Icelandic Tax Facts 2025

In-depth Information on the Icelandic Tax System

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Corporations

1 Type of Tax System

The Icelandic tax system for corporations is a classical system. Companies are subject to income tax on their worldwide income and economic double taxation may be eliminated by deduction of dividend income from taxable income.

Tax rates for the years 2024 and 2025 (assessment years 2025 and 2026).

1.1 Income Tax

	2024	2025
Limited Liability Companies	21%	20%
Partnerships and legal entities other than limited liability companies, such as limited partnerships, associations, private non-profit institutions, trust funds, estates of deceased persons and bankruptcy estates	38.4%	37.6%
except dividends received	22%	22%

1.2 Other Taxes and Fees

	2024	2025
Tax on financial institutes[1]	0.145%	0.145%
Financial Activity Tax[2]	5.5%	5.5%
Specific Financial Activity Tax[3]	6%	6%
Specific charge to the National Broadcasting Service	20,900	21,400
Lodging Tax (per overnight stay)	300-1,000[4]	400-800[5]
Infrastructure fee	0	2,500
Annual surveillance fee for companies whose Financial Statements are prepared in accordance with IFRS:		
Parent company	100,000	100,000
Subsidiary	50,000	50,000

1.3 Payroll Taxes

	2024	2025
Social security contribution, contribution to the Bankruptcy Fund, and the market charge[6]	6.35%	6.35%
Employers contribution to obligatory pension fund[7]	11.5%	11.5%

2 Establishing a Business

Establishing a company in Iceland is simple and registration fees are moderate. The procedure usually takes 5–10 days.

The most common business form in Iceland is a limited liability company. There are two types of limited liability companies: a public limited liability company and a private limited liability company.

1. The tax base is total debt in excess of ISK 50 billion. The tax is also levied on financial institutes in dissolution procedure.
2. The tax is levied on insurance companies, banks and other finance organizations. The tax base is all salary payments.
3. A 6% Financial Activity Tax is levied on income tax base that is over ISK 1 billion for entities that pay Financial Activity Tax. The 6% Financial Activity Tax is levied on the income tax base irrespective of joint taxation or carry-forward losses.
4. ISK 300 for accommodation at a campsite and for a lots for mobile homes and caravans.
   ISK 600 for hotels, guesthouses and other accommodations that have an operating license in category II-IV according to act no. 85/2007.
   ISK 1,000 for accommodation on board a cruise ship while in port in Iceland.
5. ISK 400 for accommodation at a campsite and for lots for mobile homes, and caravans.
   ISK 800 for hotels, guesthouses and other accommodations that have an operating license in category II-IV according to act no. 85/2007.
   ISK 400 for cruise ships on domestic voyages.
6. Employees having a foreign A1 certificate, the total Icelandic payroll tax amounts to 0.425%.
7. If the employee pays into an alternative pension fund the employer has to pay extra 2% to the alternative pension fund.

A public limited liability company must have at least two shareholders but the private limited liability company may have only one shareholder.

The minimum initial capital of a public limited liability company is ISK 4,000,000, whereas the minimum initial capital of a private limited liability company is ISK 500,000.

There are no conditions regarding the holding of each shareholder.

Foreign limited liability companies may establish branches in Iceland.

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

3 Income Taxes

3.1 Taxable Income

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

3.2 Valuation of Inventories

The value of inventories of raw materials and finished goods at year end is determined on the first-in-first-out (FIFO) basis or by the average cost method. In computing the value of goods produced, both direct and indirect production costs must be taken into account. Inventories are stated at the lower of cost or net realizable value. For tax purposes inventories can be further written down by 5% of their calculated value.

3.3 Reserves and Provisions

Companies can for tax purposes maintain a reserve for bad debt up to 5% of the accounts and notes receivable at year end. Special rules apply to bad debt reserves of banks.

3.4 Tax Losses

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

3.5 Capital Gain

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

Capital gain is taxable in the year the transfer of ownership occurs. However, in the same year, the taxpayer may record accelerated depreciation of other depreciable assets on hand if the gain resulted from the sale of depreciable assets. If the taxpayer does not own assets that can be depreciated, taxation of the gain may be deferred for two years, from the end of the year in which the transfer of ownership occurs. Accelerated depreciation and/or deferral of taxation of capital gain is subject to the restriction that the depreciation or deferral may not create a taxable loss in the year it is applied.

As a general rule, capital gain from the disposal of non-depreciable immovable property is the difference between the sales price of the property and its original purchase price.

If part of the proceeds from sale of assets is paid in instalments over a period of three years or more, the seller has the option of spreading the taxation of that part of the gain evenly over the repayment period, up to a maximum of seven years. This alternative is available only if carry-forward losses have been offset.

Finally, it should be noted that gain from a sale of property is, in general, taxable in full as ordinary income if the taxpayer's business is to construct or purchase property for resale. The same applies if a taxpayer acquires property solely for the purpose of making a profit.

3.5.1 Disposal of Shares

Capital gain from sale of shares must be declared as income. Limited liability companies can deduct in full the amount of the capital gain, with 0% tax effect when (1) the disposed shares are shares in Icelandic companies; and when (2) the disposed shares represent participations in foreign companies and the seller can demonstrate (a) that the foreign company's profit has been taxed abroad under provisions that do not substantially deviate from those prevailing in Iceland; and (b) that the profit of the foreign company has been subject to taxation at a rate that is not lower than the general tax rate in any OECD, EEA or EFTA member state or the Faroe Islands.

Losses from sale of shares do not constitute taxable losses or carry-forward losses by companies. Such losses can only be offset against gain on sale of shares in the same year.

3.6 Depreciation

Depreciation for income tax purposes is calculated by using the straight line method with regard to immovable property, non-sustainable natural resources, acquired intellectual property rights and acquired goodwill, whereas gradual depreciation is employed with regard to movable property.

Assets subject to ordinary depreciation are classified in various categories, with different annual depreciation rates for each. The rates within a category are optional and can be changed from one year to another.

3.6.1 Movable Property

Passenger cars	10–20%
Ships and equipment for ships	10–20%
Aircraft and flight equipment	10–20%
Industrial machinery and equipment	10–30%
Office equipment	20–35%
Other machinery, equipment and vehicles	20–35%

3.6.2 Other Assets

Buildings and other structures, e.g., office and commercial buildings	1–3%
Industrial plants, storage facilities etc.	3–6%
Quays and greenhouses	6–8%
Wells, electric transmission lines, work camps	7.5–10%
Acquired goodwill	10–20%
Patents, copyrights, and other similar rights	15–20%

The depreciation base of movable property is its book value at the beginning of each year, whereas the depreciation base of other depreciable assets is cost.

The depreciation period of an asset starts at the beginning of the year in which the asset is taken into use. Residual value equal to 10% of real estate and movable properties' original value remains on account until the asset is disposed of. Accelerated and/or extraordinary depreciation or write-offs are deductible from income in certain limited and specific cases. No depreciation is expensed from an asset in the year of its sale.

In the years 2021-2025, assets acquired in 2021 and 2022 may be depreciated by up to 50% of the depreciation basis. In addition, it is permissible to calculate a special charge on the initial value of assets acquired In 2021-2025 that are considered environmentally friendly and contribute to sustainable development. The special charge is between 13.18%-25%.

Following assets can be fully expensed in the year of acquisition or amortized with equal annual amounts over a period of five years:

Start-up cost such as registration cost and the cost of acquiring necessary official permits and licenses.

Expenses relating to trial runs, marketing, research, patents, and trademarks.

When the cost of an asset or a group of assets is less than ISK 600,000 such assets may be expensed in full in the year of acquisition.

