

# THE OECD TAX-BENEFIT MODEL FOR ICELAND

Description of policy rules for 2019



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## Preface

The [OECD Tax-Benefit model](#) (**TaxBEN**) incorporates detailed policy rules for tax liabilities and benefit entitlements as they apply to individual families across OECD member countries. Its main use is to calculate the amount of taxes that people are liable to pay, and the government transfers they are likely to receive, in different family and labour-market situations. The model includes legal policy rules that are relevant for people of **working age** (from 18 years old until the statutory retirement age) and their dependent children. Income tax liabilities and benefit entitlements are calculated for a broad set of *stylised* families (“vignettes”, e.g. a married couple of 40 years old adults with two children aged 4 and 6 respectively). Model users are free to change many of these characteristics, including the age and number of children, activity status of adult members, hours of work, current and past earnings levels, unemployment duration, social contribution records, and housing-related costs. The model has been updated annually since the early 2000s for most OECD countries.

TaxBEN’s policy scope includes the main taxes on employment income (earnings), social contributions paid by individuals and by employers, as well as the main cash and near-cash benefit programmes, including unemployment benefits, family benefits, guaranteed minimum-income benefits, cash housing benefits, and employment-conditional benefits. Disability benefits and support for non-parental childcare are included for a sub-set of countries and years. The most important policy areas that are outside the scope of the model include taxes on wealth (e.g. taxes on immovable and movable properties, including local taxes), indirect taxes (e.g. VAT), early-retirement benefits, sickness benefits and in-kind transfers (e.g. free school meals, subsidised transport and free health care).

This report describes the taxes and benefits that are included in the model and focuses on the rules that are relevant for family, individual and labour-market circumstances that are within its scope. The **Annex** provides information on other cash benefits and taxes on employment incomes that can be relevant for some members of the working-age population, but which are not included in the TaxBEN model.

### Reading notes and further details on the scope and content of this report

- The **reference date** for policy rules described in this report is **January 1, 2019**.
- **Guidelines for completing and updating this report** are provided [here](#).
- Further information on the model, model results, and references to reports and analytical uses is available on the [project website](#). A [methodology](#) document provides a full description of the assumptions underlying the model as well as the model choices that users can make. The symbol ⓘ in the text provides a link to a glossary of technical terms.
- Section titles provide the names of taxes and benefits as they are known in the country: first, direct translation into English, then (in brackets) the name in the national language.
- In order to facilitate transparency between the policy descriptions and the associated code in the model, the variable names are indicated in the text in square brackets using the following format: **[variable name]**, for instance: **[AW]** for the average wage.

## The OECD tax-benefit model for Iceland: Policy rules in 2019

### 1. Reference wages and other reference amounts

Average wage **[AW]**: The OECD tax-benefit model uses Secretariat estimates of the average full-time wage (available [here](#))<sup>1</sup>. If Secretariat estimates are not available yet, the model uses wage projections obtained by applying forecasted wage growth<sup>2</sup> to the latest available wage estimate.

Iceland has no statutory minimum wage **[MIN]**.

### 2. Unemployment benefits

#### 2.1. Unemployment insurance benefit (*Atvinnuleysisdagpeningar*)

Code in the OECD tax-benefit model:<sup>3</sup> **[UI\_p; UI\_s]**

This is an unemployment insurance benefit. It is contributory, not means-tested and taxable.



##### 2.1.1. Eligibility conditions

**Age:** In order to qualify for unemployment benefits, one has to be between 18 and 70 years old.

**Contribution/employment history:** An employee must have worked for at least 3 months of the preceding 12 months to qualify for any unemployment insurance benefit (i.e. 25% of the full benefit). In order to qualify for the full benefit, he must have worked for the last 12 months. Part-timers qualify for proportionally reduced benefits.

**Behavioural requirements and related eligibility conditions:** A person must be willing and available to work, and must be resident of and settled in Iceland. A person must have been registered unemployed for at least three days. TaxBEN assumes that these compulsory conditions are satisfied when simulating unemployment benefits.<sup>4</sup>

##### 2.1.2. Benefit amount

Benefits are paid in proportion to the number of hours worked in insured employment in the previous 12 months:

<sup>1</sup> Average Wages are estimated by the [Centre for Tax Policy and Administration](#) at the OECD. For more information on methodology see the latest [Taxing Wages publication](#).

