[Income Tax Act][1)]

Act 90 of May 7th 2003

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

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

took effect according to directions in Article 4), Act 141/1997 (entered into effect December 30th 1997; took effect according to directions in Article 6), Act 82/1998 (entered into effect October 1st 1998), Act 95/1998 (entered into effect June 24th 1998; took effect according to directions in Article 10), Act 97/1998 (entered into effect June 24th 1998; took effect according to directions in Article 2), Act 154/1998 (entered into effect December 30th 1998; took effect according to directions in Article 14), Act 29/1999 (entered into effect January 1st 1999; took effect according to directions in Article 8), Act 101/1999 (entered into effect December 30th 1999; took effect according to directions in Article 4), Act 102/1999 (entered into effect January 1st 2000; took effect according to directions in Article 3), Act 9/2000 (entered into effect April 17th 2000; took effect according to directions in Article 3), Act 84/2000 (entered into effect August 1st 2000), Act 86/2000 (entered into effect June 2nd 2000; took effect according to directions in Article 13), Act 149/2000 (entered into effect December 29th 2000 except Article 5, section a, Article 11, Article 12 and Article 20 which entered into effect January 1st 2001; taking effect according to directions in Article 21), Act 150/2000 (entered into effect January 1st 2001; took effect according to directions in Article 2), Act 166/2000 (entered into effect January 1st 2001; took effect according to directions in Article 2), Act 30/2001 (entered into effect May 16th 2001; took effect according to directions in Article 6), Act 60/2001 (entered into effect June 13th 2001), Act 133/2001 (entered into effect January 1st 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 which took effect December 31st 2001 and Article 44 which took effect January 1st 2003; taking effect according to directions in Article 56), Act 25/2002 (entered into effect April 8th 2002; took effect according to directions in Article 10), Act 51/2002 (entered into effect July 1st 2002), Act 152/2002 (entered into effect January 1st 2003; took effect according to directions in Article 18), Act 21/2003 (entered into effect July 1st 2003) and Act 22/2003 (entered into effect April 3rd 2003).

Reissued, as noted in Article 17 of Act 22/2003, as Act 90/2003. *Amended with* Act 143/2003 (entered into effect January 1st 2004; took effect according to directions in Article 13), Act 77/2004 (entered into effect June 18th 2004), Act 129/2004 (entered into effect and took effect according to directions in Article 149), Act 77/2005 (entered into effect June 9th 2005), Act 116/2005 (entered into effect and took effect according to directions in Article 4), Act 134/2005 (entered into effect December 30th 2005), Act 48/2006 (entered into effect June 16th 2006), Act 65/2006 (entered into effect June 27th 2006), Act 77/2006 (entered into effect June 30th 2006), Act 79/2006 (entered into effect June 30th 2006), Act 80/2006 (entered into effect January 1st 2007 except Articles 1–4 and Articles 7–12 which entered into effect June 30th 2006), Act 108/2006 (entered into effect November 1st 2006 according to notice C 1/2006), Act 135/2006 (entered into effect November 30th 2006), Act 150/2006 (entered into effect December 30th 2006), Act 167/2006 (entered into effect January 1st 2007), Act 174/2006 (entered into effect January 1st 2007 except Article 2 and section a, Article 8 which entered into effect December 30th 2006 and section b, Article 6 which entered into effect January 1st 2008; taking effect according to directions in Article 10), Act 76/2007 (entered into effect April 5th 2007; took effect according to directions in Article 9), Act 166/2007 (entered into effect December 29th 2007 except Article 6 and sections a, b and e of Article 7 which entered into effect January 1st 2008; took effect according to directions in Article 13), Act 38/2008 (entered into effect May 29th 2008 except Article 8 which entered into effect January 1st 2008; took effect according to directions in Article 9), Act 61/2008 (entered into effect June 11th 2008 except Article 1, Article 3 and section a of Article 6 which entered into effect January 1st 2009 and sections b and c of Article 6 which entered into effect January 1st 2008; will take effect according to directions in Article 11), Act 88/2008 (entered into effect January 1st 2009 except temporary provision VII which entered into effect June 21st 2008), Act 164/2008 (entered into effect January 1st 2009; took effect according to directions in Article 8), Act 173/2008 (entered into effect January 1st 2009; took effect according to directions in Article 20), Act 13/2009 (entered into effect March 14th 2009), Act 45/2009 (entered into effect April 22nd 2009) and Act 46/2009 (entered into effect April 22nd 2009; will take effect according to directions in Article 6).

Act 70/2009 (took effect on June 30th 2009 except Articles 1-3, 12-26 and temporary provisions V and VI that entered into effect on July 1st 2009, Article 4 that took effect on September 1st 2009 and temporary provisions IV that took effect on June 16th 2009; entered into effect according to directions in Article 29, as noted in also

Act 97/2009 (took effect on September 3rd 2009)), Act 128/2009 (took effect on December 30th 2009 except Articles 2-6, the second sentence of item b, and item c in its entirety, both in Article 7, Articles 10-12, points 1-4 under section a as well as sections b and c of Article 13, Articles 14-17, 21-23, 25-31, section b of Article 32 as well as Articles 33-40 that took effect on January 1st 2010 and the first sentence of section b, and section d of Article 7 in its entirety that will take effect on January 1st 2011; will take effect according to the directions of Article 41), Act 136/2009 (took effect on January 1st 2010) and Act 137/2009 (took effect on January 1st 2010; will take effect according to the directions of Article 5).

Act 16/2010 (took effect on March 20th 2010; will take effect acc. to the directions of Article 4.), Act 23/2010 (took effect on March 31st 2010). Act 35/2010 (took effect on November 1st 2010), Act 65/2010 (took effect June 27th 2010), Act 77/2010 (took effect July 1st 2010), Act 92/2010 (took effect July 2nd 2010), Act 101/2010 (took effect August 1st 2010), Act 104/2010 (took effect July 6th 2010), Act 162/2010 (took effect January 1st 2011), Act 164/2010 (took effect January 1st 2011 except Article 2,6,22 and 26 which took effect on December 31st 2010; entert into effect according to the directions in Article 29) and Act 165/2010 (took effect according to the directions in Article 69).

Chapter I. Tax liability

Persons liable for taxation.

Article 1 The following are liable to pay tax on all income, regardless of its origins, ...[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. This 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 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 Internal Revenue can be appealed to a court of law, bringing suit against the Director of Internal Revenue because of the Minister of Finance.

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

Legal entities liable for taxation

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

1. [Registered public limited companies and private limited companies, as well as associate limited companies, provided that the associate limited company has requested at the time of registration to be entered as an independent entity for tax purposes. 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 Company Registry in this country, 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 dissolved. [The Director of Internal Revenue][4)] 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 Company Registry in this country 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 dissolved. [The Director of Internal Revenue][4)] is to be sent a certificate of registration and a verified copy of the company's ownership contract alongside the first tax return from such 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 person and bankruptcy estates. …2)

[A legal entity according to paragraph 1 is to be considered resident in Iceland if it is registered in the country, if Iceland is its home according to its statutes or if its real management is in Iceland.]2) [The Director of Internal Revenue rules on what legal entities are to be considered resident in Iceland according to this Article. Rulings of the Director of Internal Revenue can be appealed to a court of law bringing suit against the Director of Internal Revenue because of the Minister of Finance.][5)]

If a status of an 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 with 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 136/2009, Article 1. [5)] 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 on 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-month period.
2. All persons who are paid for their work by Icelandic entities are to pay income tax on their remuneration, including payments to management, accountants, for committee work, as well as to retirement pay, severance pay, pensions or similar payments.
3. All entities that receive pay for services or activity rendered in Iceland are to pay income tax on that income.
4. All entities 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 on that income.
5. All entities 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 on that income according to this Act.
6. All entities in Iceland that have income from leasing, from use of or the right to utilise 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 on that income. [Still, this provision does not apply to income from aircraft lease and ships used for transport in international traffic.]1)
7. All entities 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 on that income.
8. All entities who receive interest income in this country from bank deposits, securities- or investment funds, debentures or other claims or financial contracts, as noted in item 3, section C of Article 7, shall pay income tax on such income. This provision neither applies to interest paid by the Central Bank of Iceland [in its own name]2) nor to interest paid to foreign states, international institutions or other public entities that are exempt from taxation in their country of domicile. This provision does not apply if a double-taxation agreement that Iceland has concluded with a foreign country states that a withholding tax on interest shall not be retained. The Minister of Finance is authorised to issue a regulation3) that further specifies the implementation of this provision.]4)
[9.]4) 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 on income they receive from domestic parties and of income stipulated in points [points 4–8.]4)
[10.]4) …5)

1)Act 174/2006, Article 1. 2)Act 128/2009, Article 1. 3) Regulation 1082/2009. 4) Act 70/2009, Article 6. 5)Act 129/2004, Article 3.

Entities exempt from taxation.

Article 4 [The following entities do not pay income tax:]1)
1. The Treasury, government institutions and government enterprises run by the Treasury and under its unconditional state guaranty; and also the Fisheries Association of Iceland.
2. Districts and local governments, as well as companies and institutions operated by them and

under their unlimited guaranty.
3. Foreign states and international institutions, from immovable property they use in connection with their recognised work in Iceland.
4. Those legal entities 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 statutes.
5. Companies, funds and institutions that are not economic operators, as noted in point 5 of Article 2.
[6. Pension funds that operate according to chapter III of 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 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, foster parents). Still, a child's income, as stipulated in point 1 of section A in Article 7, is to be taxed separately.

Chapter II. Taxable income.
General provisions.
Article 7 Income subject to taxation is, with the exceptions and limitations that follow, any kind of goods, dividends, 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 committee work, management pay, retirement pay and pensions, clothing, food, housing, entertainment 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 paragraph 3 in Article 14 of Act 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 its own business or is self-employed the person must count as income no less than it would have remunerated an unrelated entity. 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 aforenoted entities.

Loans to employees are also regarded as paid income as they 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 illness, accidents, loss of work or wages and any other kind of damages and insurance benefits, although with consideration of point 2, Article 28. Child pension paid according 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's father has not been identified, is not to be regarded as taxable income, nor is alimony inasmuch as it is limited by the amount of the child pension according 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 according to Article 14 in the Social Security Act. Alimonies or maintenance pensions to a spouse or former spouse are 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 copyrights 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 prohibited 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 leasing and dividends 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 benefit 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. Dividends from ownership and share holding in companies, as noted in Article 11.
5. Money that the companies, noted 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 noted 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 noted 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 special 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 according to point 3 of section C in Article 7:
1. Interest payments from deposits í domestic banks, savings banks and deposits divisions of cooperative societies, from post office giro accounts and holiday payments accounts as well as interest payments from securities that fall under similar rules according to special 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 instead of interest.
2. Interest payments from a share in initial capital in companies according to point 2 in paragraph 1 , Article 2.
3. Domestic and foreign interest payments from any other deposits and receivables 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 purchased 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 before the end of the repayment 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.
From foreign exchange rate gains of the year, exchange rate losses shall be deducted, as noted in point 4 of paragraph 1, Article 49, and charge the difference as foreign exchange rate gains

[with equal amounts for three years from and including the financial year of the foreign exchange rate gains].1)

Included with interest payments as income, as noted in paragraph 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 purchased securities, bills and any other claims and any other kind of income from monetary assets. Income is classified as follows:

1. Interest payments from deposit accounts are to be included as income when they are deposited and added to the owner's account. Excepted are interest payments from accounts where the principal sum and interest payments are not paid for a period exceeding 36 months shall not be 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 purchase, deducting its purchase price, are to be counted as income in proportion to the repayments of the nominal value when paid.
4. [Exchange rate gains on any kind of deposit accounts and claims in foreign currency in the year when withdrawals take place shall be counted as income and be based on the buying rate of exchange for the respective foreign currency from January 1st 2010 or later to the date of withdrawal or payment. The exchange rate gain and loss on each deposit account may be offset within the year.]2)
5. Interest payments, dividends and other dividends 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 provisions of this Act.
6. Interest payments, price-increase compensation and other dividends 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 pensions when such payments are made, according to section A in Article 7.
7. Interest payments from shares in initial capital in companies according to note 2 of paragraph 1 in Article 2 are to be counted as income when they are made out to their owner.

1)Act 61/2008, Article 1. 2)Act 165/2010, Article 1.

The purchase of shares according to call options.

Article 9 Income, according to point 1 in section A of Article 7, derived from a person's purchase of company shares in accordance with call options that the person has been given because of its work for another entity, though with consideration to 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 trading price, 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 according to Article 9 is to be taxed as capital income according to section C of Article 7, provided that the following conditions are met:

1. All employees of the respective company have been offered the share option or the opportunity to buy a 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 krónur annually.
8. A company intending to give its employees share options shall in advance send an employee share option plan the Director of Internal Revenue for ratification, as well as information about the aforenoted items, in a form decided by the Director of Internal Revenue.

At the end of each year the Director of Internal Revenue is to be sent information about the employees that have exercised their share options in the year according to the ratified plan, along with information about the shares' purchase price. The information is to be provided in a form decided by the Director of 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 an operating expense as defined by Article 31 of the Act.

The purchase of shares in accordance with this Article does not provide the right to deduction from income according to point 1 of section B in paragraph 1 of Article 30.

[1)] *Act 136/2009, Article 1.*

Taxable dividends.

Article 11 Counted as dividends from shares and stakes in companies that are noted in point 1 in paragraph 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 compensation issue of new shares is not regarded as a 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 cooperative enterprise, according to the Act on Cooperative Enterprises. [For those taxpayers that are obligated to count imputed wages according to sentence 2 of point 1, section A of Article 7, 50 % of the authorised distributed dividends according to the Act on Public Limited Companies and the Act on Private Limited Companies shall be counted as wages, up to the point where the authorised distribution of dividends of the company exceeds in total 20 % of the book value of its equity capital as defined in tax law at the end of the reference year.][1)]

The distribution of valuables, according to paragraph 1, to stake- or shareholders that are also employees of the company, or of a related company, are to be treated as wages according to point 1 of section A in Article 7 if the distribution is prohibited 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 prohibited according to the Act on Public Limited Companies or the Act on Private Limited Companies the valuables are to be taxed as income according to point 4 of section A in Article 7. If such a distribution of valuables is to [an associate limited company][2)] 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 according to point 1 of section A in Article 7.

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

If a company, as noted in point 1 of paragraph 1 in Article 2, is dissolved 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 dividends. Reduction beyond the purchase price of the share capital paid out to shareholders is to be regarded as dividends. Should a person have acquired the shares before the end of the year 1996, the original purchase price of the shares when calculating the dividends may be used, 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 compensating value of the shares, as noted in paragraph 3 of Article 18.

[1)] *Act 128/2009, Article 3. The amendment takes effect at the time of the 2011 tax assessment and in the 2010 withholding tax year, as applicable according to Article 41 of that same Act.* [2)] *Act 165/2010, Article 2.*

Common provisions on profits from the sale of assets.

Article 12 Sale profits from assets is the difference between their sale price and their cost value, taking account 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 determining 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 shall be decided in accordance with the re-evaluation of these assets and given depreciation on the tax return 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 determining 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.

Profits from the sale of depreciable assets.
Article 13 Profits from the sale of depreciable assets according 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 entity‘s 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, according to Article 13, are declared as income a taxable entity is allowed to take into account the depreciation of depreciable assets according 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 according 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 a transferable operating loss has been offset.

Profits from the sale of assets not subject to depreciation.
Article 15 Profits from the sale of immovable property, that is not subject to depreciation according to Article 33, including 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 entity‘s 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 according to Article 32 and sale profits, as noted in paragraph 4 of this paragraph and paragraph 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 paragraph 2 of point 1 in Article 73.

[Persons not engaged in business]1) are as a rule allowed to declare half of their sale price as taxable income, instead of sale profits according to paragraph 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 over two year ends from the date of sale, provided that it acquires a similar asset or residential property for its own use instead of the sold one, within that time in which case the sale profits are 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 farming 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 purchased farmland or uses the purchased 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 are breached, plus a 10% charge. Deferred taxation is only possible if a transferable operating loss has been offset.

Profits from the sale of rights noted 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 according to paragraph 6. Whenever determining profits from the sale of a quota share or similar rights in the fishing industry the viewpoint is that quota shares in the same fish species that the tax entity first purchased are sold first and allocated quota shares are disposed of after all purchased 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, according to paragraph 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 purchased in the income year, or in the last 12 months prior to the sale. A tax entity can also request deferred taxation of the sale profits for over two year- 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 purchased quota share. If a quota share is not purchased 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 are only allowed if a transferable operating loss has been offset.

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

1)Act 164/2008, Article 1.

Article 16 Profits from the sale of liquid assets that can not be depreciated according 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 paragraph 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 person 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.

Profits from the sale of 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 persons, 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. Sise limitations for married couples also apply when a surviving spouse 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 sale proceeds are spent to finance the newer property.

