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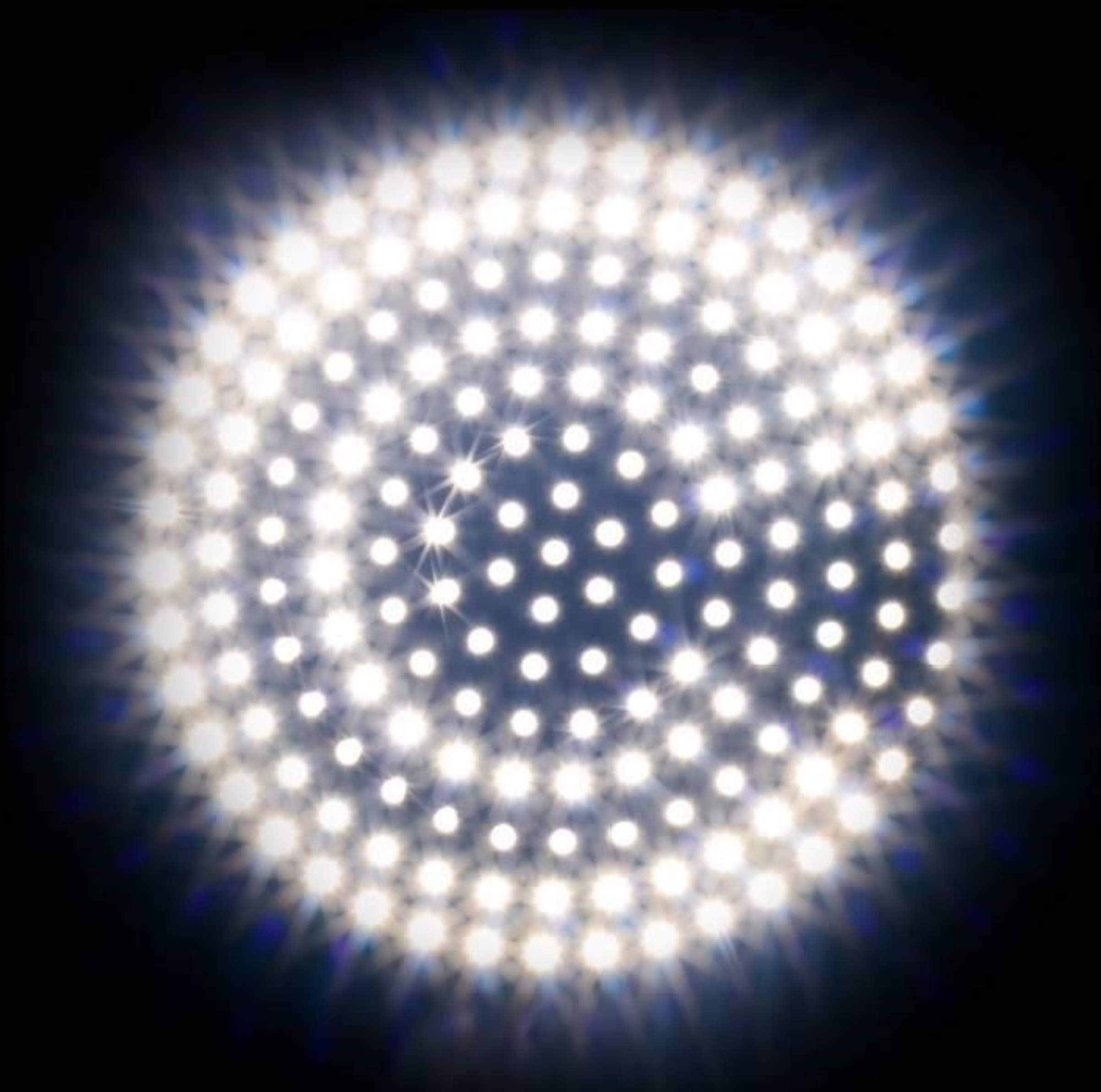

Taxation and Investment in Iceland 2018

Contents

1.0 Investment climate

1.1 Business environment

Iceland is a republic with a parliamentary government. The head of the government is the prime minister.

Although not an EU member state, Iceland generally is fully integrated in the EU´s internal market and free travel area, through the European Economic Area (EEA) and Schengen agreements. Iceland is a member of the European Free Trade Association (EFTA), along with Norway and Liechtenstein. The EFTA has an agreement with the EU (Agreement on the European Economic Area) that provides for zero tariffs on most goods and that effectively implies that Iceland has adopted most of the EU articles and directives (but not tax directives). Iceland also is a member of the World Trade Organization and the OECD.

OECD member countries			
Australia	France	Korea (ROK)	Portugal
Austria	Germany	Latvia	Slovakia
Belgium	Greece	Lithuania*	Slovenia
Canada	Hungary	Luxembourg	Spain
Chile	Iceland	Mexico	Sweden
Czech Republic	Ireland	Netherlands	Switzerland
Denmark	Israel	New Zealand	Turkey
Estonia	Italy	Norway	United Kingdom
Finland	Japan	Poland	United States
Enhanced engagement countries			
Brazil	India	Indonesia	South Africa
China			
OECD accession candidate countries			
Colombia	Costa Rica		

*Accession date 5 July 2018

Iceland has enjoyed a steady economic recovery since the economic crisis of 2008. In March 2017, the government lifted the last remaining controls on capital outflows. Consumer spending is on the rise and tourism is thriving. Business fixed investments also are recovering.

Price controls

There are no general price controls in Iceland, as the general rules of the market apply regarding supply and demand. By adopting the EEA agreement, Iceland abandoned measures that impede free competition within the EEA.

