Iceland Country Profile

EU Tax Centre

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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 the following countries, territories and jurisdictions:

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

Most important 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.

Corporate income tax rate

The corporate income tax rate for limited liability companies is 20 percent. The rate is 37.6 percent for other legal partnerships registered as taxable entities.

Withholding tax rates

On dividends paid to non-resident companies

20 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 in Iceland.

On interest paid to non-resident companies

12 percent. Any premium or discount arising from transactions in Icelandic debt securities between two non-residents is not subject to WHT in Iceland. There is, however, no WHT on interest 1) paid by the Central Bank of Iceland on bonds or securities it has issued or that it issued on behalf of the Icelandic Treasury, 2) paid to foreign states, international organizations or other public entities exempt from tax in their resident states, 3) paid on bonds issued by financial institutions or energy companies if the bonds are registered on a bond market in one of the OECD countries within the EEA, EFTA or the Faroe Islands, 4) paid on bonds issued by entities that previously operated as commercial banks or savings and loans institutions and are now being wound up.

On patent royalties and certain copyright royalties paid to non-resident companies

22 percent.

On fees for technical services

Remuneration for technical and management services is treated as business profits subject to the general corporate income tax rate (20 percent) provided that the services are rendered in Iceland or through a PE in Iceland.

On other payments

Gains from the disposal of shares in Icelandic companies are subject to WHT at: 22 percent in the case of individuals and 20 percent in all other cases. These rates also apply to transactions between two non-residents.

Branch withholding taxes

No WHT on branch profits.

Holding rules

Dividend received from resident/non-resident subsidiaries

Dividends received by Icelandic companies are generally treated as taxable income. The same amount can, however, be deducted with no final tax implications if the taxpayer can demonstrate that the underlying profits were: - taxed under tax rules that do not deviate substantially from those applicable in Iceland, and - subject to a tax rate that is not lower than the general corporate income tax rate in any other OECD, EEA, EFTA country or of the Faroe Islands.

As of May 14, 2020, withholding tax obligation of dividend distributions between resident entities with limited liability has been revoked. Thus, no withholding tax obligation applies to dividend distributions between such entities.

Capital gains obtained from resident/non-resident subsidiaries

The same rules apply to capital gains redeemed by resident legal entities as above, i.e. the same amount can be deducted with no final tax implications of capital gains. Please note that losses exceeding gains from the disposal of shares are non-deductible and are not allowed to be carried forward.

Tax losses

Losses, except from the disposal of shares, 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 resident 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. With effect from January 1, 2019, consolidated taxation extends to permanent establishments in Iceland belonging to companies that are resident in an EEA or EFTA country or in the Faroe Islands, i.e. those PEs can be consolidated with other group companies resident in Iceland, but subject to certain restrictions on loss utilization. Consolidated taxation does not however extend to non-resident companies.

Registration duties

Registration duties amount to approximately EUR 1,000 for a private liability company and approximately EUR 2,000 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 legal entity 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 EEA 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/Interest Limitation 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 interest expense of taxable entity is from loan agreements between consolidated companies that are jointly taxed or meet the criteria for joint taxation;

(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/Anti-Hybrid rules	Yes, PPT-rule included in Iceland-Switzerland DTT with respect to dividends, interest, royalties and other income. The Iceland-UK DTT also contains a similar PPT-rule. In general, no relief is available under the relevant DTT articles if the main purpose or one of the main purposes of any party involved was to take advantage of the relevant DTT articles.
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- and book 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. The amount on which the R&D deduction is calculated within each company shall not exceed ISK 600 million for each operating year. This limit is increased to ISK 900 million, if an innovative company purchases R&D services from an unrelated party for its own benefit and use in an already approved R&D project. The parliament has passed a bill, which has not yet been published, which will increase the percentage to 35 of expenses incurred on qualifying project with the limit of each company being increased to ISK 1,100 million, thereof ISK 200 million can be purchased R&D services. This will apply to the years 2021 and 2022.
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. A reduced rate of 11 percent, or a zero VAT rate applies in some instances.
Other relevant points of attention	No.
Mandatory Disclosure Rules Updates	For country specific information and updates on the EU Mandatory Disclosure Rules please visit KPMG's EU Tax Centre's MDR Updates page.
COVID-19 Resources	An overview of tax developments being reported globally by KPMG member firms in response to the Novel Coronavirus (COVID-19) is available here. For further insight into the potential tax, legal and mobility implications of COVID-19, please refer to the dedicated KPMG page.

Source: Icelandic tax law and local tax administration guidelines, updated 2020.

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