<sup>2</sup> Wage growth projections are based on [OECD Economic Outlook](#) and [EU economic forecasts](#) (for non-OECD countries).

<sup>3</sup> The variable names ending with “\_p” refer to the first adult (so-called “principal” adult) whereas those ending with “\_s” are related to the spouse.

<sup>4</sup> Details on behavioural requirements and sanction provisions for unemployment benefits are reported in regularly updated companion reports, see [Immervoll and Knotz \(2018\)](#), [Langenbucher \(2015\)](#) and [Venn \(2011\)](#).

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- The full benefit amount is ISK 279 720 per month.
  - The minimum benefit amount is ISK 69 930 per month (25% of full benefits).
  - Parents receive a family supplement of ISK 11 189 per month (4% 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 general benefit amount for two weeks the recipient is entitled to 70% of his employment income (average income in the 6-month period ending two months prior to unemployment), subject to a maximum of ISK 440 970 monthly, and for 65 days (three months) only. After that, he will continue to receive the general benefits only, for the remainder of his entitlement period.

#### 2.1.3. Benefit duration

Benefits are paid for a maximum of 30 months since 1 January 2015 (36 months before that).

#### 2.1.4. Means test

The benefit is not means-tested.

#### 2.1.5. Tax treatment

Benefits are subject to general income tax and the employee's non-tax compulsory pension payments (4%). The Unemployment Fund pays the employer's non-tax compulsory pension payment (11.5% since July 1 2018) on behalf of the benefit recipient (*not covered by the model*). In addition, if taxable income (which includes unemployment insurance benefit) exceeds the threshold, the fees to the Construction Fund for the Elderly and the Treasury are also paid by the benefit recipient.

#### 2.1.6. Interactions with other components of the tax-benefit system

Individuals receiving health insurance benefits because of a work-related accident (*slysadagpeningar*) are not eligible for unemployment benefits for the duration of receiving said benefits.

Individuals receiving maternity/paternity leave payments (*fæðingarorlofsgreiðslur*) are not eligible for unemployment benefits for the duration of receiving said payments.

For those receiving old age or disability pension payments, the unemployment insurance benefits are reduced by half of the total amount (old age or disability pension payment plus unemployment insurance benefits) that is above the sum of the full unemployment insurance benefits and the deduction-exemption threshold of the pension system.

(None of these three cases is covered by the model because relevant benefits/pensions are not simulated.)

#### 2.1.7. Combining benefit receipt and employment/startling a new job

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.

### 3. Social assistance and housing benefits

Municipality financial assistance (*Fjárhagsaðstoð sveitarfélaga*) is available from local governments for those without other resources (see Section **Error! Reference source not found.**). There are also two schemes for housing benefits: one for tenants and one for home owners. Housing benefit (*Húsnæðisbætur*) is available to households renting accommodation as long as no household member owns any other real estate. This benefit is simulated in the model (see Section 3.2.). Home owners can receive interest rebates to offset their mortgage payments. Mortgage interest rebate is not simulated in the model (see description in the Annex).

#### 3.1. Municipality financial assistance (*Fjárhagsaðstoð sveitarfélaga*)

Code in the OECD tax-benefit model: **[SA]**

This is a non-contributory benefit, means-tested and taxable. Benefit amounts differ regionally. In the model the rules for the capital, Reykjavik, are simulated.

##### 3.1.1. Eligibility conditions

Municipalities are required by law to assist individuals who cannot provide for themselves and those they are legal guardians of. During the process of reviewing an application for financial aid the municipality will collect information on the individual's eligibility for benefits from the central government and the social security system. The municipality can then reject the applications of those who qualify, fully or partially, for benefits from the central government and the social security system if their needs will be met by said benefits.

##### 3.1.2. Benefit amount

Financial assistance is the difference between the needs (the applicable amount) and the claiming household's resources. The applicable amount for Reykjavik is shown below.

Household type	Applicable amount: recommended minimum monthly rate (ISK)
Single persons	201 268
Couples	322 028
Individual, living with parents ( <i>not covered by the model</i> )	100 634
Individual, cohabiting ( <i>not covered by the model</i> )	169 579

An individual, living with parents, who himself supports a child, is entitled to ISK 169 579 monthly (*not covered by the model*). There are no other regular allowances for dependent children. Recipients who have received benefits for at least three months are entitled to a December bonus of 25% of their regular monthly assistance.

