

THE OECD TAX-BENEFIT DATABASE

Description of policy rules for
Iceland 2024



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Description of policy rules for 2024

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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 accurate 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 currently outside the scope of the **TaxBEN** model.

TaxBEN is 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 benefits and wages 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 2024**.
- 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 2024

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](#))¹. If Secretariat estimates are not available yet, the model uses wage projections obtained by applying forecasted wage growth² 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:³ [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

¹ 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](#).

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

³ 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.*⁴

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 349 851 per month.
- The minimum benefit amount is ISK 87 462 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 551 530 monthly, and for 65 days (three months) only. 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 13 994 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 551 530 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.

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

⁴ 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](#).

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, 2024](#).

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 0). 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 2024 is shown below:

Household type	Applicable amount: recommended minimum monthly rate (ISK)
Single persons	239 895
Couples	383 832
Individual, living with parents (<i>not covered by the model</i>)	119 948
Individual, cohabiting (<i>not covered by the model</i>)	202 123

An individual, living with parents, who himself supports a child, is entitled to ISK 202 123 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*)

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 19 254 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

An individual is permitted ownership of a primary residence and a car. Any assets beyond a single house or a flat, capable of being sold or serving as a source of income, will be excluded from financial assistance.

People can reside in their own homes without affecting their financial assistance. If an individual or a couple owns a second house, they are not eligible for financial assistance. Additionally, if they choose to rent it out, the income derived will be deducted from their benefits. All extra assets other than the main residence and a car are considered for the asset test. Household appliances and personal belongings are not considered. Any revenue-generating assets will contribute to additional income, which will be withdrawn alongside financial support, mirroring the handling of a regular salary.

If an individual possesses assets beyond one car and their primary residence, the municipality considers that these additional assets could be liquidated or utilized for income to benefit the individual. Consequently, they may be referred to a financial institution for further assistance. The market value of the one car the individual has does not matter.⁵

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.

⁵ See more information [here](#) (Article 13 is for income and assets applicants).

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, 2024](#).

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 2024:

Number of dwellers	Annual full benefit amount (ISK)	Annual income threshold (ISK)
1	487 601	5 690 772
2	644 892	7 526 505
3	754 995	8 811 518
4 or more	817 912	9 545 812

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 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*

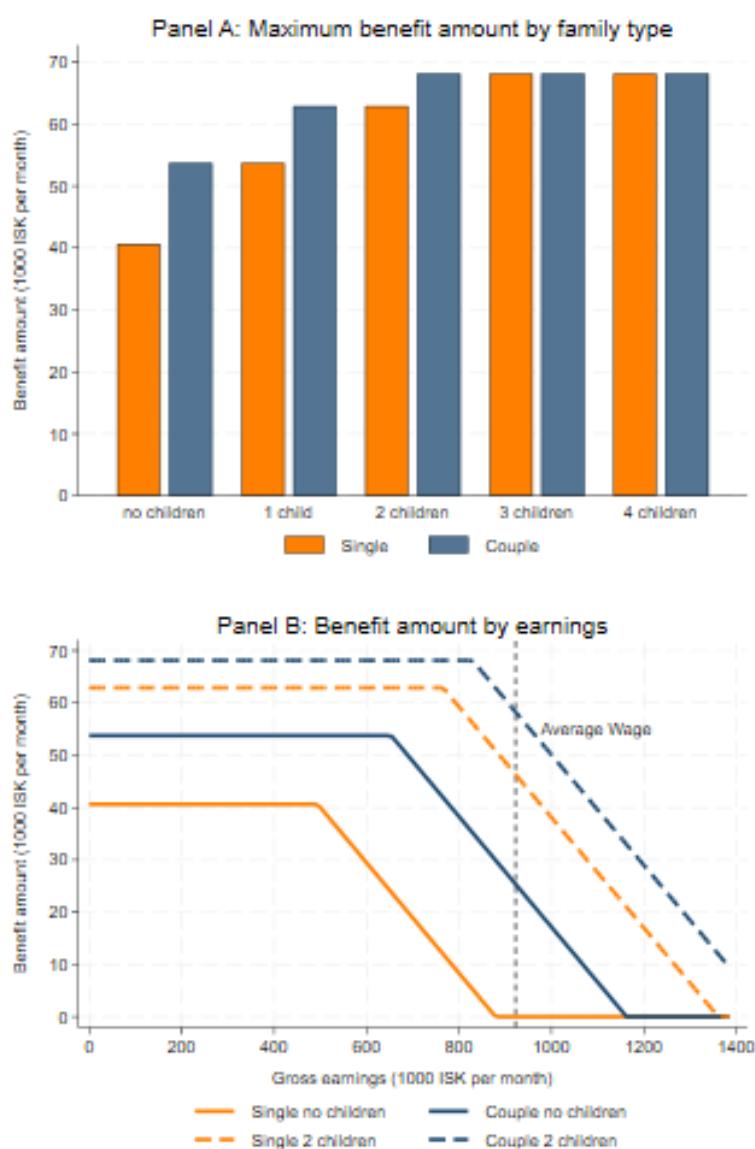
Benefit receipt is unaffected by employment status.

