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Doing Business in Iceland

April 2018

Online version in pdf format

Published by Promote Iceland

Invest in Iceland is a one stop information centre for foreign investors and provides information on investment opportunities in Iceland and the business environment. Invest in Iceland is a part of Promote Iceland. Invest in Iceland's team provides free of charge information and expert confidential service on all aspects of investments, arranges site visits and plans contacts with local authorities as well as local business partners and professional consultants.

Promote Iceland assists Icelandic companies in doing business and exporting their products, services and expertise in the international marketplace. Promote Iceland offers the services of marketing professionals and consultants in Iceland and trade commissioners at Icelandic embassies abroad.

Published by Invest in Iceland

First edition 1999
Second edition Feb 2002
Third edition Feb 2004
Forth edition Sept 2005
Fifth edition Feb 2006
Sixth edition Feb 2008
Seventh edition Feb 2009
Eighth edition April 2010
Ninth edition February 2011
Tenth edition April 2012
Eleventh edition March 2013
Twelfth edition April 2014
Thirteenth edition April 2015
Fourteenth edition July 2016
Fifteenth edition March 2017
Sixteenth edition February 2018

The first edition of this book was written in cooperation between the Invest in Iceland Agency and major accounting firms in Iceland, with assistance from the Internal Revenue Directorate, the Ministry of Industry and Commerce (now, the Ministry of Industries and Innovation), and other government bodies. Subsequent editions were updated by Anna Linda Bjarnadóttir, Attorney at Law, LL.M.

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A. Executive Summary

A.1 Incentives and Official Attitude

Iceland has systematically made its business environment increasingly attractive for investment and location. A framework for incentives for initial investments in Iceland has been adopted[1] and Iceland has one of the lowest levels of corporate income tax in Europe. Regional incentives include the authorization to fix a ceiling on the income tax rate at 15% for 10 years, depreciate real estate, equipment and moveable assets fully, reduce the rate of property tax and the general social security charge by 50%, grant exemption from customs and duties for construction materials, machinery and equipment, and other capital goods and authorization for the state and municipalities to lease a site for the project at reduced rates. Advantages offered by Iceland for industrial investors include long term contracts for competitively priced green electricity and industrial steam. Industrial sites, with good natural harbours, for small and large ventures, are located in several parts of the country, and many local authorities have designed development strategies and scenarios which provide for new investments. Highly skilled labour is available, including experts in software and a wide range of research fields. Special incentives are granted for film and TV production in Iceland, whereby 25% of total costs are refundable. Production costs incurred in other EEA countries are also refundable within certain limits. Special incentives are also granted to certified innovation companies with their activities engaged in research and development projects. Foreign experts, hired to work in Iceland, do enjoy personal tax incentives. A special tax deduction allows that only 75% of the income is considered taxable for the first three years of employment.

A.2 Regulatory Constraints and Reliefs

As a member of the 31-nation European Economic Area, Iceland implements the same basic liberal business philosophy as the European Union. Except in a few limited areas, all EU commercial legislation and directives take effect in Iceland. Consequently, Iceland makes an ideal springboard for tariff-free access to the major EU market area, as well as a fully competitive location for EU companies to operate.

Exchange Controls

The temporary controls were lifted as of March 14 2017.

Foreign Ownership of Business

In principle, foreign ownership of business is unrestricted. However, some limitations apply to specific sectors, namely fishing, primary fish processing, energy production and aviation. A wide range of portfolio investment options are available through licensed securities trading companies.

A.3 Tax System

The Icelandic tax system is relatively simple and effective. The emphasis has been to simplify it further, reduce tax rates, broaden the tax base and conclude more double taxation conventions, which will increase the competitiveness of Icelandic corporations and attract foreign investors. With corporate income tax of 20% Iceland ranks among the lowest tax rates within the OECD member countries.

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[1] Please find detailed information on the incentives framework in chapter D.1 (Investment Incentives) and on Invest in Iceland website, www.invest.is

Some characteristics of Icelandic tax law:

- Corporate income tax of 20% on net income levied by the state only
- Dividends received by corporations are not taxable
- No requirements relating to percentage of stock ownership in the corporate payer apply
- Consolidated returns available for corporations under 90% common control
- Participation exemption available to domestic legal entities
- No branch profits tax levied on repatriated profits from branches
- Double taxation treaties available
- Foreign tax credit available to avoid double taxation in the absence of tax treaties
- No legislation on "thin capitalization"
- No basket system regarding the foreign tax credit
- Incentives available to initial investment projects
- Tax incentives available for research and development projects
- Fair CFC legislation

Taxes on Businesses

Companies which reside in Iceland, and Icelandic branches of foreign resident companies, are liable for corporate income tax (national income tax) on their net earnings. The corporate tax rate is 20% and no local corporate tax rate is applied. All businesses are charged a specific fee to Ríkisútvarpið ohf. (the National Radio). Net worth taxes on companies in Iceland have been abolished. Real estate taxes are paid locally by businesses, along with local service charges. Financial companies are liable for a specific tax on their total liabilities and on tax base above ISK 1 billion (USD 9,599,692.81).

Personal Income Taxes

Individuals resident in Iceland are subject to income tax at the following rates:

- Up to ISK 893,713............................36.94%
- Over ISK 893,713.............................46.24%

Personal income tax is withheld at source and paid as you earn. It is divided into national income tax (22.5 and 31.8%) and municipal income tax (averaging 14.44%), making a total of two progressive income tax rates of 36.94% and 46.24%. Personal allowance is granted in the amount of ISK 53,895 pr. month, which makes an annual income of ISK 1,750,783 (USD 16,807) tax-free. Taken into consideration the contribution to a pension fund (4%) the tax-free limit is ISK 1,823,732 (USD 17,507.27). Financial income of individuals is taxed at the rate of 20%. Resident individuals are taxed on their worldwide income. Non-resident individuals become tax residents if they stay in the country for more than 183 days out of a 12-month period. A non-resident individual is taxed on Icelandic-sourced income.

A.4 Financial Reporting and Audit Requirements

Every company which resides and operates in Iceland must submit annual accounts that comply with statutory accounting rules and disclosures, and reflect a true and fair view of the company's assets, liabilities, results and financial position. Presentation is modelled upon standard EU requirements. The requirement of adjustments being made to revalue assets and liabilities on the principles of inflationary accounting was abolished in 2001.

Companies that are above a certain size, and are publicly traded and have subsidiaries, are required to prepare consolidated group accounts. Tax returns are filed with local tax authorities. Corporations registered in Iceland, with the main part of their income from foreign sources, can apply to keep their books of accounts and records in a foreign currency. Publicly traded companies are allowed to issue their share capital in a foreign currency. Other non-publicly traded limited liability companies, with the main part of their income from foreign sources, are also allowed to issue their share capital in a foreign currency provided that certain requirements are met.

A.5 Guidance and Services for Potential Investors and buyers

Potential Investors - Invest in Iceland

Invest in Iceland is part of Promote Iceland and is responsible for attracting inward investment to Iceland. The Agency functions as a “one-stop shop” for foreign investors and provides information on investment opportunities in Iceland and the business environment. Invest in Iceland offers free and confidential services to potential investors on all aspects of location, arranges contacts with relevant authorities, law-firms, auditing firms and companies, fact-finding visits, etc.

Potential Buyers - Promote Iceland

Promote Iceland assists Icelandic companies in doing business and exporting their products, services and know-how in the international marketplace. Promote Iceland offers the services of marketing professionals and consultants in Iceland and trade commissioners at the Icelandic Embassies abroad. The services of Promote Iceland are organized into five main areas: Information, Training & Consultancy, Trade Fairs, Market Development and Invest in Iceland.

Foreign buyers can use the services of Promote Iceland if they are seeking specific products or services, potential business partners or information on Icelandic business environment. Promote Iceland also organizes a variety of events abroad, such as participation in Trade Fairs and Trade Missions with the aim of creating business opportunities and networking for Icelandic companies.

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B. General Background

B.1 Physical Background

Geography, Climate and Geology

Iceland is in the North Atlantic, about 3 hours by air from major cities in Western Europe and 5-6 hours from east coast USA. Shipping distances are 3-4 days to Europe and 7-8 days to North America. Its mid-Atlantic location makes Iceland an ideal base for business in both continents. Geologically it is a young country, whose active volcanic forces have created huge resources of geothermal energy, which can provide low-cost industrial steam and electricity, while pollution-free hydropower resources have been developed in the mountainous highland terrain. Despite its name, Iceland has a relatively mild climate for its northerly location at a latitude from 63°24' to 66°33'N and longitude from 13°30' to 24°32'W. The mean annual temperature in the capital, Reykjavík, is -1.5°C in January and 10.3°C in July. Temperatures for the northern town of Akureyri are -1.9°C in January and 10.9°C in July.

Resource Base

The location and geology of Iceland determine its main resources, which are fish from some of the richest and cleanest waters in the world and green hydro and geothermal energy. Iceland is the 16th largest fishing nation in the world, based on its catch volume in 2015. Another major resource is Iceland's unspoiled natural environment on which a large tourist industry is based. High levels of education and openness to innovation also make Iceland's human resources an important asset.

History

Iceland was settled in the ninth century A.D. by pioneering Vikings on the westward expansion, which took them as far as the shores of North America. They founded a unique republic in 930, and the oldest national parliament still functioning in the world today. Iceland passed under Norwegian and later Danish rule but became a fully independent republic again in 1944.

Language

Icelandic, the language spoken by the Icelanders, is really the ancient tongue of the Vikings and has changed remarkably little during the eleven centuries since the country was first settled. Knowledge of English is almost universal and most Icelanders speak at least one Scandinavian language. The majority of students, past compulsory schooling age, learn German, Spanish or French.

Population

Total population: 350,170 (Q1 2018). Approximately 36.17% of the population live in the capital, Reykjavík, and 63.85% in the capital and neighbouring communities. With 20.38% of its population aged 15 and below, and 13.60% aged 65 or above, Iceland has the youngest population in Europe.

Source: Statistics Iceland. For updates see www.statice.is

B.2 International Framework

In 2009 Iceland submitted a formal application for accession to the European Union after Parliament voted in favour of applying Accession negotiations opened a year later. The application process was halted as of 2015. Iceland's new three-party coalition government says that Iceland's best interest is to stay outside the European Union. Iceland is a founding member of the European Economic Area (EEA). This free-trade zone allows the tariff-free movement of goods, services, capital and labour. Companies domiciled in any of the other 31 member countries of the EEA, and in fact in any of the OECD countries, have the same rights to operate in Iceland as companies domicile in Iceland. They only need to apply for the same permits and registration as companies domiciled in Iceland. Companies registered in Iceland are permitted to operate in all the countries of the EEA without any special permits or legislation. The same rules apply to movements of labour. A foreign national who intends to stay in Iceland for a period exceeding three months must have a residence permit. However, a national of an EEA member country in search of a job may stay in Iceland for six months without a residence permit. A standard tax credit can be obtained within the tax authorities. Iceland is actively involved in the work of major international organizations. It is a member of the United Nations, Council of Europe, NATO, EFTA, OECD, GATT, GATS and WTO, and cooperates particularly closely in cultural and social fields with Scandinavian countries through the Nordic Council. In 2019, Iceland will take over the presidency of the Nordic and Baltic States at the World Bank for two years. This means that Iceland will have a primary representative in the board of the World Bank on behalf of the Nordic and Baltic States.

For further information see www.mfa.is

B.3 Government and Political System

National Government

Iceland is a parliamentary democratic republic. The head of state is the President, elected for a term of four years at a time, whose duties lie outside day-to-day party politics. The government is led by the Prime Minister. Parliamentary elections are held at intervals of no more than four years. There are 63 members of parliament, elected by proportional representation. Since no party has secured a parliamentary majority since the establishment of the Republic in 1944, Iceland has always been ruled by coalition governments. A new administration was formed after the 2017 parliamentary elections, consisting of the collaboration of the Independence Party, the Left Green Movement and the Progressive Party with Mrs. Katrín Jakobsdóttir, leader of the Left Green Movement, as Prime Minister, and Mr. Bjarni Benediktsson, leader of the Independence Party, as Minister of Finance and Economic Affairs. Parliamentary seats were won in the October 2017 elections by the Social Democratic Alliance (7), the Independence Party (centre-right) (16), the Left Green Movement (11), the Progressive Party (centre) (8), Reform (4), People's Party (4), Centre Party (7) and the Pirate Party (6). The next parliamentary elections are expected to be held in April 2021.

For further information and updates see www.government.is.

Local Government

Local elections are held every four years. Municipalities are responsible for specific services including basic health care and compulsory education and are allocated part of income tax revenues to fund their operations, along with property taxes and other smaller levies.

B.4 Legal Environment

Legislative Process

Parliament consists of a single chamber of 63 members. A simple majority is required for ordinary bills to be passed into law, while constitutional amendments require a two-thirds majority and take effect if they are then approved by the parliament, which convenes after the following general election. Approved bills are ratified by the President, who has the formal power of referring a bill to a national referendum, although this has only thrice been resorted to in the history of the Republic. Bills may be introduced either by the government or ministers responsible for the issues in question, or by private members, including the opposition. After their introduction in parliament, bills are given at least three readings before being voted on and are usually referred to parliamentary committees in between.

Courts

Under the Constitution, sentences may be passed by the courts only. A new court, the Land´s Court, or "Landsréttur", was inaugurated the 1st of January 2018. The establishment of the Land's Court brings one of the greatest changes, which has taken place within the Icelandic judicial system where, for the first time, oral argument will be reassessed before a court of appeals and the Supreme Court will become the policy setting highest judicial authority of the state. The courts are now divided into three levels: the district courts, where most cases are heard, the Land's Court, and the Supreme Court. There are eight district courts, one Land´s Court and one Supreme Court, all hearing private and public cases.

A special court called the Labour Court is concerned with labour disputes.

C. Business and Economic Background

C.1 Investment and Business Environment

The basic sectors in the Icelandic economy are various services (accounting for 71.8% of GDP in 2016), manufacturing industries, construction and utilities (21.2% of GDP), and fisheries (4.5% of GDP[2]). Public ownership is being systematically phased down by privatization and the main role of the public sector is in energy, health, education and social welfare. The export base is relatively narrow and largely based on natural resources, namely fisheries, energy intensive industries, and tourism and these industries are predominantly occupied by small and medium-sized businesses. Foreign investment is mainly concentrated in export-orientated sectors, with possibilities in new and exciting sectors in the field of information technology, environmentally friendly energy dependant industries, life sciences, multiple utilisation of geothermal resources and tourism which has grown increasingly in the last few years. Industrial investment in Iceland has grown considerably since 1995. Foreign direct investment in Iceland, which involves an influence on corporations' boards or at least 10% ownership in a corporation reached ISK 1,098.93 million (USD 105,404.6 million) by the end of 2016. Main sources of investment have been Luxembourg, the Netherlands, Switzerland, the United Kingdom and the United States. Over the past few years non-resident funds have been investing in companies which are listed on NASDAQ Iceland. The labour force is relatively young compared with neighbouring countries, with 66.23% of the population aged between 15 and 64.

C.2 Economic Growth

The economy continues to recover from the twin currency and banking crisis that hit the economy in 2008. GDP growth was 2.1 in year 2011, 1.1% in 2012, 3,5% in 2013, 1,8% in 2014, 4.1% in 2015, 7.4% in 2016 and estimated to be 4.9% in 2017. According to the Central Bank of Iceland, GDP growth is forecast to measure 3.4% in 2018, and then ease towards long-term trend growth and measure approximately 2.5% per year in 2019 and 2020.

Following the financial crisis, the government has initiated extensive financial sector reform. Financial market rules and regulations have already been strengthened and will be aligned with changes to the EU framework. The new banking sector is also highly capitalized with a minimum 16% CAD requirement. The Central Bank's governance has also been strengthened and monetary policy transparency increased. The new framework includes an independent Monetary Policy Committee, which has succeeded to bring inflation down from almost 20% in early 2009 to target in early 2014. Inflation was 2% in 2014 – down from 3.9% in 2013 and 5.2% in 2012 – and currently measures 2.4% (January, 2018). The year 2017 will be the fourth consecutive year with average inflation measuring 2% or less. This is the longest episode of such low and stable inflation since the economic crisis of the early 1990s. The baseline forecast assumes that inflation will inch upwards toward the target over the course in 2018 and will be close to target for the bulk of the forecast horizon. According to the Central Bank of Iceland's January 2018 forecast, inflation is to be (in January each year) 2.2% in 2019, 2.7% in 2020 and 2.5% in 2021.

C.3 Currency

The official currency unit of Iceland is the króna (ISK). The official exchange rate of the króna is determined in the interbank market for foreign exchange, which is open from 9:15 to 16:00 on business days. Since March 2001 the króna has been floating more or less freely in the context of an inflation targeting framework.

[2] Preliminary figures.

C.5 Relationship of Government and Business

Access to official bodies and agencies is easy in Iceland's small society, with a minimum of red tape. Government policy aims to provide a fair, efficient and competition-driven operating environment for companies within a market economy, and to encourage foreign investment, especially in areas that diversify the economy. Iceland's corporate income tax of 20% is one of the lowest in Europe and among the OECD member countries. For more than a decade, the government has tailored packages of measures to fit wage contracts negotiated in collective bargaining between employers and unions. Various incentives are available in different industries to motivate investments and innovation in Iceland.

Privatization and Economic Restructuring

It is the stated policy of Iceland's government to scale down public sector activities in those areas which could be handled by private operators without raising social costs.

To an increasing extent, public supplies and services are being contracted out. Tenders are mandatory for all procurement of supplies and services exceeding ISK 15,500,000 (USD 148,795.24) and works exceeding ISK 49,000,000 (USD 470,385) throughout the EEA/EU countries. When procurement is below the threshold amount, the contracting authority must at all times ensure efficiency and make comparisons between as many economic operators as possible. Such comparisons must as a rule be made through electronic means. Privatization began in the late 1980s and some state-owned enterprises have already been sold, while others have been converted to corporations and the plan is to privatize them in part or whole. Among the incorporated state-owned enterprises are power companies and a post company. Shares in industrial ventures, in which the state participated as a founder, have also been announced for sale.

