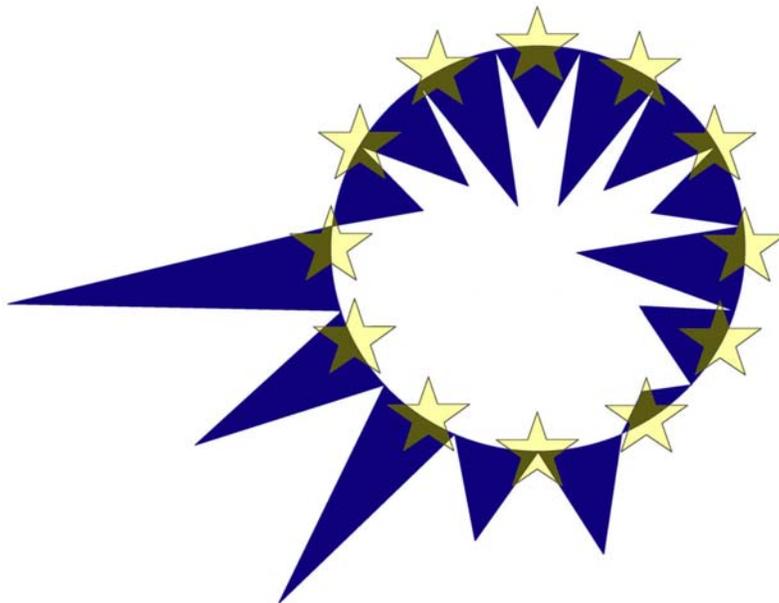


# **EUROMOD**

## **COUNTRY REPORT**



EUROMOD Country Report

**GERMANY**

Markus M. Grabka

September 2001

# **EUROMOD Country report - Germany**

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September 2001

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## 1. The "EURMOD" Tax-benefit system for Germany - outline

The purpose of this report is to document the tax-benefit submodel of "EUROMOD" as it has been developed to model the tax-benefit system of Germany. Put extremely briefly, "EUROMOD", using as data the income components as discussed in chapter 3, adds simulated benefits and social insurance contributions (section 2.1) and income tax (section 2.2) to compute disposable income. In this introductory chapter we summarize the German tax benefit system in a few paragraphs. In these paragraphs, entries in *italics* refer to benefits and contributions simulated by "EUROMOD".

### 1.1 Income components and benefits

Next to, or, usually, instead of earned income (wages, profits, property income) persons in Germany may be entitled to earnings-replacing benefits, such as unemployment and disability benefits. Unemployment benefits are paid to employees when they lose their job, disability benefits are paid to employees when they lose their ability to work, after one year of sickness. (Employers are obliged to pay their employees 100% of their wage during the first six weeks of sickness); than - for about one year - the sick individual get about 70% of the gross labour income.

Even the regular retirement age is 65, before the age of 65 most employees are entitled to early retirement pensions. Retirement benefits are based on individual retirement accounts "point system". In addition to state pensions, some retired employees especially civil servants receive additional occupational pensions.

Widow(er)s even aged below 65, are entitled to *Survivors' benefits*.

Couples and single parents with dependent children aged below 18 are entitled to *Child benefit*. Above 18, students are still entitled to child benefit. They are also receive scholarships as well as student loans.

Tenant households who pay a relatively high rent (within limits) given their (net) income can be eligible for *Rent Subsidy*.

Every insured Citizen as well as non-citizens with low or no other means of existence may be entitled to *Social Assistance Benefits*. In-kind benefits, such as provision of health care, and special benefits for long-term care are important, but not part of purpose of "EUROMOD".

### 1.2 Taxes and contributions

Contributions for unemployment benefits, sickness payments, as well as long-term-care benefits, disability benefits, old age pensions, survivor benefits are paid half by the employer and half by the employee. The amount of total contribution is limited by monthly and annual ceiling amounts. The ceiling amounts are depending on whether an employee is performed in former West or former East Germany. This means that contributions are only paid up to a maximum amount, exceeding earnings will remain free of social security contribution. The social security systems also gets slight subsidies from the Federal Budget as well.

Self-employed can pay the *self-employed contribution to disability, sickness and pension insurance*. Contributions to Occupational Accident Insurance are only paid by employers according to their level of risk.

Taxable income is calculated taking into account most of the above mentioned income components (except child benefit and rent subsidy), deducting employee contributions. There are other *income tax deductions (mortgage interest, professional expenses)* and moreover, depending on the circumstances of the tax-payer, a part of taxable income (*income tax free allowance*) is not taxed. The remainder of taxable income is subject to a progressive *income tax schedule*.

In the following tables we include information on the size of the simulated instruments and on the number of recipients/payers.

**Table 1.1 Selected Cash tax revenue in Germany (1998) (in bill. DM)**

Specification	Amount
Wage tax (before deduction of child allowance)	308,3
assessed income tax*	12,3
not assessed taxes on yields*	28,2
interest withholding tax	11,9
Solidarity surcharge tax	20,6
inheritance tax	4,8
tax on acquisition of real estate	10,8

\*: before deduction of reimbursements from the Federal Finance Office.

Source: Federal Statistical Office Germany 2001.

**Table 1.2 Recipient of Child benefit and expenditures in Germany (1998)**

Child benefit					
year	recipients		children		expenditures
	total	thereof foreigners	total	thereof foreigners	
	1000				Mio DM
1998	8.638	926	14.451	1.727	41.403

Source: Statistisches Taschenbuch 2000: Arbeits-und Sozialstatistik.

**Table 1.3 Recipient of Disability insurance / Statutory long-term care insurance in Germany (1998)**

Disability Insurance / Statutory long-term care insurance				
year	insured population	thereof		recipients
		member	unpaid family members	
in 1000				
1998	71.402	50.638	20.765	1.716

Source: Statistisches Taschenbuch 2000: Arbeits-und Sozialstatistik.

**Table 1.4 Recipient of Social assistance and expenditures in Germany (1998)**

Social assistance					
year	recipients		gross expenditures		
	cost-of-living assistance	assistance in special circumstances	total	thereof	
				cost-of-living assistance	assistance in special circumstances
1000		Mio DM			
1997	2.893	1.411	44.547	16.135	24.366

Source: Statistisches Taschenbuch 2000: Arbeits- und Sozialstatistik.

**Table 1.5 Recipient of unemployment benefits and expenditures in Germany (1998)**

unemployment insurance					
year	unemployment insurance		unemployment assistance		additional replacement expenditures <sup>4)</sup>
	recipients	expenditures <sup>2)</sup>	recipients	expenditures <sup>3)</sup>	
	1000	Mio DM	1000	Mio DM	
1998	1.987	52.827	1.504	30.438	3.184

2) Expenditures of Bundesanstalt für Arbeit einschließlich der Beiträge zur Renten-, Kranken- und Pflegeversicherung

3) Expenditures of Bundesanstalt für Arbeit einschließlich der Beiträge zur Renten-, Kranken- und Pflegeversicherung

4) Expenditures of Bundesanstalt für Arbeit für Kurzarbeitergeld, Schlechtwettergeld, Wintergeld, Winterausfallgeld, Konkursausfallgeld, Mehrkostenzuschuß und Insolvenzgeld

Source: Statistisches Taschenbuch 2000: Arbeits- und Sozialstatistik.

