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Iceland

Payroll & Employment Law Guide

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Collective agreements, 2026 tax rules and EEA workforce mobility

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For general information purposes only

Overview

A reference for employing in Iceland

As of November 16, 2026, the private limited company, ehf., is the usual limited-liability operating form. A foreign employer should coordinate company registration, tax identity, bank access and employer registration before the first payroll. The legal form does not by itself settle who directs the employee or carries payroll liability.

31.49%	40h	4%	11.5%
FIRST 2026 PIT BAND	GENERAL WORKING WEEK	MANDATORY EMPLOYEE PENSION	MANDATORY EMPLOYER PENSION

WHAT THIS GUIDE COVERS

I	**Company Formation and Business Environment**	As of November 16, 2026, the private limited company, ehf., is the usual limited-liability operating form.
II	**Working Conditions and Leave Entitlements**	Iceland combines statutory floors with extensive collective-agreement rights.
III	**Tax, Payroll Tax and Pensions**	Icelandic employment income is subject to progressive withholding.
IV	**Payroll Operations**	Monthly payroll should connect the employment contract, applicable collective agreement, time records, leave data, tax credit and pension-fund instruction.
V	**Hiring and Termination**	For work lasting more than 1 month and averaging more than 8 hours per week, the employer provides a written contract or written statement within 2 months.
VI	**Pay, Collective Agreements and Benefits**	Iceland has no single statutory national minimum wage.
VII	**EEA Mobility, Visas and Work Permits**	EEA and EFTA nationals may generally work in Iceland without a work permit, but residence, identification and tax formalities still apply.
VIII	**Practical Notes and Compliance Risks**	The highest Icelandic payroll risk is usually an incorrect collective-agreement classification.
IX	**Incentives and Employer Support Schemes**	Icelandic employer support is usually approved before work begins and tied to a registered jobseeker, additional headcount or an approved training arrangement.

I

Company Formation and Business Environment

As of November 16, 2026, the private limited company, ehf., is the usual limited-liability operating form. A foreign employer should coordinate company registration, tax identity, bank access and employer registration before the first payroll. The legal form does not by itself settle who directs the employee or carries payroll liability.

STRUCTURE OR STEP	CURRENT RULE	PAYROLL CONTROL
Private limited company, ehf.	Minimum capital ISK 500,000	Register the company and beneficial ownership
Public limited company, hf.	Minimum capital ISK 4,000,000	Use where the governance model requires it
Employer register	File at least 8 days before activity	Required for a wage payer accounting for payroll
Tax identity	Use the Icelandic entity and identification number	Keep employer data aligned across filings
First employee	Identify the collective agreement and pension fund	Complete setup before the first calculation
Payroll currency	Icelandic króna, ISK	Contract and payslip should use consistent units

The applicable collective agreement should be identified during setup, not after pay has been agreed. It can determine the wage floor, working-time category, overtime, bonuses, sickness rights, notice and contributions to industry or union funds.

> **Verify before payroll**
> EOR note: No single Icelandic EOR licence category was identified for this guide. The actual employer, direction relationship, temporary-work-agency rules, tax position, immigration status and collective agreement must be assessed together.

II

Working Conditions and Leave Entitlements

Iceland combines statutory floors with extensive collective-agreement rights. A 40-hour week is the general framework, but many agreements define shorter active hours or a specific work pattern. Payroll must apply the agreement linked to the employee's work, not a generic national overtime table.

TOPIC	MINIMUM OR CURRENT RULE	OPERATING NOTE
General working time	40 hours/week	A collective agreement may shorten active hours
Average maximum	48 hours/week over 4 months	Includes overtime. An agreement may alter the reference period
Daily rest	11 consecutive hours in each 24 hours	Record any lawful exception and compensatory rest
Annual leave	2 days per month, 24 days for a full year	A collective agreement may grant more
Basic holiday allowance	10.17%	Higher rates can apply under an agreement
Sick leave floor	2 paid days per month worked	Service-based agreement rights are usually higher
Parental leave	6 months per parent, 12 months total	Eligibility and transfer rules must be checked

Maternity and paternity payment is generally 80% of average wages, subject to eligibility and a 2026 monthly cap of ISK 800,000. Eligibility normally requires 6 continuous months of labour-market participation before birth and at least 25% work. Leave notification, fund application and payroll absence dates should be reconciled.

> **Verify before payroll**
> Working-time control: Overtime starts, premiums, shift allowances and holiday work are agreement-specific. Keep the roster, approved hours, employee classification and agreement clause in the same payroll evidence trail.

III

Tax, Payroll Tax and Pensions

Icelandic employment income is subject to progressive withholding. The payroll calculation also applies the employee's personal tax credit when valid and deducts pension contributions before determining taxable income under the applicable rules.

