

Act on Withholding of Tax on Financial Income

No. 94, 14 June 1996

Entered into force 25. June 1996, implemented on 1 January 1997. Amended by Act No. 133/1996 (entered into force 18 Dec. 1996), Act No. 82/1998 (entered into force 1 October 1998), Act No. 90/1998, (implemented on 24 June 1998 as provided for in the instructions in Art. 4), Act No. 84/2000 (entered into force 1 August 2000), Act No. 133/2002 (entered into force 1 Jan. 2003), Act No. 129/2004 (entered into force 31 Dec. 2005), Act No. 134/2005 (entered into force 30 Dec. 2005), Act No. 150/2006 (entered into force 30 Dec. 2006), Act No. 174/2006 (entered into force 1 Jan. 2007, with the exception of Article 2 and subparagraph a of Article 8, which entered into force on 30 Dec. 2006 and subparagraph b of Article 6, which entered into force 1 Jan. 2008, implemented as provided for in the instructions in Art. 10), Act No. 76/2007, (implemented on 5 April 2007 as provided for in the instructions in Art. 9), Act No. 38/2008 (entered into force on 29 May 2008, with the exception of Article 8, which entered into force on 1 Jan. 2008, implemented as provided for in the instructions in Art. 9) and Act No. 88/2008 (entered into force 1 Jan. 2009 with the exception of Temporary Provision VII, which entered into force 21 June 2008).

Initial provision

Article 1

A state income tax of 10% shall be withheld at source on interest payments and dividends received, as provided for in detail in this Act. Withholding as provided for in this Act shall be a provisional payment of income tax, unless otherwise expressly stated.

For legal entities, cf. Article 2 of [Act No. 90/2003, on Income Tax],¹⁾ and for individuals with regard to financial income arising from their business operation or independent commercial activity, withholding properly determined and remitted on financial income shall be a provisional payment towards the anticipated assessed income tax or other public levies which such operators may be assessed.

An account shall be provided of interest income and dividends, together with other financial income, as well as withholding deducted on a tax return or, as the case may be, special summaries, following the conclusion of an income year. The regional tax director shall carry out assessment and ensure that withholding has been remitted.

¹⁾Act No. 129/2004, Art. 115.

Parties liable for taxation

Article 2

All parties receiving interest and dividend income are obliged to pay tax as provided for in Article 1 and subject to collection of withholding, cf. however, the third paragraph.

The payment obligation provided for in this Article covers legal entities which are exempt from tax liability in accordance with Points 2, 3, 5, 6 and 7 of Article 4 of [Act No. 90/2003, on Income Tax]1). Properly determined and remitted withholding of these parties is final payment not requiring further determination or assessment of income tax on their interest or dividends. Those parties covered by this paragraph, however, who themselves see to the collection of interest on their own lending activities or receive interest income from which withholding has not been deducted, e.g. discounts or trading gains, must submit a summary of this interest income to the tax authorities and remit 10% income tax on such interest following the conclusion of the income year, [cf. Art. 7.]²⁾ Those parties covered by this paragraph who have financial income other than interest

and dividends must similarly remit 10% income tax on such interest following the conclusion of the income year, [cf. Art. 7.]²⁾ The Director of Internal Revenue shall set detailed rules on remittance forms and remittance in this connection.

Those exempt from the obligation provided for in the first paragraph are: ...³⁾ foreign states and international institutions; the Icelandic Students' Loan Fund, the Institute of Regional Development, the State Housing Fund, the Workers' Housing Fund, the Handicapped Development Fund, the Senior Citizens' Development Fund, the Agricultural Productivity Fund, the Municipal Loan Fund [ohf.]⁴⁾ and the West Nordic Loan Fund, the Central Bank of Iceland, [UCITS, cf. the Act on UCITS, No. 10/1993],⁵⁾ credit institutions liable to taxation pursuant to Act No. 65/1982, as subsequently amended, [life assurance companies, cf. Art. 23 of Act No. 60/1994, and pension funds, cf. the Act on Compulsory Insurance of Pension Rights and Activities of Pension Funds],⁶⁾ [and occupational pension funds, cf. the Act on Occupational Pension Funds].⁷⁾

