

Support for innovative enterprises and companies

Tax deduction for research and development projects
in accordance with Act no. 152/2009

Guidelines and application process



September 2022 release

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1. Applications and the application process

The objective of Act no. 152/2009 (<http://www.althingi.is/lagas/nuna/2009152.html>) on support for innovative companies is to use tax incentives to promote research and development (R&D) of innovative enterprises and thus contribute to improved competitive conditions for enterprises. This manual discusses the law, the application process, and procedures for evaluating applications. Stakeholders were consulted during the preparation of the manual.

An enterprise that is the owner of R&D projects and wants to benefit from the support provided by law, must send Rannís an application to that effect. Enterprises in all business areas can apply for and receive confirmation that a project they are working on is a R&D-project, if the conditions of the law are met. Universities and public institutions do not qualify for R&D tax deduction.

Applications must be received no later than October 1 each year. Rannís shall, within two months from receiving a valid application, decide on its processing and notify the applicant of the result. The date here receiving a valid application is considered from the date when all necessary and requested information is available. **Each project must be applied for separately.** After approval, Rannís sends documentation about the projects and owners that have received confirmation to RSK, Iceland Revenue and Customs. Collaborative projects must be separately identified, and information provided about all project participants.

Research and development projects – R&D

The boundaries between normal operations and research and development work are often unclear. Article 3 of Regulation no. 758/2011 (<https://skattalagasafn.rsk.is/?reg=758.2011.0>), with subsequent amendments, defines what is considered research and what is considered development.

1. **Research:** Systematic research or significant observations aimed at contributing to new knowledge and skills in developing new products, processes or services or leading to significant improvements in existing products, processes, or services. These consist of the creation of components in complex systems and may include the construction of prototypes in a laboratory environment or an environment with interface simulation of existing systems, as well as experimental projects when these are necessary for research, especially for the general confirmation of technology.
2. **Development:** Acquisition, integration, shaping and use of existing scientific, technical, business and other applied knowledge and skills in order to develop new or improved products, processes or services. This can also include activities aimed at defining an idea or planning and registering new products, work processes or services. Development can also consist of the design of a prototype, the creation of a sample version, the implementation of a pilot project, testing and verifying new or improved products, and work processes or services in an environment that is characteristic of actual processing

conditions, where the main objective is to make further technical improvements to incomplete products, processes, or services. This can also be the development of a marketable prototype or experimental project, when such a prototype is inevitably the final market product as its production is too costly to be used only for promotion and to verify its properties.

Activities that are inherently part of general business operations are not considered development. These include the following:

- a. Changes that are considered a normal part of the general operation of a company's products, services, production lines, production processes, existing services or other ongoing operations, even if such changes can lead to improvements.
- b. Improvements, changes and/or additions to a company's products, services, or production processes, when it does not involve the development of new knowledge, new skills, or the use of existing knowledge in a new way.
- c. Training and continuing education.
- d. Market observations and market surveys.
- e. Installation or adjustment of purchased equipment and instruments.
- f. Manufacturing process setup and production.
- g. Acquisition, construction or improvement of real estate, vehicles, ships or aircraft.
- h. Mapping or searching for mines, natural resources, land areas or equivalent.
- i. Funding of collaborative projects without the active participation of all collaborating partners.
- j. Control, quality assessment and certification of current production and availability of products and services.

Valid applications

If important information is missing from a submitted application, Rannís will request the missing information from the applicant. The applicant has two weeks to submit the requested information. When sufficient documents have been received, the application is considered valid. The deadline for processing the application is counted from the time the valid application is received. If the applicant does not submit the requested information within two weeks, the application is not considered valid and will be rejected.

Information and documentation with applications

The application must include a clearly defined business idea for a value-added product/service and a business plan, in accordance with Article 5 of the Act. The business plan, which is included in section 3.2 of the application form, describes the main points of the business plan as it exists at any given time.

Budgeting and distribution of costs for research and development projects must be clear and informative. These include the project's direct costs for the company's operating year, i.e. specialized employees, equipment, supplies, premises, or sub-contracted R&D services. Article 5 of Regulation No. 758/2011 (<https://skattalagasafn.rsk.is/?reg=758.2011.0>) states which costs are eligible for funding. In the application, it must be shown that at least ISK 1 million must be spent on research and development work over a 12-month period, which is the applicant's operating year. An auditor, examiner or certified bookkeeper confirms the final cost with his/her signature and thus the cost for the calculation of deductions.

