SPEKT | løggildir grannskoðarar

TAX FACTS 2021

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1 Residence and work permits

Requirement for residence and work permits depends on the nationality of the applicant. Different rules apply to Nordic citizens and citizens from other countries. Decisions regarding residence and work permits are made by the Danish Agency for International Recruitment and Integration.

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

Citizens of other countries
Individuals, who do not hold citizenship of a Nordic country, require a work permit in order to work or conduct similar activities in the Faroe Islands. Application for a work permit can be submitted to the Danish Embassy or Consulate in the applicant's home country, or to the Danish Agency for International Recruitment and Integration.

EU-citizens
EU-citizens, who come to the Faroe Islands to work for a pre-approved Faroese employer, can undertake work immediately provided that the employee has been offered a job of at least 30 hours per week, and that a work permit application has been submitted to the local Police on the first day of work.

If an EU-citizen is promised work with a Faroese employer who is not pre-approved, the employee must not enter the Faroe Islands and start work until a formal work permit has been issued by the Danish Agency for International Recruitment and Integration.

Exception from work permit requirement
Certain activities can be carried out in the Faroe Islands without a work permit, if the period in the Faroe Islands is shorter than 3 months:

- Researchers and lecturers who have been invited to teach or lecture in the Faroe Islands
- Artists, musicians, performers or similar, who have made an agreement with an organiser in the Faroe Islands prior to their event
- Representatives of foreign companies or business organisations on business trips to the Faroe Islands
- Professional athletes and coaches, who stay in the Faroe Islands to take part in sporting events or to coach
- Fitters, consultants, or instructors hired to enter the Faroe Islands with the purpose to fit, install, inspect, or repair machines, equipment, computer programmes or similar items provided that certain criteria are met.

If the stay exceeds the 3 months period a work and residence permit is required.

Athletes
Foreign athletes can apply for a special work and residence permit (sport-permit) in the Faroe Islands. Certain conditions must be fulfilled to obtain the permit. The athletic or sportc club in the Faroe Islands must have agreed to pay the applicant a minimum wage per month. The monthly payment and other conditions must be evident in a written contract between the athletic or sports club and the athlete. Holders of a sport-permit can conduct additional work

with any employer on the sole condition that the payment from additional work does not exceed a certain amount per month.

Amounts are updated twice a year in May and August, see table below (DKK).

Athletes	From 1 August 2020	From 1 May 2021
Minimum wage per month	12,067	12,218
Maximum wage for additional work per month	11,139	11,278

Work and residence permit in relation to sport activities are granted for one year at the time.

Applications can be submitted to the local Faroese police station or the Danish Agency for International Recruitment and Integration (SIRI). Applications are available on the web page www.utlendingastovan.fo

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. Foreigners that wish to work in the Faroe Islands or to reside in the Faroe Islands for an extended period must apply for a work and/or residence permit.

Civil Registration Number (P-tal)

Non-residents who are subject to limited tax liability in the Faroe Islands must apply for a temporary civil registration number (p-tal) before they can receive salary for work in the Faroe Islands. Persons who take up residency in the Faroe Islands will receive a standard civil registration number.

Application form for temporary civil registration number is available on the web page www.taks.fo

Bank Account

To receive salary and pay tax in the Faroe Islands, individuals must also open a bank account in a Faroese bank. A Faroese civil registration number is required to open a Faroese bank account.

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 179 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 when the individual leaves the Faroe Islands with his family, if 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 Entry values for shares and other securities

When an individual becomes a tax resident of the Faroe Islands, a deemed acquisition value is assigned to his portfolio of shares and securities, based on the fair market value on the day when the individual became resident for tax purposes.

2.3 Taxable income for resident individuals

Resident individuals are taxed on their worldwide income. In general 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 regular taxable income and capital 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 and accommodation
- Net income from private business
- Net income from rent of real estate
- Presents, grants and donations

Capital income

Capital 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
- Debt relief

Wealth tax

No wealth tax is in effect in the Faroe Islands.

2.4 Income in Kind

Certain types of remuneration in kind are included in the regular taxable income at fixed annual rates that are published 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 2021, the fixed taxable rates range from DKK 56,000 to DKK 87,900 for cars registered for private use and from DKK 33,600 to DKK 52,740 for commercial vehicles. See table in chapter 13.

The taxable rate is based on private driving of 10,000 km for the year. If less private driving can be proven, the taxable amount can be reduced accordingly.

Driving between home and workplace is considered private driving.

Accommodation

The taxable rate for free accommodation depends on the square area that is available for accommodation. For 2021, the annual rate is set at DKK 1,095 per m^2. If free accommodation is only provided for part of the year, the taxable amount is reduced accordingly.

Electricity and heating

Employer paid electricity and heating are taxable income. For 2021, the taxable rate for electricity is DKK 10,300 while the taxable rate for heating is DKK 20,500. If free electricity and free heating is only provided for part of the year or lower consumption can be proven, the taxable amount is reduced accordingly. The rates apply regardless of the size of the house.

Free meals

Employer paid meals are taxed at fixed rates. For 2021, the rate is DKK 36 per day for one meal, DKK 48 per day for two meals, and DKK 63 per day for three meals.

2.5 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.

Residents can however apply for subsidies for some of these expenses, see chapter 6 on subsidies for further details.

Certain types of standard deductions are allowed in regular taxable income in connection with work on board ships or aircrafts or in connection with salary income from work in a foreign country.

Income from fishing vessels

A deduction of 14% is granted in income from work on board fishing vessels registered in the Faroe Islands or in another Nordic country. The deduction is, however, limited to 14% of DKK 470,000 corresponding to a maximum annual deduction of DKK 65,800.

Day-by-day deduction

Furthermore, an amount of DKK 300 per day at sea can also be deducted in income from work on board a fishing vessel registered in another Nordic country provided that the individual is at sea for either two consecutive months or 100 days in a 12-month rolling period. The deduction of DKK 300 per day is not granted for work on board Faroese registered vessels.

For income from work on board fishing vessels that are not registered in the Faroe Islands or in another Nordic country, see below.

Income from work abroad

A deduction of 30% is granted in income from work abroad, either on land or with foreign vessels. The deduction is limited to 30% of DKK 400,000 corresponding to a maximum annual deduction of DKK 120,000. 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), or to fishing vessels registered in another Nordic country, see below.

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

There is no deduction in income earned under 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 (exemption-method). The day-by-day deduction of DKK 300 per day is granted for each day at sea on board a DIS registered vessel.

A summarisation of deductions in personal income

The three types of deduction that are granted in personal income for resident individuals are summarised in the table below.

	14% Deduction	30% deduction	DKK 300 per day deduction
Faroese fishing vessels	+	-	-
FAS registered vessels	-	-	-
Other Faroese vessels	-	-	-
Work on land in the Faroe Islands	-	-	-
DIS registered vessels	-	-	+
Nordic registered fishing vessels	+	-	+
Other registered fishing vessels	-	+	-
Other foreign vessels	-	+	-
Nordic registered aircrafts	-	-	+
Other registered aircrafts	-	+	-
Work abroad on land or offshore	-	+	-

2.6 Deductions in calculated tax

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 14,200 and DKK 19,200 for each child under the age of 7, and between DKK 11.500 and DKK 16.500 for each child between the ages of 7 and 18. The allowance depends 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.

