Commissioned by Landsvirkjun

Enabling: The landscape of regional incentives in Iceland

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Iceland, despite its small size, is a global leader in many ways. The country’s infrastructure, standard of living and opportunities for businesses makes our country competitive in many ways. But we know that to maintain a leading position you have to work hard – and that is what we intend to do.

An essential ingredient in our plan for creating sustainable economic growth is the facilitation and support of new investment, domestic or international. By supporting the establishment and development of businesses that work with the strength and uniqueness of Iceland we will see diversification, partnerships and new domestic businesses being created. Businesses that strengthen the international competitiveness of the knowledge industry, use state of the art technology and environmental standards and create value and new know-how will play a big role in creating the Iceland of tomorrow that we can be proud to hand over to future generations.
Are there good opportunities to be found in an international business climate riddled with geopolitical uncertainty?

I like to think so. For businesses looking toward a future with sustainable energy, state of the art technology, a climate of innovation and access to talent, Iceland might be the right choice. In addition to having favorable access to both the European and Chinese markets the country has a lot to offer, ranging from a wide range of localization options to one of the highest standards of living in the world.

For some time now, Icelandic regulators have been working with providers of infrastructure to create a high potential environment for business investment. One of the results of this work is a favorable and modern incentives regime that supports and enables progressive businesses to establish operations in Iceland.

My hope is that this report will answer your questions regarding the Icelandic incentives program and that you will have a clear picture of what success looks like for your business.
What incentives are available?
Regional incentives in Iceland

The Icelandic Government acknowledges that new investments, foreign or domestic, are essential to creating sustainable economic growth.

To facilitate foreign direct investment, the Icelandic Government has created a favorable environment for businesses with a competitive tax regime, high land availability and administrative efficiency; all within a European legislative framework.

The Regional Incentives Programme is available to companies that set up operations outside of the capital city area.

The Ministry of Industry and Innovation manages the incentive scheme, which is presented as a fixed amount that is drawn upon through tax breaks.

Regional aid is not limited to any specific sector, and recipients have included aluminum smelters, data centres and aquaculture operations.

Foreign investments in recent years have largely relied on the utilization of Iceland’s renewable energy resources. Although energy-intensive industry provides a number of well paid jobs in Iceland, the government acknowledges the need to create diverse future employment that appeals to a broader group of young people with wide-ranging educational backgrounds.

Other incentives

Although the Regional Incentives Scheme is the focus of this report, there are also other incentives available. The incentives schemes are not mutually exclusive. There have been companies that have received both regional incentives as well as general incentives allowed under EU regulations.

Incentives for R&D

Iceland has an incentives scheme specifically for innovative companies; the objective of which is to improve and foster research and development.

Under the scheme, companies undertaking research and development projects can apply for a tax credit to the Icelandic Centre for Research (Rannís). The aid is 20% of project cost, limited to ISK 100 or 150 million project cost per year depending on nature of cost items. The aid is administered as an income tax reimbursement.

The R&D incentive scheme is designed according to the State Aid Guidelines as approved by the EFTA Surveillance Authority.

General incentives allowed under EU legislation

Iceland, as a member of the European Economic Area, must adhere to rules on general incentives allowed under EU legislation. Commission Regulation (EU) No. 651/2014 of 17 June 2014 declares certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty on the Functioning of the European Union. In other words, the Commission can allow specific categories of State aid provided they meet certain criteria.*

* For further information on state aid allowed under EU legislation, see: http://ec.europa.eu/competition/state_aid/legislation/block.html
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Who has received incentives?
Since 2014, six companies have entered into regional incentives contracts

