



Tax deduction for R&D projects in Iceland

Introduction



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OECD – Assessment and Comparison



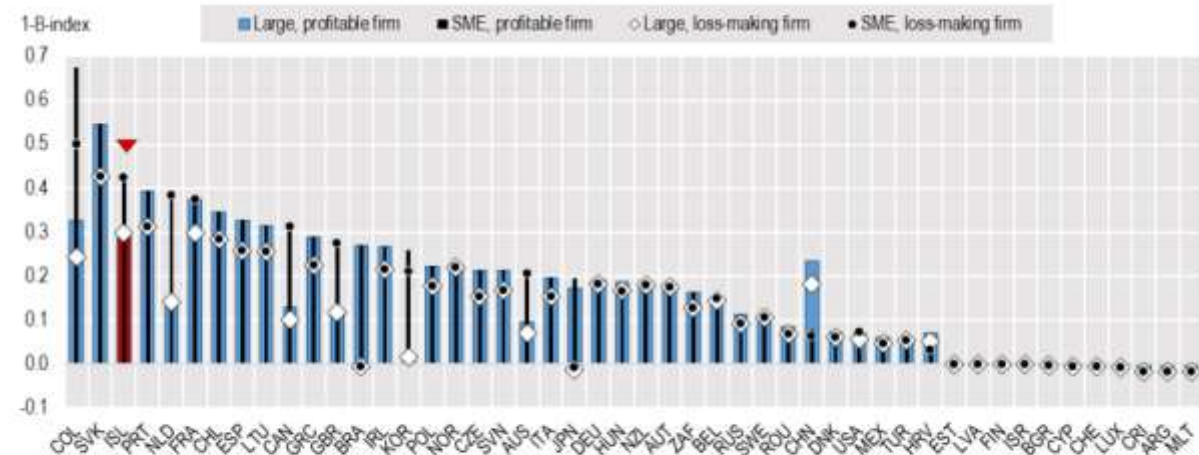
The OECD is conducting an audit of our system on behalf of the *Ministry of Finance and Economic Affairs* and the *Ministry of Universities, Industry and Innovation*

Generosity of R&D tax support in 2021

Differences in the design of R&D tax incentives drive significant variation in the expected generosity of tax relief per additional unit of R&D investment. In 2021, the marginal tax subsidy rate for profit-making (loss-making) SMEs in **Iceland** is estimated at 0.42 (0.42), well above the OECD median of 0.20 (0.18). The implied R&D tax subsidy rate for large enterprises is equal to 0.3 (0.3) in the profit (loss)-making scenario and likewise well above the OECD median of 0.17 (0.15).

Figure 1. Implied tax subsidy rates on R&D expenditures: Iceland, 2021

1-B-Index, by firm size and profit scenario



Note: Implied marginal tax subsidy rates, presented for different firm size and profitability scenarios, are calculated based on headline tax credit/allowance rates (see [methodology](#) and [country-specific notes](#)), providing an upper bound value of the generosity of R&D tax support, not reflecting the effect of thresholds and ceilings that may limit the amount of qualifying R&D expenditure or value of tax relief.

Source: OECD, R&D Tax Incentives Database, <http://oe.cd/rdtax>, December 2021.



The objective

To promote research and development and to improve the competitive conditions of innovative enterprises by granting them the right to tax deductions for the cost of innovative projects.

For whom?

Companies that are owners* of research or development projects.

- Universities and institutions are not considered companies within the meaning of this Act.
- Companies that have financial problems fall outside the scope of this Act.

