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LEGAL BRIEFING FOR INTERNATIONAL CLIENTS

Doing Business in Iceland

A legal and regulatory overview for foreign companies and investors establishing, acquiring or operating a business in Iceland.

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INTRODUCTION

Why Iceland

Iceland offers international businesses a rare combination: a stable Nordic civil-law system, full access to the European single market through the EEA Agreement, renewable energy, a highly educated English-speaking workforce and one of the least bureaucratic incorporation processes in Europe. A private limited company can typically be registered within days, and foreign ownership is unrestricted in most sectors. This briefing walks through the legal and regulatory landscape a foreign entrant should understand before committing.

EEA	ISK 500k	~20%	24% / 11%
single-market access & the four freedoms	minimum share capital for a private company (ehf.)	corporate income tax on limited companies	standard / reduced VAT rates

Contents

PART I — LEGAL SYSTEM

A Nordic Civil-Law System with EEA Market Access

Iceland is a parliamentary republic with a civil-law legal system closely related to the other Nordic countries. Legislation adopted by Alþingi (parliament) is the primary source of law, applied by a three-tier court system: the District Courts, the Landsréttur Court of Appeal and the Supreme Court of Iceland. Court proceedings are efficient by international standards, and arbitration is available and enforceable (Iceland is a party to the New York Convention).

The EEA Agreement

- Through the **EEA Agreement**, Iceland participates fully in the EU internal market: free movement of goods, services, capital and persons, and harmonised rules on competition, state aid, financial services, data protection, consumer protection and public procurement.
- EU internal-market legislation is implemented into Icelandic law on an ongoing basis; the **EFTA Surveillance Authority** and the **EFTA Court** perform the roles of the Commission and the CJEU for Iceland.
- Iceland is a member of the **Schengen area**, the **WTO**, the **OECD** and **NATO**, and benefits from EFTA's extensive network of free trade agreements with third countries.

> **What EEA membership means in practice**
> An EEA-incorporated company can generally establish, provide services, hire staff, move capital and acquire assets in Iceland on the same footing as an Icelandic company. Investors from outside the EEA typically structure their Icelandic activities through an EEA vehicle to obtain the same treatment in the sectors where restrictions apply (see Part III).

Currency and capital movements

- The currency is the **Icelandic króna (ISK)**. The capital controls introduced after 2008 have been lifted, and cross-border investment, dividends and loan repayments can as a rule flow freely, subject to notification rules of the Central Bank of Iceland in defined cases.
- There is no exchange-control approval requirement for ordinary inbound investment, repatriation of profits or intra-group financing.

PART II — ESTABLISHMENT

Corporate Forms and Setting Up

Foreign businesses typically enter the Icelandic market through a subsidiary, a registered branch, or an asset or share acquisition. Registration is handled by the Register of Enterprises operated by Iceland Revenue and Customs (Skatturinn) and is fast and inexpensive.

Main corporate forms

- **Private limited company (einkahlutafélag, ehf.)** — Act No. 138/1994. The standard vehicle: minimum share capital ISK 500,000, one or more shareholders, limited liability, one-tier board (one board member suffices in small companies). Most foreign subsidiaries are ehf. companies.
- **Public limited company (hlutafélag, hf.)** — Act No. 2/1995. Minimum share capital ISK 4,000,000; required for listed companies and common for larger enterprises; at least three board members.
- **Branch of a foreign company** — a foreign company (EEA or, with registration, third-country) may register a branch; the branch is not a separate legal entity and the parent remains liable for its obligations.
- **Partnerships (sameignarfélag / samlagsfélag)** and cooperative forms exist but are rarely used by foreign investors.

Key establishment requirements

- **Management residency.** As a rule, the managing director and at least half of the board must be resident in Iceland — but residents of the EEA/EFTA states and certain other countries are exempt, and the ministry may grant exemptions in other cases.
- **Registrations.** A new employer registers for corporate tax, VAT (where applicable), payroll withholding and social security tax; a bank account and electronic ID for representatives are needed in practice.
- **Beneficial ownership.** Companies must register their ultimate beneficial owners (Act No. 82/2019); AML rules (Act No. 140/2018) apply to onboarding by banks and other obliged entities.
- **Accounting and audit.** Annual accounts are filed under the Annual Accounts Act No. 3/2006; audit or review requirements scale with company size. IFRS applies to listed companies.

Timeline in practice

Incorporating an ehf. and obtaining registration numbers can typically be completed within a matter of days once documentation and share capital are in place. Bank onboarding and AML checks for foreign-owned structures are usually the longest step — plan for this early.

