

Illustrative calculation of the Unemployment Trap (UT) : Netherlands, 2001

Monthly figures in Dutch guilders (NLG)

Components of monthly income:-	<i>Out of work</i>	<i>In work</i>
Total gross earnings	Always zero	3627.72
<i>Plus</i> Unemployment benefit	2539.40	Always zero
<i>Plus</i> Housing benefit (cash)	232.92	0
<i>Plus</i> Social assistance	0	0
<i>Plus</i> In-work benefits	Always zero	0
<i>Minus</i> Income tax	53.20	126.24
<i>Minus</i> Social insurance contributions	602.23	847.31
= Employee's monthly net income	2116.89	2654.17

Unemployment trap = $100 * \{ 1 - [(\text{net income in work}) - (\text{net income out of work})] / (\text{gross earnings}) \}$

ie, $UT (\%) = 100 * \{ 1 - [(2654.17) - (2116.89)] / (3627.72) \} = 85.2\%$.

A brief description of the basis of the computations is given in the following table.

Component of income	<i>Out of work</i>	<i>In work</i>
Total gross earnings	Always zero	67% of APW (av. gross earnings of production worker in manufacturing)
Unemployment benefit	The person is previously assumed to have had earnings equal to 67% of the APW level and an uninterrupted (full-time) employment record of 22 years. The computed benefit is the amount received immediately after becoming unemployed but <i>after</i> any "waiting period".	Always zero
Housing benefit*	Computed on the basis of rented accommodation where the rent amounts to 20% of APW earnings. Where the benefit depends on the area, 70 m ² are assumed (and any rules limiting the maximum allowable area are taken into account). No special provisions for other types of housing costs (service charges, utility bills, etc.) are considered. Only cash transfers are considered.	
Social assistance	Calculated on the basis of eligibility and entitlement rules of each country. Social assistance can apply when the person's income is sufficiently low. Usually, it is 'last-resort' assistance, which takes account of other sources of income, including other means-tested benefits such as housing benefit. Social assistance 'tops up' (net) income from other sources such as unemployment benefit or earnings.	
In-work benefits	Always zero	Zero in this case, but some countries operate benefits that are conditional upon being in work or working a certain number of hours.
Income tax*	Only relevant if any of the benefits received in the "unemployed" situation are taxable. Income taxes are computed for the entire fiscal year assuming that unemployment and any other taxable benefits are available during the entire 12 months (even if the maximum duration of unemployment benefits is shorter).	Income taxes are computed for the entire fiscal year assuming that the "in-work" earnings as well as any taxable benefits available while in work are received during the entire 12 months.
Social insur. contributions*	Only contributions paid by the employee are considered.	

* Where housing benefit, income tax or social insurance contributions depend on the region, a "typical" region (such as the capital) is assumed. Income taxes at the state and regional levels are considered.

¹ "Taxing Wages" is prepared by the OECD Secretariat under the auspices of the Working Party No.2 on Tax Policy Analysis and Tax Statistics of the OECD's Committee on Fiscal Affairs. Similarly, "Benefits and Wages" is prepared under the auspices of the Committee on Fiscal Affairs and Working Party No. 1 on Social Policy of the Committee on Employment, Labour and Social Affairs.