Arion bank hf. dividend payment – Tax issues

Arion bank hf. (hereafter Arion or the Bank) has called for a shareholders meeting whereby it will be proposed to distribute a dividend. Therefore the Bank has prepared the following information and general guidelines on the tax issues in relation to a dividend distribution.

The summary below is of a general nature based on the laws and practices as in effect in Iceland on 20 February 2020. It should not be construed as providing specific advice regarding Icelandic taxation. Shareholders and holders of SDR are advised to consult their tax advisers. Arion accepts no responsibility for the information contained in this document.

The Bank is required to withhold the applicable tax on any dividend payments in accordance with Icelandic tax laws.

Shareholders and Holders of SDR Who Are Resident in Iceland for Tax Purposes

Owners of the Shares and SDR who are resident in Iceland for tax purposes are subject to income tax in Iceland on any income from the Shares and SDR in accordance with Icelandic tax laws. The applicable tax rate depends on the tax status of such owners.

Subject to certain exemptions (*e.g.*, for pension funds), the owners are subject to tax which the Bank is required to withhold at the rate of 22.0% on dividend payments made to the holders of the Shares who are Icelandic residents.

Shareholders and Holders of SDR Who Are Not Resident in Iceland for Tax Purposes

Any income received from the Shares or SDR by any individual or entity residing outside Iceland constitutes taxable income in Iceland. The current tax rate on taxable income amounts to:

(i) 22% for individuals and
(ii) 20% for legal entities.

Holders of SDR

Icelandic tax law does not specifically address the tax treatment of holders of SDRs. Icelandic tax authorities have, in an *advance ruling*, concluded that an issuer of the SDRs is not classified as the beneficial owner of dividend income of Shares in the Bank. As a result, dividend payments on Shares corresponding to SDRs will be subject to Icelandic tax and withholding as described above.

Possibility of Reduced Withholding Tax under a tax treaty

The tax liability under Icelandic tax laws may be reduced under certain applicable tax treaties. If a qualifying holder of the Shares or SDR would like to take advantage of such applicable tax treaties by relief at source, such holder is required to obtain a confirmation from the Icelandic tax authorities ("**RSK**") regarding the applicable treaty protection and provide such confirmation to the Bank. The confirmation is obtained via a filing of the Icelandic tax form RSK 5.42 (accessible here).

The withholding tax rate can be reduced to 0%-15% depending on the relevant tax treaty between Iceland and the resident state of the shareholder and the percentage of total shares held by the shareholder.

The following applies to an application for a reduced withholding tax rate of dividend payments:

1. The applicant must be a tax resident of a state that has a tax treaty with Iceland.
2. An application for a reduced rate of withholding taxes has to be submitted to RSK on form RSK 5.42 and needs to be approved by RSK prior to the dividend being paid.
3. Special care shall be taken to complete all items of the form, as described in the directions on the form.
4. The form RSK 5.42. must either be:
    1. Stamped and signed in box 21 by the tax authorities of the applicants state of residence **or**,
    2. attached with an original of a tax resident certificated of the applicant that is not older than six months.

Guidelines from the RSK are accessible here:

Refund of withholding tax based on an applicable tax treaty
Relief via a refund in line with an applicable tax treaty is carried out via a filing of Icelandic tax forms RSK 5.43 and RSK 5.42.

See here a list of countries that have a tax treaty with Iceland:

The following applies to an application for a refund:

1. The applicant must be a tax resident of a state that has a tax treaty with Iceland.
2. An application for a refund has to be submitted to RSK on form RSK 5.43 and RSK 5.42.
3. Special care shall be taken to complete all items of the forms, as described in the directions on the forms.
4. The form RSK 5.42. has either to be:
    1. Stamped and signed in box 21 by the tax authorities of the applicants state of residence or,
    2. attached with an original of a tax resident certificated of the shareholder that is not older than six months.
5. If the applicant has already been assigned a unique certificate number for tax exemption or reduced taxation, it is sufficient to state the license number in box 18 on form RSK 5.43. Confirmation from the foreign tax authorities is not necessary if a license for tax exemption was previously issued.
6. Copy of the receipts that show the dividend paid and the tax withheld shall be enclosed with a tax refund application.
7. Note that it is possible to request that the refund will be deposited in a bank account of the applicant. To get the refund deposit in bank boxes 14 to 18 in the form has to be filled out.

Form RSK 5.42 and 5.43 are accessible here:

https://www.rsk.is/media/rsk05/rsk_0542.en.pdf

https://www.rsk.is/media/rsk05/rsk_0543.en.pdf

Guidelines from the RSK are accessible here:

Refund based on domestic law – applicable to limited liability companies resident in the EEA, EFTA or Faroe Islands
Limited liability companies that are resident in the European Economic Area (EEA), a state party to EFTA or in the Faroe Islands enjoy the effective statutory participation exemption which comparable Icelandic entities do, allowing them to deduct the full amount of the dividend payments.

This exemption does not apply at source, but requires the filing of a tax return in Iceland to obtain a refund of taxes withheld. This reclaims procedure provides for the full repayment of the taxes withheld.

To claim the withholding taxes one has to file a tax return (Form RSK 1.04). Refund of excess tax withheld at source is made after the completion of the income tax assessment.
Form RSK 1.04 is accessible here (in Icelandic):
Guidelines on filling out the form is accessible here:

Guidelines from the RSK are accessible here:

Other non-resident legal entities
Non-resident legal entities, i.e. not individuals should only pay 20% tax on the dividend. In cases where such entities have suffered a 22% withholding tax and want to reclaim the difference the submission of a tax return in Iceland is required (Form RSK 1.04 – see above).