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Iceland

DOING BUSINESS IN

Contributor

Réttur – Adalsteinsson & Partners



Sigurður Örn Hilmarsson

Managing Partner | sigurdur@rettur.is

Stefán Örn Stefánsson

Senior Associate | stefan@rettur.is

This country-specific Q&A provides an overview of doing business in laws and regulations applicable in Iceland.

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DOING BUSINESS IN



1. Is the system of law in your jurisdiction based on civil law, common law or something else?

Civil law.

2. What are the different types of vehicle / legal forms through which people carry on business in your jurisdiction?

Different types of vehicles through which persons carry on business through in Iceland include, inter alia, private- and public limited companies, limited- and unlimited partnerships, co-operative societies, associations, foundations, branches of foreign limited liability companies and sole proprietorships. Each type offers distinct advantages and disadvantages in terms of liability, taxation, and administrative requirements.

3. Can non-domestic entities carry on business directly in your jurisdiction, i.e., without having to incorporate or register an entity?

Non-domestic entities can carry on business directly in Iceland without necessarily incorporating or registering an entity. Non-domestic entities must however comply with relevant trade regulations, taxation requirements, and any licensing or permits necessary to conduct business in specific industries. Specific rules may vary depending on factors such as the nature of business, industry sector, and any bilateral agreements or international treaties in place between Iceland and other countries.

4. Are there any capital requirements to consider when establishing different entity types?

Capital requirements vary based on entity type in Iceland. Private limited companies require ISK 500,000

minimum share capital, while public limited companies and partnerships limited by shares require ISK 4,000,000. Foundations which conduct business activities require ISK 1,000,000. Other entity types generally do not require any specific minimum capital.

5. How are the different types of vehicle established in your jurisdiction? And which is the most common entity / branch for investors to utilise?

Most entities in Iceland are established by required incorporation documents as set out by relevant laws and require registration with the Icelandic Register of Enterprises, inter alia, private- and public limited companies, partnerships, cooperative societies, foundations which conduct business activities and associations operated for the public good with cross-border activities. Branches are established by registration with the Register of Enterprises. Registration is voluntary for most other entity types. The most common legal form in Iceland is a private limited company, offering limited liability and straightforward establishment procedures.

6. How is the entity operated and managed, i.e., directors, officers or others? And how do they make decisions?

In Icelandic private- or public limited companies, operations and management are typically overseen by the board of directors appointed by their shareholders. The board of directors pass its resolutions in board meetings. The board of directors of a private limited company are authorised to and public limited companies are required to appoint managers to handle day-to-day affairs and ensure compliance with legal obligations. Decision-making in such entities often involves shareholder meetings where resolutions are passed on a collective basis, depending on the company's articles of association and relevant laws. Sole shareholder private limited companies do not require specific meetings, such

entities solely require sole shareholder resolutions.

7. Are there general requirements or restrictions relating to the appointment of (a) authorised representatives / directors or (b) shareholders, such as a requirement for a certain number, or local residency or nationality?

General requirements for appointing authorized representatives or directors of public- and private limited companies include being of legal age, having legal capacity, and not being disqualified due to applicable criminal convictions. At least half of the directors must reside in Iceland or be residents and citizens of any other EEA, EFTA or OECD country or the Faroe Islands. An exemption can be granted from the nationality/residency restrictions. In general, shareholders are not subject to nationality- or residency requirements.

Private limited companies require a minimum of one shareholder and one director (and one alternate) if it has four shareholders or fewer, otherwise, the minimum requirement is three directors. Public limited companies require a minimum of two shareholders, three directors and one manager. For both entity types, certain gender requirements are also applicable in some instances.

8. Apart from the creation of an entity or establishment, what other possibilities are there for expanding business operations in your jurisdiction? Can one work with trade /commercial agents, resellers and are there any specific rules to be observed?

There are, in principle, no restrictions for expanding business operations in Iceland, cf. however foreign direct investment restrictions discussed below. Expanding business operations in Iceland beyond entity creation includes registration of a branch of foreign limited company and working with trade/commercial agents or resellers. Specific rules govern agency agreements, ensuring compliance with Icelandic law and protecting parties' rights. Business operations of foreign companies in Iceland (without creation of entity) may lead to the creation of a permanent establishment from a tax perspective.

