



Icelandic Tax Facts 2017

**In-depth Information on
the Icelandic Tax System**



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1 Introduction - Type of Tax System

The Icelandic tax system for corporations is a classical system. Companies are subject to income tax on their worldwide income and economic double taxation may be eliminated by deduction of dividend income from taxable income.

Tax rates for the years 2016 and 2017 (assessment years 2017 and 2018)

Income Tax	2016	2017	
Limited Liability Companies	20%	20%	
Partnerships and legal entities other than limited liability companies, such as limited partnerships, associations, private non-profit institutions, trust funds estates of deceased persons and bankruptcy estates	36%	36%	
except dividends received	20%	20%	
Other Taxes and Fees	2016	2017	
Tax on financial institutes ¹	0.376%	0.376%	
Financial Activity Tax ²	5.5%	5.5%	
Specific Financial Activity Tax ³	6%	6%	
Specific charge to the National Broadcasting Service	16,400	16,800	
Lodging tax (pr. overnight stay)	100	100 ⁴	
Annual surveillance fee for companies whose Financial Statements are prepared in accordance with IFRS:			
Parent company	100,000	100,000	
Subsidiary	50,000	50,000	
	1.1-30.6	1.7-31.12	
Payroll Taxes	2016	2016	2017
Social security contribution, contribution to the Bankruptcy Fund, and the market charge ⁵	7.35%	6.85%	6.85%
Employers contribution to obligatory pension fund ⁶	8%	8%	8% ⁷

1. The tax base is total debt in excess of ISK 50 billion. From the assessment year 2014 the tax is also levied on financial institutes in dissolution procedure.
2. The tax is levied on insurance companies, banks and other finance organisations. The tax base is all salary payments.
3. A 6% Financial Activity Tax is levied on income tax base that is over ISK 1 billion for entities that pay Financial Activity Tax. The 6% Financial Activity Tax is levied on the income tax base irrespective of joint taxation or carry-forward losses.
4. Lodging tax will be raised to ISK 300 pr. overnight stay from 1 September 2017.
5. Employees having a foreign A1 certificate, the total Icelandic payroll tax amounts to 0.425%.
6. If the employee pays into an alternative pension fund the employer has to pay extra 2% to the alternative pension fund.
7. Some wage agreements stipulate a higher employer contribution. According to an agreement between the Icelandic Confederation of Labour and SA-Business Iceland the employer contribution was raised from 8% to 8.5% as of July 2016. The employer contribution will be raised to 10% on 1 July 2017 and to 11.5% on 1 July 2018.

2 Establishing a Business

Establishing a company in Iceland is simple and registration fees are moderate. The procedure usually takes 5-10 days.

The most common business form in Iceland is a limited liability company (LLC). There are two types of limited liability companies: a public limited liability company and a private limited liability company.

A public limited liability company must have at least two founders but the private limited liability company may have only one founder. In both cases, at least one of the founders must be either (1) a resident of Iceland or (2) a citizen as well as a resident of the Faroe Islands or an EEA or EFTA country. The Minister of Finance and Economic Affairs may grant an exemption from the residence condition.

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.

There are no conditions regarding the holding of each shareholder.

Foreign limited liability companies may establish branches in Iceland.

Companies may keep their accounting records and prepare financial statements in foreign currencies subject to certain conditions.

3 Income Taxes

3.1 Taxable Income

The taxable base is net income; i.e. income after deduction of operating expenses. Operating expenses are expenses incurred when obtaining and maintaining the income, including interest, discounts on securities, exchange rate losses, provision for doubtful accounts receivable and inventories, depreciation, and certain allowances provided by law.

3.2 Valuation of Inventories

The value of inventories of raw materials and finished goods at year end is determined on the first-in-first-out (FIFO) basis or by the average cost method. In computing the value of goods produced, both direct and indirect production costs must be

taken into account. Inventories are stated at the lower of cost or net realisable value. For tax purposes inventories can be further written down by 5% of their calculated value.

3.3 Reserves and Provisions

Companies are allowed for tax purposes to maintain a reserve for bad debt up to 5% of the accounts and notes receivable at year end. Special rules apply to bad debt reserves of banks.

3.4 Tax Losses

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

3.5 Capital Gain

Capital gain from the disposal of assets used in operation or held as an investment, whether depreciable or not, constitutes taxable income, regardless of the holding period. In certain cases, taxation of capital gain can be deferred by applying the rollover relief method.

Capital gain is taxable in the year the transfer of ownership occurs. However, in the same year, the taxpayer may record accelerated depreciation of other depreciable assets on hand if the gain resulted from the sale of depreciable assets. If the taxpayer does not own assets that can be depreciated, taxation of the gain may be deferred for two years, from the end of the year in which the transfer of ownership occurs. Accelerated depreciation and/or deferral of taxation of capital gain is subject to the restriction that the depreciation or deferral may not create a taxable loss in the year it is applied.

As a general rule, capital gain from the disposal of non-depreciable immovable property is the difference between the sales price of the property and its original purchase price.

If part of the proceeds from sale of assets is paid in instalments over a period of three years or more, the seller has the option of spreading the taxation of that part of the gain evenly over the repayment period, up to a maximum of seven years. This alternative is available only if carry-forward losses have been offset.

Finally, it should be noted that gain from a sale of property is, in general, taxable in full as ordinary income if the taxpayer's business is to construct or purchase property for resale. The same

applies if a taxpayer acquires property solely for the purpose of making a profit.

3.5.1 Disposal of Shares

Capital gain from sale of shares must be declared as income. Limited liability companies can deduct in full the amount of the capital gain, with 0% tax effect when (1) the disposed shares are shares in Icelandic companies; and when (2) the disposed shares represent participations in foreign companies and the seller can demonstrate (a) that the foreign company's profit has been taxed abroad under provisions that do not substantially deviate from those prevailing in Iceland; and (b) that the profit of the foreign company has been subject to taxation at a rate that is not lower than the general tax rate in any OECD, EEA or EFTA country or the Faroe Islands.

Losses from sale of shares do not constitute taxable losses or carry-forward losses by companies. Such losses can only be offset against gain on sale of shares in the same year.

3.6 Depreciation

Depreciation for income tax purposes is calculated by using the straight line method with regard to immovable property, non-sustainable natural resources, acquired intellectual property rights and acquired goodwill, whereas gradual depreciation is employed with regard to movable property.

Assets subject to ordinary depreciation are classified in various categories, with different annual depreciation rates for each. The rates within a category are optional and can be changed from one year to another.

Depreciation Categories

Movable Property	
Passenger cars	10% - 20%
Ships and equipment for ships	10% - 20%
Aircraft and flight equipment	10% - 20%
Industrial machinery and equipment	10% - 30%
Office equipment	20% - 35%
Other machinery, equipment and vehicles	20% - 35%

Other Assets

Buildings and other structures; e.g. office and commercial buildings	1% - 3%
Industrial plants, storage facilities etc.	3% - 6%
Quays and greenhouses	6% - 8%
Wells, electric transmission lines, work camps ...	7.5% - 10%
Acquired goodwill.....	10% - 20%
Patents, copyrights, and other similar rights.....	15% - 20%

The depreciation base of movable property is its book value at the beginning of each year, whereas the depreciation base of other depreciable assets is cost.

The depreciation period of an asset starts at the beginning of the year in which the asset is taken into use. Residual value equal to 10% of real estate and movable properties original value remains on account until the asset is disposed of. Accelerated and/or extraordinary depreciation or write-offs are deductible from income in certain limited and specific cases. No depreciation is expensed from an asset in the year of its sale.

