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Tax Facts Norway 2009

A survey of the Norwegian Tax System

TAX

AUDIT ▪ TAX ▪ ADVISORY

Contents

1. Controls/Restrictions on Business

1.1 Foreign Exchange

Permission from the Central Bank of Norway is not required for foreign investments by a Norwegian resident or investments in Norway by a person resident abroad. However, the transfer of money must be reported to the Central Bank of Norway by the bank through which the transaction is made and must be made through a bank authorised to deal with such payments.

The import and export of cash is unrestricted, but amounts above NOK 25,000 per person in or out of Norway must be reported to the Customs.

1.2 Foreign Investor Participation

There is no requirement to report the acquisition of shares in a Norwegian listed company. However, pursuant to the Taxes Management Act, non-listed public and private limited companies are obliged to report to the National Shareholders Registry the names of the company's shareholders as per 1 January in the year of assessment, the number of shares held and any transactions in shares having taken place during the fiscal year.

Approval by the Ministry of Agriculture or the Ministry of Industry is required for the acquisition of farmland, forest, waterfalls or quarries. These rules also apply to acquisitions of other types of real estate or shares in companies owning real estate.

The purchaser is required to report the purchase to the relevant ministry, which is regarded as having accepted the acquisition if there is no reply within 30 days.

1.3 Takeovers, Mergers and Acquisitions

Mergers and demergers

The formal rules for the merger of two companies are laid down in the Limited Companies Acts. A proposal for a merger agreement is drawn up by the boards of the two companies and presented to the general assemblies of both companies. The resolution of the general assembly of both companies must be reported to the National Registry of Business Enterprises within one month. If not, the merger is not effective. When the merger resolution has been registered, the registrar will publish the resolution and notify the companies' creditors that they must report their claims to the companies within two months from the date of the last announcement if they intend to raise any objection to the execution of the resolution.

Corresponding rules apply to demergers

Mergers and demergers may be treated neutrally for tax purposes. The companies may also carry tax losses forward after the merger, subject to anti avoidance provisions.

On application, the Ministry of Finance may grant a tax reduction or relief from tax on group reorganisations that would otherwise not qualify for neutral treatment. However, the application procedure may be lengthy. It is important to observe that the application must be made in advance of the planned transaction.

If a foreign company wishes to gain control over a business run by a Norwegian limited company, the foreign company can either purchase all the shares in the Norwegian company or purchase the business activity as such.

Conversion of a Norwegian registered company into a branch of a foreign company

The conversion of a Norwegian registered company into a branch of a foreign company implies the sale of all the assets to the foreign company and the subsequent liquidation of the Norwegian company. If the shareholder of the Norwegian registered company is a company, the sale would not be taxed according to the exemption system (see 3.6) If the owners are personal shareholders, the tax consequences should in principle be the same as with other gains on shares. However, the shareholders might apply for tax deferral, which is often agreed.

2. Corporate Taxation

2.1 Overview

Resident companies are subject to corporation tax on worldwide profits and capital gains. Non-resident companies are subject to corporation tax on Norwegian sourced profits and capital gains only, principally on profits and gains attributable to a business carried on through a branch in Norway. Partnerships and limited liability partnerships are transparent entities for tax purposes.

2.2 Residence

As a starting point, a company is regarded as resident in Norway when it is incorporated under Norwegian law and registered in the Norwegian Registry of Business Enterprises. However, in principle, companies are regarded as resident in Norway if they have their central management and control located in the country. Companies not resident in Norway are subject to tax on income from sources in Norway, including income derived from a permanent establishment (branch).

2.3 Income Liable to Tax

The general rule is that for a company resident in Norway, all income derived from whatever source – as well as capital gains – is liable to Norwegian tax. The determination of taxable income is based on the results shown by the annual accounts, as adjusted by legislation or any other rule of Law. Capital gains are computed at the difference between the selling price and the original acquisition cost. There is no indexation of the cost or tapering of the gains.

2.4 Deductions

As a general rule all expenses incurred for the purpose of earning or securing taxable income are deductible. The deduction of certain expenses is limited by the legislation, including expenditure on entertainment and donations. The deduction of expenditure on bribes is disallowed by statute.

Distributions are not deductible for tax purposes.

Depreciation and amortisation

A depreciable asset is an asset used for business purposes with a cost of at least NOK 15,000 and with an estimated useful life of at least 3 years. Other assets may be depreciated immediately upon acquisition.

There are two alternative methods to determine the amount of tax-allowable depreciation;

1) for certain types of assets, fixed maximum rates of depreciation are specified in the legislation. These specified rates cover most tangible assets and goodwill. They vary from 2% to 30%, and are not intended to allow for the building up of any reserves; and

2) for intangibles that are not covered by the specific rules, general rules allow for the deduction of the acquisition cost of the asset over its lifetime.

Depreciable business assets are classified into nine groups in the Norwegian Tax Act. The groups and rates are:

a) office equipment: 30%;

b) acquired goodwill (business value): 20%;

c) trucks, trailers, buses, taxis and vehicles for disabled persons: 20%;

d) automobiles, tractors, machinery and equipment, tools, instruments, fixtures and furniture, etc.: 20%;

e) ships, vessels, drilling rigs, etc.: 14%;

f) aircraft: 12%;

g) plant and certain machinery for the distribution of and electro technical equipment for the production of electric power: 5%;

h) plant and buildings, hotels, restaurants, etc.: 4%; and

i) office buildings: 2%.

Plant and buildings with an estimated lifetime of 20 years or less may be depreciated at 8%, rather than 4%.

All the tangible assets listed and acquired goodwill are subject to the declining-balance method of depreciation. Assets in groups (a) to (d) are depreciated on an aggregate (pool) basis. Each asset in groups (e) to (i) must be depreciated separately.

2.5 The exemption system

Corporate shareholders are exempt from taxation of dividends and gains on shares, except for a claw back of 3 % net gains and dividends. Losses on shares cannot be deducted.

For individual shareholders, dividends and gains are taxed under a modified classical system (see 3.10).

