

# English translation of the Weekly Web Release



MINISTRY OF FINANCE IN ICELAND

September 28<sup>th</sup> 2006

## The future arrangement of the public registration and valuation of real property

The Land Registry Database was established at the beginning of 2001, an important step in merging public registries of real property, including title registries and valuation data, into one database that is linked to the building and population registries of Statistics Iceland. The purpose is to coordinate the work methods of those involved in property registration, of which the coordination of registration methods of district magistrates and the cadastre (registry of real property) of the Land Registry was of prime importance. At the time of the passage of the Land Registry Act, it was assumed that it would take four years to establish the database, and that the cost of compiling the database would mostly fall on property owners through a special users' charge. Upon completion of the database, the revenue source of the Land Registry would have to be reviewed.

In connection with the review of the financing of the Land Registry, the Ministry of Finance has decided to enter into a comprehensive review of the advantages and disadvantages of the current arrangement of cadastral registration and property valuation by the public sector and assess whether there is a reason for amending the current arrangement of these matters. In this regard, it should be noted that the importance of property valuation has significantly diminished for the central government since net wealth taxes were abolished and such property valuation constitutes therefore only to a minor extent a tax base for central government taxation. The importance of property valuation has in turn increased for the local governments, since real property valuation forms a tax base for local government property taxes. Furthermore, the Land Registry currently services the local governments by imposing such local property taxes on their behalf.

As regards the compulsory fire insurance of real property, the question needs to be asked whether there is enough reason to keep such insurance compulsory. It seems to be unique for this country and is not to be found among other Nordic nations. If such compulsion were to continue, it should be reviewed whether such assessment for the purpose of transactions among parties in the market should be brought about with other and more efficient means than through a public entity.

In light of the above, the Minister of Finance has decided to establish a working party with representatives from ministries, local governments and other interested parties in order to review the present state of affairs in this area, assess the need for change and present proposals for the financing of this system for the future.

## A new double-taxation agreement with the United States

Earlier this week, the representatives of Iceland and the United States finalised a new double-taxation agreement between the two countries that will replace an earlier agreement of 1975 between them. The new agreement reflects the changes that have taken place in the policies and points of emphasis of the two nations in the area of double taxation affairs in the past thirty years since the conclusion of the earlier agreement.

There are several significant changes to be found in the new agreement. First, a withholding tax will be imposed on certain types of royalties that were not found in the earlier agreement. This change is in line with the policy of Iceland in double-taxation agreements that has been in effect since 1999. All double-taxation agreements completed by Iceland since then have contained a clause on a withholding tax on royalties. Second, at the initiative of the US, a clause has been inserted adopting limitations on benefits intended to ensure that only qualifying taxpayers under such a clause will enjoy the benefits of the agreement. A similar clause is not to be found in the earlier agreement of 1975. Third, the language is clarified regarding the right of pension funds to enjoy the benefits of the agreement in respect of payments from the United States, since the provisions of the earlier

agreement regarding pension funds were very unclear. Finally, the new agreement contains a sunset clause vis-à-vis the old agreement, or twelve months from the entry into force of the new agreement. The new agreement enters into force from the beginning of the year following its signature.

The new agreement is being prepared for translation and further finalisation. The signature date has not been decided. In the meantime, the older agreement remains in force.

## Treasury finances, January-August 2006

According to [Treasury finance figures](#) for the first eight months of this year, the cash surplus from operations amounted to 35.6 billion krónur, 19.3 billion more than during the same period last year. Revenue turned out to be 27 billion higher whereas expenditure rose by only 6 billion. The net financial surplus amounted to 33.2 billion, compared to 27.6 billion a year ago.

Treasury revenue amounted to 246 billion in the first eight months, 27 billion or 12.2 per cent more than last year, and 10.7 per cent more when adjusted for a shift between months in the collection of the corporate income tax. Tax revenue and income from the social security tax increased by 13 per cent in nominal terms at the same time as consumer prices increased by 6.4 per cent, leaving an increase in real terms of 6.5 per cent. Other revenue declined by 21 per cent because last year Iceland Telecom paid 6.3 billion in dividends to the Treasury but has since then been privatised.

Taxes on income and profits amounted to 79 billion, an increase of 18 billion or 30 per cent from the previous year. Revenue from the personal income tax rose by 12 per cent and by 70 per cent from the corporate income tax (adjusted for the above-noted change in the collection schedule) and from the capital income tax by 45 per cent. The collection of the social security tax yielded an increase of 15 per cent between years or 6 per cent in excess of the rise in the wage index. The collection of taxes on assets amounted to 6.4 billion, including 5 billion from the stamp tax which declined by 20 per cent from the previous year, partly because taxable debt conversion has decreased.

Indirect taxes yielded 117 billion krónur in the first eight months, an increase of 10.5 per cent in nominal terms or 4 per cent in excess of the increase in the consumer price index. Revenue from the value added tax has increased by 11 per cent, equivalent to nearly 5 per cent in real terms. The due date of VAT and customs duties has been amended by law, and comparison with earlier years is therefore dependent upon the period within the year under review. A moving average of several months indicates that the growth in revenue from taxes on goods and services is slowing down considerably. Indirect taxes other than the value added tax amount to about a third of total indirect taxes. This growth in this part of the total is also slowing down and has turned into a decline most recently. The excise duty on motor vehicles at the point of import has increased only by a small margin this year, following a large increase last year.

Treasury expenditure amounts to 209.7 billion krónur and increased by 5.9 billion between years or 2.9 per cent. Interest payments decline by 8.1 billion because a large issue of government savings bonds along with accumulated interest matured in April last year. Excluding interest, total expenditure increased by 14 billion or 7.5 per cent. Of this increase, 4 billion went to health and 2.9 billion to education. Payments for social security and welfare increase by 2.5 billion and for general public services by 1.9 billion. One billion went to law enforcement and 0.5 billion to economic affairs. Health and social security account for about half of total Treasury expenditure.

Borrowing amounted to 25.2 billion and repayments to 32.6 billion. The difference is financed by cash from operation. The Treasury's contribution to the equity capital of the Business Venture Fund amounted to one billion krónur, and 2.6 billion was paid to the Government Employees Pension Fund to reduce the future commitment of the Treasury to the Fund.

Treasury revenue January-August		
12 month changes (%)	2005	2006
Total tax revenue	18.5	14.9
Taxes on income & profit	15.7	29.7
Taxes on property	50.3	-33.3
Taxes on goods & services	18.6	10.5
Social contributions	16.6	15.5
Total revenue	21.1	12.2

Treasury expenditure January-August		
12 month changes (%)	2005	2006
General public services	22.1	-15.7
Health	7.9	7.6
Social security & welfare	3.5	5.2
Economic affairs	-4.0	1.9
Education	15.0	14.4
Total expenditure	7.6	2.9

Treasury finances January-August		
Million krónur	2005	2006
Cash from operations	16,298	35,558
Net financial balance	27,558	33,219
Debt redemption	-33,363	-32,592
Gross borr. requirement	-8,406	-2,013
Net borrowing	15,832	25,247
Overall cash balance	7,426	23,234

Economic indicators		
12 month changes (%)	2005	2006
Inflation (September)	4.8	7.6
Core inflation (September)	4.9	7.2
Wage index (August)	6.7	10.6
Total turnover (Jan. - June)	8.0	12.5
Retail turnover (Jan. - June)	6.4	5.1
Unemployment rate, sa (Aug.)	2.0	1.3