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

Notes: (a) The Nordic Convention.
(b) The Treaty does not cover dividend, interest or royalties..

Forms of doing business

Public Limited Liability Company
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

On dividends paid to non-resident companies

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.

On interest paid to non-resident companies

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.

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

20 percent

On fees for technical services

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.

On other payments

Yes. Gains from the disposal of shares in Icelandic companies are subject to a WHT: 20% in the case of individuals and 18% in all other cases. This also applies to transactions between two non-residents.

Branch withholding taxes

Branches fall under the same rules as LLC.

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 Stamp duties 0.8% stamp duty if the owner is an individual and 1.6% 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 2015.

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