

# Iceland

## Transfer Pricing Country Profile

Updated February 2022

		SUMMARY	REFERENCE
<b>The Arm's Length Principle</b>			
1	<b>Does your domestic legislation or regulation make reference to the Arm's Length Principle?</b>	<input checked="" type="checkbox"/> <b>Yes</b> <input type="checkbox"/> <b>No</b>	Income Tax Act <a href="#">no. 90/2003</a> , article 57, paragraph 2 and 3.
2	<b>What is the role of the OECD Transfer Pricing Guidelines under your domestic legislation?</b>	The provisions of Article 57 Act no. 90/2003 do not contain a reference to the OECD TPG, but the provision takes into account the guidelines. Reference is made to the TPG in Regulation no. 1180/2014 on documentation and transfer pricing between related legal entities.	See article 2, 3, 6, 7, 9 and 10 in Regulation <a href="#">no. 1180/2014</a> .
3	<b>Does your domestic legislation or regulation provide a definition of related parties? If so, please provide the definition contained under your domestic law or regulation.</b>	<input checked="" type="checkbox"/> <b>Yes</b> <input type="checkbox"/> <b>No</b>  Legal entities are considered related when: a) They are a part of a group according to Article 2 of the Annual accounts act nr. 3/2006 or are under direct/indirect majority ownership or administrative control of two or more legal entities within the same group. b) one legal entity has direct or indirect majority ownership over another legal entity. c) if legal entities are directly or indirectly majority owned or under the administrative control of individuals who are connected through family ties, for example people who are married or equivalent, siblings and individuals who are directly related (kids, parents, grandparents).	Income Tax Act <a href="#">no. 90/2003</a> , Article 57, paragraph 4.

## Transfer Pricing Methods

4	<p><b>Does your domestic legislation provide for transfer pricing methods to be used in respect of transactions between related parties?</b></p>	<p><input checked="" type="checkbox"/> <b>Yes</b></p> <p><input type="checkbox"/> <b>No</b></p> <p>If affirmative, please check those provided for in your legislation:</p> <table border="1" style="width: 100%; text-align: center; border-collapse: collapse;"> <thead> <tr> <th style="padding: 5px;">CUP</th> <th style="padding: 5px;">Resale Price</th> <th style="padding: 5px;">Cost Plus</th> <th style="padding: 5px;">TNMM</th> <th style="padding: 5px;">Profit Split</th> <th style="padding: 5px;">Other (<i>If so, please describe</i>)</th> </tr> </thead> <tbody> <tr> <td style="padding: 5px;"><input checked="" type="checkbox"/></td> </tr> </tbody> </table> <p>The methods are put forth in Regulation nr. 1180/2014, not in the legislation itself. The box “other” is checked because the regulation leaves the door open for other methods to be used. For example, the EU code of conduct on transfer pricing documentation for associated enterprises in the European Union 2006/C 176/01 is referenced as a possible choice for legal entities in Article 15, paragraph 3 of the Regulation.</p>	CUP	Resale Price	Cost Plus	TNMM	Profit Split	Other ( <i>If so, please describe</i> )	<input checked="" type="checkbox"/>	<p>Article 9 of Regulation no. <a href="#">no. 1180/2014</a>.</p>					
CUP	Resale Price	Cost Plus	TNMM	Profit Split	Other ( <i>If so, please describe</i> )										
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>										
5	<p><b>Which criterion is used in your jurisdiction for the application of transfer pricing methods?</b></p>	<p>Please check all that apply:</p> <p><input type="checkbox"/> Hierarchy of methods</p> <p><input checked="" type="checkbox"/> Most appropriate method</p> <p><input type="checkbox"/> Other (<i>if so, please explain</i>)</p>													
6	<p><b>If your domestic legislation or regulations contain specific guidance on commodity transactions, indicate which of the following approaches is followed.</b></p>	<p><input checked="" type="checkbox"/> For controlled transactions involving commodities, the guidance contained in paragraphs 2.18-2.22 of the TPG is followed.</p> <p><input type="checkbox"/> Domestic legislation mandates the use of a specific method for controlled transactions involving commodities (<i>if so, please explain</i>)</p> <p><input type="checkbox"/> Other (<i>if so, please explain</i>)</p> <hr/> <p>There is no specific guidance in laws/regulations on this.</p>													