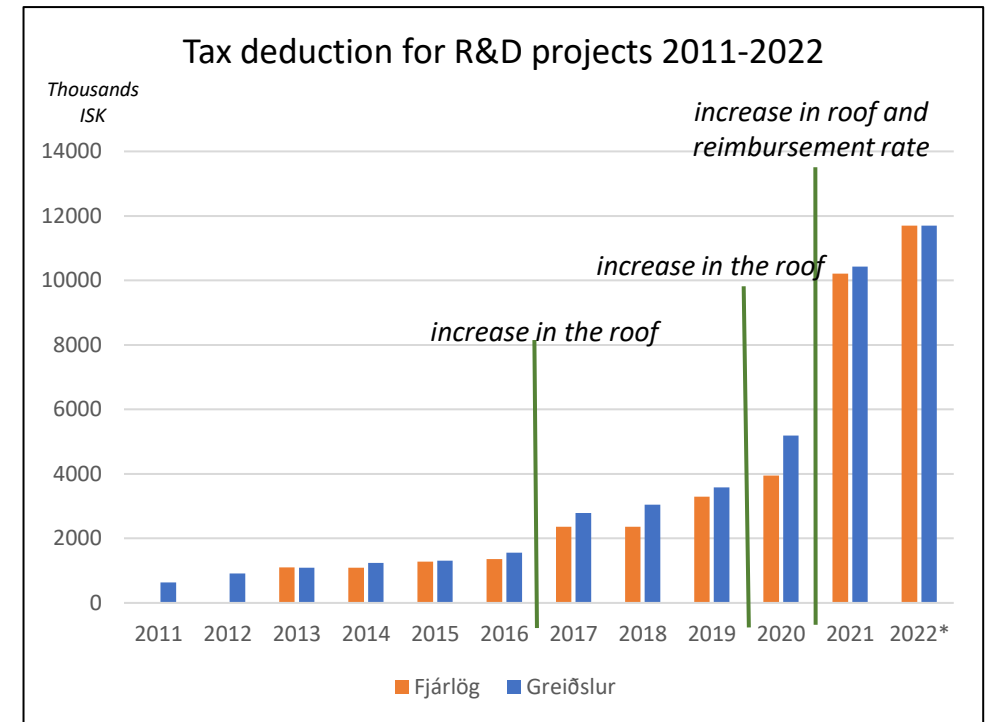
* Owners of intellectual property rights resulting from the project.
Subsidiaries that are liable to tax in Iceland enjoy the same rights even if intellectual property rights are registered with the parent company (confirmed by FJR Nov 2020)

Introduction Video -> [Kynningarmyndband](#)

-> <https://www.rannis.is/sjodir/atvinnulif/skattfradrattur/kynningarmyndbond/>

Reimbursement rate and maximum cost level 2022

- In May 2020, Althingi passed a provision for Covid-19 that a **35%** reimbursement rate on eligible costs up to a maximum of mISK 1,100 in the case of SMEs, but **25%** in the case of large enterprises in the due years 2021 and 2022 (based on operating years 2020 and 2021).
- **Althingi extended this provisions on 15 June 2022** with the amendment that the maximum cost for calculating deductions from the levied income tax in 2023 shall be a total of **mISK 1,000**, of which that amount up to mISK 200 may be counted for purchased research or development work pursuant to Article 6 of the Act.



Definition of the term “enterprise” (company)



Roof is 1,000 mISK. valid for the group as a whole, if other companies within the same corporate group apply for tax deduction r&d-projects.

- The Ministry of Finance has requested Rannís to reassert applicants in connection with Act No. 152/2009 that: Two or more legal entities may be considered one business entity with respect to the application of state aid rules, and in this case, the business unit is considered the “enterprise” (company) to be considered. The assessment of whether legal entities are connected in this way is subject to issues such as controlling holdings and other operational, financial and organizational ties as specified in the annex to GBER referred to in the Act.
- *It is not enough to look at the operational form of a party as it would otherwise be decided by point 3. Article 3 of the Act, which refers to the Income Tax Act, i.e., Points 1 and 3. Article 2(1) of that Act. The state aid system applies its support to European law as provided for in the legal documents of the Act and referred to in Article 15(1) of the GDPR. The concept of a company will be in accordance with being interpreted as an economic unit when assessing the maximum amounts.*
- *See in this regard also guidelines from the European Commission on the provision of aid based on GBER:*
- *„In accordance with the case law, an undertaking is defined as a single economic entity having a common source of control. Therefore, if the group acts as a single economic unit, it shall be considered as one undertaking and the economic situation of all the legal persons part of the group shall be considered when granting aid under the GBER.“*

The concept of a small and medium-sized enterprise (SME)

SME STATUS ASSESSMENT - FINAL REPORT
 Date: 15-08-2022
 The 'SME' status assessment of LÍÐ fyrtæki ehf is now completed.

