

# Iceland

Iceland		2004			
<b>The tax/benefit position of single persons</b>					
	Wage level (per cent of APW)	67	100	167	67
	Number of children	none	none	none	2
<b>1. Gross wage earnings</b>		1906049	2859073	4765122	1906049
<b>2. Standard tax allowances</b>					
Basic allowance					
Married or head of family					
Dependent children					
Deduction for social security contributions and income taxes		76242	114363	190605	76242
Work-related expenses					
Other					
	Total	76242	114363	190605	76242
<b>3. Tax credits or cash transfers included in taxable income</b>		0	0	0	0
<b>4. Central government taxable income (1 - 2 + 3)</b>		1829807	2744710	4574517	1829807
<b>5. Central government income tax liability (exclusive of tax credits)</b>		471175	706763	1416194	471175
<b>6. Tax credits</b>					
Basic credit		329948	329948	329948	329948
Married or head of family					
Children					
Other					
	Total	329948	329948	329948	329948
<b>7. Central government income tax finally paid (5-6)</b>		141227	376815	1086246	141227
<b>8. State and local taxes</b>		234764	352146	586911	234764
<b>9. Employees' compulsory social security contributions</b>					
Gross earnings		5576	5576	5576	5576
Taxable income					
	Total	5576	5576	5576	5576
<b>10. Total payments to general government (7 + 8 + 9)</b>		381567	734537	1678733	381567
<b>11. Cash transfers from general government</b>					
For head of family					
For two children		0	0	0	374638
	Total	0	0	0	374638
<b>12. Take-home pay (1-10+11)</b>		1524481	2124536	3086389	1899120
<b>13. Employer's compulsory social security contributions</b>		109217	163825	273041	109217
<b>14. Average rates</b>					
Income tax		19.7%	25.5%	35.1%	19.7%
Employees' social security contributions		0.3%	0.2%	0.1%	0.3%
Total payments less cash transfers		20.0%	25.7%	35.2%	0.4%
Total tax wedge including employer's social security contributions		24.4%	29.7%	38.7%	5.8%
<b>15. Marginal rates</b>					
Total payments less cash transfers: Principal earner		37.0%	37.0%	42.0%	43.8%
Total payments less cash transfers: Spouse		n.a.	n.a.	n.a.	n.a.
Total tax wedge: Principal earner		40.4%	40.4%	45.2%	46.8%
Total tax wedge: Spouse		n.a.	n.a.	n.a.	n.a.

Iceland	2004				
	The tax/benefit position of married couples				
	Wage level (per cent of APW)	100-0	100-33	100-67	100-33
	Number of children	2	2	2	none
<b>1. Gross wage earnings</b>		2859073	3812097	4765122	3812097
<b>2. Standard tax allowances</b>					
Basic allowance					
Married or head of family					
Dependent children					
Deduction for social security contributions and income taxes		114363	152484	190605	152484
Work-related expenses					
Other					
	Total	114363	152484	190605	152484
<b>3. Tax credits or cash transfers included in taxable income</b>		0	0	0	0
<b>4. Central government taxable income (1 - 2 + 3)</b>		2744710	3659613	4574517	3659613
<b>5. Central government income tax liability (exclusive of tax credits)</b>		706763	942350	1177938	942350
<b>6. Tax credits</b>					
Basic credit		659896	659896	659896	659896
Married or head of family					
Children					
Other					
	Total	659896	659896	659896	659896
<b>7. Central government income tax finally paid (5-6)</b>		46867	282454	518042	282454
<b>8. State and local taxes</b>		352146	469528	586911	469528
<b>9. Employees' compulsory social security contributions</b>					
Gross earnings		5576	11152	11152	11152
Taxable income					
	Total	5576	11152	11152	11152
<b>10. Total payments to general government (7 + 8 + 9)</b>		404589	763135	1116105	763135
<b>11. Cash transfers from general government</b>					
For head of family					
For two children		215235	151192	87149	0
	Total	215235	151192	87149	0
<b>12. Take-home pay (1-10+11)</b>		2669719	3200154	3736166	3048962
<b>13. Employer's compulsory social security contributions</b>		163825	218433	273041	218433
<b>14. Average rates</b>					
Income tax		14.0%	19.7%	23.2%	19.7%
Employees' social security contributions		0.2%	0.3%	0.2%	0.3%
Total payments less cash transfers		6.6%	16.1%	21.6%	20.0%
Total tax wedge including employer's social security contributions		11.7%	20.6%	25.8%	24.4%
<b>15. Marginal rates</b>					
Total payments less cash transfers: Principal earner		43.8%	43.8%	43.8%	37.0%
Total payments less cash transfers: Spouse		44.3%	43.8%	43.8%	37.0%
Total tax wedge: Principal earner		46.8%	46.8%	46.8%	40.4%
Total tax wedge: Spouse		47.4%	46.8%	46.8%	40.4%

