Global Transfer Pricing Review

Iceland

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TAX
The law that enacted the Icelandic transfer pricing rules was passed in 2013 and came into effect 1 January 2014.

On 23 December 2014, Regulation No. 1180/2014 on documentation and transfer pricing in transactions between related parties was issued by the Ministry of Finance. The Regulation became effective on 1 January 2015.

Under the Regulation, Icelandic legal entities or permanent establishments that 1) have transactions with related entities or permanent establishments and 2) have assets or turnover in excess of one billion ISK are subject to the transfer pricing documentation rules.

As the transfer pricing rules only 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.

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The Regulation became effective on 1 January 2015.

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:

- 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
- there is a majority ownership over a legal entity jointly by group companies either directly or indirectly; or
- 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.

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**Basic information**

**Tax authority name**
Directorate of Internal Revenue (Ríkisskattstjóri).

**Citation for transfer pricing rules**

**Effective date of transfer pricing rules**
1 January 2014.
What is the statute of limitations on assessment of transfer pricing adjustments?
The statute of limitation is six years from the tax year-end.

Transfer pricing disclosure overview
Are disclosures related to transfer pricing required to be submitted to the revenue authority on an annual basis (e.g. with the tax return)?
Yes. There is a special form to be submitted with the tax return.

The form has not been completed by the tax authorities but it is expected that it should be filed with the 2016 tax return (income year 2015).

What types of transfer pricing information must be disclosed?
Not applicable as the form has not been completed by the tax authorities.

What are the consequences of failure to 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
Can documentation be filed in a language other than the local language? If yes, which ones?
Yes. There is a special form to be submitted with the tax return.

The form has not been completed by the tax authorities but it is expected that it should be filed with the 2016 tax return (income year 2015).

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Transfer pricing methods
Does your country follow the transfer pricing methods outlined in Chapter II of the OECD Guidelines?
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.

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Does your country follow the transfer pricing methods outlined in Chapter II of the OECD Guidelines?
Yes.
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?
Unofficially they have said that pan-European comparables should be accepted and are preferable.

Do tax authorities have requirements or preferences regarding databases for comparables?
Not applicable. Amadeus will most likely be used.

Does the tax authority generally focus on the interquartile range in a TNMM analysis?
No.

Does the tax authority have other preferences in benchmarking? If so, please describe.
Not applicable.

What level of interaction do tax authorities have with customs authorities?
Medium.

Are there limitations on deductibility of management fees beyond the arm’s length principle?
No.

Are management fees subject to withholding?
No.

Are there limitations on the deductibility of royalties beyond the arm’s length principle?
No.

Are royalties subject to withholding?
Yes.

Are taxpayers allowed to file tax return numbers that differ from book numbers?
Yes. There is no practice regarding this available to date.

Other unique attributes?
Not applicable.