

GLOBAL
EMPLOYER
GUIDE

ICELAND





Basic Country Facts

Full Name

- Iceland

Capital

- Reykjavík

Main Languages

- Icelandic
- English
- Danish

Population

- 364,134

Monetary Unit

- Icelandic króna

Internet Domain

- .is

International Dialing Code

- +354

Currency

- Icelandic króna



STATUTORY LABOR REQUIREMENTS

Probation Period

- The probation or trial period is of 3 months

Annual Leave

- The Act provides for a minimum of two working days' holiday for each month in employment during the past holiday allowance year (May 1st to April 30th), two weeks or more constituting one month in this respect, shorter periods not being counted.
- The minimum holiday for each year is therefore 24 working days.
- Sundays and other public holidays do not count as holidays in this respect, nor the first five Saturdays during holidays.
- Holiday is to be granted during the period 2 May to 15 September each year (summer holiday period), but the social partners may make provisions in collective agreements for holiday to be taken at other times of the year when particular operational circumstances render this necessary.
- Nevertheless, workers shall at all times be given the right to take at least 14 days' holiday during the summer holiday period.

Public Holidays

- New Year's Day (1st January)
- Good Friday (10th April)
- Freedom Day (25th April)
- Labor Day (1st May)
- Portugal Day (10th June)
- Assumption Day (15th August)
- Immaculate Conception Day (8th December)
- Christmas Eve (24th December)
- Christmas Day (25th December)





Public Holidays

- New Year's Day (1st January)
- Maundy Thursday (9th April)
- Good Friday (10th April)
- Easter Monday (13th April)
- First day of summer (23rd April)
- Labor Day (1st May)
- Ascension Day (21st May)
- Whitsun (31st May)
- Whit Monday (1st June)
- Icelandic National Day (17th June)
- Commerce Day (3rd August)
- Christmas Eve (24th December)
- Christmas Day (25th December)
- 2nd Day of Christmas (26th December)
- New Year's Eve (31st December)

Maternity Leave

- Both parents have an equal, non-transferable, right to take three months' leave in connection with
 - the birth,
 - first-time adoption, or
 - fostering of a childirrespective of whether they work in the private or the public sector, or are self-employed.
- They are also able to divide a further three months' leave between themselves as they wish.
- A parent obtains the right to payments from the Maternity/Paternity Leave Fund after it has been active on the domestic labor market for six consecutive months prior to the first day of the maternity/paternity leave.
- A parent's working time in other EEA countries is taken into account if the parent has been employed in Iceland for at least one month during the last six months prior to the first day of the maternity/paternity leave.



- These payments amount to 80% of average gross wages or calculated remuneration being based on a continuous twelve-month period ending six months prior to the birth of child.

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Sick Leave

- A worker, who is unable to perform his normal duties at work due to sickness or accidents occurring in the worker's free time is entitled to wages from his employer for a certain period of time.

- The minimum rights during the first year of service with an employer are 2 days in respect of each month.
- After one year of employment a worker is entitled to total wages for 1 month out of every 12 months
- After three years with the same employer, 1 month of total wages and 1 month with day wages out of every 12 months
- Finally, after five years with the same employer, 1 month of total wages and 2 months with day wages out of every 12 months.

Work Hours

- Hours of daytime work are according to collective agreements defined as 40 hours per week, divided into five eight hours working days from Monday to Friday, and wages determined as weekly or monthly wages.
- Paid coffee breaks, usually 35 minutes, are included in the 8-hour work day.
- Day time hours usually start at 07:00 (general workers, industrial workers) but the time they end differs based on what collective agreement applies.
- For general workers it ends at 17:00 hours but for industrial workers it is usually at 18:00 hours.

Overtime

- Overtime pay is paid for work in excess of 8 hours per day and 40 hours per week.
- Work performed outside day time hours is remunerated with overtime pay.
- It is not permitted to pay day-time wages for work performed during hours outside daytime hours even though the worker in question has not done his full 8 hours in day-time.



