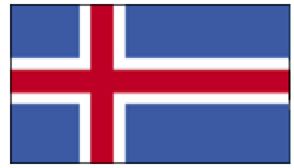
Iceland Highlights



Currency: Icelandic Krona (ISK)

Foreign exchange control: There are temporary restrictions on the flow of money out of Iceland. The central bank controls the restrictions and may establish a filing obligation on domestic parties that derive foreign currency from the provision of goods and services and deposit such income in domestic currency accounts.

Accounting principles/financial statements: IFRS/IAS. Annual accounts that comply with statutory accounting rules and disclosures must be submitted annually.

Principal business entities: These are the public and private limited company, partnership, joint venture and branch of a foreign corporation.

Corporate taxation:

Residence – Companies are resident in Iceland if they are registered with the company registry in Iceland, if their legal seat is in Iceland or if their place of effective management is in Iceland.

Basis – Resident companies pay tax on their worldwide income; nonresident companies are taxed only on income sourced in Iceland.

Taxable income – Taxable income includes all business income, as well as capital gains and interest, less allowable deductions.

Taxation of dividends – Dividends received are deductible from business income, provided current and carried forward losses have been exhausted. A company must deduct an 18% withholding tax when dividends are paid, although the tax may be reimbursed at the time of assessment if all qualifications are fulfilled. The effective tax is therefore 0%. The same rule applies to dividends paid to companies within the EEA. Other nonresident companies are subject to a 15% tax, which may be reduced under a tax treaty.

Capital gains – Capital gains of companies are taxed as income, although a deduction is possible in certain cases. No tax is levied on capital gains from the corporate sale of shares in companies. Gains on business property are included in business income, with provision for rollover relief where applicable.

Deduction from business operation income of capital gains from derivatives, where the underlying assets are shares, is not permitted.

Losses – Net operating losses may be carried forward for 10 years; carry back is not permitted.

Rate – The corporate income tax rate is a flat rate of 18% (increased from 15% as from 1 January 2010). Branches of foreign corporations are taxed at the regular corporate rate of 18% on Icelandic-source income. Partnerships registered as taxable entities pay tax at 32.7%.

Surtax – No

Alternative minimum tax – No

Foreign tax credit – A foreign tax credit is available for tax paid on foreign-source income up to the amount of Icelandic tax due on the income.

Participation exemption – See under "Taxation of dividends".

Holding company regime – No

Incentives – No

Withholding tax:

Dividends – Resident companies are subject to an 18% withholding tax. Nonresident companies are subject to a 15% tax. Final taxation of dividends paid to companies within the EEA is nil as withholding tax will be reimbursed in the year following payment upon assessment.

Interest – Interest paid to a resident company is subject to an 18% withholding tax, and interest paid to a nonresident company is subject to a 15% withholding tax.

Royalties – Gross royalties paid to a nonresident are taxable at the standard 18% corporate income tax rate.

Branch remittance tax – No

Other taxes on corporations:

Capital duty – No

Payroll tax – No

Real property tax – The municipalities impose tax on the assessed value of real property at various rates.

Social security – Social security contributions are imposed on all remuneration paid to an employee at the rate of 8.65%.

Stamp duty – Stamp duty is levied on the execution of various documents at rates ranging from 0.4% to 2%.

Transfer tax – No

Other – An industrial charge is levied on businesses engaged in industrial activities. The rate is equivalent to 0.08% of annual turnover.

Fees are imposed on parties that manufacture and/or import carbon products (e.g. gas, gasoline, diesel oil, jet fuel and combustion oil) for resale and/or for own use.

A special tax is collected from parties that sell electricity and/or hot water to end users.

Anti-avoidance rules:

Transfer pricing – Transactions between related companies (whether resident or nonresident) must be at arm's length. Otherwise, the tax authorities can adjust income. There are no documentation requirements and advance pricing agreements are not possible.

Thin capitalisation – No

Controlled foreign companies – A resident of Iceland that is a shareholder of a nonresident company (of any kind) is taxed on the income of the foreign subsidiary, regardless of whether the nonresident's income is distributed to the Iceland resident, if the Icelandic shareholder owns at least 50% of the capital or voting rights of the nonresident entity and the entity is resident in a low-tax jurisdiction. The same applies if a resident of Iceland controls a foreign company registered in a low-tax jurisdiction if the Icelandic national benefits directly or indirectly from the company.

Other – No

Disclosure requirements – No

Administration and compliance:

Tax year – The calendar year is used, unless the taxpayer is authorised to use a different year.

Consolidated returns – Consolidated taxation is possible if an Icelandic resident company owns at least 90% of another resident company. Consolidation allows the profits and losses of group companies to be offset against each other. Consolidated taxation is available only for resident companies.

Filing requirements – Companies must make monthly (except January and October) advance tax payments, calculated on the basis of the previous year's assessment. The tax return is due by 31 May following the end of the tax year. An assessment is raised by 31 October and final tax due may be paid by further monthly installments.

Penalties – Penalties and interest are imposed for late filing, failure to file and/or tax avoidance/evasion.