## Comparability Analysis

7	<b>Does your jurisdiction follow (or largely follow) the guidance on comparability analysis outlined in Chapter III of the TPG?</b>	<input checked="" type="checkbox"/> <b>Yes</b> <input type="checkbox"/> <b>No</b>	Article 10 in regulation <a href="#">no. 1180/2014</a> .
		<p>The analysis is prepared on the basis of internal and external comparative analysis with regard to the factors that have the most impact as described in the OECD TPG, characteristics of property/service, functional analysis, contractual terms, economic circumstances, business strategies.</p>	
8	<b>Is there a preference in your jurisdiction for domestic comparables over foreign comparables?</b>	<input type="checkbox"/> <b>Yes</b> <input checked="" type="checkbox"/> <b>No</b>	
9	<b>Does your tax administration use secret comparables for transfer pricing assessment purposes?</b>	<input type="checkbox"/> <b>Yes</b> <input checked="" type="checkbox"/> <b>No</b>	
10	<b>Does your legislation allow or require the use of an arm's length range and/or statistical measure for determining arm's length remuneration?</b>	<input checked="" type="checkbox"/> <b>Yes</b> <input type="checkbox"/> <b>No</b>	
		<p>The topic is not directly addressed in the legislation and because of that it is allowed but not required.</p>	
11	<b>Are comparability adjustments required under your domestic legislation or regulations?</b>	<input type="checkbox"/> <b>Yes</b> <input checked="" type="checkbox"/> <b>No</b>	
		<p>Comparability adjustments would be required in practice by tax administrations. According to Article 10 in Regulation 1180/2014 such adjustments shall be reported and explained.</p>	

## Intangible Property

12	<b>Does your domestic legislation or regulations contain guidance specific to</b>	<input type="checkbox"/> <b>Yes</b> <input checked="" type="checkbox"/> <b>No</b>	Article 8 in Regulation <a href="#">no. 1180/2014</a> .
----	---	--	---

	<b>the pricing of controlled transactions involving intangibles?</b>	<p>Article 8 in Regulation 1180/2014 states that a party subject to documentation needs to declare all intangible assets within a group that affects related transactions. Information about ownership, use, development, and maintenance needs to be documented as well as probable resale price and the present value of their expected income.</p> <p>No guidance is however about the pricing of such transaction.</p>	
13	<b>Does your domestic legislation or regulation provide for transfer pricing rules or special measures regarding hard-to-value intangibles (HTVI)?</b>	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
14	<b>Are there any other rules outside transfer pricing rules that are relevant for the tax treatment of transactions involving intangibles?</b>	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <p>Accounting and tax treatment of costs incurred in creating intangibles is usually capitalized if it is not connected to income of the accounting year. Such capitalized intangible assets, as well as purchased intangibles, are considered depreciable assets, as noted in points 4 and 5 of Article 33 and Article 48. They are declared as assets at cost value cf. Article 12 and 73, and are depreciated on a straight line basis at 15-20% per year cf. Article 37.</p>	Article 12, 33, 37 48 and 73 of the Income Tax Act no. <a href="#">no. 90/2003</a> .
<b>Intra-Group Services</b>			
15	<b>Does your domestic legislation or regulations provide guidance specific to intra-group services transactions?</b>	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <p>Icelandic domestic legislation does not contain specific guidance on the pricing of controlled intra-group services transactions and tends to rely on the OECD TPG.</p>	
16	<b>Do you have any simplified approach for low value-adding intra-group services?</b>	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <p>Icelandic domestic legislation does not contain specific guidance on the simplified approach for LVAS transactions and tends to rely on the OECD TPG.</p>	
17	<b>Are there any other rules outside transfer pricing rules that are relevant</b>	<input type="checkbox"/> Yes	

