

Prop. 1 LS

(2015–2016)

Proposition to the Storting (bill and draft resolution)

FOR THE FISCAL YEAR 2016

Taxes 2016

Recommendation from the Ministry of Finance of 25 September 2015, approved in the Council of State on the same date. (Solberg Government)

An unofficial English translation of Chapter 1 of Prop. 1 LS (2015–2016)

1 Main features of the tax proposal for 2016

1.1 The tax policy of the Government

Tax is a means rather than an aim. The tax policy objectives are to fund public goods and services in the most efficient manner, ensure social mobility, achieve more effective resource allocation, and improve conditions for Norwegian businesses. The Government is promoting a simpler tax system that is more conducive to growth. Private ownership shall be strengthened, and it shall be more profitable to work, save and invest. The Government will also stimulate more environmentally friendly behaviour.

Taxes should be structured such as to utilise resources in the best possible manner. This will be facilitated by a combination of broad tax bases, low tax rates and equal tax treatment across industries, businesses and investments. These principles have influenced the structure of the tax system since the tax reform of 1992. The reform provided Norway with a more growth-oriented tax system. Returns on investments increased, and tax revenues were better aligned with actual company earnings.

The competitiveness of Norway depends on the ability of our economy to change and to utilise resources in the best possible manner. This is achieved by ensuring that the general business framework makes it attractive to invest in Norway. Special arrangements and exemptions in the tax system will often channel resources into less productive uses.

Tax bases have become more mobile as the result of increased international trade and more closely integrated markets. The tax system therefore needs to be adapted to new developments in the Norwegian and international economy, such as to make it less attractive to devote resources to international tax planning that undermines the Norwegian tax base. Internationally, there is a trend towards lower corporate tax rates in combination with measures to prevent tax bases from being undermined.

The Government is also submitting, simultaneously with the submission of the fiscal budget for 2016, Report No. 4 (2015-2016) to the Storting; *Better Taxation – A Tax Reform for Transformation and Growth* (the Tax Report). This is a follow-up of the Tax Commission's report, cf. the NOU 2014: 13 *Capital Taxation in an International Economy*. The Government finds that the Tax Commission's report provides a good basis for proposing a tax restructuring with positive dynamic effects. The proposals are based, moreover, on the key principles of equal treatment, broad tax bases and low tax rates.

The current situation in the Norwegian economy makes the Government put emphasis on measures to promote employment, activity and restructuring in the fiscal budget for 2016. Consequently, this is a good time for commencing follow-up of the Tax Commission's report. The Government is now proposing tax reductions that provides good incentives to save, invest and work. This is important to promote transformation, thus increasing productivity and economic growth. The reduction of the tax rate on ordinary income for individuals and enterprises represents a tax reduction that is assumed to be particularly conducive to economic growth. This enables, in combination with a clear signal in the Tax Report that the corporate tax rate will be reduced in the years to come, businesses to plan investments in Norway in the expectation of a lower tax level. Dynamic effects of the tax proposal for 2016 are discussed in more detail in Section 1.3.

Key achievements in the Government's tax policy

The Government has reduced overall taxes by about NOK 13 billion accrued since it took office. The Government has implemented, inter alia, the following changes:

- Income tax has been reduced. A lower tax rate on ordinary income for individuals and enterprises makes the economy more conducive to growth because labour supply, saving and investments are stimulated. The surtax reduction and the reduced allowance in tax class 2 have also improved work incentives. The increase in the basic allowance for wage income and social security benefits and for pension income means that broad groups of the population have taken part in the tax reductions.
- Net wealth tax has been reduced. The reductions have stimulated saving and the inflow of Norwegian equity and investments to the business sector. The rate has been reduced from 1.1 per cent to 0.85 per cent, and the basic allowance has been increased from NOK 870,000 to NOK 1.2 million. The taxable values of commercial properties and second dwellings have, at the same time, been increased from 50 to 70 per cent of estimated market value, and the taxable values of recreational properties have been increased by 10 per cent. This results in more equal treatment.
- The inheritance tax has been abolished. This eases the liquidity strain of generational change and represents a major simplification.
- An arrangement has been introduced to neutralise value added tax for central government. This means that private suppliers can compete on equal terms for central government service provision.
- Vehicle and fuel taxes have been reduced by about NOK 1.7 billion, by lowering and simplifying taxes.
- There has been a clear shift towards environmentally related taxes. Environmentally and energy-related taxes have been increased by close to NOK 2.7 billion. The Government has also appointed a Green Tax Commission to propose a green tax reform.

1.2 Main features of the tax proposal for 2016

The Government continues to reduce the tax level and improve the tax system. The 2016 budget proposes new net tax reductions in the total amount of NOK 9.1 billion accrued and NOK 3.1 billion booked, cf. Table 1.1. A reduced tax rate on ordinary income, with an upwards adjustment in the tax on dividends, etc., and a new bracket tax on personal income, accounts for most of these reductions.

Income tax

In order to facilitate restructuring and strengthen the basis for growth in the Norwegian economy, the Government takes the first step in following up the recommendations from the Tax Commission already in the 2016 budget. The Government is proposing to reduce the tax rate on ordinary income for individuals and enterprises from 27 to 25 per cent. A reduced tax rate on ordinary income is in line with the Commission's proposal and will stimulate higher investment, increased labour supply and more saving. It will also reduce the gain from cross-border tax planning.

It is proposed that the economic rent tax on hydroelectric power generation and the special tax on petroleum activities be increased by two percentage points in 2016.

Lower tax on ordinary income will, in principle, make it more profitable for owners working in their own company to receive as dividends what is actually income from work. In order to prevent this, the Government believes that it is necessary to increase the tax rate on dividends etc. (dividends in excess of the allowance for shareholder equity), when reducing the tax rate on ordinary income. However, the Government is of the view that the disadvantages of increased dividend taxation is an argument for a lower increase in the dividends tax than what was proposed by the Tax

Commission. The Government's proposal is to maintain the overall marginal tax rate on dividends (inclusive of corporate tax) at about the 2015 level in 2016.

It is proposed that the lower tax on ordinary income should be partly funded by increasing the tax on personal income, although with the overall marginal tax rate being reduced and thus increasing incentives to work to some extent. The Government proposes, like the Tax Commission, that the current surtax should be replaced by a new tax on personal income, designed with four brackets (the bracket tax).

Net wealth tax

The Government reduced the net wealth tax by NOK 1.6 billion in the budget for 2014 and NOK 2.7 billion in the budget for 2015. The Government has made it clear that the net wealth tax will be further reduced. The net wealth tax makes saving less profitable, favours investments in immovable property over investment in business activities, weakens Norwegian business ownership and may be problematic for start-ups that depend on Norwegian equity to carry out investments.

The Government proposes that the rate of net wealth tax be reduced from 0.85 per cent to 0.8 per cent. In addition, the basic allowance in the net wealth tax will be increased from NOK 1.2 million to NOK 1.4 million (NOK 2.8 million for married couples). Furthermore, it is proposed to increase the taxable values of second dwellings and commercial property from 70 per cent to 80 per cent of estimated market value to reduce differences between various assets. A lower rate of net wealth tax may also lessen the negative effects of heterogeneous valuation of different assets, thus implying that saving are directed, to a higher extent, where the returns are the highest. The Government also emphasizes that reductions in the net wealth tax may stimulate entrepreneurship.

Other aspects of personal taxation

The Government is proposing, in order to counteract tax planning and simplify the regulatory framework, that loans to personal shareholders shall be taxed as dividends on the part of the shareholder. Personal shareholders may under the current regulatory framework avoid dividend taxation by borrowing funds from the company. The volume of such loans has increased significantly after the introduction of the shareholder model in 2006.

Moreover, the Government is proposing to tighten the exemption from additional taxation on interest income related to debentures. At present, interest on loans from personal taxpayers to companies is subject to additional taxation to prevent tax planning that results in shareholders receiving profit distributions from companies in the form of interest instead of dividends etc. The proposal limits the exemption for interest related to debentures such as to only apply to debentures that are being traded in organised markets.

The Government will, as part of its improvement of the tax provisions governing benefits in kind, make simplifications to the taxation of benefits from occupational vehicles. The Government will also abolish the special allowance for minor expenses and the right to tax-free compensation for such expenses. This should be considered in the context of the abolition of the compensation for minor undocumented expenses from the Special Agreement on Domestic Travel for the Account of Central Government (Særvtale for reiser innenlands for statens regning), which is also part of the Government's simplification effort.

Furthermore, the Government proposes that the grant scheme for energy efficiency investment in private homes be linked to the tax system. This tax scheme is based on Enova's current grant scheme for such measures, but the homeowner can choose to receive such grant in the form of a tax credit at the time of the tax assessment as an alternative to a direct grant from Enova. Weight has

been attached to developing a solution that harnesses the positive effects of a tax credit scheme, whilst at the same time being targeted, efficient and non-bureaucratic.

Other aspects of business taxation

The Government is proposing to tighten the rule limiting the deductibility of interest paid to associated companies (the interest deduction limitation rule). At present, interest costs to associated companies in excess of 30 per cent of earnings before interest, taxes, depreciation and amortisation are not deductible. In order that the rule limits a larger portion of the deductions resulting from aggressive tax planning, the Government proposes to reduce the limit from 30 per cent to 25 per cent. The Tax Commission recommends tightening the rule even further. Potential future changes to the interest deduction limitation rule are discussed in the Tax Report.