Following assets can be fully expensed in the year of acquisition or amortized with equal annual amounts over a period of five years:

- Start-up cost such as registration cost and the cost of acquiring necessary official permits and licenses.
- Expenses relating to trial runs, marketing, research, patents and trademarks.

When the cost of an asset or a group of assets is less than ISK 250,000 such assets may be expensed in full in the year of acquisition.

3.7 Groups of Companies

3.7.1 Consolidated Taxation

Companies may opt for consolidated taxation if a company owns at least 90% share in another company. Consolidated taxation means, among other things, that losses of one company can be offset against profits of other companies. Consolidated taxation cannot be extended to non-resident companies or permanent establishment of foreign companies.

3.7.2 Inter-Company Dividend

Dividend received by one resident limited liability company from another can be deductible from taxable income of the recipient company.

The deduction also applies to foreign dividend received if the resident recipient company can demonstrate (1) that the dividend is received from companies whose profits have been taxed under provisions that do not substantially deviate from those prevailing in Iceland, and (2) that the profits of the foreign companies have been subject to taxation at a rate that is not lower than the general tax rate in any OECD, EEA, EFTA country or the Faroe Islands.

3.7.3 Anti-Avoidance

The Icelandic Supreme Court has held, with a reference to the main underlying principle behind Article 57 of the Income Tax Act, that transactions may be disregarded if their purpose is only to circumvent tax.

3.7.4 Transfer Pricing

The transfer pricing provision is based on the arm's length principle. If prices are not in accordance with the principle they shall be adjusted using the transfer pricing guidelines issued by the OECD. Related party definition extends to direct or indirect ownership and/or control of legal entities as well as individuals which are considered related by family.

Companies which total revenue or assets in the beginning of the year or at year end are above ISK 1,000 million are obligated to keep documentation about the nature and extent of transactions with related parties, the nature of the relationship and the basis of price decided. The document obligation refers to the guidelines issued by the OECD.

The documentation obligation does not apply to transactions between related parties that are domiciled in Iceland.

3.7.5 Country-by-country reporting

A Parent company registered in Iceland that owns subsidiaries abroad thereby forming a multi-national enterprise (MNE) is required to submit to the tax authorities a so-called country-by-country report (CBCR). The report should contain information on the MNE's distribution of income and taxes paid as well as information as to the activities of the undertakings within each reporting jurisdiction.

A CBCR need only be reported if the MNEs revenue is above ISK 100 billion.

3.7.6 Thin Capitalization

The deduction of interest expense from loan agreements between related parties is limited to 30% of the taxable operating profit (EBITDA). Interest expense in excess of 30% of the taxable operating profit is non-deductible.

The interest expense deduction limit does not apply if:

- a) Interest expense of taxable party from loan agreements between related parties is less than ISK 100 million.
- b) The lender has unlimited tax liability in Iceland.
- c) The taxable party demonstrates that its equity ratio is no less than 2% below the equity ratio of the group it is a part of.
- d) The taxable party is a financial corporation or an insurance company.

3.7.7 Controlled Foreign Company

A taxable party that owns shares in companies resident in a low tax jurisdiction shall pay income tax on the profits of the companies in proportion to its shareholding without regard to dividend distribution. The same applies to a taxable party managing a company or an asset portfolio in a low tax jurisdiction from which the taxable party derives direct or indirect benefits.

3.7.8 Cross Border Merger

If a limited liability company is liquidated by completely merging it with another public limited liability company, domiciled in another EEA or EFTA member state, or the Faroe Islands, and the shareholders of the former company only receive shares in the latter company as consideration for their shareholding in the liquidated company, then the change as such does not constitute taxable income for the shareholder giving up shares. In such mergers of public limited liability companies the surviving company assumes all legal tax obligations and rights of the liquidated company as of the balance sheet date according to the merger schedule.

In cross border mergers, where an Icelandic company is taken over, the assets, rights and obligations taken over and transferred shall be treated for tax purposes as if they had been sold or redeemed.

Taxable income shall be calculated on the basis of the difference between the fair value of assets and their taxable initial value taken into account previous depreciation on the date on which

the balance sheet in the merger schedule is based and tax assessment shall be based on that time limit.

In calculating taxable income according to this provision the assets remaining in Iceland, and which could be considered as part of the operation of a permanent establishment owned by the merged company, provided that it will be registered in Iceland, may be excluded from taxation.

Payment of the due income tax liability can be deferred up to five calendar years.

The deferred amount is interest bearing and penalty interest is levied on late payments.

Conditions for the deferral are:

- the acquiring company must be resident of the EEA, EFTA or the Faroe Island.
- the merger must be absolute, i.e. all assets and liabilities of the companies are included in the merger.
- the owners of the acquired company only receive equity in the acquiring company as consideration for their equity in the acquired company.
- the acquired company must have submitted tax returns for the current and previous years.
- the acquiring company must submit its annual financial statements each year, whereby information about the acquired assets are provided.
- if a company is resident in a low tax jurisdiction (less than 2/3 of the Icelandic income tax) the company must demonstrate that it has real economic activity.
- a double tax treaty or other international treaty must exist between states which can be used to obtain all necessary information.

3.8 Cross Border De-Merger

If a limited liability company is de-merged in such a way that all assets and liabilities are divided between the de-merged company and/or the receiving company or companies established by the de-merger, domiciled in another EEA or EFTA member state, or the Faroe Islands and the shareholders in the former company only receive shares in the company or companies that received the assets and liabilities, then the exchange as such does not constitute as taxable income for the shareholder giving up shares.

This provision does not apply if companies involved in the de-merger are, or would be, domiciled in a low tax jurisdiction unless it can be demonstrated that the companies are engaged in real operations.

The provisions on cross border mergers also apply to cross border de-mergers such as calculations, reporting, calculation of taxes, postponement, payments, bank guarantees, domestic companies and obligation to provide information as applicable. However all companies involved in the de-merger process assume all legal tax obligations of any taxes assessed as a result of the de-merger. If the de-merger results in the original company to be dissolved the receiving companies assume undivided responsibility.

3.9 Change of Domicile Cross Border

If a limited liability company transfers its domicile or assets to another country within a EEA or EFTA member state, or the Faroe Islands the transfer shall not result in taxable income for the company or its shareholders, provided such transfers are authorized by the companies acts.

This provision does not apply if the companies or assets are transferred to a low tax jurisdiction unless it can be demonstrated that the companies are engaged in real operations.

The provisions on cross border mergers also apply to domicile changes cross border as applicable. However when assets are transferred, payments of any taxes that would be levied due to the change of domicile will be the responsibility of the company with a domicile in Iceland surrendering the assets.

3.10 Sole Proprietorship Converted to Private Limited Liability Companies

An operation carried out in the name of an individual can be converted into a private limited liability company domiciled in another EEA or EFTA member state, or the Faroe Islands.

The provisions on cross border mergers apply to conversions of sole proprietorship to private limited liability companies as applicable. Payments of any taxes levied due to the change are the joint responsibility of the individual and the new company.

It must be emphasized that all cross border transactions as described above are currently subject to the approval of the Central Bank of Iceland.

3.11 Tax Incentives

Icelandic tax law provides for tax incentives in relation to film making and music recording in Iceland. Reference is made to chapter 11 for more information.

Tax incentives are also provided to support innovations in Iceland. Reference is made to chapter 12 for more information.

4 Other Taxes and Charges

4.1 Real Estate Tax

Municipalities levy an annual real estate tax on the official premises valuation of immovable property. The amount of the tax varies (up to 1.65%), depending on the municipality and the type of real estate.

