Norwegian Ministry
of Finance

Chapter 1 and 2

Prop. 1 LS (2020–2021) Proposition to the Storting
(bill and draft resolution). For the fiscal year 2021

Taxes 2021

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Taxes 2021

Recommendation from the Ministry of Finance of 25 September 2020,
approved in the Council of State on the same date.
(Solberg Government)

1 Main tax policy features

1.1 The tax policy of the Government

The Government is committed to a sustainable welfare society achieved by restructuring the Norwegian economy, facilitating growth and the transition to a green economy, more jobs and social mobility. The tax policy shall contribute to this.

The Government will use the tax system to fund public goods and services, achieve more efficient resource allocation and improve conditions for Norwegian businesses, whilst at the same time ensuring a social profile for the tax system. Norwegian private ownership shall be strengthened, and it shall be profitable to work, save and invest. Taxes shall also stimulate more environmentally friendly behaviour. Hence, improvements to the tax system form a key element of the economic policy of the Government, and are a principal policy instrument for promoting economic growth.

A number of major temporary tax measures have been launched in response to the pandemic, primarily in the form of deferrals of tax payments that come to a total of about NOK 13 billion booked in 2020. New permanent tax reductions amounting to NOK 2.8 billion have also been introduced after the 2020 budget was adopted in December 2019. All in all, the Government has reduced taxes by about NOK 27 billion accrued since it took office. In addition, temporary tax reductions for petroleum activities, with an estimated net present value of NOK 8 billion, were resolved in the spring of 2020.

The Government has implemented, inter alia, the following changes as of 2020:

- Income tax has been reduced for individuals and corporations. The lowering of the tax rate on ordinary income for individuals and corporations from 28 to 22 percent serves to stimulate savings and investments and strengthens the growth capacity of the economy. The reduction of marginal tax rates for individuals and the abolition of tax class 2 have strengthened work incentives.
- Taxes on businesses, including corporate tax, have been reduced by about NOK 6.8 billion net.
- Net wealth tax has been reduced by about NOK 8 billion. The reductions stimulate savings, the inflow of Norwegian equity, as well as investments in the business sector. The tax rate has been reduced, the basic allowance has been increased, and a valuation discount of 35 percent has been introduced for shares and operating assets and associated debt. The valuation of different assets has become more equal.
- The inheritance tax has been abolished. This eases the liquidity strain of generational change and represents a major simplification.
- The television licence fee has been abolished and replaced by regular tax funding.
- A number of changes have been adopted to provide entrepreneurship incentives. These include, inter alia, the introduction and subsequent expansion of a favourable option tax scheme for small start-up companies, and the introduction of a tax incentive scheme for investment in such companies.
- The Skattefunn tax incentive scheme for stimulating R&D in businesses has been expanded.
- There has been a clear shift towards environmentally related taxes.

- The general tax level under the CO_2 tax on mineral products has been increased, whilst a number of exemptions and reduced rates have been abolished.
- As far as car taxation is concerned, the motor vehicle registration tax has been changed in an environmentally friendly direction and the significant preferential tax treatment of electric cars has been strengthened. This has served to increase the number of new zero- and low-emission cars and to reduce central government tax revenues.
- The marine engine tax, the annual tax on caravans and the motor vehicle registration tax on vintage cars and amateur-built vehicles have been abolished.
- The re-registration tax has been reduced and simplified.

1.2 Main features of the tax proposal for 2021

The tax proposal for 2021 shall serve to address long-term challenges while at the same time being well suited for the current situation of the Norwegian economy. It follows up on the Granavolden platform, facilitates economic growth, puts a price tag on environmentally harmful activities, protects tax bases and provides broad tax reductions.

An efficient and growth-inducing tax system is important in both good and bad times. This contributes to the best possible utilisation of production resources and ensures that tax rules do not determine the adaptations of economic agents. This provides, along with a well-functioning capital market, the best basis for restructuring and high productivity. A well-designed tax system may also serve to reduce the impact of cyclical fluctuations.

Experience from the last six months shows that the tax system, along with the income support system, provides a high degree of automatic stabilisation of the economy. When sales and incomes decline, taxes are also reduced, thus reducing the confiscatory effect of taxes. Conversely, the tax system will absorb more revenues when the economy improves again. This countercyclical function of the tax system is based on the premise that tax bases are well aligned with actual incomes. The income support system is well developed and also has a stabilising effect on the economy. The automatic stabilisers in the budget are held to be stronger in Norway than in many other countries, because of extensive welfare schemes and a relatively high tax level.

Although the automatic stabilisers are fairly strong, they do not suffice to stabilise the economy in response to shocks of the magnitude brought about by the pandemic. The tax measures launched in connection with the pandemic primarily take the form of tax payment deferrals. This has improved the liquidity of businesses in a situation of declining sales. Temporary tax reductions, both of a general nature and targeting especially vulnerable industries, have also been introduced for certain tax types.

The Government's tax proposal for 2021 shall contribute to reverting the economy to a state of high employment and good resource utilisation, cf. Meld. St. 1 (2020–2021) white paper, chapter 1. This requires broad tax bases and a tax system that facilitates resources being used where returns and value added are highest. The Government is committed to preserving the sound properties of the tax system. A tax system that distorts resource use away from the applications that would deliver the highest return for society may delay the upturn and permanently impair the growth capacity of the economy.

The Government is with this tax proposal laying the foundations for future growth to be sustainable and protective of the environment and the climate. A uniform pricing of greenhouse gas emissions in the form of emission allowances and taxes that is as broad as possible in scope will provide incentives for climate-friendly investment and ensure that emission reductions are made where it is cheapest to do so. This will, at the same time, reduce the need for support on the expenditure side. This will enable Norway to meet its climate commitments without spending more money than necessary.

Total new tax reductions in 2021 as the result of the Government's proposal are about NOK 2.6 billion accrued and NOK 1.8 billion booked. Total tax reductions under this Government with this fiscal budget proposal is about NOK 29.5 billion at 2021 prices, fully phased in.

Direct taxes

The Government is in its 2021 budget proposal giving priority to broad income tax reductions for individuals and a further reduction of the net wealth tax on business assets; shares and operating assets, including commercial properties. The Government is proposing to reduce the bracket tax by 0.2 percentage point in brackets 1 and 2 and to increase the rate of the basic allowances for wage income/social security benefits and pension income by 1 percentage point. The tax reductions will somewhat increase the purchasing power of large parts of the population. This will benefit the economy in the short run. Besides, reduced bracket tax rates may over time have a positive effect on the labour market. It is proposed to increase the valuation discount on business assets from 35 to 45 pct. This will make it more profitable to channel private savings into investments in businesses and jobs.

The Government is proposing to simplify and improve net wealth tax valuations for the benefit of taxpayers that opt for documenting the value of residential properties or commercial properties by applying the safety valve. The documented value may always be used for purposes of the net wealth tax valuation of such residential properties or commercial properties, and with the same valuation discount as is applied to estimated values.

The home investment savings scheme for people below the age of 34 years (BSU) aims to help young people onto the property ladder. However, about one third of the tax deductions under the BSU scheme are claimed by young people who already own a home. The Government is therefore proposing to focus the BSU scheme on those who do not own a home and at the same time increase the maximum annual savings under the scheme from NOK 25,000 to NOK 27,500. The Government is also proposing to increase the tax exemption card cap to NOK 60,000. This will benefit students in secondary and higher education, in particular.

The Government is proposing to increase the cap on tax-exempted employee gifts from NOK 2,000 to NOK 5,000. This will make it simpler and more flexible for employers to opt for tax-exempted benefits-in-kind, while also increasing the scope for such employee benefits.

The Government wants to stimulate employees to take ownership stakes in the company they work for. It is therefore proposing to increase the maximum tax-exempted benefit on employee purchases of shares of the employing company at a discount from NOK 5,000 to NOK 7,500, while at the same time increasing the rate from 20 to 25 pct.

The Government wants to facilitate sound utilisation of Norway's hydropower resources. It is proposing to convert the resource rent tax into a cash flow tax. This will enable hydropower enterprises to immediately deduct investment costs instead of gradually deducting these through depreciation and uplift over a period of up to 67 years. Converting the resource rent tax into a cash flow tax will provide substantial liquidity for hydropower enterprises and facilitate profitable investments. It has a firm grounding in economic theory and will offer stability and predictability.

To prevent profit shifting the Government is proposing the introduction of a 15-pct. withholding tax on the payment of interest, royalties and rent on certain physical assets from enterprises with activities in Norway to associated enterprises in low-tax jurisdictions. The changes will enter into effect on 1 July 2021 in order to give the Tax Administration and businesses more time to prepare. The main objective of the proposal is to prevent profits from being shifted to low-tax jurisdictions through incorrect pricing of transactions between enterprises in the same group.

Indirect taxes

The Government is facilitating green restructuring by proposing to increase the general tax level on non-EU ETS greenhouse gas emissions. In addition, the tax on greenhouse gases is expanded by abolishing CO_2 tax exemptions and introducing a tax on waste incineration. The Government is outlining which principles should underpin sustainable car taxation until and after 2025 in chapter 4.6 of Meld. St. 1 (2020–2021); *National Budget 2021*. It is also proposing to introduce the same rate of traffic insurance tax for electric cars as for motorcycles and to increase the electric range requirement under the motor vehicle registration tax for plug-in hybrid cars. In addition, the CO_2 component of the motor vehicle registration tax for passenger cars and vans will be increased. These proposals are in line with the Government's principles for sustainable car taxation.

The Government is proposing reduced rates of road usage tax to prevent the increased CO_2 tax and increased biofuel sales requirement from increasing prices charged at the pump. It is also proposing to increase the road usage tax on natural gas and LPG.

The Government is proposing to abolish the value added tax exemption for alternative treatments, cosmetic surgery and cosmetic treatments. Cosmetic surgery and cosmetic treatments will remain exempted if the operation or treatment is medically justified and funded, in full or in part, by the public sector.

The Government is proposing to differentiate the tax on non-alcoholic beverages by sugar content from 1 July 2021. The tax will remain unchanged in real terms for the beverages with the highest sugar content, while products with less sugar or only artificial sweeteners

added will be subject to a reduced tax. The Government's proposals mean that the tax is to a larger extent structured on the basis of health and nutrition considerations.

Other proposed tax changes

The Government is also proposing a number of other changes to the tax rules, with revenue effects in 2021:

- The threshold of bracket 3 under the bracket tax will be reduced by NOK 2,600.
- The net wealth tax valuation of primary dwellings with a value in excess of NOK 15 million will be increased.
- The net wealth tax value of holiday homes will be increased by 20 pct.
- The inheritance tax pertaining to deaths that occurred before 2014 will be abolished.
- The maximum property tax rate on residential properties and holiday homes will be reduced from 0.5 to 0.4 percent.
- The reindeer husbandry allowance will be increased to the same level as the agricultural allowance.
- Reindeer husbandry facilities will be exempted from property tax in line with agricultural and forestry properties.
- A tax exemption for employer-funded flu vaccine will be introduced.
- The personal allowance will be adjusted in line with wage growth.
- Certain limits in the tax system will remain nominally unchanged. This applies, for example, to the trade union subscription allowance, the kilometre rates of the travel allowance, the parental allowance, the tax-exempted net income and the net wealth supplement under the tax limitation rule, the special allowance in the Action Zone in Troms and Finnmark, the fishermen's and seamen's allowances, as well as the maximum total savings under the home investment savings scheme for people below the age of 34 years (BSU).
- A production tax in the aquaculture industry will be introduced in line with the proposal presented in the Revised National Budget 2020.
- Interest income to be taxed as share dividends will be subject to the upwards adjustment factor for dividends.
- The deadline for personal taxpayers to pay the second and fourth advance instalments of tax will be extended by one month.
- The changeover to new CO_2 values based on WLTP for the motor vehicle registration tax for vans will be implemented without any net effect on tax revenues.
- The timing rules for value added tax in the building and construction industry will be amended.
- Customs duties on roses from GSP+ countries will be abolished.
- The low rates of CO_2 tax on natural gas and LPG, electricity tax and base tax will be increased to be in conformity with the minimum rates under the Energy Taxation Directive.
- The sectoral tax on the tobacco industry will be increased.
- The control and supervision fee for aquaculture facilities will be increased.
- A control fee for the fishing fleet will be introduced.
- Overpricing of the judicial attachment fee will be reduced.

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 included in the current fiscal year. The budgetary room for manoeuvre will increase as and when tax bases expand and tax revenues increase.

Different taxes have different effects on resource allocation in the economy. Some taxes improve the allocation of resources, such as taxes that correct for damage caused to health and the environment. Correctly designed resource rent taxes on location-specific natural resources will be neutral, thus implying that projects that are profitable before tax will also be profitable after resource rent tax. However, most taxes result in individuals and businesses changing their decisions in such a way as to utilise resources less efficiently. Taxes on labour 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 being profitable for businesses.

Most of the tax revenues need to come from taxes that have, in themselves, a negative impact on the economy. Relying more heavily on taxes that have little impact on the decisions of individuals and businesses, and having low tax rates on broad bases rather than higher rates on narrow bases, minimises such negative effects. High rates of distorting taxes provide strong incentives to change behaviour. This results in less efficient resource use, and may inhibit economic growth. High rates will also make it more profitable to evade or avoid tax.

Tax rate reductions may therefore serve to improve resource allocation and to stimulate economic growth. The scope for economic gain from tax reductions will depend on how high rates are at the outset, as well as the extent to which each tax type distorts resource use. Economic research indicates, for example, that lower tax rates on business profits and labour may entail especially beneficial effects. The Tax Commission referred to international research and adopted the assumption that taxes on immovable property and on consumption have a less inhibiting effect on economic growth than other types of taxes, cf. the NOU 2014: 13 green paper; *Capital Taxation in an International Economy*. The Commission noted that traditional corporate tax and personal income tax (taxes on labour and capital income) have the strongest negative impact on economic growth.

The tax rate on ordinary income for corporations and individuals was over the period 2013–2019 reduced by 6 percentage points, from 28 to 22 pct. This strengthens the growth capacity of the mainland economy by stimulating increases in investment and labour supply over time. A lower corporate tax rate, in particular, is expected to have a positive effect. Estimates from the Tax Commission suggest that the degree of self-financing of the implemented corporate tax changes may be in the range of 20–40 percent over time.

A reduced tax rate on ordinary income for individuals, combined with a changeover from surtax to bracket tax, has reduced the marginal tax rate on both labour and savings. The overall marginal tax rate on labour has since 2013 been reduced by between 1.4 and 3.7 percentage points for those who pay bracket tax (those with a personal income of no less than NOK 180,800 in 2020). For individuals who pay tax on ordinary income, but whose wage income is below the bracket tax threshold, the marginal tax rate has been reduced by 4.3 percentage points over the same period. This will stimulate work, and may involve an element of self-financing over time.

The reduced tax rate on ordinary income for individuals has, when taken in isolation, reduced the marginal tax rate on capital income by 6 percentage points. Empirical research indicates that the overall effect of a higher return after tax is to increase savings, but the magnitude of such effect is uncertain.

The implemented reduction of the net wealth tax rate from 1.1 to 0.85 pct. and the reduction in the valuation of shares and operating assets for net wealth tax purposes will, together with the reduced tax rate on ordinary income, increase the return after tax from investing in shares and operating assets for those above the net wealth tax threshold. Furthermore, the preferential treatment of investments in primary dwellings and holiday homes, as compared to investments in business activities, for net wealth tax purposes is reduced. On the other hand, the preferential treatment of shares and operating assets, as compared to secondary dwellings, bank deposits and bonds, for net wealth tax purposes is somewhat increased. The reduced valuation may serve to channel a larger portion of savings into investment in business activities. It may also serve to increase investments in businesses that rely on Norwegian equity to implement their projects. A net wealth tax reduction is assumed, against this background, to have a positive long-term effect on the Norwegian economy and Norwegian jobs.

The Ministry assumes that it will take time for dynamic effects of changes to income and net wealth tax to influence tax revenues. It may, for example, take time for individuals to increase their labour supply since this will often require them to increase their percentage of full-time equivalent or to find a new job. It is assumed, on the other hand, that changes in indirect taxes will affect prices and demand already in the first year. The estimated tax revenue from most excise duties therefore reflects 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 2021. The benchmark system for 2021 is based on the 2020 rules with relevant adjustments, the most important being adjustments for estimated price, wage or wealth growth.