A person can request the deferment of the sale profits over two year-ends 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 profit 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 purchased. If a property is not purchased within the given time, the sale profits are 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 deducting prior sale profits, as noted in paragraph 2 of this Article and paragraph 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 paragraph 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 value 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)] [and the sale of residential property from the estate of a deceased person, provided that the above conditions on the period of ownership and size are fulfilled][2)]

[1)] Act 164/2008, Article 2. [2)] Act 165/2010, Article 3.

Sale profits from company shares.

Article 18 Profit from the sale of 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 ...[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 paragraph 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 according 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 temporary 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, according to Article 9, is to be deemed equal to the current price used as the basis for determining income according to the Article. When calculating the profit from a 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 compensating value of shares owned by companies registered by the end of the year 1996, as noted in point 1 of paragraph 1 in Article 2, is to be equal to the nominal value of the shares, plus the amount of compensation issue of new shares permissible according regulations effective at the end of the year 1996. If a public limited company has not published a compensation 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 [the Director of Internal Revenue][2)] about how the compensating value is calculated, then the compensating 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 Internal Revenue is to publish an accessible price compensation index for shares or stakes in companies, i.e. the ratio between the compensating value, ratified by [the Director of Internal Revenue][2]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 compensating value, as noted in paragraph 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 compensating 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 purchased in the years 1990–1996 in companies that the Director of Internal Revenue has in the year of the shares being sold ratified as operating in compliance with the conditions of chapter III of Act 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 krónur. The provisions of paragraph 1 apply for profits above the tax free limit and for profits from the sale of shares purchased 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 compensating value of shares, as noted in paragraph 3.

1)*Act 128/2009, Article 4. The amendment comes into effect at the time of the 2011 tax assessment and in the 2010 withholding tax tax year as applicable according to Article 41 of that same Act.* 2) *Act 136/2009, Article 1.* 3)*Act 38/2008, Article 1 The Articles' provisions on the profits of legal entities are to stay valid according to paragraph 1 of 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, according 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.

Nonetheless, 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.

Sundry provision on sales profits.

Article 20 Regarded as the sale price of assets is their total value after deducting the direct cost of the sale.

Article 21 If the sale of assets falls under a taxable entity's business or if the assets have been acquired for 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 inventory, and other similar assets meant for use in business activity, always regarded as taxable income.

Article 22 The compensation for a total loss or expropriation shall be regarded as the sale price of assets and from it sale profits are calculated and treated according to the provisions of 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 period of three years. 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 duration 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 deducted from taxable income. Still, a tax entity is allowed to deduct 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 determined.

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 noted in Articles 18 and 19.

Article 25 When an asset is given up in barter 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 the determination of purchase and sale prices in a barter agreement differ significantly from the norm in comparable transactions where direct sales or purchases take place, the tax authorities can assess a normal price and base the taxation of sale profits thereon.

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 paragraph 2 of note 1 in Article 73, is deducted from the real estate appraisal before calculating the ratio.

The provisions of this Article also apply for deciding cost values.

The provisions of this Article do not cover the division of sale 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. Debt with mortgages in the sold property overtaken by the buyer is not regarded as debentures in this context. [The Director of Internal Revenue][1)] is to be notified of 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 according to paragraph 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 offset.

[1)] *Act 136/2009, Article 1.*

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 savings acquired by 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 to damages and insurance benefits that compensate for 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 was not acquired because of a tax entity's business activity. [The same applies for forgiven debt stipulated in an agreement of payment adjustment according to the Act on Payment Adjustment of Individuals or in a compulsory agreement with creditors for payment adjustment according to chapter X in the Act on Bankruptcy et al. no. 21/1991, with subsequent amendments, or in another satisfactory manner it is proven that assets are lacking, and the conditions of a regulation set by the Minister of Finance[2] on the objective evaluation of the premises of debt remission have to be met, as well as conditions stipulating how the remission is not considered income, disclosure according to Article 92, et al.][3]
4. Asset increase from a person's extra work outside of regular working hours on the building of residential property for his/her 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].[3] [Nevertheless, the contribution of the employer to the procurement of pension rights shall be counted as taxable income if premium payments of the employer or an independently employed person exceed 12 % of the premium base plus 2,000,000 krónur per year.][4]
…[4]

If a pension fund premium, or a premium to entities according to paragraph 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 implementation of this point, including on what information can be called for from employers, self-employed individuals and from employees because of the provisions' implementation.

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, seafarer's tax credit, child benefits and interest tax rebates noted in

chapter VI of this Act.

8. Appreciation of livestock according to point 2 of Article 73, just as depreciation of livestock can not be deducted from income.

9. Rent compensation, as noted in Act 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 implementation of this provision.]5)

[11. The special deduction of an innovation enterprise according to the Innovation Enterpise Act.][6)]

[1)] Act 46/2009, Article 1. [2)] Regulation 534/2009.[3)]Act 101/2010, Article 36. [4)]Act 76/2007, Article 2[5)] Act 128/2009, Article 5. The amendments takes effect at the 2011 tax assessment and in the 2010 withholding tax year as applicable according to Article 41 of that same Act. [6)]Act 164/2008, Article 3. [7)] Act 137/2009, Article 1. The amendment takes effect with the 2011 tax assessment for the 2010 income year according to Article 5 of that same Act.

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 accordance with paragraph 2 of 1 in section A of Article 7, only the tax deductions specifically noted 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 accordance 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 organisations, 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, temporarily or fixed-term appointed employees of Icelandic embassies, at an Icelandic consulate or are permanent delegates of Iceland at international institutions that Iceland is a member of [or they are employees of The Icelandic International Development Agency].2)

3. Income, in accordance with point 4 of section A in Article 7, that is tax-free according to

special Acts or lottery winning approved by the Ministry of the Interior, 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 accordance with paragraph 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 accrual 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 accordance with paragraph 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 accordance with paragraph 1 are to be calculated from investments within each year and are to amount to 60% of the value of the purchased shares that is above the value of sold shares, though never higher than 80,000 krónur for an individual and 160,000 krónur for married couples.

Included in purchases of shares in accordance with paragraph 2 are only shares in companies that fulfill the conditions of paragraph 5 and that the Director of 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 accordance with paragraph 1 is only possible on the condition that a person owns the respective shares over five year-ends, and accounts for their ownership annually. Nonetheless, the three-year ownership time criterion from Act 137/1996 is still valid for those that enjoyed tax deductions because of investments in business activity, in accordance with that Act. If the person sells its shares within that time the deductions already used shall be counted as income in the year of the sale of the respective shares. Nonetheless, 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 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 krónur, that the number of shareholders is at least 25, that the trade in 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 Internal Revenue its annual account for the prior year, revised in accordance with provisions of paragraph 1 of Article 63 in Act 144/1994 on Annual Accounts. The Director of Internal Revenue is to verify annually that those public limited companies have met with the conditions of this point.

The Director of Internal Revenue can allow a deduction from income in accordance with this point, even though the conditions of paragraph 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 time the selling of shares commenced. The Director of Internal Revenue can also allow a deduction from income in accordance with this point, even though the conditions of paragraph 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 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 approved by the Director of Internal Revenue.

Investments above the maximum for each year, according to paragraph 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 paragraph 5 of Article 3 in Act 137/1996.

Deductions in accordance with this point are allowed from income in accordance with sections A and B of Article 7.

The Minister of Finance can by 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 paragraph 2 of Article 8, has been calculated on, then the taxation of the interest is deferred.

Lost interest can be calculated against capital income, provided that tax has been paid on 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 paragraph 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 entities that are not economic operators.

The provisions of paragraph 2 of this Article about the permission to deduct direct costs from income do not apply to income from rent, dividends or other capital income.

The deduction according to paragraph 1 shall be based on the investment of each year and amount to the value of shares purchased in excess of the value of shares sold in comparable companies, up to the limit of 300,000 krónur for a private individual and 600,000 krónur for a couple.

Shares purchased pursuant to paragraph 2 must only be shares in legal entities that have received the confirmation of the Icelandic Centre for Research according to Article 6 of the Innovation Enterprise Support Act and are entered into the register kept by the Director of Internal Revenue for the income year in question.

The deduction according to paragraph 1 is subject to the condition that the shares in question must be in the possession of the person over three year-ends and that they shall annually be entered as assets on a tax return. If the shares are sold within said period, the deduction used shall be counted as income in the year of sale of the shares concerned. The provision of counting the deduction as income shall not be applied if the person purchases in the same year, and not later than 30 days after the sale, other shares in a limited company that fulfills the conditions of this point for at least the same amount as the sale proceeds of the shares sold. Should the purchase price be lower, the provisions of the second sentence shall apply to the balance. The deduction received shall be counted as income in full in addition to a 10 % surcharge, or in right proportion to the remaining balance after reinvestment in place of the shares sold.

An investment in excess of the deductible maximum each year can not be transferred between years pursuant to paragraph 2 of this point.

A deduction according to this point may be applied to income in accordance with sections A and B, Article 7.

The Minister of Finance is authorised to set a regulation with more detailed provisions regarding the conditions for deductions according to this point.][6)]

However, if a person incurs direct costs from the earning of other income than in accordance with point 1 in section A of Article 7, without it falling under business activity or independent operations, the provisions of paragraph 1 of point 1 in Article 31 are still to apply to such costs, as applicable, except for provisions about interest from debt, discounts, foreign exchange rate loss and the depreciation of assets. Costs can only be deducted from the income where the activity in generating the income brought about the costs. 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 krónur or more, or amounts to 54,000,000 krónur for married couples, as noted in Article 62. …[7)]

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 137/2009. The amendment takes effect at the time of the 2011 tax assessment and for the 2010 withholding tax income year according to Article 5 of that same Act. 7)Act 128/200, Article 6. The amendment takes effect at the time of the 2011 tax assessment and for the 2010 withholding tax income year according to Article 41 of that same Act

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 a return from assets in the business.

If the obligation to give the Director of Internal Revenue 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 Director of Internal Revenue 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 accordance with paragraph 2 of point 1 in section A of Article 7 is regarded as operating expenses. This applies irrespective of whether the remuneration has been paid. If the remuneration has been paid the method of payment is also irrelevant, be it in cash, a 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 accordance 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 paragraph 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. …2)
Demonstrably lost shares in companies that have gone bankrupt. The same applies for shares that are lost due to write-downs following a composition with creditors approved by a court in accordance with Act 21/1991.
…2)
6. Discounts given from goods or services.
7. Funds that domestic insurance companies transfer at the end of the year to a premium reserve because of that part of premium payments that are due to in the following financial year, as well as transfers to a claims reserve in order to fulfilltheir 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 paragraph 1 of Article 2, and companies and partnerships that are governed by point 2. …3) in paragraph 1 of Article 2 have received as dividends in accordance with point 4 of section C in Article 7 from stakes and shares in the companies noted in point 1 of paragraph 1 in Article 2, [as noted in chapter XII of Act 2/1995, on Public Limited Companies, and Act 138/1994, on Private Limited Companies]3) …4) [The same applies for dividend payments to the same kind of companies that are liable to pay taxes in accordance with point 7 of Article 3 and are domiciled in another member state of the European Economic Area.], [the member states of the European Free Trade Association Treaty or in the Faroe Islands]5) or have received dividend payments]6) [The provisions of sentence 1 also apply for dividend payments from public limited companies registered in another country if the company that receives the dividends can demonstrate that the profits of the foreign company have been taxed in similar manners as is done in Iceland.]3) Deductions according to [sentence 3]6) are allowed on the condition that the tax rate 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]7) [or a founding state of the European Free Trade Association or in the Faroe Islands].2) The Minister of Finance sets further regulation8) on how these provisions are implemented. [The deduction according to this point is subject to the condition that the dividend recipient owns at the end of the year for which the dividends is paid at least 10 % of the legal entity that pays the dividends. The deduction according to this point is only permitted if the loss that has been carried over has been offset, including the loss incurred in the course of the income year .]5)
[9. a. Profits from the sale of shares …5) in accordance with this Act, that go to companies that are governed by points 1 and 2 in paragraph 1 of Article 2 from shares in companies noted in point1 in paragraph 1 of Article 2. The same applies for profits that the same kinds of companies that are liable to pay tax in accordance with point 7 of Article 3 and are domiciled in another member state of the European Economic Area, [the member states of the European Free Trade Association Treaty or in the Faroe Islands]5) 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 accordance 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 in excess of profits from the sale of shares …[5)] 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 offset, including losses established in the income year. . [In order to qualify for a deduction in accordance with this point, the seller of the shares must have owned no less than a 10 % share in the legal entity concerned on the date of sale.][5)]

The Minister of Finance is to set further directives on the implementation of these provisions.][2)]

10. The amount that the companies noted in point 2 of paragraph 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 dividends 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 noted in point 4 of paragraph 1 in Article 2, pay their members at the end of the year, pro rata to their business in the year, though 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 136/2009, Article 1.* [2)]*Act 38/2008, Article 2.* [3)]*Act 166/2007, Article 4.* [4)]*Act 143/2003, Article 2.*[5)] *Act 128/2009, Article 7. The provisions of sentence 6, point 9a and sentence 2, point 9 enter into effect on January 1st 2011 and will be implemented at the time of the 2012 tax assessment; the provisions of sentence 7, point 9 and amendments to sentence 1, paragraph 1 and paragraph 2, point 9a will be implemented at the time of the 2011 tax assessment and in the 2010 withholding tax year as applicable according to Article 41 of that same Act.* [6)]*Act 76/2007, Article 4.* [7)]*Act 174/2006, Article 4.* [8)]*Regulation 297/2003, as noted in 53/2008.* [9)]*Act 137/2009, Article 3. The amendment will come into effect at the time of the 2011 tax assessment on account of the 2010 income year according to Article 5 of that same Act.*

The write-down of assets.

Article 32 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 accordance with sections a and b of paragraph 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.

Depreciable assets.

Article 33 Depreciable assets are durable property, plant and equipment used for revenue generation in business activity or in independent operations and the value of which shrinks through normal use or aging. Their main categories are:

1. Movable property, including ships, aircraft, automobiles, machines and instruments.
2. Constructions, including cultivated farmland and buildings.
3. Depletable natural resources and purchased rights to their utilisation.
4. Purchased ownership to valuable intellectual property and identities, such as copyright, publishing rights, the right to utilise information, the right to patents and trademarks.
5. Purchased goodwill. Purchase of assets that can not be depreciated in accordance with Article 48 are not regarded as purchased 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 accordance with point 1 of Article 33 is their cost value, as noted in paragraph 2 of Article 12, after the deduction of prior depreciation. The depreciation base of assets in accordance with points 2–5 of Article 33 is their cost value, as noted in paragraph 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 paragraph 2 in Article 29 and of paragraph 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 and workshop buildings.
3. Warehouse buildings.
4. 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 buildings used in a business activity, not noted 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 purchased utilisation 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 [the Director of Internal Revenue][1)]. 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 utilisation.
7. Purchased property rights to valuable intellectual property and identities and other assets noted 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. Purchased goodwill for a minimum of 10% and maximum of 20%.

[1)] *Act 136/2009, Article 1.*

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 then 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 cannot 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 krónur 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 authorisation 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, inasmuch as the costs surpass the damages. This only applies to the cost of re-establishing an asset’s condition prior to the damage.

Article 42 Assets in accordance with points 1 and 2 of Article 33 can never be depreciated below their scrap value, or 10% of cost value, as noted in paragraph 2 of Article 12.

Sundry provisions on depreciation.

Article 43 When determining the depreciation base of an asset that has been overtaken in barter 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 to 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 Internal Revenue has the authority to require all parties that are obligated to file tax returns to hold a record of depreciable assets in a form and manner decided by the Director.

Article 47 In instances of special circumstances the aforenoted rules about depreciation can be deviated from, subject to the Director of Internal Revenue’s approval.

Rights that can not be depreciated.

Article 48 Investment expenses from the purchase of rights whose use does not cause depreciation can not be depreciated. Regarded as investment expenses according to this paragraph are for instance the purchase of rights to utilise natural resources, such as the purchase of permanent fishing quota share and similar rights.

Professional fishing permits purchased, in accordance with Article 5 of Act 38/1990, shall be allowed to be counted with investment 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 paragraphs 5 and 6 of Article 15 apply to profits from the sale of non-depreciable rights, in accordance with paragraph 1. The value of purchased 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 accordance with Article 31, should they be lost or significantly restricted by law.

Interest cost, discounts and foreign exchange rate losses.

Article 49 The following are declared with expenses as interest payments, discounts and foreign exchange rate losses from debt, as noted in point 1 of Article 31:

1. Interest payments from debt, 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 the 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 noted in point 2 of paragraph 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 offered price of the respective foreign currency at the end of the year.

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

Expenses in accordance with this Article are only deductible 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 at the time of the 2010 income tax assessment in accordance with Article 11 of that same Act.

Things not regarded as operating expense.

