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KPMG INTERNATIONAL

Taxation of Cross-Border Mergers and Acquisitions

Iceland

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Iceland

Introduction

An Icelandic business enterprise may be organized as a limited liability company: either a public limited liability company (hf.) or a private limited liability company (ehf.). Iceland has incorporated European Union (EU) corporate law directives in its domestic legislation, so Icelandic corporate laws are largely based on EU directives.

As Iceland is not a member of the EU, Directive 90/434/eeC on mergers is not applicable in Iceland.

Other forms of business enterprises used in Iceland are sole proprietorships, partnerships and cooperative societies. Partnerships can be registered as separate taxable entities; if so, they are subject to the payment of income tax. Where the partnership is not registered, each partner is subject to tax on its respective profit. A partner may be a limited liability company. A cooperative society is liable for income tax.

The discussion below covers limited liability companies only.

Recent developments

Icelandic legislation regarding mergers and acquisitions (M&A) has changed recently as follows:

- Formal transfer pricing rules have been implemented.
- A new provision permitting a deferral of tax payments has been implemented regarding cross-border mergers within the European Economic Area (EEA), Switzerland and Faroe Islands.
- The Act on Stamp Duty has been replaced by new one that only applies to transfer of ownership of real estate and ships.
- According to Supreme Judgment no. 555/2012, interest on loans assumed for the purpose of acquiring shares is not deductible where the loans are merged into the acquired company.

The following discussions of Icelandic tax are based on current tax legislation.

Asset purchase or share purchase

A foreign purchaser may acquire an Icelandic company (the target company) by purchasing either its assets or its shares.

A foreign company that acquires the Icelandic assets of an Icelandic company and carries on the business through an Icelandic branch is normally regarded as having a permanent establishment in Iceland. As such, the foreign company is taxable in Iceland in accordance with domestic Icelandic tax legislation and any tax treaty between Iceland and the foreign company's country of residence.

Alternatively, a foreign purchaser may acquire the underlying business through an Icelandic subsidiary. It takes only a few days to establish a company in Iceland, and a newly established company can be acquired from KPMG in Iceland.

Matters related to asset acquisitions are discussed below, followed by a discussion of share acquisitions.

Purchase of assets

A purchase of assets usually results in an increase to the base cost of those assets. The increase likely is taxable in the hands of the seller.

Purchase price

- For tax purposes, it is necessary to apportion the total consideration among the assets acquired. Generally, the purchase agreement is required to specify the price at which each asset is bought.
- For tax purposes, the purchase price is the price paid converted into Icelandic krónur (ISK) on the date of purchase.
- Assets transferred between associated parties must be transferred at fair market value.
- Gains or losses on receivables and debts in foreign currency must be included in the seller's taxable income.

Goodwill

- Goodwill paid for a business can be depreciated for tax purposes at rates from 10 percent to 20 percent each year using the straight-line method. Where the allocation of the sale proceeds has not been agreed to, the tax authorities estimate the allocation.
- Patents, copyrights and similar rights can be depreciated for tax purposes at rates from 15 percent to 20 percent each year using the straight-line method. These rights may be written off over their economic life where the economic life is shorter than 5 years.

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Depreciation

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

Assets subject to ordinary depreciation are divided into 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.

Depreciation categories

Movable property	
Ships, equipment for ships and passenger cars	10%–20%
Aircraft and flight equipment	10%–20%
Industrial machinery and equipment	10%–30%
Office equipment	20%–35%
Other machinery, equipment and cars	20%–35%

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

Source: KPMG in Iceland, 2014

When an asset is purchased, there is a step-up in its cost base for tax purposes.

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

The depreciation period of an asset starts at the beginning of the year in which the asset is put into use. Residual value equal to 10 percent of the asset's original value remains on account until the asset is scrapped or sold. Accelerated and/or extraordinary depreciation or write-offs are deductible from income in certain limited cases. No depreciation is expensed on an asset in the year of sale.

The cost of acquiring production rights in agriculture can be fully amortized over a period of 5 years with equal annual amounts.

The following assets can be fully expensed in the year of acquisition or amortized with equal annual amounts over a period of 5 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.

Where the cost of an asset or group of assets is less than ISK250,000, the cost may be fully expensed in the year of acquisition.

Tax attributes

Tax losses are not transferred on an asset acquisition. They remain with the company and are not extinguished. No previous liabilities of the selling company are inherited. There is also no acquisition of a tax liability on retained earnings.

