

# **The Value Added Tax Act with subsequent amendments**

## **Introductory provision**

### **Article 1**

A value added tax shall be paid to the Treasury of all inland transactions at all stages, as well as of imports of goods and services, as provided for in this Act.

## **Chapter I Taxable transactions**

### **Article 2**

The tax liability covers all goods and valuables, new and used. In this connection, real property is not viewed as goods, whereas electricity, heat and other energy is. Stocks, bonds, paper forms and similar items are goods when delivered as printed material. Bank notes, coins and stamps are goods when sold as collector's items.

The tax liability covers all labour and services, regardless of name, except as in Paragraph 3.

The following labour and services are exempt from value added tax:

1. The services of hospitals, birth clinics, sanatoriums and other comparable institutions, as well as medical and dental services and other actual health services.
2. Social services, such as the operation of day-care centres, nurseries, after-school care centres, juvenile detention facilities and other similar services.
3. The operation of schools and educational institutions, as well as driver instruction, pilot instruction and dance instruction.
4. The operation of collections, such as libraries, art museums and natural history museums and similar cultural activity. The same applies to admission charges to concerts, Icelandic motion pictures, ballet and stage performances and theatres, provided such gatherings are in no manner associated with other gatherings or restaurant operations.
5. Athletic activity, as well as the hire of athletic facilities, admission charges to swimming pools, ski lifts, athletic events, athletic exhibitions and health facilities.
6. Passenger transportation. The transportation of vehicles by ferry that is directly connected to passenger transportation is included in passenger transportation under this item.
7. Postal services for which a public entity has a monopoly pursuant to the Postal Act no. 33/1986. The exemption covers also the acceptance and distribution of other addressed letter mailings, including postcards, newspapers and magazines as well as general distribution mailings and open letters.
8. The rental of real property and parking spaces. The rental of hotel and guestrooms and camping spaces is nonetheless taxable as well as other overnight guest services for a period of less than one month. The same applies to sales of restaurant facilities and gatherings when the rental is for a period of less than one month.

9. Insurance activity.
10. The services of banks, savings banks and other credit institutions as well as securities trading.
11. Lotteries and betting pools.
12. The activities of authors and musical composers in their creation of intellectual property and comparable artistic activity.
13. The services of travel agencies.
14. Funeral services and all services of ministers of the church.

Exemptions to Paragraph 3 only cover the sales or delivery of labour and services listed therein, not the value added tax (input tax) of purchases to the exempted activity, cf. Paragraphs 3 and 4, Article 15 and Paragraph 1, Article 16.

Charity activity is exempt from tax liability, provided its proceeds are fully applied to charitable activity. A condition for such an exemption is that the activity is under the responsibility and at the financial risk of an party and it has received the certification of the Regional Tax Director that the above conditions have been fulfilled. The following activity is defined as charitable activity pursuant to this provision:

1. sales of bazaars, button sales and similar sales of charity organisations, provided their operation lasts no longer than three days each month or fifteen days in case of an annual event,
2. the collection and sale of used objects of scant value, provided sales are only made to taxable buyers,
3. sales by utility markets of used objects that the seller has acquired without compensation.

The original sale of commemorative coins issued by the Central Bank of Iceland shall be exempt from tax liability, even if the selling price is higher than the denomination. The Minister of Finance may by Regulation set further conditions for exemptions pursuant to this Article

## **Chapter II**

### **Taxable and tax-exempt parties and the obligation to report**

#### **Article 3**

The duty to collect a value added tax and turn the proceeds in to the Treasury is imposed upon the following parties:

1. Those who sell or deliver goods or valuables on a professional or independent basis or perform taxable labour or service.
2. Co-operative societies as well as other societies and institutions, even if they are exempt from the provisions of the Income Tax Act no. 90/2003, or special acts, inasmuch as they sell goods or taxable services in competition with enterprises. The tax liability includes transactions exclusively with society members or when only taxable goods and services of society members are sold.

3. Public energy and distribution enterprises inasmuch as they sell taxable goods and services. The same applies to a port with a port authority owned by a municipality.
4. The government, municipalities and their institutions and enterprises inasmuch as these parties sell goods or taxable services in competition with enterprises.
5. Auctioneers.
6. Agents and other parties representing foreign parties engaged in taxable transactions in this country.

Parties engaged in operations that come under Paragraph 3 and 5 of Article 2 shall pay a value added tax of taxable goods and services when a good is produced or a service is rendered exclusively for own use or in competition with taxable parties pursuant to Paragraph 1. Parties engaged in construction activity at their own expense, including maintenance and improvements, shall pay a value added tax on their own labour, that of their employees and the use of equipment, regardless of whether the construction activity is for the purpose of selling, renting or for own use. The labour of the builder himself is not taxable, provided he builds exclusively for his own use, provided he does not use the labour of wage earners in the design and construction and the labour is not a part of his proper or similar craft or profession. The government, municipalities and their institutions shall pay a value added tax on taxable goods and services for their own use, provided this is not labour or a service according to Paragraph 3, Article 42 rendered outside a separate enterprise or service department. Furthermore, the national government, municipalities, their institutions and corporations shall pay value added tax on the production price of food prepared in their cafeterias and sold to personnel or others at below production price. The Minister of Finance is authorised to set further Rules regarding the implementation of this provision, including when an activity is deemed to be in competition with an enterprise, the tax base, accounting and other matters.

#### **Article 4**

Those exempt from the obligation to pay tax according to Article 3 are:

1. Parties that only sell goods or services exempt from value added tax.
2. Artists as regards their sale of own works of art, provided the works of art come under the Customs Code numbers 9701.1000-9703.0000, and auctioneers as regards their sale of these works at art auctions, cf. Act no. 36/1987.
3. Those who sell taxable goods or services for less than 500,000 kr. a year.
4. School cafeterias.

#### **Article 5**

Each party that is taxable according to Article 3, cf. Article 4, shall at its own initiative and no later than eight days before activity begins, register its enterprise or activity with the Regional Tax Director where it resides. Changes in activity that take place after registration shall be announced no later than eight days after the change has taken place.

The Regional Tax Director issues a confirmation to a party obligated to register that a registration has taken place.

Registration announcements according to Paragraph 1 shall be sent on forms special for that purpose as issued by the Directorate of Internal Revenue. The Directorate of Internal Revenue shall decide which information shall appear on these forms.

In the case where a party that, in the opinion of the Regional Tax Director, is obligated to register its enterprise or activity pursuant to Paragraph 1 and has not fulfilled said registration duty, the Regional Tax Director shall decide that said party is liable to tax pursuant to the provision of Article 3 and so inform said party.

A party shall not be registered pursuant to this Article if the sum of its income from sales of taxable goods and services are generally lower than the cost of purchases with value added tax for purposes of the operation. A party has nonetheless a right to registration if it can show that a purchase of investment goods is directly connected with sales of a taxable good or service for commercial reasons during subsequent operational periods.

The Minister of Finance is authorised to set a Regulation with further provisions regarding registration, including retroactive registration for up to six years and a surety regarding registration pursuant to the Clause 2 , Paragraph 5.

#### **Article 5A**

The Regional Tax Director can authorise two or more limited liability companies or private limited companies to be jointly registered. The condition for joint registration is that not less than 90% of the share capital in the subsidiary companies be owned by the principal company that requests joint registration or that of other subsidiaries that also participate in the joint registration. All the companies must have the same accounting year. The joint registration shall be in the name of the principal company and shall be in effect for a minimum of five years. Should a joint registration be rescinded, its renewal is not permitted until five years have passed from the since the time the joint registration was rescinded.

An application for joint registration shall be filed with the Regional Tax Director in the region where the principal company has its venue no later than eight days before the beginning of the first accounting year following the joint registration. Changes in the underlying assumptions of a joint registration, such as a change in ownership, shall be disclosed no later than eight days after such a change has taken place.

With a joint registration, the principal company will be responsible for all duties regarding settlement, payment, assessment of value added tax pursuant to Chapters VII and IX of this Act on behalf of all the companies thus jointly registered. All the companies bear a joint responsibility for the payment of value added tax on the basis of joint registration.

In the settlement of value added tax for jointly registered companies, they shall be viewed as one legal entity. Transactions between jointly registered companies do therefore not give rise to a duty to pay value added tax, unless the turnover is subject to tax, cf. Clause 3, Paragraph 1, Article 11.

In cases where a subsidiary is owned by a savings bank, the provisions of this article apply, provided its conditions are met.