4.2 Social Security Contributions

In the case of salaries paid to employees, social security contributions are payable by employers and self-employed persons.

Social security contributions are imposed on all employees and self-employed persons' remuneration (for example salaries, benefits and the employer's part of premiums to the pension funds). The contributions are partly used to finance the social security system. For the year 2017 the general rate is 6.85%. An additional 0.65% is payable with respect to fishermen and sailors. If an employee has a foreign A1 certificate the social security contribution is 0.425% on his or her salaries.

Both employees and employers are required to pay premiums into pension funds. Collectively, the minimum payment is 12% of gross salary. The employees' part is usually 4% which is deductible from the employment income tax base. Employers provide minimum 8%⁷ in addition to the employees' contribution. Self-employed persons pay both the employee's and employer's part of the pension fee.

Furthermore, employees may choose to make additional payments of up to 4% into pension funds. If employees choose to make the additional payments, the employer is obliged to pay an additional 2% premium to the pension funds for the benefit of the employees.

7. Some wage agreements stipulate a higher employer contribution. According to an agreement between the Icelandic Confederation of Labour and SA-Business Iceland the employer contribution was raised from 8% to 8.5% as of July 2016. The employer contribution will be raised to 10% on 1 July 2017 and to 11.5% on 1 July 2018.

4.3 Agricultural Charge

An agricultural charge is assessed on all agricultural activities of tax payers. The taxable base is the sale of goods and services of any kind. For income years 2016 (assessment years 2017), the rate is 1.2% levied on total turnover⁸.

5 Assessment and Payment of Taxes

The tax year is the calendar year. Under certain circumstances, permission to use a tax year different from the calendar year may be granted by the Internal Revenue Directorate upon application.

Annually the Internal Revenue Directorate decides the last day of filing corporate income tax returns, together with supporting documents. That date is 31 May 2017. Upon the filing of an application, extensions may be granted by the Internal Revenue Directorate. Assessment is completed within 10 months from the end of companies' accounting period.

Companies are required to make monthly advance tax payments, except January and October, until assessment has been completed. The instalments are determined as a given percentage of the previous year's assessment, or 8.5% per month in 2017. Any deficit remaining when final tax is assessed must be paid in equal instalments in November and December.

Payments of withholding tax on dividend and interest income received in 2017 are due quarterly; on 20 April 2017, 20 July 2017, 20 October 2017 and 20 January 2018, and deadline for payment is 15 days later.⁹

6 Foreign Currencies

6.1 Accounting Records and Financial Statements in Foreign Currencies

Icelandic companies can, after receiving the authorization of the Annual Account Register, keep their accounting records and prepare annual accounts in foreign currencies. An application must be filed, at the latest two months before the beginning of the company's fiscal year, or within two months from the establishment of a new company.

8. The agricultural charge will cease January 1st 2017.

9. Payments of withholding tax on dividend and interest income made to non-Icelandic entities/persons are due in the 15th of the month following the payment month.

When companies apply for authorization to keep their accounting records and prepare annual accounts in a foreign currency, the company's functional currency must correspond to the currency the company applies for. Accordingly, the functional currency must be the currency that proportionally weighs the most of all other currencies in the company's or conglomerate's transactions. Such decision must be based on an integral evaluation of all relevant factors, including but not limited to, operating revenue, operating expenses, assets and liabilities.

Furthermore, the Annual Account Register practice reveals that due consideration should be given to the International Accounting Standard no. 21 ("IAS 21").

According to IAS 21 when determining a functional currency emphasis should be placed on the company's primary economic environment. The primary economic environment in which an entity operates is normally the one in which it primarily generates and expends cash. Also, functional currency is normally considered to be the currency that mainly influences sales price for goods and services, and the currency of the country whose competitive forces and regulations mainly determine the sales price of its goods and services.

A company that has been granted the above authorization must apply the same reporting currency for at least five years, unless it no longer fulfils the conditions necessary. The Annual Account Register oversees that authorized companies fulfil the above conditions on a continuous basis.

6.2 Tax Returns for Companies Authorized to Keep their Accounting Records and Prepare Annual Accounts in Foreign Currencies

Companies that have been granted authorization to keep their accounting records and prepare annual accounts in foreign currencies must file annual accounts, in the authorized currency, in accordance with the Annual Accounts Act. The authorized companies must file tax returns with itemized amounts as presented in the annual account and the amount of taxable income or net loss converted into Icelandic krona using an average conversion rate for the year. Assets, liabilities and equity are converted into Icelandic krona using the year end conversion rate. Possible translation difference arising on the conversion to Icelandic krona does not affect the amount of taxable income or net loss.

Companies with an authorization from the Annual Account Register can keep their accounting records in Icelandic krona parallel to entering their books in the functional currency. In these circumstances the entry of books in Icelandic krona can be used as basis for the tax returns.

The chosen method must be applied consistently for a period of not less than five fiscal years.

7 Non-Resident Companies

Non-resident companies are subject to income tax on their income from Icelandic sources as shown in the following table:

	Tax base	LLC ¹⁰	Legal entities other than LLC
Income from services carried out in Iceland.....	Net income	20%	36%
Income from a permanent establishment	Net income	20%	36%
Income from immovable property.....	Net income	20%	20%
	Tax base	LLC ¹⁰	Legal entities other than LLC
Income from Iceland e.g. royalty, patent and capital gain on movable property .	Gross income	20%	20%
Dividend and capital gain from Icelandic shares	Gross income	18%	18%
Interest arising in Iceland	Gross income	10%	10%

8 Withholding Tax - Tax Treaties

8.1 Withholding Tax

8.1.1 Dividend

Dividend paid by resident companies to shareholders is subject to a withholding tax of 20% for all recipients other than non-resident legal entities for which the rate is 18%. The withholding tax is not final for Icelandic and other EEA resident companies, but is reimbursed in connection with the ordinary tax assessment in October the year after the distribution has taken place, presupposed that an Icelandic tax return has been filed.

10. Limited Liability Companies.

A request can be filed to the Internal Revenue Directorate to apply tax treaty rates on dividend distributions.

If a company is liquidated without a merger, any distributions in excess of the purchase price of the shares shall be treated as dividend for tax purposes.

8.1.2 Interest

Interest paid to residents and non-residents is subject to a withholding tax. For the income year 2017 the rate is 20% for all residents and 10% for all non-residents. The rate can be reduced by applicable double taxation treaties presuming that an application for exemption is filed at the Internal Revenue Directorate.

8.1.3 Royalties

Royalties paid by resident companies to non-residents are subject to a withholding tax of 20%. The rate can be reduced by applicable double taxation treaties.

8.2 Double Taxation Relief

The bilateral and multilateral tax treaties concluded by Iceland provide for relief from double taxation of income in the form of a credit for foreign tax or an exemption of foreign income.

A tax credit for foreign tax on income from non-treaty countries may be granted against national income tax at the discretion of the Internal Revenue Directorate.

Domestic Withholding Rates for Non Residents 2017¹¹

Domestic Rates	Dividend	Interest	Royalties
Companies	18% ¹²	10%	20%
Individuals	20%	10% ¹³	36.94-46.24% ¹⁴

11. Unless reduced by a tax treaty and a tax exception issued by the Internal Revenue Directorate.

12. In case the receiving company is an EEA tax resident company an effective tax rate on dividend of 0% is possible if the company files a tax return in Iceland.

13. Interest income under ISK 125,000 pr. year is taxed by 0% by assessment.

14. The tax rate for royalty income up to 10,016,484 is 36.94% and for royalty income above ISK 10,016,484 the tax rate is 46.24%.

