[Income Tax Act][1)]

Act no. 90 of 7 May 2003

[1)] *Act 129/2004, Article 31.*

Originally Act 40/1978. Passed 1. January 1979; entered into force acc. to directions in article 118. Republished, as noted in article 32 Act 25/1981, as 1. 75/1981. *Changed with* Act 21/1983 (entered into force 14. April 1983; put into effect acc. to directions in article 5), Act 84/1983 (entered into force 30. December 1983; put into effect acc. to directions in article 3), Act 7/1984 (entered into force 30. March 1984; put into effect acc. to directions in article 9), Act 8/1984 (entered into force 30. March 1984; put into effect acc. to directions in article 16), Act 48/1984 (entered into force 13. June 1984), Act 119/1984 (entered into force 31. December 1984; put into effect acc. to directions in article 2), Act 121/1984 (entered into force 31. December 1984; put into effect acc. to directions in article 9), Act 9/1985 (entered into force 29. April 1985; put into effect acc. to directions in article 6), Act 41/1985 (entered into force 1. July 1985; put into effect acc. to directions in article 2), Act 47/1985 (entered into force 28. June 1985; put into effect acc. to directions in article 14, though with notice of provisional clauses), Act 118/1985 (entered into force 31. December 1985; put into effect acc. to directions in article 4), Act 3/1986 (entered into force 1. March 1986; put into effect acc. to directions in article 24), Act 49/1987 (entered into force 1. January 1988; put into effect acc. to directions in article 21), Act 92/1987 (entered into force 1. January 1988; put into effect acc. to directions in article 17), Act 2/1988 (entered into force 6. January 1988; put into effect acc. to directions in article 9), Act 10/1988 (entered into force 10. March 1988; put into effect acc. to directions in article 22), Act 97/1988 (entered into force 30. December 1988; put into effect acc. to directions in article 21), Act 51/1989 (entered into force 1. June 1989; put into effect acc. to directions in article 10), Act 62/1989 (entered into force 14. June 1989), Act 79/1989 (entered into force 15. November 1989; put into effect acc. to directions in article 4), Act 80/1989 (entered into force 14. June 1989), Act 117/1989 (entered into force 30. December 1989; put into effect acc. to directions in article 15), Act 63/1990 (entered into force 31. May 1990; put into effect acc. to directions in article 7), Act 68/1990 (entered into force 31. May 1990; put into effect acc. to directions in article 3), Act 112/1990 (entered into force 31. December 1990; put into effect acc. to directions in article 9), Act 116/1990 (entered into force 31. December 1990), Act 19/1991 (entered into force 1. July 1992 except par. 1 and 3 of article 29 which entered into force 17. April 1991), Act 20/1991 (entered into force 1. July 1992), Act 36/1991 (entered into force 17. April 1991; put into effect acc. to directions in article 8), Act 85/1991 (entered into force 1. January 1992; put into effect acc. to directions in article 18), Act 91/1991 (entered into force 1. July 1992), Act 92/1991 (entered into force 1. July 1992 except article 103 which entered into force 9. January 1992), Act 30/1992 (entered into force 1. October 1992), Act 111/1992 (entered into force 1. January 1993; put into effect acc. to directions in article 22), Act 58/1993 (entered into force 1. January 1994; *the EEA-agreement:* Supplement V. regulation 1612/68/EBE and supplement VI regulation 1408/71/EBE), Act 60/1993 (entered into force 27. May 1993; put into effect acc. to directions in article 2), Act 122/1993 (entered into force 1. January 1994; put into effect acc. to directions in article 14), Act 57/1994 (entered into force 20. May 1994; put into effect acc. to directions in article 2), Act 147/1994 (entered into force 1. January 1995; put into effect acc. to directions in article 17), Act 151/1994 (entered into force 1. January 1995; put into effect acc. to directions in article 3), Act 30/1995 (entered into force 9. March 1995; put into effect acc. to directions in article 8), Act 31/1995 (entered into force 1. January 1996), Act 37/1995 (entered into force 9. March 1995), Act 42/1995 (entered into force 9. March 1995), Act 101/1995 (entered into force 5. July 1995), Act 145/1995 (entered into force 29. December 1995; put into effect acc. to directions in article 24), Act 64/1996 (entered into force 1. July 1996), Act 73/1996 (entered into force 19. June 1996), Act 90/1996 (entered into force 1. July 1997), Act 97/1996 (entered into force 25. June 1996; put into effect acc. to directions in article 13), Act 137/1996 (entered into force 30. December 1996; put into effect acc. to directions in article 19), Act 22/1997 (entered into force 29. April 1997), Act 65/1997 (entered into force 30. May 1997; put into effect acc. to directions in article 6), Act 83/1997 (entered into force 6. June 1997), Act 118/1997 (entered into force 23. December 1997;

put into effect acc. to directions in article 4), Act 141/1997 (entered into force 30. December 1997; put into effect acc. to directions in article 6), Act 82/1998 (entered into force 1. October 1998), Act 95/1998 (entered into force 24. June 1998; put into effect acc. to directions in article 10), Act 97/1998 (entered into force 24. June 1998; put into effect acc. to directions in article 2), Act 154/1998 (entered into force 30. December 1998; put into effect acc. to directions in article 14), Act 29/1999 (entered into force 1. January 1999; put into effect acc. to directions in article 8), Act 101/1999 (entered into force 30. December 1999; put into effect acc. to directions in article 4), Act 102/1999 (entered into force 1. January 2000; put into effect acc. to directions in article 3), Act 9/2000 (entered into force 17. April 2000; put into effect acc. to directions in article 3), Act 84/2000 (entered into force 1. August 2000), Act 86/2000 (entered into force 2. June 2000; put into effect acc. to directions in article 13), Act 149/2000 (entered into force 29. December 2000 except article 5, section a article 11, article 12 and article 20 who entered into force 1. January 2001; put into effect acc. to directions in article 21), Act 150/2000 (entered into force 1. January 2001; put into effect acc. to directions in article 2), Act 166/2000 (entered into force 1. January 2001; put into effect acc. to directions in article 2), Act 30/2001 (entered into force 16. May 2001; put into effect acc. to directions in article 6), Act 60/2001 (entered into force 13. June 2001), Act 133/2001 (entered into force 1. January 2002 except article 1, sections a, b and c article 3, sections b and c article 17, section c article 19, article 34, section a article 35, section b article 36, article 37, article 38, article 39, article 40, section a article 41, article 42 and article 52 who were put into effect 31. December 2001 and article 44 which was put into effect 1. January 2003; put into effect acc. to directions in article 56), Act 25/2002 (entered into force 8. April 2002; put into effect acc. to directions in article 10), Act 51/2002 (entered into force 1. July 2002), Act 152/2002 (entered into force 1. January 2003; put into effect acc. to directions in article 18), Act 21/2003 (entered into force 1. July 2003) and Act 22/2003 (entered into force 3. April 2003).
Republished, as noted in article 17 of Act 22/2003, as Act 90/2003. *Changed with* Act 143/2003 (entered into force 1. January 2004; put into effect acc. to directions in article 13), Act 77/2004 (entered into force 18. June 2004), Act 129/2004 (entered into force and put into effect acc. to directions in article 149), Act 77/2005 (entered into force 9. June 2005), Act 116/2005 (entered into force and put into effect acc. to directions in article 4), Act 134/2005 (entered into force 30. December 2005), Act 48/2006 (entered into force 16. June 2006), Act 65/2006 (entered into force 27. June 2006), Act 77/2006 (entered into force 30. June 2006), Act 79/2006 (entered into force 30. June 2006), Act 80/2006 (entered into force 1. January 2007 except articles 1–4 and articles 7–12 who entered into force 30. June 2006), Act 108/2006 (entered into force 1. November 2006 acc. to advertisement C 1/2006), Act 135/2006 (entered into force 30. November 2006), Act 150/2006 (entered into force 30. December 2006), Act 167/2006 (entered into force 1. January 2007), Act 174/2006 (entered into force 1. January 2007 except article 2 and section a article 8 which entered into force 30. December 2006 and section b article 6 which entered into force 1. January 2008; put into effect acc. to directions in article 10), Act 76/2007 (entered into force 5. April 2007; put into effect acc. to directions in article 9), Act 166/2007 (entered into force 29. December 2007 except article 6 and sections a, b and e article 7 who entered into force 1. January 2008; put into effect acc. to directions in article 13), Act 38/2008 (entered into force 29. May 2008 except article 8 which entered into force 1. January 2008; put into effect acc. to directions in article 9), Act 61/2008 (entered into force 11. June 2008 except article 1, article 3 and section a article 6 which were entered into force 1. January 2009 and sections b and c article 6 that were entered into force 1. January 2008; will be put into effect acc. to directions in article 11), Act 88/2008 (entered into force 1. January 2009 except transitional provision VII which entered into force 21. June 2008), Act 164/2008 (entered into force 1. January 2009; put into effect acc. to directions in article 8), Act 173/2008 (entered into force 1. January 2009; put into effect acc. to directions in article 20), Act 13/2009 (entered into force 14. March 2009), Act 45/2009 (entered into force 22. April 2009) and Act 46/2009 (entered into force 22. April 2009; will be put into effect acc. to directions in article 6).

Chapter I. Tax liability

Persons liable for taxation.

■**Article 1** The following are liable to pay tax from all income, regardless of its origins,1[1)]

1. Persons resident in Iceland.

2. Persons who have emigrated from Iceland and are no longer resident, unless they can prove their tax liability in another country, as well as being resident there, and having fulfilled tax obligations in the other country. The tax liability is only in effect for the next three full years from the date of emigration.

3. Persons dwelling in Iceland for more than a total of 183 days in every 12 month period. Included are periods abroad brought on by normal causes, such as vacations.

4. Persons who do not fall under points 1–3 of this article but are instead employed for more than 183 days in every 12 month period (including normal absence from work because of vacations and such) aboard an airliner or a ship registered in Iceland.

☐The Director of the Internal Revenue rules on who shall be considered resident in Iceland in accordance with this article. Decisions on residence shall, when applicable, be made in accordance with the rules of the Domicile Act. Rulings of the Director of the Internal Revenue can be appealed to a court of law, bringing suit against the Director of the Internal Revenue because of the Minister of Finance.

[1)] *ACT 129/2004, Article 1*

Legal persons liable for taxation

■**Article 2** [The obligation to pay revenue tax from all income, regardless of where it is made, …[1)] rests on the following legal persons resident in Iceland:][2)]

1. [Registered public limited companies and private limited companies, as well as associate limited companies, provided that they have been registered as independent tax entities. Married couples, alone or with their children who are not financially competent, cannot form an associate limited company as an independent tax entity.][3)]

2. Mutual insurance- and non-life-insurance companies, cooperative societies, other cooperative enterprises and partnerships of cooperative enterprises …[2)]

3. Limited partnership companies and general partnership companies with unlimited member liability, provided that the company is registered in the Icelandic professional register, that it has been registered as an independent tax entity and that articles of incorporation have been established at the time of registration. The articles of incorporation must stipulate proportions of ownership, equity and how the company is to be liquidated. A Local Tax Commissioner is to be sent a certificate of registration and a verified copy of the articles of incorporation alongside the first tax return from these companies. Married couples, alone or with their children who are not financially competent, can neither form a limited partnership company nor a general partnership company that is an independent tax entity.

4. Partnerships and organisations whose core purpose is to manufacture or sell the products of its partners, buy supplies or provide service to a business or their independent activity, provided that they are listed in the Icelandic professional register and it has been noted on registration that they are independent tax entities. A company’s articles of incorporation must be handed in when the company is registered. The articles of incorporation must stipulate proportions of ownership, equity and how the company is to be liquidated. A Local Tax Commissioner is to be sent a

certificate of registration and a verified copy of the company's ownership contract alongside the first tax return from these companies.

5. Other companies, funds and institutions, including private non-profit institutions resident in Iceland, though in accordance with point 5 [and 6][3] of article 4, as well as estates of a deceased persons and bankruptcy estates.

…[2]

☐[A legal entity acc. to paragraph 1 is to be considered resident in Iceland if it is registered in the country, if Iceland is its home according to the legal entity's statues or if its real management is in Iceland.][2] [The Director of the Internal Revenue rules on what legal entities are to be considered resident in Iceland according to this Article. Rulings of the Director of the Internal Revenue can be appealed to a court of law bringing suit against the Director of the Internal Revenue because of the Minister of Finance.][4]

☐ If a status of independent tax entity is not applied for when a limited partnership company, [associate limited company][3] or a general partnership company is registered or if a legal entity does not meet the conditions of points 1–4 of this Article in order to be considered an independent tax entity, its income shall be divided between the company's partners in accordance to its articles of incorporation and the income shall be taxed alongside other assets and income of the partners. If the articles of incorporation stipulate how the income and assets are to be divided between the partners those directions are to be followed. If relative ownership is unknown or vague the income and assets are to be divided equally between the partners.

[1] ACT 129/2004, Article 2. [2] ACT 77/2005,Article 1. [3] ACT 77/2006, Article 1. [4] ACT 166/2007, Article 1.

Limited tax liability.

■**Article 3** The following have limited tax liability, provided that they do not fall under provisions of Articles 1 or 2, or are exempt from taxation as stipulated in Article 4:

1. All persons resident in Iceland and who are paid for their work are to pay tax from their income. Included are persons employed in Iceland or aboard an aircraft or a ship that is registered in Iceland, including on the basis of staff-leasing contracts, even if their stay or work is for a shorter time than 183 days in every 12 months period.

2. All persons that are paid for their work by Icelandic entities are to pay income tax from their wages. This also applies to payments to members of an administration organ, accountants, or company board members, as well as to retirement pay, severance pay, pensions or similar payments.

3. All who receive pay for work or services rendered in Iceland are to pay income tax from that income.

4. All persons who have a fixed place of business in Iceland, partake in running a fixed place of business or partly enjoy the profits of such a fixed place of business are to pay income tax from that income.

5. All persons that own immovable property in Iceland or control immovable property in Iceland that they have income from or are deemed have income from, including sale profits, are to pay tax from that income according to this Act.

6. All persons in Iceland that have income from leasing, from use of or the right to utilize movable property, patents, any kinds of rights or special knowledge, as well as from the sale profits of such assets, are to pay income tax from that income. [Still, this provision does not apply to income from aircraft lease and ships used for transport in international traffic.][1)]

7. All persons that have income, including sale profits from Icelandic company shares, founders' shares or income from other rights to partake in profits or from running Icelandic companies are to pay income tax from that income.

8. Foreign ambassadors, diplomatic staff and foreign employees of foreign diplomatic missions in Iceland, and others with an out-of-country status, are to pay tax from income they receive from domestic parties and of income stipulated in points 4–7.

9. …[2)]

[1)] Act 174/2006, Article 1. [2)] Act 129/2004, Article 3.

Entities exempt from taxation.

■**Article 4** [The following do not pay income tax:][1)]

1. The Treasury, governmental institutions and government owned companies run by the Treasury and under state guaranty; and also the Fisheries Association of Iceland.

2. Counties and local governments, as well as companies and institutions owned and under their unlimited command.

3. Foreign states and international institutions, from immovable property they use in connection with their recognized work in Iceland.

4. Those legal persons stipulated in Article 2 and are domiciled in Iceland, if their net income is only spent for the public good and such work is their sole goal according to their articles of incorporation.

5. Companies, funds and institutions that are not economic operators, as noted in point 5 of Article 2.

[6. Pension funds that operate acc. to chapter III in the Act on Compulsory Insurance of Pension Rights and the Operations of Pension Funds [and occupational retirement benefit plans that are by law allowed to collect contributions that form a retirement pension.][2)] [in accordance with Act no. 78/2007, on Occupational Retirement Benefit Plans].[3)]][4)]

[7.][4)] Those exempt from taxation via specific Acts.

[1)] Act 129/2004, Article 4. [2)] Act 76/2007, Article 1. [3)] Act 166/2007, Article 2. [4)] Act 77/2006, Article 2.

Tax liability of married couples and children.

■**Article 5** Married couples are each independent tax entities whose income is to be taxed …[1)] separately.

[1)] Act 129/2004, Article 5.

■**Article 6** A child, under 16 years of age in the income year, is not an independent tax entity if it is dependent on its parent (including adoptive parents, stepparents, and foster parents). Still, a child's income, as stipulated in point 1 of section A in Article 7, is to be taxed specifically.

Chapter II. Taxable income.

General provisions.

■**Article 7** Income subject to taxation is, with the exceptions and limitations that follow, any kind of goods, dividend, wages and profits that a taxable entity is given and can be assigned a monetary value, irrespective of their origin or form, such as:

A.

1. Any kind of remuneration for any kind of work, occupation or services, rendered for another party. E.g. including any kind of severance payments, wages, pay for board members or members of an administrative organ, retirement pay and pensions, clothing, food, housing, allowance, money for tools, car allowances, transfer allowances and other similar work related payments, preferences and benefits, as well as donations and gifts that are obvious ad hoc bonuses. If a contract has been made concerning division of old-age pension payments on the basis of par. 3 in Article 14 of Act no. 129/1997, on the Compulsory Insurance of Pension Rights and the Operations of Pension Funds, old-age pension is included as income for the person receiving it. It is irrelevant who receives the payments and the currency in which the payments are is irrelevant, be it in cash, preferences, benefits or work. If an employer operates a bus to transport employees to and from work the benefits of such transport to the employees are not considered taxable.

If a person runs his own business or is self employed the person must count as income no less than it would have remunerated an unrelated employee. The same applies to a business or operations run in co-ownership with others, and also if a person is hired to a legal entity's business because of ownership ties to the business or relations through management. Remuneration must in the same way be calculated for work done by a person's spouse or child, if the work is done for the aforementioned entities.

Loans to employees are also regarded as paid income. Such loans are prohibited by the Act on Public Limited Companies and Act on Private Limited Companies.

2. Insurance benefits, alimonies and grants. Damages and insurance compensation because of diseases, accidents, loss of work or wages and any other kind of damages and insurance benefits, though with consideration of point 2 in Article 28. Child pension paid acc. to Articles 14 and 30 of the Social Security Act and Article 3 of the Act on Social Aid because of a child where one of its parents has died or if a child is fatherless, is not to be regarded as taxable income, nor is alimony in as much as it is limited by the amount of the child pension acc. to Article 14 in the Social Security Act or by the alimony ruling of the district commissioner or an agreement on child benefits certified by the district commissioner, though never higher than the sum of a double child pension acc. to Article 14 in the Social Security Act. Alimonies or maintenance pensions to a spouse or former spouse is not to be declared as income if the couple is separated or divorced, insomuch as these payments are limited to the same amount as the minimum old-age pension (basic pension) is payable to individuals according to the Social Security Act. [Grants that parents or a child's guardians receive from a municipality in order to take care of a child at home, from the end of maternity/paternity leave, until the child is admitted to kindergarten and begins primary education, is not to be declared as taxable income.][1)]

3. Remuneration to authors and rights holders of any kind of intellectual property, literature and arts or works of art, whether it is for use or sale.

4. Awards and honorary stipends, winnings in games of chance or competition. Direct money gifts or other valuables. Included is delivery of such valuables to close relatives, except in instances of prepaid inheritance. Exempt are occasion gifts, provided that their value does not exceed what applies to such gifts in general, as well as winnings of little monetary value in general lotteries and competitions.

Loans to shareholders and board members that are forbidden according to the Act on Public Limited Companies and the Act on Private Limited Companies are regarded as taxable gifts.

B.

All income from running a business and from independent operations, including payments for sold goods and services, commissions, fees, subsidies, compensation for the prevention of operations and any kind of income noted in other sections of this Article and are related to running a business or to independent operations.

C.

1. Income from lease and dividend from any kind of movable property, including ships and aircraft.

2. Dividend, lease of land and lease from any kind of immovable property and immovable property rights, including mining rights, rights to water, geothermal rights, hunting/fishing rights and any other kind of benefits for immovable property.

When the total lease income from specific flats is below the evaluated benefits of the property, as noted in Article 118, that evaluations is to used to calculate the income. Income or expenses are not to be allocated to residential property owned by a tax entity and is being used for it’s own needs.

3. Interest payments, price-increase compensation, discounts and foreign exchange rate gains, as noted in Article 8.

4. Dividend from ownership and share holding in companies, as noted in Article 11.

5. Money that the companies, mentioned in point 2 of paragraph 1 in Article 2, allocate because of their business to its members for their privately owned part of the initial capital.

6. Money that the companies mentioned in point 2 of paragraph 1 in Article 2 allocate to its members because of their business, on the condition that these transactions are related to the business or independent operations of the member or spent as an investment in property used in running a business.

7. Money that the companies mentioned in point 4 of paragraph 1 in Article 2 allocate to its members proportionally to their business and allocate to them for private ownership, be it in initial capital or by other means.

8. Profits from selling property, as noted in Articles 12–27.

9. Any other income or income equivalent that is not specifically excluded in this Act or sectorial Acts.

[1)] *Act 174/2006, Article 2.*

Taxable interest payments, discounts and foreign exchange rate gains.

■**Article 8** The following are regarded as income from interest payments, discounts and foreign exchange rate gains acc. to point 3 of section C in Article 7:

1. Interest payments from deposits í domestic banks, savings banks and deposits divisions of cooperative enterprises, from post office giro accounts and holiday payments accounts as well as interest payments from securities that fall under similar rules according to sectorial Acts. Included with interest payments are changes from price-increase compensation added to the principal amount and interest, price-increase compensation on deposits and non-interest bearing claims and lottery winnings paid in stead of interest.

2. Interest payments from a share in initial capital in companies acc. to point 2 in paragraph 1 in Article 2.

3. Domestic and foreign interest payments from any other deposits and cash at bank than noted in points 1 and 2, including interest payments from bills, securities and any other interest bearing claims. Included with interest are changes from price-increase compensation and lottery winnings as noted in point 1.

4. Discounts from bought securities, bills and any other claims. The discounts are to be declared as income in proportional amounts annually after instalments. If a claim is sold be fore the end of the instalment period the part of the discounts that have not been declared as income, but is reimbursed in the sale- or delivery price is declared as one-off income in the year of delivery or sale.

5. Foreign exchange rate gains from any kind of assets in foreign currency declared as income in the year of the currency exchange rate change and calculated from the buying rate of the respective foreign currency at the end of the year.

Foreign exchange rate gains are to be cost from the years exchange rate losses, as noted in point 4 of par. 1 in Article 49, and charge the difference as foreign exchange rate gains [with equal amounts on the three years from and with the financial year of the foreign exchange rate gains].[1)]

□Included with interest payments as income, as noted in par. 1, from claims or deposits, which are not linked to business activity or independent operations, is paid interest or payable interest and paid price-increase compensations on instalments and interest. In this context are furthermore appreciations of mutual-funds certificates, as well as any kind of foreign exchange rate gains and discounts from bought securities, bills and any other claims and any other kind of income from monetary assets. Income is classified as such:

1. Interest payments from deposit accounts are to be included as income when they are deposited and added to the owner's account. With the exception that interest payments from accounts where the principal sum and interest payments are non-liquid for a longer time than 36 months are not added to income until they are paid or can be claimed for payment.

2. Interest payments from claims shall be counted as income when they are paid or can be claimed for payment.

3. Discounts, specifically the difference between a claims grossed-up nominal value at the date

of buying it, subtracting its purchase price, are to be counted as income in relation to nominal value instalments when they are made.

4. Accrued foreign exchange rate gains on every deposit from an account or instalment on a claim in a foreign currency is to be counted as income. Still it is allowed to calculate the amount as the average of the account's status at the beginning and the end of the year or on the deposit and withdrawal day within the year, except in instances of significant amounts. Further rules on the matter are to be included in a regulation in agreement with the Central Bank of Iceland.

5. Interest payments, dividends and other dividend from pension insurance, accumulative insurance, to individuals from life insurance companies are to be counted as income when such income is paid, except in instances where pension insurance, accumulative insurance, are to be taxed as income under other directives of this Act.

6. Interest payments, price-increase compensation and other dividend from pension savings according to the Act on The Compulsory Insurance of Pension Rights and the Operations of Pension Funds are to be counted with income as pension when such payments are made, acc. to section A in Article 7.

7. Interest payments from shares in initial capital in companies acc. to note 2 of par. 1 in Article 2 are to be counted as income when they are made out to their owner.

[1)] *Act 61/2008, Article 1. The change comes into effect when assessing tax for the year 2010 acc. to Article 11 l.c.*

The buying of shares according to call options.

■**Article 9** Income, acc. to point 1 in section A of Article 7, derived from a persons buying of company shares in accordance with call options that the person has been given because of its work for another entity, though with consideration of Article 10, is to be decided as stipulated in this Article. The difference between the purchase price according to the call option and current cost when the call option is exercised is to be regarded as taxable income. Current cost refers to listed market price in a stock exchange or in an over-the-counter market when the call option is exercised. If the company's shares are not listed in a stock exchange notice shall be taken of the shares' current cost in trading, otherwise the book value of the company's equity as put forth in its last revised annual account or interim financial report.

■**Article 10** Income acc. to Article 9 is to be taxed as capital income acc. to section C of Article 7, provided that the following conditions are met:

1. All employees of the respective company has been offered the share option or the opportunity to buy stake in the company. The shares of the employees are to have the same rights as other shares or stakes in the company.

2. An employee has been steadily occupied with the company or another company in the same group, as noted in the Act on Annual Accounts.

3. At least 12 months have to pass from the signing of the share option until it is exercised.

4. The purchase price is not to be lower than the weighted average price in transactions with a company's shares/stakes for ten whole business days prior to the contract date, if such transactions have been listen in a stock exchange. If such transactions do not exist notice shall be taken of current price as defined in Article 9.