On purchase of the asset, a step-up of the cost base for tax purposes is obtained.

It is possible to acquire a part of a business with an asset purchase. Profitable operations can be absorbed by loss-making companies in the acquirer's group, thereby effectively gaining the ability to use the losses of the group members.

Value added tax

Value added tax (VAT) is levied at the general rate of 25.5 percent. A reduced rate of 7 percent applies to a number of goods and services.

The disposal of operating assets from a tax-registered business triggers VAT where the sale covers only operating assets and not the sale of the business or an independent part of it. A sale of the business or part thereof can occur tax-free if the buyer is registered for VAT purposes.

In tax practice, a series of criteria have been developed to determine what is considered to be all or part of the business. A merger normally has no VAT consequences, provided the conditions for VAT exemption exist.

Where the absorbed company owned real estate used for a VAT-registered business, consideration should be given to VAT and whether there is input tax encumbrance.

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Article 12 of the VAT Act provides for exempted taxable turnover. If one of the exemptions applies, the transaction is not subject to VAT (zero rate). However, entities involved in exempt transactions can still claim input tax. Article 12 exempts from VAT the following items:

- exported goods and labor and services provided abroad
- sales of services to parties neither domiciled nor having a place of operations in Iceland, provided that the services are wholly used abroad (e.g. services of consultants, engineers, lawyers, accountants and other similar specialized services, except for labor or services related to assets or real property in Iceland)
- a service of refunding VAT to parties domiciled abroad
- shipbuilding and repair and maintenance work on ships and aircraft and their fixed equipment, and materials and goods used or provided by the company doing the repair work (boats under six meters in length, pleasure boats and private aircraft are excluded).
- rental of ships and aircraft (boats under six meters in length, pleasure boats and private aircraft are excluded).

Transfer taxes

The new Act on Stamp Duty that took effect in 2014 levies stamp duty only on instruments transferring ownership of real estate and ships over 5 gross tons.

Deeds and purchase agreements on the transfer are taxed at 0.8 percent for individuals and 1.6 percent for companies. The tax base for real estate is the officially registered value (the government issues the valuation for each real estate property). The tax base for ships is the purchase price according to the purchase agreement (or other document in relation to the transfer of ownership), but it is never less than the ship's secured debts.

Before the new Act took effect in 2014, instruments transferring ownership in relation to mergers were considered exempt from the stamp duty as a Supreme Court judgment found that there was no change in ownership. In the new Act stipulates that stamp duty is intended to apply to such documents.

Purchase of shares

There are no immediate Icelandic tax consequences for a foreign company when it acquires the shares of an Icelandic company. Therefore, where goodwill is included in the value of shares, depreciation for tax purposes is permitted.

There is no possibility for a tax-free step-up in the tax basis of the acquired company's assets.

It is not possible to obtain clearance from the tax authorities giving assurances that a potential target company has no tax liabilities or not involved in a tax dispute.

A distinction must be made between taxable and tax-exempt mergers.

Taxable mergers

Where a merger is carried out according to corporate law but the conditions for a tax-exempt merger are not met, the absorbed company is deemed to be liquidated for tax purposes and the assets are deemed to be transferred at market price to the absorbing company. Any gain is taxable to the absorbed company.

Consequently, the absorbing company may use the market value of the assets received as its depreciation basis for tax purposes.

Usually, the absorbed company is acquired in exchange for shares in the absorbing company. The shares are paid to the shareholders when the absorbed company is dissolved. The difference between the purchase price of the shares in the absorbed company and their market value (or the market value of any other payment) is taxable to the shareholder as a capital gain.

The absorbing company cannot carry forward the losses of the absorbed company. The absorbing company can carry forward its own realized losses for 10 years under the normal rule, irrespective of the merger.

Tax-exempt mergers

A tax-exempt merger can be performed by two or more companies, which can be held by a foreign holding company or foreign investors.

A merger is tax-exempt where the following condition is met:

- The absorbed company must be totally absorbed by the absorbing company, including all assets, liabilities and stockholder's equity, and the shares in the absorbed company must be paid for only with shares in the absorbing company. No cash payment is allowed.

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- It has been interpreted that this condition is not met where the absorbing company buys shares in a company and pays for them with something other than shares in the absorbing company with the intention of absorbing it and does so in the near future. The absorbing company (the purchaser) is not considered to be the shareholder of the absorbed company in this situation. The former shareholders (the sellers) remain the shareholders and the consideration is deemed to have been cash.