- Overtime is paid at an hourly rate equaling 1.0385% of the monthly wages for regular day work.
- Work on major holidays is paid with an hourly pay equaling 1.375% of the monthly wages for regular day work, in addition to the 8 hours' day-time wages.

Notice Period

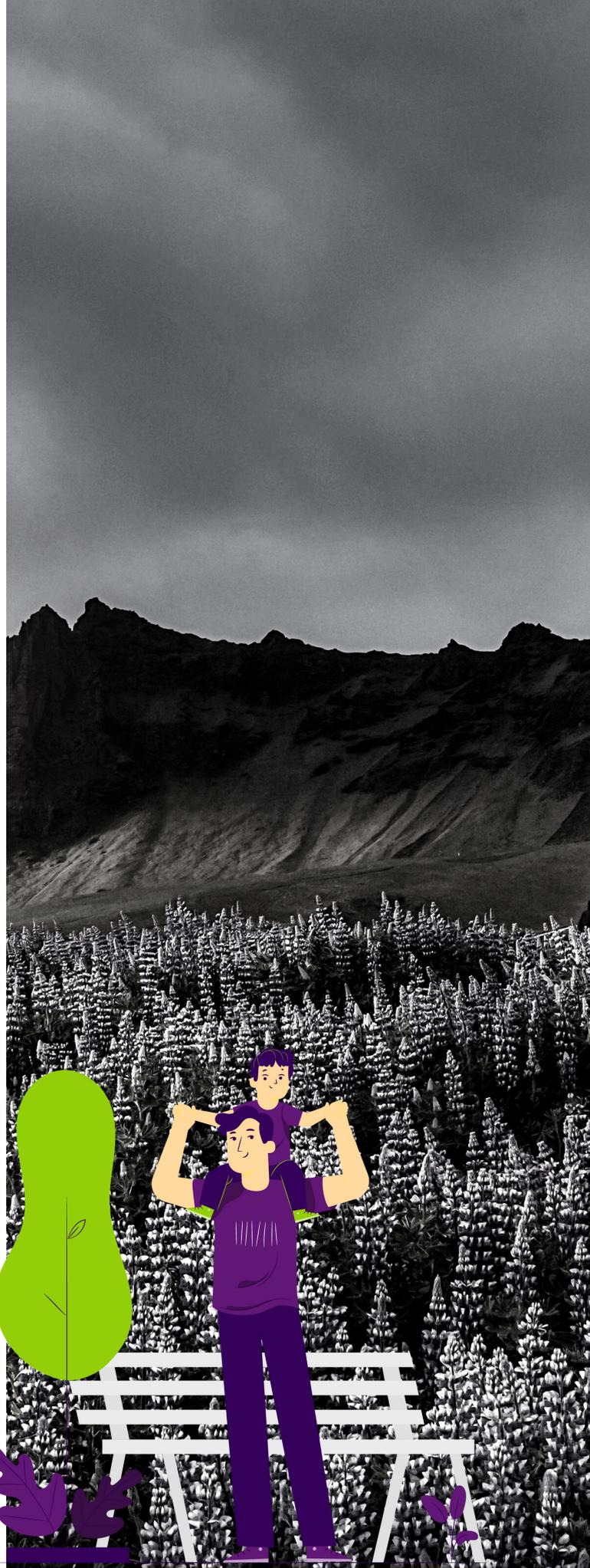
- Notice periods range from 12 days to six months (three months are common), depending on rules of the applicable collective agreement.
- An employment which has been terminated by either party remains intact until the end of the notice period, which means that rights and obligations under the agreement remain unchanged during the period.
- The parties can however come to an agreement to end their relationship before the notice period expires.
- The notice periods are as follows: -
 - After one-year continuous employment with the same employer = one month's notice.
 - Continuous employment for three years with the same employer = two months' notice.
 - Five years of continuous engagement with the same employer = three months' notice

Severance

- There is no legal right to severance pay

13th Month

- 13th month pay is not mandatory in Iceland
- However, collective agreements provide for the payment by employers of a fixed Christmas bonus payable in December and a Holiday bonus payable from 1 May to 15 August.