Tax deductions are relative to each project and an application is necessary for each project. An enterprise that is the owner of a research or development project is entitled to a deduction from the imposed income tax amounting to up to 35% of the costs incurred for these projects, if it is a small- or medium-sized enterprise, but 25% if the business is large. More detailed rules on enterprise size limits can be found on pages 6-7 and the following link: https://ec.europa.eu/growth/smes/business-friendly-environment/sme-definition_en

The maximum cost to be calculated for each enterprise is ISK 1,000,000,000 per operating year, but within that framework, research or development work in the project may be purchased from unrelated domestic and/or foreign sources for up to ISK 200,000,000. (Note that decisions on reimbursement rates and maximum cost limits for the operating year 2022 and the payment year 2023 are determined according to the interim legislation from June 15, 2022.)

Companies are not entitled to reimbursement of research and development costs if one or both conditions below apply:

- The Icelandic state has an outstanding repayment claim against the applicant due to illegal State aid.
- The undertaking is in difficulty according to the definition in Article 1 of Regulation no. 758/2011, with subsequent amendments.
(<https://skattalagasafn.rsk.is/?reg=758.2011.0>)

In the application, an explanation must be given of the training, education, or experience of employees in the field on which the idea of a value-added product or service is based.

Research and development costs must be kept separate from the enterprise's other operations. In the case of more than one project, it is a condition for tax deduction that the costs of each

research and development project are kept separate from the enterprise's other expenses and that the data is made available to the tax authorities when they request it.

Definition of the term “enterprise”

Two or more legal entities can be considered a single business unit, with regard to the rules on State aid, and when this is the case, this business unit is considered the relevant enterprise. Assessment of whether legal entities are connected in this way depends on issues such as controlling ownership and other operational, financial, and organizational relationships as specified in the annex to the General Block Exemption Regulation (GBER), which is referred to in Act no. 152/2009.

It is not enough to look at the operating form of the entity, as could otherwise be determined from item 3, Article 3 of the above Act, but in that provision, there is a reference to the Act on income tax, i.e., items 1 and 3, paragraph 1 of Article 2 of that Act. The State aid system is based on European law, as stipulated in the explanatory documents of the Act and referred to in paragraph 1, Article 15. Accordingly, the term “enterprise” must be interpreted as an economic unit when assessing maximum amounts.

In this regard, see also instructions from the EU Commission on the granting of aid on the basis of GBER: "In accordance with the case law, an undertaking is defined as a single economic entity having a common source of control. Therefore, as long as 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."

Collaborative project

In the case of a collaborative project between two or more entities, information about all participants must be provided in the application. The application must be accompanied by a collaboration agreement between the participants. Further conditions for collaborative projects can be found in Article 7 and paragraphs 3 and 4 of Article 15, Act no. 152/2009. The maximum cost for calculating deductions for the project is ISK 1,000,000,000 and deductions are divided proportionally between collaborating companies.

Costs for purchasing services

If research or development work is purchased from an unrelated company, university, or institution for use in its own confirmed research and development project, that cost may be considered up to a maximum of ISK 200,000,000 within the enterprise's total cost framework of ISK 1,000,000,000 each year, if there is sufficient information on costs that must be explained in the application.

Related legal entities

Legal entities are considered related within the meaning of this provision when:

- a. they are part of a group according to Article 2, Act no. 3/2006, on annual accounts, or are under the direct and/or indirect majority ownership or management control of two or more legal entities within a group, or
- b. majority ownership by one legal entity over another is present, combined directly and indirectly, or
- c. they are directly or indirectly majority-owned or under the administrative control of persons related by common law, e.g., persons in marriage, „validated cohabitation“, siblings and persons who are directly related.

Limits on the total amount of public grants

The total amount of public support for innovative companies is limited by Iceland's obligations under the agreement on the European Economic Area. The law divides companies into three categories based on the number of employees and/or turnover in euros.

- Small enterprises are companies with fewer than 50 employees, an annual turnover of less than 10 million euros and/or a balance sheet of less than 10 million euros.
- Medium-sized enterprises, which have between 50-250 employees, an annual turnover of less than 50 million euros and/or a balance sheet of less than 43 million euros.
- Large companies, with more than 250 employees.

