

Iceland

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What's new?

Summary of updates/Changes to R&D and government incentives from 1 January 2019 through 31 October 2020

The law on R&D tax credits was amended in 2020 as a part of the Icelandic government measures that are intended to counteract the economic impact of COVID-19. The tax credit percentage was raised to 25% or 35% (depending on the size of the company) and the ceiling on total annual qualifying R&D costs was increased to ISK 1.1 billion for 2020 and 2021 for qualifying projects.

Featured government incentives

Incentive name	Description	Maximum percentage	Qualification standards	Key exclusions or issues
R&D tax credit based on application	The tax credit can amount to up to 35% of the actual R&D costs, with an annual ceiling of qualifying costs of ISK 1.1 billion	25% (large companies) or 35% (small and medium-sized companies)	<ul style="list-style-type: none"> The research or development must be intended to generate company profits based on a well-organized business plan; The company must spend at least ISK 1 million on research or development during each 12-month period; and The researchers or developers must have appropriate training, education, or experience with regard to the subject matter of the research or development project 	Does not cover routine updates of products, processes, or services

Industries most often affected by government incentives in country

Technology, Media & Telecom	Financial Services
● Telecom, Media & Entertainment	Banking & Capital Markets
● Technology	● Insurance
Consumer	Investment Management
● Consumer Products	● Real Estate
● Retail, Wholesale & Distribution	Life Sciences & Health Care
Automotive	● Health Care
● Transportation, Hospitality & Services	● Life Sciences
Energy, Resources & Industrial	Government & Public Services
● Power & Utilities	Health & Social Care
Mining & Metals	Defense, Security & Justice
Oil, Gas, & Chemicals	Civil Government
● Industrial Products & Construction	International Donor Organizations
	Transport

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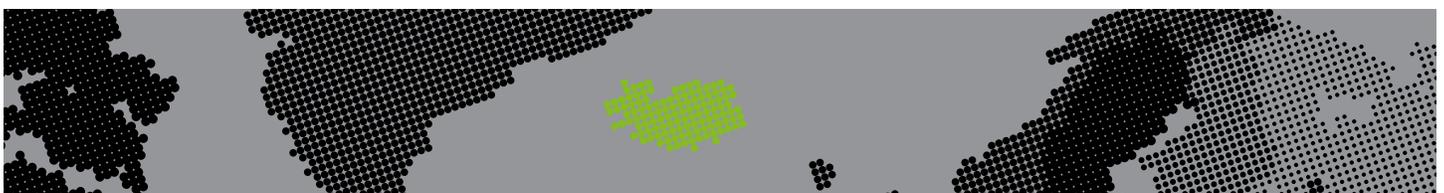
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Type	National incentive?	State, provincial, regional or local incentives? ¹	Filing deadlines imposed?	Is the claim made in advance or arrears? ²	Nature of incentive	Maximum benefit available to large enterprises	Maximum benefit available to small and medium-sized enterprises
Innovation							
Research & development (R&D)	●	●	● ●	National: Arrears Local: Arrears	Companies with approved R&D projects are eligible for the R&D tax credit, which is calculated based on the actual R&D spend in employee wages/salaries, tools and equipment used, buildings and land to the extent used for the R&D project, contractor and consultant costs, and other direct and operational costs, including the cost of materials and inventory used in the research effort	25% of qualified research expenses (subject to limitations)	35% of qualifying research expenses (subject to limitations)
R&D grant: national or EU	●	●	● ●	Advance	Varies depending on the EU grant	Varies depending on the EU grant	Varies depending on the grant
R&D grant: State/Province	●	●	● ●	Advance	Varies depending on the relevant state grant	Varies depending on the relevant state grant	Varies depending on the EU grant
Tax exemption for foreign specialists	●	●	● ●	National: Arrears Local: Arrears	Foreign experts are taxable only on 75% of their earnings for the first three years of employment in Iceland, subject to an approved application and certain requirements	N/A	N/A

Key: ● = PERMANENT INCENTIVE (■) = TEMPORARY INCENTIVE (■) = NEGOTIABLE ● = NO ● = LIMITED APPLICABILITY ● = NOT APPLICABLE

- Notes:
- Green means that this incentive is currently in effect. Yellow means that the incentive has limited applicability, i.e., the requirements for this incentive limit its value to most companies. Red means that there is no incentive.
 - If the response is advance, this means that the government must approve the award of the incentive prior to the commencement/completion of the project/activity. If the response is arrears, this means that the award of the incentive is determined at the end of the tax period or after the completion of the qualifying project or activity. Most tax incentives are considered to be claimed in arrears because they are reported on tax returns.



