

Article 57.b. of Act no. 90/2003, on Income Tax, c.f. amending Act no. 112/2016, from October 19, 2016, effective from January 1, 2017.

*Limitation on the deduction of interest expenses*

(1) Notwithstanding Article 31(1), deduction of interest and discount expenses, cf. 1 and 2 point of Article 49(1), of taxpayers according to Article 2, due to lending between associated parties according to Article 57(4), is limited to 30% of the taxpayer's profit (EBITDA). Any interest or discount expenses in excess are non-deductible.

(2) The term "profit" in paragraph 1 means profits according to financial statements plus income tax, interests, depreciation and amortization (EBITDA). If taxpayer has recognized participation income from another company within the group then such income shall be deducted and distributed dividend shall be added if such distribution has taken place.

(3) Paragraph 1 shall not apply if:

- a) Interest and discount expenses, cf. point 1 and 2 of Article 49(1), due to lending between associated parties, according to Article 57(4) are less than 100 million ISK.,
- b) Lender has full and unlimited tax liability in Iceland,
- c) The taxpayer demonstrates that his equity ratio is not lower than 2% of the consolidated equity ratio of the group to which he belongs (the exception does not apply if the equity has been increased within six months of the date of the financial statements and decreased again of the same amount within six months after the date of the financial statements; if taxpayer has recognized shareholding in other company within the group using participation in that company's equity then the cost value of the shares should be used to determine the equity ratio), or
- d) The taxpayer is a financial institution according to laws on financial institutions, insurance company according to laws on insurance activities or a company held by the before mentioned parties which has similar operations.

(4) The minister is authorized to set regulation which states for further conditions on the implementation of this Article and definitions of terms.