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, 2024..](#)

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 2024 (based on income received in 2023), ISK/year
Benefit amounts:	
Children under 18	
- Each child	310 000
- Additional for every child under 7	130 000
Benefits for single parents	
- Each child	460 000
- Additional for every child under 7	130 000
Income threshold for benefit curtailment	
For couples	9 785 000
For single parent	4 893 000
Curtailment of benefits	
For one child	5%
For two children	5%
For three children or more	5%
For additional benefit for children under 7	5% 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 2024 are based on information from 2023 tax returns. However, in the model benefits paid in 2024 are simulated based on income in 2024.

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 5% of income above the income limit, by 5% for parents with 2 children and by 5% for parents with 3 or more children. The additional benefit for children under 7 years of age is reduced by 5% 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 2024:

Number of children	Benefit amount per year (ISK)
2 children	160 332
3 children or more	416 808

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

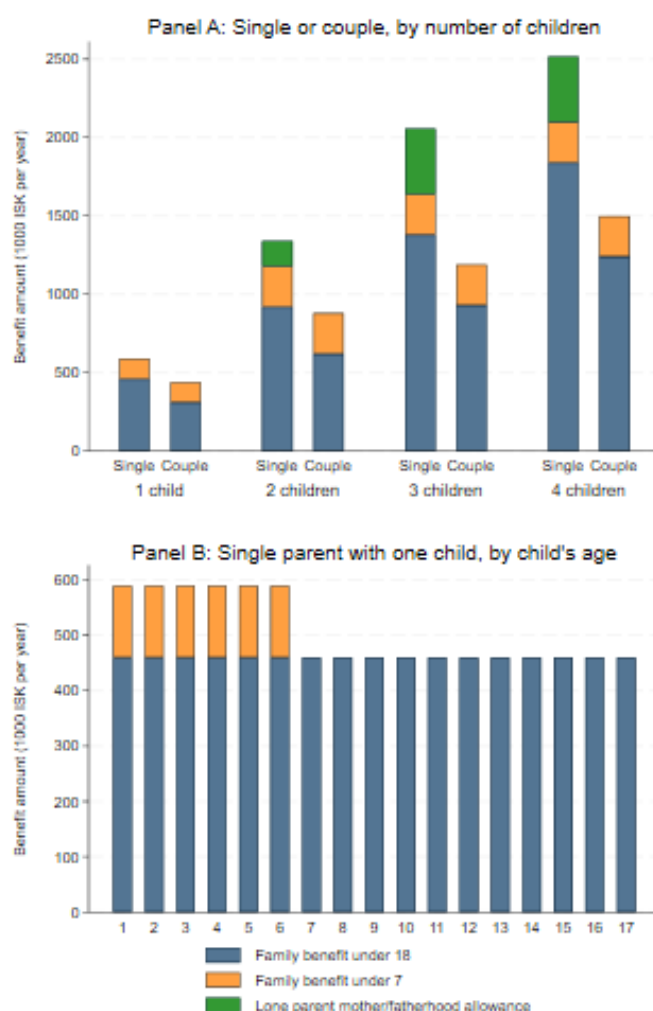
Benefit receipt is unaffected by employment status.

4.2.8. Indexation

No automatic indexation.