5. An employee owns the shares/stakes for two years after exercising the option to buy.
6. The share option contract is non-negotiable.
7. The maximum amount of shares per employee in share options contracts is limited to a purchase price of 600.000 ISK annually.
8. A company intending to give its employees share options is in advance to have sent the Director of the Internal Revenue for ratification an employee share option plan, as well as information about the aforementioned items, in a form decided by the Commissioner.

☐At the end of each year a Local Tax Commissioner is to be sent information about the employees that have exercised their share options in the year according to the ratified plan, alongside information about the shares' purchase price. The information is to be provided in a form decided by the Director of the Internal Revenue.

☐Income according to this paragraph is to be taxed when an employee sells his shares. The income is calculated as the difference between the original purchase price of the shares and their sale price. That difference is not regarded as operating expense as defined by Article 31 of the Act.

☐The purchase of shares in accordance to this Article does not evoke the right to deduction from income acc. to point 1 of section B in par. 1 of Article 30.

Taxable dividend.

■**Article 11** Counted as dividend from shares and stakes in companies, that are mentioned in note 1 in par. 1 of Article 2, is, in addition to normal dividend payments, any transfer of valuables, to share owners with limited or unlimited liability or to shareholders, that must be regarded as income due to their ownership in the company. The scrip issue of new shares is not regarded as dividend payment according to the Act on Private Limited Companies, Act on Public Limited Companies and the Act on Cooperative Enterprises, provided that the issue does not change the relative ownership of the company or brings about the appreciation of the privately owned portion of members in the A-division of the contributed capital of cooperative enterprises or cooperative shares that members are given after such an increase in the privately owned portion of a of the cooperative enterprise, according to the Act on Cooperative Enterprises.

☐The distribution of valuables, acc. to par. 1, to stake- or shareholders that are also employees of the company, or of a related company, are to be treated as wages acc. to point 1 of section A in Article 7 if the distribution is forbidden according to the Act on Public Limited Companies or the Act on Private Limited Companies. If the distribution of valuables to others than employees is forbidden according to the Act on Public Limited Companies or the Act on Private Limited Companies the valuables are to be taxed as income acc. to point 4 of section A in Article 7. If such a distribution of valuables is to a general partnership company, where one of the co-owners is a shareholder, sits on the board of directors or is an employee of the company issuing the valuables, the valuables allotted to that person are to be treated as income acc. to point 1 of section A in Article 7.

☐In a public limited company or an associate limited company dividend from their own stakes or shares are neither to be declared as income nor expenses.

☐If a company, as mentioned in point 1 of par. 1 in Article 2, is liquidated and companies are not being merged, as noted in Article 51, the difference between the money handed out and their original purchase price is to be regarded as dividend. Reduction beyond the purchase price of the share capital paid out to shareholders is to be regarded as dividend. Should a person have acquired the shares before the end of the year 1996, it is permissible to use the original purchase price of the shares when calculating the dividend, after taking into account the price increase according to the price change index for every year to the end of 1996, or, should it be higher, the equalized value of the shares, as noted in par. 3 of Article 18.

Common provisions on asset sale profits.

■**Article 12** Sale profits from assets is the difference between their sale price and their cost value, with notice of prior depreciation and sale profits, as per further instructions in Articles 13–27.

☐The cost value of assets is their cost, i.e. the purchase- or manufacturing price, along with renovation costs, costs from changing or rebuilding and any other costs generated because of the asset, after deduction non-refundable grants, discounts, debt concession and damages incurred in relation to their purchase, manufacture, change or renovation.

☐When deciding the sale profits from assets that are subject to depreciation and a tax entity has acquired before the end of the financial year of 2001 the cost value hall be decided in accordance with the re-evaluation of these assets and given depreciation on the tax form of 2002. The same applies to the cost value of assets not subject to depreciation and are used in business activity and to assets that have not been put to use at the end of the financial year 2001, as noted in Article 34.

☐When evaluating the sale profits of assets not subject to depreciation that an individual has acquired before the end of the year 2001 and is not related to its business activity the cost value is to be increased according to the price change index of every year until the end of the year 2001.

Sale profits from depreciable assets.

■**Article 13** Profits from the sale of depreciable assets acc. to Article 33 and from the sale of rights linked to these assets, are taxable in full as income in the year of the sale, regardless of how long the sold asset has been in the tax entities possession prior to sale.

☐Profits from the sale of these assets are considered to be the difference between their sale price on one hand, and their cost value on the other, after deduction of prior depreciation.

■**Article 14** In the year that taxable sale profits from assets, acc. to Article 13, are declared as income a taxable entity is allowed to take into account the depreciation of depreciable assets acc. to Article 33, to the same amount as the taxable sale profits. If a tax entity does not own depreciable assets in the year of the sale, it can apply for a deferred taxation of the sale profits for two years. In that time the tax entity is supposed to acquire depreciable assets acc. to Article 33 and depreciate them for the amount of the taxable sale profits. If the assets are not acquired within the given time the sale profits are considered to be taxable income on the second year from its creation, plus a 10% charge. According to this Article depreciation, or deferred taxation, is only possible if transferable operating loss has been equalled out.

Sale profits from assets that are not subject to depreciation.

■**Article 15** Profits from the sale of immovable property, that is not subject to depreciation acc. to Article 33, included are such non-depreciable assets as buildings, land, building plots, natural resources that can not be depreciated and rights linked to these assets, such as building rights, are regarded as taxable in full in the year of the sale, regardless of how long the sold asset has been in the tax entities possession prior to sale.

☐Profits from the sale of these assets is considered to be the difference between their sale price on the one hand and on the other hand their cost value, after the deduction of prior write-downs acc. to Article 32 and sale profits, as noted in par. 4 of this paragraph and par. 4 of Article 12. If a tax entity has come into possession of the sold asset prior to the end of the year 1978 it is permissible to use the real estate valuation current at the end of the year 1979 in stead of cost values. From the real estate valuation of a rental lot shall in this context be deducted the rent capacity value, as noted in par. 2 of note 1 in Article 73.

☐[People outside of business][1)] are as a rule allowed to declare half of their sale prices as taxable income, instead of sale profits acc. to par. 2.

☐A tax entity can ask for the deferred taxation of the sale profits from farmland and natural resources that can not be depreciated on farms for two year ends from the date of sale, provided that it acquires a similar asset or residential property for its own use, in stead of the sold one, within that time. If so the sale profits is deducted from the cost value of the new asset. If the cost value of the new asset is lower than the sale profits the difference is regarded as taxable income. This handling of sale profits is only allowed if the seller has had farm running as a main occupation on the sold property for at least five of the last eight years prior to selling, and runs a farm in the same way on the bought farmland or uses the bought housing for its own residence for at least two years after the date of purchase. If these conditions are not met the sale profits are regarded as taxable income in the year when the conditions were breached, plus a 10% charge. Deferred taxation is only possible if transferable operating loss has been equalled out.

☐Profits from the sales of rights mentioned in Article 48 are taxable in full in the year of the sale, regardless of how long the tax entity has been in possession of the sold rights. The sale profits is considered to be the difference between the sale price and the purchase price, after deduction of prior depreciation and write-downs acc. to par. 6. Whenever deciding profits from the sale of quota share or similar rights in the fishing industry the viewpoint is quota shares in the same fish species that the tax entity first bought are sold first and allocated quota shares utilized after all bought quota shares have been sold.

☐In the year that profits from the sale of quota shares or similar rights in the fishing industry are taxed, acc. to par. 5, a tax entity is allowed to use the same amount as the taxed sale profits to write down the cost value of the quota share that has been bought in the income year, or in the last 12 months prior to the sale. A tax entity can also ask for deferred taxation of the sale profits for two years' ends, provided that the taxpayer buys quota shares in the fishing industry within that time, and uses the same amount as the taxed sale profits to write down the amount of the bought quota share. If a quota share is not bought within the given time according to this Article, the sale profits is added to the taxable income on the second year from its creation, plus a 10% charge. Write-downs or deferred taxation according to this Article is only allowed if transferable operating loss has been equalled out.

☐The provision of this Article do not cover sale profits from residential property that is under the size limits mentioned in Article 17 and is owned by persons, as noted in par. 5 of that Article.

[1)] *Act 164/2008, Article 1.*

■**Article 16** Profits from the sale of liquid assets that can not be depreciated acc. to Article 33, other than company shares and stakes in limited partnership companies and general partnership companies, are declared in full with taxable income in the year of the sale, regardless of how long a tax entity has been in possession of the sold assets. Profits from the sale of these assets are considered to be the difference between their sale price and their cost value, as noted in par. 4 of Article 12.

☐A person's profit from the sale of liquid assets, that are not used in business activity or independent operations, is declared with its income, provided that the persons shows the probability that the sale does not fall under its business- or independent operations nor that the assets have been acquired with the purpose of reselling them at a profit, as noted in Article 21.

Sale profits from residential property.

■**Article 17** Profit from the sale of residential property is declared in full with taxable income in the year of the sale if a person has owned the sold housing for less than two years. If a person has owned the property for two years or longer the sale profits are not regarded as taxable income. The provisions of this Article only apply for the sale of residential property owned by people, and only to the extent that the total volume of the seller's residential property does not exceed 600 m^3 on the date of the sale, in the case of individuals, or 1200 m^3 for married couples, as noted in Article 62. Size limitations for married couples also apply when a spouse left living sells residential property formerly owned by the married couple. The provisions of Article 15 apply for sale profits from residential property that exceed these limitations …[1)] If a person sells its residential property within a year from purchasing another residential property or within two years from commencing the building of a new residential property, the newer property is to be excluded from the calculations of the total property on the date of sale, provided that the sales proceeds are spent to finance the newer property.

☐A person can ask for the deferment of the sale profits for two years from the date of sale. If, within that time, the person buys another residential property or starts the building of a residential property [in Iceland or in another member state of the European Economic Area, in a founding state of the European Free Trade Association or in the Faroe Islands][1)] in stead of the sold property the sale profits amount is used to lower the cost value of the new property. If, within these time limits, the cost value amount of the new property is lower than the sale profits the difference is regarded as taxable income in the year that the new property is bought. If a property is not bought within the given time, the sale profits is regarded as taxable income in the second year from its creation.

☐Profits from the sale of a residential property are regarded as the difference between the sale price and the cost value, after subtracting prior sale profits, as noted in par. 2. of this Article and par. 4 of Article 12.
☐When a person sells a residential property that it has built or renovated and the sale takes place within two years of last building expenditure, sale profits taxation is only applied to the amount proportional to the total building cost accumulated within the two years from the date of sale.
☐If the sale of a residential property falls under both the provisions of this Article and of Article 15 the sale profits are to be taxed proportionally according to the volume of residential property above 600 m^3, or 1200 m^3 as noted in par. 1, as appropriate, and of the total volume of the sold property in the sellers' possession on the date of the sale.
☐Regulation set by the Minister of Finance decides how to calculate the volume of residential property, in accordance with this Article.
☐When calculating the sale profits from residential property additional value from work on residential property for own use outside of normal working hours is not to be included in calculating the cost values of the property.
☐The provisions of this Article apply to residential property without consideration to its stage of construction and also applies to lots or lot rights that accompany such property, provided that the property is within the size limitations normally applicable for residential property lots. The provisions of Article 15 apply to the sale profits of lots that exceed these limits. [The provisions of this Article also apply to profits from selling residence rights.][1)]

[1)] Act 164/2008, Article 2.

Sale profits from company shares.

■**Article 18** Profit from the sale of shares [and derivatives sold on organized securities markets where the underlying valuables are restricted to shares],[1)] is to be declared in full with taxable income in the year of the sale, regardless of how long the tax entity has been in possession of the sold shares.
☐Profits from the sale of shares [and derivatives sold in organized securities markets, where the underlying valuables are restricted to shares],[1)] are considered to be the difference between their sale price on the one hand, and their purchase price on the other, though with consideration of par. 4. With the exception that the purchase price of shares owned by business operators, including individuals, at the end of the year 2001, is to be noted as their original purchase price after having been brought up according to price index changes for every year until the end of the year 2001, on the condition that the shares are registered property of the business activity. The purchase price of shares, that a tax entity acquired through merger of public limited companies, acc. to Article 51, is to be set as equal to the purchase price of the shares given up. The purchase price of B-division shares in the initial capital of a of the cooperative enterprise that a tax entity has acquired through a special re-evaluation of the A-division of a capital fund, according to transitional provision in the Act on Cooperative Enterprises, is to be deemed equal to the amount of increase in the privately owned part of the A-division initial capital transferred. The purchase price of shares that a seller has acquired through put options, acc. to Article 9, is to be deemed

equal to the current price used as the basis for deciding income according to the Article. When calculating the profit from share sale the purchase price of each share is to be regarded as equal to the average purchase price of all of the seller's same shares.

☐The equalized value of shares owned by companies registered by the end of the year 1996, as noted in point 1 of par. 1 in Article 2, is to be equal to the nominal value of the shares, plus the amount of scrip issue of new shares permissible according regulations effective at the end of the year 1996. If a public limited company has not published a scrip issue of new shares or, in the instances of private limited companies, sent a notification of new nominal value to the Register of Limited Companies, or by the end of the year 1996 informed a Local Tax Commissioner about how the equalized value is calculated, then the equalized value at the sale of the shares is to be equal to the nominal value of the shares at the end of the year 1996. The Director of the Internal Revenue is to publish an accessible price equalization index for shares or stakes in companies, i.e. the ratio between the equalized value, ratified by a Local Tax Commissioner in accordance with this Article, and the nominal value of the shares or stakes in companies.

☐When selling shares, that the seller has come into possession of before the end of the year 1996, taxable sale profits is their sale price after the deduction of equalized value, as noted in par. 3, or, should it be higher, the original purchase price of the shares after having added a cumulative price increase according to the price change index for every year until the end of the year 1996. Still the purchase price of shares owned at the end of the year 1996 by business operators, including individuals, is to be decided as their original purchase price or equalized value after having added a cumulative price increase according to the price change index for every year until the end of the year 2001, on the condition that the shares are registered as being owned by the business activity.

☐…[1)]

☐A person's profit from the selling of shares bought in the years 1990–1996 in companies that the Director of the Internal Revenue has in the year of the shares being sold ratified as operating in compliance with the conditions of chapter III of Act no. 9/1984, is not to be regarded as taxable income, if the sold shares have been in the persons ownership for four full years. The maximum tax free profit according to this paragraph is 367.625 ISK. The directives of par. 1 apply for profits above the tax free limit and for profits from the sale of shares bought in, or before, the year 1989 or in or after the year 1997.

☐When selling shares in a savings bank that has been changed into a public limited company according to the Act on Financial Entities, the taxable sale profits from the shares that an owner of initial capital got in exchange for his initial capital shares, is to be the sale price of the shares, after deducting their purchase price. The purchase price of shares owned by an owner of initial capital is calculated as the initial capital of the savings bank re-evaluated to the end of the year 1996, in accordance with the Act on Financial Entities, plus added capital from that time, until the savings bank was changed into a public limited company. The purchase price of shares that a business operator has been given as an owner of initial capital is on the other hand to be calculated as purchase price according to the above, after adding a cumulative price increase according to the price change index from the end of the year 1996 until the end of the year 2001, provided that the shares have been registered as being owned by the business activity. The purchase price of shares in a savings bank that a private non-profit institution has acquired is, according to the Act on Financial Entities, calculated as the savings banks' net asset worth in real terms at the end of the year 1996, after the deduction of the purchase price of shares in the possession of owners of initial capital, as noted above. The net asset worth in real terms is to be calculated according to rules used to decide the equalized value of shares, as noted in par. 3.

[1)] *Act 38/2008, Article 1 The Articles' provisions on the profits of legal persons are to stay valid acc. to par. 1of Article 2 as well as about the profit of individuals who run their own business activity from the sale of shares that came about before Act 38/2008 came into effect, acc. to temporary provision II added to that Act, as noted in Act 164/2008, Article 9.*

■**Article 19** Profits from the sale of stakes in limited partnership companies and general partnership companies is declared in full with taxable income in the year of the sale, regardless of how long tax entity has been in possession of the sold property.

☐Profits from the sale of stakes are regarded to be the difference between the stake's sale price on one hand, and its purchase price on the other. The purchase price of stakes held by the seller are calculated as his stake in the company's equity at the beginning of the year of the sale or, should it be higher, as the real purchase price after deducting his withdrawal. Regarded as equity in this context is the company's [declaration mandatory][1)] net asset, including initial capital.

☐Yet the [purchase price][2)] of stakes in limited partnership companies and general partnership companies that a seller has acquired before the end of the year 2001 is to be regarded as the seller's part in the company's equity at the start of the year 2001 or, should it be higher, as the real purchase price after deducting his own withdrawal, and after adding the cumulative price increase to both purchase price and withdrawal according to the price change index for every year until the end of the year 2001.

[1)] *Act 129/2004, Article 6* [2)] *Act 143/2003, Article 1.*

Various provision on sale profits.

■**Article 20** Regarded as assets' sale price is their total value after deducting variable costs of the sale.

■**Article 21** If the sale of assets falls under a taxable entity's business running or if the assets have been acquired with the purpose of reselling them at a profit, the sale profits are always going to be regarded as fully taxable income in the year of the sale. Likewise are sale profits from supply inventory, and other similar assets meant for use in business activity, always regarded as taxable income.

■**Article 22** The sale price of assets is regarded as compensation because of a total loss or expropriation and from it sale profits is calculated and treated according to the clauses in Articles 12–27, as applicable. A taxable entity is however, in such instances, allowed to count the taxable sale profits as income in equal amounts for up to five years, the first instance being in the year of the sale. If the asset in question can not be depreciated, the sale profits can be spent on acquiring a similar asset within a three years time. Then the sale profits is not counted as income, but is used to lower the cost value of the new asset. If the cost value of the new asset is a lower amount

than the sale profits, then the difference is regarded as taxable income.
■**Article 23** If a tax entity has, after receiving inheritance, sold a residential property, beforehand received inheritance included, then, on deciding the durance of ownership, notice shall be taken of the combined ownership of both the inheritance giver and receiver.
■**Article 24** Loss from the sale of assets not used in business activity can not be subtracted from taxable income. Still, a tax entity is allowed to subtract from total profits losses that may have occurred because of the sale of similar assets in the same year, before taxed profits from the sale of assets are decided.
☐Loss from the sale of assets used in business activity can be charged in the year of the sale, as noted in Article 35. Excluded is loss from the sale of assets mentioned in Articles 18 and 19.
■**Article 25** When an asset is given up in non-monetary trade, it is to be regarded as a sale, and the profits are to be taxed according to the provisions of Articles 12–27 of this Act.
☐If, in instances of direct sales or buys, the purchase- or sale prices differ significantly from the norm in contracts of non-monetary trade, then the tax authorities can at their own discretion decide a normal pricing to use in taxing the sale profit.
■**Article 26** When selling specific immovable property or buildings, alongside lots, land or rights linked to these properties, in part or as whole, the price is to be divided in accordance with the sold property's real estate appraisal on the day of the sale. The same applies for the division of the sale price of structures only. In instances of lot rights, the rent capacity value, as described in par. 2 of note 1 in Article 73, is subtracted from the real estate appraisal before calculating the ratio.
☐The provisions of this Article are also effective for deciding cost values.
☐The provisions of this Article do not cover the division of sales price between constructions and rental lots, on the basis of original cost values, when selling re-evaluated property on rental lots owned by the seller in the year 1979.
■**Article 27** If, when a tax entity sells property with taxable sale profits and is in part paid with a debenture for three years or longer, it is permissible to declare the proportion of the sale profits equal to the relative share of the debenture from the total value, as income in line with the instalment time of the debenture, though not for longer than seven years. The permit is also void if the debenture is sold in the period that the sale profits could be divided. Debts with mortgages in the sold property overtaken by the buyer are not regarded as debentures in this context. A Local Tax Commissioner is to be notified about the use of this permission on the first tax return after the day of sale. A tax entity's use of this permission is limited by its use of the taxable sale profits to depreciate other property, or to lower the cost value of similar assets, in accordance with the provisions of this Act.
☐If the permission acc. to par. 1 is used, then it replaces other permits of this Act to defer taxation of sale profits. Deferring taxable income in accordance with this Article is only possible if transferable operating losses have been equalled out.
Things not regarded as income.
■**Article 28** Despite the provisions of this chapter the following are not regarded as income:

1. Asset increase due to paid inheritance, inheritance paid in advance and bequests, provided that inheritance tax has been paid. Still, this does not apply for that part of pension service given to heirs in accordance with the Act on The Compulsory Insurance of Pension Rights and the Operations of Pension Funds.

2. Asset increase due to paid out life insurance, death compensation, compensation for personal injury and compensations for permanent disability, on the condition that these compensations are decided as a one time payment. The same applies for damages and insurance benefits that cover damage to assets not used in business activity, though with notice of provisions in Article 22. The cost value of a property is to be lowered because of the damage, insomuch as the damage compensation has not been spent on repairing the damage.

3. Asset increase [or the increase of disposable income][1)] because of forgiven debt in the context of a composition with creditors approved by a court, provided that the debt has not acquired because of a tax entity's business activity. [The same applies for forgiven dept stipulated in a composition with creditors for payment adjustment acc. to chapter X in the Act on Bankruptcy and More, no. 21/1991, with occurred changes, or with forgiven dept where it has been shown, in a satisfactory manner, that assets are lacking, and the conditions of a regulation set by the Minister of Finance on the objective evaluation of the premises of debt forgiving have to be met, as well as conditions stipulating how the forgiven debt is not considered income, disclosure acc. to Article 92, and more][1)]

4. Asset increase from a persons extra work outside of regular working hours on the building of residential property for its own use. Sale profits from residential property, as noted in Articles 15 and 17, are regarded as the difference between total value minus direct costs from the sale on one hand, and on the other hand the cost values without the person's own extra work.

5. Employer's contribution to a person's pension rights according to the Act on The Compulsory Insurance of Pension Rights and the Operations of Pension Funds [and the Act on Occupational Retirement Funds].[2)] Still, the employer's contribution is to be regarded as taxable income if the premium payments from an employer or a self employed person, plus formerly earned pension rights and future pension rights, give the pension taker income above the average wages he has been paid the previous five years, when calculating old age pension payments in equal payments from the age of 65 years.

When evaluating earned rights then the earned rights in different pension fund schemes are to be added together, according to their regulations and that pension payments will start at 65 years of age. Privately owned pension rights are also to be added together [or rights to an occupational retirement pension according to Act on Occupational Retirement Funds][2)] and converted to take reference from equal pension payments for 17 years from the age of 65 years.

When calculating future old-age pension rights the assumption is to be that payments to the insurance section of a pension fund continue until the age of 65 [12%][3)] premium from the average pay of the last five years and that the payments form pension rights that amount to 1,2% of the aforementioned average pay for every year. When calculating earned rights in privately owned pension payments [or the rights to an occupational retirement pension according to Act on

Occupational Retirement Funds][2] then the reference point is to be a 3,5% interest rate.

If a pension fund premium, or a premium to entities acc. to par. 3 of Article 8 in The Act on The Compulsory Insurance of Pension Rights and the Operations of Pension Funds, has been agreed upon in a collective pay agreement or the premium has been decided by law, then it shall never be regarded as taxable income.

The Minister of Finance can with a regulation decide further provisions on the execution of this point, including on what information can be called for from employers, self employed individuals and from employees because of the provisions' execution.

6. Benefits the President of Iceland receives because of the office residence and costs from running the residence, entertaining expenses, car benefits or other benefits of the office.

7. Personal tax credit, seaman's tax credit, child benefits and interest tax rebates mentioned in chapter VI of this Act.

8. Appreciation of live stock acc. to point 2 of Article 73, just as depreciation of live stock can not be subtracted from income.

9. Rent compensation, as noted in Act no. 138/1997.

[10. Grants from the Rehabilitation fund of the Icelandic Labour Association [ASÍ] and the Confederation of Icelandic Employers [SA] that are used to pay costs from rehabilitation, health services and certain professional services. The Minister of Finance sets a regulation regarding the further execution of this provision.][4]

[1] *Act 46/2009, Article 1.* [2] *Act 76/2007, Article 2.* [3] *Act 167/2006, Article 15.* [4] *Act 164/2008, Article 3.*

Chapter III. Deductions from income.

General provisions.

■**Article 29** From a person's taxable income, that is not related to business activity or independent operations, including remuneration in acc. with par. 2 of 1 in section A of Article 7, only the tax deductions specifically mentioned in this chapter are allowed.

□Operating expenses from running a business or from independent operations, i.e. the expenditure that in the year goes to the making of the income, as well as establishing and maintaining it, can be deducted from the income of legal entities and persons.

Deduction from persons' income other than entrepreneurial income.

■**Article 30** From the income of persons, in acc. with chapter II of this Act, not related to their business activity or independent operations, can be deducted:

A.

1. Expenses whose maximum amount is limited by the amount of received car allowances, per diem allowances or similar reimbursements of costs proven to be expenses from work related travel and upkeep and that are in accordance with the evaluation rules of the Minister of Finance. [Expenses whose maximum amount is limited by the amount of received adoption allowance according to the Act on Adoption Allowances and the allowance can never be higher than the allowance amount.][1]

2. Wages paid to officials, officers and other employees that work for international institutions

or state organizations, provided there is a tax-free clause in the contracts that Iceland is party to. Location allowance paid because of persons working abroad in the services of the Icelandic state. Deemed to be working abroad are only those that are regularly employed, chosen or appointed employees for Icelandic embassies, at an Icelandic consulate or are permanent delegates of Iceland at international institutions that Iceland is member to [or they are employees of The Icelandic International Development Agency].[2)]

3. Income, in acc. with point 4 of section A in Article 7, that is tax-free according to sectorial Acts or lottery winning approved by the Ministry of Justice, provided that all profits from the lottery's is spent on fields of culture, humanitarian aid or church operations. The same applies for lotteries that operate according to permits issued by governments in the European Economic Area, [in a founding member state of the European Free Trade Association or in the Faroe Islands],[3)] subject to the same conditions.