Exemption for dividends and gains for companies

For corporate shareholders an exemption system applies to all investments within the EEA. Under new rules, applicable from 2008, the exemption method will, in relation to companies resident in low tax countries within the EEA, only apply if the company invested in fulfils certain substance requirements. In the language of the legislation, it applies only if such a company is properly established in and performs real economic activity in the relevant country. The fulfilment of this criterion is based on the particular facts and circumstances.

Dividends and gains on all shares and on derivatives, where the underlying object is shares, will fall within the exemption method regardless of the level of holding or the time in which shares have been held. Trading in shares and certain derivatives is thus tax free except for a claw back of 3 %, when made from a Norwegian limited company.

Limitation of exemption for investments outside the EEA
The unlimited exemption applies to all investments within the EEA. For investments outside this area, the exemption applies only if the shareholder holds 10% or more of the share capital and the voting rights of the foreign company. The shares must be held for a period of two years or more. Also, the exemption applies to investments outside the EEA where the level of taxation is equal to 2/3 or more of the Norwegian tax, comparable to the CFC legislation, that would have been due if the foreign company had been resident in Norway.

For investments outside EEA not qualifying for the exemption, dividends and gains will be taxable, and losses will be deductible. For such investments, a credit for withholding tax and underlying tax will be granted, subject to the same holding requirements as those applicable to the exemption. Withholding taxes will remain creditable in all cases.

Exemption from withholding tax for EEA resident corporate shareholders
The exemption method regards shareholders resident within the EEA, meaning that no Norwegian withholding tax will be due for these shareholders. Under new rules, applicable from 2008, the exemption method will, in relation to shareholders resident within the EEA, only apply if the shareholder fulfils certain substance requirements. In the language of the legislation, it applies only if such a company is properly established in and performs real economic activity in the relevant country. The fulfilment of this criterion is based on the particular facts and circumstances. Shareholders resident outside the EEA would still be charged withholding tax, subject to limitations under tax treaties.

2.6 Taxation of dividend distributed to individual shareholders

With effect from 1 January 2006, the imputation method of taxation for dividends is replaced by a modified classical system. The objective of the reform is to decrease the differences in levels of taxation of earned income and investment income.

The double taxation of corporate profits when distributed to individual shareholders is limited in the sense that all shareholders would be allowed a tax free dividend equal to a risk free interest (the annual average interest rate on the three month government promissory rate) on their tax base cost of each share. The regime is applicable to all investments in shares both in Norway and abroad and also applies to investments in CFCs (under a complicated technical formula).

The tax base cost for the purposes of the new tax regime is equal to the acquisition cost of each individual share, adjusted for retained taxed profits allocated to that share prior to the introduction of the new tax regime.

Individual shareholders are taxed on their dividend income exceeding an amount equal to a risk free interest, on the tax base cost of their shareholding. The tax free amount is assessed on each individual share, rather than on the portfolio. The combined tax on corporate profits and shareholders equals 48.16% under the regime. Unused tax free amounts may be carried forward and set against future dividends or gains on the same shares, but cannot be used against dividends and gains on other shares.

2.7 Taxation of interest on loans from individual shareholders to limited companies

As from 1 January 2006 an extra tax charge on interest on loans from individuals to limited companies has been introduced. Under the new rules, 72% of the interest (see above) is taxed, but only the part of the interest payment that exceeds the risk free interest on the loan, see above. This tax charge comes as an addition to the ordinary taxation of the interest. Thus, 172% of the relevant part of the interest is taxed.

2.8 Double Tax Relief (DTR)

Double taxation relief is available under domestic law, or in accordance with double taxation conventions entered into between Norway and foreign states. At present double taxation conventions with 87 nations are in effect.

Prior to 1992, tax treaties were normally based on avoidance of double taxation by using the exemption method. Under this system, income derived from a foreign resident source was not to be considered as tax liable income in Norway, and thus exempt from taxation. A number of tax treaties are still based on the exemption method.

Since 1992 Norway has practised the credit system. Under this system, income derived from a foreign source is considered tax liable in Norway, but the tax payer is credited a tax relief based on taxes paid in the state of source. Credit is normally limited to the rate of Norwegian tax levied on foreign income. All double tax conventions entered into after 1992 are based on the credit system. Further, several of the older conventions have been renegotiated by introduction of the credit system. Under certain conventions relief from double taxation provided may be more beneficial than under domestic law.

Relief from double taxation under domestic law is available either by way of a double tax credit or by deduction of the foreign tax from the Norwegian corporation tax base. To the extent that dividends are taxable, companies holding more than 10% of the shares and voting power of non-resident companies may claim double tax relief on the underlying corporation tax on distributions from those companies.

Credit for underlying corporation tax in the country of source as well as withholding taxes, is allowed on the tax on taxable foreign source dividends. The recipient company must hold 10% of the shares as well as the voting power of the foreign subsidiary.

Credit is also allowed for underlying tax on second tier subsidiaries resident in the same country, provided an effective ownership by the parent company of at least 10%. No credit is allowed for tax paid by companies below sub-subsidiaries.

An ordinary tax credit is allowed for foreign taxes paid on income subject to tax in Norway. With effect from 1 June 2007, new credit rules entered into force. Under the new rules, DTR is divided into three income categories. The categories are as follows:

a) income from low tax jurisdictions

b) income from petroleum exploitation

c) other foreign income

This basket system means that the taxpayers' income and costs must be allocated to each category of foreign income and to Norwegian income. The calculated Norwegian tax, which proportionally relates to each category of foreign income, constitutes the maximum foreign tax credit. The new credit rules involve a restriction compared to the previous legislation.

From the income year 2007 it is possible to carry forward unused credit up to 5 years (also beyond the maximum credit for the particular year). This means that tax paid on foreign income, in a year where the domestic income is nil and the maximum foreign tax credit is nil, can be carried forward the following 5 income years within each of the income categories. Note that the total credit within each income year must not exceed the maximum foreign tax credit for the particular year. As of the income year 2008 there is a limited possibility to carry back (re-allocate) foreign tax towards Norwegian tax in the preceding year within each of the income categories. This right is only subordinate to the right to carry forward unused credit. Before the re-allocation can be completed, the company must substantiate that they will not have such taxable foreign income the next 5 years.