Rulings – The tax authorities will issue advance rulings on the tax consequences of a contemplated transaction upon the request of the taxpayer (whether or not resident).

Personal taxation:

Basis – Resident individuals are taxed on worldwide income; nonresidents are taxed only on income sourced in Iceland.

Residence – An individual is considered resident for tax purposes if he/she stays in Iceland in the aggregate 183 days or longer in any given 12-month period.

Filing status – Joint filing is available for married couples, persons in registered partnerships and couples who have lived together for more than 1 year or who have a child and wish to file jointly.

Taxable income – Iceland provides various categories of income for individuals: (1) wages and salaries, benefits and self-employment income; (2) income from the carrying on of a business; and (3) investment income. Employer contributions to pension funds that are higher than 12% of the employee's premium calculation base, plus ISK 2 million per year, are taxable as the employee's income.

Capital gains – Gains derived by an individual on non-business property and gains from the disposition of shares are taxed as investment income. Only 70% of income from the renting of residential real estate is taxable. Gains from the sale of a private residence are generally exempt if the property has been owned for more than 2 years.

Deductions and allowances – Payments to a pension fund for private pension insurance are deductible up to 8% of total employment income and presumptive employment income.

An individual taxpayer is entitled to a personal tax credit against computed state and municipal income taxes on all types of income except financial income (dividends, interest and royalties). This credit amounts to ISK 530,466 for income year 2010 (assessment year 2011).

Crew members of most Icelandic vessels are entitled to a credit against calculated income tax. This special credit is a specified sum for each day the crew member is employed on board a ship. The credit is deducted from the calculated income tax before the personal tax credit and is limited to the amount of income tax computed on the basis of wages received from the employer. However, the credit will be reduced by 25% per year for the next 4 years and be terminated in full as from 2014.

The state treasury pays benefits for every child under 18, with the amount depending on the marital status of the custodial parent. The benefits are partly linked to income. All parents receive an additional ISK 61,191 per year for children under 7, irrespective of income.

Rates – Iceland imposes 3 levels of taxation of individual income, other than investment income: income up to ISK 2,400,000 is taxed at 24.1%; income from ISK 2,400,001-7,800,000 is taxed at 27%; and income from ISK 7,800,001 and upwards is taxed at 33%.

The municipal tax on the same income varies between 11.24% and 13.28%, the average being 13.12%. Gross individual investment income exceeding ISK 100,000 is taxed at 18%.

Other taxes on individuals:

Capital duty – No

Stamp duty – Stamp duty is levied on the execution of various documents at rates ranging from 0.4% to 2%.

Capital acquisitions tax – No

Real estate tax – The municipalities impose tax on the assessed value of real estate at various rates.

Inheritance/estate tax – Inheritance tax is imposed at a rate of 5% on the recipient, whether or not a resident of Iceland.

Net wealth tax – Net wealth below ISK 90 million for individuals or ISK 120 million for couples (joint filing) is exempt from taxation; net wealth above these limits is taxable at a rate of 1.25%.

Social security contributions – The employer is liable for social security contributions on behalf of the employee.

Administration and compliance:

Tax year – Calendar year

Filing and payment – Employment income of individuals is taxed by way of withholding. Individual tax returns must be filed by a notified date, generally between 2 and 3 months after the end of the tax year. Tax is collected by an assessment that is raised by 31 July following the tax year.

Penalties – Penalties and interest are imposed for late filing, failure to file and/or tax avoidance/evasion.

Value Added Tax:

Taxable transactions – VAT is imposed on most sales of goods and the provision of services.

Rates – The standard rate is 25.5%. A lower rate of 7% applies to most foodstuffs, hotel accommodation, books and newspapers, and hot water, electricity and fuel oil used for domestic heating. Exemptions include medical services, vehicles using environmentally friendly power, insurance and a number of financial services. Exports are zero rated.

Registration – Registration for VAT is compulsory for businesses, including representatives of foreign enterprises. Nonresidents without a permanent establishment in Iceland must appoint a local VAT representative.

Filing and payment – Parties that are taxable under the VAT Act must arrange their accounts and settle liabilities so that the tax authorities can always verify VAT returns. All books, settlements and data related to VAT returns must be maintained for 7 years from the close of the relevant accounting year.

Each VAT settlement period is 2 months, January/February, March/April, May/June, July/August, September/October and November/December.

The VAT return and payment must be submitted no later than the fifth day of the second month following a settlement period for transactions during that period.

Source of tax law: Income Tax Law No. 90/2003, Withholding Tax Law No. 45/1987, Withholding Tax on Financial Income Law No. 94/1996, VAT Act No. 50/1988, Law on Stamp Duty No. 36/1978, Environmental and Natural Resources Tax Law No. 129/2009.

Tax treaties: Iceland has concluded around 30 tax treaties.

Tax authorities: Ministry of Finance, Internal Revenue Service

International organisations: EEA, OECD, UN, World Bank, various other international organizations and bodies and Nordic institutions

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