



cutting through complexity

TAX

Icelandic Tax Facts 2012

In-depth Information on
the Icelandic Tax System

kpmg.is



Contents

01 Corporations

1	Introduction - Type of Tax System	4
2	Establishing a Business	5
3	Income Taxes	6
3.1	Taxable Income	6
3.2	Corporate Tax Rates	6
3.3	Valuation of Inventories.....	6
3.4	Reserves and Provisions.....	6
3.5	Tax Losses	6
3.6	Capital Gains	6
3.7	Depreciation.....	8
3.8	Groups of Companies	9
3.9	Tax Incentives	10
4	Other Taxes and Charges	11
4.1	Real Estate Tax	11
4.2	Social Security Contributions	11
4.3	Agricultural Charge.....	11
5	Assessment and Payment of Taxes	12
6	Foreign Currencies	12
6.1	Entry of Books and Preparation of Annual Accounts in Foreign Currencies	12
6.2	Tax Returns for Companies Authorized to Enter their Books and Prepare Annual Accounts in Foreign Currencies.....	14
7	Non-Resident Companies.....	14
8	Withholding Tax - Tax Treaties	15
8.1	Withholding Tax	15
8.2	Double Taxation Relief	15
9	Excise Tax on Manufactured and/or Imported Goods ..	18
9.1	Taxable Goods.....	18
9.2	Tax Base.....	18
10	Value-Added Tax	18
10.1	Taxable Transaction.....	18
10.2	Taxable and Tax-Exempt Parties.....	18
10.3	Taxable Amount	19
10.4	Taxable Turnover	19
10.5	Tax Rate	19
10.6	Exempted Taxable Turnover (zero rate).....	20
10.7	Special Provision for Imports	20
11	Foreign Labour.....	20
11.1	Temporary-Work Agency.....	20
11.2	Live and Work in Iceland.....	21

12	Temporary Reimbursement of Cost in Relation to Film Making in Iceland.....	23
13	Innovative Companies - Tax Deduction	24

02 Individuals

14	Introduction	26
15	Residence.....	26
16	Income Tax	27
16.1	Taxable Income	27
16.2	Taxable Benefits.....	29
16.3	Capital Gains	30
16.4	Income Tax Rates	31
17	Allowances, Deductions and Credits.....	32
17.1	Deductions of Expenses	32
17.2	Tax Credits	32
17.3	Losses.....	32
18	Assessment and Payment of Taxes	33
18.1	Contribution to the Construction Fund for the Elderly	33
18.2	Specific Charge to the National Broadcasting Service	33
19	Expatriates.....	34
20	Double Taxation Relief.....	34
21	Non-Residents.....	34
21.1	Employment Income.....	34
21.2	Pensions and Retirements Benefits	34
21.3	Director's Fee and Work Performed Outside of Iceland	35
21.4	Permanent Establishment.....	35
21.5	Capital Income	35
22	Private Housing Benefits	35
23	Child Benefits	36

03 General Info

24	General Information.....	38
24.1	Official rate of exchange	38
24.2	Entry Visas	38
24.3	Time and Dates	38
24.4	Business Hours.....	38
24.5	Public Holidays.....	39
24.6	Transportation and Communications	39

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. Dividends received by individuals and other non-corporate shareholders are taxed at a lower rate than earned income.

Tax rates for the years 2011 and 2012 (assessment years 2012 and 2013)

Income Tax	2011	2012
Limited Liability Companies	20%	20%
Partnerships	36%	36%
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%
Other Taxes and Fees	2011	2012
Tax on financial institutes ¹	0.041%	0.041%
Extra tax on financial institutes in 2012 and 2013 ¹		0.0875%
Specific charge to pension funds in 2012 and 2013 ²		0.0814%
Financial Activity Tax ³		5,45%
Specific Financial Activity Tax ⁴		6%
Specific charge to the National Broadcasting Service	17,900	18,800
Lodging tax (pr. overnight stay)		100
Annual surveillance fee for companies with functional and reporting currency other than Icelandic krona:		
Parent company	100,000	100,000
Subsidiary	50,000	50,000

1. The tax base is total debt.

2. The tax base is the net asset payable for pension benefits.

3. The tax is levied on insurance companies, banks and other finance organisations. The tax base is all salary payments.

4. At the 2013 assessment there will be levied a specific 6% Financial Activity Tax on income tax base that is over 1,000,000,000 ISK for entities that pay Financial Activity Tax. The specific Financial Activity Tax is to be paid in advance in the income year 2012. The first payment is due on April 1st 2012 (for January – March).