2.9 Losses

Losses of any kind may be set against income from all sources and against capital gains. Excess losses may be carried forward indefinitely. The right to carry the losses forward remains regardless of changes in ownership of the company and regardless of any reorganisation, provided that the objective of the reorganisation is something other than the sale of the loss. The right to carry the losses forward is also applicable when there is a termination or sale of the business in which they were incurred. With effect from 1 January 2006, there is no time limitation on losses carried forward.

A company released from debts may have the allowable losses limited to an amount exceeding the debt it is released from.

Due to the impact of the financial crisis on the Norwegian economy, companies are given a temporary possibility to set off losses in 2008 and 2009 against taxed profit in the preceding years. Hence, the tax value of the losses will be paid to the companies at the final assessments for the income years 2009 and 2010, instead of being carried forward. However, there is a cap on the loss carry back of NOK 5 mill per annum.

2.10 Branch versus Subsidiary

Both limited companies and branches must be registered in the Registry of Business Enterprises. Also, both kinds of enterprise must register with the local tax authority and submit an annual tax return if they are liable to tax in Norway. Branches of foreign companies and limited companies established in Norway are both taxed under the rules applicable to corporation tax and at the same rate. There is no separate branch profit tax. However, only branches are liable to net wealth tax, at 0.6%, if not exempted by virtue of a non-discrimination clause in the relevant double tax convention or (possibly) under non-discrimination principles of European Law.

Both kinds of enterprise must register for VAT if they are engaged in trade subject to VAT in Norway.

An annual financial statement for a limited company incorporated in Norway as well as those of branches of foreign companies, must be sent to the Registry of Accounts within one month after the board of directors has signed it.

There are no restrictions under Norwegian law as to amounts that may be transferred from a branch to the parent company abroad. For limited companies, the determination of the distribution to be made is limited by the Limited Companies Act. Foreign shareholders outside the EEA are subject to a withholding tax of 25%, unless otherwise provided for in a double tax convention.

There are no specific regulations making it generally more beneficial to carry on business through a limited company rather than a branch.

2.11 Grouping/Consolidated Returns

There is no consolidation of groups for tax purposes, but relief for losses may be claimed within a group by way of group contributions. Group contributions are deductible for the contributor and taxable income at the hands of the recipient. The holding requirement for group contribution purposes is 90%. The parent company must hold, directly or indirectly, more than 90% of the shares and the voting rights of the subsidiary. The ownership requirement must be met at the end of the fiscal year.

Group contribution may not be deducted for the purpose of determining the Petroleum Revenue surtax.

The tax deduction for a group contribution is conditional on the contribution being covered by the taxable income of the contributor and the requirements for contributions under the Companies Act must be met. This act requires that any contribution from a company to a shareholder, except the repayment of the share capital, must conform to the rules concerning dividends. Both the contributor and the recipient must affirm that the required conditions are fulfilled at the end of the income year, in an enclosure to the tax return for the year when the contribution is given.

The information required is:

a) name, address and number of shares of the shareholders in the affiliated company; and

b) the date of purchase of the shares and information regarding the right to vote at the general assembly.

Group relief is available between Norwegian subsidiaries of a foreign parent as long as the 90% ownership requirement is fulfilled. Also, under non-discrimination clauses of double tax conventions, group relief is available for contributions made between a branch of a foreign resident company and a subsidiary of the same foreign company. Further, foreign companies resident within EEA are considered comparable to Norwegian companies regarding group relief as long as they are taxable to Norway through a permanent establishment and the group relief is taxable to Norway.

2.12 Tax Rates and Payment Dates

An uniform corporate tax rate of 28% applies to the sum of profits and capital gains. Limited companies do not pay net wealth tax.

Tax returns, which must be filed annually, are due in the year after the financial year-end. For electronically delivered tax returns, the deadline is 31 May. For tax returns on paper, the deadline is 31 March. An extension of the deadline is possible on application. The final tax assessment is issued four to six months after filing the tax return. The assessment notice shows the taxable profits and capital gains determined by the tax authorities and whether any tax is payable or a refund is due to the company. Taxes payable after the assessment are due in mid-November in the year after the fiscal year in question. Late payment of tax attracts an interest charge of 2,4%.

The Tax Office issues a preliminary assessment requiring an advance payment of tax based on an estimate of the company's income to be made in two instalments (on 15 February and 15 April in the year following the fiscal year). Corrections to the advance payments may be made by the company by 1 May, in order to avoid interest charges for underpayment of estimates.

2.13 General anti-avoidance standard

A general anti-avoidance standard developed by the courts exists, under which transactions undertaken with little or no other purpose than avoiding tax under certain circumstances may be disregarded for tax purposes. The standard is wide-ranging.

2.14 Controlled foreign company (CFC)

If at least 50% of a non-resident company is owned or controlled directly or indirectly by resident taxpayers (corporate or individual), its profits, whether distributed or not, are attributed proportionately to its resident shareholders. A "low-tax country" is defined as a country where the general income tax rate on corporate profits is less than two thirds of the Norwegian rate which would apply if the company were resident in Norway. Binding white and black lists of jurisdictions with sufficient/insufficient taxation levels are issued by the tax administration annually.

The CFC legislation may not be applied to controlled companies that are properly established in a European Economic Area (EEA) country and perform real economic activity there. Whether the company is actually established in an EEA country and actually performs economic activity there must be based on an overall evaluation. In the Budget document, the Ministry of Finance lists elements which are important in this overall evaluation.

The Norwegian shareholder must provide evidence to the Norwegian tax authorities to prove that substance requirement is met. In addition, if there is no tax treaty with an exchange of information article in force between Norway and the EEA country, the company must present a statement from the tax administration in its country of establishment to the effect that the information provided is correct.

