KPMG

Taxation of international executives: Iceland

January 2025

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01

Overview and Introduction

1 Overview and Introduction

In Iceland, all employees are subject to state and municipal income taxes. Residents are also subject to contributions to the Construction Fund for the Elderly and a specific charge to the Icelandic National Broadcasting Service.

Residents are taxed on worldwide income but can apply for credit for taxes paid to other countries/jurisdictions. Non-residents are taxed on Icelandic-source income only.

Income earned in the 2024 calendar year is assessable in the 2025 taxation year. The official currency of Iceland is the Icelandic krona (ISK).

Herein, the host country/jurisdiction refers to the country/jurisdiction to which the employee is assigned. The home country/jurisdiction refers to the country/jurisdiction where the assignee lives when they are not on assignment.

02

Income tax

2 Income Tax

2.1 Tax Returns and Compliance

When are tax returns due? That is, what is the tax return due date?

Each year, the Internal Revenue Directorate annually decides the last day of filing individual income tax returns. For the 2025 tax return (income year 2024), the tax return is due 14 March 2025.

What is the tax year-end?

31 December.

What are the compliance requirements for tax returns in Iceland?

Residents and non-residents

At the beginning of each year, the Director of Internal Revenue determines when tax returns are to be filed (traditionally it is at the end of March). Payment for taxes on employment income, benefits, or presumptive wages takes place through monthly payroll withholding at source (that is Pay-As-You-Earn (PAYE) system). The taxpayer, on their own initiative, must pay tax due on investment or business income by 31 January immediately following the tax year-end. An actual tax assessment should be issued by 31 May of the year following the tax year-end.

2.2 Tax rates

What are the current income tax rates for residents and non-residents in Iceland?

Residents and non-residents

Salary income is taxed as follows.

Income tax table for 2025, in Icelandic krona (ISK)

Taxable income bracket		Tax rate on income in bracket
From ISK	**To ISK**	**Percent***
0	5,664,060	31.49**
5,664,060	15,901,524	37.99
15,901,524	Over	46.29

Withholding tax for income earned in 2025 is as follows.

	Percent
National tax	16.55, 23.05 and 31.35
Municipal tax (12.44% - 14.97%)	14.94
Total	31.49 - 46.29

There is a progressive tax rate schedule.

* Based on average municipal income tax.

** It is allowed to deduct ISK 824,288 per year (personal tax credit) from the income tax, which equals to non-taxation on the first ISK 2,617,618. The personal tax credit is in proportion to the residence time in Iceland.

Non-residents

Remuneration of non-residents for managerial, accounting, or committee work, is subject to a national tax rate of 20 percent. In addition, a municipal tax of average 14.94 percent is levied (20 percent + 14.94 percent = 34.94 percent).

Pensions received from Iceland by non-residents are taxed in brackets, such as 16.55 – 31.35 percent national income tax plus 14.94 percent average municipal tax.

Entertainers and those without a fixed salary pay income tax at 20 percent plus the 14.94 percent municipal tax on earnings but are not able to claim any deductions and can in lieu thereof enjoy the revenues from such activity.

2.3 Residence rules

For the purposes of taxation, how is an individual defined as a resident of Iceland?

A resident is defined as an individual who is domiciled in Iceland or is staying in Iceland for a period exceeding 183 days during any 12-month period.

Is there, a de minimus number of days rule when it comes to residency start and end date? For example, a taxpayer can't come back to the host country/jurisdiction for more than 10 days after their assignment is over and they repatriate.

As a general principle, any individual who stays in Iceland for 183 days or longer during any 12-month period is considered a resident from the date of arrival. Resident individuals are subject to unlimited tax liability in Iceland on all their income, wherever earned. The tax liability ends as soon as the individual leaves Iceland. However, former residents, on the grounds of domicile, remain subject to unlimited tax liability for 3 years after leaving the country/jurisdiction unless they prove that they have become subject to taxation in another country/jurisdiction.

Non-resident individuals staying temporarily in Iceland (for 183 days or less), 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 are residents. The annual personal tax credit may be applied in proportion. Non-resident individuals staying temporarily in Iceland are also subject to municipal income tax in the same manner as residents. Other non-resident individuals are subject to national income tax and the municipal income tax on their income from Iceland.

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 percent plus the municipal income tax rate. Artists performing independently are taxed by assessment at a rate of 20 percent of their receipts.

2.4 Termination of residence

Are there any tax compliance requirements when leaving Iceland?

No special rules apply.

What if the assignee enters the country/jurisdiction before their assignment begins?

The 183 days start counting on the first day of arrival.