Allowances and limits, etc., in the general rate structure for personal taxation have largely been adjusted to the 2021 level using estimated wage growth of 2.2 percent. Special allowances and other limits in personal taxation have largely been adjusted in the benchmark system using an estimated consumer price growth rate from 2020 to 2021 of

3.5 percent. This means that a taxpayer who only qualifies for standard reliefs and whose ordinary income and personal income both increase by 2.2 percent will have about the same average income tax level in the benchmark system for 2021 as in 2020. In the benchmark system, all unit taxes have been adjusted by the estimated consumer price growth from 2020 to 2021. In real terms, the benchmark system thus entails no change in tax levels from 2020 to 2021.

Table 1.1 Estimated revenue effects of the Governement's tax proposal for 2021. Negative figures represent tax reductions. The estimates have been calculated relative to the benchmark system for 2021. NOK million

	Accrued	Booked
Income tax for individuals	**-2,025**	**-1,618**
Reduce the bracket tax by 0.2 percentage point in brackets 1 and 2 and reduce the threshold of bracket 3 by NOK 2,600	-1,855	-1,485
Increase the rates of the basic allowances for wage income and pension income by 1 percentage point	-220	-175
Focus the home investment savings scheme for people below the age of 34 years (BSU) on those who do not own a home and increase the maximum annual savings from NOK 25,000 to NOK 27,500	460	370
Increase the tax exemption card cap from NOK 55,000 to NOK 60,000	-70	-55
Increase the cap on tax-exempted gifts from NOK 2,000 to NOK 5,000	-450	-360
Introduce a tax exemption for employer-funded flu vaccine	-10	-8
Increase the tax-exempted benefit from NOK 5,000 to NOK 7,500 and increase the rate from 20 to 25 pct. on employee purchases of shares of the employing company at a discount	-50	-40
Adjust the personal allowance in line with wage growth	-65	-55
Maintain rates, limits and allowances unchanged in nominal terms, etc.	235	190
Net wealth tax, etc.	**-1,570**	**-1,263**
Increase the valuation discount for shares and operating assets, etc. from 35 to 45 pct.	-1,370	-1,100
Reduce the valuation of residential properties and commercial properties by simplifying the safety valve	-300	-240
Increase the valuation of primary dwellings with a market value in excess of NOK 15 million	28	20
Adjust the net wealth tax value of holiday homes upwards by 20 pct.	75	60
Abolish inheritance tax pertaining to deaths that occurred before 2014	-3	-3
Business taxation	**-68**	**231**

Introduce withholding tax on the payment of interest and royalties to associated companies from 1 July 2021	245	245
Introduce a production tax in the aquaculture industry[1]	500	0
Increase the reindeer husbandry allowance to the same level as the agricultural allowance	-1	-1
Change the resource rent tax on hydropower plants to a cash flow tax for new investments[2]	-800	0
Introduce an upwards adjustment factor for interest income to be taxed as share dividends	3	2
Extend the deadline for personal taxpayers to pay advance instalments of tax	-15	-15
Environmental taxes and car taxes	**1,093**	**884**
Increase the general rate of tax on non-EU ETS greenhouse gas emissions by 5 pct. on top of inflation adjustment	360	330
Reduce the road usage tax to compensate for increased CO_2 tax	-190	-170
Reduce the road usage tax to compensate for increased biofuel sales requirement	-200	-185
Increase the CO_2 tax on domestic EU ETS aviation by 5 pct. on top of inflation adjustment	22	20
Increase the CO_2 tax on petroleum activities by 7 pct. on top of inflation adjustment[3]	-	-
Increase the CO_2 component of the motor vehicle registration tax for passenger cars	200	185
Increase the CO_2 component of the motor vehicle registration tax for vans	80	75
Increase the CO_2 tax on natural gas and LPG for chemical reduction, etc.	10	9
Increase the low rate of the CO_2 tax on natural gas and LPG because of Norwegian kroner depreciation	3	3
Introduce a tax on waste incineration	120	110
Expand the exemption for cargo and passenger transport from the base tax on mineral oil to all commercial vessels	-15	-14
Increase the road usage tax on LPG	2	1
Increase the road usage tax on natural gas[4]	1	0
Introduce the same rate of traffic insurance tax for electric cars as for motorcycles	300	150
Increase the electric range requirement under the motor vehicle registration tax for plug-in hybrid cars	400	370
Motor vehicle registration tax for vans – changeover to new CO_2 values based on WLTP, without any net effect on tax revenues	0	0
Value added tax	**325**	**265**

Abolish the value added tax exemption for alternative treatments	250	210
Abolish the value added tax exemption for cosmetic surgery and cosmetic treatments	100	80
Amend the rules on disputed claims in the building and construction industry	-25	-25
Other indirect taxes and customs duties	**-170**	**-147**
Differentiate the tax on non-alcoholic beverages by sugar content from 1 July 2021	-175	-150
Abolish customs duties on roses from GSP+ countries	0	0
Increase low rates of the electricity tax and the base tax on mineral oil because of Norwegian kroner depreciation	5	3
Sectoral taxes and overpriced fees	**-223**	**-178**
Increase the sectoral tax on the tobacco industry	11	11
Increase the control and supervision fee for aquaculture facilities	4	4
Introduce a control fee for the fishing fleet	42	42
Reduce overpricing of the judicial attachment fee	-279	-234
Proposed new tax changes for 2021	**-2,638**	**-1,826**

[1] The additional revenues are tied in that such revenues shall be allocated to the Aquaculture Fund.
[2] The changeover has no net effect on tax revenues in net present value terms.
[3] The increase in the CO_2 tax is estimated to increase revenues by about NOK 100 million accrued and about NOK 50 million booked. Taxes from petroleum activities are transferred to the Government Pension Fund Global and therefore do not affect the room for fiscal policy manoeuvre for 2021.
[4] A compensation of NOK 2 million (on the expenditure side of the budget) is taken into account in the estimated net revenue.

Source: Ministry of Finance.

Table 1.2 presents estimated booked tax revenues for 2021, as well as estimates for 2020 and accounting figures for 2019, specified by chapter and item.

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

				Budget estimate 2020		
Chapter	Item	Description	Accounts 2019	Balanced budget	Estimate NB 2021	Proposal 2021
5501		Taxes on wealth and income				
	70	Bracket tax, net wealth tax, etc.[1]	76,933	80,900	76,400	68,500
	72	Central government tax	108,286	119,000	117,900	107,270
	74	Corporate tax	85,445	86,700	88,600	67,900
	75	Net wealth tax from personal taxpayers[1]	-	-	-	2,600
	76	Withholding tax on dividends[1]	-	-	-	5,410
	77	Withholding tax on interest payments[2]	-	-	-	40
	78	Withholding tax on royalty payments[2]	-	-	-	200

	79	Withholding tax on rent payments on certain physical assets[2]	-	-	-	5
5502		Financial Activity Tax				
	70	Tax on wages	2,042	2,080	1,700	2,170
	71	Tax on profits.....	1,241	2,460	2,460	2,560
5506	70	Tax on inheritance and gifts.....	44	0	55	0
5507		Taxes on petroleum extraction				
	71	Ordinary tax on wealth and income.....	43,011	41,800	7,100	8,900
	72	Special tax on petroleum income	90,490	90,600	15,700	-600
	74	Area fee, etc.	1,505	1,600	1,500	1,600
5508	70	Tax on the emission of CO_2 in petroleum activities on the continental shelf.....	5,371	5,900	5,900	6,000
5509	70	Tax on the emission of NO_X in petroleum activities on the continental shelf.....	2	1	1	1
5511		Customs revenues				
	70	Customs duties	3,247	3,100	3,000	3,200
	71	Auction revenue from customs quotas....	232	300	230	235
5521	70	Value added tax.....	305,886	325,600	294,000	321,300
5526	70	Tax on alcoholic beverages.....	14,425	14,500	15,625	13,900
5531	70	Tax on tobacco products, etc.	6,549	6,700	8,000	6,700
5536		Tax on motor vehicles, etc.				
	71	Motor vehicle registration tax	13,104	12,000	9,500	10,130
	72	Traffic insurance tax.....	9,149	9,100	9,200	9,500
	73	Annual weight-based tax	335	340	340	360
	75	Re-registration tax	1,336	1,250	1,350	1,425
5538		Road usage tax on engine fuel				
	70	Road usage tax on petrol	5,252	4,900	4,200	4,050
	71	Road usage tax on auto diesel	9,984	10,100	9,400	9,100
	72	Road usage tax on natural gas and LPG .	7	20	10	13
5541	70	Electricity tax.....	10,672	11,300	10,500	11,400
5542		Tax on mineral oils, etc.				
	70	Base tax on mineral oils, etc.	1,948	1,900	1,700	1,740
	71	Tax on lubricating oils, etc	112	115	115	125
5543		Environmental tax on mineral products, etc.				
	70	CO_2 tax	8,067	8,700	8,300	8,670
	71	Sulphur tax.....	12	1	2	2
5546	70	Tax on waste incineration[2]	-	-	-	110
5547		Tax on chemicals that are harmful to health and the environment				
	70	Trichloroethene (TRI)	0	0	0	0
	71	Tetrachloroethene (PER)	1	1	1	1
5548	70	Tax on hydrofluorocarbons (HFC) and perfluorocarbons (PFC)	304	390	295	335
5549	70	Tax on the emission of NO_X	64	55	55	60

5550	70	Environmental tax on pesticides	101	65	65	65
5551		Tax relating to the minerals industry				
	70	Tax relating to subsea natural resources other than petroleum.....	1	1	1	1
	71	Tax relating to the right to explore and extract minerals pursuant to the Minerals Act.....	6	6	2	2
5555	70	Tax on chocolate and sugar products, etc.....	1,528	1,490	1,500	1,550
5556	70	Tax on non-alcoholic beverages, etc.	3,054	3,200	2,900	2,140
5557	70	Tax on sugar, etc	191	200	200	200
5559		Tax on beverage packaging				
	70	Base tax on disposable packaging	1,971	2,100	2,120	2,200
	71	Environmental tax on cartons	52	50	50	55
	72	Environmental tax on plastics	31	30	30	30
	73	Environmental tax on metals.....	5	5	5	5
	74	Environmental tax on glass.....	88	95	85	90
5561	70	Air passenger tax.....	1,947	1,900	260	1,600
5562	70	Parimutuel betting tax	127	120	20	0
5565	70	Stamp duty.....	10,315	10,800	10,700	11,680
		Sectoral taxes[3].....	3,734	3,762	3,558	3,870
5583	70	Taxes on frequencies, etc.....	297	343	341	273
5584	70	Abolished taxes.....	0	-	-	-
5700		National Insurance Scheme revenues				
	71	Employee's social security contributions	148,508	156,500	154,200	155,130
	72	Employer's social security contributions	194,253	202,600	185,700	203,000
Total taxes via the fiscal budget			1,171,269	1,224,680	1,054,877	1,056,803

[1] Net wealth tax for personal taxpayers and withholding tax on dividends are included in item 70 until 2020.
[2] New from 2021.
[3] This is a composite item for sectoral taxes under the different ministries, relevant to various chapters and items. See Table 12.1.

Source: Ministry of Finance.

Table 1.3 presents booked effects of new proposals for rule changes in 2021, specified by chapter and item.

Table 1.3 Estimated booked revenue effects of the tax proposal for 2021, specified by chapter and item. Calculated relative to the benchmark system for 2021. NOK million

Chapter	Item	Description	Change
5501		Taxes on wealth and income[1]	
	70	Bracket tax, etc.	-1,495
	72	Central government tax, etc., from personal taxpayers.....	-10

	74	Corporate taxes, etc., from non-petroleum taxpayers that are not natural persons	0
	75	Net wealth tax	-1,266
	76	Withholding tax on dividends	0
	77	Withholding tax on interest payments	40
	78	Withholding tax on royalty payments	5
	79	Withholding tax on rent payments on certain physical assets	200
5502		Financial Activity Tax	
	70	Tax on wages	-1
	71	Tax on profits	0
5506	70	Inheritance tax and gift tax	-3
5507		Taxes on petroleum extraction	
	71	Ordinary tax on wealth and income	0
	72	Special tax on petroleum income	0
	74	Area fee, etc.	0
5508	70	Tax on the emission of CO_2 in petroleum activities on the continental shelf[2]	-
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	265
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	630
	72	Traffic insurance tax	150
	73	Annual weight-based tax	0
	75	Re-registration tax	0
5538		Road usage tax on engine fuel	
	70	Road usage tax on petrol	-35
	71	Road usage tax on auto diesel	-320
	72	Road usage tax on natural gas and LPG	3

5541	70	Electricity tax	3
5542		Tax on mineral oils, etc.	
	70	Base tax on mineral oils, etc.	-14
	71	Tax on lubricating oils, etc.	0
5543		Environmental tax on mineral products, etc.	
	70	CO_2 tax	347
	71	Sulphur tax	0
5546	70	Tax on waste incineration	110
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)	15
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	Tax relating to the right to explore and extract minerals pursuant to the Minerals Act	0
5555	70	Tax on chocolate and sugar products, etc.	0
5556	70	Tax on non-alcoholic beverages, etc.	-155
5557	70	Tax on sugar, etc.	0
5559		Tax on beverage packaging	
	70	Base tax on disposable packaging	5
	71	Environmental tax on cartons	0
	72	Environmental tax on plastics	0
	73	Environmental tax on metals	0
	74	Environmental tax on glass	0
5561	70	Air passenger tax	0
5562	70	Parimutuel betting tax	0
5565	70	Stamp duty	0
		Sectoral taxes and overpriced fees[3]	-178
5583	70	Tax on frequencies, etc.	0

5700		National Insurance Scheme revenues	
	71	Employee's social security contributions.....	-16
	72	Employer's social security contributions	-104
Total changes in taxes and revenues via the fiscal budget[4].....			-1,824

[1] The effects apply to central, regional and local government. Reference is made to Section 3.8 for a discussion of regional and local government tax rates.

[2] For 2021, it is proposed to increase tax rates by 7 pct. on top of inflation adjustment. The proposed increase is estimated to increase gross revenues by about NOK 315 million. The net increase in revenues is about NOK 50 million, after tax (78 pct.) and the State's Direct Financial Interest (SDFI). Taxes from petroleum activities are transferred to the Government Pension Fund Global and therefore do not affect the room for fiscal policy manoeuvre for 2021.

[3] Reference is made to Table 1.1 and Chapter 12 for a specification of which sectoral taxes and overpriced fees are being changed.

[4] The deviation from Table 1.1 is due to compensations on the expenditure side of the budget, cf. footnote 4 to Table 1.1.

Source: Ministry of Finance.

1.5 Distributional profile of the tax proposal

The tax system has a distributional effect as a result of, inter alia, average tax increasing with income. The Government's tax policy is characterised by growth-promoting tax reductions that have benefited large groups of the population. Distributional effects in the somewhat longer term, when the implications of the tax reductions have been fully phased in, are likely to differ significantly from distributional effects in each fiscal year. The analyses presented below quantify the very short-term distributional effects of the tax changes proposed for 2021.

The Government's tax proposal for 2021 provides tax reductions for broad population groups. About 78 pct. of taxpayers will experience lower tax under the proposal. About 19 pct. of taxpayers will pay more or less unchanged tax. About 3 percent of taxpayers will pay more tax. Those earning the lowest incomes will have the largest tax reductions, measured as a percentage of income. This is primarily due to the structure of the income tax reductions (increased tax exemption card cap, increased rate of the basic allowances for wage income/social security benefits and pension income, as well as the reductions in bracket 1 of the bracket tax). It is nonetheless those earning the highest incomes that will have the largest tax reductions measured in absolute terms. This is primarily due to the increase in the valuation discount for shares and operating assets, etc., resulting in lower net wealth tax.

The calculations encompass all changes in the income and net wealth taxation of individuals which are possible to include in the Statistics Norway tax model LOTTE-Skatt. In total, these represent net tax reductions of about NOK 2.8 billion accrued. 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 2021.

Some of the proposals concerning tax on income for individuals are not included in the distributional calculations. This applies to the increase in the cap on tax-exempted gifts, the tax exemption for employer-funded flu vaccine, the increased tax-exempted benefit on employee purchases of shares of the employing company at a discount, the change in the valuation of property resulting from the abolition of the net wealth tax safety valve threshold, the increase of the reindeer husbandry allowance to the same level as the agricultural allowance, and the waiver of inheritance tax claims pertaining to deaths that occurred before 2014. These proposals are estimated to entail further tax reductions of about NOK 0.8 billion accrued. Moreover, the effects resulting from changes in business taxation, indirect taxes, sectoral taxes and overpriced fees are not taken into consideration.