Further, if the company is resident in a treaty country, the CFC legislation only applies if the company's income is mainly of a "passive" nature.

2.15 Transactions between connected persons

In addition, the Taxes Act contains a wide-ranging connected persons provision, under which the tax administration may adjust the taxable profits of taxpayers where transactions with connected parties have led to a reduced tax base. If the connected party is resident abroad, the burden of proof is on the taxpayer for showing that the reduction of the tax base is unconnected with the common interest of the parties. All transfer pricing adjustments in the ordinary tax regimes, including thin capitalisation adjustments, are made under this provision.

2.16 Thin capitalisation

All interest paid is, as a rule, deductible in arriving at the taxable income of the payer. There is no general rule prescribing a specific debt/equity ratio of companies or a safe harbour. However, the Petroleum Tax Act prescribes that the part of the net financial expenses referable activity on the Continental Shelf under the Oil Taxation Act is not deductible to the extent that the company's debt exceeds 80% of the total debt and equity shown in its year-end financial statements.

Generally, the tax authorities may contest the deductibility of interest paid to a parent company if the paying company is thinly capitalised. Thin capitalisation issues may also arise where the loan has been provided not by the parent company but by a related company.

2.17 Transfer Pricing

Transfer pricing refers to the pricing of transactions between related companies, particularly cross-border transactions. Any transfer of tangible or intangible property or any provision of services or financial instruments within multi-national groups trigger transfer pricing issues. Generally, all such transactions must be arm's-length based, i.e. the common interest between the parties should be disregarded when scrutinising the price and conditions agreed between them.

In Norway transfer pricing issues are solved by using section 13-1 of the General Tax Act 1999. This provides that, where the income or wealth of a Norwegian resident company is reduced due to transactions with a related party, the tax authorities are empowered to estimate the amount of the shortfall in income or wealth and assess this to Norwegian tax.

As of 1 January 2008, new reporting requirements and transfer pricing documentation rules apply to companies that own or control directly or indirectly, either alone or together with a related party, at least 50% of another legal entity. A Norwegian permanent establishment with its head office in a foreign country and a foreign permanent establishment with its head office in Norway are covered by the rules. Furthermore, partnerships where one or more of the partners are taxable in Norway are covered by the rules.

Accordingly, in the annual tax return a taxpayer in a group of companies must give brief information on its transfer pricing related issues.

In addition, the taxpayer must prepare Transfer pricing documentation explaining of the activity within the company and in the group, including the type and the volume of the transactions between the related parties, functional analysis, comparable analysis and a report of the transfer pricing method used. However, small and medium-sized enterprises (EU definition) are exempt from the obligation to prepare transfer pricing documentation. Taxpayers must be prepared to file the documentation within 45 days upon written notice from the tax authorities. Non-compliance can lead to penalty taxes and loss of rights to lodge complaints in extreme cases.

2.18 Taxes on Undistributed Profits

There are no special taxes on undistributed profits.

2.19 Exit Tax

Effective from 7 October 2008 new exit tax rules were implemented in Norway. Pursuant to these rules exit tax will be levied when tangible or intangible assets are moved out of the Norwegian tax jurisdiction, based on the market value of the assets. However, if the assets are moved within the EEA, the tax payable on tangible assets (except for merchandise) may be deferred provided: (i) the assets maintain within the EEA and (ii) there is a tax treaty in force between the EEA Member State and Norway, which provides for the exchange of information and assistance in regard to collection of tax. The exit tax for tangible assets is annulled if the asset is not realised within five years.

For intangible assets and merchandise the exit tax is definitive and is payable on the day of exit.

This rule also applies on emigration of a company from Norway.

If a company ceases to be a resident in Norway for tax purposes under the Norwegian Tax Act section 2-2 or under a tax treaty, the emigration from Norway will mean that gains/loss on the assets are subject to tax/are tax deductible as if the asset or liability was realised. However, if the company continues to be subject to tax in Norway through a permanent establishment after the emigration, no capital gains taxation will take place after the exit. Such tax exemption is only available on application to the Ministry of Finance under section 11-21 of the Norwegian Tax Act.

The emigration of a company will also be considered as a realisation on the hands of the shareholders at the time of exit.

2.20 The petroleum tax system

Petroleum taxation is based on the Norwegian rules for ordinary corporation tax. Due to the extraordinary profitability associated with the production of Norwegian petroleum resources, a special tax is also levied on income from these activities. The ordinary tax rate is the same as for land activities, 28 per cent, while the special tax rate is 50 per cent. The combined marginal tax rate is thus 78 %.

When calculating taxable income for both ordinary and special taxes, an investment is subject to depreciation on a linear basis over six years from the date it was made. Companies may deduct all relevant expenses, including exploration, research and development, net financial, operating and decommissioning expenses (see Figure).

Net financial costs incurred on interest-bearing debt are deductible. These shall comprise the sum of interest costs and foreign exchange losses, less foreign exchange gains, pertaining to such debt. The deductible shall equal such proportion of the net financial costs of the company as corresponds to 50 percent of the ratio between the value, net of tax depreciation as per 31 December of the tax year, of assets attributed to the shelf district and the average interest-bearing debt over the tax year.

For the purpose of determining the taxable income, the Petroleum Tax Act states that norm prices may be stipulated and used in the calculation of taxable income. The methods for stipulation and use of norm prices are described in regulations.

The norm price is fixed by the Norm Price Board, and should be equivalent to the price paid for the petroleum had it been traded between independent parties. The norm price is stipulated each month and for each field by the Norm Price Board.

When the Norm Price Board does not find it appropriate to stipulate a norm price, the actual sales price will be used as the basis for taxation. This applies to certain crude oils and NGL. The actual sales price is used as a basis for gas.

Consolidation between fields is permitted. In order to shield the normal return from the special tax, an extra deduction, the uplift, is allowed in the calculation base for special tax. This amounts to 30 per cent of the investments (7.5 per cent per annum for four years from the year the investment was made).