Additional support may be provided to beneficiaries of assistance to meet various expenses, such as funeral costs, dental bills, education etc. (*not covered by the model*)

Parents may be entitled to additional support, up to ISK 16 154 per child monthly, to pay for child care, school meals or activities directed at the child's well-being. This support is

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granted on an individual basis, subject to revision after each 6-month period. They may also receive ISK 16 154 twice, in August and December, towards expenses at beginning of school and Christmas. (*not covered by the model*)

### 3.1.3. Benefit duration

Social assistance is granted on the basis of a decision, with a base period of either 3 or 6 months. After 6 months, assistance may continue, following consultation and an assessment of eligibility. No general absolute duration limit applies.

### 3.1.4. Means test

There are no earning disregards. The tested 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 housing 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.

### 3.1.5. Tax treatment

Subject to general income tax. In addition, if taxable income (which includes municipality financial assistance) exceeds the threshold, the fees to the Construction Fund for the Elderly and the Treasury are also paid by the benefit recipient.

### 3.1.6. Interaction with other components of the tax-benefit system

All other benefits, with the exception of 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 housing benefits, are wholly deducted from the applicable amount. An exemption in regard to benefits paid in respect of children is the lone parent benefit, which is wholly deducted from the applicable amount.

### 3.1.7. Combining benefit receipt and employment/starting a new job

Employment does not affect eligibility, but employment income affects the aid amount as described above. If the applicant is employed part-time, with income below the applicable amount, they will be required to register with an employment agency and seek full-time employment in order to receive aid.

## 3.2. Housing benefits (*Húsnaðisbætur*)

Code in the OECD tax-benefit model: [\[HB\]](#)

A new housing benefit replaced the rent benefit as of 1 January 2017.

This is a non-contributory benefit, means-tested and not taxable.

The central government finances and administers the housing benefit system.

### 3.2.1. Eligibility conditions

Housing benefits are available to tenants with a certified rental agreement of at least 3 months' duration. The rented accommodation must be a self-contained unit (e.g. rooms in dormitories on campuses are excluded).

### 3.2.2. Benefit amount

Number of dwellers	Annual full benefit amount (ISK)	Annual income threshold (ISK)
1	389 520	3 885 000
2	515 172	5 138 226
3	603 132	6 015 484
4 or more	653 388	6 516 774

The benefit is reduced if income surpasses the thresholds (see Section 3.2.4. )

The rent benefit can never be more than 75% of the actual rent.

### 3.2.3. Benefit duration

As long as the eligibility conditions hold. When a recipient becomes ineligible they will not receive payment of housing benefits for the month during which they became ineligible. If a household member turns 18 during the benefit duration the recipient shall get said household member's approval for the necessary gathering of their information and data pertaining to housing benefits. Housing benefit payments can be withheld by the government for 60 days from the first day of the calendar month following the month in which said household member turned 18 if such approval is not received. If the administrative offices have not received said household member's approval within that 60-day grace period, the household has voided their right to housing benefits for the time period. The rights to housing benefits are furthermore demarcated by the end-date of the certified rental agreement.

### 3.2.4. Means test

Housing benefits are targeted to low-income tenants and are therefore subject to an income test. The benefit amount is reduced by 9% of income (i.e. the taxable income of all non-studying household members 18 years or older) that surpasses the income threshold. The taxable income (covered by the model) includes earnings, unemployment benefits, lone parent benefit, and municipality financial support.

After accounting for deductions due to the income-test the benefits are subject to a net wealth test. The post-income-test amount is reduced proportionally starting at a combined net wealth threshold of ISK 6 500 000 for all household members and reaching zero at ISK 10 400 000. Thus, if the combined net wealth of a household is ISK 7 150 000 (at the halfway point between the net wealth threshold and the zero-benefit point of ISK 10 400 000) the post-income-test amount is reduced by 50%. (*net wealth is assumed to be zero in the model*).

### 3.2.5. Tax treatment

Benefits are not taxable.

### 3.2.6. Interaction with other components of the tax-benefit system

Housing benefits do not interact with other components of the tax-benefit system.

