

LEX MUNDI
PUBLICATION

TAX PRACTICE GROUP
Multi-Jurisdictional Survey

TAX DESK BOOK

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ICELAND

Introduction

1. **Please give a brief overview of the types of taxes imposed in your jurisdiction (i.e., direct and indirect taxes and their components.)**

   In Iceland there are both direct taxes and indirect taxes. The main direct taxes are personal income tax. For the income year the personal income tax is levied at a 24,10% plus a 13,10% municipality tax, the monthly withholding tax on salary income is therefore 37,20%. The company tax is 15% and 23,5% for partnerships. The capital gain tax is 10% for individuals. The main indirect taxes are VAT which is levied at 7% for grocery etc. and 24,5% for services and so on. Please note from July 1st, a 8% high income tax will be levied on salary income. It is forseen that a substansial tax rise will occur in Iceland before the end of the year 2009.

INCOME TAXES – AS APPLIED TO BUSINESS ENTITIES AND INDIVIDUALS

Calculation of Income/ Profit Taxes

2. How is the taxable base determined?

The taxable base for companies and partnerships in business operations is determined as net operation profit after all operational expenses have been deducted. Regarding individuals all salary remuneration is included, i.e. direct payment, fringe benefits, such as car allowance, free housing etc. Car allowance can be deducted. From the salary remuneration up to 8 % payment into a pension fund in accordance to a pension fund can be deducted. Furthermore for indviduals a monthly deduction in the amount of ISK. 42.205 is applicable.

3. What revenues are included?

All revenues are applicablable by individuals, exept inheritance if the inheritance tax of 5% has been submitted to the state Treasury, all operational revenues are included by corporations and partnerships.

4. What deductions are allowed?

By individuals up 8% payments into a pension fund in accordance with a pension scheme is deductable, to some extent car usage for employer is deductable from car payments. From companies all operationals expenses in connection with maintaining or obtaining revenue or keeping revenue are allowed, amortisation, development cost and machinery if the machinery is not worth more than 280.000 ISK., if the value exceed ISK. 280.000,- then no deduction is allowed since this must be amortisezed and be put on the asset sheet in the balance sheet.

5. What are the major expenses that are not deductible?

By companies and partnerships, all fines are no deductible, expensive machinery, personal cost etc.

6. What are the applicable federal rates?

Individuals for 2009 24.10% plus 13,10% municipality tax = 37,20.
Companies 15%
Partnerships 23,5%

7. What are the applicable state and/ or other local rates?

Municipality tax of 13,10% for individuals.

Companies social security contribution tax 5,34%.

8. What are the applicable capital gains rates and base, if different and concessional tax treatment in case of business re-organization such as amalgamation, slump sale, demerger, etc?

The capital gain tax is 10%. Individuals can not posthpone or calculate loss agains capital gains except within the same year from the same origins, i.e. shares against shares. Effectively companies does not pay captial gain tax. The base for calculing of Capital gains is the difference between the initial purchase price + cost of selling etc. and the sales price. A company can re-invest its capital gains by investing in shares in another company. There is no capital gains on demerger nor amalgamation. In case of merger individuals might have to pay 10% capital gain tax.

9. How are operating losses handled?

Operating losses are deductable if the losses are in tight connection to the business operations.

10. How are capital losses handled?

Capital losses can be deducted from capital gains by companies.

Territorial Rules

11. What are the residence rules?

184 days in each 12 month period (the calender year) if overriden then the indivudal bears full and unlimited tax liability in Iceland. Companies are treated as residence if incoproated, operated and the place of actual managment is in Iceland.

12. Is worldwide income taxed?

Yes if full resident in Iceland.

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13. Tax credits - Are there tax credits relating to legal dispositions other than provisions in Double Taxation Treaties, on the possibility of deducting taxes paid abroad, or any others?

There is a possible to deduct tax paid abroad in case there is no DTA, then the tax payment must be proved by valid documents from correct authotirites.