ITEM	2026 VALUE	PAYROLL TREATMENT
PIT band 1	31.49%, ISK 0-498,122/month	Apply to the first band
PIT band 2	37.99%, ISK 498,123-1,398,450/month	Apply only to the portion in the band
PIT band 3	46.29% above ISK 1,398,450/month	Apply only above the second threshold
Personal tax credit	ISK 72,492/month, ISK 869,898/year	Apply according to employee entitlement
Employee mandatory pension	4%	Deduct and remit to the correct fund
Employer mandatory pension	11.5%	Add as employer cost
General employer payroll tax	6.35%	Calculate and report through employer payroll
Supplementary pension	Employee 2% or 4%, employer 2%	Apply only with a valid election and setup

The ordinary mandatory pension total is at least 15.5%. Pension-fund selection can follow occupation and collective-agreement coverage. The employee's residence, tax-credit use and cross-border certificate should be supported before changing the standard payroll treatment.

The baseline employer load from 6.35% payroll tax and 11.5% mandatory pension is 17.85%, before holiday allowance, collective-agreement funds, supplementary pension, insurance and other benefits.

IV

Payroll Operations

Monthly payroll should connect the employment contract, applicable collective agreement, time records, leave data, tax credit and pension-fund instruction. Icelandic payroll compliance depends on accurate coding of each pay component and timely remittance rather than one combined employer payment.

OPERATION	CURRENT RULE	CONTROL EVIDENCE
Employer setup	Register at least 8 days before activity	Registration confirmation and employer identity
Monthly tax due date	Payment deadline is 14 days after the first of the month	Filing receipt and bank proof
Payslip	Issue with every wage payment	Hours, pay items, deductions and contributions
Pension remittance	Correct fund and agreement basis	Employee choice or occupational coverage
Union and agreement funds	Conditional by applicable agreement	Rate table and remittance evidence
Accounting records	Retain 7 years after the relevant financial year	Controlled payroll and journal archive
Annual accounts	Retain 25 years	Preserve approved annual statements

The payslip should make ordinary hours, overtime, holiday allowance, benefits, pension, union deductions, withholding tax and net pay traceable. A new bonus or allowance should be classified before payment so its tax, pension and agreement treatment is not decided after filing.

> Verify before payroll
>
> File principle: Use one employee payroll file for contract terms, agreement classification, time and leave approvals, tax-credit instructions, fund setup and termination documents. Access should be role-based and changes should have an audit trail.

V

Hiring and Termination

For work lasting more than 1 month and averaging more than 8 hours per week, the employer provides a written contract or written statement within 2 months. Earlier written confirmation is the safer operating practice because the collective agreement, pay basis and pension fund affect the first payroll.

TOPIC	CURRENT RULE	APPLICATION
Written terms	Within 2 months where the threshold is met	State role, place, start, hours, pay and agreement
Trial period	Conditional	Use only a valid agreement and written clause
Notice	Collective-agreement specific	Check role, service, reason and month-end rule
Statutory floor for specified workers	1, 2 or 3 months after 1, 3 or 5 years	Act No. 19/1979 does not replace better terms
Immediate dismissal	Serious breach required	Preserve investigation and proportionality evidence
Severance	No general automatic statutory payment	Contract, agreement or special protection may create it
Final payroll	Pay, holiday balance and deductions	Reconcile termination date and fund reporting

Termination is normally planned against the applicable notice provision and often takes effect at a month end. Protected situations, including union activity, parental leave and discrimination grounds, require additional review. A collective redundancy can also trigger consultation and notice to the Directorate of Labour.

> Verify before payroll
>
> Decision rule: Do not copy a notice table from another sector. Lock the employee's collective agreement first, then confirm service, termination ground, effective date, unused holiday and any special payment.

VI

Pay, Collective Agreements and Benefits

Iceland has no single statutory national minimum wage. Act No. 55/1980 makes the wages and employment conditions in the applicable collective agreement binding minimums. An individual contract can improve those terms but cannot validly reduce them.

PAY ELEMENT	CURRENT TREATMENT	PAYROLL CHECK
Basic wage	Collective-agreement floor	Match occupation, grade, age and service where relevant
Working-time category	Agreement-specific	Separate day work, shift work and overtime
Overtime premium	Agreement-specific	Use the clause applying to the actual schedule
Holiday bonus	Common but agreement-specific	Confirm amount, eligibility date and proration
December bonus	Common but agreement-specific	Confirm annual amount and service conditions
Sick-pay enhancement	Agreement and service-based	Track service and prior paid absence
Supplementary pension	Employee 2% or 4%, employer 2%	Retain the employee's valid election

The payslip issued with every payment should allow the employee to identify hours, wage items, overtime, allowances, holiday pay, pension, union deductions, tax and net pay. A salary described as inclusive should still be tested against each mandatory agreement entitlement.