When states classify financial instruments or legal entities differently (hybrid situations), the result may be that income is not taxed in any country. The Tax Commission is proposing, in order to alleviate unwanted effects from hybrid instruments, to disapply the exemption method when the distributing company has been granted a deduction in respect of the distribution in question. The Government is following up on this proposal in the 2016 budget.

The Government is proposing to amend the provisions on the taxation of securities funds and income from such funds to better reflect the composition of securities in each fund. Currently, combined funds are treated as equity funds and distributions from such funds, as dividends. The proposal reduces the problem of double taxation of interest, which is currently taxed both in the equity fund and upon distribution to personal unitholders (for the portion exceeding the allowance for shareholder equity). The proposal will, at the same time, prevent unitholders from being granted an allowance for shareholder equity on return on fixed-income securities. The changes will provide Norwegian funds with a better and fairer competition framework and counteract tax-motivated behaviour.

The Government announced a review and examination of the tax rules for agriculture in the Revised National Budget for 2014. The special agricultural tax rules may promote an inferior resource allocation and have turned into a complex regulatory framework for farmers and foresters, as well as for the tax authorities. The said review has resulted in the Government proposing amendments to the current special rules on the taxation of gains upon realisation of agricultural properties, with effect from 2016. Additional amendment proposals will also be circulated for consultation this autumn, whilst the Tax Report announces certain changes that can be implemented from 2017.

Indirect taxes

A number of services are currently subject to a low rate of 8 per cent of value added tax. This arrangement is favourable for most of those within its ambit. Services subject to the low rate will therefore not normally generate revenues for central government. The Government proposes that the 8 per cent low rate of value added tax be increased to 10 per cent.

Data centres are currently, like other service industries, subject to the standard electricity tax rate. The Government proposes, as announced in the Revised National Budget for 2015, that businesses with sizable data storage as their main activity shall pay a reduced rate. The reduced electricity tax rate will also be introduced for electric power supplied from onshore locations to ships engaged in business activities.

The Government is also following up on the Storting's resolution in connection with the deliberation of the fiscal budget for 2015 by proposing the introduction of a road usage tax on gas.

The Government proposes that the tax on squash and syrups based on fruits, berries or vegetables, without added sugar, be reduced to half the standard rate of tax on non-alcoholic beverages.

The Government has reviewed central government funding through fees and sectoral taxes, and revised the provisions on central government funding through fees and sectoral taxes. These new provisions are attached to the proposition. Overall reductions in sectoral taxes and overpriced fees are also proposed.

Other proposed tax changes

- The maximum total savings under the home investment savings scheme for people below the age of 34 years (BSU) will be increased from NOK 200,000 to NOK 300,000.
- The lower limit of the travel allowance will be increased from NOK 16,000 to NOK 22,000.
- The personal allowance will be adjusted in line with wage increases.
- The special allowance for sole providers will be increased from NOK 48,804 to NOK 49,800.
- The rate of product tax on sales of landed fish will be reduced from 3.1 per cent to 2.7 per cent.
- Certain limits will remain nominally unchanged. This applies, for example, to the special wage income allowance, the lower threshold for the payment of employee's social security contribution, the trade union subscription allowance, the travel allowance rates, the parental allowance, the agricultural allowance, the fishermen's and seamen's allowances, as well as the maximum annual saving under the home investment savings scheme for people below the age of 34 years (BSU).
- The maximum deductibility basis (cap) under the Skattefunn research and development (R&D) tax incentive scheme will be increased from NOK 15 to 20 million on internal R&D costs. It is, at the same time, proposed to increase the cap on R&D outsourced to approved research institutions from NOK 33 to 40 million.
- The natural resource tax threshold will be increased to 10 MVA upon the minimum threshold of the economic rent tax on hydroelectric power plants being increased with effect from the 2015 tax year.
- The GWP values for the greenhouse gases HFC and PFC under the regulations concerning excise duties will be updated.
- An exemption from stamp duty and re-registration tax will be introduced for tax-exempt reorganisations.

1.3 Dynamic effects

Lower tax rates may serve to improve resource allocation and stimulate economic growth. Part of the immediate loss of revenues will thus be offset by an expansion of the tax bases. The tax reductions may thereby be self-financing to some extent. An expansion of the tax bases may take place over many years. The associated increase in revenues can therefore not be fully included in the current fiscal year. The budgetary room for manoeuvre will increase as and when the level of tax revenues increases.

Taxes that are structured in an efficient manner will improve resource allocation by strengthening taxpayers' work, saving and investment incentives. Some taxes improve resource allocation, including, inter alia, taxes that correct for damage caused to health and the environment. Other taxes, such as taxes on economic rents, are neutral. However, most taxes result in individuals and enterprises changing their decisions in such a way as to utilise the resources of society less efficiently than would have been the case in the absence of a tax. Labour taxes will, for example, make it less profitable to work. Correspondingly, it becomes less profitable to repay debts

and deposit money in the bank or invest them in shares if part of the return has to be paid in tax. Taxes on business profits result in fewer investments in Norway being profitable.

Most of the tax revenues need to come from taxes that have a negative impact on the economy. The negative effects can be minimised for a given tax level by relying more heavily on taxes that have little impact on the decisions of individuals and enterprises, and by having low tax rates on broad bases rather than high tax rates on narrow bases. High tax rates provide strong incentives to change behaviour and make it profitable to evade or avoid such tax. This inhibits economic growth.

Consequently, tax reductions may serve to improve resource allocation and to stimulate economic growth. Some forms of tax reductions will have a more positive impact than others. There is some empirical evidence to such effect. Economic research indicates, for example, that lower tax rates on business profits and labour, in particular, may entail significant positive effects. The Tax Commission refers to international research and assumes that taxes on immovable property and on consumption have a less inhibiting effect on economic growth than other types of taxes. The Commission notes that traditional corporate tax and personal income tax (taxes on labour and capital income) have the strongest negative effects on economic growth.

The Government's tax proposal for 2016 is in line with economically well-founded recommendations as to which tax reductions will improve resource allocation and stimulate economic growth.

The Government proposes to reduce the tax rate on ordinary income for enterprises by 2 percentage points. The Tax Commission estimates, on an uncertain basis, that the degree of self-financing over time when reducing the corporate tax rate (including more appropriate depreciation rules and a tighter interest deduction limitation rule) may be in the range of 20–40 per cent. The estimate is subject to uncertainty. The Ministry assumes that the effect of the Government's proposal for a lower corporate tax rate will be in this range.

A reduced tax rate on ordinary income for individuals, combined with the new bracket tax, reduces the tax rate on both labour and saving. The net reduction in the tax rate on labour will, under the Government's proposal, be between 0.4 and 1.2 percentage points. Consequently, the proposal will stimulate work, and may involve an element of self-financing in the longer run. There is considerable uncertainty as to the degree of self-financing, but calculations made using the Statistics Norway simulation model LOTTE-Arbeid suggests that the combination of a reduced tax rate on ordinary income, a new bracket tax, as well as other elements of the tax proposal that can be simulated in the model, may entail about 10 per cent self-financing.

The Government's proposal for a reduction in the tax rate on ordinary income for individuals will also, when taken in isolation, reduce the marginal tax rate on capital income by 2 percentage points. This will increase interest rates after tax, increase the value of interest income and reduce the value of the deductibility of interest. Empirical research indicates that the overall effect of a higher return after tax is to increase saving, but the magnitude of such effect is uncertain.

The proposed reduction in the rate of net wealth tax will also increase the return after tax on savings for those above the net wealth tax threshold. A lower rate of net wealth tax and more equal valuation of different assets may increase saving, and will improve the channelling of saving towards profitable investments. Lower net wealth tax may also serve to increase investment on the part of businesses that rely on Norwegian equity to implement their projects. The Government's proposal for a reduction in the rate of net wealth tax, an increase in the basic allowance and an increase in the taxable values of commercial property and second dwellings is assumed, against this background, to have a positive long-term effect on the economy. The magnitude of such effect is, however, uncertain, and has not been quantified by the Ministry.

The Ministry assumes that it will take time for dynamic effects of the Government's proposed changes to income and net wealth tax to influence tax revenues. Although new investments may be triggered as the result of lower corporate tax, higher profits and higher tax revenues will not normally materialise until subsequent years. The Ministry is not including any dynamic effects of these changes in the 2016 budget. It is assumed, on the other hand, that changes in indirect taxes will have more direct dynamic effects in the form of price changes already in 2016. The estimated tax revenue implications of changes to most excise duties therefore take into account that the tax base changes when the tax rates are changed.

1.4 Revenue effects of the proposed tax changes

Table 1.1 provides an overview of the revenue effects of the Government's proposals. The revenue effects of the tax proposal are calculated relative to the benchmark system for 2016. The benchmark system for 2016 is based on the 2015 rules, largely adjusted for estimated price, wage and wealth growth. Allowances and limits, etc., in the general rate structure for personal taxation have largely been adjusted to the 2016 level using estimated wage growth of 2.7 per cent. Special allowances and other limits in personal taxation have largely been adjusted in the benchmark system using an estimated inflation rate from 2015 to 2016 of 2.5 per cent. This means that a taxpayer who only qualifies for standard reliefs and whose ordinary income and personal income both increase by 2.7 per cent will have approximately the same average income tax level in the benchmark system for 2016 as in 2015. In the benchmark system for indirect taxes, all unit taxes have been adjusted by the estimated rate of inflation from 2015 to 2016. In real terms, the benchmark system thus entails no change in tax levels from 2015 to 2016.