<table>
<thead>
<tr>
<th>Company</th>
<th>United Silicon</th>
<th>Thorsil</th>
<th>Matorka</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sector</strong></td>
<td>Silicon metal production</td>
<td>Silicon metal production</td>
<td>Aquaculture</td>
</tr>
<tr>
<td><strong>About</strong></td>
<td>New silicon metal factory in Helguvik with an annual production capacity of 21,300 tons.</td>
<td>New silicon metal factory in Helguvik with an annual production capacity of 54,000 tons.</td>
<td>Matorka produces environmentally friendly seafood powered by sustainable geothermal energy.</td>
</tr>
<tr>
<td><strong>No. of employees</strong></td>
<td>59</td>
<td>130</td>
<td>39</td>
</tr>
<tr>
<td><strong>Total investment in million EUR</strong></td>
<td>57.5</td>
<td>227.0</td>
<td>10.1</td>
</tr>
<tr>
<td><strong>Maximum NPV of regional aid in million EUR</strong></td>
<td>3.4</td>
<td>5.5</td>
<td>3.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Company</th>
<th>Silicor Materials</th>
<th>Algalíf Iceland</th>
<th>PCC BakkiSilicon</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sector</strong></td>
<td>Solar silicon manufacturing facility</td>
<td>Microalgae production</td>
<td>Silicon metal smelter plant</td>
</tr>
<tr>
<td><strong>About</strong></td>
<td>A manufacturer of solar silicon and aluminum alloy that is planning a manufacturing facility at Grundartangi.</td>
<td>A microalgae ingredient supplier for the nutraceutical, cosmetic and pharmaceutical industries.</td>
<td>A European corporation with around 3,000 in 17 countries. Silicon metal plant being raised in Bakki.</td>
</tr>
<tr>
<td><strong>No. of employees</strong></td>
<td>381</td>
<td>25</td>
<td>127</td>
</tr>
<tr>
<td><strong>Total investment in million EUR</strong></td>
<td>546.8</td>
<td>15.6</td>
<td>170.0</td>
</tr>
<tr>
<td><strong>Maximum regional aid in million EUR</strong></td>
<td>31.6</td>
<td>0.9</td>
<td>14.8</td>
</tr>
</tbody>
</table>
Regional aid map

A number of additional companies have received investment incentives in the past.

10 Regional incentives in Iceland
1,027 Total investments made in Iceland through the Regional Incentive Scheme since 2014 amount to 1,027 million euro.

59 million The total maximum regional incentives granted since 2014 amount to 59 million euro.

127 Each company that has entered into regional incentives contracts since 2014 has an average of 127 employees.
Are incentives available to you?
Late 2015 a parliamentary resolution was published regarding foreign direct investment (FDI) in Iceland. The resolution focuses on new investment opportunities.

If the investment project is within the focus points presented in the parliamentary resolution the Ministry is more likely to have a positive disposition regarding incentives.

1. **Projects that are based on Iceland’s strengths and competitive advantages**

2. **Projects that encourage economic diversity and secondary commercial activities**

3. **Projects that promote the growth of internationally competitive knowledge-based industries**

4. **Projects using the newest and best available technology and environmental practices**

5. **Projects that create domestic value added and have a multiplier effect, i.e. through cooperation with established Icelandic companies or through investment in Icelandic innovation firms**

6. **Projects that contribute as much value as possible and transfer new knowledge**
Key factors for you to consider

Iceland’s strengths and competitive advantages

The country’s main strengths are entailed in the following features:

• Renewable energy, particularly hydropower and geothermal power production and geothermal heat for industrial utilization. There are also significant hot and cold water resources available.
• A clean environment, cool climate, unique geology and Nordic attributes that align well with renewable resources in creating a desirable image for companies.
• Land availability, particularly in the vicinity of international airports and export harbours.
• Dependable infrastructure, including the power transmission system, internet connectivity and frequent air and sea transport.
• A highly educated labour force and significant entrepreneurial activity.
• Advantageous location, particularly regarding access to both markets on either side of the Atlantic Ocean and future shipping possibilities through the Arctic.
• Trade access to the European internal market and beneficial trade agreements with other countries, including a recent agreement with China.

Added economic diversity and secondary operations

Investments should align well with Iceland’s image and:

• result in independent secondary employment activities,
• create a high proportion of valuable jobs that strengthen the domestic knowledge base,
• attract highly-educated employees that are seeking challenging and well paid jobs,
• seek cooperation with the domestic science and innovation sectors, i.e. through joint R&D,
• can strengthen existing commercial operations, i.e. through the outsourcing of projects,
• support sustainable development.

International sector

Initial investments have an effect on the social and economic development. They affect for example the development of infrastructure, education and knowledge. Economic growth will largely be based on the growth of the international sector, which is a knowledge industry, and competes in the international market. It is therefore important to direct attention to opportunities for companies in the international sector in connection with initial investments.
**Best available technology**

Initial investments must provide a forum for the transfer of new knowledge, technical solutions and environmental guidelines. The implementation of best available technology fuels innovation and improves the knowledge base.

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**New knowledge**

It is important that public support for initial investments provide benefits to the economy. Initial investments should result in new products and services for export, creating a secure position in the global market. This creates value added in primary production, which again leads to new resulting operations in support sectors. The implementation of new knowledge is closely related to initial investments.

