



SPEKT

TAX FACTS 2012

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1 Residence and work permits

Requirement for residence and work permits depends on the nationality of the person. Different rules apply for Nordic citizens and citizens from other countries.

Decisions regarding residence and work permits are made by the Danish Immigration Service in Copenhagen.

Nordic citizens

Citizens of Denmark, Norway, Sweden, Finland and Iceland (the Nordic countries) can reside and work in the Faroe Islands without permission from the authorities. Nordic citizens that wish to come to the Faroe Islands as Au pairs or for educational purposes are also free to do so without permission from the authorities.

Citizens from other countries

Foreigners, who do not hold citizenship of a Nordic country, require a residence permit, if the purpose for staying in the Faroe Islands is not tourism. In order to work or conduct other similar activities in the Faroe Islands, a work permit is required, whether the work is paid for or not. Foreigners also require a work permit in order to conduct personal or private business in the Faroe Islands.

Visa requirements

Foreigners from countries with a visa requirement must obtain a visa prior to entering the Faroe Islands. A visa is only intended to allow foreign nationals to visit the Faroe Islands for a limited period of time. Foreigners that wish to work in the Faroe Islands or to reside in the Faroe Islands for an extended period of time have to apply for a work and/or residence permit. Questions regarding visas for travelling to and from the Faroe Islands can be put to the [Police Headquarters](#) in the Faroe Islands or to the [Danish Immigration Service](#). Information on residence and work permits in the Faroe Islands can also be obtained from the Faroese Immigration Office on their webpage www.utlendingastovan.fo.

2 Taxation of resident individuals

2.1 Tax liability

All residents are liable to taxation in the Faroe Islands. A foreign individual becomes resident for tax purposes, if accommodation is acquired and residence is taken up in the Faroe Islands. Non-resident individuals, who stay in the Faroe Islands for more than 180 days in a rolling 12-month period, are also liable to taxation as residents from the date of arrival.

Resident individuals are taxed on their worldwide income. The tax liability ends as soon as the individual leaves the Faroe Islands provided that accommodation in the Faroe Islands is no longer available for permanent use. Tax liability according to domestic law may be subject to tax treaty relief.

2.2 Taxable income for resident individuals

Resident individuals are taxed on their worldwide income. As a rule all income in money or in kind is treated as taxable income unless a specific tax exemption is provided in the tax legislation. Taxable income for resident individuals is divided between two types of income, regular taxable income and taxable capital gains income.

Regular taxable income

The most common types of regular taxable income are:

- Remuneration in cash
- Remuneration in kind, e.g. employer paid use of cars, accommodation, telephone and internet
- Net income from private business
- Net income from renting out of real estate
- Presents, grants and donations
- Certain types of continuous payments from pensions plans

Taxable capital gains income

Taxable capital gains income includes the following types of income:

- Interest from deposits, bonds and securities
- Dividends from shareholdings
- Gains/losses from disposal of shares
- Gains/losses from disposal of bonds and other securities

Wealth tax

No wealth tax is in effect in the Faroe Islands.

2.3 Income in Kind

Certain types of remuneration in kind are included in the regular taxable income at fixed annual rates that are published each year by the Faroese Tax Authorities.

Private use of a company car

The taxable rate for private use of a company car is fixed in proportion to the registered type and weight of the car. For 2012 the fixed taxable rates range from DKK 59,500 to DKK 91,400 for passenger cars, and from DKK 35,700 to DKK 54,840 for vans.

The taxable rate is based on private driving of 10,000 km for the year. If less private driving can be proven, the taxable rate can be reduced accordingly. Driving between home and workplace is considered as private driving.

Accommodation

The taxable rate for free accommodation depends on the square area that is available for accommodation. For 2012 the annual rate is set at DKK 765 per m². If free accommodation is only provided for a part of the year, the taxable amount is reduced accordingly. In addition free heating and free electricity are also taxed at fixed annual rates.

Telephone and Internet

The taxable rate for free use of telephone and/or internet is set at DKK 5,500 per year (2012).

2.4 Deductions in regular taxable income

In general private individuals cannot deduct any expenses in their regular taxable income. As such, no expenses to health, education, travel and housing can be deducted in the taxable income. Neither can gifts or donations of any kind be deducted in the taxable income.

Resident individuals can apply for subsidies for some of these expenses, see chapter on tax subsidies for further details.

In connection with personal income from ships or personal income from work in a foreign country, certain types of standard deductions are allowed.

Deduction in connection with income from fishing vessels

Personal income derived from fishing can be reduced by 14%. The deduction is, however, limited to 14% of DKK 470,000 corresponding to a maximum annual deduction of DKK 65,800.