Regulatory Environment

Operating licenses are required for businesses in certain sectors, for example manufacturing industries, and are granted on fulfilment of clearly defined rules. Details of regulations, monitoring and inspection agencies, etc., vary from one sector to the next, and Invest in Iceland will assist in establishing contacts and offer guidance. Broadly speaking, as a member of the European Economic Area, Iceland operates its regulatory environment on the same principles as the European Union.

C.6 Financial Sector

Introduction

The Icelandic financial system is broadly in line with those of other European and Western nations, and largely in harmony with European Union legislation. In recent years the government has emphasized privatization and economic liberalization. Business credit is offered by commercial and savings banks, investment banks and securities houses. A strong non-bank sector has evolved, covering stock broking, leasing and a wide range of other financial services. International players are established in the insurance market and Icelandic finance companies have associations with global funds.

Central Bank

The Central Bank of Iceland is an independent institution, owned by the Icelandic state. The principal objective of monetary policy in Iceland, as reflected in the Central Bank of Iceland Act, is to promote price stability. The Central Bank's principal objective is to contribute to price stability. On 27 March 2001, a formal inflation target was adopted, with price stability defined as a twelve-month inflation rate of 2 ½%. The Bank's role is to attempt to keep inflation as close to the target as possible, on average. If it deviates by more than 1 ½ percentage points in either direction, the Bank must submit a public report to the Government, explaining the reasons for the deviation and the means by which it intends to bring inflation back to target. The inflation target is described more fully in the joint declaration of the Bank and the Government.

The Central Bank has full independence to implement monetary policy so as to achieve the above target although the Bank shall promote the implementation of the economic policy of the Government as long as it does not regard this policy to be inconsistent with its principal objective of price stability.

From 2009, a five-member Monetary Policy Committee decides on monetary policy issues. The Committee includes three senior officers of the Bank and two external experts. The Bank has put increasing emphasis on monitoring financial stability. Furthermore, the Central Bank maintains Iceland's foreign exchange reserves and acts both as fiscal agent for the government and the borrowing agent for the Republic of Iceland in international capital markets. Standard Central Bank functions with regard to commercial and savings banks and other credit institutions include acting as a potential lender of last resort and clearing agent.

For further information see Central Bank of Iceland www.cb.is

Financial Supervisory Authority

The Financial Supervisory Authority is an independent state authority with its own board of directors, which monitors compliance with laws and regulations, covering factors such as liquidity and capital adequacy of parties subject to its supervision and that they are in every respect consistent with sound and proper business practices. Parties subject to supervision are commercial banks, savings banks, credit undertakings (investment banks), deposit departments of co-operative societies, securities companies, securities brokerages, management companies of UCITS, stock exchanges, central securities depositories, pension funds, insurance companies and insurance brokers licensed to operate in Iceland.

Source: Financial Supervisory Authority, www.fme.is

Commercial- and Savings Banks

The whole of the international financial system is presently engulfed in the worst financial and banking crisis since 1930. The crisis led to a loss of confidence in interbank relations, an international wholesale liquidity shortage of unprecedented proportions, escalating cost of capital and in effect the closing of international financial markets for the Icelandic banks. This turn of events had disastrous consequences for Iceland's financial sector and its economy. Because of their high leverage and dependence on foreign financing, the global credit crunch led to the collapse of Iceland's three main banks, in the beginning of October 2008. Following the collapse of the three banks, one of the immediate challenges was to restructure the bank system. Each of the three main banks was split into a "new bank" and an "old bank". The new banks, which were in the beginning all capitalized by the treasury, consist of the domestic operations funded by local deposits. The old banks consist of what was left in the previously privately owned banking companies after the new banks had been split from them. They consequently comprise the activities, assets and liabilities in foreign branches and subsidiaries, mainly funded through the issuance of bonds and foreign deposits. All derivatives were left in the old banks. The old banks are in dissolution process. The creditors of the old banks were compensated for net assets transferred to the new banks with shares in the new banks, which are currently held by holding companies owned by the old banks. Icelandic State Financial Investments (ISFI) on behalf of the Icelandic state manages 98.2% holding in Landsbankinn hf., 13.0% holding in Arion Banki hf. and 100% holding in Íslandsbanki hf. Provisions in Act No. 155/2012 on the sale process of the state's holdings in financial undertakings authorize the commencement of a sale process.

In 2016, the profit of the three largest commercial banks amounted to almost ISK 59 billion (USD 566,381,875.78) compared with more than ISK 106 billion (USD 1,017,567,437.8) in 2015, a decrease of 45% year-on-year. The decrease is mostly due to lower revenues outside of the banks' core operations. The equity position of the three large commercial banks is still sound and significantly in excess of counterparts internationally. The return on equity after tax decreased significantly year-on-year and was 8.9% in 2016 compared with 16.6% in 2015. The banks' return on core operations before tax however improved year-on-year and amounted to 8.7% in 2016 compared with 8.1% in 2015. Their capital adequacy ratio is also high by international comparison, at 27.7% at year-end 2016 compared with 15.3% at the EU banks in the third quarter of 2016 (for a total of 198 banks). The capitalisation of the banks changed during 2015 in connection with the settlement of the estates of financial undertakings undergoing winding-up proceedings, as provided by their compositions. Their liquidity position is good. The three large commercial banks have all exceeded the minimum ratio stipulated by CBI liquidity rules. The minimum liquidity ratio provided for by the rules increased from 90% to 100% on 1 January 2017 and the banks' aggregate ratio at year-end 2016 averaged 153% compared to 124% at year-end 2015. The banks all maintain high foreign currency liquidity ratios, the ratios averaged 396% compared to 326% at year-end 2015, while the minimum established by the rules is 100%. The ratio of encumbered assets decreased during 2016 from 17.8% to an average of 15.7%. A sizeable portion of that decrease stems from Landsbankinn hf. refinancing indexed funding from the old bank's estate with new unindexed market funding. Operating expenses as a percentage of assets were 2.7% in 2013, 2.6% in 2014 and remained unchanged between years 2014-2016.

Source: Financial Supervisory Authority, www.fme.is

Iceland has four commercial banks (three of them being the "new banks") and four savings banks. Iceland's banks were originally sector-targeted but now all offer a full range of financial services to businesses and individuals. Housing mortgages used to be mostly handled by a state agency, but the commercial banks entered the market in 2004, even though mortgage lending remains muted due to the economic situation. Mortgage loans are now disbursed to borrowers in cash, instead of the old tradable housing bonds.

Bank services include all regular lending, deposit and current account services. Interest rates and other terms vary considerably and are determined by market forces. Companies and individuals can hold bank accounts in Iceland denominated in major foreign currencies. Indexation of financial obligations, a legacy from the inflationary 1980's, is being phased out on shorter maturities and no longer applies to financial obligations for a shorter period than five years. One striking feature of banking activities in Iceland is the predominance of electronic transactions. Checks are becoming quite rare in day-to-day business and Iceland has the highest per capita payment card ownership in the world, with 337,000 debit cards and 487,000 credit cards in December 2017, among a population of 348,000.

In the beginning of 2007 the Financial Supervisory Authority adopted new rules on the capital requirement and risk-weighted assets of financial undertakings. The new rules are based on new international rules on the equity capital of financial undertakings which entered into effect in the beginning of 2007. The international rules are based on standards issued by the Basel Committee on Banking Supervision, the Basel II Accord. Iceland adopted the BIS standard for capital adequacy of commercial and savings banks in 1992.

Financing Investments

A state-owned New Business Venture Fund (www.nsa.is) has the specific aim of funding innovations, research-driven projects and the like with high growth potential and strong management and development teams. The majority of the direct investments are in Technology and the Life Sciences. A Regional Development Fund (www.byggdastofnun.is) also provides credit and grants for projects located outside the capital area. During the past few years Iceland's commercial banks have been actively engaged in corporate lending and have had extensive links with foreign banks for this purpose. Five credit undertakings, other than the commercial banks, currently operate in Iceland, one of which is municipality credit company, one local development credit fund, two credit card companies and one is a leasing company. The New Business Venture Fund has, along with three banks and six pension funds, established the Frumtak Venture Fund (www.frumtak.is) which has the objective to invest in companies that can become leaders in their field. At the close of Frumtak's investment period on December 31st 2012, the fund had invested in fifteen companies with nine investments still active. The remainder of lifetime of the fund is used to follow on investments and divest assets. Frumtak 2 started in February 2015. The fund builds on the legacy of Frumtak. The fund invests in early stage innovative companies that are post seed and emphasizes to invest in companies where growth and sales in foreign markets are the primary objective.

Mortgage Finance

The main source of mortgage finance for private housing has been through the State Housing Fund. However, major changes took place in the Icelandic mortgage market in 2004. The Fund used to issue tradable bonds, but the format was changed in July 2004 and loans are now disbursed to borrowers in cash, instead of the old tradable housing bonds. There is a ceiling on mortgage levels and applicants are means-tested. The commercial banks have captured a share of the market and offer a variety of loans. The banks offer for example CPI-indexed and non-indexed mortgages, a loan-to-value ratio of up to 70%-80% (up to 85% when buying the first property) of the fair market value of the property and additional loans up to 80%-85% of the fair market value. However, some banks do not offer loans above the fire insurance value of the relevant property. The interest rate depends on the portion of the property mortgaged. In January 2018 the interest rates on CPI-indexed mortgage loans are from 3.65% on first mortgage and are only available to existing customers. Interest rates on CPI-indexed mortgage loans above 60-70% of the fair market value of a property are from 4.75%. Non-indexed interest rates on mortgages are offered from 5.60% and the loans can be up to 40 years. Some banks offer mixed loans for mortgage finance, for example 50% of CPI-indexed mortgage loan and 50% of non-indexed loan. Housing bonds carry 4.2% indexed interest rate on general loans with a prepayment clause and are up to 80% of the fair market value. The maturity of the loans is up to 35 years. These loans are not confined to housing purchases; they can also be taken for refinancing and mortgage equity withdrawal. Some savings banks and pension funds have responded to this competition by lowering their interest rates and raising their loan-to-value ratio. Most mortgages are indexed, generally against the consumer price index. Although properties are more expensive in the Greater Reykjavik Area than outside it, and although "desirable areas" do exist, the property price range is much narrower than in more populous countries and cities.

NASDAQ OMX Iceland

See chapter E.11

Institutional Investors

Pension funds, often organized along labour union lines, are a major player in the Icelandic financial system with net assets of ISK 3.892 billion (USD 37,362 million) on December 31st, 2017. They have played a large role in housing finance, both through their own lending and purchases of mortgage bonds, and are becoming an increasing presence in other investment areas, including equity and foreign securities. Ten management companies, were in operation in Iceland on January 9th, 2018. Eleven domestic insurance companies are in operation as well, and are large players in the Icelandic securities market with around half their investment portfolio in marketable shares. There were nine securities companies in operation in Iceland on January 9th, 2018.

Source: Central Bank of Iceland, www.cb.is and Financial Supervisory Authority, www.fme.is

Interest Rates

The Central Bank's Monetary Policy Committee decides on the Bank's key policy interest rate. The policy rate is aimed at having impact on inflation with the Central Bank's formal inflation target as the goal. The Monetary Policy Committee meets at least 8 times a year. The Central Bank implements its monetary policy mainly by applying its policy interest rates on transactions with credit institutions. The objective is to affect short-term market interest rates, which in turn affect long-term market interest rates. The interest rate level in the country has effect on currency flows, which has impact on the exchange rate, and in the long run on domestic demand.

For a long while the Bank's seven-day collateral lending rate, which is auctioned weekly, was the key determinant of the formation of market rates, i.e. the key policy rate. This changed the summer of 2009 and since then the 7 days deposit rate has been the CBI's key policy rate.

Exchange Rate

Market forces influence the exchange rate of the króna in Iceland's interbank market for foreign exchange. Once a day, the Central Bank of Iceland fixes the official exchange rate of the króna against foreign currencies, for use as a ference in official agreements, court cases, and other contracts between parties that do not specify another reference exchange rate, and fixes the official exchange rate index at the same time. The Central Bank is authorized to intervene in the foreign exchange market. Under extraordinary circumstances, the Central Bank may temporarily suspend its quotation of the exchange rate of the króna.

Iceland's Sovereign Credit Ratings

		Foreign Currency		Domestic Currency		
	Affirmed	Long-term	Short-term	Long-term	Short-term	Outlook
Moody's	Sept ´16	A-3	-----	A-3	-----	Stable
S&P	Dec ´17	A	A-1	A	A-1	Stable
Fitch	Dec´17	A	F1	A	F1	Stable

The first formal long-term ratings for Iceland were issued in 1994, in the single –A category. Over the following decades, Iceland's credit ratings steadily improved, and until 2008 they were in the AA – AAA categories. In the run-up to the banking crisis in 2008, the ratings were lowered, and in the wake of the crisis they suffered significantly before starting to improve again. Reduced risk, capital account liberalization, declining debt levels, high productivity, positive long-term growth and reduction in external vulnerability have been cited by the international rating agencies.

The economy has been resilient to the lifting of capital controls between October 2016 and March 2017 and repayment of external liabilities. International investor demand for Icelandic krona assets has resulted in capital inflows, which more than offset portfolio rebalancing capital outflows from Iceland. Consequently, the krona has appreciated strongly, by 8.1% at end-November 2017 and 2.9% since end-February 2017.

For updates on Iceland's credit ratings please visit www.cb.is.

C.7 Main Sources of Finance

The bulk of funds used by foreign companies investing in Iceland have traditionally been raised in international finance markets. Foreign-owned subsidiaries or branches may raise funds in any country without restriction and have full access to Iceland's finance market. Icelandic domestic finance companies offer a broad range of services, including:

- Medium-term and long-term financing: Longer loans may be negotiated directly with banks and other credit institutions, and are generally indexed. There has been an increasing trend towards raising longer-term capital through bond issues.
- Leasing, hire purchase, factoring: and a full array of other financial services is available in Iceland within the banking and non-banking sectors.
- Export guarantees: may be negotiated with banks.

C.8 Energy and Other Resources

The vast majority of Iceland's energy use is from renewable and non-polluting resources. The Parliament has agreed on placing ten power plant options in the energy utilization category. The third phase of the master plan, that adds additional eight options, is yet to go through Parliament. These options consist of hydro, geothermal and wind power plants where combined installed electricity-generating capacity reaches 1.421 MW. Total installed power capacity of operating power plants in Iceland in 2017 were roughly 2.750MW. Imported fossil fuels account for 17.5% of Iceland's primary energy use which is mostly used for transportation. Nine out of ten households in the country have district-heating and domestic hot water from geothermal resources, following large-scale development of this energy source during the oil crisis of the 1970s, and the rest are heated with electricity from renewable sources. Geothermal heat is also used for certain specialized industrial applications, in swimming centres, snow melting, greenhouses and fish farming. With increased efforts in international collaboration on research it is Iceland's perspective that geothermal development could contribute even more in mitigating the possible effects of climate change.

C.9 Foreign Trade

Although some industry segments compete both in the small domestic market and in international export markets, Iceland must, in general, maintain a high level of imports to supply consumer needs, and therefore a high level of exports to finance them. The European Economic Area accounted for 77.4% of Icelandic export in 2016 led by the Netherlands and the UK. Exports of goods and services added to 49.2% of GDP 2007-2011 (period average), 59.4% of GDP 2012, 58.38% of GDP 2013, 54.74% 2014, 54.15% 2015 and 49.1% in 2016. Marine products accounted for 19.36% of Iceland’s total exports in 2016 despite greater export diversity and stricter fishing quotas. The main reason is the steady growth of value-added processing of seafood products, catch diversification and responsiveness to market trends. Metals from power-intensive industries accounted for 22.4% of exports in 2016, of which aluminium accounted for 15% of total exports and was the largest factor contributing to the increasing exports of manufacturing products. Another important export sector is a wide range of equipment for the fishing industry, while software, medical and pharmaceutical exports are growing rapidly and biotechnology is now reaching the export stage too. Creative and cultural industries and activities also contribute to export earnings in Iceland. Tourism accounted 36% of foreign currency earnings in 2016. Leading import items are industrial supplies, capital goods, transport equipment, consumer goods and food and beverages. European Economic Area countries accounted for 61.4% of imports in 2016, led by Norway and Germany.

Source: Central Bank of Iceland, www.cb.is and Statistics Iceland, www.statice.is

International and Regional Trade Associations

Iceland joined the European Free Trade Area (EFTA) in 1970 and was one of the founding members of the now 31-nation European Economic Area – set up by the European Union and EFTA in 1994 and enlarged in 2004 – a no-tariff market of 514 million people. In July 2009, Iceland submitted a formal application for accession to the European Union after Parliament voted in favour of applying for membership. A year later, in July 2010, Iceland's accession negotiations with the European Union were formally opened. The application process was halted as of the year 2015. Iceland also belongs to the Organization for Economic Cooperation and Development (OECD), the General Agreement on Tariffs and Trade (GATT), General Agreement on Tariffs and Services (GATS), the Council of Europe, the World Bank and the World Trade Organization (WTO), as well as the United Nations and its agencies, and NATO. Furthermore, Iceland is a signatory to many international agreements on intellectual property rights, e.g. The Paris Convention for the Protection of Industrial Property, The Protocol Relating to the Madrid Agreement, Patent Cooperation Treaty (PCT), The Geneva Act of the Hague Agreement Concerning the International Registration of Industrial Designs, European Patent Convention (EPC). Moreover, Iceland, as a member of the World Trade Organisation (WTO), has adapted Icelandic legislation to the provisions of TRIPS (Trade-Related Aspects of Intellectual Property Rights). Iceland is a member of the Nordic Council together with Denmark, Finland, Norway and Sweden, a regional association with particularly close social and cultural links.

