

LEGAL BRIEFING FOR INTERNATIONAL CLIENTS

Employment Law in Iceland

Collective agreements, hiring, termination and foreign workers — a practical guide for foreign employers entering the Icelandic market.

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INTRODUCTION

A Collectively Bargained Labour Market

Icelandic employment law rests on a combination of statute, collective agreements and the individual employment contract. Unlike many jurisdictions, there is no single comprehensive labour code: minimum terms are largely set by sector-wide collective agreements, which apply to all employees in the relevant trade — regardless of union membership and regardless of whether the employer is Icelandic or foreign. For foreign employers, success in Iceland starts with understanding that framework.

~90%

union density — among the highest in the world

24 days

statutory minimum annual vacation

15.5%

minimum mandatory pension contribution

EEA

nationals work without permits under free movement

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PART I — SOURCES OF LAW

Statute Plus Collective Agreements

- **Act No. 55/1980** on Working Terms and Pension Rights Insurance — wages and terms in collective agreements are legally binding **minimum terms**; any contract clause providing inferior terms is void.
- **Act No. 80/1938** on Trade Unions and Industrial Disputes — the framework for unions, bargaining and industrial action, and the basis of the specialised Labour Court (Félagsdómur), which decides disputes over the interpretation of collective agreements.
- **Act No. 46/1980** on Working Environment, Health and Safety — occupational safety and working-time rules, supervised by the Administration of Occupational Safety and Health (Vinnueftirlitið).
- **EEA-derived legislation** implementing EU directives on working time, written statements, transfers of undertakings, collective redundancies, equal treatment, temporary agency work and posted workers.

Key point for foreign employers

You cannot contract out of collective-agreement minimums, even with the employee's consent and even under a foreign-law contract, insofar as work is performed in Iceland. Identifying the applicable collective agreement is therefore the first step in any Icelandic hiring plan — it determines minimum wage tables, working-time premiums, notice periods and more.

The social partners

Collective bargaining is conducted between the trade-union confederations — led by the Icelandic Confederation of Labour (ASÍ) — and the Confederation of Icelandic Enterprise (SA), alongside public-sector counterparts. Bargaining rounds are economy-wide events, and wage drift between rounds is governed by the agreements themselves. A foreign employer joining SA becomes bound by its agreements; one that does not is bound by the generally applicable minimum terms in any event.

PART II — HIRING & CONDITIONS

Contracts, Working Time and Benefits

- **Written terms.** Employees must receive a written employment contract or written confirmation of engagement terms, generally within two months of starting work (for engagements over one month and eight hours per week).
- **Working hours.** The standard working week set by most collective agreements is 40 hours (many agreements have shortened active working time to around 36–37 hours). Average weekly working time including overtime may not exceed 48 hours, and employees are entitled to at least 11 consecutive hours of daily rest.
- **Holiday.** Statutory minimum vacation is 24 working days per year under the Holiday Act No. 30/1987, with holiday pay of at least 10.17% of wages; collective agreements often grant more.
- **Sick pay.** Collective agreements provide paid sick leave scaling with length of service — significantly more generous than statutory floors in many other countries.
- **Parental leave.** Each parent is entitled to six months of paid parental leave (Act No. 144/2020), of which up to six weeks may be transferred to the other parent, funded by the state Parental Leave Fund; parents enjoy strong protection against dismissal.
- **Pension and payroll.** Membership of an occupational pension fund is mandatory. The statutory minimum contribution is 15.5% of total wages (customarily 4% employee / 11.5% employer). Employers also pay social security tax on wages (currently in the region of 6.3–6.4%).
- **Equal pay certification.** Employers with 25 or more employees must obtain equal-pay certification under the ÍST 85 standard (Act No. 150/2020); equal-treatment legislation prohibits discrimination across the employment relationship.
- **Privacy at work.** GDPR-based rules (Act No. 90/2018) govern employee monitoring, background checks and data transfers — relevant for group-wide HR systems hosted abroad.

PART III — TERMINATION

Notice-Based, but Not Unconstrained

Iceland follows a notice-based termination model. As a general rule, either party may terminate an open-ended employment contract without stating a reason, subject to the applicable notice period — but the freedom to dismiss is subject to significant statutory and collective-agreement limits.