Income Tax

- Resident individuals are fully liable for tax payments in Iceland on their worldwide income.
- Non-resident individuals staying temporarily in Iceland, who derive income from employment during their stay, are subject to national income tax on such income.
- They are also subject to municipal income tax in the same manner as residents.
- Other non-resident individuals are subject to national income tax and municipal income tax on their income from Iceland.
- Non-residents are allowed the same deductions for expenses as residents.
- Icelandic-source income in the form of remuneration to non-resident directors and committee members, grants, or remuneration for independent personal services and art performances is taxed by assessment at a rate of 20% plus the average municipal income tax rate, which is 14.44% in 2019.



Monthly income (ISK)	Income tax (%)	Municipal Tax (%)	Total Tax (%)
On the first ISK 336.916 (ISK 4,042,995 per year)	20.6	14.44	35.04
On income between ISK 336,916 (ISK 4,042,995 per year) and ISK 945,873 (ISK 11,350,472 per year)	22.75	14.44	37.19
On any income over ISK 945,873 (ISK 11,350,472 per year)	31.80	14.44	46.24



Social Security

- Social security contributions apply to wages and salaries and must be withheld by the employer.
- These contributions cover health insurance, unemployment insurance, birth leave insurance and bankruptcy insurance.
- Social security contributions are imposed at a flat rate of 6.6%.
- Self-employed individuals must register for social security purposes, and are subject to the same social security contribution rate.
- Every employee from 16 to 70 years of age and every employer must contribute to a pension fund.
- The minimum contribution is 15.5% (4% for employees and 11.5% for employers) of all employees' and self-employed persons' remunerations.
- The employee's contribution (4%) is deducted from their taxable income.

Contribution	Employer	Employee	Self-employed
Social Security Contribution	6.6%	6.6%	6.6%
Pension Fund	11.5%	4%	



Deductible Expenses

Employment Expenses

- Expenses incurred by an employee are generally not deductible.
- However, proven expenses from work related travel and upkeep (cost of accommodation, meals and fares, and other travel costs) are allowed to a certain extent.
- The deductible amount of the expenses is reduced by the amount of car allowances, per diem allowances or similar reimbursements of costs received by the employee.
- In addition, employee pension contributions up to a maximum of 8% of total employment income are deductible.

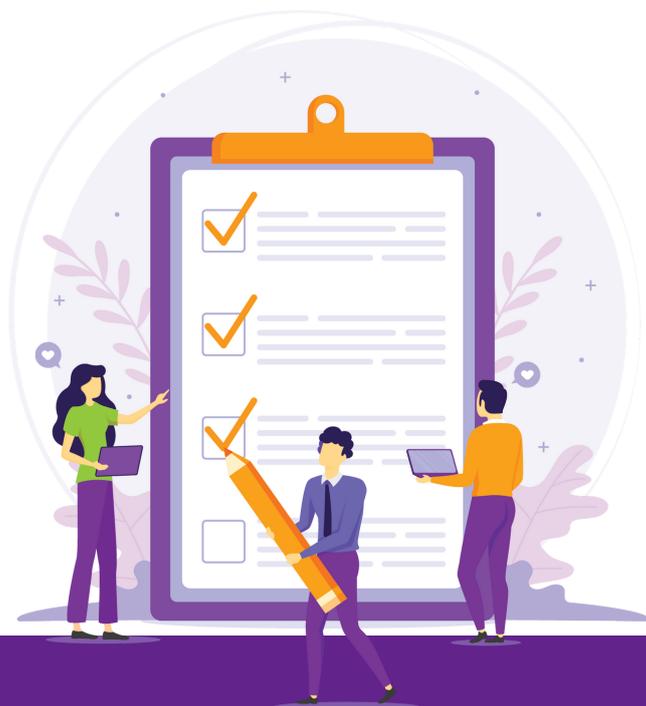
Personal allowances

- In calculating state and municipal income taxes for 2019, each taxpayer is allowed a personal tax credit of ISK677,364.
- This tax credit is reduced proportionately if the individual is taxable in Iceland for only part of the fiscal year.
- The tax credit not fully used by one spouse may be transferred to the other spouse.