5. Employees having a foreign E101 certificate, the total Icelandic payroll tax amounts to 0.632% for the income year 2011 and 0.675% for the income year 2012.

6. If the employee pays into an alternative pension fund the employer has to pay extra 2% to the alternative pension fund.

Payroll Taxes	2011	2012
Social security contribution, contribution to the Bankruptcy Fund, and the market charge ⁵	8.65%	7.79%
Employers contribution to obligatory pension fund ⁶	8%	8%

2 Establishing a Business

Establishing a company in Iceland is simple as the procedure is fast (usually takes 2-4 days) and registration fees are moderate.

The most common business form in Iceland is the 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 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.

A stamp duty (capital duty) of 0.5% is levied on the nominal value of share certificates issued by private and public limited liability companies. Private limited liability companies are not required to issue share certificates.

Foreign limited liability companies may establish branches in Iceland. Foreign limited liability companies with legal residency in the EEA who conduct business in Iceland on the basis of a single contract engagement also have the option of a more simple form of registration.

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

3 Income Taxes

3.1 Taxable Income

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

3.2 Corporate Tax Rates

The corporate income tax rate for the years 2011 and 2012 (assessment years 2012 and 2012) is 20% for limited liability companies and 36% for other legal entities registered as taxable entities.

3.3 Valuation of Inventories

The value of inventories of raw materials and finished goods at year end is determined on a 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.

3.4 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.

3.5 Tax Losses

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

3.6 Capital Gains

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

Capital gains are 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 gains 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 gains are 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 equalised.

Finally, it should be noted that gains from a sale of property are, 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.

3.6.1 Disposal of Shares

Capital gains from the 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 profits of the foreign company have been subject to taxation at a rate that is not lower than the general tax rate in any OECD, EEA or EFTA country or Faroe Islands. The deduction is only permissible after carry-forward losses have been settled, including the loss of the income year. From 1 January 2011 the deduction only applies if the seller owned at least 10% of the company's shares on the date of the sale. As of 1 January 2012 the requirement for adjustment of loss and 10% ownership no longer applies.

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.

3.7 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 price.

The depreciation period of an asset starts at the beginning of the year that the asset is put 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.

The cost of acquiring production rights in agriculture that is purchased before 1 January 2011 can be amortized in full over a period of five years with equal annual amounts.

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.

3.8 Groups of Companies

3.8.1 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.

3.8.2 Inter-Company Dividends

Dividends received by one resident limited liability company from another can be deductible from taxable income of the recipient company. The condition for deductibility is that the loss of the year and carry forward losses have been offset. From 1 January 2011 there is also a condition that the receiver of dividend must hold at least 10% in the legal entity paying the dividend at the end of the year which the dividend payment relates to. As of 1 January 2012 the requirement for adjustment of loss and 10% ownership no longer applies.

The deduction also applies to foreign dividends received if the resident recipient company can demonstrate (1) that the dividends are 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 Faroe Islands.

3.8.3 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.

3.8.4 Transfer Pricing

According to a general provision of Icelandic tax law, financial transactions between taxpayers that differ substantially from those generally applicable to such transactions (not at arm's length), any financial benefit or advantage that would have accrued to one of the parties, but did not accrue to that party, may be added to that party's taxable income. The Internal Revenue Directorate (Ríkisskattstjóri) may also determine a reasonable purchase or sales price if property is acquired at an abnormally high price or sold at an abnormally low price.

The above provisions also apply to possible adjustments of taxable profits where an Icelandic business entity controlled by a foreign enterprise is subject to trade terms different from those that would normally apply between independent business entities.