Since it is clear, according to the interim provisions of Act no. 152/2009, that the tax deduction of research and development costs for small- and medium-sized enterprises is calculated at 35% of the approved costs of confirmed projects (but 25% for large ones), it is important that the companies are correctly registered in this classification according to the EU/ESA definitions on which the law in question is based. In that regard, whether or not the enterprise is part of a larger group can for instance have a big impact.

In order to remove all doubts and misunderstandings about whether your enterprise is correctly classified according to size in your applications for a tax deduction for research and development costs, Rannís suggests that the enterprise carry out calculations to verify the correct size classification. The correct definition and procedure for confirming the size of the enterprise can be accessed from the web links below. If there is any doubt about how enterprises are classified, Rannís suggests that applicants undergo self-assessment and perform calculations based on the links below. In those cases, the self-assessment must be sent as an attachment in section 2.2 of the application, together with the auditor's confirmation.

See: https://ec.europa.eu/growth/tools-databases/SME-Wizard/smeq.do;SME_SESSION_ID=-Htf6IFHqwMX519fzXKtjEx3JRfLJ3dMCQISrxAqTDaI-1hgk2ON!245382482?execution=els1

It is also worth familiarizing yourself with the EU/ESA definition of SME in the EU:

<https://ec.europa.eu/docsroom/documents/42921/attachments/1/translations/>

Aggregate public support for each innovation project, including tax deductions, depends on the size of the enterprise and whether the project is considered a research project or a development project. Table 1 shows the maximum aggregate public support for each type of project.

	Development projects		Research projects	
	Without collaboration	Collaboration project	Without collaboration	Collaboration project
Small enterprises	45%	60%	70%	80%
Medium-sized enterprises	35%	50%	60%	75%
Large companies	25%	40%	50%	65%

Table 1: Aggregate maximum public support for projects by project type and company size.

Example: A small enterprise works on a research project without collaboration: the maximum public support is then 70% of the total cost of the project. Given that the cost of the project is ISK 10 million, the maximum public support can therefore be ISK 7 million. Tax deduction can then amount to a maximum of ISK 3.5 million. The project is then supported by other public grants, e.g., the Technology Development Fund, to an amount of ISK 4 million and by other public funds to an amount of ISK 2 million. The tax deduction is then reduced to ISK 1 million so that the maximum public support does not exceed ISK 7 million.

For a project to be classified as a collaborative project and thus increase the percentage of maximum funding for a project, the following conditions must be met.

- No company can obtain more than 70% of eligible costs for a collaborative project.
- The project must involve collaboration with at least one small- or medium-sized enterprise or be cross-border, i.e., the research and development activities must take place within at least two EEA countries.

In the case of collaboration with a research institute and/or university, the following conditions must be met so that the grant eligibility of research projects can be increased.

- The research institute contributes at least 10% of eligible costs.
- The research institute has the right to publish the results of the research project to the extent that they are the result of research that the institute has implemented. Furthermore, an increase is allowed, for research only, if the results of the project are distributed or published in an appropriate forum.

Business plan

Article 5 of the Act states that one of the conditions for a project to be confirmed as a research or development project is that the idea of a value-added product/service and the business plan for the project applied for is well defined. <https://www.althingi.is/lagas/nuna/2009152.html>

However, this does not mean a complete business plan, as is generally the case for investment funds, but rather the main points that describe the enterprise's proposed business concept and future prospects, where the added value of sales, use and jobs that will be created in the project are described in the text, along with estimated numbers. The business plan is an integral part of the application form in section 3.2 and therefore no longer needs to be submitted as an attachment as previously required.

Nevertheless, how well the applicant presents and defines his/her ideas for the value-added product/service that the project is intended to create is of great importance in the Rannís confirmation process. In this regard, the applicant must define his/her expectations regarding operating and export income from the products of the project that can be assumed to be generated by the enterprise in Iceland. In addition, a numerical assessment of other added value due to the project must be made, e.g., with product users and especially users within Iceland. An estimate must also be made of the number of jobs (man-years) that will be created in Iceland as a result of the project.

