

Government support for the Living Standards Agreement

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- The State government announces actions costing in the range of ISK 80 billion over the effective term of the Collective Wage Agreement in support of the goals of stability and improved conditions for wage earners;
- Extended childbirth leave, reduced income tax, increased child care benefits and facilitated home buying;
- The actions benefit young people and low income groups the most.

The government has announced to the social partners its readiness to facilitate the achievement of collective agreements by means of actions designed to support economic stability and improved conditions for workers in the labour market. The condition for the government's actions is that authorities and the social partners work together on improving the interaction between economic management and collective agreements and on new approaches in the labour market. This is the best way to ensure economic prosperity and creation of value, to improve living standards in the country and create conditions for lowering interest rates.

The government will submit to the Althingi, or initiate, the following actions, to come into effect in 2019 to 2022.

Income tax

1. A three-bracket income tax to be introduced with a new low-income bracket. It is estimated that this action will increase the disposable income of the lowest-income groups by ten thousand ISK per month;
2. Personal tax allowance to remain fixed in real value over the implementation period. Thereafter, the personal tax allowance and tax brackets to rise in excess of inflation in line with increased productivity;
3. Targeted steps taken to reduce pooling of tax brackets by married/civil partners.

Childbirth leave

4. Childbirth leave to be extended from nine months to ten months at the beginning of 2020, increasing to 12 months by the beginning of 2021. The arrangement will be continued of each respective parent having an independent right to childbirth leave, while a part of the leave can be split. The government reserves the right to ensure consistency for the future in the generation and use of the revenues of specific labour market funds (Wage Guarantee Fund, the Maternity/Paternity Leave Fund, Vocational Rehabilitation Fund, Unemployment Insurance Fund) and at the same time the share of the payroll tax that accrues to funding for social security will be placed on a firm foundation.

Child benefits

5. Curtailment threshold for child benefits to be increased to ISK 325 thousand per month in 2020.

Housing

6. Contributions to the public housing system to be increased by ISK two billion each year, i.e. by a total of ISK six billion over 2020-2022. It is estimated that this will enable appropriation of

initial contributed capital sufficient for the construction of up to 1,800 apartments in 2020-2022.

7. Collaborative effort with the social partners on finding sound and organised methods to facilitate first-home purchases for young people and low-income groups. One possible way is to offer special loans (e.g. through the Housing Financing Fund) with the condition that the principal of the loan corresponds to a certain proportion of the market value of the property. "Share loans" of this kind could carry lower interest and payments in the initial years and enable low-income people to overcome the current down payment threshold, as the requirement for the home-buyer's equity would be reduced. The owner of the share would be repaid when the owner sold the property or paid up the loan at book value.
8. Government support for the first purchase of a home to extend also to those who have not owned a property for five years, subject to certain conditions.
9. Permission will be granted to use the part of pension premiums defined as "specified additional pension savings" to buy housing by means of a tax-free withdrawal with limits on time and amount.
10. Permission to use private pension savings toward loans taken to buy housing for personal use to be extended from 1 July 2019 to 30 June 2021.
11. Provisions of the Housing Rental Act to be reviewed in order to improve the legal status of renters, e.g. as regards protection for renters when rental amounts are raised and improve the legal rights of renters at the end of rental periods.
12. Flexibility in renting parts of real estate to be increased.
13. Support for renters' interest groups to be increased.
14. A consultation forum to be formed between government and other interest groups in order to expand the overview of urban planning and construction matters and e-government to simplify the regulatory environment.
15. Permission to be secured for municipalities in the Municipal Planning Act to require up to 25% of buildings under new secondary plans to be designated for general housing, social housing or other rental premises, whether the owner of the land is a municipality, the State or a private entity.
16. The State and the City of Reykjavík to reach an agreement on starting the development of the area of Keldnaland, with a view, among other things, to social integration, followed by negotiations on ownership and construction work.
17. Co-operation between government authorities charged with collecting and disseminating information on housing matters to be increased; a strong consultation forum of government entities will be formed to work on joint definitions suitable for use in the analysis of data on housing matters.
18. The government will work on the implementation of proposals from a task force on housing matters in consultation with the social partners and municipalities. The Housing Financing Fund will be charged with overseeing the implementation of the proposals of the task force in consultation with the Office of the Prime Minister, the Ministry of Finance and Economic Affairs, the Ministry of Social Affairs, the Ministry of Transport and Local Government and the Ministry of the Environment and Natural Resources.