PART III — FOREIGN INVESTMENT

Investment Rules and Regulated Sectors

Iceland is generally open to foreign investment, and no general screening approval is required for ordinary acquisitions. Sector-specific restrictions under the Act on Investment by Non-Residents in Business Enterprises No. 34/1991 do, however, apply in areas regarded as strategically important.

Restricted sectors

- **Fisheries.** Only Icelandic citizens and Icelandic legal entities meeting strict ownership conditions may conduct fishing operations in Icelandic waters or own fish processing companies; indirect foreign ownership is limited.
- **Energy exploitation.** The right to harness hydropower and geothermal energy for other than personal use is limited to Icelandic citizens and individuals and legal entities domiciled in the EEA/EFTA area.
- **Aviation.** Foreign ownership of Icelandic air operators is limited to 49% for investors outside the EEA.
- **Real estate.** Ownership of real property is subject to the citizenship and domicile requirements of Act No. 19/1966; EEA parties are broadly exempt (see our separate briefing on real-estate acquisitions).
- **Notification.** Foreign investment in Icelandic enterprises is subject to notification duties to the ministry in defined cases, and the authorities retain a statutory power to intervene against investments deemed to threaten national security or public order. Legislation on formal FDI screening has been under preparation — status should be confirmed at deal time.

Cross-sector regulatory regimes

- **Competition.** The Competition Act No. 44/2005 mirrors EU rules; mergers must be notified to the Icelandic Competition Authority where combined Icelandic turnover exceeds statutory thresholds.
- **Data protection.** The GDPR applies through Act No. 90/2018, enforced by the Data Protection Authority (Persónuvernd).
- **Financial services.** Licensing and supervision by the Central Bank of Iceland (Financial Supervisory Authority); EEA passporting is available.
- **Public procurement.** The Public Procurement Act No. 120/2016 implements the EU directives; foreign bidders participate on equal terms.

PART IV — TAX & COMPLIANCE

Tax, Employment and Ongoing Obligations

Taxation of businesses

- **Corporate income tax** is levied on limited companies at a flat rate of approximately 20% (21% applied temporarily to recent income years — confirm the current rate at the time of investment); partnerships taxed as separate entities pay a higher rate.
- **VAT** — standard rate 24%, reduced rate 11% (e.g. food, accommodation, books); registration is required once turnover exceeds a low threshold. Data-centre, export and certain international services enjoy zero-rating rules.
- **Withholding taxes** apply to dividends, interest and royalties paid abroad, subject to reductions under Iceland's extensive network of double-taxation treaties and EEA rules; dividends between Icelandic companies are effectively exempt.
- **Payroll.** Employers withhold income tax on salaries, pay social security tax (around 6.3–6.4% of wages) and mandatory pension contributions (employer share customarily 11.5%).
- **Transfer pricing** documentation requirements apply to larger companies; the arm's-length principle is codified in the Income Tax Act No. 90/2003.

Employment essentials

Icelandic employment terms are largely set by sector-wide collective agreements that operate as binding minimum terms for all employees, regardless of union membership or the employer's nationality. Notice-based termination, mandatory pension membership, 24 days' minimum vacation and equal-pay certification for larger employers are key features. EEA nationals work without permits; non-EEA staff require residence and work permits. A detailed treatment is provided in our companion briefing, *Employment Law & Renewable Energy Framework in Iceland*.

Market-entry checklist

1. Choose the vehicle (ehf. subsidiary vs branch) and confirm any sector restrictions.
2. Incorporate, register beneficial owners and complete tax and payroll registrations.
3. Open banking relationships early; AML onboarding takes time for foreign groups.
4. Map the applicable collective agreement(s) and prepare compliant employment contracts.
5. Review merger-control, data-protection and licensing triggers before closing.

PART V — HOW WE CAN ASSIST

Your Icelandic Legal Partner

MAGNA Legal (MAGNA Lögmenn) advises international clients across the full life cycle of an Icelandic investment — from first market analysis to operations, expansion and exit. We work in English and Icelandic and coordinate seamlessly with foreign counsel, tax advisers and technical consultants.

Corporate & M&A

Establishing Icelandic subsidiaries and branches; joint ventures; share and asset acquisitions; shareholder agreements; foreign-investment compliance and regulatory notifications.

Commercial & Regulatory

Commercial contracts; competition and merger control; data protection; licensing and dealings with regulators; public procurement and tenders.

Employment & Immigration

Employment contracts and handbooks; collective-agreement analysis; executive hires and terminations; work and residence permits; posted-worker compliance.

Disputes & Enforcement

Litigation at all court levels and arbitration; debt recovery and enforcement; insolvency and restructuring; expropriation and compensation proceedings.

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