3.8.5 Thin Capitalization

Icelandic tax law includes a general anti-avoidance clause that may be applicable to such cases.

3.8.6 Controlled Foreign Company

A taxable party that owns a share in a company resident in a low tax jurisdiction shall pay income tax on the company's profits 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.

3.9 Tax Incentives

Icelandic tax law provides for tax incentives in relation to film making in Iceland. Reference is made to chapter 12 for more information.

Tax incentives are also provided to support innovations in Iceland. Reference is made to chapter 13 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 income year 2012 the general rate is 7.79%. An additional 0.65% is payable with respect to sailors. If an employee has a foreign E-101 certificate the social security contribution is 0.675%.

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% 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 2% 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.

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 2011 and 2012 (assessment years 2012 and 2013), the rate is 1.20% levied on total turnover.

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.

Each year the Internal Revenue Directorate decides the last day of filing corporate income tax returns, together with supporting documents. That date is 31 May 2012. 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 advance tax payments each month, 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 2012. Any deficit remaining when final tax is assessed must be paid in equal instalments in November and December.

Payments of withholding tax on dividends and interest income received in 2012 are due quarterly, on 20 April 2012, 20 July 2012, 20 October 2012 and 20 January 2013 and deadline for payment is 15 days later.

6 Foreign Currencies

6.1 Entry of Books and Preparation of Annual Accounts in Foreign Currencies

Icelandic companies can, given the authorization of the Annual Account Register, enter their books 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.

The Annual Accounts Act states four conditions and companies must fulfil at least one out of the four in order to receive such authorization. The conditions are:

- The company's main operation is abroad or the company is a part of a foreign conglomerate which functional currency is not Icelandic krona.
- The company has foreign subsidiaries or associated

companies and the companies main operations are with those companies.

- The company's main operation is in Iceland but significant portion of its income comes from foreign entities in other currencies than Icelandic krona and that currency is considered to be the company's functional currency according to general accounting principles.
- The majority of the company's investments are abroad and liabilities relating to those investments are in foreign currencies. Also, the company will have to fulfil for two operational years, two out of the three following conditions:
 - The company's total assets are at minimum ISK 230 million;
 - operating revenue is not less than ISK 460 million;
 - the average number of employees is at least 50.

In addition, when companies apply for authorization to enter their books and prepare annual accounts in a foreign currency, the company's functional currency must correspond to the currency the company applies to use. Accordingly, the functional currency must be the currency that proportionally weighs the most out 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 does no longer fulfil 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 Enter their Books and Prepare Annual Accounts in Foreign Currencies

Companies that have been granted authorization to enter their books 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 enter their books 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 ⁷	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%
Income from Iceland e.g. royalty, patent and capital gain on movable property .	Gross income	20%	20%
Dividends and capital gain from Icelandic shares	Gross income	18%	18%
Interest arising in Iceland	Gross income	10%	10%

7. Limited Liability Companies.

8 Withholding Tax - Tax Treaties

8.1 Withholding Tax

8.1.1 Dividends

Dividends paid by resident companies to shareholders are subject to withholding tax. For the income year 2012 the rate is 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.

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 dividends for tax purposes.

8.1.2 Interest

Interest paid to residents and non-residents is subject to a withholding tax. For the income year 2012 the rate is 20% for all recipients other than non-resident legal entities for which the rate is 10%. 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. The rate for income year 2012 is 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 2012⁸

Domestic Rates	Dividends	Interest	Royalties
Companies	18% ⁹	10%	20%
Individuals	20%	10% ¹⁰	37.34-46.24% ¹¹