4. Employees' payments towards pension entitlements according to the Act on the Compulsory Insurance of Pension Rights and the Operations of Pension Funds up to a maximum of 4% of the premium base. [In addition up to 4% of the premium base according to the pension scheme participant's decision because of premiums that go to additional pension rights, paid to entities in acc. with par. 3 of Article 8 in The Act on Compulsory Insurance of Pension Rights and the Operations of Pension Funds, or that go to occupational retirement pension funds according to the Act on Occupational Retirement Funds.][4)] To qualify for tax deduction according to this point regular premium payments are compulsory.

5. The premium of persons that are self employed or have independent operations and go to the accruement of pension rights according to the Act on Compulsory Insurance of Pension Rights and the Operations of Pension Funds up to a maximum of 4% of the premium base. [Additionally up to 4% of the premium base according to the pension scheme participant's decision because of premiums that go to additional pension rights, paid to entities in acc. with par. 3 of Article 8 in The Act on Compulsory Insurance of Pension Rights and the Operations of Pension Funds, or that go to occupational retirement pension funds according to the Act on Occupational Retirement Funds.][4)] To qualify for tax deduction according to this point regular premium payments are compulsory.

B.

1. Money spent on added investment in shares in the years 1998–2002 in accordance with this point.

Deductions in acc. with par. 1 are to be calculated from investments within each year and are to amount to 60% of the value of the bought shares that is above the value of sold shares, though never higher than 80.000 ISK for an individual and 160.000 ISK for married couples.

Regarded as bought shares in acc. with par. 2 are only shares in companies that fulfil the conditions of par. 5 and that the Director of the Internal Revenue has verified, or shares in companies registered on a stock exchange in the European Economic Area, [in a founding state of the European Free Trade Association or in the Faroe Islands].[5)]

Tax deduction in acc. with par. 1 in only possible on the condition that a person owns the respective shares over five changes of years, and account for their ownership annually. Still, the three year ownership time criteria from Act no. 137/1996 is still valid for those that enjoyed tax deductions because of investments in business activity, in acc. with that law. If the persons sells its shares within that time utilized deductions are counted as income in the year of the sale of the respective shares. Still, the provision about transferring deductions to income is not to be effective if a person, in the same year, and no later than 30 days after the sale of shares, buys other shares in a public limited company for at least the same amount as the sale price of the sold shares, and that the company fulfils the conditions of this point. If the purchase price is lower, than the provisions of sentence 3 apply to the difference. The rules of this paragraph also apply for the buying and selling of shares prior to the introduction of Act no. 154/1998.

Deductions in accordance with this point are on the condition that the shares purchased are in a company with a minimum share capital of 22.000.000 ISK, that the number of shareholders is at least, that the buying and selling of the company's shares is under no restraints and that its annual accounts are accessible to all. A public limited company, that is not listed on a stock exchange in the European Economic Area, [in a founding state of the European Free Trade Association or in the Faroe Islands],[5)] shall within five months from the end of each financial year send the Director of the Internal Revenue its annual account for the prior year, revised in accordance with provision par 1 of Article 63 in Act no. 144/1994 on Annual Accounts. The Director of the Internal Revenue is to verify annually that those public limited companies have met with the conditions of this point.

The Director of the Internal Revenue can allow deduction from income in accordance with this point, even though the conditions of par. 5 have not been met at the end of the year when the company in question was founded and the company has declared its intentions to meet the conditions within a year from the selling of shares commenced. The Director of the Internal Revenue can also allow deduction from income in accordance with this point, even though the conditions of par. 5 have not been met in instances where an active public limited company is in the process of increasing equity or the number of shareholders. In order for the Director of the Internal Revenue to verify a public limited company in that position there needs to be at hand a declaration from the board of directors of the public limited company and supporting documents that show the likelihood that the conditions will be met within a year from the time that the decision was made to increase the equity or the number of shareholders.

The rules of this point are in the same way valid for cooperative shares and founders' shares of savings banks, provided that the share offer has been public for all those domiciled occupational area of the savings bank in question, and that the offer is certified by the Director of the Internal Revenue.

Investments above the maximum for each year, acc. to par. 2 of this point, are not transferable between years to be used for tax deduction . Still, this does not apply to increased investment in business activity that was transferable in the years 1996 and sooner, as noted in par. 5 of Article 3 in Act no. 137/1996.

Deductions in accordance with this point are allowed from income in acc. with sections A and

B of Article 7.

The Minister of Finance can in a ministerial regulation establish further provisions on how deductions according to this point are to take place.

2. Should a default occur on claims that interest, as noted in par. 2 of Article 8, has been calculated from, then the taxation of the interest is deferred.

Lost interest can be calculated against capital income, provided that tax has been paid from the interest. This is to be done in the year when it becomes apparent that a default has occurred on the claim that the interest payment was calculated from, and accounted for in the tax return of the respective income year. The same applies for other capital income, as noted in par. 3 of Article 66. The permission reaches back five years in time, income year included. If there is no capital income in the year when the deduction takes place, the permission for income deduction is transferred over to the following tax return, for up to five years. The permission according to this paragraph only extends to capital gains outside of business activity for individuals, and for those legal persons that are not economic operators.

The provision of par. 2 of this Article about the permission to deduct variable costs from income do not apply to income from rent, dividend or other capital income.

☐However, if a person has variable costs from other income than is in acc. with point 1 in section A of Article 7, without it falling under business activity or independent operations, then the provisions of par. 1 of point 1 in Article 31 are still to apply to such cost, as applicable, except for provisions about interest from debts, discounts, foreign exchange rate loss and the depreciation of assets. Cost can only be deducted from the income where the activity in generating the income brought about the cost. The cost in each year can never be higher than the amount of income from which it is permissible to deduct it from. A person's lease to others of residential property is in this context not regarded as business activity or independent operations, except if the total depreciation base of such property held by an individual at the end of the year amounts to 27.000.000 ISK or more, or amounts to 54.000.000 ISK for married couples, as noted in Article 62. [[Income][6] from hunting/fishing operations run by a person that is a farmer or runs other business on a farmland is not to be regarded as its business activity or independent operations and no deduction is permitted from such income.][4]

☐If a person receives rent from the lease of residential property, without it being regarded as business activity or independent operations, then rental expenses from residential property for its own use, can be deducted from that income. These deductions can only be used against rental income from residential property that is meant for own use, but is leased temporarily.

[1] Act 174/2006, Article 3. [2] Act 61/2008, Article 2. [3] Act 108/2006, Article 22. [4] Act 76/2007, Article 3. [5] Act 108/2006, Article 23. [6] Act 166/2007, Article 3.

Deduction from income derived from business activity.

■**Article 31** From the income of legal entities and from a person's income derived from running a business or from independent operations or are linked to such activities, the following can be deducted:

1. Operational expenses, i.e. those expenses in the year that have resulted from the making of the income, establishing it and maintaining it. This includes premiums that employees pay to

acquire pension rights in a pension fund that operates on the basis of the Act on Compulsory Insurance of Pension Rights and the Operations of Pension Funds, interest from debt, discounts, foreign exchange rate loss, write-down and depreciation of assets, as per further instructions in this Act, and amounts spent to establish and maintain return from assets in the business.

If the obligation to give a Local Tax Commissioner information about remuneration payments and/or contractual work because of business activity, as noted in Article 92, with notice of provisions in Article 96, has not been fulfilled then the Local Tax Commissioner can refuse deduction because of those payments or benefits.

Furthermore the remuneration that a person is to allocate to itself for any kind of work, occupation or services that are to be regarded as income in acc. with par. 2 of point 1 in section A of Article 7 is regarded as operating expenses, irrespective of whether the remuneration has been paid. If the remuneration has been paid the method of payment is also irrelevant, be it in, transfer to a personal account, in kind or in benefits or through work exchange.

2. Individual gifts and donations to churches, acknowledged charities, fields of culture, political parties and scientific research, though not above 0,5% of income in acc. with section B of Article 7 in the year of giving. The Minister of Finance decides via regulation which areas and institutions are governed by this point.

3. Loss from outstanding business claims, guarantees and loans, that are directly related to business activity, in the income year when these losses demonstrably occurred.

Outstanding business claims and loans, as noted in par 1, at the end of the year, as noted in par. 2 of point 5 in Article 73, can be written down by up to 5% and that amount deducted from taxable income.

4. Write-down of goods held in stocks at the end of an financial year for up to 5% of assessed value, as noted in point 4 of Article 73.

5. …[1)]

Demonstrably lost shares in companies that have gone bankrupt. The same applies for shares that are lost due to write-downs after a composition with creditors approved by a court in accordance with Act no. 21/1991.

…[1)]

6. Discounts given from goods or services.

7. Money that domestic insurance companies transfer at the end of the year to premium reserve because of that part of premium payments that are due to in the following financial year, as well as transfers to claims reserve in order to fulfil their obligations to policyholders.

8. Remnants of operating losses from the last ten years prior to the income year, provided that the operating losses and their remnants have been sufficiently accounted for in the income year of the losses. Still, operating losses can not be used for deduction from income if the operations in question have changed significantly, such as with a legal entity’s change of ownership or business purpose, except when proven that the change in question has been made for normal and regular business purposes.

9. The amount that public limited companies, as noted in point 1 in par. 1 of Article 2, and

companies and partnerships that are governed by point 2. …[2] in par. 1 of Article 2 have received as dividend in acc. with point 4 of section C in Article 7 from stakes and shares in the companies mentioned in point1 of par. 1 in Article 2, [as noted in chapter XII of Act no. 2/1995, on Public Limited Companies, and Act no. 138/1994, on Private Limited Companies][2] …[3] [The same applies for dividend payments to the same kind of companies that are liable to pay taxes in acc. with point 7 of Article 3 and are domiciled in another member state of the European Economic Area.][4] [The provisions of sentence 1 also apply for dividend payments from public limited companies registered in another country if the company that receives the dividend can demonstrate that the profits of the foreign company have been taxed in similar manners as is done in Iceland.][2] Deductions according to [sentence 3][4] are allowed on the condition that the tax ratio that the foreign company pays is not lower than generally in a member state of the OECD [or a member state of the European Economic Area][5] [or a founding state of the European Free Trade Association or in the Faroe Islands].[1] The Minister of Finance sets further regulation[6] on how these provisions are executed.

[9. a. Profits from the sale of shares and derivatives sold on an organized securities market, where the underlying value is limited to shares, in accordance with this Act, that go to companies that are governed by points 1 and 2 in par. 1 of Article 2 from shares in companies mentioned in point1 in par. 1 of Article 2. The same applies for profits that the same kinds of companies that are liable to pay tax in acc. with point 7 of Article 3 and are domiciled in another member state of the European Economic Area have received from the sale of shares. The provisions of this point also apply to profits from the sale of shares in companies registered abroad if the seller can demonstrate that the profits from the operations of the foreign company have been taxed in similar manner as is done in Iceland. Deductions in acc. with sentence 3 are on the condition that the tax ratio applied to the foreign company's profits is not lower than generally in any of the member states of the OECD, or in a member state of the European Economic Area, or a founding state of the European Free Trade Association, or in the Faroe Islands.

Losses above profits from the sale of shares and derivatives sold on an organized securities market, where the underlying value is limited to shares, is not deductible from income and does not establish a transferable loss.

Deductions according to this point are only permissible after transferable operating losses have been equalled out, including losses established in the income year.

The Minister of Finance is to set further directives on the execution of these provisions.][1]

10. The amount that the companies mentioned in point 2 of par. 1 in Article 2, pay their members at the end of the year or allocate to them for private ownership in initial capital in pro rata to their business in the year in accordance with the Act on Cooperative Enterprises.

If a company has such business with others than members of the company, then the portion of its net income, amounting proportionally to the business with non-members out of the total business amount, is taxable. Still, these companies, can as a rule, deduct from taxable income dividend from business with its members in the business year amounting to a maximum of $^{2}/_{3}$ of the net income, provided that the amount is paid out to members or signed over to them for private ownership in initial capital pro rata to their business in the year. Such dividend payments must though never amount to more than 7% of a member's business.

11. The amount that companies mentioned in point 4 of par. 1 in Article 2, pay their members at the end of the year, pro rata to their business in the year, though not never a higher portion of a company's net income than amounts to the portion of business with a member out of its total business.

[1)] Act 38/2008, Article 2. [2)] Act 166/2007, Article 4. [3)] Act 143/2003, Article 2. [4)] Act 76/2007, Article 4. [5)] Act 174/2006, Article 4. [6)] Regulation 297/2003, as noted in 53/2008.

The write-down of assets.

■**Article 32** Formation expenses from the purchase of manufacturing rights in agriculture can be written down by equal amounts over a five year period.

☐The following assets can be written down in the year that they are acquired or by equal amounts over a five year period:

a. Formation expenses, such as costs from registering a company and acquiring business permits.

b. Costs from experimental processing, market research, research and acquiring of patents and trademarks.

☐Write-downs according to this Article can be used for deduction for the first time in the year when the assets are acquired or costs are incurred because of them. When selling assets in acc. with sections a and b of par. 2 their sale price is declared in full as income in the year of the sale, after deduction of the portion that has not been written down. Provisions of Article 15 apply for sale profits from production rights in agriculture, as noted in par. 1.

Asset depreciation.

■**Article 33** Depreciable assets are property, plant and equipment used for revenue generation in business activity or in independent operations and whose value shrinks through normal use or aging. Their main classes are:

1. Movable property, including ships, aircraft, automobiles, machines and instruments.
2. Constructions, including cultivated farmland and buildings.
3. Depletable natural resources and bought rights to their utilization.
4. Bought ownership to valuable intellectual property and identities, such as copyright, publishing rights, the right to utilize information, the right to patents and trademarks.
5. Bought goodwill. Purchase of assets that can not be depreciated in acc. with Article 48 are not regarded as bought goodwill.

■**Article 34** The depreciation time of assets begins at the beginning of the business year when they are first used to generate income.

■**Article 35** An asset can not be depreciated in the business year when it stops being used because of sale or from other reasons, including if an asset becomes unusable. The exception is if the sale price or other payment is lower than the remaining depreciation price, i.e. accounting par value for tax. In that case the difference can be charged.

The depreciation base of assets.

■**Article 36** The value that depreciation is in each instance calculated from is regarded as the

depreciation base of assets.
☐The depreciation base of assets in acc. with point 1 of Article 33 is their cost value, as noted in par. 2 of Article 12, after the deduction of prior depreciation. The depreciation base of assets in acc. with points 2–5 of Article 33 is their cost value, as noted in par. 2 of Article 12.
☐The depreciation base of assets, that a tax entity has acquired before the end of the financial year 2001, and prior asset depreciation is calculated in accordance with the re-evaluation of cost values in the tax return for the year 2002.
Depreciation rate.
■**Article 37** Despite the provisions of par. 2 in Article 29 and of par. 1 of point 1 in Article 31 depreciations are to be an annual percentage of the depreciation base of a specific asset or class of assets as stipulated below:

1. Ships and ship´s equipment, as well as automobiles with less than nine passenger capacity, other than taxis, for a minimum of 10%, and maximum of 20%.
2. Aircraft and their accessories for a minimum of 10%, and maximum of 20%.
3. Factory machinery and any kind of industrial machinery and instruments for a minimum of 10%, and maximum of 30%.
4. a. Office equipment for a minimum of 20%, and maximum of 35%.

   b. Machinery and equipment for soil cultivation and construction, automobiles and other transport vehicles, as well as other movable property not subject to points 1–3 and section a of this point, for a minimum of 20%, and maximum of 35%.
5. The depreciation of constructions, including cultivated farmland and buildings, is to be an annual percentage of the depreciation base of individual assets as stipulated below:

   a. From the following constructions the annual depreciation is to be a minimum of 1% and maximum of 3%:

   1. Residential property.
   2. Office buildings.
   3. Business premises.

   b. From the following constructions the annual depreciation is to be a minimum of 3% and maximum of 6%:

   1. Factory buildings.
   2. Garage buildings.
   3. Warehouse buildings.
   4. Slips or slipways.
   5. Accommodation and restaurant buildings.
   6. Outhouses on farmland.
   7. Pelt farm buildings and associated fencing.
   8. Tanks for fish liver oil, oil tanks or water tanks.
   9. Cultivated farmland.
   10. Any other kind of structures and housing used in a business activity, not mentioned elsewhere in this article.

c. From the following constructions the annual depreciation is to be a minimum of 6% and maximum of 8%:

1. Docking installations.

2. Greenhouses.

d. From the following constructions the annual depreciation is to be for a minimum of 7,5% and maximum of 10%:

1. Boreholes.

2. Electrical structures.

3. Non-permanent work camps.

The building material is not relevant when deciding the depreciation ratio of buildings.

6. Depletable natural resources and bought utilization rights are to be depreciated in accordance with estimated total use and real use every year. The estimated total use is dependent upon the approval of a Local Tax Commissioner. The total amount of depreciation according to this point can never be higher than the depreciation base of the depreciated asset, having deducted the remaining value after utilization.

7. Bought property rights to valuable intellectual property and identities and other assets mentioned in point 4 of Article 33, 15–20%.

Depreciation of assets according to this point is allowed for the first time in the year when the assets are acquired or costs are incurred because of them.

When the time of use for the assets according to this point can be shown to be shorter than 5 years they can be depreciated in the time that they are in use.

8. Bought goodwill for a minimum of 10% and maximum of 20%.

■**Article 38** When the use of specific assets is such that different depreciation rates apply, then their depreciation base is to be divided after use, though in the way that if an asset is used for $^3/_4$ part or more for the same operations than the asset as a whole shall be subject to the same depreciation rate. If an asset is not depreciable in part, e.g. in the case of an apartment that is part of a depreciable property, then the cost value of the asset is to be lowered proportionally by the part that can not be depreciated. When dividing the depreciation base of buildings, in this context, then notice is to be taken of the real estate valuation of specific sections of the building or of volume, should the real estate valuation be lacking.

■**Article 39** When the cost price of specific assets or group of assets is below 250.000 ISK they can be charged in full in the year when they are acquired.

■**Article 40** When selling assets that have been used as deduction from income, in accordance with the authorization in Article 39, their sale price is in full counted with income in the in the year of the sale. The same applies for damages or other payment for the delivery of the assets.

■**Article 41** Costs from the repair or rebuilding of depreciable assets due to damage can be charged in the year when the repairs are made, in as much as the costs surpass the damages. This only applies for the cost of re-establishing an asset's condition prior to the damage.

■**Article 42** Assets in acc. with points 1 and 2 of Article 33 can never be depreciated below its scrap value, or 10% of its cost value, as noted in par. 2 of Article 12.

Various provisions on depreciation.
■**Article 43** When determining the depreciation base of an asset that has been overtaken in non-monetary trade the provisions of Article 25 apply.
■**Article 44** If there is a change in an asset's ownership due to inheritance, including advance inheritance, the depreciation base of the asset is not be changed from what it was.
■**Article 45** In the year of a business closure, the selling of a business or its surrender by other means the assets related to that business can not be depreciated. In this case the provisions of Article 39 do not apply.
■**Article 46** The Director of the Internal Revenue has the authority to require all declaration mandatory parties to hold a record of depreciable assets in a form and manner decided by the Commissioner.
■**Article 47** In instances of special circumstances the aforementioned rules about depreciation can be deviated from, subject to the Director of the Internal Revenue's approval.
Rights that can not be depreciated.
■**Article 48** Formation expenses from the purchase of rights whose use does not cause depreciation can not be depreciated. Regarded as formation expenses according to this paragraph is for instance the buying of rights to utilize natural resources, such as the purchase of permanent quota share and similar rights.
☐Bought professional fishing permits in acc. with Article 5 of Act no. 38/1990 shall be allowed to be counted with the formation expenses of the ship linked to the permit and in such cases the depreciation rules of point 1 of Article 33, as noted in point 1 of Article 37, apply.
☐The provisions of par.s 5 and 6 of Article 15 apply for profits from the sale of non-depreciable rights, in acc. with par. 1. The value of bought non-depreciable rights can not be deducted from taxable income. Still, the value of those rights, in whole or proportionally, can be regarded as operating expenses in acc. with Article 31, should they be lost or significantly restricted by law.
Interest cost, discounts and foreign exchange rate loss.
■**Article 49** The following are declared with expenses as interest payments, discounts and foreign exchange rate loss from debt, as noted in point 1 of Article 31:

1. Interest payments from debts, fixed and revolving, including late payment penalty. With interest cost can also be counted borrowing cost, annual or temporary fixed cost, fees, stamp tax and cost of registration of title-deeds of loans. With interest cost in this context are also counted accrued price-increase compensations on the principal of a loan and interest.
2. Discounts from sold securities, bills and any other debentures, provided that the buyer is identified. The discounts are to be calculated for the annual deduction of a proportional amount after instalment period. If a debt is overtaken by others or obligatory payments cancelled before the instalment period is over then the remaining discount can not be deducted from income. When a debt is overtaken in conjunction with the selling of assets, the seller is permitted to use the amount equal to the remaining discount to lower the sale price of the asset, provided that the seller was the original debtor of the overtaken debt.
3. Interest payments from initial capital deposits in the companies mentioned in point 2 of par.

1 in Article 2.

4. Foreign exchange rate loss from any kind of debt in foreign currency in the year of the change in currency and calculated with reference to the bid price of the respective foreign currency at the end of the year.

Foreign exchange rate gains are to be deducted from the years exchange rate losses, as noted in point 5 of par. 1 in Article 8, and the difference charged as foreign exchange rate loss [in equal amounts for three years from and including the account year when the exchange rate loss occurred].[1)]

☐Expenses in accordance with this Article are only deductable in full if they are related to a person's business activity or independent operations.

[1)]Act 61/2008, Article 3. The change comes into effect when determining income tax for the year 2010 in acc. with Article 11 l.c.

Things not regarded as operating expense.

■**Article 50** The following can not be counted with operating expense in acc. with Article 31 or in any way as deduction from taxable income:

1. Gifts, though not occasion gifts in kind to employees or clients when their value is not more than is generally the case for such gifts.

2. Monetary penalties or other sanctions, in any form, because of a taxable entity's punishable deeds, including the value of confiscated assets or payments there in stead. Furthermore cost, in any form, from acquiring illegal confiscated profits or profits linked to punishable offences.

3. Dividend or interest from a persons money that has been contributed to a business activity or independent operations, regardless of whether the business is the owners' responsibility or with unlimited responsibility in partnership with others, as is noted in par. 2 of Article 2.

4. Payments due to finance lease of automobiles for fewer than nine passengers, other than taxis, that are above depreciation calculated according to the provisions of this Act, plus calculated interest from the depreciation base, after having subtracted the depreciation of past years. The Director of the Internal Revenue establishes rules on how to calculate depreciation and interest in these instances.

5. Cost from operating an automobile supplied to employees by a business activity for their own use, except up to the point that the from using the respective automobile have been counted as income, in accordance with the valuation rules of the Director of the Internal Revenue, by the entity permitted to use the automobile for its own use.

6. Cost because of payments, gifts or other illegal things in acc. with Article 109 of the Penal Code, no. 19/1940, to persons that are hired or elected for governmental employment in the fields of legislation, judgement or administrations, either in Iceland or other states or with international organizations and institutions that nations, governments or international institutions are party to.

Chapter IV Various provisions about income.

The merger and demerger of companies.

■**Article 51** If a public limited company liquidated by completely merging it with another public limited company and the shareholders of the former company are only paid with shares in the latter company as payment for their share in the liquidated company, then the change as such does not constitute taxable income for the shareholder giving up shares. In such mergers of public limited companies the overtaking company assumes all legal tax obligations and rights of the liquidated company.

☐When cooperatives merge, as noted in Article 56 of Act no. 22/1991, on Cooperative Enterprises, or when public limited companies merge with cooperative enterprise, as noted in Article 59 of the same Act, the merged company assumes all legal tax obligations and rights of the former enterprise or company.

☐If a cooperative enterprise is liquidated by changing it into a public limited company and the members of the cooperative enterprise are only given shares in the public limited company as payment for their privately owned part of the cooperative enterprise, then the change, as such, is not bring about with it taxable income for the person giving up their privately owned part. If a cooperative enterprise that is to be changed into a public limited company has formed a special B-section of initial capital by selling shared, and the owners of the B-section shares are only paid for them with shares in the public limited company, then the change shall, in the same way, not form taxable income for the person giving up their B-section shares in the cooperative. When a cooperative enterprise is changed into a public limited company, then the new company, assumes all legal tax obligations and rights of the liquidated cooperative enterprise.

■**Article 52** If a public limited company is split up so that more than one public limited companies take over all assets and debts, and the shareholders in the company being split up are only given shares in the overtaking companies as payment for their shares in the split up company, then the exchange does not, as such, form taxable income for the parties giving up their shares. Ownership divided between shareholders in the companies are to be in the same ratio as the ownership was in the split up company. Assets and debt are to be transferred on book value. The provisions of this paragraph also apply when a public limited company is split up in such a way that more than one public limited companies take over in part the assets and debts of the original company. The provisions of this paragraph also apply when cooperative enterprises are split up in such a way that more than one cooperative or public limited company take over its assets and debt. Privately owned portions of members í cooperative enterprises are to be in relative proportion to the privately owned portions of the split up company. But if a public limited company takes over the assets and debt of the cooperative enterprise then all shares in the public limited company are to be owned by the split up cooperative.

☐When splitting up companies in acc. with par. 1 tax obligations and rights are divided between the companies proportionally according to the book value of assets, after deduction of transferred debt.

