

# **Fiscal system and Female Employment**

**Country: Denmark**

**Country Expert: Ruth Emerek**

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## **Introduction:**

Tax-equality of women and men was introduced in Denmark in 1983, and from that year on each spouse in Denmark has been fully taxed of own income and has the value of own allowance and exemption,<sup>1</sup> There is almost no positive financial policies in Denmark with regard to reconciliation. It was considered raising the personal allowance for families with children at the same time as the tax-equality was introduced, but due to administrative causes this raise was not implemented. Instead a cash payment of DKK 800 was given to all children under the age of 10 years. This ‘children’s cheque’ was given again in following years, and in the tax reform of 1987 this income independent tax-free allowance was given to all children under the age of 18 years, and the former income dependant part of the ‘Children’s allowance’ finally disappeared. At the same time the personal deduction before tax was reduced (Christensen 2003). Today the Children’s allowance to families and the ‘Children’s cheque’ are dependant only on the child’s age and the type of family. The Children’s allowance is paid quarterly to the child’s mother (unless the child is not living with her).

Until 1983 the Danish tax system (which was introduced in 1903) was based on joint taxation with the husband as the tax principal, however in periods with different basic deduction before taxation for breadwinners and for other taxpayers – and in a period (1956-1970) even different tax scales for the family breadwinners and other taxpayers (Christensen, 2003).

Personal income tax has reached a higher percentage in Denmark than in other neighbour countries and form about one fourth of the GDP, and more than half of the tax revenue in Denmark (Birch Sørensen 2003). The tax rate is high and progressive, as so is the redistribution by transfers. Denmark is the country in the EU with the highest income equality measured by having the lowest Gini-coefficients (Regeringen, 2009). The Danish government has however recently tried to reduce tax on employment to make work pay, and have introduced a tax freeze, which ensures that no-one will be imposed higher taxes, and that tax on labour income will be reduced. Furthermore the government appointed in January 2008 a *Tax Commission* to prepare models for a tax reform aimed at reducing tax on earned income. The report from this commission was submitted by February 2009 (Skattekommissionen, 2009), and the Government together with the Danish Peoples Party agreed on a reduction of tax, *Forårspakke 2.0* in March this year. The modification and change, which will be introduced from 2010, will be explained in chapter 3. There was no gender mainstreaming of the new tax agreement.

From January 2007 a Local Government Reform has come into force which changes the structure of income taxation. The reform however had only a minimal impact on the overall level of taxation. The number of municipalities has reduced from 270 to 98 and the 14 counties have been replaced by five regions, which opposed to the counties do not impose

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<sup>1</sup> Some elements of joint taxation are preserved however, as for instance: unused exemptions can be transferred from one spouse to the other. This will be further discussed under the section 1.1.

taxes but will be financed through state subsidies and by contributions from the municipalities. The reform implied an increase in the average municipal tax rate from 22.134 per cent in 2006 to 24.577 per cent in 2007; the county tax with an average rate of 10.464 per cent in 2006 has been replaced by a new health care tax of 8 percent, which is part of state income taxation. The levels of taxation have thus been reduced from three to two: only the state and the local governments now levy taxes (OECD country file for Denmark).

## **Chapter 1. The national taxation system and its main ‘gender effects’**

### *1.1. The system of taxation in Denmark:*

Refer to detailed overview in Grid A

### *1.2 Gender effects/biases:*

#### **1.2.1 The income tax systems;**

The Danish Government has introduced a tax freeze, which ensures that no-one will be imposed higher taxes, and that tax on labour income will be reduced, income tax has been reduced in 2008-2009. This on the other side also means less money to use in the public sector – especially in the sectors governed by municipalities, as these cannot raise taxes. This also means less money for pay raises in the local public sector (where a high percentage of women are employed as nurses, assistant nurses, care assistants, schoolteachers, kindergarten and pre-school teachers), less money for social welfare in municipalities in form of keeping schools in repair, and less money for child- and eldercare facilities etc. The cut back and the lack of means in the public sector has been prominent in the local political discussions and some municipalities have nevertheless raised taxes despite the threat from the government of being levied an extra tax (which however not has been imposed), as they could not accept the lack of means for social welfare. In other municipalities the cut back have caused shorter opening hours and more closing days in childcare facilities, which have made parent (especially single mothers) less flexible in the labour market.

#### **1.2.2 Unemployment benefits and assistance;**

There has been a tradition in Denmark to have a high compensation rate for unemployment – especially for low-paid groups. This means that there is a relatively small difference in the disposable income between being employed and unemployed for low-income groups, when unemployment compensation is combined with payment for income-dependent public services such as childcare and housing benefits. A study from 2002 by the Ministry of Employment revealed that 25 percent of persons on social welfare would have very little economic gain from getting a job – especially a low income job, whereas the major part of persons in employment would have a substantially lower income, if they loose their jobs (Beskæftigelsesministeriet, 2002). To make it less attractive to be on social welfare, social benefits were reduced by law (described in LBK no. 709 of 13/08/2003). A ceiling on social assistance after 6 month on cash benefit was introduced from January 2004. The background for this was to ensure that the allowance for recipients of various forms of benefit always is lower than pay for work – also in the low pay areas – to ensure an economic incitement to work (VEJ no. 46 of 25/05/2004). The negative effect of the ceiling on social assistance and the downward adjustment has been part of the public debate. The incentive in the law is a good illustration of that an attempt at closing inactivity and low wage traps may lead to greater poverty, which may be expensive in the long run. Furthermore, as money, saved by

reduction of social and cash benefit, were earmarked for tax reduction on work, this gives a clear indication that the scale of redistribution in the Danish Welfare State is meant to decrease. Alternatively savings might instead have been used to increase salaries in the low-paid female dominated public care-sector to make these jobs more economically attractive for low-skilled female workers.

