receipt (apart from means-test).

4.2.8. *Benefit indexation*

The amount of the benefit is determined at the beginning of the year and depends on the amount of the child tax allowance for subsistence of a child on the one hand and the amount of the child benefit on the other hand. If there is a change in one of these parameters, that leads to a higher amount of the benefit, there is an automatic adjustment. If there is a change that would lead to a lower amount, it stays the same and does not decrease.

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 benefit is conditional on receipt of citizen's benefit, social assistance, housing benefit under the Housing Benefit Act or child supplement and described as part of Section 2.2.

4.4. *Maintenance advance for lone parents (Unterhaltsvorschuss)*

Variable names: [FB; LPB]

Maintenance advance is provided as a special form of financial assistance to help lone parents with children under 18 who receive no maintenance or no regular maintenance payments from the other parent, which is the assumption made in TaxBEN.

Maintenance advance is a non-contributory benefit, means-tested and not taxable. The legal basis is the law named *Unterhaltsvorschussgesetz*. For the purpose of simplification, the terms 'maintenance advance' and/or 'advance maintenance payment(s)' are used as generic terms to designate advance maintenance payments and deficiency payments.

4.4.1. *Eligibility conditions*

Advance maintenance payments are made if the following conditions are met:

- The child lives with (only) one of its parents.
- The child does not or does not regularly recover maintenance from the non-resident parent.
- The parent the child is living with does not marry or remarry.

Advance maintenance payments are available to children up to the age of 18 years. If maintenance advance is claimed for a child between 12 and 18 years of age, additionally, the following preconditions have to be met, namely that

- the child is not dependent on basic income support pursuant to Book II of the Social Code (SGB II) or
- the single parent receives basic income support pursuant to Book II of the Social Code (SGB II) and, at the same time, has his/her own gross monthly income of at least 600 euros).

For children from 0 to 11 years of age these preconditions do not apply.

4.4.2. *Benefit amount*

The level of the maintenance advance depends on the statutory minimum maintenance for the respective age group, the level of which is laid down in the German Civil Code (BGB). The full amount of child benefit for the first child is set off against the minimum maintenance. The level of maintenance advance is independent of an individual court ruling on the amount of maintenance owed by the non-resident parent.

The maximum amount of maintenance advance in 2023 is:

- 187 euros per month for children of up to 5 years of age,
- 252 euros per month for children from 6 to 11 years of age,
- 338 euros per month for children from 12 to 17 years of age.

4.4.3. *Benefit duration*

Maintenance advance is paid till the child reaches the age of 18 (18th birthday).

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 maintenance advance will be deducted from citizen's benefit and social assistance (see Section 2.2), as well as child supplement (45% of the amount, see section 4.2.). The amount of maintenance for minor children is set out in Section 1612a of the German Civil Code, which stipulates that the minimum maintenance is based on the tax allowance for the material subsistence level of a child (child allowance). For further information see section 4.4.8. .

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

Employment doesn't affect benefit receipt.

4.4.8. *Benefit indexation*

Section 1612a of the German Civil Code provides for different percentages of the child allowance, differentiated according to three age brackets. On this basis, the Federal Ministry of Justice determines the specific amount of minimum maintenance for the three age brackets every two years by statutory order.

5. Net costs of Early Childhood Education and Care

The **reference date** for the policy rules described in this section is **January 1, 2023**.

ECEC fees are ruled subnational on the level of the German federal states. Most states offer some kind of free ECEC access (ranging from fee exemption for siblings or one fee free year before primary school to complete fee free ECEC). Within the Act on Good Early Childhood Education and Care (Gute-KiTa-Gesetz, 2019-2022) the federal level supported the states to fund regional measures (on top of the measures stipulated in Social Code Book VIII) to reduce the financial burden on parents by lowering or even abolishing child care fees. 11 out of 16 Länder had taken up such measures. Within the

Childcare Quality Act (2023-2024) such measures can further be funded under certain preliminaries.