The tax-exempt merger provisions have the following consequences:

- The absorbed company is taxed under the normal rules up to the merger date.
- The transfer of assets to the absorbing company is not treated as a sale.
- The tax position of the absorbed company (e.g. depreciation balances on fixed assets) is taken over by the absorbing company.
- The shareholders of the absorbed company are deemed to have acquired their shares in the absorbing company at the same time and price as their (cancelled) shares in the absorbed company.

The transfer of real estate or ships over 5 tons from the absorbed company to the absorbing one is subject to stamp duties, whether the merger is taxable or tax-exempt. No stamp duty applies on the issuance of new shares.

A cross-border tax-exempt merger is now possible. Where the acquiring company meets the requirments stipulated below, the merger has no tax effect for the shareholders.

For the company, its assets are considered to be sold at market value. However, under a new provision effective from 2014, taxable income arising from a merger that meets the criteria of tax-free merger can be deferred evenly for the following 5 years. The deferred payments are subject to interest equal to the general non-indexed interest rate issued by the Central Bank and collateral must be posted where the deferred tax debt exceeds 50 million ISK. Conditions for the tax deferral are as follows:

- The acquiring company must be resident of the EEA, EFTA or Faroe Island.
- The acquired company needs to 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 can be found.
- Where a company is resident in a low-tax jurisdiction (2/3 of the Icelandic income tax), the company needs to demonstrate that it has real economic activity.
- A double tax treaty or other international treaty must exist between states that can be used to obtain all necessary information.

Further, if the assets of the merged Icelandic company will become part of an Icelandic permanent establishment and still be subject to taxation in Iceland, they can be exempted from the taxation.

Tax indemnities and warranties

In the case of negotiated acquisitions, it is usual for the purchaser to request, and the seller to provide, indemnities and/or warranties with respect to any undisclosed taxation liabilities of the company to be acquired. The extent of the indemnities or warranties is a matter for negotiation.

With negotiated acquisitions, it is usual for the seller to make the books of the target company available for a due diligence review by the prospective purchaser. A normal part of the due diligence process involves an in-depth review of the tax affairs of the potential target company by the advisers to the purchaser.

Tax losses

In general, losses may be carried forward for 10 years. No carry-back is allowed.

If the foreign company absorbs the underlying business, rather than the shares of an Icelandic company, the absorbingcompany cannot use pre-acquisition losses. If the business that created the loss has ceased, the right to use the loss lapses.

When a tax-exempt merger is performed, the acquiring company can only carry forward losses of the absorbed company if the following conditions are met:

- The absorbing company shall run a business related to the business of the absorbed company.
- The absorbed company shall have some assets at the time it is dissolved.
- The absorbed company shall run some business at the time it is dissolved.

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- The merger must have a business purpose; a tax planning purpose is allowed, but there has to be some other business purpose as well.
- The carried forward losses must have been realized in a business of the absorbed company that is related to the business of the absorbing company.

Pre-sale dividend

As the tax treatment of dividends and capital gains are the same, there is little difference for Icelandic tax purposes. However, in relation to dividends. If the companies cannot apply for joint taxation, there is a withholding tax on the dividends, whereas there is normally no withholding tax for capital gains.

Transfer taxes

Stamp duty is only levied on the instruments transferring ownership of a real estates and ships over 5 gross tons (see above).

Tax clearances

It is possible to apply to the Internal Revenue for a binding ruling before a merger to get an assurance on whether or not the merger will qualify as a tax-exempt merger.

Choice of acquisition vehicle

The following vehicles may be used to acquire the shares or assets of the target:

- branch of a foreign company
- subsidiary of a foreign company
- treaty country intermediary
- local holding company
- joint venture.

Generally, the advantages and disadvantages of the different vehicles must be considered on a case-by-case basis.

Local holding company

Profits and losses within an Icelandic group of companies may be equalized by means of consolidated taxation. Group consolidated taxation is possible between a parent company and subsidiaries in which it holds 90 percent or more of the shares, either directly or indirectly, subject to certain other conditions.

Foreign parent company

The foreign purchaser may choose to make the acquisition itself. This might cause future tax problems in Iceland, as Iceland taxes the gains of non-residents disposing of Icelandic assets at the standard rate and levies withholding tax (WHT) on dividends and interest (unless a tax treaty reduces or eliminates such taxation).

However, if the parent company is a limited liability company within the EEA, capital gains from the sale of shares in Icelandic companies and dividends received from Icelandic companies can be deducted in full so that no tax applies.