Pensioner allowance in the calculated income tax

Individuals who 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.

Individuals who receive old-age pension are also granted an annual allowance in the calculated tax. The annual allowance is DKK 6,000 in 2021 (DKK 3,000 in 2020).

2.7 Income from private business and rent of real estate

Net income from private business and rent 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 disposal of business-related assets.

Operating expenses incurred during the year can be deducted in the taxable income. Common types of operating expenses are interest, 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 depreciation rules is provided in the chapter on company taxation.

Rent of real estate

Taxable income from rent 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. Instead, the owner may apply for interest subsidy, see chapter on subsidies.

Method 2

Instead of deducting normal operating expenses, the owner can choose a standard deduction of DKK 100,000 per year. The net income after the standard deduction is not included in the regular taxable income but is instead taxed separately at a flat rate of 25%. To use this method, the property must be rented out to private individuals for residential purposes.

The chosen method is binding for a three-year period.

As of 2022 the standard deduction is reduced to DKK 50,000 per year.

2.8 Capital income

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

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

Interest income

Interest on deposits in Faroese banks is taxed as capital 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 income.

Interest expenses

Interest expenses on loans obtained before 1st January 2017 to buy shares or bonds can be deducted in capital income. If there is no capital income, the interest may be carried forward as a deduction in capital income in the following five years. Interest expenses on loans for other purposes cannot be deducted in the capital income.

Shares

Gains and losses on disposal of shares are taxed as capital income. Gains or losses are calculated as sales value reduced by acquisition costs.

For shares acquired before 16th November 2001, the acquisition cost is calculated as the fair market value of the shares as per 31st December 2006. Thus, only an increase in value after 1st 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 income. However, the Tax Authorities can allow disposal of shares to the issuing company to be taxed as a regular disposal of shares to a third-party person, where taxable income is calculated as sales value reduced by acquisition costs.

Entry value

When an individual becomes a tax resident of the Faroe Islands, a deemed acquisition value is assigned to shares and other securities, based on the fair market value on the day when the individual became resident for tax purposes.

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 taxable capital income. Dividends from foreign companies are also taxed as capital 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/securities

Gains and losses on disposal of bonds/securities are taxed as capital income. Gains and losses on disposals are calculated as sales value reduced by acquisition costs.

Losses on disposals of bonds/securities are only deductible for individuals if the bond is registered on a stock exchange.

Debt relief

Debt relief is taxed as capital income if the debt is written off to an amount that is less than the market value of the debt.

2.9 Exit Tax

When a person becomes tax resident in another country, and the total market value of his shares, bonds and securities is above DKK 100,000, he is deemed to have disposed of his shares and securities. The market value is treated as sales price, and a gain or loss is calculated as the difference between acquisition value and the market value.

A gain or loss shall be declared on the capital income tax return.

Persons can apply for extension to pay the exit tax until the shares and securities are disposed. The extension is conditioned on the person providing a letter of credit from a bank.

2.10 Tax exempt income

Certain types of income are listed explicitly in the tax legislation as tax exempt. The most common examples of tax-exempt 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
- The value of employer paid phone and internet
- 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 a certain limit. Depending on the occasion, the limit varies between DKK 1,500 and 5,000.
- Inheritance is tax exempt, but a special estate tax has to be paid, see 5.3

2.11 Tax rates for resident individuals

All residents 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.

Residents pay a separate state tax on capital income. No municipal or church tax is levied on capital income.

State Tax Rates – Regular taxable income

State tax on regular taxable income is calculated based on a progressive tax scheme. For the income year 2021, state tax is calculated as follows:

If income is	but less than	tax is	of	and of the rest
65,000	235,000	0	65,000	15.0%
235,000	330,000	25,500	235,000	20.0%
330,000	800,000	44,500	330,000	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 22%.

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.

Tax on capital income

Capital income is taxed at a flat rate of 35% for individuals and 18% for companies.

3 Pension contribution

3.1 Mandatory pension savings in the Faroe Islands

All residents under the age of 67 are obliged to contribute to a private Faroese pension plan.

Individuals with employment in the Faroe Islands for a maximum period of 60 months can apply to the Faroese Tax Authorities to be exempt from contributing to a Faroese pension plan.

Individuals that work abroad for a Non-Faroese employer can apply to the Faroese Tax Authorities for exemption from contributing to a Faroese pension plan.

3.2 The pension contribution

In 2021, the pension contribution is minimum 7% of the regular taxable income. The mandatory pension contribution increases by 1% annually, until it reaches 12% in 2026.

An employer is obliged to transfer employee’s pension contributions to the Faroese Tax Authorities who then withhold the pension tax before the net contribution is transferred to the employee’s pension plan. Pension tax is calculated at progressive rates from 30% for annual income under DKK 235,000 and up to 40% for annual income of DKK 330,000 and above.

Residents with income from private business or income from rent of real estate shall pay the pension contribution at the latest on 1st November in the following income year.

Regardless of the above-mentioned rates, no individual is obliged to pay more than DKK 150,000 in annual pension contribution.

Personal contributions to a pension plan are deductible in the taxable income, while contributions made by an employer are not included in taxable income.

3.3 Pension pay-out

In general, a person can only receive pension pay-out from the day he has reached retirement age and at the latest at the first day he receives his public old age pension at the age of 67.

At least 45% of the pension savings must be paid out as a lifelong pension payment. The paid-out amount is calculated based on the average life expectancy and the amount that has been accumulated on the pension plan. The person will receive a monthly pay-out until death.

A person can choose to have up to 55% of the pension plan paid out as a 10-year annuity pension or choose to have up to 15% of the pension plan paid out as a lump-sum payment.

If a person dies before pension pay-out starts, the pension savings will go to the beneficiary according to the pension plan agreement. If the beneficiary is a spouse or cohabitee/partner they may choose to have all or parts of the deceased’s pension saving transferred to his or her own pension plan. If there is no beneficiary after the deceased, the pension savings are converted to a lump-sum and transferred to the estate of the deceased.

If a person dies after pension pay-out has commenced the remaining part of the annuity pension is paid out to his beneficiary according to the pension plan agreement.

All pension pay-outs are tax exempt.

3.4 Contributions of income subject to foreign taxation

Persons that are obligated to contribute towards a private pension plan from income earned abroad receive a tax credit in the Faroese pension tax for income tax paid abroad.

Example	
Income from work abroad	800,000
Foreign tax (example: 25%)	200,000
Mandatory Faroese contribution towards pension plan (7%)	56,000
Pension tax (56,000 x 40%)	22,400
Income tax paid abroad of pension contribution (56,000 x 25%)	14,000
Payable pension tax (22,400 - 14,000)	8,400
Transferred to pension plan (56,000 – 8,400)	47,600

4 Taxation of non-residents

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

4.1 Tax liability and taxable income

Remuneration for work 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 Faroe Islands for less than 180 days within a 12-month period.

