



Honesty Doesn't Pay

Text by Ian Watson Photos by Ashkan Sahihi*

Rejoice, it's tax time once again. Many foreign residents in Iceland find the rules here a bit baffling at first and, to be fair, Icelandic tax forms have gotten more complicated in the last few years. To reassure you that things could always be worse, I offer up a true story of taxpayer woe.

The story starts in 2002, the first full year that I lived in Iceland. My only income that year, from working as a tour guide in Europe for an American travel agency, amounted to a little under \$37,000. When I moved to Iceland, I had conscientiously made an appointment with RSK (the Icelandic tax authorities), where a nice man (whom I will call Elvar) explained how the Icelandic tax system worked. He confirmed that I would need to pay Icelandic tax on my non-Icelandic income, but I could do so during the calendar year after receiving it. So I set aside a good chunk of my 2002 income for taxes, and I filed my 2002 tax return in early 2003.

When I got my tax assessment from RSK and my tax payment slip from Tollstjórnin in August 2003, something looked wrong. I had set aside a million ISK, but the first bill from Tollstjórnin was for only 8,000 ISK. At that point I did something which many people say was my big mistake. I called Elvar and told him that my tax assessment was wrong. "You are totally crazy," say friends. "The government forgets to charge you a million ISK and you call them up and tell them about it?" But I wanted to establish my good name in this country, and didn't want to start off by becoming a tax cheat.

Elvar and I figured out that I had reported my American income on line 2.8 of the tax form, in accordance with the instruction booklet. In order to have it properly taxed though, I should have put it on line 2.1, even if there was nothing in the instructions to tell me this. Elvar agreed with me that the instruction booklet was misleading. (Later, he told me that the person who edits the instruction booklet disagreed with him, and the booklet has never been corrected.) As a result, my taxes needed to be reassessed. No big problem, and there wouldn't be any penalties in my case, because it was

really RSK's mistake. Elvar took all the details he needed and explained how I would get two letters, first a notice of reassessment and then the final reassessment. Early December 2003, I received the final reassessment notice from RSK. The letter gave the amount of the reassessment (just short of a million ISK), but didn't give me any information about how to pay it except to say that Tollstjórnin had been notified of the reassessment.

My Troubles Begin

The regular assessment notice that one receives from RSK at the end of July each year is followed by a bill from Tollstjórnin with which one actually pays one's taxes. So in my naivety, I assumed that I would soon get a bill from Tollstjórnin, listing the account number where I should pay, the amount, and the payment deadline.

Instead, several weeks later, a letter arrived from Tollstjórnin telling me that my payment was overdue. The letter demanded not only my million ISK of tax, but more than 50,000 ISK in "costs" and penalty interest, which was increasing every day.

I sent an e-mail to Elvar, who knew I'd acted in good conscience. I hoped he would step in and clear up the mess for me. He wrote right back saying that Ríkisskattstjórnin just assessed taxes, it didn't collect them. Sorry.

I went to the office of Tollstjórnin the next morning and paid. But I had received an overdue notice without anyone ever telling me where to pay, how to pay, when to pay, what kind of interest would be charged if I didn't pay, or even that my debt was due. I was sure there had been some mistake. I managed to meet to some higher-ups at Tollstjórnin, particularly a woman whom I'll call Harpa. I explained the story to her and told her I thought it was wrong that I was being charged interest on a bill when I had had no notice that the bill was due. At first, Harpa spoke sternly and spelled out the party line. I should have come and paid on my own. No exceptions could be made. She printed out a report which showed that interest had been accumulating on my account since December 20th.

Then, her expression and tone of voice abruptly changed and she became confidential. She told me that it was common for people not to understand that their payments were due, especially for reassessed taxes. But the rules didn't allow her to send bills, and she couldn't change the rules. She implied that she was kind of fed up with such cases herself, but nothing would happen unless the public complained. She said she would appreciate it if I would appeal as far as possible up the chain of command, especially because, in this case, the reassessment had taken place because of RSK's mistake. The first step would be to send a formal appeal to her, which, she explained, she would deny. I could then appeal to the Ministry of Finance.