¹⁾Act No. 129/2004, Art. 116. ²⁾Act No. 133/2002, Art. 1. ³⁾Act No. 84/2000, Art. 7. ⁴⁾Act No. 150/2006, Art. 5. ⁵⁾Act No. 133/1996, Art. 1. ⁶⁾Act No. 90/1998, Art. 1. ⁷⁾Act No. 76/2007, Art. 8.

Remittance obligation

Article 3

The obligation to deduct withholding on interest income and discounts and to remit this to the National Treasury rests with domestic deposit institutions, securities companies, securities dealers, asset leasing companies and other financial undertakings, attorneys, certified accountants and other financial custodians, insurance companies, and any other parties who provide custody of assets, intermediation or collection in securities transactions or handle collection for other parties on a commercial basis. [The same shall apply to the National Treasury and state institutions which pay interest as referred to in this Act.]¹⁾

The obligation to deduct withholding from dividends and remit this to the National Treasury rests with legal entities, cf. 1. Point 1 of the first paragraph of Article 2 of [Act No. 90/2003, on Income Tax.]²⁾

¹⁾Act No. 133/2002, Art. 2. ²⁾Act No. 129/2004, Art. 117.

Taxable income base

Article 4

Interest income subject to withholding as provided for in this Act includes interest and discounts, cf. Article 8 of [Act No. 90/2003, on Income Tax]¹⁾ such as:

1. Interest on deposits in domestic banks, savings banks and deposit departments of co-operative societies, in accounts with postal services and holiday pay savings accounts, as well as interest on securities to which similar rules apply according to specific legislation. Interest includes, furthermore, inflation indexation of principal and interest, indexation on non-interest-bearing deposits and claims and winnings from sweepstakes bonds paid in lieu of interest.

2. Interest on guarantee capital in mutual insurance companies, consumer co-operatives and other co-operatives, cf. Point 1 of the first paragraph of Article 2 of [Act No. 90/2003, on Income Tax.]¹⁾

3. Interest paid by domestic parties on any other deposits or assets than those referred to in Points 1 and 2, including interest on bills of exchange, securities and other

interest-bearing claims. Interest shall include indexation and winnings from sweepstakes bonds paid in the same manner as referred to in Point 1.

4. Any income on unit share certificates.

5. Any income on pension insurance and endowment assurance of individuals from insurance companies.

6. Any other income from monetary assets which can be classified as interest on them, cf. however, the second paragraph.

Trading gains shall not be included in the withholding tax base. Payment of tax on such income shall be as provided for in [Act No. 90/2003, on Income Tax],¹⁾ and shall be determined through the assessment of public levies in the year following the income year, together with a surcharge on the amount of tax as provided for in that Act.

[The taxable base for withholding dividends as referred to in this Act includes dividend income, cf. Points 4 and 5 of Section C of Article 7 of [Act No. 90/2003, on Income Tax],¹⁾ i.e. the amount which companies, in accordance with Points 1 and 2 of the first paragraph of Article 2 of [Act No. 90/2003, on Income Tax],¹⁾ pay or allocate, [with the exception of dividends allocated between parties subject to joint taxation as provided for in Art. 55 of Act No. 90/2003, on Income Tax, as subsequently amended.]²⁾³⁾

¹⁾Act No. 129/2004, Art. 118. ²⁾Act No. 174/2006, Art. 9. ³⁾Act No. 133/2002, Art. 3.

Deduction of withholding

Article 5

Deduction of withholding on interest shall be made as provided for in detail in this paragraph:

1. [Withholding on interest as referred to in Points 1-3 of the first paragraph of Article 4 shall be deducted when interest is paid or credited to an account, cf. Points 1 and 2 of the first paragraph of Art. 4.]¹⁾ Payment shall mean payment in any form whatsoever, whether this is in cash payment, claims or other form of monetary value which is delivered instead of money.