Companies that are not in a tax position may carry forward their losses and the uplift with interest. An application may also be made for refund of the fiscal value of exploration costs in the companies' tax returns.

The petroleum tax system has been designed for neutrality, so that an investment project that is profitable for an investor before tax, will also be profitable after tax.

Other taxes

The most important other taxes linked to petroleum activities are the carbon dioxide tax (CO2 tax), the NOX tax and the area fee.

CO2 tax is levied at a rate per standard cubic metre (scm) of gas burned or directly released and per litre of petroleum burned. The rate for 2009 is NOK 0.46 per litre of petroleum or scm of gas.

Pursuant to the Gothenburg Protocol of 1999, Norway has an obligation to reduce annual emissions of nitrogen oxides (NOX). For 2009, the tax is NOK 15.85 per kg of NOX.

The area fee is intended to be an instrument that contributes to efficient exploration of awarded acreage so that potential resources are produced as quickly as possible within a prudent financial framework, as well as to extend the lifetime of existing fields.

Operating income (norm price)

- Operating expenses
- Linear depreciation for investments (6 years)
- Exploration expenses
- CO2-tax and area fee
- Net financial costs (limited)

= Corporation tax base (tax rate: 28 %)

- Uplift (7,5 % of investment for 4 years)

= Special tax base (tax rate: 50 %)

Figure Calculation of petroleum tax

2.21 Taxes and fees in the power sector

As for other industries, a tax of 28 per cent is levied and paid to the State on profits earned by all power companies. In addition a profitability-independent natural resources tax of NOK 0.013/kWh paid to the municipal authority and the county authority is levied on hydropower producers. Of this, NOK 0.011 is allocated to the municipal authority and NOK 0.002 to the county authority.

The calculation base for the tax on natural resource extraction is determined for each power station and is the average of the plant's total output of electricity in the income year and the six preceding years. The natural resource tax does not represent an additional financial burden to the companies, as it can be deducted from income tax and, in the event of a difference, can be carried forward with interest.

A basic interest tax of 30 per cent is levied on hydropower producers that achieve profits greater than the calculated tax-free income. The purpose of tax-free income is to protect alternative profits. Along with other taxes, the basic interest tax contributes to a large proportion of the potential basic interest being included as public income.

The municipal authorities can also levy a property tax on the production plant. This is calculated primarily on a profitability basis intended to reflect the market value of the property. Property tax can also be levied on the distribution system.

Licence fees represent compensation for damage caused to districts in which water resources are exploited. They are also an instrument for allowing rural areas to share in the financial return on hydropower development. The licensing authority is entitled to adjust the licence fee every five years.

The municipal authorities affected by hydropower developments are also entitled to buy a proportion of the power generated. The licensee can be required to sell up to 10 per cent of the electricity generated to the municipalities concerned.

The licensee can also be required to sell up to five per cent of the power generated to the central government, but the latter has not exercised this right so far.

2.22 Tonnage tax

For shipping companies the tax on corporate profits may be replaced by a tax based on the tonnage operated by the company. Elaborate ring fencing arrangements limit the benefit of tonnage tax to the operation of ships and companies within the regime that may not carry on any other business or indeed have any employees.

The rates of tonnage tax are:

Tonnage	Tax per day per 1,000 tonnes
First 1,000	NOK 0
1,000 – 10,000	NOK 18
10,000 – 25,000	NOK 12
25,000 or more	NOK 6

A reduction is available for certain certified environmental vessels.

2.23 Foreign damage insurance companies

Foreign damage insurance companies may be taxed on deemed profits equal to 3% of gross premiums accruing to the company from its business in Norway in the fiscal year and the amount of value of the immovable property owned by the company in Norway exceeding ten times the deemed profits from the insurance premiums. These rules apply only to the profits from the insurance business carried on by the company. Other income or capital gains are chargeable to tax under the regular rules for corporation tax.

2.24 Other

Employers' social security contribution

Employers' social security contributions are charged on all remuneration paid in cash or in kind to employees, including remuneration in respect of work performed abroad. The obligation does not apply to payments made to self-employed persons.

The tax rates are determined annually by the Parliament. The tax rates range from 0% to 14.1%. The rates are initially differentiated by region based on the tax municipality of the employer, and regardless of the location of the employees.

An employer resident abroad is required to pay social security contributions in respect of employees working in Norway, subject to the possible exemption under social security treaties.

3. Individual Taxation

3.1 Overview

Resident taxpayers are subject to tax on their worldwide income and capital gains. Resident taxpayers are also subject to net wealth tax on their worldwide assets, provided they are resident on 1 January in the relevant fiscal year. Non-residents are subject to tax on income from Norwegian sources and on capital gains only when they carry out business in Norway and the gain is attributable to that business.

3.2 Residence

Individuals are regarded as being resident in Norway when they take up residence other than temporary residency. In any case, individuals are regarded as tax residents of Norway when they have stayed in Norway for more than 183 days during any 12 month period, or 270 days during any 36 month period.

To be regarded as emigrated from Norway an individual who has combined stay in Norway for less than 10 years must take permanent residence outside Norway. The tax payer or his closest relatives must not have a residency used as a permanent home at their disposal in Norway or stay more than 61 days in Norway during the income year. All of the conditions must be fulfilled during an income year if the taxpayer is to be considered emigrated from Norway.

An individual who has a combined stay in Norway exceeding 10 years must take permanent residence outside Norway, the tax payer or his closest relatives must not have a residency used as a permanent home at their disposal in Norway or stay more than 61 days in Norway during the income year. All of the conditions must be fulfilled the following three years after the year the individual actually moved from Norway, before the taxpayer is regarded as emigrated from Norway.

3.3 Deadline for submission of tax returns

For individuals tax returns are due no later than 30 April in the year after the fiscal year.

For individuals assessed at the Central Office - Foreign Affairs the deadline is 31 March in the year after the fiscal year.

For sole traders tax returns are due no later the 30 April if filed on paper or 31 May if filed electronically, in the year after the fiscal year.

