

Legal 500

Country Comparative Guides 2025

Iceland

Doing Business In

Contributor

Lex Law Offices



Stefán Orri Ólafsson

Partner | stefan@lex.is

Arnaldur Starri Stefánsson

Associate | arnaldur@lex.is

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

For a full list of jurisdictional Q&As visit legal500.com/guides

Iceland: Doing Business In

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

The System of law in Iceland is based on civil law.

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

There are various legal forms through which persons carry on business in Iceland. The most common forms are private limited companies and public limited companies. Other pertinent forms include as limited- and unlimited partnerships, co-operative societies, associations, foundations, branches of foreign limited liability companies and sole proprietorships. All of these legal forms carry certain advantages and disadvantages relative to the underlying business.

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

In principle, non-domestic entities can carry on business directly in Icelandic Jurisdiction without having to incorporate or register an entity, subject to limitations as prescribed by the law. These limitations include, *inter alia*, industry specific permits and licensing, taxation requirements and compliance with relevant trade regulations. The nature of the business and the sector it belongs to can affect which rules and regulations are applicable, as well as any relevant bilateral or international treaties in place which Iceland is a part of.

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

A public limited company must have an initial share capital of at least ISK 4,000,000 and private limited company must have at least ISK 500,000.

5. How are the different types of vehicle established in your jurisdiction? And which is the

most common entity / branch for investors to utilise?

For most entities, registration with the Icelandic Register of Enterprises and the submission of incorporation documents are needed as set out by relevant laws. That includes, *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 likewise established by registration with the Register of Enterprises. As stated above, the most common legal form in Iceland is a private limited company, which offers limited liability and a simple establishment procedure, including a relatively low minimum share capital requirement.

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

For Icelandic private- or public limited companies, decision making is generally based on resolutions which are passed on shareholder meetings, most often on a collective basis, depending on the company's articles of associations and relevant laws. Sole shareholder private limited companies do not require specific meetings, such entities only require sole shareholder resolutions. Operations and management are overseen by the board of directors who are appointed by shareholders. The day-to-day affairs are delegated to managers in public limited companies where such an appointment is required, and private limited companies where it is voluntary. Managers also need to ensure compliance with legal obligations.

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?

There are no requirements as to the number of shareholders for private limited companies, while public limited companies must have at least two shareholders.

A public limited company must have a board of directors consisting of at least three persons and must appoint at

least one managing director. The managing director can not be the chairman of the board of directors of the company and the majority of the board of directors shall consist of persons that are not managing directors. Managing directors and at least half of the board members must reside in Iceland unless the Minister of Culture and Business Affairs grants an exemption. However, the residence requirement does not apply to citizens of the countries that are parties to the EEA Agreement and those who reside in the European Economic Area, as well as citizens of member states of the founding agreement of the European Free Trade Association or the Faroe Islands. Additionally, the exemption applies to citizens of OECD states, which reside in an OECD member state, an EEA Agreement member state, a member states of the founding agreement of the European Free Trade Association or the Faroe Islands.

A private limited company can have one or two persons on its board of directors if it has four shareholders or fewer, otherwise, the minimum is three persons. One or more managing directors may be appointed by the board, but appointment of managing director is not required. If there is a sole director on the board of directors, they may also serve as managing director. The abovementioned residency requirements, and the exemptions mentioned, also apply to private limited companies.

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 no specific restrictions for expanding business operations in Iceland. However, there are certain limitations set on foreign direct investment. Moreover, business operations can lead to the establishment of a permanent establishment in a tax context. Lastly, agency agreements are governed by specific rules which ensure compliance with Icelandic law and protect parties' rights.

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.

In general, there is no corporate governance code which privately owned companies or groups of companies need

to adhere to, although the board of directors for private- and public limited liability companies are required by law to implement their own rules of procedure. However, public-interest entities, *inter alia*, entities listed on a regulated market, pension funds, credit institutions and insurance companies are subject to the Icelandic Corporate Governance Code (ICGC) issued by the Iceland Chamber of Commerce. Main provisions include rules of 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.

The available options for providing working capital to Icelandic private- or public limited companies are varied and offer flexible ways of financing in regards to debt versus equity, cost of capital and legal and regulatory compliance. They include, *inter alia*, traditional and convertible loans, share capital increase, trade credit, factoring and government grants. However, different legal requirements for these different methods necessitate careful consideration.

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

There are three ways that a private or public limited company can distribute funds to shareholders, i.e. by dividend payments, as a refund due to a reduction in the share capital or reserves, or by way of dissolution of the company.

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

Voting thresholds are generally divided into three categories with specific voting requirements for certain decisions specified in Icelandic law, articles of association and shareholder agreements. In general, simple majority decisions require more than 50% of shareholders present or represented at a shareholder's meeting. Qualified majority is required for more significant decisions, *inter alia*, amendments to the articles of association or the issuance of new shares and require approval of shareholders controlling at least 2/3 of the votes at a shareholder's meeting. Some exceptional decisions that affect the rights of some or all shareholders require 90% or unanimous thresholds to

apply, *inter alia*, share redemption of minority 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?

