

# THE OECD TAX-BENEFIT DATABASE

Description of policy rules for  
Iceland 2023



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## Description of policy rules for 2023

**OECD contact:** Olga Rastrigina, Jobs and Income Division, Directorate for Employment, Labour and Social Affairs. Email: [Tax-Benefit.Models@oecd.org](mailto:Tax-Benefit.Models@oecd.org)

**National team:** Pétur Magnús, Ministry of Finance and Economic Affairs, Iceland.

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## Preface

This report provides a detailed description of the tax and benefit rules in Iceland as they apply to working-age individuals and their dependent children. It also includes output from the [OECD Tax-Benefit model \(TaxBEN\)](#), which puts all these complex legal rules into a unified methodological framework that enables international comparisons of how tax liabilities and benefit entitlements affect the net disposable income of families in different labour market circumstances, .e.g. in employment versus unemployment.

The **main body** of the report describes the rules that are relevant for the family and labour market characteristics that are within the scope of the **TaxBEN** model (see below for the methodology and user guide). The **annex** provides information on other cash benefits and taxes on employment income that are relevant for other groups of the working-age population, but are outside the scope of the **TaxBEN** model.

**TaxBEN** is essentially a large cross-country calculator of tax liabilities and benefit entitlements for a broad set of *hypothetical* families (“vignettes”), e.g. a married couple of 40-years-old adults with two children aged 4 and 6 (click [here](#) for a quick overview of the **TaxBEN** model). **TaxBEN** incorporates rules on the main taxes on employment income, social contributions paid by employees and employers, as well as the main cash and near-cash benefit programmes, including unemployment benefits, family and childcare benefits, guaranteed minimum-income benefits, cash housing benefits, and employment-conditional benefits. Disability benefits, maternity and parental leaves benefits are included in the model for a sub-set of countries and years. The main policy instruments that are currently not included in the **TaxBEN** model are taxes on wealth (e.g. taxes on immovable and unmovable properties), indirect taxes (e.g. VAT), early-retirement benefits, short-time work compensation schemes, sickness benefits, and in-kind benefits (e.g. subsidised transport and free health care).

### Useful online resources for the OECD tax-benefit model (TaxBEN)



[TaxBEN web calculator](#)



[Methodology and user guide](#)



[OECD tax-benefit data portal](#)



[Network of national experts](#)

### Guidelines for updating this report (for national experts)



[General guidelines](#)

Detailed [guidelines for updating Section 5](#) “Net costs for Early Childhood Education and Care”

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

- **Reference date** for the policy rules described in this report: **1 January 2023**.
- The symbol  in the text provides a link to the 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.
- **TaxBEN** variables are indicated in the text using the format [\[variable name\]](#).

## The OECD tax-benefit model for Iceland: Policy rules in 2023

### 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]**.

Most monetary parameters in tax-benefit policies in Iceland have no automatic indexation (except pensions, which are outside the scope of this report). Each year, the values are determined and accepted by parliament through the passage of a bill.

### 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. the minimum unemployment insurance benefit, which equals 25% of the full benefit). In order to qualify for the full benefit, the employee must have worked for the last 12 months. For full-time workers with employment record in between 3 and 12 months, the benefit will increase linearly from 25% to 100% of the full benefit. Part-timers qualify for proportionally reduced benefits (*not considered in the model*).

**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

<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.

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:

- The full benefit amount is ISK 331 298 per month.
- The minimum benefit amount is ISK 82 824 per month (25% of full benefits).
- Since 2006, benefits are linked to previous employment income to an extent. After having received the basic 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 522 282 monthly, and for 65 days (three months) only. A temporary extension of the duration of income-related benefit to 6 months was discontinued on 1 February 2022 (*implemented in the model in policy year 2023*). After expiration of income-related benefit, a recipient will continue to receive the basic benefit for the remainder of his entitlement period. The income-related benefit cannot fall below the amount of the flat benefits that a person is eligible to.
- A monthly payment is made for dependent children younger than 18 years of age: 4% of undiminished basic flat-rate unemployment benefit amount, that is ISK 13 251 per month for each child. In case of income-related benefit it means that the amount with supplements for children can exceed the maximum of ISK 522 282 monthly.

### 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 1 July 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.

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<sup>4</sup> Details on behavioural requirements and sanction provisions for unemployment benefits are reported in regularly updated companion reports, see [How demanding are activation requirements for jobseekers? - OECD](#).

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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/starting a new job*

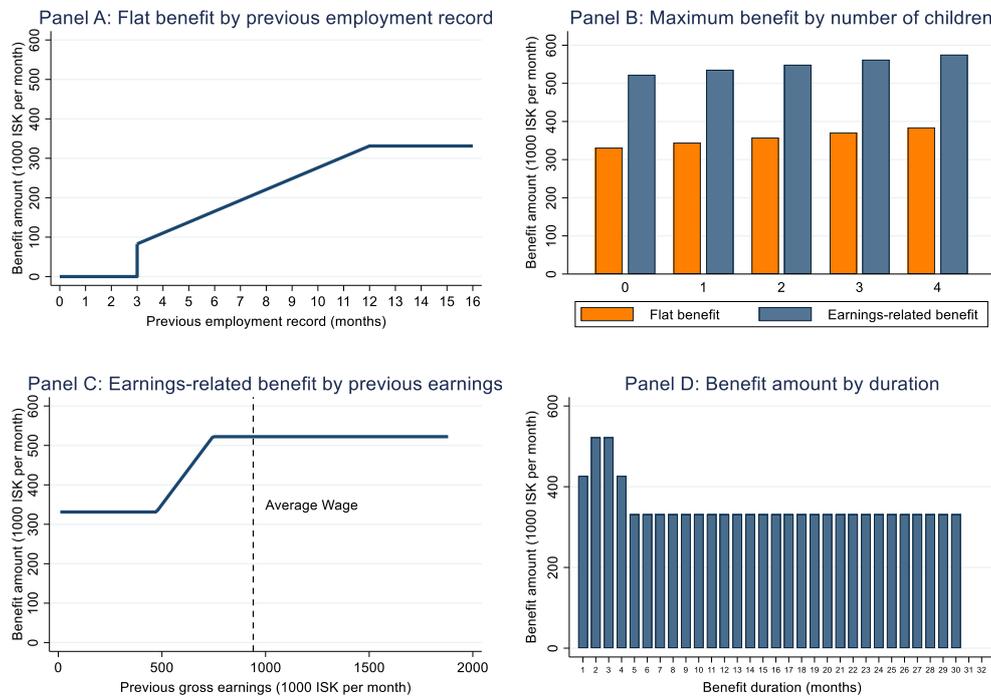
If a recipient has occasional employment for one or two days at a time, benefit is reduced in proportion to the number of hours worked.