■**Article 53** If a general partnership company is liquidated by completely merging it with another general partnership company or a public limited company and the owners of the first company are only given stakes or shares in the latter company as payment for their stake in the liquidated company, then the change, as such, does not entail taxable income for neither the party

that gave up its stake, nor for the liquidated company. When companies are merged in such a way, the overtaking company assumes all legal tax obligations and rights of the liquidated company.
☐If a general partnership company, as noted in par. 1 of this Article, is changed into a public limited company so that the owners of the aforementioned company are only given shares in the latter company as payment for their stake in the liquidated company, then the change does not entail taxable income for the owners of the general partnership company or the company itself. After such a change the public limited company takes over all legal tax obligations and rights of the general partnership company.
☐Despite the provisions of par. 1 and 2, it is the unlimited responsibility of the owners of a general partnership company that has been liquidated or changed into a public limited company, to pay taxes and public dues for the fiscal year before liquidation or change.
■**Article 54** Despite the provisions of Articles 51–53 operating loss, including remnants of accrued operating losses from past years, as noted in point 8 of Article 31, of the company being liquidated is not transferable to the company or companies taking over, unless they have fulfilled all the clauses of this Article. The overtaking company or companies are to operate in similar fields of operations as the liquidated company. Losses can not be transferred between companies when they are being merged or split up, if the assets of the liquidated company were negligible or there was no operating activity. Mergers or split-ups of companies must by for ordinary and normal operating purposes. The transferred loss must have originated in a similar field of operations as the overtaking company, or companies, operate in.
☐When splitting up or merging companies the balancing of accounts and tax return, as noted in Article 90, of the companies in question can take place in the timeframe when the change or liquidation takes place, according to the resolutions of the company.
Joint taxation of companies.
■**Article 55** A Local Tax Commissioner can allow joint taxations of two or more public limited companies, as noted in point 1 in par. 1 of Article 2. The joint taxations is conditioned upon that no less than 90% of the shares in subsidiaries are held by the parent company wishing to be jointly taxed, or other subsidiaries included in the joint taxation. The public limited companies must also all have the same fiscal year and have been under the same ownership for the whole fiscal year, except in instances of newly formed subsidiaries or subsidiaries are liquidated. Joint taxation is for a minimum of five years and if the joint taxation is discontinued, it can not be permitted again until after five years from the time it was discontinued.
☐Applications for joint taxation are to be directed to a Local Tax Commissioner in the tax collection district where the parent company is domiciled, no later than thirty days before income tax returns deadline for the income year that joint taxation is applied for.
☐When taxation is joint taxation then the income tax calculated from the joint income tax base …[1)] of all public limited companies included in the joint taxation is levied on the parent company, but it is the collective responsibility of all the public limited companies that the tax is paid. Still, a Local Tax Commissioner is permitted to levy income tax …[1)] on each company

individually, should the jointly taxed public limited companies ask for that specifically.

☐The operating losses of one or more jointly taxed public limited companies can be deducted from the income of the other companies before calculating income tax. Still, the respective income year is to be settled before taking notice of transferable loss from past years. A public limited company's transferable operating loss from before joint taxation can only be utilized in that same company. …[2)]

☐In instances where a subsidiary is owned by a cooperative enterprise [or savings bank][3)] then the provisions of this Article apply, provided that its conditions are met.

☐The Minister of Finance can add to a regulation further instructions about the joint taxation of parent companies and subsidiaries, such as on the utilization of losses between companies.

[1)]Act 129/2004, Article 7. [2)]Act 164/2008, Article 4. [3)]Act 77/2004, Article 1.

The transfer of a sole proprietorship to a private limited company.

■**Article 56** Should an individual engaged in business activity establish a private limited company that overtakes all assets and obligations of the business activity and carries on in the same field of operations, then that transfer does not constitute taxable income for the owner or the company, provided that the following conditions are met:

a. The owner of the business is to have unlimited tax liability in Iceland, as noted in Article 1.

b. The company taking over the business is to be registered in Iceland and is to have unlimited tax liability, as noted in Article 2.

c. That the owner of the business only receives shares in the company as payment for the transferred assets and obligations of the business.

d. With the notice to the Register of Limited Companies concerning the company's establishment, along with any information required in accordance with the Act on Private Limited Companies, is to accompany the balance sheet of the sole proprietorship, which is also to become the founding balance sheet or the private limited company. The balance sheet is to be dated 31 December and it can not be older than four months old when the private limited company is established and it is to be audited by an auditor and signed without reservations. The auditor must also confirm that the financial position of the company has not been impaired because of the owner's extraction from the time of the transfer until the establishment of the company. For tax purposes the private limited company is regarded as having overtaken the operations and financial position from the date of the balance sheet. The founding balance sheet along with a statement concerning the transfer of the sole proprietorship over to a private limited company is furthermore to accompany the company's first tax return.

☐On transfer the company is to assume all legal tax obligations and rights of the business, including operating losses from previous years, on the condition that the provisions of point 8 of Article 31 are upheld. Still, it is the unlimited responsibility of the person responsible for the business activity to pay taxes and public dues because of the business prior to transfer. Assets and debts are to be transferred at book value. The cost value of the payment in shares in the private limited company, as noted in section c of par. 1, is deemed to be equal to the book value of equity in the balance sheet that the founding balance sheet is calculated from.

Unusual trade in finance.

■**Article 57** If tax entities negotiate their financial trade in a way that differs significantly from common practice in such business then valuables that would have gone to one of the taxable entities, but do not because of the contract, are to be declared as income for that tax entity.

☐Should a tax entity purchase an asset for an abnormally high price, or sell an asset for an abnormally low price, then tax authorities can assess what is to be deemed normal purchase or sale price. The difference between purchase or sale price on hand, and assessed value on the other hand, is to be regarded as taxable income for the benefactor of such trade.

[Taxation because of foreign ownership in low tax areas.][1)]

[1)] *Act 46/2009, Article 2.*

■**[Article 57 a.** A tax entity with direct or indirect ownership in any kind of company, fund or institutions domiciled in a low tax country is to pay income tax from the profits of such parties pro rata to their ownership share without regard to distribution. The same applies for a taxable entity that governs a company, fund, institution or a portfolio in a low tax country that the tax entity benefits from, directly or indirectly. This income is taxable in the same way as if the operations were in Iceland.

☐States or jurisdictions are regarded as low tax countries when income tax from the profits of the company, fund, or institution, in question, is lower than two thirds of the income tax that the company, fund or institution would have had to pay, were it domiciled in Iceland.

☐Provisions of par. 1 apply when at least half of the ownership of entities, as noted in par. 1, is directly or indirectly in the hands of Icelandic taxable entities or they have had control within the income year.

☐The provisions of par. 1 do not apply if:

1. a company, fund or institution is subject to an agreement between Iceland and low tax countries to prevent double taxation, provided that on the basis of the agreement it is possible to acquire all essential information and income of the company, fund or institution that is not in majority property income; or
2. a company, fund or institution that is founded and listed in another EEA-state and has real operations there, and Icelandic tax authorities can on the basis of a double taxation agreement or another international agreement demand all necessary information, as noted in point 1. If there is no such agreement, as noted in sentence 1, the reporting requirement lies with the taxable entity.

☐The income of a taxable entity with direct ownership is calculated from the corresponding relative share of the profits of a company, fund or institution, as if the profits would be declared in Iceland if the entity was an Icelandic tax entity. In cases of indirect ownership notice shall be taken of the shared ownership of the operations that the taxation covers. Losses are only deductable, in acc. with point 8 of Article 31, when a tax entity can, at the request of tax authorities, produce satisfactory documentation behind the calculation of the loss.

☐If a company, institution or fund has issued profits to a taxable entity, that has been taxed in acc. with par. 1, the issue is not to be regarded as taxable income, except it is higher than the income taxed acc. with par. 5.

☐The Ministry of Finance can, with a regulation, make further provisions regarding the execution of this Article. The Minister is to publish a list of the countries and areas that taxation in accordance with this Article applies to.][1)]

[1)] *Act 46/2009, Article 2. The provision will be brought into force when deciding taxes and public dues for the year 2011 because of income in the year 2010 and assets by the end of that year, as noted in Article 6 l.c.*

Deciding remuneration for self employed persons.

■**Article 58** Remuneration for the work of a person that is to declare remuneration for itself, in acc. with par 2 of point 1 in section A of Article 7, is not to be lower than its wages would have been, if the person had been employed by an unconnected or unrelated party. The same applies for remuneration for the word of a person's spouse, its child under 16 years of age in the income year, related persons or close relative. Annually at the start of each income year the Minister of Finance issues regulations on presumptive income after receiving the suggestions of the Director of the Internal Revenue. When deciding minimum remunerations regard shall be taken of real income for similar work.

☐If a person declares lower income on a tax return than is decided in the regulations of the Minister of Finance, as noted in par. 1, then the Local Tax Commissioner is allowed to raise the remuneration, independent of decisions in the year of withheld tax, provided that the taxpayer has not provided with his tax return sufficient documentation and justification as he is supposed to do of his own accord. Local Tax Commissioners are permitted to agree to a lower remuneration than stipulated in the guidelines of the Minister of Finance, provided that the relevant data and justification of the taxpayer, and employer where applicable, is available to justify such a decision. The taxpayer shall, among other things, provide information about the scope an nature of his occupations and the business, the result of operations, invested capital and information on contractual work, as applicable.

☐The decision of a Local Tax Commissioner to raise the presumptive income of a self employed person, or one's running independent operations, can never form a loss above the combined general depreciations, in acc. with Article 37. A Local Tax Commissioner shall, when deciding presumptive incomes to self employed old age- and disability pensioners, take care that the decision does not form a loss in their business.

☐The provisions of par. 1 and 2 apply to employment procured by a legal entity as applicable, provided that a person is employed at a legal entity's business, where it, its spouse, child or close relatives hold governing positions due to ownership and governing ties.

☐Should the tax authorities deem that the remuneration for the work of a person's spouse or its child under 16 years of age in the income year, as noted in par. 2 of point 1 in section A of Article 7, is higher than the spouse or child would have got at an unrelated or unconnected party, the authorities shall decide the income of the spouse or child from the employment.

Income period.

■**Article 59** Income tax is to be calculated from the income of the calendar year prior to the tax decision, except where the norm in an entity's profession is for a different business year or it shows, on his tax form, that it operates in a different fiscal year. In such cases a Local Tax Commissioner can authorize the tax entity to use that fiscal year in stead of the calendar year.

Should a Local Tax Commissioner decline an entity's request for a changed fiscal year, the decision can be appealed to the Director of the Internal Revenue and the ruling of the Director of the Internal Revenue shall be the final administrative resolution of the matter.
☐Income is normally to be charged in the year when it is made, i.e. when a it can be claimed from someone, except in instances of uncertain income.
■**Article 60** Local Tax Commissioners can authorize those who run a business or independent operations and sell services, to calculate the income side from paid proceeds from sold services, in stead of calculating from rendered and booked services, in instances where the work factor of the sold services is generally over 70%. Furthermore, they can authorize those whose income from the manufacture and sale of own work, such as from works of art, is very variable between years, to declare that income as taxable income over more than one year. A Local Tax Commissioner is also allowed to permit similar distribution of the taxation of salvage money that crews of ships, other than of salvor-vessels, are given.

Chapter V. The income tax base.
General provisions.
■**Article 61** The income tax base is the amount on which tax is levied and it is thus decided:
1. The income tax base of persons not running a business or independent operations, is considered to be income in acc. with Chapter II, as applicable, with notice of deductions that such persons are permitted in acc. with Article 30.
2. The income tax base of legal entities, as noted in Article 2, is considered to be income in acc. with Chapter II, with regard to deductions permitted to these entities in acc. with Article 31.
3. The income tax base of persons running a business or independent operations, is as follows:
a. Income in acc. with Chapter II, that is not related to a business activity or independent operations, with regard to the deductions that are permitted from that income, as noted in Article 30.
b. Income in acc. with Chapter II, that is related to a business activity or independent operations, with regard to the deductions that are permitted from that income, as noted in Article 31.
The combined income calculated in accordance to sections a and b form a person's income tax base according to this point. If a business activity or independent operations are run a loss, so that section b of this point generates a negative amount, then the income tax base is only regarded as income in acc. with section a.
Operating loss from a business activity or independent operations can never be deducted from income not linked with such operations, though it can be transferred in acc. with point 8 of Article 31 and deducted from profits that may be generated at a later time in the business activity or independent operations of a person.
The income tax base of married persons and children.
■**62. Article** Married couples living together are to declare their income as follows:
1. Each of a married couple is to declare their income in acc. with section A of Article 7. From

that income deductions are to be calculated in acc. section A in par. 1 of Article 30.

2. The income of married couples in acc. with Section C of Article 7 is to be added together and counted as income for the married person whose net income, in acc. with point 1 of this Article, is higher. It does not matter whether the income is from a privately owned asset according to a prenuptial agreement of from a common asset of the married couple. Deductions, in acc. with section B in par. 1 of Article 30, are made from the income of married person with the higher income.

3. Net income from running a business or independent operations, as noted in Section B of Article 7 and in Article 31., is to be declared as income with the married person responsible for the business, and the income is to be taxed with the person's other income, as noted in the provisions of point 3 in Article 61.

When a business or independent operations are dependent upon special knowledge or an operating license granted to individuals, the net income of the business is to be declared by the married person who has the special knowledge or operating license. If a married couple works together for a business activity or independent operations, and both have the special knowledge or license that is required, or if such a special knowledge or license is not required, the net income of the business is to divided between the married couple and declared as income pro rata to the work effort of each person. Should a married couple provide insufficient information about the work effort of each married person or their reports are deemed suspicious then the tax authorities are to assess the division between the couple of the net income from running a business or from the independent operations.

On the handling of loss from running a business or independent operations the same rules apply as do about net income, as noted in par. 1 and 2 of this point.

☐If combined deductions, mentioned in points 1 and 2 in par. 1, amount to a higher figure for one of the married persons than the income figure, mentioned in points 1, 2 and 3 of par. 1, then the surplus is to be deducted from the income of the other married person when assessing the taxes.

☐[A man and woman in unwed cohabitation have the right to declare taxes and be taxed as a married couple, provided that they both request it in writing of the tax authorities. [Unwed cohabitation refers to the cohabitation of a man and a woman that is, or can be, registered in the population register in acc. with par. 3 of Article 7 of the Domicile Act, provided that they have or are expecting a child together, or that they have been living together for no less than 12 months.][1)] [Local Tax Commissioners are allowed to seek a report from the Population register when there is doubt regarding the fulfilment of the cohabitation requirement.][1)] The same applies for the cohabitation of individuals of the same sex.][2)]

☐Individuals in registered partnership are to declare taxes and be taxed in the same way as married couples.

[1)] *Act 76/2007, Article 5.* [2)] *Act 65/2006, Article 11.*

■**Article 63** Tax entities that only comply with the conditions of Article 62 for a part of the year, e.g. because of the establishing or break up of cohabitation within the year, divorce or the death of a spouse, are to declare their income at the time when the conditions in question were met, in accordance with the provisions of Article 62 and shall be taxed as a married couple for that time. Income on other times of the year is to be declared by the person that made the income, as an individual, and is to be taxed accordingly. The calculation of income tax and unused personal allowance is governed by the provisions of par. 2 of Article 69, but the timeframe takes notice of the day when the marriage was formed or the date of divorce or cohabitation ended or the death of a spouse. Those that married in the year or have fulfilled the conditions of par. 3 of Article 62, are still, as a rule, allowed to declare all income in the year as a married couple, in accordance with the provisions of Article 62 and in that case tax assessment and decisions regarding unused personal allowance are treated accordingly. The surviving partner is always allowed to declare all its income and that of the deceased spouse as a married couple, in accordance with the provisions of Article 62., for up to nine months, counting from and with the month when the spouse passed away and tax assessment and decisions regarding personal allowance are treated accordingly. Couples that divorce or end their cohabitation in the year are furthermore allowed to declare all their income separately in that year. If they have shared their personal allowance in such a way that one partner has used the personal allowance of the other in the year of tax withheld as earned, then the personal allowance utilized in such a way is to be declared as profit for the first partner, and the personal allowance of the latter reduced accordingly. This use of personal allowance is to be specifically accounted for in the tax return following the pay-as-you-earn tax year.

☐When married couples are in the situation than one partner is liable to pay tax in Iceland, in acc. with Article 1, but the other does not have unlimited tax liability in Iceland because of the stipulations of Iceland's agreements with other countries or for other reasons, then the partner with the tax liability in Iceland is to be taxed as an individual. All privately earned income and income from that partners private property is to be declared in accordance with the provisions on unlimited tax liability in Iceland, plus demonstrable allowance from the spouse. If an allowance can not be demonstrated, then the tax authorities are permitted to assess a fair and suitable allowance with notice of the married couple's circumstances.

■**Article 64** The income of a child, under the age of 16 years old in the income year, as noted in Article 6., is to be declared alongside the income of the parent that has the higher net income in acc. with point 1 in par. 1 of Article 62, in cases where its parents are taxed as a married couple, or else with the income of the parent or person receiving child benefits because of the child, as noted in section A of Article 68.

☐A child's income, mentioned in point 1 in section A of Article 7, minus deductions in acc. with point 1 in section A of par. 1 of Article 30., are nonetheless to be taxed specifically from the child, in accordance with the provisions of par. 2 of Article 66.

☐Local Tax Commissioners are permitted to grant the application of a child's supporter, for all of the income of a child, that has lost both parents and has not been adopted, to be taxed from the child, in accordance with the provisions of par. 2 of Article 66. The same applies if a child has lost one of its parents.

Authorization to decrease an income tax base.

■**Article 65** A Local Tax Commissioner is to grant a person's application for the lowering of its income tax base when the circumstances are as follows:

1. If senility, illness, accidents or a person's death has brought about the diminished solvency of a person.
2. If a person supports a child that is afflicted with chronic illness or is disabled …[1] and brings about significant expenses above the regular cost of living and received compensation.
3. If a person's parents or other relatives are demonstrably dependent on the person.
4. If a person has significant expenses due to the education of its children over the age of 16 years old.
5. If a person has suffered significant property damage without being compensated by others.
6. If a person's solvency is significantly diminished because of significant losses from claims not related to its business activity.

□Further provisions on the conditions for the aforementioned concessions are to be set by the Director of the Internal Revenue.[2] A Local Tax Commissioner can issue concessions in accordance with this Article without application. Decisions of a Local Tax Commissioner, in accordance with this Article, can be appealed to the Director of the Internal Revenue whose decision in the matter is final. The Director of the Internal Revenue is to pay special attention to concessions from taxes made by Local Tax Commissioners in accordance with this Article, and see to it that they are consistent and proper rules followed.

[1]*Act 61/2008, Article 4.* [2]*Rgl. 212/1996.*

Chapter VI. Calculation of income tax, tax credit and child benefits.

The tax ladder of persons.

■**Article 66** The income tax of persons liable to pay taxes in acc. with Article 1 of this Act and have been domiciled Iceland for the whole income year, is to be calculated from their income tax base in acc. with points 1 and 3 of Article 61 in the manner that follows:

1. From the income tax base is calculated [24,1%].[1]
2. From the calculated amount in acc. with point 1 is deducted the Personal tax credit in acc. with section A of Article 67.
3. From the calculated amount in acc. with point 1 is deducted, besides the personal allowance in acc. with point 2, the seaman's tax credit in acc. with section B of Article 67.

The amount thus generated is the income tax of the year.

□Income tax from the income of children, mentioned in par. 2 of Article 64, amounts to 4% of income above [100.745][2] ISK and children are not to have the benefit of a personal allowance.

□[Income tax calculated from the capital income of individuals outside of business operations is to be 10% of that income. Regarded as capital income in this context is income in acc. with points 1–8 in section C of Article 7, i.e. interest payments, dividend, rental income, sale profits and other property income. Regarded as capital income outside of business operations is furthermore [income][3] from hunting/fishing operations of an individual whose profession is farming or runs other business on a farmland.][4)]

☐The amount, calculated in acc. with par. 3, is to be the final tax assessment on capital income. No other public dues, calculated from an income tax base, are to be added to that income. The income is likewise not to included in the income tax base used for reference when calculating benefits or other payments in accordance with the Social Security Act, the Rent Compensation Act or other legislation subject to contrary provision in those laws. On the withholding of tax calculated from interest income and dividend, according to this paragraph, in the income year, the Act on Pay-as-you-earn Tax calculated from such income applies, according to the further provisions of that Act.

[1)] *Act 173/2008, Article 8.* [2)] *Act 129/2004, Article 8.* [3)] *Act 166/2007, Article 5.* [4)] *Act 76/2007, Article 6.*

■Article 67

A.

☐The Personal tax credit of persons, mentioned in par. 1 of Article 66., is to be [385.800][1)] ISK. [The Personal tax credit shall at the start of each year change proportionally to the difference in consumer price change index at the start and end of the prior 12 month period. The Minister of Finance is to advertise the personal allowance amount at the start of the pay-as-you-earn tax year.][1)]

☐If the Personal tax credit in acc. with par. 1 amounts to a higher figure than the income tax calculated from the income tax base in acc. with point 1 in par. 1 of Article 66 the Treasury is to payment covering the difference, and that money is to be used per person to pay its income tax in the year of assessment …[2)] Personal tax credit, still unused, expires, except in cases of unused personal allowance of a married person, taxed according to the provisions of Article 62, and in such instances the unused personal allowance of one spouse is added to the personal allowance of the other. Should thus decided personal allowance of the latter spouse amount to a higher figure than the tax calculated from its income tax base in acc. with point 1 in par. 1 of Article 66 the Treasury is to supply money amounting to the difference in order to pay its income tax in the year of assessment …[2)] From the personal allowance then unused [$^{10}/_{36}$][3)] part is to be used to pay the income tax on capital income, as noted in par. 3 of Article 66. That part of the personal allowance then still unused expires.

☐The Minister of Finance decides in a regulation[4)] provisions on how the personal allowance of employees is to be used to counter the pay-as-you-earn tax in the income year in accordance with the Act on Public Dues Withheld at Source. The regulation is also to stipulate how the personal allowance deducted from withheld taxes is to be divided in every payment period. The Personal tax credit can not be transferred between months, though the regulation allows that unused Personal tax credit, accrued while an employer has had an employee's tax card in his possession, can be used against later wage payments, provided that the stipulations further decided in the regulation concerning payroll service and statements of accounts are met.

B.

☐A person, employed as a seafarer on an Icelandic ship or on a vessel run by an Icelandic shipping company, is to enjoy a special tax credit, a seaman's reduction, that is to be deducted

from the calculated income tax of the person's seafarer's wages.
☐Those that are employed as seafarers, as noted in par. 4, and are legally registered as part of a ships' crew enjoy the right to a seaman's reduction. Those who are hired as fishermen or practice fishing on their own vessel even if they are not required to be legally registered, enjoy the same right, provided that they meet the conditions of par. 4.
☐Furthermore do those enjoy the right to a seaman's reduction that are legally registered seafarers that work, as noted in par. 4, on a coast guard vessel, a research ship, a dredger, a ferry or a passenger liner on a route between countries or domestic coastal sailing.
☐The seaman's tax credit is to be [987][5] ISK per day. When deciding the number of days that give the right to a seaman's reduction, notice shall be taken of the number of days that seafarers' are obliged to be legally registered, in acc. with Articles 4. and 5. of Act no. 43/1987, on the Legal Registration of Seafarers. If these days are 245 in a year or more, then the seafarer is to enjoy the tax credit all days of the year and proportionally if the legal registration days are fewer than 245, though never for a greater number of days than the seafarer is employed with an operator of a ship. Persons working part time baiting have the right to a seaman's credit for the number of days they are employed at baiting in accordance with a written agreement on share allotment. For persons employed on fishing vessels under 20 gross tons, that are not subject to legal registration according to the abovementioned Act, then general workdays (Monday to Friday) in the sea time period are to be used ins stead of the days of legal registration, as noted above. The right of these persons is dependent upon that their wages for seamanship is no less than 30% of their income tax base. Those days of an employment period with the operator of a ship, when a seafarer is unable to work because of illness or accidents, but still accepts wages in accordance to a collective pay agreement, are to included with days when seaman's reduction is enjoyed. Should the number of days that entitle a person the right to a seaman's reduction become a matter of dispute, the fact of the matter can be found by seeking the confirmation of paid union dues from a trade union.
☐ The provisions of section A apply for the allocation of the seaman's reduction, as applicable.
☐The right to a seaman's reduction is conditioned upon the operator of a ship to keep exact record of the days that give a seafarer the right to a seaman's reduction.
☐Futher provisions on the execution of this alphabetical section are to be decided in a regulation. In it shall, among other things, be decided how to determine the number of days that give the right to a tax credit, registration, as noted in par. 6, and what documents can be called for in that respect.

[1]Act 174/2006, Article 6. [2]Act 129/2004, Article 9. [3]Act 61/2008, Article 5. [4]Rg. 10/1992, as noted in 499/2001 and 50/2008. [5]Act 173/2008, Article 9.

■**Article 68**

A. Child benefits.

☐With every child under the age of [18][1] years old in the income year, domiciled in Iceland and dependent on persons liable to pay taxes in acc. with Article 1, the Treasury is to pay child benefits to the child's supporter. A child's supporter is the person that the child is living with and the child is dependent upon at the end of the income year. The person that pays alimony with a child is not regarded a child's supporter in this context. Married couples, that are taxed in acc. with Article 62., are both regarded as supporters and the child benefits is split equally between them. The same applies for people in cohabitation that at the end of the income year meet the conditions of par. 3 of Article 62, even if they have not requested to be taxed according to that Article. In instances where only one partner in a marriage is taxable in Iceland in acc. with Article 1, that partner is to receive full child benefits because of those children of a married couple that are domiciled in Iceland according to the provisions that apply for married couples, provided that at hand is the relevant information about the income of both, along with information about child benefits or similar payments because of the same children that has been paid in another country.

☐For a child who is, in the income year, given domicile in Iceland, child benefits is only to be paid pro rata to its time of residence in Iceland in that year. Thus the amount of child benefits in acc. with par. 3 and 4 and reduction because of income, as noted in par. 4, is decided pro rata to the time of residence.