The study by the Ministry of Employment also revealed that immigrants from less developed countries (UN-notation) form a high percentage of persons on social welfare who would have very little economic gain by getting a job – and although immigrants form less than 10 percent of the population they form more than 30 percent of unemployed person on cash benefit. Married couples – both unemployed - were in a special inactivity trap, as there was no economic intensive to work for one of the spouses unless the partner also got a job or unless the pay was fairly high. The income for a single earner in a married couple with two children should be unrealistically high - higher than the upper-quartile for salary workers- to make work pay. For a single parent with two children it was much less – lower than the lower quartile. Married couples with and without children and single parents were to a greater extent receiving long time cash benefits than other families. The study states however, that based on these observations, it cannot be concluded that the lack of economic incentive is the cause of long periods on cash benefit; other circumstances may also influence the lack of employment (Beskæftigelsesministeriet, 2002).

Nevertheless the study (mostly based on the lack of economic incitements for married couples) seems to have pointed to the later reforms. The potential problems for single parents (mainly women) were not discussed, nor were the gender aspect. Calculations indicated however, that single parents would not be hit by the ceiling (VEJ no. 46 of 25/05/2004). The address of the ceiling seems to have been married couples – and perhaps even immigrants from less developed countries (UN-notation). This has however other gender aspects, as women from less developed countries had and still have a low employment rate. The initiatives to make work pay should force immigrant women into employment along with their husbands, although jobs hardly would be available for them. This falls in line with the introduced special low start allowance to arriving immigrants, which should make Denmark less attractive for (especially) unskilled immigrants.

Another example was the establishment of the ‘300 hours rule’ (now 450 hours). This policy implies that in the case that both persons in a marriage are dependent on social benefit and neither have had 300 hours of paid work in the preceding two-year period, one of the persons will loose his/her right to regular social benefits and instead receive a fixed and very small amount until either person achieve employment for a minimum of 300 hours (Regeringen, 2005). The problem is that such couples are heavily overrepresented among people with immigrant backgrounds (at the time of the policy-making 75 % of the 27.500 targeted couples), and that mostly immigrant women had problems meeting the rule.

The alteration in 2008 of access to supplementary benefit has also gender bias – and although this was argued, it did not stop the tightening up of access to supplementary benefit. The protest from unions against the agreement (which as usual was not gender mainstreamed), revealed a gender biased distribution of the use of part-time in the various sectors. The Danish Employees' association, the LO, stated that many of the employees will have no possibility of getting a full-time job. This is the case for a great number of women working in the public sector (!) (LO's homepage). The Danish union of civil servants and salaried employees (FTF) argued, based on data from the Directorate of Employment and their own special investigation, that the use of supplementary benefit merely reflects the use of part-time in the various sectors. The data showed that about 100.000 persons had supplementary benefit from the 30<sup>th</sup> of June 2006 to the 1<sup>st</sup> of July 2007. Two thirds of these were women. The investigation showed that the local and regional public sectors have many part-time employees, 24% of employees in these sectors are employed part-time with less than 30 hours a week, and within the social and health area 36% of employees are part-timers (FTF-notat, 14.02.2007).

### ***1.2.3 Family benefits/tax credits;***

As seen in the grid spouses are taxed separately, but in the case where a married person cannot utilise the personal allowance and/or the total allowance for the medium bracket tax, the unutilised part can be transferred to the spouse. This is an advantage for one breadwinner families (mostly with a male breadwinner) or families where the second breadwinner (mostly women) has a relatively low income. Thus, there is still some reminiscence in the Danish tax system from the former system, based on the supposition of a primary breadwinner (the husband).

In 2007 FOA (the Association of Public Employed) calculated the amount of extra money a family had to earn to use day-care facilities for two children at the age of 0-2 years and 3-5 years respectively; due to the Danish tax-system with progressive rates, the amount of extra earnings earmarked for day-care vary and may be fairly high. If both parents earned more than the top taxation limit (when about 60% of extra income will have to be paid) they would in 2007 on average (compared to couples without children and in no need of childcare) have to earn together an extra DKK 93 000 to pay for childcare. Parents earning less (under the limits for top tax) did not have to earn as much extra, although the survey calculated a necessary extra income of DKK 66 000 on average for childcare. ([www.foa.dk](http://www.foa.dk)). Even though payment for childcare seems fairly low – especially for low income groups, it thus puts extra pressure on a double-income working family, which on average has a family income above the income limit for the reduced childcare fee. Only single parents, parents still studying and parents on unemployment or cash benefit will normally have an income lower than the income limits required for reduced payment for day-care.

### ***1.2.4 Social security contributions;***

Everybody pays the same compulsory fixed contribution to a general Labour Market Supplementary Pension Scheme – the pay only depends of hour worked. As women on average earn less than men, they pay a relatively (in relation to their pay) higher contribution to the Labour Market Supplementary Pension Scheme. However as women live longer, they also gain more.

The same goes for the unemployment scheme, which is income independent; however as women to a greater extent take early retirement – especially low paid un-skilled women, they as such also gain more – on average.

#### ***1.2.5 Housing benefits;***

Housing benefits are not gender disaggregated, however it is without doubt, that women – as single mothers and single female pensioners – gain their part of housing benefit.