Article 50 The following can not be counted with operating expense in accordance 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 instead. Furthermore cost, in any form, from acquiring illegal confiscated profits or profits linked to punishable offences.
3. Dividend or interest from a person's 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 paragraph 2 of Article 2.
4. Payments due to finance lease of automobiles for fewer than nine passengers, other than taxis, that exceed depreciation calculated according to the provisions of this Act, plus calculated interest from the depreciation base, after having deducted the depreciation of past years. The Director of 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 benefit from using the respective automobile have been counted as income, in accordance with the valuation rules of the Director of Internal Revenue, by the entity permitted to use the automobile for its own use.
6. Cost because of payments, gifts or other illegal objects in accordance with Article 109 of the Penal Code, 19/1940, to persons that are hired or elected for government employment in the fields of legislation, judgment or public administration, whether in Iceland or other states or with international organisations and institutions that nations, governments or international institutions are members of.

Chapter IV Sundry provisions on income.

The merger and division of companies.

Article 51 If a public limited company is dissolved 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 dissolved 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 dissolved company.

When cooperative enterprises merge, as noted in Article 56 of Act 22/1991, on Cooperative Enterprises, or when a public limited company merge with a 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 dissolved 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, shall not result in 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 shares, 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 result in 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, the new company assumes all legal tax obligations and rights of the dissolved cooperative enterprise.

Article 52. [If a limited company is divided so that all its assets and liabilities are divided between the divided company and those companies that succeeded it or were created through the breakup, and the shareholders of the divided company only receive shares in the companies to which the assets and liabilities were allocated at the time of the breakup, the breakup as such shall not lead to taxable income for the entity that ceded the shares.][1)] Ownership shares in the companies shall be in the same ratio as the ownership was in the divided company. Assets and debt are to be transferred at book value. The provisions of this paragraph also apply when a limited company is divided in such a way that more than one limited company takes over in part the assets and debt of the original company. The provisions of this paragraph also apply when cooperative enterprises are divided in such a way that more than one cooperative or limited company take over the assets and debt. Privately- owned portions of members in cooperative enterprises are to be in relative proportion to the privately-owned portions of the divided company, but if a limited company takes over the assets and debt of the cooperative enterprise then all shares in the limited company are to be owned by the divided cooperative.

When dividing companies in accordance with paragraph 1, tax obligations and rights are divided between the companies proportionally according to the book value of assets, after deduction of transferred debt.

[1)] *Act 128/2009, Article 8.*

Article 53 If a general partnership company is dissolved by completely merging it with another general partnership company or a 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 dissolved company, then the change, as such, does not entail taxable income for neither the party that gave up its stake, nor for the dissolved company. When companies are merged in such a way, the overtaking company assumes all legal tax obligations and rights of the dissolved company.

If a general partnership company, as noted in paragraph 1 of this Article, is changed into a limited company so that the owners of the aforenoted company are only given shares in the latter company as payment for their stake in the dissolved 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 limited company takes over all legal tax obligations and rights of the general partnership company.

Despite the provisions of paragraph 1 and 2, it is the unlimited responsibility of the owners of a general partnership company that has been dissolved or changed into a limited company, to pay taxes and public dues for the accounting year before dissolution 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 dissolved is not transferable to the company or companies taking over, unless they have fulfilled all the conditions of this Article. The overtaking company or companies are to operate in similar fields of operations as the dissolved company. Losses can not be transferred between companies when they are being merged or divided, if the assets of the dissolved company were negligible or there was no operating activity. Mergers or divisions of companies must be 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 dividing or merging companies, the closure of accounts and tax return, as noted in Article 90, of the companies in question can take place in the time frame when the change or dissolution takes place, according to the Articles of Association of the companies.

Joint taxation of companies.

Article 55 [The Director of Internal Revenue][1)] can allow joint taxation of two or more limited companies, as noted in point 1 in paragraph 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 limited companies must also all have the same accounting year and have been under the same ownership for the whole accounting year, except in instances of newly formed subsidiaries or subsidiaries that are dissolved. Joint taxation is for a minimum of five years and if the joint taxation is discontinued, it cannot be permitted again until after five years from the time it was discontinued. Joint taxation shall cease for company taken into bankruptcy or is subject to being wound up cf. Article 101 of Act 161/2002.

Applications for joint taxation are to be directed to **[**The Director of Internal Revenue][1)] in the tax collection district where the parent company is domiciled, no later than thirty days before the income tax return deadline for the income year that joint taxation is applied for.

In instances of joint taxation the income tax on the joint income tax base …2) of all limited companies included in the joint taxation shall be levied on the parent company, but it is the collective responsibility of all the limited companies that the tax is paid. Still, the Director of Internal Revenue is permitted to levy income tax …2) on each company individually, should the jointly taxed limited companies specifically so request.

The operating losses of one or more jointly taxed 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 a transferable loss from past years. A limited company's transferable operating loss from before joint taxation can only be utilised in that same company. …[3)]

In instances where a subsidiary is owned by a cooperative enterprise [or savings bank]4) the provisions of this Article apply, provided that its conditions are met.

The Minister of Finance can set a regulation with further instructions about the joint taxation of parent companies and subsidiaries, such as on the utilisation of losses between companies.
1)Act 136/2009, Article 2. 2)Act 129/2004, Article 7. 3)Act 164/2008, Article 4. 4)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 takes over all assets and debt 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. 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, shall be accompanied by 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 December 31st and it can not be more 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 shall furthermore accompany the company's first tax return.

At the time of the 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 dues because of the business prior to transfer. Assets and debt 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 paragraph 1, is deemed to be equal to the book value of equity in the balance sheet from which the founding balance sheet is calculated.

Unusual financial transactions.

Article 57 If tax entities negotiate their financial transactions 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 at an abnormally high price, or sell an asset at an abnormally low price, the tax authorities can assess what is to be deemed a 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 beneficiary of such a transaction.

[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 institution domiciled in a low-tax country is to pay income tax on the profits of such parties pro rata to their ownership share without regard to distribution. The same applies to 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 on 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 paragraph 1 apply when at least half of the ownership of entities, as noted in paragraph 1, is directly or indirectly in the hands of Icelandic taxable entities or they have had control within the income year.

The provisions of paragraph 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 [or another international agreement][1)], 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, [the member state of the European Free Trade Association Treaty or in the Faroe Islands][1)] 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 deductIble, in accordance 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 disbursed profits to a taxable entity, that has been taxed in accordance with paragraph 1, the disbursement is not to be regarded as taxable income, except when it is higher than the income taxed according with paragraph 5.

The Ministry of Finance can, with a regulation, set further provisions regarding the implementation of this Article. The Minister is to publish a list of the countries and areas that taxation in accordance with this Article applies to.][2)]

[1)]Act 128/2009, Article 9. [2)]Act 46/2009, Article 2. The provision will take effect with the 1011 tax assessment for 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 accordance with paragraph 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 work of a person's spouse, its child under 16 years of age in the income year, related persons or close relative.

[Each year, the Director of Internal Revenue shall, at the beginning of the income year, set and issue a regulation on presumptive income, having received the confirmation of the Minister of Finance. In deciding the minimum presumptive income, regard shall be had of actual income for comparable occupations in addition to any further emoluments, regardless of how they are paid or in what form they are. The decision on the presumptive income according to this paragraph is independent of the decision on income according to paragraph 11.][1)]

If a person declares lower income on a tax return than is decided in the regulations of [The Director of Internal Revenue][1)], as noted in paragraph 1, then [The Director of Internal Revenue][2)] 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. [The Director of Internal Revenue][2)]is permitted to agree to a lower remuneration than stipulated in [these][1)] guidelines, provided that the relevant data and justification of the taxpayer, and employer, where applicable, is available to justify such a decision. The taxpayer shall, inter alia, provide information about the scope and nature of his occupation and the business, the result of operations, invested capital and information on contractual work, as applicable.

The decision of [The Director of Internal Revenue][2)] 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 accordance with Article 37. [The Director of Internal Revenue][2]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 paragraph 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 paragraph 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.

[1)] Act 128/2009, Article 10. The change takes effect at the 2011 tax assessment and in the 2010 withholding tax income year, as applicable according to Article 41 of that same Act. [2)] Act 136/2009, Article 3.

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 accounting year. In such cases the Director of Internal Revenue can authorise the tax entity to use that accounting year instead of the calendar year.][1)] The decision of the Director of Internal Revenue of refusal can be referred to the Internal Revenue Board according to the provisions of the Internal Revenue Board Act.

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.

[1)] Act 136/2009, Article 4.

Article 60 . [The Director of Internal Revenue may authorise those persons that have very fluctuating income between years from the production or sale of their own work, such as works of art, to count such income as taxable income over more than one year up to a maximum of four years. The Director of Internal Revenue is also authorised to allow a comparable distribution for the taxation of maritime salvage rewards received by crews of vessels, other than salvage vessels.][1)]

[1)] Act 128/2009, Article 11. The change takes effect at the 2011 tax assessment and in the 2010 withholding tax income year, as applicable according to Article 41 of that same Act.

Chapter V. The income tax base.

General provisions.

Article 61 The income tax base is the amount on which tax is levied and is decided as follows:

1. The income tax base of persons not running a business or independent operations, is considered to be income in accordance with Chapter II, as applicable, with notice of deductions that such persons are permitted in accordance with Article 30.

2. The income tax base of legal entities, as noted in Article 2, is considered to be income in accordance with Chapter II, with regard to deductions permitted to these entities in accordance with Article 31.

3. The income tax base of persons running a business or independent operations, is as follows:

a. Income in accordance 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 accordance 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 with sections a and b form a person's income tax base according to this point. If a business activity or independent operations are run at a loss, so that section b of this point generates a negative balance, the income tax base is only regarded as income in accordance 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 accordance 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.

Article 62. Married couples living together are to declare their income as follows:

1. Each of a married couple is to declare their income in accordance with section A of Article 7. From that income, deductions are to be calculated according section A in paragraph 1 of Article

30.

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

If the total deductions, noted in points 1 and 2 in paragraph 1, amount to a higher figure for one of the married persons than the income figure, noted in points 1, 2 and 3 of paragraph 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 to the tax authorities. [Unwed cohabitation refers to the cohabitation of two individuals that is, or can be, registered in the Population Register in accordance with paragraph 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 continuously for no less than one year.]1) [[The Director of Internal Revenue is allowed to seek a report from the Population Register when there is doubt regarding the fulfilment of the registration requirement.]1) *1)Act 76/2007, Article 5. 2)Act 136/2000 Article 6. 3)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 marriage, divorce, the establishing or breakup of a cohabitation within the year, 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 during 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 tax credit is governed by the provisions of paragraph 2 of Article 69, but the time limit shall take notice of the day when the marriage was established or of the date of divorce, the end of cohabitation or the death of a spouse. Those who married during the year or have fulfilled the conditions of paragraph 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 tax credit are treated accordingly. The surviving spouse 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 including the month when the spouse passed away, and tax assessment and decisions regarding personal tax credit 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 tax credit in such a way that one partner has used the personal tax credit of the other in the year of tax withheld as earned, then the personal tax credit utilised in such a way is to be declared as profit for the first partner, and the personal tax credit of the latter reduced accordingly. This use of personal tax credit is to be specifically accounted for in the tax return following the withholding tax year.

When married couples are in the situation where one partner is liable to pay tax in Iceland, in accordance 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 partner's private property is to be declared in accordance with the provisions on unlimited tax liability in Iceland, plus a 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 accordance with point 1 in paragraph 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, noted in point 1 in section A of Article 7, minus deductions in accordance with point 1 in section A of paragraph 1 of Article 30., are nonetheless to be taxed specifically from the child, in accordance with the provisions of paragraph 2 of Article 66.

[The Director of Internal Revenue][1)] is permitted to grant the application of a child's supporter, that all of the income of a child that has lost both parents and has not been adopted to be taxed with the child, in accordance with the provisions of paragraph 2 of Article 66. The same applies if a child has lost one of its parents.

[1)] *Act 136/2009, Article 6.*

Authorisation to reduce an income tax base.

Article 65 [The Director of Internal Revenue shall take under consideration the application of a person for the reduction in the income tax base in the following cases:][1)]

1. If senility, illness, accidents or a person's death has brought about the substantially diminished payment ability 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.
5. If a person has suffered significant property damage without being compensated by others.
6. If a person's payment ability is significantly diminished because of losses from outstanding claims not related to its business activity.

The Director of Internal Revenue may grant concessions according to this Article without application. [Should an application arrive after the appeal period according to Article 99 has expired, the Director of Internal Revenue may take it under consideration, provided that the conditions of paragraph 2, Article 101 are met.][1)]

[The Minister of Finance is authorised to set a regulation regarding further conditions for the above concessions.][3)]

1))Act 128/2009, Article 12. The change takes effect with the 2011 tax assessment and in the 2010 withholding year, as applicable according to Article 41 of that same Act. [2)] Act 61/2008, Article 4.[3)] Act 136/2009, Article 7.

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

The tax rate of persons.

Article 66. The income tax of those persons that are obligated to pay tax in accordance with Article 1 of this Act and have been domiciled in this country throughout the whole income year shall be computed on the basis of the income tax base according to point 1 and 3 of Article 61 as follows:

1. [Of the income tax base up to 2,400,000 krónur, an income tax of 22.9 % is computed.
2. Of the next 5,400,000 krónur, an income tax of 25.8 % is computed.
3. Of the amount in excess of 7,800,000 krónur, an income tax of 31.8 % is computed.
4. If the income tax of one of two taxpayers filing a joint return exceeds 7,800,000 krónur, the excess amount shall be taxed at a 25.8 % rate on up to half of the income tax base of the lower-income partner that is below 7,800,000 krónur, although in such circumstances a 25.8 % tax shall not be computed on a higher amount than 2,700,000 krónur.
5. The amounts of the income tax base according to points 1-4 shall be amended at the beginning of each year in direct proportion to the increase in the wage index from the beginning to the end of the previous twelve-month period. The amendments in the above reference amounts shall be published by a notice from the Minister of Finance at the beginning of the withholding tax tax year, for the first time at the end of 2010.][1)]

[6.][1)] From the calculated amount in accordance with points 1-3 the personal tax credit is deducted in accordance with section A of Article 67.

[7.][1] From the calculated amount in accordance with points 1-3, besides the personal tax credit in accordance with point 2, the seafarer's tax credit in accordance with section B of Article 67 is deducted.

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

Income tax on the income of children, noted in paragraph 2 of Article 64, shall be 4% of income above [100.745]2) krónur and the child is not to have the benefit of a personal tax credit.

[Income tax from the capital income of individuals outside of business operations is to be [20%][1] of that income. Regarded as capital income in this context is income in accordance with points 1–8 in section C of Article 7, i.e. interest payments, dividends, rental income, sale profits and other property income. [Nevertheless, an income tax according to the first sentence shall not be computed on total interest income amounting to 100,000 krónur for a person and 30 % of a person‘s income from the rental of residential housing.][1)]][3)]

The amount, calculated in accordance with paragraph 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, unless specifically stated in those laws. On the withholding of tax calculated from interest income and dividends according to this paragraph in the income year, the Act on Public Dues Withheld at Source shall apply, subject to the further provisions of that Act.

1) *Act 128/2009, Article 13. The provisions of point 5, paragraph 1 shall take effect in the 2011 withholding tax year and in the 2012 tax assessment; in other respects, the amendment takes effect with the 2011 tax assessment and in the 2010 withholding tax year, as applicable according to Article 41 of that same Act. 2)Act 129/2004, Article 8. 3)Act 76/2007, Article 6.*

Article 67

A.

The personal tax credit of persons, noted in paragraph 1 of Article 66., is to be [530,466 krónur]1) ...[1)] [The amount of the personal tax credit shall be published with a notice from the Minister of Finance at the beginning of the withholding tax year.][2)]

If the personal tax credit in accordance with paragraph 1 amounts to a higher figure than the income tax calculated from the income tax base in accordance with point 1 in paragraph 1 of Article 66, the Treasury is to pay up to the difference, and such funds are to be used for each person to pay its local income tax in the year of tax assessment. ... [3]

The personal tax credit, still unused, expires, except in cases of unused personal tax credit of a married person, taxed according to the provisions of Article 62, and in such instances the unused personal tax credit of one spouse is added to the personal tax credit of the other. Should a thus decided personal tax credit of the latter spouse amount to a higher amount than the tax calculated from its income tax base in accordance with point 1 in paragraph 1 of Article 66 the Treasury is to supply funds amounting to the difference in order to pay its local income tax in the year of assessment ...3) From the personal tax credit then unused [18/37]1) parts are to be used to pay the income tax on capital income, as noted in paragraph 3 of Article 66. That part of the personal tax credit then still unused expires.

The Minister of Finance shall decide in a regulation[4)] provisions on how the personal tax credit of employees is to be used to offset the withholding 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 tax credit deducted from withheld taxes is to be divided in each 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. [5)]

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 seafarer's reduction, that is to be deducted from the calculated income tax of the person's pay for work at sea.
Those that are employed as seafarers, as noted in paragraph 4, and are legally registered as part of a ships' crew enjoy the right to a seafarer'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 paragraph 4.

