Transfer Pricing
Country Summary

Iceland

March 2023

1. Introduction

Iceland is not part of the EU but a member country of OECD. Since 2016, Iceland has formal transfer pricing documentation requirements to submit the master file, local, country-by-country reporting and the notification of country-by-country reporting for qualifying multinational groups.

2. Laws & Regulations

a) References to OECD/EU/Local Rules

The Icelandic TP rules generally follow the OECD Guidelines. In line with Action 13 of the OECD Base Erosion and Profit Shifting project, Iceland implemented rules for the transfer pricing documentation in local regulations from 1 January 2016. The three-tier documentation approach includes explanations on Master file, Local file and CBCR accordingly, but it has material differences from OECD report template or format. There are some additional requirements are stipulated in the Regulation No. 1180/2014:

· Article 6: Any changes in transfer prices from previous years should be explained.

· Article 7: For service transactions, the taxpayer should be able to demonstrate the arm's-length nature of the allocation of costs and that the costs charged correspond to the benefit received.

· Article 8: Transactions involving intangible assets require additional information related to the intangible asset itself.

b) Definition of Related Party

The definition of related parties is regulated in Article 57(3) of the Icelandic Income Tax Act No. 90/2003:

Legal entities are considered connected in the meaning of paragraph 3 when:

a. they are part of the Consolidated Financial Statements pursuant to Article 2 of Act No. 3/2006, on Financial Statements, or are under direct and/or indirect majority ownership or administrative dominance of two or more legal entities within a consolidation, or

b. the majority ownership of one legal entity over another is present combined with direct and indirect discontinued, or

c. they are directly or indirectly majority-owned or under the administrative dominance of individuals who are associated with incendiary bonds, e.g. persons in marriage or established coexistence, siblings and individuals who are related to a straight catheter. ...

c) Nature of Transfer Pricing Documentation

Iceland is a member of the OECD and follows the OECD Guidelines. It also recognizes BEPS Action 13 for Transfer Pricing documentation.

d) Tax Havens & Blacklists

When a jurisdiction charges a CIT rate less than two-thirds of the Icelandic CIT rate, it will be defined as a "low tax country". It is clear that the enterprise which is located in tax havens are eligible for the tax avoidance regime if an Icelandic individual or legal entity owns or controls, directly or indirectly, more than 50 percent of it.

e) Advance Pricing Agreement (APA)

Iceland has no any bilateral APAs. Furthermore, it is uncertain whether it will be possible to obtain a unilateral APA.

f) Audit Practice

All limited company in Iceland are required to elect an auditor or inspector and have their annual accounts audited. A state-authorised public accountant must perform a full-scale audit for public limited companies. For publicly listed companies, except for a state-authorised public accountant, they still need to elect one more auditor.

3. Transfer Pricing Documentation

a) Level of Documentation

Iceland adopted the requirements of BEPS Action 13 of the OECD. The requirements apply as of financial years starting on or after 1 January 2016. This three-tiered approach to transfer pricing documentation requires:

(i) a master file (pursuant to Annex III to Chapter V of the TP Guidelines) containing standardised information on organization structure, description of business, intangibles and intercompany financial activities that is relevant for all MNE group members;
It should also be in line with Regulation 1180/2014. Apart from the OECD requirements, the following additional information should be contained:
- the past 3-year annual reports of the related parties. If not available, information should at least include the EBIT;
- how and what part of the business it has accrued and the main reasons for making loss; and
- a description of IP, including information on ownership, exploitation, development and maintenance of the IP and information on the likely resale price and the present value of expected future revenues.

(ii) a local file (pursuant to Annex II to Chapter V of the TP Guidelines) referring specifically to material transactions of the local taxpayer such as information on business units exceeding the crossborder transactions threshold, and general information on the company;

(iii) a Country-by-Country Report (pursuant to Annex III to Chapter V of the TP Guidelines) containing certain information relating to the global allocation of the MNE's income and taxes paid together with the list of all constituent entities of the MNE group included in each aggregation per tax jurisdiction.

