

Chronicle of economic events 2007

Latest update: 6 Desember 2007

January 2007

A number of changes in the tax system took effect as of the beginning of January. The personal income tax rate was cut by one percentage point to 22.75 per cent. The earlier intention, already passed into law, to cut the tax by two percentage points was rescinded. The local government income tax rate collected with the PAYE income tax remains unchanged at 12.97 per cent from the previous year. The actual local government income tax varies from 11.24 per cent to 13.03 per cent. The total PAYE income tax thus comes to 35.72 (22.75 + 12.97) per cent in 2007 but was 36.72 per cent in 2006.

The standard income tax credit increased by 6 per cent at the turn of the year, from 356,180 to 385,800 krónur.

The special tax credit for seamen increased from 787 to 834 krónur a day.

Interest tax credits on interest paid by homeowners will amount to 179,713 krónur for a single person, 231,125 krónur for a single parent and 297,194 krónur for couples (married or not). The maximum interest payment that qualifies for interest tax credits amounts to 524,469 krónur for a single person, 688,517 for a single parent and 852,562 for couples. The interest payments are subject to a ceiling of 5 per cent of debt for the purchase of a home for own use. The interest tax credit is based on the above calculation of interest payments less 6 per cent of the income tax base. Furthermore, interest tax credits are subject to a net asset level that starts at 4,931,043 krónur for a single person or a single parent and 8,174,053 for couples. The interest tax credit is cut by 60 per cent of the net assets in excess of the above amount and disappears altogether at 7,889,669 krónur for a single person or a single parent and 13,078,485 krónur for couples.

At the beginning of this year, the maximum interest tax credit itself increased by 6 per cent and the net asset level by 1.9 per cent. Previously, by Act no. 135/2006, the net asset level was raised by 30 per cent for the purpose of calculating interest tax credits for 2006 in view of the sharp increase in property prices. The intention was to let the calculation of interest tax credits remain about unchanged between years.

Child benefits will be as follows in 2007:

Benefits will be paid up to the age of eighteen years, whereas previously they were paid up to the age of sixteen years.

	2004	2005	2006	2007
For all children under the age of seven ¹	36,308	37,397	46,747	56,096
Children under the age of eighteen:				
First child	123,254	126,952	139,647	139,647
Each additional child	146,713	151,114	166,226	166,226
Benefits for single parents:				
First child	205,288	211,447	232,591	232,591
Each additional child	210,854	216,902	238,592	238,592
Income threshold for benefit curtailment:				
For couples	1,444,139	1,487,463	1,859,329	2,231,195
For a single parent	722,070	743,732	929,665	1,115,598
Curtailment of benefits:				
For one child	3%	3%	3%	2%
For two children	7%	7%	7%	6%
For three children or more	9%	9%	9%	8%

1. These benefits are not linked to income.

A per capita tax of 6,314 krónur for the Construction Fund for the Elderly is levied in 2007 on all taxpayers aged 16-69 years with income in excess of 948,647 krónur.

On December 20th 2006, Act no. 175/2006 was passed and will enter into force on March 1st of this year. By this Act, the value added tax on all food (excluding alcohol) will be cut to 7 per cent. Most food has been subject to a 14 per cent rate and several foods (e.g. sweets, soft drinks) carried a full 24.5 per cent tax. All these will now be reduced to 7 per cent. This cut is also extended to restaurants, canteens and similar establishments. Furthermore, excise taxes on food will be eliminated. They differed widely from one item to another. The import duty on meat will be lowered by up to 40 per cent on a total of 870 tonnes of imported meat.

Other products that previously were subject to a 14 per cent value added tax will also be reduced to 7 per cent. This cut covers the following items:

- Hotel rooms and other hotel services.
- Radio and TV licence fees.
- Magazines, newspapers, including regional newspapers.
- Books, both those authored originally or translated, as well as the recordings of such books.
- Hot water, electricity and oil for space heating and swimming pools.
- Road and tunnel tolls.
- CD disks, music records, tapes and similar items (excluding DVDs).

February 2007

On February 8th, the Central Bank announced that it would keep its policy rate unchanged at 14.25 per cent. The Bank observed that inflation has slowed down and the short-term inflation outlook has improved beyond what was expected in the Central Bank's most recent forecast. However, inflation is still significantly in excess of target.

On February 15th, Moody's Investors Service issued a credit opinion that the rating for the Republic of Iceland remained unchanged at Aaa/P1. In its commentary, Moody's observed that "the government's exceptionally strong government finances are critical to offsetting the risks to macroeconomic stability generated by the large private sector external debt". "Moody's credit opinion may be accessed [here](#)".

March 2007

On March 15, 2007 Fitch Ratings downgraded Iceland's foreign and local currency Issuer Default ratings (IDRs) to A+ and AA+ from AA- (AA minus) and AAA respectively. The Outlook on both ratings is Stable. The Short-term foreign currency rating is also downgraded to F1 from F1+ and the Country Ceiling is lowered to AA- from AA. [Fitch's press release](#)

June 2007

On June 6th, R&I Rating of Japan announced its first rating for the Republic of Iceland, assigning it a foreign currency issuer rating of AA+. The outlook is stable. The rating is announced in connection with a formal request by Kaupthing Bank for a rating from the agency. R&I Ratings also decided to assign a rating to the Republic of Iceland, although this had not been requested by the authorities. [News release from R&I Ratings](#)

On June 16th, the Central Bank announced that it was amending its definition of its policy rate. Henceforth, it will be presented as a nominal interest rate instead of a rate corresponding to an annual rate of return. As a result, the rate will be amended from 14.25 per cent to 13.3 per cent. No change in the policy rate is implied by this new numerical presentation. See [further ...](#)

August 2007

On August 3rd the Minister of Fisheries issued a regulation on the catch limit for the coming fisheries year, starting on September 1st. The limits are as follows:

	Tons
Cod	130,000
Haddock	100,000
Saithe	75,000
Catfish	12,500
Redfish	57,000
Greenland halibut	15,000
Dab	1,500
American plaice	1,000
Plaice	6,500
Lemon sole	2,200
Witch	2,400
Tusk	5,500
Ling	7,000
Monkfish	2,500

November 2007

On November 1st, the Central Bank raised its policy rate by 45 basis points to 13.75 per cent. See the Bank's [statement](#) and the [Monetary Bulletin](#) issued on the following date.

On November 20th, Standard & Poor's revised its outlook on the sovereign credit ratings on the Republic of Iceland to negative from stable. At the same time, the 'A+/A-1' foreign currency and 'AA/A-1+' local currency issuer credit ratings were affirmed. See the [full report](#).

December 2007

On December 5th, the Government announced that it will implement measures to raise the incomes of older and disabled persons by reducing the income-related thresholds to social security benefits and increasing the pocket money of persons residing in nursing homes. The total cost of these measures is estimated at 5 billion krónur in 2008, and the fiscal budget bill, presently under consideration in the Althingi, will be amended accordingly. For a full text of the Government's statement, [see here ...](#)