



*cutting through complexity*

GLOBAL TRANSFER PRICING SERVICES

# Global Transfer Pricing Review

Iceland

[kpmg.com/gtps](https://kpmg.com/gtps)

TAX



# Iceland

## KPMG observation

The law that enacted the transfer pricing rules was passed year end 2013 and came into effect 1 January 2014. The Ministry of Finance aims to issue regulations in relation to transfer pricing in summer 2014, specifically expected to further describe the workings of the law and what should be included in the documentation.

As the transfer pricing rules became applicable on 1 January 2014 it is difficult to predict what Iceland's approach to Base Erosion and Profit Shifting (BEPS) will be. However, it is likely that a similar approach as the other Nordic countries will be taken.

## Basic information

### Tax authority name

Directorate of Internal Revenue (Ríkisskattstjóri).

### Citation for transfer pricing rules

Paragraphs 3-6 of Article 57 of the Icelandic Income Tax Act No 90/2003.

### Effective date of transfer pricing rules

1 January 2014.

### What is the relationship threshold for transfer pricing rules to apply between parties?

Direct or indirect ownership of more than 50 percent.

According to the law:

1. Legal entities that are part of a group according to Article 2 of Act 3/2006 on Annual Accounts or are under the direct or indirect ownership of control of two or more companies within the same group or
2. there is a majority ownership over a legal entity jointly by group companies either directly or indirectly or

3. legal entities that are directly or indirectly in majority ownership or controller by individuals that are related by family, i.e. married, siblings, etc. The same applies to individuals that are connected through business relations and investments.

### What is the statute of limitations on assessment of transfer pricing adjustments?

The statute of limitation is 6 years from the tax year end.

## Transfer pricing disclosure overview

### Are disclosures related to transfer pricing required to be prepared or submitted to the revenue authority on an annual basis (e.g. with the tax return)?

Yes, there will be a special form to be filed with the tax return.

### What types of transfer pricing information must be disclosed?

To be decided in the regulation by the Ministry of Finance.

### What are the consequences of failure to prepare or submit disclosures?

If affected taxpayers do not submit the form, the tax filings could be deemed incomplete. Providing insufficient or wrongful information can lead to penalty taxes being imposed on adjusted transfer pricing amounts in tax audits.

## Transfer pricing study overview

### Is preparation of a transfer pricing study required – i.e. can the taxpayer be penalized for mere failure to prepare a study?

No, there is no special penalty for the mere failure to prepare a study. However, there is a risk that a subsequent reassessment made by the tax authorities in a tax audit will attract penalty tax, due to providing insufficient information.

There is a requirement for affected taxpayers to prepare transfer pricing studies for each financial year. Taxpayers are given 45 days to submit the documentation upon written request from the Icelandic tax authorities, so

there is some time to finalize the report if targeted by the tax authorities. The transfer pricing study must be kept on file for 7 years.

**Other than complying with a requirement per the previous question, describe the benefits, if any, of preparing and maintaining a transfer pricing study?**

The benefits of having a prudent transfer pricing study are meeting the expectation of the tax authorities, i.e. mitigating the risk of the tax authority making adjustments on a discretionary basis, since preparing a prudent transfer pricing study will shift the burden of proof onto the tax authorities. In addition, the preparation of a prudent transfer pricing study might reduce the risk of penalty tax if a reassessment is made by the tax authorities.

**To satisfy the requirement and/or obtain the benefits, are there any requirements on when the transfer pricing study must be prepared and submitted?**

According to the law, the transfer pricing study must be submitted within 45 days of a written request from the tax authorities.

**When a transfer pricing study is prepared, should its content follow Chapter V of the Organisation for Economic Co-operation and Development (OECD) Guidelines?**

To be decided by the Ministry of Finance. However likely, yes.

**Does the tax authority require an advisor/tax practitioner to have specific designation in order to prepare or submit a transfer pricing study?**

No.

## Transfer pricing methods

**Are transfer pricing methods outlined in Chapter II of the OECD Guidelines acceptable?**

Yes.

**Is there a priority among the acceptable methods?**

No.

**If there is no priority of methods, is there a "best method" rule?**

No.

## Transfer pricing audit and penalties

**When the tax authority requests a taxpayer's transfer pricing documentation, how long does the taxpayer have to submit its documentation?**

Forty-five days.

**If an adjustment is proposed by the tax authority, are dispute resolution options available to the taxpayer outside of competent authority?**

The taxpayer can bring the case to the tax state internal revenue board and/or the courts.

**If an adjustment is sustained, can penalties be assessed? If so, what rates are applied and under what conditions?**

Yes. General tax penalties only: up to 25 percent of the tax avoided for transfer pricing adjustments.

**To what extent are transfer pricing penalties enforced?**

Not yet known as the rules just took effect 1 January 2014.

**What defences are available with respect to penalties?**

Taxpayers are obliged to disclose sufficient and correct information about their transfer pricing. The defense would thus generally be to argue that the taxpayer has complied with these requirements.

**What trends are being observed currently?**

Not applicable.

## Special considerations

**Are secret comparables used by tax authorities?**

Not applicable.

**Is there a preference, or requirement, by the tax authorities for local comparables in a benchmarking set?**

Not applicable.

**Do tax authorities have requirements or preferences regarding databases for comparables?**

Not applicable. Amadeus will most likely be used.

**What level of interaction do tax authorities have with customs authorities?**

Medium.

**Are management fees deductible?**

Yes.

**Are management fees subject to withholding?**

No.

**Are year-end transfer pricing adjustments permitted?**

Not applicable.

**Other unique attributes?**

Not applicable.

## Other recent developments

Not applicable.

## Tax treaty/double tax resolution

**What is the extent of the double tax treaty network?**

Extensive. Treaties with about 40 countries.

**If extensive, is the competent authority effective in obtaining double tax relief?**

No experience.

**When may a taxpayer submit an adjustment to competent authority?**

No formal rules exist in this area.

**May a taxpayer go to competent authority before paying tax?**

Permitted. Meetings with the Directorate of Internal Revenue. However, taxes become payable upon the tax office's decision being made, so generally taxes have to be paid prior to going to the competent authority.

## **Advance pricing agreements**

**What Advance Pricing Agreement (APA) options are available, if any?**

None.

**Is there a filing fee for APAs?**

Not applicable.

**Does the tax authority publish APA data either in the form of an annual report or through the disclosure of data in public forums?**

Not applicable.

**Please provide some information on how successful the APA program is and whether there are any known difficulties?**

Not applicable.

## **Language**

**In which language or languages can documentation be filed?**

To be decided.

### **KPMG in Iceland**

**Ágúst Karl Guðmundsson**

Tel: + 354 5456152

Email: [akgudmundsson@kpmg.is](mailto:akgudmundsson@kpmg.is)

---

As email addresses and phone numbers change frequently, please email us at [transferpricing@kpmg.com](mailto:transferpricing@kpmg.com) if you are unable to contact us via the information noted above.

[kpmg.com/socialmedia](http://kpmg.com/socialmedia)



[kpmg.com/app](http://kpmg.com/app)



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2014 KPMG International Cooperative ("KPMG International"), a Swiss entity. Member firms of the KPMG network of independent firms are affiliated with KPMG International. KPMG International provides no client services. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm. All rights reserved.

The KPMG name, logo and "cutting through complexity" are registered trademarks or trademarks of KPMG International.

Designed by Evalueserve.

Publication name: Global Transfer Pricing Review

Publication number: 131196

Publication date: June 2014