#### *2.1.8. Indexation*

No automatic indexation.

**Figure 1. Unemployment benefit**

40-year old single person



*Note:* Benefit rules do not depend on whether a person is single or lives in a couple. However, there are supplements for children (shown in Panel B). Other panels (Panels A, C and D) show benefit amount for a single person without children. Panels B, C, and D assume long and continues previous employment record. Panel A shows a flat benefit amount by previous employment record. Flat benefit is paid in the first two weeks of benefit receipt and after the end of the income-related benefit (approx. 3 months on 1 January 2023). Panel B shows the maximum benefit amount by number of children (under 18 years old). Calculations for earning-related benefit in Panel B assume a person with previous earnings at the average wage. Panel C shows income-related benefit amount by previous gross earnings. Income-related benefit is paid for approx. 3 months after the initial “waiting period” of two weeks. Panel D shows benefit amount by duration for a person with previous earnings at the average wage. In the first and fourth month of benefit receipt, the amount is a weighted average of the flat amount (paid for two weeks) and income-related amount (paid for another two weeks).

*Source:* OECD Tax-Benefit Model.

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## ***2.2. Unemployment assistance***

*OECD note:* In many OECD countries, jobseekers who do not qualify for Unemployment Insurance (UI – Section 2.1), or whose entitlement to UI is low or has expired, can claim Unemployment Assistance (UA – this section) and/or Social Assistance benefits (SA – Section 3). These UA and SA benefits have different purposes (and reach different target groups). For instance, while the main purpose of UA is to encourage the labour market reintegration of jobseekers who have exhausted or are not eligible to the standard UI benefit, the purpose of SA programmes is to provide an acceptable standard of living for families unable to earn sufficient incomes from other sources. Conditions for UA typically include requirements to register with the public employment service and participate in active job search in a similar way as for UI. This is not always the case for SA benefits, for which low income is the key entitlement criterion and activation requirements exist only for those who are capable of work.

Based on this definition, Iceland and the representative municipality considered in this report (Reykjavik) do not currently provide a national/local Unemployment Assistance programme. Iceland provides a Social Assistance programme (described in Section 3.1).

### 3. Social assistance and housing benefits

Municipality financial assistance (*Fjárhagsaðstoð sveitarfélaga*) is available from local governments for those without other resources (see Section 3.1. ). 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 on 1 January 2023 is shown below (*these amounts are used in the model for policy year 2023 since the policy reference date is 1 January*).

Household type	Applicable amount: recommended minimum monthly rate (ISK)
Single persons	217 799
Couples	348 476
Individual, living with parents ( <i>not covered by the model</i> )	108 898
Individual, cohabiting ( <i>not covered by the model</i> )	183 507

An individual, living with parents, who himself supports a child, is entitled to ISK 183 507 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.

From 13 July 2023, the city council of Reykjavik increased the amounts of financial social assistance (*these amounts will be used in the model for policy year 2024 since the policy reference date is 1 January, unless there are further policy changes*):

Household type	Applicable amount: recommended minimum monthly rate (ISK)
Single persons	228 689
Couples	365 902
Individual, living with parents ( <i>not covered by the model</i> )	114 345
Individual, cohabiting ( <i>not covered by the model</i> )	192 682

From 13 July 2023, an individual, living with parents, who himself supports a child, is entitled to ISK 192 682 monthly (*not covered by the model*).

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*)

Since 1 April 2021 (*included in the model since policy year 2022*), parents receive additional support to pay for child care, school meals or activities directed at the child's well-being. The support equals the cost of having a child in kindergarten or in other child care five days a week, eight hours a day, including school meals, and is paid directly to Reykjavík's School and Recreation Council (see Section 5. ). Parents may also receive ISK 18 355 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 each month. If an applicant also receives social insurance, or maternity/paternity leave payments, and it appears that his situation will not change, assistance may be granted for 6 months at a time. After 6 months, assistance may continue, following consultation and an assessment of eligibility. No general absolute duration limit applies.

### 3.1.4. Means test

#### *Income 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.

#### *Asset test*

If the applicant or their partner own an additional dwelling for personal use, own a car, or have recently sold any assets, they will be referred to a financial credit counselor. Additionally, if the applicant or their partner have other assets that can be used for financial support, they may not be eligible for financial assistance.