Tax Treaties

Treaty Rates	Dividends Individuals/Companies	Interest	Royalties
Belgium	15/5% ¹²	10%	0%
Canada	15/5% ¹²	10%	0% ¹³ /10%
China	10%/5% ¹⁴	10%	10%
Croatia	10%/5% ¹²	10%	10%
The Czech Republic ..	15%/5% ¹⁴	0%	10%
Denmark ¹⁵	15%/0% ¹²	0%	0%
Estonia	15%/5% ¹⁴	10%	5% ¹⁶ /10%
Faroe Islands ¹⁵	15%/0% ¹²	0%	0%
Finland ¹⁵	15%/0% ¹²	0%	0%
France	15%/5% ¹²	0%	0%
Germany	15%/5% ¹⁴	0%	0%
Greece	15%/5% ¹⁴	8%	10%
Greenland	15%/5% ¹⁴	0%	15%
Hungary	10%/5% ¹⁴	0%	10%
India	10%/10%	10%	10%
Ireland	15%/5% ¹⁴	0%	0% ¹⁷ /10%
Italy	15%/5% ¹⁸	0%	5%
Korea (Rep.)	15%/5% ¹⁴	10%	10%
Latvia	15%/5% ¹⁴	10%	5% ¹⁶ /10%
Lithuania	15%/5% ¹⁴	10%	5% ¹⁶ /10%
Luxembourg	15%/5% ¹⁴	0%	0%
Malta	15%/5% ¹²	0%	5%
Mexico	15%/5% ¹²	10%	10%
The Netherlands	15%/0% ¹²	0%	0%
Norway ¹⁵	15%/0% ¹²	0%	0%
Poland	15%/5% ¹⁴	10%	10%
Portugal	15%/10% ¹⁴	10%	10%
Romania	10%/5% ¹⁴	3%	5%
Russia	15%/5% ¹⁹	0%	0%
The Slovak Republic ..	10%/5% ¹⁴	0%	10%
Spain	15%/5% ¹⁴	5%	5%
Sweden ¹⁵	15%/0% ¹²	0%	0%

Treaty Rates	Dividends Individuals/Companies	Interest	Royalties
Switzerland	15%/5% ¹⁴	0%	0%
Ukraine	15%/5% ¹⁴	10%	10%
United Kingdom	15%/5% ¹²	0%	0%
United States	15%/5% ¹²	0%	0%/5% ²⁰
Vietnam	15%/10% ¹⁴	10%	10%

Iceland has initialized negotiations but not signed tax treaties with Cyprus. Further, Iceland has signed but not ratified tax treaties with Albania (2009), Austria (2004), Bulgaria (2008), Qatar (2009) and Slovenia (2007).

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 the above mentioned countries.

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

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

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

10. Interest income under ISK 100,000 pr. year is taxed by 0% by assessment.

11. The tax rate for royalty income up to ISK 2,760,000 is 37.34%, for income between ISK 2,760,001 to 8,452,416 the tax rate is 40.24% and for income over 8,452,417 the tax rate is 46.24%.

12. The rate applies to corporate shareholders with a minimum ownership of 10%.

13. 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).

14. The rate applies to corporate shareholders with a minimum ownership of 25%.

15. The Nordic Convention.

16. The rate applies to royalties paid for the use of industrial, commercial or scientific equipment.

17. The rate applies to the right to use computer software or patent concerning industrial, commercial or scientific experience.

18. 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.

19. 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.

20. The higher rate applies to royalties for the use of trademarks, know-how in relation to a trademark, and films, etc.

9 Excise Tax on Manufactured and/or Imported Goods

9.1 Taxable Goods

Excise tax is levied on a variety of goods, specified in the Icelandic Excise Tax Act.

9.2 Tax Base

The excise tax is calculated on two different tax bases. On the one hand, the tax base is the quantity of the product; i.e. the tax is a specific amount per kilogram or litre of taxable goods (quantity tax). On the other hand, the tax is a specific percentage of the manufacturing price of taxable goods; i.e. the manufacturing price of domestic goods or the CIF price of imported goods (price tax).

10 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.

10.1 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, passenger transportation, rental of properties, athletic activities and social services are exempt from VAT.

10.2 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).

10.3 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.

10.4 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.

10.5 Tax Rate

The standard VAT rate is 25.5%. A reduced rate of 7% applies to the following goods and services:

- The rental of hotel and guestrooms and other accommodation (incl. campground facilities).
- Sales of food and other goods for human consumption. The standard VAT rate 25.5% applies to sales of alcoholic beverages.
- Sales of books, audio books, magazines, newspapers and national and regional periodicals.
- Sales of hot water, electricity and fuel 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).

