

## *Act on Municipalities' Revenue Bases*

### **No. 4, 30 January 1995**

---

**Originally Act No. 91/1989. Entered into force 1 January 1990.** Amended by Act No. 124/1989 (entered into force on 1 Jan. 1990) and Act No. 7/1990 (entered into force on 28 February 1990).

**Reissued, cf. Art. 18 of Act No. 7/1990, as Act No. 90/1990.** Amended by Act No. 92/1991 (entered into force on 1 July 1992), Act No. 124/1993 (entered into force 30 Dec. 1993) and Act No. 152/1994 (entered into force on 1 Jan. 1995).

**Reissued, cf. Art. 11 of Act No. 124/1993, as Act No. 4/1995.** Amended by Act No. 148/1995 (entered into force on 1 Jan. 1996) and Act No. 79/1996 (entered into force on 1 Jan. 1997, with the exception of Articles 5 and 7, which entered into force on 19 June 1996, and Art. 6, which entered into force on 1 Jan. 1998; came into effect in accordance with the instructions of Art. 8), Act No. 122/1996 (entered into force 16 Dec. 1996) and Act No. 144/2000 (entered into force on 30 Nov. 2000), Act No. 60/2002 (entered into force on 17 May 2002), Act No. 167/2002 (entered into force 30 Dec. 2002; came into effect in accordance with the instructions of Art. 3), Act No. 67/2004 (entered into force on 18 June 2004), Act No. 129/2004 (entered into force 31 Dec. 2005), Act No. 136/2004 (entered into force on 1 Jan. 2005), Act No. 140/2005 (entered into force on 1 Jan. 2006), Act No. 167/2007 (entered into force on 1 Jan. 2008), Act No. 83/2008 (entered into force on 1 Jan. 2009, with the exception of Art. 22, which entered into force on 20 June 2008), Act No. 173/2008 (entered into force 1 Jan. 2009; came into effect in accordance with the instructions of Art. 20), Act No. 6/2009 (entered into force on 5 March 2009) and Act No. 136/2009 (entered into force 1 Jan. 2010).

## **CHAPTER I**

### **General provisions**

#### **Article 1**

The revenue bases of municipalities are the following:

- a. property tax,
- b. contributions from the Equalisation Fund,
- c. municipal income tax.

The provisions of this Act shall apply to these revenue bases.

#### **Article 2**

In addition to the income provided for in Art. 1 municipalities have income from their assets, their own business operations and institutions operated as public services, such as water, electricity and heating utilities etc.; furthermore, various other revenues, such as from sewage disposal fees, lot rental, license fees etc., all as prescribed in Acts and Regulations. A local authority may decide that the due dates for payment of water taxes, sewage disposal fees and lot rental shall be the same as the due dates for payment of property tax and, in addition, that their collection be arranged in the same manner as property tax collection, cf. Art. 4, [and [the Land Registry Database]<sup>1)</sup> shall make the necessary changes to the [property registry]<sup>1)</sup> required for this purpose.]<sup>1)</sup>

<sup>1)</sup> Act No. 83/2008, Art. 24.

<sup>2)</sup> Act No. 140/2005, Art. 1.

## **Chapter II**

### **Property tax**

#### **Article 3**

[An annual property tax shall be levied on all properties assessed in official real estate valuation in the [property registry]<sup>1)</sup> as of 31 December the previous year, cf. however, the fourth paragraph of Art. 4 and Art. 5.

The base for levying property tax on all real property shall be their real estate valuation.

The local authority shall determine by the end of each year the tax rate for the following year within the limits set in subparagraphs a and c. The tax rate shall be as stated below:

a. up to 0.5% of the assessed value of the property:

residential apartments and houses together with lot rights, freehold property outside urban areas and farms, buildings and structures on farms connected to agriculture, all resource benefits and summer homes together with lot rights;

b. 1.32% of the assessed value of the property together with lot rights:

healthcare institutions, as referred to in the Act on Healthcare Services, schools, school residences, preschools, sports centres and libraries;

c. up to 1.32% of the assessed value of the property together with lot rights:

all other real estate, such as industrial, office and commercial property, aquaculture facilities, fishing lodges and structures utilised for travel services.

A local authority may increase by as much as 25% those percentages listed in either or both subparagraphs a and c of the third paragraph of this Article.

In a municipality which includes both urban and rural settlement, the local authority may exempt properties in rural areas and summer homes from the surcharge on property tax referred to in the fourth paragraph.]<sup>2)</sup>

<sup>1)</sup> Act No. 83/2008, Art. 24. <sup>2)</sup> Act No. 140/2005, Art. 2.

