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Iceland Introduces New Transfer Pricing Rules

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Iceland's Parliament on January 1, 2014, adopted the OECD's Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations into Iceland's Income Tax Act. Regulations to provide additional guidance on documentation are currently being drafted.

Law no. 142/2013 of December 23, 2013, states that the Icelandic Tax Authorities (*Ríkisskattstjóri – RSK*) are authorized to evaluate and if appropriate adjust the price and/or contractual terms in transactions between associated enterprises if those terms are not comparable to those found in transactions between unrelated enterprises. This rule also applies to prices/contractual terms between enterprises and their permanent establishments. According to the new law, the term "transaction" includes general trade in goods and services, tangible and intangible assets, and any financial contracts.

Enterprises are considered associated if they are:

- part of a consolidated group, or are under direct or indirect majority ownership or managerial control of two or more enterprises within a consolidation;
- under majority ownership of one enterprise by another, in the aggregate both directly and indirectly; or
- directly or indirectly under majority ownership or managerial control of individuals related by marriage, family ties, or financial ties.

The law applies equally to enterprises with only domestic associated enterprises and those with foreign associated enterprises.

Enterprises with turnovers or total assets (at the beginning or the end of the fiscal year) in excess of ISK 1 billion in one fiscal year are obligated to document transactions with associated enterprises from the next fiscal year. Information regarding the nature and extent of those transactions must be preserved for seven years from the end of the relevant fiscal year. Moreover, enterprises must confirm that their documentation is satisfactory in their tax returns. An enterprise must comply with the tax authorities' request for access to information under the documentation obligation no later than 45 days after the request is made by the tax authorities.

Further details on the new law, including guidance on documentation requirements, will be set forth in regulations to be issued by the Minister of Finance and Economic Affairs. A ministerial working group has been established to draft the regulations, which are expected to be issued in June 2014.

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