

THE OECD TAX-BENEFIT MODEL FOR GERMANY

Description of policy rules for 2020



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This version : October 2020

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Preface

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

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

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

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

- The **reference date** for policy rules described in this report is **January 1, 2020**.
- **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 2020

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 2020 is EUR 1.584 per month. The annual minimum wage is computed by multiplying the minimum monthly wage (as of January 1, 2020) by 12, i.e. EUR 1.584 * 12 = EUR 19.008.

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 30 months (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 \(2018\)](#), [Langenbacher \(2015\)](#) 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 6.900 (West) and 6.450 (East) monthly gross earnings, respectively (TaxBEN assumes EUR 6.900). 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*

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
432	389	345	328	308	250

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 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).

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 (0-5 years old).

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 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 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</i> earning disregards)
=	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:** 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
 - Child supplement (*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 supplies of 150 € per school year (100 € for the first term of a school year and 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 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 twelve 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. 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. Local authorities recognise reasonable accommodation and heating expenditure for a claimant's entire joint household as part of SGB II. They are responsible for deciding what is reasonable and appropriate. Expenditure for unreasonably large or expensive accommodation is included for a maximum of six

months unless it is possible and reasonable to expect that the claimant either moves before then or reduces the cost, for example by taking in a lodger. A decision whether to reduce the amount included to the amount deemed reasonable is made on a case by case basis at the end of the six months

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) as applied in the city of Berlin⁹, 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 €)

⁹<https://www.berlin.de/sen/soziales/themen/soziale-sicherung/grundsicherung-fuer-arbeitssuchende-hartz-iv/av-wohnen/>

- 3-Person household 604.8 € (96.8 €)
- 4-Person household 680.4 € (108.9 €)
- 5-Person household 795.6 € (123.42 €)

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. 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 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.

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 jobseekers allowance (unemployment benefit II 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 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 2020:

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

Where:

Household size ¹ (persons)	Parameters of the rent burden function			Monthly household income (EUR)
	a	b	c	Maximum ² Y _{max}
1	4/100	5.80/10 000	1.18/10 000	1061
2	3/100	4.05/10 000	8.80/100 000	1454
3	2/100	3.50/10 000	7.09/100 000	1762
4	1/100	3.13/10 000	3.68/100 000	2297
5	0/100	2.76/10 000	3.59/100 000	2618
6	-1/100	2.58/10 000	3.08/100 000	2947

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.¹⁰

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 2020:

Household size ¹ (persons)	M	Y
1	52	275
2	64	357
3	76	414
4	88	447

¹⁰ 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.

5	99	532
6	99	618

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.

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 2020

Household size (persons)	Maximum monthly rent (EUR)
1	478
2	579
3	689
4	803
5	918
For each extra person	111

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 child supplement (*Kinderzuschlag*), the education and participation package (*Bildungspaket*) and the maintenance advance for lone parents (*Unterhaltsvorschuss*).

General family 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 credit.

4.1.1. Eligibility conditions

The child benefit 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 benefit is awarded in the form of a monthly payment. It is staggered by the number of the children. The rates applying on 1 January 2020 are EUR 204/month for the first and second child, EUR 210/month for the third child and 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. 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 unemployment benefit II/social assistance (see sections 2.2, 3.1) only because of the maintenance of their children.¹¹ Adjustments to the design of the calculation of the benefit took effect from October 1st 2008 onwards. The Strong Families Act (*Starke-Familien-Gesetz*) redesigned child supplement in two stages, which came into effect on 1 July 2019 and on 1 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 general family 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 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) Income is below the ceiling for eligibility for child supplement.

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

The parents' overall need is made up 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*).

¹¹ See <http://www.arbeitsagentur.de/zentraler-Content/Veroeffentlichungen/Merkblatt-Sammlung/Merkblatt-Kinderzuschlag.pdf>.

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*):

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 reciprocity of unemployment benefit II (*“Vermeidung der Hilfebedürftigkeit im Sinne der Vorschriften über das Arbeitslosengeld II”*).

Since 1 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.¹² Only 45 per cent 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 185 per child and month. Income and assets exceeding the overall needs of the parents, reduce the amount of child supplement. Only 45 per cent of earned income is factored into the calculation. Other income and assets are deducted in full from child supplement. Benefit duration

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

4.2.3. 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.

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

4.2.4. Tax treatment

The benefit is not taxable.

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

See 4.2.1; child supplement and unemployment benefit II 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 supplementary child benefit not being sufficient to cover basic needs. This situation is not modelled in TaxBEN.