9. Are there any corporate governance codes or equivalent for privately owned companies or groups of companies? If so,

please provide a summary of the main provisions and how they apply.

Privately owned companies or groups of companies are generally not subject to corporate governance codes in Iceland, although the board of directors of private- and public limited companies are required by law to implement its own rules of procedure which the board shall generally adhere to. Public-interest entities (e.g. entities listed on a regulated market (Nasdaq Iceland), pension funds, credit institutions and insurance companies) are required to adhere to the Icelandic Corporate Governance Code (ICGC), issued by the Iceland Chamber of Commerce. Key provisions include board composition, director independence, audit committee requirements, and disclosure of financial information.

10. What are the options available when looking to provide the entity with working capital? i.e., capital injection, loans etc.

Options for providing working capital to Icelandic private- or public limited companies include, inter alia, share capital increases, loans (including convertibles), trade credit, factoring, and government grants. These methods offer flexibility in accessing funds while considering factors like debt versus equity, cost of capital, and regulatory compliance. Legal and regulatory requirements may apply to certain financing methods requiring careful consideration and compliance.

11. What are the processes for returning proceeds from entities? i.e., dividends, returns of capital, loans etc.

Proceeds from Icelandic private- or public limited companies can be returned through dividends, subject to shareholder(s) approval of board's proposal and provided that certain other requirements of law are met. Loan repayments generally follow terms specified in loan agreements. Share buybacks which enable companies to purchase shares from shareholders are possible but subject to limitations as prescribed by relevant laws. Each process involves adherence to legal and regulatory requirements.

12. Are specific voting requirements / percentages required for specific decisions?

Specific voting requirements or percentages required for specific decisions in respect to Icelandic private- or

public limited companies are laid down in company's articles, Icelandic company law or shareholders' agreements. Key voting thresholds include simple majority decisions, qualified majority decisions, 90% decisions and unanimous decisions. Simple majority decisions require approval of more than 50% of shareholders present or represented at a shareholders' meeting. Qualified majority decisions are for certain matters, inter alia, amendments to the articles of association or issue of new shares and require approval of shareholders controlling at least 2/3 of the votes at a shareholders' meeting. In general terms, the 90% and unanimous thresholds apply to exceptional decisions which may adversely affect the rights of all or some shareholders.

13. Are shareholders authorised to issue binding instructions to the management? Are these rules the same for all entities? What are the consequences and limitations?

In Icelandic private- or public limited companies, shareholders pass their resolutions at shareholders' meetings. While shareholders have the authority to appoint and remove directors at shareholders' meetings, issuing binding instructions to management primarily falls under the purview of the board of directors, not individual shareholders. The rules regarding shareholder instructions may vary depending on a company's articles of association and governance structure. However, shareholders typically exercise their influence indirectly through the election of directors and approval of key decisions at shareholders' meetings.

14. What are the core employment law protection rules in your country (e.g., discrimination, minimum wage, dismissal etc.)?

Iceland has comprehensive employment laws aimed at protecting workers' rights. Minimum wage in Iceland is relatively high compared to most other countries and is determined by applicable collective agreements. Maximum working hours may vary between sectors, but the standard workweek is approx. between 35.5 and 38.75 hours. Minimum annual leave is 24 days (two days for each month worked). Icelandic law prohibits discrimination based on gender, age, disability, religion, sexual orientation, political opinion, ethnic origin, or other factors. Icelandic law also provides extensive parental leave rights where parents are in general entitled to 12 months of paid leave. Dismissal notice

periods vary, but after 6 months of employment, an employee is entitled to a 3-month dismissal period, otherwise, reference is made to response to question 15 below. These are just some of the core employment law protections in Iceland, and the specifics may vary based on relevant laws and factors such as industry, employment terms, and collective agreements.

15. On what basis can an employee be dismissed in your country, what process must be followed and what are the associated costs? Does this differ for collective dismissals and if so, how?