Deduction for crew on board foreign vessels

Income from work on board foreign non-fishing vessels can be reduced by 30%. The deduction is, however, limited to 30% of DKK 500,000 corresponding to a maximum annual deduction of DKK 150,000. The reduced taxable income is taxed at a flat rate of 35%. The rules do not apply to income from ships registered in the Danish International Ships Register (DIS).

Crew on board vessels registered in the Faroese International Ships Register (FAS)

No deductions are allowed in connection with income from vessels registered in FAS. Income from such vessels is taxed at a flat rate of 35%.

Crew on board vessels registered in the Danish International Ships Register (DIS)

Income from vessels registered in DIS is included in the regular taxable income but tax relief is granted for the calculated tax that relates to the DIS income.

Deduction for expenses in connection with work abroad

Individuals working abroad or on board a foreign vessel for either 2 months straight or for at least 100 days in a 12 month period can deduct a daily amount of DKK 300 in the personal taxable income. The deductible amount is set at a fixed daily rate of DKK 300 regardless if the daily expenses are higher or lower than this amount.

Child allowance in the calculated income tax

For each child under the age of 18, an allowance is granted in the calculated tax. The annual allowance varies between DKK 8,500 and DKK 12,500 for each child depending on the municipal where the taxpayer resides. If the calculated tax before child allowance is lower than the child allowance, the excess amount is paid out to the individual.

Pensioner allowance in the calculated income tax

Individuals that receive disability pension are granted an annual allowance in the calculated tax. The annual allowance is DKK 10,500 for married persons and DKK 16,200 for single persons.

2.5 Pension Contributions

Different types of pension plans may be set up with a Faroese bank or a Faroese insurance company. Pension plans can be set up as:

- employer's pension plans where the contributions are paid either solely by the employer, or by the employer in conjunction with the employee
- private pension plans where an individual solely pays the pension contribution

Pension funds are normally inaccessible until age 60.

All contributions to pension plans after 1 January 2012 are taxed at source at 40% before the net payment is transferred to the insurance company or bank.

Continuous Pension Plans

For continuous pension plans, pension is usually paid out on a monthly basis until death. Pay out from a continuous pension plan from funds contributed before 1 January 2012 is personal taxable income. Pay out from funds contributed after 1 January 2012 is tax exempt. Paid in pension contributions can be deducted in personal taxable income.

Annuity Pension Plans

Annuity pension plans are pension plans, where the pension is paid out in equal payments over 10 years. Pay out from an annuity pension plan from funds contributed before 1 January 2012 is personal taxable income. Pay out from funds contributed after 1 January 2012 is tax exempt. Paid in pension contributions can be deducted in personal taxable income. Pension contributions to annuity pension plans are limited to DKK 100,000 per year (2012).

Capital Pension Plans

Capital pension plans are pension plans, where the pension is paid out in one payment. Paid in pension contributions can be deducted in personal taxable income. Pension contributions to a capital pension plan are limited to DKK 25,000 per year (2012). Capital pension pay outs from funds contributed before 1 January 2012 are taxed at flat rate of 35%. Early withdrawal of pension capital, before the age 60, is taxed at a flat rate of 55%. Early withdrawal of pension capital because of death or continued incapacity is, however, taxed at 35%. Pay out from funds contributed after 1 January 2012 are taxed exempt.

2.6 Income from private business and renting out of real estate

Net income from private business and renting out of real estate is included in the regular taxable income.

Private Business

Taxable income from private business encompasses all business related income including gains and recaptured depreciations in connection with sale of business related assets.

Operating expenses incurred during the year can be deducted in the taxable income. Common types of operating expenses are interest payments, salaries, rent, maintenance and advertising expenses.

Annual depreciation on plant, machinery, buildings, goodwill and other intangible assets can also be deducted in the taxable income. A closer description of the depreciations rules is provided in the chapter regarding company taxation.

Renting out of real estate

Taxable income from renting out of real estate for non-residential purposes is generally calculated according to the same rules as income from other types of private business, see above.

However, when real estate is rented out for residential purposes the taxable income can be calculated by using either of two allowable methods.

Method 1

The taxable income may be calculated according to the general rules, i.e. as net income after deduction of operating expenses. The net income is included in the regular taxable income. No taxable depreciation is allowed for properties that are rented out for residential purposes, unless the property has at least ten apartments. Furthermore, if the property is also used as the private residence for the owner, interest expenses cannot be deducted in the taxable income. In stead the owner may apply for interest subsidy, see below.

Method 2

In stead of deducting normal operating expenses, the owner can choose a standard deduction of DKK 24,000 per year. The net income after the standard deduction is not included in the regular taxable income but is in stead taxed separately at a flat rate of 25%.

