

## Faroe Islands

The Faroe Islands has met all aspects of the terms of reference (OECD, 2021<sup>[1]</sup>) (ToR) for the calendar year 2022 (year in review), except for identifying all potential exchange jurisdictions for permanent establishment rulings (ToR I.A.2.1) and the timely exchange of information on future rulings (ToR II.B.6.2). The Faroe Islands receives two recommendations these points for the year in review.

In the prior year report, as well as in the 2019-2020 peer reviews, the Faroe Islands had received the same recommendations. The recommendations have been partially addressed, and are now targeted to specific ToR.

The Faroe Islands can legally issue two types of rulings within the scope of the transparency framework.

In practice, The Faroe Islands issued rulings within the scope of the transparency framework as follows:

Type of ruling	Number of rulings
Past rulings	0
Future rulings in the period 1 September 2019 – 31 December 2019	0
Future rulings in the calendar year 2020	1
Future rulings in the calendar year 2021	0
Future rulings in the year in review	0

As no exchanges took place, no peer input was received in respect of the exchanges of information on rulings received from the Faroe Islands.

## Information gathering process (ToR I.A)

422. The Faroe Islands can legally issue the following five types of rulings within the scope of the transparency framework: (i) preferential regimes<sup>1</sup> and (ii) permanent establishment rulings.

### **Past rulings (ToR I.A.1.1, I.A.1.2, I.A.2.1, I.A.2.2)**

423. For the Faroe Islands, past rulings are any tax rulings issued prior to 1 September 2019. However, there is no obligation for the Faroe Islands to conduct spontaneous exchange information on past rulings.

424. For the Faroe Islands, future rulings are any tax rulings within scope that are issued on or after 1 September 2019.

425. In the prior years' peer review reports, it was determined that the Faroe Islands had no processes in place for the record keeping of rulings for the purposes of the transparency framework. The Faroe Islands indicates that during the year in review, the Faroe Islands' tax administration TAKS implemented a rulings manual. TAKS is keeping record of all rulings that are issued and in scope of the Action 5 transparency framework. It now requires all taxpayers that apply for a rulings on preferential regimes to provide information on the related parties, the immediate parent entity and the ultimate parent entity. However, this information is not required for permanent establishment rulings. The Faroe Islands is therefore recommended to identify potential exchange jurisdictions with respect to permanent establishment rulings, as soon as possible (ToR I.A.1.2).

### **Review and supervision (ToR I.A.3)**

426. In the prior year's peer review report, it was determined that the Faroe Islands did not yet have a review and supervision mechanism under the transparency framework. During the year in review, the Faroe Islands took steps to implement a review and supervision mechanism. There are two departments within TAKS responsible for the issuing of rulings. Department managers are responsible for ensuring that the rulings and exchange jurisdictions are correctly identified. The prior year's recommendation can therefore be removed.

### **Conclusion on section A**

427. The Faroe Islands is recommended to put in place a process to identify all potential exchange jurisdictions for permanent establishment rulings (ToR I.A.1.2).

## Exchange of information (ToR II.B)

### **Legal basis for spontaneous exchange of information (ToR II.B.1, II.B.2)**

428. The Faroe Islands has the necessary domestic legal basis to exchange information spontaneously. The Faroe Islands notes that there are no legal or practical impediments that prevent the spontaneous exchange of information on rulings as contemplated in the Action 5 minimum standard.

429. The Faroe Islands has international agreements permitting spontaneous exchange of information, including being a participating jurisdiction in (i) the *Multilateral Convention on Mutual Administrative Assistance in Tax Matters: Amended by the 2010 Protocol* (OECD/Council of Europe, 2011<sup>[2]</sup>) ("the Convention"), (ii) the Nordic Convention on Assistance in Tax Matters and (iii) bilateral agreements in force with four jurisdictions.<sup>2</sup>

### **Completion and exchange of templates (ToR II.B.3, II.B.4, II.B.5, II.B.6, II.B.7)**

430. In the prior years' peer review reports, it was determined that the Faroe Islands is still developing a process to complete the templates on relevant rulings, to make them available to the Competent Authority for exchange of information, and to exchange them with relevant jurisdictions. Therefore, the Faroe Islands

was recommended to develop a process to complete the templates for all relevant rulings and to ensure that the exchanges of information on rulings occur in accordance with the form and timelines under the transparency framework going forward.