Non-resident intermediate holding company

If the foreign country taxes capital gains and dividends received from overseas, an intermediate holding company resident in another territory could be used to defer this tax and perhaps take advantage of a more favorable tax treaty with Iceland. However, the purchaser should be aware that certain Icelandic treaties contain treaty shopping provisions that may restrict the ability to structure a deal in a way designed solely to obtain tax benefits. Iceland has tax treaties with about 40 countries (see full list later in the chapter).

Local branch

A non-resident company would normally carry on business in Iceland through an Icelandic corporation (subsidiary) or through a registered branch. The tax rate of the branch in Iceland depends on the corporate form of the headquarters.

If the headquarters are in a form corresponding to the form of limited liability companies in Iceland, the tax rate is 20 percent.

According to a recent tax authority interpretation, Icelandic branches of companies registered within the EEA, EFTA or Faroe Islands may benefit from the same deductions for received dividends and capital gains as Icelandic companies.

However, Icelandic branches cannot be consolidated with other Icelandic companies. This treatment may be a breach of the non-discrimination article in a relevant tax treaty and Iceland's obligation under the EEA agreement.

Joint venture

No special tax legislation applies to joint ventures.

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Choice of acquisition funding

A purchaser using an Icelandic acquisition vehicle to carry out an acquisition for cash needs to decide whether to fund the vehicle with debt, equity, or a hybrid instrument that combines the characteristics of both. The principles underlying these approaches are discussed below.

Debt

- Interest on loans assumed for the purpose of acquiring shares is deductible, provided the loans were taken for the purpose of providing, securing or maintain income in that company. The deduction is made on an accrual basis. Iceland has no specific thin capitalization rules.
- Companies must account for interest accrued and paid in the period to which it applies.
- Interest paid to non-residents is subject to withholding tax (WHT).
- Company law prohibits a company from lending or giving security for the purchase of its own shares or shares in its parent company.
- Where a loan is made between associated companies at below-market rate, a commercial rate of interest is imputed and the lender is subject to corporate tax on the difference.
- Gains or losses on receivables and debts in foreign currency must be converted into ISK and included in a company's taxable income.

Deductibility of interest

Usually, interest payments are deductible from the company's income base.

Where a loan is made between associated companies at below-market rate, a commercial rate (arm's length) of interest is imputed, the lender is subject to corporate tax on the difference.

Interest on loans assumed for the purpose of acquiring shares is not deductible where the acquiring company is merged into the acquired company, according to Supreme Judgment no. 555/2012. In such cases, the debt is not considered have been taken for the purpose of providing, securing or maintaining income in that company, so interest on the loans is not deductible.

Withholding tax on debt and methods to reduce or eliminate it

Payments of interest by an Icelandic company to a non-resident are subject to a 10-percent WHT rate, which may be reduced or eliminated under a tax treaty.

Checklist for debt funding

Interest payments may be subject to WHT. A tax treaty may reduce or eliminate such taxation. An application to the Internal Revenue must be made before any interest payment is made to benefit from a tax treaty. It is not necessary to apply each time a payment is made; one application per year is sufficient.

Equity

A purchaser may use equity to fund its acquisition.

Dividends paid from Icelandic companies to foreign shareholders are subject to WHT of 20 percent when paid to individuals and 18 percent in other cases. A tax treaty may reduce this rate. Where the parent company is a limited liability company within the EEA, capital gains from the sale of shares in Icelandic companies and dividends received from Icelandic companies can be fully deducted such that no tax liability arises.

Iceland does not levy stamp duty on debt or equity instruments.

Hybrids

The tax treatment of a financial instrument usually is determined by the instrument's substance rather than its form, based on a case-by-case analysis of the instrument's characteristics.

Redeemable preference shares are deemed to be equity where they are registered with the register of enterprises. The yield is taxed as dividends.

Convertible notes are regarded as loans until conversion. Payments made before conversion are taxed as interest. After conversion, the yield is taxed as dividends.

Discounted securities

Transactions involving securities between associated parties must be at fair market value.

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Other considerations

Concerns of the seller

Tax-exempt mergers cannot take place unless all merging companies are Icelandic or within EEA, EFTA or Faroe Islands and certain requirements are met, as discussed above.

For the shareholders, a non-tax-free merger is treated as a sale in the hands of the shareholder.

Company law and accounting

An Icelandic business enterprise may be organized as a limited liability company: either a public limited liability company (hf.) or a private limited liability company (ehf.). Icelandic corporate laws are largely based on EU directives.