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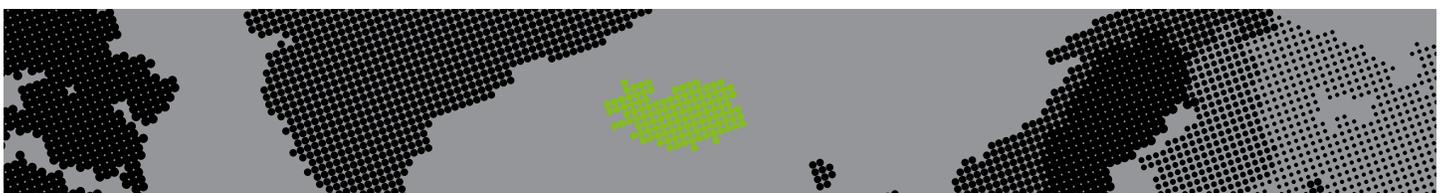
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Investment							
Employment incentives	●	●	●	National: Arrears	Various public initiatives exist to support individual job-seekers in obtaining training and guidance, as well as to incentivize companies to hire job-seekers for certain R&D projects	Not applicable	Not applicable
			●	Local: Arrears			
Environmental sustainability							
Agriculture and Seafood Fund	●	●	●	National: Not applicable	Various funding opportunities exist for projects aimed at creating new innovative and sustainable products within the agricultural and seafood industries	ISK 3 million to ISK 30 million	ISK 3 million to ISK 30 million
			●	Local: Not applicable			

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Country background

The corporate tax rate in Iceland ranges from 20% to 37.6%, depending on the legal form of the company. The most prevalent form of company is the limited liability (Ltd) company, which is subject to the 20% tax rate.

Innovation Incentives

Research & Development (R&D)

Nature of incentives

"Innovation companies" are legal entities that conduct research or development. Iceland's R&D incentive regime, therefore, distinguishes between activities undertaken for research purposes and those undertaken for development. "Qualifying projects" are projects undertaken to provide new knowledge or competence that is considered beneficial to the company in developing new or improved products, services, or processes.

Tax credits are granted for approved R&D projects and vary depending on the size of the company. Companies are considered to be small, medium-sized, or large based on the EU definitions referenced below. The controlled group concept is considered in applying these definitions.

As noted above, Iceland's laws were amended in 2020 as a part of the Icelandic government measures in response to COVID-19. A part of the amendments was a change in the legislation on R&D tax credits that is valid for 2020 and 2021 for approved projects. According to the amended legislation, innovation companies that have approved projects qualify for a tax credit equal to 25% or 35% of qualifying costs, depending on the size of the company: large companies qualify for a 25% tax credit and small and medium-sized enterprises (SMEs) qualify for a 35% tax credit (for 2019, the tax credit percentage was 20%, regardless of the size of the company). Qualifying costs are costs incurred in relation to approved projects, but the costs also must qualify as deductible operating expenses in accordance with the tax legislation. There is an annual cap on total qualifying R&D costs of ISK 1.1 billion for 2020 and 2021, within

which the cap for R&D services purchased from unrelated third-party service providers is ISK 200 million (for 2019, the annual cap on total qualifying R&D costs was ISK 600 million for a company's own costs incurred, or ISK 900 million for R&D services provided by a contractor and for cooperative projects).

Limits are imposed on the total government subsidy amount, including the tax incentives for each project, based on the size of the company. Other government subsidies include grants provided by public institutions, e.g., innovation grants from funds within the Research Centre of Iceland ("Rannis").

For small companies, which includes companies with fewer than 50 employees and annual revenue below EUR 10 million and/or a balance sheet below EUR 10 million, the subsidies are limited as follows:

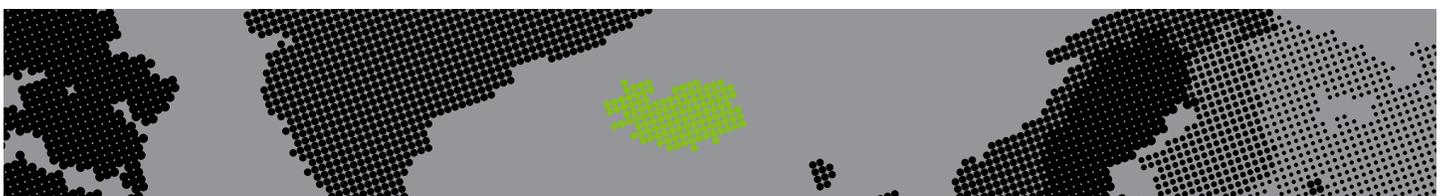
- The total subsidy can be up to 70% of qualifying research costs, or up to 80% if the project is a cooperative project; and
- The total subsidy can be up to 45% of qualifying development costs, or up to 60% if the project is a cooperative project.

For medium-sized companies, which includes companies with 50 to 250 employees and annual revenue below EUR 10 million and/or a balance sheet below EUR 43 million, the subsidies are limited as follows:

- The total subsidy can be up to 60% of qualifying research costs, or up to 75% if the project is a cooperative project; and
- The total subsidy can be up to 35% of qualifying development costs, or up to 50% if the project is a cooperative project.