### *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*

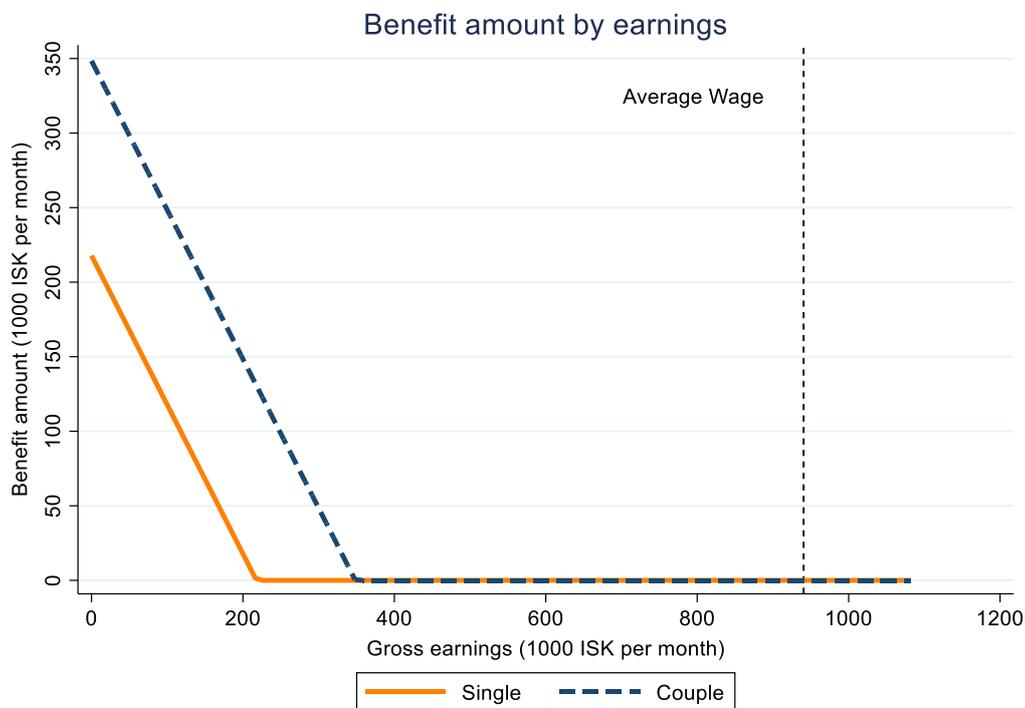
Employment does not affect eligibility, but employment income affects the aid amount as described above. If the applicant is employed part-time, with income below the applicable amount, they will be required to register with an employment agency and seek full-time employment in order to receive aid.

### *3.1.8. Indexation*

No automatic indexation.

**Figure 2. Municipality financial assistance**

40-year old single person and couple with or without children



*Note:* Results assume no receipt unemployment benefit, lone parent benefit as well as other benefits, which are usually included in the means test for municipality financial assistance. Discretionary supplements for children are not included, thus the benefit amount depends only on whether a person is single or lives in a couple. The figure shows the reduction in benefit amount as one adult starts working. The benefit is reduced by 1 ISK for every gross ISK earned. Residence in the municipality of Reykjavik is assumed.

*Source:* OECD Tax-Benefit Model.

### 3.2. *Housing benefits (Húsnæðisbætur)*

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*

Benefit amounts and income thresholds on 1 January 2023:

Number of dwellers	Annual full benefit amount (ISK)	Annual income threshold (ISK)
1	487 601	5 257 544
2	644 892	6 953 525
3	754 995	8 140 713
4 or more	817 912	8 819 106

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 11% 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

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net wealth threshold of ISK 8 000 000 for all household members and reaching zero at ISK 12 800 000. Thus, if the combined net wealth of a household is ISK 10 400 000 (at the halfway point between the net wealth threshold and the zero-benefit point of ISK 12 800 000) 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*

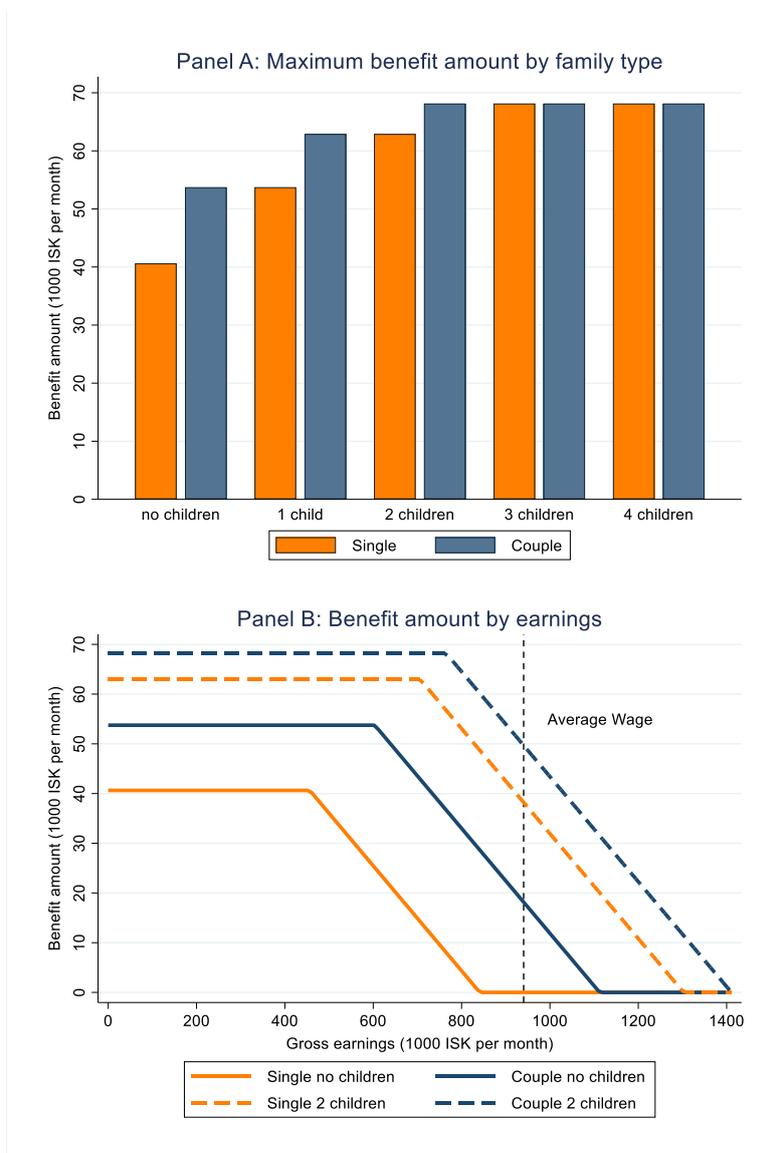
Benefit receipt is unaffected by employment status.