Pension matters

19. In the course of discussions between the government and representatives of umbrella associations in the labour market various ideas have been addressed regarding changes in the arrangement of pension matters and the legal positions of pension fund members. The government has expressed its willingness to enter into collaboration with the social partners in the labour market on a comprehensive review of pension matters, which will need to be carefully considered and will, accordingly, take some time. Among the subjects that the review will need to cover are the organisation and structure of the pension system and pension entitlements, the sustainability of the pension system, the substance of insurance coverage, the distribution of the disability pension burden among the pension funds, the scope and handling of private pension savings, actuarial principles, the interaction of social insurance and payments out of pension funds, the general conditions for the operation of pension funds, pension fund investments and regulation of their activities.
20. The government will prioritise the following:
- i. To legislate a mandatory contribution of 15.5% of the premium base to a pension fund (minimum);
 - ii. To grant permission to split the statutory contribution to a pension fund so that a minimum of 12% accrues to the establishment of entitlements to payments from the joint pension fund (defined benefits section), and up to 3.5% to the establishment of entitlements in additional pension savings. This division to be provided for in greater detail in the statutes of the pension funds;
 - iii. Permission granted to use additional pension savings for (a) purchase of housing using accumulated savings, (b) reduction of the principal of index-linked mortgage loans, or (c) to reduce payments or principal of unindexed mortgage loans. Such use to be subject to limits of time and amount and so designed as not to undermine the sustainability of the pension system. Further details will be established in consultation between the government authorities and the umbrella associations in the labour market;
 - iv. To review the age for pension taking in consultation with the umbrella associations in the labour market.

Social dumping

20. Effective measures to be taken to counter illegal phoenix activity. Actions will be based on the joint proposals of the Confederation of Icelandic Employers and the Icelandic Confederation of Labour. Among other things, the proposals provide for authorisation to place a temporary ban on the participation by agents of business enterprises in the management of limited liability companies in certain circumstances (business prohibition), in addition to sharpening the focus on a number of other matters.
21. Increase in the scope for imposing sanctions, in consultation with the social partners, if an employer is found in violation of paying minimum workers' wages.
22. A permanent consultative group of the government and the social partners to be established to undertake joint strategic planning on actions against violations in the labour market.
23. Public authorities vested with powers to exercise authority in the labour market (the police, Directorate of Internal Revenue, Administration of Occupational Safety and Health) to enter into a formal agreement on organised co-operation against criminal activities in the labour

- market. Regular consultation and co-operation in this forum to be formalised with labour and management as regards situation assessment, analysis and joint monitoring of workplaces.
24. Details to be established on means of preventing serious and/or repeated crimes against employees by expanding the criminal liability of legal entities and their agents.
 25. Government authorities to be granted legal powers to address criminal activities, e.g. through coercive means and administrative sanctions.
 26. Requirement of chain liability to be inserted in the Act on public procurement.
 27. Criminal activities in the labour market under the label of vocational training or voluntary work to be prevented and a clear framework to be established regarding the activities permitted under such labels.
 28. Organised charting of the legal recourses available to the government, labour and management to exchange data and information, and a manual to be issued for the employees of the joint forum. Additional legal powers to be granted as circumstances may warrant.
 29. Appropriate assistance and protection to be secured for victims of labour trafficking and forced labour. Action plan against human trafficking to be made public and enforced. Review of the definition of human trafficking, ban enacted on forced labour with sanctions to ensure effective enforcement.
 30. Availability of information to foreign workers to be substantially improved, e.g. by establishing an advisory office and increased online information. Provision of information to employers regarding employment terms also to be organised.

Economic management, labour market and price levels

31. Umbrella organisations in the labour market to become parties to the Economic Council with an expanded role, with a view to reinforcing the co-ordination of economic management and decisions in the labour market based on economic and social stability.
32. Government and umbrella associations in the labour market to work together on the preparation of a Green Paper on the future environment of collective agreements and labour market affairs. The Green Paper to be submitted to parliament for debate before any policy decisions are made.
33. In support of price stability, the state's tariffs will not be raised in 2019 in excess of the increases already in effect. In 2020 tariffs will be raised by a maximum of 2.5%, and less if inflation is lower. It is urgent for enterprises in the market to take responsibility for price level trends, and it is presumed that this will be the case. The government will also encourage state-owned enterprises, including energy companies, to exercise the greatest possible restraint in revising their tariffs.

Simplification of regulatory environment and supervision

34. A review will be undertaken of competition legislation with a view to simplifying enforcement and improving efficiency. Among other things, it will be considered whether the Competition Authority should grant specific exemptions from the prohibitions in the Act or whether enterprises should themselves assess whether the proper conditions are in place. Furthermore, the turnover thresholds of reportable mergers will be reviewed with a view to raising them, and changes will be proposed in the procedure of merger cases designed to streamline the procedure, e.g. by simplifying shorter merger notifications.

35. The government has already requested that the OECD conduct a competition assessment of the regulatory framework for tourism and the construction industry in order to reduce barriers to competition and the regulatory burden. Among the matters to be studied are means of simplifying the functioning of construction matters with a view to shortening construction times and improving conditions for effective competition for the benefit of the economy and consumers. Steps will also be taken to simplify supervisory regulations and licensing processes for the industries, e.g. with a view to analysing possible areas for changing and simplifying the conduct of public supervision of the services provided by accredited professionals and improved use of information technology in the activities of public agencies.
36. A consultative committee on public supervisory rules will, in consultation with the social partners, complete the task of compiling a list of provisions of law relating to licensing, controls and fees that are burdensome for economic activities and submit proposals for improvement. The consultative committee will also monitor that no new onerous provisions are introduced in legislation on licensing, controls and fees without reasoning and that analyses are conducted of the impact of such rules on the economy.
37. The Prime Minister's Office recently conducted a survey among enterprises in Iceland regarding the regulatory culture. A consultative committee on public supervision is currently working on proposals for improvements based on the conclusions of the survey.