In this estimate, the same criteria can be applied as the Technology Development Fund uses in its guidelines. There, the value of the project is defined based on two factors: turnover of the applicant due to the product of the project and the value for domestic users of the product. Domestic value refers to the value created domestically as a result of savings or increased income of those who use the product. Emphasis is placed on applicants giving a good account of their expectations regarding income from the sale of the project's products and their potential value for domestic users from the start of the project until the end of the product's lifetime. In general, the income stream does not start until the second or third year; thus, applicants are encouraged to make a plan for ten years in advance if this is possible. However, it is possible to specify a long-term plan when the projects are of such a nature that the income stream does not start until the fifth to tenth year. In these cases, it is necessary to explain in explanatory text how quantities, prices and value for users are calculated. Without a doubt, looking so far into the future is often associated with great uncertainty, but nevertheless it is important to create a picture of the market success that the applicant considers realistic to achieve, if the technical goals of the development project are to be achieved. At the same time, it is assessed whether the capacity and connections exist for applying the results on the market or whether the proposed prerequisites can be created. In the application, an account must be given of how the products will be brought onto the market, along with customer service. It is important to give the best possible account of the

competitive situation, risks and uncertainty, as well as how the applicants intend to respond to the weaknesses that they face in that regard.

New – Survey to measure performance (only for companies that have applied before)

Along with the application process, applicants must submit a special Excel file that aims to evaluate the results of the government support measure in the period 2010-2020.

In this regard, grants from the Technology Development Fund and European funds are also considered. The purpose of collecting this data is to get the clearest possible picture of the results that these support measures have brought to the companies and the Treasury (i.e. to assess the tax footprint) during the period in question. The aim is for this data to be updated with each new application deadline. The same attachment can be used with a completed Excel file for all applications during the year. Entities applying for the first time do not need to submit this information.

This year, 2022, applicants are also asked questions to assess the incentive effect of the law's interim provisions for the tax years 2020 and 2021, which the Alþingi approved as part of the government's special support for innovative companies due to Covid-19. This survey will only be conducted this year.

We hope that the companies that have benefited from tax deductions for research and development projects in recent years will see the benefit in participating in both of these surveys with us, so that the clearest picture can be drawn of the benefits that this support has brought, both to the companies and the Treasury.

This survey was first sent out in 2021 to those companies that have benefited from tax deductions for research and development projects in recent years. The companies that have already filled out the Excel file and sent it to Rannís for that survey can, of course, submit the same document with this year's applications.

To those companies that have benefited from tax deductions for research and development projects in recent years, we reiterate our request to actively participate in this data collection with us. On that basis, we can hopefully draw the clearest possible picture of the benefits that this support has brought. We point out that this information can be of great importance in discussions about the continued development of the government's support measures for the innovative work of companies in the coming years.

At Rannís, we will do our best to process this data and we will also compile some good success stories of companies, based on the data submitted. Of course, no data from individual companies will be published without consultation with the companies themselves.