D. Foreign Investment in Iceland

D.1 Investment 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. EU regulation does also allow general incentives for SMEs, R&D and environmental protection. Foreign experts may deduct 25% of their salary and thus reduce their tax base in the first three years of their recruitment in Iceland.

Regional Incentives in Iceland

The Regional Incentives, according to Act 41/2015, apply to the whole of Iceland outside the capital area. The incentives include:

- Authorization to fix the rate of income tax down to 15% for 10 years
- 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% for 10 years[3]
- Authorization to reduce the rate of the general social security charge by 50% for 10 years[4]
- 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 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:

- A specific company shall be established in Iceland for the investment project
- Detailed information shall be available on the investment project
- Investment project should not have started before signing the contract on concessions
- It must be proven that the concession is the premise of the investment project becoming a reality in Iceland
- A minimum 20% of the investment cost of the project shall be financed by the own equity of the party seeking incentives and at least 75% of the investment cost shall be financed free of any governmental support
- 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
- Cost benefit analysis shall be available showing that, taking all factors into account, the investment project is beneficial for the Icelandic economy and society, i.e. in terms of job creation, rural development, export and tax revenues and knowledge

[3] 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.

[4] The general social security charge is currently 6.85% of the total salaries of employees.

- The investment shall be an initial investment, and equipment in connection with the investment shall be new or almost new and in compliance with legislation on health and pollution
- The investment shall be in operation in Iceland for at least 10 years
- That there is information available on whether the investment project is subject to environmental assessment (EIA) by law[5]
- The operation of the applicant shall comply with Icelandic law
- The applicant, or its owners, shall not have unpaid due claims from the state or municipalities on taxes or charges and shall have an unblemished reputation.

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 enterprises and to 35% for small enterprises. 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.[6]

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 300 million for internal R&D or ISK 450 million for R&D cooperation between two independent innovation companies. Under the scheme companies that carry out research and development projects can apply for an approval of R&D projects to the Icelandic Centre for Research (Rannís), which makes them eligible for the tax credit.

Incentives for foreign experts

In 2016 the Parliament passed a bill regarding tax incentives for foreign experts. 25% of their salary may be deducted as deductible expenses in the first three years of their recruitment if following requirements are met:

- A foreign expert is hired with a legal person, which has domicile or a fixed place of business in Iceland and that legal person is the actual salary-payer.
- The foreign expert has not been domiciled in Iceland the previous 5 years before his recruitment.
- The foreign expert has knowledge that is limited in Iceland.

Data Centers

Iceland makes the ideal location for a data center with 100% green and sustainable energy from reliable power sources at competitive prices, highly qualified workforce and attractive business incentives. Non-resident businesses, which import equipment to be placed in data centers in Iceland, are categorized as follows for value added tax purposes:

A. Those who are engaged in business, which would be subject to VAT in Iceland.
B. Those who are engaged in business, which could not be subject to VAT in Iceland.

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[5] The Icelandic legislation on EIA is harmonized with EU guidelines. Annex 1 of Act 106/2000 on EIA stipulates projects that are subject 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 about 6 weeks.

[6] 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.

Those businesses that fall under B are not able to apply for a reimbursement of value added tax but those who fall under A can apply for such reimbursement if further requirements are fulfilled.

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 Enterprises or 20% of investment cost in Small Enterprises, with a ceiling of 7.5 million Euros

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.

D.2 Exchange Controls lifted

As of March 14th 2017, the temporary capital controls in Iceland, introduced in 2008, were lifted. The removal of the capital controls represents the completion of Iceland's return to international financial markets. The only restrictions still in place apply to the following will remain: i) derivatives trading for purposes other than hedging; ii) foreign exchange transactions carried out between residents and non-residents without the intermediation of a financial undertaking; and iii) in certain instances, foreign-denominated lending by residents to non-residents. Guidelines explaining the above-mentioned restrictions will be issued by the Central Bank to accompany the new foreign exchange rules.

For further information, please visit the website of the Central Bank of Iceland: http://www.cb.is.

D.3 Restrictions on Foreign Investment

Non-residents may invest in business enterprises in Iceland with some limitations, which are stipulated in the Act no. 34/1991 on Investment by Non-Residents in Business Enterprise or in specific legislation, and upon the fulfilment of other conditions and acquisition of licenses required by law. Under the European Economic Area Agreement, investment in Iceland by EEA residents is in principle unrestricted, but few exceptions were negotiated in specific fields considered to be of national political importance.

Restrictions on Investment by Non-Residents (including EEA Residents)

Only the following may conduct fishing operations within the Icelandic fisheries jurisdiction or own or run enterprises engaged in fish processing:

- Icelandic citizens and other Icelandic entities
- Icelandic legal entities wholly owned by Icelandic entities or Icelandic legal entities, which are:
    - Controlled by Icelandic entities
    - Not under more than 25% ownership of foreign entities (up to 33% in certain circumstances)
    - In other respects under the ownership of Icelandic citizens or Icelandic legal entities controlled by Icelandic entities.

Fish processing means any processing that preserves marine products from decay including production of fish oil and fish meal, but does not include further processing designed to render products more suitable for distribution or consumption. Canning of seafood, however, is open to foreign investment.

Restrictions on Investment by Non-EEA / Non-OECD Residents

Only Icelandic citizens and other Icelandic entities, as well as individuals and legal entities domiciled in another member state of the European Economic Area, are permitted to own energy exploitation rights relating to waterfalls and geothermal energy for other than domestic use. The same applies to enterprises, which produce or distribute energy. The maximum total share capital owned by non-residents (except residents and legal persons of a country that is a member of the European Economic Area or of the Faroe Islands) in Icelandic airline companies is 49%. Special permission must be applied for from the Minister of Tourism, Industries and Innovation in the case of investment in Icelandic enterprises by foreign states, foreign municipalities or other foreign authorities involved in enterprises. An individual domiciled within the EEA and/or OECD may run a business or take part in a business enterprise with unlimited liability in Iceland, while those from non-member countries need to apply for permission from the Minister of Tourism, Industries and Innovation or the relevant appropriate authority. Limited liability companies and other legal entities with domicile outside the EEA and the OECD may operate in Iceland provided that this is permitted in an international treaty to which Iceland is a party or if permission is granted by the Minister of Tourism, Industries and Innovation. Board membership of Icelandic companies by individuals with residence outside the EEA/OECD is subject to restrictions (residence requirements) but the Ministry of Industries and Innovation may grant exemptions.

Requirements, property purchases, etc.

New foreign enterprises operating in Iceland that set up a branch or a subsidiary are obliged to register with the Register of Enterprises (*www.rsk.is/fyrirtaekjaskra*), and for enterprises with residence in other than EEA/OECD countries, certain requirements are made regarding minimum number of board directors resident in Iceland (see chapter E.8). EEA residents may stay in Iceland without special authorization for up to six months if they are looking for work. If they intend to stay in Iceland for a longer period, they must apply for a resident permit. Foreign direct investment in real property in Iceland is open to individuals and legal entities that enjoy rights in Iceland under the Agreement on the European Economic Area regarding free movement of individuals, the right of establishment, services or movement of capital or corresponding provisions in the Convention on European Free Trade Association. This applies to the following parties:

1. Employees who are EEA-citizens or EFTA-citizens, and who work as such in Iceland, or have EEA-residence permit.
2. EEA- and EFTA-citizens who have established themselves, or intend to establish themselves, in Iceland in order to engage in independent business operations.
3. EEA- and EFTA-citizens who are domiciled in another member state and have established, or intend to establish, a branch or an agent's office in Iceland, or who intend to render services in Iceland.
4. Companies and other legal persons, which are founded in accordance with the legislation of a member state, and have established, or intend to establish, a branch or an agency's office, or intend to render services in Iceland. Those companies and legal persons shall either have their headquarters or principal activity in an EEA or EFTA-state or be domiciled there according to the Articles of Association of the company. In the case of a domicile the company's activity must have a real and permanent connection with the economy of the member state concerned.
5. Individuals residing in a state, which is a member of the EEA or EFTA, and companies or other legal persons, which are founded in accordance with the legislation of an EEA- or EFTA-state, may require real property rights in Iceland on the basis of the rules of free movement of capital. Those companies and legal persons shall either have their headquarters or principal activity in an EEA- or EFTA-state or be domiciled there according to the Articles of Association of the companies. In the case of a domicile the company's activity must have a real and permanent connection with the economy of the member state concerned.

The registration of a deed for a real property without special permission is dependent on the one holding the right presenting a special declaration. A sample of such a declaration is to be found on the website of the Ministry of the Interior: https://eng.innanrikisraduneyti.is/laws-and-regulations/english/property/nr/698. Residents and legal entities domiciled outside EEA or EFTA are subject to the following restrictions on real property purchases in Iceland: Private individuals may purchase real property if they are either Icelandic citizens or have their legal residence in Iceland. Partners of legal entities or businesses, who have unlimited liability for the debts of the entity or business concerned, must be Icelandic citizens or individuals domiciled in Iceland for at least 5 years in order to purchase a real property. In the case of a limited liability company or an institution, the company or the institution must be domiciled and have its venue in Iceland. Furthermore, the members of the board and directors must be Icelandic citizens or domiciled in Iceland for at least 5 years. In case of corporations, 4/5 of the share capital must be owned by Icelandic citizens and Icelandic citizens must exercise the majority of the votes at shareholder meetings. However, the Minister of the Justice may grant exemptions upon application to those that are permitted to run a business in Iceland and the property is to be used as business premises or a permanent residence. The Minister of the Justice may also grant exemptions if other reasons apply.

For further information see the Icelandic Directorate of Immigration www.utl.is

D.4 Importing and Exporting

Restrictions

Standard restrictions apply in Iceland on the import of live animals, firearms, dangerous substances, pharmaceuticals, etc. Similarly, special procedures and documentation are required for such exports.

Rules of Origin

Preferential origin grants certain tariff benefits (entry at a reduced or zero rate of customs duty) for goods traded between Iceland and countries with whom Iceland has a Free Trade Agreement.

In order to have preferential origin goods must fulfil the relevant conditions laid down in the origin rules to the applicable agreement (e.g. Protocol 4 of the EEA Agreement). In effect it means that goods must either (1) consist of or be manufactured from raw materials or components which have been obtained or produced in Iceland or in the agreement area or, should that not be the case, (2) at least undergo a certain amount of working or processing in Iceland or in the agreement area. Such goods are considered to be "originating".

Thus a product originating outside Iceland or not fully obtained in Iceland can be regarded as having Icelandic or EEA origin if it fulfils specific criteria for ‘sufficient processing‘, as defined in the relevant origin rules.

Criteria differ depending upon the type of product and processing involved. The different origin rules contain a list of the working or processing each product manufactured from non-originating materials or components must undergo in order to obtain originating status. The structure of these lists (commonly known as list rules or product specific rules PSR) is based on the HS Nomenclature. To determine what processing a specific product must undergo it is necessary to know its HS classification and bear in mind that the list rules may differ between free trade agreements.

The Regional Convention on Pan-Euro-Mediterranean Preferential Rules of Origin is a regional convention providing a single legal instrument for rules of origin in the region. Furthermore, it will form a common base for diagonal cumulation of origin, allowing for the inclusion of the Western Balkan region into the Pan-Euro-Mediterranean zone of diagonal cumulation system in operation between the European Community and a number of European and Mediterranean countries. To allow for diagonal cumulation all the parties concerned have to have free trade agreements in force and apply the same rules of origin. The contracting parties to the Convention are the EU, the Faeroe Islands, Iceland, Liechtenstein, Norway, Switzerland, Turkey, Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Tunisia and Palestinian Authority of the West Bank and Gaza Strip, Syria, Albania, Bosnia and Herzegovina, Croatia, Former Yugoslav Republic of Macedonia, Kosovo[7], Montenegro and Serbia. It should be noted that, since the Convention entered into force, Croatia has joined the EU and Moldova has become a Party to the Convention. The EU operates cumulation with these countries with which a free trade agreement providing for such cumulation and containing pan EURO-MED origin rules is in place. The Convention has currently entered into force, replacing or aligning the different origin protocols in trade amongst the EFTA States, between Iceland, Norway and the EU (bilateral free trade agreements from 1973), within the EEA (Protocol 4 of the EEA) as well as between EFTA States and Bosnia and Herzegovina and Montenegro. Work on replacing the different origin protocols with the Convention in other free trade agreements is ongoing.

Products originating in Iceland can be eligible for preferential treatment when imported to the EEA, China or other free trade partner countries, upon submission of valid proof of origin.

Promote Iceland and the Directorate of Customs provide in-depth information concerning rules of origin and the HS classification for specific products.

> *For further information see EEA Agreement, Protocol 4 on rules of origin:*
> *http://www.efta.int/legal-texts/EEA/protocols-to-the-agreement.aspx*

[7] This designation is without prejudice to positions on status and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo Declaration of Independence.

E. Establishing a Business in Iceland

E.1 Types of Business Presence in Iceland

The most common and economically important type of business in Iceland is the limited liability company (corporation). Other structures are partnerships, cooperative societies, businesses run by the self-employed and branches of foreign limited companies. Iceland has adopted the EU directive No. 21 57-2001 on Societas Europaea (SE) with Act No. 26/2004 on European Companies (SE).

Limited Liability Companies and Branches of Foreign Companies

There are two types of limited liability companies in Iceland, public and private, and they are regulated by two separate Acts. These Acts are in line with the requirements of the company law provisions of the EEA agreement. Foreigners investing in Iceland have customarily chosen to establish limited liability companies or branches of foreign limited companies (corporations). Publicly traded enterprises are allowed to issue their share capital in a foreign currency, and so may other non-public companies, if certain requirements are met. Books and records can also be kept in a foreign currency. Tax considerations have played a large role when choosing a type of business entity since the income tax rate for limited companies and their branches is now 20%, compared to 37.6% for partnerships. Furthermore, the corporate form offers the benefits of limited liability. Foreign public or private limited companies and companies in a corresponding legal form having legal domicile within the European Economic Area may engage in activities with the operation of a branch in Iceland. Corporate income tax: 20%.

Limited liability companies and companies in a corresponding legal form, domiciled outside the European Economic Area, may operate a branch in Iceland, if this is permitted in an international treaty to which Iceland is a party or by the Minister of Tourism, Industry and Innovation. Corporate income tax: 20%. Limited liability companies and branches are registered with the Register of Enterprises (Fyrirtækjaskrá).

E.2 Establishment Procedures

Non-resident investors can normally choose between the different legal structures outlined from E.3 onwards when establishing a company in Iceland. Investors are also permitted to establish an independent company (or a branch of a foreign incorporated business) or buy stock in Icelandic companies, except in the fields where certain restrictions apply (see chapter D.2). Invest in Iceland provides information about law firms and accounting firms with experience in assisting in foreign investment in Iceland and registration of companies.

Registration Procedures

New public limited companies and private limited companies must be registered with the Register of Enterprises. Before registration, the founders are liable for all commitments entered into on behalf of the company.

For further information see Internal Revenue Directorate www.rsk.is

Time Required

A completed application to establish a company is generally processed in seven to ten days. Non-residents who plan to be members of the board of an Icelandic company must apply for an Icelandic identity number before the establishment of an Icelandic company.

Incorporation Fees

The registration fee is ISK 256,500 (USD 2,462.3) for a new public limited company and ISK 131,000 (USD 1,257.6) for a new private limited company, including an identity number for the company.

Number of Founders

A public limited company must have at least two founders. The majority of the founders shall be resident in Iceland, but half of them in case the number of founders is even. The residence requirement does not apply to citizens of an EEA or OECD country. A private limited company may be founded by one or more persons. At least one of them must reside in Iceland or be both a citizen and resident of an EEA or OECD country. Evidence of citizenship and residence must be submitted.

Maximum Number of Shareholders

No limits are set on the number of shareholders.

Initial Capital Requirements

A public limited company must have an initial capital of at least ISK 4 million (USD 38,398.77), which has to be paid within one year of registration, and a private limited company at least ISK 500,000 (USD 4,800), which has to be paid before registration.

Articles of Association for Limited Companies

When a limited liability company is established a memorandum of association must be prepared containing a draft of articles of association, names and addresses of founders, subscription price of the shares and deadline for subscription and payment of subscribed capital. The draft of articles must contain information including the name and location of the company, its objectives, share capital, board of directors, legal venue, auditors and financial year. The articles of association are adopted by the shareholders at the first general meeting and the company must be registered with the Register of Enterprises within six months of the date of the memorandum of association in the case of a public limited company, or two months in the case of a private limited company. An unregistered company can neither acquire rights nor assume duties. Other distinctions between public and private limited companies are as follows:

E.3 Public Limited Companies

Public limited companies are mainly aimed at seeking capital from a wide number of shareholders among the public at large, for example on the stock market. The minimum stock required for a public limited company is ISK 4 million (USD 38,398.77). Other minimum requirements are that the company has two founders, two shareholders, at least three members of the board of directors, and a manager. The provisions on branches are similar for both public and private limited companies, except that disclosure requirements for the Register of Enterprises are somewhat stricter with respect to public limited companies.

Publicly Listed Companies

Publicly traded companies are subject to a number of specific rules in addition to the Companies' Act requirements. These rules, which are determined by the Ministry of Finance and Economic Affairs and the Board of Nasdaq Iceland, have become stricter in recent years. The financial statements must be audited by a state authorized public accountant or an audit firm. The audited financial statements and the annual report of a publicly traded company must be sent to The Financial Supervisory Authority within 10 days from signature and no later than four months from the end of the accounting period.

Companies with shares or bonds listed in a regulated market in a state within the European Area, a party to the Convention establishing the European Free Trade Association or the Faeroe Islands, shall submit their annual accounts immediately after their approval and no later than four months after the end of a financial year.