Table 1.1 Estimated revenue effects of the tax proposal for 2016. Negative figures represent tax reductions. The estimates have been calculated relative to the benchmark system for 2016. NOK million

| | Accrued | Booked |
|--|---------------|---------------|
| Income tax | -9,395 | -3,130 |
| Reduce the tax rate on ordinary income to 25 pct., with adjustment of the tax on dividends ^{1,2} | -26,760 | -17,090 |
| Maintain unchanged overall marginal tax rate for petroleum enterprises ³ | - | - |
| Maintain unchanged overall marginal tax rate for hydroelectric power plants ⁴ | -85 | 0 |
| Introduce bracket tax on personal income ⁵ | 17,450 | 13,960 |
| | | |
| Net wealth tax: Increase the basic allowance to NOK 1.4 million, reduce the rate to 0.8 pct., as well as increase the taxable values of second dwellings and commercial property to 80 pct. | -1,120 | -860 |
| | | |
| Other aspects of personal taxation | 1,110 | 891 |
| Tax loans from companies to personal shareholders as dividends | 600 | 480 |

| | | |
|---|------------|------------|
| Tighten the exemption for additional taxation of interest income on debentures | 0 | 0 |
| Improve the taxation of benefits from occupational vehicles | -5 | -4 |
| Abolish the deductibility of minor undocumented expenses | 70 | 55 |
| Increase the lower limit of the travel allowance to NOK 22,000 | 475 | 380 |
| Increase the maximum total savings under the home investment savings scheme for people below the age of 34 years (BSU) to NOK 300,000 | -140 | -110 |
| Adjust the personal allowance in line with wage increases ⁶ | -65 | -50 |
| Maintain other rates, limits and allowances unchanged in nominal terms, etc. | 175 | 140 |
| Introduce tax scheme for energy efficiency investments ⁷ | 0 | 0 |
| | | |
| Other aspects of business taxation | 115 | -65 |
| Tighten the interest deduction limitation | 240 | 0 |
| Expand the Skattefunn R&D tax incentive scheme | -60 | 0 |
| Curtail use of the exemption method | 0 | 0 |
| Amend the rules on the taxation of securities funds | - | - |
| Increase the lower threshold of the natural resource tax ⁸ | 0 | 0 |
| Change agricultural taxation | -65 | -65 |
| | | |
| Value added tax | 300 | 210 |
| Increase the low rate of value added tax from 8 to 10 pct. ⁹ | 650 | 500 |
| Introduce equal value added tax on print and electronic newspapers | -350 | -290 |
| | | |
| Other proposals on indirect taxes | 4 | 3 |
| Reduce the rate of electricity tax for large data centres and ships engaged in business activities | -22 | -17 |
| Introduce road usage tax on gas ¹⁰ | 20 | 10 |
| Amend the tax on the greenhouse gases HFC and PFC | 60 | 55 |
| Reduce beverage tax on squash and syrups based on fruits, berries or vegetables, without added sugar | -25 | -20 |
| Introduce exemption from stamp duty and re-registration tax for tax-exempt reorganisations | -40 | -35 |

| | | |
|--|---------------|---------------|
| Increase reduced tax rates due to weak Norwegian krone ¹¹ | 11 | 10 |
| Sectoral taxes and overpriced fees | -109 | -109 |
| Reduce fees to the Brønnøysund Register Centre | -81 | -78 |
| Reduce fees to the Norwegian Coastal Administration | -90 | -86 |
| Increase control fee for medicinal products | 14 | 11 |
| Increase sector fee to the Petroleum Safety Authority Norway | 5 | 5 |
| Increase fisheries research fee | 25 | 22 |
| Increase standard court fee | 18 | 17 |
| Aggregate new tax changes in 2016 | -9,095 | -3,060 |
| Effect of decisions relating to the National Budget for 2015 | 200 | -937 |
| Effect of decisions relating to the Revised National Budget for 2015 | 139 | 231 |
| Aggregate tax changes | -8,756 | -3,766 |

¹ The effective tax rate on dividends is increased to about 29 per cent (adjusted upwards by a factor of 1.15).

² The tax rate on ordinary income for North Troms and Finnmark is reduced to 21.5 per cent.

³ The special tax on petroleum is increased by two percentage points upon the rate of tax on ordinary income being reduced from 27 to 25 per cent. The net annual loss of proceeds is estimated at NOK 630 million accrued in 2016. Transfers to the Government Pension Fund Global are reduced correspondingly.

⁴ The economic rent tax on hydroelectric power plants is increased by two percentage points upon the rate of tax on ordinary income being reduced from 27 to 25 per cent.

⁵ Includes downward adjustment of the tax credit for pensioners such as to maintain the current lower tax threshold for pensioners.

⁶ Adjustment in line with expected wage increases entails a loss of revenues since it amounts to overcompensation when compared to the benchmark system.

⁷ The revenues under the tax credit arrangement are included in the overall amount budgeted for the expenditure and tax scheme (NOK 250 million).

⁸ The threshold will be increased to 10 MVA in line with the minimum threshold of the economic rent tax from the 2015 tax year. This will, when taken in isolation, increase central government tax revenues by NOK 20 million booked in 2016 and reduce local and regional government revenues from natural resource tax. Local government is compensated through other tax revenues. The overall effect is neutral for both local and central government.

⁹ Includes compensations on the expenditure side pursuant to existing government agreements on the procurement of passenger transport services, such as train, bus, air and ferry services, as well as regulatory compensation schemes for the local government sector and central government bodies.

¹⁰ Includes compensations on the expenditure side in the amount of NOK 90 million pursuant to existing agreements on the government procurement of passenger transport services.

¹¹ Electricity tax is increased by about NOK 4 million accrued and about NOK 3 million booked, base tax on mineral oils, etc., by about NOK 0.2 million, and CO₂ tax on natural gas by about NOK 7 million accrued and booked in 2016.

Source: Ministry of Finance.

Table 1.2 presents estimated booked tax revenues for 2016, as well as estimates for 2015 and accounting figures for 2014, specified by chapter and item.

Table 1.2 Booked tax revenues specified by chapter and item. NOK million

| Chapter | Item | Description | Accounts 2014 | Budget estimate 2015 | | Proposal 2016 |
|---------|------|---|------------------|-------------------------|---------------------|------------------|
| | | | | Balanced budget | Estimate NB 2016 | |
| 5501 | | Taxes on wealth and income | | | | |
| | 70 | Bracket tax, net wealth tax, etc. | 34,259 | 34,679 | 34,000 | 45,800 |
| | 72 | Central government tax | 204,726 | 224,356 | 214,000 | 204,600 |
| 5506 | 70 | Tax on inheritance and gifts | 1,880 | 0 | 300 | – |
| 5507 | | Taxes on petroleum extraction | | | | |
| | 71 | Ordinary tax on wealth and income | 64,212 | 64,700 | 42,100 | 34,600 |
| | 72 | Special tax on petroleum income | 105,837 | 100,500 | 70,000 | 56,100 |
| | 74 | Area fee, etc. | 1,536 | 1,800 | 1,700 | 1,600 |
| 5508 | 70 | Tax on the emission of CO ₂ in petroleum activities on the continental shelf | 4,516 | 6,600 | 5,200 | 5,500 |
| 5509 | 70 | Tax on the emission of NO _x in petroleum activities on the continental shelf | 62 | 0 | 0 | 5 |
| 5511 | | Customs revenues | | | | |
| | 70 | Customs duties | 2,980 | 3,000 | 3,100 | 3,100 |
| | 71 | Auction revenue from customs quotas | 225 | 200 | 240 | 260 |
| 5521 | 70 | Value added tax | 242,571 | 256,190 | 252,000 | 263,500 |
| 5526 | 70 | Tax on alcoholic beverages | 12,643 | 12,600 | 12,700 | 13,000 |
| 5531 | 70 | Tax on tobacco products, etc. | 7,259 | 7,200 | 7,125 | 7,200 |
| 5536 | | Tax on motor vehicles, etc. | | | | |
| | 71 | Motor vehicle registration tax | 18,533 | 18,534 | 18,000 | 17,700 |
| | 72 | Annual motor vehicle tax | 9,975 | 10,300 | 10,200 | 10,660 |
| | 73 | Annual weight-based tax | 359 | 380 | 352 | 368 |
| | 75 | Re-registration tax | 1,907 | 1,320 | 1,378 | 1,440 |
| 5537 | 71 | Marine engine tax | 50 | – | – | – |
| 5538 | | Road usage tax on engine fuel | | | | |
| | 70 | Road usage tax on petrol | 6,011 | 5,680 | 5,722 | 5,500 |