### 3.2.7. Combining benefit receipt and employment/starting a new job

Benefit receipt is unaffected by employment status.

## 4. Family benefits

### 4.1. Family benefit (*Barnabætur*)

Code in the OECD tax-benefit model: [\[FB\\_I\]](#)

This is a non-contributory benefit, means-tested and not taxable.

#### 4.1.1. Eligibility conditions

To have a dependent child under 18 years of age.

#### 4.1.2. Benefit amount

The benefit amount per child and income limits depend on the household type:

Household type	Amounts paid in 2019 (based on income received in 2018), ISK/year
<b>Benefit amounts:</b>	
Children under 18	
- First child	234 500
- Each additional child	279 200
Additional benefit for children under 7	
- For each child under 7	140 000
Benefits for single parents	
- First child	390 700
- Each additional child	400 800
<b>Income threshold for benefit curtailment</b>	
For couples	7 200 000
For single parent	3 600 000
<b>Curtailment of benefits</b>	
For one child	4%
For two children	6%
For three children or more	8%
For additional benefit for children under 7	4% per child
<b>Additional curtailment for high income*</b> (introduced in 2019)	
Threshold for couples	11 000 000
Threshold for single parents	5 500 000

Note: \* Additional curtailment is not applied to additional benefits for parents of children under 7.

Note that child benefits paid in 2019 are based on information from 2018 tax returns. However, in the model benefits paid in 2019 are simulated based on income in 2019.

#### 4.1.3. Benefit duration

As long as the eligibility conditions hold.

#### 4.1.4. Means test

The general benefit for parents with one child is reduced by 4% of income above the income limit, by 6% for parents with 2 children and by 8% for parents with 3 or more children. The additional benefit for children under 7 years of age is reduced by 4% of income above the limit (benefit is reduced for each child, i.e. the curtailment rate is multiplied by the number of children under 7). See income thresholds in table in Section 4.1.2. ).

The income definition for the means test includes the following sources of income covered in this report: employment income less non-tax compulsory payments to the pension fund, lone parent motherhood/fatherhood allowance, unemployment benefit and municipality financial assistance.

#### 4.1.5. Tax treatment

The benefit is not taxable.

#### 4.1.6. Interaction with other components of the tax-benefit system

Benefit does not interact with other components of the tax-benefit system.

#### 4.1.7. Combining benefit receipt and employment/starting a new job

Benefit receipt is unaffected by employment status.

### 4.2. Lone parent mother/fatherhood allowance (*Mæðralaun/Feðralaun*)

Code in the OECD tax-benefit model: [\[LPB\]](#)

This is a non-contributory benefit, not means-tested and taxable.

#### 4.2.1. Eligibility conditions

Lone parents with two or more children (under 18 years of age) are entitled to additional benefits from the Social Security Administration.

#### 4.2.2. Benefit amount

The benefit amount depends on the number of children:

Number of children	Benefit amount per year (ISK)
2 children	119 376
3 children	310 368

Additional amounts are paid to lone parents with disabled children (*not covered by the model*).

#### 4.2.3. Benefit duration

As long as eligibility conditions hold.

#### 4.2.4. Means test

The benefit is not income tested.

#### 4.2.5. *Tax treatment*

Subject to general income tax.

#### 4.2.6. *Interaction with other components of the tax-benefit system*

The benefit does not interact with other components of the tax-benefit system.

#### 4.2.7. *Combining benefit receipt and employment/starting a new job*

Benefit receipt is unaffected by employment status.

### 5. Net costs of Early Childhood Education and Care

The **reference date** for the policy rules described in this section is **1 January 2019**.

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, 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 day-care parents.<sup>5</sup>

#### 5.1. *Gross childcare fees*

Code in the OECD tax-benefit model: [\[ICcc\\_cost\]](#)

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. In most municipalities, reduced rates are available to lone parents and students and some offer reduction to parents who have two or more children attending schools at the pre-primary level. Overall, parents contribute about a sixth of the operating costs of pre-primary schools.

Most of the pre-schools are public but there are a number of “independently run pre-schools”. Many of them are able to accept children earlier than the public system. These schools are also subsidized by municipalities, but receive a lower stipend than public pre-schools. To accommodate for this, these independently run pre-schools are allowed to charge a 15% higher fee than the public pre-schools.