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**Multiplier effect**

Investors benefit from connecting to the domestic knowledge base, i.e. existing companies and the research of institutions and universities in the professional arena of the investor. This is of mutual benefit, because investors seek areas where the knowledge base is high and there are existing companies able to support the new operation. This creates a multiplier effect from the investment. This policy provides a basis for the creation of cooperation agreements with the relevant parties on the further development of particular aspects of the policy.
How to apply
The process of applying for regional incentives in Iceland

1st Phase  
Initiation

- Is your project eligible for incentives?
- Make your initial contact
- Formal application to the Ministry

2nd Phase  
Review and decision

- Committee review
- Minister’s decision

3rd Phase  
Contract and monitoring

- Contract offer
- Contract signed
- Monitoring and surveillance
The Regional Incentives Scheme applies to the whole of Iceland outside the capital area, as shown on the regional aid map on pp. 10-11. Incentives are for specific projects that fulfil the criteria outlined in legislation.

The annual turnover of the investment project must be at least 2.1 million euro / or the investment must create 20 permanent jobs during the first two years.

The applicant must demonstrate that the incentive is a condition for the investment being made in Iceland.

Criteria to be fulfilled according to the Act on Initial Investments:
- The establishment of a specific company in Iceland for the project
- The project starts after the investment contract has been signed
- 20% minimum own equity finance of the investment cost of the project
- A minimum operational period in Iceland of 10 years and information on whether the investment project is subject to environmental impact assessment (EIA) by law
- The incentives for initial investment in Iceland do not apply to investments in companies that provide services on the basis of legislation on financial undertakings, insurance operation or securities, nor to airports or energy production
Aid ceiling

The general aid ceiling is set at 15% of the initial investment. The maximum aid ceiling is higher for small and medium size enterprises, or 35% and 25% respectively. For large investments (exceeding 50 million euro) the aid ceiling decreases in line with the investment cost, in accordance with EU legislation on regional investment aid.

15%

Large enterprises are defined as enterprises which employ more than 250 persons and whose annual turnover exceeds 50 million euro or annual balance sheet total exceeds 43 million euro.

25%

Medium enterprises are defined as enterprises which employ fewer than 250 persons and whose annual turnover does not exceed 50 million euro or annual balance sheet total does not exceed 43 million euro.

35%

Small enterprises are defined as enterprises which employ fewer than 50 persons and whose annual turnover or annual balance sheet total does not exceed 10 million euro.

Incentives in the form of tax breaks and exemptions

The incentive contracts stipulates an amount which the company can draw on in the form of tax breaks and/or exemptions.

Income tax 15%  
Real estate fee 50%  
General social security 50%

The state or municipalities are authorized under the scheme to sell or lease a site for the investment project at a price regarded as below the market rate.

Exemptions may be granted from customs and excise duties on the import or domestic purchase of construction materials, machinery and equipment and other capital goods, as well as spare parts for the building and operation of the investment project.

The State is authorized to reduce the rate of income tax from 20% to 15% for a period of 10 years.

Real estate, equipment and moveable assets can be depreciated fully, leaving no residual value

Authorization to reduce the rate of real estate fee by 50%.

The State is authorized to reduce the rate of the general social security charges by 50% for 10 years.
In the early stages of exploring Iceland as a suitable location for your project, it is advisable to set up meetings with the appropriate people to determine the potential for the project in Iceland and if the incentive scheme applies.

In order to navigate the incentive process effectively, it is important to seek advice from professionals that have experience regarding the structure of the incentives and the overall procedure.

There are number of knowledgeable parties in Iceland that can help you through the first steps regarding incentives, namely Invest in Iceland, the Ministry, as well as stakeholders and professional firms.

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Formal application to the Ministry

Once a company has decided to seek incentives for its initial investment, it submits a formal application to the Ministry. The applicant must demonstrate the need for incentives in order for the investment to be realized.

- The application for incentives must be submitted on a special form published on the Ministry’s home page.
- Once the application is submitted to the Ministry, a committee of three members reviews the application.
- Detailed information must be included on the investment project, the parties behind it, the size of the enterprise and planned financing arrangements.
- The application for incentives with supporting documentation must be received before work begins on a prospective investment project in Iceland. Other required documents available on the Ministry’s homepage include a confirmation of reputation and a fill-out form regarding the category of aid and the company size.
- The applicant must submit a detailed business plan in an open spreadsheet format.
- Incentives will only be extended to applicants if calculations clearly indicate that the proposed investment will have both long-term and short-term positive effect on population development.