What if the assignee comes back for a trip after residency has terminated?

If the assignee comes back for a trip after their residency has been terminated their days spent in Iceland during their trip will not count. If the assignee leaves the country/jurisdiction for holidays and enters the country/jurisdiction again because of their assignment the days abroad are counted as days spent in Iceland.

Communication between immigration and taxation authorities

Do the immigration authorities in Iceland provide information to the local taxation authorities regarding when a person enters or leaves Iceland?

Icelandic local tax authorities have the right to obtain information from the immigration authorities.

Filing requirements

Will an assignee have a filing requirement in the host country/jurisdiction after they leave the country/jurisdiction and repatriate?

The assignee must file a tax return if they have received any income in the tax year in Iceland or if they own any real estate in Iceland.

2.5 Economic employer approach

Do the taxation authorities in Iceland adopt the economic employer approach to interpreting Article 15 of the Organisation for Economic Co-operation and Development (OECD) treaty? If no, are the taxation authorities in Iceland considering the adoption of this interpretation of economic employer in the future?

The Icelandic taxation authorities use the economic employer approach.

De minimus number of days

Are there a de minimus number of days2 before the local taxation authorities will apply the economic employer approach? If yes, what is the de minimus number of days?

The economic employer approach is neither clear nor developed in Iceland.

2.6 Types of taxable compensation

What categories are subject to income tax in general situations?

As a rule, it can be stated that all types of compensation and benefits received by an employee for services rendered constitute taxable income regardless of where paid. Typical items of an expatriate compensation package, which are fully taxable, include the following:

- salary payments
- bonus payments
- school tuition reimbursements for children
- provision of a car from the employer
- cost-of-living allowances
- housing allowances and housing provided
- employer’s contributions to a pension plan

- provision of domestic assistance
- reimbursement of moving expenses
- the benefit of loans at reduced or zero interest rates provided by the employer
- round sum expenses allowances
- home leave.

Intra-group statutory directors

Will a non-resident of Iceland who, as part of their employment within a group company, is also appointed as a statutory director (i.e. member of the Board of Directors in a group company situated in Iceland) trigger a personal tax liability in Iceland, even though no separate director's fee/remuneration is paid for their duties as a board member?

Generally, if no director's fee/remuneration is paid from the group company situated in Iceland to a member of the Board of Directors for their duties as board members then no personal tax liability exists in Iceland.

If part of the fee/remuneration a member of the Board of Directors of the group company situated in Iceland receives can be related to the Directors role as a board member it may trigger a personal tax liability in Iceland.

Will the taxation be triggered irrespective of whether or not the board member is physically present at the board meetings in Iceland?

N/A

Will the answer be different if the cost directly or indirectly is charged to/allocated to the company situated in Iceland (i.e. as a general management fee where the duties rendered as a board member is included)?

In general, director's fees are considered as personal income for the board member in question.

If the cost is directly or indirectly charged to/allocated to the company situated in Iceland taxation might be triggered.

In the case that a tax liability is triggered, how will the taxable income be determined?

The taxable income will be determined as the director's fee decided on the annual general meeting.

2.7 Tax-exempt income

Are there any areas of income that are exempt from taxation in Iceland? If so, please provide a general definition of these areas.

These are the most significant items of compensation that are tax- exempt in Iceland (Article 28 in the Icelandic tax law).

- Assets increase because of heritage, prepayment of heritage and legacy, that is, if inheritance tax has been paid. This does not apply to the part of social security savings that the inheritor gets according to the laws about mandatory insurance of pension rights and operation of pension funds.
- Assets increase because of life insurance payment, death compensation, harm compensation, and compensation for permanent invalidity that is if this compensation is decided and paid only once. Also damages and insurance benefits paid because of damages to assets that are not used for professional reasons. There are some exemptions from that rule.

2.8 Expatriate concessions

Are there any concessions made for expatriates in Iceland?

Foreign specialists employed by an Icelandic entity are only subject to an income tax of 75 percent of their income for services performed in Iceland for the first 3 years as 25 percent of the foreign specialist's income for services rendered in Iceland is exempt from income and withholding tax, subject to further conditions.

Once an application has been approved, tax is withheld from 75 percent of the income. Calculations for Social security tax, contributions to pension funds, child benefits and private housing interest subsidy are based on total income.

An employee is a foreign expert if the following conditions are met:

- they have not been resident or stayed continually in Iceland at any time during the 5 calendar years prior to the calendar year in which employment starts.
- their area of expertise is limited or non-existent in Iceland.