In Iceland, the declared price on a product is the full price. VAT and other fees are to be included in the displayed price.

The Consumer Agency in Iceland is entrusted with market surveillance of business operators and with supervising the functioning and transparency of the markets with respect to safety and consumers' legal rights. It also enforces the legislation adopted by the Icelandic parliament for the protection of consumers' health, legal and economic rights. The agency falls under the control of the Ministry of the Interior, and is governed by Act No. 62/2005. The Icelandic Consumer Agency also operates under Act No. 57/2005, which prohibits any unfair or untrue information in advertisements.

Intellectual property

Patents, copyrights, trademarks, industrial designs and models are recognized as intellectual property in Iceland. Iceland has an extensive network of rules and regulations governing intellectual property, complying with the latest international standards.

Iceland has been a member of the WIPO (World Intellectual Property Organization) since 1986; Iceland also implemented the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) with Act No. 36/1996. In addition, in 2006, Iceland became a member of the Singapore Trademark Law Treaty.

Domain names in Iceland are managed by ISNIC (the Iceland domain registry); domain names that have been registered in bad faith, e.g. "cyber-squatting," can be invalidated under certain conditions.

The general laws regulating intellectual property include the following:

- Act No. 73/1972 on copyrights (generally valid for 70 years after the death of the author);
- Act No. 17/1991 on patents (protected for 20 years);
- Act No. 45/1997 on trademarks (protected for 10 years;
- Act No. 46/2001 on designs (protected for 25 years);
- Act No. 72/2004 on employee inventions; and
- Act No. 155/2000 on collective marks.

1.2. Currency

The currency of Iceland is the Icelandic Krona (ISK).

1.3. Banking and financing

The Icelandic financial sector is governed by strict rules and regulations. Since Iceland is a member of the EEA agreement, Icelandic financial institutions operate under the EU directives and the Icelandic financial system is a part of the European single market area.

The Icelandic Central Bank (*Seðlabankinn*) controls the money supply and credit, and maintains foreign exchange reserves, including domestic and cross-border payment systems. The financial supervisory authority (FME) supervises financial institutions in Iceland. Most of the rules and regulations are available in English.

The general laws regulating financial institutions in Iceland include the following:

- Act No. 87/1998 on official supervision of financial operations;
- Act No. 161/2002 on financial undertakings;
- Act No. 108/2007 on securities transactions; and
- Act No. 110/2007 on stock exchanges.

All banks in Iceland offer online banking, which makes paying bills and transferring money abroad convenient, and many foreign banks have a representative office or branch in Iceland.

The Icelandic stock exchange is part of Nasdaq Nordic, which includes Helsinki, Copenhagen, Stockholm, Iceland, Riga, Tallinn and Vilnius.

1.4. Foreign investment

Generally, foreign investment in Iceland is encouraged. Iceland is a part of the single market of the EU and EFTA under the EEA agreement, subject to the rules on the free movement of goods, capital, services and people, as well as the rules on competition. Nonresidents generally do not need permits to acquire assets and conduct business activities in Iceland.

However, certain limitations can apply to foreign investment in the following:

- Certain fishing operations;
- Energy exploitation rights;

- Ownership exceeding 49% in Icelandic airline companies;
- Investments by foreign jurisdictions or authorities, and
- Acquisitions of real estate.

The Ministry of Industries and Innovation offers certain companies investing in Iceland incentives for their initial investments, if the investment meets certain requirements.

1.5. Tax incentives

Iceland offers a range of incentives for investments, research and development (R&D) and exports. Iceland´s corporate income tax of 20% is one of the lowest in Europe and among OECD member countries.

Incentives include the following:

- Reimbursements of certain expenses incurred in filmmaking and music recording;
- Tax credits for R&D;
- General incentives for small and medium sized enterprises (SMEs);
- Special incentives for initial investments in Iceland; and
- A partial personal income tax exemption for foreign experts that come to Iceland for work.

Iceland is a popular choice for data centers, as the presence of a foreign company's servers and related computer equipment generally does not constitute a permanent establishment (PE) in Iceland for tax purposes.

Iceland offers incentives for R&D in the form of income tax credits for "innovation companies" that meet the specific criteria outlined in Act. No. 152/2009. The tax credit can amount to 20% of the actual R&D cost, with an annual ceiling of total actual costs of ISK 300 million for internal R&D, or ISK 450 million for R&D cooperation between two independent innovation companies. Companies that carry out R&D projects can apply to the Icelandic Centre for Research (*Rannís*) for approval of the projects, which makes the projects eligible for the tax credit.

Special rules apply to the taxation of the remuneration of foreign experts that come to Iceland for work. Under the incentive, only 75% of the expert's employment income is taxed for the first three years from the start of employment, provided certain conditions are fulfilled. The incentive may be obtained by submitting an application to the Ministry of Finance and Economic Affairs.

1.6. Exchange controls

Temporary restrictions on the cross-border movement of capital into and out of Iceland that were in place from 2008-2017 mostly have been removed. Certain restrictions still apply to ISK-denominated assets (i.e. offshore ISK assets) and transactions with derivatives, which may be subject to notification to the Central Bank of Iceland.

1.7. Labor environment

In line with the single market of the EEA, a special work permit is not required for citizens within the EEA. For non-EEA citizens, a special work permit must be issued before the worker enters Iceland, and employers are responsible for applying for the permits for their employees.

Those who work in Iceland, including residents, EEA residents and non-EEA residents with a valid work permit, all should enjoy the same legal rights.

2.0. Setting up a business

2.1. Principal forms of business entity

The most common form of business entity in Iceland is the private limited liability company (ehf.). Other forms of business entity are the public limited liability company (hf.), general partnership (sf.), limited partnership (slf.) and branch of a foreign company.

