

REGULATION

on deduction from the income of foreign experts.

Article 1

Area of application and objective.

This Regulation applies to deductions from the income of foreign experts pursuant to point A 6, paragraph 1, Article 30 of the Income Tax Act no. 90/2003. The objective is to attract foreign experts who possess the necessary knowledge and expertise to work in this country and to make it easier for companies to attract such parties to avoid having to take such activity out of the country.

Article 2

Foreign expert and the conditions for deductions.

Foreign experts, who are hired to work in this country as of and including 1 January 2017 and are taxable on the basis of Articles 1 or 3 of the Income Tax Act no. 90/2003, are authorised to deduct 25% of income pursuant to point A 1, Article 7 of the Act from income for the first three years from the time of hire for a job, provided the conditions of paragraphs 2 and 3 are met.

An employee shall be considered a foreign expert, irrespective of citizenship, as understood in this Regulation, cf. also point A 6, paragraph 1, Article 30 of the Income Tax Act no. 90/2003, provided the following conditions are met:

- a. he/she has not resided or held a legal domicile in this country over a five-year period immediately prior to the calendar year when he/she began working in this country; and
- b. he/she possesses knowledge or experience not available in this country or only to small extent.

The provisions of paragraphs 1 and 2 only apply if the foreign expert:

- a. is hired by a legal entity with a legal domicile or a fixed place of business in this country and said party pays him/her as an expert; and
- b. is hired to engage in tasks that demand expert knowledge and experience not available in this country or only to small extent; and
- c. he/she works in research, development and/or innovation, teaches or works on the solution and/or development of specialised tasks; or
- d. is engaged in the execution and management of projects or other tasks that are key elements in the operation of the company.

Article 3

The form and conditions of application.

An application for deduction pursuant to Article 2 shall be submitted to a special committee, cf. Articles 5 and 6, that assesses whether the employee in question comes under the provisions of the Regulation. The application shall be submitted to the committee no later than three months from the date when the employee began work in this country or it shall otherwise be rejected.

The application shall be in writing and substantiated in detail with the following supporting documents demonstrating that the employee meets the conditions of the Regulation:

- a. the full name and address/residence of the employee concerned along with the confirmation of Registers Iceland that the conditions of paragraph 2 a, Article 2 are met;

- b. the confirmation of a hiring agreement along with information on salary and any emoluments; and
- c. documents that demonstrate special expertise and experience, such as information on education, work experience (curriculum vitae) or other evidence demonstrating specialised expertise and/or specialisation; and
- d. a statement to the effect that such specialised expertise or experience is not available in this country or only to a small extent; and
- e. other documents that the applicant considers relevant.

Article 4

Shortcomings of an application.

If the reasoning and/or supporting documents are insufficient in the opinion of the committee, the committee shall, as it deems necessary, give the applicant the opportunity to correct such shortcomings. In general, the time limit for such purpose shall normally not be more than two weeks. If the deficiencies are not corrected in the assessment of the committee the application shall be rejected.

Article 5

Composition of the committee.

The Minister of Finance and Economic Affairs shall appoint a committee to review applications, cf. Article 3, to assess whether the conditions of Article 2 are met.

The committee shall consist of three members and three alternate members.

The Minister of Finance and Economic Affairs as well as the Minister of Education and Culture shall each nominate their committee member and the third shall be appointed without nomination and be the chairperson of the committee.

The alternate members shall be appointed in the same manner as the principal members.

Article 6

The work activity of the committee.

The committee shall normally decide upon an application within three weeks from receiving final documents, pursuant to Article 4.

The committee shall maintain a register of the applications received as well as of those applications approved.

A majority of committee members suffices for the approval of an application. If the application, pursuant to Article 2, is approved, the committee shall send confirmation to such effect to the Director of Internal Revenue.

The decision of the committee is final at the administrative stage.

Article 7

Confidentiality.

Committee members, cf. Articles 4 and 5, shall observe full confidentiality regarding any information and documents received by the committee. Such confidentiality shall continue in effect after having left the committee.

Article 8

Withholding at source.

From and as of the next calendar month from the approval of the application, withholding tax shall be paid, pursuant to the Act on the Withholding of Public Levies at Source no. 45/1987, on

75% of the salary income received by the employee as a foreign expert. In the case where the employer has withheld public levies on salary income from the time the employee began work in this country as a foreign expert until an application is approved, the Director of Internal Revenue shall correct previous withholdings. Salary-related levies, including child support and interest tax rebates shall take account of the total salary of the foreign expert.

Article 9

Entry into effect.

This Regulation, which is based on point A 6, paragraph 1, Article 30 of the Income Tax Act, takes effect on 1 January 2017.

Ministry of Finance and Economic Affairs, 14 December 2016.

On behalf of the Minister,
Marianna Jónasdóttir.

Ingibjörg Helga Helgadóttir

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