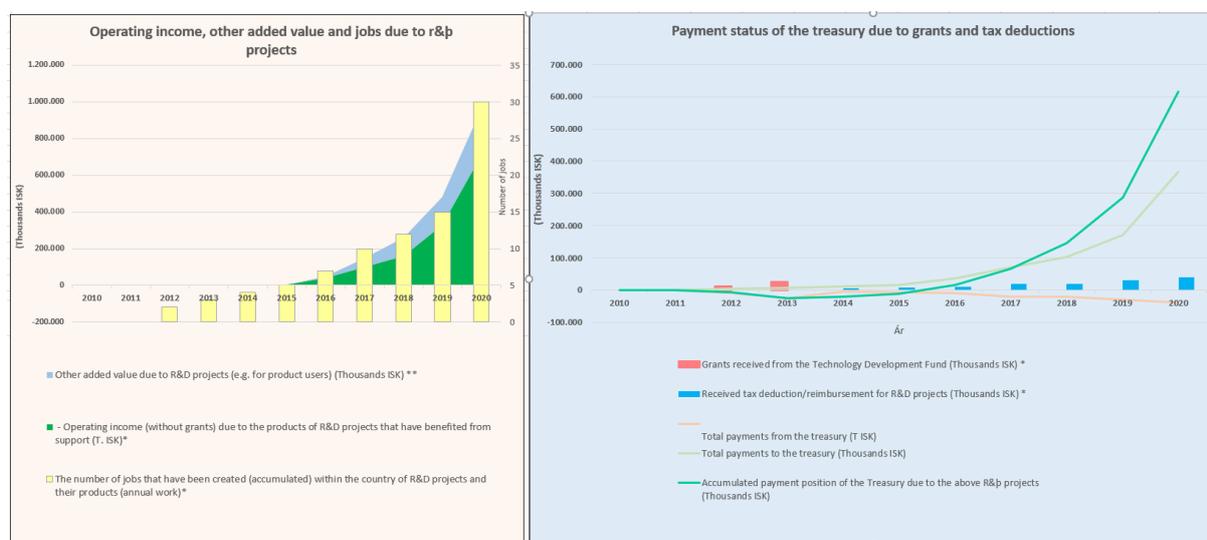
More about filling out an Excel file

Fill in numbers in the document only from the year the enterprise first received a confirmed project for R&D tax deduction or a grant from the Technology Development Fund. Only numbers that can be attributed to costs and activities related to the projects that have received support should be entered in the file (cf. lines 8-24). The data to be entered into the Excel file may be actual numbers from accounting, where available, or estimated numbers (change

formulas if applicable) if actual numbers are not available. Other taxes paid to the Treasury (cf. line 24) can e.g., be value added tax (VAT) and income taxes, but it is also possible to calculate/estimate tax payments due to purchased development work and contractor work that is paid to the Treasury in this country for said projects (cf. lines 18 and 19).

Evaluation of the results of law no. 152/2009 in the period 2010-2020 – data collection *												Company: ...CaseCompany ehf.	ISANumber: rrrrrrrrr	Reg number: rrrrrrrrrrr	Postnumber: rrrr
Description/year	Publication permitted (mark x in the appropriate box):												Total	Comments/expl	
	Yes:	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 w/R&D projects (confirmed by Rannis)		x												14	aa
Number of R&D projects with grants from the Technology Development Fund					1	1									
Number of R&D projects with grants from European funds															
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	-2,000	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		
- bar af ársverk konur *				1	1	2	2	2	4	5	7	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	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	35,000			
Received tax deduction/reimbursement for R&D projects (Thousands ISK) *	0	0	0	0	6,000	8,000	10,000	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	35,000			
Grants received from European funds (Thousands ISK) ***	0	0	0	0	0	0	0	30,000	50,000	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 =	234
** When assessing added value for users, e.g. use TDF(TbS) criteria												*** Not included directly in the assessment		Treasury yield due to the aforementioned R&D projects during the period (internal interest rate):	77%

A graphical representation appears automatically whenever the document is updated with numbers.



Finally, there is the survey regarding the motivational effect of the interim provisions of the law for the tax years 2020 and 2021, which Alþingi approved as part of special support for innovative companies due to Covid-19. This survey will only be done this year.

	2020	2021	Comments/Explanations:
Had a change in law no. 152/2009 Impact on the scope and work of R&D projects 2020 or 2021 - (mark x if yes)	x	x	Explanation:
Number of R&D projects with tax deduction v/R&D projects (confirmed by Rannis) that were added v/law changes:	1	3	
Estimate of the changed scope and activity due to the incentive effect of the change in law in %:	10%	50%	Explanation:
1 Increased costs due to R&D projects that were added or stopped being reduced due to a change in the law (T ISK)?	65.000	370.000	Explanation:
2 New in jobs within the country - how many jobs were added or were reduced due to legal changes (yearly work)?	5	30	
- of which men's annual work *	2	14	
- of which women's annual work *	2	15	
- of which annual work is gender neutral *	1	1	
3 Increased wage costs for the new jobs that have been created/stopped decreasing within the country (T ISK)	50.000	300.000	
4 + Purchased research and development work from domestic sources for the above-mentioned R&D projects (T ISK)	10.000	50.000	
5 + Contractor costs and domestic inputs (other than work on R&D) for the aforementioned R&D projects (T ISK)	5.000	20.000	
6 Total salary withholding taxes and insurance premium paid on the above salaries (T ISK)?	22.750	129.500	
7 Other taxes and fees paid to the treasury due to increased activities based on the increased R&D activities (T ISK)?	5.250	24.500	
8 Other - what +/- effect for the flow of payments to the Treasury v/ the above R&D projects (T ISK):	3.000	5.000	Explanation:
9 Total reimbursements v/ increased activity in projects (to be paid from the treasury the following year) (T ISK)	22.750	129.500	Explanation:
Calculated (cumulative) payment flow to the Treasury due to the change in the law in May 2020 (T ISK)	31.000	167.250	37.750

The above table must be filled in with numbers and explanations, as appropriate. This table is part of the same Excel file as the previous table.

