
ICELAND 2008

1. Overview of the system

Iceland has an insurance-based unemployment benefit system. Two kinds of housing benefit programmes are in existence. One, there is a rent benefit for tenants with low income and two, mortgage interest benefits are open to home owners. Means-tested family benefits are available to parents. The social security administration provides benefits for lone parents providing for two children or more. Financial assistance is available from local governments for those without other resources and that do not qualify for benefits from the central government and/or the social security system.

1.1. *Average worker wage (AW)*

The 2008 AW level is ISK 4 068 000¹.

2. Unemployment insurance

2.1 *Conditions for receipt*

In order to qualify for unemployment benefits, one has to be between 16 and 70 years of age, willing and available to work and be able to confirm the unemployed status by means of a letter from the labour exchange. Applicants must have worked at least 10 weeks in a full-time job to qualify for any benefits. The qualifying period for part-timers lengthens proportionally. They must have been registered unemployed for at least three days, but receive benefits from the first day. In order to qualify for full benefits, applicants must have worked for the last 12 months in a full-time job.

2.1.1 *Employment conditions*

Ten weeks of insured employment to qualify for full benefits. Applicants must have worked for the last 12 months to qualify for full benefits.

2.1.2 *Contribution conditions*

Coincide with the employment conditions.

¹ AW refers to the Average Wage estimated by the Centre for Tax Policy and Administration (www.oecd.org/ctp). For more information on methodology see Taxing Wages 2006-2007, OECD, 2008, part 5, sections 2 and 3.

2.2 Calculation of benefit amount

2.2.1 Calculation of gross benefit

Benefits are paid in proportion to the number of hours worked in insured employment in the previous 12 months:

- Full benefit of ISK 5 446 per day (5 days per week) is paid to those who have worked for 2 080 hours or more (average of 40 hours per week).
- For those who have worked for between 400 and 2 080 hours, there is a scale defined with 76 steps, from 25 per cent to 100 per cent of the benefit rate, each step representing 1 per cent of the full benefit.
- A minimum benefit of ISK 1 318 per day is paid to those who have worked for 400 hours (25 per cent of full benefits).
- Parents receive a family supplement of ISK 259 per day (4 per cent of full benefits) per dependent child below 18 years of age.
- Since 2006, benefits are linked to previous employment income to an extent. After having received the basic benefit amount for ten days the recipient is entitled to 70% of his employment income (average income in the six month period ending two months prior to unemployment), subject to a maximum of ISK 191 518 monthly, and for 65 days only. After that he will continue to receive the basic benefits only for the remainder of his entitlement period.

2.2.2 Income and earnings disregards

If a recipient has occasional employment for one or two days at a time, benefit is reduced in proportion to the number of hours worked.

2.3 Tax treatment of benefit

Benefits are subject to general income tax.

2.4 Benefit duration

Benefits are paid for a maximum of three consecutive years. Previously the maximum had been five years.

2.5 Treatment of particular groups

2.5.1 Young persons

None.

2.5.2 Older workers

None.

3. Unemployment assistance

The central government, through its Labour Office, offers retraining courses and advice for unemployed persons. This is carried out in cooperation with local governments and various service organisations and is fully paid for out of central government funds.

4. Social assistance

A need-based subsistence benefit is paid as a last resort by local governments.

4.1 Conditions for receipt

To qualify, persons must be fully or partially unqualified for benefits from the central government or the Social Security Institute.

4.2 Calculation of benefit amount

4.2.1 Calculation of gross benefit

Financial assistance is the difference between the needs (the applicable amount) and the claiming household's resources. The applicable amount for the capital, Reykjavik, is shown below. Note that rates differ regionally.

Size of household	Applicable amount: recommended minimum monthly rate (in ISK)
Single persons	95 325
Couples	152 520

There are no allowances for dependent children. The resources include all gross family income. Excluded is income of children and all benefits paid in respect of children such as child support, family benefits, and rent benefits. Unemployed youth aged 18-24 living with low-income parents are entitled to up to half assistance. In addition there are grants/loans available to beneficiaries of assistance to meet various expenses, such as funeral costs, dental bills, etc.

4.2.2 Income and earnings disregards

There are no disregards; there is a one-to-one means test including all gross family income.

4.3 Tax treatment of benefit

Subject to general income tax.