**Table 1.6 Insured population in old age provision system in Germany (31. December 1998 )**

	men	women	total
compulsory insured	16.634.163	12.777.881	29.412.044
voluntary insured	590.692	204.311	795.003
total active insured	17.360.734	13.235.346	30.596.080

Bond portfolio in old age provision system in Germany	
1998	17.201.611

Source: VDR 2001.

## 2. Tax-benefit system - Detailed description

In this chapter, we provide a description of relevant details of the tax-benefit system in Germany, focusing on the way it has been modeled by "EUROMOD". All entries in *italic* refer to the names of policy modules, parameters and conditions in the relevant "EUROMOD" parameter sheets, in particular *pol\_GE.xls*. In a number of instances, we mention where we make simplifying assumptions for "EUROMOD". All amounts pertain to the system valid on spring 1998 and are monthly unless otherwise noted. Table 1 lists the policy sheets in *pol\_GE.xls*, and refers to the sections in which the various policies are described.

**Table 1. Policies included in pol\_GE.xls**

<b>section</b>	<b>Policy</b>	<b>Description</b>
2.1.1	<b><i>SBEN_CB_GE</i></b>	<i>child benefit</i>
2.1.2	<b><i>SBEN_FedChRais_GE</i></b>	<i>Federal Child Raising Allowance ("Bundeserziehungsgeld")</i>
2.1.3	<b><i>SBEN_BadenChRais_GE</i></b>	<i>Baden-Wuerttemberg Provincial Child Raising Allowance ("Landeserziehungsgeld")</i>
	<b><i>SBEN_BayernChRais_GE</i></b>	<i>Bayern Provincial Child Raising Allowance ("Landeserziehungsgeld")</i>
	<b><i>SBEN_MecklenburgChRais_GE</i></b>	<i>Mecklenburg-Vorpommern Provincial Child Raising Allowance ("Landeserziehungsgeld")</i>
	<b><i>SBEN_SachsenChRais_GE</i></b>	<i>Sachsen Provincial Child Raising Allowance ("Landeserziehungsgeld")</i>
	<b><i>SBEN_ThueringenChRais_GE</i></b>	<i>Thueringen Provincial Child Raising Allowance ("Landeserziehungsgeld")</i>
2.1.4.	<b><i>SBEN_SAnonLP_W_GE</i></b>	<i>Social assistance, Western Provinces (incl. East Berlin)</i>
	<b><i>SBEN_SAnonLP_E_GE</i></b>	<i>Social assistance, Eastern Provinces (excl. East Berlin)</i>
	<b><i>SBEN_SALP_W_GE</i></b>	<i>Social assistance for Lone Parents, Western Provinces (incl. East Berlin)</i>
	<b><i>SBEN_SALP_E_GE</i></b>	<i>Social assistance for Lone Parents, Eastern Provinces (excl. East Berlin)</i>
2.1.5	<b><i>SBEN_HB_GE</i></b>	<i>Housing Benefits ("Wohngeld")</i>
2.1.6	<b><i>EESICpi_GE</i></b>	<i>employee contributions to pensions and disability insurance</i>
	<b><i>ERSICpi_GE</i></b>	<i>employeR contributions to pensions and disability insurance</i>
2.1.7	<b><i>EESICHi_GE</i></b>	<i>employee contributions to health insurance</i>
	<b><i>ERSICHi_GE</i></b>	<i>employeR contributions to health insurance</i>
2.1.8	<b><i>EESICdi_GE</i></b>	<i>employee contributions to Statutory long-term care insurance</i>
	<b><i>ERSICdi_GE</i></b>	<i>employeR contributions to Statutory long-term care insurance</i>
2.1.9	<b><i>EESICui_GE</i></b>	<i>employee contributions to unemployment insurance</i>
	<b><i>ERSICui_GE</i></b>	<i>employeR contributions to unemployment insurance</i>
2.2.1	<b><i>IT_GE</i></b>	<i>Income tax</i>
2.2.2.	<b><i>IT_SolidTax_GE</i></b>	<i>Solidarity Surplus Tax</i>

**Table 2. Policies not included in "EUROMOD"**

<b>section</b>	<b>Policy</b>
<b>2.3.1</b>	<b>Church taxes</b>
<b>2.3.2</b>	<b>Occupational accident insurance ("workers compensation")</b>

## 2.1 Benefits simulated by "EUROMOD"

### 2.1.1 Child benefits (*SBEN\_CB\_GE*)

Parents (including foster-parents) are eligible for child benefits for children aged less than 27, but eligibility for children aged above 15 requires that they are in education, or unemployed. The claim for child benefit expires for children in the age of 18 to 27 with a monthly gross income of a child over 750 DEM. If the parents are separated or divorced, child benefit is paid to the parent with whom the child lives.

Child benefit could claim for:

- own or spouse 's children, if they live in household
- Foster children, if they live in household, and their parents no longer have custody over them
- Grandchildren, if they had taken into the household.

Calculation of payment:

The base amount is 220 DEM per month for the first child (*SingPay*). Different multipliers apply depending on the number of children in the household (*es\_ch\_parity1*, *es\_ch\_parity2*, *es\_ch\_parity3*).

Child benefit 1998	Number of Children			
AGE	1	2	3	4 and more children
< 18   27***	220 DEM	220 DEM	300 DEM	350 DEM / for each further child

\*\*\* under special conditions, dependent if still in education

For high income recipient is the option to use a child tax free allowance. If saved taxes by child tax free allowance is greater than the amount of the child benefit, the tax office grant this free allowance.

If the child benefit payments do not equal or exceed the untaxable minimum subsistence level for a child, a tax-free allowance for children and a childcare allowance are deducted from the parents' taxable income. The allowances amount to DM 6,912 and DM 3,024 a year respectively. The childcare allowance is only deductible for one child under the age of 17.

The question of whether child benefit is less than the tax-free allowance for children together with the childcare allowance is determined in the course of income tax assessment (see: *polIT\_GE* and *ge\_it\_ch\_tfa*)

No taxes/contributions are payable on child benefit. It is not included in the means test for the calculation of social assistance, rent subsidy and other benefits.

#### **Supplementary child benefit** (not simulated in "EUROMOD")

Families who have built or purchased their own home can claim supplementary child benefit (Kinderzulage) for up to eight years, in addition to the normal child benefit and the basic tax relief on homebuilding. Owner-occupiers of homes built or purchased since 31 December 1995 receive DM 1,500 a year for each child (Federal Ministry of Labour and Social Affairs (2001): Social Security at the Glance. Nr. 998).

## **2.1.2 Federal Child Raising Allowance ("Bundesperziehungsgeld")**

(SBEN\_FedChRais\_GE)

Federal Child Raising allowance is available until the child is 24 months old.

Child-raising allowance could claim a mother or father if

- the permanent or usual place of residence is in Germany
- they have custody of the child
- they care for and bring up the child in own household and
- they are not gainfully employed, or do not work full-time (up to 30 hours a week)

Unmarried fathers can also claim child-raising allowance if the mother agrees. Foreign citizens can claim child-raising allowance if they have a right of residence or a residence permit. European Union citizens and their spouses may also be able to claim child-raising allowances under provisions of European law that supplement national law.