#### ***1.2.6 In work benefits.***

There are no in work benefits in Denmark – excepts for the right to deduct expenses related to earnings (e.g. transport, trade union membership dues, unemployment premiums) against taxable income wage or salary earner. It is by contrast not possible for students to deduct their transport expenses back and forward to their place of study.

#### ***1.3 Impact of taxation on gendered patterns of employment and unemployment:***

There is limited amount of Danish research on the impact of the current taxation on gendered patterns of employment and unemployment. The Tax Commission only mentions the paper by Frederiksen et al. (2001) and a paper for the welfare commission by le Maire and Scheuer (2005). This report will only comment on the paper by Frederiksen et al., as this paper seems to be the essential one for reference to Danish conditions for the Tax Commission.

## Chapter 2. Responsiveness of the labour supply to taxation

Tax reduction has been on the present government's agenda since it came into power in 2001 and two important reports within the last year discuss the effect of various forms of tax reduction:

The report from autumn 2008 from the Economic Advisers (De Økonomiske Råd 2008) discuss the Danish tax system, which to their opinion 'is subject to increasing pressure'. The Economic Advisers argues, that globalization makes various tax bases more vulnerable to international tax competition as capital and labour are increasingly internationally mobile, and states that:

*'the main dilemma in tax policy is between efficiency and equity. Taxes are necessary to raise certain revenues. They also redistribute consumption possibilities among the population. At the same time, most taxes imply a loss of efficiency because they distort decisions of labour supply, savings, investment, consumer choice, etc. Ultimately, the optimal trade-off between these different objectives is a political question of the amount of efficiency cost it is worth paying to achieve a certain income distribution. Typically, the various objectives are, to some extent, contradictory so that the tax system becomes a compromise between different goals. A sensible tax reform should consider the whole tax system simultaneously, as the various elements typically affect each other. This is particularly true for the direct taxation of labour and capital incomes and for the indirect taxation of goods and services. (De Økonomiske Råd 2008)*

The Economic Advisers' model the participatory response to tax changes is modelled as the change in the number of persons out of work as a function of changes in the net gain from entering work. In their analysis of taxation and labour supply the Economic Advisers distinguish between the direct mechanical effect of tax changes on the tax revenue and the dynamic revenue effect of behavioural responses following the tax change. The numerical results build on a micro-simulation model combining the modelling of personal income taxation with a number of assumptions about the behavioural responses to tax changes. The model includes no gendered effects – gender is non existent. The result of the simulation is seen in the table below: The positive behavioural effects of small cuts in the top personal marginal tax rate – either through a rate reduction or an increase in the threshold for the top marginal tax – offset the mechanical loss of revenue. The earned income tax credit reduces the effective marginal tax rate and increases the gain from employment relative to non-employment. The positive behavioural effects and the implied efficiency gains of a higher income tax credit are, however, significantly lower than for reductions in the top marginal tax rate.

### *Effects of tax cuts on labour supply and tax revenue*

	<b>Mechanic revenue effect</b>	<b>Labour supply Effect</b>	<b>Behavioural revenue effect</b>	<b>Selffinancing e)</b>
	-- DKK mil.	-- Persons	-- DKK mil.	-- Per cent
	--	--	--	--
Top tax rate reduction a)	-1,160	1,900	660	57
Increase of top tax bracket b)	-1,210	2,500	770	63
Higher earned income tax credit c)	-1,230	600	170	13

Higher earned income tax credit <sup>d)</sup>	-1, 260	2, 000	430	34
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a) Reduction of the top marginal personal income tax rate by 1 percentage point.

b) Increase of the threshold for the marginal personal income tax rate by DKK 10,000.

c) The rate of earned income tax credit is increased to 4.8 per cent and the maximum credit is increased with DKK 1,700.

d) The income threshold for receiving the tax credit is raised to DKK 415,000.

e) The rate of self-financing expresses the percentage of the mechanical tax revenue losses that are recovered through the behavioural revenue effects.

Source: De Økonomiske Råd 2008. Calculations based on administrative records covering 10 per cent of the Danish population.

The Economic advisers argue that cuts in the top marginal tax rate benefit high-income earners and consequently have adverse distributional effects, and that a higher income tax credit will have a less negative impact on the income distribution than reductions in the top marginal tax rate.

The report from the Tax Commission (Skattekommissionen, 2009) is based on the Tax Commission's mandate to reduce income tax on employment – especially to reduce tax on the last earned 'krone'. The Tax Commission suggest (based on Danish empiricism and the few Danish studies – mostly based on earlier data) that the tax system *inter alia* should be transparent, use the existing tax system as a point of departure, should enlarge the labour supply and should be fully financed:

- To repeal the medium bracket tax (at the rate of 6 per cent).
- To lower the top bracket tax from the rate of 15 per cent to 13.5%.
- To lower the low bracket tax by 1.5 percent.
- To lower the tax ceiling to 50 percent.
- To rise the lower limit for top bracket tax (with DKK36 000).
- To rise the deduction to 7 percent and a maximum of DKK 22 300 of earned income in the calculation of taxable income.
- To rise the subsidy to childcare for single parents.
- To rise the tax credit with DKK 1000 for all persons over the age of 18 years.
- To give all person over the age of 18 years a 'green' check of DDK 700 to compensate for new and higher taxes on climate and environment strain.

The Tax Commission expects this to influence the labour supply with in total 24 000 persons, mostly women in the health sector, and mostly due to the effect of the abolished medium bracket tax and lowering the top bracket tax, and it is evident from the figures in the report that it also means that the Gini-coefficient should rise a few percentage. The Tax Commission has based it's calculation on the assumption, that women react to a higher degree on change in the tax system (have a higher labour tax elasticity). The calculations are in line with the calculation from the Economic Advisers, and based on a former study by Frederiksen et al. with data from 1996 (Frederiksen et al., 2001), which is included in the following grid.