10.6 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).
- Rental of ships and aircraft (does not cover boats less than six meters in length, pleasure boats or private aircraft).

10.7 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.

11 Foreign Labour

11.1 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.

11.2 Live and Work in Iceland

11.2.1 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 (Þjóðskrá). Residence in another Nordic country is not deducted from the residency period.

11.2.2 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 cannot be found 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 four weeks 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.

12 Temporary Reimbursement of Cost in Relation to Film Making in Iceland

Reimbursement in respect of film making in Iceland of 20% of eligible production cost is reimbursed. 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 taxable in Iceland.

An application for reimbursement of production cost must be submitted to the Ministry of Industry Energy and Tourism.

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) a statement shall be submitted to the effect that the material to be produced is intended for general distribution to cinemas or television stations;
- 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 and
- j) the production must be completed within three years from the date the confirmation of reimbursement was given.

The aforementioned law on temporary reimbursement on production of films in Iceland expires at year-end 2016. All approved projects before that date will be reimbursed in accordance with the law.

13 Innovative Companies - Tax Deduction

An innovative company, which owns research or development projects and has obtained the confirmation by the Iceland Centre for Research, is 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 100,000,000 for each operating year. In the case of purchased research or development services, maximum expenses shall not be higher than ISK 150,000,000. 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 by innovative companies and supporting documents must be accessible to the tax authorities upon request.

14 Introduction

Tax rates for the years 2010 and 2011 (assessment years 2011 and 2012)

Income Tax	2011	2012
National income tax	22.9-31.8% ²¹	22.9-31.8% ²²
Municipal income tax ²³	14.41%	14.44%
Income tax for persons with limited tax liability ²⁴	32.41%	32.44%
Payroll Taxes	2011	2012
Pension fund obligatory ²⁵	4%	4%
Pension fund alternative	up to 4%	up to 2%
Investment Income	2011	2012
Capital income	20% ²⁶	20% ²⁶
Other	2011	2012
Contribution to the Construction Fund for the Elderly ²⁷	8,700	9,182
Specific charge to the National Broadcasting Service ²⁷	17,900	18,800

15 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.

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. Other non-resident individuals are subject to national income tax and municipal income tax on their income from Iceland.

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 18% in the income years 2011 and 2012, plus the average municipal income tax rate which was 14.41% in income year 2011 and 14.44% in income year 2012.

16 Income Tax

16.1 Taxable Income

The concept of taxable income includes all kind 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 dividends, interest, and capital gains.

The categorization is important because only deductions expressly provided for by law may be deducted from the 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%.

21. Income tax rate on salary up to ISK 2,512,800 pr. year is 22.9%, on salary between ISK 2,512,801 to ISK 8,166,600 the rate is 25.8% and on salary above ISK 8,166,601 the rate is 31.8%.

22. Income tax rate on salary up to ISK 2,760,000 pr. year is 22.9%, on salary between ISK 2,760,001 to ISK 8,452,416 the rate is 25.8% and on salary above ISK 8,452,417 the rate is 31.8%.

23. The average rate for the years 2011 and 2012 (assessment years 2012 and 2013).

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

25. For self-employed persons, the minimum is 12%.

26. Unless reduced by a tax treaty the final taxation will be 20% by assessment 2012 and 2013. The tax rate on interest income under ISK 100,000 pr. year is 0% by assessment.

27. If the income base is higher than ISK 1,481,021 in the income year 2011 and higher than ISK 1,557,716 in the income year 2012.

16.1.1 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 works for a partnership, in which he or she participates directly or indirectly as an owner. Furthermore, the spouse and children under 16 years of age who work for 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. 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 the computation of taxable income as is the 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.

16.1.2 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 100,000 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 200,000 will not be taxed. However 70% of rental income will be taxed by 20%. The other 30% of the rental income will not be taxed.

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

Capital income of married couples and cohabiting persons who are treated as married couples for tax purposes (hereinafter referred to collectively as couples) is taxed in the hands of the individual whose total employment income is the higher. Other types of income are taxed separately.

