English translation of the Weekly Web Release



September 14th 2006

Sectoral employment by age

Statistics Iceland has developed data for the Ministry of Finance on employment by age, gender and sector for the years 1998-2005. This information is based on tax return data, showing the figures for October each year. A previous article on this subject dealt with the employment sectors of young people, as will be discussed further here.

The earlier article highlighted the fact that younger people tend to work in supermarkets and dominate the workforce in that sector. In October 2005, 46 per cent of those working in food stores were 20 years of age or younger and 60 per cent of all employees were 25 years or younger. The same may be said of restaurants and pubs: 61 per cent of employees were 25 or younger. These two sectors, employing nearly 9,000, become the place of employment for many young people.

These data also contain many other interesting bits of information. One of the fastest growing sectors of recent years comes under the heading of social services. The employment of men in this sector rose by close to 500 between 2000 and 2005 and for women by more than 2,000. This increase is spread quite evenly over all age groups. Financial institutions constitute another employment growth sector. The increase in employment in many growing sectors is highest in older age groups. This applies to sectors such as services to business, jobs with educational institutions at university level and to construction. This last sector primarily reflects the age of workers that have been imported to work on large energy-related projects. Two sectors are worth observing. Of 7,700 employees in elementary schools in October last year, about 2,400 are in their sixties and seventies, 32 per cent of all those working in this sector. The number of employees in this age group has increased by nearly 1,000 in five years. This is an indication that there will be a shortage of teachers in the near future. since many of the older ones can go on pension shortly after reaching the age of 60. The other sector is health services. This sector had nearly 10,500 employees in October 2005, a number nearly unchanged from the level five years ago. However, the number of persons of all age groups working in this sector had declined over the past five years except those in their sixties. This means that there is a shortage ahead.

Labour supply in the Nordic countries

A working party consisting of representatives from all the ministries of finance of the Nordic countries has recently released a report on the impact of taxes on labour supply. The supply of labour in the Nordic countries is quite high in comparison with the OECD average, regardless of whether it is measured by labour force participation or the length of the work week. Yet, taxes are higher and compensation to those not participating in the labour market is generally more generous than in other OECD countries. Iceland differs from the rest of the Nordic countries since the marginal income tax rate and the general tax burden is lower, labour force participation is higher and the work week longer.

A part of the explanation for the large labour supply in the Nordic countries is probably to be found on the demand side. Finland places great emphasis on the demand side of the labour market to combat persistent and increasing unemployment. The working party's mandate dictated that it should concentrate on the supply side of the labour market.

The supply of women to the labour market in the Nordic countries places women in a special position within the OECD. The length of childbirth leave and good access to day care centres probably has an impact in this respect. The main objective of the working party was to gather and summarise the working methods used in ministries of finance in the Nordic countries to assess the impact of tax changes upon labour supply of different groups. The importance of such research will increase in the near future as societies age and the share of those of working age shrinks. This is a source of much concern for

Treasury revenue Treasury expenditure January-July January-July 2006 12 month changes (%) 2005 2006 12 month changes (%) 2005 Total tax revenue 18.7 21.6 General public services 24.3 -18.2 39.7 Health Taxes on income & profit 15.2 11.4 6.1 49.8 -29.5 Social security & welfare 1.1 -6.8 Taxes on goods & services 19.4 16.3 Economic affairs -1.6 -0.9 Social contributions 16.2 16.0 Education 18.8 11.0 Total expenditure 23.0 9.1

% — Iceland — Sweden — Norway — Denmark — Finland
90
85
80
75
70
65
60
55
50
45
40
1990 1992 1994 1996 1998 2000 2002 2004

Labour force participation rate persons aged 55-64

the Nordic countries where for example the labour force participation of persons in the 55-64 age group is 22-35 per cent lower than in Iceland and it is therefore important to investigate the impact of tax changes on the supply of labour out of this age group and others.

The research of labour supply is quite problematic. The tax simulation models that have been developed in the Nordic countries show very different elasticities for different groups. The main conclusion is that the elasticity is lowest amongst men with the highest incomes and higher amongst groups that are on the edge of contemplating whether to participate in the labour market or not, for example students or those about to reach pension age. The elasticity is also high among women doing part-time work.

Proportional elasticity is therefore roughly as could have been expected. The tentative conclusion of the working party is that further work with dynamic models is required in order to assess the impact of tax changes. Further discussion in the report may be accessed at the Ministry's website.

Double taxation agreements

Things have been rather quiet in the area of double taxation so far this year. Representatives of Iceland and Romania concluded a double taxation agreement at the end of June. The agreement covers income tax only. The main element of the agreement is that the withholding tax on dividends is 5 per cent if it is paid to a company with no less than 25 per cent ownership in said company. In all other instances, the withholding tax is 10 per cent. The withholding tax on fees paid for intellectual property is 5 per cent. Pensions can only be taxed in the country of their origin.

Iceland had its first meeting with its Cypriote counterparts in Nicosia in September. Cyprus is the last country amongst the EU-25 to conclude a double taxation agreement with Iceland. An agreement with Cyprus will be finalised soon.

A double taxation agreement with Greece was signed here in Iceland last July. The agreement is expected to enter into force as of the beginning of next year. At this point, six agreements await signing, with Austria, Croatia, Mexico, Romania, South Korea and Ukraine. A revised agreement with Germany also awaits signature.

A meeting with representatives of the United States will be held soon. The present double taxation agreement with the US has been in effect since the beginning of 1976 and has been under revision for the past six years. This work will hopefully be concluded at said meeting.

The double taxation agreement with Slovenia is yet to be completed. The first meeting of representatives was held in November 2004. The same may be said for India, where the first meeting was held in November of last year. Discussions with Bulgaria regarding an agreement are also ahead, but a date has not been set for the first meeting.

reasury finances anuary-July			Economic indicators		
illion krónur	2005	2006	12 month changes (%)	2005	2006
ash from operations	4,596	36,500	Inflation (September)	4.8	7.6
et financial balance	15,802	34,116	Core inflation (September)	4.9	7.2
ebt redemption	-33,343	-35,088	Wage index (July)	6.6	10.2
ross borr. requirement	-19,790	-3,282	Total turnover (Jan April)	5.8	11.9
et borrowing	13,305	19,735	Retail turnover (Jan April)	3.9	6.2
verall cash balance	-6,486	16,453	Unemployment rate, sa (Aug.)	2.0	1.3

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