## **Chapter 3. Reforms of the national taxation system over the last 10/15 years**

### *3.1 Recent developments in the national tax system:*

The Danish government has in recent years reduced income tax on employment to make work pay and a tax freeze, which ensures that no-one will be imposed higher taxes, and the government has promised that tax on labour income will be gradually reduced. By the appointment in January 2008 of the Tax Commission the first step to a fundamental tax reform was taken, and the report from the Tax Commission was in early 2009 the basis for Government and their supporting party's (the Danish Peoples Party) agreement on a gradually reduction of tax from 2010 onwards, the so called *Forårspakke 2.0*. The new agreement does to a high degree follow the suggestions from the Tax Commission – exception are: the government only wants to lower the low bracket tax by 0.5 percent (which means that the low income groups will gain less from the Tax reform in *Forårspakke 2.0* than from the suggestion of the Tax Commission), and the government will only lower the tax ceiling to 51 percent.

### *3.2 The employment impact of reforms:*

The government is less optimistic than the Tax Commission and expects the tax reduction to influence the labour supply with a lower number of persons - in total 19 200 persons, mostly due to the effect of the abolished medium bracket tax and the lowering of the top bracket tax. In fact by abolishing the medium bracket tax the individual tax and gender tax-equality has been more pronounced.

### *3.3 The assessment of reforms from a gender perspective:*

The government does not mention that the main part of the extra labour supply should be women – in fact gender is totally missing in the tax reform. It has stated in the public debate, that it seems that men are going to gain from the tax reform whereas women are going to work more - as for instance by Henningsen (2009). There was apparently no gender mainstreaming of the new tax agreement. One may wonder why it apparently has not been discussed to have different tax scales for women and men. This should according to Alesina and Ichino (2007) be the right conclusion following the fact that women also in Denmark have a higher elasticity regarding work and tax, and there is a lack of skilled women (nurses for instance) in part of the highly segregated Danish labour market. Denmark is not unfamiliar with two different scales as earlier mentioned, having different tax scales for the family breadwinners and other taxpayers as late as in 1956-1970.

The abolishment of the medium bracket tax may have gender bias, as the present possibility of transferring unused deduction to the spouse has been an advantage for one breadwinner families (mostly with a male breadwinner) or families where the second breadwinner (mostly women) has a relatively low income. This is not discussed in the report from the Tax Commission, and

interestingly all the calculations one can make do on the Tax Commission's homepage to see how much ones family gains from the tax reduction are all based on an equal income distribution for the woman and the man in the family.

## **Summary and final considerations**

Denmark has now for more than 25 years had almost individual and gender equal taxation, and by the new tax agreement this individuality and gender equality is taken a step further. As such the new tax system is of no obstacle to gender equality regarding employment. At the same time child care facilities are available and relatively affordable in an European context, which makes a double breadwinner family possible – as well as it makes it possible (together with the redistribution) to be a single parent family with only one breadwinner. Maybe the only thing in Denmark which is becoming less and less possible is to be a family with two parents and only one breadwinner – or with no breadwinners. The keyword in Danish policy is self support and also high employment participation for both women and men in the labour market active age group. The new tax system - together with the continuously high tax on labour income - facilitate and consolidate this approach, which is based on an individual and non gendered understanding of the labour force.

However, we still have families in Denmark, and still have planning within families as how to cope with reconciliation of work and family, especially when the children are living at home. And we have - in a European comparison considering the low Gini-coefficient in Denmark – a relatively high gender wage gap. If the government want to enlarge the labour, another way to go would be to differentiate tax scales to make it more attractive for women to work – or work longer hours - in the part of the labour market where they due to their education are scarce. That is – as Denmark not that long ago had different tax scales for breadwinners and other taxpayers – a lower tax scale could be introduced for women. How come that this is not even discussed?

At the same time, there is no gender disaggregated figures of tax and benefits, which makes it impossible to tell if the redistribution in Denmark is gendered in a way where men pay higher taxes (as they earn more) and women to a greater extent claim the benefits. We do not know if the ‘old’ one-breadwinner system’ in the family where the husband was the main breadwinner just has been transformed into a bigger scale, where men still support women by the redistribution over taxes. This is a question which has not yet been investigated.

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## Web-sites:

FOA's homepage: [www.foa.dk](http://www.foa.dk)

LO's homepage: [www.lo.dk/AKTUELT/LOnyheder](http://www.lo.dk/AKTUELT/LOnyheder)

Ministry of Employment's homepage: [www.bm.dk](http://www.bm.dk)