Figure 4. Maximum amounts of family benefits

40-year old single person or couple with children

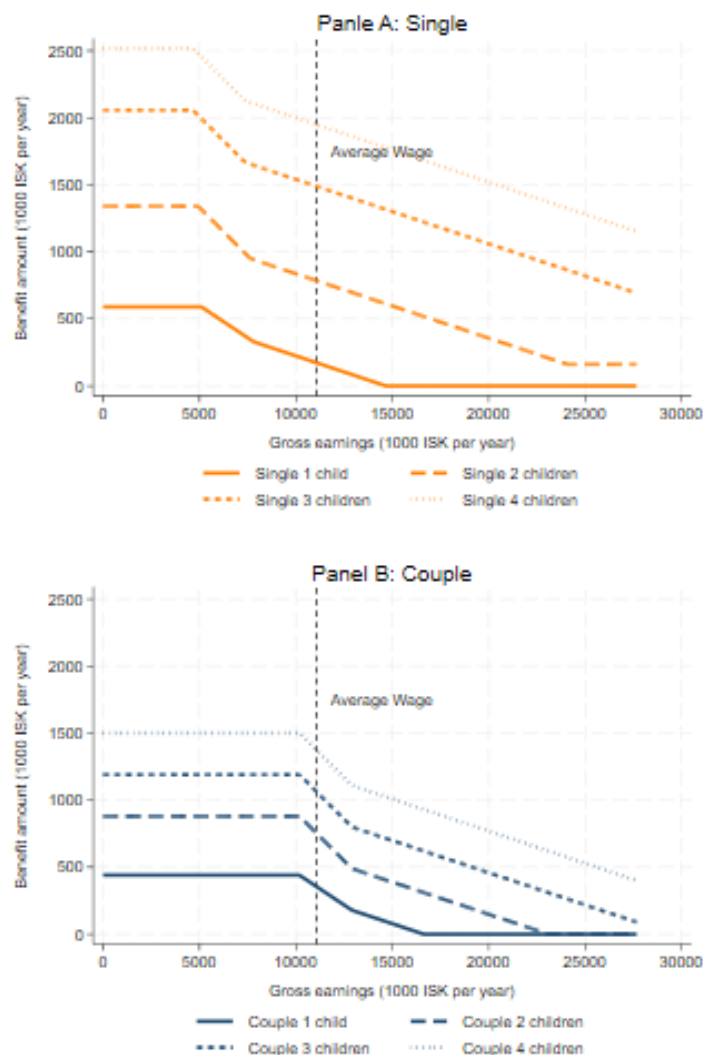


Note: The figure shows maximum family benefit amounts for a jobless family with no income. In Panel A, children's ages are 4, 6, 8, and 10. In Panel B, child's age varies from 1 to 17 years old.

Source: [OECD tax-benefit model, 2024](#).

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, 2024](#).

5. Net costs of Early Childhood Education and Care

The **reference date** for the policy rules described in this section is **1 January 2024**.

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.⁶ 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 2024 are the following:

⁶ 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, 2024					
Daily duration	Tuition fee		Meal fee	Total fee	
	Category I	Category II	Category I & II	Category I	Category II
4.0 hours	9 744	4 040	2 912	12 656	6 952
4.25 hours	10 353	4 293	2 912	12 265	7 205
4.5 hours	10 962	4 545	2 912	13 874	7 457
4.75 hours	11 571	4 798	2 912	14 483	7 710
5.0 hours	12 180	5 050	11 653	23 833	16 703
5.25 hours	12 789	5 303	11 653	24 442	16 956
5.5 hours	13 398	5 555	11 653	25 051	17 208
5.75 hours	14 007	5 808	11 653	25 660	17 461
6.0 hours	14 616	6 060	11 653	26 269	17 713
6.25 hours	15 225	6 313	11 653	26 878	17 966
6.5 hours	15 834	6 565	11 653	27 487	18 218
6.75 hours	16 443	6 818	11 653	28 096	18 471
7.0 hours	17 052	7 070	14 565	31 617	21 635
7.25 hours	17 661	7 323	14 565	32 226	21 888
7.5 hours	18 270	7 575	14 565	32 835	22 140
7.75 hours	18 879	7 828	14 565	33 444	22 393
8.0 hours	19 488	8 080	14 565	34 053	22 645
8.25 hours	21 738	9 009	14 565	36 303	23 574
8.5 hours	23 988	9 937	14 565	38 553	24 502

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.

