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Norway:
Proposed budget for fiscal year 2019

Overview

On October 8, 2018, the Norwegian government released the budget proposal for fiscal year (FY) 2019. Key changes include:

- Rate revisions for ordinary income tax and bracket tax;
- Flat tax rate regime: 25 percent for foreign workers and board members;
- Benefit taxation of staff discounts;
- Benefit taxation of third-party discount arrangements;
- Standard deduction removed;
- Revised maximum commuter travel deductions; and
- Expanded special taxation rules for share savings accounts.

Tax rate revisions

If approved, Norway's FY 2019 budget proposal will lower taxes on ordinary income (net income) from 23 percent to 22 percent.

To even out the effect of the rate reduction on ordinary income tax, the bracket tax on salary income will be increased almost correspondingly.

As a result of these proposed revisions, the Norwegian marginal tax rate will be reduced from 46.6 percent in 2018 to 46.4 percent in 2018, including employee social security contributions (8.2 percent).

The tax rate on dividends and gains from sales of shares will have an adjustment factor of 1.44, resulting in an effective tax rate of 31.68 percent (22 percent x 1.44)

Flat tax rate regime

A flat rate tax for foreign workers and board members was adopted as part of the revised 2018 budget issued in May 2018. The proposed FY 2019 budget will apply a 25 percent flat tax rate on foreign worker and board member income, if the following conditions are fulfilled:

- Applies to nonresidents and first-year residents on a voluntary basis;
- Recalculated annual salary must be lower than NOK 617,500;
- No deductions allowed;
- Commuter benefits are taxable;
- Annual cap for taxable capital income, but level not yet set;
- Does not apply to mariners or workers on the continental shelf; and
- Obtaining a certificate of coverage (A1) will reduce the tax rate to 16.8 percent and provide full exemption from social security tax.

There are still details about the regime that need to be clarified in administrative regulations. If the regime applies and an employee does not opt out, the tax withheld by the employer will be finally settled each month. No tax return is then necessary for employees covered by the regime.

Benefit taxation of staff discounts

Current rules regarding staff discounts are unclear and based on employer assessments. Presently, discounts are nontaxable for goods and services used as part of an employer's normal business activities – provided such discounts are considered reasonable and intended to cover normal private use.

New regulations will result in a need to value these goods and services at their market values to consumers and end users. Maximum discount level of 50 percent and an annual maximum tax-free discount of NOK 7,000 per employer.

Benefits from third parties

Starting in FY 2019, employers will have reporting and withholding obligations for discounts from third parties given to employees that are seen as derived from their employment. When there is a customer or vendor business relationship between the employer and the third party, discounts will often be taxable, unless the discounts are available regardless of employment relationship. Administrative regulations with further guidance remain to be issued.

Other changes

The standard deduction for foreign employees will be removed for FY 2019, except for nonresident continental shelf workers and mariners. The deduction applied to nonresidents and first-year and second-year residents on a voluntary basis. The deduction was intended to replace other deductions and limited to 10 percent of gross salary or a maximum NOK 40,000 per annum.

In the budget proposal for FY 2019, deductions for commuter travel expenses will be capped at an annual maximum of NOK 74,300. Previously, it was possible to claim a deduction for actual flight tickets above the annual maximum amount. Expenses for flight tickets are now included in the annual maximum deduction of NOK 97,000, less individual share of NOK 22,700, which together equals NOK 74,300.

Special taxation rules for share savings accounts were introduced in FY 2017, with postponed taxation until withdrawal above the historical cost. It is proposed that postponed taxation also apply to dividends generated in share savings accounts, as well as postponed withholding taxes on foreign investors.

Deloitte's view

Since the current Norwegian government is controlled by the minority political party, and a political agreement was reached in 2017 to keep the corporate tax rate at 23 percent (the tax rate reached for fiscal years ending in 2018, following a progressive reduction in the tax rate from 28 percent over several years), it is uncertain whether this proposal will be approved and enacted.