The rule is only applicable if the foreign expert:

- is employed by a legal entity that is domiciled in Iceland or is a foreign company with a permanent establishment in Iceland; and
- is hired for work that requires special expertise or level of skill which is very limited or non- existent in Iceland; and
- is hired for work that relates to professional research, development and/or innovation, teaching or it relates to specialized tasks; or
- works in management or project management or their work relates to projects that are core components of their employer's business.

A special committee appointed by the Ministry of Finance and Economic Affairs evaluates whether the conditions are met. The application shall be submitted to the committee no later than 3 months from the date when the employee began work in this country/jurisdiction.

2.9 Salary earned from working abroad

Is salary earned from working abroad taxed in Iceland? If so, how?

If an individual is a non-resident of Iceland, the salary payments for working abroad are not taxable in Iceland. Icelandic residents are taxable on worldwide income and hence their salaries from working abroad are fully taxable.

2.10 Taxation of investment income and capital gains

Are investment income and capital gains taxed in Iceland? If so, how?

Investment income and capital gains of Icelandic residents (individuals) are subject to Category C taxation in Iceland taxed at the rate of 22 percent.

Interest income, dividend from listed shares and sales profit from listed shares lower than ISK 300,000 per year is not taxed. For married couples, a double threshold applies.

Only 50 percent of residential properties long term rental income is taxed by 22 percent. The remaining 50 percent of the rental income will not be taxed.

Dividends, interest, and rental income

Dividends, Interest and Rental Income are subject to Category C taxation in Iceland. Special rules apply for non-tax residents in Iceland.

Gains from stock option exercises

Residency status	Taxable at:		
	Grant	Vest	Exercise
Resident	N	N	N
Non-resident	N	N	N
Other (if applicable)	N	N	N

Gains from stock option exercises are taxed upon sale.

Foreign exchange gains and losses

Icelandic tax-residents are taxed in Iceland on foreign exchange gains. Losses can be deducted from gain within the same account in the same year before the tax is calculated. The Income is subject to Category C.

Principal residence gains and losses

Gains from the sale of privately-owned immovable property are included in taxable investment income (Category C) and taxed at the rate of 22 percent (by assessment). Losses on the sale of such property is generally not deductible; however, they may be deducted from gains made on the sale of similar property in the same year.

Gains from the sale of a private residence are tax-free if the taxpayer has owned the residence for at least 2 years and its size is within certain limits. If the taxpayer has owned such a residence for less than 2 years, the gains may be rolled over through a reduction in the acquisition cost of another residence. Taxation of such gains may be deferred for 2 years.

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

Capital losses

Different type of rules applies to capital losses depending on the type of capital losses.

Personal use items

The main principal is that the right of use is taxed on marked price. There are exemptions from this main principal.

Gifts

There is no special gift tax in Iceland. However, gifts are taxable as income in accordance with general principles. Gifts given on particular occasions may be exempt if their value does not exceed what is normal in the circumstances.

2.11 Additional capital gains tax (CGT) issues and exceptions

Are there additional capital gains tax (CGT) issues in Iceland? If so, please discuss?

There are no additional capital gains tax issues in Iceland.

2.12 General deductions from income

What are the general deductions from income allowed in Iceland?

Among items of expenditure which may be deducted from taxable income are pension contributions.

There is no system of personal allowances, but tax credits are available. Each resident taxpayer is entitled to a personal tax credit, which is deducted from their computed income tax. For the income year 2025, the amount of the credit is ISK 824,288.

No allowances or credits are given based on dependent children. However, child benefit, which is payable by the state treasury to parents, is not taxable.

2.13 Tax reimbursement methods

What are the tax reimbursement methods generally used by employers in Iceland?

A gross-up is required in the year of departure.

2.14 Calculation of estimates/ prepayments/ withholding

How are estimates/prepayments/withholding of tax handled in Iceland? For example, pay-As- You-Earn (PAYE), Pay-As-You-Go (PAYG), and so on.

Tax is handled in Iceland as Pay-As-You-Earn (PAYE).

Employer is responsible to withhold taxes, but the employee is responsible for the payment.

Pay-as-you-go (PAYG) withholding

All foreign citizens and stateless individuals, who have residences permit in Iceland for specific time, are obligated to file tax returns, before leaving the country/jurisdiction.

When are estimates/prepayments/withholding of tax due in Iceland? For example: monthly, annually, both, and so on.

The employer withholds taxes at the end of each month from the employee's salary and reports the income to the Icelandic tax authorities every month.

Individuals do not have to prepay any taxes in Iceland.

2.15 Relief for foreign taxes

Is there any Relief for Foreign Taxes in Iceland? For example, a foreign tax credit (FTC) system, double taxation treaties, and so on?

