

ICELAND 1999

1. Overview of the system

Iceland has an insurance-based unemployment benefit. Financial assistance is available for those without other resources. Two kinds of housing benefit programmes are in existence. There is a rent benefit for tenants with low income. Mortgage interest benefits are open to house owners. Means tested family benefits are available to parents. The social security administration provides benefits for lone parents providing for two children or more. Married people are taxed individually. The 1999 APW level is ISK 1,786,700.

2. Unemployment insurance

2.1 *Conditions for receipt*

To be aged between 16 and 70 years old, willing and available to work and to 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 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*

10 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.

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 2,862 per day (5 days per week) is paid to those who have worked for 1,700 hours or more (average of 32.7 hours per week);
- for those who have worked for between 425 and 1,700 hours, there is a scale defined with 76 steps of 17 hours each, from 25 per cent to 100 per cent of the benefit rate, each step representing 1 per cent of the full benefit;
- and minimum benefit of ISK 715.50 per day is paid to those who have worked for 425 hours of work (25 per cent of full benefit, for 25 per cent of hours of work).

There is also a family supplement of ISK 114.48 per day (4 per cent of full benefits) per dependent child under 18 years old.

2.2.2 Income and earnings disregards

None; there is no income test. 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. The benefit ceases if the recipient works more than two days.

2.3 Tax treatment of benefit

Benefits are subject to general income taxation.

2.4 Benefit duration

Benefits are paid for a maximum of 5 years.

2.5 Treatment of particular groups

2.5.1 Young persons

None.

2.5.2 Older workers

None.

3. Unemployment assistance

None.

4. Social assistance

It is a last resort financial assistance, administered by local governments.

4.1 Conditions for receipt

To be aged 18 or over.

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 is shown below as from May of 1999; note that rates differ regionally.

Size of household	Applicable amount: recommended minimum monthly rate (in ISK)
Single persons	53 596
Couples	96 473

There are no allowances for dependent children. The resources include all gross family income. Excluded are income of children and all benefits paid in respect of children such as child support and 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 available grants/loans to receivers 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 taxation.

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) Home owners can receive interest rebates to offset their mortgage payments. B) 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.

5.1 Conditions for receipt

Rent benefits are available to tenants with a certified rental agreement of at least 6 months duration. In addition the rented accommodation must be a self-contained unit, such that e.g. rooms in dormitories on campus are excluded. Rent benefits are means-tested. Due to the low income disregard and steep income testing the rent benefits are targeted to low income tenants.

Mortgage interest rebate is open to all home owners with mortgage payments.

5.2 Calculation of benefit amount

5.2.1 Calculation of gross benefit

Rent benefit. There is a fixed amount per claiming household of ISK 8,000 per month, with additional ISK 5,000 per month if there is one dependent child, plus ISK 4,000 per month for a second child, plus ISK 3,500 per month for the third and additional children. The benefit also takes into account the rent payments, in such a way that 15 per cent of the rent above ISK 20,000 and below ISK 45,000 are added. However, rent benefits can never be higher than ISK 21,000 per month or half of paid rent, whichever is lower. 1 per cent of the household's previous year taxable income in excess of ISK 1,600,000 is deducted. For the purposes of this study, the persons are assumed to have been working at the same earning 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 long time ago. The rebate is based on paid interest, subject to a maximum of ISK 421,489 for a single person with no dependent children, ISK 553,326 for lone parents and ISK 685,161 for a couple. The interest payments are also subject to 7 per cent of outstanding mortgage. From this amount is deducted 6 per cent of taxable income. Net wealth exceeding ISK 3,170,260 for singles and ISK 5,255,254 for a couple can further limit the rebate. The rebate depends thus basically on the size of the mortgage relative to taxable income and net wealth.

5.2.2 *Income and earnings disregards*

Full rent benefits are paid to families with combined annual income of up to 1.6 million ISK. 1% of income in excess of this threshold would be deducted from benefits.

5.3 *Tax treatment of benefit*

Rent benefit. Subject to general income taxation.

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.

6.1 *Conditions for receipt*

To have a dependent child under 16.

6.2 *Calculation of benefit amount*

6.2.1 *Calculation of gross benefit*

The maximum per child and income limits depend on the household composition:

Supplementary allowance (per child, per year)	Maximum	Income limit	Wealth limit (for information)
<i>Couple</i>		1,169,568	8,557,656
-First child	104,997		
-Successive children	124,980		
-Addition for children under 7 years	30,930		

<i>Single parents</i>		584,784	6,418,774
-First child	174,879		
-Successive children	179,389		
-Addition for children under 7 years	30,930		

6.2.2 *Income and earnings disregards*

The allowance for parents with one child is reduced by 5 per cent of income above the income limit, by 9 per cent for parents with 2 children and by 11 per cent for parents with 3 or more children.

6.3 *Tax treatment of benefit*

Not taxable.

6.4 *Treatment of particular groups*

See above for treatment of single parents.

7. **Child-care benefits**

None.

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 16 years of age.

9.2 *Calculation of benefit amount*

9.2.1 *Calculation of gross benefit*

Lone parent benefits	Yearly amounts
2 children	44,364

3 children 115,344

9.2.2 *Income and earnings disregards*

The benefit is not income tested.

9.3 *Tax treatment of benefit*

Subject to general income taxation.