The *Societas Europaea* or SE company form also is available in Iceland, but is not very common. The SE is designed to enable companies to operate across the EEA with a single legal structure, to facilitate mergers and create flexibility for companies wanting to move their head office from one EEA member state to another. Companies from two or more EEA member states are permitted to merge to form an SE or create an SE holding company or branch. A company may convert an existing firm to SE status without liquidating. One advantage of an SE is the possibility to move headquarters to another EEA member state with minimal formalities.

Businesses (and, in some cases, individuals) can establish a European Economic Interest Grouping (EEIG) in Iceland (efjh.). Companies (even non-EU companies, if the vehicle is a subsidiary in an EU country) that want to start working with an Icelandic company but that do not want to commit to a formal joint venture may set up an EEIG. The grouping functions much like a partnership, in that profits or losses are taxable only in the hands of its members. At least two of the companies involved must be from different EEA member states.

Formalities for setting up a company

The requirements for registering a legal entity in Iceland (e.g. an hf., ehf., sf. or slf.) are fairly straightforward and much of the process can be carried out electronically, provided the founder is not a foreign resident. All legal entities and branches must be registered with the tax authorities. If a company wishes to sell or deliver products or carry out taxable work or services, it must obtain a VAT number from the tax authorities. Financial institutions are subject to additional rules (in particular, concerning minimum capital requirements and supervision).

The founders of an hf., ehf., sf. or slf. must draw up and sign a memorandum of association, draw up articles of association and set the price of shares offered for subscription, etc. If share capital is paid for with assets other than cash, a valuation report must be enclosed with the memorandum. A state-authorized auditor normally will supply the report, although two valuation experts who are not state-authorized public accountants may be used. The company must be registered with the tax authorities no later than six months after the memorandum of association for an hf. is signed, and no later than two months for an ehf.

Forms of entity

Requirements for an hf./ehf. and an sf./slf.

Capital: *hf.:* An hf. must have minimum capital of ISK 4 million. At least 50% of the share capital is required to be paid in upon incorporation, but no less than the minimum of ISK 4 million. Capital may be supplied in noncash forms (e.g. patents, know-how, machinery or other assets), but not by means of service obligations. An hf. may hold up to 10% of its own shares, provided the acquisition of the shares is made with sufficient retained earnings. Accumulated deficits must be covered before dividends are distributed out of current and available accumulated profits.

ehf.: The minimum capital requirement for an ehf. is ISK 500,000. Rules similar to those for hf. companies apply to ehf. companies regarding share capital and distribution of dividends. However, all of the share capital must be paid in upon incorporation.

sf./slf.: There is no minimum required capital. A general meeting of members decides if and how much of the profits should be divided between members. The general principle is that the sharing of profits is based on the ownership share of the members. Members bear unlimited responsibility for the partnership’s liabilities, except that in an slf., at least one member must bear unlimited responsibility, whereas the other members’ liability may be limited to their share of the partnership.

Founders, shareholders: *hf.*: At least two founders are required. Founders can be either individuals or legal entities. Residents from non-EU and non-OECD member countries require permission from the Ministry of Industries and Innovation to act as founders.

ehf.: At least one founder is required; otherwise, the same requirements apply as for an hf.

sf./slf.: At least two founders are required, which may be individuals or legal entities. The founders are the members of the partnership.

Board of directors: *hf.*: The board of directors must have at least three members. Residents of non-EU and non-OECD member countries require permission from the Ministry of Industries and Innovation to act as board members. If the number of employees exceeds 50, then at least one member of each gender must be represented on the board if there are three board members; if there are more than three members, the percentage of female board members must not decrease below 40%.

ehf.: There may be only one board member if the total number of shareholders is four or less; otherwise, the same requirements apply as for an hf.

sf./slf.: A board of directors is not mandatory.

Types of share capital: *hf.:* Only registered shares are permitted, not bearer shares. Restrictions on the transfer of shares are prohibited if the number of shareholders exceeds 200. Company bylaws may provide for different classes of shares, with some restrictions. A share class can be issued without voting power, and preferred shares also may be issued. Only an hf. can be listed on the stock exchange, subject to certain requirements.

ehf.: Title to shares is established by their listing in the register of shareholders. All shares are freely transferable and negotiable unless otherwise provided under the bylaws. No restrictions are placed on the voting power attached to the shares. Shares may be issued without voting power if so provided under the bylaws, and preferred shares also may be issued.

Control: *hf./ehf.*: As a general principle, ownership of the majority of voting power gives control. Ownership of 90% of the company triggers a right to buy out the remaining shareholders. A shareholder majority of two-thirds generally is sufficient to make changes in the company.

Branch of a foreign corporation

A foreign corporation that is legally established in its country of residence may set up a branch in Iceland if the head office is within the EEA or Faroe Islands. Companies from other countries must apply for permission to set up a branch from the authorities but, in principle, they may set up a branch if they can provide a certificate of incorporation from the relevant authorities in their country of residence or if Iceland has concluded a bilateral agreement with that country permitting the establishment of branches.

A registered branch office of a foreign corporation can carry out any business activity that is included within the objectives of the head office. The head office must register the branch office with the Director of Internal Revenue and submit the following documents:

- A copy of the memorandum of association and articles of association of the head office;
- A transcript from the local company's register (no more than three months old), substantiating that the head office is duly incorporated and in existence;
- Residence certificate of the branch manager, no older than three months, if the branch manager is not a resident of Iceland;
- Mandate given by the board of the head office to the branch manager to carry out activities in relation to the branch, as well as a description of the power of procuration granted to the branch manager to act on behalf of the business; and
- Latest financial statements of the head office.