## **Article 6**

The Minister of Finance is authorised to set Rules to the effect that companies selling services other than those that are taxable according to Article 2 may ask for registration (optional registration) .

Companies registered under the authorisation pursuant to Paragraph 1 shall pay value added tax on the sales of such services as are included under the optional registration.

Registration according to Paragraph 1 shall not be in effect for a period of less than two years. Those parties engaged in construction activity at own expense for the purpose of selling real property to registered parties according to this Act are authorised to apply for a special registration to the Regional Tax Director. Should a Regional Tax Director authorise such a registration the party may subtract as input tax the value added tax on all acquisitions concerning its sales of a real property to the registered purchaser, cf. Paragraph 1, Article 16. The Minister sets further Rules regarding conditions that must be fulfilled to achieve registration according to this Paragraph, as well as on general accounting and the accounting for value added tax in accordance with it.

## **Chapter III Tax price**

### **Article 7**

The tax price is the price on which a value added tax is calculated upon the sale of goods and valuables, taxable labour and services. The tax price refers to total remuneration or total sales value before value added tax.

The tax price includes inter alia:

1. Taxes and imposts pursuant to other laws that have been levied at earlier transaction stages or have been paid upon importation to the country or a party subject to value added tax shall have rendered on account of a sale.
2. The costs of packing, carriage, insurance and other such costs that are included in the price or are separately charged by the seller from the buyer.
3. Connection charges and initial charges and other charges by the seller from the buyer as a condition for the delivery of a taxable good or service.
4. Agency and sales commissions and auction commissions.
5. Discounts subject to conditions that are not fulfilled upon delivery (issue of invoice). An unconditional discount, rendered upon delivery of the good, labour or service sold, shall be subtracted from the selling price when determining the tax price. A discount which parties recording their sales in a cash register, offer in return for payment by a credit card and which is entered fully as income upon delivery but deducted from the sale price upon settlement with the credit card company, is not deemed to be subject to conditions as referred to in the first sentence of this point. If a seller issues a receipt concurrent to the registering in the cash register the amount of the discount must be specified on it.

6. Price increases incurred up to the time of delivery of a good or service. Interest charges and price index compensation, both of which are calculated at the time of sale with installment conditions, shall not be included in the tax price, provided that the purchase contract specifies the amount of interest and price compensation in each instance.
7. A service charge that is not included in the price of the good.

### **Article 8**

When an owner takes goods or taxable services for his own use from his own company the tax price shall be based on the general price without value added tax. The same applies to goods and services used by the company for a purpose other than its sale of taxable goods or services or for a purpose pertaining to matters listed in Paragraph 3, Article 16.

When goods or services are exchanged or goods are handed over without charge, the tax price shall be based upon the general price in similar transactions. Should such a general price not be available the tax price shall be based on the calculated sales price where account is taken of all cost plus the markup generally used for goods and services in a similar category.

The provisions of Paragraph 2 of this Article shall also apply regarding taxable goods and services that a company uses to construct a fixed property for use of its owner. The same applies to taxable goods and services that a company uses for the construction of real property at its own cost when the real property is to be used for a purpose other than concerning sales of taxable goods and services or to construct a real property that subsequently is intended for sale or lease or is intended for purposes listed in Paragraph 3, Article 16. The provisions of Paragraph 2 of this Article shall also apply to taxable building and construction activity, cf. Paragraph 2, Article 3. The State Tax Director shall issue Regulations regarding the assessment of price according to this Article. The Minister of Finance sets further Rules in a Regulation regarding the price assessment in accordance with this Article, or he can delegate the task to the Director of Internal Revenue.

### **Article 9**

In transactions between related parties the tax price shall be based upon the general selling price in similar transactions between unrelated parties.

### **Article 10**

Regarding the sale of used motor vehicles that the seller has purchased for commercial resale, he may base the tax price on 80.32% of the difference between the purchase price and the sales price of a motor vehicle, including the value added tax. If the sales price is lower than the purchase price, no value added tax is calculated.

Car rental and insurance companies that, due to the nature of their business, have purchased used motor vehicles, may determine the tax price according to Paragraph 1 upon their resale.

If the tax price of used motor vehicles is determined in the manner described in Paragraphs 1 and 2 the amount of value added tax may not be registered on an invoice or in another manner so that

the amount of the value added tax may be calculated, whether in relation to the sale to the reseller nor in relation to the resale itself.

## **Chapter IV** **Taxable turnover**

### **Article 11**

The taxable turnover of a registered party includes all sales or deliveries of goods and valuables against payment, as well as sold labour and services. This includes the sales value of goods or taxable services that a company sells or produces and the owner withdraws for his own use. Taxable turnover also includes the sales value of taxable goods and services used by the company for a purpose other than its sales of taxable goods and services or for a purpose pertaining to matters listed in Paragraph 3, Article 16.

Taxable turnover includes sales or delivery of goods sold on a handling or agent basis.

Taxable turnover includes sales and delivery of machinery, instruments and other operations equipment. The same applies to inventory, machinery, instruments and other operations equipment when a company resigns its registry, cf. Paragraph 1, Article 5.

### **Article 12**

Taxable turnover does not include:

1. An exported good as well as labour and services provided abroad. Communication services shall be seen as not being provided abroad if the purchaser is either domiciled or has operations in this country.
2. Good transport services between countries or good transport services inside the country when the transport takes place to or from the country.
3. Production of a good at the expense of a foreign party when the production company exports the good upon completion, as well as the processing and formation of a good at the expense of a foreign party when the production takes place abroad.
4. The design, planning and other comparable services related to construction and other real property abroad.
5. Provisions, fuel, instruments and other equipment delivered for use on board of inter-country vessels, as well as the service provided to such vessels. This exemption does not cover pleasure boats or private aircraft.
6. The sale and leasing of aircraft and ships. This exemption does not cover boats less than six metres in length, pleasure boats or private aircraft.
7. Shipbuilding and repair- and maintenance work on ships and aircraft and their fixed equipment, as well as materials and goods used or provided by the company providing the repair work. This exemption does not cover boats less than six metres in length, pleasure boats or private aircraft.
8. Contractual payments from the Treasury related to the production of milk and sheep farming.
9. Services provided to foreign fishing vessels related to the landing or sale of fish catches in this country.

10. Sales of services to parties neither domiciled nor having a venue of operations in this country, provided that the services are wholly used abroad. A taxable service provided in connection with cultural activity, arts, sports, education and other similar activity taking place in this country, and is tax-exempt cf. Paragraph 3, Article 2 of this Act, is always deemed as being used here. Sales of services to parties neither domiciled nor having a venue of operations in this country are, in the same manner, exempt from taxable turnover, even if the service is not wholly used abroad, provided the purchaser could, if its operations were subject to registry in this country, count the value added tax on the purchase of the services as part of the input tax, cf. Article 15 and 16. The following services come under this Point:

- a. the sale or lease of copyright, patent rights, registered trademarks and copyrighted designs and the sale or lease of other comparable rights,
- b. advertising services,
- c. services of consultants, engineers, lawyers, accountants and other similar specialised services, except for labour or services related to liquid assets or real property in this country,
- d. computer services, other data processing and the transfer of information,
- e. obligations and duties related to business or production activity or the use of rights listed under this Point,
- f. employment agency services,
- g. the rental of liquid assets, except for means of transport.
- h. the services of agents acting on behalf of others and for their account as regards the sale and delivery of services listed under this Point,
- i. telecommunications services.

11. A service of refunding value added tax to parties domiciled abroad.

The Minister of Finance may by Regulation specify further conditions for exemption according to Paragraph 1.

Sales of goods purchased or used solely for the purpose as listed in Paragraph 3, Article 16 shall not be included in taxable turnover.

The asset transfer of inventory, machinery and other operational assets may not be included in taxable turnover when the transfer takes place in connection with a change in ownership of a company or a part thereof and the new owner is engaged in registered or registry-obligated operations according to this Act. In the case of such a sale the seller shall communicate the transfer of ownership to the tax authorities no later than eight days after the change in ownership.

## **Chapter V**

### **The accounting for taxable turnover**

#### **Article 13**

Taxable turnover in each accounting period, cf. Article 24, is defined as the total tax price of all goods delivered, as well as all taxable labour and services rendered during the period.

If an invoice is issued due to delivery, the delivery is deemed to have taken place on the date of issue of the invoice, provided the invoice is issued before or at the same time as the delivery takes place.