**Annex 1- Grid A The national tax-benefit system, 2007/2008**

Denmark	Description based on OECD-EU country file – figures from 2007	Main changes in 2008 (if no change, leave blank)								
<b>Income Tax</b> <b>[Tax credits]</b>	<p><i>Standard allowances</i>  Expenses related to earnings (e.g. transport, trade union membership dues, unemployment premiums) are fully deductible against taxable income wage or salary earner. (Contributions to unemployment insurance are also considered as a social security contribution). From 2004 and on the taxpayer can deduct 2.5 per cent of earned income to a maximum of DKK 7 500 (2007) in the calculation of taxable income. The effective value of the credit is equal to the local income tax rate including the state health contribution of 8% (33.3 per cent on average) multiplied by the value of the deduction.</p> <p><i>Standard tax credits</i>  Each person is granted a personal allowance, which is converted into a tax credit by applying the marginal tax rate of the first bracket of the income tax schedule. For a person 18 years of age and older the tax credit amounts to (2007):</p>									
	<table border="0"> <tr> <td>For central government income tax</td> <td>5.48 % of DKK 39 500 = DKK 2 165</td> </tr> <tr> <td>For central government health tax</td> <td>8.0 % of DKK 39 500 = DKK 3 160</td> </tr> <tr> <td>For local government income tax including church tax (average rate)</td> <td>25.314 % of DKK 39 500 = DKK 9 999</td> </tr> <tr> <td>In total (average rate):</td> <td>38.794 % of DKK 39 500 = DKK 15 324</td> </tr> </table>		For central government income tax	5.48 % of DKK 39 500 = DKK 2 165	For central government health tax	8.0 % of DKK 39 500 = DKK 3 160	For local government income tax including church tax (average rate)	25.314 % of DKK 39 500 = DKK 9 999	In total (average rate):	38.794 % of DKK 39 500 = DKK 15 324
	For central government income tax		5.48 % of DKK 39 500 = DKK 2 165							
	For central government health tax		8.0 % of DKK 39 500 = DKK 3 160							
For local government income tax including church tax (average rate)	25.314 % of DKK 39 500 = DKK 9 999									
In total (average rate):	38.794 % of DKK 39 500 = DKK 15 324									
<p>There is a special lower personal allowance for an individual younger than 18 years: DKK 29 300</p> <p><i>Income tax schedule</i>  The <b>low bracket tax</b> to the central government is assessed on the aggregate of personal income and positive net capital income at the rate of 5.48 per cent.  The <b>medium bracket tax</b> to the central government is assessed on the part of the aggregate of personal income and positive net capital income above DKK 272 600, at the rate of 6 per cent.  The <b>top bracket tax</b> to the central government is assessed on the excess of DKK 327 200 of the aggregate of personal income and positive net capital income at the rate of 15 per cent.  If the <b>marginal tax rate</b> including local tax but excluding church tax exceeds 59 per cent, the top</p>										

	<p>bracket tax rate is reduced by the difference between the marginal tax rate and 59 per cent. At the average local tax rate, this reduction equalled 0.0577 per cent in 2007.</p> <p><b>State and local income taxes</b></p> <p>The Local Government Reform and the Financing Reform of 1 January 2007 have had implications for the distribution of income taxes between the municipalities and the government: the number of taxation levels has been reduced from three to two as the new regions, as opposed to the counties, cannot impose taxes, and municipalities took over the share of the county revenue that did not correspond to the new state health contribution of 8% - i.e. approx. 4%.</p> <p>Local flat-rate income taxes are levied by the municipalities (including church tax) and the rate varies by jurisdiction. The tax base is taxable income. Tax credit varies with tax rates. The average amount is including the state health contribution of 8%:</p> <ul style="list-style-type: none"> <li>• Lowest rate: 29.21 per cent</li> <li>• Highest rate: 35.94 per cent</li> <li>• Average rate: 33.314 per cent</li> <li>• ( based on municipalities: 24.577; church: 0.737 and state health contribution of 8 percent)</li> </ul> <p><b>Family income</b></p> <p>The tax unit is the individual. Spouses are taxed separately, but the tax liability of a married individual may depend on the spouse's income: If a <i>married</i> person cannot utilise the personal allowance, the unutilised part is transferred to the spouse, and if a <i>married</i> individual cannot utilise the total allowance of DKK 272 600 for the medium bracket tax, the unutilised part is transferred to the spouse.</p>	
<p><b>Unemployment Benefits</b></p>	<p><b>Unemployment insurance</b></p> <p>Unemployment insurance is voluntary. The general condition is membership of an insurance fund for the last year. After 52 weeks of full-time work within the last three years, the employee is entitled to benefit immediately on becoming unemployed. The conditions are fulfilled with payment of the membership fee.</p> <p><b>Calculation of benefit amount</b></p> <p>The benefit amounts to 90 per cent of previous earnings after deducting 8 per cent social security contributions from those earnings. The maximum monthly benefit is DKK 14.798 (DKK 3.415 per week). The minimum monthly benefit is DKK 12.133 (DKK 2.800 per week)</p> <p>Wages reduce the amount of unemployment benefits (one hour of work reduces the benefit by the</p>	<p>Among the efforts of the present Danish government (supported by Danish Peoples Party) to enlarge the labour force or just to expand the working hours are the efforts of turning part-time employees into full-time employees by altering rules regarding supplementary unemployment benefit. It has (under special circumstances) been possible for employees holding a part-time job with a maximum of 29.6</p>

