

SUMMARY OF ICELANDIC GOVERNMENT'S MEASURES IN RELATION TO THE ECONOMIC EFFECT OF COVID-19

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Introduction

Government actions to mitigate the economic effects of the global coronavirus outbreak have been numerous and diverse. The scope of the first phase of government actions, introduced on 21 March, amounts to ISK 230 billion which is equivalent of almost 8% of Iceland's GDP. The actions are threefold and aim to ensure the livelihood of people and companies, protect the foundations of our society and create powerful resistance to the economic effects of the virus.

The government's economic actions in response to the coronavirus are diverse and many. The actions may be divided into three parts which aim to:

- Ensure economic survival of companies and individual (The part-time employment approach – Bridge loans to companies – Postponement of payment deadlines for taxes),
- protect the pillars of the community (Guaranteed income while quarantined – Child benefit addition – Withdrawal of additional pension savings),
- and create resistance environment for the economy (Strengthening the travel industry – Expansion of “Everybody to work” – Smoother imports – Investment campaign)
- In other words; prevention, protection, resistance

On 30 March 2020 two different legislative acts were enacted by the Parliament regarding the abovementioned economic actions of the government. The first was a legislative act intended to make the necessary changes to the current legislature to mitigate the economic effects of the coronavirus and the second was a supplementary budget act. Furthermore, the Parliament has issued a parliamentary resolution regarding a special government investment campaign. Previously parliament as enacted three other laws regarding:

- Increased right to unemployment benefits for part-time employees.
- Individuals who are quarantined with no signs of being infected, were guaranteed income.
- Postponement of payment deadlines for social security tax and withheld public levies at source.

Any further reference to “the laws” or “the actions” in the context of recent laws shall be viewed as a reference to any of the abovementioned laws unless otherwise stipulated.

THE PART-TIME EMPLOYMENT APPROACH

Employees

With the objective of protecting jobs and employment relationships between Icelandic workers and their employers Parliament has passed a bill submitted by the Minister of Social Affairs and Children on amendments to the Act on Unemployment Insurance and the Act on Wage Guarantee Fund. This measure is available to the public from 15 March – 1 June 2020.

The law offers companies who are experiencing a temporary recession due to the COVID-19 outbreak a chance to decrease their employee's employment rate by at least 20%, with their employee's consent. The employees must maintain at least a 25% employment rate after the decrease. In turn the employees whose employment rate has been decreased can apply for unemployment benefits to make up for the loss of income. No other conditions are set but the Directorate of Labour can request further information from the employer. Both employees in the private and the public sector can apply for these benefits.

The amount of the unemployment benefits awarded to each person shall be calculated based on the limit of income-based unemployment benefits, ISK 456.404 in proportion with the employment rate decrease. If an employee's employment rate is decreased by 50%, the employee shall be awarded a maximum of ISK 228.202 (ISK 456.404 x 50%), but the amount could be subject to further reductions.

The total sum of the benefits, plus the salary maintained by an employee shall never exceed ISK 700.000 or 90% of the employee's average total salary for the last three months before the application for the benefits is filed.

Self-employed individuals

If self-employed individuals experience recession due to the COVID-19 outbreak they can apply for temporary suspension of their business operations with the Icelandic Tax Authority (form RSK 5.02) and subsequently apply for unemployment benefits. Self-employed individuals do not have to file for the termination of their business operations to apply for benefits as they used to before the new laws took effect.

[Here you may access KPMG's calculator in relation to this measure](#)

BRIDGE LOANS TO COMPANIES

If certain conditions are met, companies will be able to apply for bridge loans to withstand the effects of the global outbreak. The government will guarantee 50% of such loans and it is expected that the government's maximum total liability for such loans will be ISK 35 billion.

It will be in the hands of the financial institutions that issue the loans to decide which companies can receive guaranteed loans. The loans will need to fulfill certain conditions and be intended to fund business operations.

The conditions for the guarantees are as follows:

- 1) The guarantees will only apply to new loans to companies who have experienced a 40% loss in revenue between years. The operational difficulties must also have been sudden and unforeseen, and the company must be viable to continue profitable operations after the coronavirus outbreak has passed.
- 2) Financial institutions must have taken other conventional actions to assist the company before resorting to government guaranteed loans.
- 3) There will be a limit to the loan amount to each company. It is expected that the limit will be equivalent to double the labor cost of the company for the previous year.
- 4) The financial institution must take into consideration their own limitation of liability when deciding the loan agreement terms.
- 5) The guarantee will be revoked after 18 months.
- 6) The loans will only be limited to companies whose labor costs are at minimum 25% of their total operating expenses for the previous year.
- 7) Utilization of the loan amounts may be limited to labor costs, operating resources and rent.
- 8) The extent of the guarantees will be divided in the following way: (a) companies with fewer than 20 employees; (b) companies with 20–100 employees; (c) companies with 100–250 employees; and (d) companies with more than 250 employees.

In addition to these conditions the minister is expected to appoint a committee to supervise the lending process. The committee will have the power to call for information and documents regarding the lending from the Central Bank of Iceland as well as the financial institution involved. The committee shall report to the Minister every six months, starting on 1 November 2020, or immediately when they spot problems in the lending process. The minister shall submit the committee's reports to Parliament.

