Executive summary

On 6 October 2016, the Norwegian Government published its proposal for the 2017 Fiscal Budget. The proposal will now be debated by the Norwegian Parliament, and subject to any changes made by the Parliament, be approved in December 2016. In short, the following changes are proposed with effect from 1 January 2017:

» The corporate income tax rate is reduced from 25% to 24%.

» For companies taxed under the special petroleum tax regime and the hydro power regime, the reduction in corporate tax rate will be offset by a corresponding increase in the special tax rates for these regimes.

» A specific financial tax is introduced for companies within the financial sector. This tax consists of two elements; first a separate 5% tax on wage costs and separately the financial sector will not benefit from the decreased corporate tax rate but will still be taxed under a 25% corporate tax rate. However, certain exemptions exist.

» The limits under the Norwegian tax incentive scheme for research and development (R&D, in Norwegian, SkatteFUNN) are increased from NOK20 million to NOK25 million for in-house R&D and from NOK40 million to NOK50 million for procured R&D). However, the total limit for in-house R&D and procured will be NOK50 million.

» Introduction of Country-by-Country (CbC) reporting.

» Changes in the depreciation rates for Group C and D items.
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It is notable that several of the international tax proposals mentioned by the Norwegian Government in last year’s white paper on corporate tax reform are not included in this proposal. This includes proposals to introduce withholding tax on interest and royalties and changes to the Norwegian controlled foreign corporation (CFC) regime.

Detailed discussion

Corporate income tax rate reduction
The Government proposes to reduce the corporate income tax rate for 2017 from 25% to 24%. It was previously mentioned that the corporate income tax rate should be reduced to 23% by 2018.

Petroleum and hydro power taxation
In addition to the general corporate income tax regime, a special tax regime applies to companies owning hydroelectric power plants. The special tax regime includes a duty to pay ground rent tax of 33%. This rate is proposed to be increased to 34.3%.

The tax rate for income derived from hydrocarbon related activities is further proposed to be increased from 53% to 54%.

Hence, for companies taxed under the special petroleum tax regime and the hydro power regime, the reduction in corporate tax rate will be offset by a corresponding increase in the special tax rates for these regimes.

Financial tax introduced
General overview
The Government proposes to introduce a special financial tax for companies within the financial sector as a substitute for Value Added Tax (VAT). The finance tax consists of two elements:

1. 5% tax on wage costs
2. 25% tax on profits

The 5% tax on wage costs is a deductible cost, reducing the effective tax cost to 3.75%. The tax on profit remains at 25% and is not reduced to 24% as the general corporate tax rate.

Scope
The financial tax aims to cover most of the financial services which are exempt from VAT. Hence, it is proposed that the financial tax should include activities covered by Section K - Financial and insurance activities (code 64-66) of the Standard Industrial Classification (SN2007). SN2007 equals to the EU standard NACE Rev. 2.

Businesses who typically will be covered by the financial tax are banking, insurance (including both life and general insurance), mutual funds, investment companies, holding company (pure holding companies with no employees are not covered by the proposed tax), pension funds, financing activities, services related to financing and insurance activities, and fund management.

Exemptions
First, a minimum of 30% financial activities is required for the financial tax to apply. This minimum threshold is introduced in order to protect businesses with only a limited amount of financial activities (e.g., leasing and claim settlement businesses).

The 30% threshold is calculated based on the volume of wage costs related to the business’ finance activities compared to the business’ total wage costs subject to employer contribution. It is proposed that the employer contribution basis for the previous year is used as a basis for calculating the 30% threshold. However, exemptions are available.

Second, it is proposed that the financial tax should not apply for businesses where more than 70% of their wage costs are related to finance activities which are subject to VAT. This threshold is calculated as the 30% threshold outlined above.

Third, to the extent a financial institution is carrying out non-economic activities, these non-economic activities can be exempt from the financial tax provided that these activities are properly documented.

Tax incentives on R&D
The Government proposes to raise the current limit under the SkatteFUNN, a tax incentive scheme for R&D, for both in-house R&D and procured R&D from an approved research institution.
According to the Government’s proposal, the current limit of NOK20 million increases to NOK25 million for in-house R&D, while the cap for procured R&D increases from NOK40 million to NOK50 million. If the taxpayer has both procured R&D from an approved research institution and carries out its own R&D activities, the total cap will be set at NOK50 million. The proposal intends to motivate businesses to carry out more R&D, ultimately for the benefit of the public. The Government believes that the increased SkatteFUNN limits will contribute to more substantial projects being initiated, and also resulting in some projects being completed more quickly than under the current SkatteFUNN scheme.

Extended scope of the Norwegian tonnage tax regime to cover wind turbine vessels
The scope of the Norwegian tonnage tax regime is extended to cover wind turbine vessels engaged in installation, repair, maintenance and disassembly of offshore wind turbines outside of the Norwegian territorial waters.

The change is intended to enter into force with effect from 1 January 2017 provided that the change is accepted as legal State aid by the EFTA Surveillance Authority (ESA).

CbC reporting introduced
CbC reporting is introduced from 2017 for accounting years starting 1 January 2016 or later.1

Changes in the depreciation regulations
The additional 10% start-up depreciations available for Group D items in the acquisition year, is repealed. Cars, tractors, other movable machines, other machines, equipment, instruments, furniture, fixtures and similar items are covered by Group D. Hence, the maximum yearly depreciation rate for these items is 20%.

The maximum yearly depreciation rate for Group C items (specified vehicles) is increased to 24%. i.e., the rate is increased from 22% for trailers, trucks and busses, and from 20% for commercial vehicles, taxis and vehicles for the transportation of disabled persons.

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Endnote

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