When payment is rendered in full or in part before delivery takes place 80.32% of the payment received shall be counted as part of taxable turnover during the period when payment is rendered, or 87.72% in the case of a sale according to Paragraph 2, Article 14.

Goods delivered on a handling or agent basis may either be accounted for as part of taxable turnover during the accounting period when delivery takes place or the accounting period when the accounts are settled with the handling or commission agent. In the case of the latter method, an invoice may not be issued according to Article 20 until the settlement of accounts takes place.

In accounting for taxable turnover the seller may subtract as follows:

1. 80.32% of the amount he reimburses to his customers due to goods returned or 93.46 per cent in the case of a sale according to Paragraph 2, Article 14.
2. 80.32% of outstanding claims written off, provided the claim written off was earlier included in taxable turnover, or 93.46% in the case of sales according to Paragraph 2, Article 14. In the case when the amount is subsequently paid, 80.32% shall be included in taxable turnover during the period when it is paid, or 93.46% in the case of sales according to Paragraph 2, Article 14.
3. A discount given following delivery if it is given to a party that can deduct the value added tax from the input tax in its tax accounting, cf. Paragraphs 3 and 4, Article 15, and conditions for giving a discount were not at hand at the time of delivery. Such a discount to others is not deductible. A deduction according to this Point depends upon the issue of a credit invoice for the discount where the amount of the value added tax also appears, cf. Paragraphs 1 and 3, Article 20.

A taxable good or service that an owner acquires from his own company is counted as part of taxable turnover during the accounting period when the acquisition takes place. The same applies to a taxable good or service that the company uses for another purpose than relating to its sales of taxable goods and services or for a purpose relating to items listed in Paragraph 3, Article 16.

## **Chapter VI**

### **Tax rate**

#### **Article 14**

The value added tax shall be 24.5% and shall accrue to the Treasury.

In spite of the provision of Paragraph 1 the value added tax of the following goods and services shall be 7%:

1. ...
2. The rental of hotel and guestrooms and other guest services.

3. ...
4. Radio license charges.
5. Sales of magazines, newspapers and countryside- and district newspapers.
6. Sales of books whether Icelandic in origin or translations as well as audio recordings of such books.
7. Sales of hot water, electricity and oil for space heating and swimming pool water.
8. Sales of foodstuffs and other goods for human consumption as defined in an Addendum to this Act, excluding the sales of alcohol.
9. Admission tolls to land transportation projects.
10. CD disks, records, magnetic tapes and other similar means of music recordings, other than visual records.

## **Chapter VII**

### **Accounting for value added tax**

#### **Article 15**

Taxable parties according to Article 3 shall pay to the Treasury the difference between output tax and input tax for each accounting period, cf. Article 24. If the input tax exceeds the output tax during the accounting period the Treasury shall pay the balance, cf. Article 26.

The output tax is in this Act defined as the value added tax levied on a taxable sale or delivery of a taxable party during the period, cf. Chapter V.

The input tax is in this Act defined as the value added tax levied on the purchases of a taxable party of taxable goods and services for use in operation, except cf. Article 16.

The input tax during an accounting period is the value added tax that appears on invoices from those that have sold to the taxable party during the period as well as the value added tax of its imports during the period, cf. Chapter XI.

#### **Article 16**

The input tax for each accounting period, cf. Article 24, shall include the value added tax of items purchased for operations, goods, labour, services and other inputs which are exclusively related to the sales by taxable parties of goods and taxable services.

The Minister of Finance may set Regulations to the effect that the input tax may include a certain part of the value added tax on purchases which are not exclusively related to sales by taxable parties of goods and taxable services. The Minister may also specify by Regulation that parties engaged in the enterprise of purchasing used motor vehicles for scrapping may count 19.68% of the purchase price of the good as input tax that is entered into a separate account. The Minister may also set Regulations on the adjustment of deductions of input tax when a change is made in the use of durable operational assets, including real property, which leads to a change in the right of deduction. The adjustment can cover up to five years from the time the assets were acquired. In the case of real property the adjustment can cover up to twenty years. In Regulations of such

adjustments the Minister may take account of the price changes that have taken place since the assets were acquired.

The value added tax of the following inputs may not be counted as part of the input tax:

1. The cafeteria or dining room of the taxable party and all food purchases.
2. The acquisition or operation of living quarters for the owner or staff.
3. Perquisites for the owner and staff.
4. The acquisition and operation of vacation homes, summer cottages, children's nurseries and similar objects for the owner and staff.
5. Entertainment costs and gifts.
6. The acquisition, operation and rental of passenger cars and coaches. The same shall apply to delivery and transport vehicles with a gross authorised weight of 5000 kg or less, which do not fulfil the requirements for capacity and length of cargo area set by the Minister of Finance in a Regulation.

Parties subject to tax liability on the basis of the second paragraph of Article 3 may only include as input tax the value added tax on inputs which concern exclusively those aspects of their operations which are liable to the tax.

When goods that are used by the owner of a company are included in the taxable turnover of the company according to Paragraph 1, Article 11 the value added tax on purchases may be included in the input tax. The same applies to taxable goods and services used by a company for a purpose other than related to its sales of taxable goods and services or for a purpose related to matters listed in Paragraph 3 of this Article.

The provisions of Point 6, Paragraph 3 of this Article notwithstanding, taxable parties engaged in the business of selling or renting motor vehicles may count the tax on inputs related to such business as input tax.

Taxable parties are obligated, according to further rules set by the Minister of Finance by Regulation, to identify their motor vehicles when the value added tax on their acquisition or rental is counted as input tax. In the case when a party has counted value added tax as input tax the value added tax on the acquisition or rental of a motor vehicle which subsequently is put to another use where it is entitled to a lesser or no deduction right, it must give notice to the Regional Tax Director before there is a change in use, and identification plates attached to the vehicle according to this Article must be removed.

Those parties listed in Paragraph 1, Article 10 may deduct 19.68% of value added tax from the imputed output tax for each accounting period of the negative balance of the sales value and purchase value of sold vehicles for the relevant accounting period, provided the formal requirements of Paragraph 3, Article 10 apply to the sale in other respects.

## **Chapter VIII**

### **Accounting arrangements**

#### **Article 17**

All parties that are taxable according to this Act shall, in addition to requirements stated in the Accounting Act no. 145/1994, arrange their accounts and their settlement in such a manner that tax authorities can always verify value added tax returns, and this applies also to those that are not obligated to keep accounts according to the Accounting Act.

All books, settlements and data related to value added tax returns shall be safeguarded for seven years from the closure of the relevant accounting year. Those who use cash registers are not obligated to keep inner paper registers longer than three years from the close of the relevant accounting year, provided the accounts have been fully closed and signed annual accounts are at hand.

### **Article 18**

Taxable parties shall either maintain separate accounts in their principal accounts for the amounts entered on value added tax returns or enter them into separate sub-accounts or summaries based on the principal accounts. Entries shall be such that individual amounts on the value added tax return can be traced to their sources.

Should a taxable party according to this Act engage in multiple business activities, some of which would be taxable and some tax-exempt, the taxable and tax-exempt activities shall be clearly separated in the accounts and on the value added tax return.

Purchases subject to value added tax and those exempt from value added tax shall be kept separate in the accounts.

Accounts shall be kept on the input tax on one hand and the output tax on the other. These accounts may be updated at the end of each accounting period, provided the tax amounts can be calculated directly on the basis of the accounts covering purchases and sales of taxable goods and services.

Taxable parties that do not keep accounts according to the Accounting Act no. 145/1994 shall keep special accounts covering the taxable transactions. The Minister of Finance shall issue further Regulations regarding the arrangement of such accounts.

### **Article 19**

Sales by taxable parties according to this Act shall be considered taxable inasmuch as the parties are unable to demonstrate with accounts and records that they must keep that the sales are exempt from value added tax. If a party neglects to collect value added tax of goods or services which are taxable under this Act it must nevertheless pay the tax.

### **Article 20**

The seller shall issue an invoice with every sale or delivery of a good or taxable service, except cf. Article 21. The invoice shall include a date of issue, the name and national identity number of the purchaser and seller, the registry number of the seller, type of sale, quantity, unit price and total price. Invoice forms shall be numbered in advance in consecutive numerical order. The

invoice shall state clearly whether the value added tax is included in its sum total or not. Furthermore, the amount of the value added tax shall be stated separately, or that the value added tax amounts to 19.68% of the total price, or 6.54% in the case of a sale according to Paragraph 2, Article 14. The amount of the value added tax shall always appear in the case of a sale by a taxable party.