Furthermore do those enjoy the right to a seafarer's reduction that are legally registered seafarers that work, as noted in paragraph 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 seafarer's tax credit is to be [987][6)] krónur per day. When deciding the number of days that give the right to a seafarer's reduction, notice shall be taken of the number of days that seafarers' are obliged to be legally registered, in accordance with Articles 4 and 5. of Act 43/1987, on the Legal Registration of Seafarers. If these days are 245 in a year or more, 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. Baiters working on a catch-share basis have the right to a seafarer's credit for the number of days they are employed at baiting in accordance with a written agreement on catch-share allotment. For persons employed on fishing vessels under 20 gross tons, that are not subject to legal registration according to the above-noted Act, then general workdays (Monday to Friday) in the sea time period are to be used instead of the days of legal registration, as noted above. The right of these persons is dependent upon that their wages for seafarership 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 with a collective pay agreement, are to be included with days when the seafarer's reduction is enjoyed. Should the number of days that entitle a person to the right to a seafarer'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 seafarer's reduction, as applicable.

The right to a seafarer's reduction is conditioned upon the operator of a ship to keep an exact record of the days that give a seafarer the right to a seafarer's reduction.

Further provisions on the implementation 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 reduction, registration, as noted in paragraph 6, and what documents can be called for in that respect.

1)Act 128/2009, Article 14. The amendment takes effect at the 2011 tax assessment and in the 2010 withholding tax year as applicable according to Article 41 of that same Act. 2) Act 174/2006, Article 6. 3)Act 129/2004, Article 9. 4)Rg. 10/1992, as noted in 499/2001 and 50/2008. 5) The provisions of section B expire as of and including January 1st 2014 according to temporary provision XXX. 6)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 accordance 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 accordance with Article 62 are both regarded as supporters and the child benefit is split equally between them. The same applies to persons in cohabitation that at the end of the income year meet the conditions of paragraph 3 of Article 62, even if they have not asked to be taxed according to that Article. [By the same token, those persons that maintain a household with their child shall be viewed as providers under this provision, although the conditions for registration of cohabitation are not fulfilled. In such circumstances, child benefits shall be determined in the same manner as for a married couple.]2) In instances where only one partner in a marriage is taxable in Iceland in accordance 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 have been paid in another country.

For a child that in the income year is given domicile in Iceland, child benefits are only to be paid pro rata to its time of residence in Iceland in that year. Thus the amount of child benefits and reduction because of income in accordance with paragraph 4, shall be decided retain proportion to the time of residence.

Income-based child benefits are to be paid with every child under the age of [18]1) years in the income year that annually amount to [152,331]2) krónur for the first child, and [181,323]3) krónur for every child in excess of one. Income-based child benefits for the children of single parents are to be [253,716]3) krónur with the first child, and [260,262]3) krónur for every child above one.

Child benefits according to this paragraph are reduced pro rata to an income tax base above [3,600,000]4) krónur for married couples and above [1,800,000]4) krónur for a single parent. Income tax base in this context refers to income in accordance with Chapter II of this Act, …2), with regard to deductions in accordance with points 1, 3, 4 and 5 of section A in paragraph 1 and paragraph 2 of Article 30 and deductions in accordance with Article 31. The reduction ratio is to be [3%]5) for one child, [5%]4) for two children and [7%]4) for three children or more. In addition to child benefits according to this paragraph, income-based child benefits shall be paid for all children under the age of 7 years in the income year. They shall amount to an annual sum of 61,191 krónur and the reduction rate shall be 3 per cent for each child.
The child benefits are 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 them, the person is to refund them, plus a 15% surcharge. Still, the surcharge, according to this paragraph, is to be waived if a person can show with reason that it cannot be held responsible for the impediments on the tax return that led to the decision of [the Director of Internal Revenue].6)

[Despite the provisions of paragraph 1 of this alphabetical section, child benefits can be decided for children that are not domiciled in Iceland, but dependent on a citisen 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 accordance with Article 1 of this Act or is insured on the basis of Articles 12, 13 or 14 of the Social Security Act 100/2007.]7) 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]8) and that sufficient documentation is submitted 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 of [the Director of Internal Revenue].6) and submit 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 paragraph 1.]7) Further stipulations on the implementation of this Article can be established in a regulation.

Child benefits are to be issued [on the basis of a tax return]9) when assessing 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 prioritisation, are to be included in a regulation.10)

[The decision of the Director of Internal Revenue regarding the advance payment of child benefits shall be the final decision in the case at the administrative level.]6)

B. Interest tax rebates.

A person who is taxable in accordance with Article 1 and pays interest on loans borrowed to buy or build a residential property for own use, including the purchase of [habitation rights according to Act 66/2003 and the purchase of a stake in a general finance lease apartment according to older legislation],9) is entitled to a special benefit, an interest tax rebate, provided that the person accounts for the loans and their interest cost in a special report accompanying the tax return on a form decided by the Director of Internal Revenue.

Interest cost, that forms the right to an interest tax rebate, is the interest cost from mortgage loans for at least two years or surety loans from credit institutions for a period of no less than 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 because of significant renovations of a residential property for own use. The interest cost of loans for less than two years, can only be included in the next four years from and including the purchase year, when an residence 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 including the year when construction was commenced, or until the year when the property begins to be used for residence, should that be at a later date. Regarded as interest costs in this context are:
1. Paid interest and paid price-increase compensation on repayments 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 proceeds 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 repayments over 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 on loans that a buyer overtakes on the sale of a residence, 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 accordance with paragraph 4, are based on the interest cost amount, as noted in paragraph 2, for each taxpayer, although never higher than [5%]5) share of a debt for the procurement of a residential property for own use, as the balance stands at the end of the year. For persons taxable for a part of a year because of emigration in the income year, notice shall be taken of the debt balance prior to emigration. Interest costs according to this paragraph can on the other hand never be higher than [554,364]3) krónur for an individual, [727,762]3) krónur for a single parent and [901,158]3) krónur for married couples or persons in cohabitation. The maximum interest cost for persons, taxable in accordance with Article 1 for a part of the year, is determined pro rata to their residence time in the year.

Interest tax rebates are to be decided by deducting from interest costs, as defined in paragraph 3, an amount equivalent to 6% or the income tax base. The above-noted 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. The income tax base in this context refers to income in accordance with Chapter II of the Act, having regard to deductions in accordance with points 1, 3, 4 and 5 of section A in paragraph 1 and paragraph 2 of Article 30 and deductions in accordance with Article 31. When calculating interest tax rebates for married couples or persons in cohabitation that meet the conditions of paragraph 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 above. [The same applies to persons that are proven to be in cohabitation and maintain a joint household, although conditions for the registration of cohabitation are not fulfilled.][2] Thus decided interest tax rebates are reduced proportionally when assets in accordance with Article 72, minus debt in accordance with paragraph 1 of Article 75, exceed [7,119,124][3)] krónur for an individual and [11,390,599][3)] krónur for married couples or persons in cohabitation, until they are cancelled at a 60% higher amount. 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 in accordance therewith. Interest tax rebates can never be higher than [189,957][3)] krónur per person, [244,299][3)] krónur for a single parent and [314,134][3)] krónur for married couples or persons in cohabitation that meet the conditions for joint taxation, as noted in paragraph 3 of Article 62, at the end of the income year. Maximum interest subsidy for persons taxable in accordance 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][3)] krónur 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 purchased 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 regard shall be had to the debt as it was at the time of the sale.

Interest tax rebates are to be divided equally between married couples. The same applies for persons in cohabitation that meet the conditions for joint taxation, as noted in paragraph 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, 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.

Estimated interest tax rebates to persons that have purchased residential property for own use in the year 1999 and later may be paid quarterly in advance. 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 paragraph 3.

Deductions form the interest cost of each quarter, as noted in paragraph 4, shall be based on one-quarter quarter of the income subject to withholding taxation for the prior 12 months, plus the income not subject to withholding tax 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 paragraph 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 [the Director of Internal Revenue][6)] and provide all required information. Credit institutions, pension funds and other entities that provide mortgage loans to persons buying residential property are to supply the tax authorities with all necessary information required to decide interest tax rebates paid in advance. [The ruling of the Director of Internal Revenue regarding the advance payment of interest tax credits shall be final in the case at the administrative level.][6)]

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 Director of Internal Revenue].[6)]

Rules regarding the offsetting 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 prioritisation, are to be set in a regulation.

1)Act 174/2006, Article 8. 2)Act 128/2009, Article 15. The amendment takes effect at the 2011 tax assessment and in the 2010 withholding year as applicable according to Article 41 of that same Act. [3)] Act 173/2008, Article 10. See also temporary provision XXXII regarding reference amounts for the determination of interest tax rebates in 2010 with regard to income, assets and debt in 2009. 4)Act 61/2008, Article 6.See also temporary provisionXXXII. 5)Act 129/2004, Article 10 .6)Act 136/2009, Article 8. [7)] Act 166/2007, Article 7. 8)Act 108/2006, Article 24 .9)Act 164/2008, Article 5.10) Regulation 555/2004,as noted in 7/2005, 346/2006, 249/2008 and 1152/2008. See also temporary provision XXXI. [11)] Regulation 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 the country because of studies or because of illness et al.

Article 69

For persons with income according to point 2, section A, paragraph 1, Article 30, the same tax bracket shall be used at the tax assessment on other income as would be applied if it had not enjoyed the deduction noted therein.

The income tax base of persons liable to pay according to paragraph 1 and have only been domiciled in Iceland for part of the year the amount shall be divided by the number of their days of stay in the country in the course of the year and the result multiplied by 365. The income tax shall then be calculated according to Article 66 on the income tax base thus computed, having regard to Article 67, as if the persons had been domiciled in Iceland for the whole year. This amount shall then be divided by 365 and the resulting figure multiplied with the number of days residing in this country during the year. The resulting amount shall be the finally calculated and levied income tax or the determined 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 implementation this paragraph by regulation,[1)] inter alia, what studies apply here, the right of a spouse, tax returns, et al.

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 accordance with Article 3, is to be decided in the following manner:

1. The income tax of persons, noted in point 1 of Article 3, is to be decided in the same way as noted in paragraph 2 of Article 69. The same applies to unused personal tax credit.

2. [The income tax of a person under point 2, Article 3 shall amount to 18 % of its income tax base.][1)]

A person engaged in professional entertainment or contest, as noted in paragraph 1 of this point, without predetermined pay or remuneration, but instead enjoys the proceedings from such activity, is to pay a 15% income tax on the total amount of income from such activity, without any deductions.

[Despite the provisions of paragraph 1, the income tax of pensioners or benefit recipients under point 2, Article 3 shall be computed on the income tax base according to points 1-3 of paragraph 1, Article 66, having regard to the personal income tax credit according to section A, Article 67.][1)] In such cases the personal tax credit 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 municipal income tax on the same income. The part of the personal tax credit 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 that receive payment for services or activity provided in this country, as noted in point 3, Article 3, shall be computed as follows:

a. 18 % of the income tax base in the case of persons. This percentage is, inter alia, computed on wages or fees to artists and others that appear for professional purposes for entertainment or in any kind of competition, including with wages and fees any kind of emoluments, including transportation to and from the country if the recipient did not pay it himself. It does not matter whether the person appears on his own account or in the name of another party or whether the payment is from a domestic or foreign party.
b. 20 % of the income tax base in the case of legal entities according to points 1 and 2 of paragraph 1, Article 2.
c. 36 % of the income tax base in the case of other legal entities.][1)]
4. [The income tax of entities under point 4, Article 3 shall be computed as follows:
a. of the income tax base with the tax rate according to points 1-3, paragraph 1, Article 66 excluding the personal income tax credit according to section A, Article 67 in the case of a person,
b. 20 % of the income tax base, as noted in point 2, Article 61, in the case of a legal entity according to points 1 and 2, paragraph 1, Article 2.
c. 36 % of the income tax base, as noted in points 2, Article 61, in the case of other legal entities. The income tax base of foreign insurance companies operating in this country shall be regarded as the share of the total profit corresponding to the ratio between premium income in this country and premium income on all their activity.][1)]
[5. The income tax of entities according to point 5, Article 3 shall be computed as follows:
a. 20 % of the income of persons. 30 % of the rental income of residential housing received by persons shall be exempt from income tax.
b. 20 % of the income tax base, according to point 2, Article 61, in the case of legal entities.][1)]
[6. The income tax of parties according to point 6, Article 3 shall be 18 % of income.] [1)]
[7. The income tax of parties according to point 7, Article 3 shall be computed as follows:
a. 20 % of the income of persons.
b. 18 % of the income of legal entities.][1)]
[8. The income tax of parties according to point 8, Article 3 shall be computed as follows:
a. 20 % of the income of persons. Interest income up to 100,000 krónur a year shall be exempt from income tax.
b. 18 % of the income of legal entities[1)]
[9. The income tax of parties according to point 9, Article 3 shall be computed in the same manner as specified in points 4-8 of this Article.] [1)]

1) Act 128/2009, Article 16. The amendment takes effect at the 2011 tax assessment and in the 2010 withholding year as applicable according to Article 41 of that same Act.

Article 70 a. ***The income of persons with limited tax liability who earn the majority of their income in this country.***

Persons residing in a member country of the European Economic Area, a member country of the European Free Trade Area Agreement or in the Faroe Islands and are with limited tax liability in this country according to paragraph 3 but receive no less than 75 per cent of their total income in the income year from Iceland have the right to be taxed as if they had been liable to tax

according to Article 1 for the full income year with the domiciliary rights accorded by this Act and other Acts on public dues.
The same right is accorded to persons that are liable to tax according to Article 1 but have only been domiciled in this country for part of the income year, provided they have resided in a member country of the European Economic Area, a member country of the European Free Trade Area Agreement or in the Faroe Islands, provided their income from Iceland is no less than 75 per cent of their total income in the income year.
Couples and individuals in confirmed cohabitation or cohabitation without the benefit of marriage residing in a member country of the European Free Trade Area Agreement or in the Faroe Islands to file their return in accordance with Article 62 if one or both have a right to be taxed according to paragraphs 1 or 2 of this Article, provided their income from Iceland is no less than 90 per cent of their total income in the income year and they are registered as residing together at the end of the income year.
The Minister of Finance shall set further regulations on the implementation of this Article by Regulation on the rights of a spouse, the filing of tax returns et al.

The income tax of legal entities.
Article 71 [The income tax of legal entities in accordance with points 1 and 2 in paragraph 1 of Article 2 is to be [20%]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 paragraph 1 of Article 2, is to be [36%]1) of the income tax base, as noted in point 2 of Article 61.]2)

Despite the provisions of paragraph 1 and paragraph 2, the income tax of those legal entities listed in points 3, [4]3) and 5 in paragraph 1 of Article 2, having received dividends in accordance with point 4 of section C in Article 7, is to be [20%]1) of that income.

Those legal entities exempt from taxation in accordance with points 1, 2, 4, 5, [6 and 7]4) of Article 4, are nonetheless to pay income tax on capital income, as noted in points 3, 4 and 5 of section C in Article 7, as well as in accordance with point 8 of section C in Article 7, in regard to sale profits from shares. The tax is to be 20% 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 interest in their own loan operations or receive interest income without tax being withheld, are nonetheless to submit a report to tax authorities on their interest income and pay an 20% income tax on such interest after the income year is over. Entities that this paragraph applies to and have other capital income, are also to pay an 20% income tax on such income after the income year is over. In determining 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 Internal Revenue sets further regulations regarding statements and because of this paragraph.

The following entities are exempt from the provisions of paragraph 4:
1. The Icelandic Student Loan Fund, The Institute of Regional Development (*Byggðastofnun*),

The Housing Finance Fund *(Íbúðalánasjóður)*, The Building Fund of Disabled People [*Framkvæmdasjóður fatlaðra*], The Building Fund of the Elderly [*Framkvæmdasjóður aldraðra*],The Agricultural Productivity Fund (*Framleiðnisjóður landbúnaðarins)*, Municipality Credit of Iceland [Plc.] *(Lánasjóður sveitarfélaga)*,5) The West Nordic Foundation *(Lánasjóður Vestur-Norðurlanda)*, The Central Bank of Iceland *(Seðlabanki Íslands),* The New Business Venture Fund *(Nýsköpunarsjóður atvinnulífsins)*, The Fish Farming Development Fund (*Fiskræktarsjóður*), [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 authorised to receive premiums that form the right to retirement pay].6)

2. Credit institutions taxable according to Act 65/1982, on the Tax Liability of Credit Institutions, with subsequent amendments, as their capital income is governed by the provisions on general tax liability according to that Act.

1) Act 128/2009, Article 16. The amendment takes effect at the 2011 tax assessment and in the 2010 withholding year as applicable according to Article 41 of that same Act .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 noted in Article 74, regardless of whether they pay dividends 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 paragraph 2 of Article 12, after deduction of prior depreciation, or on the estimated real estate valuation price of a similar property, whichever is higher.[The Director of Internal Revenue]2) is to estimate the real estate appraisal price in this context, having 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 its expected condition of the following spring, at a price decided for one year at a time by the Director of Internal Revenue.

