



Incentives and disincentives

A systemic view of challenges to recovery

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Iceland's recovery - Lessons and challenges

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On coaching styles and results at Magdeburg

„The players where afraid to take chances; a long pass to a wide open player on a fastbreak did not happen even if it was only minimally risky. It was better not to stand out if something went wrong. The atmosphere was inhibited and despite the fact that the team had many world class players, none played up to their abilities at Magdeburg and they had slumped since they arrived.“

May 29, 2001, Morgunblaðið

[Ólafur Stefánsson](#) currently plays for Rhein-Neckar Löwen, captains the Icelandic National Handball Team and is a 4-time Iceland's Sports Personality of the Year

Progress is being made

IMF final review in August 2011

GDP growth in 2011*

Fiscal consolidation progressing in right direction

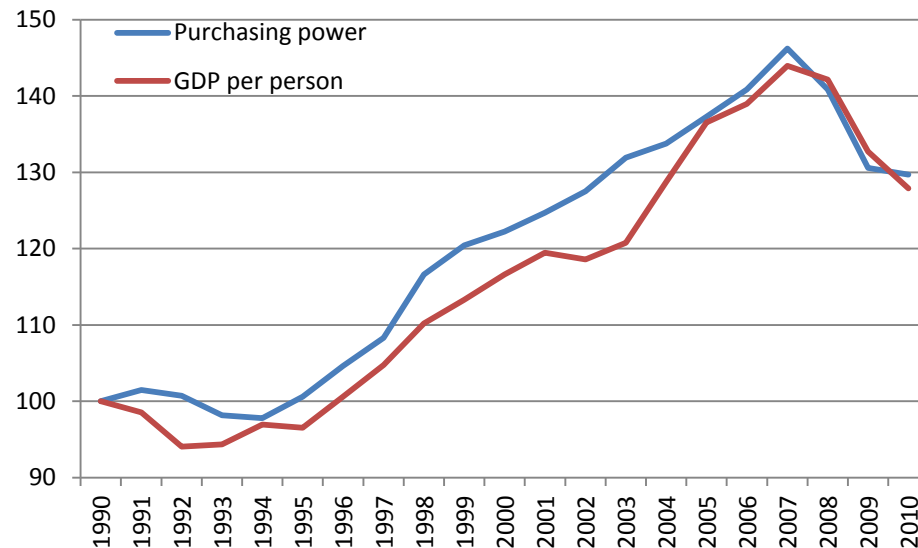
Financial system restructured

ISK stability

* Forecast - CBI and others

Agreement on objectives?

Iceland: Correlation between purchasing power and GDP per person



GDP growth
 $C + I + G + (X - M)$

Desirable behavior

for GDP growth

- ... to work more than less...
- ... show initiative ...
- ... consume goods and services...
- ... save and invest, e.g., in housing ...
- ... take moderate risks ...
- ... starting a business and create something of value for others ...
- ... and new jobs...
- ... continue to report their income ...
- and choose to live in Iceland.

- ... plan for the future ...
- ... stay out of the „underground“ economy ...
- ... continue buying goods and services...
- ... invest in capital equipment ...
- ... keep employing people ...
- ... hire for new jobs ...
- ... expand operations ...
- ... and choose Iceland as a tax jurisdiction.

... and the list goes on.

Begs the question...

... how well does the current system support behavior
(of households, business and investors)
required for economic recovery?

taxation

economic policy

regulation, supervision and control

political debate

media

general/public discussion

internet and blogs

etc.

A „sensible“ thing to do...

“...if you pit a good performer against a bad system, the system will win almost every time”

Geary Rummler & Alan Brache, 1995

... depends on individual (not system) perspective!