3.4 Income Liable to Tax

Income tax is levied on taxable net income (ordinary income), which is gross income less allowable deductions. In addition, a surtax (or top tax) is levied on gross earned income above a certain level. Investment income is only taxed at the flat ordinary income tax rate.

For taxpayers carrying on activities as a sole trader, the net income is taxed at 28% in the company. Taxable income for a sole trader is generally established according to the rules that apply to companies. In addition, the gross income of the trade is subject to surtax and social security contributions. The gross income related to the personal income of individuals engaged in a business is basically computed by eliminating any income or loss from capital and capital gain and capital loss from the total income of the business or entity and by subtracting 15% of the employment income paid to any employees of the business. If the calculated gross income is negative, the negative income can be carried forward towards positive calculated gross income for later years.

3.5 Employee share option plan

For all options granted after 1 January 2002 there is no tax at grant, even if the exercise price is less than the market value of the shares at grant. For options granted prior to this date, tax may have crystallised at grant depending upon the grant date and whether the options were traded on a stock exchange.

There is no tax triggered at vesting.

There will be a charge of income tax when the participant exercises the option. The taxable benefit, i.e. the difference between the market value of the underlying share at exercise and the exercise price, less any price paid by the employee at grant, is subject to income tax and social security. A tax free amount of NOK 1,500 may be available.

In order to determine the actual amount of tax and social security due, the taxable amount may be allocated equally to each year between grant and exercise and the marginal rates applicable in those years apply, provided that such allocation is required by the employee together with the tax return the exercise year. This rule may also be applied when calculating employer's social security. The employer and/or the employee must make a request to the tax authorities for such allocation.

There are transitional rules for options that have been subject to tax at grant, the effect being to take such tax into consideration when calculating the liability at exercise.

If the participant acquires the underlying shares and later sells them, any gain on the sale of the shares will be taxable as capital gain at a rate of 28% under a modified classical system (see 2.5).

3.6 Employee share purchase plan

There is no tax at eligibility. However, at acquisition the employee will be taxed on the difference between the fair market value of the shares at the time of acquisition, less the acquisition price paid by the employee. This will be subject also to social security (employer and employee) as employment income.

A tax free amount of NOK 1,500 may be available where the plan is made available to all employees as a general offer by the employer or the parent company, provided that the parent company owns more than 90% of the voting rights of the employer.

Dividends in excess of a risk free interest on the tax base cost of shareholders are taxed at a standard rate of 28%.If the employee decides to sell the shares; capital gains are taxed under a modified classical system at a rate of 28% (see 2.5 and 2.6)

3.7 Exit tax

On emigration from Norway, the increase in value of the shares while the shareholder was living in Norway is taxed. This only applies to deemed gains in excess of NOK 500,000. The tax liability is annulled if the shares are not realised within five years after the tax residence is terminated, or if the taxpayer once again becomes resident in Norway before realisation. Note that a tax treaty may limit Norway's right to tax the gain.

3.8 Deductions

All expenses incurred for the purpose of earning or securing income is deductible. However, taxpayers with earned income may elect to claim a so-called minimum deduction rather than claiming for itemised expenses. The deduction is limited upwards to NOK 70 350 in 2009.

As from 2006, all employees are covered by compulsory tax-favoured pension schemes and all self-employed may save within the same schemes. Individual pension agreements policies in existence before 2006 may be carried forward according to existing regulations, but without any new deductible payments.

As of the income year 2008 a new pension scheme will be introduced, where an annual deduction with a maximum of NOK 15,000 may be granted. The retention balance is exempted from wealth tax and the return will not be subject to current taxation but will be taxed when the pension benefit is paid out. The pension benefits will be taxed as taxable income.

Foreign resident personnel, taxable as domestics, may claim a special deduction called the standard deduction, which constitutes 10% of gross income in addition to the aforementioned minimum deduction limited upwards to NOK 40,000 each year. However, this deduction is only available for the first two tax assessments (the first two years of stay in Norway). The standard deduction is supposed to replace a range of other itemised deductions that Norwegian residents normally may claim, e.g. kindergarten fees, union fees, travel fees etc. Note that it is only beneficial to claim the standard deduction if this exceeds the other itemised deductions.

Personal allowances are granted at NOK 40,800 for taxpayers in class I (see below), and NOK 81,600 for taxpayers in class II. In addition, a child allowance is given at NOK 25,000 for the first child, and another NOK 15,000 per child for additional children. Certain taxpayers on low incomes are exempted from tax or may have their tax liability reduced.

3.9 Exempt Income

Exempt income includes certain termination payments from employers, made within the framework of collective wage agreements as well as any payments of NOK 1,000 or less from any employer in the course of the fiscal year. Child support from the government and a number of benefit payments from the social security system are also exempt from taxation.

3.10 Economic double taxation of dividends and distributions from partnerships

Individual taxpayers pay tax on dividends and gains from their shares. An amount equal to a deemed risk free interest of the capital invested is exempt from tax.

Distributions and gains on an interest in a partnership are also taxable. The taxable amount of distributions is reduced by 28 % in order to take account of income tax on the partnership profits.

3.11 Tax Rates and Payment Dates

The aggregate of income tax comprises municipal, county and state taxes. In addition, taxpayers must pay social security contributions at rates depending on whether or not the taxpayer is employed or self-employed or whether he or she has other earned income. The first two taxes are based on ordinary income; the last two taxes on personal income.

The taxpayers are divided into three classes. Class 0 applies to taxpayers with limited tax liability (i.e. taxpayers who are not considered residents of Norway and who do not receive income from regular employment) and also to companies and other organisations not considered as companies for tax purposes. Taxpayers in class 0 are liable to the ordinary income tax on their net income only. Class I applies to single or married persons where both spouses have working income and class II applies to married couples where only one spouse has working income, as well as to single-parent families.

The rates and thresholds for income taxes in 2008 are:

Income tax

Income tax chargeable at net income is levied at a flat rate of 28% on the net income. In Finnmark and certain municipalities in Troms, the 28% rate is replaced by a 24.5% rate.

