

ICELAND – TAX CONSIDERATIONS ON SHORT-TERM LETTINGS

The following information can help you get started in learning about some of the tax requirements that might apply to you when providing short-term accommodation in Iceland.

Tax can be tricky, and it is important to ensure that you keep up to date with your tax obligations and remain tax compliant. The timely preparation, filing and payment of taxes are your responsibility.

If you are supplying short-term accommodation in Iceland, you should make sure that you understand each of the following types of taxes, and pay the ones that apply to you:

- Income taxes
- Value added tax (VAT)
- Lodging tax
- Real estate tax

We draw your attention to the fact that Airbnb may have an obligation to report income earned by users of the platform. Therefore, if there is a mismatch between the information reported by Airbnb and the income you reported in your annual income tax return, the tax authorities may ask you questions.

Please understand that this information is **not comprehensive** and **is not intended to be legal advice**. If you are unsure about your local tax obligations, we encourage you to check this with official local sources, or to seek advice from qualified professionals.

Please note that we don't update this information in real time, so you should confirm that the laws or procedures have not changed recently.

INCOME TAX

If you earn income in Iceland, it is likely that you will be required to pay a percentage of the tax on this income to the Icelandic tax authorities. Below is a brief outline of the tax that may arise on income earned from short-term lettings in Iceland and some information on how this tax can

be paid over to the Icelandic tax authorities.

The Icelandic tax year runs from 1 January to 31 December.

You are required to pay income tax in Iceland:

- If you are a resident of Iceland;
- If you work in Iceland;
- If you have assets in Iceland;
- If you have a company in Iceland; or
- If you have income from other sources in Iceland.

Reporting tax in Iceland.

Tax returns are submitted electronically on www.skattur.is by using electronic identification on your phone or a password from the Directorate of Internal Revenue. If electronic tax returns are not possible, the tax return may in rare cases be submitted on paper (only available for non-residents).

Tax returns provide information on income, assets and debts from the previous year.

Reporting tax - filing deadline.

Annually, the Internal Revenue Directorate decides the filing deadline of individual income tax returns. The tax return filing deadline therefore varies from year to year but traditionally the income tax returns have to be filed in March.

Reporting tax - payment deadline.

Once your tax return has been filed, the Icelandic tax authorities will review the return and issue an assessment to you. You can access the assessment, usually at the end of May the year following the tax year.

Any positive difference between income tax withheld and the assessed income tax (state and municipal) is refunded on 1 June; and the deficit is collected on seven separate due dates on the first of each month, starting on 1 June.

Icelandic Revenue and Customs contact details.

The contact details for the Icelandic tax authorities are as follows:

- 442 1000 if you are calling from Iceland, and;

- +354 442 1000 if you are calling from abroad;
- Email: skatturinn@skatturinn.is.

Further details can also be found on the Iceland Revenue and Customs [website](#).

Iceland income tax rates.

The income tax rates for individuals born before 2008 are as follows (2023 rates):

- Up to ISK 4,919,832 is taxable at 31.45%.
- ISK 4,919,833 - 13,812,144 is taxable at 37.95%.
- Income exceeding ISK 13,812,144 is taxable at 46.25%.

Taxable income is salary minus the pension fund premium. It is allowed to deduct ISK 715,981 per year (personal tax credit – 2023 rate) from the income tax, which equals to non-taxation on the first ISK 2,276,569 of taxable income. The personal tax credit is in proportion to the residence time in Iceland.

Icelandic rules applicable to income earned in relation to short-term lettings.

Any rental income earned by individuals from the rent of any property, including residential property, is now considered as income from business activity, unless one of the following exemptions apply:

- a) The rental income is not derived from the renting of more than two separate residential properties. The “rent for rent” exemption is applicable, where an owner of a property earning rental income that falls within the scope of the Rent Act, is legally entitled to deduct rent paid elsewhere from the rental income derived from a property it owns.
- b) The income is earned from home hosting in a property registered with the District Commissioner, in the maximum amount of ISK 2,000,000 per calendar year. If the total rental income (of one or two properties) exceeds ISK 2,000,000 during the income year, or the District Commissioner terminates the registration of the property as home hosting (for example if the property is rented for over 90 days in each calendar year), all rental income will be considered as income from business activities.