Business Deductions

- In principle, all expenses for earning, securing and maintaining income are deductible, including the following:
 - Costs of material and stock
 - Personnel expenses, certain taxes, rental and leasing expenses, finance charges, self-employment social security contributions, and all general and administrative expenses
 - Depreciation of fixed assets
 - Provisions for identified losses and expenses

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Immigration

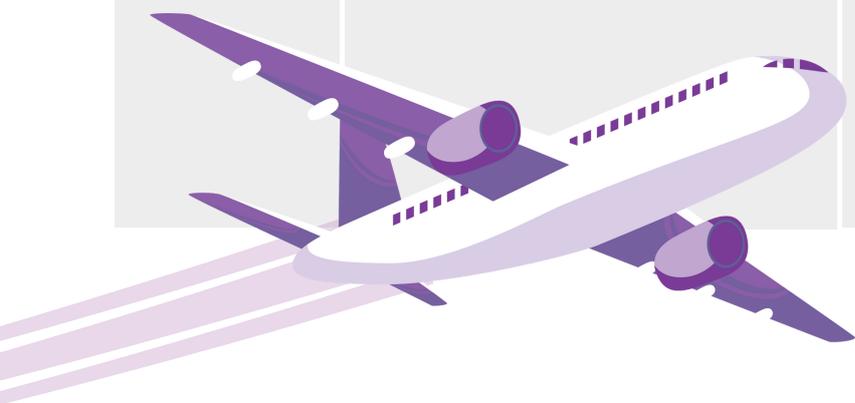
- Nationals from other Nordic countries may stay and work in Iceland without restrictions.
- However, if they take up residence or work in Iceland, they must register with the National Registration Office.
- Nationals of EEA/EFTA countries may stay and work in Iceland without a permit up to three months after their arrival in the country, or stay up to six months if they are seeking employment.
- If the individual resides longer in Iceland, he or she must register his or her right to residency with the National Registration Office.
- Non-EEA nationals who want to extend their stay and work in Iceland must obtain work permits and residence permits.
- The application must generally be made before entering Iceland.
- The following are four categories of work and residence permits based on employment:
 - Permit for a job that requires expert knowledge
 - Permit based on temporary shortage of laborers
 - Permit for athletes
 - Permit for a qualified professional based on collaboration or service contracts regarding educational, academic or scientific work
- A temporary work permit is issued to the employer to allow the employment of a foreign national.
- A temporary work permit may be revoked if the activities of the permit holder become inconsistent with the conditions for the permit.
- The following are the general conditions for the granting of a temporary work and residence permits:
 - Qualified persons cannot be found in Iceland or in EEA/EFTA countries or the Faroe Islands, occupational sectors in the country lack workers or athletes, or other special reasons exist for granting such permits.
 - The local trade union in the relevant branch of industry, or the appropriate national union, has provided its comment on the application.
 - A signed employment contract covers a specific period or task and guarantees the employee wages and other terms of service equal to those enjoyed by local residents.
 - The employer takes out health insurance for the foreign employee, which provides the same coverage as the coverage provided under the Social Security Act.
 - The employer guarantees the payment of the cost of sending the employee back to his or her home if the employee becomes incapable of working for a long period as a result of illness or accident or if the employment is terminated because of reasons for which the employee is not responsible.
 - A satisfactory health certificate for the employee is submitted.
 - A temporary work permit for a job that requires expert knowledge is granted for an initial period of up to two years.
 - It may be renewed for up to two years at a time.
 - A temporary work permit based on a temporary shortage of laborers is granted for an initial period of up to one year.
 - It may be renewed for up to one year at a time.



- A temporary work permit for athletes is granted for an initial period of up to one year.
- It may be renewed for up to two years at a time.
- A temporary work permit for qualified professionals based on collaboration or service contracts on educational, academic or scientific work is generally granted for a period of up to six months per contract.
- Permanent work permits are no longer granted in Iceland.
- Instead, foreign individuals who have acquired a permanent residence permit have the right to work in Iceland without limitations.
- Therefore, if a foreign individual loses his or her permanent residence permit, he or she also loses his or her right to work in Iceland without limitations.



