The Norwegian Ministry of Finance

Proposition to the Storting 2 LS

(2023–2024)

Proposition to the Stortinget (Bill and Draft Resolution)

Resource rent tax on onshore wind power

Recommendation from the Ministry of Finance of 29 September 2023, approved in the Council of State on the same date.
(Støre Government)

1 Executive summary

In Norway, several industries have exclusive access to valuable natural resources, such as the hydropower, petroleum and aquaculture industries. Such exclusive access can give rise to an extraordinary return (resource rent). The principle that society should receive a share of the returns from utilisation of society's natural resources that generates extraordinary returns has served Norway well. The Government has made it clear in the Hurdal Platform that local communities and the society as a whole should receive a fair share of the value added by utilising society's natural resources. Resource rent is an expression of tax capacity, and taxation of resource rent therefore has a redistributive effect. In addition, resource rent arising from the utilisation of natural resources can be taxed at a relatively high rate without such tax weakening the incentives to utilise these resources. Revenues from neutral resource rent taxes may be used to keep distortionary taxes lower, and thereby make the tax system as a whole more efficient.

The wind power industry has exclusive access to valuable land for commercial activities. By utilising a location-specific natural resource, the wind power industry can generate a resource rent, partly because wind conditions in Norway are favourable and partly because resource access is limited by the licensing system. According to the Norwegian Water Resources and Energy Directorate (NVE), Norway's wind resources are some of the best in Europe. Their analyses indicate that onshore wind power is now, on average, one of the most cost-effective technologies for new power developments. It is expected that power prices over time will exceed the estimated lifetime cost of onshore wind power. This applies, in particular, to wind farms in southern Norway, but also to wind farms in northern Norway. Consequently, the industry is expected to generate resource rent over time. In the next few years, buyers of electricy will reap part of the resource rent through existing fixed-price agreements.

Onshore wind power development has already been extensive in Norway, and normal annual wind power production currently totals about 17 TWh. This corresponds to about 11 per cent of total power production. Almost 85 per cent of this capacity was commissioned over the years 2017-2022. This should be considered in the context of, inter alia, mandatory electricity certificates and especially favourable temporary depreciation rules.

The Government believes that the time is right for the introduction of a resource rent tax on onshore wind power. It is better to introduce a resource rent tax now, with generous transitional arrangements for wind farms that have already been developed, rather than waiting until a future date when the industry has become more mature and it may be more challenging to introduce a resource rent tax. Reference is made to the Tax Committee's green paper (NOU 2022: 20), *A comprehensive tax system*, which identifies several challenges associated with late introduction of resource rent tax. The introduction of a neutral resource rent tax now will provide the industry with a predictable policy framework and facilitate the development of profitable wind power in the years to come. The resource rent tax will be adapted to the profitability of each wind farm and will not weaken incentives to invest in new wind farms. On 16 December 2022, the Government circulated a wind power resource rent tax proposal for consultation. The consultation paper proposed that the tax would enter into effect from 2023, although this was subject to further assessment. About 140 consultative comments were received in the consultation round. Several of these objected to the proposed effective date. In the Revised National Budget for 2023, the Government announced that the effective date had been deferred and that the Government was aiming to submit a bill to the Storting during its autumn 2023 session, to take effect from 2024.

In this proposition, the Government proposes the introduction of a resource rent tax with effect from the 2024 tax year. This proposal is based on the main features of the proposal that has been circulated for consultation, although with some changes. An effective tax rate of 35 per cent is proposed, which is somewhat lower than in the consultation proposal. Modifications are also proposed to ensure a smooth transition to resource rent taxation for existing wind farms, as well as a reasonable balance between resource rent tax and taxes on gross income. It is proposed, inter alia, that the input value of historical investments may be calculated in accordance with ordinary declining-balance depreciation rules for all existing wind farms. Moreover, the Government finds it reasonable to compensate existing wind farms for the input value of their historical investments being depreciated over time, through the deduction of a deferment interest. Besides, an exemption rule is proposed for physical power purchase agreements for the first years after the effective date.

