

Regulation

No. 192/1993, on VAT Input tax^{*1)}

^{*1)} Cf. Regulations Nos. 532/1993, 306/1994, 18/2001 and 1044/2006

CHAPTER I

General provisions on input tax

Article 1

(1) A party registered as provided for in Art. 5 of Act No. 50/1988, on Value Added Tax, may include in its claimed input tax the VAT which from the date of registration onwards is incurred on its purchases of taxable goods and services for use in its operations, provided its claim for input tax towards the National Treasury is based on satisfactory documents and accounts as provided for in Regulation No. 50/1993, on Account-keeping and Recording of Revenues of Parties Subject to VAT.

(2) VAT on inputs purchased prior to the date of registration may not be included in input tax. The same shall apply if the documentation and accounts, cf. the first paragraph, are insufficient.

Article 2

VAT on inputs for the following may not be included in the input tax:

1. the coffee room or cafeteria of the taxable party and its food purchases of any type. It is authorised, however, having regard to other provisions of this Regulation, to include in the input tax VAT on that part of a building which is utilised for a coffee room or cafeteria, together with fixed facilities in that part of a building. On the other hand, VAT on moveable facilities, furniture, equipment and tools for use in a coffee room or cafeteria may not be included in the input tax;
2. if a taxable party sells food to its employees, VAT on the raw materials, energy and services purchased in this connection may be included in the input tax in accordance with general rules;
3. acquisition or operation of residential accommodation for an owner or employees. It makes no difference in this connection whether the party also uses the accommodation for his/her work. Residential accommodation shall also include a storage room and garage built in normal connection with a residence;
4. benefits to an owner or employees;

5. acquisition and operation of holiday accommodation, summer cottages, day care facilities etc. for an owner or employees;
6. hospitality and gifts. VAT on purchases of small goods of low value, which are obviously intended for advertising purposes, may however be included in the input tax;
7. [acquisition, including rental, and operation of multipassenger vehicles and passenger vehicles, including station wagons and 4WD vehicles, provided the taxable party is not involved in the sale or rental of these vehicles. The same shall apply to delivery and transport vehicles of an authorised GVW of 5,000 kg or less, which do not fulfil the provisions of Article 9 of this Regulation concerning type and equipment.]¹⁾

¹⁾ Cf. Art. 1 of Reg. No. 18/2001.

CHAPTER II

Purchases not exclusively related to the sale of taxable goods and services

Mixed activities

Article 3

(1) A party involved in mixed activities, i.e. some of which are subject to VAT while others are exempt from VAT, cf. Art. 2 of Act No. 50/1988, as subsequently amended, may include in its input tax VAT incurred on purchases of goods and services, as provided for in detail in Articles 4 and 5 of this Regulation, cf. however the special rules on various purchases in Articles 7-9.

(2) [A party operating taxable accommodation services for part of the year and real estate rental for part of the year is considered to have mixed activities, in the understanding of the first paragraph, provided that it offers taxable accommodation services for sale for five months of the year or less.]¹⁾

¹⁾ Cf. Art. 1 of Reg. No. 306/1994.

Article 4

(1) Having regard for other provisions of this Regulation, a party with mixed activities may include fully in its input tax VAT on goods and services purchased exclusively for use in that portion of its activities subject to tax.

(2) VAT on goods and services related exclusively to the tax exempt portion of a party's mixed activities may not be included in its input tax.

Article 5

(1) VAT on fixed assets, goods and services purchased for use both for the taxable portion of the party's activities and the tax exempt portion (mixed use), may be included in the input tax in the same proportion as the ratio of sale of taxable goods and services (excluding VAT) to total turnover each financial year. These calculations shall not have regard for sale of fixed assets etc., cf. the third paragraph of Art. 11 of Act No. 50/1988.

(2) The ratio from the previous financial year may be used for calculating the input tax during the next financial year. When making remittance for the final period each year, a reconciliation shall be made with the actual input tax for the past year. For the first year of taxable activities, the ratio shall be calculated provisionally for each individual reporting period, with final settlement made upon remitting for the final reporting period.