#### 3.2.8. *Indexation*

No automatic indexation.

**Figure 3. Housing benefit**

40-year old single or couple with or without children



*Note:* Results assume no receipt of unemployment benefits, financial municipality assistance, lone parent benefit or other benefits, which are usually included in the means test for housing benefit. Rent is assumed to be 20% of average wage for all family types. Panel A shows maximum benefit amount for a jobless family with no income. Panel B shows the reduction in benefit amount if one adult starts working.

*Source:* OECD Tax-Benefit Model.

## 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 2023 (based on income received in 2022), ISK/year
<b>Benefit amounts:</b>	
Children under 18	
- Each child	295 000
- Additional for every child under 7	138 000
Benefits for single parents	
- Each child	440 000
- Additional for every child under 7	138 000
<b>Income threshold for benefit curtailment</b>	
For couples	9 500 000
For single parent	4 750 000
<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

Since 2023, the amounts for the first and subsequent child are the same (unless they fall into different age category). The additional curtailment for high income has been abolished.

*Note that child benefits paid in 2023 are based on information from 2022 tax returns. However, in the model benefits paid in 2023 are simulated based on income in 2023.*

#### 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.

#### 4.1.8. Indexation

No automatic indexation.

### 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 on 1 January 2023 (*these amounts are used in the model for policy year 2023 since the policy reference date is 1 January*):

Number of children	Benefit amount per year (ISK)
2 children	148 116
3 children or more	385 080

From 1 July 2023, the amounts increased (*these amounts will be used in the model for policy year 2024 since the policy reference date is 1 January, unless there are further policy changes*):

Number of children	Benefit amount per year (ISK)
2 children	151 824
3 children or more	394 704

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*

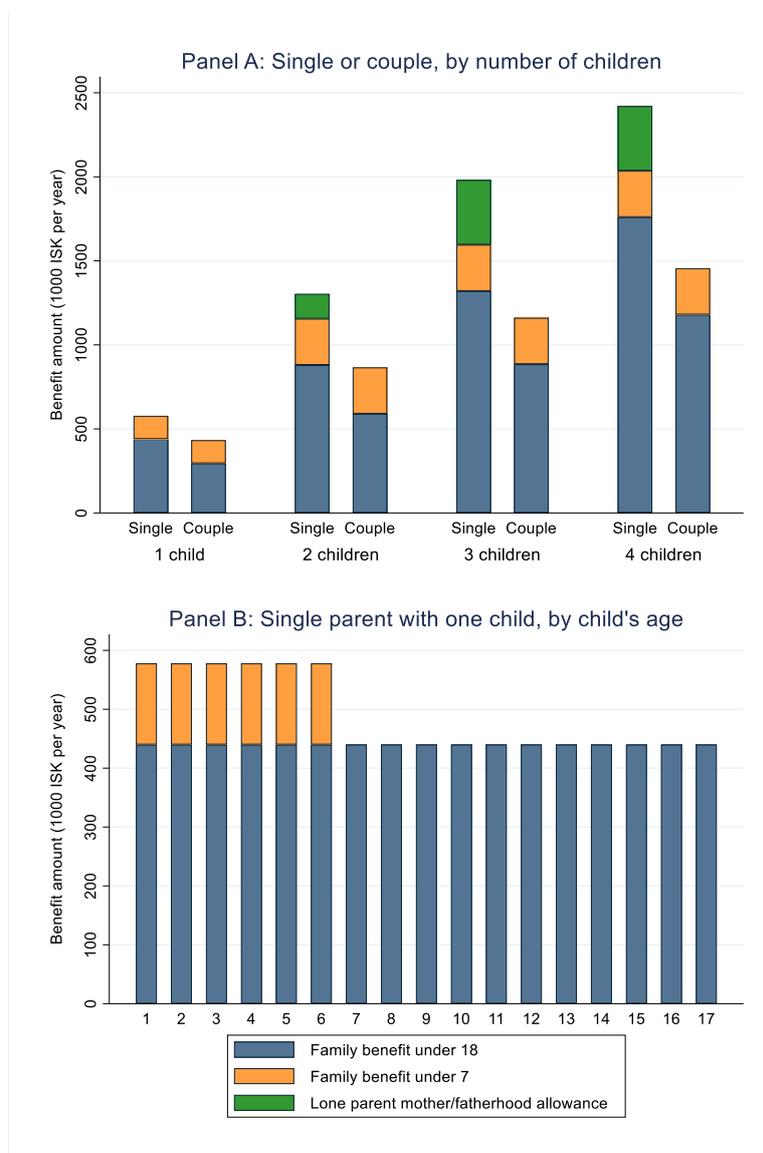
Benefit receipt is unaffected by employment status.

*4.2.8. Indexation*

No automatic indexation.