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

Employment does not 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 child supplement and described as part of Section 2.2.

4.4. Maintenance 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.

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

4.4.1. Eligibility conditions

Maintenance advance is granted to children of lone parents until they have completed the age of 17, if they live in Germany and did not receive (or partially or irregularly) alimony from the other parent. For children between 12 and 17 years, lone parents must have an income from work of at least EUR 600 per month.

4.4.2. Benefit amount

On 1 January 2020 the support advance for children under the age of 6 is EUR 165 per month, for children aged 6 to 11 is EUR 220 per month and for children aged 12 to 17* is EUR 293 per month.

* The condition is that the child aged 12 to 17 does not receive any SGB II benefits or will no longer be dependent on SGB II benefits with the help of the maintenance advance , or

that the single parent receiving SGB II benefits does earn a monthly gross income of at least 600 euros.¹³

4.4.3. *Benefit duration*

Maintenance advance is paid for not longer than the child has completed the age of 17.

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 unemployment benefit II and social assistance (see Section 2.2), as well as child supplement (45% of the amount, see section 4.2.).

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, 2020**.

To diminish regional disparities and reduce the financial burden on parents a reform of Social Code Book VIII (cf. SGB VIII §90) in the context of the “Federal Law on Quality and Participation (*Gesetz zur Weiterentwicklung der Qualität und zur Teilhabe in der Kindertagesbetreuung*)” of December 2018 introduced the following stipulations (in effect since July 2019): Staggered fees became compulsory and should consider the above mentioned criteria. Recipients of certain welfare benefits always are exempt from fees on application; the target population was extended and includes parents receiving unemployment assistance, social benefit, social assistance, child supplement, housing benefit or benefits under the Asylum Seekers Benefits Act. In addition, the new Act includes the option of federal co-funding of measures taken by a Bundesland to (further) reduce or abolish parent fees, an option that has been taken up by 10 out of 16 Länder.

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.

It should be considered however that Berlin presents an exceptional case. In 2019 it was the only Bundesland with complete abolishment of childcare fees (with Mecklenburg-West-Pomerania following in 2020). 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

¹³ See <https://www.bmfsfj.de/blob/93500/a619f8fe38a830425383d9a1ef8ef273/der-unterhaltsvorschuss-data.pdf> .

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 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 5.1.¹⁴

5.3. Childcare benefits for formal centre-based care

Variable names: `[cc_benefit]`

¹⁴ 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).

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.¹⁵

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.

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

¹⁵ 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).

the full pension contribution rate of 18.6 per cent (in 2020). 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 '**mid-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.¹⁶ On the 1st July 2019, this threshold increased to EUR 1,300 per month (15 600 per year). Details on social security contributions for workers earning more than EUR 15 600 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 2020, that is 9.3 per cent of the employee's gross wage earnings, up to a contribution ceiling of EUR 82 800.

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. Since January 2019, employees and employers have been required to pay part of this supplementary contribution which amounts to 1.1% on average in 2020 (portion of 0.55%

¹⁶ More specifically, contributions for 'mid-jobs' are calculated as follows on 1st January 2020:

Relevant earnings ("Gleitzoneentgelt") = $F \times 450 + ([15\ 600 / (15\ 600 - 450)] - [450 / (15\ 600 - 450)]) \times F \times (\text{Gross earnings} - 450)$;

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.

for employers and employees). Therefore, the contribution rate averages 7.85% for employees and employers in 2020. The contribution ceiling in 2020 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 2020, the contribution rate is 2.4 per cent of assessable income. Employee and employer each pay 1.2 per cent. The contribution ceiling is EUR 82.800.

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 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:¹⁷

- **Basic relief:** The basic tax exemption (*Grundfreibetrag*) amounts to 9 408 EUR in 2020. 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 child tax credit (*Kindergeld*) which is 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. 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 7 812. 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:** 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 4 008 (*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.¹⁸ The allowance is calculated on the basis of two different schemes and the more favourable is eventually used. 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,

¹⁷ 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).

¹⁸ TaxBEN assumes the maximum deductible amount to be 20% of gross earnings.

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 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 1 000 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 2020 the following definitions are used in the income tax liability formulas:

$$Y = \frac{X - 9\,408}{10\,000}$$

$$Z = \frac{X - 14\,532}{10\,000}$$

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

1. $T = 0$ for $X \leq 9\,408$
2. $T = (972.87 Y + 1\,400) Y$ for $9\,408 \leq X \leq 14\,532$
3. $T = (212.02 Z + 2\,397) Z + 972.79$ for $14\,533 \leq X \leq 57\,051$
4. $T = 0.42 X - 8\,963.74$ for $57\,052 \leq X \leq 270\,500$
5. $T = 0.45 X - 17\,078.74$ for $270\,501 \leq X$

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.

