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International Tax
Iceland Highlights 2020

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Recent developments:

For the latest tax developments relating to Iceland, see Deloitte tax@hand.

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 applies. 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:

Rates	
Corporate income tax rate	20%
Branch tax rate	20%
Capital gains tax rate	0%/20%

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. Branches are taxed in the same way as subsidiaries.

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

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 – There is no surtax.

Alternative minimum tax – There is no alternative minimum tax.

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.

Foreign tax relief – 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 – There is no holding company regime.

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

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. Consolidated taxation may be extended to Icelandic companies with a permanent establishment within the EEA, in a European Free Trade Association (EFTA) member state, or the Faroe Islands.

Filing and payment – 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).

Individual taxation:

Rates

Individual income tax rate	Taxable income	Rate
	Up to ISK 4,042,996	20.6%, plus municipal tax of 12.44%-14.52%
	Over ISK 4,042,996 and up to ISK 11,350,472	22.75%, plus municipal tax of 12.44%-14.52%
	Over ISK 11,350,472	31.8%, plus municipal tax of 12.44%-14.52%
Capital gains tax rate	0%/22%	

Residence – Individuals are considered resident for tax purposes if they stay in Iceland, in the aggregate, for 183 days or more in a 12-month period.

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

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.

Rates – Iceland imposes three levels of taxation on individual income, other than investment income: income up to ISK 4,042,996 is taxed at a rate of 20.6%, income above ISK 4,042,996 and up to ISK 11,350,472 is taxed at a rate of 22.75%, and income exceeding ISK 11,350,472 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%; the rate is 12% for nonresident individuals. 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.

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 655,538 for income year 2020.

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.

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

Compliance for individuals:

Tax year – The tax year is the calendar year.

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.

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.

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).

Withholding tax:

Rates

Type of payment	Residents		Nonresidents	
	Company	Individual	Company	Individual
Dividends	20%	22%	0%/20%	22%
Interest	20%	22%	12%	12%
Royalties	20%	22%	22%	22%
Fees for technical services	0%	0%	0%	0%

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. Dividends paid to a resident or nonresident individual are subject to a 22% withholding tax, but a reduced rate may apply for nonresidents under an applicable tax treaty.

Interest – Interest paid to a resident company is subject to a 20% withholding tax. Interest paid to a nonresident company or individual is subject to a 12% withholding tax, which may be reduced under a tax treaty, provided an application is submitted to the tax authorities. Interest paid to a resident individual is subject to a 22% withholding tax.

Royalties – Gross royalties paid to a nonresident company or individual are taxable at a rate of 22%, which may be reduced under a tax treaty if an application is submitted to the tax authorities. Royalties paid to a resident individual are taxable at a rate of 22%, and royalties paid to a resident company are taxable at a rate of 20%.

Fees for technical services – There is no withholding tax on fees for technical services.

Branch remittance tax – There is no branch remittance tax.

Other – Capital gains derived by 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 capital gains paid to a company within the EEA is 0%, since withholding tax will be reimbursed in the year following payment.

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.

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

Advance pricing agreements are not possible.

Interest deduction limitations – Interest on related party debt generally may be deducted to the extent the interest does not exceed 30% of adjusted earnings before interest, tax, depreciation, and amortization (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 interest is paid to a related party that fulfills the conditions to be eligible for joint taxation with the taxpayer; the taxpayer's equity ratio is not more than two 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.

Hybrids – There are no rules specifically addressing hybrid mismatch arrangements.

Economic substance requirements – There are no specific provisions in Icelandic tax law on economic substance. However, there is a general anti-avoidance rule, which may apply.

Disclosure requirements – See under "Transfer pricing."

Exit tax – When a cross-border merger takes place through which a resident company ceases to exist, the resident company must pay a tax that is calculated by subtracting the book value of all its assets from their market value.

General anti-avoidance rule – If parties make an arrangement through which funds are exchanged in a manner that is significantly different from the manner that would be considered normal in other comparable business arrangements, the value that a party would have received without the arrangement will be taxable as income of that party. If a party purchases an asset at an unusually low or an unusually high price, the tax authorities can evaluate what would be considered a normal price and the difference between that price and the actual purchase price will be considered income for the party in question.

Value added tax:

Rates	
Standard rate	24%
Reduced rate	0%/11%

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 enterprises providing taxable goods and services in Iceland, including representatives of foreign enterprises, if the sales reach a threshold of ISK 2 million of turnover in a 12-month period. There are exceptions from this rule where the reverse-charge rule applies. If an Icelandic business purchases services from a foreign business, the Icelandic business is obligated to pay the VAT (however, if the Icelandic business can claim an input deduction, it will not need to pay the VAT).

The reverse-charge rule also applies for non-businesses, but only for certain types of services. If electronic services, telecommunication services, and broadcasting and television services are provided to non-businesses, the service provider will need to register for VAT purposes in Iceland if it reaches a threshold of ISK 2 million of turnover in a 12-month period. These service providers have the option from 1 July 2019 to register through a simplified registration scheme without a 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.

Other taxes on corporations and individuals:

Unless otherwise stated, the taxes in this section apply both to companies and individuals and are imposed at the federal level.

Social security contributions – Social security contributions are imposed on all remuneration paid to an employee, at a rate of 6.60%. The employer is liable for social security contributions for employees.

Payroll tax – There is no payroll tax.

Capital duty – There is no capital duty.

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

Transfer tax – There is no transfer tax.

Stamp duty – Stamp duty is levied on the execution of changes in ownership of real estate and ships, at a rate of 1.6% for companies and a rate of 0.8% for individuals.

Net wealth/worth tax – There is no net wealth/net worth tax.

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.

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.

Tax treaties: Iceland has concluded over 40 tax treaties. The OECD multilateral instrument (MLI) entered into force for Iceland on 1 January 2020.For information on Iceland’s tax treaty network, visit Deloitte International Tax Source.

Tax authorities: Ministry of Finance, Directorate of Internal Revenue

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