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

The movable property of persons, that cannot 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 at which they were declared by the taxpayer the previous year.

4. Goods held in stocks of shops and manufacturers, including intermediate goods, such as raw material, fuel, fishing gear and goods in production, are to be declared as assets at cost- or output price or at current value at the end of the accounting year, after deducting discounts

because of faulty and obsolete goods. A deduction of up to 5% of the assessed value, thus computed, shall nevertheless be permitted.
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 paragraph 3 of Article 36 of the Annual Accounts Act, not registered on an organised 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 accounting year. If these assets are listed on an organised securities market they are to be declared at their listed market price on an active market at the end of the accounting 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 accordance 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 accounting year, except if their worth can be proven to be lower. From the price of outstanding business claims and loans, thus calculated, a deduction of up to 5% is permitted in order to establish an offsetting account to meet claims that may become lost. Regarded as outstanding business claims and loans in this context are claims established because of the sale of goods and services and because of other loans directly linked to the business activity. Outstanding debt of private non-profit institutions, that at the same time give the creditor a parallel right to residence, can be declared as an asset in accordance with the real estate appraisal of the respective residential property.][3)]
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. [The Director of Internal Revenue][2)] can assess the price of these rights.
8. Assets not subject to depreciation in accordance with Article 48 are to be declared as assets at their cost value, as noted in paragraph 2 of Article 12, after deducting prior depreciation and deducting prior write-downs in accordance with paragraph 6 of Article 15.

1)Act 129/2004, Article 12. 2)Act 136/2009, Article 9. 3)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 paragraph 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 limited company's own shares, as noted in point 1 of paragraph 1 in Article 2. *[Debt.]1)*

1)Act 129/2004, Article 13.

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

[Included with the debt of entities noted in point 4 of Article 3 can only be debt directly linked to their operations in this country.]1)

[Included with the debt of entities noted in [points 5–9]2) of Article 3 can only be debt that is hypothecated on these assets.]1)
1)Act 129/2004, Article 13. 2) Act 70/2009, Article 8.

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 debt that must be declared are to be declared with reference to the status of a taxable entity's assets and debt at the at the end of the year.]1) Those who, with the permission of [the Director of Internal Revenue]2), use a different accounting year than the calendar year, may declare their assets at the end of the accounting years prior to the assessment of taxes.
1)Act 129/2004, Article 16.2) Act 136/2009, Article 9.

Article 79 …1)
1)Act 129/2004, Article 17.

Article 80 [Married couples, living together, as noted in Article 5, as well as two cohabiting individuals who have requested joint taxation in accordance with paragraph 3 of Article 62, are to collectively declare all their assets and debt, irrespective of whether a privately owned asset is included or debt linked thereto.]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 net wealth tax.

Article 82 …1)
1)Act 129/2004, Article 32, as noted in temporary provision XVI.

Article 83 ...1) *1)Act 129/2004, Article 32, as noted in temporary provision XVI.*

Chapter VIII [The Director of Internal Revenue, the Directorate of Tax Investigations et al.]1)

1)Act 136/2009, Article 15.

...[1)]

1)Act 136/2009, Article 10.

Article 84 [The country is one tax district and tax offices shall be located according to the decision of the Minister of Finance, having received the proposal of the Director of Internal Revenue.][1)]

1)Act 136/2009, Article 10.

...[1)]

1)Act 136/2009, Article 11.

Article 85 [The Minister of Finance appoints the Director of Internal Revenue for a term of five years. No one may be appointed to this post unless he fulfills the following conditions:

1. Having an unblemished reputation or not having been sentenced for a punishable offence according to paragraph 1, Article 68 of the Penal Code.
2. Being a major and being in control of his finances.
3. Being an Icelandic citisen.
4. Having completed an degree in law, economics or business administration or being a certified public auditor. An exception from the requirements of this point may be made if a person has acquired a wide-ranging special education or specialised knowledge of tax law and its implementation.

The Minister of Finance hires a Deputy Director of Internal Revenue who must fulfill the same conditions as the Director of Internal Revenue.][1)]

[1)]Act 136/2009, Article 11.

...[1)]

[1)]Act 136/2009, Article 12.

Article 86 ... [1)]

[1)]Act 136/2009, Article 12.

...[1)]

[1)]Act 136/2009, Article 13.

Article 87 . [The Director of Internal Revenue is authorised to hire agents to work on limited tasks due to tax implementation][1)]

[1)]Act 136/2009, Article 13.

The Director of Tax Investigations.

Article 88 The Minister appoints the Director of Tax Investigations for a term of five years. He must fulfil the conditions set in Article 85 regarding the [the Director of Internal Revenue].[1)]

[1)]*Act 136/2009, Article 14.*

Chapter IX. Tax returns and reports.
...[1)]
[1)]Act 136/2009, Article 16.
Article 89...[1)]
[1)]Act 136/2009, Article 16.

Tax returns.
Article 90 All entities liable to pay taxes in accordance with Chapter I of this Act, as well as those who consider themselves exempt from taxation in accordance with point 4 of Article 4, are to submit to [the Director of Internal Revenue][1)] a return on a form decided by the Director of 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 to the assessment of taxes. The tax return of legal entities and individuals running a business or independent operations shall be accompanied by a signed annual account in accordance with the provisions of the Accounting Act or, where applicable, the Annual Accounts Act, along with a specific report regarding tax bases in a form decided by the Director of Internal Revenue. [The Director of Internal Revenue can authorise legal entities and individual who run a business or independent operations to hand in their report in computerised format.][2)]

The duty to file a tax return is mandatory for all persons. Trustees are to file tax returns for those not competent to manage their financial affairs. Heirs are to file tax returns for estates of the deceased that are being wound up privately. Insolvency practitioners are to file tax returns for bankruptcy estates and estates of deceased persons. The tax returns are to be signed by those who have the legal obligation to file tax returns. 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 returns are 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 paragraph 1. For registered companies it suffices that those authorised to make binding decisions for the company sign the tax return.

Submitting a return in computerised format, having been given the permission of the Director of Internal Revenue to do so, is the equivalent of signing the report in accordance with paragraph 2 and paragraph 3.

If a tax entity is domiciled abroad, resides abroad or for some other reason is incapable of filing a tax return itself, grant a person, domiciled in Iceland, a mandate to file a tax return 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 [the Director of Internal Revenue][1)] incapable of filing a tax return due to senility, disease or of other similar causes, [the Director of Internal Revenue][1)] is to assist the person with his tax return, and the taxpayer is to supply all necessary information and documents for its preparation. The person assisting with the tax return is to attach a written statement to the report of its assistance.

[If a person obliged to file a tax return has not complied with his duty in accordance with sentence 1 of paragraph 1 [the Director of Internal Revenue][1)] is permitted to prepare a tax return with the information at hand, provided that [the Director of Internal Revenue][1)]considers it 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 accordance with paragraph 2 of Article 95. The notification of taxes and deadline for appeals is handled in accordance with sentence 2 of paragraph 1 in Articles 98 and 99.][3)]

[1)]Act 136/2009, Article 17. [2)] Act 128/2009, Article 18. [3)]Act 164/2008, Article 6.

Article 91 The tax return of legal entities authorised 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 report, as noted in paragraph 1 of Article 90, on tax bases, in a form decided by the Director of Internal Revenue, and amounts must be in Icelandic krónur.

The amounts in a report in accordance with paragraph 1 are to be converted into Icelandic krónur in the following manner:

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

b. Assets, debt and equity are to be converted to Icelandic krónur using the exchange rate at the end of the respective accounting year.

c. Exchange rate discrepancy that may arise when converting from a foreign currency to Icelandic krónur in accordance with sections a and b is not to influence income in the income statement.

When converting to an operational currency, the depreciation base of assets and prior depreciation, the cost value of non-depreciable assets and assets that have not been put to use, are is to be converted using the final exchange rate of that accounting year and the 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 paragraph 4 of Article 18 or paragraph 3 of Article 19 as applicable in Icelandic krónur whereas the sale price is to be converted to Icelandic krónur 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 krónur with reference to the current exchange rate when purchased, 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 accordance with point 1 of Article 73 and ownership in companies is to be declared as assets in accordance 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 krónur as it was in the year when the profit was made. Operating loss from prior years in accordance with point 8 of Article 31 is to be deducted from the year‘s operating income unchanged in Icelandic krónur from the information in the report in accordance with paragraph 1 in the accounting years when the loss occurred. In other regards, the rules that apply for the tax return of legal entities in Icelandic krónur 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 krónur in addition to accounting in an operational currency, is permitted to refer in its report in accordance with paragraph 1, to the accounting in Icelandic krónur, in which case that method is to be maintained for at least five years.

1)Act 129/2004, Article 23.

Payroll reporting et al.

Article 92 All those who employ persons and remunerate them for their work, including 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 submit to [the Director of Internal Revenue][1] a report on those payments, for free, and in a form decided by the Director of Internal Revenue. The same applies for payments to contractors for materials and work. If such payments are made with the intermediation of another party and the one that work was being done 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 trading, [intermediation]2) and other handling of shares, [securities and other financial instruments],2) shall of their own accord supply [the Director of Internal Revenue][1] with a report of such transactions and parties thereto, for free, and in a form decided by the Director of Internal Revenue.

[Banks, savings banks, other financial entities and other entities in accordance with paragraph 1 of Article 3 of Act 94/1996 that accept deposits for the purpose of earning interest are of their own accord to give the tax authorities, for free, and in a form decided by the Director of Internal Revenue, information about paid or due interest in the year in accordance with Article 8 of this Act as well as withheld taxes and deposits in bank accounts and any kind of securities- and investment funds. The same applies to any kind of loans to customers and interest payments from those loans.]2)

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 Internal Revenue, to submit to [the Director of Internal Revenue][1] 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][3)] , and the personal identification number of the receivers of payments is to be noted in the such reports.

The Director of Internal Revenue can establish a general duty to [submit a report][1)], for free, and on a form that the Director decides, on other issues pertaining to the levying of taxes according to this Act, such as on the buying and selling of raw materials and products, the buying and selling of vehicles the registration of which is mandatory, shares and dividends, initial capital and return thereon, [securities and other financial instruments as well as a return thereon]2) and lottery winnings and contests.

The reports of companies that have been authorised to keep books and annual accounts in a foreign currency in accordance with Article 11-A of the Annual Accounts Act are to be based on the original amounts in Icelandic krónur or converted using the current exchange rate.

1)Act 136/2009, Article 18. 2)Act 46/2009, Article 3. 3)Act 128/2009, Article 19.

Tax return deadline.

Article 93 At the beginning of each year the Minister of Finance, after receiving the proposals of the Director of Internal Revenue, shall decide and publish by notice when the tax assessment is to be completed. The assessment must be completed no later than ten months after the end of the income year, as noted in Article 59.

At the beginning of each year the Director of Internal Revenue shall set the deadline for tax entities to file a tax return, as noted in Article 90, and the data noted in Article 92. Those deadlines can be changed should it be deemed necessary.

Persons liable to pay tax in Iceland in accordance with point 1 of Article 3 and are leaving the country are to hand in a tax return to [the Director of Internal Revenue][1] no later than one week before their departure.

1)Act 136/2009, Article 19.

Reporting requirement and supervisory power.

Article 94 It is the obligation of all parties, both those that must file tax returns as well as of others, to submit to the tax authorities, for free and on the form requested, with all necessary information and documents called for and can be submitted. It does not matter in this context whether the information directly applies to the party that the information is requested of, or to the business of other parties with that party that he can provide information and pertain to the taxation of such parties or to an inspection or investigation thereof.
[If an entity, directly or indirectly, holds at least half of a company, or has managerial control over a subsidiary or branch in other countries, that entity is also obliged to give information about the business of the subsidiary or branch with entities taxable in accordance with Chapter I as well as on companies, funds and institutions in low-tax countries, that paragraph 1 of Article 57-a of this Act applies to.]1) Tax authorities, according to this Article, mean the Director of Internal Revenue and the Director of Tax Investigations.][2]

Due to tax investigations in accordance with this Act, [the Director of Internal Revenue and persons, to whom have been given tasks regarding][2)] tax investigation, can demand that entities obliged to file tax returns provide them with their accounting and books for inspections as well as any other documentation relevant to the business, letters and contracts included. These parties are furthermore to have access to the aforenoted data and access to the offices of entities obliged to file tax returns, 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 because of inquiries in accordance with Article 103. The Director of Tax Investigations can, for the purposes of investigating a case, seek the authority of a district court for the search and seizure of documents in homes and other places not covered by the first sentence.

The tax authorities also have the powers noted in paragraph 2 of this Article towards those entities that are not obliged to file tax returns.

[Financial institutions, auditors, lawyers and other entities are to keep special record of those clients to whom they provide 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 said record of clients 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, the Director of Internal Revenue or the Directorate of Tax Investigations can call for a court order regarding that dispute before 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].[3)]

[1)]Act 46/2009, Article4 . [2)]Act 136/2009, Article 20. [3)] Act 88/2008, Article 234.

Chapter X. Tax assessment, appeals et al.

Tax assessment.

Article 95 When the deadline for filing a tax return has passed [the Director of Internal Revenue][1)]is to assess the income tax …[2)] of a taxable entity in accordance with its tax return. Nevertheless, [the Director of Internal Revenue][1] must correct obvious calculating errors. Furthermore, [the Director of Internal Revenue][1]can correct 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, although the taxable entity is to be made aware of such changes. Furthermore, [the Director of Internal Revenue][1] shall determine tax benefits in accordance with Article 65.

If a tax entity does not hand in a tax return before the given deadline, as noted in Article 93, [the Director of Internal Revenue][1] 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 136/2009, Article 21. [2)] 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 [the Director of Internal Revenue][1] 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 submit written explanation and data, including books and accounting data, that [the Director of Internal Revenue][1] deems necessary. If [the Director of Internal Revenue][1] receives satisfactory explanations and data within the given time, he assesses the taxes or re-assesses them according to the tax return and explanations and data, although with regard to Article 108. If the errors in a tax return are not corrected, the entity filing the tax return does not respond within the given time, its explanations are unsatisfactory, documents not submitted that have been called for, submitted 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 [the Director of Internal Revenue][1]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, although with regard to Article 108.

If a taxable entity has not filed a tax return and has been taxed according to an estimate that later is shown to have been too low its 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 paragraph 1 of this Article, as well as Article 108, as applicable.

If a tax return is changed before taxes are assessed, on the basis of paragraph 1 of this Article, [the Director of Internal Revenue][1] 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 Director of Internal Revenue][1] 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 paragraph 1 and paragraph 2 of this Article, then [the Director of Internal Revenue][1] is to notify the taxable entity, or those obliged file the tax return, in writing, of the intended changes and of the reasoning behind the changes. [The Director of Internal Revenue][1] 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.

[The Director of Internal Revenue 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.][1)] When the ruling has been made an announcement concerning the changed taxation is to be sent to the respective debt collector of the Treasury. ...[1)]

If [the Director of Internal Revenue][1] has a suspicion of tax fraud or a punishable offence against the Acts 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.
1)Act 136/2009, Article 22.

Article 97 Authorisation to re-assess taxes in accordance with Article 96 covers tax levied on income and assets for the six years prior to the year of re-assessment. If a taxable entity has in its tax return or in accompanying documents given sufficient information on which a correct tax assessment could be based on, it is not permitted to re-assess its taxes for more than the two years prior to the year of re-assessment, even if it turns out that the tax assessment has been too 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 authorisation to re-assess the taxes is valid from the beginning of the year when the investigation commenced.][1)]
[1)]Act 129/2004, Article 25.

Article 98 [When the Director of Internal Revenue has completed assessing the taxes for taxable entities he shall][1)], no later than 15 days before the end of the appeal time limit, in accordance with Article 99, prepare and submit for observation a register of tax assessment for each municipality ...,[1)] specifying the taxes levied on each taxpayer according to this Act. Every taxable entity is to be sent a notification of its taxes. [The Director of Internal Revenue][1] is also to prominently advertise, among other places in the Icelandic Legal Gasette (*Lögbirtingablað*), that the tax assessment is completed as well as where and when the register of tax assessments is available for viewing. [If a tax entity's accounting year is different from the calendar year [the Director of Internal Revenue][1] is, in stead of an advertisement in accordance with sentence 3, send the entity a notification of the tax assessment by registered post and publish the tax assessment in the next publication of the register of tax assessments and taxes.][2)] [The Director of Internal Revenue][1] is also to send the respective debt collector of the Treasury a register of all entities that tax has been levied on, as well as a duplicate to the National Audit Office.

When tax assessment and appeals processes are over, as noted in Article 99, [the Director of Internal Revenue][1] is to put together and submit a tax register for each municipality...[1)], specifying the levied income tax …[2)] of each taxpayer and other taxes, according to the decision of the Director of Internal Revenue. The tax register is to be available for observation for two weeks at a convenient location...[1)]. [The Director of Internal Revenue][1] 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 136/2009, Article 23. [2)]Act 129/2004, Article 26.