The documents must be in either Icelandic, English, Danish, Swedish or Norwegian, or translated into any of these languages. A registered branch office must have a name that includes the term "*utibu á Islandi*" (branch office), along with the name of the head office.

There is no special branch remittance tax in Iceland. A branch is subject to limited taxation in Iceland under article 3 of Act No. 90/2003, under which profits that are derived from Iceland are subject to Icelandic taxes.

One advantage of a branch is that it generally may distribute profits to its foreign head office free of withholding taxes. However, many tax treaties waive withholding tax on dividend payments, and payments to companies in other EEA member states are exempt.

2.2 Regulation of business

Mergers and acquisitions

Mergers must be reported to the Competition Authority if they involve undertakings whose combined turnover in Iceland will amount to ISK 2 billion or more, and at least two of the undertakings involved in the merger have a minimum annual turnover in Iceland of ISK 200 million each. The turnover will be determined based on the preceding fiscal year or, where applicable, based on the 12 months preceding the merger, and will include the turnover of the parent undertakings and subsidiaries of the undertakings involved in the merger, undertakings within the same group of undertakings and the turnover of undertakings directly controlled by parties to the merger.

Monopolies and restraint of trade

The Icelandic Competition Act prohibits any abuse of a dominant position by one or more undertakings. The Icelandic Competition Authority is entitled to take action, including the imposition of conditions for a merger, if a company that is created by a merger is likely to acquire a dominant market position. Planned or possible mergers may be referred to the authority for consideration, or the authority may act on its own initiative. An appeal against a ruling from the authority may be referred to its appeal board.

Laws on competition are implemented and governed by the Ministry of Industries and Innovation.

2.3 Accounting, filing and auditing requirements

IFRS/IAS applies. A company operating in Iceland must submit annual accounts that comply with the accounting rules and reflect a true and fair view of the company´s assets, liabilities, results and financial position, as per standard EU requirements.

Limited liability companies that meet certain requirements in size and turnover are required to appoint an auditor or inspector and have their annual accounts audited. Publicly listed companies must appoint two auditors, one of whom must be a state-authorized public accountant.

Entities that meet two of the following conditions are not required to have their annual accounts audited, unless they are required to do so by a specific law (relating to insurance pensions, finance, etc.):

- Number of employees is less than 50;
- Annual turnover is less than ISK 400 million; and
- Total assets are less than ISK 200 million.

Annual accounts must be prepared for most entities and consolidated groups and filed for official purposes within eight months from the end of the financial year. Publicly traded entities must submit their annual accounts immediately after their approval, and no later than four months after the end of the financial year.

3.0 Business taxation

3.1 Overview

The main taxes relevant to companies are income tax, capital gains tax and value added tax (VAT).

The Directorate of Internal Revenue is responsible for the administration of direct and indirect taxes, and the Directorate of Customs is responsible for the collection of direct and indirect taxes.

Iceland Quick Tax Facts for Companies	
Corporate income tax rate	20%
Partnership tax rate	37.6%
Branch tax rate	20%
Basis	Residents: Worldwide Nonresidents: Iceland-source income only
Participation exemption	Yes
Loss relief	
– Carryforward – Carryback	10 years (net operating losses only) No
Double taxation relief	Yes
Tax consolidation	Yes, if an Icelandic resident company owns at least 90% of another resident company
Transfer pricing rules	Yes
Thin capitalization rules	Yes
Controlled foreign company rules	Yes
Tax year	Calendar year
Advance payment of tax	Yes
Return due date	31 May following the end of the tax year
Withholding tax	
– Dividends – Interest – Royalties – Branch remittance tax	0%/20% 20% (resident); 12% (nonresident) 22% No
Capital tax	No
Social security contributions	6.85%
Real estate tax	Varies
Stamp duty	1.6%
VAT	24% (standard rate)/11% (reduced rate)

3.2 Residence

A company is considered resident in Iceland if it is registered at the company registry in Iceland, if its legal seat is in Iceland or if its place of effective management is in Iceland. The term “place of effective management” refers to the day-to-day management of the company.

3.3 Taxable income and rates

The corporate income tax rate is a flat rate of 20%. Branches of foreign corporations are taxed at the regular 20% rate on Iceland-source income. Partnerships registered as taxable entities pay tax at a rate of 37.6%.

Taxable income defined

Taxable income includes all business income, as well as capital gains and interest; deductions are permitted if certain conditions are fulfilled.

Dividends received are deductible from business income. A company must withhold a 20% tax on dividends paid to another resident company, although the tax may be reimbursed at the time of assessment if certain requirements are fulfilled. The effective tax, therefore, is 0% if a tax return is submitted.

Tax resident companies are subject to tax in Iceland on their worldwide income. Taxable profits are assessed based on the financial accounts of companies, after any adjustments required by tax law. All taxes are payable in the assessment year.

Nonresident companies generally are subject to tax on the income attributable to a PE in Iceland. The definition of a PE follows the OECD model tax convention, as amended to reflect the recommendations under the BEPS project. The income attributed to the PE is taxed at the same general rates that apply to resident companies.

Deductions

Ordinary business expenses (including foreign exchange losses) are deductible in calculating taxable income. Operating expenses are fully deductible if incurred for the purpose of earning income. Such expenses include salaries and personnel expenses, provided they relate to the company's business activities.

Interest generally is deductible, provided the debt involves a genuine legal commitment. Interest paid to a related party must be calculated on an arm's length basis. Rents, royalties, license fees, technical assistance fees and copyright fees are deductible. Expenses incurred for establishment or expansion are nondeductible, as are fines and penalties.