As stated above, shareholders in Icelandic private- or public limited companies pass their resolutions at shareholder's meetings, which usually affects the whole company. While that includes the power to appoint and remove directors, the issuance of binding instructions to management primarily falls to the board of directors. Thus, shareholders can typically only exercise their influence indirectly. It is worth noting that the rules regarding shareholder instructions can vary depending on the articles of association and governance structure of a company.

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

As per the Act on Working Terms and Pension Rights Insurance Act, wages and other terms of employment agreed between the social partners in collective agreements are minimum terms, regardless of sex, nationality, and term of employment etc., for all workers in the relevant occupation within the area covered by the agreement. Workers have the right to holidays and a holiday allowance, according to the rules contained in the Holiday Allowance Act. The Act sets minimum rights in this field, but collective agreements provide for further rights depending on various factors such as length of service with and age. The Act provides for a minimum of two working days' holiday for each month in employment during the past holiday allowance year, i.e., 24 days. Moreover, all workers between the ages of 16 and 70 are required by law to be members of a pension fund. Pension funds pay old-age pensions, disability pensions and pension payments to surviving spouses and/or children. Additionally, Icelandic law also provides extensive parental leave rights, which is generally 12 months of paid leave.

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?

The principal rule is that employers and employees are equally authorized to cancel employment contracts without stating the reason for cancellation. Employees are generally hired without time limits, in which instance the employment contract is cancelled with a termination notice period as stated in the collective agreements. The employment-termination notice is mutual, and dismissals shall be made in writing and in the same language as the employee's employment contract. The employee has the right to an interview regarding the end of his employment and the reasons for the termination of his employment and can request them to be stated in writing.

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?

Trade unions play a major role in representing workers' interests and negotiating collective agreements with employers. Some trade unions use shop stewards (icel. *trúnaðarmenn*), which act as a contact person between the trade union and the relevant workplace. These shop stewards may not be terminated due to their work as shop stewards and take priority in employment in the event that the employer needs to reduce the number of employees. In some workplaces, works councils may be in place. Specific sectors may also have specific regulations or exemptions regarding employee representation.

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?

The general penal code in Iceland contains anti-bribery rules, as well as the Act on Criminal Liability of Legal Entities regarding Briberies and Terrorism. International agreements like the UNCAC can also apply. The extent of its extraterritorial reach is usually limited to actions 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?

Icelandic law addresses economic crimes, *inter alia*, in

the General Penal Code as regards fraud, embezzlement, and money laundering. Acts such as insider trading and market manipulation are banned in the Act on Measures against Market Abuse. There is also an obligation to report suspicious transactions regarding money laundering and terrorist financing to relevant authorities. However, the obligation primarily applies to parties operating in regulated sectors, e.g. financial institutions, auditor firms, law firms and real estate agencies.

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

Money laundering and terrorist financing is regulated through the Act on the Prevention of Money Laundering and Terrorist Financing. The Act contains provisions on Know Your Customer (KYC) procedures, reporting of suspicious transactions to relevant authorities, risk assessment, record-keeping, and more.

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

There are no rules regulating compliance in the supply chain in Iceland, however Directive 2024/1760 from the European Union regulates supply chain compliance. It entered into force on the 25th of July 2024 in the European Union and is expected to be applied to the EEA agreement which Iceland is a member of, subject to changes by the Joint EEA Committee.

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

The Financial Statements Act primarily governs the preparation, audit, approval and disclosure of annual accounts. Furthermore, the Icelandic Financial Supervisory Authority has issued regulations in that regards, which further implements the Act. Annual financial statements follow Icelandic accounting standards, generally based on IFRS or GAAP.

Private limited companies exceeding a certain size threshold require audited financial statements by independent auditors. These financial statements then need to be approved by shareholders at the annual general meeting and filed with the Icelandic Register of Enterprises within one month from their approval.

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

Public limited companies and private limited companies in Iceland must hold an annual general meeting within 8 months after the end of the financial year, as well as file annual financial statements and tax returns. Compliance requirements contain, inter alia, corporate governance, data protection, employment, and environmental regulations. Failure to fulfil these obligations may result in penalties, fines or other such 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?

For Icelandic private- and public limited companies there is a requirement to hold an annual general meeting within 8 months of the end of a financial year, as mentioned above. A variety of matters are taken into consideration and subjected to the shareholders approval, as prescribed by the law or a company's articles of association. They may include the approval of financial statements, election of directors, appointment of auditors, dividend declaration and other applicable matters. There are also formal conditions that need to be met, such as ensuring that all necessary documentation is available for a certain period prior to the meeting, and all shareholders are given sufficient notice to attend.

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

Most entities must keep records of beneficial ownership pursuant to the Act on Beneficial Owners. Such information is generally made public via mandatory submission the Iceland Register of Enterprises which publish the information on its website. A person is generally regarded as a beneficial owner if he exercises control over at least 25% of a company's shares or votes, regardless of whether that is directly or indirectly. Failure to comply with these rules may result in penalties and other legal actions.