2. [Upon redemption or sale, tax must be remitted on unit price increases.]¹⁾

3. A party providing life insurance, endowment assurance, must remit tax withheld on such income [when payment is made.]¹⁾ ...¹⁾

4. Withholding on income as referred to in Point 6 of the first paragraph of Article 4, shall be deducted when this is credited to a rightholder and available for disposition or when disbursed.

5. ...²⁾

6. If a claim is adjusted by adding accrued interest to the principal, withholding shall be deducted on the interest accrued when the adjustment was made.

If only part of the instalment due on a claim is paid, it shall be assumed that interest is paid first. ...¹⁾

Deduction of withholding on discounts shall be made on each payment of this claim for which a discount is calculated. Provisions of this paragraph shall not, however, apply to discounts when a claim is collected by parties not obliged to make remittance, cf. Article 3.

Deductions of withholding on dividends shall be made when a limited company pays or allocates dividends to shareholders. Payment shall mean payment in any form

whatsoever, whether this is in cash, claims or other form of monetary value which is delivered instead of money.

[When a security is sold, or delivered as payment, the name of the seller, Reg./Id. No. and date shall be recorded on the security, together with the selling price (purchase price). When a party obliged to make remittance, as provided for in Article 3 sells or serves as intermediary in transactions with securities and handles their collection, the obligation to record is satisfied by entering the date and selling price (purchase price) securely in a computer. When such securities leave the custody of a party obliged to make remittance before they are fully paid, the latter must record the selling price (purchase price), together with the original date of the transaction, on the securities.]¹⁾

¹⁾Act No. 133/1996, Art. 2. ²⁾Act No. 90/1998, Art. 2.

Disclosure to rightholders

Article 6

A party obliged to make remittance, as provided for in Article 3, must always indicate the tax withheld on a receipt sent to the rightholder of interest and dividends as provided for in Article 4. Following the conclusion of an income year and no later than 1 February each year, parties obliged to remit, cf. the first paragraph of Article 3, shall provide those from whom tax has been deducted in accordance with this Act with an overall statement indicating the principal of the asset or claim at year-end, interest for the year and withholding deducted from this interest. [If the receipt sent to rightholders of interest specifies that this information is to be entered into a tax return and the total amount of taxable interest is less than ISK 10,000, however, then this statement does not have to be provided after the conclusion of the income year unless a rightholder expressly requests it.]¹⁾ Legal entities, cf. the second paragraph of Article 3, shall, no later than 1 February each year, issue share capital slips, showing for instance the withholding of the previous year.

¹⁾Act No. 90/1998, Art. 3.

Payment periods and due dates

Article 7

[For the purpose of tax payment as provided for in this Act, the payment period shall be three months, i.e. January-March, April-June, July-September and October-December. Due dates for payment are 20 April, 20 July, 20 October and 20 January, with the final date for payment 15 days later.]¹⁾

¹⁾ Act No. 70/2009, Art. 5

Collection

Article 8

A party obliged to make remittance, as provided for in Article 3, must on own initiative make payment on due dates as listed to in Article 7 of tax as provided for in this Act.

Payments as referred to in the first paragraph must be delivered to the collection agents of the National Treasury in the district where the party obliged to remit is legally domiciled.

Remittance forms

Article 9

Payments shall be accompanied by remittance details on the form intended for this purpose or in other format as decided by the Director of Internal Revenue. Parties referred to in Article 3 must submit remittance forms even if no taxable income base exists during the income year. They may, however, apply to the Director of Internal Revenue for exemption from this obligation, provided they do not then collect or mediate monetary assets or make payment of dividends.

The regional tax director shall review remittance forms and make corrections to them if necessary.

