Taxing Energy Use 2019: Country Note – Iceland

This note explains how Iceland taxes energy use. The note shows the distribution of effective energy tax rates – the sum of fuel excise taxes, explicit carbon taxes, and electricity excise taxes, net of applicable exemptions, rate reductions, and refunds – across all domestic energy use. It also details the country-specific assumptions made when calculating effective energy tax rates and matching tax rates to the corresponding energy base.

The note complements the Taxing Energy Use 2019 report that is available at http://oe.cd/TEU2019. *The report analyses where OECD and G20 countries stand in deploying energy and carbon taxes, tracks progress made, and makes actionable recommendations on how governments could do better to use taxes to reach environmental and climate goals.*

The general methodology employed to calculate effective energy tax rates and assign tax rates to the energy base is explained in Chapter 1 of the report. The official energy tax profile for Iceland can be found in Chapter 2 of the report. Chapter 3 additionally shows effective carbon tax rates per tonne of CO_2, and presents the corresponding carbon tax profiles for all countries. The report also contains StatLinks to the official data.

Structure of energy taxation in Iceland

As at 1 July 2018, the main specific taxes on energy use in Iceland are the following:

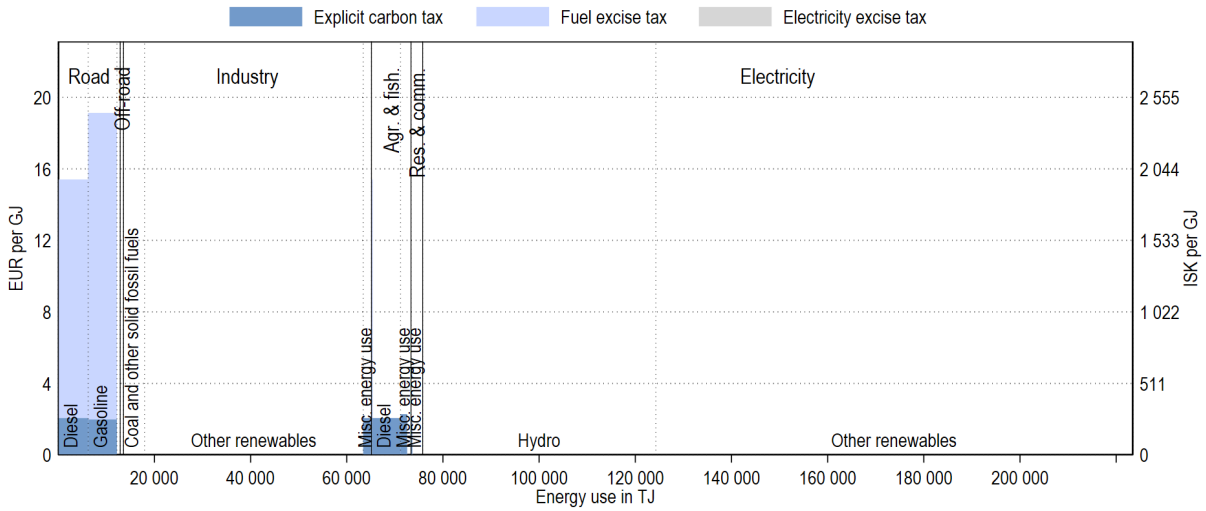
- The Oil tax (*olíugjald*) applies to all automotive fuels, with the exception of gasoline.
- The General Excise Tax on Fuel (*almennt vörugjald af eldsneyti*) and the Special Excise Tax on Fuel (*sérstakt vörugjald af eldsneyti*) apply to gasoline.
- The Carbon Tax (*kolefnisgjald*) applies to mineral oils and natural gas, but does not apply to coal and other solid fossil fuels.

Iceland participates in the European Union (EU) emissions trading system (ETS) (OECD, 2018[1]). Energy use that is subject to the EU ETS is exempt from the carbon tax. Permit prices are not shown in the energy tax profiles.

Effective tax rates on energy use in Iceland

Tax rates can differ across energy products and users, as described below. Figure 1 provides an overview of how energy and carbon taxes apply to different energy categories across the economy. The remainder of this document discusses details on tax rates and tax bases for each of the six economic sectors.

