

Taxing Energy Use 2018

Iceland

This note describes the taxation of energy use in Iceland. It contains the country's energy tax profiles, followed by country-specific information to complement the general discussion in *Taxing Energy Use 2018* (OECD, 2018). The note contains four energy tax profiles for Iceland:

Figure 1: Effective tax rates on energy use in national currency and EUR/GJ, 2015, including electricity output taxes and energy use from biomass

Figure 2: Effective tax rates on energy use in national currency and EUR/tCO₂, 2015, including electricity output taxes and energy use from biomass

Figure 3: Effective tax rates on energy use in national currency and EUR/tCO₂, 2015, excluding taxes on electricity output, including carbon emissions from biomass

Figure 4: Effective tax rates on energy in national currency and EUR/tCO₂, 2015, excluding taxes on electricity output and carbon emissions from biomass

The main insights from the second vintage of the *Taxing Energy Use* database, including a systematic comparison of patterns of the taxation of energy use across countries, sectors and fuels are available in *Taxing Energy Use 2018* (OECD, 2018) at: <http://oe.cd/TEU2018>.

1. Energy tax profiles for Iceland

Figure 1. Effective tax rates on energy use in national currency and EUR/GJ, 2015, including electricity output taxes and energy use from biomass

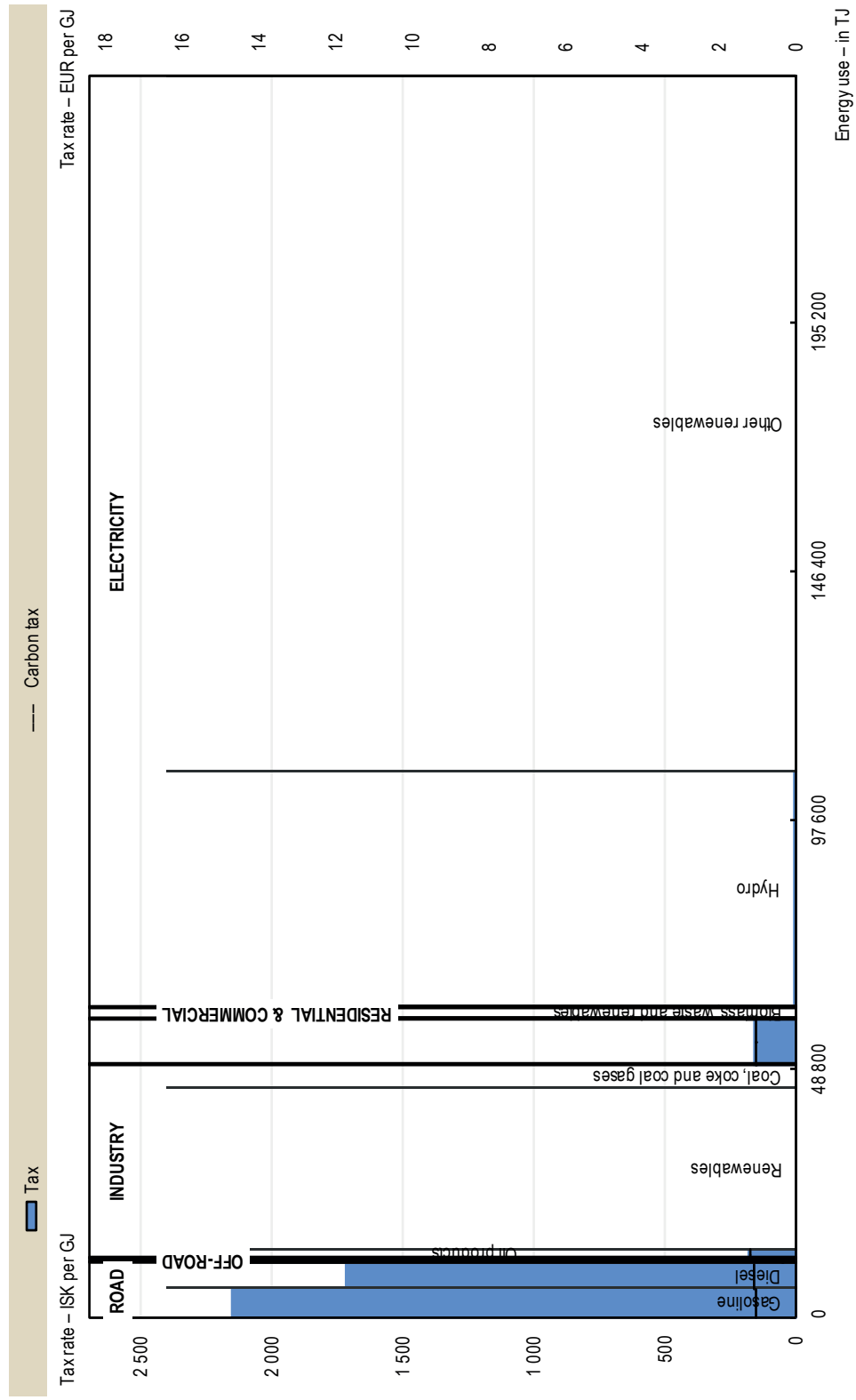


Figure 2. Effective tax rates on energy use in national currency and EUR/tCO₂, 2015, including electricity output taxes and carbon emissions from biomass