☐Annual child benefits amounts to [61.191][2)] ISK for all children under the age of seven years old in the income year.

☐In addition to child benefits in acc. with par. 3 income based child benefits is to be paid with every child under the age of [18][1)] years old in the income year, that annually amounts to [152.331][2)] ISK for the first child, and [181.323][2)] ISK for every childe above one. Income based child benefits for the children of single parents are to be [253.716][2)] ISK with the fist child, and [260.262][2)] ISK for every child above one. Child benefits according to this paragraph is reduced pro rata to an income tax base above [3.600.000][3)] ISK for married couples and above [1.800.000][3)] ISK for a single parent. Income tax base in this context refers to income in acc. with Chapter II of this Act, though not income in acc. with point 3 in section C of Article 7, with regard to deductions in acc. with points 1, 3, 4 and 5 of section A in par. 1 and par. 2 of Article 30 and deductions in acc. with article 31. The reduction ratio is to be [2%][4)] for one child, [5%][3)] for two children and [7%][3)] for three children or more.

☐The child benefits is to by reduced by the amount a child's supporter has received in child benefits or similar benefits from abroad because of the child in the same income year.

☐Should it become apparent that a person has been paid child benefits without being entitled to it, the person is to pay it back, plus a 15% charge. Still, the charge, according to this paragraph, is to be waived if a person can show with reason that it can not be held responsible for the limitations on the tax return that led to the Local Tax Commissioner's decision.

☐[Despite the provisions of par. 1 of this alphabetical section child benefits can be issued for children that are not domiciled in Iceland, but dependent on a citizen in the European Economic Area, citizen of a founding state of the European Free Trade Association or of the Faroe Islands, provided that the child's supporter is liable to pay taxes in Iceland in acc. with Article 1 of this Act or is insured on the basis of Articles 12., 13. or 14 of Act no. 100/2007, on Social Security.][5)] Conditions for issuing child benefits according to this paragraph are that the children are resident in any of the countries of the European Economic Area, [in a founding state of the European Free

Trade Association or in the Faroe Islands][6] and that sufficient documentation is supplied from a competent administrative authority in the country where the children are domiciled. [Those who may be entitled to child benefits for children not domiciled in Iceland are to apply for the support to a Local Tax Commissioner and supply information regarding the income of the child's supporter alongside information about child benefits or similar benefits because of the same children that have been paid abroad, as noted in par. 1.][5] Further stipulations on the execution of this article can be established in a regulation.

☐Child benefits is to be issued [on the basis of a tax return][7] when assessing the taxes, as noted in Chapter X. Further stipulation, among other things, on child benefits paid in advance and the child benefits payments, recovery of overcompensation, including overcompensation for children outside of Iceland, and the netting of child benefits against public dues to the Treasury, public dues to municipalities and unpaid alimony to the Debt-Collecting Institute of Municipalities, including on prioritization, are to be included in a regulation.[8] A Local Tax Commissioner's decision on child benefits paid in advance can be appealed to the Director of the Internal Revenue within 30 days of the date of the decision. The Director of the Internal Revenue is to rule on the matter within 15 days from having received the appeal and his decision is to be the final administrative resolution of the matter.

B. Interest tax rebates.

☐A person who is taxable in acc. with Article 1 and suffers interest cost from loans, that have been taken because of the buying or building of residential property for own use, including the purchase of [habitation rights according to Act no. 66/2003 and the purchase of a stake in a general finance lease apartment according to older legislation],[7] is entitled to a special benefit, interest tax rebates, provided that the person accounts for the loans and their interest cost in a special justification accompanying the tax return on a form decided by the Director of the Internal Revenue.

☐Interest cost, that forms the right to an interest subsidy, is the interest cost from mortgage loans for at least two years or surety loans from credit institutions for at least two years, on the condition that the loans are demonstrably for the procurement of a residential property for own use. The same applies to loans from the Housing Finance Fund taken because of significant renovation of a residential property for own use. The interest cost of loans for less than two years, can only be included in the next for years from and with the purchase year, when an apartment has been purchased for own use. In instances where houses are being built those loans can be included for the next seven years, counting from and with the year when construction was commenced, or until the year when the property starts being used for residence, should that be at a later date. Regarded as interest cost in this context are:

1. Due interest payments and due price-increase compensation on instalments and interest.
2. Discounts from securities, bills and any other debentures that a taxpayer has himself issued and sold to a third party and used the proceedings to finance a residential property for his own use, provided that the buyer of the securities is identified. The discounts are calculated pro rata to the instalments during the maturity of the loan.

3. Borrowing costs, annual or temporary fixed costs, fees, stamp tax and cost of registration of title-deeds from loans.

Neither accrued price-increase compensation from loans that a buyer overtakes on the sale of an apartment, nor the accrued price-increase compensation on the loan of a debtor that he pays above the provisions of the respective security in the loan period, are regarded as interest costs.

□Interest costs used to calculate interest tax rebates in acc. with par. 4, take notice of the interest cost amount, as noted in par. 2, for every tax payer, still never higher than amounts to a [5%][4)] share of a debt made for the procurement of a residential property for own use, using the debt amount at the end of the year. For people taxable for a part of a year because of emigration in the income year, notice shall be taken of the debt burden as it was prior to emigration. Interest costs according to this paragraph can on the other hand never be higher than [554.364][2)] ISK for an individual, [727.762][2)] ISK for a single parent and [901.158][2)] ISK for married couples or persons in cohabitation. The maximum interest cost for persons, taxable in acc. with Article 1 for a part of the year, is determined pro rata to their residence time in the year.

□Interest tax rebates are decided by deducing from interest costs, as defined in par. 3, an amount equivalent to 6% or the income tax base. Still, the abovementioned ratio is to be lowered by 0,5 for every year above 25 years that a person is entitled to continuous interest tax rebates because of the same residential property. If a person has received continuous interest tax rebates because of the residential property for 36 years the deduction on the basis of the income tax base is to be cancelled. Income tax base in this context refers to income in acc. with Chapter II of the Act, with regard to deductions in acc. with points 1, 3, 4 and 5 of section A in par. 1 and par. 2 of Article 30 and deductions in acc. with Article 31. When calculating interest tax rebates for married couples or persons in cohabitation, that meet the conditions of par. 3 of Article 62 at the end of the income year, notice shall be taken of the combined income of both with regard to deductions in accordance with the aforementioned. Thus decided interest tax rebates are reduced proportionally when assets in acc. with Article 72, minus debt in acc. with par. 1 of Article 75, exceed [7.119.124][3)] ISK for an individual and [11.390.599][3)] ISK for married couples or persons in cohabitations, until they are cancelled at an amount 60% higher. Interest tax rebates are paid after the assessment of taxes and public dues and are based on interest costs in the respective income year and assets at the end of the same year. When deciding interest tax rebates in the year when a residential property is acquired and interest tax rebates have not been paid the year before, then, despite the provisions of sentence 1 of this paragraph, the interest tax rebates are to be calculated from the quarter when the first mortgage loan because of the purchase is taken. The maximum interest cost, income tax base and maximum interest subsidy is decided proportionally with regard to that. Interest tax rebates can never be higher than [189.957][2)] ISK per person, [244.299][2)] ISK for a single parent and [314.134][2)] ISK for married couples or people in cohabitation that meet the conditions for joint taxation, as noted in par. 3 of Article 62, at the end of the income year. Maximum interest subsidy for persons taxable in acc. with Article 1 for a part of the year is decided pro rata to their residence time in the income year. Interest tax rebates lower than [692][2)] ISK per person are cancelled.

☐The right to interest tax rebates is tied to the ownership of residential property for own use. The right is established when a residential property for own use is bought or its building commenced. The right to interest tax rebates can furthermore be established because of loans from the Housing Finance Fund taken because of significant renovation of a residential property for own use.
☐The right to interest tax rebates expires when a residential property is no longer regarded as being for own use. If a residential property is sold before construction is commenced or a residential property for own use is purchased in the same year the right to interest tax rebates is cancelled from the time of the sale. When calculating interest tax rebates notice shall be taken of the debt burden as it was at the time of the sale.
☐Interest tax rebates are to be divided equally between married couples. The same applies for people in cohabitation that meet the conditions for joint taxation, as noted in par. 3 of Article 62, at the end of the income year, even if the couple does not wish to be taxed according to that Article.
☐Should a married person, who has the right to interest tax rebates, pass away, then the living spouse, in an undivided estate of the deceased, is to be issued interest tax rebates as in the instances of married couples for the next five years from the spouse's death.
☐It is permitted to pay quarterly in advance estimated interest tax rebates to persons that have purchased residential property for own use in the year 1999 and later. The estimated interest tax rebates are to be paid four months after the end of each quarter.
☐Estimated interest tax rebates are to be calculated from due and paid interest of each quarter from those mortgage loans taken for the procurement of a residential property, though never more than amounts to a quarter of the maximum interest cost, as noted in par. 3.
☐Deductions form the interest cost of each quarter, as noted in par. 4, are to be made with notice to a quarter of the income subject to pay-as-you-earn taxation for the prior 12 months, plus the income outside of pay-as-you-earn in the tax return of the prior year. Interest tax rebates paid in advance for every quarter must never be higher than amounts to a quarter of the maximum interest subsidy, as noted in par. 4.
☐A person who may be entitled to interest tax rebates paid in advance in the year that it acquires a residential property, is to apply for the advance payment to a Local Tax Commissioner and supply all necessary information. Credit institutions, pension funds and others entities that issue mortgage loans to people buying residential property are to supply the tax authorities with all necessary information required to decide interest tax rebates paid in advance. The Minister of Finance stipulates further in a regulation[9)] on how interest tax rebates paid in advance are decided. The decision of a Local Tax Commissioner regarding interest tax rebates paid in advance can be appealed to the Director of the Internal Revenue within 30 days of the date of the decision. The Director of the Internal Revenue is to rule on the matter within 15 days from having received the appeal and his ruling is to be the final administrative resolution of the matter.
☐Should it become apparent that a person has been paid interest tax rebates without being entitled to them, the person is to pay them back, plus a 15% charge. The charge, according to

this paragraph, is to be waived if a person can show with reason that it can not be held responsible for the limitations on the tax return that led to the decision of the Local Tax Commissioner.

☐Rules regarding the netting of interest tax rebates against public dues to the Treasury, public dues to municipalities and unpaid alimony to the Debt-Collecting Institute of Municipalities …,[2] including on prioritization, art to be included in a regulation.

[1] *Act 174/2006, Article 8. The change will be brought into force when deciding child benefits and assessing taxes for the year 2007, as noted in Article 10 l.c..* [2] *Act 173/2008, Article 10.* [3] *Act 61/2008, Article 6.* [4] *Act 129/2004, Article 10.* [5] *Act 166/2007, Article 7.* [6] *Act 108/2006, Article 24.* [7] *Act 164/2008, Article 5.* [8] *Rg. 555/2004, as noted in 7/2005, 346/2006, 249/2008 and 1152/2008.* [9] *Rg. 990/2001, as noted in 300/2003, 559/2004, 642/2004, 33/2005, 347/2006, 1153/2008 and 266/2009.*

The Income tax of persons resident in Iceland for a part of a year, persons residing outside of the country because of studies or because of illness and more.

■**Article 69** When assessing the income tax on other income of a person who has income mentioned in point 2 in section A of par. 1 in Article 30, the same tax bracket is to be used as would have been used, had the person not enjoyed the deductions in question.

☐The income tax base of persons taxable in acc. with Article 1 but have only been resident in Iceland for part of the income year, shall be divided by the number of days they have resided in Iceland in the year, and the figure multiplied by 365. The income tax is then to be assessed in acc. with Article 66 from such calculated income tax base, with regard to Article 67, as if the person had been resident in Iceland for the whole year. That amount is to be divided by 365 and the result multiplied by the number of days the person has resided in Iceland in the year. The amount thus figured is to be the final decision and assessment of income tax or decided unused Personal tax credit.

☐Persons residing abroad studying or because of illness can, despite the provisions of Article 1 keep all rights that being domiciled in Iceland gives them according to this Act and other Acts on public dues. The Minister of Finance sets further rules on the execution this paragraph via regulation,[1] among other things, about what studies apply here, the right of a spouse, tax returns, and more.

[1] *Rg. 648/1995, as noted in 694/2008.*

The income tax of entities with limited tax liability.

■**Article 70** The income tax of entities liable to pay tax in acc. with Article 3, is to be decided in the following manner:

1. The income tax of persons, mentioned in point 1 of Article 3, is to be decided in the same way as mentioned in par. 2 of Article 69. The same applies for unused personal allowance.
2. The income tax of entities, mentioned in [points 2 and 3 of Article 3],[1] though with consideration of point 4 of this Article, is to amount to 15% of their income tax base. This percentage is calculated, among other things, from compensation or remuneration to artists and others doing paid performance for entertainment or any kind of contest. With compensations and remunerations are included any kind of benefits, including transport to and from the country, should the receiving party not have paid that expense. Id does not matter whether the entity

performs in an independent capacity or in the name of another party or whether the payment is from a domestic or a foreign party. Special rules apply for old age pensioners and pensioners in acc. with par. 3 of this point. [The income tax of entities mentioned in point 7 of Article 3 is to amount to 10% of their income tax base.][1)]

The entity doing paid performance, for entertainment or contest, as noted in par. 1 of this point, without predetermined pay or remuneration, but in stead enjoys the proceedings from such operations, is to pay a 10% income tax form the total amount of income from such work, without any deductions.

The income tax of pensioners, mentioned í point 2 of Article 3., is to be calculated from the income tax base in acc. with point1 of par. 1 in Article 66 with regard to personal allowance in acc. with section A of Article 67. In such cases the personal allowance is only to be deducted from the income tax of retirement pay and pensions of the respective parties and unused portions of the allowance is only to be used to pay income taxi from the same income. The part of the personal allowance then still unused expires and is not transferable between persons in a marriage, except when both receive retirement pay or pension and other provisions of this paragraph apply to them both.

3. The income tax of entities, mentioned in points 4, 5, 6 and 8 of Article 3, though with consideration of point 4 of this Article, shall, in the case of persons, be calculated from the income tax base with a tax ratio in acc. with point1 in par. 1 if Article 66, without personal allowance in acc. with section A of Article 67. The income tax of legal entities, as noted in Article 3, is to be calculated in acc. with Article 71.

The income tax base of foreign insurance companies, operating in Iceland, is regarded as that part of the total profits equivalent to the ratio between premium income in Iceland and premium income their total operations.

4. The income tax of persons, with limited tax liability in Iceland in acc. with Article 3, from dividend, rental income and sale profits is to be decided in acc. with par. 3 of Article 66.

[1)] *Act 61/2008, Article 7.*

The income tax of legal entities.

■**Article 71** [The income tax of legal entities in acc. with points 1 and 2 in par. 1 of Article 2 is to be [15%][1)] of the income tax base, as noted in point 2 of Article 61.][2)] …[2)]

☐[The income tax of other legal entities, as noted in points 3, 4 and 5 in par. 1 of Article 2, is to be [23,5%][1)] of the income tax base, as noted in point 2 of Article 61.][2)]

☐Despite the provisions of par. 1 and par. 2 the income tax of those legal entities mentioned in points 3, [4][3)] and 5 in par. 1 of Article 2, having received dividend in acc. with point 4 of section C in Article 7, is to be 10% of that income.

☐Those legal entities exempt from taxation in acc. with points 1, 2, 4, 5, [6 and 7][4)] of Article 4, are non the less to pay income tax from capital income, as noted in points 3, 4 and 5 of section C in Article 7, as well as in acc. with point 8 of section C in Article 7, in regard to sale profits from shares. The tax is to be 10% from that base. The withholding of tax and tax payment in accordance with the Act on Withheld Taxation of Capital Income is to be payment in full and replaces tax assessment according to this Act. Entities that this paragraph applies to and are themselves in charge of collecting dividend in their own loan operations or receive dividend income without tax being withheld, are nonetheless to deliver to the tax authorities a report on their income form interest and dividend and pay a 10% income tax from such dividend after the income year is over. Entities that this paragraph applies to and have other capital income, are also to pay a 10% income tax from such income after the income year is over. When deciding the cost value of assets being sold that companies, as noted in point 4 of Article 4, have acquired as gifts, the cost value is to be the market price on the day that the company took possession of the asset. The Director of the Internal Revenue sett further stipulations about the statements of accounts and information supply because of this paragraph.

☐The following entities are exempt from the provisions of par. 4:

1. The Icelandic Student Loan Fund, The Institute of Regional Development, The Housing Finance Fund, The Operations Fund of Disabled People [*Framkvæmdasjóður fatlaðra*], The Operations Fund of the Elderly [*Framkvæmdasjóður aldraðra*],The Agricultural Productivity Fund, Municipality Credit Iceland [Plc.],[5)] The West Nordic Foundation, The Central Bank of Iceland, The New Business Venture Fund, The Fishing Industry Development Fund [*Þróunarsjóður sjávarútvegsins*], [pension funds, as noted in the Act on the Compulsory Insurance of Pension Rights and the Operations of Pension Funds, and occupational retirement funds that are authorized to receive premiums that form the right to retirement pay].[6)]

2. Credit institutions taxable according to Act no. 65/1982, on the Tax Liability of Credit Institutions, with later change, but their capital income is governed by the provisions on general tax liability according to that Act.

[1)] *Act 61/2008, Article 8.* [2)] *Act 143/2003, Article 6.* [3)] *Act 166/2007, Article 8.* [4)] *Act 77/2006, Article 3.* [5)] *Act 150/2006, Article 5.* [6)] *Act 76/2007, Article 7.*

Chapter VII. [Assets and debt.][1)]

[1)] *Act 129/2004, Article 21.*

[Assets that must be declared.][1)]

[1)] *Act 129/2004, Article 11.*

■**Article 72** [Assets that must be declared are][1)] all immovable property, movable property and any other kinds of property rights, with the limitations mentioned in Article 74, regardless of whether they pay dividend or not.

[1)] *Act 129/2004, Article 11.*

■**Article 73** When evaluating assets [that must be declared][1)] the following rules apply:

1. All immovable property, no matter what, is to be declared using the current real estate appraisal price. If a real estate appraisal price does not exist the property is to be declared at cost value, as noted in par. 2 of Article 12, after deduction of prior depreciation, or on the estimated real estate valuation price of a similar property, whichever is higher. A Local Tax Commissioner is to estimate the real estate appraisal price in this context, with regard to current provisions on real estate valuation.

The rent capacity of a rental lot is declared as the owner's asset, but the difference between the lot's rent capacity value and real estate appraisal prices is declared as the lessee's asset.

2. Livestock is declared as assets, in the expected condition of the following spring, at a price decided for one year at a time by the Director of the Internal Revenue.

3. [Property, plant and equipment, including ships and aircraft, that have a limited utilization period, due to age, obsoletion or from similar causes, are declared as assets at cost value, as noted in par. 2 of Article 12, after deducting permitted and prior depreciation.][2)]

The movable property of persons, that can not be depreciated and is not used for a business activity or in independent operations, is to be declared as assets using the original purchase- and cost price. The price of automobiles is nonetheless permitted to be written down by 10% of the price they were declared by the taxpayer the previous year.

4. Goods held in stocks of shops and manufacturers, including supplies, such as raw material, fuel, fishing gear and goods on production level, are to be declared as assets at cost- or output price or at current value at the end of the fiscal year, after deducting discounts because of faulty and obsolete goods. Up to 5% are though to be permitted to be deducted from the assessed value, calculated in such a way.

5. [Shares are to be declared as assets at nominal value except if it can be proven that the real value of a company's assets after the deduction of debt is lower than its share capital. The same applies for ownership in the initial capital of cooperative enterprises, initial capital shares of savings banks and stakes in the initial capital of general partnership companies. Shares listed in a foreign currency are to be declared at nominal value, calculated by using the purchase price and the current rate of exchange on the day of purchase. If the nominal value is unknown the shares are to be declared using purchase price. Risk capital and long-term receivables, including any kind of financial transactions, as noted in par. 3 of Article 36 of the Annual Accounts Act, not registered on an organized securities market, are to be declared as assets at a nominal value, adding due interest and indexation to the principal of an index based loan calculated from the index in the month following the end of the fiscal year. If these assets are registered on an organized securities market they are to be declared at their registered market price on an active market at the end of the fiscal year. Intangible assets, as noted in points 4 and 5 of Article 33 and Article 48, are declared as assets at cost value, after deducting permissible and prior depreciation in acc. with points 7 and 8 of Article 37. Short-term receivables are to be declared as assets at nominal value, after adding due interest and indexation to the principal of an indexed based loan calculated from the index in the month following the end of the fiscal years, except if their worth can be proven to be less. From thus calculated price of outstanding business claims and loans it is permitted to deduct up to 5% and thereby form a contra account to offset claims that may be lost. Regarded as outstanding business claims and loans in this context are claims formed because of the selling of goods and services and because of other loans directly linked to the business activity. Outstanding debt towards form private non-profit institutions, that also give the creditor the right to residence, can be declared as an asset accordance with the real estate appraisal of the respective residential property.][2)]

6. Foreign currency, deposits and claims are to be declared as assets using their buying rate at the end of the year.

7. Rights that generate steady income are to be declared as assets based on their appropriate requited payment at the end of each year. Local Tax Commissioners can assess the price of these rights.

8. Assets not subject to depreciation in acc. with Article 48 are to be declared as assets at their cost value, as noted in par. 2 of Article 12, after deducting prior depreciation and deducting prior write-downs in acc. with par. 6 of Article 15.

1) Act 129/2004, Article 12. 2) Act 166/2007, Article 9.

Things not regarded as assets.

■**Article 74** Not declared as assets, as noted in Article 72, are the following:

1. Conditional rights to payments, such as the right to life insurance money that has not been paid.

2. The right to retirement fund payments, pension, allowance or other such temporary payments that made on an individual basis.

3. The right to rent-free habitation and similar rights to use, though with consideration of par. 2 in point 1 of Article 73 .

4. A persons clothing, furniture, household effects, book, and objects of personal value, are not to be declared as assets.

5. A public limited company's own shares, as noted in point 1 of par. 1 in Article 2.

[Debt.]1)

1) Act 129/2004, Article 13.

■**Article 75** [In a tax return a taxable entity's debts are to be accounted for.]1) Regarded as debt in this context is accrued price-increase compensation on the principal of a these debts, calculated from the index in January of the next year following the end of a fiscal year. Foreign currency debt is to be declared at the selling rate at the end of the year. All public dues regarding the respective fiscal year are regarded as debts, aside from charges on income …1) in the next year after the end of a fiscal years.

□[With the debts of entities mentioned in point 4 of Article 3 can only be included debts directly linked to their operations in Iceland.]1)

□[With the debts of entities mentioned in points 5–8 of Article 3 can only be included debts with an interest in these assets.]1)

1) Act 129/2004, Article 13.

■**Article 76** …1)

1) Act 129/2004, Article 14.

■**Article 77** …1)

1) Act 129/2004, Article 15.

[Tax return time limits.]1)

1) Act 129/2004, Article 16.

■**Article 78** [Assets and debts that must be declared are to be declared with reference to the status of a taxable entity's assets and debts at the at the end of the year.][1] There is though the exception that those, who with the permission of a Local Tax Commissioner, use a different fiscal year than the calendar year, declare their assets at the end of the fiscal years prior to the assessment of taxes.

[1] *Act 129/2004, Article 16.*

■**Article 79** …[1]

[1] *Act 129/2004, Article 17.*

■**Article 80** [Married couples, living together, as noted in Article 5, as well as a man and woman who have requested joint taxation in acc. with par. 3 of Article 62 and individuals in registered partnership, are to collectively declare all their assets and debts, irrespective of whether there is included a privately owned assets or debt linked to it.][1] [The same applies for the tax declaration of individuals of the same sex who are in cohabitation and have requested joint taxation.][2]

□…[1]

[1] *Act 129/2004, Article 18.* [2] *Act 65/2006, Article 12.*

■**Article 81** The assets of a child, that is within 16 years of age in the income year, as noted in Article 6, is to be included with the assets of its parents or the person receiving child benefits because of the child, as noted in section A of Article 68. …[1]

□…[1]

[1] *Act 129/2004, Article 19.*

The calculation of property tax.

■**Article 82** …[1]

[1] *Act 129/2004, Article 32, as noted in transitional provision XVI.*

■**Article 83** …[1]

[1] *Act 129/2004, Article 32, as noted in transitional provision XVI.*

Chapter VIII [Tax collection districts, Local Tax Commissioners, the Director of the Internal Revenue, the Directorate of Tax Investigations in Iceland and more][1]

[1] *Act 166/2007, Article 11.*

Tax collection districts.

■**Article 84** In Iceland there are the following tax collection districts:

1. The district of Reykjavík; covers the city of Reykjavík.
2. The district of West-Iceland; covers the town of Akranes, Mýrasýsla, Borgarfjarðarsýsla, Snæfellsnes- and Hnappadalssýsla and Dalasýsla.
3. The district of the West-fjords; covers the counties of Barðaströnd, counties of Ísafjörður, the town of Ísafjörður, the town of Bolungarvík and Strandasýsla.
4. The district of North-West-Iceland; covers the counties of Húnavatn, Skagafjarðarsýsla, the town of Sauðárkrókur and [Fjallabyggð].[1]
5. The district of North-East-Iceland; covers Eyjafjarðarsýsla, the town of Akureyri, the town of Dalvík, [Langanesbyggð],[1] the counties of Þingeyjar and the town of Húsavík.
6. The district of East-Iceland; covers the Múlasýslur, town of Seyðisfjörður, Neskaupstaður,

town of Eskifjörður and Austur-Skaftafellssýsla.
7. The district of South-Iceland; covers Vestur-Skaftafellssýsla, Rangárvallasýsla and Árnessýsla.
8. The district of Vestmannaeyjar; covers the town of Vestmannaeyjar.
9. The district of Reykjanes; covers Gullbringusýsla, Kjósarsýsla, the town of Seltjarnarnes, the town of Kópavogur, the town of Garður, the town of Hafnarfjörður, the town of Grindavík, the town of Keflavík, the town of Njarðvík and Keflavík-airport.