Tax Treaties

Treaty Rates	Dividend Individuals/Companies	Interest	Royalties
Albania	10%/5% ¹⁷	10%	10%
Barbados	15/5% ¹⁵	10%	5%
Belgium	15/5% ¹⁵	10%	0%
Canada	15/5% ¹⁵	10%	0% ¹⁶ /10%
China	10%/5% ¹⁷	10%	10%
Croatia	10%/5% ¹⁵	10%	10%
The Czech Republic ..	15%/5% ¹⁷	0%	10%
Cyprus	10%/5% ¹⁵	0%	5%
Denmark ¹⁸	15%/0% ¹⁵	0%	0%
Estonia	15%/5% ¹⁷	10%	5% ¹⁹ /10%
The Faroe Islands ¹⁸	15%/0% ¹⁵	0%	0%
Finland ¹⁸	15%/0% ¹⁵	0%	0%
France.....	15%/5% ¹⁵	0%	0%
Germany.....	15%/5% ¹⁷	0%	0%
Georgia.....	10%/5% ¹⁷	5%	5%
Greece.....	15%/5% ¹⁵	8%	10%
Greenland.....	15%/5% ¹⁷	0%	15%
Hungary.....	10%/5% ¹⁷	0%	10%
India	10%/10%	10%	10% ²⁰
Ireland	15%/5% ¹⁷	0%	0% ²¹ /10%
Italy	15%/5% ²²	0%	5%
Korea (Rep.)	15%/5% ¹⁷	10%	10%
Latvia	15%/5% ¹⁷	10%	5% ¹⁹ /10%
Liechtenstein.....	15%/0% ²²	0%	0%/5% ²⁶
Lithuania	15%/5% ¹⁷	10%	5% ¹⁹ /10%
Luxembourg	15%/5% ¹⁷	0%	0%
Malta	15%/5% ¹⁵	0%	5%
Mexico	15%/5% ¹⁵	10%	10%
The Netherlands.....	15%/0% ¹⁵	0%	0%
Norway ¹⁸	15%/0% ¹⁵	0%	0%
Poland.....	15%/5% ¹⁷	10%	10%
Portugal.....	15%/10% ¹⁷	10%	10%
Romania	10%/5% ¹⁷	3%	5%
Russia.....	15%/5% ²³	0%	0%
The Slovak Republic ..	10%/5% ¹⁷	0%	10%
Slovenia.....	15%/5% ¹⁷	5%	5%
Spain.....	15%/5% ¹⁷	5%	5%
Sweden ¹⁸	15%/0% ¹⁵	0%	0%

Treaty Rates	Dividend Individuals/Companies	Interest	Royalties
Switzerland.....	15%/0% ²²	0%	0%/5% ²⁴
Ukraine	15%/5% ¹⁷	10%	10%
United Kingdom.....	15%/5% ¹⁵	0%	0%/5% ²⁴
United States.....	15%/5% ¹⁵	0%	0%/5% ²⁵
Vietnam	15%/10% ¹⁷	10%	10%

Iceland has also signed so called “mini” tax treaties with Jersey (2008) and Guernsey (2008) which apply only to individuals and their non-capital income. Iceland has also signed Tax Information Exchange treaties (TIEA) with both above mentioned countries.

Tax Information Exchange treaties have been signed and implemented between Iceland and Anguilla (2012), Andorra (2012), Antigua and Barbuda (2012), Aruba (2012), The Bahamas (2012), Belize (2012), Bahrain (2013), The Bermudas (2012), Botswana (2015), Brunei (2015), The British Virgin Islands (2012), Cayman Islands (2010), Cook Islands (2012), Dutch Antilles (2012), The Dominican Republic (2013), Gibraltar (2012), Grenada (2013), Hong Kong (2016), Isle of Man (2009), Liberia (2013), Macao (2012), Marshall Islands (2014), Mauritius (2014), Monaco (2012), Niue (2014), Panama (2013), Saint Lucia (2013), Samoa (2012), San Marino (2012), The Seychelles (2014), Turks and Caicos Islands (2012) and Uruguay (2013). Tax Information Exchange treaties have also been signed but not implemented with Costa Rica, Guatemala, Jamaica, Montserrat, St Kitts and Nevis, Saint Vincent and the Grenadines, and Vanuatu. The Tax Information Exchange treaties will enter into force following the ratification process in the countries involved.

15. The rate applies to corporate shareholders with a minimum ownership of 10%. If the ownership is less than 10% the rate for individuals apply.
16. The rate applies to copyright royalties (except films, etc.), and to royalties for computer software or patent, or for information concerning industrial, commercial, or scientific experience (except information provided in connection with a rental or franchise agreement).
17. The rate applies to corporate shareholders with a minimum ownership of 25%. If the ownership is less than 25% the rate for individuals apply.
18. The Nordic Convention.
19. The rate applies to royalties paid for the use of industrial, commercial or scientific equipment.
20. The rate applies to fees for technical services.
21. The rate applies to the right to use computer software or patent concerning industrial, commercial or scientific experience.
22. The rate applies to corporate shareholders with a minimum ownership of 10%, and which has been held for a period of at least 12 months preceding the date the dividends were declared.
23. The rate applies if the Russian company owns directly at least 25% of the capital in the Icelandic company and the foreign capital invested exceeds USD 100,000.
24. The higher rate applies to: a) any information concerning industrial, commercial or scientific experience provided in connection with a rental or franchise agreement; b) a trademark associated with an agreement referred to in sub-paragraph a); or c) the copyright of a motion picture film or work on film or videotape or other means of reproduction for use in connection with television.
25. The higher rate applies to royalties for the use of trademarks, know-how in relation to a trademark, and films, etc.
26. Royalties for the use of any type of patents, trademarks, design or model plans, secret formulas or manufacturing process may also be taxed in the country of origin.

9 Value-Added Tax

As stated in the introductory provision of the Value added tax Act, no. 50/1988, a value added tax (VAT) shall be paid to the Treasury of all inland transactions at all stages, as well as of imports of goods and services. In principle, the tax liability covers all goods and valuables, new and used. The tax liability covers also all labour and services, regardless of name.

9.1 Taxable Transaction

As a general rule, VAT shall be paid to the Treasury on all inland transactions at all stages, as well as on imports of goods and services. Exemptions are specified in the VAT Act. For example health services, education, public transportation, rental of properties, athletic activities and social services are exempt from VAT.

9.2 Taxable and Tax-Exempt Parties

The duty to collect VAT and submit the proceeds to the Treasury is, as a general rule, imposed upon those who sell or deliver goods or valuables on a professional or independent basis or perform taxable labour or service.

A non-resident entrepreneur that does not have an office, or other fixed place of business, must appoint a representative who shall be legally obligated to carry out the non-resident entrepreneur's duties as they relate to registration, the submission of returns, etc. If a non-resident entrepreneur fails to appoint a representative in Iceland and neglects to register his enterprise, the purchasers of his services are responsible for the remittance of the tax due on the amount of the purchase (reverse charge).

9.3 Taxable Amount

The tax price is the price on which VAT is calculated upon the sale of goods and valuables, taxable labour and services. The tax price refers to total remuneration or total sales value before VAT. In other words the taxable amount is the actual sales price (excluding the VAT itself) of goods and services.

9.4 Taxable Turnover

The taxable turnover of a registered party includes all sales or deliveries of goods and valuables against payment, as well as sold labour and services. This includes the sales value of goods or taxable services that a company sells or produces or an owner

withdraws for his own use. Taxable turnover includes also sales or delivery of goods sold on a handling or agent basis and sales and delivery of machinery, instruments and equipment.