#### **Article 4**

[The local authority shall handle the levying of property tax through the [property registry].<sup>1)</sup> The local authority may entrust collection of the tax to a separate collection agent. The Minister may set detailed provisions on the implementation of the tax levy in a Regulation.

The owner shall pay the tax except where leased farms, leased lots or other contractual utilisation of land are involved. The tax shall then be paid by the resident or user.

Should a dispute arise concerning the tax base as referred to in Article 3, it shall be referred to the [Land Registry Database]<sup>1)</sup> for a ruling. This ruling may be referred to the Supervisory Committee on Property Valuation (Icel. *yfirfasteignamatsnefnd*). Should

a dispute arise concerning the liability to pay, the Supervisory Committee on Property Valuation shall resolve it. Rulings by the Committee may be referred to the courts.

The local authority shall determine the number of instalment dates for property taxes before the year begins and may decide to have the tax paid in a single instalment if the levy is less than a specific amount. Property tax shall be levied on new lots and new structures in proportion to the annual levy as of the end of the month following their registration and valuation in the [property registry]<sup>1)</sup> in accordance with information provided to local authorities by the [Land Registry Database].<sup>1)</sup> Property tax shall be cancelled as of the end of the month following the removal of a structure from the [property registry].<sup>1)</sup>

The final date for payment of property tax shall be 30 days after the due date; in case of default, the entire tax for the year shall become payable.]<sup>2)</sup>

<sup>1)</sup> Act No. 83/2008, Art. 24. <sup>2)</sup> Act No. 140/2005, Art. 3.

## Article 5

[The following properties, together with their lot rights, are exempt from property tax:

- a. churches and chapels of the National Evangelical Lutheran Church and other religious denominations which have been registered by the Ministry of Justice and Ecclesiastical Affairs;
- b. museums, insofar as they are non-profit operations;
- c. buildings owned by foreign states, insofar as they are used by their envoys for international relations, and buildings of international organisations, as provided for in international agreements to which Iceland is a party and which have acquired administrative effect in Iceland.

A local authority may provide grants for payment of property tax on properties where non-profit activities are carried out, such as cultural, sports, youth and leisure activities and charitable work. A local authority must adopt rules on the application of this provision.

Should the buildings referred to in the first and second paragraph also be used for purposes other than those listed above, such as for restauration or commercial activities, or as residences for persons other than custodians, the local authority shall levy and collect property tax in direct proportion to such utilisation.

The local authority may reduce or waive property tax payable by low-income seniors or handicapped persons. The local authority must adopt rules on the application of this provision, including the income limits, income classes and whether the reduction shall be a fixed figure or a percentage of the tax.

A local authority may reduce or waive property tax on farms while they are used for agricultural production and on outbuildings in rural areas if they are only partially used or are unused. A local authority must adopt rules on the application of this provision.]<sup>1)</sup>

<sup>1)</sup> Act No. 140/2005, Art. 4.

### **Article 6**

[If use of a property, which is assessed as a single unit, is such that property tax should be paid on it according to more than one tax classification, cf. the third paragraph of Art. 3 of the Act, the local building officer shall determine the division between tax classifications.]<sup>1)</sup>

<sup>1)</sup>Act No. 140/2005, Art. 5.

### **Article 7**

The property tax includes a statutory lien on the property on which it is levied and shall, together with penalty interest for two years following the due date, have priority over all other mortgage claims against the property. If a building burns after the tax has fallen due, the tax shall have the same priority to the building's fire insurance amount.

## **Chapter III**

### **The Municipal Equalisation Fund**

#### **Article 8**

[Revenues of the Municipal Equalisation Fund are the following:

- a. a contribution from the National Treasury equivalent to 2.12% of the Treasury's tax revenues collected. This contribution shall be paid monthly to the Equalisation Fund;
- b. an annual contribution from the National Treasury equivalent to 0.264% of the tax base for municipal income tax the previous income year, to be paid to the Equalisation Fund in equal monthly instalments;
- c. a share of the municipalities' income tax equivalent to 0.77% of the tax base for municipal income tax each year. When municipal income tax withholding is remitted to municipalities, payment shall also be made to the Municipal Equalisation Fund of the fund's share of municipal tax withholding;
- d. interest income.]<sup>1)</sup>

<sup>1)</sup>Act No. 167/2002, Art. 1.

#### **Article 9**

[The revenues of the Equalisation Fund shall be distributed as follows:

- a. for payment of mandatory contributions, as referred to in Article 10;
- b. for payment of special contributions, as referred to in Article 11;
- c. for payment of equalisation contributions, as referred to in Article 12;
- d. for payment of equalisation contributions for compulsory school operations, as referred to in Art. 13.]<sup>1)</sup>

<sup>1)</sup>Act No. 167/2002, Art. 1.