| | | | | | | |
|------|----|---|--------|--------|--------|--------|
| | 71 | Road usage tax on auto diesel | 10,551 | 11,090 | 10,500 | 10,800 |
| | 72 | Road usage tax on natural gas and LPG | – | 38 | 0 | 100 |
| 5541 | 70 | Electricity tax | 7,538 | 8,880 | 8,350 | 9,000 |
| 5542 | | Tax on mineral oils, etc. | | | | |
| | 70 | Base tax on mineral oils, etc. | 1,777 | 1,847 | 1,800 | 1,850 |
| | 71 | Tax on lubricating oils, etc. | 99 | 98 | 104 | 109 |
| 5543 | | Environmental tax on mineral products, etc. | | | | |
| | 70 | CO ₂ tax | 5,206 | 5,790 | 5,700 | 6,800 |
| | 71 | Sulphur tax | 31 | 36 | 29 | 30 |
| 5546 | 70 | Tax on the final disposal of waste | 53 | 5 | 3 | – |
| 5547 | | Tax on chemicals that are harmful to health and the environment | | | | |
| | 70 | Trichloroethene (TRI) | 0.5 | 1 | 1 | 1 |
| | 71 | Tetrachloroethene (PER) | 1 | 1 | 1 | 1 |
| 5548 | 70 | Tax on hydrofluorocarbons (HFC) and perfluorocarbons (PFC) | 355 | 418 | 355 | 429 |
| 5549 | 70 | Tax on the emission of NO _x | 58 | 38 | 51 | 54 |
| 5550 | 70 | Environmental tax on pesticides | 71 | 50 | 50 | 50 |
| 5551 | | Tax relating to the minerals industry | | | | |
| | 70 | Tax relating to subsea natural resources other than petroleum | 1 | 1 | 1 | 1 |
| | 71 | Annual tax relating to minerals | 5 | 4 | 3 | 3 |
| 5555 | 70 | Tax on chocolate and sugar products, etc. | 1,240 | 1,425 | 1,357 | 1,400 |
| 5556 | 70 | Tax on non-alcoholic beverages, etc. | 1,968 | 1,830 | 2,000 | 2,040 |
| 5557 | 70 | Tax on sugar, etc. | 197 | 210 | 220 | 230 |
| 5559 | | Tax on beverage packaging | | | | |
| | 70 | Base tax on disposable packaging | 1,418 | 1,500 | 1,550 | 1,650 |
| | 71 | Environmental tax on cartons | 63 | 60 | 55 | 50 |
| | 72 | Environmental tax on plastics | 31 | 30 | 33 | 35 |
| | 73 | Environmental tax on metals | 6 | 5 | 3 | 3 |
| | 74 | Environmental tax on glass | 79 | 80 | 86 | 90 |

| | | | | | | |
|--|----|---|-----------|-----------|-----------|-----------|
| 5560 | 70 | Tax on plastic bags | – | 900 | – | – |
| 5560 | 71 | Tax on paper bags | – | 100 | – | – |
| 5565 | 70 | Stamp duty | 7,607 | 7,700 | 8,500 | 8,800 |
| | | Sectoral taxes ¹ | 2,197 | 2,223 | 2,204 | 2,308 |
| 5583 | 70 | Taxes on frequencies, etc. | 274 | 307 | 284 | 290 |
| 5700 | | National Insurance Scheme revenues | | | | |
| | 71 | Employee's social security contribution | 119,936 | 131,763 | 129,700 | 134,600 |
| | 72 | Employers' social security contribution | 164,015 | 171,090 | 169,900 | 175,400 |
| Total taxes and National Insurance Scheme revenues; fiscal budget | | | 1,044,319 | 1,095,559 | 1,020,957 | 1,027,057 |

¹ This is a composite item for sectoral taxes under the different ministries, relevant to multiple chapters and items. See Table 11.1 for a detailed overview.

Source: Ministry of Finance.

Table 1.3 presents booked effects of new proposals for rule changes in 2016, specified by chapter and item. The sum total of changes specified by chapter and item deviates somewhat from the sum total of booked effects of new tax changes in Table 1.1. This is because Table 1.1 deducts compensations on the expenditure side.

Table 1.3 Booked tax revenues, specified by chapter and item. NOK million

| Chapter | Item | Description | Change |
|---------|------|---|---------|
| 5501 | | Taxes on wealth and income ¹ | |
| | 70 | Bracket tax, net wealth tax, etc. | 12,326 |
| | 72 | Central government tax | -15,636 |
| | 73 | Tax on the accumulated liabilities of shipowners | 0 |
| 5507 | | Taxes on petroleum extraction | |
| | 71 | Ordinary tax on wealth and income ² | - |
| | 72 | Special tax on petroleum income ² | - |
| | 74 | Area fee, etc. | 0 |
| 5508 | 70 | Tax on the emission of CO ₂ in petroleum activities on the continental shelf | 0 |
| 5509 | 70 | Tax on the emission of NO _x in petroleum activities on the continental shelf | 0 |

| | | | |
|------|----|---|-----|
| 5511 | | Customs revenues | |
| | 70 | Customs duties | 0 |
| | 71 | Auction revenue from customs quotas | 0 |
| 5521 | 70 | Value added tax | 469 |
| 5526 | 70 | Tax on alcoholic beverages | 0 |
| 5531 | 70 | Tax on tobacco products, etc. | 0 |
| 5536 | | Tax on motor vehicles, etc. | |
| | 71 | Motor vehicle registration tax | 0 |
| | 72 | Annual motor vehicle tax | 0 |
| | 73 | Annual weight-based tax | 0 |
| | 75 | Re-registration tax | -15 |
| 5538 | | Road usage tax on engine fuel | |
| | 70 | Road usage tax on petrol | 0 |
| | 71 | Road usage tax on auto diesel | 0 |
| | 72 | Road usage tax on natural gas and LPG | 100 |
| 5541 | 70 | Electricity tax | -14 |
| 5542 | | Tax on mineral oils, etc. | |
| | 70 | Base tax on mineral oils, etc. | 0 |
| | 71 | Tax on lubricating oils, etc. | 0 |
| 5543 | | Environmental tax on mineral products, etc. | |
| | 70 | CO ₂ tax | 7 |
| | 71 | Sulphur tax | 0 |
| 5547 | | Tax on chemicals that are harmful to health and the environment | |
| | 70 | Trichloroethene (TRI) | 0 |
| | 71 | Tetrachloroethene (PER) | 0 |
| 5548 | 70 | Tax on hydrofluorocarbons (HFC) and perfluorocarbons (PFC) | 55 |

| | | | |
|---|----|---|---------|
| 5549 | 70 | Tax on the emission of NO _x | 0 |
| 5550 | 70 | Environmental tax on pesticides | 0 |
| 5551 | | Tax relating to the minerals industry | |
| | 70 | Tax relating to subsea natural resources other than petroleum | 0 |
| | 71 | Annual tax relating to minerals | 0 |
| 5555 | 70 | Tax on chocolate and sugar products, etc. | 0 |
| 5556 | 70 | Tax on non-alcoholic beverages, etc. | -20 |
| 5557 | 70 | Tax on sugar, etc. | 0 |
| 5559 | | Tax on beverage packaging | 0 |
| | 70 | Base tax on disposable packaging | 0 |
| | 71 | Environmental tax on cartons | 0 |
| | 72 | Environmental tax on plastics | 0 |
| | 73 | Environmental tax on metals | 0 |
| | 74 | Environmental tax on glass | 0 |
| 5565 | 70 | Stamp duty | -20 |
| | | Overpriced fees | -61 |
| | | Sectoral taxes ³ | -48 |
| 5583 | 70 | Tax on frequencies, etc. | 0 |
| 5700 | | National Insurance Scheme revenues | |
| | 71 | Employee's social security contribution | 146 |
| | 72 | Employers' social security contribution | 0 |
| Total changes in taxes and National Insurance Scheme revenues; fiscal budget | | | - 2,711 |

¹ The effects apply to central government and local government. Reference is made to Section 5.9 for a discussion of local government tax revenues.

² The special tax on petroleum is increased by two percentage points upon the rate of tax on ordinary income being reduced from 27 to 25 per cent. The net annual loss of proceeds is estimated at NOK 630 million accrued in 2016. Transfers to the Government Pension Fund Global are reduced correspondingly.

³ Reference is made to Table 11.1 for a specification of which sectoral taxes are being changed.

Source: Ministry of Finance.

1.5 Distributional profile of the tax proposal

The Government is ensuring that large groups of the population will benefit from the tax reductions. The calculations on the effects of the tax proposal on various groups compare the tax implied by the Government's proposal with the tax implied by the benchmark system for 2016. The calculations encompass all tax changes that are possible to include in the tax model LOTTE-Skatt, including changes to rates and thresholds in the taxation of the income of individuals and changes to the net wealth tax. The calculations comprise net tax reduction in the approximate amount of NOK 4.4 billion accrued, out of total reduction in the net amount of NOK 9.1 billion. The calculations only show short-term effects. The calculations include neither the long-term effects, nor any effects materialising via reductions in, inter alia, corporate tax or via changes in indirect taxes. Changes in agricultural taxation, the taxation of loans from companies to personal shareholders, the tax scheme for energy efficiency investments, changes in the taxation of benefits from occupational vehicles, changes in the home investment savings scheme for people below the age of 34 years (BSU), as well as the abolition of the deductibility of minor undocumented expenses, are not included.

A main objective of the amendments to the tax rules proposed by the Government is to make it more profitable to invest, work and save. Consequently, it is a challenge that estimates which only encompass short-term distributional effects do not enable quantification of the effects of adaptations over time. A number of tax changes will result in adaptations of distributional relevance. There is a risk that measures whose effects can readily be calculated get too much attention, to the detriment of positive effects of a tax policy that expands investment and labour supply. Such effects will materialise gradually and are not as readily quantifiable. There is likely to be a considerable difference between distributional effects in the somewhat longer run, when the overall implications of a tax change have materialised, and in the very short run for the 2016 fiscal year. Economic research has, for example, found that lower tax rates on labour will increase the labour supply of low-income groups more than that of those on higher incomes. Hence, tax changes that stimulate labour supply may promote increased equality. In real terms, corporate tax reductions will to begin with accrue to the owners, by way of an increase in profits. However, it is reasonable to assume that such corporate tax reductions will over time result in higher investment. Higher investment will contribute to higher labour productivity, thereby resulting in higher real wages. Consequently, it is reasonable to assume that part of the corporate tax reductions will over time accrue to the employees.

The short-term calculations from LOTTE-Skatt show that all income groups, apart from those with gross incomes in excess of NOK 2 million, will obtain tax reductions, cf. Table 1.4. About half of the tax reductions will accrue to individuals with a gross income of between NOK 350,000 and 750,000.