The maximum child-raising allowance for each child is DM 600 per month. Alternatively, a budget of DM 900 a month is possible, but only up to the child 's first birthday. Child-raising allowance is subject to income limits. In the first six months of the child 's life, child-raising allowance is not paid to married couples who are not permanently separated, whose income exceeds DM 100,000 a year, and who have a single child. This income limit also applies to parents living as common law man and wife. The limit for single parents is DM 75,000 a year. The income limits are roughly comparable with a net income of the same amount after tax and deductions.

From the seventh month of the child 's life onwards, child-raising allowance is reduced in the case of married couples who are not permanently separated and whose income exceeds DM 32,200 a year, and in the case of other entitled claimants (single parents) whose income exceeds DM 26,400 a year. If the annual income exceeds the limit, the child-raising allowance is reduced in increments. The allowance is not paid if it amounts to less than DM 20. The income limits increase by DM 4,800 for each additional child (DM 5,470 for children born in 2002 and DM 6,140 for children born from 2003 onwards). The limits are not based on the usual definition of net or gross income, but on a special definition of income in the Federal Child-Raising Allowance Act (Federal Ministry of Labour and Social Affairs (2001): Social Security at the Glance. Nr. 998).

## **2.1.3 Provincial Child Raising Allowance ("Landesperziehungsgeld")**

- SBEN\_BadenChRais\_GE,
- SBEN\_BayernChRais\_GE,
- SBEN\_MecklenburgChRais\_GE,
- SBEN\_SachsenChRais\_GE,
- SBEN\_ThuringenChRais\_GE)

The Federal States of Baden-Württemberg, Bavaria, Mecklenburg-WestPomerania, Thuringia and Saxony pay state child-raising allowance when the entitlement to federal child-raising allowance expires, but with a deviating amount (Federal Ministry of Labour and Social Affairs (2001): Social Security at the Glance. Nr. 998).

## 2.1.4 Social assistance Benefits

- **For Non-Lone-Parents in East- and West-Germany**  
(*SBEN\_SAnonLP\_W\_GE / SBEN\_SAnonLP\_E\_GE*)
- **For Lone-Parents in East- and West-Germany**  
(*SBEN\_SALP\_W\_GE / SBEN\_SALP\_E\_GE*)

Social assistance implies two types of assistance:

- **cost-of-living assistance and**
- **assistance in special circumstances.**

### 2.1.4.1. Cost-of-living assistance

Cost-of-living assistance is received by those who cannot cover their cost of living at all, or only inadequately, through their own capabilities and resources, particularly through income and assets. Cost-of-living assistance is primarily granted to persons living in private households, but also to persons living in shelters, homes or similar institutions who require assistance.

Cost-of-living assistance include, in particular, food, housing, clothing, body care, household goods, heating and personal belongings to daily life:

Cost-of-living assistance for the Private households are essentially provided in the form of benefits based on standard rates, so-called one-time benefits, extra allowances for additional needs and the assumption of housing costs. The regular benefits based on standard rates are intended to cover the "standard need". The Standard Rate issued by the Federal Government defines what this standard need includes.

The following monthly standard rates relates to head-of-house-hold or assistance recipients living alone. Due to varying housing costs, the standard rate differs from federal states

#### Standard rate (1. July 1998 to 30. June 1999)

Baden-Württemberg	541
Bayern	523*
Berlin	540
Brandenburg	517
Bremen	540
Hamburg	540
Hessen	541
Mecklenburg-Vorpommern	515
Niedersachsen	540
Nordrhein-Westfalen	540
Rheinland-Pfalz	540
Saarland	540
Sachsen	515
Sachsen-Anhalt	520
Schleswig-Holstein	540
Thüringen	515

\* The amount for Bavaria is the minimum standard rate.

Source: Federal Ministry of Labour and social affairs (1998).

The mean is DM 539 for the Länder of West Germany and DM 520 for the new Länder, including East Berlin and of DM 532 for Germany in all (*ge\_SBEN\_disregard*).

The standard rates for household members are a percentage of the basic standard rate.

They amount to (*co\_SBEN\_Calc*):

- 50%, or 55% in single-parent households, of the basic standard rate for children up to the age of 7, i.e. currently an average of DM 270 or DM 296 per month in the Länder of West Germany and DM 260 or DM 286 in the new Länder
- 65% of the basic standard rate for children from age 7 up to the age of 13, i.e. currently an average of DM 350 and DM 338
- 90% of the basic standard rate for children from age 14 up to the age of 17, i.e. currently an average of DM 485 and DM 468
- 80% of the basic standard rate for adults from age 18 and up, i.e. currently DM 431 and DM 416.

Due to their special circumstances in life, some groups of assistance recipients are recognised as having an **additional need**, which is satisfied by adding a corresponding extra allowance to the standard rate. This extra allowance amounts to 20% of the applicable standard rate

- for persons who are either over age 65 or are unable to work according to the definition used in the statutory pension insurance **and** have a recognised walking disability and
- for mothers-to-be after the 12<sup>th</sup> week of pregnancy (*es\_head\_pregnant*)

as long as there is not some other type of need in individual cases. Protection of vested rights is granted to senior citizens and people unable to work who were granted additional need status in accordance with the previously applicable regulation.

An additional need assessed in a different manner is recognised for other groups:

- the additional need amounts to 40% of the standard rate for single parents with one child under the age of 7, or two or three children under the age of 16; the additional need goes up to 60% in the case of four or more children;
- an additional need of 40% is also granted to disabled persons who are 15 or older and receive integration assistance for school education, vocational training or further training, as long as there is not some other type of need in individual cases.
- An additional need of an appropriate amount is granted to ill, convalescent and disabled persons and those threatened by illness or disability who require a more expensive diet.

In addition to the benefits and possible extra allowances for additional needs based on the standard rates, regular cost-of-living assistance also includes the costs of **housing and heating** as another component. As a rule, benefits equal to the actual expenses for rent, utilities and heating are granted. Even in cases where these costs exceed a level reasonable for the specific features of the individual situation, they are fully covered by the social assistance agency as long as it is impossible or would mean undue hardship for the assistance recipient to reduce his expenses by changing residences, sub-letting or some other means.

In addition to the regular benefits described, cost-of-living assistance can also be granted in the form of *one-time benefits*. These benefits are especially intended to cover needs which do not require regular expenditure of equal amounts. This primarily includes:

- Repair of large quantities of clothing, underwear and shoes and their procurement at relatively high purchase prices,
- Procurement of combustibles for individual heating,
- Procurement of special education materials for schoolchildren,
- Repair of large quantities of household goods,
- Residence maintenance,
- Procurement of consumer goods used over a long period of time and having a relatively high purchase value, and
- Expenditures for special occasions.

The recipients of regular cost-of-living assistance are generally entitled to one-time benefits to cover the needs described. In practice, a number of social assistance agencies grant some of the one-time benefits on a lump-sum basis without an application (e.g. for clothing) and pay them out periodically.

The granting of these kinds of one-time benefits does not depend on the simultaneous receipt of regular cost-of-living assistance. They are also granted to persons outside this group of assistance recipients who do not need regular cost-of-living assistance, but are not in a position, due to their income situation, to fully cover their special need through their own capabilities and resources.

