

International Tax Iceland Highlights 2018



Investment basics:

Currency – Icelandic Krona (ISK).

Foreign exchange control – The temporary restrictions on cross-border movements of capital into and out of Iceland that were in place from 2008-2017 have mostly been removed. Certain restrictions still apply to ISK-denominated assets (i.e. offshore ISK assets) and transactions with derivatives.

Accounting principles/financial statements – IFRS/IAS. Annual accounts that comply with statutory accounting rules and disclosures must be submitted annually.

Principal business entities – These are the public and private limited company, partnership, limited partnership, joint venture and branch of a foreign corporation.

Corporate taxation:

Residence – A company is 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.

Basis – Resident companies pay tax on their worldwide income; nonresident companies are taxed only on income sourced in Iceland.

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

Taxation of dividends – Dividends received are deductible from business income. A company must withhold a 20% tax on dividends paid to a resident company, although the tax may be reimbursed at the time of assessment if certain requirements are met. The effective tax, therefore, is 0% if a tax return is submitted. (See also under “Withholding tax.”)

Capital gains – Capital gains of companies are taxed as 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.

Losses – Net operating losses may be carried forward for 10 years. The carryback of losses is not permitted.

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

Surtax – No

Alternative minimum tax – No

Foreign tax credit – A foreign tax credit is available for tax paid on foreign-source income, up to the amount of Icelandic tax due on the income.

Participation exemption – See under “Taxation of dividends.”

Holding company regime – No

Incentives – Special tax discounts and incentives are offered to R&D companies.

Withholding tax:

Dividends – Dividends paid to a resident company are subject to a 20% withholding tax. Dividends paid to a nonresident company 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 European Economic Area (EEA) is 0%, since withholding

tax will be reimbursed in the year following payment, provided a tax return is submitted.

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.

Royalties – Gross royalties paid to a nonresident are taxable at a rate of 22%, which may be reduced under a tax treaty if an application is submitted to the tax authorities.

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

Branch remittance tax – No

Other – 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%, since withholding tax will be reimbursed in the year following payment.

Other taxes on corporations:

Capital duty – No

Payroll tax – No

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

Social security – Social security contributions are imposed on all remuneration paid to an employee, at a rate of 6.85%.

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

Transfer tax – No

Other – 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%.

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.

Anti-avoidance rules:

Transfer pricing – Transactions between related companies (whether resident or nonresident) must be on arm's length terms; otherwise, the tax authorities can adjust income according to the OECD guidelines. Documentation requirements apply to transactions with cross-border related legal entities with annual income or total assets exceeding ISK 1 billion. Advance pricing agreements are not possible.

Thin capitalization – Interest on related party debt generally may be deducted to the extent the interest does not exceed 30% of adjusted EBITDA. Interest exceeding that 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. Certain exceptions to the CFC rules apply.

Disclosure requirements – Iceland has implemented a country-by-country reporting requirement, in line with the OECD BEPS initiative.

Compliance for corporations:

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

Consolidated returns – 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.

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

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

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

Personal taxation:

Basis – Resident individuals are taxed on worldwide income; nonresidents are taxed only on income sourced in Iceland.

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

Filing status – 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.

Taxable income – Iceland provides various categories of taxable income for individuals: (i) wages and salaries, benefits and self-employment income; (ii) income from the carrying on of a business; and (iii) 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 – 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 allowances – Payments to a pension fund for private pension insurance are deductible, in an amount up to 4% of total employment income and presumptive 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.

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 exceeding that amount is taxed at a rate of 31.8%.

Foreign experts qualifying for tax relief are taxed only on 75% of their 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 relief.

The municipal tax on individual income ranges between 12.44% and 14.52%, the average being 14.44%. Dividends paid to residents and nonresidents are taxed at 22%. Gross interest income exceeding ISK 150,000 derived by resident individuals is taxed at a rate of 22%, and 12% for nonresidents. Royalties are subject to a 22% rate 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 on a temporary basis.

Other taxes on individuals:

Capital duty – No

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

Capital acquisitions tax – No

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

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

Net wealth/net worth tax – No

Social security – The employer is liable for social security contributions for employees.

Compliance for individuals:

Tax year – Calendar year

Filing and payment – 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.

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

Value added tax:

Taxable transactions – VAT is imposed on most sales of goods and the provision of services.

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

Registration – Registration for VAT is mandatory for businesses, including representatives of foreign enterprises and foreign entities that sell digital services to nonregistered parties in Iceland. Nonresidents without a permanent establishment in Iceland must appoint a local VAT representative.

Filing and payment – 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.

Source of tax law: Income Tax Act No. 90/2003, Municipalities' Revenue Basis Act No. 4/1995, Withholding Tax Act No. 45/1987, Withholding Tax on Financial Income Act No. 94/1996, Social Security Tax Act No. 113/1990, VAT Act No. 50/1988, Act on Stamp Duty No. 138/2013, Environmental and Natural Resources Tax Act No. 129/2009, Financial Activities Tax Act No. 165/2011, Lodging Tax Act No. 87/2011, Act on Special Tax on Financial Institutions No. 155/2010

Tax treaties: Iceland has concluded over 40 tax treaties. Iceland signed the OECD multilateral instrument on 7 June 2017.

Tax authorities: Ministry of Finance, Directorate of Internal Revenue.

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