#### **Article 10**

[Mandatory contributions shall be distributed as follows:

a. to the National Association of Local Authorities, [1.7%]<sup>1)</sup> of the Fund's revenues referred to in subparagraphs a, b and c of Art. 8, net of contributions referred to in subparagraph d of Art. 11;

b. to regional Associations of Local Authorities, 2% of the Fund's revenues referred to in subparagraphs a and b of Art. 8, net of contributions referred to in subparagraphs d and e of Art. 11, divided equally between them;

c. ...<sup>1)</sup>

d. for payment of expenditure as referred to in Art. 4 of the Act on Child Support Collection Centre, No. 54/1971;

e. to the pensions' supervisory committee, as provided for in Art. 22 of the Act on Old-age Pensions, No. 113/1994, cf. Art. 16 and Chapter II of that same Act;

f. for payment of municipalities' contributions to the National Committee of Architectural Heritage, as provided for in Art. 16 of the Act on Preservation of Architectural Heritage, No. 104/2001.]<sup>2)</sup>

<sup>1)</sup>Act No. 136/2004, Art. 11. <sup>2)</sup>Act No. 167/2002, Art. 1.

## Article 11

[Special contributions shall be distributed as follows:

a. to facilitate the merger of municipalities, such as through participation in the cost of preparing and implementing the merger, contributions to meet revenue losses due to the reduction in equalisation contributions as provided for in Art. 12 and through contributions to support restructuring of services and administration following a merger, including contributions to cover up to 50% of the initial cost of compulsory school structures and preschools. Assistance may be provided for up to five years following the merger year, based on rules<sup>1)</sup> set by the Minister after receiving the opinion of the National Association of Local Authorities, cf. Art. 98 of the Act on Local Authorities;

b. to alleviate special financial difficulties of municipalities, cf. Art. 75 of the Act on Local Authorities;

c. for the initial cost of municipalities with less than 2,000 inhabitants for expensive infrastructure, amounting to up to 10.5% of the Fund's income as referred to in subparagraphs a and b of Art. 8, net of contributions as referred to in subparagraphs d and e of this Article; contributions shall be used to pay part of the municipalities' initial cost of building compulsory schools, sports facilities, community halls, water utilities and preschools. Up to ISK 25 billion may also be paid annually due to the initial cost of water utilities on behalf of owners of registered farms, where it is deemed more cost-effective by the local authority to lay water lines to individual farms, cf. the second paragraph of Art. 1 of the Act on Municipalities' Water Utilities, No. 81/1991, as subsequently amended;

d. to equalise the revenue loss of individual municipalities due to a decrease in their property tax revenues following changes to the assessment base of structures, amounting to up to 30% of the Fund's revenue as referred to in subparagraph a of Art. 8;

e. to municipalities for payment of rent subsidies, up to 11.5% of the Fund's revenue as referred to in subparagraph a of Art. 8. Distribution of funds provided for in this subparagraph to individual municipalities shall be based on the basic amounts of rent subsidies as determined in each case;

f. for payment of contributions to special projects which can be of major significance for municipalities and/or result in increasing cost-efficiency of their operations and services.]<sup>2)</sup>

<sup>1)</sup> Reg. 295/2003, cf. Reg. 644/2005. <sup>2)</sup> Act No. 167/2002, Art. 1.

## Article 12

[Equalisation contributions are of two types, revenue equalisation contributions and expenditure equalisation contributions, and shall be allocated as follows:

a. Revenue equalisation contributions shall be allocated to equalise municipalities' revenues. The equalisation shall be based on comparable municipalities and on full utilisation of their income bases, including contributions as referred to in subparagraph d of Art. 11.

b. Expenditure equalisation contributions shall be used to meet the varying expenditure needs of municipalities based on their economies of scale and revenues, having regard for those aspects which affect expenditure, such as number of inhabitants, distances, bussing to schools in rural areas, etc.

The Fund's revenues as referred to in subparagraphs a and b of Art. 8 which exceed distributions referred to in Art. 10 and 11, shall be used for contributions provided for in this Article.]<sup>1)</sup>

<sup>1)</sup> Act No. 167/2002, Art. 1.

