

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:

Barbados	Greenland	Norway
Belgium	Guernsey	Poland
Canada	Hungary	Portugal
Cyprus	India	Romania
China	Rep. of Ireland	Russia
Croatia	Isle of Man	Slovakia
Czech Rep.	Italy	Slovenia
Denmark	Jersey	Spain
Estonia	Rep. of Korea	Sweden
Faroe Islands	Latvia	Switzerland
Finland	Lithuania	UK
France	Luxembourg	Ukraine
Germany	Malta	US
Georgia	Mexico	Vietnam.
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 EEA, EFTA or the Faroe Islands may be refunded in connection with the tax assessment in November of the following year after the distribution has taken place, assuming the foreign company files the annual tax return.</p> <p>On interest paid to non-resident companies</p> <p>10 percent. Possible reductions applicable. Any premium or discount arising in transactions between two non-residents with debt of an Icelandic company 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>No, it is not specifically identified in the law, but can be included under royalties. In most DTT, technical services are taxed the same as royalties.</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

Companies may opt for consolidated taxation if one company owns at least 90 percent of the shares in another company. Consolidated taxation allows losses from one company to be offset against profits from the other companies. Consolidated taxation may not be extended to non-resident companies.

Registration duties

Registration duty for forming a private liability company is around EUR 800 and public liability company around EUR 1,600. A minimum fee is charged for changes in relation to the company which must be reported to the Registry of Companies.

Transfer duties

On the transfer of shares

No.

On the transfer of land and buildings

Yes, on deeds on immovable property and vessels. If the transfer is linked to Company Law merger, conversion of a private limited company to a public limited company or a division of a company, then the stamp duty does not apply.

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

Yes. The provision applies both to Icelandic individual and corporate holders of a company situated in a low tax country. A "low tax country" is where income tax is less than two-thirds of the Icelandic income tax. "Control" in this case is direct or indirect ownership of more than 50 percent, or if control has been held



within the financial year.

Transfer pricing rules

General transfer pricing rules

The new transfer pricing provision is based on the arm's length principle. If prices are not in accordance with the principle they must be adjusted according to the transfer pricing guidelines issued by the OECD.

Documentation requirement?

Companies with total revenue or assets at year-end above 1,000 million ISK are obliged 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.

Thin capitalization rules

No

General Anti-Avoidance rules (GAAR)

General anti-avoidance tax rule. Applicable if tax entities are considered to have negotiated in a manner that differs significantly from common practice in such transactions. According to case law, tax authorities need to demonstrate that the transaction was made between related parties with little or no commercial purpose other than the avoidance of tax. Parties have extensive reporting obligations to tax authorities, which also includes foreign subsidiaries or affiliates. Non-compliance with that obligation can be used against a party in assessment of 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: 20 percent 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 the projects.



Other incentives N/A

VAT The standard rate is 24 percent.

**Other relevant points
of attention** No.

Source: Icelandic tax law and local tax administration guidelines, updated 2016.



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