The calculations of distributional effects are made on current tax bases. The estimates must therefore be interpreted as the short-term effects. It is a challenge that the presentation of estimates which only encompass short-term distributional effects do not enable quantification of the effects of adjustments over time. A main objective of the Government's tax policy has been to make it more profitable to invest, work and save. A number of tax changes will result in adjustments of distributional relevance over time. 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 thus a difference between distributional effects in the somewhat longer run, when the implications of a tax change have materialised in full, and in the very short run for any given fiscal year. Tax changes that stimulate labour supply may for example promote increased equality. Lower marginal tax rates strengthen work incentives and will over time contribute to more equal distribution if more people enter the labour force. Reference is made to chapter 1.3 on dynamic effects.

Table 1.4 shows the average short-term impact of the changes to the taxation of individuals proposed by the Government for 2021 on various groups. About half of the tax reductions will accrue to individuals with a gross income of less than NOK 700,000. The average tax reduction is about 0.1 percent of gross income. Average tax reductions in absolute terms are fairly similar for most income groups, but are larger for the group with a gross income in excess of NOK 1 million. The tax reductions for the latter income group are primarily the result of lower net wealth tax on shares and operating assets, etc. For all taxpayers as a whole, taxes are reduced by about NOK 600 on average, of which reduced net wealth tax accounts for about NOK 300.

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 2021

	Average tax under the	Average tax under the	Average	Change as a	Of which: average

Gross income. NOK	Number of taxpayers	benchmark system. Pct.	benchmark system. NOK	tax change. NOK	percentage of gross income	net wealth tax change. NOK
0 – 100,000	385,300	4.4	1,600	-200	-0.5	-100
100,000 – 200,000	310,900	6.5	10,000	-300	-0.2	0
200,000 – 250,000	294,000	7.9	17,700	-400	-0.2	0
250,000 – 300,000	322,700	12.7	34,800	-400	-0.1	0
300,000 – 350,000	361,700	16.4	53,300	-300	-0.1	0
350,000 – 400,000	329,500	18.9	71,000	-300	-0.1	-100
400,000 – 450,000	324,700	21.0	89,200	-400	-0.1	-100
450,000 – 500,000	311,100	22.4	106,400	-400	-0.1	-100
500,000 – 550,000	288,300	23.5	123,100	-500	-0.1	-100
550,000 – 600,000	258,100	24.3	139,500	-500	-0.1	-100
600,000 – 700,000	399,100	25.4	164,300	-600	-0.1	-100
700,000 – 800,000	246,800	27.3	203,900	-600	-0.1	-200
800,000 – 1,000,000	258,700	29.7	262,800	-800	-0.1	-400
1 million and above	298,200	35.4	574,200	-3,400	-0.2	-2,900
Total	4,389,000	25.1	125,600	-600	-0.1	-300

[1] Change in tax resulting from personal tax rule amendments that can be analysed in the Statistics Norway tax model; LOTTE-Skatt. The estimates are prior to any adaptations. Changes to business taxation, indirect taxes, customs duties, sectoral taxes and overpriced fees are not included in the analysis.

[2] Gross income comprises wage income and capital income before tax and tax-exempted benefits.

Sources: Ministry of Finance and the Statistics Norway tax model, LOTTE-Skatt.

Aggregate tax reductions for wage earners as a group are estimated to be about NOK 1.6 billion. This corresponds to an average tax reduction of NOK 700, of which about NOK 400 takes the form of net wealth tax reduction.

The tax changes are favourable for the self-employed as a group. Aggregate tax reductions for this group will be about NOK 130 million. This represents an average tax reduction of about NOK 1,300, of which NOK 900 can be attributed to the net wealth tax reductions.

Those on retirement pension will obtain an aggregate tax reduction of about NOK 600 million. This corresponds to an average tax reduction of about NOK 600, of which NOK 200 can be attributed to the net wealth tax reductions.

Recipients of social benefits will obtain an aggregate tax reduction of close to NOK 180 million. This corresponds to an average tax reduction of about NOK 400, of which the net wealth tax reductions account for NOK 50.

Some of the proposals pertaining to tax on income for individuals are not included in the distributional calculations, cf. the discussion above. These changes represent an average tax reduction of about NOK 180 per taxpayer, but said changes cannot be specified by gross income or socioeconomic group.

1.6 Tax rates and thresholds

Table 1.5 shows tax rates, allowances and thresholds in 2020 and the Government's proposals for 2021. The general allowances and thresholds are rounded after adjustment for estimated growth in wages, pensions or prices from 2020 to 2021. The increases may therefore deviate somewhat from the level of the various growth estimates. Wage growth is estimated at 2.2 percent, consumer price growth at 3.5 percent and growth in the ordinary retirement pension at 1.4 percent. Reference is also made to the proposed tax decisions in this proposition and to the overview of allowances and thresholds on the Ministry's website.

Table 1.5 Tax rates, allowances and thresholds in 2020 and proposals for 2021

	2020 rules	Proposal 2021	Change 2020–2021
Tax on ordinary income			
Individuals[1]	22 pct.	22 pct.	-
Corporations[2]	22 pct.	22 pct.	-
Tax on resource rent industries			
Petroleum (special tax)	56 pct.	56 pct.	-
Hydropower (tax on resource rent)	37 pct.	37 pct.	-
Bracket tax			
Bracket 1			
Threshold	NOK 180,800	NOK 184,800	2.2 pct.
Rate	1.9 pct.	1.7 pct.	-0.2 pct. point
Bracket 2			
Threshold	NOK 254,500	NOK 260,100	2.2 pct.
Rate	4.2 pct.	4.0 pct.	-0.2 pct. point
Bracket 3			
Threshold	NOK 639,750	NOK 651,250	1.8 pct.
Rate[3]	13.2 pct.	13.2 pct.	-

Bracket 4			
Threshold	NOK 999,550	NOK 1,021,550	2.2 pct.
Rate	16.2 pct.	16.2 pct.	-
Employee's social security contributions			
Lower threshold for the payment of employee's social security contributions	NOK 54,650	NOK 59,650	9.2 pct.
Levelling rate	25 pct.	25 pct.	-
Rate			
Wage income, etc.	8.2 pct.	8.2 pct.	-
Fishing, hunting and childcare[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.	-
Rate on the gross income of foreign employees (withholding tax)	25 pct.	25 pct.	-
Employer's social security contributions			
Zone I	14.1 pct.	14.1 pct.	-
Zone Ia[5]	14.1/10.6 pct.	14.1/10.6 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 pct.	0 pct.	-
Maximum effective marginal tax rates			
Wage income, excl. employer's social security contributions	46.4 pct.	46.4 pct.	-
Wage income, incl. employer's social security contributions	53.0 pct.	53.0 pct.	-
Pension income[6]	43.3 pct.	43.3 pct.	-
Income from self-employment[7]	49.6 pct.	49.6 pct.	-
Dividends[7]	46.7 pct.	46.7 pct.	-

Personal allowance	NOK 51,300	NOK 52,450	2.2 pct.
Basic allowance for wage income			
Rate	45 pct.	46 pct.	1 pct. point
Lower limit	NOK 4,000	NOK 4,000	-
Upper limit[8]	NOK 104,450	NOK 106,750	2.2 pct.
Basic allowance for pension income			
Rate	31 pct.	32 pct.	1 pct. point
Lower limit	NOK 4,000	NOK 4,000	-
Upper limit	NOK 87,450	NOK 88,700	1.4 pct.
Special wage income allowance[9]	NOK 31,800	NOK 31,800	-
Special allowance for single parents	NOK 51,804	NOK 51,804	-
Special tax credit for pensioners			
Maximum amount	NOK 32,330	NOK 32,620	0.9 pct.
Downscaling, bracket 1			
Threshold	NOK 204,150	NOK 206,050	0.9 pct.
Rate	16.7 pct.	16.7 pct.	-
Downscaling, bracket 2			
Threshold	NOK 306,300	NOK 310,700	1.4 pct.
Rate	6.0 pct.	6.0 pct.	-
The tax limitation rule			
Levelling rate	55 pct.	55 pct.	-
Tax-exempted net income			
Single person	NOK 147,450	NOK 147,450	-
Married person	NOK 135,550	NOK 135,550	-
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	-
Special allowance in Troms and Finnmark (the Action Zone)	NOK 15,500	NOK 15,500	-

Seamen's allowance			
Rate	30 pct.	30 pct.	-
Upper limit	NOK 80,000	NOK 80,000	-
Fishermen's allowance			
Rate	30 pct.	30 pct.	-
Upper limit	NOK 150,000	NOK 150,000	-
Special allowance for income from self-employment in agriculture, etc.			
Income-independent allowance	NOK 90,000	NOK 90,000	-
Rate applicable to amounts in excess of the income-independent allowance	38 pct.	38 pct.	-
Maximum overall allowance	NOK 190,400	NOK 190,400	-
Maximum annual allowance for payments to individual pension schemes[10]	NOK 40,000	NOK 40,000	-
Allowance for travel between home and work			
Rate per km[11]	NOK 1.56/0.76	NOK 1.56/0.76	-
Lower allowance limit	NOK 23,100	NOK 23,900	3.5 pct.
Maximum allowance for donations to charities	NOK 50,000	NOK 50,000	-
Maximum value of tax-exempted employee discounts	NOK 8,000	NOK 8,000	-
Maximum value of tax-exempted employee gifts	NOK 2,000	NOK 5,000	150 pct.

Maximum allowance for paid trade union subscriptions, etc.	NOK 3,850	NOK 3,850	-
Home investment savings scheme for people below the age of 34 years (BSU)			
Tax deduction rate	20 pct.	20 pct.	-
Maximum annual saving	NOK 25,000	NOK 27,500	10 pct.
Maximum total savings in the scheme	NOK 300,000	NOK 300,000	-
Parental allowance for documented childcare expenses			
Upper limit			
One child	NOK 25,000	NOK 25,000	-
Supplement per additional child	NOK 15,000	NOK 15,000	-
Net wealth tax[12]			
Local government			
Threshold	NOK 1,500,000	NOK 1,500,000	-
Rate	0.7 pct.	0.7 pct.	-
Central government			
Threshold	NOK 1,500,000	NOK 1,500,000	-
Rate	0.15 pct.	0.15 pct.	-
Valuation discounts[13]			
Primary dwellings	75 pct.	75 pct.	-
High-value primary dwellings[14]	75 pct.	50 pct.	-25 pct. point
Secondary dwellings (and associated debt)	10 pct.	10 pct.	-
Shares and operating assets (incl. commercial property) and associated debt	35 pct.	45 pct.	10 pct. point
Financial Activity Tax			
Financial Activity Tax on wages	5 pct.	5 pct.	-
Financial Activity Tax on profits	3 pct.	3 pct.	-
Depreciation rates			

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.)[15]	24 (30) pct.	24 (30) pct.	-
Asset group d (passenger cars, machinery and equipment, etc.)[16]	20 pct.	20 pct./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.)[17]	4 (6/10/20) pct.	4 (6/10/20) 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 is 18.5 pct. for taxpayers in the Action Zone of the county of Troms and Finnmark.
[2] Tax on ordinary income for undertakings subject to Financial Activity Tax is 25 pct. in both 2020 and 2021.
[3] The rate is 11.2 pct. in bracket 3 in both 2020 and 2021 for taxpayers in the Action Zone of the county of 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 pct. social insurance contribution. A lower social insurance rate for fishing and hunting 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 pct. and the 11.4 pct. social insurance contribution rates.
[5] Employer's social security contribution shall be paid in Zone Ia at a rate of 10.6 pct. until the difference between the employer's social security contribution paid at this rate by the enterprise and what employer's social security contribution such enterprise would have paid at a rate of 14.1 pct. equals the de minimis amount. The rate of 14.1 pct. shall be applied to any contribution base in excess thereof. In 2021, the threshold amount is NOK 500,000 per enterprise. The threshold amount is NOK 250,000 for cargo transport by road in Zone Ia.
[6] For individuals who fall within the scope of the special tax credit for pensioners, the maximum effective marginal tax rate may be up to 48.0 pct. in 2020 and 47.8 pct. in 2021.
[7] Includes corporate tax and upwards adjustment factor for dividends, etc. In 2021, the corporate tax under the Government's proposal is 22 pct. and the upwards adjustment factor for dividends, etc., is 1.44.
[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 106,750 for 2021.
[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] A new tax-favoured individual pension savings scheme was introduced in connection with the Revised National Budget for 2017. The maximum deduction under this scheme is NOK 40,000. The old IPS scheme is continued with a maximum deduction of NOK 15,000 (coordinated with contributions under the new scheme, such as to cap the overall deduction at NOK 40,000) for those already saving under that scheme.
[11] The reduced rate of NOK 0.76 applies to travel after the total annual distance travelled exceeds 50,000 km.
[12] The thresholds apply to single taxpayers. For married couples whose taxes are assessed jointly for joint assets, the threshold is twice the level specified in the table.
[13] The valuation discounts apply to assets owned directly by persons liable to pay net wealth tax.
[14] The reduced valuation discount for primary dwellings applies to home values in excess of NOK 15 million.
[15] The ordinary depreciation rate for asset group c is 24 pct., with a higher rate of 30 pct. for vans that are exclusively running on electricity.
[16] An initial depreciation of 10 pct. has been introduced for newly acquired operating assets capitalised under asset group d (machinery, equipment, etc.) as a measure to alleviate the economic situation relating to the

coronavirus outbreak. The initial depreciation is additional to the ordinary depreciation of 20 pct. The proposal will apply to acquisitions and upgrades made from 20 June 2020 (the date of approval of the measure by the EFTA Surveillance Authority (ESA)) to 31 December 2020, inclusive.

[17] Agricultural buildings for livestock can be depreciated at a higher rate of 6 pct. 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 pct. The 10-pct. rate also applies to installations whose economic life must be assumed not to exceed 20 years. Costs of establishment of fruit and berry fields can be depreciated as installations at rates of 20 and 10 pct. per year, respectively.

Source: Ministry of Finance.

Table 1.6 shows current rates of value added tax and excise duties, as well as rate proposals for 2021. Basically, all excise duties have been adjusted upwards by 3.5 percent 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 proposed in this proposition.