## Article 13

[Revenues of the Equalisation Fund as referred to in subparagraph c of Art. 8, net of contributions to the National Association of Icelandic Local Authorities referred to in subparagraph a of Art. 10, shall be used to equalise municipalities' salary expenditures for compulsory school instruction and other expenditure resulting from the transfer of compulsory schooling from the state to municipalities, including cost for the special needs of handicapped students and immigrants, and for payment of expenditure for service level agreements, cf. the second paragraph. In distributing contributions, regard shall be had for the increased municipal income tax revenues of individual municipalities' from the transfer of compulsory schooling.

The Equalisation Fund may conclude agreements with municipalities' and institutions on instructional advice and other expert services and other regular tasks which can be utilised by compulsory schools throughout Iceland. Older agreements on operation of special schools and special departments shall also continue to be valid.

The Municipal Equalisation Fund shall guarantee payments to the Pension Fund of State Employees for pension obligations of compulsory school teachers and administrators. Guarantee payments shall not be made by the Fund, however, until default

by a municipality has lasted for at least six months. The Municipal Equalisation Fund shall deduct from its contributions to individual local authorities those payments, together with accrued interest and cost, which the Fund has paid to the Pension Fund of State Employees for compulsory school employees or collect these claims by other means.]<sup>1)</sup>

<sup>1)</sup> Act No. 167/2002, Art. 1.

#### **Article 14**

[Municipalities, their institutions and other public bodies must provide the Municipal Equalisation Fund with all information necessary to determine and allocate contributions from the Fund as provided for in this Chapter.]<sup>1)</sup>

<sup>1)</sup> Act No. 167/2002, Art. 1.

#### **Article 15**

[Following local government elections, the [Minister of Transport and Communications]<sup>1)</sup> appoints a five-person advisory committee for a four-year term which is to make proposals to the Minister for contributions as referred to in Articles 11-13. Four of the committee members shall be appointed following nomination by the National Association of Local Authorities and one without nomination who shall chair the committee. Alternates shall be appointed in the same manner.]<sup>2)</sup>

<sup>1)</sup> Act No. 167/2007, Art. 2. <sup>2)</sup> Act No. 167/2002, Art. 1.

#### **Article 16**

[[The Minister of Transport and Communications]<sup>1)</sup> is ultimately responsible for the Equalisation Fund. The Fund shall be in the custody of the [Ministry of Transport and Communications]<sup>1)</sup> which shall handle its operation, the allocation and payment of contributions and the Fund's accounts.]<sup>2)</sup>

<sup>1)</sup> Act No. 167/2007, Art. 2. <sup>2)</sup> Act No. 167/2002, Art. 1.

#### **Article 17**

[The financial statements of the Equalisation Fund shall be prepared annually and audited by the National Audit Bureau. The annual financial statements shall be published in the B Section of the *Official Journal of Iceland*.]<sup>1)</sup>

<sup>1)</sup> Act No. 167/2002, Art. 1.

#### **Article 18**

[[The Minister of Transport and Communications]<sup>1)</sup> in consultation with the National Association of Local Authorities shall issue a Regulation<sup>2)</sup> providing in detail for the Fund's activities. Furthermore, the Minister shall issue Regulations<sup>3)</sup> on allocation of contributions referred to in individual provisions of this Chapter, after receiving the opinion of the Equalisation Fund's advisory committee.]<sup>4)</sup>

<sup>1)</sup> Act No. 167/2007, Art. 2. <sup>2)</sup> Reg. 113/2003, cf. 638/2004, 1284/2007, 982/2008, 1213/2008, 423/2009 and 866/2009. <sup>3)</sup> Reg. 105/1996. Reg. 973/2000, cf. 1196/2007. Reg. 80/2001, cf. 118/2002,

94/2003, 1019/2004 and 363/2006. Reg. 351/2002. Reg. 122/2003, cf. 1034/2007 and 534/2008. Reg. 303/2003, cf. 637/2004. <sup>4)</sup> Act No. 167/2002, Art. 1.

## **CHAPTER IV**

### **Municipal income tax**

#### **Article 19**

Persons liable to pay tax according to the provisions of Chapter I [of Act No. 90/2003, on Income Tax],<sup>1)</sup> shall pay municipal income tax on their income to a municipality as provided for in detail in the present Act.

<sup>1)</sup> Act No. 129/2004, Art. 104.

#### **Article 20**

Every person who is obliged to pay municipal income tax according to this Act shall pay the tax in one municipality which shall receive the entire amount.

Those persons referred to in Art. 1, cf. Articles 5 and 6, of [Act No. 90/2003, on Income Tax],<sup>1)</sup> shall pay income tax to the municipality in which they were legally domiciled on [31 December]<sup>2)</sup> of the income year.

Those persons referred to in Art. 3 of [Act No. 90/2003, on Income Tax],<sup>1)</sup> shall pay municipal income tax to the municipality where they acquired most of their income during the income year.