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

The capital gains tax rate for companies is 22%. However, non-resident companies pay 20% (except for 2024, when the percentage is 21%) withholding tax on dividends. Furthermore, commercial income is subject to 37.6% tax. However, limited liability companies have the right to deduct expenses that incur due to the commercial operation and sales profits of shares. Individuals pay 22% capital tax from dividend payments and sales profits.

If a company sells goods or services, it must register with the Internal Revenue's VAT Register and deliver VAT payments. This includes the declaration and payment of 24% or 11% VAT, which must be added to the price of the goods and services in question. Foreign taxable persons selling taxable goods and services in Iceland are liable for VAT according to the same rules and regulations as Icelandic companies and shall be registered for VAT if the conditions for registration are met.

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?)

Firstly, film or TV production companies may be entitled to a reimbursement of up to 35% of production costs incurred (within the EEA) if more than 80% of the total production cost is incurred in Iceland. There are also incentives for energy and music recording companies.

Moreover, the Icelandic government offers incentives in sectors such as energy, research and development (R&D) where companies are entitled to a special deduction amounting to 25% or 35% of expenses incurred, subject to certain requirements.

Additionally, Iceland has entered into several double taxation agreements, which may affect taxation and provide relief. In other cases, the Icelandic Income Tax Act 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.)?

The most relevant taxes in this context are withholding taxes that may apply to payments to and from Iceland. Dividend paid by resident private limited companies or public limited companies to non-resident legal entities is

subject to 20% withholding tax and 22% for other non-resident persons. However, double taxation agreements may affect taxation in this regard. Interest and royalties are also subject to withholding taxes.

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. The stamp duty is calculated from the public assessment value of the pertinent property. Moreover, first-time buyers only pay a 0.4% stamp duty, subject to certain conditions.

29. Are there any public takeover rules?

The Icelandic Act on Takeovers, which implemented European Union Directive 2004/25/EB on Takeover bids, contains rules on public takeovers. The scope of the Act is limited to takeovers regarding 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 is governed by the Icelandic Competition Act. It requires companies to notify the Icelandic Competition Authority (ICA) of mergers in instances where the merging companies have a turnover of ISK 3 billion or more in Iceland, and the parties' annual turnover amounts to more than ISK 300 million. The ICA can additionally require a party to notify of a merger in the event of joint total turnover exceeding ISK 1.5 billion a year, provided that such a merger may substantially reduce effective competition. Furthermore, 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. Based on that assessment, the ICA may impose conditions or prohibit transactions if they are deemed market impairing.

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

No Icelandic legislation requires parties to negotiate in good faith. However, in general, bad faith can come into effect when agreements are made void, cf. the Act on Contracts, Agency and Void Legal Instruments.

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?

As per the Act on Workers' Rights in the Event of Transfers of Undertakings, when an undertaking, or part of one, is transferred, to another employer the workers' terms and conditions arising from existing contracts of employment and collective agreements are transferred to the new employer.

The former and the new employer are required to inform the representatives of their respective workers affected by the transfer of certain issues, *inter alia*, the reason for the transfer. Moreover, a change in ownership does not constitute grounds for dismissal of workers, unless they are necessary for economic, technical or organizational reasons. Workers are not obliged to continue their employment under a new employer if the change of ownership results in a change for the worse in their pre-existing terms and conditions of employment.

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.

According to the Act on Foreign Investment in Business, foreign parties are generally allowed to invest in Icelandic companies, within the limitations set by law and upon the fulfilment of other conditions and the acquisition of licenses required by law. However, there are some sector-based restrictions that apply to all non-residents (including residents in the European Economic Area (EEA)) and some requirements are made regarding investments of residents outside the EEA.

The term foreign party in the Act is based on residence in a foreign country. A legal entity is considered to have

residence abroad if it is registered as a residence abroad or considers its residence abroad according to its articles of association. The term investment is defined in the Act as a financial contribution or other contribution to the equity capital of a commercial enterprise or the purchase of an existing share in a commercial enterprise. The Act covers foreign investment whether it is a new contribution or reinvestment of an allocated dividend or share or sale proceeds due to a previous investment in Iceland. Article 4(1) of the Act lists restrictions on foreign investment in domestically important industries, i.e., the fishing industry, aviation operations and power production.

34. Does your jurisdiction have any exchange control requirements?

Iceland does not have any relevant exchange control requirements.

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.

Bankruptcy proceedings are governed by the Icelandic Bankruptcy Act. If a company becomes insolvent, its board of directors is obliged to initiate bankruptcy proceedings. Creditors can also request bankruptcy proceedings provided specific conditions are met.

As for dissolvments or wind ups, note must be taken of the Private Limited Companies Act as well as the Public Limited Companies Act. In general, shareholders controlling a minimum of 2/3 of a company's shares can decide 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. If a company's assets suffice to settle declared claims, the remainder of assets are distributed to its shareholders. However, if a private limited company is free of debt, it can be dissolved by shareholders submitting a written declaration to the Register of Enterprises. In such instances, shareholders assume direct, joint, and unlimited liability for any claims which may arise following the dissolution.

Contributors

Stefán Orri Ólafsson
Partner

stefan@lex.is



Arnaldur Starri Stefánsson
Associate

arnaldur@lex.is