When payment is made in full or in part before delivery takes place, cf. Paragraph 3, Article 13, the recipient shall issue a receipt to the payer in accordance with the provisions of Paragraph 1 of this Article as applicable.

When goods sold are returned to the seller a credit invoice for value received shall always be issued with reference to the former invoice. The same applies to a discount given after an invoice has been issued as well as corrections of earlier invoices.

In the case of sales that are partially taxable and partially tax-exempt the part of the sale that is taxable shall be clearly separated on an invoice from other transactions. Taxable sales shall also be separated on an invoice by tax rates so that the total sales value of goods and services, including value added tax, appears separately for each tax rate.

The seller shall safeguard a copy of invoices and receipts according to this Article.

A taxable party shall, according to this Act, arrange its accounts and the safeguarding of accounting records in such a manner that it can, when so requested by tax authorities, provide information on purchases of taxable goods and services to individual taxable parties according to this Act.

A taxable party shall be able to present invoices or other documents for proof of input tax in accordance with the provisions of this Article. A party importing goods from abroad shall also be able to present documents from customs authorities for value added tax on goods imported. An invoice to the amount of 6,000 kr. or less, from a retailer or a party that almost exclusively sells to a final consumer is deemed sufficient in this regard, even if the name and personal identity number of the purchaser does not appear.

## **Article 21**

In the case of cash transactions by retailers and similar parties an invoice need not be issued according to Paragraph 1, Article 20, unless the sale is to a taxable party according to the provisions of this Act. Should an invoice be issued in such transactions, the demands of Article 20 regarding the identifications on invoices may be deviated from according to more specific Regulations set by the Minister of Finance.

The Minister of Finance may specify by Regulation, when special circumstances are at hand, that other measures of income registration may be adopted than those named in Paragraph 1, Article 20, provided that, instead of invoicing, another safe registration and auditing system be used.

Those parties that accept the production of others for processing or resale shall issue a return receipt (credit invoices) or receipts that may be substituted for invoices according to Article 20, and the same rule applies to those as in Article 20 as applicable. These provisions apply, for instance, to purchases of product co-operatives, co-operative societies and others that accept farmers' products, marine catches and any kind of industrial product, fully or half-processed.

### **Article 22**

Those parties that are exempt from tax may neither specify on their invoices nor indicate in any other manner thereon that value added tax is included in the invoice amount.

In the case where a tax-exempt party accepts a return receipt (credit invoice) where value added tax is specified or where it is stated that value added tax is included in the total sum, it shall call the attention of the issuer to the fact that he must refund to it the value added tax that he may have accepted.

Those parties that, despite Paragraph 1, specify in some manner on their invoices that value added tax is included in the total sum shall return the tax to the Treasury. The same applies to taxable parties that specify on their invoices a value added tax that is too high or a value added tax on transactions that are tax-exempt. Should a correction towards the buyer take place, the return obligation according to this Paragraph is cancelled.

Information regarding prices for goods or taxable services shall state clearly if the stated price does not include value added tax.

### **Article 23**

The Minister of Finance may by Regulation issue further instructions regarding special accounting, its accounting documents and bookkeeping, including inventory bookkeeping, for all parties subject to value added tax and inventory counting, the use of cash registers and other records for proof of bookkeeping entries, the validation of accounting books and records and their safekeeping.

A Regulation according the previous Paragraph may instruct regarding tax returns and accompanying documents.

## **Chapter IX** **Settlement periods, due dates,** **surcharges, appeals and other matters**

### **Article 24**

Each settlement period is two months, January and February, March and April, May and June, July and August, September and October, November and December. Parties obliged to register shall at the end of each settlement period pay without convocation the value added tax they must return according to this Act. The Minister of Finance decides by Regulation the venue of payment, the method of payment and the contents of the return, including provision for electronic

return and payment. If the turnover subject to value added tax of a party obliged to register is less than 1,400,000 kr. a year the Minister of Finance may decide by Regulation upon a longer settlement period and another method of payment than decreed above.

The value added tax along with a value added tax return shall be turned in no later than on the fifth day of the second months following a settlement period for transactions during that period. If a due date falls on a holiday or a general non-working day the due date is postponed to the next working day thereafter.

Should the input tax exceed the output tax during a settlement period, the party obliged to register shall within the same time limit, send a return to the Regional Tax Director in the form noted in Paragraph 1.

Companies can receive the permission from the Regional Tax Director to use each calendar month as a settlement period if the output tax is normally lower than the input tax due to the fact that a substantial part of the turnover is exempt according to Paragraph 1, Article 12. The same applies to companies selling goods and services that come under Paragraph 2, Article 14, as the majority of their inputs into such production or as intermediate inputs is subject of value added tax pursuant to Paragraph 1, Article 14.

A settlement period can only be changed so that it refers to the beginning of a two-month period according to Paragraph 1. A request for such a change must have been submitted to the Regional Tax Director no less than one month before the entry into effect of the expected changes. Should a party be authorised to change a settlement period, such a change shall be in effect for at least two years.

Any party that operates in more than one type of business activity shall submit a separate value added tax return for each according to a more specific decision of the Regional Tax Director.

A Regional Tax Director may consent to the application of a party operating in multiple business activities to turn in a separate return for each independent operating party.

Value added tax returns of companies that have obtained the authorisation of maintain accounts and draw up annual statements in foreign currency pursuant to Article 11 A of the Annual Accounts Act shall be based on original amounts in Icelandic krónur.

## **Article 25**

The Regional Tax Director assesses the value added tax of a registered party for each settlement period.

He shall investigate value added tax returns and correct them if individual items are inconsistent with law or instructions based thereon. The Regional Tax Director shall estimate tax of those parties that do not send in returns within a required deadline, send no returns or if a return or accompanying documents are incomplete. The estimate shall be so excessive that there is no danger that the tax amount is estimated as less than it actually is. The Regional Tax Director shall

inform the tax collector and the taxpayer of estimates and corrections made. The Regional Tax Director shall nonetheless always correct obvious calculation errors without special notice to the taxpayer.

In the case where the input tax in any settlement period exceeds the output tax the Regional Tax Director shall particularly investigate the tax return. If the Regional Tax Director agrees to the return he shall inform the party and the collector of the Treasury of his agreement to the refund. The collector of the Treasury shall refund the difference to the party. Claims for official imposts and taxes in arrears to the Treasury, including price compensation, surcharges and interest on arrears shall be offset against refunds according to this Act.

If a return has been turned in on time the refund shall take place within fifteen days from the due date. The refund can only take place if a tax assessment is at hand for earlier periods. If a return arrives after the due date the refund shall take place within fifteen days from the time the Regional Tax Director renders his assessment according to Article 29. In the case when a Regional Tax Director can not, due to the circumstances of the party, carry out the necessary inspection of the documents on which the return is based, including the possible submission of wrongful and misleading documentation or having informed the Director of Tax Investigations of the suspicion of tax evasion or a punishable violation of the Accounting Act and Annual Accounts Act according to Paragraph 6, Article 26, the above period is extended for as long as the circumstances are in effect.

Should it emerge that a refund according to this Article is too high, the Regional Tax Director shall immediately inform the party and the collector of the Treasury to that effect. The party shall no later than seven days after the notice of the Regional Tax Director regarding an excessive refund pay to the collector the excess sum.

## **Article 26**

Should faults be found in a value added tax return, before or after a decision according to Paragraph 25, or if the Regional Tax Director deems that further explanations are needed regarding a particular detail regarding the value added tax payments of a party he shall in writing request amends from that party within a fixed period and ask it to submit a written explanation along with the documents that the Regional Tax Director deems necessary. If the Regional Tax Director receives adequate explanations and documents within the time period he shall assess or reassess the value added tax according to the value added tax return, taking into account the explanations and documents received. If the faults of the value added tax return are not corrected, the reply of the party does not arrive within a specified time period, its explanations are insufficient or the documents requested are not sent the Regional Tax Director may estimate the value added tax of the party.