With the Act on Good Early Childhood Education and Care a reform of Social Code Book VIII (cf. SGB VIII §90) was made, introducing a criteria based graduation of parental fees (in effect since July 2019). This may include parents' income, number of siblings, for whom parents receive child benefit, or hours of attendance (Social Code Book SGB VIII § 90 para 3). Further criteria may be taken into consideration. Recipients of certain benefits are exempt from fees upon request; the target population includes parents receiving citizen's benefit, social assistance, child supplement, housing benefit or benefits under the Asylum Seekers Benefits Act (Social Code Book SGB VIII § 90 para 4). Additionally the „Bildungs- und Teilhabepaket“ (financial support for education and participation) supports families with low income to finance additional costs for ECEC-trips or lunch.

Since 2019, TaxBEN simulates childcare fees using the Bundesland and city of Berlin as a reference to be consistent with the choice of other regional parameters. Note that in previous years, the Bundesland and city of Hamburg was used.

It should be considered however that Berlin presents an exceptional case. In 2019 it was the only Bundesland with a complete abolishment of childcare fees (with Mecklenburg-West-Pomerania following in 2020), which applies also in 2023. Most Länder provide partial abolishment of parent fees so far, e.g. for single years (e.g., last year before school) and/or limited hours (cf. Autorengruppe Bildungsberichterstattung 2020, forthcoming). The new “Act on Good Early Childhood Education and Care” sped up the overall trend towards further fee reduction and (partial) abolishment.

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 citizen's benefit (see Section 2.2.2.) and prove their need for additional childcare.

Parents pay a lump sum of 23 EUR per month for meals. Children whose parents receive citizen's benefit, social assistance, supplement to child benefit, housing benefit or benefits under the Asylum Seekers Benefits Act are exempt from this payment. Depending on the provider, ECEC services might charge for extra services such as additional sport activities, organic food or language lessons; though these payments are capped. A staggered payment model defines clear rules for additional contributions of up to EUR 30, up to EUR 60 or between EUR 60 and EUR 90 per month. Parents can refuse to pay these additional payments without losing their childcare place. TaxBEN does not model fees for extra services.

5.1.1. *Discounts for part-time usage*

Not applicable in Berlin.

5.1.2. *Fees indexation*

No indexation to fees since childcare in Berlin is free. The fee for meals is revised on a discretionary basis.

5.2. Fee discounts and free provision

Variable names: `[cc_subsidy]`

See Section 5.1.¹⁵

5.3. Childcare benefits for formal centre-based care

Variable names: `[cc_benefit]`

In Germany, general payments to parents 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.¹⁶

5.4. Childcare allowance for children not using child care centres

None (a home-care allowance was abolished in 2015).

5.5. Tax concessions for childcare expenditures

Variable name: `[cc_dedn]`

Since 2006 two thirds of the cost of childcare 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 per year.

5.5.1. Benefit indexation

In certain cases there is a reduction as far as it's adequate to the conditions in the state of residence of the child.

¹⁵ 1) Hamburg also offers free ECEC for all children. In Hamburg this free ECEC covers five hours per day, respectively 30 hours a week (*Grundbetreuungszeit*).

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

3) Brandenburg offers free ECEC for the year before school-entry (last kindergarten year); since August 2019, families receiving social benefits or with a low income do not pay any fees at all. North Rhine-Westphalia and Thuringia offer 24 months of free ECEC before school entry. 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 and Schleswig-Holstein partly cover ECEC cost by paying subsidies (amount and age group differs). Optional: For example, Bavaria pays a 100 EUR subsidy for a kindergarten child.

5) In Saxony-Anhalt parents only have to pay for their eldest child in ECEC. Baden-Wuerttemberg, Saxony offer no exemption from charges for parents, except those that are below a certain income (targeted measures).