Taxpayers are free to choose between method 1 or 2 for each year.

2.7 Capital gains income

All capital gains income earned by Faroese residents, irrespective of source, is subject to Faroese taxation according to the regulations in The Capital Gains Income Act.

Taxable capital gains income is pooled together in a separate tax return. Capital gains income from foreign sources may be subject to tax treaty relief.

Interest income

Interest on deposits in Faroese banks is taxed as capital gains income. The tax is payable by the account owner, but is withheld at source by the bank. Interest on deposits in foreign banks is also taxed as capital gains income.

Interest expenses

Interest expenses on loans to buy shares or bonds can be deducted in capital gains income. If there is no capital gains income, the interest may be carried forward as a deduction for the following five years. Interest expenses on loans for other purposes cannot be deducted in the capital gains income.

Shares

Gains and losses on disposal of shares are taxed as capital gains income. Gains or losses are calculated as sales value reduced by acquisition costs. For shares acquired before 16 November 2001, the acquisition cost is calculated as the commercial value of the shares as per 31 December 2006. Thus only the increase in value after 1 January 2007 is subject to taxation. Income from disposal of shares to the issuing company is taxed as dividend. The sales price without deduction of acquisition costs is included in the capital gains income. However, the tax authorities can allow that disposal of shares to the issuing company is taxed as a regular disposal of shares to a third party person, i.e. taxable income is calculated as sales value reduced by acquisition costs.

Liquidation proceeds

Liquidation proceeds, distributed in the calendar year in which the liquidation is finalized, are treated as disposal of shares, and the taxable income is calculated as the difference between liquidation proceeds and acquisition cost for the shares.

Liquidation proceeds, distributed before the year of the final liquidation, are taxed as dividend payments without deduction for acquisition cost.

Dividend

Dividend from a Faroese company is taxed as capital gains income. Dividends from foreign companies are also taxed as capital gains income. When paying out dividend to individuals, Faroese companies must withhold the dividend tax and pay the amount to the tax authorities within 14 days.

Bonds

Gains on disposal of bonds are taxed as capital gains income regardless if the bond is Faroese or from a foreign country. Gains on disposal of bonds are calculated as sales value reduced by acquisition costs.

Losses on disposal of bonds are only deductible for individuals, if the bond is registered on a stock exchange.

Debt relief

Debt relief is taxed as capital gains income, however, only to the extent that the debt is written off to an amount that is less than the market value of the debt.

2.8 Tax exempted income

Certain types of income are listed explicitly in the tax legislation as tax exempt. The most common examples of tax exempted income are:

- Public old age pension
- Social security payments, excluding public disability pension
- Income from sale of non-business related property, unless the property was acquired with the intention to sell on with a profit
- Insurance payments that are paid out as lump sum payments
- Travel expenses, room and boarding, paid by an employer when the employee is on a business trip or otherwise working away from the regular workplace
- The value of free food and accommodation for employees on board ships
- Income from testimonials
- The value of employer paid home computer
- Gifts between spouses and gifts to relatives up or down in a straight line – such gifts are tax free regardless of the value of the gift
- Gifts from employers on special occasions, provided that the value of the gift does not exceed certain limits
- Inheritance is exempted from the taxable income but at special estate tax has to be paid, see below
- Prizes from games are generally exempted from income tax but a special tax of 15% is charged on most paid out game prizes

2.9 Tax rates for resident individuals

All resident individuals pay state tax and municipal tax of their regular taxable income. In addition, members of the National Evangelical Lutheran Church also pay church tax of their regular taxable income.

Resident individuals pay a separate state tax on capital gains income. No municipal or church tax is levied on capital gains income.

State Tax Rates

State tax on regular taxable income is calculated based on a progressive tax scheme. For the income year 2012, state tax is calculated as follows:

If income is	but less than	tax is	of	and of the rest
65,000	500,000	0	65,000	20.0%
500,000	800,000	87,000	500,000	25.0%
800,000		162,000	800,000	30.0%

Municipal tax rates

Municipal tax applies to regular taxable income exceeding DKK 30,000. The rates, which are determined each year by the municipality where the taxpayer resides, vary between 16% and 23.5% (2012).

Tax ceiling

The total state and municipal tax paid on regular taxable income cannot exceed 50%.

Church tax rate

Church tax is levied at a rate of 0.6% to 0.9% of regular taxable income exceeding DKK 30,000. The church tax is payable by members of the National Evangelical Lutheran Church.

State tax on capital gains income

Capital gains income is taxed at a flat rate of 37% for 2012. For the years 2013 and 2014 the tax on capital gains income will be reduced by 1% per year until 1 January 2014 when the tax rate will be frozen at 35%.