Benefits in kind and reimbursements require a tax classification and supporting documents. A travel payment, meal, vehicle, housing benefit or remote-work allowance should not be treated as tax-free merely because it appears in an internal policy.

> Verify before payroll
>
> Agreement lock: Store the agreement name, version, effective dates, wage table and employee classification in payroll. Recheck them whenever duties, workplace, schedule or bargaining coverage changes.

VII

EEA Mobility, Visas and Work Permits

EEA and EFTA nationals may generally work in Iceland without a work permit, but residence, identification and tax formalities still apply. A person outside the EEA and EFTA generally requires a temporary work permit before starting work, linked to the employee and employer.

ROUTE OR OBLIGATION	CURRENT RULE	EMPLOYER CONTROL
EEA and EFTA national	Generally no work permit	Complete residence, identity and tax steps
EEA and EFTA stay	Register legal domicile when exceeding 3 months	Complete the Registers Iceland procedure
Health insurance	Generally 3 months after legal-domicile registration	Prior EEA, UK or Swiss coverage may transfer earlier
Non-EEA or EFTA hire	Permit generally required before work	Match employer, role and supporting contract
Shortage route	Advertise generally for at least 3 weeks	Use Directorate of Labour and EURES channels
Posted worker	Icelandic legal and agreement minimums apply	Keep home contract and host terms together
Foreign service provider	Notify when service exceeds 10 working days in 12 months	File no later than commencement
Cross-border social security	Determine applicable EEA coordination position	Obtain the relevant certificate before payroll change

For temporary work, the A1 confirms the applicable social-security legislation and the S1 supports health coverage in Iceland. Posting does not allow the employer to bypass Icelandic minimum wages, working time, holiday, safety or collective-agreement rules. The workplace, duration, service recipient and who directs the work should be documented before the assignment begins.

> Verify before payroll
>
> Cross-border note: A work permit, residence registration and social-security certificate answer different questions. Tax residence and payroll withholding also depend on the actual work pattern, employer position and any applicable treaty.

VIII

Practical Notes and Compliance Risks

The highest Icelandic payroll risk is usually an incorrect collective-agreement classification. The same error can affect basic wage, overtime, holiday allowance, sickness, notice, pension-fund selection and industry-fund contributions. Maintain one approved classification record for every employee.

CONTROL	CURRENT THRESHOLD OR RULE	MAIN RISK
Equality plan	25 or more employees	Missing the documented plan and review cycle
Gender pay-gap report	Average 50 or more employees from September 1, 2026	Missing the 3-year reporting cycle
Collective redundancy, workforce 20-99	10 employees in 30 days	Late consultation or authority notice
Collective redundancy, workforce 100-299	10% in 30 days	Incorrect aggregation of dismissals
Collective redundancy, workforce 300+	30 employees in 30 days	Treating linked decisions separately
Disability	No general private-sector quota identified	Discrimination or missing reasonable accommodation
Agreement coverage	Mandatory minimum terms	Using a generic salary or overtime table

The employer should test changes in headcount, workplace and duties because they can move an employee into another agreement or create an equality-reporting duty. Personal identity and payroll data should be restricted to roles that need it and cross-border access should have an appropriate GDPR basis.

For EOR, remote work, temporary assignment or multi-country employment, contract labels are not enough. Review actual direction, permanent-establishment risk, immigration, tax, pension and host-country minimum terms together.

IX

Incentives and Employer Support Schemes

Icelandic employer support is usually approved before work begins and tied to a registered jobseeker, additional headcount or an approved training arrangement. A programme maximum is not an automatic payroll credit and should not be booked before a written decision.

SCHEME	2026 VALUE OR DURATION	MAIN CONDITION
Recruitment grant, 3-6 months unemployed	Example ISK 214,008/month	50% benefit basis plus 11.5% pension component
Recruitment grant, 6+ months unemployed	Up to ISK 428,015/month	100% benefit basis plus 11.5% pension component
Recruitment-grant period	Up to 6 months	Register and apply before work starts
Disability work contract	75% reimbursement for first 2 years	Approved contract and employee under age 67
Later disability reimbursement	Falls 10 percentage points yearly to 25%	Renewed assessment and programme conditions
Workplace Training Fund	Up to 48 weeks per student	Amount depends on budget and demand

The recruitment grant requires a collective-agreement compliant employment contract and normally an increase in headcount. The employer should confirm the candidate's registration period, approved amount, start date and pension treatment before onboarding.

> **Verify before payroll**
> Application order: Check the live call, candidate eligibility, budget, employment contract and written approval before payroll setup. Continue normal tax, pension, agreement and payslip controls throughout the support period.

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EOR & PAYROLL, HANDLED

Manage Iceland payroll & employment from one center with Datassist.

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31.49%	40h	2026
FIRST 2026 PIT BAND	GENERAL WORKING WEEK	CURRENT LEGISLATION BASE

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