Result
 Based on the information and financial figures related to the financial year 2021 taken into consideration under the terms of the SME Recommendation:

LÍÐ fyrtæki ehf qualifies as an SME

Please find hereafter the 2021 results for LÍÐ fyrtæki ehf concerning the SME criteria relevant under the SME Recommendation.

SME Thresholds
 Staff headcount: 90-94
 Consolidated Annual Turnover: 3.180.000,00 EUR
 Consolidated Annual Balance Sheet: 1.504.000,00 EUR

LÍÐ fyrtæki ehf declared that it is engaged in an economic activity.

Relevant figures (in terms of staff headcount, annual turnover and/or annual balance sheet) for the following parent/linked entities (under Article 3 of the SME Recommendation) have been taken into consideration and consolidated:

Name	%	Relationship	TU	EE	NSIC	Pub. Int. Inv.	Other	Other	Cont. acc. int.
LÍÐ fyrtæki ehf	actual % 100,00		600.000,00 EUR	1.000.000,00 EUR	15,99			31-12-2021	
Minor Shareholders		Minor Shareholder of LÍÐ fyrtæki ehf	600.000,00 EUR	1.000.000,00 EUR					
Meðorklag hf.	actual % 50,00	Owned by LÍÐ fyrtæki ehf	5.980.000,00 EUR	1.000.000,00 EUR	150,99			31-12-2021	Y
	effective % 50,00		2.540.000,00 EUR	580.000,00 EUR	75,99				

LÍÐ fyrtæki ehf confirmed that, apart from the entities listed here above, there are no other entities which can be considered as partner or linked to LÍÐ fyrtæki ehf under the terms of Articles 3.2 and 3.3 of the SME Recommendation (including entities having other relevant relationships, such as the right to exercise a 'dominant influence').



- According to Act No. 152/2009, the size of companies can affect various assumptions regarding tax deductions for research and development costs. It is therefore important that the undertakings are properly registered in this classification in accordance with the EU/ESA definitions on which the laws in question are based. In this regard, it affects whether the company is part of a larger group or not. Incorrect registration can cause unnecessary inconvenience and back billing if you need to change it after the mark-up is in place.
- In order to remove any doubt and misconceptions about the company's size classification, Rannís proposes that applicants go through self-assessment/calculations to verify the correct size classification of the company. The correct definition and procedures for verification of the size of the company can be obtained on the below web links, if there is doubt that the company is classified as small, medium-sized or large.
- Sjá: https://ec.europa.eu/growth/tools-databases/SME-Wizard/smeq.do;SME_SESSION_ID=Htf6IFHqwMX519fzXKtjEx3JRfLJ3dMCQISrxAgTDal-1hgk2ON!245382482?execution=e1s1
- It is also worth studying the EU/ESA definition of SME on the EU website.
- <https://ec.europa.eu/docsroom/documents/42921/attachments/1/translations/>
- If your self-assessment leads you to believe that the company is still falling into the category of SMEs, Rannís requests that you submit your self-assessment/calculation result as an attachment to section 2.2 of the application for verification, along with confirmation by the company's auditor.
- If you conclude that the company classification needs to be changed to "large", it is enough that you change the application to Rannís application system, without further explanation.

The concepts of research and development have the following meanings*:

Research: Structured research or important observations aimed at promoting new knowledge and skills in developing new products, processes or services or leading to significant improvements to existing products, processes or services. They involve the creation of components in complex systems and may include the construction of prototypes in laboratory environments or environments with UI simulations of existing systems and also experimental projects, when necessary for research purposes and in particular due to general verification of technology.