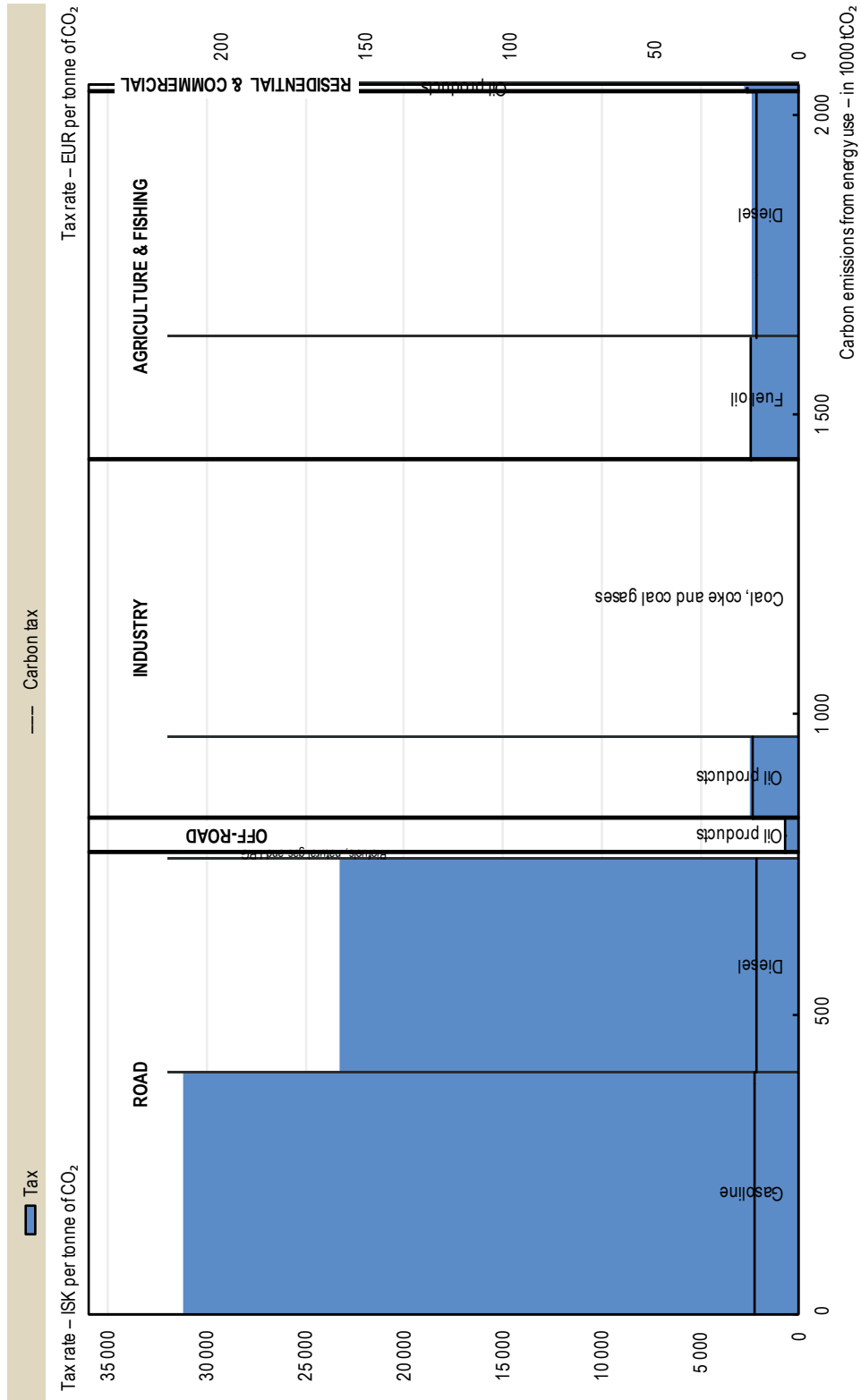


Figure 3. Effective tax rates on energy use in national currency and EUR/tCO₂, 2015, excluding taxes on electricity output, including carbon emissions from biomass

