

# Faroe Islands

1. This report is the Faroe Islands' first annual peer review report. Consistent with the agreed methodology this report covers: (i) the domestic legal and administrative framework, (ii) the exchange of information framework as well as (iii) the appropriate use of CbC reports.
2. The first filing obligation for a CbC report in the Faroe Islands applies to reporting fiscal years commencing on or after 20 December 2019.

## Summary of key findings

3. The Faroe Islands implementation of the Action 13 minimum standard meets all the applicable terms of reference (OECD, 2017<sup>[3]</sup>) relating to the domestic legal and administrative framework, with the exceptions that:
  - It is recommended that the Faroe Islands take steps to amend legislation or otherwise clarify that an MNE Group should consider its requirement to file using the turnover for the year before any reporting year for comparison with the threshold.
  - It is recommended that the Faroe Islands take steps to amend legislation or otherwise clarify that there are no exemptions from the filing requirement for groups who meet the threshold requirement in the Faroe Islands.
  - It is recommended that the Faroe Islands take steps to amend legislation or otherwise clarify that a CbC report should be filed within 12 months of the end of the reporting period the report applies to.
  - It is recommended that the Faroe Islands take steps to implement procedures to ensure effective implementation of the filing requirement.
  - It is recommended that the Faroe Islands clarify that the annual consolidated group revenue threshold calculation rule applies in line with the OECD guidance on currency fluctuations in respect of an MNE Group whose Ultimate Parent Entity is located in a jurisdiction other than the Faroe Islands.
4. It is recommended that the Faroe Islands take steps to put in place an exchange of information framework that allows automatic exchange of information and have QCAAs in effect with jurisdictions of the Inclusive Framework which meet the confidentiality, consistency and appropriate use prerequisites and with which the Faroe Islands has an international exchange of information agreement in effect that allows for the automatic exchange of tax information.
5. It is recommended that the Faroe Islands take steps to implement processes or written procedures to ensure that the exchange of information is conducted in a manner consistent with the terms of reference (OECD, 2017<sup>[3]</sup>) relating to the exchange of information framework ahead of the first exchanges of information.
6. It is recommended that the Faroe Islands take steps to ensure that the appropriate use condition is met ahead of the first exchanges of information.

## Part A: The domestic legal and administrative framework

7. The Faroe Islands has published legislation and guidance that imposes and enforces a CbC filing requirement for fiscal years commencing on or after 20 December 2019.

***(a) Parent entity filing obligation***

8. The Faroe Islands has introduced a filing requirement which applies to Ultimate Parent Entities of MNE Groups above a certain threshold and which requires inclusion of all constituent entities.
9. The Faroe Islands legislation specifies that the threshold requirement applies to the turnover of an MNE group in the reporting year, rather than turnover over of the year before the reporting year as required by the standard.
10. It is recommended that the Faroe Islands take steps to amend legislation or otherwise clarify that an MNE Group should consider its requirement to file using the turnover for the year before any reporting year for comparison with the threshold.
11. The filing requirement applies to all MNE Groups that are fully taxable in the Faroe Islands. This may not apply for some non-resident entities and may therefore lead to some exemptions from the filing requirement, which are not in line with the standard.
12. It is recommended that the Faroe Islands take steps to amend legislation or otherwise clarify that there are no exemptions from the filing requirement for groups who meet the threshold requirement in the Faroe Islands.
13. It is recommended that the Faroe Islands clarify that the annual consolidated group revenue threshold calculation rule applies in line with the OECD guidance on currency fluctuations in respect of an MNE Group whose Ultimate Parent Entity is located in a jurisdiction other than the Faroe Islands.

***(b) Scope and timing of parent entity filing***

14. Primary legislation in the Faroe Islands sets a filing deadline within 12 months after the end of the reporting year but secondary legislation appears to set a deadline of the end of the reporting year itself.
15. It is recommended that the Faroe Islands take steps to amend legislation or otherwise clarify that a CbC report should be filed within 12 months of the end of the reporting period.

***(c) Limitation on local filing obligation***

16. The Faroe Islands has introduced local filing requirements, which apply to reporting fiscal years commencing on or after 20 December 2019.
17. No inconsistencies were identified with respect to the limitation on local filing obligations.

***(d) Limitation on local filing in case of surrogate filing***

18. The Faroe Islands' local filing requirements will not apply if there is surrogate filing in another jurisdiction.
19. No inconsistencies were identified with respect to the limitation on local filing obligations in the case of surrogate filing.

***(e) Effective implementation***

20. The Faroe Islands has provisions to apply a penalty to ensure compliance with the filing requirement but does not have a mechanism to check that all Ultimate Parent Entities and Surrogate Parent Entities that are required to file do so.
21. It is recommended that the Faroe Islands take steps to implement procedures to ensure effective implementation of the filing requirement.

## **Conclusion**

22. The Faroe Islands implementation of the Action 13 minimum standard meets all the applicable terms of reference (OECD, 2017<sup>[3]</sup>) relating to the domestic legal and administrative framework, with the exceptions that:

- It is recommended that the Faroe Islands take steps to amend legislation or otherwise clarify that an MNE Group should consider its requirement to file using the turnover for the year before any reporting year for comparison with the threshold.
- It is recommended that the Faroe Islands take steps to amend legislation or otherwise clarify that there are no exemptions from the filing requirement for groups who meet the threshold requirement in the Faroe Islands.
- It is recommended that the Faroe Islands take steps to amend legislation or otherwise clarify that a CbC report should be filed within 12 months of the end of the reporting period the report applies to.
- It is recommended that the Faroe Islands take steps to implement procedures to ensure effective implementation of the filing requirement.
- It is recommended that the Faroe Islands clarify that the annual consolidated group revenue threshold calculation rule applies in line with the OECD guidance on currency fluctuations in respect of an MNE Group whose Ultimate Parent Entity is located in a jurisdiction other than the Faroe Islands.