E.4 Private Limited Companies

Rules for private limited companies are simpler than for the public ones. The minimum stock required is ISK 500,000 (USD 4,800). Other minimum requirements are to have one founder, one shareholder, and one director (with one deputy) in cases where shareholders are four or less. There is no obligation to have a managing director.

On their establishment, private limited companies must state whether they have one or more shareholders. In one-party private limited companies, meetings of the board of directors and shareholders are not obligatory. The Minister of Tourism, Industry and Innovation can grant an exemption from the otherwise general principle that the majority of the board of directors and the general manager of a limited liability company must be domiciled in Iceland or in a country within the European Economic Area or OECD.

E.5 Branches of Foreign Companies

Branches of foreign incorporated businesses with limited liability are registered with the Register of Enterprises and the head office must file the following documents:

- A copy of the articles of association of the head office
- The incorporation certificate of the head office
- A letter of representation for the branch manager together with documentation that the branch manager meets the requirements as to residency, citizenship and solvency
- The Financial Statements of the head office for the preceding year

A registered branch must have a name, which includes the name of the foreign company. Note that documentation filed with the Icelandic authorities must be submitted in certified Icelandic translation. Registration fee for a branch is ISK 256,500 (USD 2,462.3).

E.6 Partnerships

A partnership is an association of two or more persons, including individuals, corporations or other legal entities, which operate a business as co-owners for profit. Many professions operate as partnerships. Act No. 50/2007 governs the operation of a partnership, but relations between the partners usually require the preparation of a formal set of agreements (bylaws). Minimum accounting requirements are set out in the Accounting Act. Partnerships, which are registered as taxable entities for tax purposes are taxed with 37.6% on their profits. However, distribution of after-tax profits of a partnership is not taxable, whereas after-tax profits of a limited company are taxed at a 20% rate when distributed to individuals or partnership shareholders. Partnerships, which divide their income and assets to the respective partners, are taxable on the same basis as their partners. Under Icelandic law, partners in a partnership have full and unlimited liability in solidum ("one for all and all for one"), which generally means that this is not an attractive choice of form for a foreign investor. Limited partnerships (samlagsfélög) can be founded and registered in Iceland. There must be at least two members where at least one member of the partnership is unlimited liable of the partnership's liabilities. Other members may limit their liability to their share contribution. The same registration process and expenses applies to limited partnerships as for partnerships. Registration fee for a partnership is ISK 89,500 (USD 859).

E.7 Sole Proprietorships/Self-Employed

Sole proprietorships are mainly confined to self-employed (sole practitioners) in Iceland and the form is rare for large enterprises. Sole proprietors are taxed on business income and any other additional income with progressive rates. The rates are as follows:

- Up to ISK 893,713 36.94%
- Over ISK 893,713 46.24%

E.8 Residence Requirements for Board of Directors and Management

A public limited company must have a board of directors consisting of at least three persons, and must appoint at least one managing director. The managing director(s) and at least half of the members of the board must reside in Iceland or be residents and citizens of any other EEA or OECD country. An exemption may be granted by the Minister of Tourism, Industry and Innovation. The general rule is that a private limited company shall have three persons on its board of directors. If the company has four shareholders or fewer, one or two persons may serve as members of the board. One or more managing directors may be appointed by the board, and if there is only one person on the board of directors he may also serve as managing director. The managing director(s) and at least half of the members of the board must reside in Iceland or be residents and citizens of any other EEA or OECD country. An exemption may be granted by the Minister of Tourism, Industry and Innovation. If there is only one person on the board of directors, he must fulfil the residence qualification.

E.9 Annual Requirements for Corporations

Income Tax Filing

Corporations and registered branches of non-resident entities must file an annual income tax return by the end of May, irrespective of whether or not they have any taxable income.

Audit Requirements

Every limited liability company in Iceland is required to appoint one state authorized public accountant, an audit firm or two auditors. (For further details see chapter H.1)

E.10 Mergers and Acquisitions

The Icelandic Competition Authority *(www.samkeppni.is)* has the power to impose limiting conditions if a company, which is created by a merger, is likely to acquire a dominant market position. Planned or possible mergers may be referred to the Authority for consideration, and it can do so on its own initiative. An appeal against the Authority's ruling may be lodged with its appeals board. Laws on competition are implemented by the Minister of Tourism, Industry and Innovation. A shareholder owning more than nine-tenths of stock in a company and controlling the same proportion of votes may jointly decide with the board of directors to redeem the holdings of other shareholders. If one shareholder owns more than nine-tenths of stock in a company and controls the same proportion of votes, any of the other minority shareholders may insist on their shares being redeemed. If a company's articles of association do not stipulate how to determine the buying price of shares and no agreement can be reached, the shares are valued by specialists appointed by a district court. Only stock-for-stock mergers are tax-free under Icelandic tax law. The use of operating loss carry-forwards is only allowed if the merger is made for a legitimate business purpose.

Provisions concerning takeover bids

If a holding in a company, which has publicly listed one or more classes of its shares on a stock exchange has been taken over, directly or indirectly, all the shareholders in the company shall be given the opportunity, within four weeks from the takeover, of relinquishing their holdings on comparable terms to a party who:

- has acquired 30% of the voting rights in the company
- has acquired the right to appoint or remove a majority of members of the company's Board of Directors
- has, on the basis of an agreement with other shareholders, the right to control 30% of votes in the company

The Financial Supervisory Authority may grant an exemption from this requirement under certain circumstances.

E. 11 Nasdaq Iceland

Nasdaq Iceland, a part of Nasdaq Inc. operates the only regulated market for listed securities in Iceland. A wide variety of products are traded on Nasdaq Iceland, such as equities, bonds, and ETFs. Nasdaq Nordic offers customer access to approximately 80% of the Nordic and Baltic securities markets. The regulatory framework is in line with other European markets.

Access to a single Nordic Market

Operated by Nasdaq, Nasdaq Nordic includes exchanges in Iceland, Stockholm, Helsinki, Copenhagen, Riga, Tallinn and Vilnius, and covers two distinct markets, the Nordic market and the Baltic market. Harmonization is achieved by among other things sharing the same trading system and the same surveillance system. Within Nasdaq Nordics common listing requirements apply for equities along with common member rules, indexes and industry classification. Nasdaq Nordic enables efficient cross-border trading, offering cross-membership and providing one market source of information on the web.

For further information see business.nasdaq.com

Regulatory Framework

The legal framework controlling activities of Icelandic financial undertakings is based on European Union (EU) Directives. Icelandic legislation in this field has undergone extensive revision in recent years to bring it into line with legislation of other member states of the European Economic Area (EEA). A new legislation: "Act on securities transactions No. 108/2007", entered into force on November 1st, 2007, implementing the MiFID directive and EU directives on market abuse, takeovers, transparency and prospectuses. Work on implementation of new European legislation is underway, e.g. MiFID II, MiFIR and Market Abuse Regulations, (MAR), Central Securities Depository Regulation (CSDR), Short Selling Regulation, European Market Infrastructure Regulation (EMIR).

Raising Capital by Listing on Nasdaq Iceland

Both domestic and foreign companies can benefit from listing on Nasdaq Iceland. They can gain better access to risk capital. Listing also encourages more effective price formation of shares and generally improves their liquidity, gives the company a higher profile and subjects it to market discipline through the on-going disclosure requirements involved. Nasdaq Iceland's listing requirements are based on those stipulated in various EU Directives. Both the listing requirements and listing application procedure are described in the Rules for Issuers published by Nasdaq Iceland (see http://business.nasdaq.com/list/Rules-and-Regulations/European-rules/index.html). In most instances a prospectus must be made available, describing the securities involved and their issuer. Securities Act makes a distinction between admission of financial instruments to trading on a regulated market and listing on a Multilateral Trading Facility (MTF- "First North"), which is not regarded as admission to trading.

Admission of Securities on Nasdaq Iceland

Equities admitted to trading on Nasdaq Iceland's Main Market fulfil the harmonized minimum requirements of the applicable EU Directives for admission of financial instruments to trading on a regulated market. The estimated aggregated market value of a share class, for which listing on the Nasdaq Iceland's Main Market is sought, shall be at minimum an amount equivalent to at least EUR 1 million. Other securities admitted to trading on Nasdaq Iceland's markets include various types of bonds, unit share certificates of mutual funds and investment funds. The estimated market value of a bond class, for which listing is sought, must be an amount no lower than the equivalent of EUR 500,000. The Exchange may admit smaller bond classes to trading if there is likely to be sufficient market demand and trading in these bonds to enable normal price formation. The estimated market value of a bond class, however, may never be lower than an amount equivalent to EUR 200,000 in accordance with the current published official exchange rate. The estimated market value of a fund must be an amount no lower than the equivalent of EUR 1,250,000.

Admission of Securities on Nasdaq First North Iceland

Nasdaq operates the alternative marketplace Nasdaq First North on its Nordic markets. Nasdaq First North is a registered MTF market. Nasdaq First North offers listing options for both equities and bonds. Securities listed on Nasdaq First North need not meet the minimum admission requirements of legislation in the EEA for admission to trading on a regulated market. The market is suitable for smaller growth companies, providing opportunities on the Nordic and global financial markets. It gives companies greater visibility and ease of access to Northern Europe's pool of capital, combining the benefits of being on-market with simplicity. Companies that list on Nasdaq First North in Iceland are given the same possibilities as larger companies, but the requirements are lighter. Nasdaq First North is ideal as the first step towards admission to trading on to the Main Market.

Listing Procedure

The listing prospectus is subject to approval by the Financial Supervisory Authority. A prospectus must contain all the information necessary for investors to form an opinion of the issuer, its securities and their value. Prospectuses play an important role in ensuring transparency on a regulated market, since they serve as the basis for investors' assessment of issuers and their securities. Therefore it is important that all information relevant for such an assessment be included in the prospectus. Nasdaq Iceland may reject an application for admission to trading if it deems it will not serve the interest of the public or the securities market. A company considering listing may, without any obligation, request a meeting with the Nasdaq Iceland's staff for a briefing on the requirements and obligations involved in Nasdaq Nordic listing.

Disclosure requirements

The admission of securities entails on-going disclosure requirements for the issuer according to rules and regulations of Nasdaq Iceland and as stated by law. Issuers shall make public without delay any information which is reasonably expected to affect the price of the company's securities. A foreign issuer is authorized to disclose all information in English although Icelandic is the official language.

Clearing and Settlement

Nasdaq CSD Iceland (NCSDI) operates a central registry and depository for dematerialized securities, and effects transfer of title to them. Trades in dematerialized securities executed on Nasdaq Iceland are cleared and settled through the NCSDI. In January 2010 the international central securities depository Clearstream acquired a direct access to Icelandic markets, i.e. to NCSDI and the Icelandic Central Bank's Real Time Gross Settlement System, easing international investors' access to securities registered at the NCSDI. Only settlement banks can participate in the netting process for securities trading. The settlement cycle for equities and bonds is T+2, i.e. payment for shares/bonds purchased is made on the second business day after the transaction.

F. Labour Force and Employee Benefits

F.1 Labour Supply and Relations

Of Iceland's population of 348,580 on January 1, 2018, the labour force totalled 199,600 in the fourth quarter of 2017. The total participation rate was 81.2% in the fourth quarter of 2017: 84% among males and 78.3% among females. Unemployment was 2.6% in the fourth quarter of 2017.

Employee and Employer Organizations

The Icelandic labour market is highly unionized with more than 80% of employees belonging to unions. The major labour organization is the Icelandic Federation of Labour (ASÍ), founded in 1916, which is the largest organization of trade unions in Iceland. Most of the unions affiliated to the ASÍ are organized into 5 national federations. In all, there are 42 unions affiliated to ASÍ federations and 7 unions belonging directly to it. Total membership of these 49 unions and branches was 123,045 on January 1st, 2017. ASÍ is a member of various international and regional organizations. These include the Nordisk fackligt samarbejde (NFS), which is an organization of the Nordic Confederations of trade unions, The European Trade Union Confederation ETUC) and the international Trade Union Confederation (ITUC). ASÍ takes active part in the work of the International Labour Organisation (ILO). Public employees are organized into various unions, which in turn belong to the Federation of State and Municipal Employees (BSRB) or Association of Academics (BHM), which also organizes some employees of private companies, or to separate unions for professions such as teaching. The Merchant Navy (SSÍ) and Fishing Vessel Officers' Guild (FFSÍ) is a federation of several unions, most of them representing seamen, although many members of the Association of Icelandic Engineers are land-based. Employees in banks are all members of the Confederation of Icelandic Bank and Finance Employees (SSF). Private non-banking sector employers are organized into The Confederation of Icelandic Employers (Samtök atvinnulífsins, SA). Six confederation members of SA operate on the basis of the different industrial activities involved and each of them has the initiative in company matters within its own, separate industrial sphere. SA tasks include negotiation of contracts with unions on wages and working conditions, and the interpretation and communication of decisions by governmental authorities that directly affect the financial performance of businesses at both domestic and international level. SA includes about 2,000 corporations and businesses and the organization accounts for approximately 70% of all salary-paid employees on the Icelandic labour market. SA is a member of BUSINESSEUROPE. The State is by far the largest employer in Iceland. Many of the local authorities – Reykjavík being an important exception – conduct their wage bargaining through a joint negotiation committee, and so do the banks.

Labour Relations

Icelandic labour unions are decentralized and non-political. For several years some of them have broadly supported wage restraint under tripartite agreements with employers and the government. Contractual wage agreements cover general terms of employment, including a basic minimum wage, but specific terms are usually negotiated on a more job-specific basis. Collective bargaining power, in both the public and the private sectors, rests with individual labour unions. Many rights are handled by the central federations (ASÍ, BSRB and BHM). Some companies in Iceland have also introduced workplace pay agreements. In recent negotiations, increased emphasis has been put on fewer working hours, education and training for employees with the establishment of mutual educational funds and institutions. The Industrial Relations Act specifies the conditions for lawful industrial action. A strike (or other permitted form of industrial action) may be called on condition that at least 20% of the trade union members vote in an anonymous election and that the majority votes for the strike. Formal announcement of the industrial action must be sent to a mediator and the employer with 7 days' notice. Industrial action is not allowed over disputes under the jurisdiction of the Labour Court. Furthermore, the Act prohibits solidarity strikes in support of unions on illegal strikes, and bans political strikes outright.

Wages

An important characteristic of the Icelandic economy is its large degree of labour market flexibility. According to the OECD, real wage flexibility is greater in Iceland than in any other member country. There are various reasons, including the structure of labour market organization, the strength of which has been felt in particular during recessions when wage settlements have invariably been of tripartite character, with a strong contribution by the government. By international comparison, wages and wage cost in Iceland are very competitive relative to most Western countries. In manufacturing, they are less than half those in Germany, for example. Indirect wage cost is relatively low in Iceland at 35-40% (including vacation and sickness provisions, payroll taxes and contribution to a pension fund). Iceland's highly competitive hourly wages but high per capita income are to a large extent explained by the high level of labour force participation and the widely accepted practice of working long hours.

Employment contracts

In accordance with EU regulations a written contract of employment is required by for any employee engaged for a term longer than one month. The contract must be available no later than two months after the employee was recruited. Iceland has no statutory minimum wage, but contracts must never offer poorer terms than those stipulated in contractual union pay agreements in the relevant profession. A trial period from one up to three months is common, but in higher-level jobs up to six months. Private employers in Iceland have greater flexibility to terminate employment than in most other European countries. In general, any employee's service may be terminated provided mandatory notice is given, and the employer may prevent him from working the notice period, which generally ranges three months. According to some pay agreements an employee is entitled to an interview to be informed about the reasons for termination of employment. However, there are some exceptions: shop stewards, employees' with special family responsibilities (due to sick or disabled family members), pregnant women and parents on maternity/paternity leave enjoy special protection against dismissal. Discrimination on grounds of sex is forbidden and special rules cover transfer of undertakings and collective redundancies. Generally there is no severance pay beyond that for the notice period.

Working Hours

The basic legal working week is 40 hours divided into 5 eight hours working days from Monday to Friday. Some professions have 37.5 – 39.5 hours per week, mainly office clerks and sales assistances. Overtime, however, is common in the labour market. Most collective agreements contain an authorization on shift work applying to a part or all workers of a company. A shift differential is paid for work carried out during the period from 16:00 hours (from 17:00 hours at restaurants and hotels) to 08:00 hours and on weekends. Most employees are paid for overtime, or alternatively allowed time off in lieu. Typical shift-work rates are an extra 33 - 40% on top of the daytime rate, and an extra 45% for weekend or public holiday work. This rate may be 80%, if the relevant pay agreement or a contract of employment does not include rates on shift-work or on overtime work. According to some of the main contracts on wages, 1.0385% of monthly wages is paid pr. hour for overwork and 1.375% of monthly wages is paid for public holiday work. A continuous rest period of 11 hours is typically guaranteed during each 24-hour period. In certain circumstances the rest period may be shortened to 8 hours.

Workplace Regulation

Conditions vary from company to company, but according to the Act on Facilities, Hygiene and Safety at Work, every workplace must have a safety convener or safety committee, in accordance with the size of the firm.

Posting of workers

Iceland has adopted the EU Directive 96/71/EC, posting of workers (Icelandic Act No. 45/2007). The Directive applies to undertakings which post workers to the territory of a Member State, provided there is an employment relationship between the undertaking making the posting and the worker during the period of posting:

- on their account and under their direction, under a contract concluded between the undertaking making the posting and the party for whom the services are intended;
- to an establishment or to an undertaking owned by the group;
- as a temporary employment undertaking, to a user undertaking.

For the purposes of the Directive, "posted worker" means a worker who, for a limited period, carries out his work in the territory of a Member State other than the State in which he normally works.

In accordance with the Directive, Iceland ensures that undertakings guarantee posted workers a central core of mandatory protective legislation.