Table 1.6 Rates of indirect tax in 2020 and proposed rates for 2021

Tax category	2020 rules	Proposal 2021	Change in percent
Value added tax, pct. of sales value			
Standard rate	25	25	-
Reduced rate	15	15	-
Low rate[1]	12	12	-
Tax on alcoholic beverages			
Spirits-based beverages in excess of 0.7 pct. alcohol by volume, NOK/pct. alcohol and litre	7.84	8.11	3.4
Other alcoholic beverages, from 4.7 to 22 pct. alcohol by volume, NOK/pct. alcohol and litre	5.11	5.29	3.5
Other alcoholic beverages, up to 4.7 pct. alcohol by volume, NOK/litre			
0.0 – 0.7 pct. alcohol by volume	-	-	-
0.7 – 2.7 pct. alcohol by volume	3.51	3.63	3.4
2.7 – 3.7 pct. alcohol by volume	13.18	13.64	3.5
3.7 – 4.7 pct. alcohol by volume	22.83	23.63	3.5
Fermented alcoholic beverages in excess of 3.7, up to 4.7, alcohol by volume, produced in small breweries. .	variable	variable	-
Tax on tobacco products			
Cigars, NOK/100 grams	268	277	3.4
Cigarettes, NOK/100 units	268	277	3.4

Smoking tobacco, NOK/100 grams	268	277	3.4
Snuff, NOK/100 grams	109	113	3.7
Chewing tobacco, NOK/100 grams	109	113	3.7
Cigarette paper, NOK/100 units	4.10	4.24	3.4
Motor vehicle registration tax			
Passenger cars, etc. Tax group a[2]			
Weight, NOK/kg			
first 500 kg	0	0	-
next 700 kg	25.90	26.81	3.5
next 200 kg	64.55	66.81	3.5
next 100 kg	201.72	208.78	3.5
remainder	234.60	242.81	3.5
NO_X emissions, NOK per mg/km	74.53	77.14	3.5
CO_2 emissions, NOK per g/km			
first 87 g/km	0	0	-
next 31 g/km	773.91	985.23	27.3
next 37 g/km	867.25	1,104.05	27.3
next 70 g/km	2,272.56	2,352.10	3.5
remainder	3,625.17	3,752.05	3.5
allowance for emissions below 87 g/km, applies down to 50 g/km and only to vehicles emitting less than 87 g/km	792.95	820.70	3.5
allowance for emissions below 50 g/km, only applicable to vehicles emitting less than 50 g/km	932.92	965.57	3.5
Vans class 2. Tax group b[3]			
weight, pct. of passenger car tax	20	20	-
NO_X emissions, pct. of passenger car tax	75	75	-
CO_2 emissions, NOK per g/km			
first 84 g/km	-	0	-
next 30 g/km	-	259.52	-
next 36 g/km	-	290.83	-

remainder	-	635.07	-
allowance for emissions below 84 g/km, applies down to 48 g/km and only to vehicles emitting less than 84 g/km	-	250.85	-
allowance for emissions below 48 g/km, only applicable to vehicles emitting less than 48 g/km	-	295.14	-
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[5]			
Piston displacement tax, NOK/cm^3			
first 225 cm^3	0	0	-
next 675 cm^3	30.85	31.93	3.5
remainder	72.09	74.61	3.5
CO_2 emissions, NOK per g/km			
first 75 g/km	0	0	-
next 60 g/km	686.39	710.41	3.5
remainder	928.10	960.58	3.5
Snowmobiles. Tax group g			
Weight, NOK/kg			
first 100 kg	14.49	15.00	3.5
next 100 kg	28.98	29.99	3.5
remainder	57.94	59.97	3.5
Engine power, NOK/kW			
first 20 kW	23.27	24.08	3.5
next 20 kW	46.56	48.19	3.5
remainder	93.09	96.35	3.5
Piston displacement, NOK/cm^3			
first 200 cm^3	2.56	2.65	3.5
next 200 cm^3	5.11	5.29	3.5
remainder	10.19	10.55	3.5
Minibuses. Tax group j[6]			

pct. of passenger car tax	40	40	-
Traffic insurance tax[7]*,* NOK/day			
Petrol vehicles and diesel vehicles with a factory-fitted particle filter	8.12	8.40	3.4
Diesel vehicles without a factory-fitted particle filter	9.47	9.80	3.5
Electric vehicles	0	5.85	new
Motorbikes	5.65	5.85	3.5
Tractors, mopeds, etc	1.31	1.36	3.8
Annual weight-based tax, NOK/year	variable	variable	-
Re-registration tax	variable	variable	-
Road usage tax on engine fuel			
Petrol[8], NOK/litre	4.91	5.01	2.0
Auto diesel[9], NOK/litre	3.62	3.58	-1.1
Bioethanol[10], NOK/litre	2.37	2.45	3.4
Biodiesel[11], NOK/litre	3.62	3.66	1.1
Natural gas, NOK/Sm^3	1.02	1.82	78.4
LPG, NOK/kg	3.48	4.27	22.7
Electricity tax, øre/kWh			
Standard rate	16.13	16.69	3.5
Reduced rate	0.505	0.532	5.3
Base tax on mineral oils, etc., NOK/litre			
Mineral oils	1.68	1.74	3.6
Mineral oil in the pulp and paper industry, production of dyes and pigments	0.212	0.227	7.1
Tax on lubricating oils, NOK/litre	2.27	2.35	3.5

CO_2 tax on mineral products			
Petrol, NOK/litre	1.26	1.37	8.7
Mineral oils, NOK/litre			
standard rate	1.45	1.58	9.0
domestic EU ETS aviation	1.39	1.51	8.6
domestic aviation	1.39	1.51	8.6
Natural gas, NOK/Sm^3			
standard rate	1.08	1.17	8,3
chemical reduction, etc.	-	0.29	new
within EU ETS	0.061	0.065	6,6
LPG, NOK/kg			
standard rate	1.63	1.77	8,6
chemical reduction, etc.	-	0.44	new
CO_2 tax in the petroleum industry			
mineral oils, NOK/litre	1.15	1.27	10.4
natural gas, NOK/Sm^3	1.15	1.27	10.4
natural gas emitted to air, NOK/Sm^3	7.93	8.76	10.5
Tax on waste incineration, NOK/tonne of CO_2	-	149	new
Sulphur tax, øre/litre	13.55	14.02	3.5
Tax on trichloroethene (TRI) and tetrachloroethene (PER), NOK/kg	74.76	77.38	3.5
Tax on HFC and PFC, NOK/tonne of CO_2 equivalents	544	591	8.6
Tax on NOx emissions, NOK/kg	22.69	23.48	3.5
Tax on the production of fish, NOK/kg	-	0.40	new

Tax on chocolate and sugar products, etc., NOK/kg ...	21.22	21.96	3.5
Tax on non-alcoholic beverages, NOK/litre			
Finished products[12]	3.51	3.63	3.4
Concentrate (syrup)[12]	21.35	22.10	3.5
Squash and syrup based on fruits, berries or vegetables, without added sugar	1.76	1.82	3.4
Concentrate (syrup) based on fruits, berries or vegetables, without added sugar	10.67	11.04	3.5
Sugar tax, NOK/kg	8.20	8.49	3.5
Tax on beverage packaging, NOK/units			
Base tax, disposable packaging	1.23	1.27	3.3
Environmental tax			
glass and metals	5.99	6.20	3.5
plastics	3.62	3.75	3.6
cartons and cardboard	1.48	1.53	3.4
Air passenger tax[13], NOK/passenger			
Low rate	76.5	79	3.3
High rate	204	211	3.4
Parimutuel betting tax[14], pct. of gross turnover	-	-	-
Stamp duty, pct. of sales value	2.5	2.5	-

[1] The low rate of value added tax has been temporarily reduced from 12 to 6 pct. for the period from 1 April 2020 to 31 October 2020.

[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 CO_2 emissions are not specified.

[3] Group b: Class 2 vans. The budget for 2021 proposes a changeover to WLTP values as the basis for the CO_2 component. For 2020, NEDC values are used. The changeover implies that the current CO_2 rates for 2020 are not directly comparable to the proposal for 2021, and the rates for 2020 are therefore not included in the table.

[4] Group c: Campervans. For campervans it is proposed to use a designated piston displacement component instead of the CO_2 component until further notice. The stipulated 22 pct. of the passenger car rates refers to the rates applicable to the passenger car weight component. No NO_x component applicable.

[5] Group f: Motorbikes. Vehicles whose CO_2 emissions are not registered are taxed per unit and by engine power, in addition to tax on piston displacement.
[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 CO_2 component does not apply to group j. No NO_X component applicable.
[7] The tax triggered by each insurance policy is calculated on the basis of the tax rates applicable upon commencement of the insurance. For insurance established or annually renewed before 1 March 2020, the 2019 rates shall apply. For insurance established or annually renewed from 1 March 2019 to 29 February 2020, the 2019 rates shall apply. For insurance established or annually renewed after 1 March 2021, the 2021 rates shall apply.
[8] Petrol with a sulphur content under 10 ppm.
[9] Diesel with a sulphur content under 10 ppm.
[10] Bioethanol exceeding the sales requirement was exempted from road usage tax until 1 July 2020.
[11] Biodiesel exceeding the sales requirement was exempted from road usage tax until 1 July 2020.
[12] The Government is proposing that the tax on finished product and concentrate be differentiated by sugar content from 1 July 2021.
[13] This tax is temporarily suspended for the period from 1 January 2020 to 31 October 2020.
[14] This tax was temporarily discontinued in 2020 and is not being reintroduced in 2021.
Source: Ministry of Finance.

1.7 Allocation of public sector tax revenues

Table 1.7 provides a general overview of the main groups of taxes and shows which part of the public sector receives the revenues from the different groups. In total, tax revenues are estimated at NOK 1,215 billion in 2020, of which close to 83 percent accrue to central government, just under 15 percent to local government and almost 3 percent to regional government.

The majority of local and regional government tax revenues are in the form of income tax and net wealth tax on personal taxpayers. About 40 percent of central government tax revenues are in the form of value added tax, excise duties and customs duties. About 34 percent of central government tax revenues come from personal taxpayers, whilst about 26 percent come from non-personal taxpayers and employer's social security contributions in mainland Norway. The State's tax revenues from the petroleum sector are forecast to be negative in 2020. This is the result of temporary petroleum tax changes, cf. Prop. 113 L (2019–2020) and Innst. 351 L (2019–2020), which imply, inter alia, that investment costs, with the addition of 24 pct. uplift, may be deducted immediately in the special tax base.

Table 1.7 Accrued taxes specified by tax creditors. Estimates for 2020[1].
NOK billion

	Total	Central government	Local government	Regional government
Personal taxpayers	536.5	341.5	162.0	33.0
Tax on ordinary income	297.4	115.1	149.4	33.0
Bracket tax	71.9	71.9	-	-
Employee's social security contributions.....	151.9	151.9	-	-
Net wealth tax.....	15.4	2.7	12.7	-

Corporations (whose taxes are payable in arrears)	68.0	66.4	1.4	0.3
Income tax (including power plants)	67.7	66.0	1.4	0.3
Net wealth tax.....	0.4	0.4	-	-
Financial Activity Tax.....	4.6	4.6		
Tax on wages.....	2.0	2.0		
Tax on profits	2.6	2.6		
Recurrent tax on immovable property (property tax).....	14.8	-	14.8	-
Employer's social security contributions.....	185.7	185.7	-	-
Indirect taxes	398.8	398.8	-	-
Value added tax	294.2	294.2	-	-
Excise duties and customs duties.....	104.6	104.6	-	-
Petroleum	-39.1	-39.1	-	-
Tax on income	-45.0	-45.0	-	-
Tax on extraction, etc.....	5.9	5.9	-	-
Other direct and indirect taxes.....	46.4	46.4	0.0	-
Social security and pension premiums, other central government and social security accounts [1]	32.0	32.0	-	-
Tax on dividends for foreign shareholders ...	1.6	1.6	-	-
Other direct and indirect taxes[2]	12.8	12.8	0.0	-
Total direct and indirect taxes	1,215.8	1,004.3	178.3	33.2
Of which direct taxes	584.9	373.4	178.3	33.2

[1] Including 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.

1

2 Overview of the Norwegian tax system

2.1 Introduction

Taxes are necessary to fund public services and transfers, but may impede the efficiency of the economy. The tax system should be structured to promote high output and efficient resource allocation. This will serve to minimise the economic loss from taxation as such. Nor should the tax system impose unnecessarily high administrative costs on taxpayers and authorities. The tax system serves to redistribute income. Taxes also have a counter-cyclical effect. The tax system contributes to automatic stabilisation of the economy as tax revenues increase during an economic upturn and decline in a downturn. Taxes that put a price tag on negative externalities, such as for example pollution, improve the utilisation of society's resources.

This chapter provides an overview of the main rules under the tax system. The description is based on the rules for 2020. There are also some exceptions from the main rules; so-called tax expenditures. The tax expenditures are discussed in Section 2.7 and outlined in further detail in Appendix 1. Figure 2.1 shows aggregate central, regional and local government tax estimates for 2020. The figure illustrates the data in Table 1.7 and shows that the main sources of tax revenues are tax on ordinary income from individuals, value added tax and employer's social security contributions.

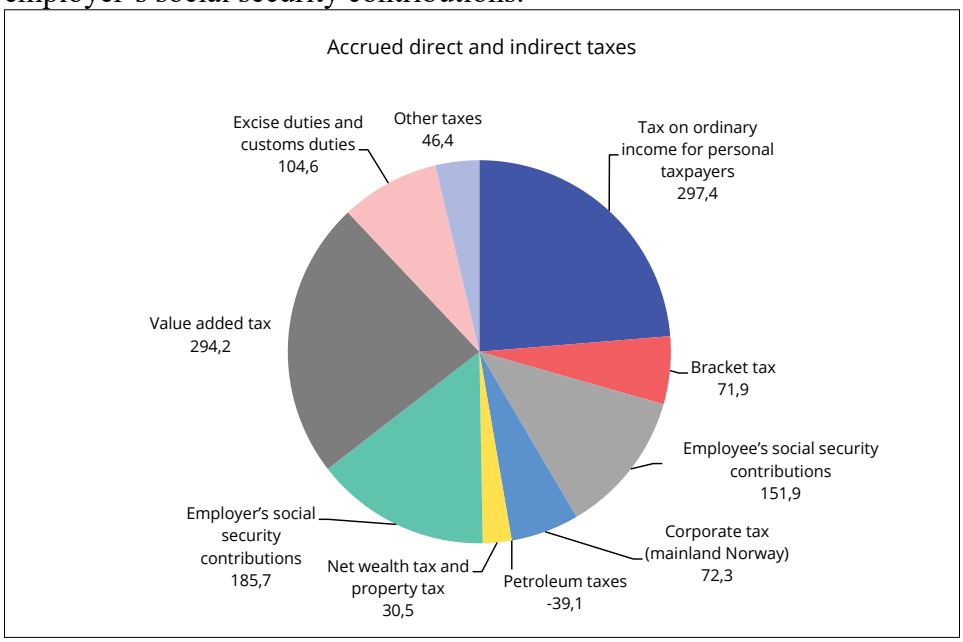

Figure 2.1 Accrued direct and indirect taxes. Central, regional and local government. Estimates for 2020. NOK billion

Source: Ministry of Finance.

The various taxes can be classified as either direct taxes or indirect taxes.

Direct taxes include, inter alia, income tax from individuals and businesses, employer's social security contributions, net wealth tax and property tax. Direct taxes, including employer's social security contributions, account for just over 63 pct. of overall tax revenues in 2020. Income tax from individuals, including employee's social security contributions and bracket tax, account for 44 pct. of overall tax revenues, whilst income tax and employer's social

security contributions from businesses, including the petroleum industry and the Financial Activity Tax, account for just under 18 pct. Tax revenues from mainland enterprises, including employer's social security contributions, account for 21 pct. of tax revenues from the mainland economy.

Indirect taxes include value added tax, excise duties, customs duties and sectoral taxes, and account for 33 pct. of overall tax revenues. Value added tax accounts for 24 pct. of overall tax revenues, whilst excise taxes account for 8 pct. Customs duties are a minor tax revenue component.

The State's tax revenues from the petroleum sector are forecast to be negative in 2020, cf. Table 1.7. This is the result of temporary petroleum tax changes, cf. Prop. 113 L (2019–2020) and Innst. 351 L (2019–2020), which imply, inter alia, that investment costs, with the addition of 24 pct. uplift, may be deducted immediately in the special tax base.

2.2 Guidelines for an efficient tax system

The tax system influences labour supply, consumption, savings and investments. It is therefore important that the tax system is designed on the basis of a set of fundamental principles which enable resources to be allocated as efficiently as possible in the economy. This can be achieved by

- first making use of taxes that promote better resource allocation (for example environmental taxes that reflect marginal external costs);
- thereafter employing neutral taxes that do not influence the choices made by producers and consumers (for example taxes on the resource rent in the petroleum and hydropower sectors); and
- finally using distortionary taxes to achieve sufficient revenues to finance public goods and services and to realise redistribution objectives.

The economic costs resulting from distortionary taxation should be kept as low as possible. Since the 1992 tax reform, the tax system has been based on the principles of broad tax bases, low rates, equal treatment across industries, legal entities and investments, as well as symmetrical treatment of income and expenses. This reduces the costs of taxation, and is conducive to the equal treatment of taxpayers. Broad tax bases, covering all types of income, are a prerequisite for the equal taxation of persons with equal income, and for the progressivity of the tax system to actually result in redistribution. The changes to the tax system resulting from the 1992 tax reform have, along with changes in subsequent years, extended the tax base, thus narrowing the gap between taxable income and actual income. The principle of broad tax bases and relatively low rates was maintained in the tax reforms of 2006 and 2016.

Exemptions and special schemes that deviate from the general rules make the tax system less efficient. These can also make the tax system more complex and challenging, for both taxpayers and the Tax Administration. Other taxes need to be increased in order to keep tax revenues at the same level, and the economic costs of taxation tend to increase more than proportionally with tax rate increases. If it is desirable to support a specific activity or specific group, measures on the expenditure side of the budget are often less costly and more targeted. Revenues from individual taxes should, as a main rule, not be targeted for specific forms of expenditure. Such restrictions prevent efficient prioritisation of funds via the expenditure side of the budget.

In some cases, different tax objectives may conflict. Consequently, various considerations need to be balanced against each other when designing the tax system. In general, no single tax should target multiple objectives.

In Norway, public funding of extensive welfare programmes makes it necessary to raise substantial tax revenues. However, some taxes are also intended to serve other important purposes beyond raising government revenues. These include, in particular, income redistribution, as well as health and environmental considerations.