If a party fails to submit a satisfactory remittance form within the prescribe time limit the regional tax director shall estimate the amount of its tax obligation.

The regional tax director shall notify parties of an estimate or correction as referred to in the second and third paragraphs.

[Assessment, enforcement and other tax administration of the parties covered by the fifth paragraph of Art. 89 of Act No. 90/2003, on Income Tax, shall be the responsibility of the Reykjavík district.]¹⁾

Parties from whom withholding is not deducted, must provide a summary of their interest income and pay income tax on this income following the conclusion of an income year, as provided for in Chapter X of [Act No. 90/2003, on Income Tax.]²⁾

¹⁾Act No. 38/2008, Art. 6. ²⁾Act No. 129/2004, Art. 119.

Accounting

Article 10

A party obliged to make remittance, as provided for in Article 3, must keep its accounts so as to facilitate the verification of its remittance by tax authorities.

The Minister of Finance shall be authorised to lay down rules on specific accounting by parties obliged to make remittance.

Register of parties obliged to make remittance

Article 11

The Director of Internal Revenue shall maintain a special registry of parties obliged to make remittance as provided for in this Act.

A party referred to in Article 3 must, within eight days of commencing operations, notify the Director of Internal Revenue of its activities, who will then enter the party concerned in the registry. If a party ceases operation it must, within eight days, send notification thereof to the Director of Internal Revenue, who will remove the party from the registry. [A party covered by the first paragraph of Article 3, may request to the Director of Internal Revenue that it be omitted from the registry of parties obliged to make remittance, if it only carries out collection or mediation of the monetary assets of individuals to an insignificant extent. Parties granted such exemption must each year provide information to tax authorities on the financial income of individuals which they have collected, in such form as determined by the Director of Internal Revenue.]¹⁾

Should a party fail to fulfil its obligation to notify, as provided for in the second paragraph, the Director of Internal Revenue shall rule that it is obliged to make remittance and notify the party thereof.

Notifications as provided for in this Article must be made on forms intended for the purpose which the Director of Internal Revenue has had prepared. The Director of Internal Revenue shall decide what information is to be provided on this form.

¹⁾Act No. 133/1996, Art. 3.

Liability

Article 12

A party obliged to make remittance, as provided for in Art. 3, and parties liable for taxation, as provided for in Article 2, shall be liable *in solidum* for tax deducted from financial income covered by this Act. A party liable for taxation shall not, however, be liable for tax which it proves that a party obliged to make remittance has deducted from its financial income.

A party, which is obliged to make remittance due to intermediation of transactions, is not liable for payment of tax on financial income in excess of the amount which it actually handled.

Appeals

Article 13

In the case of a dispute between a party obliged to make remittance and a party liable to taxation, concerning withholding pursuant to this Act, either the party liable to taxation or, as the case may be, the party obliged to make remittance may appeal the withholding to a regional tax director within 30 days after the withholding occurred.

The regional tax director may demand that the parties provide all information he/she deems necessary to examine the substance of the case and issue a ruling on it. The regional tax director may also request information from third parties in this regard as he/she deems necessary to shed light on the circumstances of the case.

A ruling or decision by a regional tax director may be appealed to the State Internal Revenue Board within 30 days of the day following the mailing of the notification or ruling of the regional tax director.

Director of Internal Revenue and Directorate of Tax Investigations in Iceland

Article 14

The Director of Internal Revenue may, on own initiative, examine all aspects of remittance obligations and withholding as provided for in this Act and may alter decisions of regional tax directors if warranted, and examine any other matters concerning the implementation of this Act. He/She may, for this purpose, request any information and documentation deemed necessary from regional tax directors, state tax collectors, tax collection offices, commercial banks, savings banks, financial undertakings or other parties concerning the transactions in question.

The Directorate of Tax Investigations in Iceland shall hold the same authorisations for investigations of payment and tax obligations as provided for in this Act.