4.4 Benefit duration

Unlimited.

4.5 Treatment of particular groups

None.

5. Housing benefits

There are two schemes for housing benefits, one for tenants and one for home owners. A) Rent benefits are available to households renting accommodations as long as no household member owns any other real estate. The central government finances the rent benefits partially but local authorities administer the benefits. The cost of mortgage interest rebate is borne by central government. B). Home owners can receive interest rebates to offset their mortgage payments.

5.1 Conditions for receipt

Rent benefits are available to tenants with a certified rental agreement of at least 6 months' duration. The rented accommodation must be a self-contained unit, such that e.g. rooms in dormitories on campuses are excluded. Rent benefits are means-tested. Rent benefits are targeted on low-income tenants and are therefore subject to an income test.

Mortgage interest rebate is open to all home owners with mortgage payments but is subject to limits on net assets, total mortgage liabilities and a maximum interest payment amount.

5.2 Calculation of benefit amount

5.2.1 Calculation of gross benefit

Rent benefit. The rent benefit is a fixed amount per claiming household of ISK 8 000 per month, with additional ISK 7 000 per month for one dependent child, plus ISK 6 000 per month for a second child, plus ISK 5 500 per month for the third and additional children. The children must have a legal residence in the rental home. In addition, 15 per cent of the rent above ISK 20 000 and below ISK 50 000 is added to the above amounts. One per cent of the household's previous year's taxable income in excess of ISK 2 000 000 of all household members 20 years or older is deducted in each month of payment of the rent benefit. 25 per cent of the household's net wealth exceeding ISK 4 402 175 is counted as income in this respect. The final rent benefit can never be higher than ISK 31 000 per month or half of paid rent, whichever is lower. For the purposes of this study, the persons are assumed to have been working at the same earnings level, and full time, in the previous year.

Mortgage interest rebate. This programme is in effect a part of the tax system, and replaced deductibility of interest payment a long time ago. The rebate is based on interest paid on a home purchase loan. The following constraints apply to interest rebates paid in 2007, based on tax returns for 2006: (1) They can not exceed 5 per cent of the remaining debt balance incurred in buying a home for one's own use. (2) The maximum amount of interest payments that qualify for an interest rebate calculation is ISK 524 469 krónur for an individual, ISK 688 517 krónur for a lone parent and 852 562 for a couple. (3) Six per cent of taxable income is subtracted from the interest expense. (4) The rebates begin to be curtailed at a net worth threshold of ISK 4 931 043 for a single individual and at ISK 8 174 053 for a couple and are eliminated altogether at a 60 per cent higher amount. (5) The maximum amounts of interest rebates are ISK 179 713 krónur for an individual, ISK 231 125 for a lone parent and 297 194 for a couple.

5.2.2 Income and earnings disregards

Full rent benefits are paid to families with combined annual income of up to ISK 2 million. 1 per cent of income in excess of this threshold would be deducted from benefits.

5.3 Tax treatment of benefit

Rent benefit. Not taxed.

Mortgage interest rebate. Not taxed. Administered and paid through tax authorities.

5.4 *Treatment of particular groups*

5.4.1 *Young persons*

None.

5.4.2 *Older workers*

None.

6. Family benefits

Means-tested benefit for dependent children. A basic allowance for each child under the age of 7, not linked to income.

6.1 Conditions for receipt

To have a dependent child under 18 years of age.

6.2 Calculation of benefit amount

6.2.1 Calculation of gross benefit

The benefit amount per child and income limits depend on the household type.

<i>Amounts paid in the stated year, based on income in the previous year (ISK)</i>	2004	2005	2006	2007	2008
For all children under the age of seven	36 308	37 397	46 747	56 096	57.891
Children under the age of sixteen:					
First child	123 254	126 952	139 647	139 647	144.116
Each additional child	146 713	151 114	166 226	166 226	171.545
Benefits for lone parents:					
First child	205 288	211 447	232 591	232 591	240.034
Each additional child	210 854	216 902	238 592	238 592	246.227
Income threshold for benefit curtailment:					
For couples	1444139	1487463	1859329	2231195	2 880 000
For a lone parent	722 070	743 732	929 665	1115598	1 440 000
Curtailment of benefits:					
For one child	3%	3%	3%	2%	2%
For two children	7%	7%	7%	6%	5%
For three children or more	9%	9%	9%	8%	7%

Note that child benefits paid in 2008 are based on information from 2007 tax returns.