Development: The acquisition, consolidation, formulation and use of existing scientific, technical, commercial and other practical knowledge and skills for the purpose of developing new or improved products, processes or services. This may include activities aimed at defining an idea, planning and documenting of new products, processes or services. Developments may include the design of a prototype, the type of sample version, the implementation of a pilot project, testing and verifying new or improved products, processes or services in an environment characteristic of actual processing conditions where the primary objective is to make further technical improvements to unfulfilled products, processes or services. This may also be the development of a marketable prototype or pilot project, when such a prototype is inevitably the final market product as the production of it is too costly to be used solely for promotion and to verify its properties.



* Regulation [nr. 758/2011](#), support for innovative companies

Cost of activities that are inherently part of the general operation of undertakings is not deductible - including following:



- a. Normal or periodic changes to goods, services, production lines, production processes, existing services or other ongoing operations, even if such changes may result in improvements.
- b. Improvements and changes in a company's products, services or production processes, in the absence of the development of new knowledge, new skills or the utilization of existing knowledge in new ways.
- c. Training and rehabilitation.
- d. Marketing activities and marked research
- e. Installation or adaptation of purchased equipment and devices.
- f. Set up a production process.
- g. Acquisition, construction or renovation of real estate, vehicles, ships or aircraft.
- h. Mapping or searching for mines, natural resources or similar, except in the case of the development of new or better methods or technologies.
- i. Funding of collaborative projects without the active participation of all partners in the project.
- j. Supervision, quality evaluation and certification of the current production and supply of goods and services.
- k. **Obtaining and protecting patents.**
- l. **Pursuant to the EEA Agreement, it is not permissible to support (subsidize) contractual r&d projects paid by a particular buyer, (thus considered the owner of the project).**



Two step process



- Companies apply for confirmation of a research or development project to **Rannís**.
- Companies that receive confirmation of research or development projects are entitled to deduct income tax.



- Companies account for the costs of a tax report to **RSK** (RSK 4.21) and the auditor must confirm the settlement.
- If the levied income tax is lower than the determined deduction, or a legal entity is not determined income tax, the deduction is paid out.

A screenshot of a tax form titled 'Greinargerð um skattfrádrátt' (Statement on tax deduction). The form is from Skatturinn and contains various fields for company information, project details, and financial data. It includes sections for 'Greinargerð um skattfrádrátt', 'Skattfrádráttur', and 'Skattfrádráttur'. The form is partially filled out with text and numbers.

You need to apply for each project individually!



Project approval

Rannís determines whether a project will be confirmed pursuant to this Act:

The condition for a project to be confirmed is that it constitutes a research or development project under this Act:

1. The project is an R&D project.
2. An idea that a value-added product/service and business plan are well defined.
3. Data shows that at least ISK 1 million will be spent on research and development over a 12-month period.
4. Employees have training, education or experience in the field on which an idea for value-added goods or services is based.



Application deadlines



- ✓ New applications – until October 1st.
- ✓ Continuation project – until April 1st.
- ✓ **Note! You can apply for a continuation project in the form of a new project up to and including 1 October.**

✓ Opið fyrir umsóknir: **Innskráning** ↗ **Leiðbeiningar**

- Vegna nýrra verkefna: 3. október 2022 kl. 15:00. Sjá auglýsingu.
- Vegna framhaldsumsóknna: 1. apríl ár hvert.

EN ↗

<https://www.rannis.is/sjodir/atvinnulif/skattfradrattur/>

Survey to evaluate impact and tax footprint

Concurrent with the application process, applicants who have not done so before must fill out a separate excel document aimed at evaluate the results of this government support operation in the period 2010-2020. The intention is to collect data on the impact and tax footprint of the research and development projects that have enjoyed tax deductions during this period. The document (for each company) must be updated with each new application deadline. However, companies that are applying for the first time do not need to submit this data.