431. During the year in review, the Faroe Islands took steps to implement a process on the completion and exchange of templates. TAKS requires the department issuing the ruling to complete the Annex C template. Department managers are responsible that the template is filled out correctly, and that the summary section of the Annex C template is in line with the internal FHTP suggested guidance. The Competent Authority is responsible for the exchanges. The Faroe Islands does not yet have put timelines in place for the exchange of the information on rulings in line with the Action 5 transparency framework.

432. As no exchanges took place in the year of review, no data on the timeliness of exchanges can be reported.

### **Conclusion on section B**

433. The Faroe Islands is recommended to put in place a process to ensure that the exchanges of information on rulings occur in accordance with the form and timelines under the transparency framework going forward (ToR II.B.6).

## **Statistics (ToR IV)**

434. As there was no information on rulings exchanged by the Faroe Islands for the year in review, no statistics can be reported.

## **Matters related to intellectual property regimes (ToR I.A.1.3)**

435. The Faroe Islands does not offer an intellectual property regime for which transparency requirements under the Action 5 Report (OECD, 2015<sup>[3]</sup>) were imposed.

## **Summary of recommendations on implementation of the transparency framework**

<b>Aspect of implementation of the transparency framework that should be improved</b>	<b>Recommendation for improvement</b>
The Faroe Islands does not yet have a process in place to identify all potential exchange jurisdictions for permanent establishment rulings.	The Faroe Islands is recommended to put in place a process to identify all potential exchange jurisdictions for permanent establishment rulings. This recommendation remains unchanged since the 2019, 2020 and 2021 peer review reports, but is now targeted to the specific ToR that still needs to be put in place.
The Faroe Islands does not have a process for the timely exchange of information on rulings with relevant jurisdictions.	The Faroe Islands is recommended to put in place a process to ensure that the exchanges of information on rulings occur in accordance with the form and timelines under the transparency framework going forward. This recommendation remains unchanged since the 2019, 2020 and 2021 peer review reports, but is now targeted to the specific ToR that still needs to be put in place.

## References

- OECD (2021), *BEPS Action 5 on Harmful Tax Practices - Terms of Reference and Methodology for the Conduct of the Peer Reviews of the Action 5 Transparency Framework*, OECD Publishing, Paris, <https://www.oecd.org/tax/beps/beps-action-5-harmful-tax-practices-peer-review-transparency-framework.pdf>. [1]
- OECD (2015), *Countering Harmful Tax Practices More Effectively, Taking into Account Transparency and Substance, Action 5 - 2015 Final Report*, OECD/G20 Base Erosion and Profit Shifting Project, OECD Publishing, Paris, <https://doi.org/10.1787/9789264241190-en>. [3]
- OECD/Council of Europe (2011), *The Multilateral Convention on Mutual Administrative Assistance in Tax Matters: Amended by the 2010 Protocol*, OECD Publishing, Paris, <https://doi.org/10.1787/9789264115606-en>. [2]

## Notes

<sup>1</sup> 1) Tonnage tax regime; 2) International shipping regime.

<sup>2</sup> Parties to the Convention are available here: [www.oecd.org/tax/exchange-of-tax-information/convention-on-mutual-administrative-assistance-in-tax-matters.htm](http://www.oecd.org/tax/exchange-of-tax-information/convention-on-mutual-administrative-assistance-in-tax-matters.htm). Parties to the Nordic Convention on Assistance in Tax Matters are Denmark, Finland, Iceland, Norway and Sweden. The Faroe Islands also has bilateral agreements with Greenland, India, Switzerland and the United Kingdom. The bilateral agreements with Switzerland and India are the Danish tax treaties, which are territorially extended to include the Faroe Islands.



From:

## Harmful Tax Practices – 2022 Peer Review Reports on the Exchange of Information on Tax Rulings Inclusive Framework on BEPS: Action 5

Access the complete publication at:

<https://doi.org/10.1787/22bbeacc-en>

### Please cite this chapter as:

OECD (2023), “Faroe Islands”, in *Harmful Tax Practices – 2022 Peer Review Reports on the Exchange of Information on Tax Rulings: Inclusive Framework on BEPS: Action 5*, OECD Publishing, Paris.

DOI: <https://doi.org/10.1787/9ba076ce-en>

This document, as well as any data and map included herein, are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area. Extracts from publications may be subject to additional disclaimers, which are set out in the complete version of the publication, available at the link provided.

The use of this work, whether digital or print, is governed by the Terms and Conditions to be found at <http://www.oecd.org/termsandconditions>.