Conditions of work and employment to be covered are:

- maximum work periods and minimum rest periods;
- minimum paid annual holidays;
- minimum rates of pay, including overtime rates;
- the conditions of hiring-out of workers, in particular the supply of workers by temporary employment undertakings;
- health, safety and hygiene at work;
- protective measures with regard to the terms and conditions of employment of pregnant women or women who have recently given birth, of children and of young people;
- equality of treatment between men and women and other provisions on non-discrimination.

Iceland may derogate from the implementation of the rules on minimum rates of pay and holidays in the case of initial assembly and/or first installation of the goods provided when the maximum duration of the work does not exceed eight days. This derogation does not, however, apply to the building industry.

The laws can be found in an English translation on https://eng.velferdarraduneyti.is/legislation/acts_of_parliament/

The Directorate of Labour provides further information, www.vinnumalastofnun.is.

F.2 Social Security and Payroll Taxes

Social Security

Social security contributions are partly paid with the income tax paid by the employee and partly with the social security charge paid by the employer. The structure of the health care system in Iceland is comparable to those of the other Nordic countries and is largely run by the state and local governments. All residents are covered by a public health insurance system, which provides for free hospital care and other types of health care at a low cost to the patient. Access to the health care system is based on domicile in Iceland. An individual moving to Iceland from another country gains full access after being domiciled for a full 6 months. Faster access is granted to individuals who move from a Nordic or EEA country and provide the social security authorities with the relevant documentation.

Payroll Taxes/Social Security Contributions

All employers are liable to payroll tax (social security fee) on paid wages and other remuneration. This tax also applies to the calculated earnings of self-employed individuals. A single rate applies and is 6.85% in 2018. An extra 0.65% insurance contribution is paid on the wages of seamen and added to the 6.85% rate. Revenue from the social security contribution is divided among an Unemployment Insurance Fund, the Maternity/Paternity Leave Fund, the Wage Guarantee Fund, and Health Administration and the Social Security Bureau.

Vocational Rehabilitation Fund (VIRK)

Public and private employers pay 0.10% of all salaries to the Icelandic Rehabilitation Fund VIRK. The goal of the fund is to systematically decrease the probability that employees lose their jobs due to incapacity and sickness, by increasing their activities, promoting vocational rehabilitation and other interventions.

F.3 Employee Benefits

Vacations

The minimum vacation period is 24 working days, i.e. 4 weeks + 4 days. The right to vacation allowance depends upon the wage-earner’s length of service during the immediately preceding 12 months and is calculated as two paid vacation days per month of work during the immediately preceding vacation year, which extends from May 1 to April 30. Public holidays are generally 11 days a year and arrangements for overtime payments for them are specified in individual union agreements.

Unemployment Benefits

Unemployment benefits, which are partly related to the previous salary, are paid from a separate fund, the Unemployment Benefit Fund, which is managed by the Directorate of Labour. Its revenues come from a 1.35% component of the payroll tax on all wages and salaries. Benefits payable to unemployed individuals amount to ISK 227,417 (USD 2,183) a month plus ISK 9,096 (USD 87.3) per month for each child younger than 18 years. Maximum income-related benefits amount to ISK 358,516 (USD 3,441.64) a month but are not paid for more than 3 months. Benefits are not wealth-related. An unemployed individual can earn up to ISK 66,456 (USD 638) pr. month without reducing his unemployment benefits.

Sickness Pay

Employees are entitled to wages for a certain period during sickness or after an accident at work. The minimum rights during the first year of service with an employer are 2 days in respect of each month. After one year of employment an employee is entitled to total wages for 1 month out of every 12 months, after three years with the same employer 1 month of total wages and 1 month with day wages out of every 12 months, and finally after five years with the same employer 1 month of total wages and 2 months with day wages out of every 12 months. An employee who is absent from work for a longer period is entitled to payment from the union sickness fund. Contractual wage agreements may provide better rights.

Accident Pay

All employees who are excused from work on account of accident at work, on direct route to or from work or due to occupational diseases caused by it, shall receive payment of wages for daytime work for up to 3 months in accordance with the tariff under which the party concerned received wages, provided that the work be with a party engaging in business operations in the trade concerned. All permanently engaged employees who have been engaged in service with the same employer continuously for one year shall, when they are excused from work on account of diseases or accidents, not forfeit any of their wages for one month in whatever form these may be paid. In case such employees have been engaged with the same employer continuously for three years they shall, in addition to that which is stated in paragraph 1, retain their daytime wages for one month, but two months after five years of continuous engagement with the same employer. In addition to the rights enjoyed by permanently engaged employees in accordance with paragraphs. 1 and 2 they shall, when their absence is caused by an accident at work or an occupational disease, retain their daytime wages for up to three months as stated in paragraph 1.

Maternity and Paternity Leave

Parents have each an independent right to maternity/paternity leave of up to three months due to a birth, primary adoption or permanent foster care of a child. This right is not assignable. In addition, parents have a joint right to three additional months, which may either be taken entirely by one of the parents or else divided between them. The right to maternity/paternity leave lapses when the child reaches the age of 24 months. The right to maternity/paternity leave is established upon the birth of a child. However, parents are permitted to start their maternity/paternity leave up to one month prior to the expected birth date, which is confirmed by a medical certificate. All parents, who do not enjoy full contractual salary rights from their employers, are paid by the Maternity/Paternity Leave Fund after they have been active in the domestic labour market for six consecutive months prior to the first day of the maternity/paternity leave. A parent’s working time in other EEA countries is taken into account if the parent has been employed in Iceland for at least one month during the six months prior to the first day of the maternity leave (date of birth in case of paternity leave). The Maternity/Paternity Leave Fund’s monthly payment to an employee on leave in 2016 amounts to 80% of her/his average wages during a 12-month period starting 6 months prior to the date of birth of the child. Maximum payment is ISK 520,000 (USD 4,991.84) per month. The monthly payment to a self-employed parent amounts to 80% of the calculated remuneration on which an insurance levy has been paid for the same period. However, the monthly payment during maternity/paternity leave to a parent in a 25-49% part-time job shall never be less than ISK 123,897 (USD 1,189.37), and the monthly payment to a parent holding a 50-100% job shall never be less than ISK 171,711 (USD 1,648.37). Parents employed by the State and local authorities are also paid by the Maternity/Paternity Leave Fund. They also enjoy payments from a special fund to meet the difference between their full contractual salary rights and the 80% payment from the Maternity/Paternity Leave Fund. Parents not active in the domestic labour market or in a less than 25% part-time job are entitled to a payment to the amount of ISK 74,926 (USD 719.26) per month and full-time students are entitled to a payment to the amount of ISK 171,711 (USD 1,648.37) per month from the social security system.

Old-Age Pensions

The general retirement age is 67-70. Iceland's pension system rests on three pillars: the pension paid by the social security system, occupational pension funds and private pension plans. While not a part of the social security system proper, occupational pension funds have been compulsory for wage-earners as well as the self-employed since 1972. In many ways, social security pensions take account of those paid by the pension funds, so the three systems are closely interlinked. The monthly state old age pension is ISK 239,484 (USD 2,299). Earned income over ISK 100,000 (USD 960) and other income over ISK 25,000 (USD 240) pr. month reduces the state old pension 45%. No state old pension is paid if a person's income in a month is in excess of ISK 557,187 (USD 5,348.8). In addition to this pension, support may be obtained for general costs of living, but is income-related. State pensions are financed through taxes, while all wage-earners and self-employed are also obliged to contribute to an occupation-related pension fund. Wage-earners must pay 4% of pre-tax earnings to the pension fund, matched by an 8% contribution from the employer (11.5% from the State). However, if an employee belongs to the labour organization "Federation of Labour" (ASÍ) the employer must pay 10% to the pension fund. The 4% contribution to a pension fund by an employee is deductible from tax. An additional deduction up to 4% is deductible from taxable income if the employee chooses to pay it either into an occupation-related pension fund or private pension plan provided that the contribution is paid regularly. Most pay agreements on the labour market require employers to pay extra 2% to a pension fund, if the employee chooses to pay additional 2-4% contribution.

The old-age pension is fully subject to income tax, which is deducted when it is paid out.

G. Taxation

G.1 Principal Taxes

Introduction

Indirect taxes are the main taxation form of central government in Iceland, accounting for 35.2% of the total tax revenue in 2015. The total tax revenue as a percentage of GDP was 22.6% in 2013, 25.5% in 2014, 23.7% in 2015 and is estimated to be 24.1% in 2016. Compared to tax systems of other countries the Icelandic tax system is relatively simple and effective. In the last few years the emphasis has been to simplify it further, reduce tax rates, broaden tax bases and conclude more double taxation conventions, which will increase competitiveness of Icelandic corporations and attract foreign investors. The corporate income tax rate is 20% which is one of the lowest within the OECD.

Direct Taxes

The principal direct taxes are individual income tax and corporate income tax (20%).

Individuals are subject to income tax at the following rates after deduction of personal allowance:

- Up to ISK 893,713 36.94%
- Over ISK 893,713 46.24%

Individual income tax is divided between a national tax of 22.50% and 31.8% for the income year 2018 and municipal income tax at an average rate of 14.44%.

Foreign experts can deduct 25% of their salary as deductible expenses in the first three years of their recruitment (see under Chapter D.1 Investment Incentives).

Capital gains are taxed according to special rules for financial income for individuals, but treated as ordinary income for companies. Inheritance tax is also levied.

Indirect Taxes

The principal indirect taxes are value-added tax – levied at a standard rate of 24% but with an 11% category for food, newspapers and certain other items – and various excise duties, including car tax.

Property Fee

Land and property fee at nominal rates is paid to the municipal authorities; rates vary between municipalities and also with regard to use. The principal fees and rates are those on property, use of cold water, waste disposal and other such basic services provided by the municipalities.

Contribution to the State Radio and Television (Útvarpsgjald)

A levy in the amount of ISK 17,100 (USD 164) is collected in the assessment 2018 of all businesses and individuals with income exceeding the tax-free limit and contributed to the state radio and television in Iceland.

A special tax on hotels and accommodation (Gistináttaskattur)

From January 1st, 2012, a special tax is levied on every night sold at hotels and other accommodation that is registered for value added tax in the amount of ISK 100 (USD 0.96). However, this tax will be in the amount of ISK 300 (USD 2.88) from September 1st, 2017.

Capital Taxes (Net Worth Taxes)

From December 31st 2005 no capital taxes are levied on net capital in Iceland, neither for individuals nor businesses.

Tax on Financial Companies

Financial companies are liable for a specific tax on their total liabilities above ISK 50.000.000.000 (USD 479,984,640) as the liabilities are in the end of the accounting year. The rate is 0.376% and is also levied on financial companies in winding up proceedings. This tax is not deductible from taxable income.

Financial Activity Tax

The financial activity tax is levied on all kinds of salaries and fees paid by financial companies, securities firms, insurance companies and the State Housing Fund. The tax was adopted in 2012 and is paid monthly. The tax rate is 5.5% in 2018. The tax is deductible from taxable income.

A special 6% financial activity tax will be levied in the assessment 2018 on the tax base above ISK 1 billion (USD 9,599,692.81) on those that are subject to the financial activity tax. Tax consolidation of parent companies with their subsidiaries and operating loss carry-forwards are not taken into consideration in the tax assessment of the special financial activity tax.

Stability Tax

The stability tax was adopted in 2015. The capital controls liberalisation strategy presented by the Government of Iceland and the Central Bank of Iceland entails levying a stability tax on the failed banks' estates and imposing stability conditions so as to ensure macroeconomic and balance of payments equilibrium in the domestic economy.

G.2 Administration of Taxes

Sources of Tax Law

Taxation is governed by tax laws enacted by Parliament. Court decisions, rulings by the tax authorities and guidelines issued by the tax authorities are integral parts of the interpretation of these laws. Iceland has valid tax treaties with 44 countries as of February, 2018 (see chapter G.3). In practice these treaties are considered to be integral parts of tax law. The central tax authorities publish important tax rulings and results of appeals in anonymous form.

Filing

Tax returns must be filed with the local tax authority in the year following the year of income. There are different deadlines for legal entities and individuals. All tax returns are now filed online. The conventional way on paper has been abolished. Individuals, whether self-employed or not, must file by March 15th. The deadline may be extended until March 20th upon application. Companies and branches must file by the end of May. Accountants and audit firms usually obtain longer extensions. Business entities are required to file information with the tax authorities. This information, which includes details of salaries paid and withholding tax deducted at source on wages, must be reported to the tax authorities no later than January 20th of the following calendar year.

Tax Administration

Tax is assessed on the basis of income during the previous year. Income tax is calculated and levied by the tax authorities on June 29th in the year following the income year.

Tax Audits

Tax audits are carried out by local tax authorities, which may request additional information and documentation.

Assessment and Appeal

Taxpayers are sent an assessment and calculation of their tax for the previous year on June 29th. For individuals any difference between the official tax assessment and tax paid in advance is refunded in the end of June of the year following the year of income. If a taxpayer has paid a higher amount than the final tax assessment amounts to he is to be reimbursed. The interest rate is to be equal to the interest rate that the Central Bank of Iceland decides and publishes. Interest payments are not to be calculated if the refund is made within 30 days after the payment of taxes was overcharged. Outstanding tax is payable in five equal instalments from August to December. An appeal may be lodged against an assessment within 60 days from its announcement. Further recourse for appeal is available through a National Tax Board (Yfirskattanefnd) and, ultimately, the courts. Complaints may also be lodged with the Office of the Althingi Ombudsman about decisions, procedures and conduct exercised by the tax authorities. In general, the authorities and the courts issue decisions on treatment of tax accounting entries after they have been made. However, under new legislation taxpayers may apply for an advance ruling concerning the tax consequences of actions being contemplated. Such advance rulings are binding on the tax authorities, but taxpayers that disagree with rulings may appeal against them.

Penalties

If tax due is not paid on time, penalty interest is levied on the outstanding amount. Failure to file a tax return on time results in an estimated assessment made by the tax authorities. When the tax return is filed it is considered to be an appeal to the tax authorities. If the taxpayer has a substantiated reason to have filed after the deadline and has a track record of having returned his previous tax returns on time, the tax authorities levy tax according to it without any consequences to the taxpayer. If not, the tax authorities levy the tax according to the tax return with a penalty.

G.3 Liability for Tax

Residents and Non-Residents

Individuals are deemed to be residents of Iceland for tax purposes if they reside in the country and are registered in the national registry of persons or remain in the country for a period of six months or more out of a 12 -month period.

Taxation of Residents

Resident individuals are subject to Icelandic tax on their worldwide income. Capital taxes were abolished on December 31st, 2005, on individuals and business entities. Wealth tax on individuals has also been abolished. Resident corporations are subject to Icelandic corporate income tax on their worldwide profits. Both individuals and businesses are subject to a contribution to the State Radio and Television.

Taxation of Non-Residents

Non-resident persons are subject to tax on income from Icelandic sources, including but not limited to salaries, wages and pensions paid from Icelandic sources, income derived from business carried out in Iceland and from real property, shares and other financial income. According to domestic rules, non-resident individuals staying in Iceland for longer than 183 days out of a 12 -month period are subject to tax on their worldwide income. Individuals who are in Iceland for a temporary stay, i.e., less than 183 days, are taxed on Icelandic-source income. Tax rates are the same as for resident individuals, with a standard deduction granted for the period stayed in the country. Exemptions from the above rules may be provided for in double taxation treaties.

Non-Resident Companies

Non-resident companies and other entities are subject to tax on their income from Icelandic sources at the normal rate, after consideration of relief if available under double taxation treaties. They are taxed in conformity with the rules applicable to companies domiciled in Iceland on income derived from business activities or participation in business activities with a permanent establishment in Iceland.

Withholding Taxes for Non-Residents

Withholding tax rates on payments to non-residents are 20% on dividends and derivatives paid to companies and 22% on dividends and derivatives paid to individuals, 22% on royalty payments to companies and individuals and 12% on interest income (bank accounts, investment and security funds, Icelandic bonds and all other financial claims) to companies and 120% to individuals. However, interest income of individuals not exceeding ISK 150,000 (USD 1,439.95) is tax-free.

Double Taxation Treaties

The rates of withholding tax in the chart below apply to dividends, royalties and interest paid to a recipient resident in a country with which Iceland has a tax treaty in force.

Country	Dividends: Individuals companies (%)	Dividends: Qualifying companies (%)	Royalties (%)	Interest (%)
Albania	10[7]	5[3]	10	10
Austria	15[7]	5[3]	5	0
Barbados	15[7]	5[1]	5	10
Belgium	15[7]	5[1]	0	10
Canada	15[7]	5[1]	0[2]/10	10
China	10[7]	5[3]	10	10
Croatia	10[7]	5[1]	10	10
Czech Republic	15[7]	5[3]	10	0
Cyprus	10[1]	5[1]	5	0
Denmark	15[7]	0[1]	0	0
Estonia	15[7]	5[3]	0[5]/10	10
Faroe Islands	15[7]	0[1]	0	0
Finland	15[7]	0[1]	0	0
France	15[7]	5[1]	0	0
Georgia	10	5[3]	5	5
Germany	15[7]			
Greece	15[7]	5[3]	10	8
Greenland	15[7]	5[3]	0	0
Hungary	10	5[3]	10	0
India	10	10	10	10
Ireland	15[7]	5[3]	0[2]/10	0
Italy	15[7]	5[1]	5	0
Latvia	15[7]	5[3]	0[5]/10	10
Liechtenstein	15[7]	0[1]	0/5[8]	0
Lithuania	15[7]	5[3]	0[5]/10	10
Luxembourg	15[7]	5[3]	0	0
Malta	15[7]	5[1]	0	0
Mexico	15[7]	5[1]	10	10
Netherlands	15[7]	0[1]	0	0
Norway	15[7]	0[1]	0	0
Poland	15[7]	5[3]	10	10
Portugal	15[7]	10[3]	10	10
Romania	10	5[3]	5	3
Russia	15[7]	5[3]	0	0
Slovak Republic	15[7]	5[3]	10	0
Slovenia	15[7]	5[3]	5	5
South-Korea	15[7]	5[3]	10	10
Spain	15[7]	5[3]	5	5
Sweden	15[7]	0[1]	0	0
Switzerland	15[7]	5[3]	0	0
Ukraine	15[7]	5[3]	10	10
United Kingdom	15[7]	5[1]	0	0
United States	15[7]	5[1]	0/5	0
Vietnam	15[7]	10[3]	10	10
None treaty countries	22/20[7]	20	22[6]	12

1. This rate applies to corporate shareholders with a minimum ownership of 10%.

2. The zero 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).
3. This rate applies to corporate shareholders with a minimum ownership of 25%.
4. The Nordic Convention.
5. The 5% rate applies to royalties paid for the use of industrial, commercial or scientific equipment.
6. The 22% rate applies to both individuals and legal entities from none treaty countries.
7. According to the Icelandic tax legislation dividends paid by resident companies to resident and non-resident individual shareholders are subject to a final 22% withholding tax.
8. The 5% rate applies to royalties for the right to use any patent, trademark, design or model, plan, secret formula or process.