#### *Utilisation of income and assets in the context of cost-of-living assistance*

As regards cost-of-living assistance, the subsidiary nature of the social assistance system dictates that the assistance-seeker must first utilize his own income and assets, meaning that the assistance only steps in if these resources do not cover the cost of living at all, or only incompletely. All income in the form of money or items of monetary value is generally to be regarded as income. This includes, in particular, all income as defined by tax law, such as that from employment, renting and leasing, business activity or capital assets, as well as most social benefits, such as social insurance benefits, child benefits and housing allowances. The child-raising allowance (DM 600 per month up to two years after birth), benefits from the Mother and Child Foundation and the child-raising benefits granted to mothers born before 1921 are expressly excluded from being counted as income. Also excluded are the social assistance benefits themselves, the basic pension according to the War Pensioners Act and pensions or allowances granted in accordance with the Federal Indemnification Law up to the amount of the basic pension according to the War Pensioners Act. Finally, grants from private charities or private gifts from third parties involving no legal or moral obligation are usually also excluded from consideration if their inclusion would cause the recipient particular hardship. As the income provisions are based on the disposable income, the tax paid on the income, the compulsory contributions to social insurance, premiums for other insurances which are either required by law or considered reasonable as regards purpose and cost, and the expenses associated with earning the income are deducted from the gross income. In order to take into account the greater need of the employed and, at the same time, to give assistance recipients a material incentive to take up employment, a special deductible is defined for employed persons.

The need for regular cost-of-living assistance which remains after the personal income has been utilized can be illustrated in simplified form as follows:

#### Standard basic rate for the head-of-household or persons living alone

- + Standard rates for any other household members
- + Any extra allowances for additional needs

+ Rent and utilities  
+ Heating costs  
= **Social assistance need**  
*minus*  
**Net income**  
= **Actual cost-of-living assistance to be paid**

The net income is determined as follows:

Total gross income  
- Taxes and social insurance contributions  
- Any other insurance premiums  
- Necessary expenses associated with earning income  
- Deductible for employed persons  
= **Net income**

Due to the subsidiary nature of social assistance, the granting of public assistance also requires that all the assistance-seeker's usable assets be exploited. However, a number of property items are excluded in this context, such as an adequate owner-occupied residential property or a similar freehold flat, reasonable household goods and, depending on the type of assistance, various relatively small cash amounts (as a rule, DM 2,500 for cost-of-living assistance; or DM 4,500 for those over 60, those unable to work and recipients of an invalidity pension; DM 4,500 for assistance in special circumstances with increased amounts in certain cases. In the case of married couples who do not live apart, the spouse's income receives priority consideration in addition to personal resources. In the case of unmarried minors who live in their parents' or single parent's home, the income and assets of the parents or single parent are also to be included. This does not apply if, in these cases, a minor assistance-seeker is pregnant or caring for her natural child up to the age of 6. If an assistance-seeker lives with relatives or in-laws in a single household, it is assumed that he receives cost-of-living support from them, insofar as this can be expected based on the income and assets. This assumption of assistance also applies to persons living in marriage-like partnerships. Members of marriage-like partnerships may not have a better status than married persons as regards the prerequisites for, and extent of, social assistance.

#### **2.1.4.2. Assistance in special circumstances**

The second main sector of social assistance benefits includes the kind of assistance which is granted in a targeted manner to cover the specific needs of certain groups of people under special conditions: Assistance in special circumstances. This assistance, which is regulated in the third section of the Federal Social Assistance Act, comprises the following:

Assistance in establishing or securing the basis of existence

- Preventive health care assistance
- Assistance for the sick
- Assistance for sterilization
- Family-planning assistance
- Assistance for mothers-to-be and new mothers
- Integration assistance for disabled persons
- Assistance for the blind
- Care assistance
- Assistance for maintaining a household

- Assistance for overcoming special social difficulties
- Assistance for the aged

Social assistance can also provide help in other special circumstances which go beyond the above list of individual, legally regulated types of assistance, if there are specific need situations and the use of public funds is justified. The legislators have thus established an instrument which enables the social assistance agency to react to newly arising distressed situations in a flexible and rapid manner. The claim to assistance in special circumstances is independent of cost-of-living assistance. It is also granted to people who can cover their cost of living themselves and are only dependent on additional public assistance due to their special need situation. If assistance in special circumstances is provided in a home, shelter or similar institution or an establishment providing semi-institutional care, it also includes the cost-of-living allowance granted in that institution. Due to the vast number of detailed regulations, it is impossible to cover every type of assistance in special circumstances here. Currently, the most important types of assistance are integration assistance for disabled persons, care assistance and assistance for the sick.

### **2.1.4.3. Social assistance recipients and expenditure**

The total social assistance expenditures reached a level of DM 45 billion in 1998: DM 39.4 billion in West Germany and DM 5.6 billion in the new Länder and East Berlin. Measured against the total benefits in the social budget, the percentage of social assistance benefits is about 3.9% in 1998 (Germany).

Social assistance in the narrower sense, i.e. regular *cost-of-living assistance*, accounted for the smaller portion of the financial expenditures in 1998 with DM 18.2 billion in net expenditures (i.e. 45.8%). The greater portion of the net expenditures - DM 21.5 billion (54.2%) - can be attributed to *assistance in special circumstances*, particularly to integration assistance for disabled persons amounting to DM 14.1 billion (35.5%), care assistance amounting to DM 4.5 billion (11.3%), and assistance for the sick amounting to DM 2.3 billion (5.7%). Only about DM 583 million (1.5%) were paid out for the remaining types of assistance in 1998.

At the end of 1997 - the date of the latest recipient statistics - 2.9 million persons in private households were receiving regular cost-of-living assistance. This were 2.5 million recipients in West Germany and 400 thousand in East Germany

At the end of 1997, a total of 949,373 persons were receiving assistance in special circumstances, of whom roughly 500,000 were institutionalized and roughly 460,000 in private households (Wilhelm Breuer and Dietrich Engels (1999): Basis information and data on social assistance in Germany. Cologne. Federal Ministry of Labour and Social Affairs (Ed.)).

## 2.1.5 Housing benefit (*SBEN\_HB\_GE*)

Housing benefit (Wohngeld) is an allowance that the state grants to help cover the cost of housing. Tenants as well as homeowners can receive housing benefit if their rent or mortgage payments exceed their financial means. It is granted to both Germans and foreigners who live in the Federal Republic, and does not differentiate between types of housing. In other words, it does not matter whether your home is old or new, or whether it was built with the help of government subsidies or tax concessions or was entirely privately financed. Housing benefit is called a rent support (Mietzuschuss) when it is granted to tenants, and mortgage and home up-keep support (Lastenzuschuss) when granted to homeowners.

**Rent support** is available to people who:

- Rent a flat or a room
- Own a flat in a co-operative or a housing trust
- Live in a home
- Have been granted a right of use or a permanent dwelling right equivalent to a tenancy
- Own a multi-unit dwelling (with three or more flats), commercial building or business establishment, provided they also live in it
- Own a one or two-family house which they live in but is used primarily as a place of business
- Own a full-time farming operation where the living quarters are not separate from the farm

**Mortgage and home upkeep support** is available to people who possess one of the following:

- An owner-occupied house or flat
- A small housing estate
- A part-time farming operation
- A full-time farming operation where the living quarters are separate (it must be possible to draw up a separate expenditure statement for the residential portion)
- A permanent dwelling right equivalent to ownership
- A heritable right to build, or a claim to be transferred title in a building or dwelling, or a claim to be transferred or granted a heritable right to build

### **Eligibility criteria** (*co\_SBEN\_Elig*)

Several factors play a role in determining whether you receive housing benefit and the amount you receive. They include:

- The number of family members in your household (head of the household, spouse, parents, children - including adopted and foster children - siblings, uncles, aunts, in-laws and other relatives listed in the applicable legislation)
- Family income
- The amount of rent or mortgage payment that qualifies for support. However, a ceiling applies to the amount of rent or mortgage payments that can be taken into account. If you live in a residential home or old people's home, the amount of rent is assumed from 1 January 1998 to be the amount listed in the official table of maximum rents (*ge\_SBEN\_HB*).