(3) The Director of Internal Revenue shall issue special forms to be used for reconciliation as referred to in the second paragraph.

Own use

Article 6

(1) If purchasing by a taxable party is made both for its sale of taxable goods and services and for private use or other use which is unrelated to its commercial operations, VAT on such purchases may be included in its input tax to the extent to which the purchasing is related to operations subject to VAT.

(2) The regional tax director shall base his/her assessment of whether purchasing is properly divided between operations subject to VAT and personal use on the rules and practices developed in assessment of income tax.

Special rules on real estate and motor vehicles

Article 7

(1) For new housing construction, including additions to housing, where a specified part (certain rooms or a floor of a building) is intended for use for the registered activities but which is otherwise intended for use which does not involve the right to deduction of input tax, a taxable party may include VAT on the total cost of building construction in its input tax in the same proportion as the ratio of the construction cost of the part built for use in the registered activities to the total construction cost. If the quality of different parts of the building, which are utilised in different ways, is similar the tax may be divided in proportion to the ratio of the area of the part of the property used for operations subject to VAT to the total area of the building.

(2) Housing which is rented out is not deemed to be used for operations subject to VAT unless the lessor has received a free registration as provided for in the first paragraph of Art. 6 of Act No. 50/1988. Residential housing shall be subject to Point 2 of Article 2 of this Regulation.

(3) VAT for improvements, repairs and maintenance to the housing referred to in the first paragraph may be included in the input tax insofar as the construction directly concerns only that part of the building used for the party's taxable operations. A seller of work or services must specify on its sales invoice on what part of a building work was performed.

(4) If work on improvements, repairs and maintenance does not directly concern a specific part of the building, e.g. outdoor maintenance or work on common installations, a taxable party may base its calculation of input tax on the ratio of the area of the part of the property used for its taxable operations to the total area of the building.

Article 8

If a taxable party uses the same part of a building both for taxable activities and tax exempt activities, calculation of its input tax may be based on the principles of Articles 3-6, insofar as VAT cannot be divided as provided for in the rules of Article 7. In calculation of input tax for installations, repairs and maintenance of other properties than housing, e.g. for building lot work, the provisions of Articles 3-6 shall apply.

Article 9

(1) [[Provisions of Articles 5 and 6 shall not apply to VAT on acquisition, including leasing, of the following motor vehicles:

1. delivery and transport vehicles of an authorised GVW of 5,000 kg or more, which fulfil the following conditions:
 - a. The registered passenger transport capacity must comprise less than half of the registered transport capacity of the vehicle; Each person shall be assumed to weigh 75 kg.
 - b. The cargo area, open or closed, from the back edge of a seat or divider to the loading door or tailgate must be at least 1,700 mm. If shorter, it must be at least longer than the passenger space, as measured from the middle of the front windscreen.
 - c. The cargo area may neither have seats nor other equipment for passenger transport. If a passenger vehicle or multipassenger vehicle is converted to a delivery or transport vehicle, the seats must be permanently removed from the cargo area together with seat brackets and other equipment for passenger transport;
2. motorcycles;

3. all-terrain vehicles, including snowmobiles, two-, three-, four-, five- and six-wheel off-road vehicles;
4. hovercraft.

(2) VAT on the acquisition, including leasing, of the above-mentioned motor vehicles may not be included in input tax unless they are exclusively used for activities subject to VAT, i.e. for sale of goods and taxable services. All other use, such as personal use by the owner of the operation and his/her employees, and use for activities not covered by VAT, means that VAT on acquisition of the motor vehicles may not be included in the VAT input tax. Driving by an owner or employee to and from his/her residence is in all instances considered personal use in this context, even if the driving is at the same time for the purpose of the activities or by other means at the request of the operator.