Type of Visa	Documentation	Validity	Eligibility
<p>Temporary Permit for a job that requires expert knowledge</p>	<ul style="list-style-type: none"> • Payment receipt • Completed application form • Passport photo • Photocopy of passport • Confirmed original of a foreign criminal record certificate • Health Insurance • Employment contract 	<ul style="list-style-type: none"> • 2 years (can be renewed for up to 2 years at a time) 	<ul style="list-style-type: none"> • Qualified persons cannot be found in Iceland or in EEA/EFTA countries or the Faroe Islands, occupational sectors in the country lack workers or athletes, or other special reasons exist for granting such permits. • The local trade union in the relevant branch of industry, or the appropriate national union, has provided its comment on the application. • A signed employment contract covers a specific period or task and guarantees the employee wages and other terms of service equal to those enjoyed by local residents. • The employer takes out health insurance for the foreign employee, which provides the same coverage as the coverage provided under the Social Security Act. • The employer guarantees the payment of the cost of sending the employee back to his or her home if the employee becomes incapable of working for a long period as a result of illness or accident or if the employment is terminated because of reasons for which the employee is not responsible. • A satisfactory health certificate for the employee is submitted.



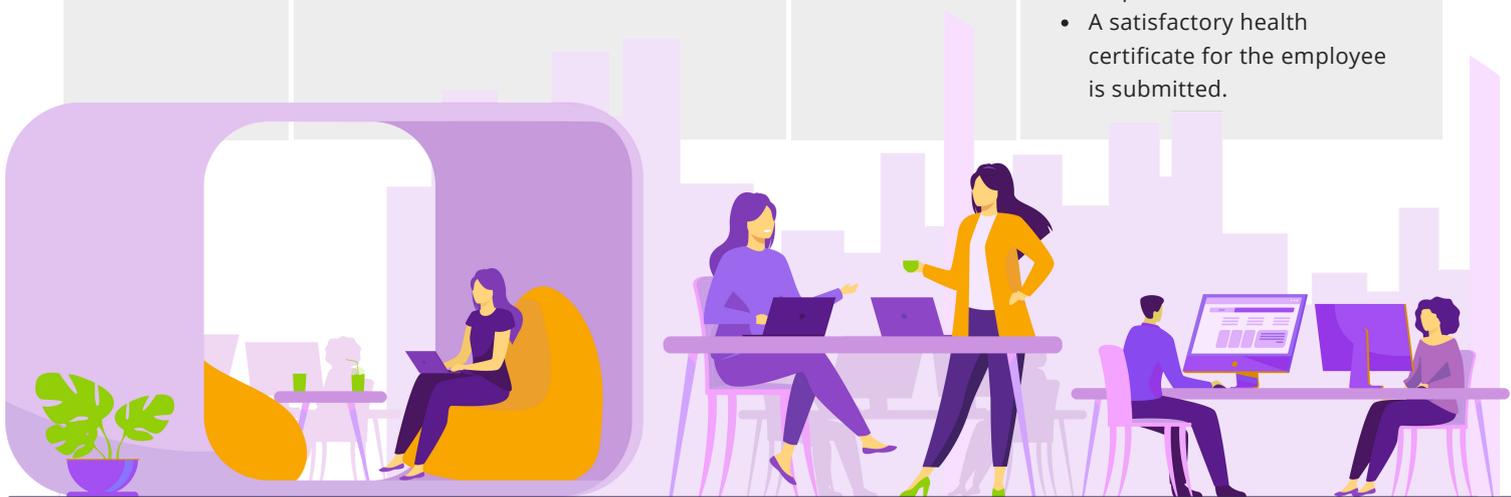
Type of Visa	Documentation	Validity	Eligibility
<p>Temporary Permit based on temporary shortage of laborers</p>	<ul style="list-style-type: none"> • Payment receipt • Completed application form • Passport photo • Photocopy of passport • Confirmed original of a foreign criminal record certificate • Health Insurance • Employment contract 	<ul style="list-style-type: none"> • 1 years (can be renewed for up to 1 year at a time) 	<ul style="list-style-type: none"> • Qualified persons cannot be found in Iceland or in EEA/EFTA countries or the Faroe Islands, occupational sectors in the country lack workers or athletes, or other special reasons exist for granting such permits. • The local trade union in the relevant branch of industry, or the appropriate national union, has provided its comment on the application. • A signed employment contract covers a specific period or task and guarantees the employee wages and other terms of service equal to those enjoyed by local residents. • The employer takes out health insurance for the foreign employee, which provides the same coverage as the coverage provided under the Social Security Act. • The employer guarantees the payment of the cost of sending the employee back to his or her home if the employee becomes incapable of working for a long period as a result of illness or accident or if the employment is terminated because of reasons for which the employee is not responsible. • A satisfactory health certificate for the employee is submitted.