Other business forms of used in Iceland are sole proprietorships, partnerships and co-operative societies. Partnerships can be registered as separate taxable entities; if so, they are subject to income tax (no net worth tax applies to companies in Iceland). Where the partnership is not so registered, each partner (which may be a limited liability company) is subject to tax on its respective profit. A cooperative society is also subject to income tax.

A common issue on transaction structuring arises from the provisions concerning financial assistance. Broadly, these provisions say that it is illegal for a limited liability company (or one of its subsidiaries) to give financial assistance, directly or indirectly, for the purpose of acquiring that company's shares. The scope of this prohibition in Icelandic corporate law is unclear.

Group relief/consolidation

Companies may opt for consolidated taxation where a company owns at least 90 percent of another company. Consolidated taxation means, among other things, that losses of one company can be offset against profits of other companies. Consolidated taxation cannot be extended to non-resident companies or permanent establishments of foreign companies.

Transfer pricing

The Icelandic Parliament recently approved a new provision regarding transfer pricing. Previously, a general anti-avoidance provision allowed the tax authorities to adjust prices of transactions where it could be demonstrated that the basis for that price was abnormal.

The new transfer pricing provision is based on the arm's length principle. Prices that are not in accordance with the principle may be adjusted using the transfer pricing guidelines issued by the OECD. The definition of 'related party' extends to direct or indirect majority ownership and/or control of legal entities, and to individuals that are considered related by family and/or financial ties.

Companies having over ISK1 billion in revenue or assets at the beginning of the year or at year-end must keep documentation about the nature and extent of transactions with related parties, the nature of the relationship and the basis of price decided. The documentation requirement refers to the guidelines issued by the OECD.

Dual residency

Under Icelandic tax law, an Icelandic-registered company is resident in Iceland and fully taxable in Iceland. Such a company may also be taxed as a resident of a foreign country where the foreign country uses the place of actual management criterion to determine residence. This criterion also applies under Icelandic tax law. If a tax treaty has been concluded with the country in question, the treaty normally defines the company as being resident in the country where the place of management is located.

Foreign investments of a local target company

Iceland has implemented a type of controlled foreign company (CFC) legislation into its tax law, effective for income earned in or after 2010. According to the legislation, where a non-resident company, fund, institution or other entity in a low-tax country is at least 50 percent owned or controlled, directly or indirectly, by resident taxpayers (corporate or individual), its profits, whether distributed or not, are attributed proportionately to its resident shareholders and taxed in the normal manner (corporate or individual income tax, respectively). For this legislation to apply, all that is needed is for the parties owning directly or indirectly 50 percent or more of the low-tax entity to be Icelandic tax residents. There is no need for the Icelandic parties to be related or connected in any way.

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The term 'low-tax country' is defined as a country where the general income tax rate on corporate profits is less than two-thirds of the Icelandic rate that would apply if the company were resident in Iceland.

This legislation does not apply where the controlled company, fund, institution or other entity is:

- resident in a treaty country that has a sufficient exchange of information article and its income is not mainly financial income
- resident and engaged in business activities in a country that is within the EEA and from which the Icelandic tax authorities are able to request all necessary information according to an international treaty.

Companies that fall under the CFC legislation could be subject to double taxation since the legislation does not take into account possible taxation of the foreign company.

The legislation states that the Minister of Finance has the authority to issue regulations on how the CFC legislation applies. The Ministry has published a list of what it considers low-tax countries covered by the CFC legislation (set out in an appendix to this chapter). However, the list is not exhaustive.

Comparison of asset and share purchases

Advantages of asset purchases

- A step-up in the cost base for tax purposes is obtained.
- No previous liabilities of the company are inherited.
- No acquisition of a tax liability on retained earnings.
- Possible to acquire only part of a business.
- Greater flexibility in funding options.
- Profitable operations can be absorbed by loss-making companies in the acquirer's group, thereby effectively gaining the ability to use the losses.

Disadvantages of asset purchases

- Possible need to renegotiate supply, employment and technology agreements, and change stationery.
- A higher capital outlay is usually involved (unless the debts of the business are also assumed).
- May be unattractive to the seller, thereby increasing the price.
- Accounting profits may be affected by the creation of acquisition goodwill.
- Benefit of any losses incurred by the target company remains with the seller.

Advantages of share purchases

- Lower capital outlay (purchase of net assets only).
- Likely to be more attractive to the seller, so the price is likely to be lower.
- Purchaser may benefit from tax losses of the target company.
- Purchaser may gain the benefit of existing supply or technology contracts.

