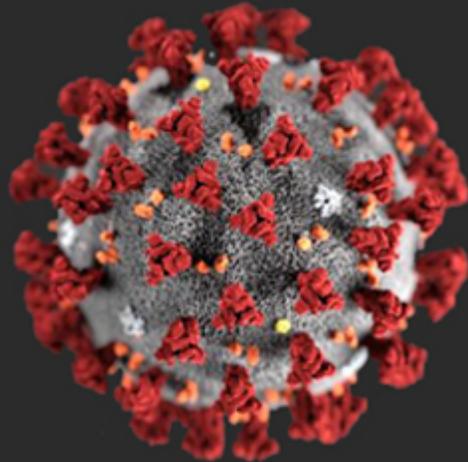


THE ICELANDIC GOVERNMENT'S ACTIONS IN RELATION TO COVID-19 OUTBREAK



A new reality

Most people are aware of the recent global outbreak of COVID-19 and its widespread impact throughout our society. These strange times have forced companies, individuals and the government to react. The outbreak will undoubtedly have major economic consequences with governments all around the world having to act by implementing temporary solutions with the objective to mitigate these severe consequences. It is of much importance that these solutions are in fact effective in minimizing the economic effects of the outbreak.

Considering recent events, the Icelandic government is working on getting the necessary legislative amendments passed by the Icelandic Parliament.

New bill on the postponement of payment deadlines for withheld public levies at source

On 13 March the Icelandic Parliament passed legislative Act no. 17/2020 on amendments to Act on the Withholding of Public Levies at Source (postponement of payment deadlines). The new act is intended to respond to the immediate and unforeseen economic crisis on account of the COVID-19 outbreak. The actions are intended to mitigate the effects of the economic challenges Icelandic society is facing in addition to ensuring that the negative economic effects of the outbreak are short lasting.

The legislative amendments implemented are as follows:

1. **Postponement of the payment deadline for part of the social security tax.** Legal entities are permitted to postpone the payment of half of the social security tax, that was previously due on 16 March to 15 April.
2. **Postponement of the payment deadline for part of the public levies on source.** Legal entities are permitted to postpone the payment of half of the public levies on source, that was previously due on 16 March to 15 April.

3. **No penalty or surcharge on account of the late payments.** The penalty or surcharge under Article 28 of Act no. 45/1987 on the Withholding of Public Levies at Source will be inflicted on account of the half payment made on 16 March, as long as the full payment is made on 15 April.

The following table includes an overview of the new deadlines:

Levy	Previous deadline	New deadline
Social security tax	16 March	15 April
Withholding tax on public levies	16 March	15 April

Individuals who are quarantined with no signs of being infected, will not lose income

The economic effects of COVID-19 are such that employer's income short comings could prove difficult for them in relation to paying employees' salary. In addition to that the case may very well be that employees don't have the right to a salary when on medical leave due to being in quarantine by the instructions of the public health authorities without showing symptoms of being infected by COVID-19. Thus, the Minister of Social Affairs and Children thought that it would be necessary for individuals, who are quarantined in those cases, to have the option to apply for payments from the government to offset their loss of income.

In order to achieve this, the Minister submitted a bill before the Parliament regarding the "Act on temporary payments to individuals due to loss of income from being quarantined without signs of being infected". Should the bill be enacted into law it will carry the following changes:

1. **Employees who are quarantined will get paid a salary.** In such cases where an employee is quarantined but does not have the right to a salary from their employer during the quarantine, the government shall pay the employee his salary.
2. **The goal of the new Act is to allow individuals to follow the commands of the public health authorities without worrying about loss of income.**
3. **The bill only applies to the private employment market.** As the bill only applies to employers, employees and independently employed individuals on the private employment market it is estimated that it will apply to approximately 140,000 individuals, or a total of 75% of the total employment market.
4. **The aid is conditional.** The bill states that certain conditions must be met, for instance the employer of the quarantined employee must be able to prove that he has paid the employee's salary during the active period (1 February 2020 – 30 April 2020).
5. **Salary cap.** The bill states that a cap will be put on government payments, the payments may not exceed 633.000 krona per employee, per calendar month.

Increased right to unemployment benefits for part-time employees

The Minister of Social Affairs and Children has submitted another bill to Parliament regarding changes to the Act on Unemployment Insurance and the Act on Wage Guarantee Fund. The bill's objective is to assist companies in maintaining their employees

until the economic difficulties associated with COVID-19 dissolved. The proposed amendments of the bill are thus temporary.

Companies experiencing temporary operating difficulties are encouraged to exercise the option to temporarily downgrade full-time employees to part-time employees rather than terminating the contract of employment. It is of great value to society that as many people as possible maintain their employment.

Should the bill be enacted into law it will carry the following changes:

1. Individuals who are downgraded to part-time employment could have certain rights to unemployment benefits. These benefits would amount to the proportional loss of income of the employee after he was downgraded to part-time. The conditions of these benefits are that the employee's employment rate must have been reduced by at least 20% and that the employee maintains at least a 50% employment rate.

The following examples are made for explanation purposes:

Effect of amendments of Act on Employment Insurance							
Employee	Salary prior	Reduction %	Unempl. Benef.	Employer Impair-ment		Government	Salary after
Employee 1	500,000	20.00%	91,281	400,000	-91,281	0	400,000
Employee 2	600,000	50.00%	228,202	300,000	-48,202	180,000	480,000
Employee 3	700,000	50.00%	228,202	350,000	-18,202	210,000	560,000
Employee 4	800,000	30.00%	136,921	560,000	-56,921	80,000	640,000
Employee 5	900,000	30.00%	136,921	630,000	-116,921	20,000	650,000

Example prerequisites according to bill:

The calculations prerequisites	
Full unemployment benefits	456,404
Minimum reduction of employment	20%
Maximum reduction of employment	50%
Maximum payment of salary following reduction (% of the average salary last 3 months)	80%
Maximum salary with aid	650,000

Further action to be announced

At last, it is worth mentioning that the Icelandic government will be announcing further action in the coming days in order to respond to the many challenges presented by the

COVID-19 outbreak. The government approved a 7-point plan on 10 March on actions against the COVID-19 outbreak effects. The entire plan is accessible via this [link](#).

KPMG Iceland is closely monitoring all legislative changes and will provide you with up to date information.

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