Taxation of Household Savings - Iceland

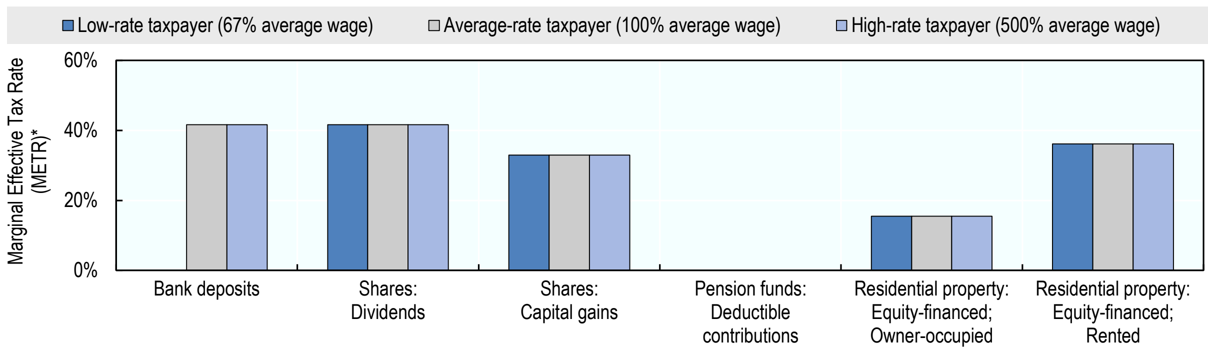
Find the full results here!

An individual can choose to save in a range of different savings types; typical options include by putting money in a bank account, pension scheme or investment fund, and by purchasing bonds, corporate shares or residential property.

These different savings types can be taxed in very different ways, potentially distorting an individual's savings choices away from the choices they might make if there were no taxes imposed.

By comparing the marginal effective tax rates (METRs) on different types of household savings, we can gain insights into which assets or savings types receive the most favourable treatment from the tax system.

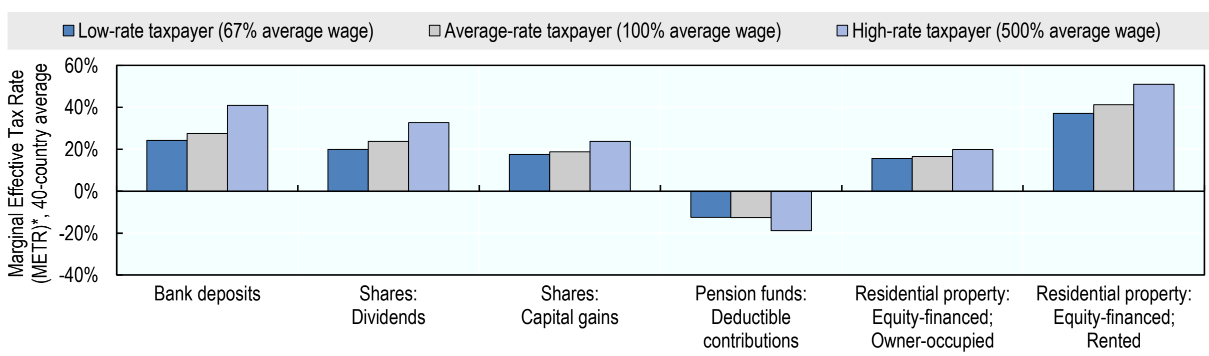
How does Iceland tax different types of household savings?



In Iceland:

- Private pensions and owner-occupied residential property are tax-favoured compared to other savings types.
- Flat rates are applied to most assets and savings types.
- Capital gains are taxed at a lower effective rate than interest or dividends due to deferral of tax until realisation of income.

How does the taxation of household savings in Iceland compare to other parts of the world?



Across the 40 countries included in the OECD's *Taxation of Household Savings* study:

- In general, private pensions and owner-occupied residential property are the most tax-favoured types of savings.
- The majority of countries apply flat tax rates to most types of savings, while some countries tax assets at progressive rates.
- Capital gains are taxed less on average than interest or dividends, due to concessionary rates and/or deferral of tax.

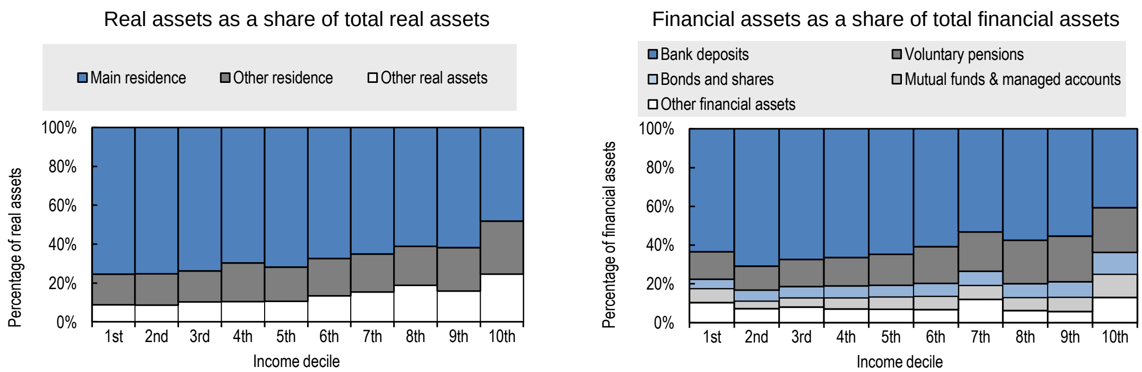
* METR calculations are based on rules in place as of July 2016.

Patterns in the distribution of asset holdings - Evidence from the Household Finance and Consumption Survey, 2016

Analysis of the patterns of asset holdings for 18 European countries highlights that current tax systems often favour the savings of households that are financially better-off. For example:

- While the main residence makes up a larger share of wealth for lower income households, the poorest households generally do not own residential property. Concessionary treatment of owner occupied housing could therefore provide a greater tax benefit to those in the middle and top of the income distribution.
- Bank deposits tend to make up a greater share of wealth for poorer households. High levels of taxation on bank deposits may disadvantage lower income households relative to higher income households.
- Pensions make up a greater share of wealth for richer households. Concessionary taxation of private pensions could provide a greater tax benefit to richer households than to poorer households.

Breakdown of assets by income deciles - average across 18 European countries



Note: The above shows the average for Austria, Belgium, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Luxembourg, Netherlands, Poland, Portugal, Slovak Republic, Slovenia, and Spain.

Key messages from the OECD's *Taxation of Household Savings* study:

While countries do not necessarily need to tax savings more, there remains significant scope to improve the way countries tax savings. In particular, countries should consider:

- Taxing savings types more equally to improve both efficiency and fairness.
- Reassessing the merits of taxing capital income at progressive rates, in light of the recent changes in international tax rules.
- Improving various tax design features, such as moving from deductions to tax credits for private pension savings.

What are Marginal Effective Tax Rates (METRs)?

Marginal effective tax rates (METRs) summarise the tax system's impact on the incentives to make an additional investment in a particular type of savings, such as a bank account or bonds. METRs provide a more comprehensive measure of the impact of a tax system than statutory tax rates. METRs can vary from statutory tax rates due to a range of factors, including:

- Multiple taxes on a particular asset; for example, property taxes, transaction taxes, and income taxes may apply to residential property
- Inflation; where taxes are imposed on nominal rather than real returns

- Tax deferral effects; for example, capital gains taxes may only be imposed once a gain is realised
- Tax base reductions; such as deductions for contributions to pension funds

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