9.5 Tax Rate

The standard VAT rate is 24%. A reduced rate of 11% applies to the following goods and services:

- The rental of hotel and guestrooms and other accommodation (incl. campground facilities).
- The service of self-employed guides.
- Sale of food and other goods for human consumption. Sale of books, audio books, magazines, newspapers and national and regional periodicals.
- Sale of hot water, electricity and oil used for heating of houses and swimming pools.
- Radio and TV broadcasting license and subscription charges.
- Road tolls.
- Compact discs, records, tapes and other comparable mediums with music, not picture (excluded DVD's).
- Transportation other than scheduled transportation on land, air and sea.

9.6 Exempted Taxable Turnover (zero rate)

Article 12 of the VAT Act provides for exempted taxable turnover. If one of the exemptions mentioned therein is applicable, the transaction is not subject to VAT (zero rate). However, entities involved in exempted transactions still can claim input tax. The following list of exemptions is stated:

- Exported goods as well as labour and services provided abroad.
- Sales of services to parties neither domiciled nor having a venue of operations in Iceland, provided that the services are wholly used abroad. For example services of consultants, engineers, lawyers, accountants and other similar specialized services, except for labour or services related to assets or real property in Iceland.
- A service of refunding VAT to parties domiciled abroad.
- Shipbuilding and repair and maintenance work on ships and aircraft and their fixed equipment, as well as materials and goods used or provided by the company providing the repair work (does not cover boats less than six meters in length, pleasure boats or private aircraft).

- Charter of ships and lease of aircraft (does not cover boats less than six meters in length, pleasure boats or private aircraft).

9.7 Special Provision for Imports

Upon the importation of goods, VAT shall be collected on the customs price of a taxable good plus customs duties and other posts levied in customs.

Some goods are exempt from VAT upon importation such as small packages, works of art imported by the artists themselves and written material sent to scientific institutions, libraries and other public institutions without payment.

9.8 Reimbursement of VAT to Foreign Enterprises

A foreign enterprise/company, which is neither a resident of Iceland nor has a permanent establishment in Iceland, may under certain conditions obtain reimbursement of VAT paid on goods (i.e. equipment) and taxable services imported or purchased wholly or partly for the use of the company in Iceland.

A prerequisite for reimbursement is that the enterprise would be subject to VAT registration in Iceland and could state the VAT on such purchases as a part of input tax under the Icelandic VAT act. Another prerequisite for the reimbursement is that the company must neither have sold goods nor taxable services in Iceland during the period to which the application applies. Otherwise, the company would be obligated to register for VAT in Iceland.

When applying for a VAT reimbursement, supporting documents to be handed in with the application forms are the original invoice/import documents and a GST/VAT certificate or a certificate from the competent company registry which shows the nature of the enterprise's business activity.

10 Foreign Labour

10.1 Foreign Specialists

Foreign specialists employed by an Icelandic entity are only subject to a tax of 75% of their income for services performed in Iceland for the first three years as 25% of the foreign specialist's income for services rendered in Iceland is exempt from income and withholding tax, subject to further conditions.

10.2 Temporary-Work Agency

The term “temporary-work agency” refers to a service company which, according to a contract and in return for a fee, hires out its workers to perform work assignments at the workplace of a user company under the supervision of the latter.

Any person within the EEA wishing to provide temporary-work agency services in Iceland shall notify the Director of Labour eight days before commencement of such operation. Unregistered agencies may not provide temporary-work agency services in Iceland. Moreover, a temporary-work agency that provides services in Iceland for a total of more than ten working days during each twelve-month period shall have a representative in Iceland. The representative is responsible for providing the authorities with all information necessary according to legal rules and regulation.

Temporary-work agencies that are not established in any EEA state may not provide services in Iceland until they have become established in the country, unless specifically permitted under agreements to which Iceland is a party.

10.3 Live and Work in Iceland

10.3.1 Residence Permit

The main rule is that citizens of countries outside the EEA intending to reside in Iceland for more than 3 months must have a residence permit. There are certain exemptions from that main rule.

A citizen of an EEA country may stay and work in Iceland without a permit for up to three months from his arrival in the country, or stay for up to six months if he is seeking employment. If the individual resides longer in Iceland, he shall register his right to residency with the National Registry (Pjóðskrá). Residence in another Nordic country is not deducted from the residency period.

10.3.2 Work Permit

The Ministry of Welfare grants work permits. Residence and work permits are generally granted for the same length of time.

Temporary work permits are granted to the employer in order to employ a foreign national, presuming the following conditions apply:

- a) experts are not available within Iceland;
- b) Icelandic industries lack manpower, or other special reasons support the granting of a work permit;
- c) the local trade union in the relevant branch of industry, or the appropriate national union, has made its comment on the application;
- d) an employment contract has been prepared and signed covering a specific period or task and guaranteeing the employee wages and other terms of service equal to those enjoyed by local residents (cf. the Employees' Working Conditions and Compulsory Pension Rights Insurance Act). The employer must also guarantee to pay the cost of sending the employee back to his home if the employee becomes incapable of working for a long period due to illness or accident and in the event of the termination of employment for which the employee is not responsible;
- e) a health certificate and statement from the last place of residence has been submitted before the employee enters Iceland; and
- f) a criminal record certificate has been submitted before the employee enters Iceland.

A temporary work permit is granted for up to one year. An extension for up to two years may be granted if conditions a) - c) above are met. If an extension of residence or work permit is required, an application for such an extension must be filed before the permit period expires.

An employer can receive an anonymous interim work permit if conditions a) and b) above are met.

Foreigners who arrive in Iceland as tourists may not apply for a work permit unless they first depart from the country.

A work permit for a longer period of time may be granted in the case of citizens of countries having entered into agreements with Iceland regarding the right to work, or countries that are parties to international agreements on social rights.

EEA/EU citizens have the right to live and work in Iceland without a work permit.

Foreigners who are born Icelandic citizens and have lost their citizenship are not required to apply for a work permit. The same applies to foreigners in the private service of foreign diplomats.

The following groups of non-Icelandic citizens are not required to apply for a work permit, provided that they work in Iceland for a maximum of 90 days per year: scientists and lecturers; artists, with the exception of musicians employed by restaurants; athletic coaches; representatives arriving on business on behalf of companies that do not have branches in Iceland; drivers of buses registered in a foreign country, providing that the vehicles are carrying foreign tourists to Iceland; journalists and reporters of foreign news media employed by companies that are not established in Iceland; specialized employees, consultants, and instructors working in construction, installation, supervision, or equipment repair.

A permanent work permit is granted to non-Icelandic persons who have maintained legal residence in Iceland for a period of three years, have been granted a temporary work permit, and have obtained an unrestricted residence permit.

11 Reimbursements

11.1 Film Making in Iceland

Film producers are entitled to 25% reimbursement of eligible production cost in respect of film making in Iceland. Production cost refers to all cost incurred that is deductible from revenue of enterprises as stipulated in the Icelandic tax laws. However, payments to employees and contractors are only to be included in the production cost, if they are taxed in Iceland.

An application for reimbursement of production cost must be submitted to the Ministry of Industries and Innovation.