Non-residents are liable to taxation in the Faroe Islands of income from vessels registered in the Faroe Islands, or from vessels that have been bare-boat chartered by a Faroese company.

Non-residents are also liable to taxation in the Faroe Islands from royalty payments, dividend payments, income from disposal of shares in Faroese companies, income from rent of real estate and income from private business carried out from a permanent establishment in the Faroe Islands.

Tax liability for non-residents according to domestic law may be subject to tax treaty relief.

4.2 Tax Rates for non-resident individuals

Non-residents 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 crewmembers on board vessels registered in the Faroe Islands International Registry of Ships (FAS) or on-board vessels that have been bare-boat chartered by a Faroese company are taxed at a flat rate of 35% of their taxable income. No deductions are allowed in the taxable income.

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

The municipal tax is based on the location of the business or real estate.

Non-residents working for a non-resident employer in connection with Hydrocarbon activities in Faroese Waters are taxed at a flat rate of 35%. If the employer is a resident, the non-resident is taxed at a flat rate of 42%. Royalty payments to non-residents are taxed at 25%, while dividend payments to non-residents and income from disposal of shares are taxed at 35%.

5 Tax collection for individuals

5.1 Withholding tax

All remuneration in the Faroe Islands must be paid out through a Faroese bank. The bank withholds the state, municipal and church taxes as well as contributions to social security.

Taxes and social security are reported and transferred by the bank to the local tax and social security authorities. The net amount, after taxes and social security is then transferred to the employee’s account. Self-employed must 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.

5.2 Income tax return

Persons, whose taxable income only consists of salary in cash from a Faroese employer, receive an annual tax statement from the Tax Authorities. A person is only required to file a tax return if the information on the tax statement is incorrect. The tax return must be filed no later than 1st May in the year following the income year.

Persons, who have taxable income other than salary in cash from Faroese employers, must file a tax return no later than 1st May in the year following the income year.

Persons with capital income other than interest from deposits in Faroese banks must file a capital income tax return no later than 1st May in the year following the income year.

5.3 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 must be paid of the value of real estate in the Faroe Islands. The estate tax rate depends on the relationship between the beneficiary and the deceased. Rates vary between 3% - 12%, although different rates below 3% apply to estate inheritance with a value less then DKK 100,000.

6 Subsidies

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

6.1 Interest Subsidy

Residents 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 when residence is taken up. However, during construction of a new private residence, subsidy can also be granted for a period up to two years before residence is taken up, and then paid out retroactively after residence has been taken up.

For loans to private housing, subsidy is granted with an interest ceiling of DKK 100,000 per year. There is no ceiling for interest on education loans.

The interest subsidy is 35% of the interest.

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

6.2 Transportation Subsidy

For travel expenses to and from work, subsidy may be granted at a standard rate provided that the daily transportation distance to and from work exceeds 20 km. For transportation distances above 20 km, the subsidy may be granted at the following daily rates.

Distance to and from work in km	DKK per day
20 to 30 km	6.00
30 to 50 km	14.50
50 to 64 km	21.50
64 to 102 km	28.00
102 to 124 km	33.50
124 to 146 km	39.00
146 to 168 km	44.50
168 to 190 km	50.00
190 to 212 km	55.50
Above 212 km	61.00

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 (Suðuroy)	16.90
Transportation by ferry to other islands	8.45
Passage through a sub-sea tunnel	8.45

The distance between home and work is determined as the shortest distance between home and the work according to the official road measures.

Transportation subsidy can be granted for a maximum of 220 working days per year. Subsidy is paid out twice per year in January and July. A new application must be submitted each time.

6.3 Other Subsidies

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

- housing due to continues work away from home in the Faroe Islands
- alimony and child support
- education

All subsidies are tax exempt.

7 Social Security

Social security in the Faroe Islands is divided into four separate contributions to the Unemployment Insurance Fund (ALS), the Maternity Leave Fund (BAS), the Labour Market Pension Fund (AMEG) and contribution to Healthcare.

7.1 Unemployment Insurance Fund (ALS)

All resident and non-resident employees between the ages of 16 and 67 who carry on work in the Faroe Islands are liable to contribute to the Unemployment Insurance Fund. Liability to contribute to the Unemployment Insurance Fund applies regardless of whether the employees are tax liable or not to the Faroe Islands.

Resident employees between the ages of 16 and 67 who carry on work in another Nordic Country are also liable to contribute to the Unemployment Insurance Fund if they elect to preserve social security in the Faroe Islands while working abroad. The provision does not apply to resident employees who carry on work in Denmark.

Non-resident employees from the other Nordic Countries who carry on work in the Faroe Islands are not liable to contribute to the Unemployment Insurance Fund if they elect to preserve social security in their country of residence while working in the Faroe Islands. The provision does not apply to employees resident in Denmark.

For employees, the contribution to the Unemployment Insurance Fund is limited to DKK 6,500 per year (2021).

All resident and non-resident employers that pay out salary to employees that are liable to contribute to the Unemployment Insurance Fund must also contribute to the Fund. No annual limit applies to the employer's contribution.

For employers, the contribution to the Unemployment Insurance Fund is tax deductible. Employees cannot deduct the contribution to the Unemployment Insurance Fund in their taxable income.

For both employers and employees the contribution to the Unemployment Insurance Fund is based on gross remuneration in cash at the following rates.

2021	ALS-contribution
Employer	1.00%
Employee	1.00%

Self-employed persons can voluntarily contribute to the Unemployment Insurance Fund. The voluntary contribution is DKK 3,000 per year. Voluntary contributions are not tax deductible.

7.2 Maternity Leave Fund (BAS)

All resident employees between the ages of 16 and 67 who carry on work in the Faroe Islands are liable to contribute to the Maternity Leave Fund. Non-resident employees are not liable to contribute to the Maternity Leave Fund unless their stay in the Faroe Islands exceeds 179 days in a 12-month period.

All resident employers end non-resident employers who carry out activities through a permanent establishment in the Faroe Islands must also contribute to Maternity Leave Fund.

Liability for employers applies to paid out remuneration to all employees, including resident and non-resident employees, regardless of age.

For employers, the contribution to the Maternity Leave Fund is tax deductible. Employees cannot deduct the contribution to the Maternity Leave Fund in their taxable income.

For both employers and employees the contribution to the Maternity Leave Fund is based on gross remuneration in cash at the following rates.

2021	BAS-contribution
Employer	0.86%
Employee	0.86%

Self-employed persons can voluntarily contribute to the Maternity Leave Fund. The voluntary contribution is DKK 500 per year. Voluntary contributions are not tax deductible.

7.3 Labour market pension fund (AMEG)

All individuals under the age of 67, both resident and non-resident, must contribute to the Labour Market Pension Fund.

Residents working in another Nordic country can apply for exemption to contribute to the Labour Market Pension Fund, provided they are covered by social security in another Nordic country. This provision does not apply to residents working in Denmark.