Figure 1.1 shows estimated net income increase in 2016 as a portion of (equivalent) gross income for various income deciles, as the result of changes in personal taxation. Decile 1 represents the 10 per cent of all individuals on the lowest incomes, whilst Decile 10 represents the 10 per cent on the highest incomes. The figure distinguishes between income tax reductions and net wealth tax reductions.

The reductions are fairly equally distributed when measured as a portion of equivalent gross income. The 10 per cent on the lowest income will obtain a tax reduction of about 0.14 per cent of income. This group is paying relatively little tax. The tax reductions for the other groups vary, as a portion of income, between 0.18 per cent (Decile 2) and 0.27 per cent (Decile 9). The main part of the tax reductions for Deciles 1 to 9 is channelled via the income tax.

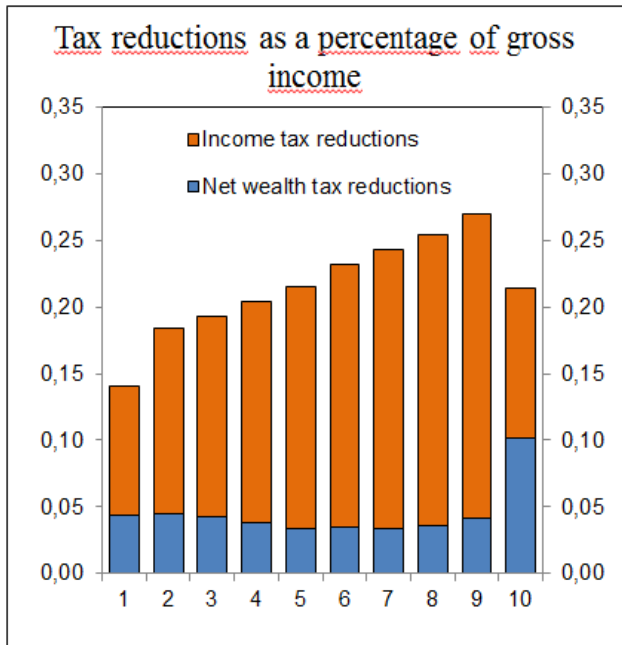


Figure 1.1 Tax reductions under the Government’s proposal as a percentage of gross income, specified by income groups (deciles) as defined by equivalent¹ gross income. Compared to the benchmark system for 2016. Percent

¹ The calculations in the figure are based on a standard method of distributional analysis in that a portion of overall household income is attributed to all persons, both those with and those without income (including children). Such income is adjusted somewhat to reflect the economies of scale that result from several people living together. This implies that each person in a multi-person household is deemed to have a higher income than the actual income per person of such household. This higher income is held to be «equivalent» to the income of a single person (although actual income is lower).

Sources: Ministry of Finance and Statistics Norway.

Table 1.4 shows estimated distributional effects of the tax changes for all persons aged 17 years or more. In aggregate, the proposals result in reduced tax for everyone with a gross income of less than NOK 2 million. The tax reduction is between 0.1 and 0.3 per cent for most groups, as a portion of gross income. The average tax increase for persons with a gross income in excess of NOK 2 million is less than 0.1 per cent of gross income. The average tax reduction increases with income in absolute terms, up to and including those with a gross income between NOK 1 and 2 million.

The effect for individual taxpayers will depend on the composition of their income and allowances. Persons with a gross income in excess of NOK 2 million will on average experience tax increases of about NOK 200, despite net wealth tax reductions for this group. The tax increase is predominantly caused by the proposed increase in the tax on dividends.

The average tax reduction across all persons is about NOK 1,000, of which the reduction in net wealth tax accounts for about NOK 300. The average tax reduction represents about 0.2 per cent of average gross income.

Table 1.4 Estimated distributional effects of changes to personal taxation for all individuals aged 17 years or more. Negative figures represent tax reductions. The estimates have been calculated relative to the benchmark system for 2016. NOK

| Gross income | Number of taxpayers | Average tax under the benchmark system. Per cent | Average tax under the benchmark system. NOK | Average tax change | Change as a percentage of gross income | Of which: average net wealth tax change |
|-------------------------|---------------------|--|---|--------------------|--|---|
| NOK 0 – 150,000 | 565,200 | 5.3 | 3,400 | -100 | -0.1 | -100 |
| NOK 150,000 – 200,000 | 254,400 | 6.9 | 12,200 | -400 | -0.2 | -100 |
| NOK 200,000 – 250,000 | 323,900 | 11.0 | 24,700 | -600 | -0.3 | -100 |
| NOK 250,000 – 300,000 | 352,600 | 15.8 | 43,400 | -800 | -0.3 | -100 |
| NOK 300,000 – 350,000 | 363,800 | 18.8 | 61,000 | -900 | -0.3 | -200 |
| NOK 350,000 – 400,000 | 353,100 | 21.1 | 79,000 | -1,000 | -0.3 | -200 |
| NOK 400,000 – 450,000 | 346,700 | 22.6 | 96,100 | -1,100 | -0.2 | -200 |
| NOK 450,000 – 500,000 | 318,300 | 23.8 | 113,100 | -1,100 | -0.2 | -200 |
| NOK 500,000 – 600,000 | 491,900 | 25.1 | 137,100 | -1,300 | -0.2 | -200 |
| NOK 600,000 – 750,000 | 383,800 | 27.7 | 184,000 | -1,700 | -0.3 | -300 |
| NOK 750,000 – 1 million | 256,300 | 30.9 | 263,600 | -2,200 | -0.3 | -400 |
| NOK 1 – 2 million | 180,200 | 35.0 | 450,900 | -3,200 | -0.3 | -900 |
| NOK 2 million and above | 30,500 | 37.4 | 1,336,800 | 200 | 0.0 | -6,800 |
| Total | 4,220,600 | 25.2 | 112,600 | -1,000 | -0.2 | -300 |

Sources: Ministry of Finance and Statistics Norway (LOTTE-Skatt).

These tax changes are favourable for the self-employed as a group. Aggregate tax reductions for persons whose main income is from self-employment will be about NOK 385 million. This represents an average tax reduction of about NOK 3,400, of which NOK 600 can be attributed to the net wealth tax.

Wage earners (those with wages as their principal source of income) will also obtain significant tax reductions under the tax proposal for 2016. The proposed changes that are calculated in LOTTE-Skatt result in aggregate tax reductions in the approximate amount of about NOK 2.8 billion for this group. This corresponds to an average tax reduction of NOK 1,300 per wage earner, of which about NOK 200 takes the form of net wealth tax reduction.

Those on retirement pension will obtain an aggregate tax reduction of about NOK 790 million. This corresponds to an average tax reduction of about NOK 900, of which NOK 500 in the form of net wealth tax reduction. Table 1.5 shows the average tax reductions for recipients of early retirement pension and other retirement pension by gross income level. In addition, the Government's proposal to reduce curtailment by 5 per cent of the basic pension for married cou-

ples/cohabitants from 1 September 2016 will increase gross income by about NOK 1,550 in 2016. The full-year effect is about NOK 4,600.

Table 1.5 Estimated distributional effects for those on retirement pension (persons qualifying for tax credit for pensioners). Negative figures represent tax reductions. The estimates have been calculated relative to the benchmark system for 2016. NOK

| Gross income | Number of taxpayers | Average tax under the benchmark system. Per cent | Average tax under the benchmark system. NOK | Average tax change | Change as a percentage of gross income | Of which: average net wealth tax change |
|-------------------------|---------------------|--|---|--------------------|--|---|
| NOK 0 – 150,000 | 36,800 | 0.5 | 600 | -100 | -0.1 | -100 |
| NOK 150,000 – 200,000 | 115,500 | 0.8 | 1,500 | -200 | -0.1 | -200 |
| NOK 200,000 – 250,000 | 138,100 | 5.8 | 12,900 | -300 | -0.1 | -200 |
| NOK 250,000 – 300,000 | 127,300 | 12.1 | 33,400 | -400 | -0.2 | -300 |
| NOK 300,000 – 350,000 | 115,300 | 16.2 | 52,600 | -600 | -0.2 | -400 |
| NOK 350,000 – 400,000 | 88,800 | 19.0 | 71,100 | -900 | -0.2 | -500 |
| NOK 400,000 – 450,000 | 60,100 | 21.1 | 89,300 | -1 100 | -0.3 | -600 |
| NOK 450,000 – 500,000 | 41,400 | 22.9 | 108,600 | -1 500 | -0.3 | -800 |
| NOK 500,000 – 600,000 | 50,300 | 24.5 | 133,400 | -2 000 | -0.4 | -900 |
| NOK 600,000 – 750,000 | 42,900 | 26.8 | 178,600 | -2 400 | -0.4 | -1,000 |
| NOK 750,000 – 1 million | 32,400 | 29.6 | 252,300 | -2 800 | -0.3 | -1,100 |
| NOK 1 – 2 million | 22,600 | 33.9 | 436,500 | -4 100 | -0.3 | -1,900 |
| NOK 2 million and above | 4,400 | 34.7 | 1,287,800 | -2 500 | -0.1 | -10,300 |
| Total | 875,900 | 19.8 | 76,000 | -900 | -0.2 | -500 |

Sources: Ministry of Finance and Statistics Norway (LOTTE-Skatt).