- **Notice periods** are set by collective agreements and typically range from one week during an initial trial period up to three months after longer service (managerial contracts often provide for longer).
- **Form.** Termination must generally be in writing and, under many collective agreements, employees are entitled on request to an interview and a written statement of reasons.
- **Protected situations.** Dismissals may not be based on discriminatory grounds, union activity, pregnancy or parental leave, or a recent equal-treatment complaint; special protection applies to union representatives and safety delegates. Unlawful dismissal typically results in damages rather than reinstatement.
- **Collective redundancies** (Act No. 63/2000) trigger information and consultation duties and notification to the Directorate of Labour when thresholds are met.
- **Transfers of undertakings.** On a business transfer, employees follow the business with their terms intact (Act No. 72/2002); dismissals by reason of the transfer itself are restricted — a key diligence point in M&A.
- **No statutory severance pay** applies in the general labour market, although contractual or collective-agreement entitlements may exist.

Executive terminations

Senior executives typically fall outside collective agreements and are governed by their contracts — making drafting decisive. Notice, bonus and equity treatment, restrictive covenants and garden leave should be addressed at hiring, not at exit.

PART IV — FOREIGN WORKERS

Foreign Nationals and Posted Workers

- **EEA/EFTA nationals** may live and work in Iceland without work permits under the free movement of workers; registration with Registers Iceland is required for extended stays.
- **Non-EEA nationals** require a residence permit and, in most cases, a work permit under the Foreign Nationals' Right to Work Act No. 97/2002 — commonly a permit for qualified professionals or for work requiring specialist skills, applied for by the employer in cooperation with the Directorate of Labour and the Directorate of Immigration.
- **Posted workers.** Foreign undertakings temporarily posting employees to Iceland must comply with Act No. 45/2007: registration with the Directorate of Labour, appointment of a representative, and application of Icelandic minimum terms (wages, working time, safety) for the duration of the posting.
- **Temporary-work agencies** are subject to a separate registration and equal-treatment regime (Act No. 139/2005).
- **Contractor chains.** User undertakings and main contractors bear defined responsibilities for wages and terms in subcontractor chains — foreign contractors on Icelandic projects are a supervisory focus area.

Practical checklist for market entry

- 1 Determine the applicable collective agreement(s) for the planned roles.
- 2 Structure compensation to meet minimum wage tables, pension and holiday-pay rules.
- 3 Register the employer for payroll withholding and social security tax.
- 4 Secure residence and work permits for non-EEA staff well before the start date.
- 5 Prepare compliant written contracts and workplace policies (safety, equal pay, harassment).

PART V — SELECTED EXPERIENCE

Litigating Icelandic Employment Law at Every Level

MAGNA's lawyers litigate employment and labour-law disputes before the ordinary courts at all levels and before the specialised Labour Court (Félagsdómur). The publicly reported matters below illustrate the practice.*

Employment and labour-law litigation

- **Supreme Court of Iceland, Case No. 501/2016** (judgment of 1 June 2017) — successfully represented an individual claimant and the VR trade union against the Unemployment Insurance Fund, the Directorate of Labour and the Icelandic State in a leading case on unemployment benefits and the constitutional protection of property.
- **Labour Court (Félagsdómur)** — acted for the Icelandic Confederation of Labour (ASÍ) and Verkalýðsfélag Akraness against SA (for Norðurál Grundartangi) in a dispute over shift-work overtime and public-holiday premium pay under the applicable collective agreement.
- **Labour Court (Félagsdómur)** — represented ASÍ (for the Efling union) as intervening party in proceedings concerning collective-bargaining rights and priority clauses for dockworkers (Eimskip).
- **Both sides of the bargaining table** — MAGNA's lawyers have acted for trade unions and labour confederations as well as for employers, giving the firm practical insight into how Icelandic collective-agreement disputes are argued and decided — insight of particular value to foreign employers.

References available

Detailed case references and CVs of the responsible partners are available on request; client-specific matters are disclosed only with the client's consent.

* Certain matters were handled by MAGNA's partners at the firm's predecessor offices (Lögmenn Höfðabakka and Málflutningsstofa Reykjavíkur), which merged to form MAGNA Lögmenn in 2019.

PART VI — HOW WE CAN ASSIST

Your Icelandic Legal Partner

MAGNA Legal (MAGNA Lögmenn) advises international clients across the full life cycle of an Icelandic investment — from first market analysis to operations, expansion and exit. We work in English and Icelandic and coordinate seamlessly with foreign counsel, tax advisers and technical consultants.

Employment Contracts & Policies

Employment contracts and handbooks; collective-agreement analysis; compensation structuring; workplace policies on safety, equal pay and harassment; GDPR at work.

Terminations & Restructuring

Individual and executive terminations; collective redundancies; transfers of undertakings in M&A; settlement negotiation and litigation.

Immigration & Mobility

Work and residence permits; posted-worker registration and compliance; contractor-chain responsibility; cross-border payroll coordination.

Labour Disputes

Litigation before the ordinary courts and the Labour Court; collective-agreement interpretation; industrial-action advice; dealings with unions and supervisory authorities.

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