2. Rannís' procedure for reviewing applications

When an application is received by Rannís, it is evaluated based on the requirements for information and supporting documents, as stated in the application form, and with regard to whether it is materially satisfactory. If it turns out that information is missing or insufficient, additional information is requested and the applicant is given two weeks to return it to Rannís. If the information is sufficient, the application is considered valid and taken into consideration; if not, the application is dismissed. A decision on the application must be made within two months of the submission of a valid application.

Rannís notifies the enterprise in question of the result, in addition to notifying Iceland Revenue and Customs of the companies involved in projects that meet the requirements of the law and have received confirmation based on them.

Companies can apply for an extension of Rannís' confirmation of the previous year's project. Here, it is assumed that the description of the project and its title will remain unchanged, but the applicant has to specify the project components and costs for the current year and report on changes in staffing and/or facilities in the follow-up application.

In the processing of individual applications, each one is evaluated independently based on its content. In the reply to the applicants, a factual justification for processing the application must be included. According to the law, Rannís' decisions on the processing of applications are final at the administrative level, subject to the validity of the information provided by the applicant in the application documents.

All financial information provided in applications is the responsibility of the applicant in question. The costs that form the basis of the tax deduction must meet the general conditions for deductible costs in the tax sense, as well as for the relationship of the costs to the relevant research and development project. These costs must be kept separate and accounted for in the form determined by Iceland Revenue and Customs. A cost breakdown submitted with a tax return must be signed by an auditor, examiner, or certified bookkeeper. The tax authorities take a final position on financial information.

Professional committee

A special professional committee deals with the procedure according to the law. The professional committee is advisory and is made up of three representatives: The Minister of Finance, the Minister of Industry, Energy and Tourism, and a representative nominated by the Confederation of Icelandic Employers. The professional committee provides advice on issues, procedures and project definitions, but generally does not deal with individual applications or applicants. Decisions about the processing of applications are entirely in the hands of Rannís.

Checklists

Rannís' experts use a checklist when reviewing applications. Applicants will have access to these checklists and can review their application themselves before it is sent for consideration. Examples of checklists can be seen below:

Tax deduction for research and development costs

Subject matter	Yes	No
1. Conditions that must be met:		
Is the project a research or development project?		
Is the idea for a value-added product/service well defined?		
Is the project plan (project components) well defined?		
Is the business plan well defined?		
Is the intention to spend at least ISK 1 million for research and development work over a 12-month period?		
Do employees have training, education or experience in the field covered by the idea?		
The Icelandic state does not have an outstanding repayment claim against the applicant due to unlawful State aid		
The undertaking is not in difficulty		
2. General information:		
This is another public subsidy for the project		
Research work has been purchased from other sources		
- Other authorized companies / Is it a related party?		
- Universities		
- Institutions		
Is the project defined as a collaborative project?		
- Is a collaborating partner specified / Is it a related party?		
- Is a collaboration agreement included with the application?		

All items under item 1 must be met by the applicant to meet the legal requirements.

3. Questions and answers

This section was created in cooperation with interested parties and those who are consulted about the implementation of the law. Furthermore, it is updated when applicants work on applications and issues arise that need to be clarified in more detail.

Examples:

- ❖ We pay no payroll tax, only VAT and company tax (e.g. insurance premium). Will it benefit us to claim a tax deduction?
 - Regarding tax deductions for R&D projects, there is no requirement that an enterprise is currently paying income tax. If there is no tax base, the deduction is paid out.

- ❖ What is meant by the separation of costs due to R&D from other operations?
 - Here it is a question of accounting settlement and how project accounting is done. An accountant can advise how to do bookkeeping.

- ❖ Does Iceland Revenue and Customs have access to data?
 - Iceland Revenue and Customs is notified of the projects confirmed by Rannís.

- ❖ What if the application is rejected?
 - Rannís' decision is final at the administrative level, cf. Article 8 Act no. 152/2009, but if the application is incomplete in that data is missing, the applicant can correct it.

- ❖ Can the application be referred to the Technology Development Fund?
 - No.

- ❖ What happens if a project does not reach the ISK 1 million mark in the calendar year applied for, but the plan for a 12-month period that falls over two calendar years is over 1 million?
 - The regulation stipulates that the 12-month period is the enterprise's operating year, which is almost always the calendar year. The cost of the project must reach ISK 1 million in the operating year.

