



MINISTRY OF FINANCE
AND ECONOMIC AFFAIRS

Taxation of residential housing and financial stability

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Overview

- Taxation of residential housing
- Rent benefits and interest rebate
- Tax Concession
- Development in the residential housing market
- Challenges related to financial stability



Taxation of residential housing

- Municipalities collect property tax on residential property
 - In Reykjavík, the property tax is 0.18% of property value
- Net wealth tax was abolished in 2005 but temporary net wealth tax with a higher threshold was collected from 2010-2014
- Tax base of rental income from residential housing is 50% of the rental income and taxed with capital income tax at 22%.
 - In 2016 the tax base of rental income from residential housing was lowered from 70% to 50%.
 - The effective tax rate on rental income is 11%



Airbnb tax problem

Permanent residence	Tourist accommodation	Business or self-employment
Active 11% tax burden No deduction Rent against rent No VAT No accommodation tax	No more than 90 days No more than 2 million ISK 22% capital income tax No deduction No VAT No accommodation tax	36.94%-46.24% PIT 20% CIT Deduction VAT Accommodation tax



Rent benefits and interest rebate

- Rent benefits
 - Rent benefits are targeted to low-income tenants and are therefore means-tested and not taxable
 - Rent benefits are also dependent on family size
- Interest rebate for home owners
 - Mortgage interest rebate is open to all home owners with mortgage payments
 - They are subject to limits on income, net assets, marital status, total mortgage liabilities and a maximum interest payment amount
 - The program is part of the tax system and is administered through tax authorities



Tax Concessions

- First purchase of a residential property
 - Authorized to disburse, up to a certain extent and without tax liability (tax free), voluntary pension savings paid into a third pillar pension fund
 - Maximum 6% of income tax free with a ceiling, 500,000 ISK per person a year
 - It can be used as a payment on mortgage loan or down payment when purchasing residential property
 - This measure applies up to a maximum 10 year consecutive
- VAT refund of work on residential property
 - Owners of residential property can reimburse the VAT they pay from the work of workers on site for new residential buildings and renovation and maintenance of older houses
 - The refund rate is 60%
 - The refund rate was raised temporary to 100% after the GFC to stimulate the market, encourage investment and prevent illicit work



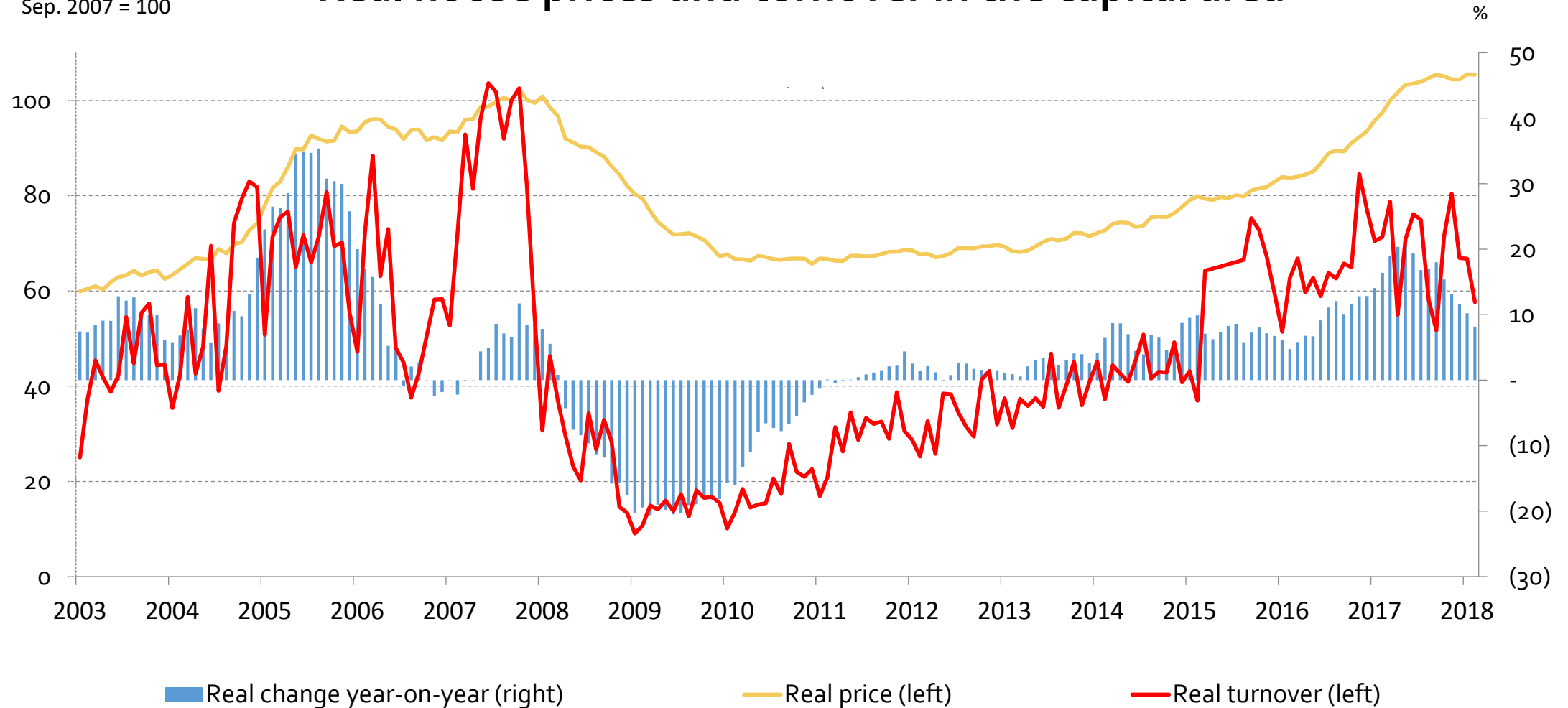
Development in the residential housing market