Figure 1. Effective tax rates on energy use by sector and energy category

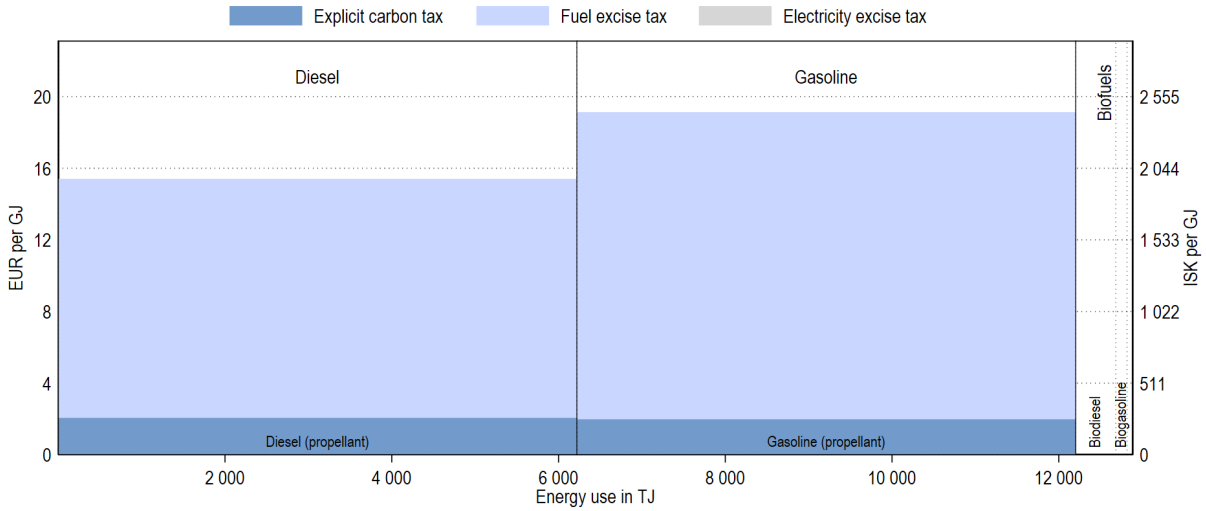


Note: Tax rates applicable on 1 July 2018. Energy use data is for 2016 and adapted from IEA (2018[2]), *World Energy Statistics and Balances*. Energy categories (labelled at the bottom) that represent less than 1% of a country's energy consumption are grouped into "misc. energy use" and may not be labelled.

Road

Figure 2 shows that within the road sector, gasoline is taxed at a higher effective tax rate than diesel. Biofuels are not taxed.