The applicant meets the following conditions to be eligible for reimbursement:

- a) the production shall be suited for promoting Icelandic culture and the history and nature of Iceland;
- b) the production shall be suited for enhancing the experience, knowledge and artistic ambition of those involved in the production;
- c) a specific company shall be established in Iceland for the production; an Icelandic branch or agency of a company registered in another EEA member state is considered a specific company;
- d) information on the principal parties involved in the film or television programme shall be submitted;

- e) information on domestic parties and their share in the production of the film or television programme shall be submitted;
- f) an itemized estimate of the production costs and sources of funding shall be submitted, together with confirmation by the funding parties and a declaration by the producer that the production conforms with the aims of the Act;
- g) information on the content of the proposed film or television program shall be submitted, including a manuscript, synopsis and information about filming locations;
- h) information on pending general distribution shall be submitted;
- i) the content of the film or television programme shall not violate the Film Censorship and Prohibition of Violent Films Act or Article 210 of the Criminal Code;
- j) the applicant shall have no outstanding state or municipal taxes or unpaid claims in Iceland due to the production and
- k) the production must be completed within three years from the date the confirmation of reimbursement was issued.

11.2 Music recording in Iceland

Publishers are entitled to 25% reimbursement of eligible production cost in respect of music recording in Iceland and in certain cases, cost incurred in another Member State of the European Economic Area.

An application for reimbursement of production cost must be submitted to the Ministry of Industries and Innovation. To be eligible for reimbursement there are several conditions that need to be met, such as the issued sound recordings need to be available to the public and the total playback time of the sound recordings exceeds 30 minutes.

12 Innovative Companies - Tax Deduction

Companies which invest in research or development projects and have obtained confirmation by the Iceland Centre for Research, are entitled to a special deduction from income tax amounting to 20% of expenses incurred on the projects provided the expenses fall under deductible operating expenses.

The maximum amount on which the deduction is calculated within each company shall not be higher than ISK 300 million for each operating year. In the case of purchased research or

development services, maximum expenses shall not be higher than ISK 450 million. In the case of joint projects the same amount applies to the project as a whole but the deduction is divided proportionally between the companies participating in the joint project.

Expenses incurred on each research and development project must be kept separate from other expenses incurred and supporting documents must be accessible to the tax authorities upon request.

13 Introduction

Tax rates for the years 2016 and 2017 (assessment years 2017 and 2018)

Income Tax	2016	2017
National income tax	22.68-31.8% ²⁷	22.5-31.8% ²⁸
Municipal income tax ²⁹	14.45%	14.44%
Income tax for people with limited tax liability ³⁰	34.45%	34.44%
Payroll Taxes	2016	2017
Pension fund obligatory ³¹	4%	4%
Pension fund alternative	up to 4%	up to 4%
Investment Income	2016	2017
Capital income	20% ³²	20% ³²
Other	2016	2017
Contribution to the Construction Fund for the Elderly ³³	10,464	10,956
Specific charge to the National Broadcasting Service ³³	16,400	16,800

14 Residence

As a general principle, any individual who stays in Iceland for more than 183 days during any twelve-month period is considered a resident from the date of arrival. Resident individuals are fully liable for tax payments in Iceland on their worldwide income. The tax liability ends as soon as the individual leaves Iceland. However, former domiciles remain fully tax liable in Iceland for three years after leaving the country, unless they prove that they have become subject to taxation in another country.

Non-resident individuals staying temporarily in Iceland for 183 days or less, and who derive income from employment during their stay, are subject to national income tax on such income.

27. Income tax rate on salary up to ISK 4,032,420 pr. year is 22.68%, on salary between ISK 4,032,020 to ISK 10,043,880 the rate is 23.9% and on salary above ISK 10,043,880 the rate is 31.8%.

28. Income tax rate on salary up to ISK 10,016,484 pr. year is 22.5%, on salary above ISK 10,016,484 the rate is 31.8%.

29. The average rate.

30. Such as director's fees and income received by artists with limited tax liability in Iceland.

31. For self-employed people, the minimum is 12%.

32. Unless reduced by a tax treaty the final taxation will be 20% by assessment. The tax rate on interest income under ISK 125,000 pr. year is 0% by assessment.

33. If the income base is higher than ISK 1,678,001 in the income year 2016 and higher than ISK 1,718,678 in the income year 2017.

They are allowed the same deductions for expenses as residents. The annual personal tax credit is applied in proportion to their stay in Iceland. Non-resident individuals staying temporarily in Iceland are also subject to municipal income tax in the same manner as residents.

Icelandic-source income in the form of remuneration to directors and committee members, grants, or remuneration for independent personal services and art performances is taxed by assessment at a rate of 20% in the income years 2016 and 2017, plus the average municipal income tax rate of 14,45% in income year 2016 and 14,44% in income year 2017.

15 Income Tax

15.1 Taxable Income

The concept of taxable income includes all kinds of payments made in cash and by other means and the monetary value can be ascertained. No significant items of compensation are tax-exempt in Iceland.

Taxable income is divided into three main categories:

- Category A comprises wages and salaries, including presumptive employment income of the self-employed (see below), employment-related benefits, retirement pensions, social security payments, grants, payments to copyright holders, royalties, etc.
- Category B comprises income from a business and income from an independent economic activity.
- Category C comprises capital income such as dividend, interest, rental income and capital gains.

The categorization is important because only deductions expressly provided for by law may be deducted from income falling under Categories A and C, and operating losses may only be deducted from income falling under Category B.

In computing the income tax of individuals not engaged in a business, the net results of Categories A are aggregated. Any Category C income derived by such individuals is taxed separately at a flat rate of 20%.

15.1.1 Self-Employed Individuals

A self-employed individual must declare as employment income an amount comparable to the remuneration he or she would receive if employed by an unrelated person (presumptive employment income). The same applies if an individual is employed by a partnership, in which he or she participates directly or indirectly as an owner. Furthermore, a spouse and children under 16 years of age who are employed by the taxpayer's business or partnership must declare as employment income an amount comparable to the remuneration they would receive if employed by an unrelated person.

An amount equal to the individual's own presumptive income, or to that of his spouse or children, is deductible as operating expenses from the income of the private or partnership business, whichever is appropriate. If the presumptive income declared by an individual is lower than that which he or she would earn if employed by an unrelated person, the Internal Revenue Directorate may increase his or her presumptive income. The presumptive income may not lead to an operating loss higher than the total sum of ordinary depreciation of fixed assets. The Internal Revenue Directorate issues an indicative list of salaries for this purpose.

The business income of individuals is subject to the same rules regarding computation of taxable income as applies to business income of companies. Individuals are subject to the same special taxes as companies, but income tax is levied at the rate applicable to individuals, not at the corporate income tax rate.

15.1.2 Capital Income

The treatment of interest income and expenses depends on whether they relate to a business or not. Interest income connected with a business is taxed in the same manner as other business income, whereas private interest income is subject to a flat 20% income tax of income in excess of ISK 125,000 pr. year. In case of individuals who are married or taxed jointly as cohabitants the capital income is taxed in the hands of the partner with the higher employment income. In that case the interest income below ISK 250,000 will not be taxed. However 50% of long term rental income will be taxed by 20%. The other 50% of the long term rental income will not be taxed.

Similarly, interest expenses of a business are fully deductible, whereas private interest expenses are not deductible.

15.1.3 Income of a Child

Income of children under 16 years of age, other than employment income, is taxed together with the income of the parent who has higher employment income or who receives child benefits for the child. The employment income of children younger than 16 years exceeding ISK 180,000 is always taxed in the hands of the child itself at a special rate of 6% (4% national income tax and 2% municipal income tax). Subject to certain conditions, a child's entire income may be taxed in the hands of the child itself. Children do not enjoy personal tax credits, see chapter 16.2 on Tax Credits.

15.1.4 Remuneration of Directors and Pension

There are no special provisions relating to the remuneration of directors. Such income is taxed as employment income in the normal manner (Category A).

There are no special provisions regarding pension. It is taxed as employment income in the normal manner (Category A).