6.2.2 Income and earnings disregards

The allowance based on 2007 income for parents with one child is reduced by 2 per cent of income above the income limit, by 5 per cent for parents with 2 children and by 7 per cent for parents with 3 or more children.

6.3 Tax treatment of benefit

Not taxable.

6.4 Treatment of particular groups

See below for treatment of lone parents.

7. Childcare for pre-school children

Pre-schools are available to all children who have not reached the age at which compulsory school begins, i.e. in autumn of the year in which the child turns six. However, very few pre-schools accept children less than one year old, and the youngest children are usually about two years of age. Before that they may be cared for by daymothers.

7.1 Out-of-pocket childcare fees paid by parents

Local municipalities pay for the construction and the operation of pre-primary schools. Parents contribute a substantial amount towards operating costs at the pre-primary level. The share that the parents contribute varies from one municipality to another and often depends on the circumstances of the parents like in some municipalities lone parents and students pay substantially lower fees than others and some offer reduction to parents who have two or more children attending schools at the pre-primary level. On the whole, parents contribute about a third of the operating costs of pre-primary schools.

The tariff of Reykjavík pre-schools depends on the number of hours and on the economic status of the parents. The tariff is divided into three categories:

I. General tariff, married parents and parents who live together.

II. One parent is a student or one parent is an invalid. The Icelandic Government Student Loan Fund has issued some guideline rules as to which studies are considered valid, like the student should take at least 75 per cent of full time University hours and 100 per cent in cases where the student is specializing in a certain field. Students at the University of Iceland should take at least 11 credit hours each semester. This category is also for fulltime students in junior college and vocational schools. Evening classes are not valid.

III. Lone parents. Both parents being students according to the definition of the Icelandic Government Student Loan Fund. Both parents being invalids. Employees of Reykjavik Preschools.

The tariff of Reykjavík preschools
monthly tariff, ISK
valid from April 1, 2007

Hours	Category I	Category II	Category III
4	8 260	6 380	4 140
5	13 650	11 300	8 500
6	15 410	12 590	9 230
7	18 390	15 100	11 180
8	20 150	16 390	11 910
9	21 910	17 680	12 640

Meals are included in this data. Amongst siblings, the second and child pay no tuition, only for meals (ISK 6 070 monthly for >6 hours care per day.) There is also a discount for siblings if children in a preschool

 have siblings in a family day-care or in a private preschool, see the tariff for subsidy of day-care fees. For five-year old children the rates are lower, in the range 25% to 68% of the rates shown in the table.

7.2 *Child-care benefits*

Some municipalities subsidise child-care with day-care parents

7.2.1 *Conditions for receipt*

Generally, the conditions for receiving such a subsidy is that the parent or parents are unable to place their children in pre-schools or day-care centres but must place them with day-care parents.

7.2.2 *Calculation of benefit amount*

The following subsidy applies in Reykjavík in 2007. Subsidies vary from one municipality to another.

Hours of care	Both parents living together	One parent a student	Lone parent or both parents studying	Sibling supplement
4	15.940	18.300	24.720	4.760
5	19.925	22.875	30.900	5.950
6	23.910	27.450	37.080	7.140
7	27.895	32.025	43.260	8.330
8	31.880	36.600	49.440	9.520
9	35.865	41.175	55.620	10.710

7.2.2.1 *Calculation of gross benefit*

See above.

7.2.2.2 *Income and earnings disregards*

None.

7.2.3 *Tax treatment of benefit and interaction with other benefits*

Subsidy is not subject to income tax nor does it interact with other benefits.

7.2.4 *Treatment of particular groups*

8. Employment-conditional benefits

None.

9. Lone-parent benefits

Lone parents with two or more children are entitled to additional benefits from the Social Security Administration, the so-called mother/fatherhood allowance.

9.1 Conditions for receipt

To be living alone with at least two children under 18 years of age.

9.2 Calculation of benefit amount

9.2.1 Calculation of gross benefit

Lone parent benefits	Yearly amounts
2 children	66 000
3 children	171 600

9.2.2 Income and earnings disregards

The benefit is not income tested.

9.3 Tax treatment of benefit

Subject to general income tax.