	for the tax treatment of transactions involving services?	<input checked="" type="checkbox"/> No	
<b>Financial Transactions</b>			
18	<b>[NEW]</b> Does your domestic legislation or regulations provide guidance specific to financial transactions?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
		Icelandic domestic legislation does not contain specific guidance on the pricing of controlled financial transactions and tend to rely on the OECD TPG.	
19	<b>[NEW]</b> Are there any other rules outside transfer pricing rules that are relevant for the tax treatment of financial transactions?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	Income Tax Act <a href="#">no. 90/2003</a> , Article 57. B.
		<p>Earning stripping rules are included in the Income Tax Act. The rules limit interest deduction to 30% of earnings before interest, taxes, depreciation, and amortisation (EBITDA). The rules apply in excess of ISK 100 million (approximately EUR 694 927) of interest expenses etc. The rules do not apply if:</p> <p>interest expenses are paid because of intra-loan transactions within a group that is authorised for joint taxation in accordance to the Icelandic Income Tax Act or if the group fulfils the requirements for joint taxation, when all companies are resident in Iceland;</p> <p>it is demonstrated that the equity ratio does not deviate more than 2% from the equity ratio of the group, or</p> <p>the taxpayer is a financial institution or insurance company, or a company owned by such parties and conducts similar operations.</p>	
<b>Cost Contribution Agreements</b>			
20	Does your jurisdiction have legislation or regulations on cost contribution agreements?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
		Icelandic domestic legislation does not contain specific guidance on cost contribution agreements and tends to rely on the OECD TPG.	

## Transfer Pricing Documentation

21	<p><b>Does your legislation or regulations require the taxpayer to prepare transfer pricing documentation?</b></p>	<p><input checked="" type="checkbox"/> <b>Yes</b></p> <p><input type="checkbox"/> <b>No</b></p> <p><i>If affirmative, please check all that apply:</i></p> <p><input type="checkbox"/> Master file consistent with Annex I to Chapter V of the TPG</p> <p><input type="checkbox"/> Local file consistent with Annex II to Chapter V of the TPG</p> <p><input checked="" type="checkbox"/> Country-by-country report consistent with Annex III to Chapter V of the TPG</p> <p><input type="checkbox"/> Specific transfer pricing returns (separate or annexed to the tax return)</p> <p><input checked="" type="checkbox"/> Other (specify):</p> <p>Master file and Local file are not required to be filed separately, there is no distinction made between the two in the legislation/regulations. The same information however needs to be filed but it does not need to come in the MF/LF form.</p>	<p>Income Tax Act <a href="#">no. 90/2003</a>, Article 57, paragraph 5.</p> <p>Article 3 of regulation <a href="#">no. 1180/2014</a> – CBC report.</p>
22	<p><b>Please briefly explain the relevant requirements related to filing of transfer pricing documentation (i.e. timing for preparation or submission, languages, etc.)</b></p>	<p>Transfer Pricing documentation shall be prepared for each financial year in Icelandic and/or English. Legal entities must be able to submit all documents if requested by the Tax Authorities within 45 days. Transfer pricing documentation shall be kept for seven years from the end of the financial year.</p> <p>CbC reports are to be filed within 12 months from the end of the financial year to the Tax Authorities. The report should be in English and on a specific form.</p>	<p>Article 13, 14 and 15 of regulation <a href="#">no. 1180/2014</a>.</p> <p>Income Tax Act <a href="#">no. 90/2003</a>, article 57, paragraph 5.</p> <p>Regulation no. 766/2019 on CBC reporting.</p>
23	<p><b>Does your legislation provide for specific transfer pricing penalties and/or compliance incentives regarding transfer pricing documentation?</b></p>	<p><input checked="" type="checkbox"/> <b>Yes</b></p> <p><input type="checkbox"/> <b>No</b></p> <p>The Icelandic Parliament passed into law on 31 May 2021 changes to Article 57 of the Income Tax Act no. 90/2003 to introduce new rules that allow Iceland Revenue and Customs to impose administrative fines on taxpayers that fail to fulfil their transfer pricing documentation obligations as set out in paragraph 5 of Article 57 of the Income Tax Act.</p> <p>Fines can amount up to ISK 3 million for each financial year that taxpayer has failed to fulfil their TP documentation obligations within 45 days. The fine shall amount to ISK 1.5 million if the taxpayer has submitted documents that are considered unsatisfactory and the taxpayer has not complied with the Director of</p>	<p>Not published yet in the Income Tax Act <a href="#">no. 90/2003</a> but has been entered into force as from May 31<sup>st</sup> 2021.</p>