Non-residents from the other Nordic Countries who carry on work in the Faroe Islands are not liable to contribute to the Labour Market Pension Fund if they elect to preserve social security in their country of residence while working in the Faroe Islands. The provision does not apply to employees resident in Denmark.

All resident employers and non-resident employers who carry out activities through a permanent establishment in the Faroe Islands must also contribute to the Labour Market Pension Fund. Liability for employers applies to paid out remuneration to all employees, including resident and non-resident employees, regardless of age.

Self-employed persons under the age of 67 are also liable to contribute to the Labour Market Pension Fund.

Individuals and self-employed persons cannot deduct the contribution to the Labour Market Pension Fund in their taxable income. For employers, the contribution to the Labour Market Pension Fund is tax deductible.

For individuals and self-employed persons, the contribution to the Labour Market Pension Fund is calculated based on taxable income. For employers, the contribution to the Labour Market Pension Fund is calculated based on gross remuneration in cash.

For 2021 the following rates apply to contributions to the Labour Market Pension Fund.

2021	AMEG-contribution
Employer	3.00%
Employee	3.00%
Self-employed	3.00%

7.4 Healthcare

Membership of the national Healthcare Insurance is mandatory for all residents aged 18 and older. A monthly contribution of DKK 175 in addition to 0.70% of the taxable income must be paid each month. The contribution cannot be deducted in taxable income. Except from this contribution, health care is generally free in the Faroe Islands for residents and non-residents from the other Nordic countries. However, exceptions apply to medicinal and dental treatment. Note that hospital treatment for non-residents from outside the Nordic countries is not free in the Faroe Islands.

Employers and non-resident individuals do not pay contribution to healthcare in the Faroe Islands.

7.5 Broadcast Receiver Licence Fee

All residents over the age of 24 are obligated to pay a broadcast receiver licence fee. A contribution of DKK 150 must be paid each month. Residents who are 67 years and older pay DKK 50 per month.

Resident employers and non-resident employers who carry on activities in the Faroe Islands through a permanent establishment must also pay broadcast receiver license fee based on annual paid out remuneration in cash.

Annual remuneration (DKK)	License fee (DKK)
0 - 99,999	0
100,000 – 499,999	2,000
500,000 – 999,999	3,500
1,000,000 – 2,999,999	7,000
3,000,000 – 6,999,999	8,000
7,000.000 – 9,999,999	9,000
10,000,000 -	12,000

8 Common Business Forms

The most common business form in the Faroe Islands is the limited liability company, either as a Partafelag (P/F) or a Smápartafelag (Sp/f).

The minimum share capital of a P/F is DKK 500,000, while the minimum share capital of a Sp/f is DKK 50,000. With certain minor exceptions, the rules governing these company forms are the same.

To a certain extent, entrepreneurial companies (ÍVF) are also used. The capital requirement for an entrepreneurial company is DKK 1.

Non-residents can own shares in Faroese companies. However, ownership restrictions apply to certain industries, e.g., companies holding Faroese fishing licenses.

Other common business forms are individual proprietorships, general partnerships, and joint ventures.

Individual proprietorships are common for small businesses operated by a single entrepreneur. The sole proprietor has unlimited liability for debts and obligations of the business. There are no capital requirements.

Partnerships

A general partnership is an association of two or more persons having unlimited joint and personal liability. Income tax is levied on each partner as an individual and not on the partnership. A partner may be either an individual or a limited liability company. There is no specific partnership law in the Faroe Islands. Accordingly, it is advisable to draw up a partnership agreement. General partnerships have no capital requirements.

A limited partnership is an association of one or more general partners with unlimited liability and one or more limited partners, whose liability is limited to the amount of capital contributed to the partnership. Both the general partners and the limited partners can be either individual persons or limited liability companies. Income tax is not levied on each partner as an individual but is instead levied on the partnership. Limited partnerships pay income tax at a rate of 18%.

Joint ventures

Joint venture is a common business form in connection with e.g., construction projects. All corporate forms under Faroese law are applicable for joint ventures, but general partnerships are the most common form. There are no capital requirements for joint ventures formed as general partnerships. Income tax is levied on each partner and not on the joint venture.

In general, joint ventures are obligated to submit an annual report unless its accounts are included in the partners consolidated financial report i.e., full consolidation, pro-rata consolidation or recognition and measurement at book value.

Foreign branches and permanent establishments

Foreign companies may carry on business activities in the Faroe Islands either through a registered branch or through a permanent establishment for tax purposes.

A branch of a foreign must be registered with the Faroese company registration authority and the Faroese tax authorities, while a permanent establishment only needs to be registered with the tax authorities. Registered branches of foreign companies are required for long-term activities, while permanent establishments are commonly used for one-off projects.

Note that Danish limited companies cannot register a branch in the Faroe Islands, but can carry on activities through a permanent establishment in the Faroe Islands.

Summary of common business forms

	Limited company P/F or Sp/f	Branch	Permanent establishment
Main purpose	Limited companies carry out all types of business activities or function as a holding company	To carry on business activities in the Faroe Islands on behalf of a foreign entity	To carry on business activities in the Faroe Islands on behalf of a foreign entity
Registration	Registration with the Faroese Registration Authorities and the Tax Authorities	Registration with the Faroese Company Registration Authorities and the Tax Authorities	Registration with the Tax Authorities
Capital requirement	P/F - Minimum DKK 500,000 Sp/f - Minimum DKK 50,000	None	None
Liability	Limited	Unlimited for owner	Unlimited for owner
Management	P/F - Mandatory two-tier system (Board of Directors and Executive Management) Sp/f - Optional one or two-tier system	Managed by one or more branch managers	None
Place of management	No requirements regarding residency of Board Members or Management	No requirements regarding residency of branch manager	None
Accounting	Annual financial statement – audit is optional under certain conditions	A copy of the parent corporation’s financial statement must be filed to the Faroese Registration Authorities	None
Taxation	Subject to corporate income tax rate of 18%.	Subject to income tax rate of 18% on income from branch activities in the Faroe Islands	Subject to income tax rate of 18% on income from permanent establishment in the Faroe Islands
Corporate law	The Faroese Companies Act	The Faroese Companies Act	No corporate regulation of permanent establishments

9 Company taxation

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

Company taxation applies to limited companies and limited partnerships.

General partnerships are not subject to company taxation. General partnerships prepare financial statements and the partners then declare their respective profit share on their personal income tax returns.

9.1 Tax liability

A company is considered resident and liable to taxation in the Faroe Islands 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
- capital income from disposal of shares and convertible bonds in Faroese companies

For more on non-resident companies, see chapter 10 on foreign companies with activities in the Faroe Islands.

9.2 Taxable income

Companies resident in the Faroe Islands are subject to Faroese taxation on their worldwide income. Company income is divided between regular taxable income and capital income. The two types of taxable income are calculated separately and filed on separated tax returns.