	<p>value of one hour), while other income and earnings are not taken into account.</p> <p><b><i>Tax of benefit and interaction with other benefits</i></b>          UI benefits and cash assistance fall under the temporary income relief scheme and are normally taxable. The earnings related contributions are only paid of earned income. Recipients of UI benefits do not pay the 8 per cent social security contribution. Contributions to the unemployment insurance fund (both the unemployment and early retirement insurance contributions) are also made by unemployment insurance beneficiaries.</p> <p><b><i>Duration of unemployment benefit</i></b>          The benefit period is four years. Educational programs do not qualify for extending the period. To re-qualify for benefits, a minimum of 26 weeks must be spent in paid employment.</p> <p><b><i>Special groups</i></b>          For "new comers" who have joined the insurance immediately after finishing their education the UI benefit amounts to 82 per cent of the maximum UI benefit i.e. DKK 2.800 per week (DKK 12.133 monthly). The UI benefit for younger persons (under 25) without sufficient education for the "newcomer" rights amounts to 50 per cent of the maximum UI benefit, per week DKK 1.710 (DKK 7.410 monthly).          Members of an unemployment insurance fund who have reached the age of early retirement (currently 60 years) and as a main rule have been members of an unemployment insurance fund for 30 years and who have paid contributions for voluntary early retirement in a corresponding period are entitled to voluntary early retirement pay until they reach the retirement age (65 years). The early retirement pay is paid at an individually calculated rate, but for a maximum of 91 per cent of the maximum unemployment benefits which corresponds to DKK 3.110 per week (DKK 13.477 per month) for persons starting voluntary early retirement at the age of 60. If the transition into voluntary early retirement is put off for a minimum of 2 years and if the member in this period has worked for a minimum of 3.120 hours the voluntary early retirement pay is paid at the rate of 100 per cent of the maximum unemployment benefits, corresponding to DKK 3.415 per week (DKK 14.798 per month). Members are not compelled to be available for work and may work for an unlimited number of hours with an hour-to-hour deduction.</p> <p><b><i>Persons with a permanently reduced capacity to work</i></b>          A "flexible-job" is exclusively offered to persons with a permanently reduced capacity to work, and who have exhausted all possible offers of rehabilitative training without gaining reentry to the</p>	<p>hours a week to have supplementary unemployment benefit for the remaining hours of a full time week of 37 hours. The supplementary unemployment benefit was by agreement of March 5 2008 limited to 30 weeks within a period of 2 years. It is however possible to regain the right to a new period of supplementary benefit after 26 weeks with at least 30 hours work within 52 weeks (Ministry of Employments' homepage).</p>
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	<p>ordinary labour market. In the event of unemployment a temporary benefit (“ledighedsydelse”) is paid by the municipality until another “flexible-job” is offered. The “flexible-job” scheme and the “ledighedsydelse” are administered by the municipalities. It is not a requirement for the person to be a member of an unemployment insurance fund. A special early retirement scheme also exists for persons admitted to the “flexible-jobs” scheme.</p> <p><b>Unemployment assistance</b> There is no unemployment assistance in Denmark.</p>	
<p><b>Social Assistance</b></p>	<p><b>Conditions for Social assistance</b> Qualification for receipt of social assistance is that a “social incident” has occurred, such as unemployment, must have taken place; a low income is not in itself a social event. If social assistance is being received due to unemployment, job search will be enforced. There is no limit to social benefit – it just reduced after half a year.</p> <p><b>Calculation of gross benefit</b> For single people the benefits are calculated for the individual, and amount to DKK 8.959 which approximately corresponds to 60 per cent of the maximum unemployment insurance benefit and for single mothers/fathers to DKK 11.904 which approximately corresponds to 80 per cent of the maximum unemployment benefit. For married couples the benefits are based on the income and fortune conditions of both spouses. A married couple with children may get two times DKK 11.904 subtracted from any income the couple may earn. After 6 months the sum of social assistance and housing benefits cannot be higher than DKK 11.904 per person for recipients and their spouses/cohabitants with dependent children and DKK 8.959 for recipients and their spouses/cohabitants without dependant children. For a single mother/father the maximum is DKK 14.850, and for single persons without dependant children the maximum is DKK 11.904. Recipients whose spouse is <i>not</i> available for the labour market (measured by the so called ‘300’ hours rule’ - see section 1.2.2) receive benefits as if he/she was single, with a supplement of DKK 2.786 (until April 2009).</p> <p><b>Income and earnings disregards</b> If the applicant or his or her spouse has an income from work or an income derived as a result of activation scheme, a sum of DKK 13.00 per hour worked shall not be deducted from the total benefits payable. If there is a reduction on the social assistance for married couples after they have received assistance in 6 months and income from work, a sum of DKK 31.68 per hour worked shall not be</p>	<p>The ongoing economic crisis in Denmark has put focus on this way of calculation as quite a lot of persons not being in an unemployment scheme cannot claim social benefit as long as their spouses can support them – or as long as they have any kind of fortune.</p>

