International Tax

Norway Tax Alert

2 December 2014

Advisory panel proposes tax reform

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A panel appointed by the Norwegian government in March 2013 presented its report, "Capital Taxation in an International Economy," to the ministry of finance on 2 December 2014. The report makes a number of recommended changes to the tax system, in particular, to the corporate tax rules and the VAT rules (although some changes also are recommended for individual taxation).

The report does not deal with entities subject to special tax regimes, such as companies engaged in the exploitation of petroleum resources on the Norwegian continental shelf.

The ministry of finance now must determine the next steps; presumably, the government will review the recommendations thoroughly before taking any action. Currently, it is unclear whether the ministry will issue any further documents or whether it will present a bill(s) to the parliament after reviewing the report.

Corporate taxation

The panel proposes the following changes to the corporate income tax rules:

- Reducing the general corporate income tax rate from the current 27% rate to 20%;
- Amending the rules governing the deduction of interest to include a limitation on the deduction of all net interest expense, whether accrued to related or unrelated parties, to 45% of taxable EBIT (not EBITDA, which applies under the current rules), if net interest expense exceeds NOK 1 million;
- Abolishing withholding tax on dividends paid to nonresidents, except for distributions to shareholders resident in low-tax jurisdictions outside the European Economic Area (EEA); no changes are proposed for corporate shareholders resident in low-tax jurisdictions within the EEA. (As a result, for the latter shareholders, the determinative issue for whether withholding tax would apply would remain whether they have a "genuine establishment" and perform "real economic activities".) A jurisdiction would be considered a low-tax jurisdiction if its effective tax rate is less than three-fourths of the Norwegian tax rate (currently, two-thirds);
- Exempting Norwegian companies from tax on gains derived from the disposal of shares in, and dividends received from, nonresident companies, including non-EEA companies (that are not resident in low-

tax jurisdictions), regardless of the ownership percentage or the holding period. (Presumably, the current exemptions for gains and dividends from companies resident in low-tax jurisdictions within the EEA would remain unchanged.) However, if a deduction is granted for a dividend distribution in the country where the distributing entity is resident, no part of that distribution would be exempt from taxation in Norway;

- Introducing a withholding tax on interest, royalty and lease payments maide to nonresidents for the use of fixed assets. A 15% rate is recommended for royalties, but no rate is specified for interest or lease payments; and
- Reducing depreciation rates for certain fixed assets, and abolishing additional tax depreciation for machinery, cars, tools and equipment during the year of acquisition.

Value added tax

The panel has proposed that financial services should be subject to VAT, and has recommended that the current zero rate and 7% rate on certain “deliveries” be replaced with a 15% rate (although it is unclear as to which deliveries (currently zero-rated) the panel is referring).