Figure 2. Effective tax rates on energy use in the road sector

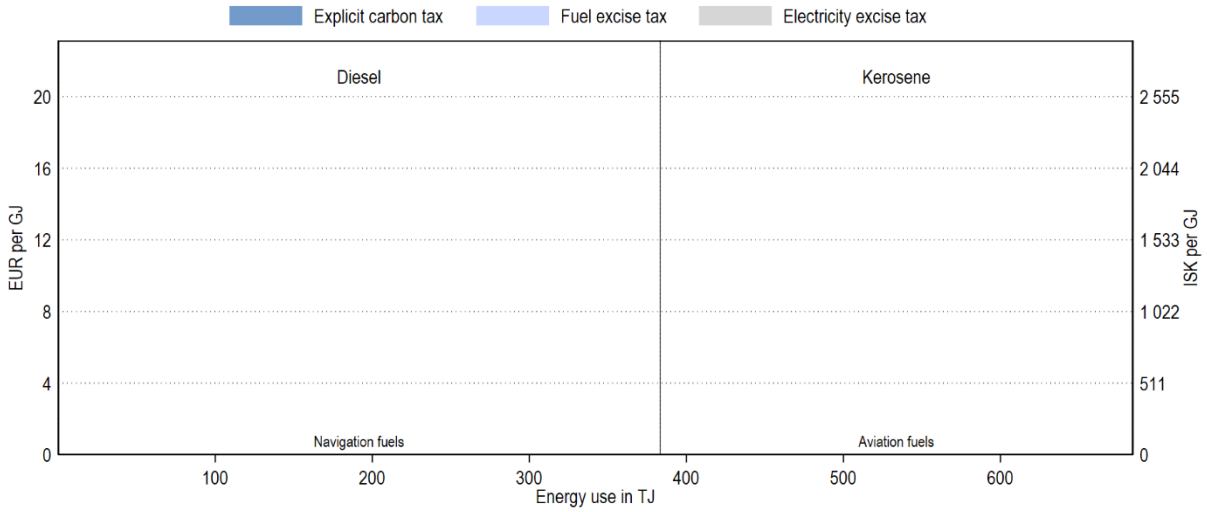


Note: Tax rates applicable on 1 July 2018. Energy use data is for 2016 and adapted from IEA (2018[2]), *World Energy Statistics and Balances.* Energy categories (labelled at the top) that represent less than 1% of a sector's energy consumption are grouped into "misc. energy use" and may not be labelled. Similarly, rate labels (shown at the bottom) are grouped into "misc. rates" using the same threshold.

Off-road

In the off-road sector (Figure 3), diesel used for domestic navigation is untaxed. Aviation fuel is fully exempted from both carbon and fuel excise, but flights are subject to the EU ETS.

Figure 3. Effective tax rates on energy use in the off-road sector

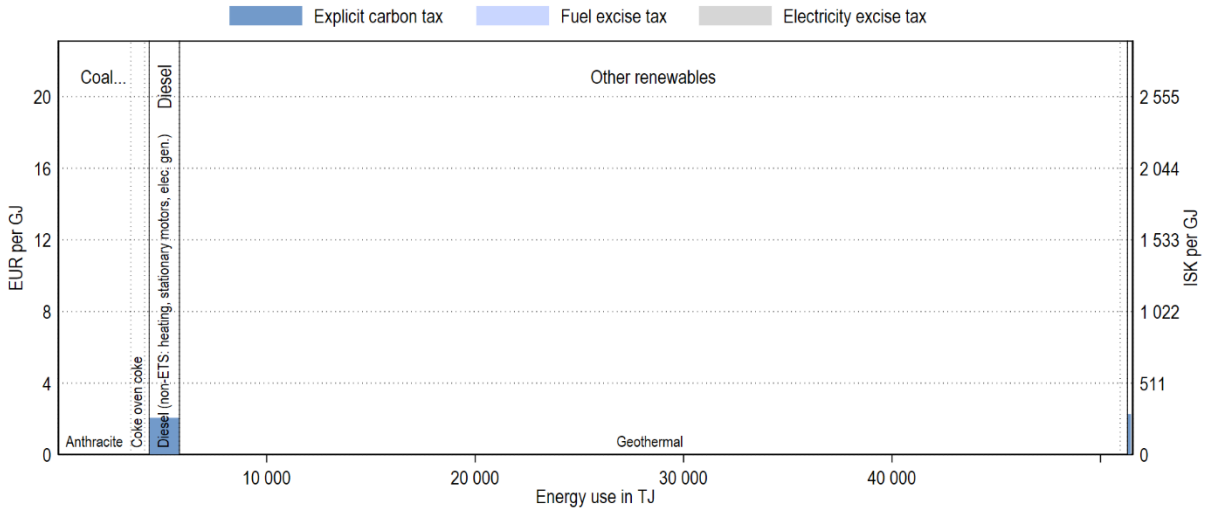


Note: Tax rates applicable on 1 July 2018. Energy use data is for 2016 and adapted from IEA (2018[2]), *World Energy Statistics and Balances.* Energy categories (labelled at the top) that represent less than 1% of a sector's energy consumption are grouped into "misc. energy use" and may not be labelled. Similarly, rate labels (shown at the bottom) are grouped into "misc. rates" using the same threshold.

Industry

Coal and other solids fossil fuels used in the industry sector are not taxed as in the other sectors (Figure 4). Diesel is taxed unless the use is already subject to the EU ETS. Geothermal energy is not taxed.