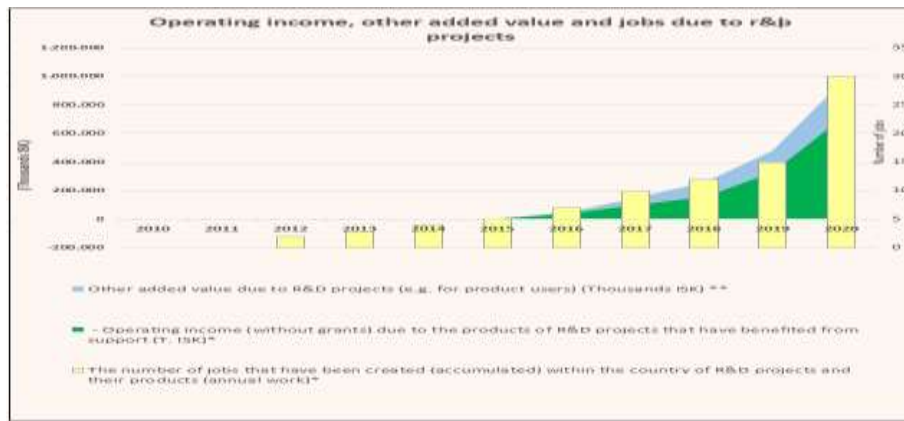
We hope that those companies that have enjoyed tax deductions for research and development projects in recent years will see their benefit in participating in this survey with us, to enable us to draw the clearest picture of the benefits this support has brought, both for the companies and the Treasury.

At Rannís we strive to process this data in the best possible way. Last year, 3 promotional videos were made with the success stories of companies based on the data submitted.

See promotional videos here: -> <https://www.rannis.is/sjodir/atvinnulif/skattfradrattur/kynningarmyndbond/>