15.2 Taxable Benefits

In principle, all benefits in kind are included in taxable income. In some cases for example, with regard to company cars, special rules apply.

15.2.1 Use of Vehicles

Full and Unlimited Use

If an employer provides an employee with a vehicle, and the employee has that vehicle at his full and unlimited disposal, this constitutes income for the employee. The annual income is calculated as 28%³⁴ of the initial purchase price of the vehicle as stated in the employer's depreciation report. The purchase price can be reduced by 10% annually down to 50% of the purchase price. This method can only be used for vehicles that are purchased in the year 2014 or later.

Annual income of a vehicle taken into use in the year 2013 or earlier is calculated as 28%³⁴ of the value as stated in the Internal Revenue Directorate valuation of different types and models of vehicles. The value can be reduced by 10% annually down to 50% of the valuation price.

34. If the employee pays the operation expenses himself the percentage is reduced by 6%.

Limited Use

An employee using a vehicle, provided by an employer, for transport between his home and workplace and for other limited use, is deemed to have received income from the employer. In the income year 2017 such deemed income is ISK 110 for each driven kilometre.

15.2.2 Housing Benefits

If an employer provides an employee with a house or other dwelling, and the employee has the dwelling at his disposal free of charge, this constitutes taxable income in the hands of the employee. The income shall be deemed to be equal to 3.5%, 4% or 5% of the real estate value of the house, depending on its location (5% for Reykjavik and vicinity). If the employer pays for heating and electricity, this shall constitute income for the employee at cost price.

15.2.3 Loans

If an employer grants an employee a loan with interest lower than the general interest rate published by the Central Bank of Iceland, the difference shall be deemed as taxable income in the hands of the employee.

15.3 Capital Gain

15.3.1 Capital Gain on the Sale of Immovable Property

Capital gain on the sale of privately owned immovable property is included in taxable capital income and taxed at the rate of 20%. Losses on the sale of such property are generally not deductible; however, they may be deducted from gain made on the sale of similar property in the same year.

Gain on the sale of a private residence is tax-free if the taxpayer has owned the residence for at least two years and its size is within certain limits. If the taxpayer has owned such a residence for less than two years, the gain may be rolled over through a reduction in the acquisition cost of another residence. Taxation of such gain may be deferred for two years, counted from the end of the year in which the sale takes place. Reinvestment in another residence can be made in Iceland or any country within the EEA, EFTA or the Faroe Islands.

Gain on the sale of immovable or movable property in the course of a business or an independent economic activity is included in taxable business income (Category B) and is calculated in the same manner as capital gains made by companies. Rules regarding deferral of taxation also apply.

15.3.2 Capital Gain on Sale of Shares

Gain on sale of privately owned shares is generally included in taxable capital income (Category C) and taxed at the rate of 20% (by assessment).

15.3.3 Capital Gain on Sale of Movable Property

An individual's gain on sale of private (non-business) movable property is generally not included in taxable income.

Gain on sale of immovable or movable property in the course of a business or an independent economic activity is included in taxable business income (Category B) and is calculated in the same manner as capital gain made by companies. Rules regarding deferral of taxation also apply.

15.4 Income Tax Rates

15.4.1 National Income Tax Rates

For the income year 2016 (assessment year 2017) the income tax rate is 22.68% – 31.8%³⁵. For the income year 2017 (assessment year 2018) the income tax rate is 22.5% - 31.8%³⁶. Capital income derived by individuals not engaged in a business is taxed separately at a rate of 20%. In the case of dividend and interest, the tax is withheld at source. Income taxed in such manner must be reported on the tax return. In the case of gain from the sale of immovable property and shares, as well as rental income from private immovable and movable property, the tax is levied by way of assessment unless the person has a limited tax liability in Iceland.

15.4.2 Municipal Income Tax Rates

The average municipal income tax rate on personal taxable income for income year 2016 is 14.45% and for income year 2017 is 14.44%.

35. For the income year 2016 the income tax rate on salary up to ISK 4,032,020 pr. year is 22.68%, on salary between ISK 4,032,020 to ISK 10,043,880 the rate is 23.9% and on salary above ISK 10,043,880 the rate is 31.8%.

36. For the income year 2017 the income tax rate on salary up to ISK 10,016,484 pr. year is 22.5% and on salary above ISK 10,016,484 the rate is 31.8%.

16 Allowances, Deductions and Credits

16.1 Deductions of Expenses

Payments to obligatory pension funds are deductible up to 4% of total employment income (Category A) and an additional up to 4% for payments into alternative pension funds.

Otherwise, no significant deductions are allowed from employment income.

With respect to business income (Category B), expenses incurred for the purpose of obtaining, securing, and maintaining taxable income can generally be deducted.

16.2 Tax Credits

All individual taxpayers (except children under the age of 16, see chapter 15.1.3 Income of a Child) are entitled to a personal tax credit against computed income tax from all income categories. This credit amounts to ISK 623,042 for the income year 2016 (assessment year 2017) and ISK 634,880 for the income year 2017 (assessment year 2018). If the credit is higher than the income tax, the excess will be applied by the State Treasury to settle the municipal tax payable. From the personal tax credit then unused 20/37 parts are to be used to pay the income tax on capital income. Any part of a single person's credit remaining thereafter is cancelled.

In the case of a married person (or a cohabiting person taxed as if married) any unused credit is added to the credit of the spouse.

16.3 Losses

Losses on the sale of private (non-business) property are generally not deductible; however, they may be deducted from gain made on the sale of similar properties in the same year.

Operating losses may only be deducted from business income (Category B). Net operating loss may be carried forward for 10 years. Carry-back is not allowed.

16.4 Share purchase tax discount

Individuals may be granted a tax discount when investing in small and medium sized companies for investments between ISK 0.3 and 10 million. If conditions are met, 50% of the investment is deducted from the individual's taxable income.

17 Assessment and Payment of Taxes

The tax year is the calendar year.

The Internal Revenue Directorate annually decides the last day of filing individual income tax returns. That day is the 15 March 2017 for the income year 2016.

The collection of individual income taxes (state and municipal) on employment income (Category A) takes place at source each month during the income year. Individuals deriving business income (Category B) or capital income (Category C), on which tax is not collected at source, may on their own initiative, pay the difference between the tax to be assessed and the amount already paid at source by 31 January following the tax year.

Final assessment for individuals takes place on the basis of the tax returns before the end of June of the year following the tax year. Any difference between income tax withheld and the assessed income taxes (national and municipal) is refunded, increased by 2.5% of the difference; any deficit is collected, increased by 2.5%.

17.1 Contribution to the Construction Fund for the Elderly

All individuals between 16 and 69 years of age who are subject to national income tax assessment are also required to pay a contribution to the Construction Fund for the Elderly, provided their income tax base is ISK 1,678,001 or higher. The contribution is ISK 10,956 for the assessment year 2017.

17.2 Specific Charge to the National Broadcasting Service

All individuals between 16 and 69 years of age who are subject to national income tax assessment are also required to pay a specific charge to the National Broadcasting Service, provided their income tax base is ISK 1,678,001 or higher. The charge is ISK 16,800 for the assessment year 2017.

18 Expatriates

There are in general no special provisions for expatriates.

However, expatriates with a foreign A1 certificate are not liable to pay social security contributions or contributions to Pension

Funds in Iceland. Instead, these employees shall pay social security contributions and contributions to pension funds in their home countries.

19 Double Taxation Relief

The bilateral and multilateral tax treaties concluded by Iceland provide for relief from double taxation of income in the form of a credit for foreign tax or an exemption of foreign income.