<sup>1)</sup> Act No. 129/2004, Art. 105. <sup>2)</sup> Act No. 140/2005, Art. 6.

#### **Article 21**

The base for assessing municipal income tax shall be the same as the taxable income base, cf. [Points 1 and 3 of Art. 61 of Act No. 90/2003, on Income Tax].<sup>1)</sup>

The provisions of [Articles 61-64 of Act No. 90/2003, on Income Tax],<sup>1)</sup> shall apply on determining the base for municipal income tax *mutatis mutandis*.

If [the Director of Internal Revenue]<sup>2)</sup> reduces the taxable income base as provided for in [Art. 65 of Act No. 90/2003, on Income Tax],<sup>1)</sup> the municipal income tax base shall be reduced by the same amount.

<sup>1)</sup> Act No. 129/2004, Art. 106.

<sup>2)</sup> Act No. 136/2009, Art. 79.

#### **Article 22**

The [Director of Internal Revenue]<sup>1)</sup> shall handle assessment of municipal income tax.

The provisions of Chapters VIII-XIV of [Act No. 90/2003, on Income Tax],<sup>2)</sup> shall apply to municipal income tax as appropriate unless otherwise provided for in the present Act.

<sup>1)</sup> Act No. 136/2009, Art. 79.

<sup>2)</sup> Act No. 129/2004, Art. 107.

#### **Article 23**

Municipal income tax shall be a specified percentage of income each calendar year, but may not exceed [13.28%]<sup>1)</sup> nor be lower than [11.24%]<sup>2)</sup> of the municipal income tax base; the same percentage shall be assessed of the income of all residents in each municipality.

Municipal income tax of children's income, as referred to in [the second and third paragraphs of Art. 64 of Act No. 90/2003, on Income Tax],<sup>3)</sup> shall be 2% of income in excess of the minimum specified in the second paragraph of Art. 67 of the same Act.

<sup>1)</sup> Act No. 173/2008, Art. 3.

<sup>2)</sup> Act No. 122/1996, Art. 3.

<sup>3)</sup> Act No. 129/2004, Art. 108.

#### **Article 24**

A local authority must decide by 1 December each year what percentage will be assessed on persons' income the following year, cf. the first paragraph of Art. 23 of this Act, and the first paragraph of Art. 9 of the Act on Withholding of Public Levies at Source. The decision of the local authority must be notified to the Ministry of Finance no later than 15 December that same year.

The withholding funds remitted to the municipality shall be the same percentage as the assessment percentage referred to in the first paragraph.

The percentage decided upon by the local authority shall be used in preparing its budget for the coming year and be the final assessment rate for municipal income tax in the municipality, cf. however, the fifth and sixth paragraphs.

In the eventuality that the income of the municipal treasury does not cover its expenditure, the local authority may increase municipal income tax from the rate decided as provided for in the first paragraph by up to 10%. Similarly, a local authority can reduce municipal income tax by up to 10%.

A municipality facing financial difficulties may add a special surcharge to the year's municipal income tax, cf. Art. 90 of the Act on Local Authorities.

A notification of changes to municipal income tax, cf. the fifth and sixth paragraphs, must be sent to [the Director of Internal Revenue]<sup>1)</sup> no later than 31 March of the assessment year.

<sup>1)</sup> Act No. 136/2009, Art. 80.

#### **Article 25**

A local authority may consider applications from persons for a reduction or waiver of assessed municipal income tax under circumstances as described in [the first paragraph of Art. 65 of Act No. 90/2003, on Income Tax],<sup>1)</sup> if it sees cause to grant a further reduction than [the Director of Internal Revenue]<sup>2)</sup> granted in a decision on reducing municipal income tax. Similarly, a local authority may reduce or waive assessed income tax of persons receiving benefits under Chapters II and [III]<sup>3)</sup> of the Act on Social Security.

[The Director of Internal Revenue]<sup>2)</sup> shall provide the local authority with access to tax returns of the individuals concerned, as well as providing it with such information

as is deemed necessary. A local authority must notify any reduction in municipal income tax to [the Director of Internal Revenue],<sup>2)</sup> collection agent and the individual concerned.

Those persons entrusted by the local authority with handling these tasks are prohibited from informing outside parties of anything they may become aware of in the course of their work concerning the situation of taxable persons, and may be liable under the provisions of the General Penal Code concerning violations of their duties as public servants.

<sup>1)</sup> Act No. 129/2004, Art. 109.

<sup>2)</sup> Act No. 136/2009, Art. 79.