3 Taxation of non-resident individuals

Non-resident individuals are liable to pay tax on certain types of income from Faroese sources.

3.1 Tax liability and taxable income

Remuneration for duties performed in the Faroe Islands is taxable provided that the remuneration is received from a Faroese resident employer or a foreign employer who carries out activities through a permanent establishment in the Faroe Islands. Travel and accommodation expenses paid by the employer are tax exempt provided that the individual stays in the Faroes for less than 180 days in a 12 month period.

Non-resident individuals are liable to taxation in the Faroes of income from ships registered in the Faroe Islands.

Non-resident individuals are also liable to taxation in the Faroes from royalty payments, dividend payments, income from renting out of real estate and income from private business carried out from a permanent establishment in the Faroes.

Tax liability according to domestic law may be subject to tax treaty relief.

3.2 Tax Rates for non-resident individuals

Non-resident individuals that only receive remuneration in cash, are taxed at a flat rate of 42% of their taxable income. No deductions are allowed in the taxable income.

Non-resident crews on board vessels registered in the Faroe Islands International Registry of Ships (FAS) are taxed at a flat rate of 35% of their taxable income. No deductions are allowed in the taxable income.

Non-resident individuals that have other types of taxable income, e.g. net income from private business or income from renting out of real estate, pay state and municipal tax at the same rates as resident individuals.

Non-resident individuals working for a non-resident employer in connection with Hydrocarbon activities in Faroese Waters are taxed at a flat rate of 35%.

Non-resident individuals working for a resident employer in connection with Hydrocarbon activities in Faroese Waters are taxed at flat rate of 42%.

Royalty payments to non-resident individuals are taxed at 25%. Dividend payments to non-resident individuals are taxed at 35%.

4 Tax collection for individuals

4.1 Withholding tax

All remuneration in the Faroe Islands has to be paid out through an approved clearing house. In practice this means that all remuneration is paid out through Faroese banks. The banks withhold the state, municipal and church taxes as well as various contributions to social security.

The withheld taxes and social security contributions are transferred and reported to the Tax Authorities by the banks. The net amount, after taxes and social contributions, is then transferred to the owners account.

Self-employed have to register their expected net annual income with the Tax Authorities and then pay the tax in 12 equal instalments during the income year.

Capital income from Faroese sources, e.g. interest and dividends, are subject to withholding taxes at source.

4.2 Income tax return

Individuals whose taxable income only consists of wages from a Faroese employer receive an annual tax statement from the authorities. The statement may also include deductions from contributions to private pension schemes. Only if the information on the tax statement is incorrect is the taxpayer required to file a tax return. The tax return has to be filed no later than 1 May in the year following the income year.

Individuals who have taxable income other than wages from Faroese employers have to file a tax return no later than May in the year following the income year.

Individuals with capital gains income other than interest from deposits in Faroese banks have to file a capital gains income tax return no later than May in the year following the income year.

4.3 Estate Tax

For deceased persons who were domiciled in the Faroe Islands at the time of death, estate tax is levied on their worldwide estate. If the deceased was domiciled outside the Faroe Islands, estate tax only has to be paid of the value of real estate in the Faroe Islands. The tax rate depends on the relationship between the beneficiary and the deceased as shown in the following table.

DKK		Group A	Group B	Group C	Group D
under	1,000	1.00%	4.00%	7.00%	10.00%
1,001 -	2,000	1.25%	4.25%	7.25%	10.25%
2,001 -	3,000	1.50%	4.50%	7.50%	10.50%
3,001 -	5,000	1.75%	4.75%	7.75%	10.75%
5,001 -	10,000	2.00%	5.00%	8.00%	11.00%
10,001 -	20,000	2.25%	5.25%	8.25%	11.25%
20,001 -	50,000	2.50%	5.50%	8.50%	11.50%
50,001 -	100,000	2.75%	5.75%	8.75%	11.75%
over	100,000	3.00%	6.00%	9.00%	12.00%

Group A: Spouse and children, including adopted children.

Group B: Parents and heirs of parents if they are not part of group A.

Group C: Grandparents or their heirs.

Group D: Distant relations or not related persons.

When the beneficiary is the state, churches, municipalities, associations, institutions etc. the estate tax is 10%.

4.4 Exit Tax

If a person terminates his residence in the Faroe Islands, or becomes a treaty resident abroad, no exit tax is applicable for assets such as shares, options, warrants, bonds or pension schemes. Exit tax is, however, applicable for assets which have been depreciated according to Faroese tax legislation. Such assets may include ships, houses, machinery and plant that have been used for commercial activities.

5 Tax Subsidies

Resident individuals can apply for tax subsidies in connection with certain types of private expenses.