9.4 Treatment of particular groups

A support benefit is paid to parents with children that are disabled or suffering from a long-term illness and in need of continuous stay-at-home care. The benefit amounts to 102 800 krónur a month in 2008.

10. Tax system

Iceland has proportional tax rates on personal income for central and local government taxes. Capital income is taxed separately, at a rate of 10 per cent.

10.1 Income tax rate schedule

The PAYE general income tax rate in 2008 is 35.72 per cent of which 22.75 per cent go to the central government and 12.97 per cent to municipalities.

10.1.1 Tax allowances and credits

- *Relief(s) for compulsory pension contributions:* Since January 2000, the compulsory payment by employees to pension funds, amounting to 4 per cent of wages, is deductible. In addition, an optional payment of up to 4 per cent of wages may also be deducted. As the additional 4% contribution is optional, it is considered to be a non-standard relief.
- *Work-related expenses:* earnings-related transportation costs (net of fringe benefits) are deductible up to a certain limit.
- There is a basic tax credit of ISK 408 409 per earner. Married couples may utilise the spouse's unutilised portion of his/her credit. The credit is subtracted from central and local government taxes; unused portions are not refundable. Seamen get an additional tax credit, calculated per diem for number of days at sea. The per diem amount in 2007 is 834 ISK and is credited against the central government tax.
- *Standard marital status relief:* Married couples may utilise up to 100 per cent of each spouse's unutilised portion of his/her basic tax credit.

10.1.2 The definition of taxable income

Category A comprises wages and salaries, including presumptive employment income of the self-employed (see below), employment-related benefits, old-age pensions, social security payments, grants, payments to copyright holders, royalties, etc. *Category B* comprises income from a business and income from an independent economic activity. *Category C* comprises investment income such as dividends, interest and capital gains. Income in category C is taxed at a flat 10 per cent rate with no tax credit.

Individual gross earnings minus allowances.

10.1.3 The tax schedule (see above)

- The central government income tax rate in 2008 is 22.75 per cent and applies to all personal income in excess of ISK 95 280 per month (ISK 1 143 362 per year).
- Local government (average rate): 12.97 per cent. The local government income tax base is the same as the central government's income tax base.

10.2 Treatment of family income

The tax unit is the individual. Non-wage income of married couples is taxed jointly.

10.3 Social security contribution schedule

In 2008, employees pay a fee to the Construction Fund for the Elderly at a fixed annual amount of ISK 7 103 if annual taxable income was at least ISK 1 143 362 in 2008. Persons less than 16 years old and 70 years or older are exempt as well as old-age pensioners or invalids residing in old-age, nursing homes or special care establishments.

Employers pay a social security contribution to the Treasury of 5.34 per cent of their total payroll cost. The proceeds go towards – but do not fully finance – the central government’s costs of old age, disability, health care and childbirth leave, the remainder of the cost coming from general tax revenue.

Pension funds: Employees aged 16-70 years must be members of a pension fund and contribute 4 per cent of their wages, generally deducted on a withholding basis. The employer counter-contributes at least another 6 per cent, although most wage agreements currently stipulate a higher counter-contribution. Both contributions are deductible from income before tax.

In addition, employees can contribute up to 4 per cent of their income to a pension fund on an optional basis and this contribution is also tax-exempt. If an employee chooses to take this option the employer will match the employee’s contribution by 2-4 per cent of the employee’s wages.

11. Part-time work

11.1 *Special benefit rules for part-time work*

Unemployment benefits are paid proportional to the time spent in paid employment. (See section on unemployment benefits.)

11.2 *Special tax and social security contribution rules for part-time work*

None.

12. Policy developments

12.1 Policy changes in 2006–2007

The personal income tax rate paid to central government was cut by one percentage point as of the beginning of 2007, from 23.75 per cent to 22.75 per cent. The average municipal income tax collected under the PAYE system amounts to 12.97 per cent in 2007 and remains unchanged from the previous year. The total PAYE income tax rate is thus 35.72 per cent.

The basic annual tax credit amounted to ISK 329 948 in 2004, ISK 339 846 in 2005, ISK 348 343 in 2006 and ISK 385 800 in 2007.

Child benefit amounts were increased, income thresholds increased and curtailment deduction rates decreased, see section 6.2.1 above.

12.2 Policy changes announced