	<p>deducted from the total benefits</p> <p><b><i>Tax treatment of benefit and interaction with other benefits</i></b> Recipients of social assistance (SA) pay income tax, but not the 8 per cent social security contribution.</p> <p><b><i>Special groups</i></b> Social assistance for people under the age of 25 who do not reside with one or both parents the benefit is DKK 5.773. It is DKK 2.786 for people under 25 who are residing with one or both parents. The assistance is reduced after 6 month so that the assistance is DKK 4.852 for people, who do not reside with one or both parents. It is DKK 2.412 for people under 25 who are residing with one or both parents. Married couples have their social assistance reduced after 6 months. The reduction is gradual and DKK 566 per person per month. In 2002 a kind of qualifying principle was introduced regarding social assistance. It became a condition for receiving social assistance, that the applicant had been a resident in Denmark for the last 7 out of 8 years. A resident not fulfilling this obligation will get starting allowance (Starthjælp) in stead. The benefit is DKK 4.787 for married people or people living together – each, if they are 25 years or more. It is DKK 5.773 for single people. People with children receive extras for up till two children.</p> <p><b><i>Special housing benefits for people receiving social assistance</i></b> For families without children, net rent (gross rent minus general housing benefits) exceeding DKK 2.350 per month is paid. For families with children, all net rent above DKK 3.400 per month per adult is paid, reduced by DKK 650 for each child other than the first. The total amount of <i>social assistance after tax and special housing benefits</i> is subject to one of two maximums, depending either on previous income or the maximum unemployment benefit. The first three month the maximum is previous income after tax. After three months the total amount can never exceed maximum unemployment benefit after tax. If the sum of special housing benefits and the person's other income after tax exceed DKK 11.904 after tax, total social assistance may not exceed 90 per cent of previous net earnings when in work. When cash benefits have been paid to a person for an uninterrupted period of three months, the sum of special housing benefits and the person's other income after tax must not exceed the amount of maximum unemployment benefit payable under the act on unemployment insurance.</p>	
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<p><b>Family Benefits - Working Family Tax credits</b></p>	<p><i>Conditions for receiving family benefits</i> Each child aged 0-17 years qualifies the family for benefits, and child benefits are not subject to any means test. The annual amounts are DKK 13.892 per child aged 0-2; DKK 12.552 per child aged 3-6; and DKK 9.876 per child aged 7-17. The benefit is paid out on a quarterly basis, and is not taxable.</p> <p><i>Special groups</i> Lone parents receive normal family benefits but also qualify for additional payments of DKK 4.504 per year (independent of the number of children) plus DKK 4.428 per child aged 0-17. Parents with multiple births receive extra DKK 7.292 for the following children from 0 to 6 years of age. Full orphans receive DKK 25.512 a year; half-orphans receive DKK 12.756. Children of pensioners receive DKK 11.304 a year per child (one pensioner parent) or DKK 12.756 a year per child, plus DKK 4.428 per year independent of the number of children (two pensioner parents). The supplement is paid quarterly and is depending of the income of the parents (only the large supplements of 11.304 and 12.756). Adoption grant is given for the adoption of a foreign child, a single lump sum of DKK 42.007. A total of up to DKK 5.808 is payable a year for each parent who is studying. The supplement is paid quarterly and is depending of the income of the parents.</p>	
<p><b>Social security contributions</b></p>	<p><i>Social security contributions</i> Employees are recommend to make a fixed contribution of DKK 8 052 for unemployment insurance. From 1999 and on the contribution to unemployment insurance is split into two: one part consisting of the contribution to unemployment insurance (DKK 3 276), while the other part is a voluntary contribution to an early retirement scheme (DKK 4 776). If the employee is insured part-time, s/he pays two thirds of the unemployment and early retirement insurance contributions. The individual employee decides how much s/he wants to be insured – full-time or part-time.</p> <p>Additional social security contributions are assessed on the basis of employees’ gross earnings at the rate of 8.0 per cent. Social security contributions are not assessed on social transfers or on capital income.</p> <p>There is a compulsory fixed contribution to a general Labour Market Supplementary Pension Scheme. The supplementary pension contributions are paid in proportion to the number of hours worked: DKK 975.6 for workers with at least 117 hours of work each month. For employees working</p>	