The tax treaty with Germany has been revised and signed. Tax treaties with Japan, Bulgaria and Qatar are finalized and signed, and are pending ratification. Negotiation on a tax treaty with Chile is to be continued.

G.4 Resident Corporations

Tax Periods

The calendar year is mandatory for all taxpayers, but on application, a corporate taxpayer may be granted a different fiscal year if this can be justified on special grounds, for example companies engaged in the fish industry.

Determination of Taxable Income

Taxable profits are based on the financial accounts of companies, after the adjustments required by law.

Pre-Payment of Taxes

All taxes are paid in the assessment year, which is the year after the year of operations. Taxes are due in ten payments on the first day of each month except January and October. Until the tax has been calculated, which is usually no later than July 1 each year, a corporation must pay a proportion of the amount of income tax it paid during the previous year. The proportion for 2017 (assessment year 2018) will be 8.5%.

Consolidation of Income

Each entity is taxed separately. However, tax consolidation of a parent company with a subsidiary can be applied for, if one company owns at least 90% in another company, and this will be binding for the following five years. Consolidation means, inter alia, that losses of one company can be set off against profits of the other companies. Such an application shall be made in writing and sent to the relevant tax commissioner. Consolidation may not be extended to non-resident companies.

Tax Rate

Limited liability companies pay 20% income tax.

Registered partnerships for tax purposes with unlimited liability pay 37.6% income tax from January 1st, 2018.

Individuals with business income pay on net profits:

- Up to ISK 893,713 22.50%
- Over ISK 893,713 31.80%

Municipal Income Taxes

Municipal income tax is only levied on the business income of individuals and not on profits of legal entities. No personal tax credit is deducted when this tax is assessed, unless the personal tax credit exceeds the taxpayer’s computed national income tax. The rate may range from 12.44% to 14.52%; the average is 14.44% for the income year 2018.

Capital Gains Taxes

Capital gains are added to other taxable income and taxed at the regular corporate rate. However, the taxation may be deferred if special requirements are met.

Interest Income

Interest income is treated as ordinary income and included in taxable income of companies.

Dividends

When a resident company receives dividends from shares it owns in another company, the dividends are not taxed in the hands of the recipient company. There are no requirements relating to percentage of stock ownership in the corporate payer. However, a 22% withholding tax is withheld at source for dividend payments to individuals and resident companies, and 20% to non-resident corporations, and regarding corporations it is considered a prepayment for regular income tax payable after assessment. An individual shareholder who is resident in Iceland and receives dividends pays 22% withholding tax, which is withheld at source by the company paying out the dividends. The tax liability of a non-resident shareholder depends on whether he is treaty protected or not; 44 tax treaties are applicable (see G.3, Double Taxation Treaties). In the absence of tax treaties, the domestic tax rules apply.

Shares

The Icelandic tax law provides for participation exemption for all domestic legal entities.

Operating Expenses

Operating expenses are fully deductible in the year in which they are incurred. In general, allowable expenses are those incurred for the purpose of earning income, including salaries and all other staff expenses, rent, advertising expenses and maintenance. Most current expenses are deductible as operating expenses. Research and development costs, including trademarks and market research costs, may be deducted in full in the year they are incurred, or depreciated over a five-year period. The same applies to lawyers' and accountants' fees incurred in establishing or expanding an enterprise.

Depreciation and Depletion

Annual depreciation is calculated as a percentage of the acquisition cost. Allowances for buildings and other structures are defined by the tax legislation, for example office buildings 1-3%, industrial plants 3-6%, storage tanks 3-6%, quays 6-8%, and boreholes and electric transmission lines 7.5-10%.

Annual Depreciation rates

	mininum	maximum
Ships and aircraft	10.0%	20.0%
Industrial machinery and equipment	10.0%	30.0%
Office equipment	20.0%	35.0%
Machinery and equipment for building and construction, automobiles and other transport conveyances, and other movable property not included above	20.0%	35.0%
Buildings as defined by the Income Tax Act	1.0%	6.0%
Purchased Intangibles	15.0%	20.0%
Purchased goodwill	10.0%	20.0%

Interest Expenses

In general, interest paid is deductible, whether due to foreign or resident creditors.

Loss Carryovers

Operating loss carry-forwards may be carried forward to the succeeding ten years. Carry-backs are not permitted.

Transfer pricing

Rules on transfer pricing have been adopted in Iceland. If financial transactions take place between taxpayers under terms that differ from those generally applicable to such transactions tax authorities are authorized to reassess the terms and prices with regard to the OECD Transfer Pricing Guidelines on Transfer Pricing. If operating income or total assets of a company are more than ISK 1 billion (USD 9,599,692.81) in a fiscal year the company is obligated to document all information on transactions between related entities and how the terms or prices were concluded. The company has to preserve all data related to such transactions, information on business terms, turnover, assets and other information that may be of relevance regarding the transfer pricing. The company also has to be prepared to provide data on pricing and terms in comparable transactions at arm's length between unrelated parties or how the transfer pricing was decided with regard to the OECD guidelines on transfer pricing. All data and information must be preserved for 7 years from the end of the fiscal year. A legal entity shall verify documentation obligation when filing a tax return and that satisfactory documentation has taken place. A legal entity shall respond to the request of the tax authorities regarding access to mandatory documentation related documents no later than 45 days after the request was made.

Over 60 countries have implemented the OECD rules on transfer pricing, to protect their tax base and prevent double taxation. Effective operational transfer pricing includes:

1. A global transfer pricing policy supported by economic analysis.
2. Intercompany agreements between relevant legal entities.
3. A global governance model.
4. Transfer Pricing Documentation to enhance transparency for tax administration.

Controlled Foreign Corporations

In 2009, the parliament adopted the mechanism of taxing the Icelandic shareholders on their pro rata shares of the controlled foreign corporation's undistributed income as if those shares of income had been distributed as dividends. 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. A "controlled foreign corporation" is defined as a foreign corporation of which at least 50% of the total stock was owned, directly or indirectly by Icelandic residents on any day during the foreign corporation's tax year in a jurisdiction with income tax rate lower than 2/3 of the income tax, which would have been levied on the company if registered and taxed in Iceland. The aim is to resist tax avoidance by domestic taxpayers who move their assets and income abroad into shell companies established in tax havens. If a tax treaty between Iceland and the low tax jurisdiction is available and the income of the controlled foreign corporation does not derive mainly from assets, the CFC rules are not applicable.

Thin Capitalization

The deduction of interest expense from loan agreements between related parties is limited to 30% of the taxable operating profit (EBITDA). Interest expense in excess of 30% of the taxable operating profit is non-deductible. The interest expense deduction limit does not apply if: a) Interest expense of taxable party from loan agreements between related parties is less than ISK 100 million. b) The lender has unlimited tax liability in Iceland. c) The taxable party demonstrates that its equity ratio is no less than 2% below the equity ratio of the group it is a part of. d) The taxable party is a financial corporation or an insurance company.

State-for-state reports

A parent company domiciled in Iceland, which has one or more subsidiaries abroad and thereby forming an international consolidated group must provide to the Internal Revenue Service the so-called "state-for-state" report. The report shall contain information on distribution of income and paid taxes of the international consolidated group together with information on how the economic activities of the group are divided. However, this only applies to consolidated groups with total income of more than ISK 100.000.000.000 (USD 959,969,281).

G.5 Taxation of Foreign-Source Income

Foreign Subsidiaries

Dividends received by an Icelandic company from another company (Icelandic or overseas) are not subject to tax, if the company paying out the dividends is subject to similar taxation in its home country and the income tax rate applicable to the profits of the foreign company is not lower than the income tax rate of any member country of the OECD, EEA, EFTA or in the Faroe Islands. No credit is granted for underlying company tax paid in an overseas entity.

Branches

Because Icelandic resident companies are taxable on their worldwide income, profits and losses derived from their foreign branches are included in their taxable income. However, treaty relief or credit relief under Icelandic tax law may be available.

Foreign Tax Credit and Exemption

Icelandic tax law provides for unilateral relief for foreign taxes paid, but such relief may not exceed the part of the total Icelandic liability that relates to the foreign income. No other limitations apply and the foreign tax credit must not be calculated separately for each type of foreign-source income since Iceland does not apply the "basket" system (the United States system). Alternatively, taxpayers may claim relief under applicable tax treaties. Relief may be in the form of an exemption or credit, depending on the particular treaty in question.

G.6 Non-Resident Companies

Non-resident companies are subject to Icelandic income tax on Icelandic dividends, royalties and profits from Icelandic permanent establishments (branches), and from real estate unless they are treaty-protected. Dividends paid to non-resident companies are subject to a withholding tax of 20% and royalties 22%. Profits from branches are subject to corporate income tax at the rate of 20%. No withholding tax or "branch profits tax" is imposed on the remittance of profits by an Icelandic branch of a foreign corporation. Branch after-tax profits can be repatriated with no tax consequences.

Branches

Branches of foreign companies are taxed on income derived from their activities in Iceland. Tax is calculated at the regular corporate tax rate of 20%. Branches must file tax returns providing information concerning their taxable income and expenses as well as their capital and debts. For tax purposes, Icelandic branches of foreign companies are generally treated like Icelandic incorporated companies except that they are only taxed for Icelandic sourced income and not worldwide income as Icelandic companies are. A branch can deduct against its taxable income in Iceland a part of the overhead costs of the non-resident company.

Portfolio Income

Non-residents are subject to Icelandic withholding tax on Icelandic dividends (20% for companies and 22% for individuals) and royalties (22% for companies and individuals), but under most tax treaties this rate is lower and gives a credit against taxes in the resident country. Icelandic interest payments to a non-resident are subject to 12% withholding tax for legal entities and individuals. However, interest payments of ISK 150,000 (USD 1,439.95) are tax-free for individuals.

Capital Gains

According to domestic income tax legislation, capital gains on disposals of the assets of an Icelandic permanent establishment are taxable in Iceland. Capital gains derived by non-residents from disposals of Icelandic shares or bonds are also subject to Icelandic income tax. This also applies to real estate located in Iceland.

G.7 Partnerships

There are two kinds of partnerships for tax purposes: Partnerships, which are registered as taxable entities for tax purposes and pay 37.6% income tax, and “flow through” partnerships, where profits and losses are allocated to the partners in proportion to their shares in the enterprise, and the partners are subject to corporate or individual income tax on such allocations.

G.8 Taxation of Individuals

Taxable Income

Taxable income is divided into ordinary income and capital income, and different rates apply. A standard tax credit is used against ordinary and capital income, and the employee’s 4-8% pension fund contribution is deductible. Other tax benefits are in the form of compensation for interest incurred on loans taken to purchase a residence for private use, and child support, both of which are income-related. Deductions are permitted against an individual’s business income. Personal income includes wages and salaries, allowances received, fringe benefits, and net business profits. Fringe benefits are generally included in taxable income at market value, while private use of a company car and company-provided accommodation is assessed and taxed according to standard values compiled by the tax authorities.

A standard deduction is granted against per diem allowances for business travel. Capital income includes interest income, rental income, capital gains and dividends. Dividend and interest income received from companies resident in Iceland is subject to a 22% withholding tax. Non-resident individuals pay 22% (dividends) and 12% (interest) withholding tax. However, interest income in the amount of ISK 150,000 (USD 1,439.95) is tax-free for both residents and non-resident individuals. Residents of countries with double taxation treaties with Iceland can obtain a confirmation in order to avoid the withholding tax for their dividend income.

Foreign experts can deduct 25% of their salary in the first three years of their recruitment (see chapter on Foreign Experts below).

Tax Period

The tax period for individuals is the calendar year.

Income Tax on Individuals

The national income tax rates for 2018 are as follows:

- Up to ISK 893,713 22.50%
- Over ISK 893,713 31.80%

The municipal income tax rate may vary from 12.44% to 14.52% between municipalities, the average rate in 2018 being 14.44%, which makes total income-related rates of 36.94% and 46.24%. Income tax is paid as the income is earned and is withheld at source by the employer. A monthly tax deduction of ISK 53,895 (USD 517.37) is available, meaning that income up to ISK 151,978 (USD 1,459) per month is tax-free (taken into consideration that 4% contribution to a pension fund is deductible). A charge of ISK 11,175 (USD 107.27) is levied in the tax assessment 2018 on individuals 16-69 years old, who have income above ISK 1,718,678 (USD 16,498.78) for Construction Fund for the Elderly. A special radio tax is also levied in the tax assessment 2018 on individuals 16-69 years old, who have income above ISK 1,718,678 (USD 16,498.78).

Capital Income Tax

Capital income earned by individuals, such as interest, dividends, rental income and capital gains, is subject to a withholding tax at a flat rate of 22%. However, interest income in the amount of ISK 150,000 (USD 1,439.95) and 50% of rental income of residential housing is tax-free. Capital gains are not taxed on the sale of residential housing if owned and used by the owners for more than 2 years. It should be noted that individuals are granted tax benefits in the form of compensation for interest incurred on loans taken to purchase a residence for personal use, and child allowance. However, these benefits are income- and net worth-related.

Business Income of an Individual

Business income is taxed as ordinary income of the business owner. Expenses are deductible to the extent required to obtain, secure and maintain business income.

Personal Deductions and Allowances

The following personal deductions are provided:

- Premiums paid to an approved pension schemes may be deducted from personal income, providing tax relief of 4-8% of an individual’s income. For non-residents, the qualification for deductions is to pay either to a pension scheme operating according to an Act passed in Iceland or to a pension fund officially approved by the Icelandic Ministry of Finance and Economic Affairs.
- A standard tax credit of ISK 646,739 (USD 6,208.5) from the calculated income tax figure for the year. Furthermore, up to 100% of a spouse’s tax credit may be transferred to the other spouse if not fully used.
- Payments from employers for fitness activities are tax-free if not exceeding ISK 55,000 (USD 528) per year.
- An employee can have tax-free ISK 7,500 (USD 72) per month from his employer by using public transport or some environmental friendly transport between home and work.
- Foreign experts can deduct 25% of their salary in the first three years of their recruitment (see chapter on Foreign Experts below).

Tax Deductions due to Investment in Shares

When certain requirements are met individuals can deduct from their income tax and/or financial income tax base a part of their investments in shares in public limited companies, which have been certified by the Directorate of Internal Revenue. The requirements are both related to the company and the individual investor. The tax deduction is 50% of the investment, which needs to be at least ISK 300,000 (USD 2,880) but not exceeding ISK 10,000,000 (USD 95,997).

Tax Incentives for Foreign experts

In 2016 the Parliament passed a bill regarding tax incentives for foreign experts. 25% of their salary may be deducted as deductible expenses in the first three years of their recruitment if following requirements are met:

a. A foreign expert is hired with a legal person, which has domicile or a fixed place of business in Iceland and that legal person is the actual salary-payer.
b. The foreign expert has not been domiciled in Iceland the previous 5 years before his recruitment.
c. The foreign expert has knowledge that is limited in Iceland.

G.9 Estate and Gift Taxes

The recipient is taxed for gifts on the same basis as ordinary income. Inheritances are taxed as follows: For spouse the tax rate is 0%. For all other heirs the rate is 10%. However, the first ISK 1,500,000 (USD 14,399.5) is tax free. However, the tax-free amount does not apply to a prepaid inheritance.

G.10 Capital Tax (Net Worth Tax)

From December 31st 2005 no capital taxes are levied on net capital in Iceland, neither for individuals nor businesses.

G.11 Indirect Taxes

Value-Added Tax

A 24% value-added tax is levied on any sale of goods, power or services with various exceptions. Among the exempted categories are the following:

- All export sales
- Public health-care services
- Schools and other educational institutions
- Scheduled domestic and international passenger transportation and cargo transport between Iceland and foreign countries.
- Postal services
- House rentals and sales and rentals of trade aircraft and vessels
- Insurance services
- Banking and the operation of other financial institutions and sales of bonds
- Services to foreign entities if the services are rendered outside Iceland, or if the operations of the non-resident company would be liable for VAT under the Icelandic VAT Act

An 11% value-added tax is levied on the sale of the following goods and services:

- Food
- Hotels and other accommodation.
- Access to spas
- Licenses for television and radio stations.
- Sales of books.
- Hot water, electricity and fuel oil used for domestic and commercial heating.
- Road tolls.
- Domestic transportation.
- Guides.
- Travel agencies when rendering services subject to 11% value-added tax.
- Diapers.

All corporations, individuals and state and municipal entities that sell or grant any kind of taxable goods or services in Iceland are assessable for VAT. The regular VAT assessment period is two months, and the tax is due within 35 days from the end of each period. VAT must be paid along with customs duties when goods are imported. Foreign enterprises must be registered through an Icelandic-resident representative that is jointly responsible for collection and payment of VAT. The threshold for compulsory VAT registration is a turnover of ISK 2,000,000 ex-VAT (USD 19,199.38) per year. Consolidated registration for VAT is available for corporations under 90% joint control. Such registration has to be maintained for at least 5 years.