### **The entitlement period**

Housing benefit is usually granted for 12 months at a time. It may however run for a shorter or longer period.

**Special rent support**

If social assistance payments or benefits under the war victims' relief scheme received, it had been exempt from having to submit an application since 1 April 1991. Instead, from 1 January 1998, the agency that pays your social assistance or any benefits you receive under the war victims' relief scheme automatically includes special rent support together with the other benefits it pays. The benefits are recalculated so that this arrangement has no effect on the total amount of benefits to which a recipient is entitled (Federal Ministry of Labour and Social Affairs (2001): Housing benefit. (see: [http://www.bma.de/index\\_gb.htm](http://www.bma.de/index_gb.htm))).

## 2.1.6 Employee and employer contributions to disability and pensions insurance (*EESICpi\_GE, ERSICpi\_GE*)

With some exceptions, all white-collar and blue-collar employees pay compulsory contributions to the state pension fund —as do trainees, disabled people employed at sheltered workshops, and people on military or civilian service. The contribution assessment limit for 1998 is DM 8,400 a month in western Germany (*b\_grenze\_west*) and DM 7,000 in eastern Germany (*b\_grenze\_ost*). This is not the limit for compulsory membership of the state pension fund; that is, even if earned more, it must still be paid contributions. The contribution assessment limit is the maximum amount from which the contributions to the state insurance fund are calculated, even if earned more. Not all self-employed people have to pay compulsory contributions. Those who must include self-employed tradespeople, though these may opt out after 18 years. Self-employed artists and members of the publishing professions have to pay contributions under the Artists Social Welfare Act if their annual income exceeds a set minimum, and until they have been five years in the profession —though they pay only half the contributions themselves. The Artists' Social Welfare Fund (Künstlersozialkasse) decides who must pay contributions and also sets the rate.

As of 1 January 1999, self-employed must also pay contributions if a self-employed do not have any employees and the self-employed primarily work on a long term basis for a single client or employer. People starting a new business can be exempted from paying contributions for up to three years. An exemption can also be claimed by people who are already near retirement age. Under a transitional arrangement for those who have already made other provisions for old age, certain self-employed people can gain an exemption from contribution payments.

Farmers are not insured with the state, but with a separate farmers' pension fund. This special system provides farmers with partial cover, which they supplement in other ways —often by selling the farm on retirement claiming "Altenteil", the right of German farmers to live on the farm after making it over to their children.

Self-employed people who are not required to pay compulsory contributions can apply to start doing so within five years of becoming self-employed. They then have the same rights and obligations as compulsory contributors.

Marginal employment: if in marginal employment, regularly working less than 15 hours a week and regularly earning not more than DM 620 a month in western Germany (*gfbg\_west*) and DM 520 a month in eastern Germany (*gfbg\_east*), a employee is exempt from insurance.

### **Voluntary contributions** (not simulated in "EUROMOD")

If not compulsory contributions are paid, it is possible to make voluntary contributions to the employee pension funds. This option is primarily for self-employed people and housewives. Public servants, judges and regular soldiers are subject to certain restrictions.

### **FUNDING**

Pension payments are mainly funded out of contributions. Employers and employees each pay half of the current contribution rate (20.3 per cent of the employee's gross monthly pay) (*rate\_west and rate\_east*), up to a contribution assessment limit of DM 8,400 a month in western Germany (*b\_grenze\_west*) or DM 7,000 in eastern Germany (*b\_grenze\_east*). Pension payments are also partially subsidized by the state (Federal Ministry of Labour and Social Affairs (2001): Social Security at the Glance. Nr. 998).

## 2.1.7 Employee and employer contributions to health insurance (*EESiChi\_GE, ERSiChi\_GE*)

As an employee you are automatically and compulsorily insured if your regular income before deductions remains below a set annual limit. This limit is 75 per cent of the contribution assessment limit for pension insurance and rises annually in line with the wage level. The income limit for compulsory membership of a state health insurance scheme in 1998 is DM 6,300 a month in western Germany (*b\_grenze\_west*), and DM 5,250 a month in eastern Germany (*b\_grenze\_east*). The following are also compulsory members of the state health insurance schemes:

- Students at state and state-approved universities
- People on work experience or in second-chance education
- Old-age pensioners who have been in a statutory health insurance scheme for a substantial length of time in the past
- Disabled people employed at an approved workshop or on employment promotion schemes
- Unemployed people receiving benefits from Federal Employment Services
- Farmers
- Members of farming families who are primarily employed on the farm and are at least 15 years old or are in training
- Retired farmers (Altenteiler) You can join a state health insurance scheme voluntarily:
- If there is a compulsory member as an employee for a minimum length of time in the past and the membership was terminated because the income exceeded the limit.
- If an employee with an income in the first job exceeds the limit, as long as applied for membership within three months of starting work.
- If severely disabled (subject to certain other requirements).
- If have been insured through a parent and this insurance has expired.

### Family Insurance

The state health insurance schemes also insure the family. If husband or wife and, up to a certain age, the children are covered by the insurance —provided that their collective income does not exceed DM 620 a month in western Germany and DM 520 a month in eastern Germany and they do not have their own insurance.

### FUNDING

The state health insurance schemes are funded from contributions. Employers and employees each pay half of the current contribution rate (13.6 per cent in the western Germany and 14.0 per cent in the eastern Germany of the employee 's gross monthly pay) (*rate\_west and rate\_east*), up to a contribution assessment limit of DM 6,300 a month in western Germany (*b\_grenze\_west*) or DM 5,250 in eastern Germany (*b\_grenze\_east*) (Federal Ministry of Labour and Social Affairs (2001): Social Security at the Glance. Nr. 998).

### **2.1.8 Employee and employer contributions to Statutory long-term care insurance (*EESICdi\_GE, ERSICdi\_GE*)**

Statutory long-term care insurance is financed through contributions that are scaled according to income. The contribution assessment ceiling that applies to health insurance also applies to long-term health insurance: DM 6,300 a month in western Germany and DM 5,250 in eastern Germany in 1998. The contribution rate is 1.7 per cent of income (*rate\_west and rate\_east*) that is liable to assessment when home nursing care benefits were added six months later. Contributions are paid following the same method used for statutory health insurance payments: Employers and employees each pay half of the current contribution rate of the employee's gross monthly pay, up to a contribution assessment limit of DM 6,300 a month in western Germany (*b\_grenze\_west*) or DM 5,250 in eastern Germany (*b\_grenze\_east*).