16.1.3 Income of a Child

The 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. Employment income of children younger than 16 years exceeding ISK 100,745 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 17.2 on Tax Credits.

16.1.4 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).

16.2 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.

16.2.1 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. Annual income is calculated as 26% of the value of a vehicle taken into use in the year 2010 or later, 21% for vehicles taken into use in the years 2007 – 2009, and 18% for vehicles taken into use in the year 2006 or earlier²⁸. For calculation purposes, the Internal Revenue Directorate annually publishes the valuation of the different types and models of vehicles.

28. If the employee pays the operation expenses himself the percentages are reduced by 6% (i.e. the percentage will be 20%, 15% or 12%).

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 2012 such deemed income is ISK 111 for each driven kilometre²⁹.

16.2.2 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. For assessment years 2012 and 2013, 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.

16.2.3 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.

16.3 Capital Gains**16.3.1 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 are calculated in the same manner as capital gains made by companies. Rules regarding deferral of taxation also apply.

16.3.2 Capital Gain on Sale of Shares

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

16.3.3 Capital Gain on the Sale of Movable Property

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

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 gain made by companies. Rules regarding deferral of taxation also apply.

16.4 Income Tax Rates**16.4.1 National Income Tax Rates**

For the income years 2011 and 2012 (assessment years 2012 and 2013) the income tax rate is 22.9% – 31.8%^{30,31}.

Capital income derived by individuals not engaged in a business is taxed separately at a rate of 20%. In the case of dividends and interest, the tax is withheld at source. Income taxed in such manner must be reported on the tax return. In the case of gains 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.

16.4.2 Municipal Income Tax Rates

The average municipal income tax rate on personal taxable income for income year 2011 was 14.41% and is 14.44% for income year 2012.

30. Income tax rate on salary up to ISK 2,512,800 pr. income year 2011 is 22.9%, on salary between ISK 2,512,801 to ISK 8,166,600 the rate is 25.8% and on salary above ISK 8,166,600 the rate is 31.8%.

31. Income tax rate on salary up to ISK 2,760,000 pr. income year 2012 is 22.9%, on salary between ISK 2,760,001 to ISK 8,452,416 the rate is 25.8% and on salary above ISK 8,452,417 the rate is 31.8%.

29. The amount may be changed by the Internal Revenue Directorate (Ríkisskattstjórn) in the year 2012.

17 Allowances, Deductions and Credits

17.1 Deductions of Expenses

Payments to obligatory pension funds are deductible up to 4% of total employment income (Category A) and an additional up to 2% 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.

17.2 Tax Credits

All individual taxpayers (except children under the age of 16, see chapter 16.1.3 Income of a Child) are entitled to a personal tax credit against computed income tax from all income categories. This credit amounts to ISK 530,466 for the income year 2011 (assessment year 2012) and ISK 558,385 for the income year 2012 (assessment year 2013). If the credit is higher than the income tax, the excess will be applied by the State Treasury to settle the municipal tax payable. Any part of a single person's credit remaining thereafter will be cancelled.

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

A member of a crew of an Icelandic ship is entitled to a credit against his computed income tax. This so called "sailor's credit" is a specified sum for each day the sailor is employed on board a ship. This credit is deducted from the computed income tax before the personal tax credit, and its amount is limited to the amount of income tax computed on the basis of wages received from the employer in question. The amount per day for income year 2011 is ISK 740 and ISK 493 for the income year 2012.

17.3 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). The net operating loss may be carried forward for 10 years. Carry-back is not allowed.

18 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 22 March 2012 for the income year 2011.

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 July 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%.

18.1 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 1,557,716 or higher. The contribution is ISK 9,182 for the assessment year 2012.

18.2 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 1,557,716 or higher. The charge is ISK 18,800 for the assessment year 2012.

19 Expatriates

There are in general no special provisions for expatriates. However, expatriates with a foreign E101 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.

20 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.

21 Non-Residents

21.1 Employment Income

Employment income for work performed in Iceland received by non-resident from an Icelandic source is subject to 22.9% – 31.8%^{32,33} income tax for the income years 2011 and 2012. In addition an average municipal tax of 14.41% for the income year 2011 and 14.44% for the income year 2012. These non-residents may deduct the personal tax credit from tax computed on such income.