In the model, it is assumed that a child attends a public pre-school in Reykjavík.

The fee of Reykjavík public pre-schools is divided into two categories:

- I. No discount. Applies for married parents and parents who live together.
- II. Discount fee. Applies for families where both parents are students; for lone parents; one or both parents are disabled; employees of Reykjavík Preschools.

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<sup>5</sup> In the model, it is assumed that also one-year-old children can attend pre-schools. However, in practice, the majority of 1-year olds are within the municipality subsidized “day-care parent” system (see information on the subsidy for child-care with day-care parents in Annex). Day-care parents set their fees individually (*not covered in this report*). Reykjavík city officials expect to be able to guarantee pre-schools for one-year-olds by the end of 2023.

To qualify for category II, studying parents must study full-time. This category is also for full-time students in junior college and vocational schools. Evening classes are not valid.

Tuition fee for each category and meal fee in 2019 are the following:

The fees of Reykjavík Preschools paid by parents (ISK per month), from 1 January, 2019					
	Tuition fee		Meal fee	Total fee	
Daily duration	Category I	Category II	Category I & II	Category I	Category II
4.0 hours	7 440	3 088	2 225	9 665	5 313
4.5 hours	8 370	3 474	2 225	10 595	5 699
5.0 hours	9 300	3 860	8 858	18 158	12 718
5.5 hours	10 232	4 246	8 858	19 090	13 104
6.0 hours	11 160	4 632	8 858	20 018	13 490
6.5 hours	12 090	5 018	8 858	20 948	13 876
7.0 hours	13 020	5 404	11 083	24 103	16 487
7.5 hours	13 950	5 790	11 083	25 033	16 873
8.0 hours	14 880	6 176	11 083	25 963	17 259
8.5 hours	18 315	7 592	11 083	29 398	18 675
9.0 hours	25 173	10 429	11 083	36 256	21 512
9.5 hours	32 031	13 266	11 083	43 114	24 349

In the model, the childcare full-time fee is modelled assuming 8 hours of childcare, and the part-time fee – assuming 4 hours.

#### 5.1.1. Discounts for part-time usage

Pre-schools operated by municipalities offer part-time or full-time care. The fees are determined based on the hours (see the table above).

#### 5.2. Fee discounts and free provision

Parents with more than one child are entitled to 75% discount of tuition fee for the second child and 100% discount for the third child (and any subsequent child). Parents must pay full meal fee for every child. This discount rule applies equally for children in a pre-school who have siblings in a family day-care or in a private pre-school.

#### 5.3. Child-care benefits for formal centre-based care

Code in the OECD tax-benefit model: [\[cc\\_benefit\]](#)

Reykjavík and many other municipalities subsidise child-care with day-care parents (*Niðurgreiðsla vegna barna hjá dagforeldrum*). Day-care parents are certified to operate child-care services in their homes. They set their fees individually. This benefit is not simulated in the model because it is assumed that preschool childcare is available. The description of the subsidy for day-care parents can be found in Appendix.

#### **5.4. Child care allowance for children not using child care centers**

In 2013, benefits to parents who care for their children at home in the period beginning 6 months after the child is born until the child enters pre-school (cash-for-care) have been abolished in most or all municipalities where this type of benefit was formerly available. This trend is explained by the tight financial situation of municipalities and surging demand for social assistance that they are required to provide, whereas cash-for-care is optional for them. Reykjavík, the largest municipality, abolished cash-for-care in April 2011.

No legislation exists on cash-for-care. Generally, cash-for-care is available only if no formal centre-based childcare is used. The receiving parents may be employed or not. The benefit is not means-tested and not taxable. If used by the recipient towards paying for child care, it is taxable with the caregiver, usually a family member. The benefit amount may vary significantly between municipalities.

This benefit is not simulated in the model.

#### **5.5. Tax concessions for childcare expenditures**

There are no tax concessions for childcare expenditures in Iceland.

### **6. In-work benefits**

There are no in-work benefits in Iceland.

