MINISTRY OF FINANCE
ICELAND

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Principal tax rates 2009

This paper describes the principal tax rates applicable to individuals and companies as they stand at the beginning of 2008.

1. Personal income taxation

Iceland's personal income tax structure is such that all personal income in 2009 (other than capital income, see below) is taxed at a PAYE rate of 37.20 per cent, 24.1% of which goes to the Treasury and 13.10% to the municipalities. These tax rates increase by 1.48 percentage points from the previous year, 1.35 percentage points of which and 0.13 percentage points for the municipalities. There is a basic annual tax credit which amounted to 408,409 krónur in 2008 and 506,466 krónur in 2009. An unused tax credit is fully transferable between spouses.

Tax rates[1] since 2000 (income year) have been as follows:

	Central gov't general tax rate	Municipal tax rate	Total tax rate	Central gov't surtax
2000	26.41	11.96	38.37	7.00
2001	26.08	12.68	38.76	7.00
2002	25.75	12.79	38.54	7.00
2003	25.75	12.80	38.55	5.00
2004	25.75	12.83	38.58	4.00
2005	24.75	12.98	37.73	2.00
2006	23.75	12.97	36.72	0
2007	22.75	12.97	35.72	0
2008	22.75	12.97	35.72	0
2009	24.10	13.10	37.20	0

Seamen get a special tax reduction of 874 krónur per day in 2008 and 987 per day in 2009.

The PAYE personal income tax comprises both the central government and municipal income tax[2]. It excludes the social security tax, which is levied on employers (see below).

In addition to the above, each individual pays a flat tax of 7,534 krónur per year to the Elderly's Construction Fund, a central government fund used to finance the construction and operation of nursing homes and care centres for the elderly. Persons under the age of 16 and

[1] The central government general tax and the municipal tax are collected together on a PAYE basis and the rates are shown as applicable in the year of collection. The central government surtax rate is shown in the year of assessment, i.e. assessment in any given year is based on the previous year's income.

[2] The PAYE tax collection rate is the same for the whole country. Municipalities, however, have different municipal tax rates, ranging from 11.24 to 13.28 per cent (the maximum was increased by 0.25 per cent for 2009). An average of municipal income taxes is collected through the PAYE system. Actual tax settlements take place in the following year after a tax return has been filed and the actual tax has been assessed.

more than 69 years old are exempt from this levy, as well as those with an income below 1,143,362 krónur in 2008.

The personal income tax is levied on gross income excluding income from capital (for the capital income tax, see below), with a number of minor exceptions. Employee contributions to pension funds are deductible. Such contractual contributions normally comprise 4 per cent of gross pay, to which the employer adds a contribution, normally 8 per cent[3] which also is deductible as an operating expense on the business side. In addition, the employee can save up to 4 per cent as a supplementary pension saving on a voluntary basis and deduct the contribution from taxable income. Employers generally make a counter-contribution to such voluntary contributions, in many cases fully matching them. Such retirement savings are placed in a separate account for each individual and are accessible after the age of 60 years. Funds drawn on such accounts are fully income-taxable.

Interest rebates are granted by the central government for interest expenses incurred from home purchase loans. Such rebates are subject to debt, income and net wealth ceilings. Maximum rebates in 2009 are: 189,957 krónur for a single individual, 244,299 krónur for a single parent and 314,134 krónur for a couple [4].

Child benefits are granted for each child, subject to income thresholds. They are as follows (in krónur per year):

	2008	2009
For all children under the age of 7[1]	57,891	61,191
Children under the age of 18 :		
First child...	144,116	152,331
Each additional child................................	171,545	181,323
Benefits for single parents:		
First child...	240,034	253,716
Each additional child................................	246,227	260,262
Income threshold for benefit curtailment:		
For couples..	2,415,492	3,600,000
For a single parent...................................	1,207,746	1,800,000
Curtailment of benefits:		
For one child..	2%	2%
For two children......................................	6%	5%
For three children or more.......................	8%	7%

1. These benefits are not linked to income.

Rent subsidies supplied by municipalities to low-income tenants are tax-free.

The tax treatment of stock options was introduced into tax legislation in 2001 as a result of the fact that a number of companies had begun to reward their employees with

[3] In many cases the employer contribution is considerably higher. For central government employees it is 11.5 per cent and for airline pilots and similar professions with a shorter working life it is even higher.

[4] The following constraints apply to interest rebates: (1) They can not exceed 5 per cent of the remaining debt balance incurred in buying a home for one’s own use. (2) The maximum amount of interest payments that qualify for an interest rebate calculation is 554,364 krónur for an individual, 727,762 krónur for a single parent and 901,158 for a couple. (3) Six per cent of taxable income is subtracted from the interest expense. (4) The rebates begin to be curtailed at a net worth threshold of 7,119,124 krónur for a single individual/single parent and 11,390,599 krónur for a couple and are eliminated altogether at a 60 per cent higher amount.

options to buy stock at a defined price as a part of the employees' total emolument package. The exercise of stock options is subject to certain conditions, the chief being: (1) Stock options must be available to all employees; (2) A minimum of twelve months must pass between the establishment of a stock option contract until it is exercised. (3) The exercise price must not be lower than the average trading price for the last ten trading days before the option is exercised. (4) The employee must own the stock for no less than two years after purchase. (5) The annual stock option must not exceed 600,000 krónur at the exercise price.