5.1 Interest Subsidy

Resident individuals can apply for interest subsidy for loans to private housing (mortgage loan - buying or repairing) and for loans to pay for education. No subsidy is granted for private consumer loans.

For loans to private housing. Subsidy can only be granted from when residence is actually taken up. However, when a loan is taken to build a new private residence, subsidy can also be granted for a period of two years before residence is taken up. In such cases the subsidy is paid out retroactively after residence is taken up.

For loans to private housing subsidy can be granted to interest with an interest ceiling of DKK 140,000 per year. For the years 2013 and 2014 the ceiling will be lowered to DKK 130,000 and DKK 120,000 respectively.

There is no ceiling for interest on education loans.

In 2012 the interest subsidy is 37% of the interest. For the years 2013 and 2014 the subsidy rate will be lowered to 36% and 35% respectively.

After approval of an application, interest subsidy is paid out once a month.

5.2 Transportation Subsidy

For travel expenses to and from work, a subsidy may be granted at a standard rate provided that the daily transportation distance to and from work exceeds 15 km. For transportation distances above 15 km, the subsidy may be granted at the following daily rates.

Distance to and from work in km	DKK per day
15 to 30 km	5.50
30 to 50 km	13.00
50 to 64 km	19.50
64 to 102 km	25.50
102 to 124 km	30.50
124 to 146 km	35.50
146 to 168 km	40.50
168 to 190 km	45.50
190 to 212 km	50.50
Above 212 km	55.50

Special rates apply for trips by helicopter, ferry or passage through an underwater tunnel. These rates are:

	DKK per trip
Transportation by helicopter	16.90
Transportation by ferry to the South Island	16.90
Transportation by ferry to other islands	8.45
Passage through an underwater tunnel	8.45

Transportation subsidy can be granted for a maximum of 220 working days per year. Subsidy is paid out twice per year. A new application has to be submitted each time.

5.3 Other Subsidies

Subsidies may also be granted when resident individuals have expenses in connection with:

- housing due to continues work away from home
- alimony and child support
- education

6 Social Security

Resident individuals and employers are required to pay social security contributions to the unemployment insurance fund, the fund for maternity leave and the supplementary labour market pension fund. Resident individuals are also required to pay contribution to general healthcare.

6.1 Unemployment and maternity leave

Resident individuals, between the age of 16 and 67, working in the Faroe Islands for a Faroese employer, or working for a foreign employer who carries out activities through a permanent establishment in the Faroe Islands, are liable to contribute to the unemployment insurance fund (ALS) and to the fund for maternity leave (BAS). Contribution to the unemployment insurance fund and the fund for maternity leave is also obligatory for the employer. For both the employer and the employee the contributions to the funds are calculated of the gross taxable remuneration, however not of remuneration in kind. For the employer, the contributions have to be paid along with the remuneration, and for the employee the contributions are withheld by the bank together with the income taxes.

For 2012, the rates are as follows:

	ALS	BAS
Employer	1.25%	0.62%
Employee	1.25%	0.62%

For employees the contribution to the unemployment insurance fund is limited to DKK 6,500 per year. For employers the contributions to both the unemployment fund and the maternity leave fund are tax deductible. Self-employed persons can voluntarily contribute to the unemployment insurance fund and to the fund for maternity leave. The voluntarily contribution to the unemployment insurance fund is DKK 3,000 per year. The voluntarily contribution to the fund for maternity leave is DKK 500 per year. Voluntary contributions are not tax deductible.

Resident individuals working for a foreign employer can also voluntarily contribute to the unemployment insurance fund and to the fund for maternity leave. The voluntary contribution to the unemployment insurance fund is DKK 3,000 per year. The voluntary contribution to the fund for maternity leave is DKK 500 per year.

6.2 Supplementary labour market pension fund

In general all individuals, both resident and non-resident, have to contribute

to the supplementary labour market pension fund (AMEG). Furthermore, all resident employers and foreign employers, who carry out activities through a permanent establishment in the Faroe Islands, also have to contribute to the supplementary labour market pension fund.

The contribution for employees and self-employed is calculated on the basis of the regular taxable income. For employers the contribution is calculated on the basis of paid out remuneration.

For 2012, the rates are as follows:

	AMEG-contribution
Employer	1.75%
Employee	1.75%
Self-employed	1.75%

For the employer, the contribution is paid along with the remuneration. For the employee the contribution is paid together with the withheld tax on paid out remuneration. For employers the contribution is tax deductible.

6.3 Healthcare

Membership of the national health insurance is mandatory for all resident individuals at the age of 18 and above. A contribution of DKK 265 (2012) has to be paid each month. Except from this contribution, health care is generally free in the Faroe Islands, but exceptions apply to medicinal and dental treatment.