The above calculations show the average impact of the tax changes on different income groups. The calculations at the level of individuals show that about 88 per cent of taxpayers will obtain a tax reduction or experience more or less unchanged tax, whilst about 12 per cent of taxpayers will pay more tax. The portion of individuals paying more tax is increasing with gross income, primarily as the result of higher tax on dividends. A large portion of individuals in the lowest income groups will experience more or less unchanged tax. This needs to be considered in the context that these individuals pay relatively little tax. Overall, it is estimated that about 2 per cent of taxpayers will experience a tax increase in excess of NOK 2,000. Their average gross income is in excess of NOK 1 million and their average tax increase is just over NOK 9,000. About 0.9 per cent of taxpayers will experience a tax increase in excess of NOK 4,000. Their average income is almost NOK 2 million and their average tax increase is about NOK 17,000.

1.6 Tax rates and thresholds

Table 1.6 shows tax rates, allowances and thresholds in 2015 and the Government's proposals for 2016. The general allowances and thresholds are rounded after adjustment for estimated growth in wages, pensions or prices from 2015 to 2016. The increases may therefore deviate somewhat from the level of the various growth estimates. Wage growth is estimated at 2.7 per cent, price growth at 2.5 per cent and growth in the ordinary retirement pension at 1.9 per cent. Reference is also made to the proposed tax decision in this report and to the overview of allowances and thresholds at the Ministry's website.

Table 1.6 Tax rates, allowances and thresholds in 2015 and proposals for 2016

| | 2015 rules | Proposal 2016 | Change 2015–2016 |
|--|-------------|---------------|-----------------------|
| <i>Tax on ordinary income</i> | | | |
| Individuals ¹ | 27 pct. | 25 pct. | -2 percentage points |
| Enterprises ² | 27 pct. | 25 pct. | -2 percentage points |
| <i>Bracket tax</i> | | | |
| Bracket 1 | | | |
| Threshold | - | NOK 158,800 | - |
| Rate | - | 0.8 pct. | - |
| Bracket 2 | | | |
| Threshold | - | NOK 224,900 | - |
| Rate | - | 1.6 pct. | - |
| Bracket 3 | | | |
| Threshold | NOK 550,550 | NOK 565,400 | 2.7 pct. |
| Rate ³ | 9.0 pct. | 10.6 pct. | 1.6 percentage points |
| Bracket 4 | | | |
| Threshold | NOK 885,600 | NOK 909,500 | 2.7 pct. |
| Rate | 12.0 pct. | 13.6 pct. | 1.6 percentage points |
| <i>Employee's social security contribution</i> | | | |
| Lower threshold for the payment of employee's social security contribution | NOK 49,650 | NOK 49,650 | - |

| | | | |
|--|-----------|-----------|------------------------|
| Levelling rate | 25.0 pct. | 25.0 pct. | - |
| Rate | | | |
| Wage income | 8.2 pct. | 8.2 pct. | - |
| Fishing, hunting and childminding ⁴ | 8.2 pct. | 8.2 pct. | - |
| Income from other self-employment | 11.4 pct. | 11.4 pct. | - |
| Pension income, etc. | 5.1 pct. | 5.1 pct. | - |
| | | | |
| <i>Employers' social security contribution⁵</i> | | | |
| Zone I | 14.1 pct. | 14.1 pct. | - |
| Zone Ia | 14.1 pct. | 14.1 pct. | - |
| Zone II | 10.6 pct. | 10.6 pct. | - |
| Zone III | 6.4 pct. | 6.4 pct. | - |
| Zone IV | 5.1 pct. | 5.1 pct. | - |
| Zone IVa | 7.9 pct. | 7.9 pct. | - |
| Zone V | 0.0 pct. | 0.0 pct. | - |
| | | | |
| <i>Maximum effective marginal tax rates</i> | | | |
| Wage income, excl. employers' social security contribution | 47.2 pct. | 46.8 pct. | -0.4 percentage points |
| Wage income, incl. employers' social security contribution | 53.7 pct. | 53.4 pct. | -0.4 percentage points |
| Pension income ⁶ | 44.1 pct. | 43.7 pct. | -0.4 percentage points |
| Income from self-employment ⁴ | 50.4 pct. | 50.0 pct. | -0.4 percentage points |
| Dividends and distributions ⁷ | 46.7 pct. | 46.6 pct. | -0.1 percentage points |

| | | | |
|--|-------------|-------------|-----------|
| <i>Personal allowance</i> | | | |
| Class 1 | NOK 50,400 | NOK 51,750 | 2.7 pct. |
| Class 2 | NOK 74,250 | NOK 76,250 | 2.7 pct. |
| | | | |
| <i>Basic allowance for wage income</i> | | | |
| Rate | 43.0 pct. | 43.0 pct. | - |
| Lower limit | NOK 4,000 | NOK 4,000 | - |
| Upper limit ⁸ | NOK 89,050 | NOK 91,450 | 2.7 pct. |
| | | | |
| <i>Basic allowance for pension income</i> | | | |
| Rate | 29.0 pct. | 29.0 pct. | - |
| Lower limit | NOK 4,000 | NOK 4,000 | - |
| Upper limit | NOK 72,200 | NOK 73,600 | 1.9 pct. |
| | | | |
| <i>Special wage income allowance⁹</i> | NOK 31,800 | NOK 31,800 | - |
| | | | |
| <i>Special allowance for sole providers</i> | NOK 48,804 | NOK 49,800 | 2.0 pct. |
| | | | |
| <i>Special tax credit for pensioners</i> | | | |
| Maximum amount | NOK 30,800 | NOK 29,980 | -2.7 pct. |
| Downscaling, bracket 1 | | | |
| Threshold | NOK 180,800 | NOK 184,800 | 2.2 pct. |
| Rate | 15.3 pct. | 15.3 pct. | - |
| Downscaling, bracket 2 | | | |
| Threshold | NOK 273,650 | NOK 278,950 | 1.9 pct. |
| Rate | 6.0 pct. | 6.0 pct. | - |
| | | | |
| <i>The tax limitation rule</i> | | | |
| Levelling rate | 55.0 pct. | 55.0 pct. | - |
| Tax-exempted net income | | | |
| Single person | NOK 135,700 | NOK 139,400 | 2.7 pct. |

| | | | |
|---|-------------|-------------|----------|
| Married person | NOK 124,800 | NOK 128,150 | 2.7 pct. |
| Net wealth supplement | | | |
| Rate | 1.5 pct. | 1.5 pct. | - |
| Single person | NOK 200,000 | NOK 200,000 | - |
| Married person | NOK 100,000 | NOK 100,000 | - |
| <i>Special allowance in Finnmark and North Troms</i> | | | |
| Class 1 | NOK 15,500 | NOK 15,500 | - |
| Class 2 | NOK 15,500 | NOK 15,500 | - |
| | | | |
| <i>Seamen's allowance</i> | | | |
| Rate | 30.0 pct. | 30.0 pct. | - |
| Upper limit | NOK 80,000 | NOK 80,000 | - |
| | | | |
| <i>Fishermen's allowance</i> | | | |
| Rate | 30.0 pct. | 30.0 pct. | - |
| Upper limit | NOK 150,000 | NOK 150,000 | - |
| | | | |
| <i>Special allowance for income from self-employment in agriculture, etc.</i> | | | |
| Income-independent allowance | NOK 63,500 | NOK 63,500 | - |
| Rate applicable to amounts in excess of the income-independent allowance | 38.0 pct. | 38.0 pct. | - |
| Maximum overall allowance | NOK 166,400 | NOK 166,400 | - |
| | | | |
| <i>Special allowance for high expenses due to illness</i> ¹⁰ | | | |
| Lower limit | NOK 9,180 | NOK 9,180 | - |
| | | | |
| <i>Maximum annual allowance for payments to individual pension schemes</i> | NOK 15,000 | NOK 15,000 | - |
| | | | |

| | | | |
|--|---------------|---------------|-------------------------|
| <i>Allowance for travel between home and work</i> | | | |
| Rate per km | NOK 1.50/0.70 | NOK 1.50/0.70 | - |
| Lower allowance limit | NOK 16,000 | NOK 22,000 | 37.5 pct. |
| | | | |
| <i>Maximum allowance for donations to charities</i> | NOK 20,000 | NOK 20,000 | - |
| | | | |
| <i>Maximum allowance for paid trade union subscriptions, etc.</i> | NOK 3,850 | NOK 3,850 | - |
| | | | |
| <i>Home investment savings scheme for people below the age of 34 years (BSU)</i> | | | |
| Tax deduction rate | 20.0 pct. | 20.0 pct. | - |
| Maximum annual saving | NOK 25,000 | NOK 25,000 | - |
| Maximum total savings in the scheme | NOK 200,000 | NOK 300,000 | 50.0 pct. |
| | | | |
| <i>Parental allowance for documented childcare expenses</i> | | | |
| Upper limit | | | |
| One child | NOK 25,000 | NOK 25,000 | - |
| Supplement per additional child | NOK 15,000 | NOK 15,000 | - |
| | | | |
| <i>Net wealth tax¹¹</i> | | | |
| Local government | | | |
| Threshold | NOK 1,200,000 | NOK 1,400,000 | 16.7 pct. |
| Rate | 0.7 pct. | 0.7 pct. | - |
| Central government | | | |
| Threshold | NOK 1,200,000 | NOK 1,400,000 | 16.7 pct. |
| Rate | 0.15 pct. | 0.1 pct. | -0.05 percentage points |
| Valuation discounts | | | |
| Primary residences | 75 pct. | 75 pct. | - |

| | | | |
|---|---------------|---------------|-----------------------|
| Second dwellings and commercial property | 30 pct. | 20 pct. | -10 percentage points |
| | | | |
| <i>Depreciation rates</i> | | | |
| Asset group a (office equipment, etc.) | 30 pct. | 30 pct. | - |
| Asset group b (acquired goodwill) | 20 pct. | 20 pct. | - |
| Asset group c (heavy goods vehicles, lorries, buses, vans, etc.) ¹² | 20/22 pct. | 20/22 pct. | - |
| Asset group d (passenger cars, machinery and equipment, etc.) ¹³ | 20 (30) pct. | 20 (30) pct. | - |
| Asset group e (ships, vessels, rigs, etc.) | 14 pct. | 14 pct. | - |
| Asset group f (aircraft, helicopters) | 12 pct. | 12 pct. | - |
| Asset group g (facilities for the transmission and distribution of electricity and electrotechnical equipment in power companies) | 5 pct. | 5 pct. | - |
| Asset group h (buildings and installations, hotels, etc.) ^{14,15} | 4 (6/10) pct. | 4 (6/10) pct. | - |
| Asset group i (office buildings) | 2 pct. | 2 pct. | - |
| Asset group j (technical facilities in office buildings and other commercial buildings) | 10 pct. | 10 pct. | - |

¹ The rate will be reduced from 23.5 per cent in 2015 to 21.5 per cent in 2016 for taxpayers in North Troms and Finnmark.