When rental income falls within one of the exemptions above, it is subject to a capital gains tax. The capital gains tax is paid in full afterwards and no deduction is allowed against the rental income, except for the “rent for rent” exemption or the 50% exempt income on home housing rent.

The 50% exempt income on home housing rent includes that capital gains tax is not paid on 50% of the income from renting a residential property to a tenant for residence. This income

threshold is determined through assessment when the total amount is provided for on one's tax return and the capital gains, including rental income, are taxed at the rate of 22% (rate in 2023). You can find further information on capital gains at the [website](#) of the Directorate of Internal Revenue.

Any other activities than the exemptions above are considered as business activities (income from independent business activities) and are as such subject to general income tax. Operational expenses may be deducted from income in the tax return.

Income from independent business activities of individuals, less operational expenses, is subject to the same income tax as wages and salaries (see 2023 rates above). The [website](#) of the Directorate of Internal Revenue has more information about taxable income.

Typical expenses that can be deducted from an individual's income in relation to short-term lettings that are considered business activities.

You can deduct operational expenses that are directly connected with renting out the property if the renting is considered a business activity.

This can include, but is not limited to:

- Service Fee from Airbnb
- water and electricity usage (insofar connected to usage by the tenants);
- real estate tax;
- cleaning expenses (insofar connected to the stay of the tenants); and
- advertisements.

Income tax obligation for non-resident individuals.

If you are non-resident in Iceland, you may have an obligation to file an income tax return if you own a property in Iceland, including filing any income earned on that property. The foreign owner of the Icelandic property should be subject to tax on the same conditions as described, given that double tax treaties do not alter that.

Icelandic income tax obligations for a resident in Iceland in receipt of foreign rental income.

If you are a resident in Iceland, you must report your worldwide income.

An income from a foreign property of an Icelandic tax resident shall be included on one's tax return and will be subject to income tax at the general rates. A deduction will be provided for tax paid in a foreign tax jurisdiction.

VALUE ADDED TAX

Value Added Taxes (VAT) can be complicated, and you should take time to understand the rules as they apply to you and your situation.

If you are currently renting out a room/apartment to guests, you may be required to apply VAT to your rental charge and to pay this VAT amount to the Icelandic tax authorities. As Airbnb is not supplying the rental, it is the responsibility of the host to consider local VAT obligations of the rental charge.

Broadly speaking, VAT in Iceland is a tax on consumption. In general, all foreign as well as domestic companies and self-employed business owners selling taxable goods and services in Iceland need to register their business for VAT. Exempt from the obligation to register for VAT are those who sell labour and services that are exempt from VAT and those who sell taxable goods and services for 2,000,000 ISK or less in each twelve-month period from the beginning of their business activity.

The renting out of hotel- or guesthouse accommodation, spaces for tents as well as any other accommodation when the rent period is shorter than one month is subject to VAT, should the rent amount exceed ISK 2,000,000 over a period of 12 months. Such rent is subject to the reduced rate of 11%.

Foreign taxable persons selling taxable goods and services in Iceland are liable for VAT according to the same rules and regulations as Icelandic taxable persons and shall register for VAT if the conditions for registration are met.

As with all taxes, we encourage you to consult with a tax advisor regarding your potential VAT obligations in Iceland.

Anyone who offers a service that is subject to VAT needs to notify the Directorate of Internal Revenue about their operations and request registration for VAT eight days prior to commencing operations at the latest. Furthermore, they must keep records and submit VAT tax returns to the Directorate of Internal Revenue.

The Directorate of Internal Revenue can provide information on VAT on accommodation services and other general information about VAT.

Do I need to collect any VAT from guests if I am letting short-term accommodation in Iceland?