Dependant children and spouses are covered free as family members if their total monthly income does not exceed either of two maximum limits: no more than DM 620 in western Germany and DM 520 in eastern Germany may be earned from paid work. Federal Employment Services cover the contributions for persons who receive unemployment benefit, unemployment assistance or a cost-of-living allowance. Funds responsible for rehabilitation benefits assume the contributions for people undergoing rehabilitation. The contributions of disabled persons who are receiving institutional treatment are covered by the funds that finance the respective institution. The relevant social assistance agency pays contributions for people who receive other assistance towards living expenses (Federal Ministry of Labour and Social Affairs (2001): Social Security at the Glance. Nr. 998).

### **2.1.9 Employee and employer contributions to unemployment insurance (*EESICui\_GE, ERSICui\_GE*)**

With some exceptions, all white-collar and blue-collar employees pay compulsory contributions to the unemployment insurance —as do trainees, disabled people employed at sheltered workshops, and people on military or civilian service. The contribution assessment limit for 1998 is DM 8,400 a month in western Germany (*b\_grenze\_west*) and DM 7,000 in eastern Germany (*b\_grenze\_ost*).

#### **Exemptions**

Marginal employment: if in marginal employment, regularly working less than 15 hours a week and regularly earning not more than DM 620 a month in western Germany (*gfbg\_west*) and DM 520 a month in eastern Germany (*gfbg\_east*), a employee is exempt from insurance.

#### **FUNDING**

Pension payments are mainly funded out of contributions. Employers and employees each pay half of the current contribution rate (6.5 per cent of the employee's gross monthly pay) (*rate\_west and rate\_east*), up to a contribution assessment limit of DM 8,400 a month in western Germany (*b\_grenze\_west*) or DM 7,000 in eastern Germany (*b\_grenze\_east*) (Federal Ministry of Labour and Social Affairs (2001): Social Security at the Glance. Nr. 998).

## **2.2 Income taxation**

### **2.2.1 Income tax (*polIT\_GE*)**

The National Constitution divides the power to impose taxes between the Federal Government and the Provinces ("Bundesländer"). The Income Tax Law of Germany adopts the principle of world wide taxation for its residents whether individuals or Corporations. Non-residents entitled by the German Income Tax Law are taxable only on income regarding from German sources.

#### **What is taxable/non-taxable?**

Taxable is all income arising from capital assets, or rights situated, placed or economically exploited in Germany and performance of any civil or commercial activity or work placed in Germany which gives rise to an income, without taking into account the nationality or place of residence of the taxpayer or the place where a contract has been executed.

#### **What is deductible?**

All the expenses incurred from obtaining and preserving the income are deductible. In some cases the deductions are admitted with certain limitation according to German Tax Law. There must be differed between the expenses incurred from taxable and non-taxable income: just the expenses incurred from taxable income are deductible.

#### **Rates of Tax**

Resident individuals are taxed according to a progressive scale of rates ranging (including a solidarity surcharge of 5,5 %) in the year 2000 from 24% to 51% (in the year 2001 from 21% to 48,5%), depending on the taxable net income after general and personal deductions.

#### **Tax Year**

The German tax year runs from 1 January to 31 December. Individuals are not permitted to adopt any other tax year.

#### **Returns**

All individuals liable to German income tax are required to lodge a tax return each calendar year. This return will set out all the taxpayer's relevant income for the year. The return must be submitted within five months of the end of the tax year, i. e. by 31 May of the subsequent year. For taxpayers whose tax returns are prepared by professional tax advisers, the deadlines are automatically extended to 30 September. A further extension may be granted in individual cases. Married couples have the right to be assessed separately - then they have to complete two returns - but in most cases it is more reasonable for them to be assessed jointly because of a better tax progression - then they have to complete only one return. If they don't apply for any assessment, they will automatically be assessed jointly, even if the marriage took place during the year of assessment.

#### **Assessment and objections**

Income tax in Germany is generally retrospectively assessed and paid. A tax assessment is issued by the tax office based on the information submitted on the return. This will take into account amounts paid by deduction at source during the year.

#### **Withholding Taxes**

The most important exception of a retrospectively tax payment in Germany is the income tax of employees. The employer is legally obliged to withhold taxes from every employee's salary and remit the taxes to the tax office monthly. Another withholding tax is tax on investment income, especially from dividends, interests, etc. But in both cases the income tax is assessed retrospectively

after the individual completed the return, and only completing and returning may cause a tax refund.

## **TAXATION OF INDIVIDUALS**

### **Basis of Charge**

German residents have an unrestricted liability to German tax on their world-wide income. To be resident, a person must be domiciled or habitually resident in Germany.

### **What is taxable**

There are seven different categories of income prescribed by German tax law: Income from farming and forestry, trading/business income, income from carrying on a profession, salaries and wages, investment income, rental income and other income.

### **What is deductible?**

Generally all the expenses are deductible, that are necessary to obtain, maintain or preserve the taxable income or are caused by the profession. Certain limitations exist for: Expenses for daily travel to work, for a double household, for a home office, for work material and typical work clothing.

### **Personal expenditure**

Private expenses normally cannot be deducted from taxable income. But there are two categories of private expenses - special and extraordinary - which diverge from this principle.

### **Special expenses**

Special expenses do not relate to business or professional expenses, but are allowable deductions from income. Special expenses are fully or partially deductible and the principal examples of each are noted below.

#### Fully deductible:

- Church tax
- Tax consultants' fees
- Interest on taxes paid to tax authorities

#### Partially deductible:

- Agreed regular payments to dependants (up to DM 27,000 p.a.), provided that payments are treated as taxable income by the recipient
- Professional education costs (up to DM 12,400 p.a.)
- Donations for scientific, charitable or cultural purposes or to political parties with a certain limitation.
- Housekeeping costs up to DM 18,000 p.a., if social security is paid and it is not a so called "DM 620 job".
- The amount is deductible only once per household
- Premiums to pension, health insurance and additional voluntary care insurance, etc.
- School fees up to 30% of the amount paid (under certain circumstances)

### **Extraordinary costs**

These are costs which the individual is obliged to meet - on legal, practical or moral grounds - which are disproportionately large in comparison to his or her income and means. Examples are divorce costs, storm damage, and expenses associated with an illness or accidents. They are categorized as follows:

- Sundry extraordinary costs. These are usually costs relating to illness, burial and periods spent under medical supervision at cure resorts. These extraordinary costs need to be restricted to the amount not covered by insurance receipts. The expected private share of such costs will be calculated in accordance with statutory percentage rates.
- Fixed sums for the physically handicapped and surviving dependants, e.g., the costs of home help. The amount deductible depends on the level of disability.
- Costs for child care (under certain conditions).
- Sundry living costs and professional training costs (only for adults) provided the receiver has a legally enforceable right to this money up to DM 12,000, with the assessment period of: 1999 up to DM 13,020.
- Professional training costs for children of the taxpayer up to DM 21,600 (DM 28,800 for children living away from home), although the income of the child will be deducted from this amount
- costs for the care of elderly persons up to DM 1,800.

### **Self employment**

#### **What is taxable ?**

Examples for income from carrying on a profession are scientists, authors, teachers, doctors, architects, solicitors, tax advisers and similar occupations. An individual who is self employed and who keeps proper accounting books on an annual basis must file an annual income tax return to report the earnings of his enterprise.

#### **What is deductible ?**

All those expenses are deductible, that are caused by the profession.