The Tax Administration does not request as much detailed information from smaller and less complex enterprises (SME's included) than it does from large and complex enterprises.

b) Industry Analysis

By identifying value drivers for the relevant industry, a first indication of the level of profitability common in the industry is being given.

c) Company Analysis

A description of the management structure of the local entity, a local organization chart, and a description of the individuals to whom local management reports and the country(ies) in which such individuals maintain their principal offices.
A detailed description of the business and business strategy pursued by the local entity including an indication of whether the local entity has been involved in or affected by business restructurings or intangibles transfers in the present or immediate past year and an explanation of those aspects of such transactions affecting the local entity.

d) Functional Analysis

In conducting a functional analysis, an assessment is made of the significant activities and responsibilities that are performed by the related parties relevant to the Intercompany Transactions under review, the tangible and intangible assets that are employed and the risks that are borne in undertaking the business activities. Such an assessment is consistent with the recommendations that have been made in the OECD Guidelines at paragraph 1.51.

e) Choice of Transfer Pricing Method

The pricing methods are based on the OECD Guidelines. No methods are specified or prioritized by the provisions.

f) Economic Analysis – Benchmark Study

Iceland has no local benchmarking requirements. According to Article 14 of Regulation No. 1180/2014, the Directorate of Internal Revenue may request that a benchmark study be provided. On the basis of the OECD Guidelines, it recommends a fresh benchmarking search every third year with an annual update of the financial data.

g) Inter-company (IC) Legal Agreement

Although an Inter-company legal agreement formalizes the business and financial relationship between group entities, the legal agreements have a lower ranking since the OECD 2017 Guidelines made the ''conduct of parties'' the prevailing concept.

h) Financial Statements

Since the OECD 2017 Guidelines made the ''conduct of parties'' the prevailing concept, parties need to also make sure their conduct is in line with what is reported in their accounts.

i) Production Process for TP Relevant Returns, Documents, Forms and Financials

In the chart below, the existence of the filing requirements with the details of which format is used, the latest filing date, notification requirement and its deadline, thresholds to be applied in case it exists, and the required languages are demonstrated. These information can be seen respectively for CIT, master file, local file, CbCR, local forms, annual accounts and segmented P&L documentations.

	Prepare or File?	**Format**	**Deadline**	**Notification Deadline***	**Threshold* (Yes/No)**	**Local Language (Yes/No)*(If "No", it can be filed in English)**
Corporate Income Tax	File	IFRS	May, 31st.	No	Yes	No
Master File	Prepare	OECD Guidelines	May, 31st, (upon request in 45 days)	No	Yes	No
Local File	Prepare	OECD Guidelines	May, 31st, (upon request in 45 days)	No	Yes	No

CbCR	File	OECD Guidelines	December, 31st.	Yes	Yes	No
Local Form	File	Local GAAR Form RSK 4.28 (Annex CIT)	May, 31st.	No	Yes	Yes
Local Form	File	Local GAAR Form RSK 4.30 (CbCR)	December, 31st.	Yes	Yes	No
Local Form	File	Local GAAR Form RSK 4.31 (CbCR Notification)	January, 31st.	No	Yes	Yes
Annual Accounts	N/A	N/A	N/A	N/A	N/A	N/A
Segmented P&L	N/A	N/A	N/A	N/A	N/A	N/A
* Iceland has signed the MCAA agreement for the filing of CBCR.						
* Iceland does not request as much and detailed information from smaller and less complex enterprises (SME's included) than it does from large and complex enterprises.						

The TP documentation should be finalized along with the tax returns. The documentation is to be submitted only upon request by the Directorate of Internal Revenue, and the submission should be within 45 days.

- The Master File should be ready for submission within 45 days upon request. Notably, only if revenue in one fiscal year or total assets at the start or end of a fiscal year exceed ISK 1,000 million should the company prepare a Master File and Local File.
- The Local File should be ready for submission within 45 days upon request. A request cannot be put forward until after the filing date of the tax return.
- The Country-by-Country Report has to be filed no later than 12 months after the last day of the reporting fiscal year of the MNE group and the annual consolidated group revenue should be more than ISK 100 billion (EUR 750 million for the preceding accounting period.
- The Country-by-Country reporting notification form has to be filed no later than 1 month after the last day of the reporting fiscal year of the MNE group.

The statute of limitations period is six years prior to the year of assessment.

j) Mandatory Language

According to Article 15 of Regulation 1180/2014, the TP documentation should be available in Icelandic or English.

k) Notification Requirement

The CbCR notification deadline is no later than 12 months from the end of the financial year. The notification must include:
- name and company registration number of the Icelandic company submitting the form;
- name, TIN, address and country of residence of the ultimate parent company of the group;
- income year;

- check yes/no whether the ultimate parent company will be filing the report in its country of tax residence; and
- if no, name, TIN, address and country of residence of the company responsible for filing the report is required.

l) Record Keeping

Icelandic income tax legislation does not include any specific rules relative to keeping transfer pricing records or documentation.

m) Penalties and Interest Charges

Specific penalties from non-compliance in part or in full up to ISK 3 million apply in case of non-filing, incorrect or incomplete filing.