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## ICELAND 2003

### 1. Overview of the system

Iceland has an insurance-based unemployment benefit system. 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 2003 AW level is ISK 2 700 000.

### 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. 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*

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 3 574 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).

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- 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.
  - And minimum benefit of ISK 894 per day is paid to those who have worked for 400 hours of work (25 per cent of full benefit).

There is also a family supplement of ISK 143 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.

#### *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.

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**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	71 020
Couples	122 400

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**

Generally 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

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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 7 000 per month if there is 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 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 50 000 are added. 1 per cent of the household's previous year taxable income in excess of ISK 2 000 000 is deducted. 25 per cent of the household's net wealth exceeding ISK 3 702 866 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 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 a long time ago. The rebate is based on paid interest, subject to a maximum of ISK 480 371 for a single person with no dependent children, ISK 630 626 for lone parents and ISK 780 878 for a couple. The interest payments are also subject to a maximum of 7 per cent of outstanding mortgage. From this amount is deducted 6 per cent of taxable income. Net wealth exceeding ISK 3 613 148 for singles and ISK 5 989 414 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.

Note that the interest rebate is based on paid interest and income in the year 2003 but is not paid out until 2004.

### **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.

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 (in ISK)

Supplementary allowance (per child, per year)	Maximum	Income limit
Couple		1 444 139
First child	123 254	
Successive children	146 713	
Addition for children under 7 years	36 308	None
Single parents		722 070
First child	205 288	
Successive children	210 584	
Addition for children under 7 years	36 308	None

Note that child benefits are based on income in the year 2003 but are not paid out until 2004.

6.2.2 *Income and earnings disregards*

The allowance for parents with one child is reduced by 3 per cent of income above the income limit, by 7 per cent for parents with 2 children and by 9 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 single parents.

7. **Child-care benefits**

None.

8. **Employment-conditional benefits**

None.

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**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	54 384
3 children	141 384

**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 38.55 per cent. Annual income above ISK 4 089 450 for single persons and ISK 8 178 900 for couples are taxed additionally at a rate of 5 per cent.

**10.1.1 Tax allowances and credits**

- *Relief(s) for compulsory pension contributions:* Since January 2000, the compulsory payment to pension funds, which amounts 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.

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- There is a basic tax credit of ISK 321 900 per earner; married couples may utilise up to 100 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: 25.75 per cent of taxable income.
- Local government (average rate): 12.8 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 5 440 if annual taxable income is above ISK 835 019. Those 70 years or older are exempt as well as old age pensioners or invalids residing in old age, nursing homes or in special care.

Pension funds: The employer's contribution is at least 5.73 per cent of the employees' wages/salaries directly to the pension fund. The employee pays a contribution of 4 per cent which is deducted from these wages. The employee deducts the 4 per cent from income prior to taxation. This is applicable for the unemployed as well as for wage earners but not for people on other welfare.

In addition, employees can contribute up to 4 per cent of their income to a voluntary private pension fund and this contribution is also tax exempt. If an employee chooses to take this option the employer will match the employees contribution by up to 2 per cent of the employee's wages. The government will also contribute up to 0.4 per cent.

### **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.

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## **12. Policy developments**

### ***12.1 Policy changes introduced in the last year***

In January 2003 The PAYE tax rate remained nearly unchanged from the year before, at 38.55 per cent compared with 38.54 per cent in 2002. The annual tax-free income threshold was increased by 3.1 per cent, from 809,611 to 835,019 krónur.

Social security and unemployment benefits increased by 3.2 per cent.

Child benefits increased by 2.75 per cent and the income thresholds for benefit curtailment were raised by 4 per cent to 704,459 krónur for an individual and to double that amount for a couple. The curtailment of benefits for one child was reduced from 4 to 3 per cent of income in excess of the curtailment threshold, for two children from 8 to 7 per cent and for three children or more from 10 to 9 per cent. This was the third stage and last in raising child benefits.

The social security tax increased by 0.5 per cent.

### ***12.2 Policy changes announced***