**Figure 4. Maximum amounts of family benefits**

40-year old single person or couple with children

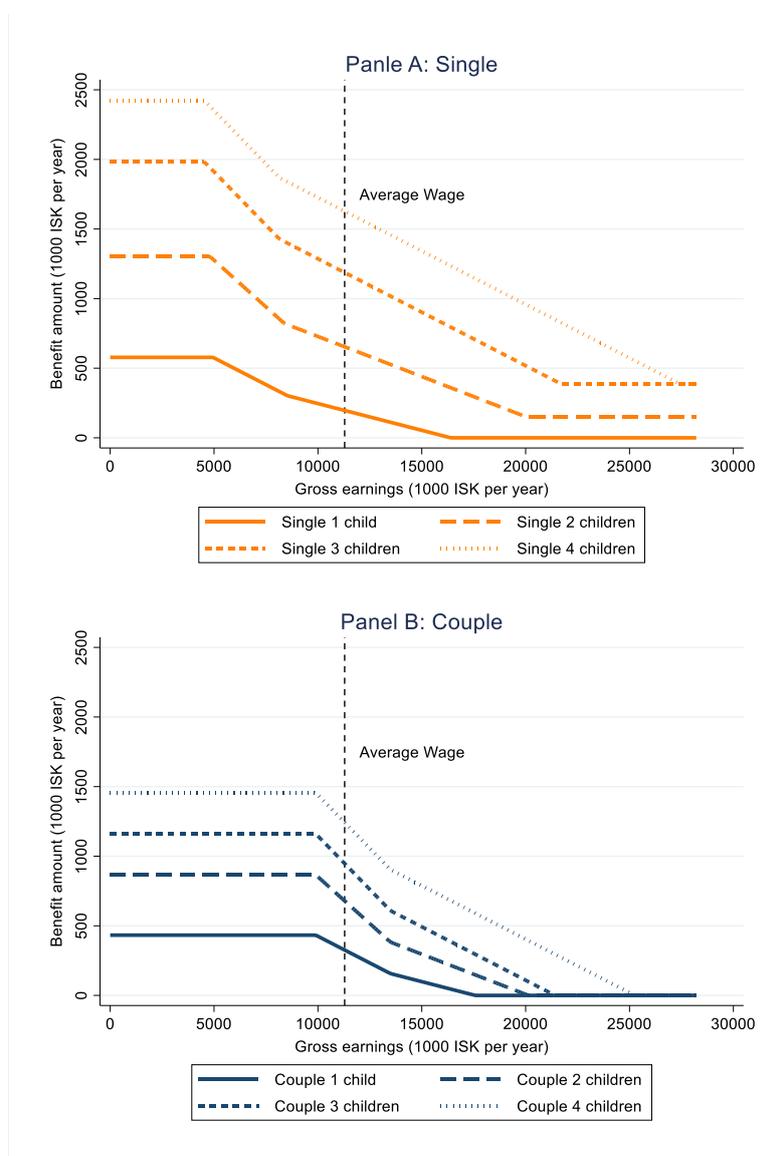


*Note:* The figure shows maximum family benefit amounts for a jobless family with no income. In Panel A, children's ages are 4, 6, 8, and 10. In Panel B, child's age varies from 1 to 17 years old.

*Source:* OECD Tax-Benefit Model.

**Figure 5. Family benefits by earnings**

40-year old single person or couple with children



*Note:* The figure shows the total amount of family benefits (family benefit under 18 and under 7 years old, and lone parent mother/fatherhood allowance) and how they are reduced if one adult starts working. The second adult in a couple is assumed to be out of work. The family receives only earnings from work and family benefits. The amounts of lone parent mother/fatherhood allowance does not depend on earnings. Other benefits are reduced gradually to zero as earnings increase. Children are 4, 6, 8, and 10 years old.

*Source:* OECD Tax-Benefit Model.

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

The **reference date** for the policy rules described in this section is **1 January 2023**.

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 children may be cared for by day-care parents.<sup>5</sup> There is no mandatory preschool in Iceland.

### 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 Reykjavik Preschools.

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 2023 are the following:

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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's policy is to provide access to preschool for all children who have turned one year old, but the city has not yet achieved this goal.

The fees of Reykjavík Preschools paid by parents (ISK per month), from 1 January, 2023					
Daily duration	Tuition fee		Meal fee	Total fee	
	Category I	Category II	Category I & II	Category I	Category II
4.0 hours	8 916	3 696	2 664	11 580	6 360
4.25 hours	9 473	3 927	2 664	12 137	6 591
4.5 hours	10 031	4 158	2 664	12 695	6 822
4.75 hours	10 588	4 389	2 664	13 252	7 053
5.0 hours	11 145	4 620	10 661	21 806	15 281
5.25 hours	11 702	4 851	10 661	22 363	15 512
5.5 hours	12 260	5 082	10 661	22 921	15 743
5.75 hours	12 817	5 313	10 661	23 478	15 974
6.0 hours	13 374	5 544	10 661	24 035	16 205
6.25 hours	13 931	5 775	10 661	24 592	16 436
6.5 hours	14 489	6 006	10 661	24 592	16 667
6.75 hours	15 046	6 237	10 661	25 707	16 898
7.0 hours	15 603	6 468	13 325	28 928	19 793
7.25 hours	16 160	6 699	13 325	29 485	20 024
7.5 hours	16 718	6 930	13 325	29 485	20 255
7.75 hours	17 275	7 161	13 325	30 600	20 486
8.0 hours	17 832	7 392	13 325	31 157	20 717
8.25 hours	19 891	8 242	13 325	33 216	21 567
8.5 hours	21 949	9 091	13 325	35 274	22 416

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

### *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 100% discount of tuition fee for the second child and any subsequent child. Parents also get 100% discount of meals for the third child and any subsequent 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.

Parents can apply for a discount on preschool fees in the following cases (see category II described in Section 5.1. ): When both parents, married or cohabiting, are full-time students; if a parent is single, if a parent has disability or receives a rehabilitation pension, or if a parent is a member of preschool staff with at least 50% employment. Discount applications need to be renewed each year.

If a child is sick continuously for four weeks or longer, parents may be eligible to receive a 50% discount on tuition fees by providing a medical certificate.

