

Regulation

No. 576/1989, on Value Added Tax (VAT) on Construction Activities^{*1)}

^{*1)} Cf. Regulation No. 376/1997

Scope

Article 1

This Regulation shall cover any and all types of construction activity carried out at the expense of a builder, whether the builder intends to sell the real estate, rent it or make use of it him-/herself. Any party which does not utilise the manpower of wage earners in construction projects is not considered a builder in the understanding of this Regulation, unless Point 1 of the first paragraph of Article 4 applies.

Construction projects for rental or sale

Article 2

Anyone building on his/her own lot, or on a rental lot, real estate for rental or sale must pay value added tax (VAT) on this construction. The same applies to any party improving or making major changes to his/her own or a rental property with a view to rental or sale. VAT (tax collected) shall be calculated on the following items:

1. work performed by a builder him-/herself in design and construction;
2. work performed by the builder's employees in design and construction;
3. building materials which a builder and his/her employees use for building construction;
4. use by a builder and employees of own or rental equipment for building construction.

Article 3

(1) A party who builds for rental or sale, cf. Article 2, upon settlement of VAT may include for credit VAT paid on materials used by him/her and or employees, as well as energy, rental and operation of equipment without operators, and the purchase price and operation of own equipment.

(2) Neither VAT paid by a party for purchase of a contractor's services for building construction nor VAT paid for material which is not subject to any sort of processing by the builder or his/her

employees may be used for credit. The same applies to other goods and taxable services purchased by a party for his/her activities.

Building construction for own use

Article 4

Anyone building on his/her own lot, or on a rental lot, real estate for own use or for use by his/her company, must pay VAT on this construction. The same applies to any party improving or making major changes to his/her own or a rental property for own use or for use by his/her company. VAT (tax collected) shall be calculated on the following items:

1. work which a builder him-/herself carries out in design and construction, to the extent that this is work in his/her trade or area of expertise or a comparable professional field. Tax shall always be calculated on work by a party who sells others construction work on a commercial basis or is occupied with building construction on his/her own account for rental or sale which is taxable as provided for in Article 2;
2. work performed by the builder's employees in design and construction;
3. building materials which a builder and his/her employees use in building construction, to the extent that this involves products which the builder sells or produces;
4. use by a builder and his/her employees of own or rental equipment for building construction, provided the party uses this for its general taxable activities.

Maintenance and repair

Article 5

(1) The provisions of Articles 2 and 4 shall apply *mutatis mutandis* to repair and maintenance operations on own or rental buildings, provided the total cost (tax value) of the operations is at least ISK 350,000^{*1)} per year.

(2) The amount referred to in the first paragraph shall change annually in direct proportion to the Construction Cost Index which enters into force on 1 January each year, cf. Act No. 42/1987. This basic amount is linked to the index on 1 October 1987, i.e. 102.4 points.

^{*1)} *The amount changes on 1 January each year in direct proportion to the Construction Cost Index. As of 1 January 2009, it is ISK 1,673,200.*

Tax value

Article 6

In calculating VAT (tax collected) as provided for in this Regulation, tax value shall be based on the normal going price for similar transactions. [If the going price is not available, tax

value shall be based on calculated selling price taking all costs into consideration, including mark-up of construction materials, wage expenses, wage-related expenses, fixed costs and profit. The Director of Internal Revenue shall issue rules on calculated selling price.]^{1) a)}

¹⁾ Cf. Art. 1 of Reg. No. 376/1997. ^{a)} Advertisement by the Director of Internal Revenue No. 8/1994.

Accounting

Article 7

(1) A builder who builds on his/her own lot, or on a rental lot, real estate for rental or sale must have in its accounts a breakdown of details on each individual building. Information on the following aspects must be available, for instance:

1. the cost price of building materials which a builder and his/her employees use for building construction;
2. wages and wage-related expenses, as well as information on the number of working hours of employees on building construction from preparation to conclusion of a project;
3. the value of the work done by a builder (owner of a construction company) him-/herself and information on the number of his/her working hours on the building construction from preparation to conclusion of a project;
4. other cost items concerning the work of the builder and his employees on the building, e.g. use of own equipment and costs arising from work camps;
5. the mark-up on building materials, wage expense etc. which the builder calculates, including fixed cost and profit.

(2) In the case of a building for own use, the provisions of the first paragraph shall apply *mutatis mutandis* and as provided for in rules set by the Director of Internal Revenue.

Notification obligation

Article 8

Any party obliged to pay tax pursuant to the provisions of this Regulation, must notify the regional tax director of his/her activities as provided for in Article 5 of Act No. 50/1988, on Value Added Tax.

Penalties

Article 9

Infringements against the provisions of this Regulation are liable to punishment pursuant to Art. 40 of Act No. 50/1988, on Value Added Tax.

Entry into force

Article 10

This Regulation is issued on the basis of an authorisation in the second paragraph of Article 3 and Article 23 of Act No. 50/1988, on Value Added Tax, and shall enter into force on 1 January 1990.