

Iceland Country Profile

EU Tax Centre

June 2017

Key tax factors for efficient cross-border business and investment involving Iceland

EU Member State No, however, Iceland is a Member State of the European Economic Area (EEA)

Double Tax Treaties With:

Albania	Greenland	Norway
Barbados	Guernsey	Poland
Belgium	Hungary	Portugal
Canada	India	Romania
Cyprus	Rep. of Ireland	Russia
China	Isle of Man	Slovakia
Croatia	Italy	Slovenia
Czech Rep.	Jersey	Spain
Denmark	Rep. of Korea	Sweden
Estonia	Latvia	Switzerland
Faroe Islands	Liechtenstein	UK
Finland	Lithuania	Ukraine
France	Luxembourg	US
Germany	Malta	Vietnam.
Georgia	Mexico	
Greece	Netherlands	

Forms of doing business Public Limited Liability Company and Private Limited Liability Company

Legal entity capital The minimum initial capital of a public limited liability company is ISK 4,000,000, whereas the minimum initial capital of a private limited liability company is ISK 500,000.



Residence and tax system	A company is resident if registered in Iceland, its legal seat is in Iceland according to its Articles of Association or its place of effective management is located in Iceland. Resident companies are taxed on their worldwide income. Non-resident companies are taxed only on their Icelandic source income.
Compliance requirements for CIT purposes	The fiscal year is the calendar year. In general, companies must file their tax returns by the end of May of the following year. Companies are required to make advance tax payments each month, except January and October, until the assessment has been completed.
Tax rate	The corporate income tax rate for limited liability companies is 20 percent. The rate is 36 percent for other legal partnerships registered as taxable entities.
Withholding tax rates	<p>On dividends paid to non-resident companies</p> <p>18 percent. Tax withheld on dividends paid to companies resident in the EEA, EFTA or the Faroe Islands may be refunded following the final tax assessment in November of the year following that in which the distribution took place, assuming the foreign company files an annual tax return.</p> <p>On interest paid to non-resident companies</p> <p>10 percent. Possible reductions applicable. Any premium or discount arising from transactions in Icelandic debt securities between two non-residents is not subject to WHT in Iceland.</p> <p>On patent royalties and certain copyright royalties paid to non-resident companies</p> <p>20 percent.</p> <p>On fees for technical services</p> <p>Technical services are not specifically identified in the law, hence they should be treated the same as any other services.</p> <p>On other payments</p> <p>Yes.</p> <p>Gains from the disposal of shares in Icelandic companies are subject to a WHT: 20 percent in the case of individuals and 18 percent in all other cases. This also applies to transactions between two non-residents.</p> <p>Branch withholding taxes</p> <p>Branches fall under the same rules as LLC.</p>
Holding rules	Dividend received from resident/non-resident subsidiaries



Dividends received by Icelandic companies are taxable income, but the same amount can be deducted if it can be demonstrated that the profits of the distributing company have been taxed under provisions that do not substantially deviate from those prevailing in Iceland and have been subject to a tax rate that is not lower than the general tax rate in any OECD, EEA, EFTA country or the Faroe Islands.

Capital gains obtained from resident/non-resident subsidiaries

The same rules as above apply to capital gains except that losses exceeding gains from the disposal of shares are non-deductible and are not allowed to be carried forward.

Tax losses

Losses may be carried forward and offset against taxable income in the following 10 years. No carry-back is allowed.

Tax consolidation rules/Group relief rules

Two companies may opt for consolidated taxation if one company owns at least 90 percent of the shares in the other company. Under consolidated taxation, losses incurred by one of the companies may be offset against the other company's profits. Consolidated taxation does not extend to non-resident companies.

Registration duties

Registration duties amount to approximately EUR 1.100 (ISK 130.800) for a private liability company and approximately EUR 2.100 (ISK 256.300) for a public liability company. A minimum fee is charged for any changes reported to the Registry of Companies.

Transfer duties

On the transfer of shares

No.

On the transfer of land and buildings

Yes, on deeds of immovable property and vessels. The stamp duty does not apply where a transfer is linked to a merger carried out under Company Law, a conversion of a private limited company to a public limited company or a division of a company.

Stamp duties

0.8 percent stamp duty if the owner is an individual and 1.6 percent stamp duty if the owner is a legal entity.

Real estate taxes

No.

Controlled Foreign Company rules

CFC rules apply when an Icelandic individual or company owns or controls, directly or indirectly, more than 50 percent of an entity situated in a low tax country. A "low tax country" is a jurisdiction that charges a corporate income tax



rate that is less than two-thirds of the Icelandic corporate income tax rate.

The CFC legislation does not apply, if the controlled company, fund, institution or other type of entity:

(1) is resident in a treaty country, that has a sufficient exchange of information article in the treaty and its income is not mainly financial income, or,

(2) is resident in a country within the European Economic Area and is engaged in business activities there and the Icelandic tax authorities are able to request all necessary information according to an international treaty.

Transfer pricing rules

General transfer pricing rules

If prices are not set in accordance with the arm's length principle they must be adjusted according to the transfer pricing guidelines issued by the OECD.

Documentation requirement?

Companies that have total revenue or assets at year-end in excess of ISK1,000 million are required to document the nature and extent of transactions with related parties, the nature of the relationship, the transfer pricing method used and why it was chosen. Transfer pricing documentation should follow the relevant OECD guidelines.

Thin capitalization rules

With effect from January 1, 2017, a limitation on the deduction of net interest expense applies if the lender is a related party. Under the new rules, a taxpayer can only deduct net interest expense (and economically equivalent payments) amounting to a maximum of 30 percent of the company's EBITDA on a stand-alone basis. There are, however, four exceptions to this rule:

1. if the net interest expense amounts to less than ISK 100 million;
2. if the related lender is resident for tax purposes in Iceland;
3. if the taxpayer demonstrates that its equity ratio is not more than 2 percentage points below the consolidated equity ratio of the group it belongs to; and
4. if the taxpayer is a financial institution, an insurance company or a company owned by such companies and that carries on a similar business.

General Anti-Avoidance rules (GAAR)

Transactions structured in a manner that differs significantly from common practice may be disregarded for tax purposes. According to established case law, tax authorities are required to demonstrate that the transaction was carried out between related parties and with little or no commercial purpose other than the avoidance of tax. Parties have extensive reporting obligations to the tax authorities, including regarding foreign subsidiaries or affiliates. Non-



compliance with these obligations can be used against a party when assessing the facts.

Specific Anti-Avoidance rules/Anti Treaty Shopping Provisions

No

Advance Ruling system

Yes, a binding ruling may be requested by resident or by non-resident companies on most aspects of corporate income taxation.

A ruling can normally be obtained only on the tax consequences of a future transaction and is only issued if it is of substantial importance.

IP / R&D incentives

In respect of filmmaking in Iceland: 25 percent of the value of eligible production costs is refunded.

In respect of music production in Iceland: 25 percent of the value of eligible production costs is refunded.

An innovative company that owns research or development projects is entitled to a special income tax deduction amounting to 20 percent of expenses incurred on qualifying projects..

Other incentives

A special incentive for foreign experts recruited to work in Iceland was introduced as of January 1, 2017. Under the incentive, foreign experts who work in Iceland and who are fully liable to tax may deduct 25 percent of their income for the first 3 years after commencing their employment (i.e. only 75 percent of their income is subject to tax), provided that certain requirements are met.

VAT

The standard rate is 24 percent.

Other relevant points of attention

No.

Source: Icelandic tax law and local tax administration guidelines, updated 2017.



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