



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.

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

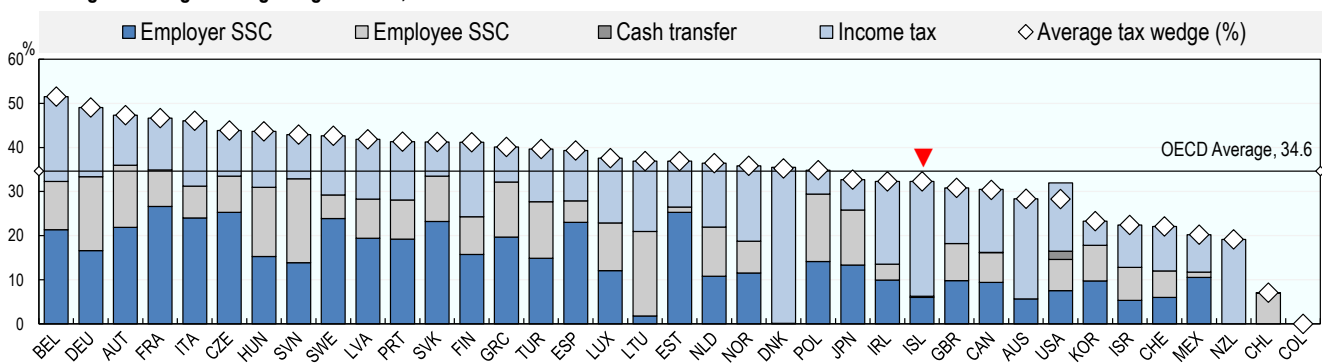
Single worker

The tax wedge for the average single worker in Iceland decreased by 0.4 percentage points from 32.7% in 2019 to 32.3% in 2020.

» The OECD average tax wedge in 2020 was 34.6% (2019, 35.0%). In 2020, Iceland had the 26th lowest tax wedge among the 37 OECD member countries, compared with the 25th in 2019.

» In Iceland, income tax and employer social security contributions combine to account for 99% of the total tax wedge, compared with 76% of the total OECD average tax wedge.

Average tax wedge: average single worker, no children



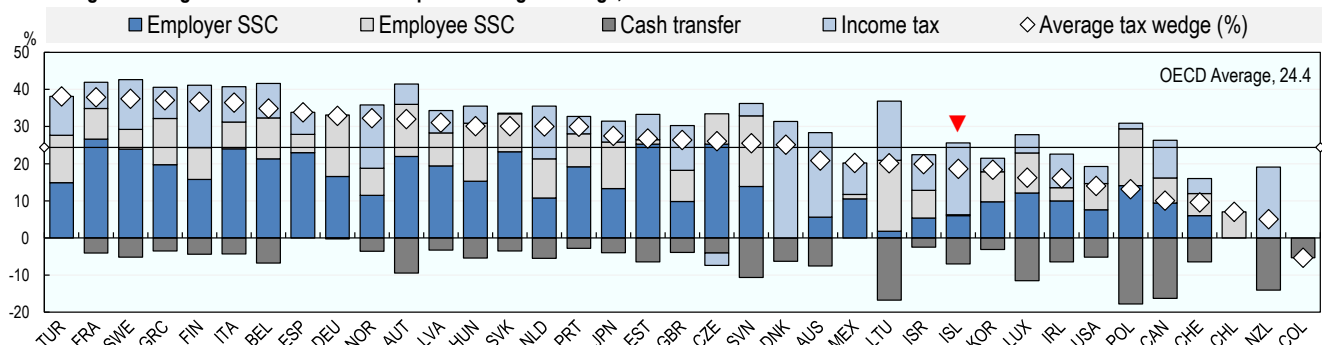
One-earner married couple with two children

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

» Iceland had the 27th lowest tax wedge in the OECD for an average married worker with two children at 18.6% in 2020, which compares with the OECD average of 24.4%. The country occupied the 28th lowest position in 2019.

» 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 2020, this reduction (13.7 percentage points) was greater than the OECD average (10.2 percentage points).