#### **Tax rates**

The same tax rates explained in TAXATION OF INDIVIDUALS apply.

### **Employment Income**

#### **What is subject to tax?**

Employment income - salaries and wages - includes remuneration for any dependent services performed in Germany. The most important exception of a retrospectively tax payment in Germany is the income tax of employees, because the employer is legally obliged to withhold taxes from every employee's salary and to remit the taxes to the tax office monthly.

#### **What is deductible?**

Generally, employment expenses are deductible provided they can be substantiated. Special rules exist for expenses for daily travel to work, for double household, for a home office. Expenses for work material and typical work clothing are deductible. Work material is deductible without limit. If located in a home office, the amount is available without limitation. All employees are allowed a round sum deduction of DM 2,000 for expenses of employment. Expenses exceeding DM 2,000 are

deductible provided they can be substantiated. Reimbursement for the cost of public transport between home and work are tax free.

### **Tax rates**

The same tax rates explained in TAXATION OF INDIVIDUALS apply.

### **Specific items**

#### **Capital Gains**

Gains on the disposal of private assets are not subject to taxation in Germany. One exemption of this principle is the disposal of shares of corporations held in private assets, if there was a significant holding (which means now 10%, from 2002 only 1%) over the last 5 years. The other exception to this rule is where the transaction is deemed to have been of a speculative nature. Speculative profits can only arise on the disposal of land and securities. Transactions are deemed to be speculative either where the item was sold short (i.e. was sold before the seller had purchased the item) or where the disposal was made within a given period of the purchase of the asset, namely:

Land and buildings ten years

Securities one year.

Speculative profits are assessed to income tax as other income. If the speculative profits are less than DM 1,000 in a year, they are generally not taxable.

#### **Dividend income**

Dividends are paid net of 25% withholding tax (20 % as of 2001), except those from shares purchased in over-the-counter transactions, which are subject to a withholding tax of 35%. This tax deducted at source is set off against a person's tax liability. The 30% corporation tax on distributed earnings also is credited in full to resident shareholders when their personal or corporation tax liabilities are calculated.

#### **Interest income**

Interest from German sources is subject to deduction at source of withholding tax, generally at 30%. Resident taxpayers are entitled to a fixed deduction of DM 100 (or more, if documentation is available) in respect of general costs incurred in deriving the income and to an exemption of DM 6,000 (DM 12,000 for a married couple filing jointly). Where the taxpayer's interest income is less than DM 6,100 p.a., an application can be made to receive interest gross.

#### **Royalties**

Royalties and patents are dealt with under the system of annual returns and assessments. There is no deduction of tax at source for residents.

## Income tax schedule (*ge\_it\_schedule*)

The income tax schedule (x), applied to taxable income minus all tax deductions is as follows:

tax band	per year	tax-rate
1	0 - 12365	0%
2	12366 - 58643	$(91.19 * ((x-12312) / 10000) + 2590) * ((x-12312) / 10000)$
3	58644 - 120041	$(151.91 * ((x-58590) / 10000) + 3434) * ((x-58590) / 10000) + 13938$
4	120042 and more	$0.53 * x - 22843$

Source: Horwath GERMANY Group 2000

(see: <http://www.horwath.de/htmlpage/taxation/prin.htm#2>)

### 2.2.2 Solidarity Surplus Tax (*polit\_SolidTax\_GE*)

The Solidarity Surplus Tax is an additional tax on the income tax in advance.

The surplus tax is need for financing special policies in East Germany which are necessary due to German Unification. The tax rate is 5.5 per cent of the regular paid income tax.

## **2.3. Taxes and benefits not included in "EUROMOD"**

### **2.3.1 Church Taxes (not simulated in "EUROMOD")**

In Germany the state authorities and the protestant and catholic church signed contracts which allow the state to collect "church taxes" on behalf of the "official churches". They are not simulated because in other countries these payments are treated as donations.

### **2.3.2 Occupational accident insurance (not yet simulated in "EUROMOD")**

The Occupational accident insurance covered all employed or undergoing training, regardless of the amount of earnings. Statutory occupational accident insurance also covers:

- Farmers
- Children who attend pre-school or nursery school
- Children in school
- Students
- People who help at the scene of an accident
- Civil defence and emergency rescue workers
- Blood and organ donors.

#### **FUNDING**

Various employers' liability insurance funds provide statutory occupational accident insurance for the commercial and agricultural sectors. It is funded through the contributions paid by employers. The amount of the employer's contributions depends on the sum total of employee annual pay and the employer's respective hazard level (and is therefore not simulated in "EUROMOD"). Employees, children in school, students, etc. do not pay contributions themselves.

### 3. Data

#### 3.1 General description

The data used are from the 1998 wave of the German Socio-economic Panel Study (SOEP), which is a survey under academic direction (like BHPS and PSID), and is running by DIW Berlin.

SOEP, started in 1984 with 6.000 households and about 12.000 respondents, collects information on the social and economic situation of the respondents, including income, assets, labour market status etc. All household members aged 16 or over fill out a questionnaire.

In 1998 the sample size of the SOEP is about 7.700 households and more than 14.000 respondents and about 18.000 people living in these households. Since 2000 the survey covers about 12.500 households and about 30.000 persons living in those households.

#### 3.2 Sample selection, weighting

The variables from SOEP included in the "EUROMOD"-database are described in Annex A, the Data Requirements Document. The data were collected in the majority in spring of 1998, and the income data mostly pertain to the calendar year 1997.

#### 3.3 Variable adjustment

Most of the income variables refer to the calendar year 1997. However, the employment status variables refer to the situation in spring of 1998. To improve consistency with the income variables, the employment status variables have been adjusted in accordance with income components received for 6 months or more in 1997, as documented in the DRD (Annex A). If the adjusted employment status (*coempst*) differs from the original employment status, variables such as branch of industry (*coindust*), size of firm (*cofirmesz*), number of hours worked (*cohours*) have been adjusted as well, if relevant making use of information about previous or last employment.

#### 3.4 Updating

To update the data to the common base year 1998, the following updating factors have been applied (they are deviated using the SOEP wave of 1999).

Variable	Update factor
FUTAX	1,0482
COEESIC	1,0188
COHDISPY	1,0327
COINCTAX	1,0483
COLOCTAX	1
COERSIC	1,0188
COIMPRNT	1,1096
GEBEN001	0,9804
GEBEN002	1,0497
GEBEN004	1
GEBEN005	1
GEBEN006	1,0608
GEBEN007	1,0899
GEBEN008	1,1596
GEBEN009	0,8350
GEBEN010	0,9599

GEBEN011	1,1905
GEBEN012	1,0157
GEBEN013	1,1630
GEBEN014	0,9871
GEBEN015	1
GEBEN016	1
GEBEN017	1
GESOZH	1,1244
COEDY	1,3260
COMATERY	1,0671
GEMILITY	0,8031
GEBADWTR	1,0788
GE13SALY	0,9948
GE14SALY	1,1684
GEXMASY	1,0248
GEHOLY	1,0199
GEGRAY	1,3304
COMAINTY	1,0590
COMAINT	0,9298
COEMPY	1,0256
COSLFEMY	1,1003
COPROPY	1,2667
DIVDY98	0,9891
COINVY	1,0106
COHB	1,2304
COPRVPEN	0,9968
COMORINT	1,1171
CORENT	1,0066
COSVCHRG	1,0698
COOHCOST	1,2667
GESPC005	0,9730
GESPC004	0,9939
GESPC002	1,3714
GEMORPAY	1,1171

## 4. Validation of Aggregates

In this chapter we compare some basic preliminary results from the "EUROMOD" baseline run with national statistics, in order to validate the aggregates produced by "EUROMOD".