Parents who receive social assistance also receive support to pay for childcare, school meals or activities directed at the child's well-being. The support equals the cost of having a child in kindergarten or in other childcare five days a week, eight hours a day (see Section 3.1.2).

### **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.

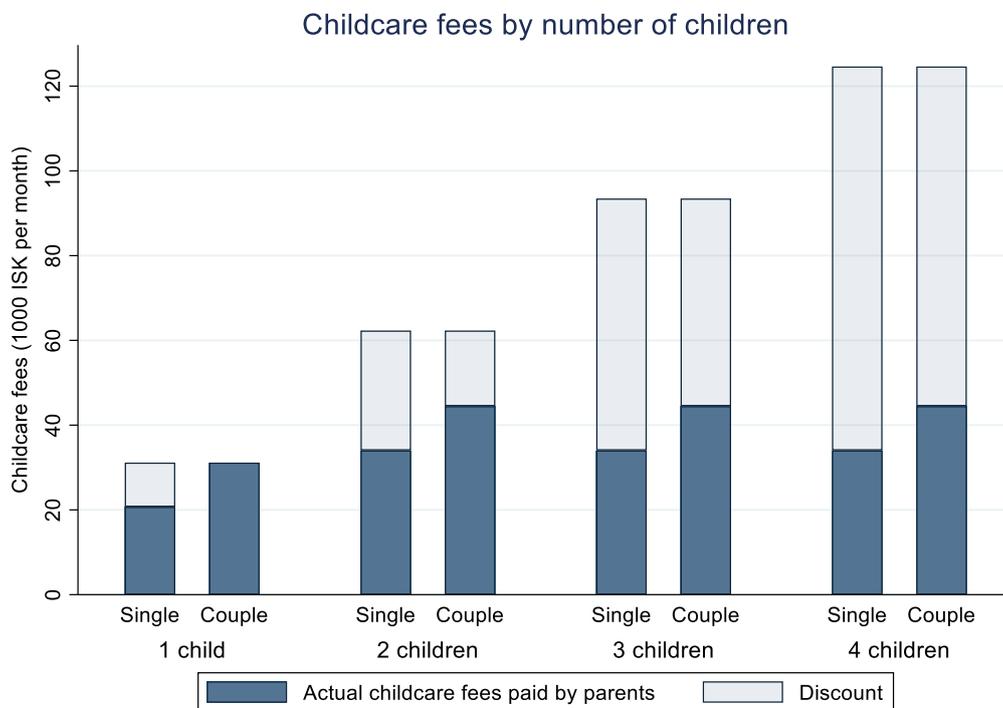
*This “cash-for-care” benefit is not simulated in the model.*

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

There are no tax concessions for childcare expenditures in Iceland.

**Figure 6. Childcare fees paid by parents**

40-year old single person or couple with children



*Note:* Results assume that a family resides in Reykjavík. Childcare fees do not depend on family income, but there are discounts based on family composition (for single parents and siblings). In addition, parents who receive social assistance receive support for full-time childcare costs (not shown in the figure). Both parents are working full time and use childcare for all children for the full day (8 hours per day). Children are 2, 3, 4, and 5 years old.

*Source:* OECD Tax-Benefit Model.

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## 6. In-work benefits

*OECD note:* This section provides information on employment-conditional (“in-work”) benefits for employees, i.e. benefits whose eligibility is conditional on the following key requirements: 1) being regularly employed (in either the private or public sector); 2) working a certain number of hours and/or earning more than a certain minimum. This definition notably excludes ‘workfare’ programmes and related ‘work-first’ policies that make out-of-work benefits conditional on participation in work activities.

This section provides information also on one-off and/or temporary payments for benefit recipients who are out of work and make a transition into employment. These type of benefits are referred to as transitional “into-work” benefits in order to differentiate them from the “regular” in-work benefits that do not have any predefined maximum duration after moving into work.

Based on this definition, Iceland does not have “in-work” and “into-work” benefit programmes.

## 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, brdcst_tax_p, brdcst_tax_s]`

Individuals with an annual taxable income of more than ISK 2 276 570 in 2023 pay two fixed annual fees<sup>6</sup>: to the Construction Fund for the Elderly and to the Treasury, intended to finance the National Broadcasting Service<sup>7</sup>. These fees are payable in the following year and decided in the 2024 budget process. The fee for the Construction Fund for the Elderly was ISK 13 284 in 2022 (paid in 2023) and is ISK 13 749 in 2023 (paid in 2024). The fee for the National Broadcasting Service was ISK 20 200 in 2022 (paid in 2023) and is ISK 20 900 in 2023 (paid in 2024). 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 (2024). Nevertheless, in the model these fees are simulated in the income reference year (not in the year when they are actually paid).*<sup>8</sup>

Employers pay a social security contribution on their total payroll cost to the Treasury. The rate for 2023 is 6.25%. 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>9</sup> and the Wage Guarantee Fund Fee<sup>10</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 (*fjársluskattur*). The rate for 2023 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%. Both contributions are deductible from income before tax. *In the model, they are classified as non-tax compulsory payments.*

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

<sup>6</sup> The threshold is a function of the tax parameters (see Section 8. ): the basic credit (ISK 715 981) divided by the sum of the two tax rates, the lowest central income tax rate (16.78%) and the local tax (14.67%).

<sup>7</sup> The fee for the National Broadcasting Service `[brdcst_tax]` in the model is classified as tax and included in variables for income tax `[IT]`.

<sup>8</sup> The preliminary model for 2023 uses the fees of 2022 (paid in 2023). The final version (*TaxBEN version 2.6.0*) includes the fees of 2023 (paid in 2024).