Disclosure obligations, authorisations for tax enforcement and tax investigations

Article 15

All parties, whether obliged to submit tax returns or not, must provide the tax authorities, without charge and in such form as prescribed, with all necessary information and data which they may request and with which they can be provided. It makes no difference in this connection whether the information concerns the party to whom the request is directed or dealings of other parties with it, about which it can provide

information and concerning those parties' obligations to pay and make remittance. Tax authorities as referred to in this Article shall include regional tax directors, the Directorate of Tax Investigations in Iceland, and the Director of Internal Revenue.

For the purpose of tax enforcement as provided for in this Act, a regional tax director and the Director of Internal Revenue may demand that parties required to submit tax returns and make remittance make their accounts and accounting documentation available for inspection, together with other documentation concerning their operations, including correspondence and contracts. Furthermore, these parties shall have access to the above-mentioned documentation and access to establishments of parties obliged to submit tax returns, and authorisation to question any party who can be expected to be able to provide information of significance. The Directorate of Tax Investigations in Iceland shall hold the same authorisations for investigations as provided for in Article 16.

Tax authorities shall, furthermore, hold the authorisations provided for in the second paragraph with regard to parties who are not obliged to submit tax returns.

Should a dispute arise as to the obligations of parties pursuant to this Article, the Director of Internal Revenue or Directorate of Tax Investigations in Iceland may seek a ruling from a district court. Should any party fail to fulfil its disclosure obligation, the case may be referred for [police investigation]¹⁾.

¹⁾*Act No. 88/2008, Art. 234.*

Tax enforcement, tax investigations

Article 16

Each regional tax director is responsible for tax enforcement in his/her district. The Director of Internal Revenue shall monitor the enforcement work of regional tax directors and gather information thereupon, instruct regional tax directors on enforcement actions and other factors of significance for tax enforcement. If a regional tax director is of the opinion that a tax violation, or other violation punishable under this Act, has been committed, he/she shall notify the Directorate of Tax Investigations in Iceland, which will decide how to proceed in the case. The same notification obligation applies to the Director of Internal Revenue.

The Directorate of Tax Investigations in Iceland may undertake an investigation of any aspect of payment and remittance obligations pursuant to this Act. He/She shall investigate cases referred to him/her by a regional tax director or the Director of Internal Revenue, as referred to in the first paragraph and the fifth paragraph of Article 96 and the fourth paragraph of Article 101 of [Act No. 90/2003, on Income Tax.]¹⁾

When actions of the Directorate of Tax Investigations in Iceland give cause to make changes to payment and remittance obligations pursuant to this Act, the Director of Internal Revenue shall look after such, unless the latter entrusts this to the regional tax director, cf. the third paragraph of Article 101 of [Act No. 90/2003, on Income Tax.]¹⁾

¹⁾*Act No. 129/2004, Art. 120.*

Surcharge and penalty interest

Article 17

If payments as provided for in this Act are not remitted at the prescribed time, the regional tax director shall levy a surcharge on the party obliged to make remittance, in addition to the funds which it should have remitted. The same shall apply if a remittance

form has not been submitted or if it has been inadequate and the amount of tax due has therefore been estimated, cf. the third paragraph of Article 9, unless the party obliged to make remittance has paid by the final date for payment an amount equivalent to the estimate.

The surcharge on unremitted funds as referred to in the first paragraph shall be as follows:

1. one percent (1%) of the amount of funds unremitted for each day past the final due date for payment, to a maximum of ten percent (10%);

2. [an additional surcharge on the amount of funds unremitted, calculated from the due date, if payment has not been made on the first day of the month following the final date for payment. This surcharge shall be equivalent to penalty interest as determined by the Central Bank of Iceland and published, cf. Art. 6 of Act No. 38/2001 on interest and price indexation.]¹⁾

For calculating the surcharge on an estimated amount of payment due, the final date for payment shall be deemed to be the final date for payment for the year for which the estimate was made. The same shall apply concerning the surcharge on all unpaid payments due from previous years.