3.7 Groups of Companies

3.7.1 Consolidated Taxation

Companies may opt for consolidated taxation if a company or its subsidiaries own at least 90% share in another company. Consolidated taxation means, among other things, that losses of one company can be offset against profits of other companies. Consolidated taxation can be extended to permanent establishments of foreign companies established in EEA or EFTA member states or the Faroe Islands.

3.7.2 Inter-Company Dividend

Dividend received by one resident limited liability company from another is deductible from taxable income of the recipient company.

The deduction also applies to foreign dividend received if the resident recipient company can demonstrate (1) that the dividend is received from companies whose profits have been taxed under provisions that do not substantially deviate from those prevailing in Iceland, and (2) that the profits of the foreign companies have been subject to taxation at a rate that is not lower than the general tax rate in any OECD, EEA, EFTA member state, Britain or the Faroe Islands.

3.7.3 Anti-Avoidance

The Icelandic Supreme Court has held, with a reference to the main underlying principle behind Article 57 of the Income Tax Act, that transactions may be disregarded if their purpose is only to circumvent tax.

3.7.4 Transfer Pricing

The transfer pricing provision is based on the arm's length principle. If prices are not in accordance with the principle, they shall be adjusted using the transfer pricing guidelines issued by the OECD. Related party definition extends to direct or indirect ownership and/or control of legal entities as well as individuals which are considered related by family.

Companies which total revenue or assets in the beginning of the year or at year end exceeds ISK 1,000 million are obligated to keep documentation about the nature and extent of transactions with related parties, the nature of the relationship and the basis of price decided. The document obligation refers to the guidelines issued by the OECD.

The tax authorities are authorized to impose administrative fines on legal entities that neglect to document transactions with related parties. A fine imposed can amount to ISK 3,000,000 for each fiscal year.

The documentation obligation does not apply to transactions between related parties that are domiciled in Iceland.

3.7.5 Country-by-country reporting

A Parent company registered in Iceland that owns subsidiaries abroad thereby forming a multinational enterprise (MNE) is required to submit to the tax authorities a country-by-country report (CBCR). The report should contain information on the MNE's distribution of income and taxes paid as well as information of the activities of the undertakings within each reporting jurisdiction.

A CBCR need only be reported if the MNEs revenue exceeds EUR 750 million.

Icelandic legal entities that are part of a multinational enterprise must notify the Icelandic tax authorities of the country in which the foreign parent company submits a CBCR within a month of the end of the fiscal year.

3.7.6 Interest deduction rule

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) Interest expense of taxable party is from loan agreements between consolidated companies that are jointly taxed or meet the criteria for joint taxation.
c) The taxable party demonstrates that its equity ratio is no less than two percentage points below the equity ratio of the group it is a part of.
d) The taxable party is a financial institution or an insurance company.

3.7.7 Controlled Foreign Company

A taxable entity that owns shares in companies resident in a low tax jurisdiction shall pay income tax on the profits of the companies 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.

Icelandic legal entities that are part of a multinational enterprise must notify the Icelandic tax authorities of the country in which the foreign parent company submits a CBCR within a month of the end of the fiscal year.

3.7.8 Cross-Border Merger

If a limited liability company is liquidated by completely merging it with another limited liability company, domiciled in another EEA or EFTA member state, or the Faroe Islands, and the shareholders of the former company only receive shares in the latter company as consideration for their shareholding in the liquidated company, then the change as such does not constitute taxable income for the shareholder giving up shares. In such mergers of limited liability companies the surviving company assumes all legal tax obligations and rights of the liquidated company as of the balance sheet date according to the merger schedule.

In cross border mergers, where an Icelandic company is taken over, the assets, rights and obligations taken over and transferred shall be treated for tax purposes as if they had been sold or redeemed.

Payment of calculated income tax liability can be deferred up to five calendar years.

The deferred amount is interest bearing and penalty interest is levied on late payments.

Conditions for the deferral are:

- the acquiring company must be resident of an EEA or EFTA member state, or the Faroe Islands.
- the merger must be absolute, i.e., all assets and liabilities of the companies are included in the merger.
- the owners of the acquired company only receive equity in the acquiring company as consideration for their equity in the acquired company.
- the acquired company must have submitted tax returns for the current and previous years.
- the acquiring company must submit its annual financial statements each year, whereby information about the acquired assets are provided.
- if a company is resident in a low tax jurisdiction (less than 2/3 of the Icelandic income tax rate) the company must demonstrate that it has real economic activity.
- a double tax treaty or other international treaty must exist between states which can be used to obtain all necessary information.

3.8 Cross Border De-Merger

If a limited liability company is de-merged in such a way that all assets and liabilities are divided between the de-merged company and/or the receiving company or companies established by the de-merger, domiciled in another EEA or EFTA member state, or the Faroe Islands and the shareholders in the former company only receive shares in the company or companies that received the assets and liabilities, then the exchange as such does not constitute a taxable income for the shareholder giving up shares.

This provision does not apply if companies involved in the de-merger are, or would be, domiciled in a low tax jurisdiction unless it can be demonstrated that the companies are engaged in real economic activities.

The provisions on cross border mergers also apply to cross border de-mergers such as calculations, reporting, calculations of taxes, postponement, payments, bank guarantees, domestic companies and obligation to provide information as applicable. However all companies involved in the de-merger process assume all legal tax obligations of any taxes assessed as a result of the de-merger. If the de-merger results in the original company to be dissolved the receiving companies assume undivided responsibility.

3.9 Change of Domicile Cross Border

If a limited liability company transfers its domicile or assets to another country within an EEA or EFTA member state, or the Faroe Islands, the transfer shall not result in taxable income for the company or its shareholders, provided such transfers are authorized by the companies acts.

This provision does not apply if the companies or assets are transferred to a low tax jurisdiction unless it can be demonstrated that the companies are engaged in real economic activities.

The provisions on cross border mergers also apply to domicile changes cross border as applicable. However when assets are transferred, payments of any taxes that would be levied due to the change of domicile will be the responsibility of the company with a domicile in Iceland surrendering the assets.

3.10 Sole Proprietorship Converted to Private Limited Liability Company

An operation carried out in the name of an individual can be converted into a private limited liability company domiciled in EEA or EFTA member state, or the Faroe Islands.

The provisions on cross border mergers apply to conversions of sole proprietorship to a private limited liability company as applicable. Payments of any taxes levied due to the change are the joint responsibility of the individual and the new company.

3.11 Tax Incentives

Icelandic tax law provides for tax incentives in relation to film making and music recording in Iceland. Reference is made to chapter 11 for more information.

Tax incentives are also provided to support innovations in Iceland. Reference is made to chapter 12 for more information.

4 Other Taxes and Charges

4.1 Real Estate Tax

Municipalities levy an annual real estate tax on the official premises valuation of immovable property. The amount of the tax varies (up to 1.65%), depending on the municipality and the type of real estate.

4.2 Social Security Contributions

In the case of salaries paid to employees, social security contributions are payable by employers and self-employed persons.

Social security contributions are imposed on all employees and self-employed persons' remuneration (for example salaries, benefits and the employer's part of premiums to the pension funds). The contributions are partly used to finance the social security system. For the year 2025 the general rate is 6.35%. An additional 0.65% is payable with respect to fishermen. If an employee has a foreign A1 certificate the social security contribution is 0.425% on his or her salaries.

Both employees and employers are required to pay premiums to pension funds. Collectively, the minimum payment is 15.5%[8] of gross salary. The employees' part is usually 4% which is deductible from the employer income tax base. Employers provide minimum 11.5% in addition to the employees' contribution. Self-employed persons pay both the employee's and employer's part of the pension fee.