☐The Minister of Finance decides the location for Local Tax Commissioners in each district. The Minister of Finance can also, in special circumstances, set different boundaries between specific tax districts than stipulated in par. 1. [The Minister of Finance is also permitted to move specific assignments between tax districts.][1)]

[1)] *Act 166/2007, Article 10.*

Local Tax Commissioners.

■**Article 85** [Income tax][1)] in accordance with this Act is to be assessed by Local Tax Commissioners. There is one in every tax collection district. The Minister of Finance appoints a Local Tax Commissioner for five years at a time. No one can be appointed as a Local Tax Commissioner unless that person meets with the following conditions:

1. The individual must be a person of good repute and is not to have been sentenced for a punishable offence, such as are mentioned in par. 1 of Article 68 of the Penal Code.
2. The person must be of age and have full control of his own money.
3. The person must be an Icelandic citizen.
4. The person must have a degree in law, economics or business studies or hold the rights of statutory auditor. The provisions of this point can though be waived if a person has acquired extensive specific training or special knowledge on tax legislation and its execution or has been appointed a Local Tax Commissioner before.

[1)] *Act 129/2004, Article 22.*

Local Tax Commissioners' agents.

■**Article 86** The Minister of Finance is permitted to hire an agent of a Local Tax Commissioner outside of the Local Tax Commissioner's residence. Municipal commissioners are obliged to carry out the duties of an agent if called for.

☐The Minister of Finance is to issue official duty regulations for agents.

The Director of the Internal Revenue and more.

■**Article 87** The Minister of Finance appoints a Director of the Internal Revenue for five years at a time. No one can be appointed to that office unless the person meets the conditions of Article 85, about the office requirements for a Local Tax Commissioner.

☐The Minister also hires a Deputy Director of the Internal Revenue who is to meet the same conditions as the Director of the Internal Revenue.

The Directorate of Tax Investigations in Iceland.

■**Article 88** The Minister appoints the head of the Directorate of Tax Investigations in Iceland for five years at a time. The head of the Directorate is to meet the conditions of Article 85, about the office requirements for a Local Tax Commissioner.

Chapter IX. Tax returns and reports.

Place of tax return and taxation.

■**Article 89** Persons, mentioned in Article 1, are to declare taxes and be taxed where they were legally domiciled on [31 December][1)] of the income year. Persons, mentioned in point 2 of par. 1 of Article 1, are on the other hand to declare taxes and be taxed where they were last domiciled before the date of emigration. Those mentioned in point 4 of par. 1 in Article 1 are to declare taxes and be taxed where their ship or aircraft is registered.

☐Entities, mentioned in Article 2, are to declare taxes and be taxed where they are resident; their residence being regarded as where they are registered, consider to be their address according to their resolutions or where their real governing body is. An estate of a deceased person and bankruptcy estates are to declare taxes and be taxed where they are wound up.

☐Entities liable to pay taxes in Iceland in acc. with Article 3 are to declare taxes and be taxed where they hold property or have income.

☐The tax return and taxation place of companies jointly taxed in acc. with Article 55 is to be in the tax district of the parent company. The Local Tax Commissioner in that district is permitted to change the tax returns of the jointly taxed companies in acc. with Articles 95 and 96, as noted in Article 97.

☐[Despite the provisions of par. 2–4, the tax assessment, supervision and other tax matters of legal entities in acc. with Articles 2 and 3, are to fall under the jurisdiction of the Reykjavík tax district, if one or both of the following conditions is met:

a. that the operating revenue of a legal entity, according to its latest annual accounts, in addition to capital income, amounts to 10 billion ISK or more. The parent company and subsidiaries of that legal entity is also to fall under the jurisdiction of the Reykjavík tax district if they are liable to pay taxes in Iceland,

b. the corporate assets of a legal entity, according to its latest annual account, amount to 5 billion ISK or more. The parent company and subsidiaries of that legal entity is also to fall under the jurisdiction of the Reykjavík tax district if they are liable to pay taxes in Iceland.

☐The manner of tax handling for the legal entities mentioned in par. 5 is normally not be for less than two years from the time that the aforementioned conditions were met.

☐Before the end of each year the Director of the Internal Revenue is to announce to those legal persons that are governed by the conditions of sections a or b of par. 5 that their tax handling falls under the jurisdiction of the Reykjavík tax district. The Director of the Internal Revenue is also allowed, at the request of a Local Tax Commissioner or in special circumstances, to move legal entities under the governance of par 5. or remove them from it, provided that the Commissioner informs the respective legal persons of his decision. In a regulation set by the Minister are to be further directions on how to handle the tax matters of those legal entities that are governed by par. 5.][2)]

☐[The Director of the Internal Revenue is permitted to waive the provisions of par. 1–4 about tax return and taxation place and decide a different tax return or taxation place:

a. when tax entities have moved between tax jurisdictions, or

b. when taxable entities in acc. with Chapter I have joint operations without being domiciled in the same tax collection district, or

c. when wages are decided in the manner spoken of in Article 58, but the entities are not domiciled in the same tax collection district, or

d. because of the tax supervision of a Local Tax Commissioner, as noted in par. 1 of Article 102, when cases apply to entities that are not domiciled in the same tax collection district.][3)]

☐If, according to the aforementioned, a taxable entity can be taxed in more places than one, or there is doubt on where a tax entity is to be taxed, then the Director of the Internal Revenue rules on the matter.

[1)] Act 116/2005, Article 2. [2)] Act 38/2008, Article 3. The handling of large corporations in acc. with par. 5–7 of Article 89 is to commence on 1 January 2010 in acc. with Act 38/2008, transitional provision I, as noted in Act 173/2008, Article 11. [3)] Act 143/2003, Article 10. The change went into effect on 30 December 2003 and will be brought into force on re-assessment and assessment after the provision goes into effect, as noted in Article 13 l.c..

Tax returns.

■**Article 90** All entities liable to pay taxes in acc. with Chapter I of this Act, as well as those who consider themselves exempt from taxation in acc. with point 4 of Article 4, are to hand over to a Local Tax Commissioner or his agent a report on a form decided by the Director of the Internal Revenue, with a solemn declaration of income in the previous year and of assets at the end of the year, as well as on other matters relevant when assessing taxes. With the tax report of legal entities and individuals running a business or independent operations is to accompany a signed annual account in accordance with the provisions of the Act on Accounting or where applicable the Annual Accounts Act, along with a specific justification regarding tax bases in a form decided by the Director of the Internal Revenue. The Director of the Internal Revenue can authorize legal persons and individual who run a business or independent operations to hand in their report in computerized format.

☐Tax declaration is mandatory for all persons. Trustees are to declare taxes for those not competent to manage their financial affairs. Heirs are to declare taxes for estates of the dead that are being wound up privately. Insolvency practitioners are to declare taxes for bankruptcy estates and estates of a deceased persons. The tax returns are to be sign by those have the legal obligation to declare taxes. The tax return of an entity obliged to keep books is to be signed by those responsible for complying with the provisions of the Act on Accounting.

☐Tax declaration is mandatory for legal entities. If the entities are obliged to keep books, then an annual account is to accompany the tax return, as noted in par. 1. For registered companies it suffices that those authorized to make binding decisions for the company sign the tax return.

☐Handing in a report in computerized format, having been given the permission of the Director of the Internal Revenue to do so, is the equivalent of signing the report in acc. with par. 2 and par. 3.

☐If a tax entity is domiciled abroad, is resides abroad or for some other reason is incapable of declaring taxes itself, the it is permitted to grant a persons, domiciled in Iceland, mandate to fill

out a tax report, and sign it, in which case a mandate in writing is to accompany the tax return.
☐In cases where a person whose tax reporting is mandatory is, according to the judgement of a Local Tax Commissioner, incapable of declaring taxes, due to senility, disease or of other similar causes, then the Local Tax Commissioner or his agent, is to assist the person with his tax return, and the taxpayer is to supply all necessary information and documents. The person assisting with the tax declaration is to add to the tax report a written statement of its help.
☐[If a person obliged to hand in a tax return has not complied with his duty in acc. with sentence 1 of par. 1 a Local Tax Commissioner is permitted to fill out a tax declaration with the information at hand, provided that the Local Tax Commissioner considers them to be satisfactory. Such a tax return is to be marked specifically and its legal effectiveness is the same as when income is estimated in acc. with par. 2 of Article 95. The notification of taxes and deadline for appeals is handled in acc. with sentence 2 of par. 1 in Articles 98 and 99.][1)]

[1)] *Act 164/2008, Article 6.*

■**Article 91** The tax report of legal entities authorized to keep their annual accounts in a foreign currency, as noted in Article 11-A of the Annual Accounts Act, is to be accompanied with a signed annual account in accordance with the provisions of the Annual Accounts Act, along with a special justification, as noted in par. 1 of Article 90, on tax bases, in a form decided by the Director of the Internal Revenue and are amounts to be in Icelandic krona (ISK).
☐The amounts in a justification in acc. with par. 1 are to be converted into Icelandic krona (ISK) in the following manner:

a. Income and expenses of the year, depreciation included, are to be converted into Icelandic krona (ISK) using the average exchange rate of the financial year.

b. Assets, debts and equity are to be converted to Icelandic krona (ISK) using the exchange rate at the end of the respective financial year.

c. Exchange rate difference that may come into existence when converting from a foreign currency to Icelandic krona (ISK) in acc. with sections a and b is not to influence income in the statement of income.

☐When converting to an operational currency the depreciation base of assets and prior depreciation, the cost value non-depreciable assets and assets that have not been put to use, are is to be converted using the final exchange rate of that financial year. Cost value for tax purposes is to be decided in accordance with that conversion. When selling stakes in companies that the seller has acquired before the end of the year 1996, the cost value is to be decided in accordance with the provisions of sentence 2 in par. 4 of Article 18 or par. 3 of Article 19 as applicable in Icelandic krona (ISK) but the sale price is to be converted to Icelandic krona (ISK) using the current exchange rate on the date of the sale. When selling stakes in companies that the seller has acquired after the year 1996, their cost value is to be decided in Icelandic krona (ISK) with reference to the current exchange rate when bought, but the sale price is to be converted using the current exchange rate on the date of sale. Immovable property is to be declared as assets in acc. with point 1 of Article 73 and ownership in companies is to be declared as assets in acc. with point 5 of Article 73. …[1)] When a deferred portion of sale profits is taxed its amount is to be

declared as income, unchanged in Icelandic krona (ISK) as it was in the year when the profit was made. Operating loss from prior years in acc. with point 8 of Article 31 is to be deducted from the years operating income unchanged in Icelandic krona (ISK) from the information in justifications in acc. with par. 1 in the business years when the loss occurred. In other regard the rules that apply for the tax declaration of legal entities in Icelandic krona (ISK) also apply for the tax returns of legal entities that use a foreign currency in their books and annual accounts.
☐A legal entity, that keeps its books in in Icelandic krona (ISK) in addition to accounting in an operational currency, is permitted to refer in its justification in acc. with par. 1, to the accounting in Icelandic krona (ISK), though that method is then to be maintained for at least five years.

1) *Act 129/2004, Article 23.*

Payroll reporting and more.

■**Article 92** All those who employ people an remunerate them for their work, including with a profit share, car allowance, rent benefits and any other kinds of preferences and benefits, retirement pay, severance payments and pensions, are of their own accord to supply a Local Tax Commissioner or his agent with a report on those payments, for free, and in a form decided by the Director of the Internal Revenue. The same applies for payments to contractors for materials and work. If the aforementioned payments are made with the intermediation of another party and the one, that was being worked for, is unable to supply the required information, the reporting obligation rests with the intermediary.
☐All entities, including banks, savings banks and other financial institutions, securities markets and others that handle buying and selling, commission trade, [intermediation][1)] and other handling of shares, [securities and other financial instruments],[1)] shall of their own accord supply a Local Tax Commissioner or his agent with a report of such trade and parties to the trade, for free, and in a form decided by the Director of the Internal Revenue.
☐[Banks, savings banks, other financial entities and those entities other in acc. with par. 1 of Article 3 of Act no. 94/1996 that accept deposits and offer yield are of their own accord to give the tax authorities, for free, and in a form decided by the Director of the Internal Revenue, information about paid or due interest in the year in acc. with Article 8 of this Act and about withheld payments and deposits in bank accounts and any kind of securities- and investment funds. The same applies for any kind of loans to customers and interest payments from those loans.][1)]
☐All that lease or pay for the use of immovable property, mining rights or fishing/hunting rights, movable property, patents, manufacturing rights, publishing rights or special knowledge, are, of their own accord, for free, and in a form decided by the Director of the Internal Revenue , to supply a Local Tax Commissioner or his agent with a report on the lease payments or payments for the use.
☐Those who receive payments in accordance with this article are obliged to show the payer their personal identification card. The personal identification number of the receivers of payments is to be noted in the aforementioned reports.
☐The Director of the Internal Revenue can establish a general duty to give a Local Tax

Commissioner or his agent a report, for free, and on a for that the Commissioner decides, on other issues pertaining to the levying of taxes according to this Act, such as on the buying and selling of raw material and products, the buying and selling of vehicles whose registration is mandatory, shares and dividend, initial capital and return on initial, [securities and other financial instruments as well as on their return][1)] and lottery winnings and contests.

☐The reports of companies that have been authorized to keep books and annual acconts in a foreign currency in acc. with Article 11-A of the Annual Accounts Act are to be based on the original amounts in Icelandic krona (ISK) or converted using the current exchange rate.

[1)] Act 46/2009, Article 3.

Tax Return Deadline.

■**Article 93** At the start of each year the Minister of Finance, after hearing the suggestions of the Director of the Internal Revenue, is to decide and advertise when tax assessment is to be done. The assessment is though to be done no later than nine months after the end of the income year, as noted in Article 59.

☐The Director of the Internal Revenue is, at the start of each year set the deadline for when a taxable entity is to have handed in its tax return, as noted in Article 90, and the data mentioned in Article 92. Those deadlines can be changed should it be deemed necessary.

☐Persons liable to pay tax in Iceland in acc. with point1 of Article 3 and are leaving the country are to hand in a tax return to a Local Tax Commissioner no later than one week before moving.

Reporting requirement and supervisory power.

■**Article 94** It is the obligation of all parties, both those that must declare taxes as well as of others, to supply the tax authorities, for free and on the form wished for, with all necessary information and documents called for, an can be given to them. It does not matter, in this context, whether the information directly applies to the party the that the information is requested of, or to the business of other parties with that party or to an inspection or research there of. [If an entity, directly or indirectly, holds at least half of a company, or has managerial control over a subsidiary or outlet in other countries, that entity is also obliged to give information about the business of the subsidiary or outlet with entities taxable in acc. with Chapter I as well as about companies, funds and institutions in low tax countries, that par. 1 of Article 57-a of this Act applies to.][1)] When tax authorities are spoken of in this Article then the offices of Local Tax Commissioners, the Directorate of Tax Investigations in Iceland and of the Director of the Internal Revenue are being referred to.

☐Due to tax investigations in accordance with this Act, a Local Tax Commissioner, the Director of the Internal Revenue and persons, to whom have been given tasks regarding tax investigation, can demand that entities obliged to declare taxes supply them with their accounting and books, for inspections, as well as any other documentation relevant to the business, letters and contracts included. These parties to are furthermore to have access to the aforementioned data and access to the offices of entities obliged to declare taxes, as well as to their warehouses and are granted permission to question anyone who may be able to supply the tax authorities with relevant information. The same powers of action rest with the Directorate of Tax Investigations in Iceland

because of inquiries in acc. with Article 103.
☐The tax authorities also have the powers mentioned in par. 2 of this Article towards those entities that are not obliged to declare taxes.
☐[Financial institutions, auditors, lawyers and other entities are to keep special record of those clients to whom they give tax consultancy services or other services, regarding the control or direct or indirect ownership of the clients of companies, funds or institutions that are registered out of the country or offshore assets. They are obliged, on request, to hand over the records in question to the tax authorities.
☐The provisions of other Acts concerning confidentiality and secrecy take second place to the provisions of this Article.][1)]
☐Should the obligations of entities in accordance with this Article become a matter of dispute, then the Director of the Internal Revenue or the Directorate of Tax Investigations in Iceland call for a court order regarding that dispute at a district court. The cases of parties who do not comply with their obligations to hand over information can be submitted [to a police enquiry].[2)]

[1)]Act 46/2009, Article4 . [2)]Act 88/2008, Article 234.

Chapter X. Tax assessment, appeals and more.

Tax assessment.

■**Article 95** When the deadline to hand in a tax return has past a Local Tax Commissioner is to assess the income tax …[1)] on a taxable entity in accordance to its tax return. Local Tax Commissioners are though to rectify obvious calculating errors. Furthermore a Local Tax Commissioner can rectify the amounts of specific items if they are inconsistent with current legislation and the directions of the tax authorities, as well as specific items of a tax return if indisputable information is at hand, though the taxable entity is to be made aware of such changes. Furthermore the Local Tax Commissioner is to make decision on tax benefits in acc. with Article 65.
☐If a tax entity does not hand in a tax return before the given deadline, as noted in Article 93, a Local Tax Commissioner is to estimate the entity's income and assets with a generous margin in order to avoid a situation where the estimated amounts are lower than the actual amounts should be and assess the entity's taxes in accordance with that estimate, as noted in Article 108.

[1)]Act 129/2004, Article 24.

■**Article 96** Should it become apparent, either before or after tax assessment, that a tax return, or specific items therein or accompanying documents, are insufficient, vague or suspicious, not declared in a legally prescribed manner or that a signature is unsatisfactory or if a Local Tax Commissioner deems that further explanation of a point in the return is required, he is in writing to call upon the taxpayer to rectify those items within a given time frame and supply written explanation and data, including books and accounting data, that a Local Tax Commissioner deems necessary. If a Local Tax Commissioner receives satisfactory explanations and data within the given time, he assess the taxes or re-assesses them according to the tax return, having received explanations and data, though with consideration of Article

108. If the errors in a tax return are not rectified, the taxpayer does not respond within the given time, his explanations are unsatisfactory, documents not sent that have been called for, sent documents prove to be unsatisfactory or suspicious or that books and other data, that a tax return is based on, can not be considered a sufficiently reliable source on a business or operations, then the Local Tax Commissioner is to estimate a tax entity's income and assets with a generous margin in order to avoid a situation where the estimated amounts are lower than the actual amounts should be, and assess the entity's taxes in accordance with that estimate, though with consideration of Article 108.

☐If a tax entity has not filed a tax return and has been taxed according to an estimate, that later is shown to have been to low, his taxes are to be re-assessed in light of the new information. The taxes of a taxable entity are in the same way to be assessed or re-assessed should it become apparent that it has not been made to pay taxes from all of its income and assets or if the entity has not been taxed. If taxes are re-assessed in accordance with this paragraph notice is to be taken of the provisions of par. 1 of this Article, and also with notice of Article 108, as applicable.

☐If a tax return is changed, as permitted by par. 1 of this Article, before taxes are assessed, the Local Tax Commissioner is to notify the taxable entity, or whomever the obligation to return taxes rests upon, in writing about that change, with an estimate included, and reasoning for the change. If the place of residence is unknown for a taxable entity, taxable person or its representative the Local Tax Commissioner is permitted to make changes without notification.

☐If changes are made to a tax return or taxes after assessment and taxes are re-assessed, as noted in par. 1 and par. 2 of this Article, then the Local Tax Commissioner is to notify the taxable entity, or those obliged to hand in the tax return, in writing, of the intended changes and of the reasoning behind the changes. The Local Tax Commissioner is to give the taxable entity at least a 15 day time limit, from posting the notice of the intended changes, to respond in writing about the matter at hand and supply additional data, before final ruling.

☐A Local Tax Commissioner shall, as a general rule, give a reasoned ruling about the re-assessment of taxes within two months and send the ruling via registered mail to the taxable entity or the person obliged to file a tax return. When the ruling has been made an announcement concerning the changed taxation is to be sent to the respective debt collector of the Treasury. A duplicate of the ruling is at the same time to be sent to the Director of the Internal Revenue.

☐If a Local Tax Commissioner has a suspicion of tax fraud or a punishable offence against the Act on Accounting and Annual Accounts he is to notify the Directorate of Tax Investigations in Iceland of his suspicion, where follow-up decisions will be made on the matter.

■**Article 97** Authorization to re-assess taxes in acc. with Article 96 covers tax levied on income and assets for the six years prior to the year of re-assessment.

☐if a tax entity has in its tax return or in accompanying documents given sufficient information that a right tax assessment could be based on, it is not permitted to re-assess its taxed for more than the two years prior to the year of re-assessment, even if it so turns out that the tax

assessment has been to low.
☐[If the office of the Directorate of Tax Investigations in Iceland or the office of the National Commissioner of the Icelandic Police investigates an entity's return of taxes, the authorization to re-assess the taxes, as valid from the beginning of the year when the investigation was commenced.][1)]

[1)] *Act 129/2004, Article 25.*

■**Article 98** When Local Tax Commissioners have finished assessing the taxes for taxable entities they are, no later than 15 days before the end of the appeal time limit in acc. with Article 99, to put together and submit for observation a register of tax assessment for each municipality in the tax collection district. In the register are to be specified the taxes levied on each taxpayer according to this Act. Every taxable entity is to be sent a notification of its taxes. The Local Tax Commissioner is also to advertise in full, among other places in the Icelandic Legal Gazette (*Lögbirtingablað*), that the tax assessment is finished as well as where and when the register of tax assessments is available for viewing. [if a tax entity's fiscal year is different from the calendar year the Local Tax Commissioner is, in stead of an advertisement in acc. with sentence 3, send the entity a notification about the tax assessment using registered mail and publish the tax assessment in the next publication of the register of tax assessments and taxes.][1)] The Local Tax Commissioner is also to send the respective debt collector Treasury a register of all entities that tax has been levied on, as well as a duplicate to the Director of the Internal Revenue and the Icelandic National Audit Office.
☐When tax assessment and apeals processes are over, as noted in Article 99, the Local Tax Commissioners are to put together and submit a tax register for each municipality in the tax district, specifying the levied income tax …[1)] of each taxpayer and other taxes, according to the decision of the Director of the Internal Revenue. The tax register is to be available for observation for two weeks at an convenient location in every municipality. A Local Tax Commissioner or his agent is to advertise timely where the register is available. Public display of the information on levied taxes, that is part of the information in the tax register, is permitted, as well as the publication of that information, in part or whole.

[1)] *Act 129/2004, Article 26.*

Appeals to a Local Tax Commissioner.

■**Article 99** When a taxed entity believes it taxes or tax base, including operating losses, wrongly assessed, it can file a reasoned appeal, in writing or electronic, on a form decided by the Director of the Internal Revenue, supported with the necessary data, to a Local Tax Commissioner or his agent within 30 days from the date of the Local Tax Commissioner's advertisement that tax assessment in acc. with par. 1 of Article 98 is finished. A tax return that is handed in after the time limit for tax declaration, but before tax assessment is finished in acc. with par. 1 of Article 98, is to be treated as an appeal to a Local Tax Commissioner, regardless of whether a tax entity files appeals a tax assessment or not. Within two months from the end of the time limit for appeals the Local Tax Commissioner is to have ruled on the appeals. The rulings of Local Tax Commissioners are to be reasoned and sent to the complainant via registered mail. [If the demands of the complainant are met in every aspect the Local Tax Commissioner is permitted to send his ruling using regular mail services or electronically on a form decided by the Director of the Internal Revenue.][1)] A duplicate of the ruling is to be sent immediately to the Director of the Internal Revenue. Changes in taxation are also to be sent to the respective debt collector of the Treasury and duplicates to the Director of the Internal Revenue and to the Icelandic National Audit Office.

☐The rulings are to be made and signed by a Local Tax Commissioner or by those of his employees granted special permission to do so by the Director of the Internal Revenue.

[1)] *Act 143/2003, Article 11.*

Appeals to the State Internal Revenue Board.

■**Article 100** The rulings of Local Tax Commissioners on tax re-assessment in acc. with par. 5 of Article 96 and rulings on appeals in acc. with Article 99 can be appealed to the State Internal Revenue Board using the provisions of the Act on the State Internal Revenue Board.

Chapter XI. Various provisions of tax authorities.

The Director of the Internal Revenue.

■**Article 101** The Director of the Internal Revenue is, along with other tasks appointed to him with other provisions of this Act, to monitor the work of Local Tax Commissioners and see to it that their work and decisions are consistent. He assigns the framework for their operations, along with working rules and guidelines[1)] and introduces them to rulings and court cases that may be relevant to their work. The Director of the Internal Revenue is to publish and have for sale to the public rules and data that he deems to be necessary to introduce to the public.

☐The Director of the Internal Revenue can of his own accord check the tax returns of entities and any subjects that touch upon the execution of this Act and other Acts on taxes and dues levied by Local Tax Commissioners. For those ends he can demand any information and documents he deems necessary from Local Tax Commissioners, their agents and parties mentioned in Article 94.

☐If the Director of the Internal Revenue sees fit to change a decision a Local Tax Commissioner has made concerning tax base or taxation according to this Act and other Acts on taxes and dues, that Local Tax Commissioners levy, he can re-asses a taxable entity's tax base and taxation or assign it to a Local Tax Commissioner, provided that the conditions of Articles 96 and 97 are met, in cases of an increase. Taxable entities can then appeal to the State Internal Revenue Board, as noted in Act no. 30/1992.