Data pack
Application for incentives for initial investment
Confirmation on reputation
Fill-out form regarding category of aid and company information
Detailed business plan including calculations showing positive effects of the investment on the region.
## Committee review

A basic premise of the committee’s evaluation process is that the applicant truly requires incentives for the project to be realized.

### Purpose of the committee

The committee’s purpose is twofold: deciding if the investment project should receive incentives; if so, how much. During the process, the committee must follow certain specifications set out by the EU, i.e. the basis of the decision, including the correct discount rate to evaluate the project.

### About the committee

The Committee on Incentives for Initial Investments consists of three members appointed by the Minister. The committee examines applications for incentives and submits recommendations to the Minister. The Minister of Industry and Innovation appoints two committee members on the basis of nominations from the Minister of Finance and Minister of Commerce. The third member, who serves as chairman, is appointed directly by the Minister of Industry and Innovation. The committee consults with the relevant municipalities on their involvement in prospective investment projects located in their jurisdictions. The committee may obtain opinions from experts regarding the various aspects of an application during the evaluation process.

### The process

1. **Review of documents by the committee**
2. **Review by external experts**
3. **Recommendations by municipal authorities**
4. **Request for further documentation**
5. If all criteria are met, applicant proceeds to Phase 3
Minister’s decision

The committee submits their recommendation to the Minister to either approve or reject an application for incentives. If the committee recommends an offer of incentives, the committee also demonstrates the reasons for the necessity and the intensity of the incentives proposed.

If the Minister decides to offer the applicant an incentives contract, the offer will be in accordance with the authorization stipulated in Act no. 41/2015 on Regional Incentives, and may consist of more than one type of incentive.
The terms of the incentive contract are standard. The contract is offered by the Ministry as is, and is non-negotiable.

The contract
As outlined in the Act on Initial Investments, the incentives contract includes provisions on the following:

- a definition and delimitation of the investment project in question
- a definition and delimitation of the legal entity granted the incentive under the contract
- what incentives are granted for the project
- the net present value of the incentives, i.e. the maximum incentives granted for the project under the contract
- how the incentive is to be applied to the project and over what time frame
- surveillance and recovery of the incentive if the contract terms are not met.

The contract is valid for a maximum of 10 years from the time that a payment obligation in respect of a tax or charge is formed, or would have been formed, for no more than 13 years from date of signature of agreement.
Signing of contract
If the applicant accepts the Minister’s offer of incentives, a contract is drafted between the applicant and the Minister, acting on behalf of the government and/or the municipality, as is applicable.

Monitoring and surveillance

Monitoring and surveillance of regional incentives in Iceland is based on requirements made by the EFTA surveillance authority (ESA). The monitoring and surveillance in Iceland are the same as in other countries.

Surveillance of the use of an incentive
To ensure the proper use of an incentive a beneficiary of the incentive must send to the Ministry an annual report on the progress of the investment project, the share of the incentive in its advancement, the total amount of state aid granted in the preceding year and specification of other commercial activities of the beneficiary, if any. The Ministry can request, that the information submitted to the Ministry by the company, to be certified by an Auditor.
Municipalities that grant investment incentives submit an annual report to the Ministry on the total amount of granted aid for each project during the preceding year.

Revocation and/or recovery of incentives
If a beneficiary of incentives knowingly provides false information or concealed information which influenced the granting of the incentive, the contract will be cancelled and the granted incentives recovered.

If aid is used for any purposes other than the investment project for which the incentive was granted, the incentive will be recovered. If it is revealed that an incentive to an entity has exceeded the levels permitted under this Act or the contract on the granting of the incentive, the excess amount will be reclaimed and further incentives discontinued.

If, within five years from the contract’s entry into force, the investment project has not materialized or is considerably different from what is outlined in the contract, the beneficiary must reimburse the incentives granted on the basis of the agreement.

If a beneficiary of incentives knowingly provides false information or concealed information which influenced the granting of the incentive, the contract will be cancelled and the granted incentives recovered.

The Ministry can request auditor review of any information submitted to the Ministry by the beneficiary.

After 1 July 2016, all regional incentives contracts in Iceland will be made publicly accessible by the Ministry.
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