

ICELAND 1997

1. Overview of the system

Iceland has an insurance-based unemployment benefit. Financial assistance is available for those without other resources. There is a housing benefit for those with low income. Two family benefits are available: a non-means-tested family benefit and a means-tested family supplementary allowance. Both include benefits for lone parents. Married people are taxed individually. The 1997 APW level is Ikr 1 593 000.

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. 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 any benefits. Applicants must have worked for the last 12 months to qualify for complete 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 IKr 2 646 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 Ikr 661.5 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 IKr 105.84 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

Taxable. Social security contributions are reduced: 4 per cent of the benefit must be paid into a pension fund.

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; note that rates differ regionally.

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

There are no allowances for dependent children. The resources include all gross family income. Excluded are income from 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. Housing benefits are excluded from the means-test.

4.3 Tax treatment of benefit

Taxable. Social security contributions are reduced: 4 per cent of the benefit must be paid into a pension fund.

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. The Central government finances the benefits partially but local authorities administer the benefits. 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.

5.1 *Conditions for receipt*

They are income-tested.

5.2 *Calculation of benefit amount*

5.2.1 *Calculation of gross benefit*

There is a fixed amount per claiming household of IKr 7 000 per month, with additional IKr 4 500 per month if there is one dependent child, plus IKr 3 500 per month for a second child, plus IKr 3 000 per month for the third and additional children. The benefit cannot be higher than 50 per cent of the rent, or IKr 21 000 per month; 2 per cent of the household's previous year taxable income in excess of IKr 1 500 000 is deducted. For the purposes of this study, the workers are assumed to have been working at the same earnings levels in the previous year.

5.2.2 *Income and earnings disregards*

Full rent benefits are paid to families with combined annual income of up to 1.5 million IKr.

5.3 *Tax treatment of benefit*

Taxable. Social security contributions are reduced: 4 per cent of the benefit must be paid into a pension fund.

5.4 *Treatment of particular groups*

5.4.1 *Young persons*

None.

5.4.2 *Older workers*

None.

6. Family benefits

There are two benefits: a) a non means-tested benefit, and b) a means-tested benefit.

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*

a)

Order / Age of child	Under 7 (in IKr per year)		7 and older (in IKr per year)	
	couple	single parent	couple	single parent
First child	39 448	69 624	9 272	69 624
Each additional child	58 944	104 388	28 768	74 024

- b) A supplementary allowance is paid to low income families. 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)
Couple	93 164	1 141 042	8 348 932
Single parent	100 990	570 521	6 262 219

6.2.2 *Income and earnings disregards*

- a) Not means-tested.
- b) Means-tested: the allowance for parents with one child is reduced by 6 per cent of income above the income limit, by 11 per cent for parents with 2 children and by 15 per cent for parents with 3 or more children.

6.3 *Tax treatment of benefit*

Not taxable.

6.4 *Treatment of particular groups*

None.

7. **Child-care benefits**

None.

8. **Employment-conditional benefits**

None.

9. **Lone-parent benefits**

Lone parents are entitled to higher family benefits (see 6.2.1)

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	40 179
3 children	104 459

9.2.2 Income and earnings disregards

The benefit is not income tested.

9.3 Tax treatment of benefit

Taxable. Social security contributions are reduced: 4 per cent of the benefit must be paid into a pension fund.

9.4 Treatment of particular groups

None.

10. Tax system

Iceland has proportional tax rates on personal income for central and local government taxes.

10.1 Income tax rate schedule

10.1.1 Tax allowances and credits

- (since June 1997) the employee's compulsory contribution to pension funds, 4 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 IKr 286 812 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.

10.1.2 The definition of taxable income

Individual gross earnings minus allowances. Unearned income of married couples is taxed jointly.

10.1.3 The tax schedule

- central government: 29.31 per cent of taxable income;
- local government (average rate): 11.57 per cent of total gross income (before allowances);

A special 5 per cent surtax is levied on individual monthly gross income (before allowances) above IKr 234 000 (IKr 468 000 for couples).