Survey to evaluate impact and tax footprint of supported projects

Evaluation of the results of law no. 152/2009 in the period 2010-2020 – data collection *													Company:	...CaseCompany ehf.	ISAT number:	nnnnnn	Reg number:	kkkkk-yyyy	Postnumber:	ppp
Description/year	Publication permitted (mark x in the appropriate box):												Total	Comments/e						
	Yes:	No:	No:	2010	2011	2012	2013	2014	2015	2016	2017	2018			2019	2020				
* enter real numbers, evaluate or use formulas as appropriate																				
Number of r&D projects with tax deduction v/r&D projects (confirmed by Rannís)						1	1	1	2	2	2	3	2	14						
A number of R&D projects with grants from the Technology Development Fund						1	1							2	aa					
Number of R&D projects with grants from European funds										1	1			2						
Total operating income of the company (Thousands ISK) *	0	0	0	0	5.000	10.000	50.000	120.000	180.000	360.000	750.000	1.475.000								
- Operating income (without grants) due to the products of R&D projects that have benefited from support (T, ISK)	0	0	0	0	-1.000	2.000	40.000	100.000	160.000	330.000	710.000	1.341.000								
- of which exports due to R&D projects (Thousands ISK) *	0	0	0	0	0	0	0	50.000	100.000	100.000	200.000	450.000								
Other added value due to R&D projects (e.g. for product users) (Thousands ISK) **	0	0	0	0	0	0	10.000	50.000	100.000	150.000	250.000	560.000								
- of which added value for users within the country of R&D projects (Thousands ISK) **	0	0	0	0	0	0	10.000	50.000	70.000	120.000	200.000	450.000								
The number of jobs that have been created (accumulated) within the country of R&D projects and their products (annual work) *				2	3	4	5	7	10	12	15	30	88							
- of which annual work women *				2	2	3	3	5	6	7	8	15	51							
- þar af ársverk konur *						1	1	2	2	4	5	14	36							
- of which a year's work is gender neutral *												1	1							
Salary costs of jobs created within the country of R&D projects and their products (Thousands ISK) *	0	0	10.000	15.000	24.000	35.000	56.000	90.000	120.000	150.000	330.000	830.000								
Purchased work for research and development work from domestic sources of R&D projects (Thousands ISK) *				0	5.000	5.000	5.000	5.000	5.000	5.000	5.000	5.000	35.000							
Contractor costs and domestic inputs (other than R&D work) for the above R&D projects (Thousands ISK) *				0	5.000	5.000	5.000	5.000	5.000	5.000	5.000	5.000	35.000							
Received tax deduction/reimbursement for R&D projects (Thousands ISK) *	0	0	0	0	8.000	8.000	10.000	20.000	20.000	20.000	30.000	40.000	134.000							
Grants received from the Technology Development Fund (Thousands ISK) *	0	0	10.000	25.000	0	0	0	0	0	0	0	0	35.000							
Grants received from European funds (Thousands ISK) ***	0	0	0	0	0	0	0	30.000	50.000	0	0	0	80.000							
Total payment of withholding taxes and insurance premium to the State Treasury for R&D projects (Thousands ISK)	0	0	3.500	5.250	8.400	12.250	19.600	31.500	42.000	52.500	115.500	290.500								
Other tax payments and fees to the Treasury for R&D projects (Thousands ISK) *	0	0	0	0	3.150	4.200	17.500	38.500	59.500	119.000	252.000	493.850								
Total payments from the treasury (T ISK)	0	0	-10.000	-25.000	-6.000	-8.000	-10.000	-20.000	-20.000	-30.000	-40.000	-169.000								
Total payments to the treasury (Thousands ISK)	0	0	3.500	5.250	11.550	16.450	37.100	70.000	101.500	171.500	367.500	784.350								
Net payment flow to the treasury (Thousands ISK)	0	0	-6.500	-19.750	5.550	8.450	27.100	50.000	81.500	141.500	327.500	615.350								
Accumulated payment position of the Treasury due to the above R&D projects (Thousands ISK)	0	0	-6.500	-26.250	-20.700	-12.250	14.850	64.850	146.350	287.850	615.350	615.350								
* enter real numbers, evaluate or use formulas as appropriate	Highest negative payment position of the treasury			26.250	Reimbursement rate to the treasury as a percentage of the highest negative payment balance of the treasury =									23,4						
** When assessing added value for users, e.g. use TDF(TþS) criteria	*** Not included directly in the assessment				Treasury yield due to the aforementioned r&D projects during the period (internal interest rate)=									77%						



Data collection to evaluate the impact (tax footprint) of projects that have received tax deductions for r&d 2010-2020



You are here: [Start](#) > [Funding and International](#) > [Research and Innovation](#) > [Tax deduction for research and development](#)



Tax deduction for research and development

Target group

Companies that own research or development projects. Universities and institutions are not considered companies within the meaning of this program.

Objectives

Companies that have received Rannís confirmation of research or development projects are entitled to a deduction from income tax according to Art. Act no. 152/2009¹⁾. If the income tax levied is lower than the determined deduction, or the legal entity does not pay income tax, the deduction is paid out.

Deadline

[Opð fyrir umsóknir](#) [Innskráning](#) [Leiðbeiningar](#)

- Application deadline for *new projects*: October 3 2022 at 15:00.
- Application for *continuation*: Projects that have already received a confirmation from Rannís must submit an application for continuation in the spring. Deadline for continuing applications is 1st April each year.

15¹⁾

What are the objectives?

The aim is to strengthen research and development work and improve the competitive conditions of innovative companies by giving them the right to a tax deduction for the cost of innovative projects.



Research and Innovation

Arctic Research and Studies

COST

CHANSE

Climate Fund

Deduction from the income of foreign experts

Digital Europe

Education Research Fund

EEA/Norway Grants

Euraxess

Eurostars

Gender Equality Fund

Geothermica

HM Queen Margrethe II's and Vigdís Finnbogadóttir's

Interdisciplinary Research Centre on Ocean, Climate and Society

Horizon 2020

Language Technology Fund

Icelandic Research Fund

Icelandic Student Innovation Fund

Independent Scholars' Salary Fund

Infrastructure Fund

What is funded?