Social Security Fees and Payroll Tax

The employer pays a social security fee based on all salaries and wages on a monthly basis. It is also calculated on taxable fringe benefits in kind such as a company car and housing. This tax includes a contribution to the Icelandic National Insurance scheme as well as a contribution to the Unemployment Insurance Fund and the Maternity/Paternity Leave Fund. One flat rate is in operation for the tax year 2018 and is 6.85%. An extra 0.65% contribution is paid on wages of seamen.

Excise Duty

Excise duties are levied on goods, new and second-hand, which are imported from abroad or manufactured, processed or packed in Iceland. There is no excise duty on exports.

Stamp Duty

Stamp duties are levied on the following documents:

- Deeds for real estates, vessels etc. (individuals): 0.8%
- Deeds for real estates, vessels etc. (legal entities): 1.60%

Individuals buying their first real estate for own use are granted 50% discount of stamp duties. Stamp duties of loan documents, bonds, issued shares etc. were abolished from January 1st, 2014.

G.12 Local Taxes

Property Tax (Property Fee)

Land and property tax at nominal rates is paid to the municipal authorities; the rates vary between municipalities and also in regard to use. The principal fees are those on property, use of cold water, waste disposal and other such basic services provided by the municipalities.

Pollution Tax

Iceland does not share the Scandinavian tradition of extensively using environmental taxes to internalize externalities. Iceland raises relatively little revenue from environmentally related taxes (1.3 percent of GDP in 2014). Indeed, such taxes have been especially low in the area of transportation and energy. In 2010, however, Iceland introduced a number of new environmental taxes. Moreover, it reformed existing taxes to better reflect environmental externalities. Charges are made for recycling of certain types of waste at public collection stations.

H. Financial Reporting and Auditing

H.1 Statutory Requirements

Required Books and Records

Under general Icelandic legislation on business and commerce, an enterprise must keep books of accounts and records that reflect its rights and obligations in Icelandic currency. The text of the books must be in Icelandic, Danish or English. The text of the annual account must be in Icelandic but can also be in English if necessary. However, business enterprises registered in Iceland, with the main part of their income from foreign sources, can apply to keep their books of accounts and records in a foreign currency by meeting one or more of the following requirements:

- Enterprises whose main activities are abroad or which form part of a foreign corporate group
- Enterprises, which own foreign subsidiaries or stock or a part in foreign enterprises and whose main business is with these subsidiaries and foreign enterprises
- Enterprises whose main activities are in Iceland but conduct a considerable part of their business in another currency than the Icelandic currency
- Enterprises, which have the majority of their investments and related debts in foreign currencies.

The application must be sent to the Register of Annual Accounts before the beginning of the following account year. Companies established within the year must send an application no later than two months from the establishment together with arguments for that their activity will fulfil the requirements mentioned above. In addition to the Icelandic krona share capital may be fixed in the currencies registered with the Central Bank of Iceland or a commercial bank in Iceland. Annual accounts should be prepared for most entities and consolidated groups and filed for official purposes within eight months from the end of the year accounted for. The books of accounts and records, including source documents and incoming and outgoing correspondence should be retained in Iceland for at least seven years and annual accounts for twenty-five years. However, the documents may be retained at a foreign permanent establishment for up to six months and must be available to Icelandic authorities upon request. The books may be kept in any form, including mechanized and electronic systems, and all methods of tracing transactions between accounts and documentation should be retained.

Share capital

Publicly traded companies are allowed to issue their share capital in a foreign currency. Other limited liability companies with the main part of their income from foreign sources will be able to issue their share capital in a foreign currency on meeting certain requirements. Permission to issue the share capital in a foreign currency and keep books and records in a foreign currency will be handled by the Register of Annual Accounts, which is hosted within the Internal Revenue Directorate. The cost principle is a fundamental accounting principle in Iceland. Due to high inflation rates in the seventies and eighties, inflation methods of accounting used to be applied when preparing the financial statements and for tax purposes. Profit or loss resulting from these inflation calculations was presented in the income statement at average price level for each accounting year and in the balance sheet at year-end price level. Inflation accounting for tax purposes was abolished with the Government tax reforms from December 2001.

Entities Required to Be Audited

The audit requirements are set out in the Annual Accounts Act. Entities subject to the Annual Accounts Act must appoint at least one state authorized public accountant, an audit firm or an accountant. Entities, which meet all the following conditions, do not have to meet the audit requirements except those included in the requirements of other laws regarding points such as insurance, pension, finance, etc.:

- Staff members are less than 50.
- Annual turnover is less than 400 million ISK (USD 3,839,877).
- Total assets is less than 200 million ISK (USD 1,919,938.56).

Banks, securities companies, insurance companies, pension funds, travel agencies and entities listed on the Nasdaq Iceland have mandatory audit requirements. From January 1st, 2005, publicly traded

Icelandic consolidated companies must prepare their financial statements in accordance with international financial reporting standards (IFRS). This is in line with the EU directive No. 1606-2002.

Small companies

Companies that fall within the definition of a "microorganism" company (örfélag) can prepare annual accounts based on the submitted tax return and sent to the Registry of Annual Accounts held by the Director of Internal Revenue. There is no need for an auditor or inspector to prepare such a financial statement. Once a tax return has been submitted, one will be returned to the Registry of Annual Accounts on the website of the tax authorities.

"Örfélag" is a company whose settlement date does not reach two of three size limits, which are:

- Total assets is less than ISK 20 million (USD 191,994).
- Annual turnover is less than ISK 40 million (USD 383,988).
- Staff members are 3 or less

The classification of a "örfélag" does not change unless a company exceeds the threshold for the relevant year and the previous fiscal year.

H.2 Sources of Accounting Principles

Accounting principles in Iceland are set out by legal and professional frameworks. Corporate law, and legislation on annual accounts and on banks and finance, insurance and pension funds, etc., include mandatory provisions on the accounting framework. The Icelandic Association of State Authorised Public Accountants (Félag löggiltra endurskoðenda, FLE) also provides auditing guidelines for and opinions on accounting principles. Since 1992 standards have been set by The Accounting Standards Board (Reikningsskilaráð), a body set up for this purpose by law. Tax legislation also plays a considerable role in forming accounting principles, although mainly for smaller businesses. FLE is a member of The Nordic Federation of Public Accountants (NRF), Fédération des Experts Comptables Européens (FEE) and The International Federation of Accountants (IFAC). In 1994, Icelandic legislation on financial statements and consolidated financial statements was brought broadly into line with EU directives on preparation and presentation of annual accounts for companies.

H.3 Accounting Principles and Practices

Valuation Principles

In general, financial statements are prepared on principles, which include the concepts of going concern, consistency, prudence, accruals and prohibition of the inclusion of net amounts. Provided that notes are fully disclosed, it is permissible to deviate from these principles if applying them would lead to unfair presentation of the financial statements. The cost principle is a fundamental accounting principle in Iceland.

Property, Plant and Equipment

Property, plant and equipment are normally stated at historical cost, less depreciation, which is calculated from the amount on the basis of the estimated useful economic life of the asset. Depreciation shall be calculated based on the expected final value after the operating period passes. During a period of capitalization, interest is normally not part of the cost value.

Leases

Under generally accepted accounting practice, financial leases are those under which the lessee acquires all the substantial rights and obligations of an owner. All other leases are considered operational leases. The accounting treatment for the two types of lease differs and the FLE guidelines recommend that financial lease is shown as an asset and a liability, while operating lease is treated as a current contracted charge supplemented by disclosure of the commitment over the term of the lease. In fact, these guidelines are in close harmony with IASB standard No. 17, “Accounting for Leases.”

Research and Development Costs

Research and development costs are normally accounted for when incurred. However, research costs may be capitalized insofar as they represent a material investment of permanent value. As a rule, capitalized development cost should be amortized over a period of estimated useful life of the asset. If the useful life of the assets cannot be estimated it is authorized to value them annually in accordance with generally accepted accounting principles and they shall be subject to an annual impairment test. If there are specific difficulties in deciding the useful life of an intangible asset, the useful life of the asset shall be determined 10 years with full note disclosure to explain the difficulties in estimating the useful time of the asset. If estimated life time of an asset is longer than five years it should also be explained with full note disclosure.

Goodwill

Legal requirements apply to capitalization of purchased goodwill. According to the income tax law, professional guidelines and generally accepted accounting principles, goodwill is only reflected in the financial statements if acquired and paid for. Capitalized goodwill is depreciated over a minimum period of five years and a maximum period of ten years.

Marketable Securities

When held as current assets, marketable securities are stated in the balance sheet at cost, net realizable value or any other appropriate lower value. Marketable securities may be valued at the fair value if they have been acquired for the purpose of selling them or to profit from short-term price changes. Publicly listed securities are normally restated to reflect their market value. Long-term monetary assets, such as notes and bonds, are also accounted for at cost, net realizable value or any other appropriate lower value and, if publicly listed, they can be shown at market value. Long-term shares in public and private companies are normally stated in the balance sheet at net realizable value or any other appropriate lower. A decrease in the value of shares is reflected as loss in the income statement. Iceland has adopted the EU-directive No. 65-2001 regarding marketable securities being valued on fair value if certain requirements are met.

Inventories

Inventories should be stated at the lower of cost or net realisable value. Both the first-in, first-out (FIFO) method and the weighted average method of determining inventory cost are acceptable. Production overhead cost is accepted as a part of the production cost value. If inventories are valued at net realisable value and it is considerably lower than the cost value it must be explained with full note disclosure.

Income Taxes

In the financial statements, amounts intended to meet the expenditure of clearly defined obligations, such as tax liabilities and pension liabilities relating to the fiscal year or previous years and are likely or definitely accrued at the reporting date but uncertain with regard to amount or when they are due, shall be recognized as expenses and liabilities. The amounts should not be higher than deemed necessary.

Pension Cost

Unfunded pension obligations are very rare, since virtually all pension arrangements are on the basis of contracts with institutions for this purpose, which are governed by separate legislation. However, entities may have additional obligations towards their management through pay contracts and these should be accounted for and shown in the financial statements.

Equity Accounting

Investments in subsidiaries and associates must be capitalized according to the equity method in accordance with their share in the subsidiary's equity. However, cost of acquisition is allowed when subsidiaries are not included in the consolidated annual account of a parent company. A subsidiary is defined as a company in which a parent company:

- Directly or indirectly owns a majority of the voting shares.
- Can exercise control as a result of significant contracts or business arrangements.
- Is able to influence the financial and operating policies of the entity invested in, directly or together with another subsidiary.

The reporting entity should use the same valuation principles to determine net asset value that it uses for its own assets, provisions and debts. The equity accounting method is not allowed for investments in other companies that do not meet the criteria of a subsidiary or an associate. The minimum voting power to meet the definition of an associate is 20%.

Foreign Currency Translation

The calculation of the balance sheet items, based on a foreign currency shall be based on the closing price of the reporting period in the case of financial assets and liabilities. Other balance sheet items shall be based on the closing price of the trading day.

Legal reserves

In general, the equity in a limited liability company consists of the share capital, appropriated non-distributable reserves and inappropriate earnings. Icelandic law recognises the following types of legal non-distributable reserves:

- Share premium reserve.
- Income related reserve.
- Other reserves.

H.4 Financial Reporting

Form and Content of Financial Statements

Annual financial reports must include a report by the board of directors, the auditor's report, an income statement, a balance sheet, a cash flow statement or a statement showing application of funds, and explanatory notes. A parent company must prepare and present consolidated financial statements, which meet similar requirements to those governing ordinary financial statements. Act No. 3/2006 and regulation No. 696/1996 on annual accounts specify the form, layout and content of financial statements. The regulation permits few alternatives for the layout of the balance sheet and income statement; the guiding principle is consistency, with appropriate disclosure of a change and its effect on the financial statements. Comparative figures must be included in the balance sheet, the income statement and the cash flow statement. Annual accounts must be presented fairly and information must be added if the presentation would be made unfair by omitting it. If compliance with strict legal requirements would limit fair presentation, then a deviation from the law must be made. Any such deviations must be disclosed in the accompanying notes and show the effect on assets and liabilities, the financial position and results for the period in question. The formal statement of annual accounts must be expressed in Icelandic krónas. However, corporations can apply to keep their books of accounts and records and express their statement of annual accounts in a foreign currency (see chapter H.1). The text of the statement of annual accounts must be in Icelandic, but can also be in English if necessary.

Report and Endorsement by the Board of Directors (and Managing Director)

The following information is demanded by law to be included in the report or endorsements given by the board of directors of a company:

- Every important issue that might affect the financial position of the company and is not included in the income statement, balance sheet or accompanying notes.
- Proposed appropriation of the result for the year, if this is not disclosed in the accounts themselves.

- If the company is registered on the Nasdaq Iceland and has issued a business plan for the year, the operating result should be compared to that plan and major variances explained.
- The number of shareholders at the beginning and the end of the year, and names of the ten largest shareholders. If number of shareholders is less than ten they all have to be named. Numbers of partners or associates should also be stated if the entity is not a corporation.
- Important post-balance sheet events.
- Financial prospects for the future.
- Research and development activities.
- Branches in other countries.
- Extensive information on the conduct of business in a company.

Notes

The following are the most important disclosures to be made in explanatory notes to the financial statements of any type of company:

- The accounting principles applied in the preparation of the financial statements
- Increase or decrease in fixed assets, methods and amounts of depreciation Insurance value, official real estate evaluation or other important values of all major assets should be stated
- Names, addresses and business forms of subsidiaries and associates, the proportion of shares held, and the amounts of investments and operating results, which are included in the accounts
- Names, investments, financial position and other important issues of entities outside the category of limited liability companies
- Investments with priority features should be explained
- Details of loans secured by the issue of convertible securities, bonds or other securities. The same applies if interest rates are abnormal, for example when linked to operating results, etc.
- Annual instalments of long-term debt, which are due over the following five years
- The amount and extent of any pledges and securities
- Material guarantees and commitments
- Details of loans to, or securities and guarantees given on behalf of, members of the board, directors and shareholders of the company or its parent company
- Details of insurance value or other official appraisals of fixed assets
- Net sales analysed by activity and geographical area unless disclosure is considered to be seriously prejudicial to the company’s interests or of little value to interest groups
- Details of taxes accounted for or paid within the underlying year, tax deferments if not accounted for, and tax effects resulting from irregular items in the income statement
- The average number of employees, and employee costs divided into main categories. Salaries and bonuses paid to members of the board of directors must also be disclosed
- Number and amount of a company’s own shares and details of how they have changed within the year

Procedures for Preparation and Filing of Reports

The financial statements should be presented with the audit report at the annual general meeting, which is generally held within three to five months after the balance sheet date and no later than eight months after that date according to corporate law requirements. A certified copy of the annual accounts, including reports signed by the board of directors and the auditor, must be submitted to the Register of Annual Accounts (Ársreikningaskrá) within one month after its approval and no later than eight months after the balance sheet date. Audited financial statements and the annual report of a publicly traded company must be sent to The Financial Supervisory Authority within four months from the end of the accounting period and a copy of the annual accounts must be submitted to the Register of Annual Accounts (Ársreikningaskrá) immediately after its approval and no later than four months after the balance sheet date. Financial statements are available to the public at the Register of Annual Accounts.

H.5 Auditors' Responsibilities and Audit Requirements[8]

The financial statements of Icelandic companies exceeding the size limits stated under section H.1 are audited to meet statutory requirements. Audits, assessments or reviews may also be required for other specific situations such as mergers, acquisitions or granting of credit.

Appointment and Qualifications of Auditors

One or more auditors, or an audit firm, are appointed at the annual general meeting. At least one of the auditors appointed shall have a permanent address in Iceland or be a resident of an EEA country. The auditor must be independent of the company's board of directors and management and may be appointed for a specified period of time, one year or more. Companies can include in their articles of association public or other parties to appoint one or more auditors or audit firms. Shareholders, that control at least one tenth of the votes at a general meeting, which elects the auditors or an audit firm, can request the Board of Directors to have the Register of Annual Accounts to appoint an auditor to participate in the auditing until next general meeting. The Ministry of Finance and Economic Affairs is responsible for authorizing persons who may act as auditors. Their professional title is State Authorized Public Accountant (löggiltur endurskoðandi). In certain cases the ministry may grant permission for a foreign certified public accountant to undertake audits to the same degree as an Icelandic auditor.

Auditing and Reporting Responsibilities

The board of directors must ensure that the company maintains proper accounting records and that the annual accounts give an adequate representation of the assets and liabilities, financial position, profit or loss for the accounting period, and application of funds (cash flow). In the obligatory report prefacing the financial statements, the auditor must state whether, in his or her opinion, this obligation has been fulfilled. The auditor's report must contain an opinion as to whether the financial statements provide a true and fair view of the company's affairs and results, and whether the statements have been prepared properly in accordance with the law and the company's articles of association. Additional information must be included in the report if the auditor considers that it is essential for a full understanding of the financial statements and that omitting it would result in an unfair presentation of them. Other financial information such as highlights or comparisons with past performance may be included in the financial statements; if so, it shall be stated in the auditor's report as well. The report by the board of directors must be consistent with the financial statements and, unless specifically stating otherwise, the auditor's report must implicitly confirm that the directors' report contains the legally mandatory information and is consistent with the accounts. The auditor's report forms an integral part of the financial statements and must be filed with them in all cases. If the auditor has made any qualifications to his or her report, or has been unable to form an opinion, this should be clearly stated.

