



MEMORANDUM

*Date:* 22 December 2010

*Subject:* **A special TV and radio charge in the consumer price index**

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The scope of the consumer price index is set by household expenditures. Income, direct taxes and transfers are excluded from the index. However, payments by households for licences, permits, etc. which are regarded as purchases of services, whether the recipients are private companies or governmental bodies, are by definition included in accordance with international practices, e.g. in the HICP. Examples of service fees are school tuitions, health care fees and TV licence fees.

In some cases governmental services are provided free of charge. Still the quantity of the service is within the scope of the index. Nevertheless, if the payment of the amount due is collected automatically, it should be treated as a direct tax and thus not be taken into the index.

In 2009 TV and radio licence fees were replaced with a special TV and radio charge paid by all individuals over 18 years old who pay income tax. The charge is collected automatically through the tax authorities and goes to Ríkisútvarpið RUV - The Icelandic National Broadcasting Service.

When the TV and radio charge was introduced it was presented as a change in the form of payment but the entire revenue was to go to RUV as before. Therefore Statistics Iceland kept it in the index in the years 2009 – 2010 as most of the income from the charge was dedicated to RUV.

For 2011 this is no longer the case. In the state budget it has been decided to increase the charge while at the same time RUV will face budget cuts. Therefore Statistics Iceland considers the TV and radio charge a direct tax. A comparable situation came up in the Netherlands in 2000 when the TV and radio licence fee was abolished and the income tax rate was raised in turn. Statistics Netherlands reacted by lowering the price of the service to zero and reporting the effect on the CPI.

Statistics Iceland will set the price of the TV and radio licence fee to zero as of January 2011 and estimates the effect on the CPI to be approximately -0.4%.