Figure 4. Effective tax rates on energy use in the industry sector

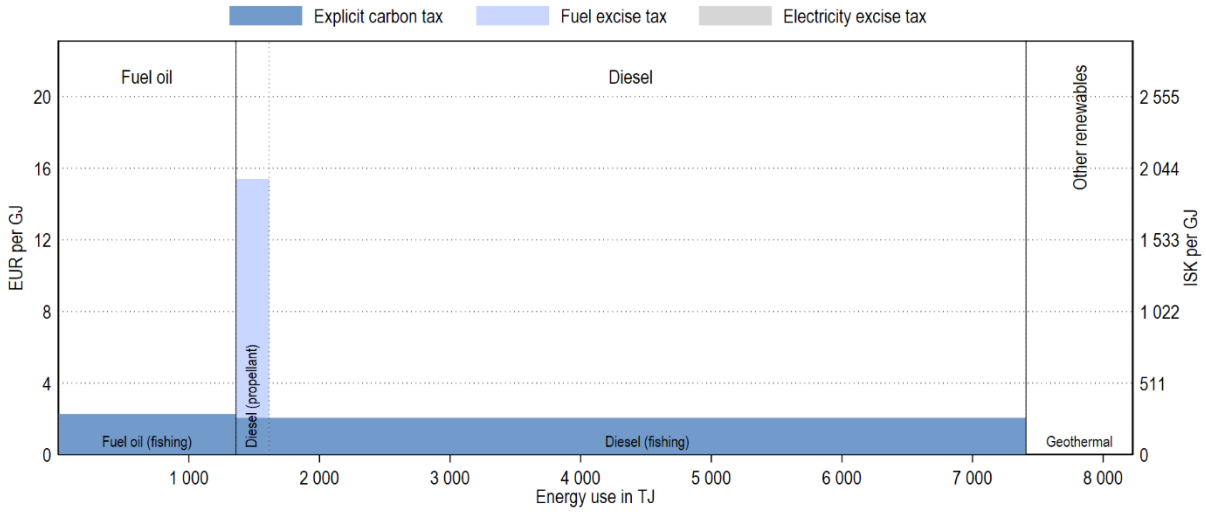


Note: Tax rates applicable on 1 July 2018. Energy use data is for 2016 and adapted from IEA (2018[2]), *World Energy Statistics and Balances.* Energy categories (labelled at the top) that represent less than 1% of a sector's energy consumption are grouped into "misc. energy use" and may not be labelled. Similarly, rate labels (shown at the bottom) are grouped into "misc. rates" using the same threshold.

Agriculture and fisheries

Fossil fuel use in the agriculture and fisheries sector is taxed (Figure 5). Geothermal energy is not taxed as in the other sectors.

Figure 5. Effective tax rates on energy use in the agriculture & fisheries sector



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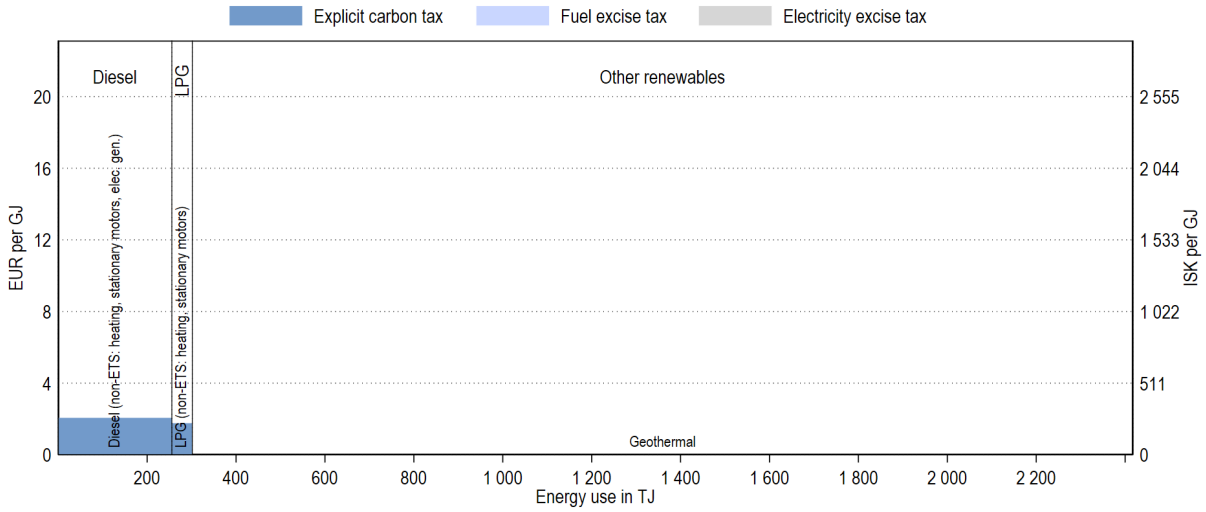
Residential and commercial