The 25 percent flat rate regime is beneficial for foreign board members that qualify. For employees, it is much less certain that a 25 percent flat tax rate is better than a progressive tax rate and itemized deductions. Commuters will almost certainly not benefit from a flat rate of 25 percent compared to normal taxation.

Benefit taxation of staff discounts will result in both increased costs and an administrative burden for employers who will need to track discounts given to employees and include taxable discounts in the payroll reporting. The valuation of goods and services may also create uncertainties.

Employer reporting and withholding obligations for discounts received by employees from business customers and vendors will increase the administrative burden and social security costs for employers. There is a need to review current employee discount and benefit arrangements, assess the consequences of the proposed FY 2019 budget, and consider revisions.

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Taiwan:
Individual tax updates and tax incentives for expatriates

Overview

Individual tax reforms that became effective in Taiwan on January 1, 2018, as well as pending proposals from the Ministry of Finance (MOF) could affect expatriates working in Taiwan. These amendments and proposals include:

- Changes to the taxation of dividend income;
- A reduction in the highest income tax rate;
- Increases in certain deductions for tax residents;
- Income tax incentives for "foreign special professionals;" and
- Proposed changes to the basic living expense deduction.

In addition, it may be possible for expatriates to obtain exemptions from Taiwan income tax based on the provisions of applicable tax treaties, provided certain criteria are fulfilled.

2018 individual income tax reforms

Unless otherwise stated, the following tax reform measures became applicable on January 1, 2018.

Dividend income taxation: Before 2018, dividend income of tax resident individuals was combined with all other income and taxed at normal progressive tax rates.

There are now two alternatives for the taxation of dividend income received by tax resident individuals (*i.e.*, expatriates in Taiwan for 183 days or more in a calendar year are treated as tax residents):

- **Alternative 1:** Dividend income is combined with other taxable income and taxed at normal progressive tax rates, with a tax credit of 8.5 percent of the dividend income – tax credit is capped at NTD 80,000 per household per year.
- **Alternative 2:** Dividend income is taxed separately at a flat tax rate of 28 percent and no tax credit.

For nonresidents, the rate of withholding tax on dividend income has been increased from 20 percent to 21 percent to narrow the gap in the income tax burden between tax resident shareholders and nonresident shareholders when a lower withholding tax rate under an applicable tax treaty is not available. In addition, the surtax credit against dividend withholding tax will be eliminated starting in the 2019 tax year.

Other changes

- The highest progressive tax rate for tax residents has been reduced from 45 percent to 40 percent; and
- The standard deduction and special deductions for salary or wages, disability, and preschool children that apply to tax residents have been increased.

Income tax incentives for foreign special professionals

To be more competitive in attracting skilled foreign special professionals to Taiwan, the government announced income tax incentives for foreign special professionals under the Act for Recruitment and Employment of Foreign Professionals, applicable as of February 8, 2018.

A foreign special professional is an expatriate who has special expertise needed by Taiwan in science and technology, economics, education, culture, arts, sports, or other fields announced by the central competent authority. Expatriates of all nationalities, except Chinese, who are Taiwan tax residents (*i.e.*, individuals who reside in Taiwan for 183 days or more during the calendar year) and meet certain other requirements may enjoy the tax incentives.

To qualify for the tax incentives, a foreign special professional must:

- Obtain a foreign special professional employment permit issued by the Ministry of Labor or the Ministry of Education, or an "employment gold card" issued by the National Immigration Agency of the Ministry of Interior;
- Reside in Taiwan for 183 days or more in a calendar year for the first time for the purpose of work; and
- Receive an annual salary of more than NTD 3 million from Taiwan and foreign employers.

In addition, the foreign special professional enjoying the tax incentives shall not have household registration in Taiwan and is not a tax resident (*i.e.*, stayed in Taiwan for 183 days or more in a calendar year) during the last five years prior to the first day of his/her employment engaged in professional work or the date of issue of the Employment Gold Card.