If a party obliged to make remittance sends a satisfactory remittance form within 15 days of the date of a notification from a regional tax director as referred to in the second paragraph of Article 9, it shall pay the amount of remittance funds according to the remittance form plus a surcharge cf. the second paragraph. The regional tax director may alter the previous estimate after this time limit has elapsed if special circumstances so warrant. If accounts are not kept in compliance with the provisions of Article 10, the amount of funds to be remitted by a party obliged to make remittance may be estimated.

In the eventuality that no estimate was made for a party obliged to make remittance, who was to pay remittance funds, or that the estimate was lower than the remittance funds it should have paid, the party shall pay the remittance funds due plus a surcharge as provided for in the second paragraph.

A surcharge as referred to in the second paragraph may be cancelled if a party obliged to make remittance can provide valid reasons to excuse itself; the regional tax director shall decide in each individual case what should be considered as valid reasons in this connection. His/her decision may be appealed to the State Internal Revenue Board for a final ruling within 30 days of the day following the mailing of the notification or ruling of the regional tax director.

If the tax provided for in this Act has been undercalculated, a party obliged to make remittance may be required to pay any unremitted funds for the previous six years, calculated from the beginning of the year when recalculation takes place. If an investigation is made of remittances by a party obliged to make remittance, the authorisation to recalculate funds shall extend to the previous six years, calculated from the beginning of the year when the investigation began.

¹⁾Act No. 133/2002, Art. 4.

Collection of unremitted funds etc.

Article 18

Unremitted funds, surcharge and fines as provided for in this Act shall be collected by a collection agent of the National Treasury in the district where the debtor is legally domiciled or has an establishment.

Unremitted funds, surcharge and fines shall be enforceable by attachment of a debtor's assets.

The Treasury's collection agent must send a remittance form to the regional tax director for funds which he/she has received pursuant to provisions of this Act. Collected unremitted funds and surcharge shall be kept separate in a special account until a remittance form is received from the party obliged to make remittance.

The Treasury's collection agent can have the police suspend the business operations of a party obliged to make remittance if it fails to make satisfactory payment of remittance funds or surcharge as provided for in Article 17 within 15 days, calculated from the final due date for payment or date of the ruling by the taxation authorities on unremitted funds and surcharge, for instance, by having establishments, offices, branches, equipment and goods sealed until full payment is made.

Penalties

Article 19

If a person liable for taxation or obliged to make remittance deliberately or through gross negligence provides incorrect or misleading information on anything of significance for remittance of his/her withholding, the person shall pay a fine of up to ten times the amount of the levy for which payment was not made and never less than the equivalent of double that amount. An egregious violation against this provision is liable to the first paragraph of Article 262 of the General Penal Code.

Any party liable for taxation, which intentionally or through gross negligence provides incorrect or misleading information on anything of significance for remittance of its withholding, has failed to retain withholding on interest income and dividends as provided for in this Act and as obliged, has not submitted remittance forms at the time prescribed by law or has failed to remit withholding on interest income and dividends which it has retained as provided for by this Act or should have retained, shall pay a fine of up to ten times the amount of the amount of the tax which it failed to retain or to remit and never less than the equivalent of double the amount of the tax, unless the violation is liable to more severe punishment pursuant to Article 247 of the General Penal Code. [The minimum fine provided for in this paragraph shall not apply if a violation is limited to failing to submit properly reported withholding on the withholding remittance form, provided a substantial portion of the withholding amount has been remitted or there are significant extenuating circumstances.]¹⁾ The surcharge provided for in Article 17 shall be deducted from the amount of the fine. An egregious violation against this provision is liable to the first paragraph of Article 262 of the General Penal Code.

If a party obliged to make remittance has, deliberately or through gross negligence, failed to keep accounts as provided for in Article 10, this is liable to penalty pursuant to provisions of the Act on Accounting, or the second paragraph of Article 262 of the General Penal Code if the violation is egregious.