The tax system contributes to redistribution through, inter alia, an increase in the average tax burden as income increases. Taxation of wage income will tend to reduce labour supply, and the tax system should, insofar as possible, promote good decisions with regard to labour force participation, education and career choices. Empirical research indicates that the labour supply of low-income groups is more responsive to changes in hourly wages after tax than is the labour supply of high-income groups.

People with the lowest incomes pay little or no tax. Consequently, changes to the tax system are of little significance to this group. Many people with a persistently low income are not working. The tax rules should as far as possible be designed to reduce disincentives to work. The interaction between benefits and tax rules has a major impact on incentives to return to work or to increase working hours for people who receive social security benefits as compensation for loss of wage income resulting from health problems or unemployment. One of the tax and welfare policy challenges is balancing income protection considerations against work incentive considerations. This is illustrated in Box 2.1, showing that there may in some cases be little economic gain from working rather than claiming social security benefit.

Box 2.1 Work incentives depend on both the tax system and the benefit system

Work incentives are influenced by both tax rates on labour and any net transfers received by individuals. The Norwegian income protection system (primarily the National Insurance Scheme) comprises a number of transfer schemes that serve to provide people who do not work, for various reasons, with a subsistence income. Examples are disability benefits and unemployment benefits. Such benefits are often discontinued, fully or partly, when a person takes up a job, and hence serve as an additional «tax» on labour. The effective average tax on labour is often calculated to illustrate the implications of this in terms of work incentives. The effective tax rates reflect both tax and the net transfers foregone when a person moves into employment. Such rates are useful, but they need to be interpreted with caution. In general, these calculations only reflect transfer levels. Other aspects of these schemes, for example the extent to which benefits are subject to time limits and activity requirements for recipients, will also influence work incentives.

Figure 2.2 presents some average effective tax rates on labour when a person moves from unemployment to full employment in the Nordic countries (2019 data). The respective calculations are for a single parent with two children and a couple with two children, where one parent stays at home. The figure shows that the effective tax rate on labour can be high. A single parent at 67 pct. of average earnings and with two children will in Norway in effect be taxed at just under 80 pct. of gross wage income when the loss of unemployment benefit is taken into account.

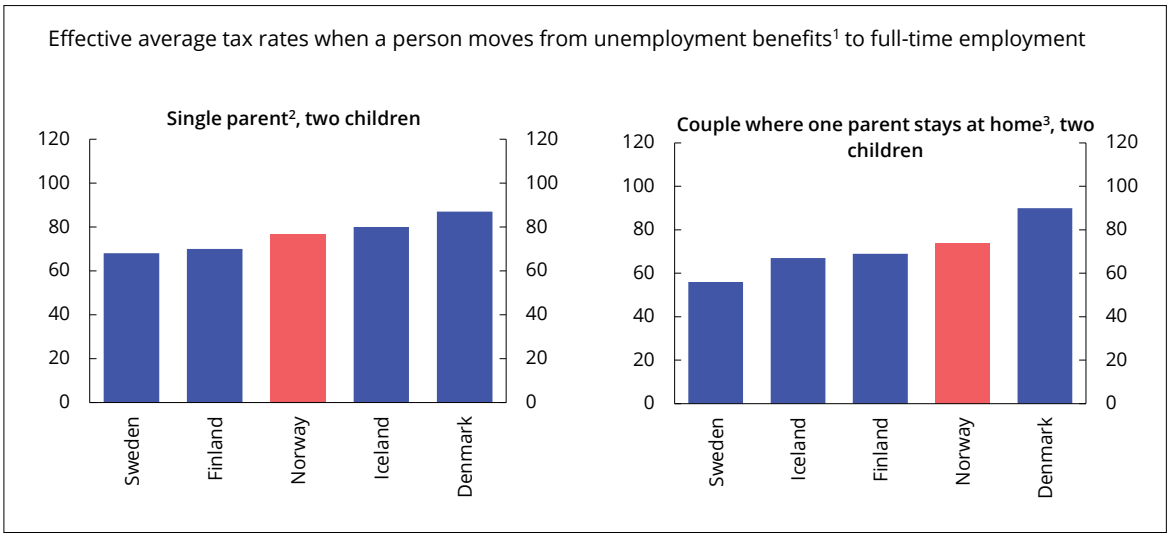

Figure 2.2 Effective average tax rate when a person moves from unemployment benefits to full-time employment. 2019. Percent

[1] The calculations are based on unemployment benefits in the various countries as calculated in OECD Tax and Benefit 2016. The benefit level reflects the payment in the first year of unemployment.
[2] Based on 67 pct. of the average wage in the various countries, in calculating both the benefits and the amount of the wage income from full employment.
[3] Based on 100 pct. of the average wage in the various countries, in calculating both the benefits and the amount of the wage income when moving into full employment. The spouse/cohabitant is assumed to stay at home.
Sources: OECD and the Ministry of Finance.

End of box

Environmental taxes contribute to more appropriate pricing of environmentally harmful activities and motivate individuals and companies to more environmentally friendly behaviour. Moreover, the use of environmental taxes is consistent with the polluter pays principle. Revenues from environmental taxes can be used to strengthen welfare schemes and public services or to reduce other taxes.

Business taxation should principally focus on raising government revenues, without impeding sound commercial activity. Making the taxation of all actual income as consistent and uniform as possible makes resource allocation less susceptible to, for example, tax-motivated investments. Taxed profits should correspond to actual profits.
Predictability should also be emphasised in business and capital taxation. Instability may impair business investment and reduce profits.
Industries exploiting natural resources may generate extraordinary profits in the form of resource rent. It is important to ensure that society receives a large proportion of such extraordinary profits. Revenues for neutral taxes, such as taxes on resource rents, will, when taken in isolation, reduce the need for distorting taxes. Norway levies special taxes on profits from the petroleum industry and hydropower plants. The petroleum tax system and the State's Direct Financial Interest (SDFI) channel a large proportion of the high income from the continental shelf to the State, without preventing economically profitable investments from being made. SDFI functions as a cash flow tax on fields in which the State has retained an ownership stake, but its income is not formally classified as tax revenues.
Figure 2.3 compares the tax revenues of various countries as a percentage of their gross domestic product (GDP) and provides a rough indication of differences in the size of their public sectors and differences in their overall tax levels. Such a comparison neither takes account of other revenue sources than tax, nor that the proportion of tax revenues will vary somewhat depending on factors such as the extent to which public pension and social security

payments are taxable. The figure shows that the tax level in Norway is higher than the OECD average, but lower than in most other Nordic countries. In Norway, part of the overall expenditure via government budgets is funded by petroleum revenues and fund returns from the Government Pension Fund Global. For 2020, this accounts for about 20 pct. of overall expenditure via government budgets.

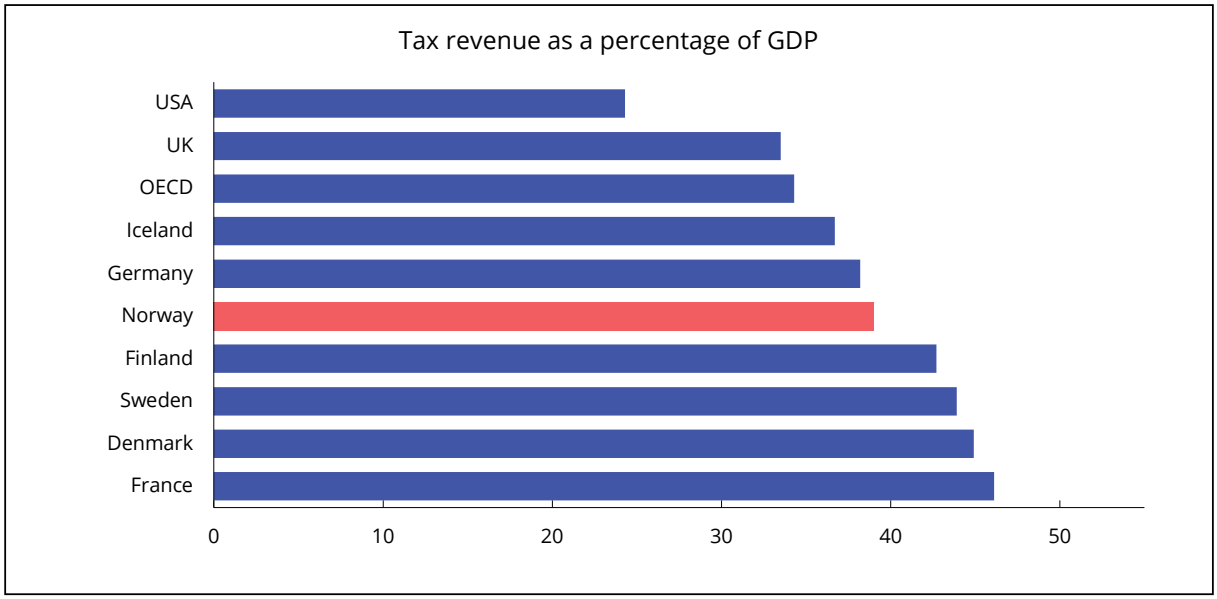

Figure 2.3 Tax revenue as a percentage of GDP in selected countries and the OECD.[1] 2018. Percent

[1] Non-weighted average for the OECD.
Source: OECD Revenue Statistics.

Since 1985, tax revenues in Norway have varied between 38 and 44 pct. of GDP. In Sweden, the tax to GDP ratio has ranged from 43 to 50 pct., whilst it has been between 44 and 51 pct. in Denmark. Over the same period, the average OECD tax revenue share has varied between 32 and 35 pct. of GDP.
The greater mobility of capital, goods and services implies that the significance of different taxation between countries may increase. Norway needs good general tax rules to retain and attract business activities and capital. However, location decisions depend on more than tax. Political stability, good infrastructure, access to highly qualified labour, well-functioning financial markets, property rights, as well as a stable and predictable regulatory framework, are also important determinants of the overall framework conditions for doing business.

Box 2.2 The EEA and tax

There is no obligation under the EEA Agreement to harmonise Norwegian tax rules with EU regulations and directives. Hence, Norway is not required to apply common tax rates with the EU, and we decide ourselves which incomes and transactions to include in our tax bases. The general provisions of the EEA Agreement requiring adherence to *the four freedoms and the prohibition against state aid* nonetheless place distinct limitations on the substance of Norwegian tax rules. Norway's compliance with these EEA obligations, also in relation to tax, contributes to safeguarding access to the single market for Norwegian individuals and corporations on a par with individuals and corporations in the other EEA states. The EFTA Surveillance Authority (ESA) in Brussels and the EFTA Court in Luxembourg have overarching responsibility for monitoring compliance with the EEA Agreement. The ESA

may raise matters relating to Norwegian tax rules of its own accord or on the basis of complaints filed by Norwegian or non-Norwegian individuals and corporations claiming that a Norwegian tax rule violates EEA law.
Internally in Norway, the Government and the Storting are entrusted with ensuring that the tax rules are in conformity with the EEA Agreement. In individual cases, the tax rules are enforced in accordance with EEA law by the Tax Administration, the Tax Appeals Board and, if applicable, by the Norwegian courts. Both the Tax Appeals Board and the Norwegian courts may in individual cases brought before them refer EEA issues to the EFTA Court for a so-called *advisory opinion* on the interpretation of EEA law. As indicated by the term, the court has a right, but no obligation, to adhere to the EFTA Court's opinion on the issue raised under EEA law. However, the Supreme Court of Norway has stated that considerable weight shall be attached to the EFTA Court's interpretations of EEA law and that these may only be deviated from if there are weighty reasons for doing so.
The *four freedoms* – the right to free movement of goods, services, capital and persons/establishments – imply that Norway cannot, as a general rule, have rules treating cross-border movements and transactions between Norway and EEA states more restrictively than purely domestic movements and transactions. Such discrimination would be considered a barrier to the freedom of cross-border movement. As far as indirect taxation is concerned, this implies, inter alia, that goods and services must be subject to the same VAT on the Norwegian market, irrespective of whether the goods are produced, or the service provider is established, in Norway or in another EEA state. As far as direct taxation is concerned, the dividend taxation rules provide an example of Norwegian tax legislation having been amended as a result of the EEA Agreement. The free movement of capital and the freedom of establishment implied that Norway could not tax share dividends paid between Norway and other EEA states more heavily than corresponding dividend payments between taxpayers in Norway.

However, Norway may in some cases maintain or introduce rules that would, at the outset, entail an element of discrimination, if there are so-called *justification grounds.* It is primarily the European Court of Justice which has outlined, in case law, which legitimate considerations can justify tax rules that would initially be held to discriminate between domestic and cross-border movements. As far as taxes are concerned, it is especially the need to ensure a balanced allocation of tax revenues between states and prevent tax avoidance that can justify a discriminatory rule. Efficient tax collection is also a relevant consideration. The application of a discriminatory rule is in addition conditional upon said rule being appropriate and necessary for purposes of accommodating the relevant consideration, and upon it being no stricter than is justified by the said consideration.
Norway has for example invoked such justification grounds to tax shareholders who emigrate from Norway on such part of the gain on shares as has accrued whilst the taxpayer was resident/domiciled in Norway, despite the shares not having been divested as at the time of emigration. Tax liability is, in other words, triggered by the actual cross-border movement in this case, whilst a taxpayer who relocates inside the borders of Norway would not be taxed on the capital gain until actual divestment. The reason why such discrimination is accepted under EEA law is the need to ensure a balanced distribution of the tax base between the EEA states and to prevent tax avoidance. However, although the Norwegian tax authorities may in such cases assess the potential capital gain upon emigration to another EEA state, they cannot automatically request *payment* of the tax at that point in time. The obligation to pay the assessed tax may be deferred until the share is actually divested, or be paid in instalments over several tax years. This ensures that the restrictive tax rule does not go further than is justified by the need for balanced distribution of tax revenues and the prevention of tax avoidance.
Recently, the EU has adopted directives that not only permit, but also *require* member states to introduce tax rules that would generally be considered restrictive. This illustrates that free

movement considerations must in certain cases give way to the need to prevent tax avoidance. As mentioned, the EEA Agreement does not require Norwegian rules to be harmonised with these tax directives, but the contents of such directives are important as an indication of how far the considerations behind the four freedoms reach when these come into conflict with the need to prevent disloyal tax planning.

The *prohibition against state aid* implies that Norway cannot apply tax rules that give individual undertakings, or categories of undertakings, more favourable tax treatment than these are entitled to under the main rule applicable to such undertakings. The background to this is that state aid may have unwanted effects on competition. The prohibition encompasses both preferential treatment of *individual undertakings* and preferential treatment of certain *sectors* or *geographical areas*. The prohibition applies even if state aid is given evenly to both Norwegian and non-Norwegian undertakings, and hence is not conditional upon discrimination.

The specific assessment of whether a tax rule constitutes state aid is performed according to an established procedure under EEA law. It is first assessed whether the tax exemption constitutes an economic advantage, thereafter whether such advantage is selective, i.e. favours certain undertakings or specific categories of undertakings. Furthermore, the advantage must distort competition and affect trade between the EEA states. The selectivity assessment will often turn out to be the most challenging aspect when considering tax rules. The selectivity assessment is conducted in three stages:

1) Identification of the reference system, i.e. what is the main rule?
2) Does the tax rule under assessment entail a derogation from the reference system?
3) Even if the rule entails a derogation, can it be justified by the general scheme of the reference system?

Even if it is concluded, after such an assessment, that a tax rule represents state aid (constitutes a selective advantage, distorts competition and affects trade), the EEA Agreement offers scope for nonetheless finding such state aid to be lawful. This is termed «compatible aid». The European Commission and the ESA have laid down supplementary guidelines on what can be considered aid compatible with the EEA Agreement. This includes, inter alia, aid for regional development, environmental purposes, training purposes, research and development, as well as for small and medium-sized enterprises. The guidelines tend to be very comprehensive and stipulate strict conditions for concluding that such aid can be considered compatible.

The Norwegian authorities have to notify the ESA of any tax rules they hold to qualify as compatible aid, and the ESA needs to approve such aid before it can be implemented, pursuant to the guidelines or directly under the state aid provisions of the EEA Agreement. In some cases, the notification process may last for a few months, whilst it may take several years in more complex cases. Certain types of aid may, on specific conditions, be reported under a simplified procedure pursuant to the so-called General Block Exemption Regulation. Examples of tax rules that have been considered compatible aid are the geographically differentiated employer's social security contributions (regional aid), grants for electrical vehicles (environmental aid) and tax incentives via the Skattefunn scheme for stimulating R&D in businesses (R&D aid). In some cases, the aid may be permitted without notification/reporting, if the criteria under the *de minimis* regulation are met. The rationale behind permitting *de minimis* aid is that such aid is held to have so little effect on trade that it should not be prohibited. In addition, it is administratively simplifying to exercise less stringent control over schemes involving modest amounts of aid.

