FDI Incentives

Iceland focuses on a favorable business environment, including low corporate tax, availability of land and green energy at competitive prices and efficiency within European legislative framework. New direct investment projects can apply for an investment agreement, ensuring generous regional incentives.
Foreign experts can receive special tax incentives. EU regulation does also allow general incentives for SMEs, R&D and environmental protection.

Regional Incentives

The Regional Incentives, according to Act 41/2015, apply to the whole of Iceland outside the capital area. The investment agreement with the government is valid for up to 10 years. The incentives include:

- Authorization to fix the rate of income tax down to 15%
- In the year when new assets are taken into operation, the company can elect to depreciate those assets with a proportional factor of the annual depreciation instead of full years depreciation
- Real estate, equipment and moveable assets can be depreciated fully, leaving no residual value
- Authorization to reduce the rate of property tax by 50%[1]
- Authorization to reduce the rate of the general social security charge by 50%[2]
- Exemption from customs duties and excise duties on importation or domestic purchase of construction materials, machinery and equipment, and other capital goods, as well as spare parts for the building of the investment project and the operation thereof
- Authorization for the state or the municipalities to sell or lease[3] a site for the investment project, at a price which is regarded as below normal market price

Application, limitation and ceiling

The Ministry of Industries and Innovation accepts applications for regional incentives and makes an offer for an incentives package, in the form of an investment agreement, based on the recommendation of a reviewing committee. Incentives are for specific projects that fulfill the criteria outlined in the legislation.

The annual turnover of the investment project shall be at least 300 million ISK or the investment shall create 20 permanent jobs during the first two years.

Examples of other criteria are: The establishment of a specific company in Iceland for the project; that the project shall not have started before the signing of the investment contract; 20% minimum own equity finance of the investment cost of the project; a minimum operational period in Iceland of 10 years and information on whether the investment project is subject to environmental impact assessment (EIA) by law.[4]

The incentives for initial investment in Iceland do not apply to investments in companies that provide services on the basis of legislation on financial undertakings, insurance operation or securities, nor to airports or energy production.

The general aid ceiling is 15% of initial investment cost. The ceiling can be lifted up to 25% for medium sized enteprises and up to 35% for small enteprises. For large investments (exceeding 50 million Euros) the aid ceiling decreases in line with the investment cost, in accordance with EU legislation on regional investment aid.[5]

1. Property tax is levied at a municipal level but has a ceiling of 1.65% of the property value. Registered sales contracts form the basis of new property valuations, where the sale prices are calculated to cash value. For large specialized industrial buildings market value is difficult to assess. Generally the assessment value is based on the real construction cost.
2. The general social security charge is currently 6.04% of the total salaries of employees.
3. Lease of municipal- or state-owned land, for up to 99 years, is the general rule. Long term land-lease contracts enjoy the same protection as private property.
4. The Icelandic legislation on EIA is harmonized with EU guidelines. Annex 1 of Act 26/2006 on EIA stipulates projects that are subect to an EIA. Annex 2 stipulates projects that are subject to an assessment as to whether an EIA is necessary. The National Planning Agency decides on Annex 2 projects in 6 weeks after receiving the necessary scoping documents.
5. The Minister does, by means of a Government regulation, provide further basis for the calculation of the permitted proportion of State aid pursuant to this Article in compliance with the EFTA Surveillance Authority Regional State aid Guidelines on regional aids for the years 2014–2020.

Incentives for R&D

Iceland offers incentives for research and development in the form of tax credits for innovation companies as outlined in Act No 152/2009, approved by the EFTA Surveillance Authority. The aid is granted as a reimbursement of the companies´ paid income tax.
The tax credit is 20% of the actual R&D cost with an annual ceiling of a total actual cost of ISK 100 million for internal R&D or ISK 150 million for R&D cooperation between two independent innovation companies. Under the scheme companies that carry out research and development projects can apply for a tax credit to the Icelandic Centre for Research (Rannís).

General incentives allowed under European legislation

Commission Regulation (EC) No 651/2014, on General Block Exemptions, declares certain categories of state aid compatible with the common EEA market, which Iceland is part of. These include:

- Incentives as Training aid of up to a maximum of 2 million Euros
- Incentives as aid to SMEs investment, up to 10% of investment cost in Medium Sized Enteprises or 20% of investment cost in Small Enteprises, with a ceiling of 7.5 million Euros [1]
- Incentives as aid to environmental protection investment projects up to a maximum of 15 million Euros

The Regulation falls under the Agreement on the European Economic Area and will be implemented accordingly into Icelandic legislation.
This work is underway.

Tax incentives for foreign experts

Foreign experts, hired to work in Iceland, enjoy personal tax incentives in the form of a 25% reduction of the tax base. So only 75% of their income is considered taxable for the first three years of employment, fulfilling specified conditions.

Depreciation

Depreciation rules in Iceland are in line with European legislation. The main categories are outlined below. The incentives, available as part of regional aid, include that real estate, equipment and moveable assets can be depreciated fully, leaving no residual value.

Movable Property

Passenger cars, ships and equipment for ships, aircraft and flight equipment: 10% - 20%

Industrial machinery and equipment: 10% - 30%

Office equipment, 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%

1. Guidelines from EFTA Surveillance Authority (ESA) on aid to micro-, small- and medium-sized enterprises define a mall enterprise as an enterprise which employs fewer than 50 persons and whose annual turnover does not exceed EUR 2 million and/or annual balance sheet total does not exceed EUR 10 million. A Medium-sized enterprise is an enterprise which employs 50–250 persons and which has an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million.

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