7 Company taxation

A company's taxable income consists of regular taxable income and capital gains income, both taxable at 18%.

Partnerships are not subject to company taxation. Partnerships prepare financial statements and each partner then declares their respective profit share on their personal income tax return.

7.1 Tax liability

A company is liable to taxation in the Faroes when it is incorporated under Faroese company law, or when its effective management is situated in the Faroe Islands.

Companies not resident in the Faroe Islands are subject to tax on certain types of income derived from sources within the Faroe Islands, including:

- income gained from a permanent establishment in the Faroe Islands
- profit from participation in enterprises with a permanent establishment in the Faroe Islands
- income from real estate located in the Faroe Islands
- dividend and royalties received from Faroese sources

Income may be subject to tax treaty relief.

7.2 Taxable income

Company income is divided between regular taxable income and capital gains income. The two types of taxable income are calculated separately and stated on separated tax returns.

Regular taxable income

General taxable income is computed on the basis of the annual accounts, adjusted to comply with prevailing tax rules. Deductions include most expenses, which would normally appear in the accounts, provided they are incurred in generating or maintaining the taxable income.

Expenses that are incurred in connection with establishment of a business or a new line of business, or expenses incurred in respect to creation of capital are not deductible.

In general, the accrual concept is followed. Thus, an expense is deductible in the year to which the expenditure relates rather than the year in which payment is made. General provisions are not allowable for tax purposes. Tax losses can be carried forward without time limitations. Tax losses cannot be carried back and offset against income from past years. A tax loss in regular taxable income can also be offset against a positive capital gains income.

Thin capitalization rules apply to loans to a Faroese company by a controlling foreign company if the debt to equity ratio exceeds 4:1. External debt where a group related party has provided security may also be covered by the thin capitalization rules. The limitation does not apply to debt on arm's length terms.

Parent companies and their wholly owned Faroese subsidiaries can apply for joint taxation. Foreign companies cannot be part of a joint taxation scheme with a Faroese company.

Capital gains income

Capital gains and losses on shares, bonds and other investment papers are included in the taxable capital gains income. For companies the total amount of the taxable capital gains income is pooled together in a separate tax return and taxed at a rate of 18 %.

The taxable income in connection with disposal of shares or bonds is calculated as the difference between sales price and acquisition cost. The acquisition cost for bonus shares is nil.

The acquisition value for shares acquired prior to 16 November 2001 is the commercial value of the shares as per 31 December 2006. Thus only the increase in value after 1 January 2007 is subject to taxation for shares acquired prior to 16 November 2001.

All dividend distributions to Faroese companies are tax exempt. Dividend distributions to foreign companies are subject to a withholding tax at 18%.

The dividend tax may be reduced according to provisions in tax treaties.

Liquidation proceeds, distributed in the calendar year in which the liquidation is finalized, are treated as disposal of shares. Liquidation proceeds, distributed before the year of the final liquidation, are taxed as dividends.

Tax losses in capital gains income can be carried forward without time limitations. Tax losses cannot be carried back and offset against capital gains income from past years. Tax losses in the capital gains income cannot be offset against positive regular taxable income.

7.3 Depreciations

Machinery and ships on a reduced balance.	30%
For cars registered for private use, the maximum depreciable amount is DKK 150,000	30%
If the initial expenditure of new machines etc. is DKK 20,000 or less, the expenses can be deducted immediately.	
Similarly, expenses concerning acquisition of software can be deducted immediately, irrespective of the amount.	
Industrial buildings, including necessary office- and storage facilities.	7% and 2%
Other buildings, including hotels, office- and warehouses where at least 75% of the floor space is used commercially including necessary storage facilities.	4% and 1%

Buildings are depreciated using the straight-line method. The higher rates for buildings can only be used the first 10 years. Depreciation of private houses is not allowed.

Recaptured depreciations and capital gains on property and plant, machinery, equipment, aircraft, ships and buildings are included in the regular taxable income.

For buildings capital gains are calculated on the basis of an indexed purchase value and actual sales price. Losses from sale of depreciable buildings are not deductible.

Goodwill and other intangible assets can be depreciated with 10% per year of the purchase price.

Ships and fishing licences are depreciated according to the same principles and with the same maximum rate as machinery and equipment, but in a separate pool. It is possible to take up to 45 % in advance depreciation on ships before they are brought into operation. Advance depreciation is based on the cost price in the purchase agreement. Advance depreciation cannot exceed 15% of the purchase price per year. After delivery, normal depreciation is calculated on the purchase price reduced by any advance depreciation.

The acquisition cost of fishing days and fishing quotas may be expensed in the year of acquisition.