¹⁶ Note that not all Bundesländer have income-related fees and through 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 (see also footnote 14).

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 Books of the Social Code (*SGB*).

7.1.1. Employee and employer contributions

As of 1 October 2022, some essential changes came into effect concerning minimally paid employment, also called ‘**mini-jobs**’. The earnings limit increased from EUR 450 to EUR 520 per month. According to the transitional rules, persons whose job started before the reform and do not exceed the earnings limit of EUR 520, remain in all classes of social insurance. The charge limit was also dynamically designed. In future, it will increase with the minimum wage. 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 % (in 2023). 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 % of EUR 175), where the employer’s 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’s 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 tax (2%). No contributions are paid to unemployment insurance and health care insurance. The overall employer rate for social security contributions thus amounts to 28%.

As of 1 October 2022 and 1 January 2023, there were also additional changes in the **transition area** or ‘**midi-jobs**’ (*Übergangsbereich*, former *Gleitzone*) for employees with monthly income beyond the charge limit of a mini-job. Due to the new regulations the earnings limits shifted to EUR 520.01 and EUR 2,000.00 per month. 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 2,000 per month.¹⁷ According to new rules, the employees will be relieved more

¹⁷ More specifically, contributions for ‘midi-jobs’ are calculated as follows on 1st January 2023:

than before, especially in the lower transition area. The previous leap in the burden in the right to contributions does no longer apply. The employee contribution starts at zero above the marginal income threshold - previously it was around 10 percent - and then gradually increases towards the upper limit to the regular employee share of the total social security contribution of around 20 percent. The employer's contribution are 28 percent at the beginning of the transition period - as with a mini-job - and gradually falls towards the upper limit on the regular employer's contribution. Details on social security contributions for workers earning more than EUR 24 000 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 % in 2023, that is 9.3 % of the employee's gross wage earnings, up to a contribution ceiling of EUR 87 600.

Health insurance (Gesetzliche Krankenversicherung)

As of 1 January 2015, the general applicable contribution rate is 14.6% (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 depending on their income. Since January 2019, also this supplementary contribution is shared equally between employers and employees. In 2023 it increased to 1.6% on average (portion of 0.8% for employers and employees). Therefore, the overall contribution rate is 8.1% for employees and employers (on average) in 2023. The contribution ceiling in 2023 is EUR 59 850. While the above regulations relate to membership in the *public* health insurance, workers with earnings above the wage ceiling of 66 600 EUR (2023) are not mandatory members of the 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)

In 2023, the contribution rate is 2.6% of assessable income. Employee and employer each pay 1.3 %. The contribution ceiling is EUR 87.600 (West Germany)/85.200 (East Germany).

Long-term care insurance (Pflegeversicherung)

A long-term care insurance went into effect on 1st January 1995. Since 1st January 2019 the contribution rate for this insurance has been 3.05% of gross wages. The contribution rate is equally split between employers and employees. Thus, in 2023 employers and employees both pay a rate of 1.525 %. Contributions are levied subject to a maximum income limit of EUR 59 850 in 2023.

Relevant earnings (*beitragspflichtige Einnahme*) = $F \times G + ([20\,00 / (20\,00 - G)] - [G / (20\,00 - G)]) \times F \times (Gross\ earnings - G)$,

where the so-called "F-factor" $F = 0.6922$, derived as Overall employer social contribution rate for 'mini-jobs' (28%) divided by the Overall general social contribution rate for employee and employer (40.45%); G is the charge limit (*Geringfügigkeitsgrenze*, currently EUR 520.00).

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.

Since 2005, childless members from the age of 23 must pay a contribution surcharge. In 2023, it amounts to 0.35 contribution rate points so that the contribution rate of a childless employee totals 1.875 %.

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.

7.1.3. Rates indexation

The contribution ceiling for the pension and unemployment insurance and the health care and long term care insurance respectively is indexed to the development of wages (irrespective of inflation). The adjustment takes place every year on 1st January. The ceiling is adjusted proportionately to the growth rate of the gross wages of the previous year to the gross wages of the year before that year.