A tax credit for foreign tax on income from non-treaty countries may be granted against national income tax at the discretion of the Internal Revenue Directorate.

More information on Iceland's tax treaty network is provided in chapter 8.

20 Non-Residents

20.1 Employment Income

Employment income for work performed in Iceland received by non-resident from an Icelandic source is subject to 22.68% – 31.8%³⁷ income tax for the income year 2016 and 22.5 – 31.8%³⁸ for the income year 2017. In addition an average municipal tax of 14.45% for the income year 2016 and 14.44% for the income year 2017. These non-residents may deduct the personal tax credit from tax computed on such income.

20.2 Pensions and Retirement Benefits

Pensions and retirement benefits are subject to income tax and municipal tax. For the income year 2016 the income tax rate is 22.68% – 31.8%³⁷ and the average municipal tax rate is 14.45%. For the income year 2017 the income tax rate is 22.5% – 31.8%³⁸ and the average municipal tax rate is 14.44%. Personal tax credit is deducted.

37. For the income year 2016 the income tax rate on salary up to ISK 4,032,020 pr. year is 22.68%, on salary between ISK 4,032,020 to ISK 10,043,880 the rate is 23.9% and on salary above ISK 10,043,880 the rate is 31.8%.

38. For the income year 2017 the income tax rate on salary up to ISK 10,016,484 pr. year is 22.5% and on salary above ISK 10,016,484 the rate is 31.8%.

20.3 Director's Fee and Work Performed Outside of Iceland

Director's fee received by non-residents and employment income from Icelandic sources for work performed outside of Iceland is subject to 20% national income tax and average municipal tax, which is 14.44% for the income year 2017. Personal tax credit is not granted.

20.4 Permanent Establishment

Net income from a business through a permanent establishment is taxable at the same tax rate as employment income from work performed in Iceland, but no personal tax credit is granted. Other individual Icelandic-source business income is subject to 20% income tax and municipal tax which is 14.44% in 2017.

20.5 Capital Income

Gain on the sale of and rental income from, immovable property in Iceland, interest and other capital gain paid to non-resident individuals is taxed by assessment at a flat rate of 20%. Interest income lower than ISK 125,000 pr. year is not taxed. In case of individuals who are married or taxed jointly as cohabitant the capital income is in the hands of the partner with the higher total employment income. In that case interest income in excess of ISK 250,000 will be taxed by 20% tax rate.

Only 50% of long term rental income will be taxed by 20% tax rate. The remaining 50% of the long term rental income is not taxed.

21 Private Housing Benefits

The State Treasury provides compensation for interest expense incurred by individuals who purchase residence for their personal use. The amount of interest compensation is based on the interest on loans obtained for the purpose of financing the purchase of the residence. The benefits are income and net wealth related. There are limitations on the amount of interest that may be used as the basis for the calculation of the compensation, as well as limitations on the amount of the interest compensation itself.

The maximum private interest relief in assessment year 2017 is ISK 400,000 for an individual; ISK 500,000 for single parents; and ISK 600,000 for couples.

22 Child Benefits

Child benefits are payable to individuals or couples for all children under the age of 18 supported by the individuals. Child benefits are calculated on the basis of the following:

- Family type (couple or single parent),
- Number of children in the family,
- Income and net wealth of the family.

Advance payments of 50% of the estimated child benefits for a certain year are made on 1 February and on 1 May. Following the tax assessment in the end of June, the remaining parts of the child benefits are paid on 1 July and 1 October.

Annual child benefit rates in the year 2017

Child Benefits linked to Family Type and Income

Couples

For one child	ISK 205,834
For each child exceeding one	ISK 245,087
Extra benefit for children under the age of 7 years	ISK 122,879

Single parents

For one child	ISK 342,939
For each child exceeding one.....	ISK 351,787
Extra benefit for children under the age of 7 years	ISK 122,876

For couples with income in 2016 exceeding ISK 5,400,000 and for single parents with income exceeding ISK 2,700,000 the benefits are reduced by a certain percentage of the income in excess of that amount. The percentage is 4% in case of one child, 6% if two children, and 8% in case of three or more children.

23 Official Rate of Exchange

	Buying rate	Selling rate	Buying rate	Selling rate	Change
	31.12.16	31.12.16	31.12.15	31.12.15	
USD	112.55	113.09	129.28	129.9	-12.94%
GBP	138.57	139.25	191.59	192.53	-27.67%
CAD	83.48	83.93	93.00	93.54	-10.24%
DKK	15.977	16.071	18.884	18.994	-15.39%
NOK	13.071	13.147	14.704	14.79	-11.11%
SEK	12.396	12.468	15.35	15.44	-19.24%
CHF	110.5	111.12	130.14	130.86	-15.09%
JPY	0.9628	0.9684	1.0733	1.0795	-10.29%
XDR (SDR)	151.3	152.2	179.12	180.18	-15.53%
EUR	118.8	119.46	140.93	141.71	-15.70%

24 Entry Visas

Nationals of the other European Economic Area states (European Union and EFTA except from Switzerland) do not require entry visas to visit Iceland.

Furthermore, special agreements with approximately 100 countries – including all OECD countries, permit their residents to enter without visas, provided they have a valid passport.

Entry visas are typically granted for a three-month stay in Iceland.

25 Time and Dates

Iceland is on Greenwich Mean Time year-round and does not apply daylight-saving time.

From mid-May to mid-August, the sun only sets for around 3 hours a day, and it is effectively light for the whole 24-hour period. In mid-winter, the daylight lasts for about 5 hours a day.

26 Business Hours

Standard office hours are from 9:00 a.m. to 5:00 p.m. Many public offices are open from 8:00 a.m. to 4:00 p.m. during the summer. Banks are open from 9:15 a.m. to 4:00 p.m., Monday through Friday. Retail establishments' opening hours vary considerably but are often from 9:00 or 10:00 a.m. to 6:00 or 7:00 p.m. Some grocery stores remain open 24 hours a day.

27 Public Holidays

Iceland honours the following statutory public holidays:

- New Year's Day
- Maundy Thursday
- Good Friday
- Easter Day
- Easter Monday
- Ascension Day
- National Day (June 17)
- Bank Holiday (Monday after first weekend in August)
- Christmas Eve (half-day closing)
- First day of summer (Thursday following April 18)
- Labour Day (May 1)
- Whit Sunday
- Whit Monday
- National Sailors Day (first Sunday in June)
- Christmas Day
- Boxing Day
- New Year's Eve (half-day closing)

Three of these public holidays are Sundays. When other holidays fall on weekends, no holiday in lieu is given on a weekday.

28 International Transportation

Iceland maintains highly efficient regular air and sea links with both Europe and North America.

Several Icelandic and international airlines offer passenger and cargo services to and from more than forty gateways year-round on both sides of the Atlantic, and several other international carriers operate a number of services for at least part of the year.

Several Icelandic shipping lines operate regular cargo schedules serving ports in North America, Scandinavia, the United Kingdom, continental Europe, and the Baltic, and have highly developed international freight forwarding systems. Furthermore, these lines operate bulk charter transportation for specific imports and exports; for example, industrial raw materials and finished products. Iceland's harbours are ice-free all year.

Flight time: Europe 3–4 hours and North America 5–7 hours.

Shipping time: Europe 3–4 days and North America 7–8 days.

29 Telecommunications

Iceland offers excellent high-tech telecommunications services and the country is connected with both Europe and North America via fibre optic cables. The fact that Iceland has a well developed telecommunication system is proved by the country's top ratings in statistics over topics such as most internet hosts and internet users per capita.

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