[Appeals to the Director of Internal Revenue][1)]
[1)]Act 136/2009, Article 24.

Article 99 [In cases where a tax entity believes that its taxes or tax base, including operating losses, a concession according to Article 65 are wrongly determined, it can file a reasoned appeal, in writing or electronic form, on a form decided by the Director of Internal Revenue, supported with the necessary data, to the Director of Internal Revenue within 30 days from the date of the advertisement of the Director of Internal Revenue that tax assessment in accordance with paragraph 1 of Article 98 is completed.][1)] A tax return that is submitted after the filing deadline, but before tax assessment is completed in accordance with paragraph 1 of Article 98, is to be treated as an appeal to [The Director of Internal Revenue][1], regardless of whether a tax entity files appeals a tax assessment or not. Within two months from the deadline for appeals [The Director of Internal Revenue][1] is to have ruled on the appeals. [The rulings of the Director of Internal Revenue are to be substantiated and sent to the complainants via registered mail, a general postal letter or electronically in the form decided by the Director of Internal Revenue.][1]

Changes in taxation are also to be sent to the respective debt collector of the Treasury and duplicates to the Director of Internal Revenue and ...[1)] to the National Audit Office.

[The rulings are to be made and signed by [The Director of Internal Revenue][1] ..*1)Act 136/2009, Article 24.*

Appeals to the State Internal Revenue Board.

Article 100 The rulings of [The Director of Internal Revenue][1] on tax re-assessment in accordance with paragraph 5 of Article 96 and rulings on appeals in accordance with Article 99 can be appealed to the State Internal Revenue Board using the provisions of the Act on the State Internal Revenue Board.

1)Act 136/2009, Article 25.

Chapter XI. Sundry provisions on tax authorities.

The Director of Internal Revenue.

Article 101 [The Director of Internal Revenue shall levy public taxes according to this Act and other acts on taxes and dues that are entrusted to him. For this purpose, the Director of Internal Revenue shall set implementation rules and work rules along with directives and guidelines.[1)] The Director of Internal Revenue shall also issue regulations and decisions that he considers important for tax entities and, as the case may be, publish and offer for sale.

The Director of Internal Revenue may also accede to the request of a tax payer to revise a ruling on a tax base or taxation, although no further than six years back, counted from the year when the request is made, provided that significant interests are at stake. The request shall be based on new documentation and information. The conditions of Article 96 must be satisfied in case of an increase. These time limits may be disregarded under special circumstances. The taxpayer may refer revisions to the Internal Revenue Board, cf. Act 30/1992.

The Director of Internal Revenue can, on his own initiative, or according to a request, correct the levying of taxes on a tax entity if the Internal Revenue Board or the courts have in a comparable case rejected a tax practice on which tax collections or the decision of a tax commissioner or the Director of Internal Revenue were based. A change based on such an occasion can cover the tax base or the tax on and including the revenue year covered in the case deemed comparable, although no longer than six years back, counted from the year when a ruling or a court verdict was rendered. A request for a review shall be presented within one year from the time that a tax entity was aware of or should have been aware of its source. A tax entity may refer changes to the Internal Revenue Board, as noted in Act 30/1992, and it may refer a rejection of a request for a change in a tax decision according to this Act to the Internal Revenue Board.] [2)]

[1)]Notice 457/1999. [2)] Act 136/2009, Article 26.

Tax inspection.

Article 102 [The Director of Internal Revenue shall undertake tax inspection according to this Act and other acts on taxes and dues under his auspices. Tax inspection covers any kind of investigation into whether tax settlements are appropriate before and after the levying of public dues and the ongoing inspections of businesses as well as other measures that ensure

that tax entities file legally required reports and information on tax bases or the tax obligations of persons and entities.] [1)]
1)Act 136/2009, Article 27.

The Directorate of Tax Investigations, tax investigations.
Article 103 The Directorate of Tax Investigations is to carry out investigations according to this Act and acts on other taxes and dues levied by [the Director of Internal Revenue or entrusted to him for implementation]. [1)]

The Directorate of Tax Investigations can of its own initiative or after an appeal initiate an investigation on any point relevant to taxes levied according to this Act or other taxes and dues, as noted in paragraph 1 of this Article. It is to carry out investigations in cases assigned to the office, as noted in paragraph 6 of Article 96 ...[1)]

The Directorate of Tax Investigations is, when conducting investigations in accordance with this Article, have access to all tax returns and reports held by [the Director of Internal Revenue][1)] and it can demand any information and documents deemed necessary from ... [1)] the Director of Internal Revenue and parties referred to 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 its 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 to attend.][2)]

When the actions of the Directorate of Tax Investigations give cause for the re-assessment of taxes the Director of Internal Revenue is to carry out the re-assessment [as noted in Article 96 and 97.][1)].

In the carrying out of investigations by the Directorate of Tax Investigations regard shall be had to the provisions of the Act on [Criminal][3)] Procedure, as applicable, especially concerning the rights of suspects during investigations.
1)Act 136/2009, Article 28. 2)Act 77/2004, Article 2. 3)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 he would have had to recuse himself as a district court judge on the case....[1)]
1) Act 136/2009, Article 29.
Article 105 ....[1)].
1) Act 136/2009, Article 29.

The monitoring by the Minister of Finance.
Article 106 [The Minister of Finance monitors that the Director of Internal Revenue and the

Directorate of Tax Investigations carry out their duties.] [1)]The Minister is entitled to inspect tax returns and documents related thereto and demand explanations from the aforenoted offices for anything relating to the implementation of this Act.

The Minister is also to monitor that the State Internal Revenue Board fulfills its duties and the board is to send the Minister annual reports of its operations.
[1)] Act 136/2009, Article 30.

Planning and economic research.
Article 107 The Minister of Finance can call for reports from the Local Tax Commissioners, the Director of 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 economic research 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 deadline [the Director of Internal Revenue][1)] is permitted to add up to a 15% charge to his tax base estimate. [The Director of Internal Revenue][1)] is nonetheless to take notice of to what extent taxation has taken place through withheld taxes. The Director of 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 filing deadline, but before a Local Tax Commissioner completes assessing taxes, there can only be added a 0.5% charge to the tax base for every day that the filing of a tax return has been delayed after the given deadline, although no more than a 10% charge.

If a tax return is faulty, as noted in Article 96, or specific items declared wrong [the Director of Internal Revenue][1)] 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, the charge of [the Director of Internal Revenue][1)] may not be higher than 15%.

Additional charges, in accordance with this Article, are to be cancelled if a tax entity can show with justification that it is not to blame for limitations in the tax return, the failure to file, that a force majeure made it impossible to file the tax return in the given time, it rectifies faults in the tax return or corrects specific items in therein.

The provisions of Article 99 of this Act and of Act 30/1992, on the State Internal Revenue Board, apply for appeals to [the Director of Internal Revenue][1)] and the State Internal Revenue Board.

Penalties.
Article 109 If a taxable person, 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 a fine of up to tenfold the tax amount from the tax base that was evaded and never a lower fine than double the tax amount. Tax from a charge in accordance with Article 108 is deducted from the fine. Paragraph 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 file a tax return the violation calls for a fine that is 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 accordance with paragraph 2 of Article 96 of this Act in which case the tax on the added charge is to be deducted from the amount of the fine in accordance with Article 108. Paragraph 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 fine, even if the information can not affect its liability to pay taxes or tax payments.

If offences against paragraph 1 or paragraph 2 of the provision are discovered when an estate of a deceased person is wound up, then the estate is to pay a fine of up to quadruple the tax amount from the tax base that was evaded and never lower than the tax amount plus half of the tax amount. Tax from an additional charge in accordance with Article 108 is deducted from the fine. If the situation is as described in paragraph 3 then the estate can be made to pay a fine.

Whoever that on purpose or out of gross negligence gives the tax authorities wrong or misleading information or documents pertaining to the tax returns of other persons/entities or assists in wrong or misleading reporting to the tax authorities is subject to penalties as described in paragraph 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 a fine or be sentenced to jail for up to 2 years. Attempts to offend, and participate in offending against this Act, is punishable in the manner dictated in Chapter III of the Penal Code and is subject to a fine up to the maximum that is decided in other provisions of this Article.

A legal entity can be made to pay a fine 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 a fine and have its professional licence revoked, provided that the offence has been committed to the advantage of the legal entity and it has reaped the gains from the offence.

1)Act 129/2004, Article 27.

Procedure and …1) investigation. Rules of limitations.

1)Act 88/2008, Article 234.

Article 110 The State Internal Revenue Board rules on fines in accordance with Article 109 unless a case is referred to …1) investigation and judicial treatment in accordance with [paragraph 4.]2) Act 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 rules on fines. The rulings of the Board are final.

[Despite the provision of paragraph 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 a fine 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 fine proceedings with the State Internal Revenue Board. When deciding the amount of a fine notice is to be taken of the nature and scale of the offence. Fines can amount from 100 thousand krónur to 6 million krónur. The entity in the case is to be informed of the proposed amount of a fine before it agrees to end a case in such a manner. A decision on the amount of a fine according to this provision is to have been made within six months form the end of the investigation of the Directorate of Tax Investigations.

An alternative penalty is not included in the decision of the Directorate of Tax Investigations. On the collection of a fine imposed by the Directorate of Tax Investigations the same rules apply as to taxes according to this Act, the right to carry out distraint included. The State Prosecutor is to be sent a record over all cases that have been closed, according to this provision. If the State Prosecutor believes that an innocent person has been made to suffer a fine in accordance with paragraph 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 is opposed to the case being dealt with by the State Internal Revenue Board in accordance with paragraph 1.

[Tax claims can be upheld and judged in criminal proceedings because of offences against the Act.]1)

Fines for offences against this Act go to the Treasury.

An alternative penalty does not accompany the State Internal Revenue Board's rulings of a fine. On the collection of a fine issued by the State Internal Revenue Board the same rules apply as do to taxes according to this Act, the right to carry out distraint included.

Charges in accordance with Article 109 have a six year limitation period from the time an investigation by the Directorate of Tax Investigations commences, given that there are no unnecessary delays in the investigation of a case or 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 administrative district of Reykjavík, and district magistrates in other administrative districts, although having regard to paragraphs 2–4 of this Article and the provisions of the Act on Public Dues Withheld at Source.]1)

[The Minister of Finance can by regulation assign the collection of taxes in accordance with this Act to others than are noted in paragraph 1 in a specific district or districts. 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 collecting party.

The Minister of Finance is to set further provisions with a regulation on the implementation of such common collection, among other things, on the harmonisation 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, vessels, 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 on other income than wages of each taxpayer, although subject to paragraph 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 paragraph 1 of Article 93. The final payment date is 15 days after the due date, except for the provision of paragraph 5. When dividing the payments in advance and the remaining balance of the tax assessment between the due dates in accordance with paragraph 2 and paragraph 4, care is to be taken that the amount to be collected on each due date is not lower than 2,000 krónur.

Until the assessment of taxes for each taxpayer, noted in paragraph 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 withholding 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 has 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 to those who do not have withholding 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 accordance with paragraph 2 of this Article, plus the difference between assessed income tax and the tax withheld from a wage earner, 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 paid in approximately equal payments on the due dates that are left in the year when tax assessment takes place. [From the levied income tax of legal entities that come under Article 5 of the Innovation Company Support Act, a sum shall be deducted that is determined according to Article 11 of said Act before the payment due according to this paragraph is determined. Should there be no payment or lower payment due, the deducted sum shall be paid out in part or in full. Rules on the offsetting to tax credits against taxes and other official dues or against taxes collected on behalf of the Treasury, *inter alia* the order of priority, shall be set by regulation.] 2)

Partial failure to pay results in all taxes of the taxpayer becoming due 15 days after the due date, though not sooner than the 15th of next month after the assessment of taxes is completed.

If a taxpayer's taxes are raised after tax assessment, the additional amount falls due 10 days after the taxpayer was informed of the increase.

Foreign citizens or persons without citizenship, that have been granted a residence permit or a 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 by regulation a method identical to the one described in this Article for the advance payment of other public dues.

Income tax, added to the presumptive income of persons running their own independent business, becomes due 1 August if the tax entity has not paid the estimated withholding 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 If a collector of public dues has begun proceedings on account of debt that has been created because of withholding taxes on presumptive income, the means of debt collection that the collector has resorted to shall keep the legal validity on that part of the claim that has its origin in withholding taxes on presumptive income that is already in arrears.
1)Act 129/2004, Article 28. 2) Act 137/2009, Article 4. The change comes into effect with the 2011 tax assessment for the 2010 income year according to Article 5 of that same Act.

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 clause can be deviated from with the decision of the Minister of Finance. If taxation is lowered after a ruling or a court verdict or is void reimbursement is to take place.

It is to be a matter of policy 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 authorise such an agreement, after having received a statement on the matter from the National Audit Office.

If a collector believes that the interest of the Treasury is best served with a creditor composition between the taxpayer and collector, he is to report the circumstances to the Minister of Finance. The Minister of Finance is allowed to authorise the composition, after having received a statement on the matter from the 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 withheld, social security tax and excise duty.
2. That the tax claims do not originate in 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 creditor composition.

At the end of every tax collection year the National Audit Office is to report to Althingi on all agreements in accordance with paragraph 3 of and creditor compositions in accordance with paragraph 4.

As surety for the payment of an expected tax claim, a fine or the payment of court costs in cases subject to investigation by the Director of Tax Investigation, the freezing of assets of the tax entity and others under reasoned suspicion of a punishable offense according to Article 109, if there is a danger that assets will be removed, lost or substantially eroded in value. In the same manner, the freezing of assets can be requested from entities that are responsible for tax payments according to Article 116.

The Director of Customs shall implement cases according to Article 6. The Director of Tax Investigations shall inform the Director of Customs of cases where he believes that an investigation will lead to an increase in the taxes of a taxpayer or he or those others who are reasonably suspected of a punishable offence according to Article 109 and may be subjected to a fine. The Director of Customs is authorised to have access to all necessary information and documents that the tax authorities, financial undertakings and other entities may possess, cf. Article 94 and pertain to measures according to this Article. The implementation and validity of freeze shall be in accordance with general rules on the freezing of financial assets with the exceptions that surety need not be set, a court case will not be needed to confirm the freeze and dues need not be paid on account of the measures.

The freeze is rescinded if an investigation does not lead to an increase in taxes of a taxpayer or that he, or others who are under reasoned suspicion of a punishable offense according to Article 109, are subjected to a fine, whether by tax authorities or by a court. The entity being subjected to a freeze has to right to have measures rescinded that were made to enforce the freeze. A freeze is also rescinded if payments are made that the freeze was intended to ensure.

A dispute on the legality of a freeze may be referred to a district court in the same manner as provided in paragraph 2, Article 102 on the Criminal Proceedings Act.
1)Act 129/2004, Article 29.

Interest payments.
Article 114 If tax is not paid within one month from due date, then a late payment penalty of the amount due is to be paid to the Treasury. Due date in this context refers to regular due dates in accordance with paragraph 1–4 and 6–8 of Article 112 whereas debt falling due because of a partial failure to pay in accordance with paragraph 5 of Article 112, does not affect the calculation of late payment penalties. Late payment penalties are to be at the same rate as the Central Bank of Iceland decides in accordance with Article 6 of Act 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 accordance with paragraph 1, Article 8 of Act 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 July 1st 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 accordance with paragraph 1 and paragraph 2 of Article 8 of Act 30/1992, the taxable entity is to be paid a late payment penalty on 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 passed.

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 paragraph 1 of Article 92, are obliged, at a tax collector's demand, to withhold from the wages of employees in order to pay dues of employees for which they are personally and unconditionally responsible 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 accordance with Chapter IV of the Act on the Income Base of Municipalities. Further provisions about the implementation this Article are to be set in a regulation1).

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 due date paid funds withheld or were supposed to be withheld, is to pay a late payment penalty in accordance with paragraph 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 has the 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.

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 paragraph 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, dividends from shares or remuneration for operations or services or other payments, included in Article 3, are responsible for the taxes of the recipients because of those payments.

It is not permitted to dissolve a company until all its taxes have been paid in full. If a company has been dissolved without its taxes having been paid the resolution committee members are responsible for the tax payments. If a company has been divided in accordance with Article 52 without its taxes having been paid, the companies taking over assume responsibility for its tax payments.

Distraint can be imposed 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 an unconditional guarantee.

The Minister of Finance can demand that the entities noted in Article 3, provide a surety 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. Sundry provisions.

Article 117 [The Director of Internal Revenue],[1) the Directorate of Tax Investigations and the State Internal Revenue Board are prohibited, subject to accountability as per the provisions of the Penal Code on offences in public office, to divulge to unauthorised persons information which they have acquired in performing their duties on the income and the financial position 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 paragraph 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 foreign currency supervision of the Central Bank of Iceland information necessary to carry out supervision in foreign currency matters, provided that the provisions of international agreement do not prohibit it.
[1)] *Act 136/2009, Article 33.*

Article 118 [At the beginning of each year the Director of Internal Revenue, after receiving the confirmation of the Minister of Finance, is to publish rules on 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.][1)]
[1)]*Act 136/2009, Article 21. The amendment takes effect at the time of the 2011 tax assessment and in the 2010 withholding tax year, as applicable according to Article 41 of that same Act.*

Article 119 [The 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 on the same tax base in both Iceland and abroad.][1)2)]

The government is furthermore allowed to negotiate with other countries 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 implementation that other tax authorities are bound to follow.