For LTC the government checks every three years the requirement to adjust the services of LTCL. Adjustments are oriented by inflation of the last three years with a maximum of the wage development of the last three years. General economic developments are taken into account.

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:¹⁸

- **Basic relief:** The basic tax exemption (*Grundfreibetrag*) amounts to 10 908 EUR in 2023. Below this income, no income tax has to be paid. It is automatically included in the income tax formula (see Section 8.1.3).
- **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 is a non-wastable tax refund which is modelled as a family benefit in TaxBEN (child benefit, *Kindergeld*, 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. For jointly assessed parents and lone parents who do not receive child maintenance payments from the non-resident parents (the case assumed in TaxBEN), this allowance is EUR 8 952 (2*EUR 3 012 = EUR 6 024 basic allowance plus EUR 2928 for childcare or training needs). If the value of the child benefit 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:** 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 4 260 (*Entlastungsbetrag für Alleinerziehende*). This additional allowance is increased by EUR 240 for each additional 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 pension insurance contributions (*Sonderausgabenabzug*):** Social security contributions, contributions to certain private pension schemes and other expenses incurred in provision for the future (e. g. liability insurance) are deductible up to specific ceilings. The deductible maximum amount regarding contributions to the statutory pension scheme and specific private pension schemes is determined as follows:
 - Step 1: all contributions are added up (if there are employee's and employer's contributions, these are both included).
 - Step 2: the resulting amount is limited to EUR 26 528 (double if jointly assessed) in 2023.
 - Step 3: the amount thus determined, diminished by the (tax-free) contributions of the employer, is deductible from income (maximum amount).
 - In addition, mandatory contributions to health and long-term care insurance as well as contributions to unemployment, accident and liability insurance, to the insurance for disability, and premiums of similar private insurance may be deducted as follows: Employees' annual contributions to statutory health insurance excluding sickness benefit (assumed to amount to 96 % 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 for a single (EUR 3800 if jointly assessed), contributions to unemployment insurance and other insurances premiums can be deducted in addition up to this ceiling.
- **Work related expenses:** Lump-sum allowance per gainfully employed person (*Werbungskostenpauschale*). It was increased from EUR 1000 to EUR 1200

¹⁸ 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).

retroactively as of January 1st 2023 as part of a package of measures adopted in May 2022 to address high energy prices (cp. Annex IV). In December 2020, a “home office” deduction for the years 2020 and 2021 came into effect. It adds up to EUR 5 per day spent exclusively working at home due to the Covid-19 pandemic and is limited to a maximum amount of EUR 600 per year (corresponding to 120 working days). With the Fourth Corona Tax Relief Act from June 2022, the “home office” deduction was extended until 31st December 2022 (cp. Annex III). From 2023, the “home office” deduction was made permanent and improved. It now adds up to EUR 6 per day and is limited to a maximum amount of EUR 1260 per year (corresponding to 210 working days). The “home office” deduction is counted against the general lump sum deduction for work-related expenses. TaxBEN does not model this deduction as employees are assumed not to work from home.

- **Special expenses:** Lump sum allowance (EUR 36 (72) for 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;
- For 2023 the following definitions are used in the income tax liability formula

$$Y = \frac{X - 10\,908}{10\,000}$$

$$Z = \frac{X - 15\,999}{10\,000}$$

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

1. $T = 0$ for $X \leq 10\,908$
2. $T = (979.18Y + 1\,400) Y$ for $10\,909 \leq X \leq 15\,999$
3. $T = (192.59Z + 2\,397) Z + 966.53$ for $16\,000 \leq X \leq 62\,809$
4. $T = 0.42 X - 9\,972.98$ for $62\,810 \leq X \leq 277\,825$
5. $T = 0.45 X - 18\,307.73$ for $277\,826 \leq X$

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 benefit, see Sections 4.1 and 8.1.1.

