
ICELAND 2009

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 2009 AW level is ISK 4 097286¹.

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 6 900 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 1 725 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 276 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 242 636 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 Directorate, 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	115 567
Couples	184 907

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 and family benefits, as well as mortgage interest rebates and rent benefits. The exemption is the lone parent benefit, which is included as family income in the same way as labour income, unemployment benefits, capital income, etc. 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 13 500 per month, with additional ISK 14 000 per month for one dependent child, plus ISK 8 500 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 5 505 026 is counted as income in this respect. The final rent benefit can never be higher than ISK 46 000 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 2010, based on tax returns for 2009: (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 554 364 krónur for an individual, ISK 727 762 krónur for a lone parent and 901 158 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 7 119 124 for a single individual and lone parent and at ISK 11 390 599 for a couple and are eliminated altogether at a 60 per cent higher amount. (5) The maximum amounts of interest rebates are ISK 246 944 krónur for an individual, ISK 317 589 for a lone parent and 408 374 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>	2006	2007	2008	2009	2010
For all children under the age of seven	46 747	56 096	57.891	61.191	61.191
Children under the age of sixteen:					
First child	139 647	139 647	144.116	152.331	152.331
Each additional child	166 226	166 226	171.545	181.323	181.323
Benefits for lone parents:					
First child	232 591	232 591	240.034	253.716	253.716
Each additional child	238 592	238 592	246.227	260.262	260.262
Income threshold for benefit curtailment:					
For couples	1859329	2231195	2880000	3.600.000	3.600.000
For a lone parent	929 665	1115598	1440000	1.800.000	1.800.000
Curtailment of benefits:					
For one child	3%	2%	2%	2%	2%
For two children	7%	6%	5%	5%	5%
For three children or more	9%	8%	7%	7%	7%

Note that child benefits paid in 2010 are based on information from 2009 tax returns.

6.2.2 Income and earnings disregards

The allowance based on 2009 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. 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. One or both parents being at least 75 per cent invalids. Employees of Reykjavik Preschools.

**The tariff of Reykjavík preschools
monthly tariff, ISK
valid from August 1, 2009**

Hours	Category I	Category II	Category III
4	8 467	6 539	4 243
5	13 992	11 582	8 712
6	15 796	12 904	9 460
7	18 851	15 477	11 459
8	20 655	16 799	12 207
9	22 459	18 121	12 955

Meals are included in this data. Amongst siblings, the second and child pay no tuition, only for meals (ISK 6 223 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 17.3% to 63.9% 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. Subsidies vary from one municipality to another. Valid from January 1st 2009.

Hours of care	Both parents living together	One parent a student	Lone parent, invalid parent or both parents studying	Sibling supplement
4	18 500	18 756	25 340	4 880
5	23 125	23 445	31 675	6 100
6	27 750	28 134	38 010	7 320
7	32 375	32 823	44 345	8 540
8	37 000	37 512	50 680	9 760
9	41 625	42 201	57 015	10 980

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	75 228
3 children	195 600

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 ISK 117 176 monthly in 2009.

10. Tax system

Iceland has proportional tax rates on personal income for central and local government taxes. Capital income is taxed separately.

10.1 Income tax rate schedule

The PAYE general income tax rate in 2009 is 37.20 per cent of which 24.10 per cent go to the central government and 13.10 per cent to municipalities. From 1 July 2009 a surtax of 8 per cent is levied on revenues which exceed ISK 700 000 monthly.

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 6 per cent of wages may also be deducted. As the additional 6% 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 506 466 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 2009 is 987 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. For the first half of the year income in category C is taxed at a flat 10 per cent rate with no tax credit. From 1 July 2009 an surtax of 5 per cent is levied on capital income which exceeds ISK 250 000 (ISK 500 000 for married couple) in the second half of 2009.

Individual gross earnings minus allowances.

10.1.3 The tax schedule (see above)

- The central government income tax rate in 2009 is 24.10 per cent and applies to all personal income in excess of ISK 113 454 per month (ISK 1 361 468 per year).
- Local government (average rate): 13.10 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 2009, employees pay a fee to the Construction Fund for the Elderly at a fixed annual amount of ISK 7 534 if annual taxable income was at least ISK 1 361 468 in 2009. 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 on their total payroll cost to the Treasury . The rate was raised on 1 July 2009 from 5.34% to 7.00%. 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 8 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 6 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 2008–2009

The personal income tax rate paid to central government was raised by 1.35 per cent as of the beginning of 2009, from 22.75 per cent to 24.10 per cent. The average municipal income tax collected under the PAYE system increased at the same time from 12.97 per cent to 13.10 per cent. The total PAYE income tax rate thus increased from 35.72 to 37.20 per cent. The personal tax credit was raised from 408,409 to 506,466 ISK annually at the same time, leading to an increase in the annual tax exemption limit from 1,143,362 to 1,361,468 ISK.

Child benefit amounts were unchanged between 2008 and 2009 (paid out 2010), see section 6.2.1.

Interest rebate amounts were unchanged between 2008 and 2009 (paid out 2010), see section 5.2.1.

12.2 Policy changes announced

On 1 July 2009 a temporary surtax rate of 8 per cent was levied on incomes which exceeded ISK 700 000 per person monthly. At the same time, a temporary surtax of 5 per cent was levied on capital incomes exceeding ISK 250 000 (ISK 500 000 for married couples) total in the period July-December 2009.

On 1 January 2010, a new, non-temporary reform of the income tax system became effective. Annual incomes below 2,400 ISK are taxed at 24.1 per cent, incomes between 2,400 and 7,800 ISK at 27.0 per cent, and incomes above 7,800 are taxed at 33.0 per cent. The average municipal income tax increased to 13.12 per cent, bringing the PAYE rates to 37.22 per cent, 40.12 per cent and 46.12 per cent. The personal tax credit was increased to 530,466 thous. ISK, raising the tax exemption limit to 1,425,218 ISK annually. At the same time the capital income tax was raised from 10 to 18 per cent.

On 1 July 2009 the employers' social security contribution rate to the Treasury was raised by 1.66 per cent, from 5.34 per cent to 7.00 per cent of total payroll cost.

On 1 January 2010 the employers' social security contribution rate to the Treasury was raised by 1.65 per cent, from 7.00 per cent to 8.65 per cent of total payroll cost.