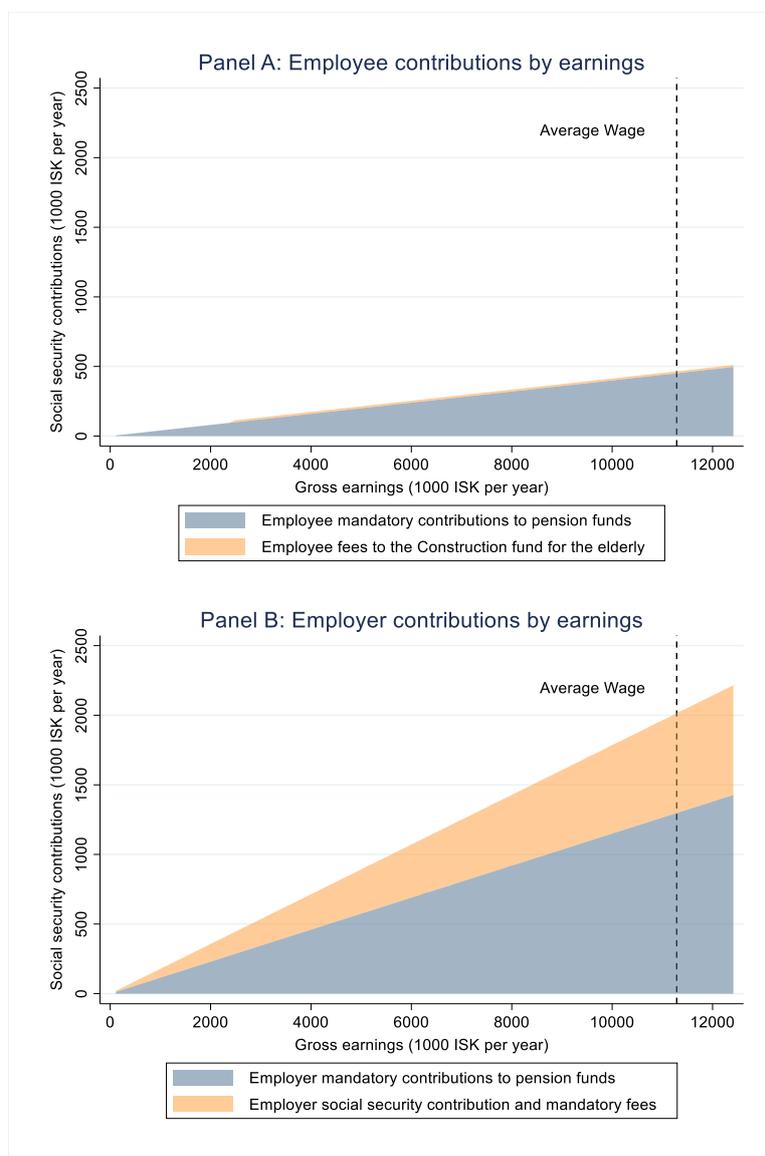
<sup>9</sup> The market fee goes to “Promote Iceland”, a public-private partnership established to improve the competitiveness of Icelandic companies in foreign markets and to stimulate economic growth through increased export.

<sup>10</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.

employer will generally match the employee's contribution by 2% of the employee's wages. *These optional contributions are not simulated in the model.*

**Figure 7. Social security contributions**

40-year old single person without children



*Note:* Calculations assume that a person receives only earnings from work and does not receive municipality financial assistance or other taxable benefits, which are included in the taxable income. Results include mandatory social security contributions paid by employer to the Treasury, non-tax compulsory payments by employee and employer to pension funds, employee fees to the Construction Fund for the Elderly as well as employer mandatory fees (the Promote Iceland Market Fee and the Wage Guarantee Fund Fee). All these payments do not depend on family structure but may vary according to employee gross earnings or taxable income.

*Source:* OECD Tax-Benefit 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.*

#### 8.1.3. Income tax schedule

In 2020, the central government personal income tax was reformed into a triple-rate system. In 2023, the tax schedule is the following:

- the bottom rate of 16.78% applies to personal income up to ISK 409 986 per month;
- the middle rate of 23.28% applies to income ranging from ISK 409 987 up to ISK 1 151 012;
- the top rate is 31.58% for income above ISK 1 151 012.

The local government personal income tax is single rated. It varies between municipalities from 12.44% to 14.74%. The average rate of 14.67% is used in the model.

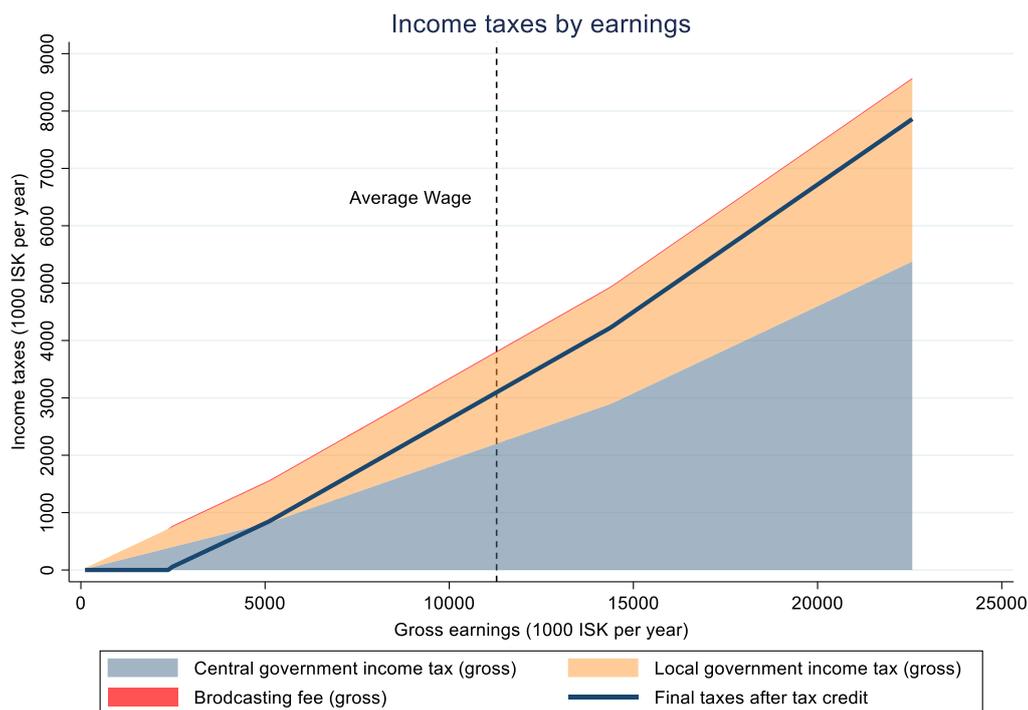
In general, the tax unit is the individual. A special rule applies for principal's taxable income in the highest bracket (above ISK 13 812 144 annually, i.e. ISK 1 151 012 monthly), if the spouse's taxable income is below ISK 13 812 144. A part of the principal's income above ISK 13 812 144 is then taxed in the middle bracket. The part is determined as half of the amount by which the spouse's income is below ISK 13 812 144, subject to a maximum of ISK 4 446 155 (half the amount of personal income that can be taxed in the middle bracket).