...[4)]

When an agreement with another country to avoid the double taxation of income does not exist …[2)] in accordance with paragraph 1 and a tax entity, that is taxable in Iceland in accordance with Articles 1 and 2, pays public taxes in another country on its income …[2)] that is taxable in Iceland, [the Director of Internal Revenue][5)] is permitted, on the basis of a taxable entity's petition, to lower the income tax …[2)] of the entity in Iceland, with regard of these tax payments.[1)]

1))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 (Csech 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).[4)] Act 128/2009, Article 22. The amendment takes effect at the time of the 2011 tax assessment and in the 2010 withholding tax year, as applicable according to Article 41 of that same Act. [5)]Act 136/2009, Article 34.

Article 120 The [Minister of Finance][1)] is permitted to make changes to time limits and continuances in accordance with Article 99 if necessary.

[5)]*Act 136/2009, Article 34.*

Article 121 The Minister of Finance sets in a regulation[1)] further provisions on the implementation of this Act, such as on more specific assessment of income and assets, the operations of [the Director of Internal Revenue, the Directorate of Tax Investigations][2)] and the State Internal Revenue Board and on the implementation of tax investigations and tax inspections.

The Minister can in a regulation require a special bookkeeping of entities obliged to file tax returns, including an accounting of 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.[2)]Act 136/2009, Article 35.

Article 122 When a difference arises 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 paragraph 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 accordance with paragraph 1, just as they do for income tax collection.

Article 123. ...[1)]
[1)] *Act 136/2009, Article 36.*

Article 124 The provisions of this Act concerning shares and compensation issues of new shares, shall also apply 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 paragraph 2 of Section A in Article 67 of the Act, unused personal tax credit of one married partner, taxed according to the provisions of Article 62, is to be added to the personal tax credit of the other as follows:
1. When assessing income tax for the year 2001 because of income in the year 2000 85% of the unused portion of the personal tax credit of one married partner is to be added to the personal tax credit 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 tax credit of one married partner is to be added to the personal tax credit 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 tax credit of one married partner is to be added to the personal tax credit of the other.

II. Despite the provisions of paragraph 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 April 1st to December 31st in the year 2000 is to be $9/12$ parts out of 294,120 krónur; when assessing income tax and net wealth tax for the year 2001 because of income and assets for the year 2000 the personal tax credit is to be 292,326 krónur;
2. personal tax credit in taxation at the source of income for the year 2001 and when assessing income tax and net wealth tax for the year 2002 because of income and assets for the year 2001 is to be 302,940 krónur;
3. personal tax credit in taxation at the source of income for the year 2002 and when assessing income tax and net wealth tax for the year 2003 because of income and assets in the year 2002 is to be 312,024 krónur

III. In order for a special re-evaluation of the initial capital of an A-division in a cooperative enterprise, according to temporary provisions in the Act on Cooperative Enterprises, to enjoy tax benefits in accordance with sentence 2 in paragraph 1 of Article 11, sentence 4 in paragraph 2 of Article 18 and paragraph 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 krónur or the income tax base of married couples above 7,960,000 krónur a special 7% income tax is to be levied.

If married couples both have an income tax base above 3,980,000 krónur 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 krónur the other partner is levied all of the special income tax.

The special income tax according to this provision is not collected with tax withheld 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 krónur for individuals and above 7,960,000 krónur for married couples.

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

A taxpayer can apply for the lowering of the amount he has been made to pay in advance in accordance with paragraph 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 Internal Revenue within 30 days from the date of the Local Tax Commissioner's ruling. The Director of 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 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 temporary provision.

V. When filing tax returns in the year 2003 re-evaluations accounts, formed in accordance with Article 37 of Act 75/1981 before an amendment with Act 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 krónur or income tax base of married couples above 8,178,900 krónur a special 5% income tax is to be levied. If married couples each have an income tax base above 4,089,450 krónur they are each to pay the special income tax. If the income tax base of one married partner is lower than 4,089,450 krónur then the other is to pay the entire special income tax.

The special income tax according to this provision is not to be collected with taxation withheld 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 krónur for individuals and above 8,178,900 krónur for married couples.

The payment due dates for the payments in advance in accordance with paragraph 5 are to be the first days of the months August to and including December 2003. The Minister is permitted to set further provisions in a regulation concerning the implementation the payments in advance.

A taxpayer can apply for the lowering of the amount he has been made to pay in advance in accordance with paragraph 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 Internal Revenue within 30 days from the date of the Local Tax Commissioner's ruling. The Director of 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 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 temporary provision.

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 were incurred 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 paragraph 5 of point 1 in section B of paragraph 1 in Article 30 of the Act, and receive, on the dissolution of the company in the years 2003–2007, instead of shares in a public limited company, 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 company's ownership of securities, as further stipulated in this provision.

On dissolution in accordance with paragraph 1 the delivery of the mutual-funds certificates is not regarded as taxable dividends in accordance with paragraph 4 of Article 9 of the Act. The cost value of a mutual-funds certificate handed over in accordance with paragraph 1 is to be equal to the original purchase price of the securities, with regard to paragraph 4 of Article 17 of the Act, though with consideration of paragraph 3 of this provision.

Income from the sale or redemption of a mutual-funds certificate surrendered in accordance with paragraph 1 to replace a share that was purchased in the years 1990–1996 is not to be taxed except to the point that it amounts to a higher figure than noted in paragraph 6 of Article 17 of the Act, provided that the mutual-funds certificates because of these shares have been specially identified. In other respects, the conditions of paragraph 2 apply to the calculation of cost values.

The surrender of shares in accordance with paragraph 1 is not considered to constitute a change in ownership, as noted in paragraph 4 of point 1 in section B of paragraph 1 in Article 30 of the Act. Should a mutual-funds certificate be sold or redeemed before the end of the time of ownership or that of the shares expires, the provisions concerning the purchase of new shares apply or, where applicable, on the registration of used deductions as income, as noted in sentences 3–5 in paragraph 4 of point 1 in section B of paragraph 1 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 krónur or the income tax base of married couples above 8,383,372 krónur 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 krónur they are each to pay the special income tax. If the income tax base of one married partner is lower than 4,191,686 krónur 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 withheld 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 krónur for individuals and above 8,383,372 krónur 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 krónur for individuals and above 8,383,372 krónur for married couples.

The payment due dates for the payments in advance in accordance with paragraph 5 are to be the first days of the months August to and including December each year. The Minister is permitted to set further provisions in a regulation concerning the implementation the payments in advance.

A taxpayer can apply for the lowering of the amount he has been made to pay in advance in accordance with paragraph 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 Internal Revenue within 30 days from the date of the Local Tax Commissioner's ruling. The Director of 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's application favourably unless the taxpayer can show that his income has decreased significantly between years. The Director of 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 temporary provision][1)]

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

[**X.** Interest tax rebates because of interest costs in the year 2003 shall amount to 90% of interest tax rebates calculated in accordance 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, as amended with Act 143/2003 amending Act 90/2003, on Income Tax and Net Wealth Tax, will take effect when assessing income tax and net wealth 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 143/2003, on the amendment of Act 90/2003, on Income Tax and Property Tax, come into effect when assessing income tax and net wealth 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 paragraph 1 of Article 66 of the Act income tax is to be assessed in the following manner in taxation withheld at source in the years 2004, 2005 and 2006 and when assessing income tax in the years 2005, 2006 and 2007 on 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 paragraph 2 of Article 66 of the Act income tax is to be assessed in the following manner in taxation at 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 on the income of children, noted in paragraph 2 of Article 64, is to be 4% of income above 93,325 krónur and a child is not to be issued a personal tax credit.

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 on the income children noted in paragraph 2 of Article 64 is to be 4% of income above 96,125 krónur and a child is not to be issued a personal tax credit. 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 on the income of children, noted in paragraph 2 of Article 64 is to be 4% of income above 98,528 krónur and a child is not to be issued a personal tax credit.][1)]

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

[XIII. Despite the provisions of paragraph 1 of Section A in Article 67 of the Act the personal tax credit of persons, noted in paragraph 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 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 krónur.
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 krónur.
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 krónur][1)]

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

[XIV. 1. Despite the provisions of paragraph 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 paragraph 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 taxes in the year 2005 because of interest cost in the year 2004 shall amount to 95% of interest tax rebates calculated in accordance 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 December 31st 2005.]1)

1)Act 129/2004, Article 32

[XVII. When assessing taxes for companies that use a different accounting year from the calendar year, the assessment is to be made according to the following rules for the accounting year ending in the year 2005. Tax assessment is to be made on the net wealth tax base determined at the end of the accounting year on the basis of the provisions of Act 90/2003, on Income Tax and Net Wealth Tax, as that legislation stood on December 30th 2005. If a company has the approval of a Local Tax Commissioner for a different accounting year than the calendar year and with the amendment has a reduced accounting year for the time from the end of the previous time period until the beginning of the next accounting year and has also paid net wealth tax at the end of the reduced accounting period, the company is to be exempt from the assessment of net wealth tax because of the accounting year ending in the year 2005.]1

1)Act 116/2005, Article 3.

[XVIII. From the income tax base in accordance 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 debt in a foreign currency, as noted in point 5 in paragraph 1 of Article 8 of and point 4 in paragraph 1 of Article 49, 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 accordance with paragraph 1 is only possible if transferable loss has been netted in full and that proportionally lower depreciation in accordance with Article 37 and write-downs in accordance with points 3 and 4 if Article 31 have not been utilised in business year 2005 than in the business year 2004.

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

The permission to defer the declaration of income in accordance with paragraph 1 does not apply to financial institutions whose operations are subject to Article 2 of Act 87/1998, on the Public Oversight of Financial Activity.]1)

1)Act 48/2006, Article 1.

[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 an international trading company on one hand subject to the special provisions that such companies are subject to according to Act 29/1999, on amendments to the Act on Tax Assessment and Dues of International Trading Companies, and on the other hand 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 other state aid. If the difference in total tax payment surpasses those limits 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 paragraph 1 do not apply when the operations of an international trading company is totally outside of the scope of the EEA-Agreement, as 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 implementation 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 completed no later than December 31st 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 completed.][1)]

1)Act 135/2006, Article 2.

[XXI. Despite the fact that Act 31/1999, on International Trading Companies, becomes void on January 1st 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 paragraph 1 of section A in Article 67 of the Act changes in the personal tax credit of persons, noted in paragraph 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 24,000 krónur shall be added to the amount of personal tax credit determined according to the provisions in sentence 2 in paragraph 1 of section A of Article 67.

2. ...[1)]

3. ... [1)2)] *1) Act 128/2009, Article 23. The amendment takes effect at the time of the 2011 tax assessment and in the 2010 withholding tax year, as applicable according to Article 41 of that same Act. [2)] Act 61/2008, Article 9.*

[XXIII. Despite the provisions in paragraph 4 of section A in Article 68 of the Act, the reference amounts noted there as the curtailment limits of child benefits are to be 2,880,000 krónur and 1,440,000 krónur 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 accordance with point 2 and section B of point 3 in Article 61 because of the business year 2007, it is permitted to deduct the amount of foreign exchange rate gains above exchange rate losses, from any kind of assets and debt in a foreign currency, as noted in point 5 in paragraph 1 of Article 8 and point 4 in paragraph 1 of Article 49, up the amount that income tax would have been levied 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 losses has been netted in full and that there have not been utilised proportionally lower depreciation in accordance with Article 37 and write-downs in accordance 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 accordance with point 2 and section B of point 3 in Article 61, because of the business year 2008 it is permitted to deduct the amount of foreign exchange rate gains above exchange rate loss from any kind of assets and debt in a foreign currency, as noted in point 5 in paragraph 1 of Article 8 and in point 4 of paragraph 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 utilised proportionally lower depreciation in accordance with Article 37 and write-downs in accordance 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 accordance with Article 55 can only defer the declaration of income in accordance with paragraph 1 and paragraph 2 if the operating losses that the companies in joint taxation can use collectively have been netted out.

The permission to defer the declaration of income in accordance with paragraph 1 and paragraph 2 does not apply to financial institutions whose operations are subject to Article 2 of Act 87/1998, on the Public Oversight of Financial Activity.]1)

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

[XXV. Despite the provisions of sentence 2 in paragraph 8 of section A in Article 68, as noted in regulation 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 deduct up to 6% from the premium base as per the decision of fund members because of premiums paid to a pension funds for the accrual of pension rights, to entities in accordance with paragraph 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 March 1st 2009 until October 1st 2010.]1)

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

[XXVII.

1. Despite the provisions of sentence 1 in paragraph 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 paragraph 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 paragraph 1 of Article 8 in Act 164/2008, on the amendment to the Income Tax Act 90/2003 with subsequent amendments, the provisions of Article 1 of the Act enter into effect when assessing income tax for the year 2010.]1)

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

[**XXIX.** At the assessment of taxes in 2010, a special 8 % income tax shall be levied on the tax base of a person in excess of 4,200,000 krónur for the period from and including July 1st to December 31st 2009.

In spite of the provisions of sentence 1, paragraph 3, Article 66, the income tax on the capital income of persons excluding business activity that are incurred in the period from July 1st to December 31st 2009 shall be 15 % of such income in excess of 250,000 krónur. Nevertheless, the income tax shall be computed on 70 % of rental income. In cases of married couples or persons filing a joint tax return, account shall be taken, point 2, paragraph 1 of Article 62 notwithstanding, of the tax-free threshold of both partners, i.e. income in excess of 250,000 krónur of each partner, when the tax base for capital income is determined.

The income tax of legal entities, according to paragraphs 3 and 4 of Article 71, shall from the same point in time be 15 % on dividend income and other capital income, as applicable.][1)]
[1)]Act 70/2009, temporary provision I.

[**XXX.** Despite the provisions of sentence 1, paragraph 4 of point B of Article 67, the sum of the tax credit for seafarers for each day shall be as follows:

a. 740 krónur at the 2012 tax assessment for the 2011 income year.
b. 492 krónur at the 2013 tax assessment for the 2012 income year.
c. 246 krónur at the 2014 tax assessment for the 2013 income year.

The provisions of point B, Article 67 shall be abolished from and including January 1st 2014][1)]
[1)]Act 128/2009, Article 24.

[**XXXI**. Despite the provisions of sentence 2, point A, Article 68, as noted in regulation 555/2004, on the payment of child benefits, child benefits will not be netted against public dues to the Treasury, public dues to local authorities and child support payments in arrears due to the Collection Agency of Local Authorities in 2010.][1)]
[1)]*Act 128/2009, Article 24.*

[XXXII. Despite the provisions of sentence 1, paragraph 3 of point B, Article 68, the reference ratio of the maximum interest payments to debt there specified shall be 7 % when assessing interest tax credits in 2010 on account of income, assets and debt in 2009.
Despite the provisions of sentences 10 and 12, paragraph 4 of point B, Article 68 of this Act, the reference sums there specified shall by 246,944 krónur, 317,589 krónur, 408,374 krónur and 900 krónur in the assessment of interest tax rebates in 2010 on account of income, assets and debt in 2009.][1)]
[1)]*Act 128/2009, Article 24.*

[**XXXIII.** A wealth tax shall be levied on assets that must be recorded on tax returns according to Article 72 at the end of the years 2009, 2010 and 2011 at the assessment in 2010, 2011, 2012 and 2013 on persons liable to tax according to paragraph 1 and points 4-9 of Article 3 as follows:

a. The debt of tax entities shall be deducted from assets, as noted in Article 73. Debt, in this context, includes imputed price compensation on the principal, based on the index in January of the year after the end of the accounting year. Debt in a foreign currency shall be computed at the selling rate of exchange at the end of the year. Debt includes all public taxes and dues concerning the accounting year in question. From the assets of entities noted in point 4, Article 3, only debt directly related to their activity in this country may be deducted. From the assets of entities noted in point 5-9 of Article 3, only the debt hypothecated against those assets may be deducted.
b. Despite the provisions of point 5, Article 73, legal entities shall report their share in other companies at a market price when such companies are listed on a stock exchange or on an organised over-the-counter market or in other instances their share in the taxable book equity in the company concerned instead of the nominal value. Nevertheless, legal entities shall report their asset share in companies according to point 3, paragraph 1, Article 2 in the same manner.