In the residential and commercial sector (Figure 6), fossil fuels are taxed. Geothermal energy is not taxed.

Notice that TEU reports the energy use associated with electricity and district heating consumption in the industry and electricity sector as that is where the primary energy consumption occurs.

Figure 6. Effective tax rates on energy use in the residential & commercial sector



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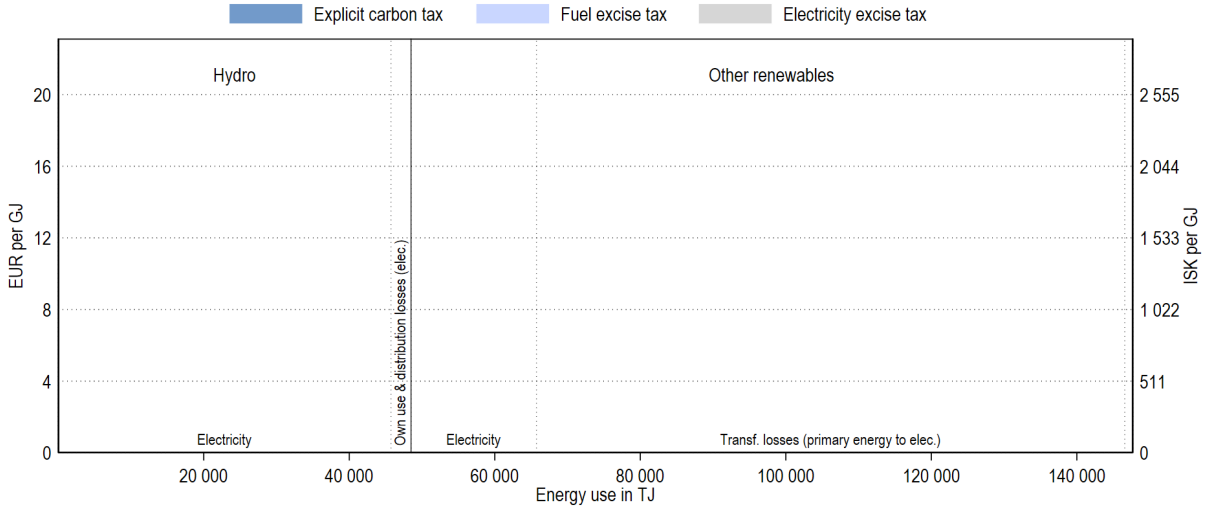
Electricity

Figure 7 shows how the electricity sector, as defined in TEU, is taxed in Iceland. The fuels used to generate electricity are generally not taxed but the electricity sector is covered by the EU ETS (OECD, 2018[1]).[1] The consumption of electricity is not taxed either.

Figure 7. Effective tax rates on energy use in the electricity sector



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References

IEA (2018), "Extended world energy balances", *IEA World Energy Statistics and Balances* (database), http://dx.doi.org/10.1787/data-00513-en (accessed on 16 October 2018). [2]

OECD (2018), *Effective Carbon Rates 2018: Pricing Carbon Emissions Through Taxes and Emissions Trading*, OECD Publishing, Paris, https://dx.doi.org/10.1787/9789264305304-en. [1]

[1] The exception is diesel, which is taxed, but its consumption is negligible and not discernible in the figure.