- ❖ Where can I find a form to submit information to Iceland Revenue and Customs?
 - The form that must be filled out for Iceland Revenue and Customs is RSK 4.21, Statement on the tax deduction of an innovative enterprise.

- ❖ Is data sent to Rannís treated as confidential?
 - Yes, data sent to Rannís regarding applications is confidential.

- ❖ Are patent application costs acknowledged?
 - According to the regulation, acknowledged costs do not include costs related to patents that are purchased or licenses that are obtained from external parties at market prices in the business of unrelated parties (see item 4 of Article 5 of Regulation no. 758/2011, with subsequent amendments). However, the cost of obtaining a patent is not considered an approved cost, according to the ruling of the Taxation Reassessment Committee. (See: <https://yskn.is/urskurdir/skoda-urskurd/?nr=6155>)

- ❖ Are public limited companies entitled to apply for a tax deduction?
 - See Article 1 of Regulation no. 758/2011 with subsequent amendments, which can be found in the appendix of the handbook.

- ❖ What is meant by “business plan”?
 - A business plan is an integral part of the application form where the added value of sales, use and jobs created in the project is described in the text, along with estimated numbers. A short description is requested which states, among other things, the effect that the project has on the future of the enterprise during the lifetime of the products developed. The applicant must assess the average added value that the project delivers per year during the lifetime of the solution, in the form of operating income, added value for users and the creation of new jobs. The lifetime of the solution refers to how many years it can be considered probable to calculate added value due to the solution developed in the project before it can be considered obsolete.

- ❖ What if the application was not submitted by October 1 last year, but the tax return for that year has yet to be submitted – is it still possible to apply for a refund for that year?
 - No, the deadline is statutory.

- ❖ Are the costs of purchased research and development work from related parties deductible?
 - No.

- ❖ What does "undertaking in difficulty" mean?
 - According to Article 2, clause 4 of Regulation 758/2011 with subsequent amendments (<https://skattalagasafn.rsk.is/?reg=758.2011.0>), this is defined as follows: (Based on the Commission Regulation (EU) No 651/2014 of 17 June 2014, CHAPTER 1, Article 1 (definition 18))

See the text from the Commission Regulation (EU) No. 651/2014 of 17 June 2014 here below:

(18) ‘Undertaking in difficulty’ means an undertaking in respect of which at least one of the following circumstances occurs:

(a) In the case of a limited liability company (other than an SME that has been in existence for less than three years or, for the purposes of eligibility for risk finance aid, an SME within 7 years from its first commercial sale that qualifies for risk finance investments following due diligence by the selected financial intermediary), where more than half of its subscribed share capital has disappeared as a result of accumulated losses. This is the case when deduction of accumulated losses from reserves (and all other elements generally considered as part of the own funds of the company) leads to a negative cumulative amount that exceeds half of the subscribed share capital. For the purposes of this provision, ‘limited liability company’ refers in particular to the types of company mentioned in Annex I of Directive 2013/34/EU (1) and ‘share capital’ includes, where relevant, any share premium.

(b) In the case of a company where at least some members have unlimited liability for the debt of the company (other than an SME that has been in existence for less than three years or, for the purposes of eligibility for risk finance aid, an SME within 7 years from its first commercial sale that qualifies for risk finance investments following due diligence by the selected financial intermediary), where more than half of its capital as shown in the company accounts has disappeared as a result of accumulated losses. For the purposes of this provision, “a company where at least some members have unlimited liability for the debt of the company” refers in particular to the types of company mentioned in Annex II of Directive 2013/34/EU.

▼B (1) Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC. 02014R0651 — EN — 01.08.2021 — 004.001 — 10

(c) Where the undertaking is subject to collective insolvency proceedings or fulfils the criteria under its domestic law for being placed in collective insolvency proceedings at the request of its creditors.

(d) Where the undertaking has received rescue aid and has not yet reimbursed the loan or terminated the guarantee, or has received restructuring aid and is still subject to a restructuring plan.

(e) In the case of an undertaking that is not an SME, where, for the past two years:
(1) the undertaking's book debt to equity ratio has been greater than 7.5 and
(2) the undertaking's EBITDA interest coverage ratio has been below 1.0.