Each year, the Ministry of Finance handles a number of tax matters for which the EEA Agreement is of relevance. The Ministry conducts meetings and correspondence with, inter alia, the ESA and the European Commission on a regular basis in this regard. This contributes

to safeguarding Norway's interests as far as tax is concerned, whilst at the same time ensuring compliance with obligations under the EEA Agreement.

End of box

2.3 Direct taxes

2.3.1 Income tax for individuals

Rate structure and tax base

The income tax for individuals is calculated on two different tax income bases. Firstly, a flat tax rate of 22 pct. is paid on «ordinary income» less the personal allowance and certain special allowances. Ordinary income is all taxable income (wages including taxable benefits in kind, social security benefits, pensions, net income from self-employment, taxable income from shares and other forms of capital income), less the basic allowance, deductible losses and expenses such as debt interest, etc., parental allowance and other allowances.
Secondly, the employee's social security contributions and the bracket tax are paid on «personal income», which is gross wage income, social security benefits and pension income, without deductions. Imputed personal income for self-employed persons is also included in personal income.
High-income earners pay a larger proportion of tax on their incomes than do low-income earners. Such progressivity is achieved through the lower threshold for the payment of employee's social security contributions, minimum allowances (basic allowance and personal allowance) and the rate structure of the bracket tax. The bracket tax comprises four brackets, with the rate being stepped up for each bracket tax threshold. Box 2.3 shows how marginal and average tax rates increase with higher wage income. The highest marginal tax rate on wage income, excluding employer's social security contributions, is 46.4 pct. in 2020. If employer's social security contributions are included, the highest marginal tax rate reaches 53.0 pct. of overall wage cost. Figure 2.4 shows the highest marginal tax rate on wage income in selected countries. Employee's social security contributions are included in the figure, whilst employer's social security contributions are excluded. The figure shows that the highest marginal tax rate in Norway is at a comparable level with the highest marginal tax rate in countries such as Germany and the United Kingdom, whilst some of the other Nordic countries have higher marginal tax rates on wage income.

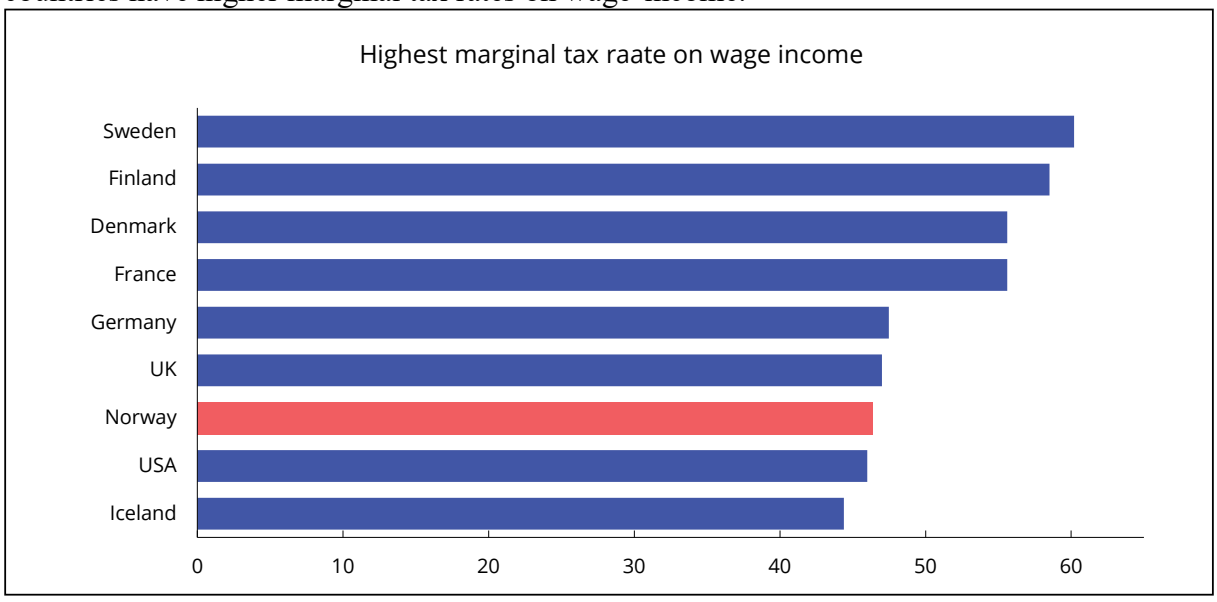

Figure 2.4 Highest marginal tax rate on wage income, excluding employer's social security contributions. Selected countries in 2019. Percent
Source: OECD Tax database.

Box 2.3 Calculation of tax on wage income

The marginal tax rate is the tax rate applicable to the last krone earned by a taxpayer. The marginal tax rate influences his or her choices with regard to how much to work. A high marginal tax rate may weaken employees' incentives to work more. Such labour supply distortions imply that resources are allocated less efficiently. The higher the tax rates, the greater are these distortions.

Average tax is tax as a proportion of taxable income. Under a tax system characterised by basic allowances, as well as other allowances and a progressive rate structure, the marginal tax rate is always higher than the average tax rate for the same income level, and those with the highest taxable incomes pay the largest proportion of their income in tax.

The figures below show marginal tax rates and average tax rates, respectively, on wage income under the 2020 rules.

Figure 2.5 shows that the marginal tax rate varies with the income level. No tax is paid up to the lower threshold for the payment of employee's social security contributions (NOK 54,650). A levelling rate (25 pct.) is paid on income above the lower threshold, until it becomes more economical to pay employee's social security contributions at the standard rate (8.2 pct.) on total income. This transition occurs when income exceeds about NOK 81,300. When income is higher than about NOK 93,300, it exceeds the sum of the personal allowance and the basic allowance (45 pct. of the income). This means that the taxpayer will be subject to tax on ordinary income (22 pct.). The marginal tax rate will then increase to 20.3 pct. (8.2 pct. + 22 pct. × (100 pct. – 45 pct.)). When the income exceeds the first threshold of the bracket tax (NOK 180,800), bracket tax will be assessed at the rate of 1.9 pct. This increases the marginal tax rate to 22.2 pct. When the income exceeds about NOK 232,100, the taxpayer obtains the maximum basic allowance (NOK 104,450), and the marginal tax rate increases to 32.1 pct. (8.2 pct. + 22 pct. + 1.9 pct.). This marginal tax rate applies up to the threshold for bracket 2 of the bracket tax (NOK 254,500). The bracket tax is then increased to 4.2 pct., and the marginal tax rate is elevated to 34.4 pct. The bracket tax is thereafter increased to 13.2 pct. at the threshold to bracket 3 (NOK 639,750), and to 16.2 pct. at the threshold to bracket 4 (NOK 999,550). On crossing these thresholds, the marginal tax rate is increased to 43.4 pct. and 46.4 pct., respectively.

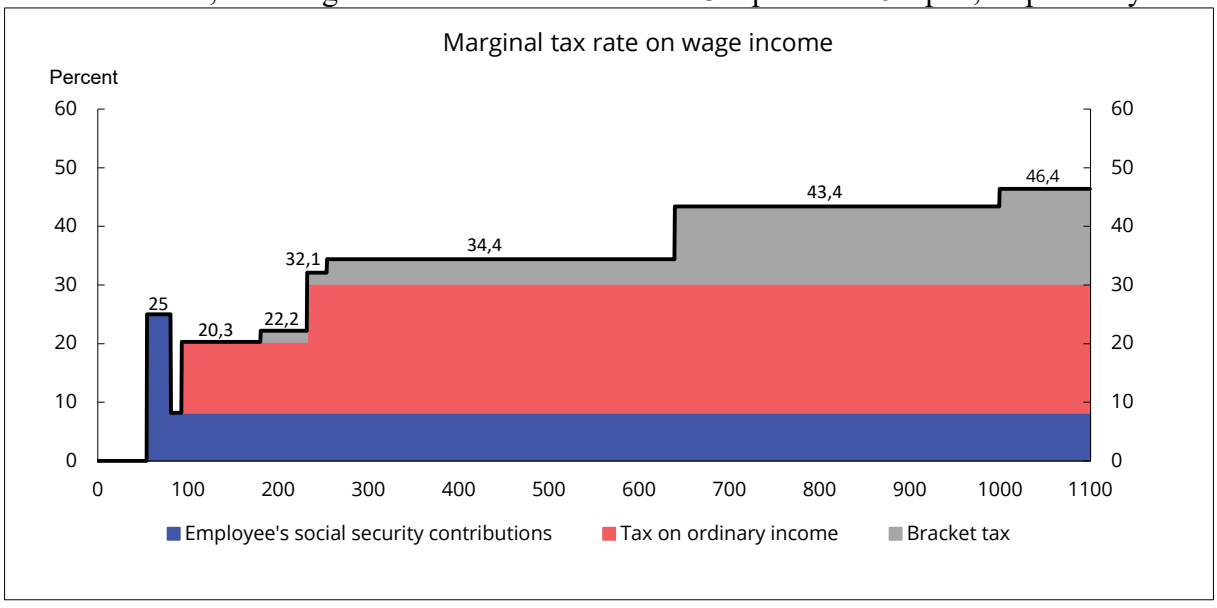

Figure 2.5 Marginal tax rate on wage income (excluding employer's social security contributions) under 2020 rules for a wage earner with only wage income and standard reliefs. NOK thousands
Source: Ministry of Finance.

Figure 2.6 shows that the average tax rate increases with income and is, in all key respects, considerably lower than the marginal tax rate.

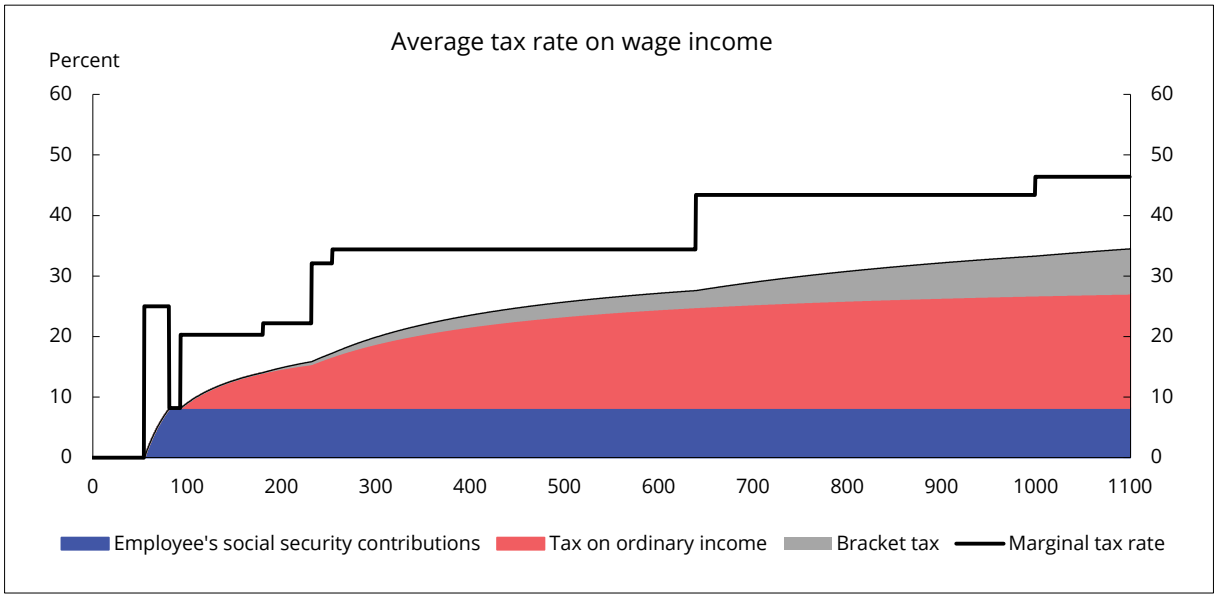

Figure 2.6 Average tax rate on wage income (excluding employer's social security contributions) under 2020 rules for a wage earner with only wage income and standard reliefs. NOK thousands
Source: Ministry of Finance.

End of box

Tax on pension income

Special tax rules for pensioners and recipients of some social security benefits result in lower tax payments for these groups than for wage earners. Social security contributions on pensions are lower than on wages. On the other hand, the basic allowance is somewhat lower against pension income than against wage income.
A special non-refundable tax credit for pension income is granted to those on contractual early retirement pension (AFP) and ordinary retirement pension. The tax credit results in no tax being paid on any pension income up to about NOK 209,000 in 2020, which is slightly above the level of the minimum state pension for singles. Total tax paid is lower on pension income than on wage income above that threshold. The tax credit is reduced with regard to pension income when it is above a level more or less corresponding to the minimum state pension, thus implying that the difference between the tax on pension income and the tax on wage income declines when the pension income increases.
Figure 2.7 shows tax, under the 2020 rules, as a proportion of pension income for recipients of contractual early retirement pension (AFP)/ordinary retirement pension and wage income for wage earners. It has been assumed that taxpayers have no other income than pension income and wage income, respectively. It is also assumed that the taxpayers can claim no other deductions than the standard reliefs. The tax on a NOK 300,000 retirement pension represents

12.6 pct. of the pension income, whilst tax as a proportion of the same amount of wage income comes to 19.9 pct.

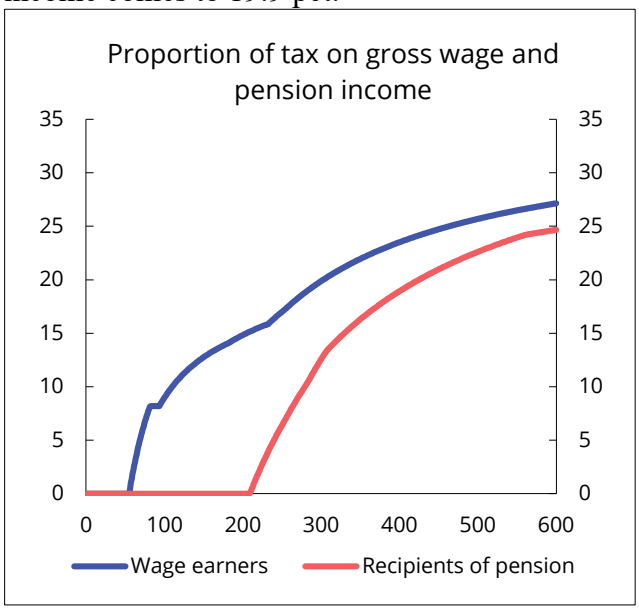

Figure 2.7 Proportion of tax at various gross income levels for wage earners and recipients of contractual early retirement pension (AFP) and ordinary retirement pension, respectively, under the 2020 rules[1]. Percent

[1] It has been assumed that the taxpayers have no other income than wage income and pension income, respectively, and that they can claim no other deductions than the standard reliefs.
Source: Ministry of Finance.

Tax on income from shares earned by individuals

The difference between the highest marginal tax rates on wage income and income from shares should not be too large. When the marginal tax rate on income from shares is significantly lower than that on wage income, there is much to be gained from receiving what is actually income from work in the form of income from shares in order to reduce one's tax burden (income shifting). In 2020, the difference between the highest effective marginal tax rates on wages and share dividends is 6.3 percentage points; see Figure 2.8.

The shareholder model implies that income from shares in excess of a risk-free return allowance, earned by personal shareholders, is taxed on the part of the owner. Income from shares in excess of the risk-free return allowance is first multiplied by an upwards adjustment factor, and thereafter added to ordinary income. The upwards adjustment factor was introduced in 2016 to counteract the reduction in the marginal tax rate on dividends and the stronger incentives for income shifting caused when the tax rate on ordinary income was reduced. For 2020, the upwards adjustment factor is 1.44.

The purpose of the risk-free return allowance is to counteract distortions in household investment and company financing decisions as the result of dividend taxation. The risk-free return allowance is calculated by multiplying the risk-free return base, which is the cost of the share plus any unused risk-free return allowance from previous years, by a risk-free rate of return. The risk-free rate of return is the interest rate on three-month Norwegian treasury bills plus 0.5 percentage point.

