

## Iceland Snapshot

### Basic facts

<b>Population</b>	296,737	<b>Inflation</b>	3.2% (2004)*
<b>Main languages</b>	Icelandic, English	<b>GDP per head</b>	US\$41,682 (2004)*
<b>Currency</b>	Iceland krona (ISK)	<b>GDP growth</b>	5.2% (2004)*
<b>Economic communities</b>	European Economic Area, European Free Trade Association, OECD, WTO		
<b>GDP sources</b>	12.4% agriculture, 21.9% industry, 65.7% services		
*Economist Intelligence Unit estimate.			

### Political environment

Iceland is a parliamentary republic in which the parliament (Althing) holds legislative power. The government is led by a prime minister selected on the basis of the party composition of parliament and formally named by the president. The present government is a coalition between the centre-right Independence Party and the centrist Progressive Party.

The current prime minister, Halldor Asgrimsson, has held office since 2004. The presidency is largely ceremonial, with limited powers. The current president, Olafur Ragnar Grimsson, was first elected in 1996, and then re-elected for a third term in 2004.

The next elections will be held in May 2007 (legislative) and June 2008 (presidential).

### Foreign trade and investment

<b>Exports</b>	US\$2.9bn (2004)*	<b>Imports</b>	US\$3.4bn (2004)*
*Economist Intelligence Unit estimate.			

Leading export markets: the UK, Germany and the Netherlands.

Major exports: Marine products and manufacturing products.

The government encourages foreign investment to diversify from marine products, particularly in energy-intensive industries that can take advantage of Iceland's abundant energy resources.

### Business and financing

<b>Business forms</b>	Public limited company, private limited company
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The most common and economically important type of business in Iceland is the limited company. Other business vehicles are partnerships, co-operative societies, businesses run by the self-employed and branches of foreign limited companies.

## Labour environment

<b>Unemployment rate</b>	3.1% (2004)*	<b>Minimum wage</b>	None
*Economist Intelligence Unit estimate.			

Iceland is a member of the European Economic Area (EEA) and therefore incorporates all EU employment and social directives into its laws.

The workforce is heavily unionised. Although a minimum wage is not stipulated by law, a minimum wage for each position is determined by agreement made by each trade union with the employers' representatives. Salaries are negotiated on an individual "market wage" basis under these many union contracts.

## Taxation

### Corporate tax

<b>Main rate</b>	18%
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Resident companies pay tax on their worldwide income; non-resident companies are taxed on income sourced in Iceland only. Companies are resident in Iceland if they are registered with the company registry. The rate of tax is 18%, with a lower 5% rate for international trading companies (ITCs). The ITC regime is, however, repealed from 2008 and no new licences are being granted. Partnerships registered as taxable entities pay tax at 26%. Resident companies are allowed a tax deduction for dividends received from other resident companies. Capital gains are included in taxable income; deferment of tax due is possible in some cases.

### Individual tax

<b>Main rate</b>	24.75%
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Resident individuals are taxed on their worldwide income; non-residents are taxed on their income sourced in Iceland only. A person is considered to be resident for tax purposes if staying in Iceland for six months or more. The income-tax rate on income other than investment income is 24.75%. Investment income is taxed at a flat rate of 10%. Non-business capital gains of individuals are taxed as investment income.

### Capital gains

Business gains taxed as income
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Capital gains of companies are taxed as income; deferment of tax due is possible in certain cases. Rollover relief is possible for gains of companies on the sale of shares. Gains of individuals on non-business property are taxed as investment income; gains on business property are included in business income, with provision for rollover relief where applicable. Gains on the sale of a private residence are generally exempt if the property has been owned for more than two years. Gains of individuals on shares are taxed as investment income.

### Indirect tax

<b>VAT standard rate</b>	24.5%	<b>Lower rate</b>	14%
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Registration for value-added tax (VAT) is compulsory for businesses, including representatives of foreign enterprises. VAT applies to most transactions at the 24.5% standard rate. Exports are zero-rated. A lower rate of 14% applies to certain foodstuffs, hotel accommodation, books and newspapers, and warm water, electricity and fuel oil used in domestic heating. Exemptions include medical services, insurance and a number of financial services. Non-residents without a fixed place of business in Iceland must appoint a local VAT representative.

### Tax administration and compliance

<b>Tax year</b>	Companies: calendar year; Individuals: calendar year
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Companies must make monthly advance tax payments, computed on the basis of the previous year's assessment. The tax return is due by May 28th following the end of the tax year. An assessment is raised by October 31st, and final tax due may be paid by further monthly instalments. Employment income of individuals is taxed by withholding. Individual tax returns must be filed by a notified date, generally between two and three months after the end of the tax year. Tax is collected by an assessment that is raised by July 31st following the tax year.

### Additional tax information

<b>Withholding taxes</b>	Dividends 15%, Interest 0%, Royalties are taxed at normal corporate or income-tax rates.
<b>Tax treaties</b>	Iceland has concluded more than 25 double-tax treaties.
<b>Dividends</b>	Dividends are taxable on individuals at a 10% rate.
<b>Revenue protection</b>	There are transfer-pricing rules but no anti-haven (CFC) rules.
<b>Groups</b>	Group consolidation is possible for 90% groups.
<b>Incentives</b>	International trading companies.
<b>Other taxes</b>	Customs duties, Inheritance tax, Local income tax, Net wealth tax, Net worth tax, Real-estate tax.

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