21.2 Pensions and Retirements Benefits

Pensions and retirements benefits are subject to income tax and municipal tax. For the income year 2011 the income tax rate is 22.9% - 31.8%³² and the average municipal tax rate is 14.41%. For the income year 2012 the income tax rate is 22.9% – 31.8%³³ and the average municipal tax rate is 14.44%. Personal tax credit is deducted.

21.3 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 18% national income tax and average municipal tax, which is 14.44% for the income year 2012. Personal tax credit is not granted.

21.4 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 18% income tax and municipal tax which is 14.44% in 2012.

21.5 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 100,000 pr. year is not taxed. In case of individuals who are married or taxed jointly as cohabitant the capital income in the hands of the partner with the highest total employment income. In that case interest income in excess of ISK 200,000 will be taxed by 20% tax rate.

Only 70% of rental income will be taxed by 20% tax rate. The remaining 30% of the rental income will not be taxed.

22 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 2012 is ISK 400,000 for an individual; ISK 500,000 for single parents; and ISK 600,000 for couples.

32. Income tax rate on salary up to ISK 2,512,800 pr. income year 2011 is 22.9%, on salary between ISK 2,512,801 to ISK 8,166,600 the rate is 25.8% and on salary above ISK 8,166,600 the rate is 31.8%.

33. Income tax rate on salary up to ISK 2,760,000 pr. income year 2012 is 22.9%, on salary between ISK 2,760,000 to ISK 8,452,416 the rate is 25.8% and on salary above ISK 8,452,417 the rate is 31.8%.

23 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 July, the remaining part of the child benefits are paid on 1 August and 1 November.

Annual child benefit rates in the year 2012

Child Benefits linked to Family Type and Income

Couples

For one child	ISK 152,331
For each child exceeding one	ISK 181,323
Extra benefit for children under the age of 7 years	ISK 61,191

Single parents

For one child	ISK 253,716
For each child exceeding one	ISK 260,262
Extra benefit for children under the age of 7 years	ISK 61,191

For couples with income in 2011 exceeding ISK 3,600,000 and for single parents with income exceeding ISK 1,800,000 the benefits are reduced by a certain percentage of the income in excess of that amount. The percentage is 3% in case of one child, 5% if two children, and 7% in case of three or more children.

24 General Information

24.1 Official rate of exchange

	Buying rate 31.12.11	Selling rate 31.12.11	Buying rate 31.12.10	Selling rate 31.12.10	Change
USD	122.42	123.00	114.78	115.32	6.66%
GBP	188.97	189.89	178.04	178.9	6.14%
CAD	119.86	120.56	114.92	115.6	4.30%
DKK	21.305	21.429	20.575	20.695	3.55%
NOK	20.343	20.463	19.616	19.732	3.71%
SEK	17.739	17.843	17.105	17.205	3.71%
CHF	130.3	131.02	122.57	123.25	6.31%
JPY	1.5807	1.5899	1.4102	1.4184	12.09%
XDR (SDR) .	187.83	188.95	177.38	178.44	5.89%
EUR	158.4	159.28	153.37	154.23	3.28%

24.2 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.

24.3 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.

24.4 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.

24.5 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.

24.6 Transportation and Communications

24.6.1 International Transportation

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

Several Icelandic airlines offer passenger and cargo services to and from more than twenty 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.

24.6.2 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.

KPMG Iceland

Borgartúni 27

105 Reykjavík

T: +354 545 6000

E: tax@kpmg.is

www.kpmg.is

This booklet is intended to offer the user brief general information of interest and does not cover special cases. The information provided is not intended to replace or serve as substitute for any legal (in those jurisdictions where KPMG is permitted to practice law), accounting, tax, or other professional advice, consultation, or service. You should consult with a KPMG professional in the respective legal, accounting, tax, or other professional area. Based on specific facts or circumstances, the application of laws and regulations may vary.

© 2012 KPMG ehf., an Icelandic limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Printed in Iceland.