

ICELAND

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 1995 APW level is IKr 1 405 600.

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.

2.1.1 *Employment conditions*

425 hours of insured employment within the previous 12-month period.

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 2 140.64 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 535.16 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 85.63 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

Note that the waiting period for receiving the benefit varies: if average incomes in the preceding 6 months prior to losing job are more than twice the monthly benefit, the right to draw benefits is postponed until average income is twice the benefit.

The benefit lasts for 260 days (52 weeks, 5 days per week). The recipient receives unemployment benefit for an extra 80 days (16 weeks) only if he/she undertakes programmes introduced by the authorities such as training for up to 8 weeks during the unemployment spell. If he/she does not undertake such programmes, he/she will not receive the benefit for 80 days. In both situations, a new 260-day period of unemployment benefit will start.

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 16 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)
Individual	43 360
+ 1 dependent person	56 368
+ 2 dependent persons	69 376
+ 3 dependent persons	78 048
+ 4 dependent persons	86 720
+ 5 dependent persons	95 392

The resources consist of the net income of the family, including benefits.

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**

Local authorities are required to ensure a supply of housing, both rented, shared ownership and owner-occupied, for families and individuals who are not otherwise able to secure their own accommodation because of low wages, major care responsibilities or other social disadvantages.

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*

Any gross income from work is included in the income-test, without disregards.

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	39 364	99 594	9 252	69 482
Each additional child	58 820	103 984	28 708	73 872

Single parents receive twice the allowances of married couples, with the same number of children, with a minimum of IKr 67 878 per child per year.

- 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	8 300 000
Single parent	100 990	570 521	6 300 000

6.2.2 *Income and earnings disregards*

- a) Not means-tested.
- b) Means-tested: the allowance is reduced by 7 per cent of the household's previous year taxable income above the limit for the first child, and by 6 per cent for the subsequent children. For the purposes of this study, the workers are assumed to have been working at the same earnings levels in the previous year.

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 one child.

9.2 Calculation of benefit amount

9.2.1 Calculation of gross benefit

Lone parent benefits	Yearly amounts
One child	12 480
2 children	62 400
3 children	134 780

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 April 1995) half of the 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 293 928 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: 33.15 per cent of taxable income;
- local government (average rate): 8.78 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 233 820 (Ikr 467 640 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 689 724.

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*

- benefits will be directly paid from the new independent Directorate of Labour;
- UI-benefits will be available to persons aged 18-70. Special provisions will be created for persons aged 16-18;
- applicants for UI benefits must have worked at least 10 weeks in a full time job; the qualifying period is proportionally longer for persons who worked in a part-time job;
- applicants must have had a full-time job for at least 12 months to receive the full unemployment benefit;
- the total of benefits the unemployed receives may not exceed the full monthly wages he/she earned previously;
- the waiting period for UI will be 2 weeks;
- UI beneficiaries must be available and willing to take up full-time employment;
- the benefit period will be 5 years instead of 260 days.

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The annual tax/benefit position of an unemployed single person, 1995
(Krona)

	Unemployment insurance (52 weeks)	Social assistance (unlimited)
A. Taxable benefits		
Means-tested benefits		
Social assistance	0	520 320
Housing benefits	84 000	84 000
Non-means tested benefits		
Unemployment insurance	556 566	0
Total taxable benefits	640 566	604 320
B. Income tax and social security contributions		
Income tax allowances	0	0
Taxable income	640 566	604 320
Income tax	212 348	200 332
Local tax	56 242	53 059
Tax credits	293 928	293 928
Surtax	0	0
Social security contributions	25 623	24 173
Total income tax and social security contributions	25 623	24 173
C. Non-taxable benefits	0	0
Total non-taxable benefits	0	0
D. Net income out of work (A-B+C)	614 943	580 147
E. Net income in work	1 115 494	1 115 494
F. Net replacement rate (D/E) (per cent)	55	52

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The annual tax/benefit position of an unemployed married couple with two children, 1995 (Krona)

	Unemployment insurance (52 weeks)	Social assistance (unlimited)
A. Taxable benefits		
Means-tested benefits		
Social assistance	0	936 576
Housing benefits	140 560	140 560
Non-means tested benefits		
Unemployment insurance	601 094	0
Total taxable benefits	741 654	1 096 714
B. Income tax and social security contributions		
Income tax allowances	0	0
Taxable income	716 704	1 096 714
Income tax	245 858	357 070
Local tax	65 117	94 573
Tax credits	529 070	529 070
Surtax	0	0
Social security contributions	29 666	43 085
Total income tax and social security contributions	29 666	43 085
C. Non-taxable benefits		
Means-tested benefits		
Supplementary family allowance	160 138	160 138
Non-means tested benefits		
Family benefits	58 820	58 820
Total non-taxable benefits	218 958	218 958
D. Net income out of work (A-B+C)	930 946	1 253 009
E. Net income in work	1 569 595	1 569 595
F. Net replacement rate (D/E) (per cent)	59	80

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The annual tax/benefit position of a lone parent with two children, 1995
(Krona)

	Unemployment insurance (52 weeks)	Social assistance (unlimited)
A. Taxable benefits		
Means-tested benefits		
Social assistance	0	770 112
Housing benefits	140 560	140 560
Non-means tested benefits		
Unemployment insurance	601 094	0
Lone parent benefits	62 400	62 400
Total taxable benefits	804 054	973 072
B. Income tax and social security contributions		
Income tax allowances	0	0
Taxable income	663 494	973 072
Income tax	266 544	322 573
Local tax	70 596	85 436
Tax credits	293 928	293 928
Surtax	0	0
Social security contributions	32 162	38 923
Total income tax and social security contributions	75 374	153 004
C. Non-taxable benefits		
Means-tested benefits		
Supplementary family allowance	101 623	101 623
Non-means tested benefits		
Family benefits	103 984	103 984
Total non-taxable benefits	205 607	205 609
D. Net income out of work (A-B+C)	934 287	1 025 675
E. Net income in work	1 357 335	1 357 335
F. Net replacement rate (D/E) (per cent)	69	76