(3) The only exception to the second paragraph is that the owner of an operation or his/her employee may have limited personal use, without this preventing the VAT on the acquisition of a motor vehicle as referred to in Point 1 of the first paragraph being included in its input tax. The concept of "limited personal use" means only driving between the residence of the person with the right of use and the company's establishment. The following conditions for this exception must be satisfied:

1. The usage rights of the owner or his/her employee is fully included in turnover subject to VAT for a tax value which is equal to the benefit assessment of the Director of Internal Revenue, for limited use by employees of their wage payer's vehicle, in current assessment for withholding of public levies.
2. Before private use commences, or a change is made to such use, the operator must notify the regional tax director of the proposed usage right, including who will enjoy the right, in such format as the Director of Internal Revenue decides.
3. In deducting and remitting withholding of public levies, the operator (wage payer) includes in the employee's wages the benefit arising from the usage right.

(4) The condition for including in the input tax VAT on the acquisition, including rental, of a vehicle as provided for in Point 1 of the first paragraph is that it bear special registration plates with red characters on a white background, cf. Art. 14 of Reg. No. 78/1997, on the Registration of Motor Vehicles as subsequently amended^{*1)}. The condition does not apply, however, to asset leasing companies and car rental companies concerning vehicles which they rent or lease in their operations subject to VAT.

(5) If a taxable party has included in its input tax VAT on acquisition of a motor vehicle as referred to in the first paragraph, but subsequently takes it into use for which less or no deduction right is authorised, he/she must notify the regional tax director thereof before the usage is changed and have the special registration plates referred to in the fourth paragraph removed.

(6) Should it be revealed that the conditions of this Article for input tax on the acquisition of a motor vehicle have not been complied with, including the obligation to give notification, the regional tax director may cancel input tax on the acquisition of the vehicle in question.

(7) The provisions of Articles 3-6 shall apply to calculation of input tax for operation of the vehicles referred to in the first paragraph.]¹⁾²⁾

¹⁾ Cf. Articles 1-3 of Reg. No. 532/1993. ²⁾ Cf. Art. 2 of Reg. No. 18/2001. ^{*1)} Now Article 19 of Regulation No. 751/2003.

[Article 9 A

(1) Parties purchasing used motor vehicles to dismantle on a commercial basis from non-taxable parties may calculate input tax equivalent to 19.68% of the purchase price of the vehicle when the seller is not responsible for collecting VAT on the sale. The purchase shall be entered into a special expense account in its accounting.

(2) The accounts or accompanying documentation must include the following information:

1. the vehicle's permanent number, cf. the Regulation on Registration of Motor Vehicles, No. 523/1988^{*1)}, as subsequently amended;
2. the date of the transaction;
3. a description of the purchased vehicle;
4. the purchase price;
5. the name, address and Id. No. of the seller.

(3) The sales note, purchase contract and deed of sale shall be preserved, together with other accounting documents concerning the transaction.]¹⁾

¹⁾ Cf. Art. 2 of Reg. No. 306/1994. ^{*1)} Now Regulation No. 751/2003.

Input tax of state institutions, municipalities, etc.

Article 10

(1) [Notwithstanding the provisions of this Chapter, parties subject to VAT who are exempt from income and net worth tax, as provided for in Art. 4 of Act No. 75/1981^{*1)}, shall only include in their input tax VAT on inputs and fixed assets which are exclusively related to sales of goods or services subject to VAT. The same shall apply to input tax on their taxable own usage as referred to in the second paragraph of Art. 3 of Act No. 50/1988, on Value Added Tax.

(2) Public service enterprises, however, which sell goods or services subject to VAT to others, and which are subject to tax as provided for in Point 4 of the first paragraph of Art. 3 of Act No. 50/1988, may include in their input tax VAT on inputs and fixed assets, other than real estate, insofar as these are deemed related to their operations subject to VAT in the same manner as described in Article 6 of this Regulation. The condition for such proportional input tax is that the

aspect of the enterprise's activities which is subject to VAT is kept separate from other aspects of its activities financially and in its accounts.]¹⁾

¹⁾ Cf. Art. 3 of Reg. No. 18/2001. ^{*1)} Now Article 4 of Act No. 90/2003, on Income Tax.