8.1.5. Rates indexation

No indexation.

8.2. Solidarity surcharge (*Solidaritatzuschlag*)

Variable names: [\[SOL_S\]](#)

Until 2020, the solidarity surcharge was levied at an average rate of 5.5 % 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 marginal rate of 20 % of the difference between the income tax liability and the exemption limit until it equals 5.5 % of the total liability.

From 2021, the solidarity surcharge has been abolished for lower incomes and lowered for higher incomes. It is still levied at 5.5 % of the income tax liability subject to a considerably increased exemption limit currently (2023) of EUR 17 543 (35 086) for singles (couples). The marginal rate applied to the phase-in region (i.e. before reaching 5.5 % on average) is lowered to 11.9 %.

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

This section shows selected output of the TaxBEN model for Germany in 2023 (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

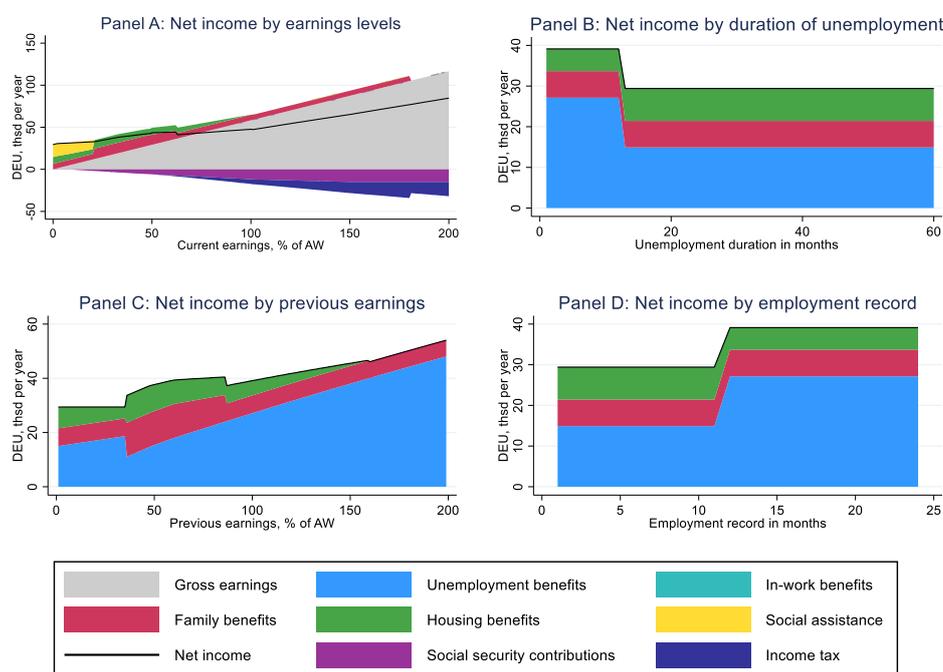
active job-search or being available for work), these requirements are assumed to be met.

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, 2023



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 3.3 and B) childcare fees in Section 5.

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

Rules for calculating procedures and rounding (Annex 3 Housing Benefit 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).
2. “Y” is the rounded monthly total income in EUR (third sentence of section 19 (1) of the Act).
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 table¹⁹. Values as of January 2023

	1-person household	2-person household	3-person household	4-person household	5-person household	6-person household
M	52	64	76	88	99	99
Y	275	357	414	447	532	618
	7-person household	8-person household	9-person household	10-person household	11-person household	12-person household
M	111	123	135	146	180	286
Y	702	787	872	957	1248	1443

1. 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:

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

$$z2 = z1 \cdot Y$$

$$z3 = M - z2$$

$$z4 = 1.15 \cdot z3$$

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

2. This unrounded monthly rent or home-ownership subsidy must be rounded upward to the next higher full amount in EUR 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 EUR if the remaining amount in cents without rounding is less than 50.