Depreciation

The rate and method of depreciation for tax purposes depend on the class of asset:

- Passenger cars, ships, aircraft and related equipment may be depreciated at a rate of 10% to 20%;
- Factory and industrial machinery and related equipment may be depreciated at a rate of 10% to 30%;
- Drilling rigs, pipelines and related equipment specifically for hydrocarbon exploration and production may be depreciated at a rate of 10% to 30%;
- Office equipment, machinery and equipment for earthworks and construction and automotive and other transport equipment may be depreciated at a rate of 20% to 35%;
- Buildings, real estate and related assets may be depreciated at a rate of 1% to 10%, depending on type and usage;
- Intellectual property may be depreciated at a rate of 15% to 20%; and
- Acquired goodwill may be depreciated at a rate of 10% to 20%.

Losses

An operating loss first must be set off against the taxpayer's income from other sources (if any) for the same year. Losses may be carried forward for 10 years. Prior-year losses are fully deductible against taxable income. Tax losses may not be carried forward if a significant change has been made to the operations or activities in question, such as the change of ownership of a legal entity or the purposes of the operations, unless the changes in question are shown to be for normal operating purposes.

The carry forward of losses during a merger and division is subject to certain requirements, e.g. the companies must have related business operations, the merger or division must be made for normal operating purposes and the dissolved company must have some assets and operations on hand prior to dissolution. The transferred loss also must be incurred from similar business operations.

The carryback of losses is not permitted.

3.4 Capital gains taxation

Legal entities are not subject to a special capital income tax, but they pay tax on capital gains according to the same rules as other operating income. Thus, capital gains of companies are taxed as regular income, although a deduction is possible in certain cases. There is no tax on gains derived by a corporation from the sale of shares. Gains on business property are included in business income, with a provision for rollover relief where applicable.

3.5 Double taxation relief

Unilateral relief

Iceland grants unilateral relief to residents for foreign tax paid, in the form of a credit against the Icelandic tax liability. Foreign tax paid may be credited against Icelandic tax on the same profits, but the credit is limited to the amount of Icelandic tax payable on the foreign net income.

Tax treaties

Iceland has a broad tax treaty network, the aim of which is to eliminate double taxation and provide for reduced rates of withholding tax on dividends, interest and royalties. Most of Iceland's treaties are based on the OECD model treaty, providing relief from double taxation on all types of income, limiting the taxation by one country of companies resident in the other country and protecting companies resident in one country from discriminatory taxation in the other country. Iceland's treaties generally contain OECD-compliant exchange of information provisions.

Iceland is a member of the Global Forum on Transparency and Exchange of Information for Tax Purposes, and has entered into a number of bilateral tax information exchange agreements. Iceland also is a party to the multilateral Nordic tax treaty, along with the Faroe Islands, Finland, Denmark, Norway and Sweden. Nonresidents generally can obtain treaty benefits under the Nordic treaty by applying the treaty directly, i.e. without an application/clearance procedure.

Iceland has concluded 44 tax treaties. "Mini" treaties with Guernsey and Jersey, which apply only to individuals and their non-capital income, also have been signed. Iceland signed the OECD multilateral instrument (MLI) on 7 June 2017.

Iceland Tax Treaty Network

Albania	Faroe Islands	Korea (ROK)	Romania
Austria	Finland	Latvia	Russia
Barbados	France	Liechtenstein	Slovakia
Belgium	Georgia	Lithuania	Slovenia
Canada	Germany	Luxembourg	Spain
China	Greece	Malta	Sweden
Croatia	Greenland	Mexico	Switzerland
Cyprus	Hungary	Netherlands	Ukraine
Czech Republic	India	Norway	United Kingdom
Denmark	Ireland	Poland	United States
Estonia	Italy	Portugal	Vietnam

3.6 Anti-avoidance rules

Transfer pricing

Transactions between related companies (whether resident or nonresident) must be at arm´s length; otherwise, the tax authorities can adjust income according to the OECD guidelines.

Iceland's transfer pricing rules apply to transactions with all affiliated companies, whether resident or nonresident. Legal entities are considered affiliated when there is a direct and/or indirect link between the legal entities themselves or links between the persons who have majority ownership of the legal entities or the persons who hold administrative control of the legal entities that are in business. The main test of control is direct or indirect ownership of more than 50% of the share capital; or direct or indirect control of more than 50% of the voting power. In 2017, Iceland expanded the scope of its transfer pricing rules to include transactions between non-affiliated legal entities in Iceland and those in tax havens, as defined by the CFC rules.

Iceland follows the 2010 OECD transfer pricing guidelines, whereby the selection of a transfer pricing method should aim to find the most appropriate method for each particular case. Regulation No. 1180/2014 states that the five OECD transfer pricing methods under the 2010 guidelines may be used when determining pricing between related entities.

Legal entities are required to prepare transfer pricing documentation for their transactions under the following conditions:

- Business is conducted with an affiliated nonresident company;
- The legal entity‛s operating income during the previous fiscal year or total assets at the beginning or at the end of the previous fiscal year exceed ISK 1 billion; and
- Exemptions from documentation for *de minimis* transactions do not apply.

Legal entities that are required to document their transactions must keep the documents for seven years from the end of following fiscal year. Legal entities must grant tax officials access to these documents within 45 days of a request. There are no specific transfer pricing penalties, but the general penalty rules apply. An additional 25% charge can be added to the estimated or wrongly declared tax base in certain circumstances.

Advance pricing agreements are not possible.