The national currency is the króna (plural: krónur) (ISK). In 2004, ISK 70.87 was equal to USD 1 (average of eleven months of daily exchange rates). In that year, the average production worker earned ISK 2 859 073 (Secretariat estimate).

## 1. Personal income tax system

### 1.1. Central government income taxes

#### 1.11. Tax unit

Income is taxed on an individual basis, except for capital income of married couples which is taxed jointly.

#### 1.12. Tax allowances and credits

##### 1.121. Standard reliefs

- *Basic tax credit*: A fixed tax credit, amounting to ISK 329 948 in 2004, is granted to all individuals 16 years and older, regardless of their marital status. The tax credit is deducted from levied central and local government taxes as well as net wealth taxes. Unutilised tax credits or portions thereof are wastable, i.e. non-refundable and non-transferable between tax years.
- *Standard marital status relief*: Married couples may utilise up to 100 per cent of each spouses' unutilised portion of his/her basic tax credit.
- *Relief(s) for children*: None.
- *Relief(s) for compulsory pension contributions*: Since January 2000, the compulsory payment to pension funds, which amounts to 4 per cent of wages, is deductible. In addition, an optional payment of up to 4 per cent of wages may also be deducted. As the additional 4% contribution is optional, it is considered to be a non-standard relief in this Report.

##### 1.122. Main non-standard tax reliefs applicable to an APW

- *Interest payment relief*: A fully refundable tax credit is granted to purchasers of personal dwellings (homes) to recuperate a part of mortgage-related interest expenses. The maximum tax-related interest credit is in 2004 ISK 164 603 for a single person, ISK 211 691 for a single parent and ISK 272 206 for a married couple. The following constraints apply to interest rebates: 1) they can not exceed 7 per cent of the remaining debt balance incurred in buying a home for one's own use; 2) the maximum amount of interest payments that qualify for an interest rebate calculation is 480 371 krónur for an individual, 630 626 krónur for a single parent and 780 878 for a couple; 3) six per cent of taxable income is subtracted from the interest expense; 4) the rebates begin to be curtailed at a net worth threshold of 3 613 148 krónur for a single individual and 5 989 414 krónur for a couple and are eliminated altogether at a 60 per cent higher amount.
- Seamen are entitled to a special credit against income tax of 746 krónur per day at sea in 2004.

### 1.13. Tax schedule

The income tax base is composed of *personal income* (e.g. wages, salaries, fringe benefits, pensions, etc.), which is taxed on an individual basis, and *capital income* which is taxed jointly for married couples.

The tax on personal income is single-rated. The central government income tax rate in 2004 is 25.75 per cent and applies to all personal income in excess of 71 269 krónur per month (855 231 krónur per year). The tax relief is provided by the basic credit described in Section 1.121.

A special 5 per cent income surtax is levied in 2004 on individuals with a monthly personal income in 2003 above 4 089 450 krónur for a single person and 8 178 900 krónur for a couple. For 2005, the surtax will be applied to 2004-incomes of 4 191 686 and 8 383 372 krónur for single persons and couples, respectively.

The tax on capital income is 10 per cent. It is levied on all capital income of individuals, such as interest, dividends, rents etc. Such capital income is not subject to the personal income tax described above.

### 1.2. Local government income tax

The local government income tax base is the same as the central government's income tax base.

The local governments' income tax is single-rated, but the rate varies from 11.24 to 13.03 per cent between municipalities. The average rate in 2004 is 12.83 per cent.

## 2. Compulsory social security contributions to schemes operated within the government sector

### 2.1. Employees' contributions

Fee to the Retiree Investment Fund: Individuals, age 16-70, are subjected to a fixed tax of 5 576 krónur in 2004, provided the individual's taxable income was at least 835 020 krónur in 2003 (for the purposes of this Report, an estimate for the value in 2004 is used for the calculations).

