Australian Government
The Treasury

Australia's Tax Treaty with Iceland

The new tax treaty is the first of its kind between Australia and Iceland. Once in force, it will encourage cross-border trade and investment, by reducing withholding tax rates on dividends, interest and royalties, which can reduce tax disincentives to investment and the cost to business of accessing foreign capital.

A tax treaty with Iceland will support better trade and investment conditions between the two nations, enabling the economic relationship to grow.

Benefits of the Tax Treaty to Individuals

The treaty will provide tax certainty for individuals with dealings in both Iceland and Australia for example by:

- allocating taxing rights between the jurisdictions over different categories of income, such as pensions;
- specifying rules to resolve dual claims in relation to the tax residency status of the individual and the source of income; and
- providing an avenue for taxpayers to present a case to relevant taxation authorities where a taxpayer considers there has been taxation not in line with the terms of the treaty.

Benefits to Australian businesses

The new tax treaty is expected to enhance the economic relationship between Australia and Iceland, for example by:

- Reducing costs for Australian companies that access Iceland's capital and technology. The withholding tax rates on royalties, dividends and interest are reduced in both Australia and Iceland under the treaty.
- Reducing compliance costs and improving certainty for businesses that have dealings in both Australia and Iceland.

Enhancing tax system integrity and preventing tax avoidance

The treaty will enhance tax system integrity by incorporating important measures to address base erosion and profit shifting practices, specific treaty anti-abuse rules and effective tax information exchange between revenue authorities.

The treaty will help prevent avoidance and evasion by:

- providing for the allocation of profits between related parties on an arm's length basis;
- generally preserving the application of domestic law rules that are designed to address transfer pricing and other international avoidance practices;
- providing for exchanges of information between the respective taxation authorities; and
- facilitating investment, trade, movement of technology and movement of staff between jurisdictions.

The new treaty will enter into force after both countries have completed their domestic requirements and instruments of ratification have been exchanged. For Australia, this involves Parliamentary scrutiny and legislation.

The information contained in this factsheet is general in nature and does not constitute advice on individual or business taxation affairs. Individuals or businesses requiring specific taxation advice should contact a tax professional.