Surtax (top tax) chargeable on gross earned income for the fiscal year 2008

Rate	Income in Class 0, I and II
nil	up to NOK 441,000
9%	NOK 441,000 – 716,600
12%	above NOK 716,600

In Finnmark and certain municipalities in Troms the 9% rate is replaced by a 7% rate.

Social security contributions are levied on gross earned income. The first NOK 39,600 of a taxpayer's income is exempt from the charge and the contributions may not exceed 25% of income above that amount.

Social security contributions

Salaries	7.8%
Business income	11.0%
Pensions	3.0%

Income tax and social security contributions are deducted from most salaries and pensions under a PAYE (Pay As You Earn) system.

On other kinds of income, including business income of the self-employed, the taxpayer must make quarterly advance payments in the course of the fiscal year. The instalments are due on 15 March, 15 May, 15 September and 15 November. A final payment of outstanding tax may be made by 1 April in the year following the fiscal year.

On repayment of excess tax, a repayment supplement is given. The rate of the repayment supplement depends on whether excess tax was paid by year-end of the fiscal year, or before submission of the tax return. Further, the rates depend on whether the assessments are due in June or October. If the taxpayer has failed to pay sufficient tax, interest of 3.9% or 4.8% is added, depending on the date of assessment. Taxes payable after the assessment are due in August or October in the year after the fiscal year in question, depending on the date of assessment. Late payment of tax attracts an interest charge of 10%.

3.12 Fringe Benefits

Fringe benefits are, in general, subject to income tax and surtax. There are fixed rates determining the taxable amount for a number of benefits, such as home phones and company cars. The deemed rate of interest for beneficial loans from employers are set each year in the Parliamentary tax decision.

3.13 Other

A tax credit is given for annual savings on a designated bank account for the purpose of financing a taxpayer's first home. This relief is available only up to the age of 33 and is granted for 20% of the savings, with a maximum amount of savings of NOK 15,000 per year. The accumulated maximum saving is NOK 100,000.

4. Other Taxpayers

4.1 Partnerships

A partnership (ANS) is a company consisting of two or more partners who are jointly or separately fully liable for the company's debt. The partners own all partnership property jointly. Partnerships must be registered in the Companies Registry. A partnership may carry on business, acquire, hold and dispose of property and sue and be sued in the name of the firm.

A silent partnership exists where a person contributes to the capital of an existing business and shares in the profits (possibly in the losses as well), without incurring any liabilities towards the creditors. A silent partnership needs not be registered in the Companies Registry. Third parties are normally not aware of the silent partner's participation in the business.

A limited liability partnership (KS) consists of one or more general partners and one or more limited partners. The general partner is frequently a joint stock company (AS). This type of company must also be registered in the Companies Registry.

Partnerships are regarded as being transparent for tax purposes. Thus, the net profit or loss, as well as the net value of the assets are attributed to the individual partners in proportion to their part in the partnership or by some other means of attribution, depending on the method employed by the partners in the participation in profits. A limitation, based on the investment of the individual partner, applies to the deductibility of losses.

A partnership must prepare the financial statement, but each partner declares his or her respective share of the net profit or loss as well as that partner's share of the net worth of the partnership, in the personal tax return, together with other income and wealth.

As of 1 January 2006 the tax reform changed the taxation of partnerships, and introduced a double economic taxation of the partnership profits for individual partners.

In addition to being taxed for their net share of the profits, each partner also has to pay tax on distributions from the partnership. The additional tax is based on the distribution less the tax already charged on that share of the profits, as well as an amount equal to the risk free interest on the tax base cost on the partner's share of the partnership. A gain from sale of an interest in the partnership is also taxable for the partner.

For companies being partners in partnerships, an exemption system applies, in the sense that distributions and gains on the sale of an interest in the partnership are exempt from tax. The current profits, however, are taxable.

For VAT and other trade tax purposes, partnerships and sole traders are generally subject to tax directly in the same way as corporations.

4.2 Limited Liability Companies

There is no Limited Liability Companies legislation in Norway.

4.3 Trusts

Trusts may not be formed under Norwegian law. Generally, trusts formed under the law of another jurisdiction would be recognised for tax purposes and would be regarded as being a separate taxable entity. Beneficiaries resident in Norway may be liable to tax on the income and the value of the trust under the CFC-regime.

4.4 Unit Trust

A unit trust may not be formed under Norwegian law. There is no practice as to the taxation of such entities, or indeed as to the taxation of the unit-holders.

4.5 Mutual Funds

Open- or closed ended mutual funds are organised in Norway as a "verdipapirfond" (securities fund). They may be either accumulating or distributing funds. A securities fund may invest in shares, bonds or in a mix of securities.

There are no restrictions on the percentage of units in the fund that may be held by one person or a group of persons.

A securities fund is not a legal entity but a separate taxable entity. Capital gains on shares and units in other mutual funds are exempt from tax, provided that such gains may not be distributed to the unit holders under the articles of association of the fund. All other income, including capital gains on bonds and other securities, dividends, interest, etc are taxable as ordinary income.

Securities funds not holding shares may deduct dividends distributed to the unit holders, provided the dividend does not exceed the net profit. Distributions from mutual funds are included in the taxable income of the unit holders.

5. Withholding Taxes

Withholding tax is levied on dividend payments made to non-resident shareholders at a rate of 25% (2006) if a lower rate is not provided for by double tax convention. A number of conventions provide for no or very low withholding taxes for substantial holdings.

Dividends paid to companies resident within the EEA are exempt from withholding tax. Under new rules, applicable from 2008, the exemption method will, regarding shareholders resident within the EEA, only apply if the shareholder fulfils certain substance requirements. In the language of the legislation, it applies only if such a company is properly established and performs real economic activity in the relevant country. The fulfilment of this criterion is based on the particular facts and circumstances. Shareholders resident outside the EEA would still be charged withholding tax, subject to limitations under tax treaties.

