

Taxing Wages - Iceland

Tax on labour income

The **tax wedge** is a measure of the tax on labour income, which includes the tax paid by both the employee and the employer.

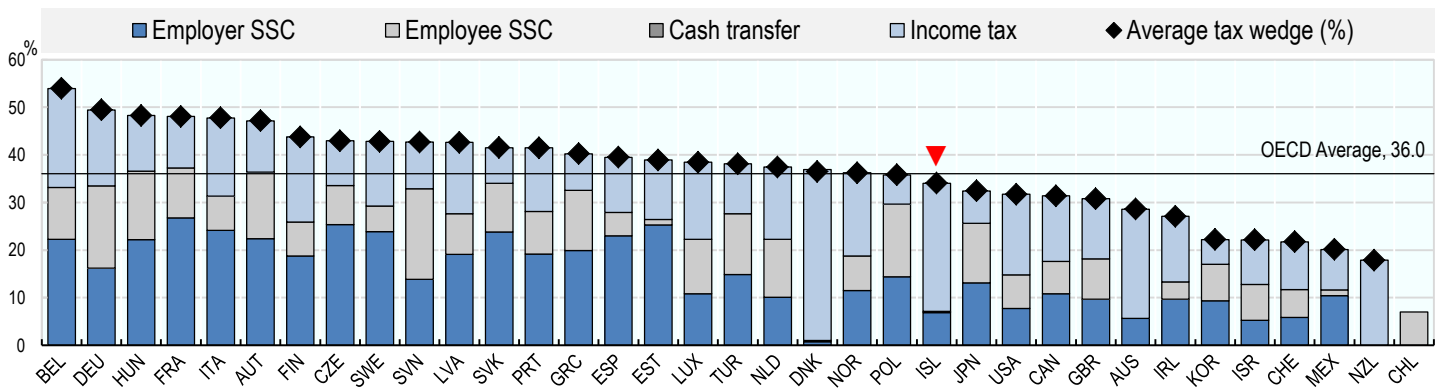
TAX WEDGE ON LABOUR INCOME

$$\frac{((\text{Personal income tax} + \text{employee and employer social security contributions (SSCs)}) - \text{Family Benefits})}{(\text{Total labour costs (gross wages} + \text{employer SSCs)})}$$

Single worker

- » Iceland had the 23rd lowest tax wedge among the 35 OECD member countries in 2016. The country occupied the same position in 2015. The average single worker in Iceland faced a tax wedge of 34.0% in 2016 compared with the OECD average of 36.0%.
- » In Iceland, income tax and employer social security contributions combine to account for 99% of the total tax wedge, compared with 77% of the total OECD average tax wedge.

Average tax wedge: average single worker, no children

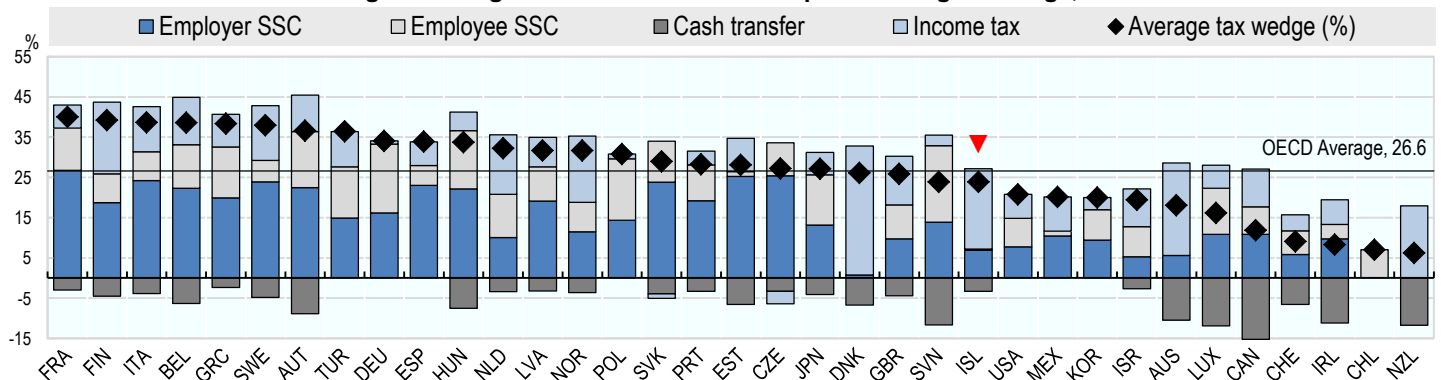


One-earner married couple with two children

The tax wedge for a worker with children may be lower than for a worker on the same income without children, since many OECD countries provide benefits to families with children through cash transfers and preferential tax provisions.

- » Iceland had the 24th lowest tax wedge in the OECD for an average married worker with two children at 23.9% in 2016, which compares with the OECD average of 26.6%. The country occupied the same position in 2015.
- » Child related benefits and tax provisions tend to reduce the tax wedge for workers with children compared with the average single worker. In Iceland in 2016, this reduction (10.2 percentage points) was greater than the OECD average (9.5 percentage points).