H.6 Accounting Profession

Iceland's accounting profession operates within a legal framework and only State Authorized Public Accountants may give an opinion on published financial statements of companies that exceed the size limits stated in H.1 above, on financial statements of companies quoted on the Nasdaq Iceland, and on other financial statements that are legally obliged to be audited. Opinions on financial statements of other small entities may be given by persons who meet certain requirements concerning business knowledge. To be licensed as a State Authorized Public Accountant, an individual must have completed a master degree in auditing and accounting from an university approved by the Audit Oversight Board, have three years' relevant work experience under the supervision of an accountant, working with auditing and accounting, within an audit firm, and have passed a comprehensive examination conducted by the Audit Oversight Board. The Icelandic Association of State Authorized Public Accountants (FLE)

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[8] The parliament has approved a bill with changes to the auditor's responsibilities and audit requirements, which is partly based on the Commission Decisions No. 2010/485/EU and 2011/30/EU of the European Union. The bill entered into force on April 11th, 2013.

is the only professional body of auditors in the country and is responsible for professional ethics and issuing of auditing guidelines.

A large number of accounting firms operate in Iceland, and most of the major international accounting firms are represented by offices there. Other related professional services include engineering consulting firms, which work in connection with international corporations involved in projects in Iceland, and law firms with international contacts.

Appendices

Appendix 1: General Information

Entry Visas, Residence Permits and Work Permits

Nationals of the other European Economic Area states (European Union and EFTA) do not need entry visas to visit Iceland. Furthermore, special agreements with about 100 countries – including all OECD countries – permit their residents to enter without visas, provided they have a valid passport. Iceland adopted the Schengen Convention on March 25th, 2001. Entry visas are typically granted for a three-month stay in Iceland. Citizens from outside the EEA require a work permit to work or operate a business in Iceland. Approval by the local labour union is often required under employment contracts for various unskilled jobs.

The Icelandic Parliament has passed a bill on foreign individuals without Icelandic citizenship, making conditions for residence permits clearer and making speedy process of work and residence permits for foreign experts possible. Temporary residence permit for a job that requires expert knowledge may be issued for a specific position in Iceland when the job requires special knowledge. Furthermore, temporary residence permit due to labour shortage me be granted for a particular job in Iceland when personnel is neither found in the domestic labour market nor in the EEA labour market, in the EFTA states or in the Faeroe Islands (labour shortage permit). Other types of residence permits according to the bill apply to athletes, specialized employees based on a service contract, students, family reunion and au-pairs.

Time and Dates

Iceland is on Greenwich Mean Time all year round, and does not introduce summer time. During the course of an 8 hour working day the working hours of an office in Icelandic overlap with general working hours all over Europe and the Americas. 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 midwinter, there are around 5 hours of effective daylight.

At 12 noon in Iceland the time is:

City	**Summer**	**Winter**
Chicago	7:00	6:00
Copenhagen	14:00	13:00
London	13:00	12:00
Los Angeles	5:00	4:00
New York	8:00	7:00
São Paulo	9:00	10:00*
Sydney	22:00	23:00*
Tokyo	21:00	22:00*

**Daylight savings time on the southern hemisphere during winter in Iceland*

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. Banks are open from 9.00 a.m. to 4.00 p.m., Monday to Friday. Some branches of the banks may have extended opening hours, i.e. until 5.00 p.m. and on Saturdays, especially in the branches located in the shopping malls. Shop opening hours vary considerably, but are often from 10.00 a.m. to 6 - 7.00 p.m., and some of the bigger shopping malls are open until 9.00 p.m. on Thursdays and have opening hours on weekends, both Saturdays and Sundays. Many convenience stores are open 24 hours.

Public Holidays

Iceland has the following statutory public holidays:

- New year's Day
- Maundy Thursday (Holy Thursday)
- Good Friday
- Easter Sunday
- Easter Monday
- Ascension Day (Holy Thursday)
- Labour Day (May 1st)
- Whit Sunday
- Whit Monday
- Seamen's Day (first Sunday in June)
- National Day (June 17th)
- Commerce Day
  (Monday after first weekend in August)
- Christmas Eve (half)
- Christmas Day
- Boxing Day (December 26th)
- New year's Eve (half)

Three of these public holidays are Sundays. When other holidays fall on a weekend, no day in lieu is given on a weekday.

Business and social etiquette

Social and business etiquette in Iceland is similar to that in other Western European countries. Since Iceland is a small community, access to key people is easy and often informal.

You should ensure that meetings are scheduled well in advance. Times are stated using the 24-hour clock in order to avoid misunderstandings. Icelanders place great value on punctuality and you might like to inform your host if you are going to be late to a meeting. A handshake is the traditional form of greeting both at the start and completion of a meeting. You should ensure that you shake hands with all meeting attendees. Avoid creating false expectations and making promises that you cannot keep.

It is expected that you dress smartly for any formal occasion while doing business in Iceland. An informal social event like a business dinner calls for a suit.

Business cards are frequently exchanged upon introduction. Extended pleasantries are not necessary, and getting straight down to business is appreciated. If business presentations are given, they should be to the point.

English is widely spoken in business forum.

It is normal for individuals in Iceland to be direct in their speech; no offence should be taken where none is meant.

Icelandic names

Understanding Icelandic names is important for business and social occasions. Most people have a patronymic, formed from their father's first name with the ending '-son' or '- dottir' (e.g. Eythor Jonsson (son of Jon) or Eyrun Jonsdottir (daughter of Jon). A woman does not take her husband´s name on marriage.

First names are the names by which people are known and listed officially e.g. in the phone directory, and Icelanders will not feel that you are being too familiar if you call them by their first names.

International Transportation

Iceland maintains highly efficient and regular air and sea links with both Europe and North America, and some routine cargo shipping to Asia is available. Icelandair offers passenger and cargo services to and from more than twenty gateways year-round on either side of the Atlantic, Wow air offers as well year-round flights to Europe and North America, and several (37 in year 2017) other international carriers operate a number of services for at least part of the year. Two Icelandic shipping lines operate regular cargo schedules serving ports in North America, Scandinavia, the UK, 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 duration is 2.5-5 hours to Europe and 5-6 hours to the United States (East Coast) and Canada. Shipping: Europe 3-4 days, the United States 7-8 days.

Domestic Transportation

A 1,400 km Ring Road links virtually all major towns around Iceland. Extensive land transport services link towns and harbours. Regular flights operate from Reykjavík Airport to major towns in all parts of the country, in many cases several times a day. Good natural harbours are available for development at sites in several parts of the country which have been earmarked for industrial development.

Telecommunications

The Icelandic infrastructure for telecommunications networks and services is highly advanced, and unique for such a small nation. The system ranks among the most sophisticated anywhere, and is the world's first fully digitalized telephone system, according to Iceland Telecom. Mobile phone penetration in Iceland is among the highest in the world, as well as Internet penetration. Over 90% of Iceland's population has access to the Internet, either at home or work, if not both.

Iceland is connected to both North America and Europe with high bandwidth submarine fiber cables. The operator Farice offers fast and reliable connections for international customers. Both the overseas connection and the backhaul is redundant. Even further trans-Atlantic high speed connections, with links to Iceland, are planned. The Danice cable to Denmark has a capacity of 34.4 Terabits/s, The Farice to Scotland has a capacity of 11 Terabits/s and the Greenland Connect cable to Greenland 12.8 Terabits/s.

Other connections with the world as a whole are via satellite systems: Intelsat, Eutelsat, Iridium, Inmarsat and New Skies Satellites.

Education

Education in Iceland is free and compulsory for ten grades from the age of six. The International School of Iceland is an international Primary and Middle school for students in grades K-9. The secondary level takes the form of advanced general education or vocational training at a variety of specialised colleges. Tertiary education, free of charge after a small registration fee has been paid, is offered at several universities, the best-known of which are the University of Iceland and Reykjavík University, both in the capital, the University of Akureyri in north Iceland and the Bifröst University in central-west Iceland. Iceland Academy of the Arts is located in Reykjavík and offers the only university-level degrees in the arts in Iceland. The Agricultural University of Iceland is located in the west of Iceland and is an educational and research institution in the field of agriculture and environmental sciences. Iceland has one of the highest levels of literacy in the world and very large participation in secondary and tertiary education, making for a highly skilled workforce. Many Icelanders have studied abroad in specialized fields.

Medical Services

Health care in Iceland is available to everyone who has been a registered resident for more than six months. Residents of the Nordic countries and EEA have a faster access to the health care system if relevant documentations (mainly E-104) are submitted. It is subsidized, so that only basic service charges are made.

Leisure and Tourism

Iceland has a very active and flourishing cultural, musical, entertainment, fitness, dancing and leisure scene with a strong international flavour, especially in Reykjavík. Sightseeing of unique natural phenomena and outdoor activities, such as hiking, heli-skiing, bicycling, riding, snorkelling and river-rafting, are among the attraction outside the city. Details of activities and sightseeing can be obtained from the Icelandic Tourist Board, tourist information centres and a number of local publications, several of which are produced in English.

www.visiticeland.com

Appendix 2:

Useful Contact Information

All Icelandic telephone numbers are 7-digit, with no regional codes.
The international code for Iceland is 354.

Invest in Iceland (Promote Iceland)
Sundagarðar 2, 104 Reykjavík
Tel.: 511 4000. Fax: 511 4040
info@invest.is, www.invest.is

Association of Consulting Engineers
(Félag ráðgjafarverkfræðinga)
Borgartún 35, 105 Reykjavík
Tel.: 591 0100. Fax: 591 0101
frv@frv.is www.frv.is

Central Bank of Iceland
(Seðlabanki Íslands)
Kalkofnsvegur 1, 101 Reykjavík
Tel.: 569 9600. Fax: 569 9605
sedlabanki@sedlabanki.is, www.cb.is

SA - Business Iceland
(Samtök atvinnulífsins)
Borgartún 35, 105 Reykjavík
Tel.: 591 0000. Fax: 591 0050
sa@sa.is, www.sa.is

Directorate of Customs
(Tollstjóri)
Tollhúsid, Tryggvagata 19, 101 Reykjavík
Tel.: 560 0300. Fax: 562 5826
customs@customs.is www.tollur.is

Enterprise Europe Network
Located in the Innovation Center Iceland (Nýsköpunarmiðstöð Íslands)
Árleynir 2-8, 112 Reykjavík
Tel.: 522 9000. Fax: 522 9111
nmi@nmi.is, www.een.is

Promote Iceland (Íslandsstofa)
Sundagarðar 2, 104 Reykjavík
Tel.: 511 4000. Fax: 511 4040
info@promoteiceland.is, www.promoteiceland.is

The Environment Agency of Iceland
(Umhverfisstofnun)
Sudurlandsbraut 24, 108 Reykjavik
Tel.: 591 2000. Fax: 591 2020
ust@ust.is, www.ust.is

Federation of Icelandic Industries
(Samtök iðnaðarins)
Borgartún 35, 105 Reykjavík
Tel.: 591 0100. Fax: 591 0101
mottaka@si.is, www.si.is

Icelandic Confederation of Labour
(Alþýðusamband Íslands)
Guðrúnartún 1, 105 Reykjavík
Tel.: 535 5600. Fax: 535 5601
asi@asi.is, www.asi.is

The Financial Supervisory Authority
(Fjármálaeftirlitið, FME)
Katrínartún 2, 105 Reykjavík
Tel.: 520 3700. Fax: 520 3727
fme@fme.is, www.fme.is

Frumtak Ventures ehf. - Investment fund
(Framtakssjóður Íslands)
Kringlan 7, 6th floor, 103 Reykjavík
Tel.: 510 1850. Fax.: 510 1809
frumtak@frumtak.is, www.frumtak.is

Iceland Chamber of Commerce
(Viðskiptaráð Íslands)
Borgartúni 35, 5th floor, , 105 Reykjavík
Tel.: 510 7100. Fax: 568 6564
mottaka@vi.is, www.chamber.is

The Icelandic Competition Authority
(Samkeppniseftirlitið)
Borgartún 26, P.O. Box 5120, 125 Reykjavík
Tel.: 585 0700. Fax: 585 0701
samkeppni@samkeppni.is, www.samkeppni.is

The Icelandic Federation of Trade
(Félag atvinnurekenda)
Hús verslunarinnar, Kringlan 7, 103 Reykjavík
Tel.: 588 8910
ift@ift.is
www.atvinnurekendur.is

The Icelandic Food and Veterinary Authority
(Matvælastofnun)
Stórhöfði 23, 110 Reykjavík
Tel.: 530 4800. Fax: 530 4801
mast@mast.is, www.mast.is

The Icelandic International Development Agency
(Þróunarsamvinnustofnun Íslands)
Rauðarárstígur 25, 105 Reykjavík
Tel.: 545 9900
iceida@iceida.is, postur@utn.stjr.is, www.iceida.is

The Icelandic National Planning Agency
(Skipulagsstofnun)
Borgartún 7b, 105 Reykjavík
Tel.: 595 4100. Fax: 595 4165
skipulag@skipulag.is
www.skipulag.is

The Icelandic Patent Office
(Einkaleyfastofan)
Engjateigur 3, 105 Reykjavík
Tel.: 580 9400. Fax: 580 9401
postur@els.is, www.els.is

Icelandic Tourist Board
(Ferðamálastofa)
Geirsgata 9, 101 Reykjavík

Hafnarstræti 91, 600 Akureyri
Tel.: 535 5500.
upplysingar@ferdamalastofa.is,
www.ferdamalastofa.is

The Institute of State Authorized Public Accountants in Iceland
(Félag löggiltra endurskoðenda)
Suðurlandsbraut 6, 108 Reykjavík
Tel.: 568 8118.
fle@fle.is, www.fle.is

Directorate of Internal Revenue
(Ríkisskattstjóri)
Laugavegur 166, 105 Reykjavík
Tel.: 442 1000. Fax: 442 1999
rsk@rsk.is, www.rsk.is

NSA Ventures
(Nýsköpunarsjóður atvinnulífsins)
Kringlan 7, 6th floor, 103 Reykjavík
Tel.: 510 1800. Fax: 510 1809
nyskopun@nyskopun.is, www.nsa.is

Ministry for Foreign Affairs
(Utanríkisráðuneyti)
Raudarárstígur 25, 105 Reykjavík
Tel.: 545 9900. Fax: 562 2373
postur@utn.stjr.is, www.mfa.is

Ministry for the Environment and Natural Resources
(Umhverfis- og auðlindaráðuneyti)
Skuggasund 1, 101 Reykjavík
Tel.: 545 8600. Fax: 562 4566
postur@environment.is, eng.umhverfisraduneyti.is

Ministry of Education, Science and Culture
(Mennta- og menningarmálaráðuneyti)
Sölvhólsgata 4, 101 Reykjavík
Tel.: 545 9500. Fax: 562 3068
postur@mrn.stjr.is, eng.menntamalaraduneyti.is

Ministry of Finance and Economic Affairs
(Fjármála- og efnahagsráðuneyti)
Arnarhvoll, 101 Reykjavík
Tel.: 545 9200. Fax: 545 9299
postur@fjr.is, www.ministryoffinance.is

Ministry of Industries and Innovation
(Atvinnuvega- og nýsköpunarráðuneyti)
Skúlagata 4, 101 Reykjavík
Tel.: 545 9700. Fax: 552 1160
postur@anr.is, eng.atvinnuvegaraduneyti.is

Ministry of Justice
(Dómsmálaráðuneyti)
Sölvhólsgata 7, 101 Reykjavík
Tel.: 545 9000. Fax: 552 7340
postur@dmr.is, eng.innanrikisraduneyti.is
www.government.is/ministries/ministry-of-justice/

Ministry of Welfare
(Velferðarráðuneyti)
Skógarhlíð 6, 105 Reykjavík
Tel.: 545 8100. Fax: 551 9165
postur@vel.is, eng.velferdarraduneyti.is

Nasdaq Iceland hf. (Kauphöllin)
Laugavegur 182, 105 Reykjavík
Tel.: 525 2800. Fax: 525 2888
iceland@nasdaqomx.com,
www.nasdaqomxnordic.com

Prime Minister's Office
(Forsætisráðuneyti)
Stjórnarráðshúsið, 101 Reykjavík
Tel.: 545 8400. Fax: 562 4014
postur@for.is, eng.forsaetisraduneyti.is

Icelandic Regional Development Institute
(Byggðastofnun)
Ártorg 1 550 Sauðárkrókur
Tel.: 455 5400. Fax: 455 5499
postur@byggdastofnun.is, www.byggdastofnun.is

Registry of Enterprises
(Fyrirtækjaskrá)
Laugavegur 166, 150 Reykjavík
Tel.: 442 1250. Fax: 442 1279
fyrirtaekjaskra@rsk.is, www.rsk.is/fyrirtaekjaskra

The Icelandic Centre for Research
(Rannsóknamiðstöd Íslands)
Borgartún 30, 105 Reykjavík
Tel.: 515 5800.
rannis@rannis.is, www.rannis.is

Statistics Iceland
(Hagstofa Íslands)
Borgartún 21a, 105 Reykjavík
Tel.: 528 1000. Fax: 528 1099
information@statice.is, www.statice.is

Appendix 3: Economic Information

Fiscal and Monetary indicators and further information

For the latest fiscal and monetary indicators and more detailed information in the Icelandic economy please visit Statistics Iceland, www.statice.is and the Central Bank of Iceland, www.cb.is.

The Central Bank publishes information on the exchange rates: http://cb.is/statistics/official-exchange-rate/

The Central Bank publishes monthly on online version of Economic Indicators which provides a snapshot, in tables and charts, of Iceland's macroeconomic position and financial markets. Economy of Iceland is an annual publication from the Central Bank, containing a brief introduction to the economy of Iceland, historical information and latest economic developments:
http://cb.is/publications/publications/publications-all-archive/?all=1

Every month Statistics Iceland publishes updated Short Term indicators containing data on GDP, fish catch, external trade, CPI material on market prices of housing, quarterly data from the continuous labour force sample survey, monthly data on credit and debit card turnover, domestic and abroad, as well as data on turnover by main activity branches:
http://www.statice.is/statistics/economy/national-accounts/short-term-indicators/

Statistics Iceland provides the key figures of Iceland at glance:
http://statice.is/