The proposed resource rent tax is designed as a cash flow tax with immediate deduction of new investments. The tax will apply to wind farms comprised of more than five turbines, or with a total installed capacity of 1 MW or more. This is the same threshold as applies to the current licence obligation under Section 3-1 of the Energy Act Regulations.

As a general rule, power production income shall be valued at the spot market price, although this is subject to certain exceptions that are specified in more detail in Chapter 5.6. Costs that are regularly associated with the wind power production are deductible. As under the hydropower resource rent tax, a resource rent-related corporation tax may be deducted from the resource rent income. No payment scheme for negative resource rent income is proposed due to, inter alia, compliance considerations. Instead, negative resource rent income may be carried forward at a risk-free interest rate and be deducted from any future positive resource rent income for each wind farm. Upon the discontinuation of operations, central government will pay the tax value of any negative resource rent income. All in all, this means that the investor is guaranteed to receive payment of the tax value of any negative resource rent income. In net present value terms, this solution will be equivalent to a continuous payment scheme.

The Government wants to ensure that local communities receive their fair share of the wind power revenues. Stable revenue for municipalities is nevertheless desirable. The production tax was introduced on 1 July 2022 and will provide stable revenues for host municipalities. It is proposed to increase this tax to NOK 0.023 per kWh, while the natural resource tax discussed in the consultation paper will not be introduced. This means that considerable wind farm revenues will accrue to host municipalities. Under the Government's proposal, at least half of the resource rent tax revenues will accrue to municipalities through the production tax and an additional appropriation in years of high resource rent. In addition, host municipalities may opt for levying property tax on wind farms.

The Government believes that wind power production should benefit interests that are negatively affected by wind power developments. The Government aims for an amount equivalent to NOK 0.002 per kWh of wind power production to be set aside for local purposes such as nature, reindeer husbandry and any other purposes directly affected by the land use. This arrangement needs to be examined in more detail. It needs to be considered, inter alia, which specific purposes should qualify and how the funds should be allocated. The Government will revert with a proposal and detailed provisions in connection with the Revised National Budget for 2024.

The introduction of the resource rent tax will enable society to receive a share of the value added through the production and development of profitable onshore wind power. Future revenues are inherently subject to considerable uncertainty and will depend on a number of factors, such as power price and cost developments. In the short term, generous transitional arrangements will significantly reduce revenues. In the longer term, however, revenues are expected to increase as the impact of the transitional arrangements is reduced, and the revenues will to a greater extent reflect the positive resource rent in the industry. On a highly uncertain basis, the gross revenues from the proposed resource rent tax are projected to be about NOK 300 million accrued in 2024. Accrued production tax is projected to be about NOK 390 million, and can be deducted on a direct NOK-by-NOK basis from any positive resource rent tax levied from 2024 onwards. For 2024, this is estimated to reduce central government's accrued net revenues to about NOK 150 million. The resource rent tax revenues for the 2024 tax year will be booked in full in 2025. It should be noted that several wind farms will have negative calculated resource rent income and unutilised deductions for production tax paid in 2024. Both elements may be carried forward, which will serve to reduce revenues in subsequent years. When this is also taken into account, the full-year effect of the proposal for 2024 will be lower and is projected to be NOK -550 million.

The introduction of a resource rent tax on onshore wind power will entail increased costs for the tax authorities in 2023 and 2024, on developing a systems solution and preparing informational and guidance materials, as well as on training. Furthermore, the Norwegian Tax Administration will incur permanent costs on information and guidance, on operation of the systems solution, as well as on ongoing processing, including tax assessment and compliance checks. For wind power producers, systems will have to be customised to ensure correct reporting of the requisite information for their tax returns. This will entail administrative costs on the part of producers.

The Ministry refers to the proposed new provisions in Sections 9-3, 18-1, 18-10 and 18-11 of the Taxation Act. The Ministry proposes that the amendments enter into force immediately with effect from the 2024 tax year, inclusive.