Regular taxable income

Regular taxable income for companies is assessed based on the financial accounts with adjustments in accordance with applicable tax laws. All business-related income, including gains on sale of capital assets and recaptured depreciations, comprises the taxable basis. Expenses incurred to acquire, secure and maintain income can be deducted from the taxable income. Expenses related to establishment of a company or a new type of activity or expenses related 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 deductible for tax purposes.

Non-deductible expenses

Gifts, donations, penalties, fines and private expenses are examples of non-deductible expenses.

Valuation of Inventories

In general, inventories are valued at cost price. However, market value can be used instead, if it is evident that market value is lower than cost price. Inventory flow is recorded using First-in-first-out (FIFO) or Weighted-Average-Method. Last-in-first-out (LIFO) cannot be used.

Special provisions apply to goods that can no longer be sold with profit due to changes in style, technique, design, or other similar changes. Such bad selling goods can at year-end be valued at a percentage of the value at the beginning of the year as shown in the table below.

Years in inventory	Value
1-2 years	50 %
2-3 years	25 %
More than 3 years	0 %

Work in progress

In general, the completed-contract method is applied for tax purposes, where the value of work-in-progress is not included in the taxable income until the project is finalized and a gain or loss can be determined.

Expenses incurred regarding work in progress cannot be deducted until the year in which the work is completed. Similarly, advance payments received for such work shall not be recognized as taxable income until the year of completion.

The year of completion is the year in which the work has been finally carried out according to the agreement between the parties, even if minor/insignificant parts of the work may remain to be remedied.

Work in progress in connection with independent professional services from lawyers, doctors, accountants etc. can be included in the taxable income on a billed-basis.

Debtors

Loss on debtors is deductible when the debtor is written off for good. To support the deduction some form of specific reason shall be given for writing off the debtor, e.g. because the customer went bankrupt.

Debtors, that are more than 3 years old, and with a value of 3,000 DKK or less, can be written off without providing specific reason.

As a rule, provisions for bad debt in the annual accounts are not tax deductible. However, companies that have large amounts of debtors can deduct provisions for tax purposes. There is, however, no official practice of what constitutes a large amount of debtors.

Thin capitalization

Thin capitalization rules apply to loans from a controlling person or 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.

Tax losses

Tax losses can be carried forward without time limitations. Tax losses cannot be carried back and offset against income from prior years. A tax loss in regular taxable income can also be offset against a positive capital income. However, a tax loss in capital income cannot be offset against a profit in regular taxable income.

If more than 50 percent of the share capital or voting rights in a company that is without commercial activities or economic risk changes ownership within an income year, tax losses from prior income years are cancelled and cannot be carry forward and offset against future income.

If an agreement is made on debt reduction or debt cancellation of debt, tax losses for the income year, when the agreement is made, and tax losses from prior income years are reduced by an amount corresponding with the debt reduction or debt cancellation.

Conversion of debt to equity or convertible bonds is equated with debt reduction or debt cancellation. When debt is converted to equity or convertible bonds, tax losses are reduced by an amount corresponding to the difference between the market value and the nominal value of the converted debt.

Tax losses from income years prior to a tax-exempt merger cannot be carried forward and offset against taxable income after the merger. The provision applies to tax losses of all companies participating in the tax-exempt merger. Similar provisions apply in connection with tax exempt de-merger and tax-exempt transfer of assets.

For more information about mergers, de-mergers and transfer of assets see chapter 9.6 on corporate restructure.

Joint taxation

Companies who are part of a Faroese group can participate in a joint taxation scheme. Participating companies must be registered in the Faroe Islands and incorporated under Faroese legislation and have the same financial year.

Furthermore, all the participating companies must be 100% owned by the same Faroese parent company, either directly or indirectly. Foreign companies cannot be part of a joint taxation scheme with a Faroese company.

The net total of each company's taxable profits, computed in accordance with Faroese tax rules, constitutes the parent company's taxable profit. The joint taxation scheme can include both regular corporate income and capital income.

The parent company can choose which qualifying subsidiaries shall be included in the joint taxation scheme. There is no obligation to include all subsidiaries within the group. However, if a subsidiary company leaves a joint taxation with the parent company, it cannot be included again under the joint taxation.

The participating companies are jointly and severally liable for taxes related to years of joint taxation.

Application for joint taxation must be submitted before the filing deadline for tax returns for the income year when the joint taxation commences.

Tax returns

The deadline for submission of tax returns is July 1st in the calendar year following the end of the previous income year. The deadline applies to tax returns for both regular taxable income and capital income.

Companies with accounting periods other then the calendar year must also submit their tax returns on July 1st in the calendar year following the end of the income year.

The filing deadline can be extended under certain circumstances, although no longer than August 15th.

Penalty for late filing ranges between DKK 1,000 and DKK 5,000.

Tax collection
Company tax regarding regular taxable income is payable in three instalments in October, November, and December in the year after the end of the income year. Company tax regarding capital income is payable in one instalment in the year after the income year.

9.3 Depreciations

Plant Machinery and Equipment
Fixed assets such as plant and production machinery, fixtures, furniture, commercial vehicles, computer hardware and aircrafts may be depreciated for tax purposes on a pooled basis with a maximum of 30% depreciation each year using the declining balance method.

Depreciation on a pooled basis means that the assets are not separately identified for tax purposes. Since depreciation is calculated on a pooled basis, gains on sales of assets result in a reduced depreciation base on the pooled assets while losses are recovered through depreciation.

If the balance of the depreciation pool becomes negative i.e. the sales price exceeds the total net tax value, the negative balance can be carried forward to the next fiscal year. If the negative balance is not fully eliminated by the purchase of new assets in the following year, the remaining negative balance is treated as a capital gain in the subsequent year and added to taxable income.

If the depreciable balance is DKK 20,000 or less at the beginning of the income year, the remaining balance may be deducted from the taxable income (written off).

For vehicles registered for non-commercial use, a cost base of DKK 150,000 is allowed for depreciation. Vehicles registered for non-commercial use are not depreciated on a pooled basis.

Buildings
Buildings are depreciated using the straight-line method. Industrial buildings and hotels, including office- and storage facilities, can be depreciated with 7% of the acquisition value for the first 10 years, and with 2% of the acquisition value for subsequent years.

Other buildings, where at least 75% of the floor area is used for commercial purposes, can be depreciated with 4% of the acquisition value for the first 10 years, and with 1% of the acquisition value for subsequent years.

Buildings used for residential purposes cannot be depreciated.

Recaptured depreciations and capital gains from sale of buildings is included in regular taxable income. Capital gain is calculated based on an indexed purchase value and actual sales price. Losses from sale of buildings are not deductible in taxable income.

Research and Development
Research and development costs can be fully expensed when incurred or amortized over 4 years.

Intangible Assets

Acquisition cost of goodwill and other intangible assets may be amortized on a straight-line basis over 10 years. Upon on sale of goodwill and other intangible assets, any un-amortized value may be deducted from the sales price. Upon closure of a business, the value of un-amortized goodwill and other intangible assets may be written off.

Cost of software can be fully deducted in the acquisition year.