² The special tax on petroleum activities and the economic rent tax on hydroelectric power will be increased from 51 and 31 per cent in 2015 to 53 and 33 per cent in 2016, respectively.

³ The rate in 2016 is 8.6 per cent in bracket 3 for taxpayers in North Troms and Finnmark.

⁴ Income from self-employment within fishing and hunting, as well as childminding in own home (children below the age of 12 years or with special care and nursing needs) is subject to an 8.2 per cent social insurance contribution. A lower social insurance rate for hunting and fishing has to do with the fact that these industries pay a product tax intended to, *inter alia*, make up the difference between the 8.2 per cent and the 11.4 per cent social insurance contribution rates.

⁵ Employers' social security contribution shall be paid in Zone 1a at a rate of 10.6 per cent until the difference between the actual employers' social security contribution paid by the enterprise and what employers' social security contribution such enterprise would have paid at a rate of 14.1 per cent equals the threshold amount. In 2016, the threshold amount is NOK 500,000 per enterprise. The threshold amount is NOK 250,000 for cargo transport by road in Zone 1a. Differentiated employers' social security contributions can no longer be applied in parts of the transport sector and the energy sector, as well as the finance and insurance sector, under the new EU regional aid guidelines. A threshold amount arrangement corresponding to that for Zone 1a has therefore been introduced for these sectors.

⁶ For individuals who are subject to the tax limitation rule, the maximum effective marginal tax rate may be up to 55 per cent

⁷ Includes corporate tax of 27 per cent in 2015 and corporate tax of 25 per cent and upwards adjustment factor of 1.15 for dividends, etc., in 2016.

⁸ The sum of the basic allowance for wage income and the basic allowance for pension income shall not exceed the maximum basic allowance for wage income, i.e. NOK 91,450 for 2016.

⁹ A taxpayer earning wage income only qualifies for the higher of the basic allowance for wage income and the special wage income allowance.

¹⁰ The special allowance for high expenses due to illness will be continued as per the 2015 rules.

¹¹ The thresholds apply to single taxpayers. For married couples who are assessed jointly for joint assets, the threshold is twice the level specified in the table.

¹² The depreciation rate was increased to 22 per cent for lorries, heavy goods vehicles and buses in 2015.

¹³ 10 per cent initial depreciation was introduced for operating equipment in asset group d in 2014.

¹⁴ Buildings with a design so simple that their economic life must be assumed not to exceed 20 years can be depreciated at a rate of 10 per cent. The 10 per cent rate also applies to installations whose economic life must be assumed not to exceed 20 years.

¹⁵ Agricultural buildings for livestock can be depreciated at a higher rate of 6 per cent

Source: Ministry of Finance.

Table 1.7 shows current rates of value added tax and excise duties, as well as rate proposals for 2016. Basically all excise duties have been adjusted upwards by 2.5 per cent to account for anticipated inflation. Minor deviations may be due to rounding of the rates. Reference is also made to the decision on indirect taxes in this proposition.

Table 1.7 Rates of indirect tax in 2015 and proposed rates for 2016

| Tax category | 2015 rules | Proposal 2016 | Changes in per cent |
|---|-------------------|----------------------|----------------------------|
| <i>Value added tax</i> , pct. of sales value | | | |
| Standard rate | 25 | 25 | - |
| Reduced rate | 15 | 15 | - |
| Low rate ¹ | 8 | 10 | 2 |
| | | | |
| <i>Tax on alcoholic beverages</i> | | | |
| Spirits-based beverages in excess of 0.7 pct. alcohol by volume, NOK per pct. alcohol and per litre | 7.13 | 7.31 | 2.5 |
| Other alcoholic beverages from 4.7 to 22 pct. alcohol by volume, NOK per pct. alcohol and per litre | 4.64 | 4.76 | 2.6 |
| Other alcoholic beverages up to 4.7 pct. alcohol by volume, NOK per litre | | | |
| a) 0.0 – 0.7 pct. alcohol by volume | - | - | - |
| b) 0.7 – 2.7 pct. alcohol by volume | 3.19 | 3.27 | 2.5 |
| c) 2.7 – 3.7 pct. alcohol by volume | 11.99 | 12.29 | 2.5 |
| d) 3.7 – 4.7 pct. alcohol by volume | 20.77 | 21.29 | 2.5 |

| | | | |
|------------------------------------|------|------|-----|
| | | | |
| <i>Tax on tobacco products</i> | | | |
| Cigars, NOK per 100 grams | 244 | 250 | 2.5 |
| Cigarettes, NOK per 100 units | 244 | 250 | 2.5 |
| Smoking tobacco, NOK per 100 grams | 244 | 250 | 2.5 |
| Snuff, NOK per 100 grams | 99 | 101 | 2.0 |
| Chewing tobacco, NOK per 100 grams | 99 | 101 | 2.0 |
| Cigarette paper, NOK per 100 units | 3.73 | 3.82 | 2.4 |

| | | | |
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| Motor vehicle registration tax | | | |
| Passenger cars, etc. Tax group a ² | | | |
| Weight, NOK per kg | | | |
| first 1,150 kg | 39.10 | 40.08 | 2.5 |
| next 250 kg | 85.25 | 87.38 | 2.5 |
| next 100 kg | 170.52 | 174.78 | 2.5 |
| remainder | 198.31 | 203.27 | 2.5 |
| Engine power, NOK per kW | | | |
| first 70 kW | 0 | 0 | - |
| next 30 kW | 245.04 | 251.17 | 2.5 |
| next 40 kW | 709.60 | 727.34 | 2.5 |
| remainder | 1,756.12 | 1,800.02 | 2.5 |
| NO _x emissions, NOK per mg/km | 47.11 | 48.29 | 2.5 |
| CO ₂ emissions, NOK per g/km | | | |
| first 105 g/km | 0 | 0 | - |
| next 15 g/km | 795.36 | 815.24 | 2.5 |
| next 40 g/km | 801.49 | 821.53 | 2.5 |

| | | | |
|---|----------|----------|-----|
| next 70 g/km | 1,868.43 | 1,915.14 | 2.5 |
| remainder | 2,999.70 | 3,074.69 | 2.5 |
| allowance for emissions below 105 g/km, applicable down to 50 g/km and only to vehicles emitting less than 105 g/km | 896.41 | 918.82 | 2.5 |
| allowance for emissions below 50 g/km, only applicable to vehicles emitting less than 50 g/km | 1,054.66 | 1,081.03 | 2.5 |
| Vans class 2. Tax group b, ³ | | | |
| weight, pct. of passenger car tax | 22 | 22 | - |
| engine power, pct. of passenger car tax | 22 | 22 | - |
| NO _x emissions, pct. of passenger car tax | 30 | 30 | - |
| CO ₂ emissions, pct. of passenger car tax | variable | variable | - |
| Campervans. Tax group c, ⁴ | | | |
| pct. of passenger car tax | 22 | 22 | - |
| Weasels. Tax group e, | | | |
| pct. of value tax base | 36 | 36 | - |
| Motorbikes. Tax group f, | | | |
| tax per unit, NOK | 7,895 | 8,092 | 2.5 |
| Engine power tax, NOK per kW | | | |
| first 11 kW | 0 | 0 | - |
| remainder | 250.00 | 256.25 | 2.5 |
| Piston displacement tax, NOK/cm ³ | | | |
| first 125 cm ³ | 0 | 0 | - |
| next 775 cm ³ | 32.14 | 32.94 | 2.5 |
| remainder | 70.48 | 72.24 | 2.5 |
| Snowmobiles. Tax group g | | | |
| Weight, NOK per kg | | | |
| first 100 kg | 13.19 | 13.52 | 2.5 |

