

Excerpt of results

In this report, a tax reform is proposed that aims at a fairer and more efficient tax system in Iceland. The proposals seek to reverse the shift of taxation onto poorer people and reduce taxation of people on low wages and pensions by at least 20,000 ISK per month.

Given these proposals, 90% of taxpayers would be taxed at lower rates. The next 5% would see little change, and the highest-earning 5% would pay more. Many ways are demonstrated to fund these changes, both by using the current flexibility in state finances, and through urgent changes in taxation and stronger monitoring of tax evasion and tax fraud.

The big tax transfer and the reasons for it

In the first chapter, the story is told of the great transfer of income tax in the last two decades. The tax burden was moved from the highest wages onto the middle and lower wages. The largest proportional increase was seen in the lowest incomes. This development intensified in the years leading up to the financial crash in 2008. It was then partially reversed, but has in recent years started again, with increasing force since 2015.

There are three main reasons for taxing the public at higher rates. First comes the greater need for social spending. Second is the increased wage inequality in our society. Thirdly, direct and indirect changes have been made to tax rules, which have increased taxes in reverse proportion to wages.

Taxes and welfare

In the second chapter, taxes are explained in economic and social terms, to explain the limits of possible changes to taxation, and to outline their purpose. The importance of collecting sufficient funds for the welfare system is emphasised, and the importance of not reducing the income of government, which is already insufficient to maintain sufficient services and to build up economic and social infrastructure.

It is also important to respond to the various reasons that have led to increased taxation of wages. Therefore, other measures, in addition to income tax reform, are required to create a fairer and more just tax system.

Actions and proposals

In the third chapter, actions and proposals are listed and many ways shown for improving the tax system which would increase the state's income from tax, which could be used to further lower tax on 90% of wage earners -- the public at large. Among those proposals:

- A progressive income tax for individuals with 4 or 5 brackets, outlined in later chapters of the report.
- Raising capital gains tax to levels seen in the other Nordic countries and changing the taxation of operating profits to accord with income tax.

- Changing the method of calculated remuneration of self-employed people, and making it applicable to financial activity.
- A wealth tax with a threshold for the normal price of a home, summer house and a private car.
- Fair usage fees on natural resources for all industries that use the natural wealth of the country.
- Stronger tax inspections and follow-up on them and court rulings.

Such reform is both timely and important to make the tax system fairer more efficient and more similar to those prevalent in the other Nordic countries, so that Icelanders can enjoy a similar welfare system to their Nordic cousins.

Tax brackets

In the last part of the report we present a new tax bracket proposal, based on a four-bracket framework agreed on by ASÍ. This system would allow to reverse in large part the shift in taxation onto the lower wages by lowering taxes for the low and middle incomes and raising them at the top.

The following are the aims of the tax and benefits policy which ASÍ has agreed on:

- Increase the equalising effect of the income tax system
- Raise the tax-free limit
- Lower the tax burden of low and middle wages
- Increase the number of tax brackets: introduce a lower bracket for the lowest wages and a new high-wage bracket
- Capital gains tax should be reviewed and raised to approach the levels common in other Nordic countries
- Child benefits should reach the bulk of low and middle income people
- The housing support systems (interest relief and housing benefits) should be restored

A four bracket tax system is proposed in accordance with the policy of ASÍ, which allows for a lower tax payment for the lower wages of about 20-29 thousand ISK (see illustrations 4 and 6). Everyone with wages up to about 900 thousand ISK per month would have lower taxes under the proposal. Those with wages between 900 to 1,300 thousand ISK per month would see little changes. Those above them, the highest-paid 5%, would see the main increases (see Appendix II). The tax burden of the highest wages in Iceland would then approach the levels seen for high wages in other Nordic countries (see data in Appendix I).

The tax rise for the highest waged 5% would not be sufficient to cover the lost income in the state's finances from reduced taxes on lower wages (about 30 billion ISK net loss would be the result). Therefore, the flexibility we now have in other parts of government finances would have to be utilized to maintain the same total tax income levels.

This could be done by, for instance, using the 14 billion ISK that the government has already set down for tax relief. Some 16 billion ISK in the budget surplus could be used, that is, reduce the surplus from 29 to 13 billion ISK. Thus, the 30 billion ISK gap would be bridged (see illustration 4). It would therefore be very easy to implement this step.

In chapter V, two more ambitious proposals, with larger tax decreases are proposed, where a larger gap has to be bridged by other means, which are still completely manageable.

A fair and efficient income tax system with many options

An income tax system of the sort being outlined here isn't just fairer and more efficient than the current one. It would correct for the large and unjust shift in taxation onto lower wages by actions of the government, without it being discussed in society. The shift happened mostly in secret.

The methods proposed in the report would also reduce the disposable income gap between the genders, since women are mostly in the groups which would get the greatest tax relief. Men are more often in the higher income brackets which would face higher taxes. These measures would therefore equalise the financial situation between men and women.

The measures would also improve the lot of those receiving old-age and disability pensions, since these groups are for the most part in the brackets which would get the largest tax reduction.

This tax system would also be more economical for younger people just starting their life in the labour market and establishing families, not least if the correction in child benefits and housing supports would be implemented, as ASÍ has proposed in its policy.

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