Ships and fishing licenses

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 construction cost of ships before they are brought into operation. Advance depreciation is based on the cost price and cannot exceed 15% per year of the total cost price. After delivery, normal depreciation is calculated on the purchase price reduced by the advance depreciation.

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

Summary

Declining balance method	
Plant, machinery and equipment	30%
Vehicles registered non-commercial use, the base for depreciation is DKK 150,000	30%
Ships and fishing licenses	30%
If the initial expenditure of new machines etc. is DKK 20,000 or less, the expenses can be deducted immediately.	
Acquisition cost of software can be fully deducted in the acquisition year	

Straight-line method	
Industrial buildings and hotels	7% and 2%
Other buildings - at least 75% for commercial use	4% and 1%
Goodwill	10%
Other intangible assets	10%

9.4 Capital income

Capital gains and losses on shares, bonds and other investment papers are included in the taxable capital income. For companies, taxable capital 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 value for bonus shares is nil.

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

Dividend, distributed in a calendar year in which a liquidation is finalized, is treated as disposal of shares.

Tax losses in capital income can be carried forward without time limitations. Tax losses cannot be carried back and offset against capital income from prior years. Tax losses in capital income cannot be offset against profits in regular taxable income.

Interest

Companies can deduct all commercial interest from taxable income, except interest on taxes owed, value-added-tax and tariffs.

Interest expenses on deposits (negative interest income) cannot be deducted in the taxable income.

Interests relating from debt on intercompany balances are tax deductible in calculating the Faroese taxable income. It is required, that interest is calculated on an arm's length basis.

No Faroese withholding tax is on interest paid to a foreign creditor.

9.5 Corporate restructure

Corporate restructure such as mergers, demergers, transfer of assets and exchange of shares are in general subject to taxation as sale of capital assets or disposal of shares.

However, such restructures can also be made as tax exempt transactions. Companies that are involved in a tax-exempt corporate restructure must be registered in the Faroe Islands and incorporated under Faroese law.

Mergers

In a tax exempt merger, the receiving company assumes all tax liabilities from the transferring company, thereby succeeding in the cost price and acquisition date of all assets and liabilities received. A tax exempt merger does not give rise to taxation for the involved companies.

Tax losses from income years prior to the merger for all companies participating in a merger cannot be carried forward to be offset against taxable income after the merger. An exception to this rule is when a subsidiary merges with its parent company and the companies have been filing a joint tax return for at least five years prior to the merger.

The shareholders of the transferring company are not taxed to the extent that their shares are exchanged for shares in the receiving company

Tax exempt mergers are not conditioned on prior approval from the tax authorities.

Demergers

In a tax exempt demerger, the same principles apply as in a merger, although the potential future tax-burden is divided between the demerged companies.

Tax exempt demergers require that the assets and liabilities that are transferred to the receiving company comprise an entire business activity that may continue in the receiving company, or that all assets in the transferring company are completely separated i.e., full demerger.

As a rule, a tax-exempt demerger requires prior approval from the tax authorities. However, a tax-exempt demerger can be also carried out without prior approval from the tax authorities, provided that the following objective conditions are met:

- companies which after the demerger own at least 10% of the capital in one of the participating companies cannot dispose of shares in the participating companies for a period of 3 years
- the transferring company must not have shareholders that have held shares for less than 3 years, without having the majority of the votes in the transferring company, and who after the demerger become shareholders in a receiving company where they hold the majority of the votes
- shareholders with controlling influence of the transferring company must be resident in the Faroes
- the value of the allotted shares in the receiving company/companies with the addition of a possible cash equalization must correspond to the market value of the transferred assets and liabilities
- the ratio between assets and liabilities transferred to the receiving company/companies corresponds to the ratio between assets and liabilities in the transferring company

Before at tax exempt demerger without prior approval is carried out, it is common practice to request a binding resolution from the tax authorities.

Transfer of assets

A tax exempt transfer of assets must comprise assets that constitute a branch or activity that is able to function as an independent operation. The acquisition value of shares received in exchange for a transfer of assets is calculated as the fair value of the transferred assets and liabilities less capital gains that would be realized if the transfer took place as a taxable transaction.

The receiving company can either be existent or newly formed. The tax consequences for the receiving company are the same as in a tax exempted merger.

As a rule, a tax exempt transfer of assets is conditioned on prior approval from the tax authorities. Transfer of assets can however be made without prior approval from the tax authorities provided that the transferring company does not dispose of shares in the receiving company for at period of 3 years.

Exchange of shares

An exchange of shares can be completed as a tax-exempt transaction provided that the acquiring company assumes control of more than 50% of the voting rights in the transferring company.

As a rule, a tax-exempt exchange of shares is conditioned on prior approval from the tax authorities. A tax exempt exchange of shares can however be carried out without prior approval from the tax authorities provided that the following objective conditions are met:

- the value of the allotted shares in the acquiring company with the addition of a possible cash equalization corresponds to the market value of the exchanged shares in the acquired company
- the acquiring company does not dispose of shares in the acquired company for a period of 3 years after the exchange

9.6 Transfer Pricing

Transfer pricing legislation applies to transactions with both resident and non-resident related parties. Specifically, transfer pricing rules apply to companies that:

- are controlled by individuals or legal entities
- control other legal entities
- are part of a group with other legal entities
- have a permanent establishment outside the Faroes
- have a permanent establishment in the Faroes

Companies subject to transfer pricing rules must apply the arm's length principle to transactions with related parties, and disclose the nature and extent of such transactions on their tax return.

"Control" is defined as the direct or indirect ownership of more than 50% of share capital or direct or indirect control of more than 50% of the voting rights in a legal entity.

Pricing methods

The transfer pricing methods stated in the OECD Transfer Pricing Guidelines are applicable. These are:

- comparable uncontrolled price (CUP) method
- cost-plus method
- resale price method
- transactional net margin method (TNMM)
- profit split method

Documentation requirements

Companies are obliged to prepare and maintain written documentation to justify that transactions with related parties have been conducted in accordance with the arm's length principle.

Transfer pricing documentation must be of such quality that it can serve as a basis for an assessment of whether prices and terms are in accordance with the arm’s length principle.

In general, the documentation must include:

- an overview of the group and its shareholders, including a legal chart, which specifies the percentage held by each owner.
- if any agreements on voting rights exist these should be submitted
- a description of how the group is organised and where these units are placed geographically
- a general description of the commercial activities
- sales and operating results from three years preceding the income year
- a description of historical changes and possible restructures, and changes in functions and risks as well as an explanation of potential losses

If requested by the tax authorities, transfer pricing documentation must be submitted within 60 days.

Companies that fulfil two out of three of the following conditions for two successive fiscal years are exempt from transfer pricing documentation requirements.

- balance sheet up to DKK 36 million
- net turnover up to DKK 72 million
- average of 50 employees

9.7 Special tax regimes

Harvest tax on salmon farming

Companies that carry on salmon farming in the Faroe Islands pay a special harvest tax. The special harvest tax is based on average price per kilo of salmon per month, and the amount of gutted salmon in kilos during that month.