- Residential housing prices have increased substantially
- Factors contributing to price increases:
 - Substantial wage growth
 - Low investment since the GFC
 - Short-term rentals have expanded in some areas (Airbnb)
 - Population growth because of inflow of labour
 - Recent tax measures have not had a significant impact on the residential housing market

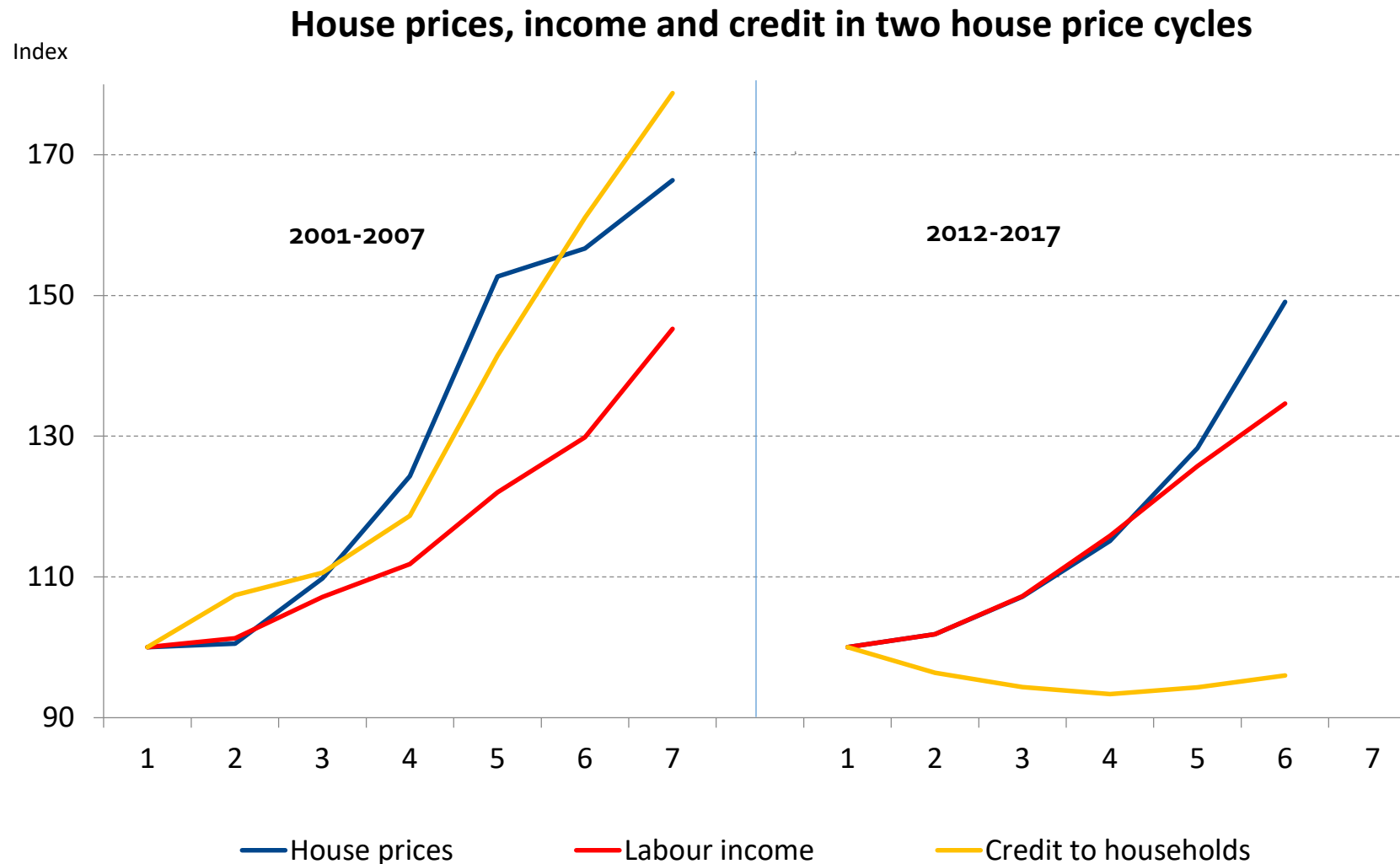
Real housing prices higher than in 2008

Index.
Sep. 2007 = 100

Real house prices and turnover in the capital area