☐The Director of the Internal Revenue can of his own accord or on demand correct the levying of taxes on a taxable entity or assign it to a Local Tax Commissioner if the State Internal Revenue Board or a court of law has in similar cases turned a taxation execution, that taxation or a ruling of a Local Tax Commissioner was based on. Changes thus motivated can apply to tax bases or taxation from and with the income year that was the subject in the relevant case, though not more than six years back in time, counting from the year of a ruling or a verdict. Request for a reopening of a matter are to be submitted within one year from the time when a taxable entity was or should have been aware of the motive for reopening. A taxable entity is permitted appeal changes to the State Internal Revenue Board, as noted in Act no. 30/1992. A denial to change a tax assessment according to this paragraph can also be appealed to the State Internal Revenue Board.

☐If the Director of the Internal Revenue suspects tax fraud or a punishable offence against the Act on Accounting and Annual Accounts he is to notify the Directorate of Tax Investigations in Iceland, who decides further steps of the matter.

[1)] *Advertisement 457/1999.*

Tax inspection.

■**Article 102** Local Tax Commissioners conduct tax inspection, each in his own district. And the Director of the Internal Revenue administrates tax investigations and tax inspections in the whole country. The tax inspection covers inspection according to this Act and Acts on other taxes and dues levied by the Local Tax Commissioners or whose execution they carry out. The Minister of Finance can decide that the Local Tax Commissioner carries out tax inspection in more than one tax collection district. A Local Tax Commissioner who manages tax inspection in a different tax collection district than his own, is to manage changes in taxation that may result from his inspection work entrusted by the respective Local Tax Commissioner.

☐The Director of the Internal Revenue is to monitor the inspection work of Local Tax Commissioners and gather information regarding it, guide the Local Tax Commissioners on surveillance operations and supply them with information about industries, professions or other things relevant to the tax inspection. He can also assign a Local Tax Commissioners to investigate any items not included in this Article.

☐When action taken by the Director of the Internal Revenue in accordance with this Article raises the occasion for re-assessment of taxes the Commissioner is to handle the re-assessment, as noted in par. 3 of Article 101, unless he assigns it to except a Local Tax Commissioner.

The Directorate of Tax Investigations in Iceland, tax investigations.

■**Article 103** The Directorate of Tax Investigations in Iceland is to carry out investigations according to this Act and Acts on other taxes and dues levied by Local Tax Commissioners or whose execution they carry out.

☐The Directorate of Tax Investigations can of its own accord or after an appeal instigate an investigation on any point relevant to levied taxes according to this Act or other taxes and dues, as noted in par. 1 of this Article. It is to carry out investigations in cases assigned to the office, as noted in par. 6 of Article 96 and par. 5 of Article 101.

☐The Directorate of Tax Investigations is, when conducting investigations in accordance with this Article, have access to all tax returns and reports held by Local Tax Commissioners and it can demand any information and documents deemed necessary from Local Tax Commissioners and the Director of the Internal Revenue and parties mentioned in Article 94.

☐The Directorate of Tax Investigations is permitted to assign specific investigation tasks to a statutory auditor.

☐The police is obliged to give the Directorate of Tax Investigations necessary aid in investigations, if a taxable entity avoids delivering data from his books or when there is danger of a damage to a case because of the suspected evasion of documents. [The police is also obliged to escort a person to the Directorate of Tax Investigations for reporting, if it has without due cause disregarded petitions attend.][1)]

☐When the actions of Directorate of Tax Investigations give cause for the re-assessment of taxes the Director of the Internal Revenue is to carry out the re-assessment, as noted in par. 3 of Article 101, unless he assigns it to a Local Tax Commissioner.

☐In the carrying out of investigations by the Directorate of Tax Investigation notice is to be taken of the provisions of the Act on [Criminal][2)] Procedure, as applicable, especially concerning the rights of suspects during investigations.

[1)] *Act 77/2004, Article 2.* [2)] *ACT 88/2008, Article 234.*

Disqualification of tax authorities.

■**Article 104** A person must not take part in an investigation or other handling of a case, neither tax assessment nor appeals, if it has had to step aside as district court judge on the case.

Journals.

■**Article 105** Local Tax Commissioners, the Directorate of Tax Investigations, the Director of the Internal Revenue and the State Internal Revenue Board are to keep journals on items and in a form instructed by the Minister of Finance.

The monitoring of the Minister of Finance.

■**Article 106** The Minister of Finance monitors that Local Tax Commissioners, the Directorate of Tax Investigations and the Director of the Internal Revenue fulfil their duties. The Minister is entitled to inspect tax returns and documents related to them and demand explanations from the aforementioned offices for anything relating to the execution of this Act.

☐The Minister is also to monitor that the State Internal Revenue Board fulfils its duties and the board is to send the Minister annual reports of its operations.

Planning and econometrics.

■**Article 107** The Minister of Finance can call for reports from the Local Tax Commissioners, the Director of the Internal Revenue and from the Directorate of Tax Investigations, on a form decided by the Minister, on declared income and assets, levied taxes and other points relevant to the planning and econometric work of the Ministry of Finance.

Chapter XII. Penalties and procedure.

Added charge.

■**Article 108** If an entity that is obliged to submit a tax return does not do so within the given time limit a Local Tax Commissioner is permitted to add up to a 15% charge to his tax base estimate. The Local Tax Commissioner is nonetheless to take notice of to what extent taxation has taken place through withheld pay-as-you-earn taxes. The Director of the Internal Revenue sets further rules on that point. If a tax return, that the levying of taxes will be based on, is submitted after the time limit to do so, but before a Local Tax Commissioner finishes assessing taxes, there can only be added a 0,5% charge to the tax base for every day that the submission

of a tax return has been delayed after the given deadline, though never more than a 10% charge.
☐If a tax return is faulty, as noted in Article 96, or specific items declared wrong a Local Tax Commissioner can add a 25% charge to estimated or wrongly declared tax bases. If a tax entity corrects the errors or adjusts specific items in the tax return before taxes are assessed, then the charge of the Local Tax Commissioner must not be higher than 15%.
☐Additional charges, in accordance with this Article, are to be cancelled if a tax entity can show with argument that it is not to blame for limitations in the tax return, the lack of submission, that a force majeure made it impossible to hand in the tax return in the given time, it rectifies faults in the tax return or puts right specific items in the tax return.
☐ The provisions of Article 99 of this Act and of Act no. 30/1992, on the State Internal Revenue Board, apply for appeals to a Local Tax Commissioner and the State Internal Revenue Board.
Penalties.
■**Article 109** If a person, that is obliged to submit a tax return, on purpose, or out of gross negligence, makes false or misleading statements about something that matters in relation to its income tax …[1)] it is to pay monetary damage up to tenfold the tax amount from the tax base that was evaded and never lower monetary damage than double the tax amount. Tax from a charge in acc. with Article 108 is deducted from the monetary damage. Par. 1 of Article 262 of the Penal Code applies to major offences against this provision.
☐If a taxable person, on purpose or out of gross negligence, neglects to declare taxes then the violation calls for monetary damages that are never to be lower than double the tax amount from the tax base that was lacking if the tax evaluation did prove to be too low when taxes were re-assessed in acc. with par. 2 of Article 96 of this Act and then the tax from the added charge is to be deducted from the amount of the monetary damages in acc. with Article 108. Par. 1 of Article 262 of the Penal Code applies to major offences against this provision.
☐If a taxable person gives wrong or misleading information on any aspects regarding its tax return, then that person can be made to pay a monetary damage, even if the information can not affect his liability to pay taxes or tax payments.
☐If offences against par. 1 or par. 2 of the provision are discovered when an estate of a deceased person is wound up, then the estate is to pay monetary damage up to quadruple the tax amount from the tax base that was evaded and never lower monetary damage than half of the tax amount added to the tax amount. Tax from an additional charge in acc. with Article 108 is deducted from the monetary damage. If the situation is as described in par. 3 then the estate can be made to pay a monetary damage.
☐Whoever that on purpose or out of gross negligence gives the tax authorities wrong or misleading information or documents pertaining the tax returns of other persons/entities or assist in wrong or misleading reporting to the tax authorities is subject to penalties as described in par. 1 of this article.
☐If a person, on purpose or out of gross negligence, has neglected his duties according to the

provisions of Articles 90, 92 or 94 he is to pay monetary damages or be sentenced to jail for up to 2 years.
☐Attempts to offend, and relative share in offending against this Act, is punishable in the manner dictated in Chapter III of the Penal Code and is subject to monetary damages up to the maximum that is decided in other provisions of this Article.
☐A legal entity can be made to pay monetary damages for offences against this Act, irrespective of whether the offence can be related to a punishable deed of a representative or an employee of the legal entity. If its representative or employee has offended against this Act, then, in addition to the penalties that person receives, the legal entity can be made to pay monetary damages and the revoking of qualifications, provided that the offence has been done for the advantage of the legal entity and it has enjoyed the gains from the offence.

1) *Act 129/2004, Article 27.*

Procedure and …1) investigation. Rules of depreciation.

1) *Act 88/2008, Article 234.*

■**Article 110** The State Internal Revenue Board issues monetary penalties in acc. with Article 109 unless a case is referred to …1) investigation and judicial treatment in acc. with [par. 4.]2) Act no. 30/1992 on the State Internal Revenue Board, applies to the Board's handling of cases. The Directorate of Tax Investigations in Iceland appears before the Board on behalf of the state when it decides monetary penalties. The Rulings of the Board are final.
☐[Despite the provision of par. 1 the Directorate of Tax Investigations or its representative learned in law is permitted to offer a party the option to end the penal proceedings of a case by paying monetary damages to the Treasury, provided that an offence is considered proven beyond doubt, and then the case is neither to be sent to be [investigated by the police]1) nor to penal proceedings with the State Internal Revenue Board. When deciding the amount of monetary damages notice is to be taken of the nature and scale of the offence. Monetary damages can amount from 100 thousand ISK to 6 million ISK. The party to the case is to be given information about the proposed amount of monetary damages be for it agrees to end a case in such a manner. A decision on the amount of monetary damages according to this provision is to have been made within six months form the end of the Directorate of Tax Investigations' investigation.
☐A secondary penalty is not included in the decision of the Directorate of Tax Investigations. On the collection of monetary damages issued by the Directorate of Tax Investigations the same rules apply as do about taxes according to this Act, the right to carry out distraint included. The Director of the Internal Revenue is to be sent a record over all cases that have been closed, according to this provision. If it is the Director of the Internal Revenue's opinion that an innocent person has been made to suffer monetary damages in acc. with par. 2 or that the closure of the case has been improbable in other ways he can refer the case to a judge in order to overthrow the decision of the Directorate of Tax Investigations.]2)
☐The Directorate of Tax Investigations can of its own accord refer a case to be [investigated by the police]1) as well as on the request of the accused, if he opposes to the matter being closed by

the State Internal Revenue Board in acc. with par. 1.
☐[Tax claims can be upheld and judged in criminal proceedings because of offences against the Act.][1)]
☐Monetary damages for offences against this Act go to the Treasury.
☐Secondary penalty does not accompany the State Internal Revenue Board's rulings of monetary damages. On the collection of monetary damages issued by the State Internal Revenue Board the same rules apply as do about taxes according to this Act, the right to carry out distraint included.
☐Charges in acc. with Article 109 have a six year limitation period, the start of which is be in relation to the commencement of an investigation by the Directorate of Tax Investigations, given that there are no unnecessary delays on the investigation of a case or on the issue of punishment.

[1)]*Act 88/2008, Article 234.* [2)]*Act 134/2005, Article 5.*

Chapter XIII. Tax collection and responsibility.

Tax collectors.

■**Article 111** [Taxes levied according to this Act go to the Treasury and the Directorate of Customs in Reykjavík is responsible for collecting the taxes in the tax collection district of Reykjavík, and district commissioners in other municipal districts, though with consideration of par. 2–4 of this article and the provisions of the Act on Public Dues Withheld at Source.][1)]
☐[The Minister of Finance can in a regulation assign the collection of taxes in accordance with this act to others than are mentioned in par. 1 in specific districts or municipalities. The Minister can in the same way decide that the same tax collector collects taxes in more than one tax collection district.][1)]
☐The Minister of Finance, local governments and heads of other public institutions are permitted to negotiate matters in such a way that all tax payments due to them are collected at once. The collection can be assigned to the debt collector of the Treasury, to a municipality or special debt-collecting institute. All powers and obligations of the debt collectors of the Treasury, municipalities and institutions because of tax collection, are then to be assigned to the party does the collecting.
☐The Minister of Finance is to set further provisions with a regulation about the execution of such common collection of dues and taxed, among other things, on the harmonization of the due dates of specific public dues that are to be collected in that way, on the coordination of rules concerning late-payment interest and on the duties of employers.
☐Collectors of taxes and public dues, according to this Article, are to be granted access to registers of immovable property, ships, and motor vehicles for the purpose of affirming the asset position of specific taxpayers.

[1)]*Act 80/2006, Article 13.*

Due dates.

■**Article 112** [Income tax from other income than wages of each taxpayer, though with consideration of par. 4],[1] is to be paid on ten due dates each year. The due dates are the first day of every month, except January and the month when tax assessment ends in accordance with the decision of the Minister of Finance, as noted in par. 1 of Article 93. When dividing the payments in advance and the remnants of the tax assessment between the due dates in acc. with par. 2 and par. 4, care is to be taken that the amount to be collected on each due date is not lower than 2.000 ISK.

☐Until the assessment of taxes for each taxpayer, mentioned in par. 1, is ready he is to pay on each due date a certain percentage of the taxes levied on him the year before. This percentage is to be set in a regulation for each year and on deciding it, notice is to be taken of income changes, as well as the economic situation in general. For those that are paying pay-as-you-earn taxes, the percentage is to be calculated from the difference between levied official dues and withheld taxes, as noted in Article 35 of the Act on Public Dues Withheld at Source.

☐If a taxpayer’s income, other than wages, in the past year have been much lower than the year before or his situation in other ways significantly changed, then the monthly advance payment can be lowered according to the further provisions of a regulation. It can be decided in the same manner that an advance payment that is below a certain minimum amount is not to be collected. It is also permissible to limit the obligation to pay dues in advance with to those who do not have pay-as-you-earn taxes deducted from their wages, in accordance with the Act on Public Dues Withheld at Source.

☐Levied taxes, minus what is to be paid for assessment in acc. with par. 2 of this Article, plus the difference between assessed income tax and employees tax paid-as-earned, as noted in Article 35 of the Act on Public Dues Withheld at Source, minus cash payments in accordance with the Act on Withheld Taxation of Capital Income, are to be pain in closest to equal payments on the due dates that are left in the year when tax assessment takes place.

☐Partial failure to pay results in the the taxes of the taxpayer falling into maturity 15 days after payment was due, though not sooner than the 15th of next month after the assessment of taxes is finished.

☐If a taxpayers taxers are raised after tax assessment, the additional amount falls due 10 days after the taxpayer was informed of the raised taxes.

☐Foreign citizens or persons without citizenship, that have been granted a residence permit or –visa in Iceland for a specific time, must pay their [income tax][1] in full before leaving the country.

☐The Minister is allowed do decide with a regulation a method identical to the one here described to for the advance payment of other national taxes.

☐Income tax, added to the estimated remuneration of persons running their own independent business, is though to be fallen due 1 August if the tax entity has not paid the estimated pay-as-you-earn tax amount in the respective income year, in accordance with Articles 6 and 20 of the Act on Public Dues Withheld at Source.

☐If a collector of public dues has begun proceedings to obtain payment from a taxable entity because of debt that has formed because of taxation at the source from estimated remuneration, the measures that the collector has taken are to keep their legal value, for that part of the claim that is due to unpaid taxes from the estimated remuneration.

[1)] *Act 129/2004, Article 28.*

■**Article 113** Appeals because of assessed taxes or disputes over taxation do not defer the deadline payment date of [income tax][1)] nor bring about absolution of any penalties that have been charged because of the lack of tax payment. In special circumstances this position can be deviated from, as per the decision of the Minister of Finance. If taxation is lowered after a ruling or judgement or is void then reimbursement is to take place.

☐It is to be a matter of policy, that when collecting income tax …[1)] according to this Act, that all taxpayers, who are in the same position with regard to tax collection, due payments, and distress procedure, are to be treated equally.

☐If a collector believes it to be possible, with a payment agreement, to ensure payment of a claim that else would be lost, he is to report the circumstances to the Minister of Finance. The Minister of Finance is allowed to authorize such an agreement, after having received a statement on the matter from the Icelandic National Audit Office.

☐If a collector believes that the interest of the Treasury are best served with a composition between the taxpayer and collector, he is to report the circumstances to the Minister of Finance. The Minister of Finance is allowed to authorize the composition, after having received a statement on the matter from the Icelandic National Audit Office, provided that the following conditions are met:

1. The taxpayer must be free of debt because of value added tax, cash payments of public dues, social security tax and excise duty.
2. That the tax claims are not brought about because of tax authorities' re-assessment of dues because of tax fraud.
3. That it be clear that the interests of the Treasury are best served with the composition.

☐At the end of every tax collection year the Icelandic National Audit Office is to report to Althing (the Icelandic legislative assembly) about all agreements in acc. with par. 3 of and compositions in acc. with par. 4.

[1)] *Act 129/2004, Article 29.*

Interest payments.

■**Article 114** If tax is not paid within one month from due date, then late payment penalty of the due amount are to be paid to the Treasury. Due date in this context refers to regular due dates in acc. with par. 1–4 and 6–8 of Article 112. The maturing of debt because of partial failure to pay in acc. with par. 5 of Article 112, does not affect the calculation of late payment penalties. Late payment penalties are to be of the same rate that the Central Bank of Iceland decides in acc. with Article 6 of Act no. 38/2001, on Interest and Indexation.

☐If it becomes apparent after the levying of taxes, other than persons' income taxes, or when re-assessing those same taxes, that the taxpayer has paid a higher amount than the final tax assessment amounts to and in that case he is to be reimbursed the surplus amount, with interest, for the period that the money was in the Treasury's possession. The interest rate is to be equal

to the interest rate that the Central Bank of Iceland decides and publishes on any given time in acc. with par. 1 of Article 8 of Act no. 38/2001, on Interest and Indexation. The same applies when it becomes apparent on the re-assessing of a person's income tax that there have been made surplus payments, except that interest payments are not to be calculated until from 1 July in the year of assessment.
☐If an appeal is being processed by the State Internal Revenue Board and the Board does not rule on the appeal within the legally specified time in acc. with par. 1 and par. 2 of Article 8 of Act no. 30/1992, then the taxable entity is to be paid late payment penalty from the amount that the State Internal Revenue Board rules that is to be reimbursed, or later judged to be reimbursed, from the time that the Board's deadline to rule on the matter past.
☐Late payment penalties can in all instances be claimed from the time that a case is referred to a court of law until taxes are reimbursed in accordance with this Act.
Employers' obligations.
■**Article 115** All those that employ persons in their services and pay wages for work, , as noted in par. 1 of Article 92, are obliged, at a tax collector's demand, to withhold from the wages of employees, in order to pay dues to entities for which the employees are in self-debt guarantee (surety) and are to be collected in accordance with the provisions of Article 112. Still, employers are never to withhold more than amounts to 75% of each total wage payment to pay dues according to this Act and dues in acc. with Chapter IV of the Act on the Income Base of Municipalities. Further provisions about the execution this article are to be set in a regulation[1)].
☐If an employer has neglected to withhold dues from wages, the employer is in self-debt guaranty (surety) for the payment of that money.
☐Claims because of money, that an employer has withheld or was supposed to withhold in accordance with this article, carry the right to levy distraint upon the employer.
☐An employer who has not on the right day retuned money he has withheld or was supposed to withhold, is to pay late payment penalty in acc. with par. 1 of Article 114 from the date when he was supposed to hand over the money to a tax collector.
[1)]*Rg. 124/2001, as noted in 48/2008.*
Responsibility for tax payments.
■**Article 116** Married couples, as noted in Articles 62 and 80, carry unlimited responsibility for the payment of taxes levied upon them and the collector of the Treasury can demand payment of both of their taxes from either of the married partner. A married partner carrying out tax payments is right to demand reimbursement from the other partner of the marriage for that part of the taxes paid above the proportional share with regard to income and assets of each partner. The rules of this paragraph on the responsibility of married couples apply in the same way for jointly taxed persons in cohabitation, and individuals in registered partnership.
☐Those who have guardianship for financially incapacitated persons are responsible for their tax payments. The owners of a general partnership company, that is an independent tax entity, assume joint responsibility for its tax payments. The heirs of an estate of a deceased person,

that is privately wound up, assume joint responsibility for the tax payments of the deceased and of the estate. Board members of companies, funds and institutions, as noted in point 5 in par. 1 of Article 2 and point 4 of Article 3, assume joint responsibility for the tax payments of those legal entities.

☐Those that employ foreign citizens or persons without citizenship, that have been granted a residence permit or –visa in Iceland for a specific time, are responsible for their tax payments. Those that make payments to entities, that are not domiciled in Iceland, for the lease or right of use of movable property, patents, manufacturing rights, publishing rights or special knowledge, dividend from shares or remuneration for operations or services or other payments, included in Article 3, are responsible for the taxes of the receivers that are because of those payments.

☐It is not permitted to liquidate a company until all its taxes have been paid in full. If a company has been liquidated without its taxes having been paid the resolution committee members are responsible for the tax payments. If a company has been split up in acc. with Article 52 without its taxes having been paid, then the companies taking over assume responsibility for its tax payments.

☐Distraint can be levied upon those responsible for paying taxes, in order to insure payments of the taxes they are responsible for according to the provisions of this Article.

☐Responsibility in accordance with this Article refers to a self-debt guarantee (surety).

☐The Minister of Finance can demand that the entities mentioned in Article 3, supply insurance for the payment of their anticipated taxes and dues, as well as for the tax payments of other entities they may be responsible for.

Chapter XIV. Various provisions.

■**Article 117** Local Tax Commissioners, agents of Local Tax Commissioners, the Director of the Internal Revenue, the Directorate of Tax Investigations in Iceland and the State Internal Revenue Board, are forbidden, subject to accountability as per the provisions of the Penal Code on offences in public office, to divulge to unauthorized persons information which they have acquired in performing their duties about the income and financials of a taxable entity. The same applies for those that assist these offices in their work or in other ways deal with tax returns. The professional secrecy obligation remains after these individuals retire from their office.

☐Despite the provisions of par. 1 the tax authorities are to report to Statistics Iceland, in a form decided by Statistics Iceland, information concerning declared income and assets, levied taxes and other information pertaining to the reporting of Statistics Iceland. The tax authorities are furthermore permitted to grant the currency supervision of the Central Bank of Iceland information that are necessary to carry out supervision in currency matters, provided that the provisions of international agreement do not prohibit it.

■**Article 118** At the beginning of each year the Minister of Finance, after receiving the recommendations of the Director of the Internal Revenue, is to publish rules of how to evaluate benefits, as noted in Article 7, and other income and deductions that have to be given a monetary value according to this Act.

■**Article 119** [The Icelandic government is permitted to enter into agreements with the governments of other countries on mutual tax concessions of foreign and Icelandic taxable entities that according to the current tax legislation of the countries are supposed to pay tax from the same tax base in both Iceland and abroad.][1)2)]

☐The government is furthermore allowed to negotiate with other counties on the mutual exchange of information concerning the collection of public dues.[3)]

☐The Minister of Finance interprets agreements that are made on the basis of this article. He can set procedural rules on their interpretation and execution that other tax authorities are bound to follow.

☐Despite the provisions of Article 1 of the Act on Binding Opinions in Tax Matters, the Minister of Finance is, in stead of the Director of the Internal Revenue, required to give his opinion on the interpretation and execution of agreements made on the basis of this Article. The opinion of the Minister of Finance can not be appealed to the State Internal Revenue Board. To meet with costs incurred by the Minister of Finance's giving binding opinions, a fee, based on the work that has been carried out in each instance, is to be collected. When an opinion is asked for, then a basic amount of 50.000 ISK is to be paid. An additional fee, based on the scale of the case, is to be paid before the Minister of Finance gives his opinion. The fee amount is dictated in a tariff placed by the Minister of Finance. The Minister can decide, in instances where a case has been dismissed or a petition for an opinion has been withdrawn, to reimburse the fee, according to this paragraph. A decision concerning the fee amount according to this paragraph can neither be appealed to the State Internal Revenue Board nor a court of law.

☐When an agreement with another country to avoid the double taxation of income does not exist …[1)] in acc. with par. 1 and a tax entity, that is taxable in Iceland in acc. with Articles 1 and 2, pays public taxes in another country from its income …[1)] that is taxable in Iceland, then a Local Tax Commissioner is permitted, on the basis of a taxable entity's petition, to lower the income tax …[1)] of the entity in Iceland, with regard of these tax payments.[2)]

[1)]Act 129/2004, Article 30. [2)]Double taxation agreements: Advertisement C 8/2008 (USA); 1/2003 (Belgium); 32/1991 (UK); 4/1995 (Estonia); 8/1992 (France); 1/2008 (Greece); 4/2002 (Greenland); 32/1998 (Holland); 1/2007 (India); 70/2004 (Ireland); 4/2008 (Italy); 24/1997 (Canada); 6/1997 (China); 5/2008 (the Republic of Korea); 5/1995 (Latvia); 12/1999 (Lithuania); 19/2001 (Luxembourg); 7/2008 (Mexico); 3/2006 (Malta); 6/2008 (Isle of Man); 11/1997, as noted in 36/1997 and 9/2008 (agreement with the Nordic countries); 2/2002 (Portugal); 13/1999 (Poland); 2/2008 (Romania); 3/2003 (Russia); 2/2003 (Slovakia); 3/2002 (Spain); 3/1989 (Swiss); 34/2000 (Czech Republic); 2/2006 (Hungary); 3/2008 (Ukraine); 5/2002 (Vietnam); 13/1971, as noted in 21/1973 (Germany). [3)]See Act 46/1990 (Nordic agreement on aid in tax matters).