Country-by-country (CbC) reporting

Iceland has implemented the recommendations under BEPS action 13, by requiring an Iceland resident parent company of a corporate group to file a report with the Directorate of Internal Revenue on the income and taxes for each nonresident subsidiary. The obligation to file such a report is subject to certain requirements set out in Article 91(a) of the Income Tax Act No. 90/2003.

Thin capitalization

Interest on related party debt generally may be deducted to the extent the interest does not exceed 30% of adjusted EBITDA (earnings before interest, tax, depreciation and amortization). Interest exceeding this threshold cannot be deducted unless certain exceptions apply, i.e. the total interest paid does not exceed ISK 100 million annually; the lender bears unlimited tax liability in Iceland; the taxpayer´s equity ratio is not more than 2 percentage points below the consolidated equity ratio of the group to which it belongs; or the taxpayer is a financial company or insurance company, or a company owned by financial or insurance company.

Controlled foreign companies

A resident of Iceland that is a shareholder of a nonresident company (of any kind) is taxed on the income of the foreign subsidiary, regardless of whether the nonresident´s income is distributed to the Iceland resident, if the Icelandic shareholder owns at least 50% of the capital or voting rights of the nonresident entity and the entity is resident in a low-tax jurisdiction.

The same treatment applies if a resident of Iceland controls a foreign company registered in a low-tax jurisdiction and the Icelandic national benefits directly or indirectly from the company. The Department of Finance has issued a list of low-tax jurisdictions for this purpose. A low-tax jurisdiction is defined as a jurisdiction having a corporate tax rate lower than two-thirds of Iceland's rate.

Certain exceptions to the CFC rules apply. If an exception applies, the resident is not taxed on the income of the foreign subsidiary:

- If a company, fund or organization is subject to a bilateral tax treaty, or other agreement, between Iceland and a specified low-tax jurisdiction, provided:
  - It is possible based on the agreement to obtain all necessary information; and
  - The income of the company, fund or organization is not mainly investment income; or
- If a company, fund or organization is established and registered in another EEA state (member state of the EFTA or the Faroe Islands), provided:
  - The entity carries out real economic activities; and
  - Based on a bilateral tax treaty or another international agreement, the Icelandic tax authorities may obtain all necessary information. If there is no such agreement, the exception does not apply.

General anti-avoidance rule

Transactions may be disregarded as having tax avoidance purposes if the price is abnormally high or low, or if the transaction significantly differs from how similar transactions generally are structured. The difference will be considered taxable income.

BEPS measures

The following table summarizes the steps Iceland has taken to implement the BEPS recommendations:

Action	Implementation
VAT on business to customers digital services (Action 1)	Not yet known
Hybrids (Action 2)	Not yet known
CFCs (Action 3)	CFC rules were first introduced in 2010. On 13 December 2016, the parliament approved a bill that extended the statute of limitations regarding transactions with CFC entities to 10 years.
Interest deductions (Action 4)	New restrictions on the deduction of interest expense have been introduced, under which deductions on intragroup interest expense are limited to 30% of the taxpayer's EBITDA.
Harmful tax practices (Action 5)	Not yet known
Prevent treaty abuse (Action 6)	Not yet known
PE status (Action 7)	The definition of a PE has been revised so that it largely is based on the OECD definition. Under the rules, the time period for a construction site to give rise to a PE is six months, and ownership of internet servers and related equipment located in Iceland will not, in itself, constitute a PE.
Transfer pricing (Actions 8-10)	On 1 January 2014, three new articles were added to the Income Tax Act granting the tax authorities the right to evaluate and adjust pricing and terms of related party transactions if the pricing and terms are not in accordance with the arm's length principle as laid down in the OECD guidelines. No changes have been made to the rules to bring them in line with the final BEPS action reports.
Disclosure of aggressive tax planning (Action 12)	Not yet known

Transfer pricing documentation (Action 13)	In accordance with the new articles implemented on 1 January 2014, a regulation on transfer pricing documentation was published on 16 December 2014. The regulation stipulates the practical elements of the documentation, including specific information requirements, definitions, acceptable transfer pricing methods, exemptions for immaterial transactions and compilation and submission requirements.
CbC reporting (Action 13)	CbC reporting rules have been introduced and apply to multinational groups with revenue of ISK 100 billion or more. The first CbC report must be submitted in 2018 for 2017.
Dispute resolution (Action 14)	Not yet known
Multilateral instrument (MLI) (Action 15)	Iceland signed the MLI on 7 June 2017.

3.7. Administration

Tax year

The fiscal year is the calendar year, unless the taxpayer is authorized to use a different 12-month period.

Filing and payment

Companies must make monthly advance tax payments (except January and October), calculated on the basis of the previous year's assessment.

Corporations and registered branches of nonresident entities must file an annual income tax return, irrespective of whether they have taxable income. The tax return is due by 31 May following the end of the tax year. An assessment is raised by 31 October, and final tax due may be paid by further monthly installments.

Consolidated returns

Each entity is taxed separately. However consolidated taxation is possible if an Icelandic resident company owns at least 90% of another resident company. Consolidation allows the profits and losses of group companies to be offset against each other, but is available only for resident companies. Tax consolidation is binding for five years following the application for the regime.

Statute of limitations

A reassessment may take place on tax returns for corporate income tax six years prior to the year of the assessment (i.e. the statutory period of limitations is six years). The limitations period has been extended to ten years in cases involving income and assets in low-tax jurisdictions.

Tax authorities

The Directorate of Internal Revenue is the government agency responsible for registration of tax residents. The Directorate of Customs and the District Commissioner supervise tax collection in Iceland. The Ministry of Finance is responsible for collecting income and wealth tax, national insurance contributions and VAT. The municipalities collect real estate taxes.