In Iceland, termination of employment for employees of privately owned companies generally does not necessitate a specific reason, although dismissals based on unlawful grounds or which do not adhere to applicable dismissal procedures or respect applicable employment- or collective agreement terms, may lead to employer's liability. Employment agreements are typically indefinite, with dismissal subject to a notice period and severance pay as stipulated in the relevant collective agreement. Certain categories of workers are protected against dismissal by their employers, e.g. dismissals due to parental leave or birth, cf. the Icelandic Act on Maternity and Parental Leave, and dismissals based on gender, cf. the Act on Equal Status and Equal Rights Irrespective of Gender. The dismissal process typically involves providing written notice, a specific reason, and, in most cases, offering notice and severance pay, which may vary depending on factors like length of employment and other accumulated rights, as per applicable employment- and collective agreement terms.

Collective dismissals are governed by the Icelandic Act on Collective Dismissals and require additional procedures, including consultations with employee representatives and notification to the Icelandic Directorate of Labor.

16. Does your jurisdiction have a system of employee representation / participation (e.g., works councils, co-determined supervisory boards, trade unions etc.)? Are there entities which are exempt from the corresponding regulations?

In Iceland, trade unions play a significant role in representing workers' interests and negotiating collective agreements with employers/employer organizations. The trade unions advocate for better

working conditions, wages, and benefits on behalf of their members. In some workplaces, particularly larger ones, works councils may exist. Some industries or sectors may have specific regulations or exemptions regarding employee representation, but overall, the Icelandic legal framework emphasizes the importance of employee participation and representation in the workplace.

17. Is there a system governing anti-bribery or anti-corruption or similar? Does this system extend to nondomestic constellations, i.e., have extraterritorial reach?

Iceland has anti-bribery and anti-corruption rules under its General Penal Code, as well as the Icelandic Act on Criminal Liability of Legal Entities Regarding Briberies and Terrorism, and international agreements like the UNCAC. While primarily focused domestically, these laws can extend jurisdiction to certain extraterritorial actions, particularly involving Icelandic nationals or companies.

18. What, if any, are the laws relating to economic crime? If such laws exist, is there an obligation to report economic crimes to the relevant authorities?

Iceland has laws addressing economic crimes, including for example provisions in the General Penal Code related to fraud, embezzlement, breach of trust and money laundering, and provisions pertaining to market manipulation and insider trading under Icelandic Act on Measures against Market Abuse. There is an obligation to report suspicious transactions in respect to money laundering and terrorist financing to relevant authorities. In general, the obligation applies to parties operating in regulated sectors, e.g. financial institutions, law firms, auditor firms and real estate agencies. Otherwise, reference is made to response under question 19 below in this respect.

19. How is money laundering and terrorist financing regulated in your jurisdiction?

In Iceland, money laundering and terrorist financing are primarily regulated by the Icelandic Act on the Prevention of Money Laundering and Terrorist Financing. This legislation mandates Know Your Customer (KYC) procedures, reporting of suspicious transactions to relevant authorities, record-keeping, risk assessment, and internal controls. The measures align with international standards set by organizations such as the

Financial Action Task Force to combat money laundering and terrorist financing effectively.

20. Are there rules regulating compliance in the supply chain (for example comparable to the UK Modern Slavery Act, the Dutch wet kinderearbeid, the French loi de vigilance)?

Not applicable.

21. Please describe the requirements to prepare, audit, approve and disclose annual accounts / annual financial statements in your jurisdiction.

In Iceland, the preparation, audit, approval, and disclosure of annual accounts or financial statements are primarily governed by the Icelandic Financial Statements Act and regulations issued by the Icelandic Financial Supervisory Authority. Annual financial statements follow Icelandic accounting standards, typically based on IFRS or GAAP. Private limited companies which exceed certain sizing thresholds must audit their statements by independent auditors. Financial statements must be approved by shareholders at annual general meetings and filed with the Icelandic Register of Enterprises within one month from its approval (and within 8 months from end of financial year).