Furthermore, employees may choose to make additional payments of up to 4% to pension funds. If employees choose to make the additional payments, the employer is obliged to pay an additional 2% premium to the pension funds for the benefit of the employees.

5 Assessment and Payment of Taxes

The tax year is the calendar year. Under certain circumstances, permission to use a tax year different from the calendar year may be granted by the Internal Revenue Directorate upon application.

Annually the Internal Revenue Directorate decides the last day of filing corporate income tax returns, together with supporting documents. That date is 31 May 2025. Upon the filing of an application, extensions may be granted by the Internal Revenue Directorate. Assessment is completed within 10 months from the end of companies' accounting period.

Companies are required to make monthly advance tax payments, except in January, until assessment has been completed. The instalments are determined as a given percentage of the previous year's assessment, or 8.5% per month in 2025. Any deficit remaining when final tax is assessed must be paid in equal instalments in November and December. Companies can apply for reduction on the advance payment, the reduction needs to be applied for before 31 May.

8. If the employer's contribution exceeds 12% plus ISK 2,000,000 per year the employee pays income tax for what is in excess.

Payments of withholding tax on dividend and interest income received in 2025 are due quarterly; on 20 April 2025, 20 July 2025, 20 October 2025 and 20 January 2026, and deadline for payment is 15 days later.[9]

6 Foreign Currencies

6.1 Accounting Records and Financial Statements in Foreign Currencies

Icelandic companies can, after receiving the authorization of the Annual Account Register, keep their accounting records and prepare annual accounts in foreign currencies. An application must be filed, at the latest two months before the beginning of the company's fiscal year, or within two months from the establishment of a new company.

When companies apply for authorization to keep their accounting records and prepare annual accounts in a foreign currency, the company's functional currency must correspond to the currency the company applies for. Furthermore, the Annual Account Register practice reveals that due consideration should be given to the International Accounting Standard no. 21 (IAS 21).

A company that has been granted the above authorization must apply the same reporting currency for at least five years, unless it no longer fulfils the conditions necessary. The Annual Account Register oversees that authorized companies fulfil the above conditions on a continuous basis.

6.2 Tax Returns for Companies Authorized to Keep their Accounting Records and Prepare Annual Accounts in Foreign Currencies

Companies that have been granted authorization to keep their accounting records and prepare annual accounts in foreign currencies must file annual accounts, in the authorized currency, in accordance with the Annual Accounts Act. The authorized companies must file tax returns with itemized amounts as presented in the annual account and the amount of taxable income or net loss converted into Icelandic krona using an average conversion rate for the year. Assets, liabilities, and equity are converted into Icelandic krona using the year end conversion rate. Possible translation difference arising on the conversion to Icelandic krona does not affect the amount of taxable income or net loss.

Companies with an authorization from the Annual Account Register can keep their accounting records in Icelandic krona parallel to entering their books in the functional currency. In these circumstances the entry of books in Icelandic krona can be used as basis for the tax returns.

The chosen method must be applied consistently for a period of not less than five fiscal years.

7 Non-Resident Companies

Non-resident companies are subject to income tax on their income from Icelandic sources in 2025 as shown in the following table:

	Tax base	LLC[10]	Legal entities other than LLC
Income from services carried out in Iceland...........	Gross income	20%	37.6%
Income of a permanent establishment in Iceland ..	Net income	20%	37.6%
Income from immovable property	Net income	20%	20%
Income from Iceland, e.g. royalty, patent and capital gain on movable property	Gross income	22%	22%
Dividend and capital gain from Icelandic shares.....	Gross income	20%	20%

9. Payments of withholding tax on dividend and interest income made to non-Icelandic entities/persons are due on the 15th of the month following the payment month.

10. Limited Liability Companies.

Interest arising in Iceland.......................................	Gross income	12%	12%

8 Withholding Tax - Tax Treaties

8.1 Withholding Tax

8.1.1 Dividend

Dividend paid by resident companies to shareholders is subject to a withholding tax of 22% for all recipients other than non-resident legal entities for which the rate is 20% and resident public limited companies and resident private limited companies for which the rate is 0%.

The withholding tax is not final for Icelandic, British, Faroese and other EEA resident companies but can be reimbursed in connection with the ordinary tax assessment in November the year after the distribution has taken place, presupposed that an Icelandic tax return has been filed.

A request can be filed to the Internal Revenue Directorate to apply tax treaty rates on dividend distributions in advance.

If a company is liquidated without a merger, any distributions in excess of the purchase price of the shares shall be treated as dividend for tax purposes.

8.1.2 Interest

Interest paid to residents and non-residents is subject to a withholding tax. For the income year 2025 the rate is 22% for all residents,12% for non-resident individuals and 12% for non-residents entities. The rate can be reduced by applicable double taxation treaties presuming that an application for exemption is filed at the Internal Revenue Directorate.

8.1.3 Royalties

Royalties paid by resident companies to non-residents are subject to a withholding tax of 22%. The rate can be reduced by applicable double taxation treaties.

8.2 Double Taxation Relief

The bilateral and multilateral tax treaties concluded by Iceland provide for relief from double taxation of income in the form of a credit for foreign tax or an exemption of foreign income.

A tax credit for foreign tax on income from non-treaty countries may be granted against national income tax at the discretion of the Internal Revenue Directorate.

8.2.1 Domestic Withholding Rates for Non-Residents 2025[11]

	Dividend	Interest	Royalties
Companies	20%[12]	12%	22%
Individuals	22%[13]	12%[13]	22%

11. Unless reduced by a tax treaty and a tax exception issued by the Internal Revenue Directorate.
12. In case the receiving company is an EEA, Faroese or British tax resident company an effective tax rate on dividend of 0% is possible if the company files a tax return in Iceland.
13. Interest income, dividend and gains from listed shares less than ISK 300,000 per year is taxed by 0% by assessment.

8.2.2 Treaty Rates

	Dividend Individual/Company	Interest	Royalties
Albania	10%/5%[14]	10%	10%
Australia	15%/5%[15]	10%	10%
Austria	15%/5%[15]	0%	5%
Barbados	15%/5%[15]	10%	5%
Belgium	15%/5%[15]	10%	0%
Canada	15%/5%[15]	10%	0%[16]/10%
China	10%/5%[14]	10%	10%
Croatia	10%/5%[15]	10%	10%
The Czech Republic	15%/5%[14]	0%	10%
Cyprus	10%/5%[15]	0%	5%
Denmark[17]	15%/0%[15]	0%	0%
Estonia	15%/5%[14]	10%	5%[18]/10%
The Faroe Islands[17]	15%/0%[15]	0%	0%
Finland[17]	15%/0%[15]	0%	0%
France	15%/5%[15]	0%	0%
Germany	15%/5%[14]	0%	0%
Georgia	10%/5%[14]	5%	5%
Greece	15%/5%[14]	8%	10%
Greenland	15%/5%[14]	0%	15%
Hungary	10%/5%[14]	0%	10%
India	10%/10%	10%	10%[19]
Ireland	15%/5%[14]	0%	0%[20]/10%
Italy	15%/5%[21]	0%	5%
Japan	15%/0%/5%[22]	0%	0%
Korea (Rep.)	15%/5%[14]	10%	10%
Latvia	15%/5%[14]	10%	5%[19]/10%
Liechtenstein	15%/0%[21]	0%	0%/5%[23]
Lithuania	15%/5%[14]	10%	5%[19]/10%
Luxembourg	15%/5%[14]	0%	0%
Malta	15%/5%[15]	0%	5%
Mexico	15%/5%[15]	10%	10%
The Netherlands	15%/0%[15]	0%	0%
Norway[17]	15%/0%[15]	0%	0%
Poland	15%/5%[14]	10%	10%
Portugal	15%/10%[14]	10%	10%
Romania	10%/5%[14]	3%	5%