If the income from the share is less than the risk-free return allowance, any unused risk-free return allowance is added to the risk-free return base for the subsequent year. In practice, this means that any unused risk-free return allowance is carried forward with interest. Unused

risk-free return allowance is specific to each share, and can be deducted against later dividends and gains on the share.
It is, for practical reasons, the owner of a share as at 31 December of any given year who is granted the risk-free return allowance for that year. Upon selling the share, the seller can deduct any previously unused risk-free return allowance from any capital gains. In the event of a loss, the entire loss is deductible against ordinary income. Any unused risk-free return allowance will lapse.
A share savings account scheme was introduced in 2017, under which gains upon the divestment of shares and fund units are not taxed on an ongoing basis, but only when the funds are withdrawn from the account. The scheme was expanded in 2019 to also include dividends. Any untaxed gains and dividends that are not withdrawn from the account are not included in the basis for the calculation of risk-free return allowance. Hence, the tax deferral is not a tax credit, but is mirrored by higher tax at the time of withdrawal.

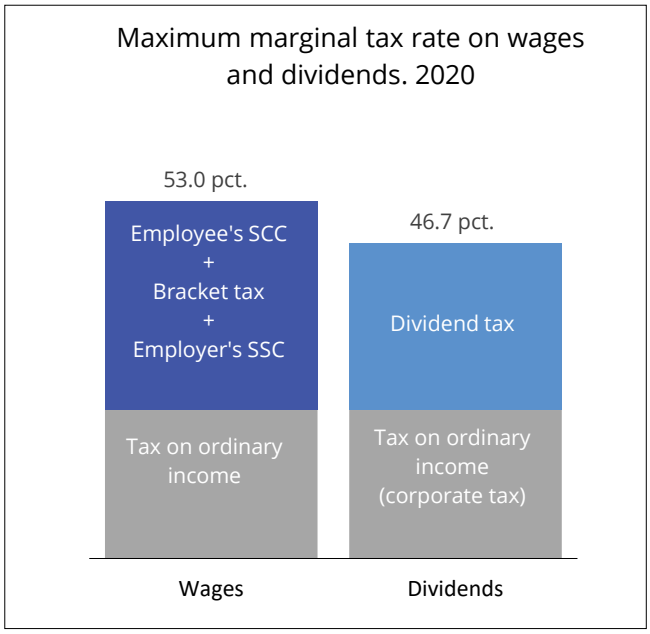

Figure 2.8 Maximum marginal tax rate on wages and dividends under 2020 rules. Percent
Source: Ministry of Finance.

Tax on income from self-employment

Owners of sole proprietorships are taxed under the self-employment model, whilst those holding ownership interests in entities assessed on a partnership basis (general partnerships, limited partnerships and others) are taxed under the partnership model. Both of these models are based on the same premise as the taxation of income from shares, i.e. that income not exceeding the risk-free return allowance shall only be taxed once as ordinary income. This means that there is a high degree of uniformity in the taxation of different types of business entities.
The profits of entities assessed on a partnership basis are taxed as ordinary income on the part of the owners as these accrue. In addition, any distributed partnership profits in excess of the risk-free return allowance are taxed anew as ordinary income on the part of owners who are natural persons.
Income from a sole proprietorship in excess of the risk-free return allowance is taxed as imputed personal income and is subject to bracket tax and social security contributions. Hence, imputed personal income is taxed on an ongoing basis. Income from shares, on the

other hand, is not taxed as ordinary income until the time of dividend payment or divestment. This difference has to do with sole proprietorships not being separate legal entities. Consequently, the distribution of funds will only represent a transfer of funds within the owner's own financial sphere.
The self-employed pay a higher social security contribution than do wage earners on their income from self-employment. On the other hand, the self-employed do not pay employer's social security contributions on their personal income. However, in some cases the self-employed receive lower social security benefits than wage earners. Self-employed fishermen pay social security contributions at a medium rate (like wage earners), but are also subject to a product tax on the first sale of fish.

2.3.2 Corporate taxation

Employer's social security contributions

Employers in both the private and the public sector are required to pay employer's social security contributions on wage costs. The rate of employer's social security contributions is differentiated on the basis of where the enterprise is located. The differentiated employer's social security contribution arrangement means that businesses in sparsely populated areas pay lower employer's social security contributions than businesses in other municipalities. The rate of employer's social security contributions varies from nil in the Action Zone in the county of Troms and Finnmark to 14.1 pct. in major urban areas, cf. Table 1.5. The objective of the arrangement is to avert depopulation of sparsely populated areas by stimulating employment and providing a basis for business activities in areas facing special rural challenges. The arrangement falls within the scope of the state aid provisions and has been approved by the EFTA Surveillance Authority (ESA). Employer's social security contributions serve to increase the marginal tax rate on wage income, cf. figure 2.8.

Ordinary corporate tax

Company profits are taxed as ordinary income at a flat rate of 22 pct. in 2020. Losses can be carried forward and deducted from subsequent profits. The corporate tax system puts a special emphasis on the principles of equal treatment of different investments, forms of funding and types of legal entities, as well as the symmetrical treatment of income (gains) and costs (losses). This implies, inter alia, that taxable profits should, to the extent possible, match actual company profits. «Durable and significant» assets shall be capitalised under various asset groups and depreciated at rates intended, in principle, to reflect their expected annual depreciation.
The exemption method implies, as a main rule, that companies are exempted from the taxation of received dividends and gains on shares, etc. Mirroring this, there is no right to deduct corresponding losses. The purpose of the exemption method is to prevent chain taxation in the corporate sector, i.e. that dividends and gains on shares held by companies are taxed several times.
The corporate tax rate in Norway remained unchanged at 28 pct. over the period 1992–2013. The rate was thereafter gradually reduced to 22 pct. with effect from 2019.
A corporate tax rate of 22 pct. is slightly below the OECD average, and somewhat higher than the average for Sweden, Denmark and Finland; see Figure 2.9.

Figure 2.9 Statutory corporate tax rates.[1] 1981–2020. Percent

[1] Non-weighted average for Sweden, Denmark and Finland, as well as for the OECD.
Sources: OECD and the Ministry of Finance.

The effective taxation of companies will also depend on the tax base. The effective average tax rate is paid tax as a proportion of a company's actual profits. The effective rate is lower than the statutory tax rate if there are tax credits on investment returns, for example through generous depreciation rules. The effective *average* tax rate is the key variable when a company decides which country to invest in for tax reasons. The effective *marginal* tax rate is the key variable when a company decides how much to invest.
Table 2.1 shows statutory tax rates and calculated effective average and marginal tax rates in selected countries in 2019. Effective tax rates are calculated on the basis of a hypothetical investment offering a fixed return, etc., and take into account both statutory tax rates and key parts of the tax base (depreciation rates, etc.). The calculations assume a hypothetical investment across selected investment opportunities, with such investment being funded partly by equity and partly by debt.

Table 2.1 Statutory and calculated effective corporate tax rates in 2019. Percent

Country	Statutory tax rate	Effective average tax rate	Effective marginal tax rate
Ireland	12.5	14.1	12.3
United Kingdom	19.0	20.2	22.7
Finland	20.0	19.6	18.7
Switzerland	21.1	18.6	12.4
Sweden	21.4	19.4	14.5
Denmark	22.0	19.8	14.6
Norway	22.0	20.8	18.2

Greece	24.0	26.6	23.9
The Netherlands	25.0	22.5	16.7
Austria	25.0	23.1	18.8
Spain	25.0	30.1	36.0
United States	25.9	27.5	26.7
Canada	26.6	24.0	21.2
Italy	27.8	24.6	19.3
Belgium	29.6	24.9	13.6
Japan	29.7	34.1	38.1
Germany	29.9	28.9	23.3
France	34.4	33.4	30.2

Source: OECD, Leibniz Centre for European Economic Research (ZEW) (*TAXUD/2019/DE/312, Effective Tax Levels Using the Devereux/Griffith Methodology – Final Report 2019*).

Company profits are also taxed on the part of their owners, by way of dividend and capital gains taxation, cf. Section 2.3.1. Figure 2.10 shows the total statutory marginal tax rate on dividends on the part of companies and their owners in selected countries in 2020.

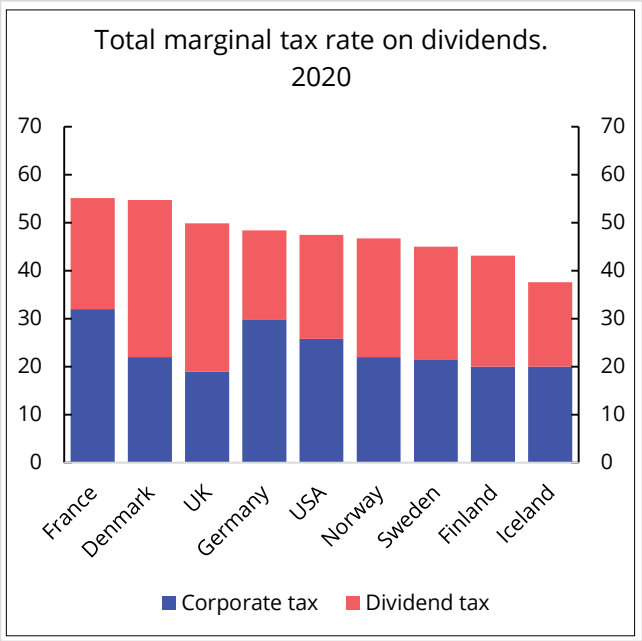

Figure 2.10 Total marginal tax rate on dividends on the part of companies and their owners in selected countries. 2020. Percent

Source: OECD.

Increased cross-border economic integration and investment have made it easier for multinational enterprises to shift profits between countries. A number of countries have introduced especially favourable tax schemes, for example for certain intangible assets, which imply that real effective tax rates can be much lower than indicated in Table 2.1. The OECD and the EU have prepared specific recommendations and plans to counter international tax planning. In follow-up of the tax reform, Norway has introduced rule changes intended to prevent profit shifting, both by reducing the corporate tax rate and by targeted measures such

as, for example, interest deductibility limitation and initiatives to facilitate the exchange of information with other countries.

Petroleum taxation

There is a considerable extraordinary profit (resource rent) associated with the extraction of oil and gas. Income from petroleum extraction is therefore subject to a special tax on top of the ordinary tax on profits. The rate of special tax is 56 pct. in 2020.

In principle, petroleum taxation is based on the rules governing ordinary corporate taxation. However, petroleum taxation differs from ordinary corporate taxation in certain respects. Income from the sale of crude oil is valued at administratively determined norm prices, i.e. tax benchmark prices. Investments are depreciated over six years. In addition, uplift (investment-based extra depreciation) is deducted to determine the special tax base, and this is intended to compensate companies for the fact that the investment cost is not deductible immediately, but only gradually through depreciation. If a company incurs a loss, such loss and any unused uplift can be carried forward with interest. If the company never earns a sufficient taxable profit, the State will refund the tax value of the loss when the company terminates activities on the Norwegian continental shelf. Consequently, the system is designed to give companies certainty with regard to the utilisation of the full value of their tax allowances. Unconditional future tax allowances shall be valued using a risk-free rate of interest, net of ordinary tax. Valued at a risk-free rate of interest, net of ordinary tax, the value of the investment-based allowances (depreciation, uplift and interest allowances against the special tax) is higher than under a neutral petroleum tax, cf. Appendix 1, section 3, and Prop. 150 LS (2012–2013), section 5.4.

Temporary petroleum tax changes were introduced in the spring of 2020, cf. Prop. 113 L (2019–2020) and Innst. 351 L (2019–2020), which imply that investment costs, with the addition of 24 pct. uplift, may be deducted immediately in the special tax base. The changes apply to investment costs incurred in 2020 and 2021, as well as investment costs falling within the scope of a plan for development and operation (PDO) or a plan for installation and operation (PIO) received by the Ministry of Petroleum and Energy prior to 1 January 2023 and approved by the Ministry prior to 1 January 2024. In addition, payment may be claimed of the tax value of any loss and unused uplift for the 2020 and 2021 tax years. The temporary changes further increase the value of investment deductions, cf. Appendix 1, section 3.

SDFI, through which the State takes a direct financial interest in licences, is also an important source of State revenues from the continental shelf. SDFI has the same characteristics as a field-specific cash flow tax, inasmuch as the State covers its portion of investments and operating costs on an ongoing basis and receives the same portion of the income.

Figure 2.11 shows the composition of central government revenues from petroleum activities. The revenues of the State are based on the net profits from these activities, and hence tax revenues will automatically adjust to changes in oil prices and changes in industry profitability.

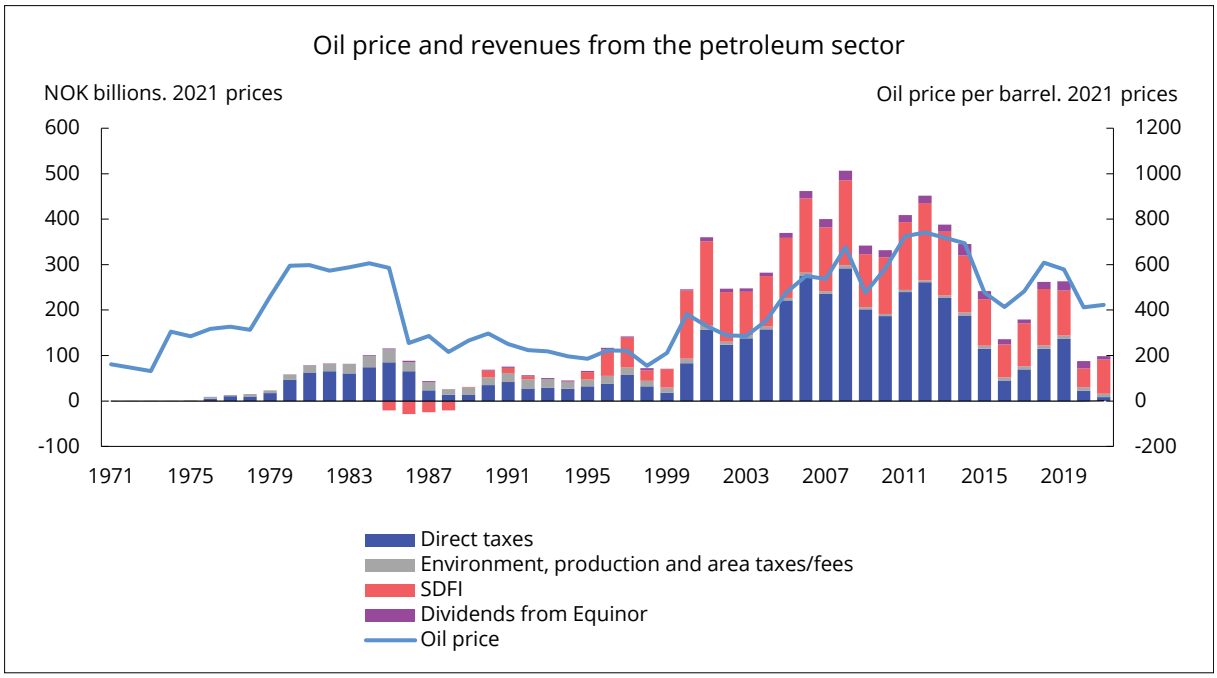

Figure 2.11 Total net central government revenues from the petroleum sector and oil price developments. 2021 prices[1]

[1] Estimates for 2020 and 2021.
Source: Ministry of Finance.

Hydropower plant taxation

The profits of hydropower enterprises are taxed as ordinary income, in the same manner as for other enterprises. In addition, hydropower plants are subject to a central government resource rent tax with a rate of 37 pct. for 2020. Power plants with generators below 10 MVA are exempted from the resource rent tax. The tax base of the resource rent tax (the resource rent income) is calculated as a standardised market value of the power generated (actual power generated multiplied by spot market prices), less operating expenses, licence fees, property tax, depreciation and uplift. The uplift is calculated as the risk-free return on the written-down value of the operating assets. Companies have certainty that the full tax value of the investment allowances under the resource rent tax will be paid out. Negative resource rent income in one power plant can be coordinated with positive resource rent income in other power plants within the same consolidated tax group. Moreover, the tax value of any negative resource rent income following coordination between power plants is paid out. Consequently, the uplift determined on the basis of a risk-free rate ensures that the net present value of the tax deductions corresponds to the investment cost, and that projects which are profitable before resource rent tax are also profitable after resource rent tax. Hydropower enterprises are also subject to a natural resource tax (paid to local and regional government) of NOK 0.013 per kWh. Natural resource tax is deductible, krone by krone, against the tax assessed by central government. In addition, hydropower enterprises pay a licence fee and (normally) property tax to the municipalities hosting them. They must also yield power to such municipalities under special licence conditions.