The tax incentives may be applied for three of the first five years starting from the first tax year the foreign special professional meets the criteria. The taxpayer cannot choose the start year or applicable years as he or she wishes.

Tax incentives

The following tax incentives apply to foreign special professionals:

- Only the first NTD 3 million of the foreign special professional's annual salary income, plus half of the amount exceeding NTD 3 million, is subject to tax;
- Overseas income not related to professional work performed in Taiwan is exempt from income basic tax; and
- With proper documentation, certain payments made by Taiwan employers under employment contracts can be tax deductible as operating expenses, including:

- Roundtrip airfare;
- Home leave vacation pay;
- Moving expenses;
- Utility bills;
- Cleaning bills;
- Telephone bills;
- House rent;
- Repair costs for the place of residence; and
- Educational scholarships for children.

Generally, such compensation is nontaxable to the foreign professional.

Proposed amendment to basic living expense deduction

In September 2018, the MOF proposed an amendment to the basic living expense deduction rules. The deduction was established in 2017 under the Taxpayer Rights Protection Act, which states: "The expense that taxpayers pay for maintaining their basic living in accordance with human dignity for themselves and their dependents shall not be taxed."

The law is aimed at protecting the human rights of taxpayers, safeguarding people's basic right to subsistence, and achieving fair taxation and strict procedural justice. The main spirit of the law is that taxes are not to be levied on expenses required to maintain the basic living of taxpayers and their dependents.

The basic living expense deduction may be claimed for each member in the filing household. The deduction for the household is limited to the amount that exceeds the total of certain other deductions and exemptions (*e.g.*, lump-sum exemption, standard/itemized deduction, and the special deduction for salary or wages). The basic living expense in 2017 was NTD 166,000 per person.

The MOF's latest proposal would change the items used to calculate the basic living expense to include special deductions for savings, investments, disability, tuition, and preschool children. However, the calculation would exclude the special deduction for salary or wages because such deduction does not represent a basic living expense.

The per person basic living expense for the 2018 tax year will be announced by the end of 2018, and is expected to be higher than the 2017 amount.

Other proposals

The MOF is also considering the following proposals:

- Allowing a deduction for the full amount of necessary expenses under the special deduction for salary or wages (instead of the fixed deduction amount for salary or wages under current rules);
- Including the cost of health examinations within the scope of itemized deductions for medical expenses; and
- Adding long-term care expenses as a special deduction.

Exemption under tax treaties

Under the dependent personal services article in Taiwan's tax treaties, an expatriate's salary, wages, and similar remuneration derived from the country of residence are taxable only in that country, unless the employment is exercised in Taiwan.

An expatriate generally may apply for a Taiwan income tax exemption under a relevant tax treaty if he or she meets the following requirements:

- The expatriate does not stay in Taiwan for 183 days or more in a calendar year;
- The remuneration is paid by a non-Taiwan resident employer; and
- The remuneration is not borne by a permanent establishment or a fixed base which the employer has in Taiwan.

Under the Taiwan Income Tax Act, an expatriate's salary from a foreign company generally is included in Taiwan-source income subject to income tax based on the number of days the individual stayed in Taiwan during the calendar year. Therefore, by applying the tax treaty between Taiwan and the expatriate's country of residence, an expatriate's Taiwan-source income could be exempt from Taiwan income tax.

Deloitte's view

When expatriates working in Taiwan who are also Taiwan tax residents file their income tax returns for the 2018 tax year (*i.e.*, in May 2019), they should be aware of the country's tax rules, including the basic living expense deduction, alternatives for taxing dividend income, and tax incentives provided to foreign special professionals.

Expatriates who are considered nonresidents for tax purposes may be exempt from Taiwan income tax under a tax treaty. Also, the current withholding tax rate on the salary income of nonresidents is 18 percent, which is lower than the progressive tax rates of 20 percent, 30 percent, and 40 percent for tax residents.

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