

[Unofficial translation from Icelandic]

ESTABLISHMENT OF COMPANIES IN ICELAND

Foreigners have customarily established a branch of a limited company in Iceland. It is also possible to establish an independent company (subsidiary) in Iceland or buy stocks in Icelandic companies, though not in certain types of them such as those engaged in fisheries and primary fish processing.

Assistance to establish foreign companies in Iceland may, for instance, be sought by consulting a list of attorneys at the website of the Icelandic Bar Association, Álftamýri 9, 108 Reykjavík, that is, www.lmfi.is (e-mail: lmfi@lmfi.is, tel. (354) 568 5620, fax (354) 568 7057).

Icelandic company law is in line with the requirements of the company law provisions of the Agreement on the European Economic Area, and consequently EU company law.

The acts on public and private limited companies, respectively, are very similar to the Danish legislation on

such companies. The main difference is the lack of provisions on employee participation in the Icelandic acts. As for the contents of the said acts the main difference is the size of the minimum stock, 4 million kronas in the case of public limited companies and 500,000 kronas for private limited companies (selling rate on 15 May 2014, 1\$= ISK 113,31). Under certain conditions the stock and accounts may be in foreign currency.

The public limited companies are mainly for many shareholders where the aim is to seek capital from the public, for instance on the stock market. Rules for the private limited companies are simpler than for the public ones. In public limited companies, the minimum is two founders, two shareholders, three directors on the board of directors, and a manager is obligatory. In private limited companies, on the other hand, the minimum is one founder, one shareholder, one director in case shareholders are four or less, and there is no obligation to have a manager. In one-party private limited companies meetings of the board of directors and shareholders are not held. The provisions

on branches are similar for both types of companies except that disclosure requirements are somewhat stricter as concerns the public limited companies, and the private limited companies have to inform, upon establishment, whether there are one or more shareholders.

As for citizens of OECD countries not residing in Iceland but residing in one of those countries, they can, due to a general exemption of the Minister of Industry and Commerce, freely form limited companies in Iceland and be board members and managers (for further information, see). Business operations may be conducted in a variety of forms. According to the Act respecting Firms the firm of an individual shall be his/her full name, but a first name may be abbreviated. It is also conceivable to register an individual's firm with the Business Register at the Director of Internal Revenue, Laugavegi 166, 150 Reykjavik, e-mail: fyrirtaekjaskra@rsk.is (on an individual's identification number) and obtain a special name. The name must not be too similar to another registered name and it shall be in conformity with the Icelandic linguistic system. The Business

Register contains the clearest information as to which names have already been registered. The registration of an individual's firm with a Business Register costs ISK (Icelandic kronas) 67,500. The individual's liability is unlimited.

General income tax levied on individuals (including individual's firms) amounts to 22.86% for monthly income up to ISK 290,000 in 2014, 25.30% for monthly income from ISK 290.001 upto ISK 784.619 and 31.80% for monthly income above ISK 784,619. Thereto will be added municipal tax of 14.44% (prepayment rate). Accordingly, the tax percentage for individuals in prepayment, on the basis of monthly payments, is 37.30 % in the year 2014 for the first ISK 290.000 kr., 39.74% for monthly income from ISK 290.001 upto ISK 784.619 and 46.24 % above ISK 784.619.

Partnerships of two or more parties may be established with Business Register. The registration costs ISK 89,000 minimum. The liability of members of partnerships is in general unlimited, i.e. they guarantee the company's liabilities by means of their entire assets. The income tax levied on partnerships amounts to 36% if it has upon

request been registered as an independent taxpayer, but alternatively individual members are taxed according to shares owned in the partnership. Liability in private limited companies, on the other hand, is limited to the share capital, as will subsequently be discussed, and the income tax is 20%.

Private limited companies are registered with the Register of Limited Companies operated by the Director of Internal Revenue, Laugavegi 166, 150 Reykjavik (office hours 9.30 a.m. – 3.30 p.m. on weekdays, tel.:- (354) 442 1250, fax:- (354) 442 1279, e-mail: fyrirtaekjaskra@rsk.is). The registration fee amounts to ISK 130,500 including costs for an identity number and the publication of notification in the "Legal Gazette". A single party may establish a private limited company and be a shareholder. In such instances a single principal may constitute the board of directors and then there is no need for holding board or shareholder meetings as is else the case. It is not obligatory to appoint a manager in private limited companies. The share capital, ISK 500,000, must be paid into the company prior to its