Furthermore, the Regional Tax Director may estimate the value added tax if it emerges that the value added tax return is not based on the accounts according to Accounting Act no. 145/1994, according to this Act or the provisions of Regulations based thereon. The Regional Tax Director may also estimate the value added tax of a party if it emerges that the entry of input tax or output tax or other aspects on which the value added tax return is based is not supported with lawful documents. The same applies if the accounts or the documents available regarding the amounts of

the value added tax return are not viewed as being sufficiently secure or if the registration of income, including the use of a cash register or how it is equipped or used or the use and form of invoices, is not in accordance with the provisions of the Act or Regulations based thereon. The estimation of value added tax is also permitted if the accounts are not presented or such documents as the tax authorities may request to verify a value added tax return. The estimate shall be so high that there will be no danger that the tax amount is lower than it actually should be. The provisions of Article 27 apply to an estimate according to this Article.

In the case of an assessment or reassessment, cf. Paragraphs 1 and 2, the Regional Tax Director shall inform the party in writing of the intended changes and the reasons why they are made so that the party may respond in writing and submit additional documentation. In the case of a reassessment the Tax Director shall provide the party with at least a 15-day period from the date of posting the notice of intended changes. If the venue of the party is not known, the Regional Tax Director may implement changes without giving notice.

The Regional Tax Director shall, as a rule, within two months from the close of the notice period accorded by the Regional Tax Director to a party for responding to intended changes, render a decision on the reassessment according to Paragraph 3 and communicate it by registered post. A notice of reassessment shall be sent to the relevant tax collector of the Treasury, once a decision has been rendered. A copy of a decision shall simultaneously be sent to the Director of Internal Revenue. The decision of a Regional Tax Director may be appealed to the State Internal Revenue Board in accordance with the provisions of the State Internal Revenue Board Act no. 30/1992.

The authority to reassess value added tax according to this Article covers tax for the six years prior to the year when the reassessment takes place. The same applies to a reassessment of tax previously overpaid. If an investigation of tax payments of a party by the State Tax Investigation Office or the National Commissioner of the Icelandic Police takes place, the authority to reassess commences at the beginning of the year when the investigation began.

If a Regional Tax Director or the Director of Internal Revenue suspects tax evasion or a punishable violation of the Accounting Act and the Annual Accounts Act he shall so inform the Director of Tax Investigations who decides on further action in the case.

## **Article 27**

If a value added tax is not paid on time the party shall be subject to a surcharge in addition to the tax according to the value added tax return or in addition to the tax due, cf. Article 19. The same applies if a value added tax return has not been turned in or has been deficient and the value added tax therefore estimated, or a reimbursement according to Article 25 has been excessive. A party shall be subject to a surcharge if reimbursement according to Paragraphs 3 and 4 of Article 42 and Paragraph 3 of Article 43 has been excessive.

The surcharge according to Paragraph 1 shall be 1% of the amount not paid in full for every day begun following the due date, although no higher than 10%.

In calculating a surcharge on an estimated value added tax, the due date is the same as the due date of value added tax for the accounting period for which an estimate is made. The same

applies to a surcharge on value added tax that is not paid in full, is unpaid or has been reimbursed in excess for previous periods.

If a party turns in an adequate value added tax return within the appeal period, cf. Article 29, he shall pay value added tax according to the return in addition to a surcharge according to Paragraph 2. If the party appeals an estimated value added tax, he shall pay value added tax according to the decision following appeal and an additional surcharge according to Paragraph 2.

A surcharge according to Paragraph 2 may be dispensed with, if a party can present valid reasons therefor and the tax authorities may assess in each instance what they consider to be valid reasons in this regard. A previous estimate may be amended after the closure of the appeals period if valid reasons are at hand in which case the party receives a new appeals period unless a reduction from the previous estimate has taken place.

### **Article 28**

If a value added tax is not paid within a month from the due date, cf. Article 24, interest on arrears shall be paid to the Treasury. The same applies if a reimbursement is excessive.

A value added tax, a surcharge, interest on arrears and claims for repayment of excessive reimbursements are subject to distraint. A company may not be dissolved until its claims have been paid in full for its entire period of operation. If a company has been dissolved without full payment of its claims, the members of its settlement committee are responsible for their payment. The Boards of Directors of companies, funds and institutions, cf. Point 5, Paragraph 1, Article 2 and Point 4, Article 3 of the Income and Tax Act no. 90/2003, with subsequent amendments bear joint and several responsibility for claims according to this Paragraph.

A tax collector may direct the police to stop a business operation of those parties that have not rendered adequate payment of the tax, the surcharge according to Article 27 or the interest on arrears according to Paragraph 1 of this Article on the due date by, among other things, placing the business premises, offices, sales outlets, equipment and goods under seal until payment has been rendered in full.

In the case where a party is entitled to a reimbursement according to Article 25 and it is not paid within a months from the close of the appeals period according to the same Article, the Treasury shall pay interest on arrears to the party, cf. Paragraph 1, on the amount to be reimbursed.

If a taxable party neglects to keep required accounts according to the provisions of Chapter VIII of this Act or use a required sales register system according to this Act or Regulations set accordingly or if the sales register system is materially inadequate, the Director of Tax Investigations shall, by registered letter, request improvements from the party. If such a request is not heeded within 15 days the Director of Tax Investigations may direct the police to halt the business operations of the party in the same manner as specified in Paragraph 3 of this Article and until adequate amends have been made.

### **Article 29**

A decision by a Regional Tax Director of a value added tax according to Article 25 may be appealed to him within 30 days from the date the tax has been decided. The appeal period commences from the time a notice of a tax decision is mailed. When a value added tax is decided upon without a special notice to the appellant the appeal period commences on the due date for the settlement period, cf. Article 24. Appeals shall be in writing and reasoned. An adequate value added tax return shall be viewed as an appeal in cases of estimates according to Article 25.

If a value added tax is reassessed at the same time as it is decided, cf. Article 26, it is also possible to appeal the reassessment to the Regional Tax Director within 30 days from the time when the tax was decided, provided that an assessment according to Article 98 of the Income Tax Act no 90/2003, is not at hand.

The Regional Tax Director shall normally render a reasoned verdict within two months from the expiry of the appellate period and announce it by registered letter.

The verdict of the Regional Tax Director may be appealed to the State Internal Revenue Board in accordance with the provisions of the State Internal Revenue Board Act no. 30/1992.

A dispute on tax liability and tax amount may be appealed to the courts, provided a prior verdict has been rendered by the State Internal Revenue Board. This must be done no later than six months from the time the State Internal Revenue Board renders a verdict in the case.

An appeal or a dispute on tax liability does not postpone the due date of the tax nor does it exempt from any of the encumbrances resulting from its insufficient payment, but if a tax is reduced by a decision or court verdict a reimbursement of the reduction shall take place.

## **Chapter X** **Special provisions on agriculture**

### **Article 30**

Parties subject to registration that are engaged in agriculture shall be entered into a special registry, the agricultural registry and their payment of value added tax shall take place in accordance with this Chapter.

Activity under Group 1 the Classification of Economic Activity of Statistics Iceland, other than services supporting farm activity, shall be deemed to be agriculture as understood under Paragraph 1.

### **Article 31**

Despite the provisions of Article 24 those parties mentioned in Article 30 shall return to the tax collector of the Treasury a value added tax and a value added tax return twice a year. The return for the first half of the year shall be returned along with the value added tax no later than 1 September each year and for the second half of the year no later than 1 March each year. The

provisions of Chapter IX shall otherwise apply regarding the payment of value added tax of those parties engaged in agriculture as applicable, except cf. Article 32 and 33.

### **Article 32**

Despite the provisions of Article 31, those parties mentioned in Article 30 that have more than 60% of their total income from business activity other than agriculture shall pay value added tax and turn in tax returns on regular due dates according to Article 24.

### **Article 33**

Despite the provisions of Article 31, the Regional Tax Director may agree to the request of those engaged in agriculture to an extraordinary settlement of value added tax if it appears that they have a claim for a substantial reimbursement of value added tax due to purchases of investment goods or operational input goods. The Minister of Finance may by Regulation set further conditions for agreeing to a request for an extraordinary settlement of value added tax according to this Article.

If necessary, the Minister of Finance may issue further rules by Regulation than stipulated in this Chapter and Chapter IX regarding settlement periods and the settlement of those farmers that do not get their sales proceeds settled on a regular basis, at least six times a year. These rules may also apply to the customers of those same farmers. This Regulation shall be set in consultation with the Minister for Agriculture.

## **Chapter XI Special provisions for imports**

### **Article 34**

Upon the importation of goods, a value added tax shall be collected of the customs price of a taxable good plus customs duties and other imposts levied in customs.