Rulings

The tax authorities will issue advance rulings on the tax consequences of a contemplated transaction at the request of a taxpayer (whether or not resident).

3.8 Other taxes on business

A financial activities tax is collected from financial institutions (other than pension funds) and insurance companies; the tax is imposed on all remuneration paid to employees at a rate of 5.5%.

A special 6% financial activities tax is imposed on a tax base exceeding ISK 1 billion. A special tax also is imposed on the total debt of financial institutions exceeding ISK 50 billion, at a rate of 0.376%.

4.0 Withholding taxes

4.1 Dividends

Dividends paid to a resident company are subject to a 20% withholding tax. Dividends paid to a nonresident company also are subject to a 20% withholding tax, which may be reduced under a tax treaty, provided an application is submitted to the tax authorities. The final taxation of dividends paid to a company within the EEA is 0%, as withholding tax will be reimbursed in the year following payment, provided a tax return is submitted.

Dividends paid to resident and nonresident individuals are subject to a 22% withholding tax. The rate on payments to nonresident individuals may be reduced under a tax treaty, provided an application is submitted to the tax authorities.

4.2 Interest

Interest paid to a resident company is subject to a 20% withholding tax, and interest paid to a nonresident company is subject to a 12% withholding tax, which may be reduced under a tax treaty, provided an application is submitted to the tax authorities.

Gross interest income exceeding ISK 150,000 is subject to a 22% withholding tax for resident individuals, and a 12% rate applies for nonresident individuals.

4.3 Royalties

Gross royalties paid to a nonresident company are subject to a 22% withholding tax, which may be reduced under a tax treaty if an application is submitted to the tax authorities.

Royalties paid to resident and nonresident individuals are subject to a 22% withholding tax. The rate on payments to nonresident individuals may be reduced under a tax treaty, provided an application is submitted to the tax authorities.

4.4 Branch remittance tax

Iceland does not levy a branch remittance tax.

4.5 Wage tax/social security contributions

Icelandic employers are required to withhold and pay wage taxes and social security contributions on behalf of their employees each month. Most social security contributions for Icelandic employees are paid by the employees themselves (and withheld by the employer).

The employer is liable for social security contributions for employees. Social security contributions are imposed on all the remuneration paid to an employee, at the rate of 6.85%. The tax withheld is paid every month.

4.6 Other

Technical service fees paid to a nonresident company are taxable at 22% tax rate.

Capital gains derived by a nonresident company are subject to a 20% withholding tax, which may be reduced under a tax treaty if an application is submitted to the tax authorities. The final taxation of capital gains paid to a company within the EEA is 0%, as withholding tax will be reimbursed in the year following payment, provided a tax return is submitted.

5.0 Indirect taxes

5.1 Value added tax

VAT is imposed on most sales of goods and on the provision of services. VAT must be included in the price of the goods and services that are being sold.

The standard VAT rate is 24%. A reduced rate of 11% applies to most foodstuffs, hotel accommodations, books and newspapers (in both hard copy and electronic form) and hot water, electricity and fuel oil used for domestic heating. Exemptions include medical services, vehicles using environmentally friendly power, insurance and a number of financial services. Exports are zero-rated.

Registration for VAT is mandatory for businesses that exceed the minimum turnover threshold, including representatives of foreign enterprises and foreign entities that sell electronic services to nonregistered parties in Iceland. The threshold is turnover exceeding ISK 2 million in a 12-month period. Nonresidents without a PE in Iceland must appoint a local VAT representative.

Consolidated VAT registration also is available, subject to certain requirements, for a minimum period of five years.

Parties that are taxable under the VAT Act must arrange their accounts and settle liabilities so that the tax authorities can verify the VAT returns. All books, settlements and data related to VAT returns must be maintained for seven years from the close of the relevant accounting year. Each VAT settlement period is two months: January/February, March/April, May/June, July/August, September/October and November/December.

The VAT return and payment must be submitted no later than the fifth day of the second month following a settlement period, for transactions during that period. The VAT payment is the difference between the output tax and input tax.

General rules apply to the deduction of input tax in Iceland, regardless of whether the parties to a transaction are domestic or foreign. If input tax for a certain settlement period is higher than the output tax, the Icelandic Treasury will reimburse the difference.

5.2 Capital tax

Iceland does not levy capital duty.

5.3 Real estate tax

The municipalities impose tax on the assessed value of real property at various rates.

5.4 Transfer tax

Iceland does not levy transfer tax.

5.5 Stamp duty

For corporations, stamp duty is levied on the execution of changes in ownership of real estate and ships, at a rate of 1.6%.

For individuals, stamp duty is levied on changes in ownership of real estate and ships, at a rate of 0.8%

5.6 Customs and excise duties

As Iceland is a member of the EEA, no customs duties are imposed on goods from other member states. However, goods from jurisdictions outside the EEA are subject to tariffs. Excise duties largely have been abolished, but some remain on products such as oil, tobacco, alcohol, cars, etc.

5.7 Environmental taxes

Iceland levies a number of “green taxes,” including import taxes on fossil fuels and taxes on the sale of electricity and hot water, as well as automobile fees, regardless of the fuel used.

5.8 Other taxes

Iceland does not collect payroll taxes or transfer taxes.

Fees are imposed on parties that manufacture and/or import carbon products (e.g. gas, gasoline, diesel oil, jet fuel and combustion oil) for resale and/or for their own use.

A tax is collected on the provision of lodgings.

6.0 Taxes on individuals

Individuals in Iceland are subject to a number of taxes, including income tax, municipality tax, real estate tax, inheritance tax, social security contributions and VAT.