Disadvantages of share purchases

- Purchaser acquires unrealized tax liabilities for depreciation recovery on the difference between market and tax book value of assets.
- No deduction for the purchase price or underlying goodwill.
- Less flexibility in funding options.
- Losses incurred by any companies in the acquirer's group in years prior to the acquisition of the target cannot be offset against any profits made by the target company.

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Iceland – Withholding tax rates

This table sets out reduced withholding tax rates that may be available for various types of payments to non-residents under Iceland's tax treaties. This chart is based on information available up to 1 March 2014.

Source: International Bureau of Fiscal Documentation, 2014

	Dividends		Interest[1] (%)	Royalties (%)
	Individuals, companies (%)	Qualifying companies[2] (%)		
Domestic Rates				
Companies:	18	0	0/10	20[3]
Individuals:	20	N/A	0/10	20
Treaty Rates				
Treaty with:				
Barbados	15	5	10	5
Belgium	15	5[4]	10	0
Canada	15	5	10	0/10[5]
China (People's Rep.)	10	5	10	10
Croatia	10	5	10	10
Czech Republic	15	5	0	10
Denmark[6]	15	0	0	0
Estonia	15	5	10	5/10[7]
Faroe Islands	15	0	0	0
Finland	15	0	0	0
France	15	5	0	0
Germany	15	5	0	0
Greece	15	5	8	10
Greenland	15	5	0	15
Hungary	10	5	0	10
India	10	10	10	10
Ireland	15	5	0	0/10[8]
Italy	15	5[9]	0	5
Korea (Rep.)	15	5	10	10
Latvia	15	5	10	5/10
Lithuania	15	5	10	5/10
Luxembourg	15	5	0	0
Malta	15	5	0	5
Mexico	15	5	10	10
Netherlands	15	0	0	0

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	Dividends		Interest[1] (%)	Royalties (%)
	Individuals, companies (%)	Qualifying companies[2] (%)		
Norway	15	0	0	0
Poland	15	5	0	10
Portugal	15	10	10	10
Romania	10	5	3	5
Russia	15	5	0	0
Slovak Republic	10	5	0	10
Slovenia	15	5	5	5
Spain	15	5	5	5
Sweden	15	0	0	0
Switzerland	15	5	0	0
Ukraine	15	5	10	10
United Kingdom	15	5	0	0
United States	15	5	0	0/5[10]
Vietnam	15	10	10	10

Notes:

1. Many treaties provide for an exemption for certain types of interest, e.g. interest paid to (or by) the state, local authorities, the central bank, export credit institutions or in relation to sales on credit. Such exemptions are not considered in this column.
2. Unless stated otherwise, the reduced treaty rates given in this column generally apply if the recipient company holds directly or indirectly at least 25 percent of the capital or the voting power, as the case may be, of the company distributing dividends, and meets the criterion of the minimum investment or value of the holding, if explicitly required.
3. Taxed at progressive rates.
4. The rate applies to corporate shareholders with a minimum ownership of 10 percent.
5. The lower rate applies to copyrights (except films, etc.), computer software, patents and know-how.
6. The Nordic Convention.
7. The lower rate applies to equipment leasing.
8. The lower rate applies to computer software, patents and know-how.
9. The rate applies if the Italian company has owned at least 10 percent of the capital in the Icelandic company for at least 12 months.
10. The higher rate applies to royalties for the use of trademarks, know-how in relation to a trademark, and films, etc.

Low-tax countries by definition

According to Iceland's CFC rules, the Minister of Finance is required to publish a list of countries that fall under the definition of a low-tax country and to which the CFC legislation applies. Countries currently on the list are as follows:

Anguilla
Antigua & Barbuda
Bahrain
Belize
Cooks Island
Dominica
Gibraltar
Grenada
Liechtenstein
Liberia
Maldives Islands
Marshall Islands
Montserrat
Nauru
Niue
Panama
Samoa
St. Lucia
Saint Kitts & Nevis
Saint Vincent and the Grenadines
Seychelles Islands
Tonga
Turks & Caicos Islands
Vanuatu

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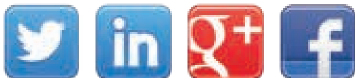

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Designed by Evalueserve.

Publication name: Iceland – Taxation of Cross-Border Mergers and Acquisitions

Publication number: 131036

Publication date: May 2014