   In determining the wealth tax base, shares in companies listed on a stock exchange or an over-the-counter market shall be reported at a market price at the end of the year. The owner of a share in a company not listed on a stock exchange or an over-the-counter market shall report for the purpose of a wealth tax base its share in the taxable book equity of the company as reported in the company's tax return according to sentence 1 of this alphabetical point. The share of assets in a company thus calculated in excess of the nominal value or initial capital value shall be reported on the tax returns for the years 2011, 2012 and 2013.
c. The wealth tax base consists of those assets that remain after the deduction of the debt according to Article 73, as noted in points a and b, as they have been determined in accordance with the above-noted provisions of point a. The wealth tax base shall be determined in multiples of ten krónur, leaving out the excess amount.
d. The wealth tax shall be based on the wealth tax base of a tax entity at the end of the year.
e. Married couples living together, as noted in Article 5, shall jointly report all their assets and debt, regardless of whether there are separate assets or debt related thereto. The wealth tax base shall be divided equally between them and the wealth tax shall be computed on each half separately according to point h. The same applies to co-habiting couples, as noted in paragraph 3, Article 62. The levy of a wealth tax on a surviving spouse or survivor after a cohabitation, as noted in paragraph 3, Article 62, remaining in a joint estate shall be done in the same way as for married couples for a maximum period of five years from the death of the deceased, although not beyond the time that this provision remains in effect, provided that the person concerned has not entered into a new cohabitation.
f. The Director of Internal Revenue is permitted to approve the application of a person for a reduction in the wealth tax base in cases according to point 1, paragraph 1,

Article 65, provided that the payment ability of the person has been severely curtailed for that reason.

g. The assets of a child under the age of sixteen in the income year, as noted in Article 6, shall be included with the assets of the parents or with the person that receives child benefits on account of the child, as noted in point A, Article 68. The provisions of Article 78 also apply to said assets of a child. The Director of Internal Revenue may approve an application from the person providing for the child that the child's assets that has lost one or both parents and has not been adopted shall be taxed with the child itself in accordance with the provisions of point h.
h. The wealth tax shall be computed as follows: On the first 90,000,000 krónur of the wealth tax base of an individual and the first 120,000,000 krónur of the total wealth tax base of a married couple no tax shall be paid. On a wealth tax base in excess thereof, 1.25 % shall be paid. The wealth tax base for the years 2009, 2010 and 2011 shall be re-computed at the assessment of public taxes and dues in 2011, 2012 and 2013 with regard to additional assets according to point b. The difference arising from such a re-computation and is in excess of the reference limits of sentence 1 shall be taxed at the assessment of taxes and dues in 2011, 2012 and 2013.
i. All persons having a wealth tax base in excess of the amounts specified under point h shall report it in the form decided by the Director of Internal Revenue. .][1)]

[1)] *Act 128/2009, Article 24.*

XXXIV. In spite of the provisions of paragraph 2, Article 41, Act 128/2009 on the procurement of revenue for the state, the provision of Articles 17 and 37 of this Act apply to the levying of income tax in 2011 for those legal entities that use the calendar year as an accounting year and to those where the accounting year begins on February 1st 2010 or later in that year.

XXXV. When public dues are levied in 2011 and 2012, a deduction from the income tax base according to point 1 and point 3 a of Article 61 of 50 per cent of the amount paid for work done, exclusive of value added tax, in the years 2010 and 2011 up to a maximum of 200,000 krónur for an individual and 300,000 krónur for a couple or persons being jointly taxed due to maintenance and restoration of residential or recreational property other than for business purposes, taking account of the allowable deduction that applies in total to the work paid within the year for the above work. The deduction for couples or jointly taxed persons shall be applied against the party with the higher tax base.

The deduction according to paragraph 1 is subject to the condition that complete documentation has been filed for the repayment of value added tax on the same occasion cf. Article 42 of the Value Added Tax Act 50/1988, with subsequent amendments. Wage payment slips and other documents shall be filed in the manner decided by the Director of Internal Revenue. The deduction shall be applied for at the same time as the reimbursement of the value added tax is applied for on a form supplied by the Director of Internal Revenue within each year and no later than February 1st 2011 for the 2010 income year and February 1st 2012 for the 2011 income year. The deduction shall be decided and limited to the levying of public dues in 2011 for the 2010 income year and the levying in 2012 for the 2011 income year, cf. Article 98 and also cf. Article

99. The Minister may by regulation set further provisions on the conditions and implementation of the deduction according to this provision, inter alia on the itemisation of deduction for work paid for by housing associations for joint maintenance by owners of residential property in apartment houses and on the deduction of owners of residential property that is rented out for non-business purposes.

XXXVI. Instead of fully reporting as income a reduction in debt in excess of operating loss, legal entities and those persons engaged in business or independent activity are authorised to enter only 50 per cent of the reduction in debt due to operating or payment difficulties for the years 2009, 2010 and 2011 up to a total amount of 50 million krónur and 75 per of the reduction of a total in excess of 50 million krónur for the above period. The debt must have been contracted for in direct connection with business activity.

Legal entities and those persons engaged in business or independent activity may depreciate assets that are depreciable according to Article 33 by an amount equal to the remainder of the debt reduction, cf. paragraph 1, taking account of the provisions of Article 42 in the year when the debt reduction is reported as income on a tax return.

Should legal entities or persons engaged in business or independent activity not possess depreciable assets, the reduction in debt may be entered in equal amounts on tax returns for the next three years from the income year when the debt was reduced.

The condition for limiting income according to paragraph 1, depreciation according to paragraph 2 or the postponement of entering income according to paragraph 3 is that the operating loss of the year and the loss carried over have been evened out.

The provision does not apply to the reduction in debt between a parent company and its subsidiary except when financial undertakings take over companies to satisfy a claim, cf. paragraph 2, Article 22, Act 161/2002 on financial undertakings.

When a claim is converted into share capital in the indebted company instead of a reduction in debt, it shall be considered to be a full payment thereof. Parties may negotiate a reduction in part of the debt before such a payment with share capital takes place. If a claim is converted into share capital, an assessment of the value of the share capital shall take place and the valuation shall apply to the date when the conversion takes place. The debtor must enter as income or expense the difference between the value of the share capital and the book value of the debt. The creditor shall, as applicable, enter as income or expense the difference between the book value of the claim and the assessed value of the share capital. The assessment of the value of the share capital shall be performed by an independent evaluator when a conversion of a claim and share capital takes place between asset-associated parties.

When a debt is reduced the creditor is obligated to preserve all documentation on the premises underlying the reduction so as to be able to provide information according to Article 92. Information shall be provided in a form decided by the Director of Internal Revenue.

If the contractual term of a loan associated with the operations of a legal entity or those of independently employed persons are amended in such a manner that a repayment is based on Icelandic krónur instead of a foreign currency, the amendment shall be viewed as an amendment *of terms and not as a reduction in debt as understood by law, even if the accumulated principal is adjusted downwards, provided that the amendment is based on reasonable grounds and that the terms of the loan are amended to terms generally being offered in similar circumstances. The same applies if the reference index of an indexed loan is amended or a part of an accumulated principal of an indexed loan is reduced. If changes are made to the accumulated balance of a loan according to sentences 1 and 2, the operating entity shall recalculate previously expensed financial costs accordingly.*

XXXVII. In the place of a full income entry in respect of a reduction in non-business mortgage debt and non-business auto loan contracts, a total of 15 million krónur for an individual and 30 million krónur for couples or jointly taxed persons due to payment difficulties in the income years 2009, 2010 and 2011 may be excluded from income. If the debt reduction exceeds the above amounts, cf. the first sentence, 50% of the reduction may be excluded from income up to a maximum total of 30 million krónur for an individual and a total of 60 million krónur for a couple or jointly taxed persons and 25% of the reduction in excess of a total of 30 million krónur for an individual and a total of 60 million krónur for a couple or jointly taxed persons in the above period. The provisions of the first and second sentence do not apply to the reduction in the original principal, taking account of repayments. The debt cannot be associated with business operations. The Minister of Finance may set a regulation on the implementation of the income entry on the basis of this provision.

The income entry due to a reduction in the debt of persons, cf. paragraph 1, may be postponed for two years from and including the income year in which the debt is reduced. The reduction in debt may be entered as income in equal amounts in the tax returns of the next five years from and including the income year when the debt was in provable fact reduced or from and including the year when the two-year postponement period ended.

The provision does not apply to point 3 of Article 28 on debt reduction.

When debt is reduced, the creditor is obligated to preserve all documents on the grounds for the reduction so that the obligation to supply information may be discharged according to Article 92. Information shall be provided in the manner decided by the Director of Internal Revenue.

Those who have not had their situation resolved according to point 3, Article 28 or have requested it can apply to the Director of Internal Revenue who shall, on the basis of the application, reduce or rescind the income tax base of a person that has been created due to a reduction in debt, cf. paragraph 1, following a two-year postponement period according to paragraph 2, once it is established through an objective assessment of the financial situation of the debtor or, as the case may be, his/her spouse, that there has been little or no accumulation of assets due to debt reduction, or that assets are little or none or the ability to earn is substantially curtailed. The Minister of Finance shall set a regulation as to how the financial position of a person shall be assessed and on further conditions for the reduction in the income tax based on the basis of this provision.

In cases where the terms of a loan agreement between a credit undertaking and a person is revised to the effect that the repayment is denominated in Icelandic krónur instead of a foreign currency, the revision shall be viewed as a change in terms, not as a reduction in debt under law, *even if the adjusted principal is reduced, provided the revision is on reasonable grounds and the revised loan terms are generally on offer under similar circumstances. The same applies if the reference index number on an indexed loan is revised or if a part of a revised principal of an indexed loan is eliminated. Adjustments of debt in connection with special debt revisions and automatic payment distribution, cf. Act 107/2009, on measures for the benefit of persons, households and businesses due to the banking and financial collapse, shall be viewed as a change in terms, not as a reduction in debt, provided that the measures are implemented in accordance with work procedures set on the basis of said Act. The same applies to a revision according to a temporary payment adjustment according to Act 50/2009, on the temporary payment adjustment of mortgage credit claims connected to residential housing.*

XXXVIII. In spite of the provisions of sentence 2, paragraph 8 of Article 68 A on the payment of child benefits, such child benefits shall no be offset against the payment of public dues to the Treasury, public dues to local government and child support payments to the Local Government Collection Agency in 2011.

XXXIX, In spite of point h of Temporary provision XXXIII, a wealth tax on persons on assets subject to registry on tax returns according to Article 72 at the end of the years 2010 and 2011 when assessing tax in 2011 and 2012 shall be imposed as follows: On the first 75,000,000 of the wealth tax base of a person and the first 100,000,000 of the combined wealth tax base of a couple no tax shall be paid. On the wealth tax base in excess of these limits, 1.50% shall be paid. The wealth tax base for the years 2010 and 2011 shall be recalculated with the assessment of public dues in 2012 and 2013 with regard to additional assets according to point b of Temporary provision XXXIII. The difference thus created by the recalculation in excess of the reference limits according to sentence 1 shall be taxed with the assessment of public dues in 2012 and 2013.

XL. With the recalculation of exchange rate-linked housing and vehicle loans of persons not engaged in business activity into Icelandic krónur, cf. the verdict of the Supreme Court of June 16th 2010 where exchange rate-linked vehicle loan contracts were deemed illegal, the credit interest balances of debtors thus calculated for the years 2010 and 2011 shall not be included with capital income. The recalculation of repayments and interest for this reason shall not have an effect on previously determined interest tax rebates or child benefits, regardless of whether they increase or decrease, unless the tax entity requests a recalculation in which case the Director of Internal Revenue shall accede to the request of the tax entity on a revision of the tax base and tax assessment, although no further than six years back from the year when the request was made, provided that substantial interests are at stake in such a request. The request shall be based on new documentation and information that could not be made available within the time limits of Article 99. The conditions of Article 96 shall be met in case of an increase. These time limits may be waived under special circumstances. The tax entity may refer the revisions to the Internal Revenue Board, cf. Act 30/1992.

The recalculation of repayments and interest, cf. paragraph 1, has no impact on benefits according to the Social Security Act and the Act on Social Assistance. The recalculation has no impact on the payment of rent benefits according to Article 9 on rent benefits, the payment of child benefits or interest tax rebates according to Article 68, unemployment benefits according to Article 36 of the Unemployment Benefit Act, payments to parents of benefits because of children *with long-term illness or serious disability, cf. Article 22 of Act 22/2006 and student loans of the Student Loan Fund, cf. Article 1, Act 21/1992.*

XLI. In spite of the provisions of sentence 1, paragraph 3 of Article 68 B, the reference ratio of the maximum interest payments on debt stated therein shall be 7% for the determination of interest tax rebates for the years 2011 and 2012 on account of income, assets and liabilities in the years 2010 and 2011.

In spite of the provisions of sentence 1, paragraph 4 of Article 68 B the reference ratio stated therein shall be 8% for the determination of interest tax rebates for the years 2011 and 2012 on account of income, assets and liabilities in the years 2010 and 2011.

In spite of the provisions of sentence 7, paragraph 4 of Article 68 B, the curtailment amounts for assets less liabilities state therein shall be 4,000,000 krónur and 6,500,000 krónur when determining interest tax rebates for the years 2011 and 2012 on account of income, assets and liabilities of the years 2010 and 2011.

In spite of the provisions of sentences 11 and 13 of paragraph 4, Article 68 B, the reference amounts stated therein thall be 400,000 krónur, 500,000 krónur, 600,000 krónur and 5,000 krónur when determining interest tax rebates for the years 2011 and 2012 on account of income, assets and liabilities in 2010 and 2011.

XLII. At the assessment of public dues in 2011 and 2012, a special interest tax rebate shall be accorded to persons as follows:

1. *A special interest subsidy shall be 0.6% of debt contracted for the purchase or the building of residential housing for own use, including the purchase of residence rights according to Act 66/2003 and the purchase of a property share in a general purchase/rent apartment unit according to older laws as they stand at the end of 2010 and 2011. Those persons liable to pay tax for part of the year due to a departure from the country during the income year the debt shall be calculated as it stood at the time of departure.*
2. *A special interest subsidy can never be higher than 200,000 krónur a year for each person and 300,000 krónur for a single parent or a married couple or persons in cohabitation that fulfil the conditions for joint taxation, cf. paragraph 3, Article 62, at the end of the income year. The maximum of special interest tax rebate of taxable person according to paragraph on for part of the year shall be determined in proportion to the time of residence during the year.*
3. *A special interest subsidy shall be proportionally curtailed if assets according to Article 72 less liabilities according to paragraph 1, Article 75 exceed 10,000,000 krónur for a person and 15,000,000 krónur for a single parent or a married couple or persons in cohabitation until it is totally eliminated at the double such amount.*
4. *A special interest subsidy in addition to interest tax rebates according to Article 68 B shall not exceed the interest expenditure for the year on account of purchases or the construction of residential housing for own use, including the purchase of residence rights according to Act 66/2003 and the purchase of a property share in a general purchase/rent apartment unit according to older laws.*

5. *A special interest subsidy shall be paid twice in equal amounts in each of the tax payment years 2011 and 2012. The first payment shall take place on May 1st and the latter on August 1st following the assessment of public dues.*
6. *In other respects, the provisions of Article 68 B apply to the right to a special interest subsidy as applicable.*
7. *A special interest subsidy according to this provision shall not be counted as taxable income.*

XLIII: In spite of the provisions of Article 11, Act 128/2009, amending Article 60 of the same Act, those entities that are engaged in business or independent activity and sell services and had received the permission of the Director of Internal Revenue to base the income accounting of their operation on in-payments for services sold instead of basing on services rendered and accounted for in instances where the labour share of the services sold generally exceeded 70% are permitted to enter as income in equal amounts the accumulated amount in three years that previously had been postponed from entry as income, i.e. in the income years 2010, 2011 and 2012.

XLIV. In spite of paragraphs 1 to 4 in Temporary provision XXXVI of this Act those entities engaged in business who have debts reduced due to payment difficulties in 2010 and 2011 shall be permitted on their tax returns to carry over between the income years 2010 up to and including 2014 the part of the reduced debt that is in excess of the operating loss carried over and the operating loss for the year, depreciation and asset write-down. The condition for the carry-over according to sentence 1 is that the tax entity has depreciated in full with regard to Article 42 all depreciable assets and used all possible write-downs of receivables and inventories. The condition is also imposed that no dividends be distributed for the income years 2010 up to and including 2014. The Director of Internal Revenue can permit a tax entity to participate in the joint taxation or merger with other tax entities or the break-up into more companies, subject to the fulfilment of this provision.

If the remaining balance of a debt remission exceeds 500 million krónur at the end of 2014 the tax entity may enter the excess as income in equal amounts in the income years 2015 up to and including 2019. If the remission is lower than 500 million krónur at the end of 2014, it will not be entered as income.

A remission of debt that in some way is associated with a punishable offense of a tax entity, it shall be entered as income with no deductions.

The provisions of paragraphs 5 to 8 of Temporary provision XXXVI apply in all other respects.

XLV. In spite of the abolition of paragraph 1 and sentence 3, paragraph 3, Article 32, those entities that purchased a production quota in agriculture before January 1st 2011 for use in the production year 2011 shall be permitted to enter such investment cost in equal amounts over five years less the write-down and the number of years that already have taken place.