## **Part B: The exchange of information framework**

### ***(a) Exchange of information framework***

23. As of 31 March 2020, Faroe Islands has no bilateral relationships in place for the exchange of CbC reports. It is recommended that Faroe Islands take steps to have qualifying competent authority agreements in effect with jurisdictions of the Inclusive Framework that meet the confidentiality, consistency and appropriate use conditions and with which Faroe Islands has an international exchange of information agreement in effect that allows for the automatic exchange of tax information.

### ***(b) Content of information exchanged***

24. Faroe Islands does not have processes or written procedures in place that are intended to ensure that each of the mandatory fields of information required in the CbC reporting template are present in the information exchanged.

### ***(c) Completeness of exchanges***

25. Faroe Islands does not have processes or written procedures in place that are intended to ensure that CbC reports are exchanged with all tax jurisdictions listed in Table 1 of a CbC report with which it should exchange information as per the relevant QCAA.

### ***(d) Timeliness of exchanges***

26. Faroe Islands does not have processes or written procedures in place that are intended to ensure that the information to be exchanged is transmitted to the relevant jurisdictions in accordance with the timelines provided for in the relevant QCAs.

***(e) Temporary suspension of exchange or termination of QCAA***

27. Faroe Islands does not have processes or written procedures in place that are intended to ensure that a temporary suspension of the exchange of information or termination of a relevant QCAA would be carried out only as per the conditions set out in the relevant QCAA.

***(f) Consultation with other Competent Authority before determining systemic failure or significant non-compliance***

28. Faroe Islands does not have processes or written procedures in place that are intended to ensure that its Competent Authority consults with the other Competent Authority before making a determination of systemic failure or significant non-compliance with the terms of the relevant QCAA by that other Competent Authority.

***(g) Format for information exchange***

29. Faroe Islands has not confirmed the format that will be used for the international exchange of CbC reports.

***(h) Method for transmission***

30. Faroe Islands has not confirmed the mechanism that it will use to exchange CbC reports.

***Conclusion***

31. It is recommended that Faroe Islands take steps to have qualifying competent authority agreements in effect with jurisdictions of the Inclusive Framework that meet the confidentiality, consistency and appropriate use conditions and with which Faroe Islands has an international exchange of information agreement in effect that allows for the automatic exchange of tax information.

32. It is recommended that Faroe Islands take steps to implement processes or written procedures to ensure that the exchange of information is conducted in a manner consistent with the terms of reference (OECD, 2017<sup>[31]</sup>) relating to the exchange of information framework ahead of its first exchanges of information.

## **Part C: Appropriate use**

***Appropriate use***

33. Faroe Islands does not yet have measures in place relating to appropriate use.

34. It is recommended that Faroe Islands take steps to have measures in place relating to appropriate use ahead of the first exchanges of information remains in place.

***Conclusion***

35. It is recommended that Faroe Islands take steps to ensure that the appropriate use condition is met ahead of its first exchanges of information.

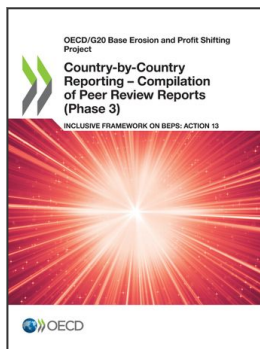
## Summary of recommendations on the implementation of Country-by-Country Reporting

Aspect of the implementation that should be improved		Recommendation for improvement
Part A	Domestic legal and administrative framework	<p>It is recommended that the Faroe Islands take steps to amend legislation or otherwise clarify that an MNE Group should consider its requirement to file using the turnover for the year before any reporting year for comparison with the threshold.</p> <p>It is recommended that the Faroe Islands take steps to amend legislation or otherwise clarify that there are no exemptions from the filing requirement for groups who meet the threshold requirement in the Faroe Islands.</p> <p>It is recommended that the Faroe Islands take steps to amend legislation or otherwise clarify that a CbC report should be filed within 12 months of the end of the reporting period the report applies to.</p> <p>It is recommended that the Faroe Islands take steps to implement procedures to ensure effective implementation of the filing requirement.</p> <p>It is recommended that the Faroe Islands clarify that the annual consolidated group revenue threshold calculation rule applies in line with the OECD guidance on currency fluctuations in respect of an MNE Group whose Ultimate Parent Entity is located in a jurisdiction other than the Faroe Islands.</p>
Part B	Exchange of information framework	It is recommended that Faroe Islands take steps to put in place an exchange of information framework that allows Automatic Exchange of Information and have QCAAs in effect with jurisdictions of the Inclusive Framework which meet the confidentiality, consistency and appropriate use prerequisites and with which Faroe Islands has an international exchange of information agreement in effect that allows for the automatic exchange of tax information.
Part B	Exchange of information framework	It is recommended that Faroe Islands take steps to implement the necessary processes or written procedures to ensure that the exchange of information is conducted in a manner consistent with the terms of reference relating to the exchange of information framework.
Part C	Appropriate use	It is recommended that Faroe Islands take steps to ensure that the appropriate use condition is met ahead of the first exchanges of information.

## References

OECD (2017), *Terms of reference for the conduct of peer review of the Action 13 minimum standard on country-by-country reporting*, OECD Publishing,  
<https://www.oecd.org/tax/beps/beps-action-13-on-country-by-country-reporting-peer-review-documents.pdf>.

[3]



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