CHAPTER III

Sale of fixed assets

Article 11

(1) The sale or delivery of machinery, equipment and other fixed assets is included in full in the taxable turnover of a party even if it has only received input tax on part of the VAT incurred in acquiring them.

(2) If VAT on the purchase of a motor vehicle could not be included in input tax, cf. Point 6 of Article 2 and Article 9, sale of the motor vehicle is not included in taxable turnover.

CHAPTER IV

Adjustment of input tax on fixed assets

Article 12

(1) A taxable party shall adjust (make a reverse entry of) input tax for its taxable activities if changes occur to the premises for deducting input tax on the acquisition of the following fixed assets:

1. machinery, equipment, tools, furnishings and other moveable assets which depreciate in value through normal use or aging, provided the purchase price (initial price) of individual assets or sets of assets is at least ISK 109,500^{*1)} (excl. VAT) after updating in accordance with the Construction Cost Index;
2. real estate. The adjustment obligation shall cover the input tax on materials, labour, use of equipment etc. for new construction, rebuilding or improvements, as well as repairs and maintenance, provided the total value of these undertakings is at least ISK 500,000^{*2)} (excl. VAT) after updating in accordance with the Construction Cost Index.

(2) The amounts referred to in the first paragraph shall on 1 January each year change in proportion to the tax index, cf. Art. 122 of Act No. 75/1981, on Income and Net Worth Tax, as subsequently amended.^{*3)}

(3) In updating the amounts referred to in the first paragraph, use shall be made of the Construction Cost Index for that month when the fixed assets referred to in Points 1 and 2 were acquired and the Construction Cost Index for the month when adjustment of input tax takes place.

**1) The amounts changed on 1 January each year in accordance with the tax index (the tax index was abolished in 1995). The amount is currently ISK 113,700. *2) The amounts changed on 1 January each year in accordance with the tax index (the tax index was abolished in 1995). The amount is currently ISK 519,600. *3) Article 122 of Act No. 75/1981 was repealed by Act No. 145/1995 and the tax index thereby abolished.*

Article 13

(1) It is deemed a change in the premises for deduction of input tax when a taxable party benefited from full or partial right to deduction when an asset was purchased or work performed, and the asset is subsequently sold, rented or put to other use where the taxable party has no right or less right to deduction. It is also deemed a change in the premises for deduction of input tax if a vehicle as referred to in Point 1 of the first paragraph of Article 9 is altered with the result that the vehicle no longer fulfils the conditions specified in Point 1 of the first paragraph, although the use of the vehicle has not changed. Furthermore, input tax for the acquisition of assets which [...] ¹⁾ are used for mixed activities shall be adjusted if the ratio as provided for in Article 5 decreases by 10 percentage points or more from that of the year the asset was acquired.

(2) The adjustment obligation shall be cancelled in the following instances:

1. if the sale or delivery of fixed assets is included in the taxable turnover of a taxable party, cf. the third paragraph of Art. 11 of Act No. 50/1988 and Article 11 of this Regulation;
2. if an asset is sold at forced auction;
3. if a property is rented and the lessor is registered for free registration, cf. Regulation No. 577/1989, on Free and Special Registration for Rental or Sale of Real Estate.

(3) A taxable party may adjust upwards input tax for the acquisition of assets which [...] ²⁾ are used for mixed activities if the ratio as provided for in Article 5 increases by 10 percentage points or more from that of the year the asset was acquired.

¹⁾ Cf. Art. 3 of Reg. No. 306/1994. ²⁾ Cf. Art. 4 of Reg. No. 306/1994.

Article 14

(1) An adjustment shall be made to input tax for acquisition of moveable assets, cf. Point 1 of the first paragraph of Article 12, if changes occur to the premises for deduction in the next five years, calculated from of the month when the asset was acquired. Input tax shall be adjusted because of construction as referred to in Point 2 of the first paragraph of Article 12, if changes occur to the premises for deduction in the next [twenty] ¹⁾ years, calculated from of the month when the

construction took place. The authorisation for adjustment, as provided for in the third paragraph of Article 13, shall be cancelled after five years, calculated from the month of purchase.