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



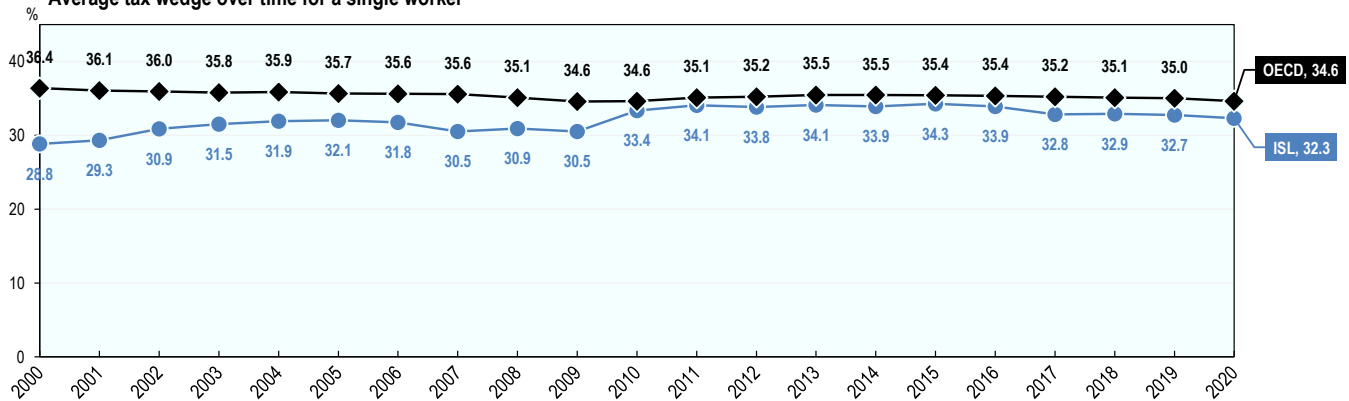


Tax wedge trends between 2000 and 2020

» In Iceland, the tax wedge for the average single worker increased by 3.5 percentage points from 28.8% to 32.3% between 2000 and 2020. During the same period, the average tax wedge across the OECD decreased by 1.8 percentage points from 36.4% to 34.6%.

Between 2009 and 2020, the tax wedge for the average single worker increased by 1.8 percentage points in Iceland. During this same period, the tax wedge for the average single worker across the OECD increase slowly to 35.5% in 2013 and 2015 before decreasing back to 34.6% in 2020.

Average tax wedge over time for a single worker



Employee tax on labour income

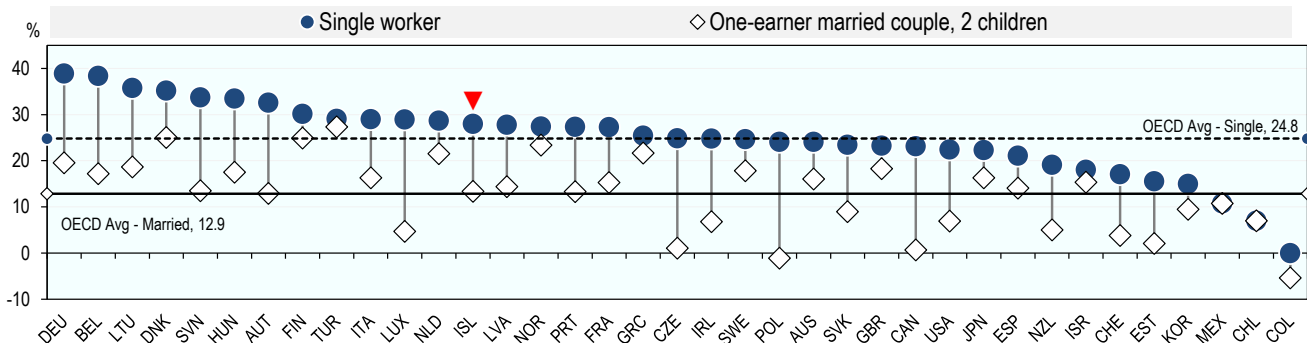
The employee net average tax rate is a measure of the net tax on labour income paid directly by the employee.

$$\text{EMPLOYEE NET AVERAGE TAX RATE} = \frac{(\text{Employee personal income tax and employee social security contributions}) - \text{Family Benefits}}{\text{Gross wages}}$$

» In Iceland, the average single worker faced a net average tax rate of 28.0% in 2020, compared with the OECD average of 24.8%. In other words, in Iceland the take-home pay of an average single worker, after tax and benefits, was 72.0% of their gross wage, compared with the OECD average of 75.2%.

» 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 13.4% in 2020, which is the 21st highest in the OECD, and compares with 12.9% 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 86.6% of their gross wage, compared to 87.1% for the OECD average.

Employee net average tax rate



Contacts

David Bradbury

Centre for Tax Policy and Administration
Head, Tax Policy and Statistics Division
David.Bradbury@oecd.org

Michelle Harding

Centre for Tax Policy and Administration
Head, Tax Data & Statistical Analysis Unit
Michelle.Harding@oecd.org

Dominique Paturot

Centre for Tax Policy and Administration
Statistician/Analyst
Dominique.Paturot@oecd.org