The Icelandic Tax System: Changes '07-'11

	2007	2008	2009	2010	2011	2012 Budget Bill	Increases
Capital gains tax	10%	10%	10% / 15%	18%	20%	20%	100%
Dividend to shareholders	N/A	N/A	N/A	50/50	50/50	50/50	
Income tax on limited liability companies	18%	15%	18%	18%	20%	20%	11%
Income tax on partnerships	26%	26%	23,5%	32,7%	36%	36%	36%
Taxes on other legal entities, e.g. certain for. entities	10%	10%	10% / 15%	18%	20%	20%	100%
Individual income tax	23,75%	22,75%	22,75%	24,1% / 27,0% / 33,0%	22,9% / 25,8% / 31,8%	22,9% / 25,8% / 31,8%	9%
Taxes on previously exempt pension savings						22,9% / 25,8% / 31,8%	
Municipal income tax	11,24% - 13,03%	11,24% - 13,03%	11,24% - 13,03%	11,24% - 14,61%	12,44% - 14,48%	12,44% - 14,48%	11%
Tax liability for indiv. (income tax + municipal tax)	35,72%	35,72%	37,20%	37,22% / 40,12% / 46,12%	37,31% / 40,21% / 46,21%	37,31% / 40,21% / 46,21%	13%
Personal tax deduction	32.150	34.034	42.205	44.205	44.205	45.929	43%
Value added tax	7% / 14% / 24,5%	7% / 14% / 24,5%	7% / 24,5%	7% / 25,5%	7% / 25,5%	7% / 25,5%	4%
Wealth tax				1,25%	1,50%	Additional step	20%
High-income tax			8%				
Inheritance tax	5%	5%	5%	5%	10%	10%	100%
Liquor fee							
Beer	58,70 kr.	66,04 kr.	75,95 kr.	83,54 kr.	86,90 kr.	91,33 kr.	56%
Wine	52,80 kr.	59,40 kr.	68,31 kr.	75,14 kr.	78,15 kr.	82,14 kr.	56%
Spirits	70,78 kr.	79,63 kr.	91,57 kr.	100,73 kr.	101,74 kr.	106,93 kr.	51%
Tobacco fee							
Cigarettes	286,97 kr.	322,84 kr.	371,27 kr.	408,40 kr.	437,00 kr.	459,29 kr.	52%
Other tobacco products	14,34 kr.	16,13 kr.	18,55 kr.	20,41 kr.	21,85 kr.	22,96 kr.	52%
Carbon emission fee							
Gas and diesel fuel				2,90 kr.	4,35 kr.	5,78 kr.	99%
Gasoline				2,60 kr.	3,80 kr.	5,05 kr.	94%
Jet and airplane fuel				2,70 kr.	4,10 kr.	5,45 kr.	102%
Oil for heating				3,60 kr.	5,35 kr.	7,12 kr.	98%
Energy taxes							
Electricity				0,12 kr.	0,12 kr.	0,12 kr.	
Geothermal heating				2%	2%	2%	
Oil fee	41,00 kr.	46,12 kr.	46,12 kr. / 51,12 kr.	52,77 kr.	54,88 kr.	72,99 kr.	78%
Kerosene fee						information lacking	
Gasoline fee - general and specific	42,23 kr.	47,51 kr.	47,51 / 57,51 kr.	60,01 kr.	62,41 kr.	76,31	81%
General	9,28 kr.	10,44 kr.	10,44 kr. / 20,44 kr.	22,94 kr.	23,86 kr.	31,73 kr.	242%
Specific - unleaded fuel	32,95 kr.	37,07 kr.	37,07 kr.	37,07 kr.	38,55 kr.	40,52 kr.	23%
Specific - Other	34,92 kr.	39,28 kr.	39,28 kr.	39,28 kr.	40,85 kr.	42,93 kr.	23%
Domestic transportation equalization fee	0,32 kr.	0,36 kr.	0,36 kr.	0,36 kr. / 0,57 kr.	0,40 kr.	0,40 kr.	
Employers contribution fee- total	5,34%	5,34%	5,34% / 7%	8,65%	8,65%	7,74%	45%
General employers contribution	4,54%	4,54%	4,54%	4,54%	4,54%	4,99%	10%
Social security contribution	0,65%	0,65%	0,65% / 2,21%	3,81%	3,81%	2,45%	277%
Contribution to the Bankruptcy Fund	0,10%	0,10%	0,10%	0,25%	0,25%	0,25%	150%
Market charge	0,05%	0,05%	0,05%	0,05%	0,05%	0,05%	0%
Withholding tax on foreign interest payments				18%	18%	18%	
Bank levy					0,041%	0,041%	
Bank levy due to mortgage rate subsidy					0,0875%	0,0875%	
Specific payroll tax on financial institutions						10,50%	
Tax on accommodation (per unit)					100,00 kr.	100 kr.	
Taxes on foreign currency accounts				18%	20% / 0%	0%	0%
Excise tax on automobiles	30% / 45% / 10%	30% / 45% / 10%	30% / 45% / 10% / 30% / 13%	30% / 45% / 10% / 30% / 13%	30% / 13% / 0% / 10% / 15% / 20%	30% / 13% / 0% / 10% / 15% / 20%	
General excise tax	30% / 13%	30% / 13%			25% / 35% / 36% / 44% / 48% / 52%	25% / 35% / 36% / 44% / 48% / 52%	
General excise tax	15% / 20% / 25%	15% / 20% / 25%	15% / 20% / 25%	15% / 20% / 25%	15% / 20% / 25%	15% / 20% / 25%	