(2) If use of an asset changes in the same month as the deduction of input tax is made, the adjustment obligation shall include the entire amount deducted as input tax. If the use changes later, the input tax deducted shall be updated in accordance with the Construction Terms Index. Input tax updated in this manner shall be adjusted as follows:

1. for moveable assets, cf. Point 1 of the first paragraph of Article 12, the adjustment obligation is 80% during the year following the year when the input tax deduction was made, 60% during the next year and then decreasing by 20 percentage points annually. For each period of less than one year (12 months) the adjustment obligation shall be 1.67% per month;
2. [for real estate, cf. Point 2 of the first paragraph of Article 12, the adjustment obligation is 95% during the year following the year when the input tax deduction was made, 90% during the next year and then decreasing by 5 percentage points annually. For each period of less than one year (12 months) the adjustment obligation shall be 0.42% per month.]¹⁾

(3) For changes in the ratio as referred to in Article 5, the adjustment for each financial year shall amount to $\frac{1}{5}$ with regard to assets as referred to in Point 1 of the first paragraph of Article 12 and $[\frac{1}{20}]$ ¹⁾ with regard to real estate, cf. Point 2 of the first paragraph of Article 12, of the amount which has been deducted as input tax.

(4) The adjustment amount shall be adjusted on the input tax account for the period when adjustment is to take place.

(5) To adjust input tax, a special adjustment report must be filled out in the format decided by the Director of Internal Revenue.

¹⁾ Cf. Art. 1 of Reg. No. 1044/2006.

Article 15

(1) In purchasing real estate a purchaser may overtake an adjustment obligation for the amount remaining in a period as provided for in Article 14 insofar as the purchaser has a right to a deduction for the property. The seller shall adjust the input tax to the extent that the purchaser's right to deduction may be less than the seller's. Apart from this the seller's adjustment obligation as provided for in this Regulation shall be cancelled.

(2) When transfer of ownership of real estate, machinery or other fixed assets takes place in connection with the transfer of ownership of a company or part of it as provided for in the fourth paragraph of Art. 12 of Act No. 50/1988, on Value Added Tax, during the adjustment period, a purchaser who has at least the same right to deduction for fixed assets as the seller had on acquiring them, may take over the entire adjustment obligation for the amount remaining in the

period. If the purchaser's right to deduction is less than the seller's, the purchaser may takeover that part of the adjustment obligation to which it is entitled and the seller must then fulfil the remaining adjustment obligation.

(3) The regional tax director must be notified of the takeover of adjustment obligation as provided for in this Article. The notification must be in such form as decided by the Director of Internal Revenue.

Article 16

Accounting and preservation of documentation concerning changes in the premises for deduction of input tax shall be as provided for in Regulation No. 50/1993, on Account-keeping and Recording of Revenues of Parties Subject to VAT.

CHAPTER V

Miscellaneous provisions

Article 17

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

Article 18

This Regulation is issued on the basis of an authorisation in the second paragraph of Article 16, cf. Article 49 of Act No. 50/1988, on Value Added Tax, as subsequently amended, and shall enter into force immediately. At the same time, Regulation No. 81/1991, on Input Tax, as subsequently amended, shall be repealed.

Temporary Provisions

A temporary provision with Reg. No. 192/1993 is not published here.

[Temporary Provisions with Regulation No. 18/2001.

(1) As of the entry into force of this Regulation, all authorisations are cancelled concerning vehicles specially outfitted for repair services, granted by regional tax directors on the basis of the third paragraph of Art. 9 of Reg. No. 192/1993, as this provision read following the entry into force of Article 3 of Regulation No. 532/1993, amending the above-mentioned Regulation.

(2) By 1 March 2001, those operators who held the authorisations referred to in the first paragraph must notify the regional tax director of their usage right as provided for in the third paragraph of Article 2 of this Regulation and re-register the vehicles in question with registration plates with red characters on a white background, cf. the fifth paragraph of Article 2 of this Regulation, if they intend to avail themselves of the authorisation in the said third paragraph of Article 2.]