### 2.2. Employers' contributions

Employers have to pay a social security tax on total wages of 5.73 per cent. In addition a 0.65 per cent is levied on the wages of fishermen as a premium for their government accident insurance.

## 3. Universal cash transfers

### 3.1. Marital status related transfers

None.

### 3.2. Transfers for dependent children

Child benefits are granted for each child, subject to income thresholds. In 2004 they are as follows (in krónur per year):

For all children under the age of seven regardless of income	36 308
<b>Children under the age of sixteen in 2003</b>	
First child	123 254
Each additional child	146 713
<b>Benefits for single parents</b>	
First child	205 288
Each additional child	210 584
<b>Income threshold for benefit curtailment</b>	
For couples	1 444 139
For a single parent	722 070
<b>Curtailment of benefits</b>	
For one child	3 per cent
For two children	7 per cent
For three children or more	9 per cent

## 4. Main changes in the tax/benefit system since 1998

### 4.1. The deductibility of the payment to pension funds

In February 1998, a law was enacted which increases the deductible level of employee payments to pension funds from the income tax, from 4 per cent of wages to 6 per cent in 1999. In the year 2000, the deductible level was further increased from 6 per cent to 8 per cent. In both cases the employee payment in excess of 4 per cent is optional and goes into an individual retirement account.

### 4.2. A reduction of the central government income tax rate

The Government has pursued a policy of reducing the marginal tax rate. It did so with a reduction of 1.1 percentage points at the beginning of 1997, by 0.9 points at the beginning of 1998 and by 1 points at the beginning 1999. From 2001, the rate was lowered by 0.33 points to compensate for a similar increase in local government rates. In 2002, the rate was further lowered by 0.33 points. From 1998 on the combined central government and average local government personal income tax rate has been as follows:

	Central gov't general tax rate	Municipal tax rate	Total tax rate	Central gov't surtax
1998	27.41	11.61	39.02	7.00
1999	26.41	11.93	38.34	7.00
2000	26.41	11.96	38.37	7.00
2001	26.08	12.68	38.76	7.00
2002	25.75	12.79	38.54	7.00
2003	25.75	12.80	38.55	5.00
2004	25.75	12.83	38.58	5.00

### 4.3. A special tax on higher income

In 1998, the special tax on higher income was raised by 2 percentage points, from 5 to 7 per cent. For 2003-income it was reduced back to 5 per cent.

Under the surtax collection system, the surtax imposed in year 1 is based on income in year 0. The reduction in the surtax from 7 to 5 per cent in 2004 is thus based on 2003-income. The 5 per cent rate is already applied in the latter half of 2003 to an estimated prepayment of the surtax on 2003-income. The final settlement of the tax takes place with the annual personal income tax assessment at the end of July 2004.

#### **4.4. A revision of the child benefit system**

The child benefit system was amended in 2000. The changes were aimed at reducing income linkages by eliminating means-testing of benefits for children under the age of seven and otherwise reducing the degree of income linkage by a third. The linkage to net wealth is also abolished. Furthermore, benefit amounts and income thresholds were increased in concert with general contractual wage increases in the years 2001-03.

#### **4.5. An abolition of the allowance on investment in joint-stock companies**

The phase-out of the tax allowance for the investment in joint-stock companies commenced in 1998 and was originally scheduled to be completed in three years. It was subsequently extended through 2002 and ceased at the end of that year.

#### **4.6. Transferability of the basic tax credit between spouses**

The basic tax credit was made transferable between spouses in stages. See Section 1.121 above. In the income year 2001, 90 per cent of the credit became transferable, rising to 95 per cent in 2002 and 100 per cent in 2003.

## **5. Memorandum items**

### **5.1. Identification of APW and valuation of earnings**

The earnings data refer to production workers in the manufacturing sector. To obtain the earning figures, the average weekly hours for the year are multiplied by average hourly earnings. The resulting number is then multiplied by 52 to obtain annual salary. The original data are obtained from a quarterly survey among members of the Labour Market Research Institute.

### **5.2. Employer contributions to private pension funds, health and related schemes**

By law, all employees and employers must contribute to pension funds. These funds are private, generally linked to unions and employee associations. The private pension funds are not part of the government-run social security system, to which a payroll tax is paid as described under Section 2.2 above. Generally, employees pay 4 per cent of their wages to such pension funds and employers 6 per cent.