Additionally, it was brought up in the budget committee's opinion that companies who receive bridge loans should not be allowed to pay dividends to shareholders or buy back own shares while the loan is outstanding. The opinion is consistent with the legislative change made to the Act on Government Guarantees. Majority of the budget committee also suggested putting in place limits on the amounts of individual loans and prohibiting the financial institutions providing the loans from paying dividends to their shareholders while the guarantees are in effect.

It is possible that the guarantee ratio will be adjustable in order to give smaller companies who have suffered the biggest losses more support than other larger companies. The majority of the budget committee emphasized that the conditions set forth with the legislature should be implemented in the contract between Minister of Finance and the Central Bank of Iceland which should be submitted before the committee before signing.

POSTPONEMENT OF PAYMENT DEADLINES FOR TAXES

Postponement of payment deadline for public levies and social security contribution

Employers could have the right to postpone the payment deadlines of up to three payments of social security tax and withheld public levies at source that fall due between 1 April – 1 December 2020. The payment deadline for all the payments postponed will be 15 January 2021. The payment deadline for payments previously postponed from 1 March 2020 to 1 April 2020, will be postponed even further till 15 January 2021.

The conditions for the postponement are:

Substantial operational difficulties in the year 2020 due to immediate and unforeseen loss of income, directly or indirectly caused by the COVID outbreak. This condition is further specified in the statements and committee opinions that followed the bill. The Icelandic Tax Authorities will therefore look to those documents while evaluating if the conditions are met.

No dividends paid in the year 2020 or own shares bought by the company and profits distributed to partners in partnerships in the year 2020 cannot exceed their regular salary.

No delinquencies on social security tax and withheld public levies at source, nor estimations made due to lack of tax filings, including VAT filings.

The Icelandic Tax Authority can demand proof or reasoning pointing to the abovementioned conditions being fulfilled. Should an investigation conclude that the conditions of postponement were not met by an employer, the tax authorities may apply penalties of 10%, plus penalty interest from the date of the original payment deadline.

Real estate taxes cf. Item 3, Paragraph 3, Article 3 of the Act on the Source of Income for Municipalities.

Subject to the same conditions as listed above the payers of real estate taxes on business property are authorized to postpone up to three tax payments.

Prepayment of income tax

The Minister of Finance and Economic Affairs was given authority to decide via regulation in the year 2020 to lower or suspend prepayment of income tax for the income of 2019. He may also decide on a new payment deadline for prepayments.

VAT

Currently the deadlines for VAT are not being postponed according to the legislative changes. However the Minister has issued guidelines that the Icelandic Tax Authorities will not be imposing penalties if VAT payments are not made before the deadline on 6 April, for the reporting period of January and February of 2020.

GUARANTEED INCOME WHILE QUARANTINED

Employers who paid their employees a salary while they have been quarantined, but not sick or infected and are not obligated to pay the salary as the employee does not have the rights to medical leave could have the right to a reimbursement from the government for the salary paid during the days quarantined.

If the employee was not paid a salary while under quarantine without being sick or infected, the employee can seek relief for the salary lost straight to the government.

CHILD BENEFIT ADDITION

A special addition to the child benefit in the sum of ISK 30.000 – 42.000 will be paid for each child who is under the age of 18 in the year 2020 and is a resident of Iceland.

The addition will be paid on 1 June 2020

WITHDRAWAL OF ADDITIONAL PENSION SAVINGS

Individuals are temporarily authorized to withdraw up to ISK 12,000,000 from their personal additional pension savings. The withdrawal shall be made in up to 15 equal monthly payments, with a maximum amount of ISK 800.000 per month.

The authorization is only available between 1 April – 31 December 2020 and income tax must be paid from the withdrawals, unlike when the pension savings are used to make down payments on mortgages.

STRENGTHENING THE TRAVEL INDUSTRY – CITY TAX

All city tax for the time period 1 April 2020 – 31 December 2021 has been eliminated. The city tax is normally 300 ISK per overnight unit.

VAT – „EVERYBODY TO WORK“

Persons and entities building, renovating or maintaining residential housing or vacation home can seek reimbursement for 100% of the VAT incurred due to certain craftsman labor. The reimbursement rate has been increased from 60% to a 100% and now includes more types of labor, for example architects.

The VAT reimbursement also applies to VAT incurred by to non-profit entities, such as charities, sports clubs and rescue units due to certain craftsman labor on construction sites, building, renovating or maintaining structures that are entirely in their possession.

Reimbursements are also available for 100% of VAT incurred due to the following services:

Car repair. Individuals can claim 100% reimbursement of VAT incurred due to car repair or car painting on civilian cars.

Home care. Owners and renters of residential housing can claim 100% reimbursement of VAT incurred due to home care.

EASIER IMPORTS

All customs fees for ships and planes outside normal business hours are eliminated until 31 December 2021.

Everyone who has been awarded postponed payment deadlines for import fees will now pay the fees on the fifth day of the second month from the end of each reporting period. This change entails that import fees incurred during the reporting period of March – April shall have a payment deadline of 5 June instead of 15 May. The payment deadline is therefore postponed by 20 days.

INVESTMENT CAMPAIGN

The Minister of Finance has been given authority to implement an investment campaign in order to mitigate recession in the economy.

[Here you may find further information on in which class of issue the investments will be allocated..](#)

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