¹⁹ Note: TaxBEN does not simulate this housing benefit for households of 7+ persons.

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

The social assistance mentioned in Section 3.1 is granted to those who, as a rule, are unable to work for health reasons in order to live a decent life. 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. 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 citizen's benefit scheme (see 2.2)²⁰

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. Parental allowance plus *ElterngeldPlus*, which can alternatively be taken 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.

Work-entry assistance (Einstiegsgeld)

Since 1st January 2009, work entry assistance (*Einstiegsgeld* – section 16b SGB II) can be granted as a disregarded subsidy towards the citizen's benefit (former 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 integrate herself or himself into the general Labour Market. Work entry assistance can also be granted if the new employment or self-employment is sufficient to overcome neediness. The authority responsible for the basic jobseeker's 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

²⁰ As mentioned in Section 2.2, persons who are unable to work but live together with an citizen's benefit recipient in a 'need unit', receive citizen's benefit as well.

individually determined on a case by case basis. The decision on the amount shall take into consideration the duration of unemployment as well as the number of household members. Work entry assistance is exempt from taxes and contributions and can be granted for up to 24 months.

Annex III: Further COVID-19 income support measures

Among these Covid related measures that are still in place is a short-time work allowance (*Kurzarbeitergeld*). Because of the COVID-19 pandemic, it was easier to access than under normal conditions (with regard to the number of employees who must be affected by work stoppages). These special conditions applied until the end of June 2023. Short time work allowance can be granted to the employer in order to be able to keep current employees who are temporarily not allowed to work or can work only at reduced hours. The conditions in terms of amount and duration are at the pre-pandemic level: The government pays up to 67% of the employee's wage for a maximum of 12 months without interruption.

To further combat the consequences of the Covid-19 pandemic, the federal government implemented a Fourth Corona Tax Relief Act (*Viertes Corona-Steuerhilfegesetz*) in 2022, including further measures to promote the economic recovery of companies and provide additional investment incentives (extended loss offsetting, extension of the declining balance depreciation by one year), an extension of the "home office" deduction of max. EUR 600 per year by one year (it was made permanent as of 2023, cp. Section 8 and Annex IV), tax-free subsidies for short-time work benefits and extension of special regulations for short-time work benefits, a new one-off tax allowance for employees in the care sector of max. EUR 3,000, and an extension of the filing deadline for tax returns. Some of these measures are still valid on 1st January 2023.

TaxBEN does not model any of these measures as their timing or focus does not coincide with TaxBEN assumptions.

Annex IV: Income support measures to address high energy prices

During the years 2022 and 2023, the German government has announced a number of packages of measures to support citizens and companies that are affected by high energy prices. Some of the measures to support citizens are effective as of 1st January 2023. If not indicated otherwise though, TaxBEN does not model any of these measures as their timing or focus does not coincide with TaxBEN policies and/or assumptions.

The first two packages of measures were announced in February (“1. *Entlastungspaket*”) and March (“2. *Entlastungspaket*”) and included, amongst others, the following measures:

- Reduction in electricity costs through the expedited reduction of the renewable energy surcharge to zero from July 1st 2022 instead of January 1st 2023.
- One-time lump-sum energy price allowance payment of EUR 300 for all working taxpayers, paid in September 2022. This payment is subject to income tax, but not to social security contributions.
- One-time payment of EUR 100 for recipients of unemployment insurance benefits and EUR 200 for recipients of income support benefits, paid in July/August 2022..
- One-off heating cost subsidy for recipients of housing benefit (*Wohngeld*): EUR 270 (household with two people: EUR 350, each additional family member an additional EUR 70). Apprentices and students receiving student loans: EUR 230
The timing of the payment varies according to the region.

As of 1 January 2023, the following measures are in place.