Iceland Quick Tax Facts for Individuals	
Income tax rates	22.5%/31.8%
Municipal tax rates	12.44% to 14.52%
Capital gains tax rate	22%
Basis	Worldwide
Double taxation relief	Yes
Tax year	Calendar year
Return due date	Mid-March following the tax year
Withholding tax	
– Dividends – Interest – Royalties	22% 22% (resident); 12% (nonresident) 22%
Net wealth tax	No
Social security	Employer is liable for social security contributions, at a general rate of 6.85%
Inheritance tax	10%
Real estate tax	Varies
VAT	24% (standard rate)/11% (reduced rate)

6.1. Residence

An individual is considered resident for tax purposes if he/she is present in Iceland, in the aggregate, for 183 days or more in a 12-month period.

6.2 Taxable income and rates

Icelandic tax resident individuals are subject to unlimited tax liability in Iceland (i.e. they are taxed on their worldwide income in accordance with Icelandic tax rules), unless the income is specifically exempt under Icelandic tax law or taxation is allocated to another country under a tax treaty. In practice, income is taxed in the year in which it is received. Nonresidents are taxed on Icelandic-source income (i.e. employment or business income from Iceland; dividend, interest and royalty income; board member fees; income from property, etc.).

Taxable income

Iceland provides various categories of taxable income for individuals: (1) wages and salaries, benefits and self-employment income; (2) income from the carrying on of a business; and (3) investment income.

Employer contributions to pension funds that are higher than 12% of the employee´s premium calculation base, plus ISK 2 million per year, are taxable as employee income.

Capital gains derived by an individual from nonbusiness property and gains from the disposal of shares are taxed as investment income. Gains from the sale of a private residence generally are exempt if the property has been owned for more than two years.

Deductions and reliefs

Payments to a pension fund for private pension insurance are deductible, in an amount up to 4% of total employment income.

An individual taxpayer is entitled to a personal tax credit against computed state and municipal income taxes on all types of income except financial income (i.e. dividends, interest and royalties). The credit amounts to ISK 646,739 for income year 2018 (assessment year 2019).

The state treasury pays benefits for each child under 18, with the amount depending on the marital status of the custodial parent. The benefits are linked to income.

Under certain conditions, foreign experts are offered tax relief. Qualifying foreign experts are taxed on only 75% of employment income in their first three years of employment in Iceland; the remaining 25% is tax-free., Confirmation from a special committee is required to qualify for the tax relief.

Rates

Iceland imposes two levels of taxation on individual income, other than investment income: income up to ISK 10,724,553 is taxed at a rate of 22.5%, and income over ISK 10,724,553 is taxed at a rate of 31.8%.

The municipal tax on individual income ranges between 12.44% and 14.52%, with the average being 14.44%.

Dividends paid to residents and nonresidents are taxed at a 22% rate. Gross interest income exceeding ISK 150,000 is taxed at 22% for resident individuals, and at 12% for nonresidents. Royalties are taxed at 22% for both residents and nonresidents.

Fifty percent of income from the rental of residential real estate is taxable at a rate of 22% for resident and nonresident individuals. Individuals with limited tax liability in Iceland may deduct rental costs from rental income derived from their real estate in Iceland, but only if the real estate leased is intended for their personal use and is leased temporarily.

6.3 Inheritance and gift tax

Inheritance tax is imposed at a rate of 10% on a recipient who inherits from an Iceland tax resident, regardless of whether the recipient is a resident of Iceland.

6.4 Net wealth tax

Iceland does not levy net wealth tax.

6.5 Real property tax

The municipalities impose tax on the assessed value of real estate, at various rates.

6.6 Social security contributions

The employer is liable for social security contributions for employees. The general rate is 6.85%.

6.7 Other taxes

Stamp duty is levied on changes in ownership of real estate and ships, at a rate of 0.8%

6.8 Compliance

The taxable period for individuals is the calendar year.

Employment income of individuals is taxed via withholding. The individual tax return must be filed by a specific date, generally between two and three months after the end of the tax year. Tax is collected by an assessment that is raised by 30 June following the tax year.

Joint filing is available for married couples, persons in registered partnerships and couples who have lived together for more than one year or who have a child and wish to file jointly.

Penalties and interest are imposed for late filing, failure to file and/or tax avoidance or tax evasion.

7.0 Deloitte International Tax Source

The Deloitte International Tax Source (DITS) is a free online database that places up-to-date worldwide tax rates and other crucial tax information within easy reach. DITS is accessible through mobile devices (phones and tablets), as well as through a computer.

Connect to the source and discover:

A database that allows users to view and compare tax information for different jurisdictions that includes:

- Corporate income tax rates;
- Historical corporate rates;
- Domestic withholding tax rates;
- In-force and pending tax treaty withholding rates on dividends, interest and royalties; and
- Indirect tax rates (VAT/GST/sales tax).

Guides and Highlights: Deloitte's Taxation and Investment Guides analyze the investment climate, operating conditions and tax systems of most major trading jurisdictions, while the companion Highlights series concisely summarizes the tax regimes of over 100 jurisdictions.

Jurisdiction-specific pages: These pages link to relevant DITS content for a particular jurisdiction (including domestic rates, tax treaty rates, Taxation and Investment Guides and Highlights).

Tax publications: Global tax alerts and newsletters provide regular and timely updates and analysis on significant cross-border tax legislative, regulatory and judicial issues.

Tax resources: Our suite of tax resources includes an R&D incentive matrix; monthly treaty updates; and expanded coverage of VAT/GST/sales tax rates.

Webcasts: Live interactive webcasts and Dbriefs by Deloitte professionals provide valuable insights into important tax developments affecting your business.

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