9.4 *Treatment of particular groups*

None.

10. **Tax system**

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

10.1 *Income tax rate schedule*

General income tax rate is 38.34 per cent. Annual income above ISK 3,198,000 for single persons and 6,396,000 are taxed additionally at a rate of 7 per cent.

10.1.1 *Tax allowances and credits*

- the employee’s compulsory contribution to pension funds, 6 per cent of earnings is deductible;
- 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 279,948 per earner; married couples may utilise up to 80 per cent of spouses’ unutilised portion of his/her credit. The credit is subtracted from central and local government taxes; unused portions are not refundable. Seamen enjoy an additional tax credit, calculated per diem for number of days at sea.

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

- central government: 26.41 per cent of taxable income;
- local government (average rate): 11.93 per cent of total gross income (before allowances);

10.2 Treatment of family income

The tax unit is the individual. Unearned income of married couples is taxed jointly.

10.3 Social security contribution schedule

Employees pay a fee to the Construction Fund for the Elderly at a fixed annual amount of ISK 4,162 if annual taxable income is above ISK 730,172. Those 70 years or older are exempt as well as old age pensioners or invalids residing in old age, nursing home or in special care.

Pension funds: The employer's contribution is 6% of the employees wages/salaries directly to the pension fund. The employee pays a contribution of 4% which is deducted from this wages. The employee deducts the 4% from income prior to taxation. This is applicable for the unemployed as well as for wage earners but not for people on other welfare. Note: These contributions to pension funds are not included in the calculations of SS contributions.

11. Part-time work

11.1 Special benefit rules for part-time work

Benefits are paid proportional to the time spent in paid employment.

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

None.

12. Policy developments

12.1 Policy changes introduced in the last year

None.

12.2 Policy changes announced

- Family benefits will be changed with effect from January 1, 2001. Benefits for parents of children under 7 years of age will be non-income tested. Regard to net wealth of parents will be abolished.
- Effective from January 1 2000 married couples may utilise up to 85 per cent of spouses' unutilised portion of his/her credit. This percentage will be raised to 90 per cent in year 2001 and will gradually increase to 100%.
- Effective from January 1 2002 rent benefits will not be subjected to income taxation.

ICELAND

**The annual tax/benefit position of an unemployed single person
1999**

(in Icelandic krónur)

	Unemployment insurance (5 years)	Social assistance (unlimited)
A. Taxable benefits		
Means-tested benefits		
Social assistance	0	643 152
Housing benefits	111 734	111 734
Non-means tested benefits		
Unemployment insurance	744 120	0
Total taxable benefits	855 854	754 886
B. Income tax and social security contributions		
Income tax allowances	51 351	45 293
Taxable income	804 503	709 593
Income tax	212 469	187 403
Local tax	95 977	84 654
Tax credits	279 948	279 948
Surtax	0	0
Social security contributions	4 162	4 162
Total income tax and social security contributions	23 660	4 162
C. Non-taxable benefits	0	0
Total non-taxable benefits	0	0
D. Net income out of work (A-B+C)	823 194	750 724
E. Net income in work	1 490 032	1 490 032
F. Net replacement rate (D/E) (per cent)	55	50

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The annual tax/benefit position of an unemployed married couple with two children (6 and 4 years old)

1999

(in Icelandic krónur)

	Unemployment insurance (5 years)	Social assistance (unlimited)
A. Taxable benefits		
Means-tested benefits		
Social assistance	0	1 157 676
Housing benefits	178 670	178 670
Non-means tested benefits		
Unemployment insurance	803 650	0
Total taxable benefits	982 312	1 336 346
B. Income tax and social security contributions		
Income tax allowances	58 939	80 181
Taxable income	923 380	1 256 165
Income tax	243 865	331 753
Local tax	110 159	149 860
Tax credits	503 906	503 906
Surtax	0	0
Social security contributions	4 162	4 162
Total income tax and social security contributions	4 162	4 162
C. Non-taxable benefits		
Means-tested benefits		
Family benefits	386 630	458 958
Total non-taxable benefits	386 630	458 958
D. Net income out of work (A-B+C)	1 364 787	1 791 142
E. Net income in work	2 054 958	2 054 958
F. Net replacement rate (D/E) (per cent)	66	87

ICELAND

The annual tax/benefit position of a lone parent
with two children (6 and 4 years old)

1999

(in Icelandic krónur)

	Unemployment insurance (5 years)	Social assistance (unlimited)
A. Taxable benefits		
Means-tested benefits		
Social assistance	0	598 788
Housing benefits	178 670	178 670
Non-means tested benefits		
Unemployment insurance	803 650	0
Lone parent benefits	44 364	44 364
Total taxable benefits	1 026 684	821 822
B. Income tax and social security contributions		
Income tax allowances	61 601	49 309
Taxable income	965 083	772 513
Income tax	258 878	204 021
Local tax	115 134	92 161
Tax credits	279 948	279 948
Surtax	0	0
Social security contributions	4 162	4 162
Total income tax and social security contributions	94 227	20 395
C. Non-taxable benefits		
Means-tested benefits		
Family benefits	233 564	305 893
Total non-taxable benefits	233 564	305 893
D. Net income out of work (A-B+C)	1 166 021	1 107 319
E. Net income in work	1 706 310	1 706 310
F. Net replacement rate (D/E) (per cent)	68	65