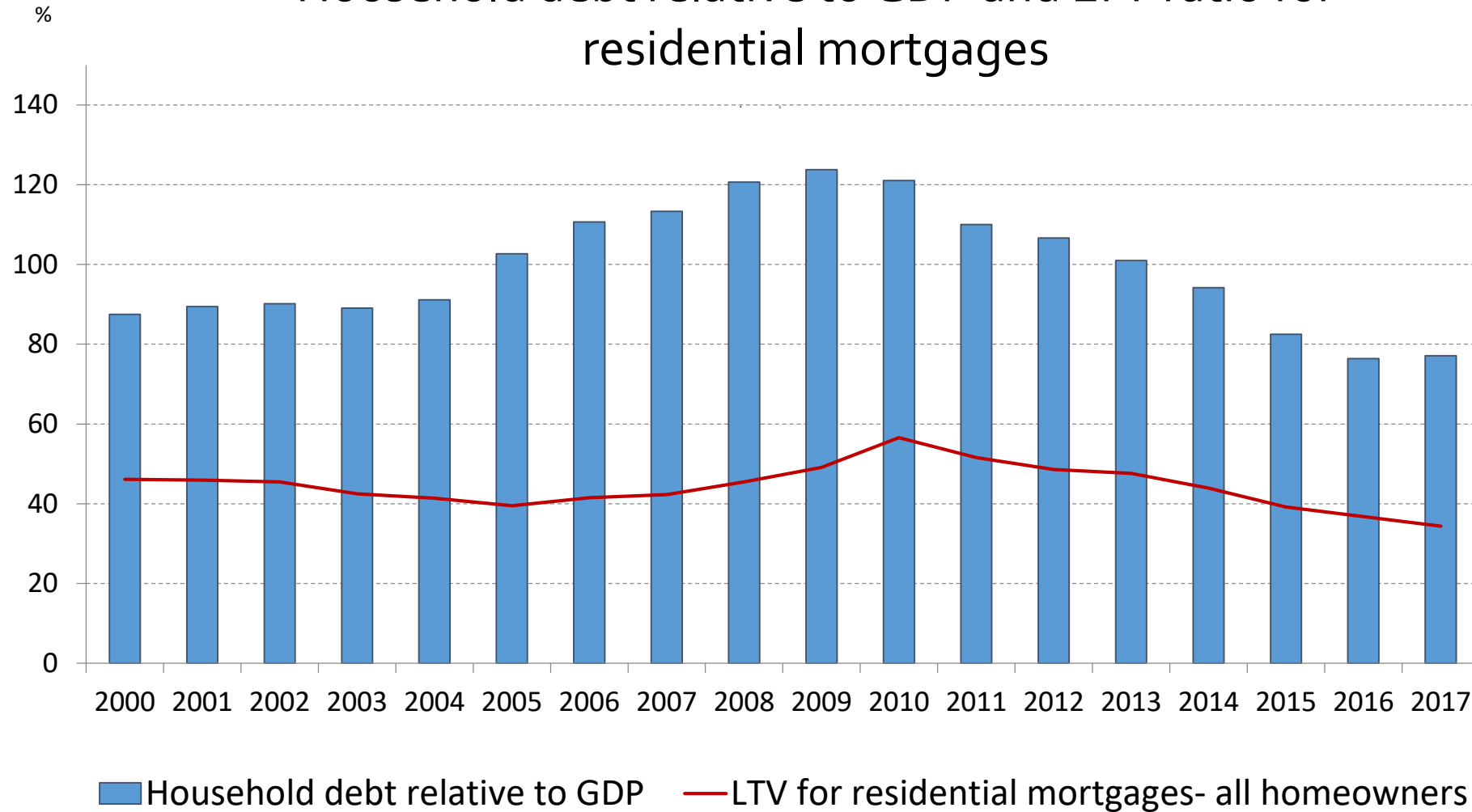


Present house price boom is less debt-driven than previous boom

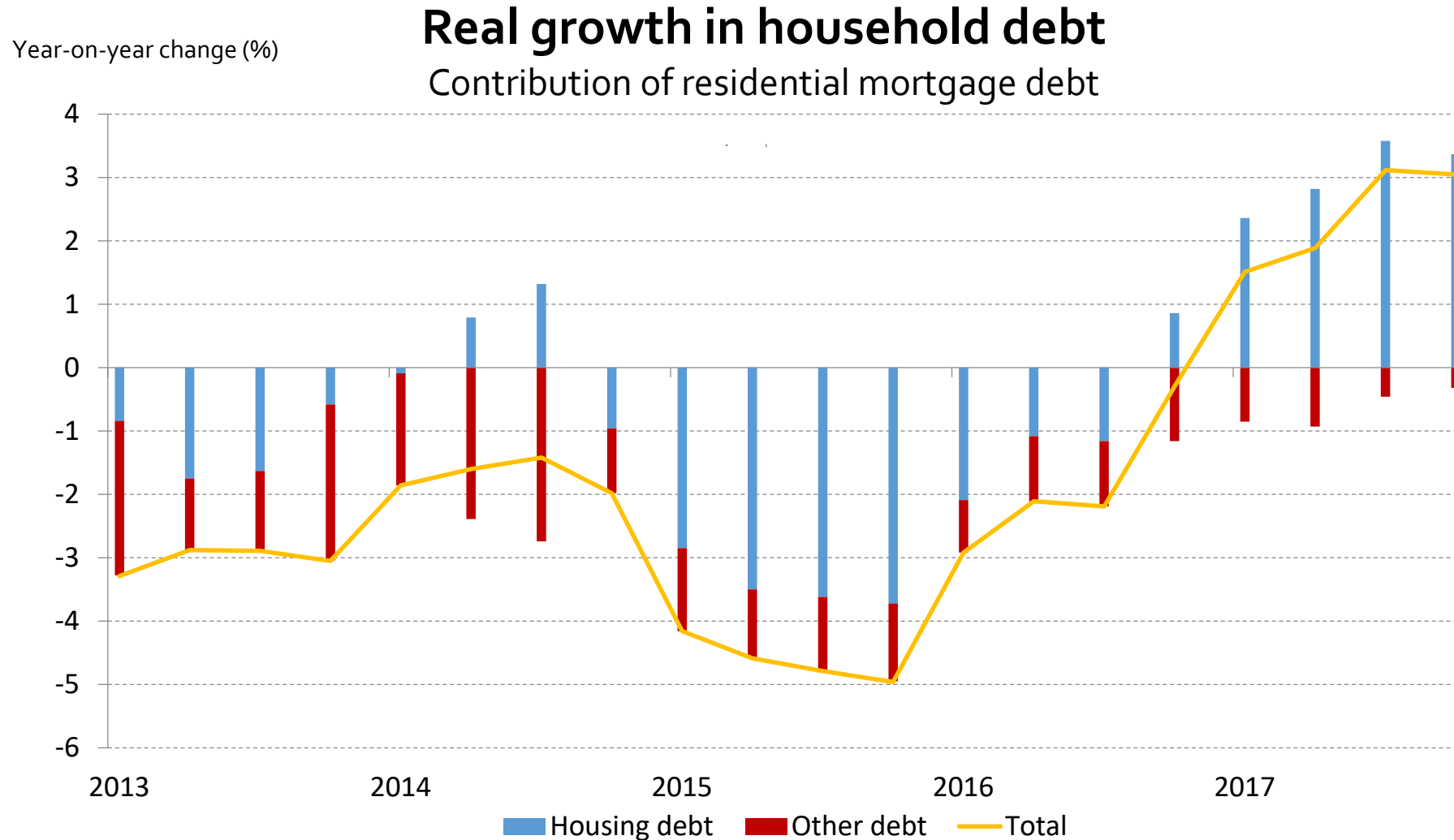


Household debt to GDP has decreased significantly

Household debt relative to GDP and LTV ratio for residential mortgages



Rising housing debt



Challenges related to financial stability

- After the GFC, financial institutions have tightened the lending rules of borrowers, i.e. LTV
- New rules on consumer credit states that financial institutions can only grant foreign currency loans to households that have foreign income
- The Financial Stability Council have enabled the counter-cyclical buffer and is it now 1.25%
- With high house prices, strong market turnover and increased mortgage debt, there is a greater likelihood that systematic risk related to the housing market will accumulate



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Thank you for your attention

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