■**Article 120** The Director of the Internal Revenue is permitted to make changes to time limits and continuances in acc. with Article 99 if necessary.

■**Article 121** The Minister of Finance sets in a regulation[1)] further provisions about the execution of this Act, such as on more specific assessment of income and assets, the operations of Local Tax Commissioners, the Directorate of Tax Investigations in Iceland, the Director of the Internal Revenue and the State Internal Revenue Board and about the execution of tax

investigations and tax inspections.
☐The Minister can in a regulation require a special book keeping of entities obliged to return taxes, including on inventories. The Minister can also stipulate the form of financial statements, and the preserving of books and other documents relating to tax returns.

[1)] *Rg. 245/1963, as noted in 79/1966, 307/1968, 74/1969, 167/1970, 383/1974, 9/1976, 434/1978 and 213/2001 (on Income Tax and Property Tax). Rg. 37/1989, as noted in 37/1993, 109/1996, 757/1997 and 588/2008; rg. 483/1994, as noted in 498/2001 and 439/2003; rg. 589/2000, rg. 590/2000, rg. 830/2000, rg. 213/2001, as noted in 49/2008; rg. 373/2001, as noted in 334/2006; rg. 223/2003, rg. 555/2004, as noted in 7/2005, 346/2006, 249/2008 and 1152/2008.*

■**Article 122** When a difference occurs between the assessed income tax of persons and their withheld taxes, in accordance with the Act on Public Dues Withheld at Source, as noted in Article 34 of that Act, or the Act on Withheld Taxation of Capital Income, and when a difference becomes apparent when assessing taxes on the capital income tax of legal entities, as noted in par. 4 of Article 71, because withheld amounts have been too low, a 2,5% charge is to be added. When a difference, originating in withheld payments being too high, a 2,5% charge is in the same way to be added.
☐ The provisions of Chapter XIII of this Act apply for collection, late payment penalties, collection measures and regulated charges, that are to be paid in acc. with par. 1, just as they do for income tax collection.
■**Article 123** If sub tax committees or the State Internal Revenue Boards have been given special assignments according to other legislation or regulations, then the Local Tax Commissioners are to take them upon themselves for resolution, until further notice.
■**Article 124** The provisions of this Act concerning shares and scrip issue of new shares, apply in the same way to shares in cooperatives, as noted in the Act on Cooperative Enterprises, and to initial capital shares of savings banks, as noted in the Act on Financial Entities, as applicable.

Temporary provisions.

■**I.** Despite the provisions of sentence 2 in par. 2 of Section A in Article 67 of the Act unused personal allowance of one married partner, taxed according to the provisions of Article 62, is to be added to the personal allowance of the other in the following way:

1. When assessing income tax for the year 2001 because of income in the year 2000 85% of the unused portion of the personal allowance of one married partner is to be added to the personal allowance of the other.
2. When assessing income tax for the year 2002 because of income in the year 2001 90% of the unused portion of the personal allowance of one married partner is to be added to the personal allowance of the other.
3. When assessing income tax for the year 2003 because of income in the year 2002 95% of the unused portion of the personal allowance of one married partner is to be added to the personal allowance of the other.

■**II.** Despite the provisions of par. 1 of section A in Article 67 of the Act the:

1. Personal tax credit in taxation at the source of income in the wage period from and until 1 April to 31 December in the year 2000 is to be $^{9}/_{12}$ parts out of 294.120 ISK; when assessing income tax and property tax for the year 2001 because of income and assets for the year 2000 the Personal tax credit is to be 292.326 ISK;

2. Personal tax credit in taxation at the source of income for the year 2001 and when assessing income tax and property tax for the year 2002 because of income and assets for the year 2001 is to be 302.940 ISK;

3. Personal tax credit in taxation at the source of income for the year 2002 and when assessing income tax and property tax for the year 2003 because of income and assets in the year 2002 is to be 312.024 ISK

■**III.** In order for a special re-evaluation of the initial capital of an A-division in a cooperative enterprise, according to transitional provisions in the Act on Cooperative Enterprises, to enjoy tax benefits in acc. with sentence 2 in par. 1 of Article 11, sentence 4 in par. 2 of Article 18 and par. 3 of Article 51 of the Act, the re-evaluation is to be submitted to a Local Tax Commissioner for ratification, along with information concerning the split ratio between members before the end of the year 2004.

■**IV.** On the income tax base of persons because of income in the year 2002, there shall be levied in the year 2003 a special income tax as further stipulated in this provision.

□On the income tax base of individuals above 3.980.000 ISK or the income tax base of married couples above 7.960.000 ISK a special 7% income tax is to be levied.

□If married couples both have an income tax base above 3.980.000 ISK then both are levied a share in the special income tax. If the income tax base of one married partner is lower than 3.980.000 ISK the other partner is levied all of the special income tax.

□Special income tax according to this provision is not collected with taxation at the source of income.

□Payment in advance of the expected levying of a special income tax for the year 2003 is to take place with five equal monthly payments in the months of August 2002 until December 2002. The payment in advance is to amount to 7% of the income tax base according to the tax return for the year 2002 because of income in the year 2001 above 3.980.000 ISK for individuals and above 7.960.000 ISK for married couples.

□The payment due dates for the payments in advance in acc. with par. 5 are to be the first days of the months August 2002 to and including December 2002. The Minister is permitted to set in a regulation further provisions concerning the execution the payments in advance.

□A taxpayer can apply for the lowering of the amount he has been made to pay in advance in acc. with par. 5. Such applications are to be sent to a Local Tax Commissioner who rules on the lowering of obligatory payments. The decision of a Local Tax Commissioner can be appealed to the Director of the Internal Revenue within 30 days from the date of the Local Tax Commissioner’s ruling. The Director of the Internal Revenue is to rule on the matter within 15 days from having received the appeal and his ruling is to be the final administrative resolution of the matter.

☐A Local Tax Commissioner shall as a general rule not treat a taxpayer application favourably unless the taxpayer can show that his income has decreased significantly between years. The Director of the Internal Revenue is permitted to set further rules on this matter.
☐Should it become apparent when assessing the special income tax that a payment in advance according to this provision has been too high and then a 2,5% charge is to be added to the difference.
☐The provisions of Chapters VIII–XIII of the Act are to apply, as applicable, to the special income tax, according to this transitory measure.
■**V.** When returning taxes in the year 2003 re-evaluations accounts, formed in acc. with Article 37 of Act no. 75/1981 before a change with Act no. 133/2001, are do be dissolved and declared with other equity.
■**VI.** On the income tax base of persons because of income in the year 2003 there shall in the year 2004 be levied a special income tax as further stipulated in this provision.
☐On the income tax base of individuals above 4.089.450 ISK or income tax base of married couples above 8.178.900 ISK a special 5% income tax is to be levied.
☐If married couples each have an income tax base above 4.089.450 ISK they are each to pay the special income tax. If the income tax base of one married partner is lower than 4.089.450 ISK then the other is to pay the whole special income tax.
☐The special income tax according to this provision is not to be collected with taxation at the source of income.
☐Payment in advance of the expected levying of a special income tax for the year 2004 is to take place with five equal monthly payments in the months August until December 2003. The payment in advance is to amount to 5% of the income tax base according to the tax return for the year 2003 because of income in the year 2002 above 4.089.450 ISK for individuals and above 8.178.900 ISK for married couples.
☐The payment due dates for the payments in advance in acc. with par. 5 are to be the first days of the months August to and including December 2003. The Minister is permitted to set in a regulation further provisions concerning the execution the payments in advance.
☐ A taxpayer can apply for the lowering of the amount he has been made to pay in advance in acc. with par. 5. Such applications are to be sent to a Local Tax Commissioner who rules on the lowering of obligatory payments. The decision of a Local Tax Commissioner can be appealed to the Director of the Internal Revenue within 30 days from the date of the Local Tax Commissioner's ruling. The Director of the Internal Revenue is to rule on the matter within 15 days from having received the appeal and his ruling is to be the final administrative resolution of the matter.
☐ A Local Tax Commissioner shall as a general rule not treat a taxpayer application favourably unless the taxpayer can show that his income has decreased significantly between years. The Director of the Internal Revenue is permitted to set further rules on this matter.
☐ Should it become apparent when assessing the special income tax that a payment in advance according to this provision has been too high and then a 2,5% charge is to be added to the

difference.
☐ The provisions of Chapters VIII–XIII of the Act are to apply, as applicable, to the special income tax, according to this transitory measure.
■**VII.** Despite the provisions of point 8 of Article 31 of the Act it is only permissible to deduct the remnants of operating losses that formed in the year 1994 and later, and are legally transferable, from the taxable income when assessing the income tax base for the business year 2003.
■**VIII.** This provision applies to persons that own shares in a public limited company formed around a common investment that meets the conditions of par. 5 of point 1 in section B of par. 1 in Article 30 of the Act, and have on the liquidation of the company in the years 2003–2007 been, in stead of shares in a public limited company, given mutual-funds certificates in a securities fund or an investment fund, that has been formed in accordance with the Act on Securities Funds and Investment Funds, and assumes the companies ownership of securities, as per further stipulations of this provision.
☐On liquidation in acc. with par. 1 the surrender of the mutual-funds certificates is not regarded as taxable dividend in acc. with par. 4 of Article 9 of the Act. The cost value of a mutual-funds certificate surrendered in acc. with par. 1 is to be equal to the original purchase price of the securities, with regard to par. 4 of Article 17 of the Act, though with consideration of par. 3 of this provision.
☐Income from the sale or redemption of a mutual-funds certificate surrendered in acc. with par. 1 to replace a share that was bought in the years 1990–1996 is not to be taxed except to the point that it amounts to a higher figure than mentioned in par. 6 of Article 17 of the Act, provided that the mutual-funds certificates because of these shares have been specially identified. The conditions of par. to apply to further calculation of cost values.
☐The surrender of shares in acc. with par. 1 is not considered to constitute a change in ownership, as noted in par. 4 of point 1 in section B of par. 1 in Article 30 of the Act. Should a mutual-funds certificate be sold or redeemed before the end of its time frame of ownership or that of the shares it replaced , then the provisions concerning the purchase of new shares apply or where applicable about the registration of used deductions as income, as noted in sentences 3–5 in par. 4 of point 1 in section B of par. l in Article 30 of the Act.
■**[IX.** On the income tax base of persons because of income in the years 2004 and 2005 shall in the years 2005 and 2006 be levied a special income tax as further stipulated in this provision.
☐ On the income tax base of individuals above 4.191.686 ISK or the income tax base of married couples above 8.383.372 ISK a special income tax is to be levied. The special income tax levied on income in the year 2004 is to be 4% and on income in the year 2005 a special 2% income tax is to be levied.
☐ If married couples each have an income tax base above 4.191.686 ISK they are each to pay the special income tax. If the income tax base of one married partner is lower than 4.191.686 ISK then the other is to pay the whole special income tax
☐Special income tax according to this provision is not to be collected with taxation at the

source of income.
☐ Payment in advance of the expected levying of a special income tax for the years 2005 and 2006 is to take place with five equal monthly payments in the months August until December in the years 2004 and 2005. The payment in advance in the year 2004 is to amount to 4% of the income tax base according to the tax return for the year 2004 because of income in the year 2003 above 4.191.686 ISK for individuals and above 8.383.372 ISK for married couples. Payment in advance in the year 2005 is to amount to 2% of the income tax base according to the tax return for the year 2005 because of income in the year 2004 above 4.191.686 ISK for individuals and above 8.383.372 ISK for married couples.
☐ The payment due dates for the payments in advance in acc. with par. 5 are to be the first days of the months August to and including December each year. The Minister is permitted to set in a regulation further provisions concerning the execution the payments in advance.
☐ A taxpayer can apply for the lowering of tha amount he has been made to pay in advance in acc. with par. 5. Such applications are to be sent to a Local Tax Commissioner who rules on the lowering of obligatory payments. The decision of a Local Tax Commissioner can be appealed to the Director of the Internal Revenue within 30 days from the date of the Local Tax Commissioner's ruling. The Director of the Internal Revenue is to rule on the matter within 15 days from having received the appeal and his ruling is to be the final administrative resolution of the matter.
☐ A Local Tax Commissioner shall as a general rule not treat a taxpayer application favourably unless the taxpayer can show that his income has decreased significantly between years. The Director of the Internal Revenue is permitted to set further rules on this matter.
☐ Should it become apparent when assessing the special income tax that a payment in advance according to this provision has been too high and then a 2,5% charge is to be added to the difference.
☐ The provisions of Chapters VIII–XIII of the Act are to apply, as applicable, to the special income tax, according to this transitory measure][1)]

[1)] *Act 143/2003, Article 12.*

■[**X.** Interest tax rebates because of interest costs in the year 2003 amount to 90% of interest tax rebates calculated in acc. with section B of Article 68 of the Act.][1)]

[1)] *Act 143/2003, Article 12.*

■[**XI.** Amounts in the provisions of sections A and B of Article 68, Article 77, Article 82 and Article 83 of the Act, that was changed with Act no. 143/2003, on the change of Act no. 90/2003, on Income Tax and Property Tax, will be put into effect when assessing income tax and property tax for the year 2004 because of income and assets in the year 2003 and when determining benefits in the year 2004. Furthermore, the provisions of section C in Article 5 of Act no. 143/2003, on the change of Act no. 90/2003, on Income Tax and Property Tax, come into effect when assessing income tax and property tax in the year 2004 because of income and assets in the year 2003.][1)]

[1)] *ACT 77/2004, Article 3*

■[**XII.** Despite the provisions of point 1 in par. 1 of Article 66 of the Act income tax is to be assessed in the following manner in taxation at the source in the years 2004, 2005 and 2006 and when assessing income tax in the years 2005, 2006 and 2007 because of income in the years 2004, 2005 and 2006:

1. In taxation at the source in the year 2004 and when assessing income tax for the year 2005 because of income in the year 2004 the income tax is to be 25,75% of the income tax base.
2. In taxation at the source in the year 2005 and when assessing income tax for the year 2006 because of income in the year 2005 the income tax is to be 24,75% of the income tax base.
3. In taxation at the source in the year 2006 and when assessing income tax for the year 2007 because of income in the year 2006 the income tax is to be 23,75% of the income tax base.

□Despite the provisions of par. 2 of Article 66 of the Act income tax is to be assessed in the following manner in taxation at the source in the years 2004, 2005 and 2006 and when assessing income tax in the years 2005, 2006 and 2007 because of income in the years 2004, 2005 and 2006:

1. In taxation at the source in the year 2004 and when assessing income tax for the year 2005 because of income in the year 2004 income tax from the income of children, mentioned in par. 2 of Article 64, is to be 4% of income above 93.325 ISK and a child is not to be issued a personal allowance.
2. In taxation at the source in the year 2005 and when assessing income tax for the year 2006 because of income in the year 2005 income tax from the income children mentioned in par. 2 of Article 64 is to be 4% of income above 96.125 ISK and a child is not to be issued a personal allowance.
3. In taxation at the source in the year 2006 and when assessing income tax for the year 2007 because of income in the year 2006 income tax from the income of children, mentioned in par. 2 of Article 64 is to be4% of income above 98.528 ISK and a child is not to be issued a personal allowance.][1)]

[1)]*Act 129/2004, Article 32.*

■[**XIII.** Despite the provisions of par. 1 of Section A in Article 67 of the Act the Personal tax credit of persons, mentioned in par. 1 of Article 66, is to be as follows in taxation at the source for the years 2004, 2005 and 2006 and when assessing income tax in the years 2005, 2006 and 2007 because of income in the years 2004, 2005 and 2006:

1. In taxation at the source in the year 2004 and when assessing income tax for the year 2005 because of income in the year 2004 the Personal tax credit of persons is to be 329.948 ISK
2. In taxation at the source in the year 2005 and when assessing income tax for the year 2006 because of income in the year 2005 the Personal tax credit of persons is to be 339.846 ISK
3. In taxation at the source in the year 2006 and when assessing income tax for the year 2007 because of income in the year 2006 the Personal tax credit of persons is to be 348.343 ISK][1)]

[1)]*Act 129/2004, Article 32*

■[**XIV.**

1. Despite the provisions of par. 3 in section A of Article 68 of the Act the financial reference

amount, that there is noted, shall amount to 37.397 when determining child benefits in the year 2005 and 46.747 when determining child benefits in the year 2006.

2. Despite the provisions of par. 4 of Section A in Article 68 of the Act financial reference amounts, noted therein, are to be: 126.952, 151.114, 211.447, 216.902, 1.487.463 and 743.732 when determining child benefits in the year 2005 and 139.647, 166.226, 232.591, 238.592, 1.859.329 and 929.665 when determining child benefits in the year 2006.][1)]

[1)] *Act 129/2004, Article 32*

■[**XV.** Interest tax rebates when assessing the taxes in the year 2005 because of interest cost in the year 2004 shall amount to 95% of interest tax rebates calculated in acc. with section B of Article 68 of the Act.][1)]

[1)] *Act 129/2004, Article 32*

■[**XVI.** The provisions of Articles 82 and 83 of the Act are to be deleted 31 December 2005.][1)]

[1)] *Act 129/2004, Article 32*

■[**XVII.** When assessing taxes for companies that use a different fiscal years than the calendar year then the assessment is to be conducted according to the following rules for the fiscal year ending in the year 2005. Tax assessment is to take aim of the property tax base determined at the end of the fiscal year on the basis of the provisions of Act no. 90/2003, on Income Tax and Property Tax, as that legislation was on 30 December 2005. If a company has the approval of a Local Tax Commissioner for a different fiscal year than the calendar year and during the change has a reduced fiscal year for the time from the end of the prior time period until the beginning of the next fiscal year and have also paid property tax at the end of the reduced fiscal period then the company is to be exempt from the assessment of property tax because of the fiscal year ending in the year 2005.][1)]

[1)] *Act 116/2005, Article 3*.

■[**XVIII.** From the income tax base in acc. with point 2 and section B of point 3 in Article 61 because of business year 2005 it is permitted to deduct the amount of foreign exchange rate gains above exchange rate loss from any kind of assets and debts in a foreign currency, as noted in point 5 in par. 1 of Article 8 of and point 4 in par. 1 of Article 49, that amounting up to the amount that income tax would have been levied on in the year 2006 because of the business year 2005 and the amount allocated equally for taxation in the business years 2006, 2007 and 2008.

☐Deferring taxable income in acc. with par. 1 is only possible if transferable loss has been netted in full and that proportionally lower depreciation in acc. with Article 37 and write-downs in acc. with points 3 and 4 if Article 31 have not been utilises in business year 2005 than were in the business year 2004.

☐A company participating in joint taxation in acc. with Article 55 can only defer the declaration of income in acc. with par. 1 if the operating losses that the companies in joint taxation can use collectively have been netted out.

☐The permisson to defer the declaration of income in acc. with par. 1 does not apply to financial institutions whose operations are subject to Article 2 of Act no. 87/1998, on the

Public Oversight of Financial Activity.][1)]

[1)] *Act 48/2006, Article 1. The provision will be brought into force when assessing taxes in the years 2006, 2007, 2008 and 2009 for the income of the business years 2005, 2006, 2007 and 2008.*

■[**XIX.** Where in Articles 31, 66, 71 and 83 there are provisions on international trading companies those provision are not to apply, up to the point where difference between the tax payments of the international trading company, on one hand, subject to the special provisions that such companies are subject to according to Act no. 29/1999, on changes in the Act on Tax Assessment and Dues Because of international trading companies, and according to general tax legislation on the other, surpasses an amount equal to 100.000 EUR in every three year period with regard to any kind of state aid. If the difference in total tax payment surpasses those limit then the provisions of general tax law regarding the taxation of the respective company, apply form the time that the limit is passed.

□The provisions of par. 1 do not apply when the operations of an international trading company is totally outside of the range of the EEA-agreement, as the range is defined in Protocol 3 of the EEA-agreement.

□A Local Tax Commissioner is to see to it that this provision is enforced. The Minister of Finance is permitted to set a regulation with further stipulations regarding the execution of this provision.][1)]

[1)] *Act 79/2006, Article 1.*

■[**XX.** Interest tax rebates are to be re-assessed according to the tax return for the year 2006 because of interest cost in the year 2005 in accordance with Section B of Article 68. The re-assessment of interest tax rebates are to be finished no later than 31 December 2006 and advertised with a notification in the Legal Gazette. Every taxable entity that because of the re-assessment of the interest tax rebates gains the right to interest tax rebates is to be sent a notification of the re-assessment.

□The re-assessment of interest tax rebates according to this Article can be appealed to a Local Tax Commissioner within 30 days from the date of the advertisement that the re-assessment of interest tax rebates has been finished.][1)]

[1)] *Act 135/2006, Article 2.*

■[**XXI.** Despite that Act no. 31/1999, on International Trading Companies, becomes void on 1 January 2008 income tax in the year 2008 is to be assessed because of the income of international trading companies in the year 2007.][1)]

[1)] *Act 166/2007, Article 12.*

■[**XXII.** Despite the provisions of sentence 2 in par. 1 of section A in Article 67 of the Act changes in the personal allowance of persons, mentioned in par. 1 of Article 66, are to be decided as follows:

1. The Personal tax credit of persons taking effect at the beginning of the year 2009 is to be determined in such a way that to the amount of personal allowance determined according to the provisions in sentence 2 in par. 1 of section A of Article 67 is to be added 24.000 ISK

2. Personal tax credit of persons taking effect at the beginning of the year 2010 is to be determined in such a way that to the amount of personal allowance determined according to the

provisions in sentence 2 in par. 1 of section A of Article 67 is to be added 24.000 ISK

3. Personal tax credit of persons taking effect at the beginning of the year 2011 is to be determined in such a way that to the amount of personal allowance determined according to the provisions of sentence 2 in par. 1 of section A in Article 67 is to be added 36.000 ISK][1)]

[1)] *Act 61/2008, Article 9.*

■[**XXIII.** Despite the provisions in par. 4 of section A in Article 68 of the Act, the financial reference amounts noted there as the reduction limits of child benefits are to be 2.880.000 ISK and 1.440.000 ISK when determining child benefits in the year 2008 because of income in the year 2007.][1)]

[1)] *Act 61/2008, Article 9.*

■[**XXIV.** From the income tax base in acc. with point 2 and section B of point 3 in Article 61 because of the business year 2007, it is permitted to subtract the amount of foreign exchange rate gains above exchange rate losses, from any kind of assets and debts in a foreign currency, as noted in point 5 in par. 1 of Article 8 and point 4 in par. 1 of Article 49, up the amount that income tax would have been levied on in the year 2008 because of the business year 2007 and the amount distributed equally on the business years 2007, 2008 and 2009 for taxation in the assessment years of 2008, 2009 and 2010. Deferring taxable income according to this paragraph is only possible if transferable loss has been netted in full and that there have not been utilized proportionally lower depreciation in acc. with Article 37 and write-downs in acc. with points 3 and 4 in Article 31, in the business year 2007, than in the business year 2006.

☐From the income tax base in acc. with point 2 and section B of point 3 in Article 61, because of the business year 2008 it is permitted to subtract the amount of foreign exchange rate gains above exchange rate loss from any kind of assets and debts in a foreign currency, as noted in point 5 in par. 1 of Article 8 and in point 4 of par. 1 in Article 49, up the amount that income tax would have been levied on in the year 2009 because of the business year 2008 and the amount distributed equally on the business years 2008, 2009 and 2010 for taxation in the assessment years of 2009, 2010 and 2011. Deferring taxable income according to this paragraph is only possible if transferable loss has been netted in full and that there have not been utilized proportionally lower depreciation in acc. with Article 37 and write-downs in acc. with points 3 and 4 in Article 31, in the business year 2008, than in the business year 2007.

☐ A company participating in joint taxation in acc. with Article 55 can only defer the declaration of income in acc. with par. 1 and par. 2 if the operating losses that the companies in joint taxation can use collectively have been netted out.

☐The permisson to defer the declaration of income in acc. with par. 1 and par. 2 does not apply to financial institutions whose operations are subject to Article 2 of Act no. 87/1998, on the Public Oversight of Financial Activity.][1)]

[1)] *Act 61/2008, Article 9.*

■[**XXV.** Despite the provisions of sentence 2 in par. 8 of section A in Article 68, as noted in regulation no. 555/2004, on the payments of child benefits, child benefits payments can not be netted against public dues to the Treasury, public dues to municipalities and unpaid alimony to the Debt-Collecting Institute of Municipalities in the year 2009.][1)]

[1)] *Act 173/2008, Article 12.*

■[**XXVI.** Despite points 4 and 5 in section A of Article 30 of the Act it is permitted to subtract up to 6% from the premium base as per the decision of fund members because of premiums paid to a pension funds for the accruement of pension rights, to entities in acc. with par. 3 of Article 8 of The Act on Compulsory Insurance of Pension Rights and the Operations of Pension Funds, or to occupational retirement funds in accordance with the Act on Occupational Retirement Funds in the time between 1 March 2009 until 1 October 2010.][1)]

[1)] *Act 13/2009, Article 5.*

■[**XXVII.**

1. Despite the provisions of sentence 1 in par. 3 of Section B in Article 68 of the Act, the reference ratio or maximum interest cost from debt, there specified, is to be 7% when determining interest tax rebates in the year 2009, because of income, assets and debt in the year 2008.

2. Despite the provisions of sentences 10 and 12 in par. 4 of section B in Article 68 of the Act, the financial reference amounts, noted there, are to be 246.944, 317.589, 408.374 and 900 when determining interest tax rebates in the year 2009 because of income, assets and debt in the year 2008.][1)]

[1)] *Act 45/2009, Article 1.*

■[**XXVIII.** Despite the provisions of par. 1 of Article 8 in Act no. 164/2008, on the change in Act no. 90/2003, on Income Tax, with later change, then the provisions of Article 1 of the Act enter into force when assessing income tax for the year 2010.][1)]

[1)] *Act 46/2009, Article 5.*