14. The rate applies to corporate shareholders with a minimum ownership of 25%. If the ownership is less than 25% the rate for individuals apply.
15. The rate applies to corporate shareholders with a minimum ownership of 10%. If the ownership is less than 10% the rate for individuals apply.
16. The rate applies to copyright royalties (except films, etc.), and to royalties for computer software or patent, or for information concerning industrial, commercial, or scientific experience (except information provided in connection with a rental or franchise agreement).
17. The Nordic Convention.
18. The rate applies to royalties paid for the use of industrial, commercial or scientific equipment.
19. The rate applies to fees for technical services.
20. The rate applies to the right to use computer software or patent concerning industrial, commercial or scientific experience.
21. The rate applies to corporate shareholders with a minimum ownership of 10%, and which has been held for a period of at least 12 months preceding the date the dividends were declared.
22. Certain conditions apply to these tax rates which have not been listed here.
23. Royalties for the use of any type of patents, trademarks, design or model plans, secret formulas or manufacturing process may also be taxed in the country of origin.

	Dividend Individual/Company	Interest	Royalties
Russia	15%/5%[24]	0%	0%
The Slovak Republic	10%/5%[14]	0%	10%
Slovenia	15%/5%[14]	5%	5%
Spain	15%/5%[14]	5%	5%
Sweden[17]	15%/0%[15]	0%	0%
Switzerland	15%/0%[21]	0%	0%/5%[25]
Ukraine	15%/5%[14]	10%	10%
United Kingdom	15%/5%[15]	0%	0%/5%[25]
United States	15%/5%[15]	0%	0%/5%[26]
Vietnam	15%/10%[14]	10%	10%

Iceland has signed a draft of a treaty with Andorra, Brazil, Bulgaria, Qatar and Saudi-Arabia that are expected to be ratified in coming years. A draft agreement has also been made with Germany regarding a revision of current tax treaty. Negotiation has taken place between Iceland and Chile regarding a tax treaty. Iceland has also signed so called "mini" tax treaties with Jersey (2008) and Guernsey (2008) which apply only to individuals and their non-capital income. Iceland has also signed Tax Information Exchange treaties (TIEA) with both above mentioned countries.

Tax Information Exchange treaties have been signed and implemented between Iceland and Andorra (2012), Anguilla (2012), Antigua and Barbuda (2012), Aruba (2012), The Bahamas (2012), Belize (2012), Bahrain (2013), The Bermuda's (2012), Botswana (2015), Brunei (2015), The British Virgin Islands (2012), Cayman Islands (2010), Cook Islands (2012), Costa Rica (2023), Dutch Antilles (2012), The Dominican Republic (2013), Gibraltar (2012), Grenada (2013), Guernsey (2008, Hong Kong (2016), Isle of Man (2009), Jamaica (2021), Jersey (2008), Liberia (2013), Liechtenstein (2017), Macao (2012), Marshall Islands (2014), Mauritius (2014), Monaco (2012), Montserrat (2010), Niue (2014), Panama (2013), Saint Lucia (2013), Samoa (2012), San Marino (2012), The Seychelles (2014), Turks and Caicos Islands (2012) and Uruguay (2013). Tax Information Exchange treaties have also been signed but not implemented with Guatemala, St Kitts and Nevis, Saint Vincent and the Grenadines, United Arab Emirates and Vanuatu. The Tax Information Exchange treaties will enter into force following the ratification process in the countries involved.

9 Value-Added Tax

As stated in the introductory provision of the Value Added Tax Act, no. 50/1988, a value added tax (VAT) shall be paid to the Treasury of all inland transactions at all stages, as well as of imports of goods and services. In principle, the tax liability covers all goods and valuables, new and used. The tax liability also covers all labour and services, regardless of name.

9.1 Taxable Transaction

As a general rule, VAT shall be paid to the Treasury on all inland transactions at all stages, as well as on imports of goods and services. Exemptions are specified in the VAT Act. For example, health services, education, public transportation, leasing of real estates, athletic activities and social services are exempt from VAT.

24. The rate applies if the Russian company owns directly at least 25% of the capital in the Icelandic company and the foreign capital invested exceeds USD 100,000.

25. The higher rate applies to: a) any information concerning industrial, commercial or scientific experience provided in connection with a rental or franchise agreement; b) a trademark associated with an agreement referred to in sub-paragraph a); or c) the copyright of a motion picture film or work on film or videotape or other means of reproduction for use in connection with television.

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

9.2 Taxable and Tax-Exempt Parties

The duty to collect VAT and submit the proceeds to the Treasury is, as a general rule, imposed upon those who sell or deliver goods or valuables on a professional or independent basis or perform taxable labour or service.

A non-resident entrepreneur that does not have an office, or other fixed place of business, must appoint a representative who shall be legally obligated to carry out the non-resident entrepreneur's duties as they relate to registration, the submission of returns, etc. If a non-resident entrepreneur fails to appoint a representative in Iceland and neglects to register his enterprise, the purchasers of his services are responsible for the remittance of the tax due on the amount of the purchase (reverse charge).

9.3 Taxable Amount

The tax price is the price on which VAT is calculated upon the sale of goods and valuables, taxable labour and services. The tax price refers to total remuneration or total sales value before VAT.

9.4 Taxable Turnover

The taxable turnover of a registered party includes all sales or deliveries of goods and valuables against payment, as well as sold labour and services. This includes the sales value of goods or taxable services that a company sells or produces or an owner withdraws for his own use. Taxable turnover includes also sales or delivery of goods sold on a handling or agent basis and sales and delivery of machinery, instruments and equipment.

9.5 Tax Rates

The standard VAT rate is 24%. A reduced rate of 11% applies to the following goods and services:

- The rental of hotel and guest rooms and other accommodation (incl. campground facilities).
- The service of self-employed guides.
- Sale of food and other goods for human consumption. Sale of books, audio books, magazines, newspapers and national and regional periodicals.
- Sale of hot water, electricity and oil used for heating of houses and swimming pools.
- Radio and TV broadcasting license and subscription charges.
- Road tolls.
- Compact discs, records, tapes and other comparable mediums with music, not picture.
- Transportation other than scheduled transportation on land, air and sea.
- Access to bathhouses and spas when sold independently from sports activities.
- Sale of condoms, disposable and multi-use diapers.

9.6 Exempted Taxable Turnover (zero rate)

Article 12 of the VAT Act provides for exempted taxable turnover. If one of the exemptions mentioned therein is applicable, the transaction is not subject to VAT (zero rate). However, entities involved in exempted transactions still can claim input tax. The following list of exemptions is stated:

- Exported goods.
- Certain types of services provided to businesses that are neither domiciled in Iceland nor have a permanent establishment in Iceland.
- Certain types of services provided to non-Icelandic residents, other than businesses, such as electronic services, telecommunications services, consultants, advertising, employment agencies, transfer of intellectual property rights and the lease of liquid assets located abroad.

- Shipbuilding and repair and maintenance work on ships and aircraft and their fixed equipment, as well as materials and goods used or provided by the company providing the repair work (does not cover boats less than six meters in length, pleasure boats or private aircraft).
- Charter of ships and lease of aircraft (does not cover boats less than six meters in length, pleasure boats or private aircraft).
- Services provided to foreign fishing vessels for unloading of fish or sale of catches in Iceland.
- Provisions and equipment for use on board international vessels.

9.7 Special Provision for Imports

Upon the importation of goods, VAT shall be collected on the customs price of a taxable good plus customs duties and other posts levied in customs.