Relief from double taxation is granted in the form of a foreign tax credit. Foreign tax paid on foreign-source income may be credited against national and municipal income taxes. The credit is limited to the amount of Icelandic tax attributable to the foreign income. Double taxation treaties may provide for exemption in lieu of credit relief. If there are double taxation treaties, then it is possible to apply for a relief for foreign taxes.

2.16 General tax credits

What are the general tax credits that may be claimed in Iceland? Please list below.

Payments to an obligatory pension fund up to 4 percent and payment to an alternative pension fund up to 4 percent are deductible from the total employment income tax base (Category A).

All individual taxpayers are entitled to a personal tax credit against the national income tax from all income categories. This credit amounts to ISK 824,288 for the income year 2025. If the credit is higher than the tax, the excess will be applied by the State Treasury to settle the municipal tax payable. Any part of a single person's credit remaining thereafter will be cancelled.

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

According to Article 65 of the Icelandic tax law, credits can by claimed against the taxpayer's tax base (the municipal tax base is lower by the same amount).

Credits can be made because of the following:

- death of a spouse
- illness, accident, and more
- child's illness
- child's disability
- support of family
- property losses
- lost claims.

Taxpayers can also apply for tax concession, according to the same Article, if the taxpayer is supporting its child over the age of 16 that is studying or does not have enough income to support itself. The highest reduction on the taxpayers' tax base for 2024 is ISK 527,000, that is, if the child had no income. From this amount, one-third is deducted from the child's income, so when the income is ISK1,581,000 the right to apply for tax concession is not applicable.

It is also allowed to deduct expenses from an adoption grant. The total amount that is deductible is the amount of the adoption grant.

2.17 Sample tax calculation

This calculation assumes a married taxpayer resident in Iceland with two children whose 3- year assignment begins 1 January 2023 and ends 31 December 2025. The taxpayer's base salary is 100,000 US dollars (USD) and the calculation covers 3 years.

	2023 USD	2024 USD	2025 USD
Salary	100,000	100,000	100,000
Bonus	20,000	20,000	20,000
Cost-of-living allowance	10,000	10,000	10,000
Housing allowance	12,000	12,000	12,000

Company car	6,000	6,000	6,000
Moving expense reimbursement	20,000	0	20,000
Home leave	0	5,000	0
Education allowance	3,000	3,000	3,000
Interest income from non-local sources	6,000	6,000	6,000

Exchange rate used for calculation: USD1.00 = ISK 138.2.

Other assumptions

- All earned income is attributable to local sources.
- Bonuses are paid at the end of each tax year and accrue evenly throughout the year. Interest income is not remitted to Iceland.
- The company car is used for business and private purposes and originally cost USD 50,000. The employee is deemed resident throughout the assignment.
- Tax treaties and totalization agreements are ignored for the purpose of this calculation.

Calculation of taxable income[1]

Year ended	2022	2023	2024
	ISK	ISK	ISK
Days in Iceland during the year	365	365	365
Earned income subject to income tax:			
Salary	13,820,000	13,820,000	13,820,000
Bonus	2,764,000	2,764,000	2,764,000
Cost-of-living allowance	1,382,000	1,382,000	1,382,000
Housing allowance	1,658,400	1,658,400	1,658,400
Company car	1,934,800	1,934,800	1,934,800
Moving expense reimbursement	2,764,000	0	2,764,000
Home leave	0	691,000	0
Education allowance	414,600	414,600	414,600
Pension fund contribution 4 percent	-845,784	-762,864	-845,784
Personal income	23,892,016	21,901,936	23,892,016
Interest income from non-local sources	829,200	829,200	829,200
Total taxable income	24,721,216	22,731,136	24,721,216

[1] Sample calculation generated by KPMG ehf, a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee, based on Act no. 90/2003, on Income Tax and Capital Tax, as amended.

Calculation of tax liability

	2022	2023	2024
	ISK	ISK	ISK
Taxable income as above	24,721,216	22,731,136	24,721,216
Iceland tax thereon	9,050,303	7,944,051	8,729,760
Less:			
Spouses personal tax credit**	715,981	779,112	824,288
Foreign tax credits	0	0	0
Total Iceland tax	8,334,322	7,164,939	7,905,472

* Benefits from having a company car are calculated as 28 percent of the cars value.