The gutted salmon in kilos for each month is multiplied by the average price per kilo for that month and then multiplied by a set tax rate. Average price per kilo for each month is determined according to the Fish Pool Index™.

Average price per kilo	Tax rate
DKK 36 or more	5.0%
Between DKK 32-36	2.5%
DKK 32 or less	0.5%

Example.

2021	Harvest tax calculation
Gutted salmon for one month (kilos)	1,000,000
Average price per kilo according to the Fish Pool index™ (DKK)	35.00
Tax base	1,000,000 x 35.00
Taxable harvest income (DKK)	35,000,000
Tax rate	2.5%
Payable harvest tax (DKK)	875,000

Surcharge tax on sale of fishing rights

As of 2020, an additional surcharge tax is levied on sale of fishing rights and disposal of shares in Faroese companies that hold fishing rights. The surcharge is calculated as the difference between acquisition cost and sales price. For companies, the applicable tax rate is 50%.

The surcharge tax is only applicable to "final disposals" of fishing rights i.e., disposals where the holder permanently relinquishes the fishing rights.

Corporate restructures in companies holding fishing rights may also trigger payment of the surcharge tax, even if the restructure might otherwise qualify as tax exempt for the purpose of regular taxable income and capital income.

Tonnage Taxation

Faroese companies that carry on shipping activities can elect to compute the taxable income according to the tonnage taxation scheme. Under the tonnage tax scheme, the taxable income is not based on the profit and loss account. Instead, the taxable income is calculated based on the net tonnage of ships covered by the tonnage taxation scheme.

Election to use the tonnage taxation scheme is binding for a period of 3 years.

Qualifying companies
Public and private limited companies that are registered in the Faroe Islands can elect to use the tonnage taxation scheme to compute the taxable income. General partnerships and limited partnerships can elect to use the tonnage taxation scheme, provided that all the participating partners are either public or private limited companies that are registered in the Faroe Islands.

Qualifying ships
In order to qualify for tonnage taxation a ship must have a gross tonnage of at least 100 GT and has to be registered in the Faroese International Ship register (FAS) or the regular Faroese ship register.

Qualifying activities
The tonnage taxation scheme is limited to income from certain qualifying activities derived from qualifying ships. Core activities covered by the tonnage taxation scheme are transportation of people or cargo by sea, tugboat activities at sea, guard services, offshore installation services, ice management, accommodation of personnel and certain supply services.

Turnover from activities that are carried out in close connection with qualifying core activities may also be included under the tonnage taxation scheme. Such activities are regarded as secondary qualifying activities and consist of e.g., use of containers, loading facilities, sales of goods to be consumed on board and rent of facilities and space on board.

Taxable income
Taxable income is calculated by multiplying the numbers of the days in a year that a vessel is in operation by the following rates:

NT of ships	DKK per 100 NT per day
Up to 1000	6
1001 – 10000	4
10001 – 25000	3
25001 - and over	1

Example: Ship = 2.800 NT is operated for 365 days in a year. The taxable income is calculated as shown in the table below.

	Taxable income DKK
1000 / 100 x 6 x 365 =	21,900
1800 / 100 x 4 x 365 =	26,280
Taxable income	48,180

The taxable income is taxed at the normal corporate tax rate of 18%.

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 enforce adoption of norm prices for extracted hydrocarbons for the purpose of computing 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.

Acquisition costs of licences, permits and other rights may be depreciated at equal yearly amounts over a period of five years. Capital gain from the disposal of a hydrocarbon license is taxed at 27%.

In addition to the regular income tax, companies holding a hydrocarbon licensee 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 supernormal profits.

10 Non-resident companies

Non-resident companies that carry on activities in the Faroe Islands may become tax liable to the Faroe Islands depending on the nature and duration of these activities.

10.1 Branch or subsidiary

Generally, the advantages and disadvantages of each form of legal entity must be considered on a case-by-case basis.

The calculation of taxable income is basically the same for subsidiaries and branches. Both types of entity must base their inter-company transactions on the "arm's length" principle, and both will be considered as an independent entity for Faroese tax purposes.

Profits after tax of a branch may be remitted to a foreign head office without additional withholding tax, while dividends remitted by a subsidiary to its foreign parent company are subject to 18% withholding tax. Tax on dividend may be subject to treaty relief.

Filing requirements are different for the two types of entities. A subsidiary must file its own annual accounts to the Company Registration Authorities, and its own tax return to the Tax Authorities, while a branch must file the annual accounts of its parent company to the Company Registration Authorities, and its own tax return to the Tax Authorities.

Annual accounts that are submitted to the Company Registration Authorities are available to the public, while tax returns that are submitted to the Tax Authorities are not available to the public.

10.2 Permanent establishment

In general, the Faroese definition of a permanent establishment follows the OECD definition, meaning that a permanent establishment is a fixed place of business, through which the business of an enterprise is wholly or partly carried on.

For a permanent establishment to exist in connection with construction or installation activities, the activities must have a certain duration depending on the tax treaty between the Faroe Islands and the resident country of the foreign enterprise. The tax treaties with the other Nordic countries and Great Britain stipulate a 12-month minimum period before a permanent establishment is created in connection with construction or installation activities.

Where the Faroe Islands do not have a tax treaty with the resident country, the foreign enterprise will have a permanent establishment in the Faroe Islands after 30 days in connection with construction or installation activities.

Agents operating in the Faroe Islands may result in a permanent establishment if the agent has the authorization to legally bind the foreign company to contracts with Faroese customers.

10.3 Interest, dividends, and royalties to non-resident companies

Dividends

A foreign company receiving dividends from Faroese sources is subject to tax on the paid-out amount. Faroese companies must withhold 18% in dividend tax. In most tax treaties, however, the final dividend tax is reduced to between 0% and 15%.

Royalties

A withholding tax of 25% is imposed on royalties to foreign entities. Royalties include any payment received as remuneration for the application of or the right to use any patent, trademark, pattern, or model, drawing, secret formula or process of production, or as remuneration for industrial, commercial, or scientific know-how. The 25% withholding tax also applies to royalties for use of artistic works. The withholding tax may be reduced subject to provisions in a tax treaty with the resident country of the beneficial owner.

Interest

The Faroe Islands do not withhold tax on interest paid to non-resident companies.

10.4 Disposal of shares

As of 2020, disposal of shares, convertible bonds or other documents, which constitute ownership of a legal entity in the Faroe Islands, is subject to capital gains tax for non-resident companies. The applicable rate is 18%. The capital gain tax is subject to treaty relief.

Disposal of bonds, securities and derivatives, which do not represent ownership of a legal entity is not subject to capital gains tax in the Faroe Islands.

Foreign companies, who realize gain from disposal of shares, must declare the capital income on a capital income tax return to the Faroese tax authorities.

The capital gain tax is applicable to any disposal of shares, convertible bonds etc. made on or after 13 May 2020, including disposal of shares and convertible bonds prior that have been acquired before 13 May 2020.