10.2 Treatment of family income

The tax unit is the individual.

10.3 Social security contribution schedule

Employees pay a fee to the Retiree Investment Fund at a fixed annual amount of IKr 3 985 if annual taxable income is above IKr 702 260.

Persons on unemployment benefit pay 4 per cent of the benefit into a pension fund.

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

- The legal age will be changed from 16 to 18 years old with effect from January 1, 1998. Therefore the age limit for all benefits relating to dependent children will change to cover children up to 18 years old.

- Flat rate family benefits will be abolished and changed to means-tested benefits with effect from January 1, 1998.
- Income testing will also be changed. Benefits to parents with 1 child will be reduced by 5 per cent of income exceeding the income limit, 9 per cent for parents with 2 children and by 11 per cent for parents with 3 or more children.

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**The annual tax/benefit position of an unemployed single person, 1997
(Krona)**

	Unemployment insurance (52 weeks)	Social assistance (unlimited)
A. Taxable benefits		
Means-tested benefits		
Social assistance	0	643 152
Housing benefits	82 140	82 140
Non-means tested benefits		
Unemployment insurance	687 960	0
Total taxable benefits	770 100	725 292
B. Income tax and social security contributions		
Income tax allowances	0	0
Taxable income	770 100	725 292
Income tax	225 716	212 583
Local tax	89 100	83 916
Tax credits	286 812	286 812
Surtax	0	0
Social security contributions	29 880	28 141
Total income tax and social security contributions	57 884	37 828
C. Non-taxable benefits	0	0
Total non-taxable benefits	0	0
D. Net income out of work (A-B+C)	712 216	687 464
E. Net income in work	1 250 657	1 250 657
F. Net replacement rate (D/E) (per cent)	57	55

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The annual tax/benefit position of an unemployed married couple with two children, 1997
(Krona)

	Unemployment insurance (52 weeks)	Social assistance (unlimited)
A. Taxable benefits		
Means-tested benefits		
Social assistance	0	1 157 676
Housing benefits	178 140	178 140
Non-means tested benefits		
Unemployment insurance	742 997	0
Total taxable benefits	921 137	1 335 816
B. Income tax and social security contributions		
Income tax allowances	0	0
Taxable income	921 137	1 335 816
Income tax	269 985	391 528
Local tax	106 576	154 554
Tax credits	516 262	516 262
Surtax	0	0
Social security contributions	35 740	51 830
Total income tax and social security contributions	35 740	81 650
C. Non-taxable benefits		
Means-tested benefits		
Supplementary family allowance	127 574	127 574
Non-means tested benefits		
Family benefits	58 944	58 944
Total non-taxable benefits	186 518	186 518
D. Net income out of work (A-B+C)	1 071 915	1 440 684
E. Net income in work	1 666 624	1 666 624
F. Net replacement rate (D/E) (per cent)	64	86

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**The annual tax/benefit position of a lone parent with two children, 1997
(Krona)**

	Unemployment insurance (52 weeks)	Social assistance (unlimited)
A. Taxable benefits		
Means-tested benefits		
Social assistance	0	602 973
Housing benefits	178 140	178 140
Non-means tested benefits		
Unemployment insurance	742 997	0
Lone parent benefits	40 179	40 179
Total taxable benefits	961 316	821 292
B. Income tax and social security contributions		
Income tax allowances	0	0
Taxable income	961 316	821 292
Income tax	281 762	240 721
Local tax	111 224	95 023
Tax credits	286 812	286 812
Surtax	0	0
Social security contributions	37 299	31 866
Total income tax and social security contributions	143 473	80 798
C. Non-taxable benefits		
Means-tested benefits		
Supplementary family allowance	69 058	69 058
Non-means tested benefits		
Family benefits	104 388	104 388
Total non-taxable benefits	173 446	173 446
D. Net income out of work (A-B+C)	991 289	913 940
E. Net income in work	1 447 857	1 447 857
F. Net replacement rate (D/E) (per cent)	68	64