Some goods are exempt from VAT upon importation such as small packages, works of art imported by the artists themselves and written material sent to scientific institutions, libraries and other public institutions without payment.

9.8 Reimbursement of VAT to Foreign Enterprises

A foreign enterprise/company, which is neither a resident of Iceland nor has a permanent establishment in Iceland, may under certain conditions obtain reimbursement of VAT paid on goods (i.e. equipment) and taxable services imported or purchased wholly or partly for the use of the company in Iceland.

A prerequisite for reimbursement is that the enterprise would be subject to VAT registration in Iceland and could state the VAT on such purchases as a part of input tax under the Icelandic VAT Act. Another prerequisite for the reimbursement is that the company must neither have sold goods nor taxable services in Iceland during the period to which the application applies. Otherwise, the company would be obligated to register for VAT in Iceland.

When applying for a VAT reimbursement, supporting documents to be handed in with the application forms are the original invoice/import documents and a GST/VAT certificate or a certificate from the competent company registry which shows the nature of the enterprise's business activity.

10 Foreign Labour

10.1 Foreign Specialists

Foreign specialists employed by an Icelandic entity are only subject to an income tax of 75% of their income for services performed in Iceland for the first three years as 25% of the foreign specialist's income for services rendered in Iceland is exempt from income and withholding tax, subject to further conditions.

10.2 Temporary-Work Agency

The term "temporary-work agency" refers to a service company which, according to a contract and in return for a fee, hires out its workers to perform work assignments at the workplace of a user company under the supervision of the latter.

Any person within the EEA wishing to provide temporary-work agency services in Iceland shall notify the Director of Labour eight days before commencement of such operation. Unregistered agencies may not provide temporary-work agency services in Iceland. Moreover, a temporary-work agency that provides services in Iceland for a total of more than ten working days during each twelve-month period shall have a representative in Iceland. The representative is responsible for providing the authorities with all information necessary according to legal rules and regulation.

Temporary-work agencies that are not established in any EEA member state may not provide services in Iceland until they have become established in the country, unless specifically permitted under agreements to which Iceland is a party.

10.3 Live and Work in Iceland

10.3.1 Residence Permit

The main rule is that citizens of countries outside the EEA intending to reside in Iceland for more than 3 months must have a residence permit. There are certain exemptions from that main rule.

A citizen of an EEA country may stay and work in Iceland without a permit for up to three months from his arrival in the country or stay for up to six months if he is seeking employment. If the individual resides longer in Iceland, he shall register his right to residency with the National Registry (þjóðskrá). Residence in another Nordic country is not deducted from the residency period.

10.3.2 Work Permit

The Ministry of Justice grants work permits. Residence and work permits are generally granted for the same length of time.

Temporary work permits are granted to the employer in order to employ a foreign national, presuming the following conditions apply:

a) experts are not available within Iceland;
b) Icelandic industries lack manpower, or other special reasons support the granting of a work permit;
c) the local trade union in the relevant branch of industry, or the appropriate national union, has made its comment on the application;
d) an employment contract has been prepared and signed covering a specific period or task and guaranteeing the employee wages and other terms of service equal to those enjoyed by local residents (cf. the Employees' Working Conditions and Compulsory Pension Rights Insurance Act). The employer must also guarantee to pay the cost of sending the employee back to his home if the employee becomes incapable of working for a long period due to illness or accident and in the event of the termination of employment for which the employee is not responsible;
e) a health certificate and statement from the last place of residence has been submitted before the employee enters Iceland; and
f) a criminal record certificate has been submitted before the employee enters Iceland.

A temporary work permit is granted for up to one year. An extension for up to two years may be granted if conditions a) - c) above are met. If an extension of residence or work permit is required, an application for such an extension must be filed before the permit period expires.

An employer can receive an anonymous interim work permit if conditions a) and b) above are met.

Foreigners who arrive in Iceland as tourists may not apply for a work permit unless they first depart from the country.

A work permit for a longer period of time may be granted in the case of citizens of countries having entered into agreements with Iceland regarding the right to work, or countries that are parties to international agreements on social rights.

EEA/EU citizens have the right to live and work in Iceland without a work permit.

Foreigners who are born Icelandic citizens and have lost their citizenship are not required to apply for a work permit. The same applies to foreigners in the private service of foreign diplomats.

The following groups of non-Icelandic citizens are not required to apply for a work permit, provided that they work in Iceland for a maximum of 90 days per year: scientists and lecturers; artists, with the exception of musicians employed by restaurants; athletic coaches; representatives arriving on business on behalf of companies that do not have branches in Iceland; drivers of buses registered in a foreign country, providing that the vehicles are carrying foreign tourists to Iceland; journalists and reporters of foreign news media employed by companies that are not established in Iceland; specialized employees, consultants, and instructors working in construction, installation, supervision, or equipment repair.

A permanent work permit is granted to non-Icelandic persons who have maintained legal residence in Iceland for a period of three years, have been granted a temporary work permit, and have obtained an unrestricted residence permit.

10.3.3 Long-term visa for remote work

Citizens of non-EEA countries that do not need a visa to enter the Schengen area can apply for a long-term visa for remote work.

A long-term visa for remote work permits them to stay in Iceland for 90 to 180 days for the purpose of working remotely.

Remote work refers to the organization and delivery of work utilizing information technology, where the applicant will deliver their work to an operating location outside of Iceland. Holders of long-term visa for remote work are not allowed to work for local employers or in any other way participate in the Icelandic labor market. Such jobs require the issuance of a residence and work permit. You will not be subject to taxes in Iceland while working remotely.

To obtain the long-term visa for remote work you must work for a company that is based outside of Iceland, must earn a minimum of ISK 1,000,000 pr. month and present proof of health or travel insurance.

10.3.4 Home office

A foreign company who has employees working from their own home in Iceland will not create a permanent establishment if the following conditions are fulfilled:

(a) The employees general place of employment is at a foreign premises of the employer;
(b) The employee works from an office or work facility that the employee has set up in his home or residence without the assistance of the employer;
(c) The employer does not have access to or control over the home office or home work facility;
(d) The work contribution of the employee is delivered solely through electronic means and will be utilized by the employer solely for its operations abroad.

10.4 Posted Workers

Service companies which are established in another EEA or EFTA member state or the Faroe Islands who post workers to Iceland on a temporary basis in connection with the provision of services may have to provide information to the Directorate of Labour.

The above mentioned service companies intending to provide services in Iceland for a total of more than 10 working days in each twelve-month period are to provide the Directorate of Labour with information on, amongst other things, the provision of the services and a survey of the workers who will be working in Iceland under the company’s auspices.

During the time when posted workers are working in Iceland, Icelandic law applies to their terms of service. In order to ensure that foreign workers’ terms of service are in accordance with Icelandic collective agreements during the periods in which they work in Iceland, the Directorate of Labour requests to have copies of the employment contracts of workers posted in Iceland.

11 Reimbursements

11.1 Film Making in Iceland

Film producers are entitled to 25% reimbursement of eligible production cost in respect of film making in Iceland. Production cost refers to all cost incurred that is deductible from revenue of enterprises as stipulated in the Icelandic tax laws. However, payments to employees and contractors are only to be included in the production cost, if they are taxed in Iceland.

An application for reimbursement of production cost must be submitted to the Ministry of Culture and Commerce. There are certain conditions that must be met for a production to qualify for reimbursement.

Film producers are entitled to 35% reimbursement of eligible production cost if, in addition to the conditions that must be met to qualify for the 25% reimbursement, the production cost incurred in Iceland is at least ISK 350 million, the number of days filming or post production in Iceland are at least 30 and the number of employees working directly on the project are 50 or more.