### **7. Social security contributions and payroll taxes**

#### **7.1. Social security contributions (*Tryggingagjald*)**

Variable names: [SOCSEC\_p, SC\_NTCP\_p, SOCSEC\_s, SC\_NTCP\_s, SSCR\_p, SSCR\_NTCP\_p, SSCR\_s, SSCR\_NTCP\_s]

Individuals with an annual taxable income of more than ISK 1 833 671 in 2019 pay two fixed annual fees: to the Construction Fund for the Elderly and to the Treasury, intended to finance the National Broadcasting Service. These fees are payable in the following year and decided in the 2020 budget process. The fee for the Construction Fund for the Elderly was ISK 11 454 in 2018 (paid in 2019) and is ISK 11 740 in 2019 (paid in 2020). The fee for the National Broadcasting Service was ISK 17 500 in 2018 (paid in 2019) and is ISK 17 900 in 2019 (paid in 2020). Individuals younger than 16 years old and 70 years or older are exempt as well as old-age pensioners or disabled residing in old-age, nursing homes or special care establishments. Both fees are payable in the following year (2020). Nevertheless, in the model these fees are simulated in the income reference year (not in the year when they are actually paid).

Employers pay a social security contribution on their total payroll cost to the Treasury. The rate for 2019 is 6.50% (6.75% in 2018). 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.

In addition to the social contribution, there are two mandatory fees levied on the social security contribution base: the Promote Iceland Market Fee<sup>6</sup> and the Wage Guarantee Fund Fee<sup>7</sup>, 0.05% each.

Furthermore, a new financial activities tax was introduced in 2012, which requires financial and insurance companies to pay an additional payroll tax (*fjársýsluskattur*). The rate for 2018 is 5.5%. This tax is not part of the model.

**Pension funds:** Individuals aged 16-70 years with taxable income must be members of a pension fund and contribute 4% of their wages, generally deducted on a withholding basis. The employer counter-contributes at least another 11.5% (since 1 July 2018). Both contributions are deductible from income before tax.

From 1 July 2014, employees can contribute up to 4% to a pension fund on an optional basis. This contribution is also tax-exempt. If an employee chooses to take this option, the employer will generally match the employee's contribution by 2% of the employee's wages. These optional contributions are not simulated in the model.

## 8. Taxes

Iceland has a dual income tax system. Personal income tax for central and local government is collected together on a withheld basis. Income is taxed on an individual basis, except for capital income of married couples which is taxed jointly (*not covered by the model*).

### 8.1. Personal income tax (*Tekjuskattur einstaklinga*)

Code in the OECD tax-benefit model: [\[FT\\_p; FT\\_s\]](#)

This section describes both central government and local government income taxes.

#### 8.1.1. Tax allowances

**Tax allowance for pension contributions:** Since January 2000, the compulsory payment by employees to pension funds, amounting to 4% of wages, is deductible. In addition, since 1 July 2014, a voluntary payment of up to 4% of wages may also be deducted (*not covered by the model*).

**Work-related expenses:** earnings-related transportation costs (net of fringe benefits) are deductible up to a certain limit (*not covered by the model*).

#### 8.1.2. Tax base

Taxable income in the model includes wages, unemployment benefits, municipality financial assistance and lone parent mother/fatherhood allowance. Tax base is taxable income minus tax allowances. The tax base is the same for the central and local government tax. In the model in case of couples, municipality financial assistance is allocated to the partner with the lower taxable income.

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<sup>6</sup> The market fee goes to “Promote Iceland”, a public-private partnership established to improve the competitiveness of Icelandic companies in foreign markets and to stimulate economic growth through increased export.

<sup>7</sup> The Wage Guarantee Fund guarantees payments to employees and pension funds in respect of their outstanding claims in the event of an employer's insolvency.

### 8.1.3. Income tax schedule

In 2017, the central government personal income tax was reformed into a dual-rate system. In 2019, the tax schedule is the following:

- the bottom rate of 22.50% applies to personal income up to ISK 927 087 per month;
- the top rate is 31.80% for incomes above ISK 927 087.

The local government personal income tax is single rated. It varies between municipalities from 12.44% to 14.52%. The average rate of 14.44% is used in the model.

In general, the tax unit is the individual. A special rule applies for principal's taxable income in the higher bracket (above ISK 11 125 045 annually, i.e. ISK 927 087 monthly), if the spouse's taxable income is below ISK 11 125 045. A part of the principal's income above ISK 11 125 045 is then taxed in the lower bracket. The part is determined as half of the amount by which the spouse's income is below ISK 11 125 045, subject to a maximum of ISK 5 562 523 (half of ISK 11 125 045).