If a host's revenue from accommodation rental exceeds ISK 2,000,000 in any 12 month period, they're obligated to charge VAT on lodging and remit it to the Treasury. If each rental period

doesn't exceed 30 days, the VAT rate is 11%. Any rental that exceeds one month is exempt from VAT (long term rental of housing is exempt).

If you are an individual who is not resident in Iceland, but your accommodation is in Iceland, then you should also register for Icelandic VAT, as foreign taxable persons are subject to the same rules and regulations as Icelandic taxable persons.

We encourage you to consult a tax advisor if you need assistance in determining whether you need to register for and charge Icelandic VAT.

For further guidance on registering for VAT, please see the Icelandic tax authorities' [website](#).

VAT applies to me. How do I determine how much tax I need to collect from my guests?

VAT rates differ per country and change periodically. We recommend you to check on a regular basis with the local tax authority to get the most up to date VAT rates for the country where you are required to pay VAT.

For example, at the date of issuance of this document, the Icelandic VAT rate applicable to rental of holiday accommodation (i.e. short-term letting, where the rent period does not exceed 30 days) is 11%.

However, there are other VAT rates currently in force in Iceland, so we recommend that you confirm with a local tax advisor the VAT rate applicable to your supplies (0%, 11% and 24%).

VAT applies to me. How do I collect VAT from guests?

If you determine that you need to charge VAT on the supplies that you make to guests, please keep in mind that you have to collect this VAT from your guests and report and remit this VAT on a periodic VAT return. In Iceland, each VAT reporting period is in general two months, January and February, March and April etc.

VAT payment together with a VAT return must be submitted no later than the due date for payment which is one month and five days after the period has ended. For example the due date for the January and February payment is 5th of April.

However, if the sales during the calendar year are less than 4,000,000 ISK, the VAT shall be settled annually, with a due date on 5th of February (i.e., the 2023 VAT return should be filed by 5 February 2024). Individuals starting a business activity for the first time start by using the calendar year as the settlement period.

If you are supplying holiday accommodation, which is subject to VAT at 11%, then the amount of

Icelandic VAT due can be calculated by multiplying the agreed accommodation price by 9.91% (for the VAT rate being 11%). For example, a total price for accommodation of ISK 20,000 is agreed. The Icelandic VAT arising on this supply can be calculated as follows; $20,000 \times 0.0991 =$ ISK 1,982 VAT.

All taxable persons selling taxable goods and services in Iceland, shall keep accounts for their business activities in Iceland and shall arrange their accounts and their settlement in such a manner that tax authorities can verify VAT statements at any given time. The VAT accounts shall be accessible to the tax authorities at all times.

Invoices must be issued with every sale or delivery of goods or taxable services. For further guidance on filing returns, please see the Icelandic tax authorities' [website](#).

There may also be requirements around whether you use VAT-inclusive or VAT-exclusive pricing. We recommend that you check your obligations in terms of pricing and the applicable invoice requirements with a local tax advisor.

LODGING TAX

Anyone who offers VAT taxable accommodation services shall collect lodging tax from every booking of a lodging unit, which is defined as the rental of lodging for up to 24 hours. Lodging tax forms part of the VAT taxable base. The current tax amount is 300 ISK for each lodging unit.

Due to COVID-19 the lodging tax has been temporarily abolished from 1 April 2020 until 31 December 2023, for accommodation services provided and used in the period. Further information about Icelandic lodging tax is available at the [website](#) of the Directorate of Internal Revenue.

REAL ESTATE TAX

Home hosting means providing available accommodation for a charge at the registered home of the host or/and in one other home that the host has for personal use and is in hers or his ownership. The total number of sold nights in both properties combined can not exceed 90 days per calendar year and the combined revenue can not exceed 2 million ISK. Currently such homes are subject up to 0.5% real estate tax.

Where accommodation services fall outside the scope of home hosting, they are considered as business activities, conducted in a commercial property. This might (among other consequences) lead to a change in the classification of the property and, as applicable, higher real-estate tax rate, currently up to 1.32%.

Real-estate taxes are levied by the municipality where a property is located. We encourage hosts to look into the applicable rates for your listings for home hosting or accommodation services in your municipality.