11.2 Music Recording in Iceland

Publishers are entitled to 25% reimbursement of eligible production cost in respect of music recording in Iceland and in certain cases, cost incurred in another Member State of the EEA.

An application for reimbursement of production cost must be submitted to the Ministry of Culture and Commerce. To be eligible for reimbursement there are several conditions that need to be met, such as the issued sound recordings need to be available to the public and the total playback time of the sound recordings exceeds 14 minutes.

12 Innovative Companies - Tax Deduction

Companies which invest in research or development projects and have obtained confirmation by the Iceland Centre for Research, are entitled to a special deduction from income tax amounting to 35% of expenses incurred on the projects for small and medium sized companies and 25% for large companies, provided the expenses fall under deductible operating expenses.

The maximum amount on which the deduction is calculated is ISK 1,100 million for each fiscal year, of which up to ISK 200 million can be due to purchased research or development services. The maximum amount is limited to the combined cost of related companies. In the case of joint projects, the same amount applies to the project as a whole but the deduction is divided proportionally between the companies participating in the joint project.

Expenses incurred on each research and development project must be kept separate from other expenses incurred and supporting documents must be accessible to the tax authorities upon request.

Individuals

13 Tax rates for the years 2024 and 2025 – Assessment years 2025 and 2026

	2024	2025
National income tax	16.55–31.35%[27]	16.55–31.35%[28]
Municipal income tax[29]	14.93%	14.94%
Income tax for people with limited tax liability[30]	34.93%	34.94%

13.1 Payroll Taxes

	2024	2025
Pension fund obligatory[31]	4%	4%
Pension fund alternative	up to 4%	up to 4%

13.2 Investment Income

	2024	2025
Capital income[32]	22%	22%

13.3 Other

	2024	2025
Contribution to the Construction Fund for the Elderly[33]	13,749	14,093
Specific charge to the National Broadcasting Service[33]	20,900	21,400

14 Residence

As a general principle, any individual who stays in Iceland for more than 183 days during any twelve-month period is considered a resident from the date of arrival. Resident individuals are fully liable for tax payments in Iceland on their worldwide income. The tax liability ends as soon as the individual leaves Iceland. However, former domiciles remain fully tax liable in Iceland for three years after leaving the country, unless they prove that they have become subject to taxation in another country.

Non-resident individuals staying temporarily in Iceland for 183 days or less, and who derive income from employment during their stay, are subject to national income tax on such income. They are allowed the same deductions for expenses as residents. The annual personal tax credit is applied in proportion to their stay in Iceland. Non-resident individuals staying temporarily in Iceland are also subject to municipal income tax in the same manner as residents.

Icelandic-source income in the form of remuneration to directors and committee members, grants, or remuneration for independent personal services and art performances is taxed by assessment at a rate of 20% in the income years 2024 and 2025, plus the average municipal income tax rate of 14.93% in income year 2024 and 14.94% in income year 2025.

27. Income tax rate on salary up to ISK 5,353,632 per year is 16.55%, on salary between ISK 5,353,633 and ISK 15,030,012 the rate is 23.05% and on salary above ISK 15,030,012 the rate is 31.35%.
28. Income tax rate on salary up to ISK 5,664,060 per year is 16.55%, on salary between ISK 5,664,061 and ISK 15,901,524 the rate is 23.05% and on salary above ISK 15,901,524 the rate is 31.35%.
29. The average rate.
30. Such as director's fees and income received by artists with limited tax liability in Iceland.
31. For self-employed people, the minimum is 15.5%.
32. Unless reduced by a tax treaty the final taxation will be 22% by assessment. The tax rate on interest income, dividend and gains from listed shares under ISK 300,000 per year is 0% by assessment.
33. If the income base is higher than ISK 2,474,942 in the income year 2024 and higher than ISK 2,617,618 in the income year 2025.

15 Income Tax

15.1 Taxable Income

The concept of taxable income includes all kinds of payments made in cash and by other means and the monetary value can be ascertained. No significant items of compensation are tax-exempt in Iceland.

Taxable income is divided into three main categories:

- Category A comprises wages and salaries, including presumptive employment income of the self-employed (see below), employment-related benefits, retirement pensions, social security payments, grants, payments to copyright holders, royalties, etc.
- Category B comprises income from a business and income from an independent economic activity.
- Category C comprises capital income such as dividend, interest, rental income and capital gains.

The categorization is important because only deductions expressly provided for by law may be deducted from income falling under Categories A and C, and operating expenses may only be deducted from income falling under Category B.

In computing the income tax of individuals not engaged in a business, the net results of Categories A are aggregated. Any Category C income derived by such individuals is taxed separately at a flat rate of 22%.

15.1.1 Self-Employed Individuals

A self-employed individual must declare as employment income an amount comparable to the remuneration he or she would receive if employed by an unrelated person (presumptive employment income). The same applies if an individual is employed by a partnership, in which he or she participates directly or indirectly as an owner. Furthermore, a spouse and children under 16 years of age who are employed by the taxpayer's business or partnership must declare as employment income an amount comparable to the remuneration they would receive if employed by an unrelated person.

An amount equal to the individual's own presumptive income, or to that of his spouse or children, is deductible as operating expenses from the income of the private or partnership business, whichever is appropriate. If the presumptive income declared by an individual is lower than that which he or she would earn if employed by an unrelated person, the Internal Revenue Directorate may increase his or her presumptive income. The presumptive income may not lead to an operating loss higher than the total sum of ordinary depreciation of fixed assets. The Internal Revenue Directorate issues an indicative list of salaries for this purpose.

The business income of individuals is subject to the same rules regarding computation of taxable income as applies to business income of companies. Individuals are subject to the same special taxes as companies, but income tax is levied at the rate applicable to individuals, not at the corporate income tax rate.

15.1.2 Capital Income

The treatment of interest income and expenses depends on whether they relate to a business or not. Interest income connected with a business is taxed in the same manner as other business income, whereas private interest income is subject to a flat 22% income tax of income in excess of ISK 300,000 per year. In case of individuals who are married or taxed jointly as cohabitants the capital income is taxed in the hands of the partner with the higher employment income. In that case the interest income below ISK 600,000[34] will not be taxed.

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

34. Interest income, dividend and gains from listed shares under ISK 300,000 per year for individuals and ISK 600,000 per year for jointly taxed couples is taxed by 0% by assessment.

15.1.3 Real Estate Income

As a general principle, an individual's rental income is considered a business activity and taxed as such. There are two exceptions to the general principle and if met, the rental income is taxed as capital income. The exceptions are:

- The income is due to a rental of two or less residential properties and is a long-term rent in accordance with the Housing rental Act. The rental income is taxed with the capital tax rate of 22% after a deduction of 50% of the rental income, making the effective tax rate 11%.
- The rent is defined as a bed and breakfast rent and has been registered as such with the District Commissioners. The income must not exceed ISK 2,000,000 per year and the rental period not exceed 90 days per year. Such bed and breakfast rental income is taxed with the capital tax rate of 22% without any deductions.

The rental income tax is paid upon assessment.

15.1.4 Income of a Child

Income of children under 16 years of age, other than employment income, is taxed together with the income of the parent who has higher employment income or who receives child benefits for the child. The employment income of children younger than 16 years exceeding ISK 180,000 is always taxed in the hands of the child itself at a special rate of 6% (4% national income tax and 2% municipal income tax). Subject to certain conditions, a child's entire income may be taxed in the hands of the child itself. Children do not enjoy personal tax credits, see chapter 16.2 on Tax Credits.