<sup>3)</sup> Act No. 122/1996, Art. 4.

### **Article 26**

[The Director of Internal Revenue shall prepare a record of municipal income tax assessed in each municipality following the assessment.]<sup>1)</sup>

<sup>1)</sup> Act No. 136/2009, Art. 81.

The Director of Internal Revenue shall then prepare a collection record and send this to local authorities and collection agencies, cf. further the provisions of Chapter VIII of the Act on Withholding of Public Levies at Source.

### **Article 27**

The local authority may entrust a special collection agent with collection of municipal income tax.

The rights and obligations which collection officers of municipal treasuries hold by law, as well as all authority granted to them to enforce collection, shall accrue to these agents.

Each taxpayer shall, during the income year, submit provisional payment toward municipal income tax as provided for in the Act on Withholding of Public Levies at Source.

Those taxpayers, who turn out to owe municipal income tax following assessment of public levies, cf. Article 98 of [Act No. 90/2003, on Income Tax],<sup>1)</sup> shall pay the outstanding amount on the same due dates as outstanding payment of income tax is due, cf. [the fourth paragraph of Art. 112 of Act No. 90/2003, on Income Tax].<sup>1)</sup>

The provisions of the [first to third paragraphs of Art. 112 of Act No. 90/2003, on Income Tax],<sup>1)</sup> on advance payment of income tax, shall apply to the portion of municipal income tax which arises from income other than wage earnings..

If the municipal tax rate is increased after assessment, the additional amount shall be due 10 days after the taxpayer was informed of the increase.

Those foreign nationals, or stateless persons, who have been granted residence or immigration permits in Iceland for a specified period must remit their municipal income tax at the same time as withholding of income tax is to be paid, cf. [the seventh paragraph of Art. 112 of Act No. 90/2003, on Income Tax].<sup>1)</sup>

Appeal of decisions on municipal income tax or disputes on tax liability does not postpone the final date for payment of municipal income tax nor absolve the taxpayer from penalties applied due to failure to remit the same. If municipal income tax is reduced or lowered by a ruling or verdict, repayment shall be made immediately.

<sup>1)</sup> Act No. 129/2004, Art. 110.

### **Article 28**

Municipal income tax should be paid during the income year as provided for in the Act on Withholding of Public Levies at Source. As payments made during the income year are provisional and the final assessment is made retroactively, this may result in a repayment or additional claim from the local authority.

The Ministry of Finance shall handle repayment on behalf of municipalities as provided for in the Act on Withholding of Public Levies at source; taxpayers shall pay additional claims from the local authority as provided for in the third to seventh paragraphs of Article 27. The provisions of [the second paragraph of Art. 122 of Act No. 90/2003, on Income Tax],<sup>1)</sup> on indexation, shall apply to the repayments and additional claims referred to here.

The provisions of that Act shall apply *mutatis mutandis* concerning collection, penalty interest and collection measures, cf. also the second paragraph of Art. 37 of the Act on Withholding of Public Levies at Source.

All parties paying wages, cf. the first paragraph of Article 92 of [Act No. 90/2003, on Income Tax],<sup>1)</sup> are obliged at the request of a collection officer, to withhold from a wage earner's pay funds to cover the municipal tax of the parties for which the wage payer is responsible *in solidum* and is to collect in accordance with the provisions of this Act. Wage payers shall never, however, retain more than the equivalent of 75% of the total wages paid in each instance to cover municipal income tax and levies provided for in the Act on Income Tax ...<sup>1)</sup>

More detailed provisions on the implementation of this Article shall be set in a Regulation.<sup>2)</sup> If a wage payer has neglected to withhold tax from wages, it is responsible *in solidum* for payment of these funds.

A claim concerning funds, which a wage payer has retained, or should have retained in accordance with this Article, is enforceable against the wage payer by distraint.

A wage payer who has failed to remit on the proper date funds which it has retained or should have retained from wages must pay penalty interest as provided for in Art. 32 from the date the funds should have been remitted to the collection agent.

If payment of wages is made through the intermediation of a third party, the same obligations shall rest on the intermediary as are placed on the wage payer by the provisions of this Article.

<sup>1)</sup> Act No. 129/2004, Art. 111. <sup>2)</sup> Reg. 124/2001.

### **Article 29**

A taxpayer, who has overpaid municipal income tax to a wage payer, may demand from the local authority concerned any amount overpaid, regardless of whether the wage payer has remitted the funds or not.

A local authority may not, however, demand payment from a taxpayer of municipal income tax which a wage payer has retained from the taxpayer's wages even if the wage payer has not remitted the funds to the local authority.