### 8.1.4. Tax credits

**Basic tax credit** is ISK 715 981 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.

**Figure 8. Income tax**

40-year old single person without children



*Note:* A person has no other sources of income but earnings from work. Taxes include central government income tax, local government income tax as well as broadcasting fee. Gross taxes are taxes before the basic tax credit. Final taxes are total taxes after subtraction of the basic tax credit (non-refundable). Income tax is calculated at the individual level and does not depend on family structure (with the exception of married couples under certain conditions, not shown in the figure).

*Source:* OECD Tax-Benefit Model.

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

This section shows selected output of the TaxBEN model for Iceland 2023. 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](#). The figure shows outputs for four scenarios:

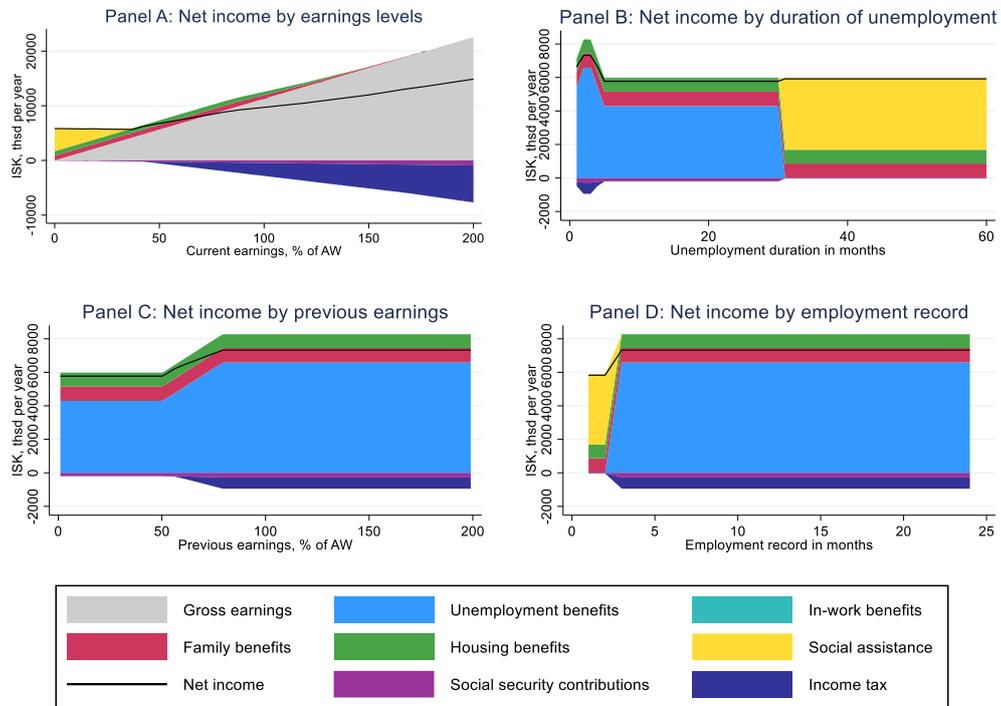
- By percentage of the average wage (**Panel A**);
- By unemployment duration (in months) for a jobseeker claiming unemployment benefits (**Panel B**);
- By previous gross earnings levels for a jobseeker claiming unemployment benefits (**Panel C**);
- By previous employment record, for a jobseeker claiming 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 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 9. Selected output from the OECD tax-benefit model**

40-year old couple with two children



*Note:* 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:* 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 homeowners 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 2023, based on tax returns for 2022:

- 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 7.5 million for a single individual and lone parent and at ISK 12 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.

Subsidy of day-care parent services (ISK per month), from 1 January, 2023						
Daily duration	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	37 927	28 445	37 927	51 936	38 952	51 936
4.5 hours	42 668	32 001	42 668	58 425	43 818	58 425
5.0 hours	47 410	35 557	47 410	64 917	48 688	64 917
5.5 hours	52 151	39 113	52 151	71 411	53 558	71 411
6.0 hours	56 891	42 669	56 891	77 899	58 424	77 899
6.5 hours	61 634	46 225	61 634	84 393	63 294	84 393
7.0 hours	66 375	49 782	66 375	90 885	68 164	90 885
7.5 hours	71 115	53 336	71 115	97 373	73 030	97 373
8.0 hours	75 853	56 890	75 853	103 868	77 901	103 868
8.5 hours	78 227	58 670	78 227	108 691	81 518	108 691
9.0 hours	78 227	58 670	78 227	111 870	83 903	111 870

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.