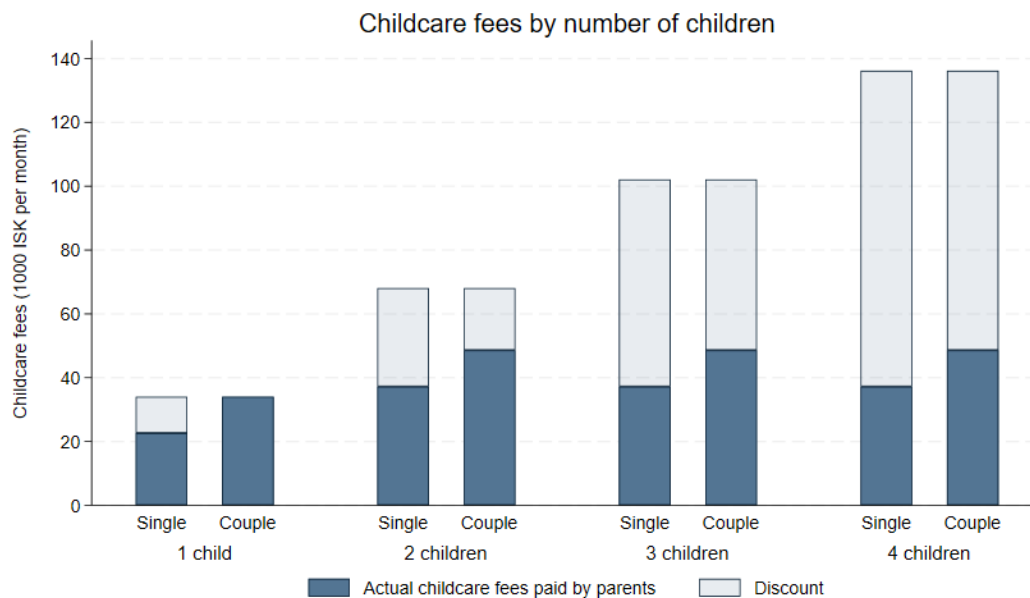
This “cash-for-care” benefit is not simulated in the model.

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, 2024](#).

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 2024 pay two fixed annual fees⁷: to the Construction Fund for the Elderly and to the Treasury, intended to finance the National Broadcasting Service⁸. 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 13 749 in 2023 (paid in 2024) and is ISK 14 093 in 2024 (paid in 2025). The fee for the National Broadcasting Service was ISK 20 900 in 2023 (paid in 2024) and is ISK 21 400 in 2024 (paid in 2025). 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 (2025). 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 2024 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.

⁷ 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%).

⁸ The fee for the National Broadcasting Service [\[brdcst_tax\]](#) in the model is classified as tax and included in variables for income tax [\[IT\]](#).

In addition to the social contribution, there are two mandatory fees levied on the social security contribution base: the Promote Iceland Market Fee⁹ and the Wage Guarantee Fund Fee¹⁰, 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 2024 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.*

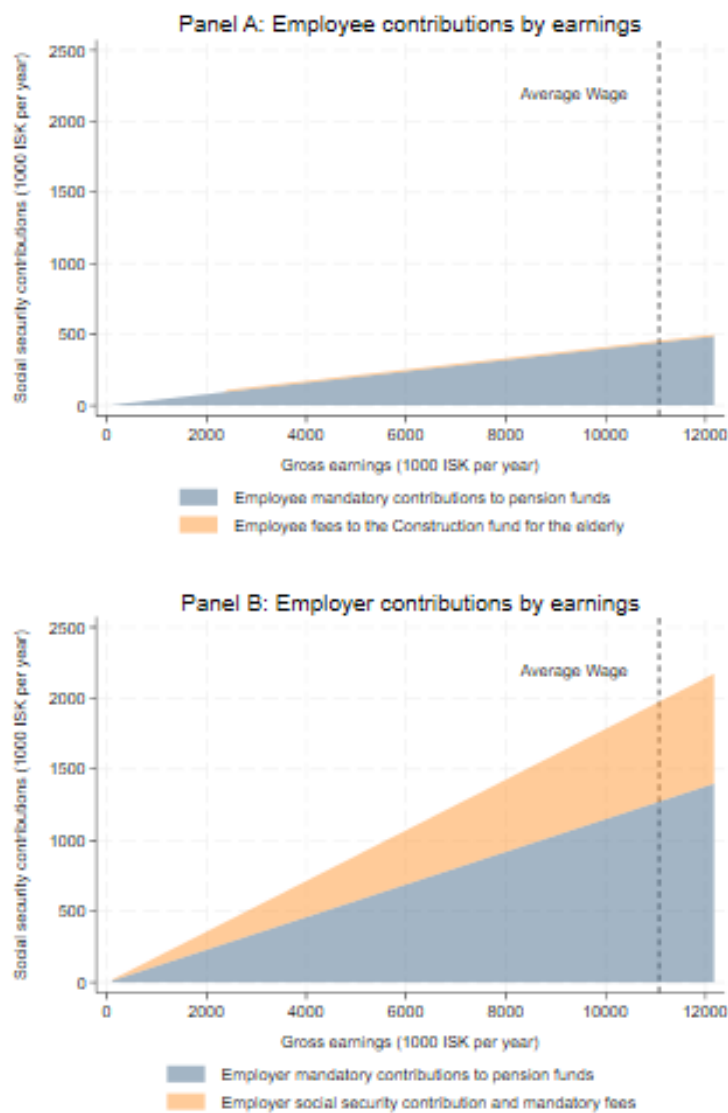
From 1 July 2014, employees can contribute up to 4% to a pension fund on an optional basis. This contribution is also tax-exempt. If an employee chooses to take this option, the employer will generally match the employee's contribution by 2% of the employee's wages. *These optional contributions are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