Apart from the withholding tax on dividends, there are no withholding taxes in Norway.

6. Indirect Taxes

6.1 Overview

Norway has a European style VAT regime and charges customs duties on a number of imports under the EEA agreement.

There are no stamp duties on transactions other than transfer of immovable property. Norway does not levy any capital duty.

Small fees may be charged for certain public facilities and services.

6.2 VAT

VAT was introduced in 1970 and applies to domestic sales of most goods and services. Tax is charged at all stages, including on importation and purchases from abroad of services capable of delivery from a remote location, except if an exemption is obtained. Norway has a three-rate system. The general rate of VAT is 25%, and a reduced rate of 14% applies to foodstuffs. A further reduced rate of 8% applies to public transportation services, broadcasting charges and cinema shows. As of 1 September 2006, VAT at a rate of 8% also applies to hotel lodging. The taxable base is the net sales price of taxable goods and services excluding VAT. All costs incurred to complete the sale, such as packaging, freight, insurance, customs duties, etc., are included in the tax base.

Financial services, educational services, healthcare and certain other supplies are outside the scope of the VAT system. Furthermore, the transfer and letting out of real estate is outside the scope of the VAT system. However, a lessor of real estate may voluntarily register for VAT purposes when certain conditions are met. The transfer of ships and platforms used in oil and gas production, export sale, and a few other transactions, are VAT zero rated.

The registration threshold is NOK 50,000 and NOK 140,000 for charities. A registered business is entitled to deduct from the output tax input tax on goods and services for use in a taxable business. If the input tax exceeds the output tax, a refund is given by the tax authorities.

Corresponding to Norwegian companies, foreign companies engaging in sales of goods and services deemed as capable of delivery from a remote location, are subject to VAT and registration in Norway. If a foreign company has no place of business in Norway, it must be registered through a representative who is either resident in Norway or who has a place of business there. Both the representative and the foreign company are responsible for the calculation and payment of the tax. The representative must keep a separate account for the foreign enterprise's business office in Norway.

6.3 Customs Duties

Imported goods may be subject to customs duties, depending on the country of origin and the type of goods concerned. Most goods from the other Nordic countries, the European Union and the European Free Trade Area are not liable to customs duties.

6.4 Stamp Duties

The registration of transactions in immovable property in the Land Registry attracts an ad valorem stamp duty of 2.5%. There are no other stamp duties in Norway.

7. Property Taxes

Local authorities in urban areas may levy a property tax. The tax may vary between 0.2 to 0.7% of the taxable fiscal value of the property. The fiscal value of immovable property varies significantly. Each municipality is free to decide whether or not to levy property tax.

8. Payroll Taxes

There are no payroll taxes in Norway.

9. Wealth/Net Assets Tax

Resident individual taxpayers are also subject to net wealth tax on their worldwide assets, provided they are resident 1 January in the relevant fiscal year. The tax is levied on property owned by the taxpayer wherever situated. Non-resident taxpayers are only subject to net wealth tax on certain property in Norway, generally on assets connected to a business carried out in Norway through a permanent establishment or fixed place of business. The net wealth tax for limited companies was abolished from 1992. Other corporations and partnerships pay state net wealth tax of 0.3% and municipal tax of 0.4%.

The tax rates and thresholds for individuals are:

Municipal net wealth tax

Rate	Net wealth
nil	up to 470,000
0.7%	above 470,000

State net wealth tax

Rates	**Net wealth**
nil	up to 470,000
0.4%	above 470,000

From the income year 2008 the full market value of shares registered on the stock exchange are in the shareholder's wealth, whereas unlisted shares are valued based on the company's taxable wealth.

9.1 Death, Gift, and Inheritance Taxes

Gift and inheritance tax is levied on gifts and estates, provided the donor is, or the deceased was, resident in Norway or of Norwegian nationality. The charge to tax on transfers of property from non-resident donors depends on whether or not gift or inheritance tax has been paid abroad.

Tax is not levied in respect of immovable property located abroad, provided tax has been paid in the country where it is located. Tax is, however, always imposed on the transfer of real property situated in Norway.

Tax is only levied on transfers to a person entitled to inheritance from the donor or the deceased under the Successions Act or under will.

The tax rates and thresholds are:

For children, foster children and parents of the donor/deceased

The first NOK 470,000	nil
The next NOK 330,000	6%
Above NOK 800,000	10%

For all other beneficiaries

The first NOK 470,000	nil
The next NOK 330,000	8%
Above NOK 800,000	15%

An annual amount of NOK 35,128 (50% of the National Insurance basic amount as per 1 May 2008) will be exempt from inheritance tax. This amount is supposed to replace the exemption for casual gifts.

The exemption does not comprise assets such as shares and shares in general partnerships (ANS) and limited partnerships (KS). The exemption will not comprise real estate. Unused amounts cannot be transferred to subsequent years.

10. Incentives

10.1 Overview

There are few tax incentives in Norway. Lately, the rate structure of the capital allowances regime has been revised, in order to become more closely aligned with assumed financial depreciation. Thus, the formerly beneficial regimes for ships and certain other types of assets are now mainly a thing of the past.

10.2 Direct Tax Incentives

The tonnage tax regime (see 2.22) is aimed at aiding the shipping business. In addition, there is a beneficial capital allowances regime for the development of a large-scale plant for cold compression of natural gas in northern Norway.

Companies conducting research and development may be awarded a tax relief, provided that the research program has been approved by the Research Council of Norway. The tax relief is under normal conditions limited to 18% of the company's R&D costs, with a maximum relief of NOK 5 million. However, under specific conditions the tax relief may be awarded with an amount corresponding to 20% of the company's R&D costs, with a maximum tax relief of NOK 11 million.

10.3 Subsidies and Grants

To directly assist in establishing business in remote areas, a regional development fund has been established through which enterprises may obtain loans or grants for the establishment of business.

10.4 Other

In various regions of Norway there are public offices giving advice to newly established business. The scope may vary between the municipalities.

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