

Taxing Wages - Iceland

Tax on labour income

The **tax wedge** is a measure of the tax on labour income, which includes the tax paid by both the employee and the employer.

TAX WEDGE ON LABOUR INCOME

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

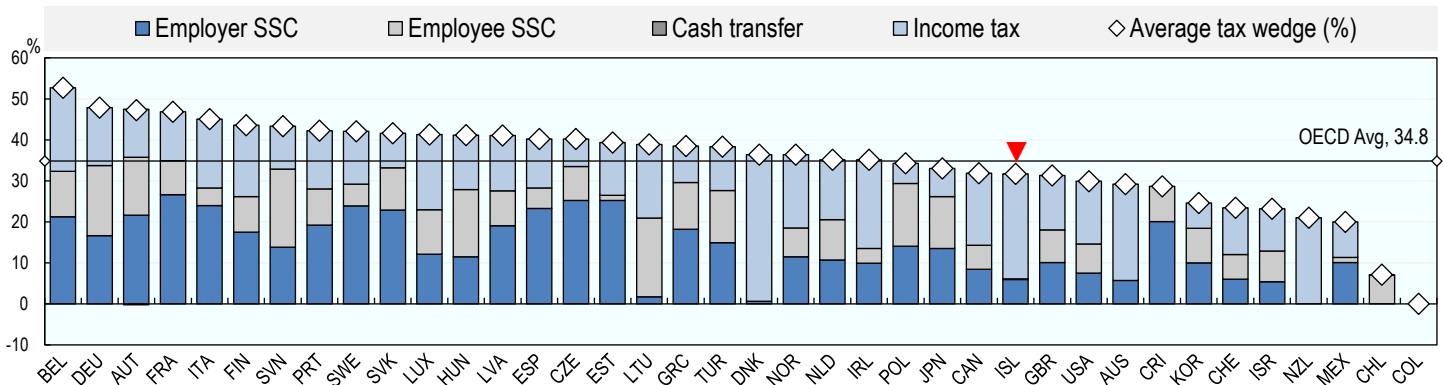
Single worker

The tax wedge for the average single worker in Iceland decreased by 0.4 percentage points from 32.1% in 2022 to 31.7% in 2023.

- » The OECD average tax wedge in 2023 was 34.8% (2022, 34.7%). In 2023, Iceland had the 27th lowest tax wedge among the 38 OECD member countries, compared with 26th in 2022.

- » In Iceland, income tax and employer social security contributions combine to account for 100% of the total tax wedge, compared with 77% of the total OECD average tax wedge.

Average tax wedge: average single worker, no children

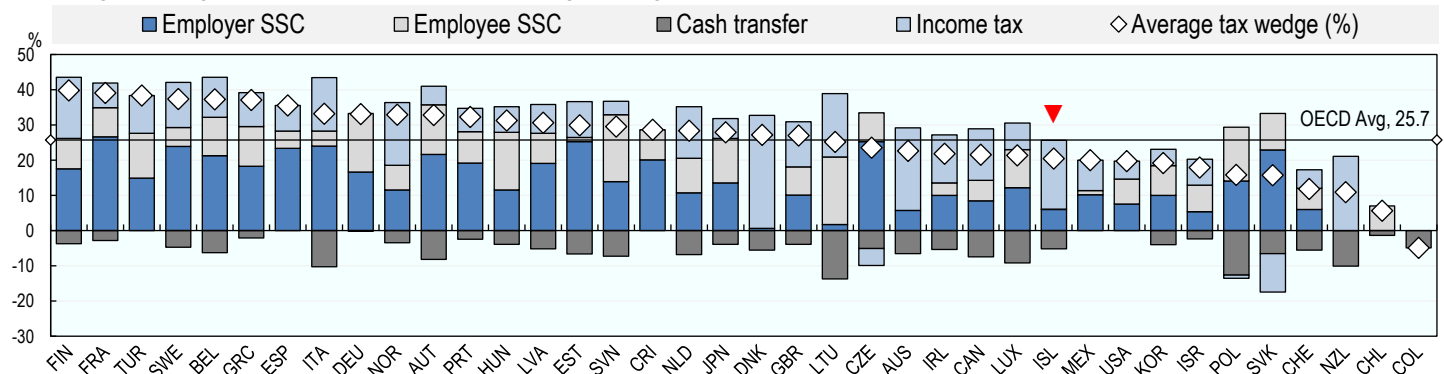


One-earner married couple with two children

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

- » Iceland had the 28th lowest tax wedge in the OECD for an average married worker with two children at 20.4% in 2023, which compares with the OECD average of 25.7%. The country occupied the 29th lowest position in 2022.
- » Child related benefits and tax provisions tend to reduce the tax wedge for workers with children compared with the average single worker. In Iceland in 2023, this reduction (11.3 percentage points) was greater than the OECD average (9.1 percentage points).