22. Please detail any corporate / company secretarial annual compliance requirements?

In Iceland, private- and public limited companies must hold an annual general meeting within 8 months after the end of the financial year, file annual financial statements and tax returns. Compliance also entails, inter alia, adhering to corporate governance, data protection, employment, and environmental regulations. Failure to fulfill these obligations may result in penalties, fines or other legal consequences.

23. Is there a requirement for annual meetings of shareholders, or other stakeholders, to be held? If so, what matters need to be considered and approved at the annual shareholder meeting?

There is a requirement for Icelandic private- and public

limited companies to hold an annual general meeting within 8 months of the end of an applicable financial year. In general, during the AGM, various matters are considered and approved, as prescribed by law or a company's articles, inter alia, the approval of financial statements, election of directors, appointment of auditors, dividend declaration and any other business (as applicable). Shareholders shall be provided with sufficient prior notice of the AGM, and it shall be ensured that all necessary documentation is available for a relevant time period in advance. AGMs provide shareholders with the opportunity to exercise their voting rights and participate in key decision-making processes affecting the company.

24. Are there any reporting / notification / disclosure requirements on beneficial ownership / ultimate beneficial owners (UBO) of entities? If yes, please briefly describe these requirements.

Iceland mandates most legal entities to maintain records of its beneficial ownership pursuant to Icelandic Act on the Registration of Beneficial Owners. Information on the beneficial ownership of a company is required to be submitted to the Icelandic Register of Enterprises for transparency purposes and such information is published on its website. In general, a person is regarded as a beneficial owner if such person, directly or indirectly, exercises control over at least 25% of a company's shares or votes. Failure to comply results in penalties. These regulations aim to combat money laundering and terrorist financing.

25. What main taxes are businesses subject to in your jurisdiction, and on what are they levied (usually profits), and at what rate?

In Iceland, taxes are levied on various sources of income, including profits, sales, salaries, capital gains, and dividends. Corporate income tax stands at a standard rate of 21%, levied on profits (after deduction of allowed deductibles, e.g. operating costs) earned by Icelandic private- and public limited companies.

Value Added Tax (VAT) applies, provided that a company is liable for VAT and registered as such, at a standard rate of 24% on goods and services, with reduced rates of 11% and 0% for certain goods and services.

Employers are required to withhold payroll taxes from employees' salaries, which vary based on income levels (approx. between 31.45 – 46.25%, including income tax

and municipal taxes), and pension- (minimum pension contribution: 15.5%) and social security contributions (6.35%).

26. Are there any particular incentive regimes that make your jurisdiction attractive to businesses from a tax perspective (e.g. tax holidays, incentive regimes, employee schemes, or other?)

Icelandic jurisdiction for example offers incentives for research and development (R&D), renewable energy projects, film/television production and music recording.

R&D companies are entitled to a special deduction (maximum of 1.1 billion ISK for each operating year) from corporate income tax amounting to up to 25% or 35% of expenses incurred, provided certain conditions are met, and companies which produce film or television material where more than 80% of the total production cost is incurred in Iceland, such company may be entitled to a reimbursement of up to 35% of production costs (incurred within the EEA).

Additionally, international tax treaties prevent double taxation and offer relief for cross-border activities. The Icelandic Income Tax Act also offers a foreign tax credit to mitigate the potential for double taxation.

27. Are there any impediments / tax charges that typically apply to the inflow or outflow of capital to and from your jurisdiction (e.g., withholding taxes, exchange controls, capital controls, etc.)?

Restrictions like withholding taxes on dividends, interest, and royalties may apply to the in- or outflow of capital to and from Iceland. Dividend paid by resident private- or public limited companies to non-resident legal entities is subject to 20% withholding tax and 22% for other non-resident persons. Applicable tax treaty rates of dividends can be applied for in advance. Interest is subject to 12% withholding for non-resident individuals and 13% for non-resident entities, and royalties to non-residents are subject to 22%. Applicable tax treaties may reduce the rates or provide full relief, as applicable, subject to application for exemption. The Icelandic Income Tax Act also offers a foreign tax credit to mitigate the potential for double taxation for non-treaty countries.

28. Are there any significant transfer

taxes, stamp duties, etc. to be taken into consideration?