10.5 Transfer pricing

Faroese transfer pricing legislation applies to foreign enterprises that carry on tax liable activities in the Faroe Islands through either a branch, a subsidiary, or a permanent establishment. Transfer pricing legislation entails that foreign companies must:

- Apply the arm's length principle to intra-group transactions
- Disclose the nature and extent of intra-group transactions on their tax return provided certain thresholds are exceeded
- Prepare and maintain written transfer pricing documentation provided certain thresholds are exceeded

The arm’s length principle applied in the Faroe Islands corresponds with OECD’s Transfer Pricing Guidelines

Failure to observe transfer pricing legislation may result in penalties and correction of prices used between related parties. For more on transfer pricing regulation see chapter 9.6.

CbC-reports

Multinational enterprises (MNE) groups, whose consolidated turnover is at least DKK 5.6 billion in the preceding fiscal year, must file an annual Country-by-Country (CbC) report.

The CbC report for an MNE group must contain the following information on an aggregate basis for each jurisdiction in which the MNE group operates:

- unrelated-party revenue, related-party revenue, and total revenue
- profit or loss before income tax
- income tax both paid and accrued
- stated capital
- accumulated earnings
- number of employees; and
- tangible assets other than cash or cash equivalents

The deadline for submission of CbC-reports is 12 months after the end of the relevant fiscal year. The obligation to submit an annual CbC report to the Faroese tax authorities rests on the ultimate parent company that is resident in the Faroe Islands for tax purposes.

If the ultimate parent company is not a tax resident of the Faroe Islands the obligation to submit the CbC report falls on any MNE group company that is tax resident in the Faroe Islands. Note that the Faroe Islands have not signed the multilateral competent authority agreement on the exchange of country-by-country reports.

10.6 Thin Capitalization

Thin capitalization rules apply to branches and subsidiaries that have "controlled debt". Controlled debt is defined as debt to related parties or debt to a party for which security has been given by a related party.

If a controlled debt to equity ratio of 4:1 is exceeded deduction of interest expenses and capital losses may be restricted. Deduction of interest expenses or capital losses will, however, not be restricted if the company can demonstrate that similar financing can be obtained from an independent lender.

All assets and liabilities of Faroese subsidiaries and branches belonging to the same foreign group are consolidated for the purpose of calculating the debt-to-equity ratio.

10.7 Double taxation treaties

The Faroe Islands have concluded tax treaties with the following countries:

- Denmark
- Norway
- Iceland
- Sweden
- Finland
- United Kingdom
- India
- Greenland
- Switzerland

All treaties are based on the OECD Model Convention, and the Faroese tax authorities usually interpret the tax treaties in line with commentary to the OECD Model Convention.

11 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.

11.1 VAT liability

All enterprises that supply goods or services subject to VAT and which have a turnover exceeding DKK 50,000 per year are obliged to register with the Tax Authorities and charge VAT.

VAT is charged based on the net invoice price of supply of goods and services, 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 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
- Purchases of automobiles for private transportation
- Gifts

11.2 Foreign enterprises

Foreign enterprises, which supply goods or services 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.

Goods

Foreign enterprises, which export goods directly to a Faroese importer, are not liable to register with the VAT Authorities, as the importer of the goods is responsible to pay the VAT.

Certain imports of goods are positively exempted from VAT, such as:

- Aircrafts and ships over 20 GT, expect pleasure boats and private aircrafts
- Work of art, which are imported by the artist himself
- Fishing equipment, bait, ice, oil, provision, salt and packing materials delivered to commercial fishing ships
- Goods that are exempted from VAT within the Faroe Islands i.e., books, newspapers etc.

Services
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.

VAT representative
Foreign enterprises selling goods or services in the Faroe Islands, without having a place of business, 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.

Foreign enterprises that are resident in Iceland do not have to register with a Faroese VAT representative.

Reverse charge
Reverse charge rules apply when a foreign enterprise without a place of business in the Faroe Islands supplies the following services to a customer in the Faroe Islands regardless of whether the Faroese customer 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 without a place of business in the Faroe Islands supplies the following services to a VAT registered customer in the Faroes:

- services in connection with real estate
- work in the Faroe Islands on movable tangible property
- sporting, entertainment, educational, scientific, or similar activities
- telecommunications services
- radio and television broadcasting services

11.3 Registration and filing requirements

Registration with the Tax Authorities must be in place at least 8 days before VAT liable activity is undertaken.

VAT returns are due within one month and ten days after the end of each quarter except for the second quarter being due on the 24th of August. The Tax Authorities may permit some businesses recovering VAT regularly to file returns on a monthly or 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.

11.4 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, 10% for insurance companies and 12% for financial institutions.

For medical institutions that are operated as private businesses, the tax base for payroll tax is paid out salary during the year plus taxable income for the owner of the business. For medical institutions that are operated as a limited company the tax base for payroll tax is paid out salary during the year. For financial institutions and insurance companies, the tax base for payroll tax is paid out salary during the year.

12 Customs and Excise Duties

12.1 Customs Duties

Goods imported into the Faroe Islands may be subject to customs duties. The custom duties rate depends on the classification of the goods imported. Goods originating in the European Union, Iceland, Norway, or Switzerland are exempt from import duties.

12.2 Excise Duties

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

12.3 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 invoice price up to DKK 100,000 and 75% of the invoice price above DKK 100,000. Insurance and freight are included in the cost price (CIF).

No value-based tax is paid for electric cars.

Carbon dioxide tax

The carbon dioxide tax is based on how much carbon dioxide is emitted by a car per kilometre. The calculation is based on either the NEDC or WLTP scale, see below.

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

CO2 emissions (g/km) - WLTP scale	CO2 tax (DKK/g)
Less than 140	15
Between 140 and 170	200
Between 170 and 210	350
Above 210	500

Importation of cars as removal goods

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

13 Income in Kind and other Tax Figures for 2021

2021 – Income in kind	DKK
Free accommodation	
Value of free accommodation per m2	1,095
Free electricity	10,300
Free heating oil/gas	20,500
Free heating other	14,850
Free board	
3 meals a day	63
2 meals a day	48
1 meal a day	36
Private consumption of goods	
Grocers	17,200
Bakers, selling groceries	14,200
Bakers	5,500
Company car	
Less than 1.100 kg	56,000
Between 1.101 kg and 1.300 kg	65,000
Between 1.301 kg and 1.500 kg	78,100
More than 1.500 kg	87,900
Vans and other cars	
Less than 1.100 kg	33,600
Between 1.101 kg and 1.300 kg	39,000
Between 1.301 kg and 1.500 kg	46,860
More than 1.500 kg	52,740
Private use of cars, taxi drivers	19,200

2021 – social security and tax allowances	DKK
Unemployment insurance fund (ALS)	1.00%
Compulsory labour market pension fund (AMEG)	3.00%
Maternity leave fund (BAS)	0.86%
Deductions in calculated state and local taxes	
Personal allowance, pension, single	16,200
Personal allowance, pension, married	10,500
Deduction in state tax for each child over 7 years old	6,500
Deduction in state tax for each child under 7 years old	9,200