If a person deliberately or through gross negligence fails to fulfil obligations to give notification as referred to in Article 11, disclosure obligations as provided for in Article 15, or fails to provide information or assistance, remittance forms, reports or documentation, as prescribed in this Act, he/she shall be liable to fines [or imprisonment of up to 2 years duration.]²⁾

If a party obliged to make remittance deliberately or through gross negligence provides incorrect or misleading information on anything of significance for its withholding, it may be liable to a fine even if the information cannot affect its obligations or remittance of them. The same penalty shall apply to a party liable to taxation (rightholder) who accepts interest income or dividends paid to him/her as referred to in this Act, knowing that the party obliged to make remittance has not deducted withholding from this income as prescribed by this Act, or who provides incorrect or misleading information on anything concerning obligation to remit funds or make payment of them, even if the information cannot affect this remittance.

If a violation of the first or second paragraph is discovered when an estate is probated, the estate shall pay a fine of up to four times the amount of the levy for which payment was not made and never less than the equivalent of one and one-half times that amount. The surcharge provided for in Article 17 shall be deducted from the amount of the fine. If a situation as described in the fifth paragraph exists, a fine may be levied against the estate.

Any party who deliberately or through gross negligence provides the taxation authorities with incorrect or misleading information or documentation concerning the levies due by another party, or assists in providing incorrect or misleading information to the taxation authorities, shall be liable to punishment as provided for in the first or second paragraphs of this Article.

An attempt to commit or complicity in a violation of this Act is punishable as provided for in Chapter III of the General Penal Code and is liable to fines with a maximum as determined in other provisions of this Article.

Fines for violations against this Act may be levied against legal entities regardless of whether the violation can be attributed to a punishable action by a leader or employee of the legal entity. If a leader of a legal entity or its employee has committed a violation against this Act, in addition to the penalty imposed against him/her, the legal entity may be fined or deprived of its operating authorisation, provided the violation has brought financial advantage for the legal entity or it has profited from the violation.

¹⁾Act No. 134/2005, Art. 6. ²⁾Act No. 82/1998, Art. 227.

Procedure and limitations

Article 20

Fines as provided for in Article 19 shall be determined by the State Internal Revenue Board, unless a case is referred for ...¹⁾ public investigation and prosecution as referred to in [the fourth paragraph.]²⁾ The Directorate of Tax Investigations in Iceland shall refer cases to the State Internal Revenue Board for a ruling. When dealing with cases, the State Internal Revenue Board shall provide the accused with an opportunity to speak in his/her defence. Rulings of the State Internal Revenue Board are final and do not include reserve penalties.

[Notwithstanding the provisions of the first paragraph, the Directorate of Tax Investigations in Iceland or its legally qualified employee may offer a party the option of settlement of a case under prosecution by paying a fine to the Treasury, provided the violation is deemed to be proven beyond doubt, in which case the matter will not be referred for [a police investigation]¹⁾ nor the levying of a fine by the State Internal Revenue Board. In levying a fine, regard shall be had for the nature and scope of violations. The amount of penalties may be ISK 100,000 to ISK 6 million. A party shall

be provided with information on the amount of the proposed fine before agreeing to a settlement in this manner. Determination of a fine pursuant to this provision shall be concluded within six months of the conclusion of the investigation by the Directorate of Tax Investigations in Iceland.

A reserve penalty is not included in a decision by the Directorate of Tax Investigations in Iceland. The same rules shall apply to collection of fines determined by the Directorate of Tax Investigations in Iceland as apply to collection of unremitted funds and surcharge pursuant to this Act. Provisions of the fourth paragraph of Article 18 may also be applied as appropriate. A list of cases concluded in this manner shall be sent to the State Prosecutor. If the State Prosecutor is of the opinion that an innocent person has been subjected to fines determined in accordance with the second paragraph, or the conclusion was in other respects preposterous, he/she may refer the case to a judge to have the decision of the Directorate of Tax Investigations in Iceland invalidated.]²⁾

[The National Commissioner of Police]¹⁾ shall undertake preliminary investigation of [criminal cases]¹⁾ involving violations of this Act. The Directorate of Tax Investigations in Iceland may refer the case for [police investigation]¹⁾ on its own initiative or at the request of the accused if he/she does not wish to accept having the case decided by the State Internal Revenue Board as provided for in the first paragraph.