Stamp duty of 0.8% for individuals and 1.6% for legal entities is levied on the purchaser of real estate in Iceland, calculated from the public assessment value of the property in question.

29. Are there any public takeover rules?

Icelandic rules on public takeovers are set out in the Icelandic Act on Takeovers (implemented into Icelandic law based on European Union Directive 2004/25/EB on Takeover Bids). The scope of the Act is limited to takeovers respecting Icelandic publicly traded companies, listed on a regulated market in Iceland.

30. Is there a merger control regime and is it mandatory / how does it broadly work?

Iceland's merger control regime, governed by the Icelandic Competition Act, broadly, requires companies to notify the Icelandic Competition Authority (ICA) of mergers in the event of parties' joint total turnover amounting to ISK 3 billion or more in Iceland, and the parties' annual turnover amounting to more than ISK 300 million, respectively. The ICA may also require a party to notify a merger in the event of joint total turnover exceeding ISK 1.5 billion a year and provided that such a merger may substantially reduce effective competition. The ICA assesses whether a merger would significantly impede effective competition in the market as a result of the creation or strengthening of a dominant position. The ICA may impose conditions or prohibit transactions if necessary.

31. Is there an obligation to negotiate in good faith?

There is no specific legislation in Iceland that expressly requires parties to negotiate in good faith.

32. What protections do employees benefit from when their employer is being acquired, for example, are there employee and / or employee representatives' information and consultation or co-determination obligations, and what process must be followed? Do these obligations differ depending on whether an**asset or share deal is undertaken?**

In Icelandic acquisitions which entail a change of employer of respective employees, such employees have, in general, rights to information and consultation under the Icelandic Act on Legal Status of Employees during Change of Parties of Businesses. In broad terms, parties to an acquisition are required to provide employees or a relevant employees' representative with certain information on the acquisition with due notice prior to the acquisition. Further, such employees are protected from dismissals unless there are economic, technical or organizational reasons for a dismissal. Existing employment rights are also protected and continue post-acquisition.

33. Please detail any foreign direct investment restrictions, controls or requirements? For example, please detail any limitations, notifications and / or approvals required for corporate acquisitions.

Foreign direct investment in Iceland is in principle unrestricted, subject however to certain limitations imposed by law. Broadly, ownership restrictions apply to strategic sectors like fisheries and energy as prescribed by the Icelandic Act on the Investment of Foreign Parties in Business. Ownership restrictions may also apply in respect to real estate investments where parties outside the European Economic Area require ministry approval. Corporate acquisitions may require approval from the Icelandic Competition Authority. Environmental regulations apply to investments impacting the environment and may require approval from relevant authorities.

34. Does your jurisdiction have any exchange control requirements?

Icelandic jurisdiction has not any exchange control requirements of relevance since the 2017 lifting of the capital controls imposed after the 2008 financial crisis.

35. What are the most common ways to wind up / liquidate / dissolve an entity in your jurisdiction? Please provide a brief explanation of the process.

Private limited companies are dissolved or liquidated by way of dissolution methods regulated by the Icelandic Private Limited Companies Act, or through bankruptcy

proceedings, primarily governed by the Icelandic Bankruptcy Act.

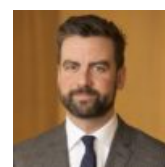
Generally, shareholders controlling a minimum of 2/3 of a company's shares can resolve on a company's dissolution, which requires the appointment of a special winding up committee which publishes a call to creditors in the Icelandic Legal Gazette. In the event a company's assets suffice to settle declared debt, remainder of assets are distributed to its shareholders. However, if a private limited company is debt free, it can be dissolved

by shareholders submitting a written declaration to the Icelandic Register of Enterprises to that effect. In such instances, shareholders assume direct, joint, and unlimited liability for any claims which may arise after the dissolution. In the event a company is insolvent its board of directors is obliged to initiate bankruptcy proceedings. Creditors can also request bankruptcy proceedings provided certain conditions are met. Mergers or statutory processes may also result in entity dissolution.

Contributors

Sigurður Örn Hilmarsson
Managing Partner

sigurdur@rettur.is



Stefán Örn Stefánsson
Senior Associate

stefan@rettur.is