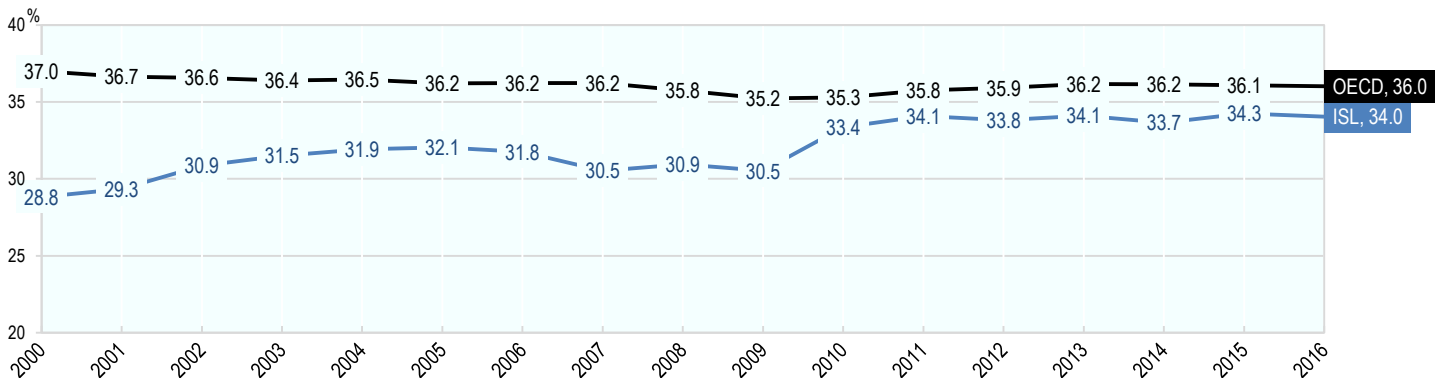
Average tax wedge: One-earner married couple at average earnings, 2 children



Tax wedge trends between 2000 and 2016

- » In Iceland, the tax wedge for the average single worker increased by 5.2 percentage points from 28.8% to 34.0% between 2000 and 2016. During the same period, the average tax wedge across the OECD decreased by 1 percentage point from 37.0% to 36.0%.
- » Since 2009, the tax wedge for the average single worker increased by 3.5 percentage points in Iceland. During this same period, the tax wedge for the average single worker across the OECD increased by 0.8 percentage points.

Average tax wedge over time for a single worker



Employee tax on labour income

The employee net average tax rate is a measure of the net tax on labour income paid directly by the employee.

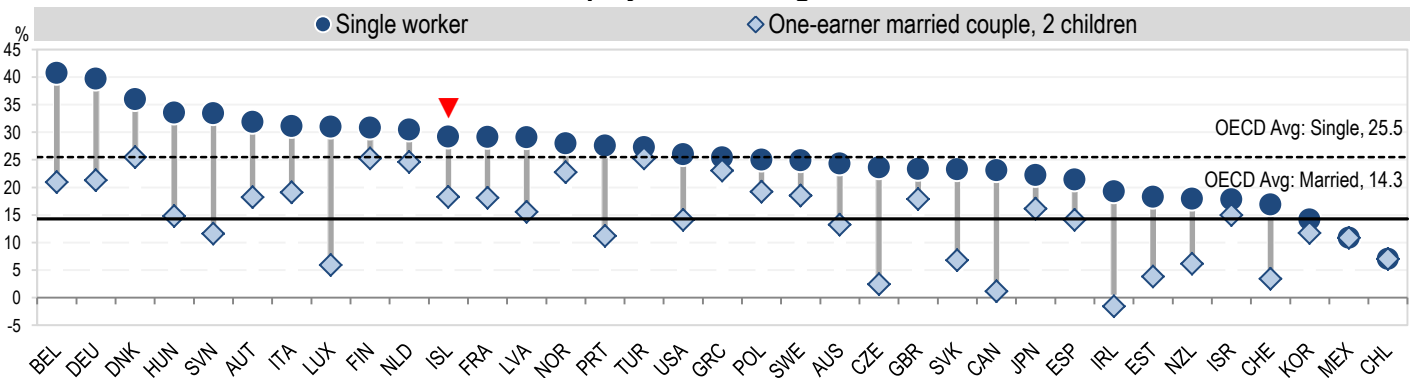
EMPLOYEE NET AVERAGE TAX RATE

$$\frac{(\text{Employee personal income tax and employee social security contributions}) - \text{Family Benefits}}{\text{Gross wages}}$$

- » In Iceland, the average single worker faced a net average tax rate of 29.2% in 2016, compared with the OECD average of 25.5%. In other words, in Iceland the take-home pay of an average single worker, after tax and benefits, was 70.8% of their gross wage, compared with the OECD average of 74.5%.

- » Taking into account child related benefits and tax provisions, the employee net average tax rate for an average married worker with two children in Iceland was reduced to 18.3% in 2016, which is the 12th highest in the OECD, and compares with 14.3% for the OECD average. This means that an average married worker with two children in Iceland had a take-home pay, after tax and family benefits, of 81.7% of their gross wage compared to 85.7% for the OECD average.

Employee net average tax rate



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