For large companies, which are companies that are larger than companies that fall within the definition of medium-sized companies, the subsidies are limited as follows:

- The total subsidy can be up to 50% of qualifying research costs, or up to 65% if the project is a cooperative project; and
- The total subsidy can be up to 25% of qualifying development costs, or up to 40% if the project is a cooperative project.



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Cooperative projects are subject to many requirements, including that the project must be undertaken within the EU with at least one SME. Significant research projects can qualify for additional tax credits, e.g., if the research results are presented at a technical or scientific conference or are published.

Financing and grants also are available to support the operations of innovation companies and small growth companies.

Eligible industries and qualifying costs

The Research Centre of Iceland must approve research or development projects to qualify for the R&D tax credit. The following criteria must be fulfilled to receive approval:

- The research or development is intended to generate company profits based on a well-organized business plan;
- The company spends at least ISK 1 million on research or development during each 12-month period; and
- The researchers or developers have appropriate training, education, or experience with regard to the subject matter of the research or development project.

The following costs are eligible for the R&D tax credit:

- Employee wages/salaries;
- Tools and equipment used in the qualifying R&D project;
- Buildings and land, to the extent used for the R&D project;
- Contractor and consultant costs; and
- Other direct and operational costs, including the cost of materials and inventory used in the research effort.

R&D costs must be kept separate from the company's other expenses and specifically accounted for in the tax return for the relevant fiscal year, in a specific form.

Intellectual property (IP) and jurisdictional restrictions

IP ownership in Iceland is not required and there are no restrictions on the location of the research activities, other than for cooperative projects (as noted above).

Other considerations

To obtain project approval, an application must be submitted before 1 October to obtain an incentive for the current income year. A renewal application for previously approved projects must be submitted annually before 1 April.

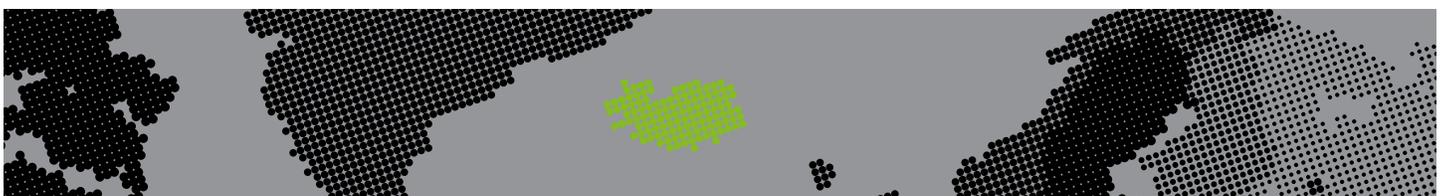
The decision on whether a project is approved usually will be made within two months of submission of the application and is valid for the current income year.

Applications must be rejected if the applicant is considered in financial difficulty. That includes, e.g., limited liability companies where more than half of the subscribed share capital has "disappeared" as a result of accumulated losses, and situations where the company is subject to collective insolvency proceedings or fulfills the criteria for being placed in collective insolvency proceedings at the request of its creditors.

The tax authorities will publish on their website a list of companies that have been granted tax credits for approved R&D projects where the credit amount exceeds EUR 500,000.

R&D grants

The Technology Development Fund (TDF) is the largest source of R&D grants in Iceland. The TDF is a competitive fund that issues biannual calls for proposals for six types of grants: growth, start-up, marketing, research, seed, and patent grants. These grants range from approximately EUR 1,500 up to EUR 200,000, with a term of up to three years. The Research Centre of Iceland also operates various support systems and smaller funds.



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Tax exemption for foreign experts

A foreign expert incentive is designed to support Icelandic companies in attracting experts from abroad with necessary qualifications for their operations. Under this incentive, foreign experts are taxable only on 75% of their earnings for the first three years of employment in Iceland, provided the following requirements are met:

- The foreign expert is employed by a legal entity that is resident in Iceland and that entity pays the expert's salary, or the entity is a permanent establishment of a foreign entity;
- The foreign expert has not been resident in Iceland in the five-year period before the calendar year in which the expert commenced the employment in Iceland; and
- The foreign expert possesses knowledge that only a limited number of resident experts possess.

An application for the exemption must be submitted to a special committee that determines whether the foreign expert has met all the requirements. Even if the exemption is granted, social security and pension contributions must be paid on the total salary amount.

Investment Incentives

Employment incentives

Various public initiatives exist to support individual job-seekers in obtaining training and guidance, as well as to incentivize companies to hire job-seekers for certain R&D projects.

Environmental sustainability

Agriculture and Seafood Fund

Various funding opportunities exist for projects aimed at creating new innovative and sustainable products within the agricultural and seafood industries. The maximum funding available ranges from ISK 3 million to ISK 30 million.