### **Article 30**

Liability for payment of municipal income tax is subject to the provisions of [Art. 116 of Act No. 90/2003, on Income Tax].<sup>1)</sup>

<sup>1)</sup> Act No. 129/2004, Art. 112.

### **Article 31**

The local authorities concerned in a case have the same right as taxpayers to refer municipal income tax assessment to [the Director of Internal Revenue]<sup>1)</sup> and to appeal rulings to the State Internal Revenue Board.

<sup>1)</sup> Act No. 136/2009, Art. 79.

## **CHAPTER V**

### **Miscellaneous provisions**

#### **Article 32**

If levies provided for in this Act are not paid within one month of the due date, the local authority shall be paid penalty interest on the amount in arrears. The due date in this connection shall mean the regular due dates provided for in the fourth paragraph of Art. 4 and the third and fifth paragraphs of Art. 27, whereas acceleration due to failure to make payment of a portion as referred to in the fifth paragraph of Art. 4 and the fourth paragraph of Art. 27 does not affect calculation of penalty interest. The provisions of Chapter III of the Interest Act, No. 25/1987, shall apply to penalty interest.

If it becomes clear, once assessment of municipal levies is completed or after a decision to change their amount, that a taxpayer has paid more than the equivalent of the final tax assessed, the amount overpaid shall be repaid with interest for the period this money was in the custody of the local authority. [This interest shall be equivalent to the highest interest paid on ready-access savings accounts at that time.]<sup>1)</sup>

<sup>1)</sup> Act No. 148/1995, Art. 6.

#### **Article 33**

Levies provided for in this Act, as well as penalty interest, may be enforced by distraint.

#### **Article 34**

The national government may conclude an agreement with governments of other states on mutual concessions regarding municipal income tax paid by foreign and Icelandic

parties which, according to the current laws on municipal income tax in these states, should pay municipal income tax both in Iceland and in some other state.

Where no agreement exists with another state to avoid double taxation of income, as referred to in the first paragraph, and an individual who is liable to pay municipal income tax in Iceland as provided for in Art. 19 pays to a public body in another state municipal income tax on his/her income which is liable for tax in Iceland, the Director of Internal Revenue may, upon application by the individual concerned ..., <sup>1)</sup> reduce the individual's municipal income tax in Iceland having regard to those taxes he/she has paid.

<sup>1)</sup> *Act No. 136/2009, Art. 82.*

### **Article 35**

The Minister may set detailed provisions on the implementation of this Act in a Regulation. <sup>1)</sup>

<sup>1)</sup> *Reg. 542/1989, cf. 395/1990. Reg. 1160/2005 (on property tax).*

### **Temporary Provisions**

#### **I.**

A special property tax, equivalent to a maximum of 1.25% of the assessment base, may be levied on real estate used for commercial or office purposes, together with the lots involved, even if these are rental lots. Tax liability as referred to in this provision rests with parties liable to pay tax according to the provisions of Chapter I of [Act No. 90/2003, on Income Tax], <sup>1)</sup> or Act No. 65/1982, on the Tax Liability of Deposit Institutions, as subsequently amended. The tax liability covers the same parties as previous Acts on the same subject. The assessment base shall be the valuation in the property registry at the end of the year preceding assessment. If a valuation is not available, this shall be based on the cost or purchase price of the property or estimated real estate valuation. In determining which assets form the tax base provided for in this provision, regard shall be had for the actual use of the property at the end of the year preceding levying of tax. If the same property is used for commercial or office purposes, and also for other use, in deciding the tax base the value of the property shall be divided in proportion to its use. Taxes as provided for in this provision shall accrue in full to the municipal treasury. The local authority shall handle the assessment and collection of the tax and may entrust a special collection agent with its collection.

Property owners shall therefore send the municipality in which a property is located a list of the assets covered by this provision, together with information on their latest total real estate valuation or, as the case may be, cost price. Furthermore, information shall be entered there on their use, as well as information on the volume of properties not utilised as commercial or office space. The local authority shall advertise the time limit owners have to provide the information listed above. If the building owner neglects to send a list of properties covered by this provision the local authority may use other information upon which to base their assessment until the failure is rectified by the building owner. Tax authorities shall provide local authorities with the information

necessary in connection with the implementation of this provision, including authorising them access to lists of parties taxed on the basis of Chapter V of Act No. 111/1992, on Changes in Taxation Issues.

[The special property tax provided for in the first paragraph shall be assessed on the tax base in decreasing stages as stated below:

in 1996: 0.937%;

in 1997: 0.625%;

in 1998: 0.313%;

in 1999 the tax shall be abolished.