Please note: Because of frequent changes in the tax system for the last couple of years and general difficulty in getting data from official sources, it could lead to uncertainty in some calculations.

In the above listing there are missing specific fixed amount taxes, such as charge to the National Broadcasting Service, Contribution to the Construction Fund for the Elderly etc.

To simplify

More than 100 changes that entail new or higher taxes

4th highest tax to GDP ratio in OECD *

Capital gains tax doubled

Individual income tax increased and made more progressive, three salary brackets

New wealth tax (net equity) imposed

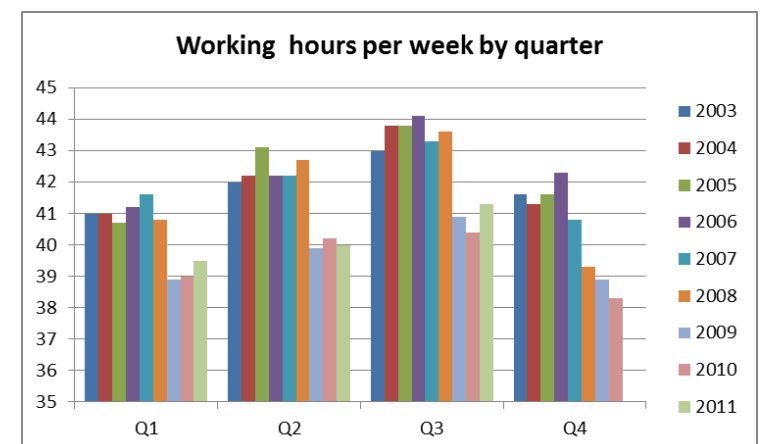
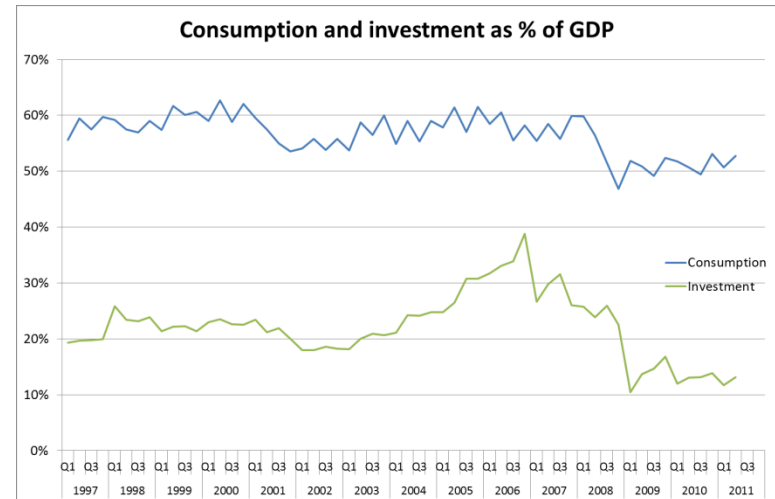
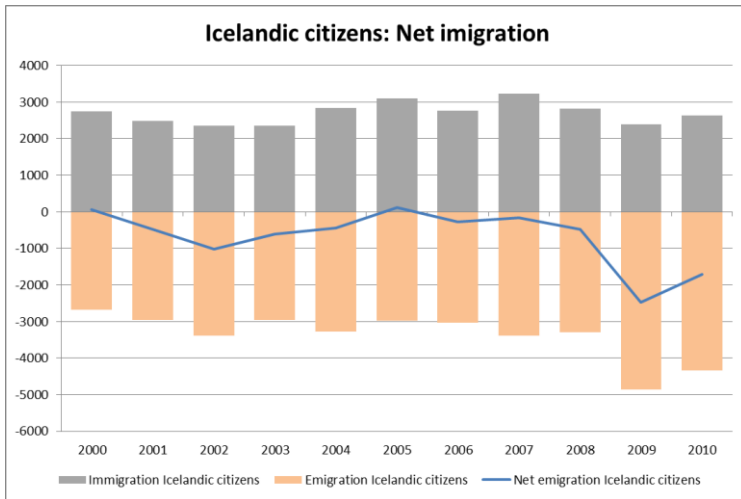
Employers payroll tax increased by more than half