The determination of the customs price shall be according to the provisions of the Customs Act no. 55/1987 with subsequent changes.

Despite the provisions of Paragraph 1, the Minister of Finance may decide that the provisions of Article 109 of the Customs Act no. 55/1987 regarding the credit period for levies on imported goods may in the same manner apply to the payment of value added tax on imports. The due date shall be no later than the due date for value added tax for the period when the customs clearance takes place.

### **Article 35**

A party purchasing services listed in Point 10, Paragraph 1, Article 12 from abroad for use in part or in full in this country shall pay value added tax on its price. The same applies to the service of a foreign party provided in this country, provided the foreign party does not operate a venue for business nor has an agent in this country.

Despite the provisions of Paragraph 1, a party registered according to Article 5 is exempt from the duty of paying value added tax according to Paragraph 1 if he can fully count value added tax on the purchase towards input tax, cf. Paragraphs 3 and 4 of Article 15 and Paragraph 1, Article 16. This does however not apply when a service is provided or enjoyed in connection with imports of goods.

A party obligated to pay value added tax according to Paragraph 1 shall on its own initiative list purchases of services on a special form as decided by the Director of Internal Revenue. The due date is the fifth day of the second month from the close of the general settlement period when the transaction took place. The payment along with the form shall be turned in to the tax collector of the Treasury no later than on the due date.

A purchaser who is obligated to pay value added tax pursuant to Paragraph 1 shall, at his own initiative, report to the Regional Tax Director on his purchases of services on a special form decided upon by the Director of Internal Revenue. The due date is the fifth day of the second month from the close of the general settlement period under which the transactions took place. The payment, along with the report, shall be turned in to the revenue collector of the Treasury no later than on the due date. Pricing for tax purposes, the rules of settlement, estimates, reassessment, penalty supplement, interest on arrears and appeals shall, as applicable, be applied as in domestic commerce. The Minister can by Regulation set further provisions regarding the implementation of this Article.

### **Article 36**

The following goods shall be exempt from value added tax upon importation:

1. goods which are duty-free or exempt from duty in accordance with Articles 3 and 5 and Points 2-6 and 11 of the first paragraph of Article 6 of the Customs Act, no. 55/1987, as subsequently amended;
2. goods which are exempt from value added tax in accordance with international agreements to which Iceland is a party, from such time as the agreement entered into force with regard to Iceland;
3. goods which are exempt from taxable turnover, cf. Point 6 of the first paragraph of Article 12;
4. works of art covered by Customs Code numbers 9701.1000-9703.000 imported by the artists themselves;
5. written material sent to scientific institutions, libraries and other public institutions without payment is exempt from value added tax, regardless of the form of the material, provided the importation is not for business purposes. The same applies for written material sent to other parties without payment, provided the fob-value of the shipment does not exceed 5,000 kr. and the importation is not for a business purpose;
6. goods, other than alcohol and tobacco products, imported by parties registered according to Article 5, if the fob value of a shipment does not exceed 1,500 kr.;
7. motor vehicles, intended for use by search-and-rescue teams, provided a confirmation is supplied by the national association of search-and-rescue teams that the vehicle in question will be used exclusively for the purposes of the team;

8. Alcohol and tobacco, pursuant to Clauses 5, 6 and 7 of Paragraph 1, Article 6 and Paragraph 2 of Article 10 of the Alcohol and Tobacco Act no. 96/1995, with subsequent amendments.

A ruling by the Director of Customs on the waiving or reimbursement of value added tax in accordance with Points 1-6 of the first paragraph may be appealed to the Minister of Finance in accordance with Article 102 of the Customs Act, no. 55/1987, as subsequently amended.

### **Article 37**

Value added tax on imports shall be collected with import levies.

Unless otherwise stated in this Act or by Regulation or other instructions issued according thereto regarding tax liability, verdicts on tax liability, levying, collection, reduction or reimbursement due to deterioration, damage or returning, legal protection, fines, punishments or other implementation regarding value added tax of imported goods and services, the provisions of the Customs Act no. 55/1997 with subsequent changes, as well as regulations and other instructions issued according to that Act shall apply.

## **Chapter XII**

### **On inspection, the obligation to inform and penalty provisions**

### **Article 38**

All parties, both those obligated to pay value added tax as well as others, are obligated to provide tax authorities with all information and documents that they ask for and can be supplied without charge and in the form requested. In this connection it does not matter whether the information concerns the party to which the request is directed or transactions with other parties that it can provide information about and concerns the tax liability or the filing obligation of those parties or the inspection or investigation thereof. In this connection, tax authorities are defined as Regional Tax Directors, the Director of Tax Investigations and the Director of Internal Revenue.

Regional Tax Directors have therefore, inter alia, the right to demand information from those that have purchased from a taxable party or sold goods to it or engaged in other transactions with it, including the right to demand information from owners of premises on employers or others on their premises with a place of commerce, a workshop, an office or other business. Societies and associations of societies of employers, craftsmen or other parties concerned are also obligated to provide information regarding their members, their business and operations.

For the purpose of tax surveillance, a Regional Tax Director, the Director of Internal Revenue and persons that they entrust with inspection work may demand that parties obligated to pay value added tax present their accounts and accounting records, as well as other documents, including letters and contracts related to operations, for inspection. These parties also have access to the above documents and access to the operational premises of parties obligated to pay value added tax and warehouse premises and the permission to conduct documented interviews of

anyone that may be expected to provide relevant information. The Director of Tax Investigations has the same authority regarding investigations according to Article 39.

The tax authorities also have the authority listed in Paragraph 3 regarding those parties that are not subject to value added tax.

In cases where a dispute arises regarding the obligation of parties according to this Article, the Director of Internal Revenue or the Director of Tax Investigations may seek the verdict of a district court where the case shall be conducted according to the provisions of the Criminal Procedure Act, as applicable. Should someone fail to comply with his information obligation, the matter may be referred to an official investigation.

### **Article 39**

The Director of Internal Revenue shall supervise the operations of Regional Tax Directors and see to it that their decisions on value added tax are coordinated as well as possible all over the country. He shall instruct Regional Tax Directors on all matters related to value added tax decisions, for instance by distributing court verdicts and other decisions of general validity to them.

In cases where the Director of Internal Revenue sees reason to change the conclusion of a Regional Tax Director regarding value added tax, he may levy tax on the party anew.

The Director of Internal Revenue shall supervise the inspection activities of Regional Tax Directors and obtain information thereon, instruct Regional Tax Directors regarding inspection activities and provide them with information on branches and sectors of the economy that are of importance for tax surveillance.

The Director of Tax Investigations may open an investigation on any matter that concerns tax payments according to this Act. He shall conduct investigations that a Regional Tax Director or the Director of Internal Revenue refers to him, cf. Paragraph 6, Article 26. He can also delegate to Regional Tax Directors any inquiry or investigation into whatever matter listed in this Article.

When measures taken by the Director of Tax Investigations lead to a levy or revised levy of tax according to this Act, the Director of Internal Revenue shall set the levy or the revised levy, unless he delegates the task to a Regional Tax Director.

### **Article 40**

If a taxable person discloses wrongfully or by gross negligence a material fact regarding its value added tax or if he does not turn in a value added tax return or the value added tax he has collected or should have collected within a lawful deadline, he shall pay a fine of up to ten times the tax amount evaded, or of which payment was neglected or if a reimbursement was excessive, and the fine shall never be lower than double the tax amount. The minimum fine according to this Paragraph does not apply if the violation is exclusively confined to not having paid the specific value added tax according to the value added tax return, provided a substantial share of the tax

due has been paid and substantial other mitigating explanations are at hand. A surcharge according to Article 27 shall be subtracted from the fine. A gross violation against this provision is subject to Paragraph 1, Article 262 of the Penal Code.

If a person neglects, wilfully or by gross negligence, to keep required accounts according to the Act or Regulations based thereon, including negligence to register his sales in an adequately equipped cash register, he shall pay a fine according to the provisions of the Accounting Act, unless a heavier penalty is at hand according to Paragraph 2, Article 262 of the Penal Code.

If a person neglects, wilfully or by gross negligence, his duty to report according to Article 5, his duty to inform according to Article 38, or if he neglects to provide information or provide assistance, reports or documentation as prescribed in this Act or Regulations based thereon, he shall be subject to a fine or imprisonment for up to two years.

Any person who wilfully or by gross negligence discloses something wrongfully or misleadingly which concerns value added tax returns shall be subject to a fine even if the information can not affect his tax liability or tax payments.

