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Coh&Wolfe for: Crusie Iceland

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Headline: New Act on Infrastructure Fees for Cruise Ships Approved by Parliament

What the cruise industry in Iceland feared came to fruition recently when the interim government passed a new law that introduces an infrastructure fee for cruise ships on international voyages. According to the Act, ISK 2,500 shall be paid for each passenger on a cruise ship for each commenced day that the vessel stays in a port in Iceland or the customs territory of the State.

The legislation is based on the tourism policy and action plan until 2030, which was approved by Parliament last June. The Act aims to equalise the competitive position of domestic and foreign companies in the tourism industry and ensure the financing of infrastructure development at the national level.

According to the Act, the infrastructure fee goes to developing infrastructure and is intended to ease the competitive position of domestic tourism companies vis-à-vis foreign parties. At the same time, the overnight tax on cruise ships on domestic voyages was confirmed.

The law includes a new approach to cruise ship taxation, but it has been highly controversial among industry stakeholders due to its retroactive nature.

Objectives and implementation of the infrastructure fee:

1. Fees: The infrastructure fee is levied on each passenger of a cruise ship while the ship is in the state's customs territory, cf. Article 2 of the Customs Act.
2. Exemptions: The fee does not apply to the crew of cruise ships or to ships in distress that have suffered collisions, sea damage, or other unforeseen events.
3. Assessment: The Directorate of Internal Revenue will be responsible for assessing and collecting the infrastructure fee. Taxable persons shall submit information on the number of passengers within seven days of the vessel's departure from the state's customs territory.

Reactions and effects

In recent months, we have put a lot of effort into securing our interests and those of our stakeholders through targeted actions. The measures have been about putting pressure on members of parliament and the central committees of the parliament, as well as key ministries and other stakeholders, to

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ensure that our voice is heard when it comes to the introduction of infrastructure charges and the abolition of duty-free and VAT exemption on cruise ships that come to Iceland.

We have demanded professional and foreseeable methods, a thorough assessment of the consequences, increased consultation, and a sufficient transition period for the introduction of infrastructure fees and the abolition of duty-free/VAT exemption. In addition, emphasis will be placed on ensuring balance in tourism, sustainability, and the distribution of tourists throughout the country.

We have directed our views to the following parties:

- **Parliament's Committee on Economic Affairs and Trade:** In it, we have focused on clarifying the importance of duty-free tariffs and their impact on the business environment and minimising uncertainty and impact in the sector. The implementation of the infrastructure fee has also been heavily criticised as it is also aimed at trips that have already been sold and paid for.
- **Parliamentary Budget Committee:** We have called for consideration of the cost and impact of infrastructure charges on both businesses and consumers. The government does not seem to grasp that the infrastructure fee is extremely high. One cruise ship of a good size will have to pay up to 500 million ISK in addition to other fees for its visits next year.
- **Ministry of Infrastructure:** We have argued that the infrastructure fee must reflect the real need for development without causing unnecessary levies.
- **Ministry of Finance and Economic Affairs:** We have pushed for changes that increase transparency and fairness in customs matters. The officials of the ministry have misled the stakeholders in cruise by saying that the infrastructure fee would only be imposed on cruises that are sold after January 1, 2025. It was not fulfilled. The fee applies to all cruise that have already been sold. It is retroactive.
- **Ministry of Culture and Trade:** We have pointed out how duty-free and reduced levies can positively impact the country's cultural and commercial development, particularly in rural areas that normally do not enjoy the traditional tourism.

We have also been actively collaborating with other stakeholders, including industry companies and organizations, to form a broad consensus on these important issues.

It has been pointed out that the fee could affect cruise companies' planning and reduce the number of stops in Iceland, but the government hopes that the new law will have a positive effect in the long term by improving the development of infrastructure.

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Duty-free travel and VAT exemption for expedition vessels sailing around the country with passengers will not expire as planned at the end of the year. We can take some comfort in having achieved the extension. This is a response to calls for a more extended transition period as it has been extended by one more year.

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