15.1.5 Remuneration of Directors and Pension

There are no special provisions relating to the remuneration of directors. Such income is taxed as employment income in the normal manner (Category A).

There are no special provisions regarding pension. It is taxed as employment income in the normal manner (Category A).

15.2 Taxable Benefits

In principle, all benefits in kind are included in taxable income.

Coffee and minor refreshment available to employees, use of a gym at the workplace, preventive health services and participation in work-related seminars are not considered benefits.

Events held by a company such as a Christmas party, annual celebration and other employee events are not considered an employee benefits provided that these events are available to all staff members and the annual cost does not exceed ISK 185,000 per employee.

15.2.1 Use of Vehicles

Full and Unlimited Use

If an employer provides an employee with a vehicle, and the employee has that vehicle at his full and unlimited disposal, this constitutes income for the employee. The annual income is calculated as 28%[35] of the initial purchase price of the vehicle as stated in the employer's depreciation report for vehicles powered by fossil fuel and 20%[35] for vehicles powered by electricity, hydrogen or methane. The purchase price can be reduced by 10% annually down to 50% of the purchase price. This method can only be used for vehicles that were purchased 2014 or later.

Annual income of a vehicle taken into use in the year 2013 or earlier shall be based on 30% of the initial purchase price of the vehicle as stated in the employer's depreciation report.

35. If the employee pays the operation expenses himself the percentage is reduced by 6% for vehicles powered by fossil fuel and 3% for vehicles powered by electricity, hydrogen, or methane.

Limited Use

An employee using a vehicle, provided by an employer, for transport between his home and workplace and for other limited use, is deemed to have received income from the employer. In the income year 2025 such deemed income is ISK 141 for each driven kilometre.

15.2.2 Housing Benefits

If an employer provides an employee with a house or other dwelling, and the employee has the dwelling at his disposal free of charge, this constitutes taxable income in the hands of the employee. The income shall be deemed to be equal to 3.5%, 4% or 5% of the real estate value of the house, depending on its location (5% for Reykjavik and vicinity). If the employer pays for heating and electricity, this shall constitute income for the employee at cost price.

The owners of companies, their managers, and others in similar positions, as well as directors of companies, shall be considered to have a real estate that is provided to them for more than 10 days a year, at their full and unlimited disposal. The disposal is considered as taxable benefits.

15.2.3 Loans

If an employer grants an employee a loan with interest lower than the general interest rate published by the Central Bank of Iceland, the difference shall be deemed as taxable income in the hands of the employee.

15.3 Capital Gain

15.3.1 Capital Gain on the Sale of Immovable Property

Capital gain on the sale of privately owned immovable property is included in taxable capital income and taxed at the rate of 22%. Losses on the sale of such property are generally not deductible; however, they may be deducted from gain made on the sale of similar property in the same year.

Gain on the sale of a private residence is tax-free if the taxpayer has owned the residence for at least two years and its size is within certain limits. The size limit is not relevant if the property was the private home of the seller. If the taxpayer has owned such a residence for less than two years, the gain may be rolled over through a reduction in the acquisition cost of another residence. Taxation of such gain may be deferred for two years, counted from the end of the year in which the sale takes place. Reinvestment in another residence can be made in Iceland or any country within an EEA or EFTA member state or the Faroe Islands.

Gain on the sale of a holiday accommodation is tax-free, if the residence has been owned by the taxpayer for at least seven years, has not been rented out by the taxpayer and its size is within certain limits.

Gain on the sale of immovable or movable property in the course of a business or an independent economic activity is included in taxable business income (Category B) and is calculated in the same manner as capital gains made by companies. Rules regarding deferral of taxation also apply.

15.3.2 Capital Gain on Sale of Shares

Gain on sale of privately owned shares is generally included in taxable capital income (Category C) and taxed at the rate of 22%[36] (by assessment).

15.3.3 Capital Gain on Sale of Movable Property

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

36. Interest income, dividend and gains from listed shares under ISK 300,000 per year for individuals and ISK 600,000 per year for jointly taxed couples is taxed by 0% by assessment.

Gain on sale of immovable or movable property in the course of a business or an independent economic activity is included in taxable business income (Category B) and is calculated in the same manner as capital gain made by companies. Rules regarding deferral of taxation also apply.

15.4 Income Tax Rates

15.4.1 National Income Tax Rates

For the income years 2024 and 2025 (assessment years 2025 and 2026) the income tax rate is 16.55–31.35%[37]. Capital income derived by individuals not engaged in a business is taxed separately at a rate of 22%. In the case of dividend and interest, the tax is withheld at source. Income taxed in such manner must be reported on the tax return. In the case of gain from the sale of immovable property and shares, as well as rental income from private immovable and movable property, the tax is levied by way of assessment unless the person has a limited tax liability in Iceland.

15.4.2 Municipal Income Tax Rates

The average municipal income tax rate on personal taxable income for the income year 2024 is 14.93% and 14.94% for the income year 2025.

16 Allowances, Deductions and Credits

16.1 Deductions of Expenses

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

Otherwise, no significant deductions are allowed from employment income.

With respect to business income (Category B), expenses incurred for the purpose of obtaining, securing, and maintaining taxable income can generally be deducted.

16.2 Tax Credits

All individual taxpayers (except children under the age of 16, see chapter 15.1.4 Income of a Child) are entitled to a personal tax credit against computed income tax from all income categories. This credit amounts to ISK 779,112 for the income year 2024 (assessment year 2025) and ISK 824,288 for the income year 2025 (assessment year 2026). If the credit is higher than the income tax, the excess will be applied by the State Treasury to offset the municipal tax payable. From the personal tax credit then unused 22/31 parts are to be used to pay the income tax on capital income. Any part of a single person's credit remaining thereafter is cancelled.

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

16.3 Losses

Losses on the sale of private (non-business) property are generally not deductible; however, they may be deducted from gain made on the sale of similar properties in the same year.

Operating losses may only be deducted from business income (Category B). Net operating loss may be carried forward for 10 years. Carry-back is not allowed.

37. For the income year 2024 Income tax rate on salary up to ISK 5,353,632 per year is 16.55%, on salary between ISK 5,353,633 and ISK 15,030,012 the rate is 23.05% and on salary above ISK 15,030,012 the rate is 31.35%. For the income year 2025 Income tax rate on salary up to ISK 5,664,060 per year is 16.55%, on salary between ISK 5,664,061 and ISK 15,901,524 the rate is 23.05% and on salary above ISK 15,901,524 the rate is 31.35%.

17 Assessment and Payment of Taxes

The tax year is the calendar year.

The Internal Revenue Directorate annually decides the last day of filing individual income tax returns. That day is 14 March 2025 for the income year 2024.

The collection of individual income taxes (state and municipal) on employment income (Category A) takes place at source each month during the income year. Individuals deriving business income (Category B) or capital income (Category C), on which tax is not collected at source, may on their own initiative, pay the difference between the tax to be assessed and the amount already paid at source by 31 January following the tax year.

Final assessment for individuals takes place on the basis of the tax returns before the end of May of the year following the tax year. Any difference between income tax withheld and the assessed income taxes (national and municipal) is refunded, increased by 2.5% of the difference; any deficit is collected, increased by 2.5%.

17.1 Contribution to the Construction Fund for the Elderly

All individuals between 16 and 69 years of age who are subject to national income tax assessment are also required to pay a contribution to the construction fund for the elderly, provided their income tax base is ISK 2,474,942 or higher. The charge is ISK 14,093 for the assessment year 2025.

17.2 Specific Charge to the National Broadcasting Service

All individuals between 16 and 69 years of age who are subject to national income tax assessment are also required to pay a specific charge to the National Broadcasting Service, provided their income tax base is ISK 2,474,942 or higher. The charge is ISK 21,400 for the assessment year 2025.