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

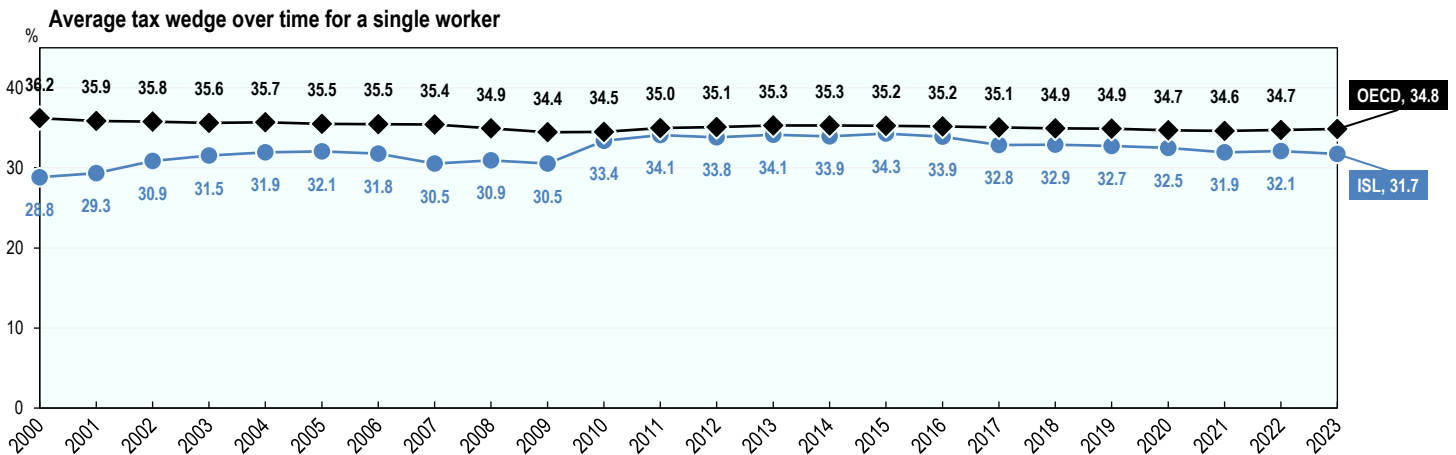




Tax wedge trends between 2000 and 2023

» In Iceland, the tax wedge for the average single worker increased by 2.9 percentage points from 28.8% to 31.7% between 2000 and 2023. During the same period, the average tax wedge across the OECD decreased by 1.4 percentage points from 36.2% to 34.8%.

» Between 2009 and 2023, the tax wedge for the average single worker increased by 1.2 percentage points in Iceland. During this same period, the tax wedge for the average single worker across the OECD increased slowly to 35.3% in 2013 and 2014 before decreasing back to 34.8% in 2023.



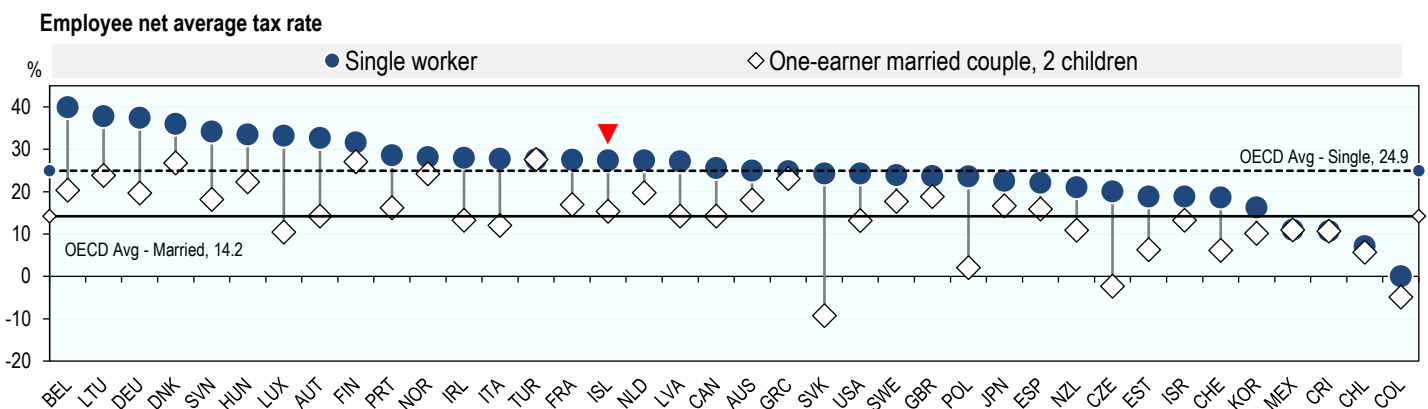
Employee tax on labour income

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

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

» In Iceland, the average single worker faced a net average tax rate of 27.4% in 2023, compared with the OECD average of 24.9%. In other words, in Iceland the take-home pay of an average single worker, after tax and benefits, was 72.6% of their gross wage, compared with the OECD average of 75.1%.

» Taking into account child related benefits and tax provisions, the employee net average tax rate for an average married worker with two children in Iceland was 15.4% in 2023, which is the 19th highest in the OECD, and compares with 14.2% for the OECD average. This means that an average married worker with two children in Iceland had a take-home pay, after tax and family benefits, of 84.6% of their gross wage, compared to 85.8% for the OECD average.



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