### 4.1 Benefits and benefit recipients

Table 4.1 compares total amounts of benefits and benefit recipients for the benefits simulated in "EUROMOD". A basic problem is that the National Accounts use another time frame than income statistics. Whereas National accounts reckon up the numbers which are being for a certain year, income statistics (and GSOEP) count cash flow in a certain year.

Table 4.1 Benefits and benefit recipients  
- comparison of "EUROMOD" base line run with official Statistics

Total amounts (in Bill. DM)	official statistics 1998	official statistics 1999	official statistics 2000	"EUROMOD"
• Child benefits	50,0	56,0	59,6	53,0
• pensions and Survivor benefits	399,1	411,0	425,3	398,3
• Social assistance	50,0	50,0	50,3	7,0
• Unemployment benefits and unemployment assistance	53,3	-	-	52,7
• Accident insurance	20,9	20,8	21,2	6,8
• Long-term care insurance	30,7	31,9	32,6	5,9
• Rent subsidy	7,6	7,5	8,3	4,8
• Maternity benefits	7,8	7,5	7,3	8,1
• student benefits	1,6	1,7	1,8	3,2
Numbers of benefit recipients (in Mill.)				
• Child benefits	8,6	8,8	8,9	11,7
• pensions and Survivor benefits	22,0	22,3	22,6	17,8
• Social assistance	4,3	4,3	4,2	1,2
• Unemployment benefits and unemployment assistance	3,5	3,3	-	5,5
• Accident insurance	1,2	1,2	-	0,6
• Nursing care insurance	1,7	1,8	1,8	0,8
• Rent subsidy	2,9	2,8	-	2,3
• Maternity benefits	0,7	0,7	-	1,5
• student benefits	0,5	-	-	0,6

Source:

Sozialbudget 1998, 2000. Bundesministerium für Arbeit und Soziales.  
Statistisches Taschenbuch 2000. Bundesministerium für Arbeit und Soziales.  
VDR 2000.

There are in principle problems in the adequate accrual accounting and accuracy of discrimination between National accounts and income statistics. The differences are significant for social assistance in particular. However, "EUROMOD" simulates direct income subsidies only, whereas the official statistics account for every need, i.e. clothing, heating, housing. But there is obviously a

problem of representation of the number of recipients. As in most sample surveys this number is heavily underestimated. This calls for a special re-weighting of the data in the next version of "EUROMOD".

Pensions are also underestimated, because official statistics count every pensioner even if a person outside Germany receive a pension. This is true especially for the former guest-workers. In addition persons in "EUROMOD" are enumerated only one time, even if they receive different types of pensions.

The amount of rent subsidies is underestimated whereby the number of recipients is in accordance with official statistics. The so called "Lastenzuschuss" for owner occupiers as a rent subsidy is not adequate modelled.

The information given by "EUROMOD" for child benefit, unemployment benefits and maternity benefits are in accordance with the official statistics.

## 4.2 Social insurance contributions and taxes

Table 4.2 compares total amounts of social insurance contributions and income taxation with the amounts produced by the "EUROMOD" baseline run.

Table 4.2 Social insurance contributions and income taxation  
- comparison of "EUROMOD" base line run with official Statistics

Total amounts (in billions DM)	official Statistics 1998	official Statistics 2000	"EUROMOD"
<b>Unemployment insurance</b>			
• employer contributions	45,3	48,4	44,7
• employee contributions	43,7	46,4	44,7
<b>Pensions and Disability insurance</b>			
• employer contributions	136,4	137,9	139,5
• employee contributions	163,0	157,1	139,5
• self employed	1,3	1,4	-
<b>Health insurance</b>			
• employer contributions	79,7	85,7	122,5
• employee contributions	161,2	166,7	122,5
• self employed	17,3	17,7	-
<b>Long-term care insurance</b>			
• employer contributions	10,9	11,5	15,2
• employee contributions	19,8	20,3	15,2
• self employed	0,03	0,04	-
<b>Workers compensation</b>			
• employer contributions	17,3	17,6	-
• employee contributions	-	-	-
• self employed	2,5	2,5	-
<b>Income tax</b>			
• Wage tax (before deduction of child allowance) / assessed income tax* / not assessed taxes on yields*	348,7	-	354,7

• Solidarity surcharge tax	20,6	-	19,5
• interest withholding tax	11,9	-	-
• inheritance tax	4,8	-	-
• tax on acquisition of real estate	10,8	-	-

\*: before deduction of reimbursements from the Federal Finance Office.

Source:

Sozialbudget 1998, 2000. Bundesministerium für Arbeit und Soziales.

Federal Statistical Office Germany 2001.

As can be seen, there is a good consistence for employer and employee contributions to unemployment insurance and for employer contributions to pensions insurance. "EUROMOD" underestimates the amount of contributions for employee to pensions insurance.

Contributions to health and nursing care insurance for employees are obvious underrated whereas the contributions for employers are overrated. The differentiation between employer and employee seems to be unprecise.

Contributions for self-employed as well as contributions to accident insurance could not be simulated by "EUROMOD". The underlying information to calculate these contributions is not available.

The accuracy of the total amounts of wage and income tax and solidarity surplus tax is quite good. The overestimation of the wage and income tax is due to the tax simulation program used. Not all kind of depreciation can be simulated by "EUROMOD" which leads to an overestimation of the wage and income tax.

Interest withholding tax, inheritance tax and tax on acquisition of real estate could not be simulated by "EUROMOD" due to data limitations.

### 4.3 Poverty incidence

Table 4.3 compares the poverty incidence of the "EUROMOD" baseline run with the most comparable independent source (poverty threshold: 60% of median equivalent disposable income, using the modified OECD equivalence scale<sup>1</sup>).

**Table 4.3 Poverty incidence in "EUROMOD" compared with national results**

Poverty incidence	"EURO MOD" baseline	SOEP*
< poverty line 50% median	-	9.3
< poverty line 60% median	13.5	14.4
< poverty line 150% median	-	21.0
< poverty line 200% median	-	7.6
Gini	0.28	0.285
FGT(1)	0.053	-

<sup>1</sup> The modified OECD equivalence scale assigns 1 to the first person in the household, 0.3 to children aged below 14 and 0.5 to every other person.

FGT(2)	0.034	-
MLD	-	0,1485
Theil 1	-	0,1413

\*: Wave 1999 with disposable income of previous year.

Table 4.4 presents additional information on the distribution of equivalent disposable income in the "EUROMOD" baseline run: decile points and average equivalent income in every decile.

**Table 4.4 Deciles of equivalent income in "EUROMOD" and in original database (new OECD equivalent scale)**

Decile	Average size	
	EUOROMOD	SOEP*
1	-	3,0
2	-	5,4
3	-	6,5
4	-	7,3
5	-	8,3
6	-	9,4
7	-	10,8
8	-	12,4
9	-	14,9
10	-	22,1
Total	100,0	100,0