If a violation according to Paragraph 1 is discovered during the settlement of a death estate, a fine shall be paid from the estate up to four times the tax amount that was evaded or was not paid due to negligence and the fine shall never be lower than the amount of the tax in addition to half thereof. A surcharge according to Article 27 is subtracted from the amount of the fine. Under circumstances stated in Paragraph 4, the estate may be fined.

Any person who wilfully or by gross negligence provides tax authorities with wrongful or misleading information or documentation regarding value added tax returns of other parties or assists a wrongful or misleading tax return to tax authorities shall be subject to punishment as stated in Paragraph 1 of this Article.

An attempted violation or accessory to a violation of this Act is punishable according to the provisions of Chapter III of the Penal Code and is subject to a fine up to the maximum stated in other provisions of this Article.

A legal entity may be fined for a violation of this Act, irrespective of whether the violation may be attributable to a criminal act of an officer or employee of the legal entity. If its officer or employee has been guilty of violating this Act, the legal entity may be subject to a fine and withdrawal of operating license in addition to a punishment inflicted on it, provided the violation is committed for the benefit of the legal entity and it has profited from the violation.

#### **Article 41**

The State Internal Revenue Board imposes fines according to Article 40 unless a case is referred to an official investigation and brought before the courts according to Paragraph 4. When cases are under consideration by the Board, regard shall be had to the provisions of Article 100 of the Income Tax Act no. 90/2003, with subsequent changes, as applicable, and accord the defendant the opportunity to present a defense. The Director of Tax Investigations represents the people

before the Board when it imposes fines. The verdict of the State Internal Revenue Board regarding fines is a final verdict. An alternate punishment is not attached to the fine verdicts of the Board.

In spite of the provisions of Paragraph 1, the Director of Tax Investigations, or his representative with a law degree, is authorised to offer the party in question the opportunity to settle the penalty phase of his case with a fine to the Treasury, provided that the violation is seen as having been proved beyond a shadow of doubt, in which case the matter can neither be referred to a police investigation nor to a decision regarding a fine by the State Internal Revenue Board. In deciding the fine, regard shall be had to the nature and extent of the violations. Fines can be in the range of 100,000 krónur to 6 million krónur. The party involved shall be informed on the proposed fine before he agrees to conclude a case in this manner. A decision on a fine according to this provision shall be completed within six months from the time the investigation of the Director of Tax Investigations was completed.

A reserve penalty is not attached to the decision of the Director of Tax Investigations. Regarding the collection of fines decided upon by the Director of Tax Investigation, the same rules apply as to the collection of funds in arrears, including extra charges, pursuant to this Act. Paragraph 3 of Article 28 may also be applied, as applicable. The Director of Public Prosecutions shall be provided with a list of cases that are settled according to this provision. In cases where the Director of Public Prosecutions believes that an innocent man has been subjected to a decision of a fine according to Paragraph 2 or the conclusion of a case has otherwise been unreasonable, he can bring the case before a judge to have the decision of the Director of Tax Investigations rescinded.

The Director of Tax Investigations can refer a case to a police investigation on his own initiative as well as following the request of a defendant if he does not agree to have his case handled by the State Internal Revenue Board.

Cases arising from violations of this Act shall be handled as criminal cases. A tax claim may be filed and decided upon in such cases. A tax claim can be prosecuted and a criminal verdict can be rendered in case of a violation of law.

Fines for violations of this Act accrue to the Treasury. The same rules apply regarding the collection of fines levied by the State Internal Revenue Board as apply to the collection of tax according to the Act, including the right of distraint.

A guilt according to Article 40 lapses in six years from the beginning of an investigation by the Director of Tax Investigations or the Director of the State Criminal Investigation Police or their legal-trained representatives against a defending tax party, provided there are no abnormal delays in the investigations of a case or the verdict of punishment.

## **Chapter XIII**

### **The reimbursement of value added tax**

#### **Article 42**

Builders of residential housing shall receive 60% of the value added tax in reimbursement that they have paid for labour at the building site. The reimbursement shall take place on the basis of presented invoices no later than every two months and be tied to the credit terms index. Owners of residential housing shall also be reimbursed with 60% of the value added tax paid for labour in connection with improvements or maintenance. The reimbursement due to labour on improvements or maintenance shall be based on invoices presented as soon as possible, although never later than 14 days after receipt of the request by the Regional Tax Director. The Minister of Finance shall issue a Regulation with further provisions regarding the implementation of these reimbursements. A Regulation shall, in the same manner, be set regarding the reimbursement of a certain proportion of value added tax on factory-produced residential housing.

The state, municipalities and their agencies shall be reimbursed for value added tax on the purchase of the following service or good:

1. Garbage removal, i.e. the collection, transport, burying and incineration of garbage and other refuse, including scarp metal. This provision also covers the rental or purchase of garbage containers for local garbage collection.
2. Cleaning.
3. Snow removal and the de-icing of surfaces with salt or sand.
4. Rescue and security activity due to natural disasters and civil defense.
5. The services of engineers, technicians, architects, lawyers, chartered accountants and other experts serving business and having a university degree, a comparable higher education or do business in a proven manner with the above parties and provide a comparable service.
6. The operation of service centers for a coordinated emergency telephone service.

A portion of the value added tax on the sale of hot water and/or electricity for the heating of houses and swimming pools shall be reimbursed so that the imposed value added tax less the subtracted reimbursement shall be no higher than 11% of the weighted average price of electricity and hot water distributors per kilowatt-hour. The Minister of Finance decides by Regulation, having received the proposals of the Minister of Industry, on the further implementation of the reimbursement.

Value added tax on research equipment purchased by a research party not subject to tax for grant money or received as a gift shall be reimbursed.

Operators of motor coaches, licensed in accordance with the Act on Transportation by Motor Coach, shall be reimbursed 19.68% of the sales price of motor coaches verifiably sold abroad. The Minister of Finance shall set detailed rules on how reimbursement shall be effected.

The value added tax on equipment and gear donated, or purchased for donated funds, to charitable organisations, provided such goods are directly used for the relevant activity. The reimbursement authority according to this Paragraph is subject to the same conditions as apply to gifts to charitable organisation and appears under Clause 8b, Paragraph 1, Article 5 of the Customs Act no. 55/1987, cf. Article 5 of Regulation no. 797/2000 on the exemption of import charges under various circumstances. The value added tax on imports or the purchase of motor vehicles intended for the operation of rescue squads shall be reimbursed, subject to a

confirmation from the Rescue Squad Association to the effect that the motor vehicle in question will only be used for rescue squads. The Minister of Finance is authorised to set a Regulation regarding the implementation of this Article.

### **Article 43**

The Minister of Finance may decide by Regulation that value added tax may be reimbursed on goods that parties residing abroad purchase in this country and take with them when they leave the country, provided those conditions are fulfilled that he considers necessary.

The Minister of Finance may decide by Regulation to what extent value added tax on goods and services shall be reimbursed to diplomats of foreign countries in this country.

The Minister of Finance may set rules by Regulation on the reimbursement of value added tax that foreign companies have paid in this country in connection with the purchase of goods or services. A reimbursement according to this Paragraph can only cover the value added tax of those inputs that parties subject to value added tax may count as part of input tax, cf. Articles 15 and 16.

### **Article 43A**

The right to special reimbursements according to Chapter XIII of this Act and provisional provisions in this Act shall expire if an application for reimbursement is filed with the relevant authority after a period of six years has passed before the right to reimbursement has been established.

## **Chapter XIV Sundry provisions**

### **Article 44**

Tax and customs authorities, their employees and representatives are prohibited, subject to responsibility according to the provisions of the Penal Code regarding public employees, from disclosing to outside persons information they may have acquired in their work regarding individual persons or companies. The obligation of confidentiality continues after employees have resigned.

Despite the provisions of Paragraph 1, the tax and customs authorities shall provide Statistics Iceland and the National Economic Institute with information for their compilation of data.

### **Article 45**

The registration, tax assessment, monitoring and other value added tax administration of those legal entities that come under Paragraph 5, Article 89 of the Income Tax Act no. 90/2003 shall come under the auspices of the Reykjavík Regional Tax Director.

#### **Article 46**

Regional Tax Directors shall annually compile and present a value added tax register for each municipality in their district that shows the assessed value added tax and the reimbursed value added tax of each taxable party. The value added tax register shall be open for inspection at a suitable location for two weeks in each municipality. The Regional Tax Director or his representative shall advertise with due notice where the register will be located.