⁹ 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.

¹⁰ 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.

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, 2024](#).

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 2024, the tax schedule is the following:

- the bottom rate of 16.55% applies to personal income up to ISK 446 136 per month;
- the middle rate of 23.05% applies to income ranging from ISK 446 137 up to ISK 1 252 501;
- the top rate is 31.35% for income above ISK 1 252 501.

The local government personal income tax is single rated. It varies between municipalities from 12.44% to 14.93%. The average rate of 14.93% is used in the model.

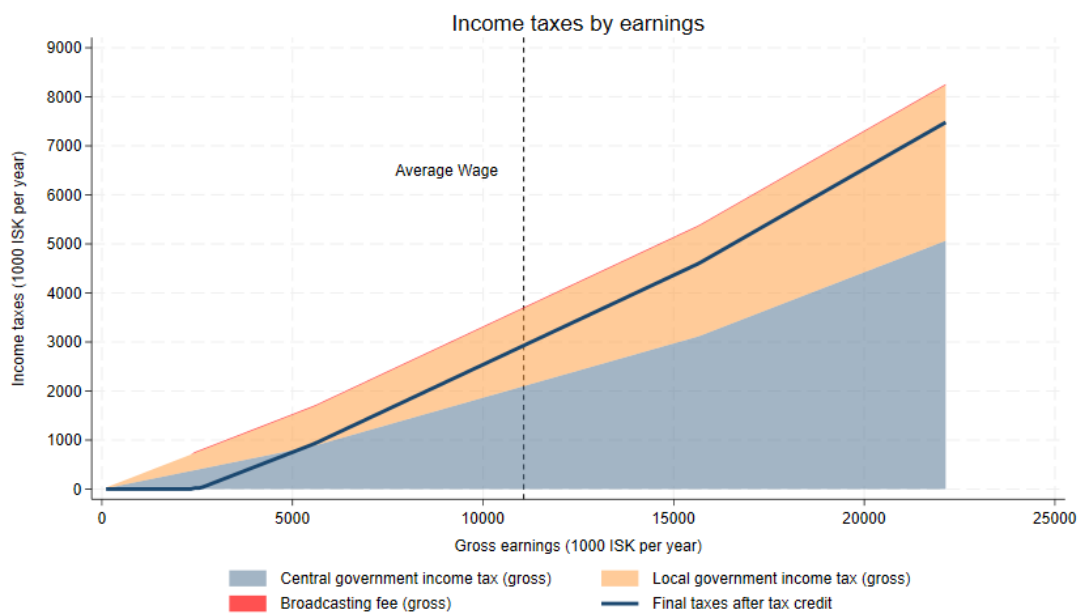
In general, the tax unit is the individual. A special rule applies for principal's taxable income in the highest bracket (above ISK 15 030 012 annually, i.e. ISK 1 252 501 monthly), if the spouse's taxable income is below ISK 15 030 012. A part of the principal's income above ISK 15 030 012 is then taxed in the middle bracket. The part is determined as half of the amount by which the spouse's income is below ISK 15 030 012, subject to a maximum of ISK 4 838 184 (half the amount of personal income that can be taxed in the middle bracket).