	<p>less than 117 hours and at least 78 hours a month, the rate is DKK 650.5, while employees with at least 39 hours but less than 78 a month pay DKK 325, and employees with less than 39 hours a month pay DKK 0. The employers contribute twice the amount.</p>																			
<p><b>Housing benefits</b></p>	<p><b>Conditions for reception</b> There are two housing benefit schemes: general and special housing benefits: The <i>general housing benefit</i> is divided into two schemes:</p> <ul style="list-style-type: none"> <li>• The first scheme (boligsikring) is primarily aimed at tenants with children and other tenants with high rent. From 2003 this scheme also covers disability pensioned.</li> <li>• The other scheme (boligydelse) is exclusively for recipients of old age pension and disability benefits (before 2003) and is somewhat more generous.</li> </ul> <p>The <i>special housing benefits</i> are linked to social assistance. In case of a so called “social event” such as unemployment or illness, anyone can in principle become eligible, depending on the household’s income, the rent paid, number of children etc.</p> <p><b>Calculation of benefits - general housing benefits</b> Rent excluding consumption of electricity, gas, and water is corrected for the indicative size of the apartment expressed in square meters. The correction factor is the sum of 45 m<sup>2</sup> plus 20 m<sup>2</sup> per household member divided by the actual m<sup>2</sup>. Corrected rent will - if it exceeds certain limits depending on family size - be reduced to a maximum allowed (subsidized) level. The benefit in the first mentioned scheme (‘boligsikring’) is calculated as the difference between 60 per cent of the subsidized rent and an own payment calculated as 18 per cent of the household income beyond DKK 120.200. Are there two or more children in the household, this threshold is raised by DKK 31.700 per child up to four children (per 2nd, 3rd and 4<sup>th</sup> child):</p> <p><b>General housing benefits (in DKK), 2007 (boligsikring).</b></p> <table border="1" data-bbox="389 1125 1610 1252"> <thead> <tr> <th>Number of children</th> <th>0</th> <th>1</th> <th>2</th> <th>3</th> <th>4 or more</th> </tr> </thead> <tbody> <tr> <td>Max. subsidized rent per year</td> <td>67.400</td> <td>70.800</td> <td>74.100</td> <td>77.500</td> <td>80.900</td> </tr> <tr> <td>Max. benefit per year</td> <td>15% of the rent, or max. 35.580</td> <td>35.580</td> <td>35.580</td> <td>35.580</td> <td>44.472</td> </tr> </tbody> </table> <p>Households with children can receive benefits up till DKK 35,580 or DKK 44.472 if there are more than three children in the household (see table above). Households without children face an extra rule after which benefits cannot exceed 15 per cent of the calculated rent.</p>	Number of children	0	1	2	3	4 or more	Max. subsidized rent per year	67.400	70.800	74.100	77.500	80.900	Max. benefit per year	15% of the rent, or max. 35.580	35.580	35.580	35.580	44.472	
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	<p>Regardless of the benefit calculated the household must always pay at least DKK 20.200 out of the payable rent. Otherwise the benefit is reduced accordingly.</p> <p><b>Thresholds and parameters in calculation of housing benefits I Denmark (DKK), 2007.</b></p> <table border="1"> <thead> <tr> <th>Scheme</th> <th>Per cent benefits of rent</th> <th>Threshold</th> <th>Per cent above</th> <th>Threshold raised per child (2-4)</th> <th>Maximum benefit</th> <th>Minimum own payment</th> </tr> </thead> <tbody> <tr> <td>Boligsikring</td> <td>60</td> <td>120.200</td> <td>18</td> <td>31.700</td> <td>35.580</td> <td>20.200</td> </tr> <tr> <td>Boligyldelse</td> <td>75</td> <td>123.700</td> <td>22½</td> <td>32.600</td> <td>36.612</td> <td>13.100<sup>1</sup></td> </tr> </tbody> </table> <p><sup>1</sup> And at least 11 percent of household income.</p>	Scheme	Per cent benefits of rent	Threshold	Per cent above	Threshold raised per child (2-4)	Maximum benefit	Minimum own payment	Boligsikring	60	120.200	18	31.700	35.580	20.200	Boligyldelse	75	123.700	22½	32.600	36.612	13.100 <sup>1</sup>								
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<b>In Work Benefits</b>	There are no benefits specially targeted on people in work.																													
<b>Other relevant components: Childcare</b>	<p>Childcare is considered a public responsibility in Denmark, and the larger share of the cost of childcare is publicly funded. Subsidised day-care is available to all households with young children, and the parents of a child are from July 1. 2006 guaranteed day-care when the child is 26 weeks until school age. The fraction of children in childcare (by age and type of childcare) is shown in the table below (2006):</p> <table border="1"> <thead> <tr> <th></th> <th>Nursery</th> <th>Kindergartens</th> <th>Afterschool centres</th> <th>Age integrated day care institutions</th> <th>Family day care</th> <th>All</th> </tr> </thead> <tbody> <tr> <td>0 years</td> <td>2,1%</td> <td>0,0%</td> <td>0,0%</td> <td>3,3%</td> <td>9,8%</td> <td>15,3%</td> </tr> <tr> <td>1-2 years</td> <td>11,9%</td> <td>3,5%</td> <td>0,0%</td> <td>26,7%</td> <td>45,1%</td> <td>87,4%</td> </tr> <tr> <td>3-5 years</td> <td>0,1%</td> <td>50,3%</td> <td>5,2%</td> <td>39,7%</td> <td>0,4%</td> <td>96,2%</td> </tr> </tbody> </table> <p>Payment for childcare is dependent on the children's age and the parents' income. Parents pay a maximum of 25% of the costs, and the parents' pay in on average for Nursery DKK 31 427, Family Day Care DKK 23 630 and Kindergarten DKK 16 514.</p> <p>There is no charge for day-care if the personal income [gross income net of general social security contributions] is below DKK 134.001. From DKK 134.001 to DKK 136.967 the subsidy is 23.75 per cent of the actual expenses in a given day. From that income level, the subsidy is linearly reduced</p>		Nursery	Kindergartens	Afterschool centres	Age integrated day care institutions	Family day care	All	0 years	2,1%	0,0%	0,0%	3,3%	9,8%	15,3%	1-2 years	11,9%	3,5%	0,0%	26,7%	45,1%	87,4%	3-5 years	0,1%	50,3%	5,2%	39,7%	0,4%	96,2%	
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	<p>until the full price is paid at a personal income of DKK 415.899, i.e. the subsidy is reduced by 0.25 per cent point for every income increment of DKK 2.967.</p> <p>There are special discount rates for siblings: if a family has more than one child in day care, the full price is charged for the child in the most expensive day care facility and half the price is charged for all the remaining children in day care. The income related payment is calculated subsequently.</p> <p>Parents of children with special social problems can have a supplemental subsidy in addition to the above-mentioned subsidy.</p> <p>Childcare fees are <i>not</i> tax deductible, and fees are not taken into account when determining entitlement to benefits such as social assistance, but the fee is however income dependent.</p>	
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## Annex 2- Grid B. Summary of Empirical Studies on labour supply elasticities

### Overtime Work Dual Job Holding and Taxation

#### A.

Country	Authors (year)	Data Series	Sample: characteristics of sampled individuals			Representativeness of sample:		
			Characteristics of the sample	Characteristics of earnings	No of observations	national	regional	local
Denmark	Frederiksen, Anders, Enne Krogh Graversen and Nina Smith (2001)	Survey merged with data from Danish registers	Persons aged 18-59 years except students, persons with long time illness , self	Hourly gross wage rate	1150	yes		

			employed and assisting wives					
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**B.**

Own wage elasticity	Value of elasticity
Women	$\epsilon_{ucw\_net} = 0.360 (0.005)$ $\epsilon_{cw\_net} = 0.381 (0.005)$ $\epsilon_y = -0.040 (0.001)$
Men (baseline estimate) – (Standard deviation in parentheses)	$\epsilon_{ucw\_net} = 0.277 (0.009)$ $\epsilon_{cw\_net} = 0.358 (0.010)$ $\epsilon_y = -0.078 (0.002)$

The elasticity are all declining with increasing income deciles – but at all income deciles higher for women than for men, it is however important to realize that the study deal with overtime work and dual job holding in relation to taxation