Type of Visa	Documentation	Validity	Eligibility
<p>Temporary Permit for athletes</p>	<ul style="list-style-type: none"> • Payment receipt • Completed application form • Passport photo • Photocopy of passport • Confirmed original of a foreign criminal record certificate • Health Insurance • Employment contract 	<ul style="list-style-type: none"> • 1 year (can be renewed for up to 2 years) 	<ul style="list-style-type: none"> • Qualified persons cannot be found in Iceland or in EEA/EFTA countries or the Faroe Islands, occupational sectors in the country lack workers or athletes, or other special reasons exist for granting such permits. • The local trade union in the relevant branch of industry, or the appropriate national union, has provided its comment on the application. • A signed employment contract covers a specific period or task and guarantees the employee wages and other terms of service equal to those enjoyed by local residents. • The employer takes out health insurance for the foreign employee, which provides the same coverage as the coverage provided under the Social Security Act. • The employer guarantees the payment of the cost of sending the employee back to his or her home if the employee becomes incapable of working for a long period as a result of illness or accident or if the employment is terminated because of reasons for which the employee is not responsible. • A satisfactory health certificate for the employee is submitted.



Type of Visa	Documentation	Validity	Eligibility
<p>Temporary Permit for a qualified professional based on collaboration or service contracts regarding educational, academic or scientific work</p>	<ul style="list-style-type: none"> • Payment receipt • Completed application form • Passport photo • Photocopy of passport • Confirmed original of a foreign criminal record certificate • Health Insurance • Employment contract 	<ul style="list-style-type: none"> • 6 months per contract 	<ul style="list-style-type: none"> • Qualified persons cannot be found in Iceland or in EEA/EFTA countries or the Faroe Islands, occupational sectors in the country lack workers or athletes, or other special reasons exist for granting such permits. • The local trade union in the relevant branch of industry, or the appropriate national union, has provided its comment on the application. • A signed employment contract covers a specific period or task and guarantees the employee wages and other terms of service equal to those enjoyed by local residents. • The employer takes out health insurance for the foreign employee, which provides the same coverage as the coverage provided under the Social Security Act. • The employer guarantees the payment of the cost of sending the employee back to his or her home if the employee becomes incapable of working for a long period as a result of illness or accident or if the employment is terminated because of reasons for which the employee is not responsible. • A satisfactory health certificate for the employee is submitted.



Value Added Tax (VAT)

- Value Added Tax (VAT) is an indirect consumption tax levied on all stages of domestic business transactions, as well as on the imports of goods and services.
- The standard rate of VAT in Iceland is 24%.
- The reduced rate of VAT in Iceland is 11% and applies to the sales certain goods and services such as rental of hotel- and guestrooms, campground facilities, catering and sale of food, alcohol etc.