Special section: Amendments to taxes enacted at the middle of 2009

As of July 1st 2009, a number of taxes were amended. These amendments are described in this section, whereas other sections of this report have been left unchanged, as they applied as of the beginning of 2009. The main changes to taxes are as follows: (1) The part of the social security tax going to the Unemployment Insurance Fund was increased from 0.65 per cent to 2.21 per cent and the levy to pay for the Wage Guarantee Fund increased from 0.1 per cent to 0.2 per cent. Both percentages apply to paid wages and are charged to employers. The total social security tax is thereby increased from 5.34 per cent to 7 per cent. (2) The excise tax on a number of products was increased. (3) A temporary income tax surcharge of 8 per cent is imposed on monthly incomes in excess 700,000 krónur. The surcharge will be in effect from July 1st until the end of this year. (4) The capital income tax is raised from 10 per cent to 15 per cent for the second half of this year on capital income in excess of 250,000 krónur for said period. The withholding tax on interest income of non-residents of 15 per cent will apply as of September 1st(5) The proceeds of the capital income tax will be collected quarterly instead of annually as of July 1st of this year. (6) Non-residents will become subject to payment of capital income tax on interest income earned in this country.

2. Taxes on capital income and net wealth

Starting in 1997, a uniform 10% tax is levied on all capital income of individuals, such as interest income, dividends, capital gains and rental income. The capital income tax is withheld at source for both businesses and individuals, as applicable. Individuals pay no further tax on capital income, whereas capital income incurred by businesses is taxed as ordinary corporate profits with the withholding capital income tax being offset against the corporate income tax.

There is no tax on net wealth. The net wealth tax was abolished at the end of 2005. The last net wealth tax assessment took place in 2005 on the basis of net wealth at the end of 2004.

3. The social security tax

A general social security tax rate of 5.34% is paid by the employer to the Treasury on top of personal wage income paid to the employee. For fishermen, the rate is 5.99 per cent. . ...

4. Corporate taxation

As of the beginning of 2002, Iceland's corporate income tax was lowered from 30 per cent to 18 per cent. In 2009, the corporate income tax will be 15 per cent, levied on 2008-

income. All the proceeds of the tax accrue to the Treasury. Municipalities levy no income tax. Partnerships with unlimited liability that file for taxes as distinct legal entities pay a tax of 23.5 per cent[5]. As with the net wealth tax on individuals, the corporate net wealth tax has been abolished.

As of 2002, the so-called inflation accounting system was abolished and replaced by conventional historical accounting. Inflation accounting has been in effect for a number of years due to the fact that inflation was at one time quite substantial and accounting methods had to reflect that fact. For the past decade, however, inflation has been in the single figures and the need for inflation adjustments in company accounts was diminished. Furthermore, international accounting standards are generally based on historical cost, and Icelandic standards are therefore being brought into conformity with international norms. As of 2002, Icelandic firms are allowed to keep their books and draw up their accounts in foreign currency, subject to the restriction that the bulk of their business must be in the accounting currency. Their tax liability continues to be in krónur. The table below shows the corporate and partnership taxation rate since 1989 (in per cent):

	Corporations	Partnerships
1989	50	50
1990	45	45
1991	45	45
1992	39	41
1993	33	41
1994	33	41
1995	33	41
1996	33	41
1997	33	41
1998	30	38
1999	30	38
2000	30	38
2001	30	38
2002	18	26
2003	18	26
2004	18	26
2005	18	26
2006	18	26
2007	18	26
2009	15	23.5

Since March 1999, so-called international trading companies, having established a venue in Iceland, are subject to a 5 per cent income tax. This refers to companies that exclusively trade in goods and services outside Iceland. In December 2003, legislation was passed to abolish the tax benefit for international trading companies as of the beginning of 2009.

5. The value added tax

[5] In fact, the income taxation of corporations and partnerships is about the same. If a corporation has an income of, say, 100, it pays 15 in income tax. If it chooses to use the entire remainder, 85, as dividends, it pays a further 8.5 (i.e. 10 per cent of 85) as capital income tax, for a total of 23.5 (15+8.5). A partnership pays a total of 23.5 on an income of 100 up front and is not subject to a further capital income tax.

There is a general value added tax of 24.5 per cent on domestic goods and services. Exports of goods and services and several other transactions are zero-rated. A 14 per cent tax applies to most foodstuffs and a number of other items. As of March 1st 2007, the value added tax of 14 per cent was reduced to 7 per cent on the following items:

- All food (excl. liquor and wine), most of which has been taxed at 14 per cent but a few items at 24.5 per cent (e.g. soft drinks, sweets).
- Restaurant services, food canteens and similar services.
- The rental of hotel rooms and guest quarters and other related services.
- Radio and TV licence fees.
- Newspapers, magazines.
- Books and book audio recordings.
- Hot water, electricity, oil for space heating and water for swimming pools.
- Road tolls.
- CD disks (excl. DVDs), tapes and similar items (previously taxed at 24.5 per cent).

As a general rule, all transactions are taxable except where exemptions are specified. The most common categories of exemption are health services, social services, education, libraries and art, sports, passenger transport, postal services, rental of property and parking spaces, insurance and banking services.

6. Motor vehicle taxation

The system of taxing motor vehicles and fuel is explained in a separate document that may be accessed here.

7. Real property taxation

Municipalities tax real property on the basis of assessed value as is registered in the real property database kept by the Property Registry, a central government agency that keeps track of all real property transactions and valuations in the country. The assessed value is imputed from actual market values as they appear in sales data. On this basis, the municipalities impose a tax on the assessed value of 0.5 per cent a year on residential housing, farm buildings, recreational housing and adjacent land rights; 1.32 per cent on hospitals and health facilities, schools, dormitories, nursery schools, athletic buildings and libraries. A 1.32 per cent charge is also imposed on industrial, office and commercial buildings, fish processing buildings, hunting lodges and structures used for tourism services. These percentage charges may be increased by up to 25 per cent by a decision of any municipal council.