		Internal Revenue's demands for improvements within 45 days. A fine may be imposed for a maximum of six income years, immediately preceding the year in which the fine is made to the max amount of ISK 6 million. If a taxpayer rectifies deficiencies within 30 days the amount of the fine shall be reduced by 90%. If improvements are made within two months, the amount shall be reduced by 60%. If improvements are made within three months, the amount shall be reduced by 40%.	
24	<b>If your legislation provides for exemption from transfer pricing documentation obligations, please explain.</b>	<p>The transfer pricing documentation obligation does not apply to minor transactions between related parties. A transaction is considered to be minor if it has limited economic scope and importance for the operation of the entity involved. They however need to be reported to the tax authorities. The exemption does not apply to transactions involving intangible assets. Please refer to Q27 for further information.</p> <p>Moreover, if the operating income of a legal entity in one financial year or if total assets at the beginning or at the end of the financial year is over ISK 1 billion the entity is required to file a CbCR.</p>	Regulation <a href="#">no. 1180/2014</a> , Article 12.
<b>Administrative Approaches to Avoiding and Resolving Disputes</b>			
25	<b>Which mechanisms are available in your jurisdiction to prevent and/or resolve transfer pricing disputes?</b>	<p>Please check those that apply:</p> <p><input type="checkbox"/> Rulings</p> <p><input type="checkbox"/> Enhanced engagement programs</p> <p><input type="checkbox"/> Advance Pricing Agreements (APA)</p> <p style="padding-left: 20px;"><input type="checkbox"/> Unilateral APAs</p> <p style="padding-left: 20px;"><input type="checkbox"/> Bilateral APAs</p> <p style="padding-left: 20px;"><input type="checkbox"/> Multilateral APAs</p> <p><input checked="" type="checkbox"/> Mutual Agreement Procedures</p> <p><input type="checkbox"/> Other (<i>please specify</i>):</p>	<a href="#">Iceland's MAP Profile</a>
		Iceland has detailed guidance and information on MAP published online. Moreover, please refer to Iceland's MAP profile for further information.	

### Safe Harbours and Other Simplification Measures

26	<b>Does your jurisdiction have rules on safe harbours in respect of certain industries, types of taxpayers, or types of transactions?</b>	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
27	<b>Does your jurisdiction have any other simplification measures not listed in this questionnaire? If so, please provide a brief explanation.</b>	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No  Article 12 of Regulation no. 1180/2014 is an exemption for minor transactions between related parties. The obligation to document does not apply to a minor transaction between related parties. It only needs to be stated that such transaction has taken place and that they are considered minor. Minor transactions refer to measures within each operating year that have limited the economic scope and importance for the operations of the party subject to documentation. If a party subject to documentation takes advantage of the exemption, it shall upon submission of the declaration explain the nature and scope of the transaction and why it falls under the exemption. The exemption does not apply to transactions involving intangible assets.	Article 12 of Regulation <a href="#">no. 1180/2014</a> .

### Other Legislative Aspects or Administrative Procedures

28	<b>Does your jurisdiction allow/require taxpayers to make year-end adjustments?</b>	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	
29	<b>Does your jurisdiction make secondary adjustments?</b>	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No  There is nothing on this in the laws or the Regulation.	

### Attribution of Profits to Permanent Establishments

30		<input checked="" type="checkbox"/> Yes  <i>In how many tax treaties?</i>	<a href="#">Tvísköttunarsamningar   Skatturinn - skattar og gjöld</a>
----	--	---	---

	<b>[NEW] Does your jurisdiction follow the Authorised OECD Approaches for the attribution of profits to PEs (AOA)?</b>	<p>In 4 treaties and it is part of Iceland's model tax treaty.</p> <p><i>If yes, how do you implement it in cases, where the old tax treaties do not contain the new version of Article 7 (OECD MTC 2010 and later)</i></p> <p>This issue has not come up in practice and it is unclear how it would be dealt with. Likely, Iceland will not be able to apply the AOA in cases where the tax treaty does not have the new wording.</p>	
		<input type="checkbox"/> No	
31	<b>[NEW] Does your jurisdiction follow also another approach?</b>	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
<b>Other Relevant Information</b>			
32	<b>Other legislative aspects or administrative procedures regarding transfer pricing</b>	N/A	
33	<b>Other relevant information</b> (e.g. <i>whether your jurisdiction is preparing new transfer pricing regulations, or other relevant aspects not addressed in this questionnaire</i> )	N/A	

For more information, please visit: <https://oe.cd/transfer-pricing-country-profiles>