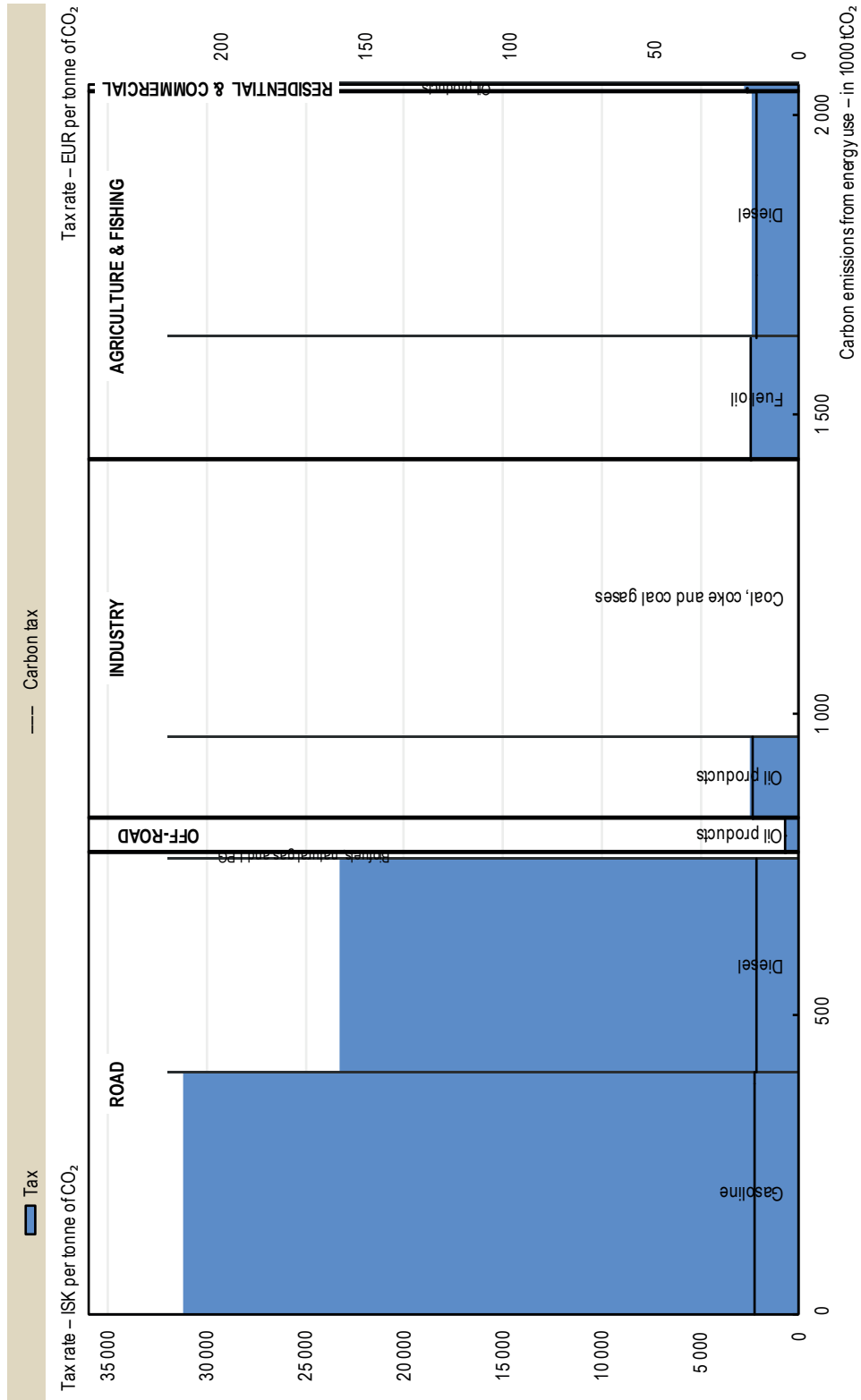
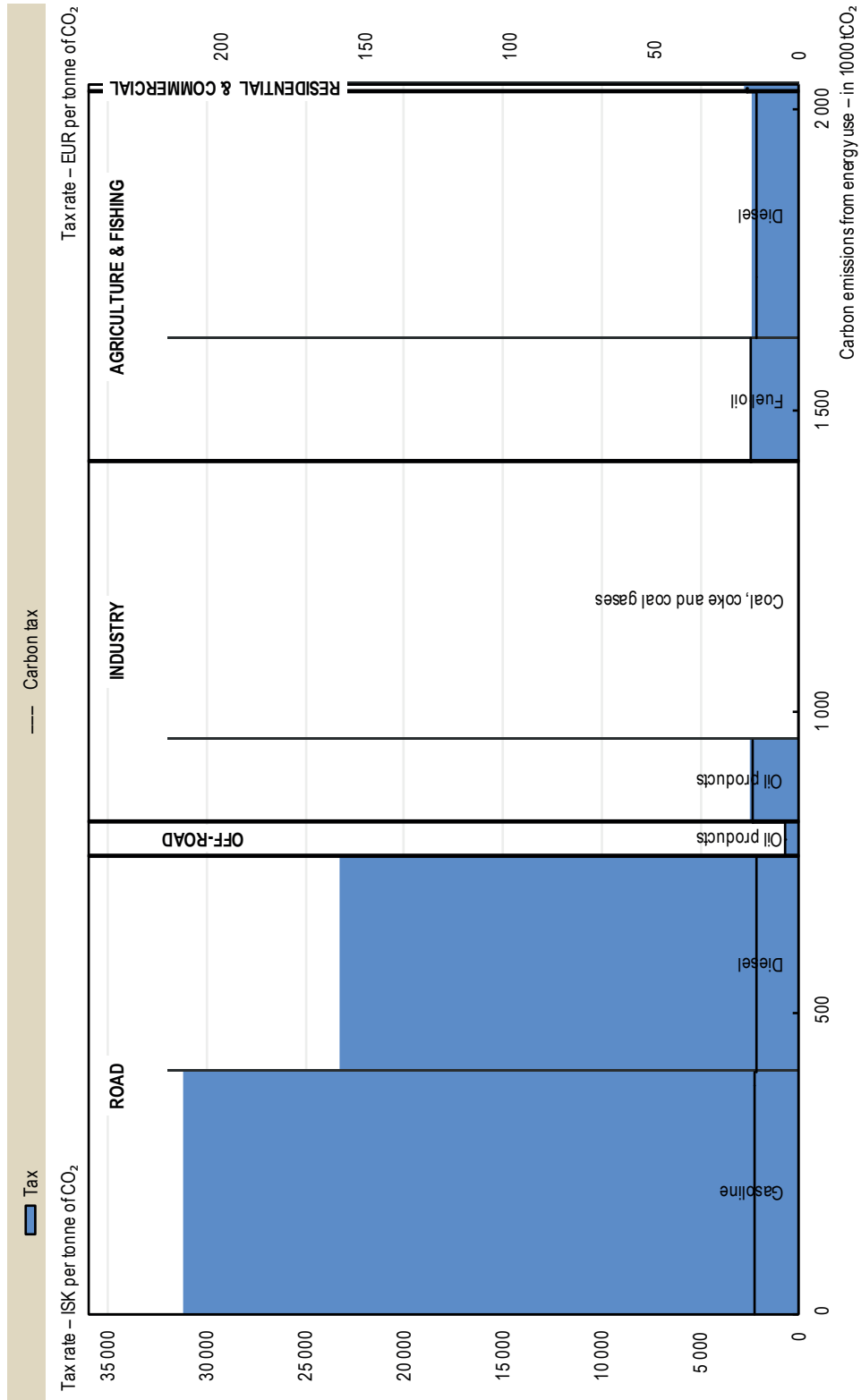


Figure 4. Effective tax rates on energy use in national currency and EUR/tCO₂, 2015, excluding taxes on electricity output and carbon emissions from biomass



2. Country-specific notes

This note describes the taxation of energy use in Iceland. It contains the country's energy tax profiles, accompanied by country-specific information to complement the general discussion in *Taxing Energy Use 2018* (OECD, 2018). Tax rates are those applicable in April 2015, energy use data are for 2014.