8.2. 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.

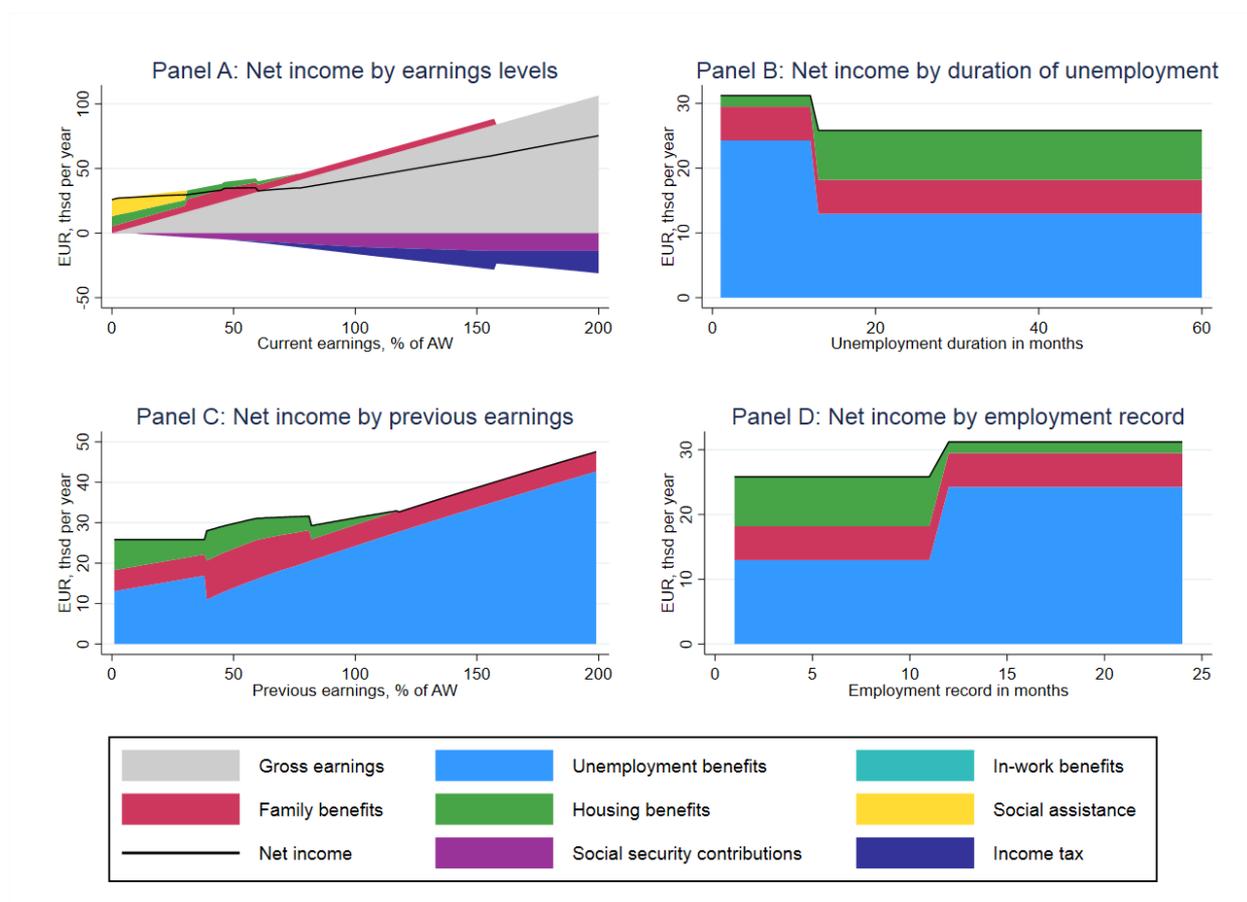
Panel A assumes that one adult family member (the so-called 'second adult' using the TaxBEN terminology) is out of work and not eligible for unemployment benefits (e.g.

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

Couple with two children, 2020



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 3 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).
2. “Y” is the rounded monthly total income in euros (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 2020

	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

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

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

$$z2 = z1 \cdot Y$$

$$z3 = M - z2$$

$$z4 = 1.15 \cdot z3$$

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

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)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.

²⁰ 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.