I sent her the letter of appeal, which she promptly denied. In the meantime, I called up two people I know who are retired from responsible positions in government finance. Let's call them Björn and Örn. Örn made some inquiries on my behalf. "I talked to the head guy at Tollstjórnin," he said, "and he thought what happened to you was totally ridiculous. But he can't do anything about it, because it would set a dangerous precedent." Björn grilled me for a whole afternoon in his living room before satisfying himself that I really hadn't tried to cheat on my taxes and writing up a letter of support in Icelandic.

Appeal Process

Following Harpa's advice, I sent a letter of complaint to the Ministry of Finance, attaching a copy of Björn's letter. In short order I received a letter back telling me that paper bills were never sent in cases of reassessed taxes and that the government did not have the legal authority to refund my overdue penalties.

Now I decided to complain to the office of the parliamentary ombudsman. The ombudsman's primary purpose is to determine whether government agencies have acted according to the law. His response, though flawed in several respects, pointed out something important: It is written into Icelandic law (para. 6, Art. 112, Act no. 90/2003) that reassessed taxes must be paid within ten

days from the date of the reassessment. And indeed, looking back at the printout I had gotten from Tollstjórnin, I had been charged interest starting exactly ten days from the date of the reassessment. But absent from this law is any kind of requirement that taxpayers undergoing reassessment be told anything about this ten-day deadline, or told where to send their payment.

Now at least I knew. I had been treated – or rather mistreated – exactly in accordance with the law. I felt this law needed to be changed. And who changes laws? Parliament. They are always tweaking small details like this. Iceland is a small country. Plenty of people seemed to agree with me. Maybe I could push to get it changed.

I soon learned the name of the chairman of the parliamentary committee that oversees tax law. He represents the Independence Party and is reported to be passionately interested in tax issues. I wrote him an e-mail, and spoke to his secretary by phone, outlining the issue briefly and politely. When I got no response, I wrote another e-mail, and still got no response. Some months later, I had a chance to talk to him at a conference, and mentioned the issue, again briefly and politely. He said that he sympathised very much, and had once had a similar problem himself, and that I should definitely get in touch – after the primary election. After the primary election, I sent him another brief and polite e-mail. I haven't heard back. In fairness, I understand that members of parliament get a lot of e-mail, and maybe I should just try harder.

Icelandic Deficiencies

By law, Canadian taxpayers may receive a refund of overdue penalties from Revenue Canada if they have not received proper notice of taxes due (source: GST Memorandum 500-3-2-1). And in the United States, the Fair Credit Reporting Act requires private-sector creditors to disclose payment terms fully and prominently. Should the same common-sense principles not apply to the public sector in Iceland? Of course I think they should, and so clearly did Harpa, and Örn, and Björn, and others as well. So why was it so hard to get people interested in changing the rules?

Perhaps they just had more important things to do. Or perhaps there is a lingering sense in Iceland (maybe dating back to the trade monopoly days?) that customers are always wrong, and customers who owe money are even more wrong – so there's no reason to care about their "user experience." Or perhaps it's just hard to fight government officials.

I've since learned that many other issues surrounding notice of payments due are controversial in Iceland. I have a small file of newspaper clippings on questions such as whether Icelandic merchants may charge for billing their customers, and whether overdue charges should be regulated by law. More broadly, I've learned that Iceland missed out on enacting a lot of the consumer protection legislation that came into being in America and Europe during the 1970s (there are no class-action lawsuits or small-claims courts in Iceland). What is interesting in Iceland is that government is just as big an offender as the private sector.

Change is long overdue. In the meantime: Readers beware. You too could be assessed a debt by the Icelandic government without being given any information about where to pay, how to pay, when to pay, or what kind of interest will accrue if you don't pay. And you won't get any meaningful sympathy, even if the whole thing was the tax department's mistake to begin with. Hah.

For information on how to fill out your tax forms, turn to the Internal Revenue Directorate (www.rsk.is), where further information is available in the following languages: English, Danish, Finnish, Norwegian, Swedish, French, Spanish, German, Polish, Russian and Chinese. The Directorate of Customs collects taxes for the Icelandic Government, and the City of Reykjavik. For more info, visit www.tollur.is.

* Photos by Ashkan Sahihi in relation to his exhibition of 100 million ISK at Akureyri Art Gallery in January 2005. Cash provided by Kaupþing Bank.

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