18 Expatriates

There are in general no special provisions for expatriates. However, expatriates with a foreign A1 certificate are not liable to pay social security contributions or contributions to Pension Funds in Iceland. Instead, these employees shall pay social security contributions and contributions to pension funds in their home countries.

19 Double Taxation Relief

The bilateral and multilateral tax treaties concluded by Iceland provide for relief from double taxation of income in the form of a credit for foreign tax or an exemption of foreign income.

A tax credit for foreign tax on income from non-treaty countries may be granted against national income tax at the discretion of the Internal Revenue Directorate.

More information on Iceland's tax treaty network is provided in chapter 8.

20 Non-Residents

20.1 Employment Income

Employment income for work physically performed by a non-resident in Iceland is subject to 16.55–31.35%[37] in the income years 2024 and 2025. In addition, an average municipal tax of 14.93% for the income year 2024 and 14.94% for the income year 2025. These non-residents may deduct the personal tax credit from tax computed on such income.

20.2 Pensions and Retirement Benefits

Pensions and retirement benefits are subject to income tax and municipal tax. For the income years 2024 and 2025 the income tax rates are 16.55–31.35%[37]. The average municipal tax rate is 14.93% for the income year 2024 and 14.94% for the income year 2025. Personal tax credit is deducted.

20.3 Director's Fee and Work Performed Outside of Iceland

Director's fee received by non-residents and employment income from Icelandic sources for work performed outside of Iceland is subject to 20% national income tax and average municipal tax, which is 14.94% for the income year 2025. Personal tax credit is not granted.

20.4 Permanent Establishment

Net income from a business through a permanent establishment is taxable at the same tax rate as employment income from work performed in Iceland, but no personal tax credit is granted. Other individual Icelandic-source business income is subject to 20% income tax and municipal tax which is 14.94% in 2025. No tax is levied on repatriation abroad.

20.5 Capital Income

Rental income and gains from immovable property in Iceland of non-resident individuals is taxed by assessment at a flat rate of 22%. Only 50% of long term rental income will be taxed by 22% tax rate. The remaining 50% of the long term rental income is not taxed.

Income from movable property and royalties from intellectual property, as well as gains from such assets, are taxable at 22% rate.

Income and gains from shares in companies or any kind of participation in profits of Icelandic corporations are subject to 22%[34] tax.

Interest income (including premium) from instruments issued by Icelandic parties is subject to 12% tax, but interest lower than ISK 300,000 per year is not taxed. In case of individuals who are married or taxed jointly as cohabitant the capital income is in the hands of the partner with the higher total employment income. In that case interest income in excess of ISK 600,000 will be taxed by 12% tax rate. Premium arising in dealings between two non-residents is not subject to Icelandic tax.

21 Private Housing Benefits

The State Treasury provides compensation for interest expense incurred by individuals who purchase residence for their personal use. The amount of interest compensation is based on the interest on loans obtained for the purpose of financing the purchase of the residence. The benefits are income and net wealth related. There are limitations on the amount of interest that may be used as the basis for the calculation of the compensation, as well as limitations on the amount of the interest compensation itself.

The maximum private interest relief in assessment year 2025 is ISK 420,000 for an individual; ISK 525,000 for single parents; and ISK 630,000 for couples.

22 Child Benefits

Child benefits are payable to individuals or couples for all children under the age of 18 supported by the individuals. Child benefits are calculated on the basis of the following:

- Family type (couple or single parent),
- Number of children in the family,
- Income and net wealth of the family.

Advance payments of 50% of the estimated child benefits for a certain year are made on 1 February and on 1 May. Following the tax assessment in the end of May, the remaining parts of the child benefits are paid on 1 June and 1 October.

22.1 Annual child benefit rates in the year 2025

Child Benefits linked to Family Type and Income

Couples:

For each child	ISK 345,000
Extra benefit for children under the age of 7 years	ISK 130,000

Single parents:

For each child	ISK 514,500
Extra benefit for children under the age of 7 years	ISK 130,000

For couples with income in 2024 above ISK 11,688,000 and for single parents with income above ISK 5,844,000 the benefits are reduced by a 4% of the income in excess of that amount for each child.

General Information

23 Official Rate of Exchange

	Rate 31.12.24	Rate 31.12.23	Change	Average rate 2024
USD	138.20	136.20	1.47%	137.93
EUR	143.90	150.50	-4.39%	149.31
GBP	173.30	173.18	0,07%	176.40
CAD	96.08	102.79	-6.53%	100.75
DKK	19.295	20.193	-4.45%	20.018
NOK	12.214	13.389	-8.78%	12.846
SEK	12.567	13.563	-7.34%	13.066
CHF	152.70	162.53	-6.05%	156.82
JPY	0.8815	0.9627	-8.43%	0.9121
XDR (SDR)	180.37	183.02	-1.45%	183.16

24 Entry Visas

Nationals of the other European Economic Area states (European Union and EFTA except from Switzerland) do not require entry visas to visit Iceland.

Furthermore, special agreements with approximately 100 countries – including all OECD countries, permit their residents to enter without visas, provided they have a valid passport.

Entry visas are typically granted for a three-month stay in Iceland.

25 Time and Dates

Iceland is on Greenwich Mean Time year-round and does not apply daylight-saving time.

From mid-May to mid-August, the sun only sets for around 3 hours a day, and it is effectively light for the whole 24-hour period. In mid-winter, the daylight lasts for about 5 hours a day.

26 Business Hours

Standard office hours are from 9:00 a.m. to 5:00 p.m. Many public offices are open from 8:00 a.m. to 4:00 p.m. during the summer. Banks are open from 9:15 a.m. to 4:00 p.m., Monday through Friday. Retail establishments' opening hours vary considerably but are often from 9:00 or 10:00 a.m. to 6:00 or 7:00 p.m. Some grocery stores remain open 24 hours a day.

27 Public Holidays

Iceland honours the following statutory public holidays:

- Maundy Thursday
- Good Friday
- Easter Day
- Easter Monday
- Ascension Day
- First day of summer (Thursday following April 18)
- Labour Day (May 1)
- Whit Sunday
- Whit Monday
- National Sailors Day (first Sunday in June)
- National Day (June 17)
- Commerce Day (Monday after first weekend in August)
- Christmas Eve (half-day closing)
- Christmas Day
- Boxing Day
- New Year's Eve (half-day closing)
- New Year's Day

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

28 International Transportation

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

Several Icelandic and international airlines offer passenger and cargo services to and from more than forty gateways year-round on both sides of the Atlantic, and several other international carriers operate a number of services for at least part of the year.

Several Icelandic shipping lines operate regular cargo schedules serving ports in North America, Scandinavia, the United Kingdom, continental Europe, and the Baltic, and have highly developed international freight forwarding systems. Furthermore, these lines operate bulk charter transportation for specific imports and exports; for example, industrial raw materials and finished products. Iceland's harbours are ice-free all year.

Flight time: Europe 3–4 hours and North America 5–7 hours.

Shipping time: Europe 3–4 days and North America 7–8 days.

29 Telecommunications

Iceland offers excellent high-tech telecommunications services and the country is connected with both Europe and North America via fibre optic cables. The fact that Iceland has a well developed telecommunication system is proved by the country's top ratings in statistics over topics such as most internet hosts and internet users per capita.

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Blönduós
Húnabraut 13

Borgarnes
Bjarnarbraut 8

Egilsstaðir
Fagradalsbraut 11

Hafnarfjörður
Reykjavíkurvegur 76

Höfn í Hornafirði
Litlabrú 1

Reyðarfjörður
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