- The maximum amount of the supplementary child allowance for small-income families was raised to 250 euros per month.
- The tax relief for single parents, already having been doubled in 2020, was increased by another 252 euros to 4,260 euros a year.
- The new citizen’s benefit (*Bürgergeld*) was introduced: starting 2023, a single adult person receives 502 euros - 53 euros more than before. The standard rates for children were raised considerably as well - based on their age by an additional 33 to 44 euros per month.
- The housing allowance under the Housing Benefit Act (*Wohngeld*) was raised and broadened (modelled in TaxBEN, cp. Section 3.3).
- Moreover, the relief packages include additional measures to ensure the economic stability of families. These are, for example, the extension of eased eligibility requirements for short-time work allowance, the removal of the sunset clause in and enhancement of the home office tax allowance, the higher commuter tax allowance as well as the Deutschland Ticket for local public transport. To contain the costs of gas, district heating and electricity, the Federal Government ensures that consumers get their basic supply at lower prices (gas and electricity price brakes). These policies are not modelled as they do not coincide with TaxBEN assumptions.
- Increase in the minimum wage to EUR 12 as of October 1st 2022. At the same time, the upper earnings limit for ‘mini-jobs’ will rise to EUR 520 per month and the earnings limits within the ‘transition band’ (‘midi-jobs’) will increase to EUR 520.01 and EUR 1 600 per month (EUR 6 240.12 and EUR 19 200 per year).). As of January 1st 2023, the contributions to the statutory pension insurance can already be fully taken into account as special expenses. All this is modelled in TaxBEN, cp. Sections 1, 7.1 and 8.1.

A third package of measures (“3. Entlastungspaket”) was announced in September and is still undergoing the legislative process. Some more general reforms to be implemented as of January 1st 2023 were announced, too. Amongst other measures, it shall include:

- An electricity price brake. Discount on the electricity bill to subsidise 80% of previous electricity consumption at a reduced price for households and SME,
- The increase in the price for carbon dioxide emissions due at the beginning of 2023 is to be postponed by one year.
- Another one-off heating cost subsidy for recipients of housing benefit (*Wohngeld*) for the heating period from September to December 2022 will be granted: EUR 415 (household with two people: EUR 450, each additional family member an additional EUR 100). Apprentices and students receiving student loans: EUR 345.
- The housing benefit / allowance under the Housing Benefit Act (*Wohngeld*) will be reformed on January 1st 2023. It will contain a permanent climate component and a permanent heating cost component to account for the rising energy prices.
- Unemployment benefit II and social allowance (*Sozialgeld*) will be reformed and renamed (*Bürgergeld*) as of January 1st 2023.
- Child benefit was raised to a uniform monthly rate of 250 euros per child.
- Increase of the ‘midi-job’ threshold as of January 1st 2023.
- One-off payment for students and pensioners.
- A nationwide ticket for local public transport at reduced cost.
- VAT reduction in the gastronomy is extended.
- Further extension of some special regulations concerning the accesses to short-time work benefits until the end of June 2023.
- VAT reduction on gas consumption and district heating.
- Abolition of the so-called “double taxation” of old-age pensions.
- Open-ended extension of the “home office” deduction.
- Additional one-time payments of companies to employees up to EUR 3 000 will be free of taxes and social security contributions.

Additional measures were announced in September 2022 (“*Abwehrschirm*”) and implemented thereafter, including:

- A gas and heat price brake, complementing the already announced electricity price brake. Discount on the gas and heat bill to subsidise 80% of previous gas consumption at a reduced price for households and SME. Additionally, gas and heat suppliers waived the monthly upfront payment in December 2022 and get reimbursed by the government.
- Reactivation and reorientation of the Economic Stabilization Fund (WSF), which was founded during the Covid-19 pandemic to support large companies, with additional credit authorizations of EUR 200 billion. Besides financing the gas price break and partly/ the electricity price break, the fund is also used to finance company support measures and support gas importers.