The data shown in the energy tax profiles is from the OECD's *Taxing Energy Use* (TEU) Database. More detail on the TEU Database, the calculation of effective tax rates on energy use and the interpretation of the energy tax profiles can be found in *Taxing Energy Use 2018* (OECD, 2018).

Iceland participates in the European Union emissions trading system (ETS), not shown in the energy tax profiles.¹

Energy and carbon taxes

The main taxes on energy use in Iceland are the following:

- A general excise tax applies to gasoline, diesel, kerosene and other oil products for road use; an additional special excise tax applies to gasoline for road use.
- A CO₂ tax applies to natural gas and oil products across all sectors, at rates varying in line with the fuels' carbon content. Coal use is untaxed.
- A uniform tax applies to electricity output, at ISK 0.129 per MWh. This tax (effective in 2010-15) expired at year-end 2015.

The rates at which these taxes apply can differ across fuels and different users, as described below.

These taxes are included in the energy tax profiles of Iceland, but the tax on electricity output is only included when separately indicated (see below). Where more than one tax rate applies to an energy user or fuel, the energy tax profile shows their sum.

Effective tax rates on energy use for different fuels and users

The tax rates on different fuels and uses are linked to Iceland's energy use² to calculate effective tax rates on energy use (in ISK/TJ and EUR/TJ) or CO₂ emissions from energy use (in ISK/tCO₂ and EUR/tCO₂). Energy use and the CO₂ emissions associated with it are shown for six economic sectors: road transport, domestic offroad transport, industry, agriculture and fishing, residential and commercial, and electricity.

The Icelandic energy tax profiles (Figures 1 and 2) show effective tax rates for different fuels and uses in terms of the fuels' energy and carbon content, respectively. Figures 1 and 2 include energy use and carbon emissions from biomass and they show output taxes on electricity. Figure 3 is identical to Figure 2, except that taxes on electricity output are excluded. Figure 4 excludes carbon emissions from biomass and taxes on electricity output.

- Of the six economic sectors, the **road** sector is taxed at the highest rates, both in terms of the fuels' energy and carbon content. Within the road sector, gasoline is taxed at the highest effective tax rate, diesel is taxed at a lower rate in terms of TJ and in terms of CO₂. Biofuels are untaxed.

1. The OECD's [Effective Carbon Rates](#) contains information on emissions trading systems.

2. Data on energy use is taken from the IEA's *Extended World Energy Balances*, see Chapter 1 of *Taxing Energy Use 2018* (OECD, 2018) for additional detail.

- In the **off-road** sector, oil products for marine uses are taxed under the carbon tax. The domestic aviation industry participates in the EU ETS and is therefore exempt from the domestic carbon tax. Aviation gasoline is therefore shown as untaxed in the energy tax profiles.
- Oil products and natural gas used in the **industry, residential and commercial** and the **agriculture and fishing** sectors are taxed under the carbon tax, at uniform rates. This is with the exception of aluminium smelters, which participate in the EU ETS and are therefore exempt from the domestic carbon tax.
- A uniform tax is applied to electricity output, at ISK 0.129 per MWh. Electricity output is no longer taxed as of 1 January 2016.

Reported tax expenditures and rebates

The *Taxing Energy Use* data for Iceland does not contain reported tax expenditures, but Iceland reports the 5% blending requirement of gasoline and diesel with biofuels as a tax expenditure. In line with this requirement, biodiesel is blended into diesel oil and ethylalcohol is blended into petrol. The relief amount, calculated as the foregone excise tax (not including the carbon tax component), is estimated at ISK 1.1 billion (0.03% of GDP) in 2015.

Sources

The main insights from the second vintage of the *Taxing Energy Use* database are analysed in:

OECD (2018), *Taxing Energy Use 2018 – Companion to the Taxing Energy Use Database*, OECD Publishing, Paris. <http://dx.doi.org/10.1787/9789264289635-en>.

Apart from the general sources included in OECD (2018) and consultation with national delegates, no country-specific sources were used.