### 8.1.4. Tax credits

**Basic tax credit** is ISK 677 358 per earner annually. The credit is subtracted from central and local government taxes; unused portions are not refundable. Married couples may utilise up to 100% of each spouse's unutilised portion of his/her basic tax credit.

## 9. Selected output from the OECD tax-benefit model (TaxBEN)

This section shows selected output of the TaxBEN model for Iceland 2019 (Figure 1). TaxBEN by default produces the following output: net household incomes (**black line**) and its subcomponents (**coloured stacked areas**) for selected family and individual circumstances.

The model and the related web calculator is accessible from the [project website](#). Figure 1 shows outputs for four scenarios:

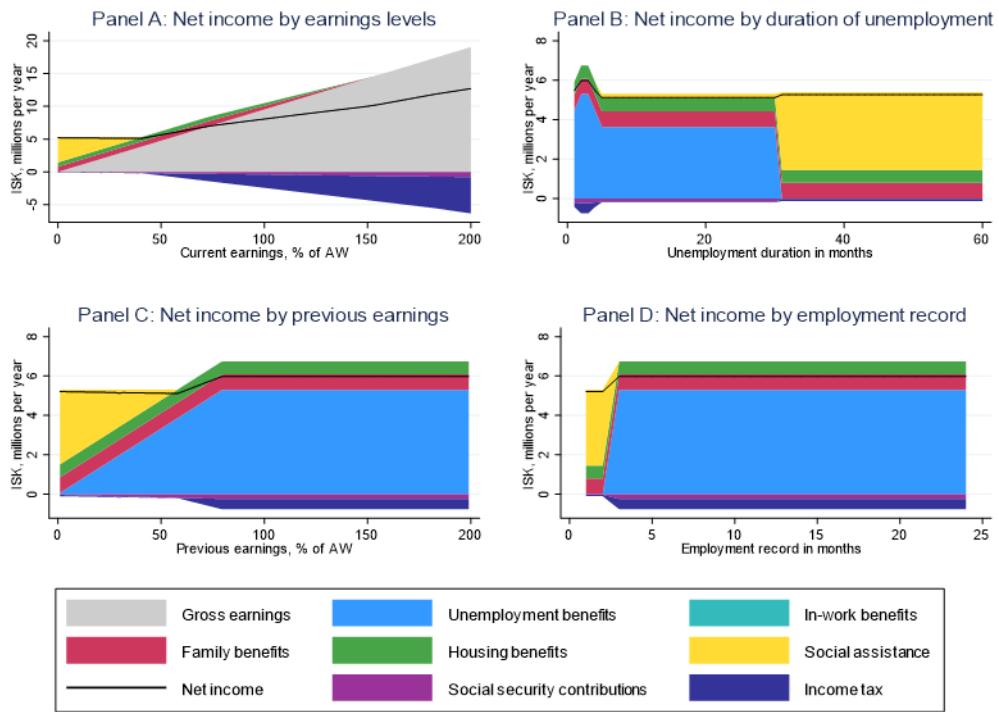
- By percentage of the average wage (**Panel A**);
- By unemployment duration (in months) for a jobseeker claiming unemployment benefits (**Panel B**);
- By previous gross earnings levels for a jobseeker claiming unemployment benefits (**Panel C**);
- By previous employment record, for a jobseeker claiming unemployment benefits (**Panel D**).

The stacked areas shows the following household income components: **GROSS** = gross earnings; **SSC** = social security contributions; **IT** = income tax; **FB** = family benefits; **HB** = housing benefits; **SA** = social assistance; **IW** = in-work benefits. Note that each component may contain more than one benefit or tax.

Results in Figure 1 refer to a two-adult family with two children. Adults are both 40 years old whereas children are 4 and 6 years old respectively. Social assistance and housing benefit supplements are assumed to be available in all the four scenarios provided that the necessary income and eligibility requirements are met. Where receipt of social assistance or other benefits is subject to activity tests (such as active job-search or being available for work), these requirements are assumed to be met.

**Figure 1. Selected output from the OECD tax-benefit model**

Two-adult couple with two children.