[Claims for payment may be made and awarded in a criminal case for violations of the Act.]¹⁾

Fines for violations of this Act shall accrue to the National Treasury. The same rules shall apply to collection of fines pursuant to rulings by the State Internal Revenue Board as apply to collection of unremitted funds and surcharge pursuant to this Act. Provisions of the fourth paragraph of Article 18 may also be applied, as appropriate.

Offences as referred to in Article 19 will be statute barred after six years from the commencement of an investigation by the Directorate of Tax Investigations in Iceland or State Criminal Investigation Police provided there have been no abnormal delays to the investigation of the case or decision on penalty.

¹⁾Act No. 88/2008, Art. 234. ²⁾Act No. 134/2005, Art. 7.

Settlement of withholding

Article 21

Chapter VIII of Act No. 45/1987, on Withholding of Public Levies at Source, as subsequently amended, on determining taxes on interest and dividends, settlement of withholding on this income and its collection shall apply *mutatis mutandis*.

Authorisation for a Regulation

Article 22

The Minister of Finance may, in a Regulation¹⁾, provide in detail for the implementation of this Act.

¹⁾Reg. 373/2001, cf. 334/2006.

Entry into force

Article 23

This Act shall enter into force at once and be implemented on 1 January 1997.

Article 24 Temporary Provisions

I. ...

II.

In determining the amount of accrued interest on claims and securities, care shall be taken to enter the updated value, i.e. the value of the outstanding principal including accrued indexation and interest, on the document in question upon payment or the first instalment after 1 January 1997.

The updated price of securities fulfilling the requirements for listing on the Icelandic Securities Exchange, cf. Chapter V of Act No. 11/1993, shall be based on the weighted average price in transactions in individual securities classes which took place during the period from 15 November to 15 December 1996 on the Icelandic Securities Exchange, including off-exchange transactions notified during that same period.

The updated price of claims or securities which are not listed on the Icelandic Securities Exchange, cf. Chapter V of Act No. 11/1993 and which bear lower nominal interest than 5% shall be determined by the nominal value of the claim or outstanding principal plus 5% annual return until maturity. If a rightholder to interest can demonstrate that the return on a claim or security is lower than provided for the first sentence of this paragraph, it may request an adjustment in accordance with the actual return. Such an adjustment shall be made in assessment following the conclusion of an income year. The value of a claim or security, determined and updated in this manner, shall be deemed its original value as of 1 January 1997 for withholding of interest income. A claim or security bearing nominal interest of 5% or more shall be taxed accordingly.

Debt instruments, accepted as payment for the selling price in accordance with a purchase agreement which are owned by the seller, shall be assessed at their update value as of year-end 1996, cf. however, the second sentence of the final paragraph of Article 5.]¹⁾

¹⁾Act No. 133/1996, Art. 4.

[As of 1 July 2009, parties obliged to make remittance, as provided for in Article 3, must retain 15% tax on the taxable financial income of parties liable to taxation, cf. Article 2, which accrues after 1 July 2009 on older claims, as well as on claims originating after that date, cf. Articles 4 and 5. Financial income tax of 10% shall be calculated on financial income accruing prior to 1 July 2009. The Minister of Finance may set more detailed rules on the implementation of this provision in a regulation.

Notwithstanding the provisions of Article 5 of this Act, the due date for payment for the payment period from 1 January to 30 June 2009 shall be 20 July 2009 and the final date for payment 15 days later.]¹⁾

¹⁾ Act. No. 70/2009, Art. 5.