7.4 Tonnage Taxation

Faroese companies that carry on shipping activities (transporting people or goods) can choose to be taxed according to the tonnage taxation scheme. Under the tonnage tax scheme the taxable income is not based on a profit and loss account. Instead a deemed income is calculated based on the company's total net tonnage.

The deemed income is taxed at the normal corporate tax rate of 18%. The deemed income is calculated by multiplying the numbers of the days in a year that a vessel is in operation by the following rates:

Net tonnage for each vessel	DKK per 100 NT per day
Up to 1.000	6
1.001 – 10.000	4
10.001 – 25.000	3
More than 25.000	1

7.5 Hydrocarbon Taxation

Licensees

Licensees are liable to an income tax of 27% of income derived from hydrocarbon production. In principle, the taxable income of a licensee is calculated according to the same rules as for companies subject to regular taxable income.

However the Minister for tax affairs is entitled to decide on the adoption of norm prices for extracted hydrocarbons for the purpose of assessing taxable income. If a norm price is adopted, the norm price shall be equal to the market price charged in trading between independent parties on an arm's length basis.

The acquisition costs of licences, permits and other rights may be depreciated at equal yearly amounts over a period of five years. Capital gains from the disposal of a hydrocarbon licenses are taxed at 27%.

In addition to the regular income tax, companies holding a hydrocarbon license shall pay a royalty of 2% of the revenue of hydrocarbons produced. Furthermore, licensees may be liable to pay an additional progressive rent resource tax on super normal profits.

7.6 Tax collection for companies

Companies must file their tax returns on 1 July at the latest in the year following the year in which the accounting year ends. Company tax regarding

regular taxable income is payable in 3 instalments in October, November and December. Company tax regarding capital gains income is payable in one instalment.

The same rules and rates prevail for a branch office or a permanent establishment set up in the Faroe Islands by a foreign company.

In a joint taxation scheme the parent company is responsible for filing the tax returns and paying the calculated taxes for all the companies in the joint taxation.

Tax relief may be granted on income from a permanent establishment abroad.

8 Value Added Tax

Faroese value added tax (VAT) is levied at a standard rate of 25% on the net invoice price for supply of goods and services.

8.1 VAT liability

All enterprises with activities subject to VAT and with a turnover exceeding DKK 30,000 per year are obliged to register with the tax authorities and charge VAT.

VAT is charged on the basis of the net invoice price of goods delivered and services provided, including all costs incurred such as packing, freight, insurance, installation and commission.

VAT is charged on all taxable imports from outside Faroe Islands and is paid to the tax authorities by the importer. The taxable value for imported goods is the value as determined for import duty purposes. Exports of goods and certain services are zero-rated for VAT purposes.

VAT on Sales

Most services and all goods supplied in the Faroe Islands are subject to VAT. However, supply of the following services is exempt from VAT:

- Hospital, medical and dental care
- Education
- Certain cultural activities and sports
- Personal transportation
- Financial and insurance transactions
- Sale and rental of real estate (voluntary registration is an option)
- Betting, gambling and lotteries
- Literary, compositional and other artistic activities
- Travel agencies

VAT on Purchases

VAT registered businesses can normally recover all VAT expenses, except VAT on expenses such as:

- Purchases related to business activities that are exempt from VAT
- Meals and housing for the owner and employees of a business enterprise
- Purchases of automobiles for private transportation
- Gifts

8.2 Foreign enterprises

Foreign enterprises with activities subject to Faroese VAT are obliged to

register with the tax authorities if they have established a place of business or a place of residence in the Faroe Islands.

Foreign enterprises selling goods or services in the Faroe Islands, without having a place of business or a place of residence in the country, are obliged to register with the tax authorities through a Faroese VAT representative. The foreign enterprise and the Faroese VAT representative will be jointly liable for the payment of VAT. However, a foreign enterprise, which exports goods directly to a Faroese importer, is not liable to register, as the importer is responsible to pay the VAT (reverse charge). Foreign enterprises from Iceland can be registered without a Faroese VAT representative.

Foreign enterprises selling services in the Faroe Islands, without having a place of business or a place of residence in the country, are obliged to register with the VAT authorities unless reverse charge rules apply, see below.

Reverse charge

Reverse charge rules always apply when a foreign enterprise supplies the following services to a buyer in the Faroes regardless if the buyer is VAT registered or not:

- transfers and assignments of copyrights, patents, licences, trademarks and similar rights
- advertising services
- services of consultants, engineers, lawyers, accountants and other similar services
- data processing and the provision of information
- supply of staff
- supply of services by intermediaries, acting in the name and on behalf of other persons

Reverse charge rules also apply when a foreign enterprise supplies the following services to a VAT registered buyer in the Faroes:

- services in connection with real estate
- work in the Faroes on movable tangible property
- telecommunications services
- radio and television broadcasting services

8.3 Registration and filing requirements

At least 8 days before a VAT activity is undertaken, the registration with the Tax Authorities has to be in place.