*Notes:* In Panel A, the first adult is employed full-time and full-year. The second adult is out of work and not eligible for unemployment benefits, e.g. because they have expired (the same is assumed for the first adult when earnings are zero). In Panels B to D, the first adult is out of work and claiming unemployment benefits, whereas the second adult is out of work and not eligible to unemployment benefits. Previous earnings of the first adult equal to the Average Wage. In Panels B and C, the first adult is assumed to have a ‘long’ employment record of 264 consecutive months before the job loss. Panels C and D refer to the 2nd month of unemployment benefit receipt.

*Source:* Calculations based on the OECD tax-benefit model.

## Annex: Other benefits and direct taxes

This section provides a brief description of other cash benefits and taxes on employment incomes in Iceland that are relevant for some members of the population below the statutory retirement age, but which are not included in the OECD tax-benefit model.

### *Mortgage interest rebate (Vaxtabætur)*

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. The cost of mortgage interest rebate is borne by central government. The programme is part of the tax system and is administered through tax authorities.

The rebate is based on interest paid on a home purchase loan. The following constraints apply to interest rebates paid in 2019, based on tax returns for 2018:

- They cannot exceed 7% of the remaining debt balance incurred in buying a home for one's own use.
- The maximum amount of interest payments that qualify for an interest rebate calculation is ISK 840 000 for an individual, ISK 1 050 000 for a lone parent and ISK 1 260 000 for a couple.
- 8.5% of taxable income is subtracted from the interest expense.
- The rebates begin to be curtailed at a net worth threshold of ISK 5 million for a single individual and lone parent and at ISK 8 million for a couple and are eliminated altogether at a 60% higher amount.
- The maximum amounts of interest rebates are ISK 420 000 for an individual, ISK 525 000 for a lone parent and ISK 630 000 for a couple.

In 2012, an additional condition was introduced to this scheme: the rebate is not paid to those who have not actually paid their due interest on mortgage debt of the preceding year.

### *Subsidy for child-care with day-care parents (Niðurgreiðsla vegna barna hjá dagforeldrum)*

Reykjavík and many other municipalities subsidise child-care with day-care parents. Day-care parents are certified to operate child-care services in their homes. They set their fees individually.

Generally, the conditions for receiving a subsidy are that parents are unable to place their children in pre-schools or day-care centres, usually due to waiting-lists, and therefore place them with day-care parents. Subsidy is granted from the time when the child is nine months old, but for lone parents and studying parents from the age of six months.

Subsidies vary from one municipality to another. The following subsidy applies in Reykjavík. (Categories I and II are the same as explained in Section 5.1. ). A minimum subsidy applies if a parent pays for 4 hours of care. The subsidy for the 2<sup>nd</sup> child is 75% of the amount granted for the first child, however for the third child (and any subsequent child) the same subsidy is granted as for the first child.

Daily duration	Subsidy of day-care parent services (ISK per month), from 1 January, 2019					
	Category I			Category II		
	Subsidy for one child	Addition for second child	Addition for third child	Subsidy for one child	Addition for second child	Addition for third child
4.0 hours	31 666	23 750	31 666	43 360	32 522	43 360
4.5 hours	35 625	26 719	35 625	48 780	36 587	48 780
5.0 hours	39 583	29 687	39 583	54 200	40 653	54 200
5.5 hours	43 541	32 656	43 541	59 619	44 718	59 619
6.0 hours	47 500	35 625	47 500	65 039	48 783	65 039
6.5 hours	51 458	38 593	51 458	70 459	52 848	70 459
7.0 hours	55 416	41 562	55 416	75 879	56 914	75 879
7.5 hours	59 375	44 531	59 375	81 299	60 979	81 299
8.0 hours	63 333	47 500	63 333	86 719	65 044	86 719
8.5 hours	65 312	48 984	65 312	90 747	68 065	90 747
9.0 hours	63 312	48 984	63 312	93 401	70 056	93 401

Provided a contract is in place with an approved day-care parent, subsidy begins when the child is 9 months old (6 months old for single parents and couples where both parents are students) and formally will end as the child enters elementary school at the age of six. In practice, however, most children start kindergarten around the age of two and will then no longer be eligible for the subsidy.

Subsidy is available to all parents, regardless of income. Subsidy is not subject to income tax. Subsidy does not interact with other benefits. Benefit receipt is unaffected by employment status.