A condition for a project to be approved (and thereby be able to take advantage of a tax deduction) is that it meets the *legal definition*¹⁾ of a research or development project and:

- The idea of a value-added product / service and business plan is well defined.
- At least 1 million ISK is dedicated to research and development over a period of 12 months.
- The employees have training, education or experience in the field on which the idea of a value-added product or service is based.

Further information on confirmation conditions and regulations:

Research and development (*legal definition*¹⁾): A specific and purposeful project that is intended to acquire new knowledge or new skills considered to be beneficial to the company due to the development of a new or better product, service or production method (Short version, see also more detailed definition¹⁾).

References to related EU/EEA regulations in English:

- [COMMISSION REGULATION \(EU\) No 651/2014](#)¹⁾
- [Document 02014R0651-20200727](#)¹⁾

How to apply?

Applications are submitted for projects in Rannís' application system¹⁾. In the case of co-operation project (shared ownership) application must include Co-operation agreement between the partners.

New applications must be submitted by 1st October each year, and if a project is ongoing between years the company must apply for continuation of approved status 1st April following initial approval.

The role of Rannís - Processing of applications

Rannís shall, within two months of receipt of a valid application, decide on its processing and notify the applicant of the result. For an application to be considered valid, all necessary and requested information must be available. Each project must be applied for separately.

If the project is confirmed, Rannís notifies the applicant of the result, in addition to notifying the office of the Iceland Revenue and Customs (RSK.is) of the companies that are involved in the projects that have received Rannís confirmation. Collaborative projects shall be accounted for separately and all participants will be informed.

The RSK keeps a record of the approved projects and makes a list of these projects accessible to everyone.

Expert Panels and Evaluation



Jules Verne

LIFE

NordForsk

NOS4S

Preparatory Grants

Research Fund of Sigrún Ástrós Sigurðardóttir and Haraldur Sigurðsson

Strategic Research and Development Programme for Social Challenges - SCDF-SC

* Tax deduction for research and development

Technology Development Fund

The Doctoral student fund of the Ministry for Environment and Natural Resources

The Strategic Research and Development Programme for Language Technology

References to related EU/EEA regulations in English:

- [COMMISSION REGULATION \(EU\) No 651/2014](#)¹⁾ with references to amendments 2017 & 2020.

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<https://en.rannis.is/funding/research/tax-deduction-for-research-and-development>

<https://www.rannis.is/sjodir/atvinnulif/skattfradrattur/>

RSK also have tax deductions for stock options



Adminstrated by RSK
<https://www.skatturinn.is/>



<https://www.skatturinn.is/einstaklingar/tekjur-og-fradrattur/hlutabrefadrattur/>

For the company

- A share capital increase in a company can amount to a maximum of **ISK 2,000 million**. If a company is part of a group of companies, the maximum reaches the group.
- The company does not have more than **25 employees** work for the company and its annual **turnover is less than ISK 650 million** and/or balance sheet is less than ISK 650 million. If a company is part of a group of companies, the group shall be targeted based on the consolidated financial statements.
- The Company demonstrates that the value of the share capital increase will be allocated in the interests of its business activities. If the Company has not commenced trading activities, **a minimum of 30% of the value shall be used for research or development**.

For the private investor.

- Deductions can amount to up to 50% of investment in capital increase in share capital increase in companies that have been confirmed. However, the deduction can amount to **up to 75% of investment in capital increase in the calendar years 2020 through 2024**.
- Deductions are calculated from the income tax base and/or capital gains tax base.
- The maximum allowance for investment is ISK 10,000,000 for an individual. The maximum deduction is ISK 5,000,000 per person (double for married couples). **In the calendar years 2020 through 2024 (mark-up years 2021 to 2025), however, the deduction allowance is a maximum of ISK 15,000,000 for an individual** and a maximum deduction of ISK 11,250,000 (double for married couples).



Thank you !



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