Furthermore, employees can invest up to a limit of 4% of income in a voluntary pension scheme (individual retirement accounts) that is deductible from income before tax. Employees who take advantage of this option receive a matching contribution of up to 2% from their employer. In addition, the employer can add up to 0.4% to the employee contribution and get this part offset through a commensurate reduction in the social security tax.

## 2004 Parameter values

APW-income	Ave_earn	2 859 073	Secretariat estimate
Previous year income	fiscal_inc	2 720 233	Estimate
Pension rate for tax allowance	pension_rate	0.04	
Tax credit	Basic_crd	329 948	
	Married_propn	1	
Central income tax	central_rate	0.2575	
Special tax	special_rate	0.05	
threshold	special_thrsh	4 191 686	
Local tax	local_rate	0.1283	
Church tax	church_tax	0	
Social Security Contr.	SSC_fixed	5 576	
	SSC_thrsh	855 288	
Employer SSC	SSC_empr	0.0573	
General child allowance:			
child allowance	CA	36 308	
Maximum number of children under 7	max_child_under7	1	
Supplement child allowance:			
Married couple case			
first child	SA_first_m	123 254	
other children	SA_others_m	146 713	
income threshold	SA_tresh_m	1 444 139	
Single parent case			
first child	SA_first_s	205 288	
other children	SA_others_s	210 584	
income threshold	SA_tresh_s	722 070	
reduction rate (one child)	SA_redn_1	0.03	
reduction rate (two children)	SA_redn_2	0.07	
reduction rate (tree or more children)	SA_redn_3	0.09	



## 2004 Tax equations

The equations for the Iceland system are mostly on an individual basis. But the tax credit for married couples is relevant only to the calculation for the principal earner and child benefit is calculated only once. This is shown by the Range indicator in the table below.

The functions which are used in the equations (Taper, MIN, Tax etc) are described in the technical note about tax equations. Variable names are defined in the table of parameters above, within the equations table, or are the standard variables “married” and “children”. A reference to a variable with the affix “\_total” indicates the sum of the relevant variable values for the principal and spouse. And the affixes “\_princ” and “\_spouse” indicate the value for the principal and spouse, respectively. Equations for a single person are as shown for the principal, with “\_spouse” values taken as 0.

Line in country table and intermediate steps	Variable name	Range	Equation
1. Earnings	earn		
2. Allowances:	tax_al	B	earn * pension_rate
3. Credits in taxable income	taxbl_cr	B	0
4. CG taxable income	tax_inc	B	earn-tax_al
5. CG tax before credits	CG_tax_excl	B	earn*central_rate
6. Tax credits :	tax_cr	P	MIN(Basic_crd+Married_propn*(Basic_crd-tax_cr_spouse), CG_tax_excl_princ+local_tax_princ)
		S	MIN(Basic_crd, CG_tax_excl_spouse+local_tax_spouse)
	special_tax	J	(earn_total>(1+Married)*special_thrsh)*earn_total* special_rate
7. CG tax	CG_tax	B	CG_tax_excl-tax_cr+special_tax
8. State and local taxes	local_tax	B	earn*local_rate
9. Employees' soc security	SSC	B	SSC_fixed*(earn>SSC_thrsh)
11. Cash transfers:			
Total family income	inc_tot	J	earn_total
Child allowance	cash_trans	J	Children*CA+(Children>0)*(IF(Married;SA_first_m+ Positive(Children-1)*SA_others_m;SA_first_s+ Positive(Children- 1)*SA_others_s)- Positive(inc_tot*(1-pension_rate)- IF(Married;SA_tresh_m;SA_tresh_s))*IF(Children=1; SA_redn_1;IF(Children=2;SA_redn_2;SA_redn_3)))
13. Employer's soc security	SSC_empr	B	earn*SSC_empr_rate

Key to range of equation:

B calculated separately for both principal earner and spouse.

P calculated for principal only (value taken as 0 for spouse calculation).

J calculated once only on a joint basis.

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## Part IV

**Country Details, 2004**

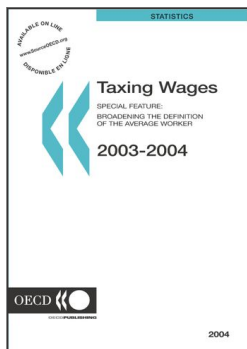
Australia (2004-2005 Income Tax Year) . . . . .	111
Austria . . . . .	125
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