Significant tax increases on LLCs and partnerships, restrictions on dividend payments

* Statistics from 2009, accounting for differences in social security contribution. 4-5th place tie with Norway.

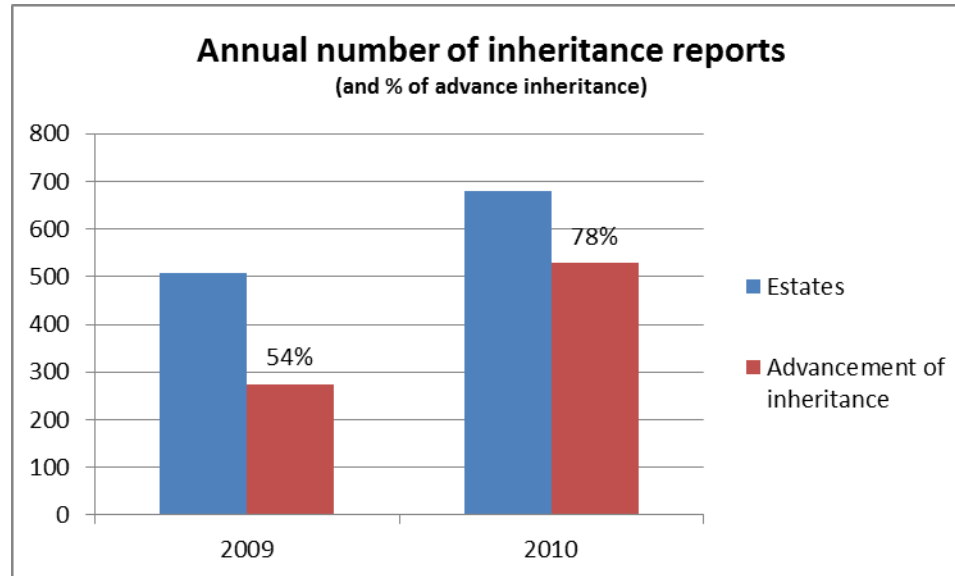
Adverse trends ...

...and possible examples of sensible behavior?



Economic recession or reaction to policy?

... rections are always sensible



The budget bill for 2011 was introduced in October of 2010 and passed into law in December 2010

Inheritance tax was increased from 5% to 10%

December 2010: 321 advance payments of inheritance

Whole year 2010: 528 total advance payments

Whole year 2009: 275 total advance payments

Alignment is needed...

... between the interests of individuals and the economy

Too often, sensible behavior of people running households, businesses or institutions does not align with what is good for the recovery of the economy

There is a need for a systemic view and policy action that takes into account how people actually behave - not only how we think they should behave - and encourages work, initiative, investment and value creation.

Iceland's future is bright, because there are many world-class players on the team ...



...resources in abundance...



... competitive infrastructure...

...inventive and enterprising people...



...dynamic businesses

...and they will play up to standard given the right conditions!