Withholding Taxes

14. What are the rates on dividends for withholding taxes?

10% by individuals and 15% by companies in case of no DTA. In case of DTA 10-15% by individuals and 0-10% by companies.

15. What are the rates on royalties for withholding taxes?

15% by companies and 24,10% by individuals if no DTA in case of DTA the withholding tax is 0-10%.

16. What are the rates on interest for withholding taxes?

0% for individuals and 15% for companies

17. What are the rates of withholding tax on profits realized by a foreign corporation?

If the company has a PE in Iceland then net profits are taxed at a 15% tax rate.

18. Please list any other rates on withholding taxes that we should be aware of.

N/A

Tax Returns and Compliance

19. What is the taxable reporting period?

For individuals by the end of March each year (calender year) for companies September 20th each year (calender year).

20. What are the due dates for the filing of tax returns?

April 4th, for Individuals and September 30th, for companeis.

21. What are the key compliance requirements?

Tax return and annual balance sheet and annual report for companies. And VAT report if there is operations.

22. Are there any other requirements that we should be aware of regarding tax returns and compliance?

N/A

INDIRECT TAXES

23. Are there any indirect taxes in your jurisdiction?

Yes, VAT and custom.

24. How does it operate? Is it a VAT or a sales tax?

VAT is levied on sale.

25. How is the taxable base determined?

The tax base is the difference between the Input VAT and the Output VAT.

26. What are the applicable rates?

7%, 14% and 24,5%.

27. Are there any exemptions?

Yes if sold outside of Iceland, export of fish etc.

28. Are there any other taxes such as debit or financial transactions taxes enforced in you jurisdiction?

There are stamp duty on shares, bonds and securities and transfer of real estate, 0,4% to 1,5%.

PARAFISCAL CONTRIBUTIONS

29. Are there any parafiscal contributions (i.e. social security, science and/ or technology)?

yes Employer pays a 5,34% social security contribution. Industry is levied a 0,08% industrial charge. Pension fund contribution.

30. How do they operate?

Employer must pay a 5,34% social security contribution of the total remuneration of his employee, i.e. brutto salary remuneration. The 0,08% industrial charge is levied on the income.

31. How is the taxable base determined?

Social security contribution and pension fund contribution is based on the brutto salary remuneration of each employee.

32. What are the applicable rates?

5,34% social security contritbution and 0,08% Industrial charge and 11% pension fund contribution

33. Are there any exemptions?

No

INHERITANCE AND GIFT TAXES

34. Are there inheritance taxes, gift taxes or any other taxes like Wealth Tax, etc.?

Yes

35. If you answered yes to the question above, please describe what triggers the requirement for the tax, what the rate of tax is, and what is included in the taxable base.

We have inheritance tax levied at a 5% rate of net wealth of the estate. We do not have Wealt Tax

OTHER MATTERS

36. Are there any tax incentives granted for various matters such as research and development, investment in certain industries/ areas, etc.?

Yes

37. If so, please indicate if there are any of the following: anti-deferral regimes; transfer pricing provisions; tax avoidance measures like legislated General Anti-Avoidance Rules, etc.; controlled foreign companies regulations; thin capitalization rules

We have a new CFC legislation in Iceland and a general anti avoidance rule.

38. List the countries in which there are tax treaties. This could impact the withholding taxes on various distributions and to the extent possible, please itemize them below. Please include the impact upon withholding on compensation, interest, dividends or other distributions for each country listed.

USA, Greecem Belgium, UK, Estonia, Nordic Countries (Norway, Finnland, Denmark, Sweden), France, Greenland, Holland, India, Ireland, Italy, Canada, China, Korea, Lettland, Lithuania, Luxembourg, Malta, Mexico, Portugal, Poland, Russia, Slovakia, Spain, Swiss, Czech Republic, Ukraine, Hungary, Vietnam, Germany and Romania.