| | | | |
|---|----------|----------|-----|
| next 100 kg | 26.38 | 27.04 | 2.5 |
| remainder | 52.74 | 54.06 | 2.5 |
| Engine power, NOK per kW | | | |
| first 20 kW | 21.19 | 21.72 | 2.5 |
| next 20 kW | 42.37 | 43.43 | 2.5 |
| remainder | 84.72 | 86.84 | 2.5 |
| Piston displacement, NOK per cm ³ | | | |
| first 200 cm ³ | 2.32 | 2.38 | 2.6 |
| next 200 cm ³ | 4.64 | 4.76 | 2.6 |
| remainder | 9.27 | 9.50 | 2.5 |
| Taxis. Tax group h, ⁵ | | | |
| weight, pct. of passenger car tax | 40 | 40 | - |
| engine power, pct. of passenger car tax | 40 | 40 | - |
| NO _x emissions, pct. of passenger car tax | 100 | 100 | - |
| CO ₂ emissions, pct. of passenger car tax | variable | variable | - |
| Minibuses. Tax group j, ⁶ | | | |
| pct. of passenger car tax | 40 | 40 | - |
| Annual motor vehicle tax, NOK per year | | | |
| Petrol vehicles and diesel vehicles with a factory-fitted particle filter | 3,060 | 3,135 | 2.5 |
| Diesel vehicles without a factory-fitted particle filter | 3,565 | 3,655 | 2.5 |
| Motorbikes | 1,875 | 1,920 | 2.4 |
| Tractors, mopeds, etc. | 435 | 445 | 2.3 |
| Annual weight-based tax, NOK per year | | | |
| | variable | variable | 2.5 |

| | | | |
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| | | | |
| <i>Re-registration tax</i> | variable | variable | 2.5 |
| | | | |
| <i>Road usage tax on engine fuel</i> | | | |
| Petrol, NOK per litre ⁷ | 4.87 | 4.99 | 2.5 |
| Auto diesel, NOK per litre ⁸ | 3.36 | 3.44 | 2.4 |
| Bioethanol subject to the blending obligation, NOK per litre | 4.87 | 4.99 | 2.5 |
| Biodiesel subject to the blending obligation, NOK per litre | 3.36 | 3.44 | 2.4 |
| Natural gas, NOK per Sm ³ | - | 5.95 | - |
| LPG, NOK per kg | - | 6.91 | - |
| | | | |
| <i>Electricity tax</i> | | | |
| Standard rate, øre per kWh | 14.15 | 14.50 | 2.5 |
| Reduced rate, øre per kWh | 0.45 | 0.48 | 6.7 |
| | | | |
| <i>Base tax on mineral oils, etc.</i> | | | |
| Mineral oil, NOK per litre | 1.590 | 1.630 | 2.5 |
| Mineral oil in the pulp and paper industry, production of dyes and pigments, NOK per litre | 0.126 | 0.147 | 16.7 |
| | | | |
| <i>Tax on lubricating oils, NOK per litre</i> | 1.98 | 2.03 | 2.5 |
| | | | |
| <i>CO₂ tax</i> | | | |
| Petroleum activities, NOK per litre or Sm ³ | 1.00 | 1.02 | 2.0 |
| Mineral oil, standard rate, NOK per litre | 0.90 | 0.92 | 2.2 |
| Mineral oil subject to road usage tax, NOK per litre | 1.09 | 1.12 | 2.8 |

| | | | |
|--|-------|-------|-------|
| Mineral oil for domestic aviation, NOK per litre | 1.05 | 1.08 | 2.9 |
| Mineral oil for the wood-processing, herring meal and fish meal industries, NOK per litre | 0.31 | 0.31 | - |
| Mineral oil for fishing and catching in inshore waters, NOK per litre | 0.27 | 0.28 | 3.7 |
| Petrol, NOK per litre | 0.95 | 0.97 | 2.1 |
| Natural gas, NOK per Sm ³ | 0.82 | 0.84 | 2.4 |
| LPG, NOK per kg | 1.23 | 1.26 | 2.4 |
| Reduced rate for natural gas, NOK per Sm ³ | 0.05 | 0.057 | 14.0 |
| | | | |
| <i>Sulphur tax</i> , NOK per litre | 0.081 | 0.083 | 2.5 |
| | | | |
| <i>Tax on NOx emissions</i> , NOK per kg | 19.19 | 19.67 | 2.5 |
| | | | |
| <i>Tax on trichloroethene (TRI) and tetrachloroethene (PER)</i> , NOK per kg | 68.05 | 69.75 | 2.5 |
| | | | |
| <i>Tax on hydrofluorocarbons (HFC) and perfluorocarbons (PFC)</i> , NOK per tonne of CO ₂ equivalents | 354 | 363 | 2.5 |
| | | | |
| <i>Tax on chocolate and sugar products, etc.</i> , NOK per kg | 19.31 | 19.79 | 2.5 |
| | | | |
| <i>Tax on non-alcoholic beverages</i> | | | |
| Finished products, NOK per litre | 3.19 | 3.27 | 2.5 |
| Concentrate (syrup), NOK per litre | 19.43 | 19.92 | 2.5 |
| Squash and syrup based on fruits, berries or vegetables, without added sugar, NOK per litre | 3.19 | 1.64 | -48.6 |
| Concentrate (syrup based on fruits, berries or vegeta- | 19.43 | 9.96 | -48.7 |

| | | | |
|---|------|------|-----|
| bles), without added sugar, NOK per litre | | | |
| | | | |
| <i>Sugar tax</i> , NOK per kg | 7.47 | 7.66 | 2.5 |
| | | | |
| <i>Tax on beverage packaging</i> , NOK per unit | | | |
| Base tax, disposable packaging | 1.12 | 1.15 | 2.7 |
| Environmental tax | | | |
| a) Glass and metals | 5.45 | 5.59 | 2.6 |
| b) Plastics | 3.29 | 3.37 | 2.4 |
| c) Cartons and cardboard | 1.35 | 1.38 | 2.2 |
| | | | |
| <i>Stamp duty</i> , pct. of sales price | 2.5 | 2.5 | - |

¹ Changes to value added tax rates are specified in percentage points.

² Group a: Passenger cars, class 1 vans and buses shorter than 6 metres with up to 17 seats. Piston displacement is used as the tax component for vehicles whose CO₂ emissions are not specified.

³ Group b: Class 2 vans. The highest level of the CO₂ component does not apply to group b, and the second-highest level is 25 per cent of the tax on passenger cars.

⁴ Group c: Camper vans. No_x component applicable.

⁵ Group h: Taxis and vehicles for disabled persons. The highest level of the CO₂ component does not apply to group h.

⁶ Group j: Buses shorter than 6 metres with up to 17 seats, of which at least 10 are forward-facing. The highest level of the CO₂ component does not apply to group j. No_x component applicable.

⁷ Petrol with a sulphur content of 10 ppm or lower.

⁸ Diesel with a sulphur content of 10 ppm or lower.

Source: Ministry of Finance.

1.7 Allocation of public sector tax revenues

Table 1.8 provides a general overview of the main groups of taxes and shows which parts of the public sector receive the revenues from each main group. In total, tax revenues are estimated at NOK 1,231 billion in 2015, of which about 86 per cent accrue to central government, just below 12 per cent to local government and just over 2 per cent to regional government.

Most of local and regional government tax revenues are in the form of income tax and net wealth tax on personal taxpayers. About 34 per cent of central government tax revenues are in the form of value added tax, excise duties and customs duties. About 28 per cent come from personal taxpayers, whilst about 24 per cent come from non-personal taxpayers and employers' social security contributions in Mainland Norway. About 11 per cent of the central government revenues in 2015 are in the form of taxes from the petroleum sector. Other taxes account for about 3 per cent

Table 1.8 Accrued taxes specified by tax creditors. Estimates for 2015. NOK billion

| | Total | Central government | Local government | Regional government |
|--|-------|--------------------|------------------|---------------------|
| <i>Personal taxpayers</i> | 465.1 | 301.5 | 134.9 | 28.7 |
| Tax on ordinary income | 299.6 | 145.6 | 125.3 | 28.7 |
| Surtax | 24.0 | 24.0 | - | - |
| Employee's social security contribution | 129.9 | 129.9 | - | - |
| Tax on net wealth | 11.6 | 2.0 | 9.6 | - |
| | | | | |
| <i>Enterprises (whose taxes are payable in arrears)</i> | 80.1 | 78.6 | 1.3 | 0.2 |
| Income tax (including power plants) | 80.0 | 78.5 | 1.3 | 0.2 |
| Tax on net wealth | 0.1 | 0.1 | - | - |
| | | | | - |
| <i>Recurrent tax on immovable property</i> | 9.8 | - | 9.8 | - |
| | | | | |
| <i>Employers' social security contribution</i> | 171.4 | 171.4 | - | - |
| | | | | |
| <i>Indirect taxes</i> | 355.5 | 355.5 | - | - |
| Value added tax | 253.1 | 253.1 | - | - |
| Excise duties and customs duties | 102.4 | 102.4 | - | - |
| | | | | |
| <i>Petroleum</i> | 111.6 | 111.6 | - | - |
| Tax on income | 104.4 | 104.4 | - | - |
| Tax on extraction, etc. | 7.2 | 7.2 | - | - |
| | | | | |
| <i>Other direct and indirect taxes</i> | 37.6 | 37.1 | 0.5 | - |
| Social security and pension premiums, other central government and social security accounts ¹ | 25.8 | 25.8 | - | - |
| Tax on dividends for foreign shareholders | 3.7 | 3.7 | - | - |

| | | | | |
|--|---------|---------|-------|------|
| Inheritance tax | 0.3 | 0.3 | - | - |
| Other direct and indirect taxes ² | 7.8 | 7.3 | 0.5 | - |
| Total direct and indirect taxes | 1,231.1 | 1,055.7 | 146.5 | 28.9 |
| Of which direct taxes | 875.6 | 700.2 | 146.5 | 28.9 |

¹ Including, *inter alia*, the Norwegian Public Service Pension Fund.

² Including certain revenue items classified as tax revenues in the national accounts, but not classified as tax revenues in the fiscal budget.

Source: Ministry of Finance.