VAT	
Standard Rate	24%
Reduced Rate	11%
Exempt	0%

Withholding Tax

Dividends

- Dividends paid to a resident company are subject to a 20% withholding tax
- Dividends paid to a nonresident company are subject to a 20% withholding tax, which may be reduced under a tax treaty.
- The final taxation of dividends paid to a company within the European Economic Area (EEA) is 0%, since the withholding tax will be reimbursed in the year following payment, provided a tax return is submitted

Interest

- Interest paid to a resident company is subject to a 20% withholding tax, and interest paid to a nonresident company is subject to a 12% withholding tax, which may be reduced under a tax treaty, provided an application is submitted to tax authorities

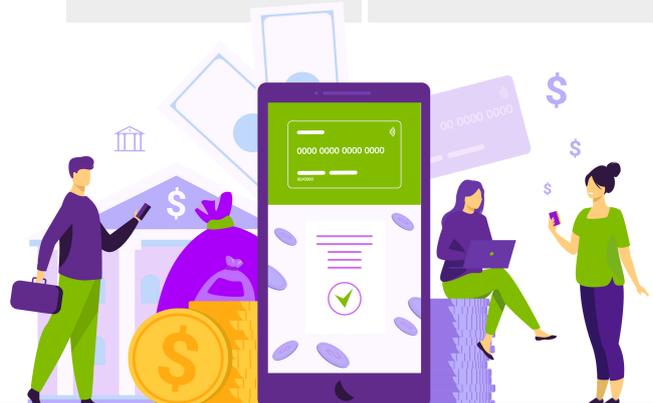
Royalties

- Gross royalties paid to a nonresident are taxable at a rate of 22%, which may be reduced under a tax treaty if an application is submitted to the tax authorities

Technical Service Fee

- Technical service fees paid to a nonresident company are taxable at a rate of 22%

WHT	
Dividends	<ul style="list-style-type: none"> • Resident Company = 20% • Nonresident Company = 20%
Interest	<ul style="list-style-type: none"> • Resident Company = 20% • Nonresident Company = 12%
Royalties	<ul style="list-style-type: none"> • Nonresident = 22%
Technical Service Fee	<ul style="list-style-type: none"> • Nonresident Company = 22%



Termination

- The principal rule in Iceland is that employers and employees are equally authorized to cancel employment contracts without stating the reason for this.
- Employees are generally hired without time limits, in which instance the employment contract is cancelled with a termination notice period as stated in the collective agreements.
- The employment termination notice is mutual and such employment cancellations shall be in writing and in the same language as the employee's employment contract.
- The employee has the right to an interview regarding the end of his employment and the reasons for the termination of his employment and can request them to be stated in writing.
- A request for the interview shall be given within 96 hours from the employees' knowledge of the contract's termination.
- Should the employer fail to fulfil the said request the employee is entitled to another interview with the employer in the presence of his or her union representative or other representative of the union, should he or she request so.
- Notice periods range from 12 days to six months (three months are common), depending on rules of the applicable collective agreement

Statutory Benefits

- These are mandatory benefits as postulated by law
- These include probationary period, annual leave, public holidays, sick leave, maternity leave, paternity leave, overtime pay, notice period, and severance pay
- Statutory benefits also include social security benefits

Statutory Benefits

Probationary Period

Annual Leave

Public Holidays

Maternity Leave

Paternity Leave

Sick Leave

Overtime Pay

Notice Period

Severance

Social Security Benefits



Payments and Invoicing

- Icelandic tax residents must file annual income tax returns for the 2018 calendar year by 31 March 2019.
- Employers withhold taxes for salaried individuals.
- Employers that do not pay the withholding tax have a surety liability for the payment.
- Nonresident taxpayers earning Icelandic-source salaries and pensions must file tax returns.
- Self-employed individuals must make estimated monthly payments of tax on deemed salaries.
- Other individuals in cohabitation that have applied for joint taxation are taxed separately on all types of income.
- However, married persons are jointly liable for their tax payments and jointly net their credits and debts. Tax liability arising during the marriage continues after the divorce.

Ease of Doing Business

- The ease of doing business index is an index created by Simeon Djankov, an economist at the Central and Eastern Europe sector of the World Bank Group.
- Higher rankings (a low numerical value) indicate better, usually simpler, regulations for businesses and stronger protections of property rights.
- According to the World Bank Iceland ranked 26th in the World in 2019 in terms of ease of doing business.



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