#### **Article 47**

The Minister of Finance supervises Regional Tax Directors, The Director of Tax Investigations, the Director of Internal Revenue, the State Internal Revenue Board and the tax collectors of the Treasury in carrying out their duties according to this Act. He has the right to demand value added tax returns and related documentation for inspection and demand explanations from the above parties regarding the implementation of all aspects related to this Act.

#### **Article 48**

Sales of taxable goods and services to the Defense Force at Keflavik Airport, cf. Act no. 110/1951 on the legal validity of the Defense Agreement between Iceland and the United States, as well as sales in tax free shops, cf. Chapter VIII of the Customs Act no. 55/1987, with subsequent amendments, is viewed as sales out of the country under this Act.

#### **Article 49**

The Minister of Finance may by Regulation set further provisions regarding the implementation of this Act.

The Minister of Finance may decide by Regulation that the value added tax on admission charges for dances and other gatherings subject to entertainment tax shall be collected during the gathering or with the entertainment tax.

The Minister of Finance may decide by Regulation that a taxable party can, on the basis of a written contract, undertake to file a return, pay and settle value added tax of taxable sales of goods or services of another party.

The Minister of Finance may also set special rules regarding the settlement, settlement periods and payment of value added tax on raw materials for fish processing for the purpose of equalising the position of companies in this sector.

The Income Tax Act no. 90/2003, with subsequent amendments, applies as applicable to those matters not specifically dealt with in this Act.

#### **Article 50**

This act enters into force forthwith, whereas tax collection based thereon does not commence until 1 January 1990.

## **Temporary provisions**

### **I.**

If the delivery of a taxable good or service takes place on 1 January 1990 or later it shall be counted towards value added taxable turnover according to this Act. This applies regardless of whether a contract for the sale of a taxable good or service has been concluded before 1 January 1990 or payment has taken place in part or full.

If a contract has not been concluded, cf. Paragraph 1 of this provision, the purchaser shall pay a sum additional to the contractual payment corresponding to the value added tax according to this Act, in the case where the sale of the good and service is not taxable according to the Sales Tax Act, unless it is proven that the value added tax has been included in the purchase price upon its determination. If such a good or service was taxable according to the Sales Tax Act, the seller shall refund to the purchaser the difference between the sales tax and the value added tax, unless it is proven that the purchase price according to the contract has been based on value added tax according to this Act.

The payment of value added tax of the import of taxable goods and services takes place according to the rules applicable at the time of customs clearance.

The sales tax on stocks of unsold construction materials at hand on 31 December 1989 may be refunded to parties subject to value added tax that are engaged in the business of the construction of housing or other construction. The Minister of Finance sets a further Regulation regarding these refunds, including the required documentation that must be at hand for the refund request.

The provisions of Points 1 and 2, Paragraph 5, Article 13 of this Act shall apply as applicable regarding the subtraction from taxable turnover of transaction that were taxable under the Sales Tax Act and could not be corrected with the last sales tax returns of the year 1989.

In the case where a lease agreement has been concluded before 1 January 1990 where the lessor has ownership rights without a purchase obligation of the lessee at the end of the lease period, the lease payments according to such an agreement shall be exempt from value added tax.

The Minister of Finance may by Regulation set further provisions regarding the implementation of this provision.

### **V.**

If the delivery of a taxable good or service takes place after 31 December 1993 it shall count as turnover subject to value added tax according to this Act. This applies without regard to whether a contract for the sale of a taxable good or service has been concluded before 1 January 1994 or payment has taken place in part or full.

## **IX.**

If the delivery of labour in renewal or maintenance of residential housing proves to have taken place before 1 January 1997 the full refund of value added tax is permitted, provided that the date of the sales invoice is before that time.

If the works contract regarding the delivery of a service according to Paragraph 1 has been concluded before 1 January 1997 and delivery has taken place both before and after that time, the full refund of value added tax shall only apply to labour performed before 1 January 1997.

## **X.**

Parties holding licenses for commercial passenger transport, in accordance with Act No 13/1999, on Transportation by Motor Coach, may be reimbursed 2/3 of the value added tax paid due to purchase or lease of motor coaches during the period 1 September 2000 to 31 December 2009. The reimbursement authorisation shall be limited to motor coaches, i.e. motor vehicles intended primarily for passenger transport, registered for 18 persons or more including the driver, for the first time during this period and equipped with engines in accordance with the EURO3 standard of the EU. The authorisation shall not cover public transport vehicles. The Minister of Finance shall lay down detailed rules as to how reimbursement shall be effected.

## **XI.**

A full reimbursement is authorised of, or exemption from, value added tax on hydrogen-powered motor vehicles, as well as on specialised spare parts therefor, that are imported for research purposes. This authority applies only to hydrogen-powered vehicles that lead to negligible pollution and applies until December 31<sup>st</sup> 2009. The Minister of Finance sets further Rules regarding the implementation of the reimbursement.

## **XII.**

Restaurants, canteens and similar establishments that sell prepared food shall be reimbursed 112.5% of the intax for the period January-February 2007 for food purchases carrying a 14% value added tax. The reimbursement shall not be higher than the amount of the outtax due to sales of prepared food less the reimbursement is equivalent to at least 14% of the raw material price plus 19.25% of the difference between the sales price of prepared food and the raw material price of food inputs.

## **XIII.**

The value added tax may be reimbursed on a previously registered motor vehicle, currently de-registered and exported, provided that the condition of said vehicle is in line with its normal use and age, as assessed by the Customs Director. The amount of the reimbursement shall be based on the value added tax paid at the time the motor vehicle was imported. This amount shall be reduced by 2% for each beginning month for the first 12 months following the initial registration of the motor vehicle and by 1.5% for each month begun thereafter until a 100% depreciation has been reached. In the case where the owner of an exported motor vehicle has received

reimbursement as intax, the right to reimbursement does not apply. The total reimbursement of value added tax according to this provision and excise tax according to Temporary Provision XI in the Excise Tax Act on motor vehicles, fuel et.al. shall be no higher than 2,000,000 krónur for each motor vehicle.

The Director of Customs may impose an inspection fee due the to inspection of used motor vehicles destined for export, according to Paragraph 1. This charge is intended to finance the pay of customs officers and their driving costs incurred due to the inspection.

The authority for the reimbursement of value added tax according to Paragraph 1 is in effect up to and including December 31<sup>st</sup> 2009, The Reykjavík Customs Director is charged with the reimbursement.

The Minister shall set further Rules by Regulation regarding the implementation of this provision, such as further conditions for reimbursement, the conditon of vehicles, the necessary documentation that must accompany an application for reimbursement, monitoring and appeal procedures.

#### **XIV.**

In spite of the provisions of Chapter VII and Paragraph 7, Article 20, on the due date for value added tax for the settlement period September and October 2008, December 5<sup>th</sup> 2008, all the intax of the settlement period may be offset, even if only a part of the value added tax due at that time has been turned in, cf. Act no. 130/2008, amending the Customs Act.

#### **XV.**

In spite of the provisions of Paragraph 1, Article 42, the builders of residential housing and recreational housing shall be reimbursed 100% of the value added tax that they have paid for the work done on a building site. Owners of residential housing and recreational housing shall also be reimbursed 100% for the work done on improvements or maintenance of such housing. The provisions of Paragraph 1, Article 42 shall apply in other respects for said period.

For the period of March 1<sup>st</sup> 2009 to January 1<sup>st</sup> 2011, the builders of residential housing and recreational housing shall be reimbursed 100% of the value added tax that they have paid for services of designers and inspectors that are licensed according to the Zoning and Building Act for the design and inspection of such types of building. The reimbursement of value added tax to owners of residential housing and recreational housing shall also be 100% on services of designers and inspectors that are licensed according to the Zoning and Building Act for the design and inspection of improvements and maintenance of such housing. The Minister of Finance may issue a Regulation regarding the implementation of such a reimbursement.

The provisions of Paragraph 1 for said period also covers other housing that is wholly owned by municipalities or institutions and associations that are wholly owned by municipalities.

#### **XVI.**

In spite of the provisions of Chapter VII and Paragraph 7, Article 20, the entire intax for the respective settlement period in 2009, cf. Paragraph 1, Article 24, may be applied, although only a portion of the value added tax due has been paid, cf. the Temporary Provision III in the Customs Act no. 88/2005.