VAT returns are due within one month and ten days after the end of each

quarter. However, the tax authorities may permit some businesses recovering VAT regularly to file returns on a monthly or a weekly basis.

The net VAT due must be paid no later than the last date of filing of the VAT return. If VAT is recoverable, the excess amount is normally refunded within three weeks after the return has been filed.

Foreign enterprises that are not VAT registered in the Faroe Islands may claim reimbursement of VAT expenses incurred in the Faroe Islands by filing a claim with the tax authorities. The reimbursement is only available to the extent that a similar Faroese enterprise may recover VAT on purchases of a corresponding nature in accordance with the Faroese VAT Act.

8.4 Payroll Tax

Payroll tax is levied on financial and insurance services as well as on VAT exempt medical services.

Payroll tax is payable by the following enterprises:

- financial institutions and insurance companies
- private medical institutions

The payroll tax rate is 2.5% for medical institutions and 10% for financial institutions and insurance companies. The calculation basis for medical institutions that are operated as private businesses is the payroll adjusted for taxable income. For medical institutions operated as a public or a private company the calculation basis is the total payroll. For financial institutions and insurance companies, the calculation basis is the total payroll.

9 Customs and Excise Duties

9.1 Customs Duties

Goods imported into the Faroe Islands from outside the country may be subject to customs duties. The basis of the charge varies with the classification of the goods imported. Industrial goods manufactured in or originating in the European Union, Iceland, Norway or Switzerland are exempt from import duties.

9.2 Excise Duties

Excise duties are levied on a variety of commodities, including alcoholic beverages, tobacco, tea, coffee, chocolate, confectionery and motor fuel. Excise duties are normally levied on the producer or the importer when the commodities are imported.

10 Import of Private Cars

A registration tax is levied on the importation of private cars. The registration tax is in two parts, a value based tax and a carbon dioxide tax.

Value based tax

For cars that are registered for private use, the value based tax is 50% of the cost price up to DKK 100,000 and 75% of the cost price above DKK 100,000. Insurance and freight are included in the cost price (CIF).

No value based tax is paid for electric cars that are registered before 1 January 2015.

For cars that have been registered abroad before importation to the Faroe Islands the original cost price is reduced by 10% for each year before the value based tax is calculated. For cars that have been registered abroad for more than 5 years before importation to the Faroe Islands the original cost price is reduced by 50% before the value based tax is calculated.

Carbon dioxide tax

The carbon dioxide tax is levied according to how much carbon dioxide is emitted by a car per kilometre.

CO2 emissions (g/km)	CO2 tax (DKK/g)
Less than 120	20
Between 120 and 140	200
Between 140 and 180	300
Above 180	400

Importation of cars as removal goods

Persons, who stay in the Faroe Islands temporarily, can be granted permission to import a car for private use only for up to one year without having to pay registration taxes.

Income in Kind and other Tax Figures for 2011 and 2012

DKK	2011	2012
Free accommodation		
Value of free accommodation per m2	736	765
Free electricity	8,100	9,100
Free heating	21,500	25,900
Free telephone and internet	5,800	5,500
Free board		
3 meals a day	58	58
2 meals a day	44	44
1 meal a day	33	34
Private consumption of goods		
Grocers	15,800	15,900
Bakers, selling groceries	13,100	13,200
Bakers	4,900	5,000
Company car		
Less than 1.100 kg	58,100	59,500
Between 1.101 kg and 1.300 kg	66,900	68,400
Between 1.301 kg and 1.500 kg	80,200	81,800
More than 1.500 kg	89,700	91,400
Vans and other cars		
Less than 1.100 kg	34,860	35,700

Between 1.101 kg and 1.300 kg	40,140	41,040
Between 1.301 kg and 1.500 kg	48,120	49,080
More than 1.500 kg	53,820	54,840
Private use of cars, taxi drivers	18,400	18,900

DKK	2011	2012
Limit on payment to capital pensions	25,000	25,000
Limit on payment to annuity pensions	100,000	100,000
Unemployment insurance fund	1.00%	1.25%
Compulsory labour market pension fund	1.75%	1.75%
Maternity leave fund	0.65%	0.62%
Deductions in calculated state and local taxes		
Personal allowance, pension, single	16,200	16,200
Personal allowance, pension, married	10,500	10,500
Deduction in state tax for each child	5,500	6,500
Interest subsidy	38%	37%
Tax ceiling	52%	50%