** If the spouse does not have any income the taxpayer can use the spouse's personal tax credit.

Footnotes

[1]Certain tax authorities adopt an "economic employer" approach to interpreting Article 15 of the OECD model treaty which deals with the Dependent Services Article. In summary, this means that if an employee is assigned to work for an entity in the host country/jurisdiction for a period of less than 183 days in the fiscal year (or a calendar year of a 12-month period), the employee remains employed by the home country/jurisdiction employer but the employee's salary and costs are recharged to the host entity, then the host country/jurisdiction tax authority will treat the host entity as being the "economic employer" and therefore the employer for the purposes of interpreting Article 15. In this case, Article 15 relief would be denied, and the employee would be subject to tax in the host country/jurisdiction.

[2]For example, an employee can be physically present in the country/jurisdiction for up to 60 days before the tax authorities will apply the 'economic employer' approach.

03

Special considerations for short term assignments

3 Special considerations for short-term assignments

For the purposes of this publication, a short-term assignment is defined as an assignment that lasts for less than 1 year.

3.1 Residency Rules

Are there special residency considerations for short-term assignments?

Short stays abroad for leisure or holiday will not be considered as an interruption of the 6-month period, whereas working abroad will.

3.2 Payroll considerations

Are there special payroll considerations for short-term assignments?

There are no special payroll considerations for short-term assignments.

3.3 Taxable income

What income will be taxed during short-term assignments?

The basic principle is that all income sourced in Iceland will be taxed in Iceland unless there is a relevant exemption in a double taxation convention.

3.4 Additional considerations

Are there any additional considerations that should be considered before initiating a short-term assignment in Iceland?

The assignee might have to get residence permit, working permit, and be registered at the directorate of labor.

04

Other taxes and levies

4 Other taxes and levies

4.1 Social security tax

Are there social security/social insurance taxes in Iceland? If so, what are the rates for employers and employees?

Employer and employee

Type of insurance	Paid by employer	Paid by employee	Total
Social security contribution	6.35%	0.00%	6. 35%

An additional 0.65 percent is payable by employer with respect to seamen. The Social Security contribution is paid by the employer, not by the employee. In addition, employers must pay at least 11.5 percent of gross salaries into an obligatory pension fund (and if the employee pays into an alternative pension fund the employer has to pay extra 2 percent to the alternative pension fund).

Employees having a foreign A1 certificate do not have to pay the social security contribution. Their employers do have to pay 0.425 percent of their income to the Bankruptcy Fund.

Employees must pay 4 percent pension fee into the obligatory pension fee and can pay up to 4 percent to an alternative pension fund.

Contributions are payable no later than the 14th of the month following the month in which the contributions are due. They must be made on behalf of all foreign employees.

Iceland has signed some totalization agreements.

4.2 Gift, wealth, estate, and/or inheritance tax

Are there any gift, wealth, estate, and/or inheritance taxes in Iceland?

There is no wealth tax in Iceland.

Icelandic inheritance tax is payable, provided the deceased was domiciled in Iceland at the time of death. The rate is 10 percent of the estate exceeding ISK 6,498,129.

Gifts are taxable as income. However, gifts made for a special occasion may be exempted, unless they are of an extraordinary value.

4.3 Real estate tax

Are there real estate taxes in Iceland?

Municipalities levy a real estate tax on the estimated value of immovable property, based on the size, and so on. The amount of tax varies, depending on the municipality.

4.4 Sales/VAT tax

Are there sales and/or value-added taxes in Iceland?

The standard VAT rate is 24 percent.

A reduced rate of 11 percent applies to the supply of the following goods and services:

- hotel rooms, rooms in guest houses, and other accommodations, as well as campground facilities
- newspapers, magazines, and periodicals (local or national)
- books and audio books, whether written by Icelandic authors or translated
- license fees for the use of radio and television broadcasting services
- warm water, electricity, and fuel oil used for the heating of houses and swimming pools
- food for human consumption and services
- road tolls.

4.5 Unemployment tax

Are there unemployment taxes in Iceland?

The unemployment taxes are included in the social security contribution paid by employer.

4.6 Other taxes

Are there additional taxes in Iceland that may be relevant to the general assignee? For example, customs tax, excise tax, stamp tax, and so on.

Local taxes

Local taxes[2]: All taxpayers between the ages of 16 and 69 years of age, with a taxable base of at least ISK2,474,942 in 2024 must make a fee fixed at ISK14,093 to the Senior Citizen's Construction Fund at assessment year 2025 (income year 2024) and a fee to the Icelandic national broadcasting service fixed at ISK21,400 at assessment year 2025 (income year 2024).

Foreign Financial Assets

Is there a requirement to declare/report offshore assets (e.g., foreign financial accounts, securities) to the country/jurisdiction's fiscal or banking authorities?

Yes.

FOOTNOTES

[2]Act no. 82/1989, on the Affairs of Senior Citizens.

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