8.1.4. Tax credits

Basic tax credit is ISK 779 112 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, 2024](#).

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

This section shows selected output of the TaxBEN model for Iceland 2024. 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:

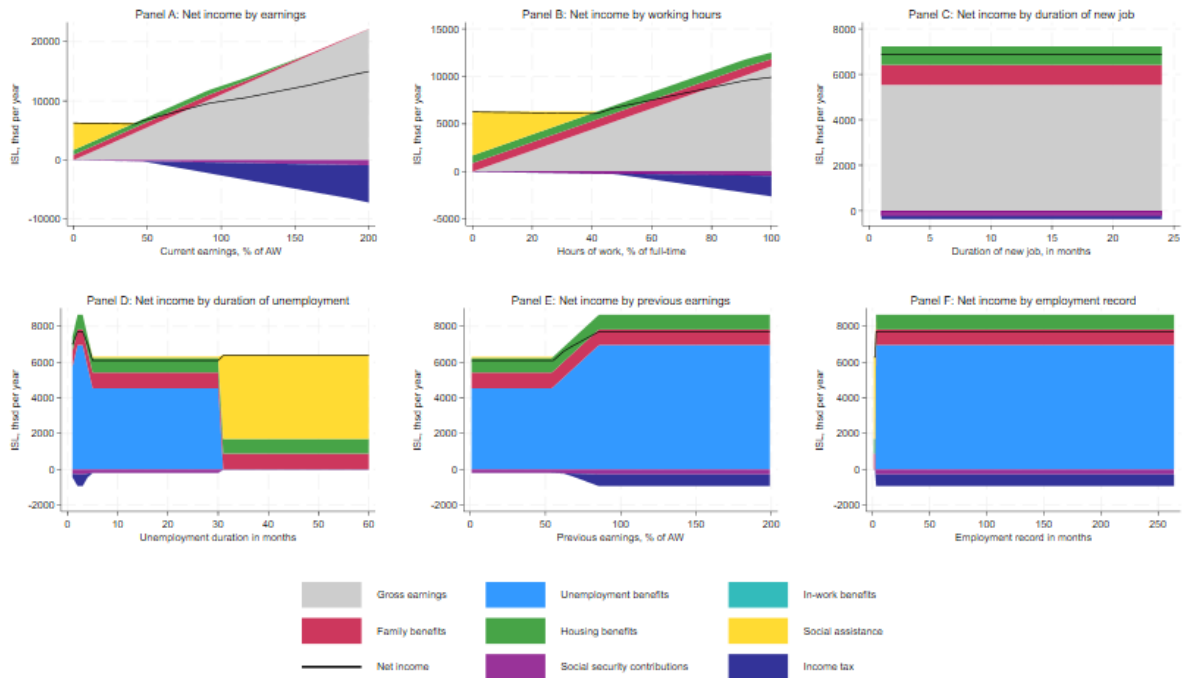
- By percentage of the average wage (**Panel A**);
- By unemployment duration (in months) for a jobseeker claiming unemployment benefits (**Panel B**);
- By previous gross earnings levels for a jobseeker claiming unemployment benefits (**Panel C**);
- By previous employment record, for a jobseeker claiming 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, 2024](#).

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 2024, based on tax returns for 2023:

- 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 2nd 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, 2024						
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	41 448	31 086	41 448	56 760	42 570	56 760
4.5 hours	46 629	34 972	46 629	63 855	47 891	63 855
5.0 hours	51 810	38 858	51 810	70 950	53 213	70 950
5.5 hours	56 991	42 743	56 991	78 045	58 534	78 045
6.0 hours	62 172	46 629	62 172	85 140	63 855	85 140
6.5 hours	67 535	50 515	67 353	92 235	69 176	92 235
7.0 hours	72 534	54 401	72 534	99 330	74 498	99 330
7.5 hours	77 715	58 286	77 715	106 425	79 819	106 425
8.0 hours	82 896	62 172	82 896	113 520	85 140	113 520
8.5 hours	85 488	64 116	85 488	118 792	89 094	118 792
9.0 hours	85 488	64 116	85 488	122 267	91 700	122 267

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.