Notwithstanding the provisions of subparagraph b of the third paragraph of Article 3 of the Act, the maximum property tax as provided for in this subparagraph shall be based on the assessment base and increase in stages as follows:

in 1996: 1.17%;

in 1997: 1.22%;

in 1998: 1.27%;

in 1999: 1.32%.]<sup>2)</sup>

The provisions of Chapter II of this Act which apply to property tax shall furthermore apply *mutatis mutandis* to the special tax on office and commercial space provided for in this provision.

The Minister may set further details on the implementation of this provision in a Regulation.

[This Temporary Provision shall apply until assessment in 1999 on the basis of the provision is completed.]<sup>3)</sup>

<sup>1)</sup> Act No. 129/2004, Art. 113.

<sup>2)</sup> Act No. 148/1995, Art. 7.

<sup>3)</sup> Act No. 148/1995, Art. 8.

## [II. ...]<sup>1)</sup>

<sup>1)</sup> Act No. 79/1996, Art. 7.

## [III. ...]<sup>1)</sup>

<sup>1)</sup> Act No. 79/1996, Art. 7, cf. Act 122/1996, Art. 5.

## [IV.

[[To complete the effort to have single-shift compulsory schools, cf. the provisions of the Compulsory School Act, No. 66/1995, as subsequently amended, ISK 200 million shall be used to support initial construction of compulsory school buildings in 2005 and ISK 135 million in 2006.]<sup>1)</sup>

The available funds referred to in the first paragraph shall be used to pay up to 20% of the reference cost of compulsory schools in municipalities with 2,000 inhabitants or more, in accordance with the current criteria and rules of the Municipal Equalisation Fund. Grants may be made for initial construction of compulsory schools which are

financed as a private financing initiative (PFI), whether on the basis of a lease-purchase or leased operation, provided the project is covered by the provisions of the first paragraph and fulfils in other respects the requirements for allocations under this Article [sic]. An annual maximum contribution to a municipality for a PFI may be set in a Regulation.

Funds referred to in the first paragraph which municipalities do not utilise in the year concerned may be transferred between years within the period.]<sup>2)</sup><sup>3)</sup>

<sup>1)</sup> Act No. 136/2004, Art. 11.

<sup>2)</sup> Act No. 60/2002, Art. 1.

<sup>3)</sup> Act No. 79/1996, Art. 7.

#### [V.]

Notwithstanding the provisions of Art. 23, the maximum municipal income tax rate provided for in the first paragraph of Article 23 for the 2001 income year shall be 12.70%.]<sup>1)</sup>

<sup>1)</sup> Act No. 144/2000, Art. 7.

#### [VI.]

Notwithstanding the final sentence of the third paragraph of Article 13, the Board of the Farmers' Association of Iceland shall submit proposals for contributions due to work projects in 1999 and 2000 no later than 15 March 2001.]<sup>1)</sup>

<sup>1)</sup> Act No. 144/2000, Art. 7.

#### [VII.]

Contributions as referred to in the first sentence of subparagraph c of Art. 11 of the Act shall be cancelled as of 1 January 2005. After that time, however, contributions may be paid for work projects commencing before the end of 2004, provided an assessment by the advisory committee of the Municipal Equalisation Fund is available attesting to the urgent need for the projects concerned. Contributions to projects in 2005 shall be based on the project status at the end of that year.]<sup>1)</sup>

<sup>1)</sup> Act No. 167/2002, Art. 2.

#### [VIII.]

Notwithstanding the provisions of subparagraph b of the third paragraph of Art. 3 of this Act, the assessment rate under that subparagraph shall be 0.44% of the real estate valuation in 2006 and 0.88% in 2007.]<sup>1)</sup>

<sup>1)</sup> Act No. 140/2005, Art. 7.

#### [IX.]

Notwithstanding the provisions of the first and second paragraphs of Art. 24 of the Act, the local authority shall decide prior to 30 December 2008 what tax rate will be assessed on incomes in 2009, cf. the first paragraph of Art. 23 of this Act, and the first paragraph of Art. 9 of the Act on Withholding of Public Levies at Source. The decision by the local

authority shall similarly be notified to the Ministry of Finance no later than 30 December 2008.]<sup>1)</sup>

<sup>1)</sup>Act No. 173/2008, Art. 4.

**[X.**

Notwithstanding the provisions of Art. 7 property tax for 2008-2010 includes a statutory lien on the property on which it is levied and shall, together with penalty interest for four years following the due date, have priority over all other mortgage claims against the property.]<sup>1)</sup>

<sup>1)</sup>Act No. 6/2009, Art. 1.