Taxation of shipping companies

Since the 2007 income year, companies taxed as shipping companies have been exempted from tax on shipping income, and only pay a tonnage tax. The tonnage tax is an annual tax calculated on the basis of the net tonnage of ships, the rate of which varies between different

tonnage intervals. The rate may be reduced for ships, etc., that meet environmental requirements stipulated by the Norwegian Maritime Authority. A number of requirements must be met to qualify for tax exemption under the tax scheme for shipping companies, including, inter alia, that the company owns or charters vessels of a certain size, which are operating over a certain distance. The scheme does not, for example, apply to vessels operating on short-distance scheduled voyages between Norwegian ports, fishing vessels, hunting vessels or pleasure craft, etc.

Financial Activity Tax

A Financial Activity Tax on wages and profits was introduced in 2017 to compensate for the absence of value added tax in the financial industry. The sale and distribution of financial services is exempted from value added tax, primarily because it would be challenging to establish a suitable basis for calculating tax on margin-based services, for example the interest margins of banks. The Financial Activity Tax applies to financial undertakings and comprises a 5 pct. tax on wages (the basis for employer's social security contributions) and a tax on company profits inasmuch as the tax rate on ordinary income is three percentage points higher than for other undertakings.

2.3.3 Taxation of assets

Net wealth tax

Individuals pay net wealth tax at a rate of 0.85 pct. on their taxable net wealth, i.e. gross wealth less debt, in excess of a basic allowance of NOK 1.5 million in 2020. Spouses are granted a joint basic allowance of NOK 3 million. The net wealth tax makes the overall taxation of individuals more progressive than the income taxation in isolation. This is illustrated by Figure 2.12.

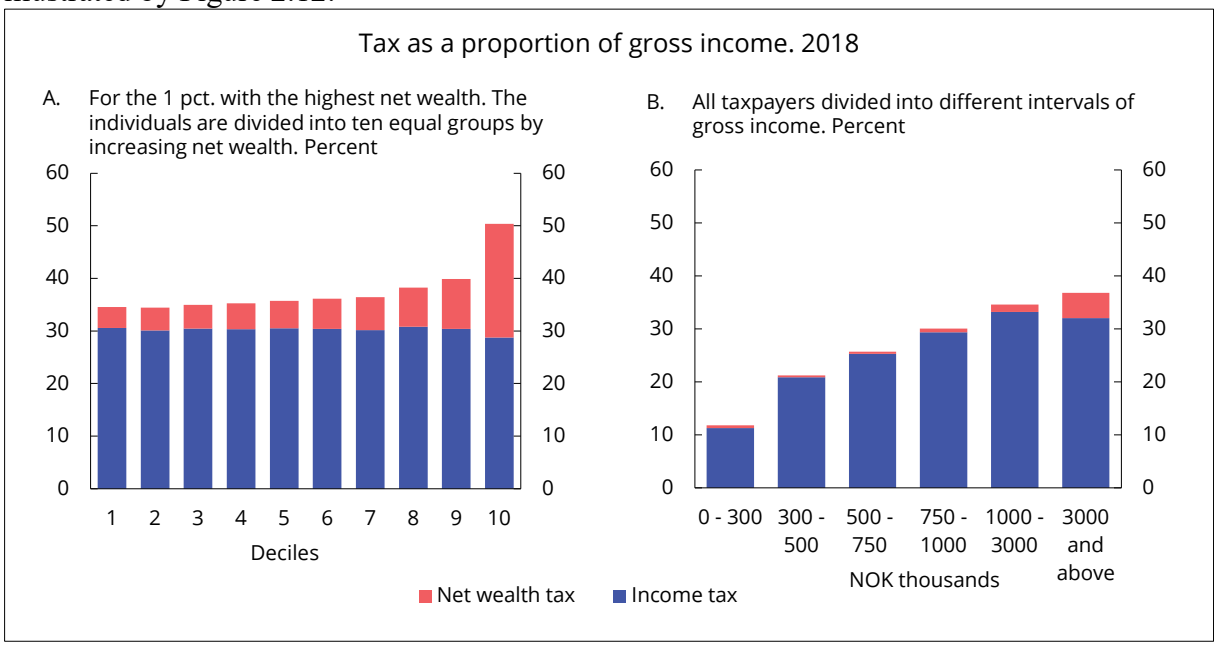

Figure 2.12 Tax as a proportion of gross income in 2018. Percent
Sources: Statistics Norway and the Ministry of Finance.

The taxable value of assets is, as a general rule, equal to their market value. However, a number of assets are valued, in part, well below market value. A primary dwelling (the residential property in which one lives) is valued at 25 pct. of its estimated market value,

whilst secondary dwellings (residential properties other than the primary dwelling, which are not commercial property or holiday homes) are valued at 90 pct. The net wealth tax value of holiday homes is based on historical construction cost and is not, unlike the corresponding value of primary and secondary dwellings, determined as a percentage of estimated market value. A safety valve shall ensure that no primary dwelling or holiday home has a net wealth tax value in excess of 30 pct. of the market value documented by the taxpayer. The safety valve for secondary dwellings corresponds to their documented market value. The valuation discount for shares and operating assets, including commercial properties, was increased from 25 to 35 pct. in the spring of 2020 in connection with Prop. 126 L (2019–2020); *Amendments to the Taxation Act (Economic Measures in Response to the Virus Outbreak)*. The safety valve for commercial property is 78 pct. (reduced from 90 pct. for 2020). Debt is deductible for net wealth tax purposes. Debt attributed to primary dwellings, holiday homes, bank deposits, etc., is valued in full. Debt attributed to commercial property, secondary dwellings, shares and operating assets is valued at the same statutory discount as the asset. Debt is allocated proportionally based on what portion of gross wealth is accounted for by the various assets (which allocation includes primary dwellings, commercial property, shares and operating assets without any statutory valuation discounts).
The proportion of people paying net wealth tax has declined over time due to increases in the minimum allowance. It is estimated that about 12.3 pct. of taxpayers will pay net wealth tax in 2020, cf. Figure 2.13. The average amount of tax on the part of those who pay net wealth tax has generally increased over the period, but has decreased somewhat in the last couple of years.

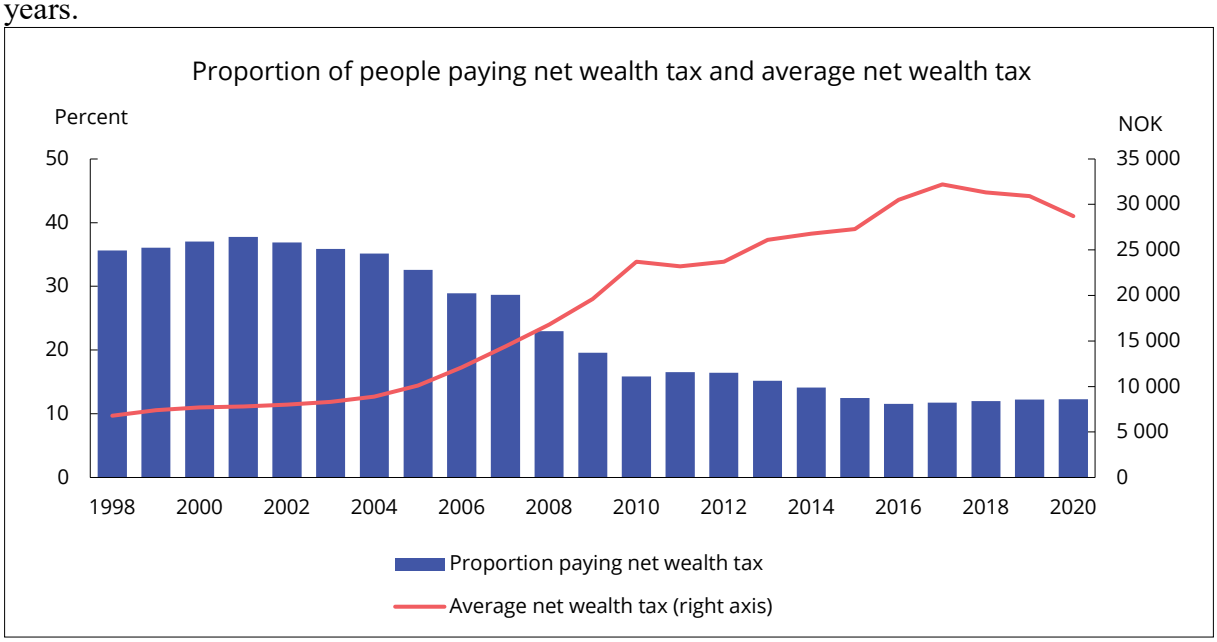

Figure 2.13 Proportion (of people resident in Norway and 17 years or older) paying net wealth tax[1] and average net wealth tax. 1998–2020. Estimates for 2019 and 2020. 2020 prices

[1] Net wealth tax before any reductions as the result of the 80-percent rule (only relevant for the years 1998–2008).
Sources: Statistics Norway and the Ministry of Finance.

Property tax

Each municipality decides whether to levy property tax, within the limitations laid down in the Property Tax Act. The revenues accrue to the municipality in their entirety. The property tax rate, if any, shall be between 0.1 and 0.7 pct. of the valuation basis, with the maximum tax rate for residential properties and holiday homes being 0.5 pct. in 2020. The property tax base

shall be determined by general valuation every tenth year. For residential properties, municipalities may alternatively choose to use the net wealth tax bases for valuation purposes. 86 municipalities are exercising this option in 2020, thus implying that their property tax base will develop in line with market prices. Municipalities must apply a discount of no less than 30 pct. in their valuation of residential properties and holiday homes. They may also apply a minimum allowance to reduce the valuation basis. Since 2017, municipalities have been able to opt for exempting holiday homes from property tax. Three municipalities are exercising this option in 2020. Property tax on power plants is governed by special valuation rules based on production value, subject to minimum and maximum limits.
As per 2020, 319 of the 356 municipalities had introduced property tax, of which 245 levied the tax on residential properties in all or part of the municipality. Total municipal property tax revenues were about NOK 14.7 billion in 2019, of which NOK 7.7 billion was property tax on residential property, including holiday homes. Figure 2.14 shows developments in overall municipal property tax revenues over the period 2005–2019.

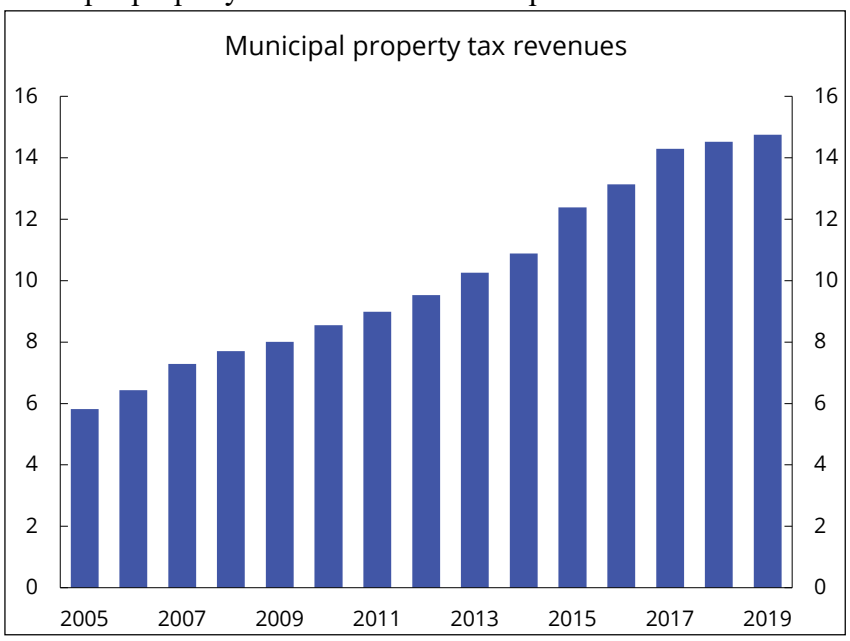

Figure 2.14 Municipal property tax revenues 2005–2019. NOK billion. 2019 prices
Source: Statistics Norway (KOSTRA).

Tax on property internationally

Box 2.4 provides an overview of property tax revenues in the OECD countries.

Box 2.4 Revenues from taxes on property in the OECD countries

The OECD tax statistics provide an overview of revenues generated by different types of taxes. Taxes on property include taxes on the use, ownership and transfer of real estate. Capital gains taxation is not included. In the case of Norway, municipal property tax, net wealth tax and stamp duty are all included.
For some countries, there may be a difference between the gross and net tax on property. This applies to, for example, the US, where many taxpayers can deduct any local property tax paid when calculating their federal income tax base. The OECD figures are based on non-weighted averages of gross taxes.
Figure 2.15 shows revenues from taxes on property in selected OECD countries. In Norway, tax revenues from property account for 3.3 pct. of overall tax revenues. This is well below the OECD average of 5.5 pct. As mentioned, the estimate for Norway includes aggregate

revenues from net wealth tax, and thus also includes tax on assets such as shares, etc. Revenues from tax on immovable therefore account for less than 3.3 pct. of overall tax revenues. In addition, Norway stands out internationally in granting unlimited deductibility of debt interest in income tax.

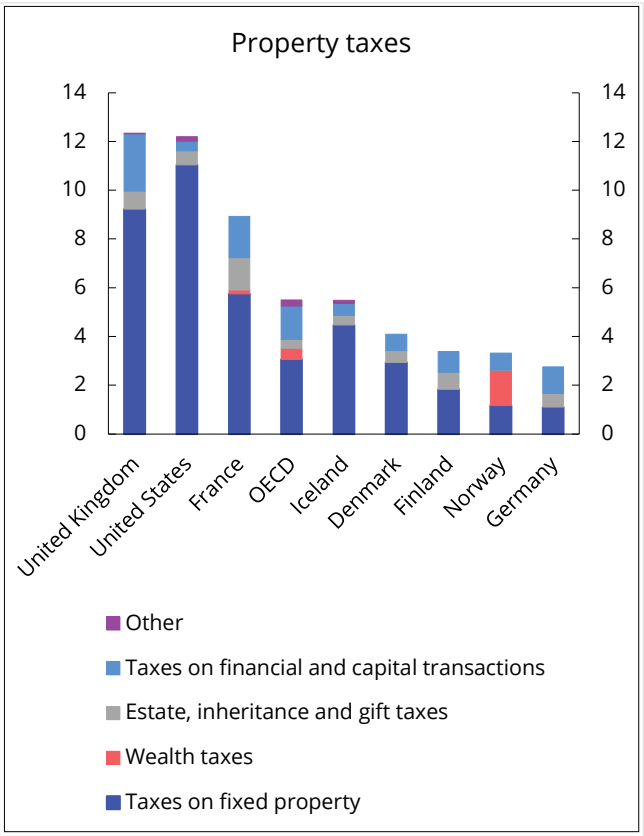

Figure 2.15 Property taxes. Percentage of total tax revenues. 2018[1]

[1] OECD data are an unweighted average for those countries that have reported for 2018.
Sources: OECD Revenue Statistics Database and the Ministry of Finance.

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2.4 Indirect taxes

2.4.1 Value added tax

Value added tax is a general tax on the domestic consumption of goods and services, intended to raise revenues for central government. Value added tax is collected and paid by the businesses that sell goods and services subject to value added tax. Value added tax is charged at all levels in the chain of distribution. Businesses collecting and paying value added tax qualify for tax deduction of tax on their inputs. The deduction of tax on inputs prevents the tax from being charged on taxable businesses throughout the chain of distribution, thus making value added tax a tax on the final consumption of goods and services. When the tax is charged on final consumption only, it does not result in production distortions.
The standard rate of value added tax in Norway is 25 pct. Denmark and Sweden also apply a standard rate of 25 pct. The rates in the Scandinavian countries are high by international standards. In Norway, value added tax revenues as a proportion of GDP are higher than the OECD average, but somewhat lower than in Denmark and Sweden. Box 2.5 compares value added tax regimes in various OECD countries.

Although the current value added tax is, as a main rule, a general tax on consumption, it is subject to various exemptions and reduced rates. In Norway, foodstuffs are subject to a reduced rate of 15 pct., whilst a number of services are subject to a reduced rate of 12 pct. The lowest rate has been temporarily reduced to 6 pct. from 1 April to 31 October 2020 because of the consequences of the pandemic.

Certain goods and services are exempted by way of so-called zero-rating, which implies full deductibility of value added tax on inputs, whilst no value added tax is charged on sales. A number of services fall outside the scope of the value added tax system, including financial services, health services and teaching. Businesses outside the value added tax system are granted no deductions in respect of any value added tax on goods and services procured by them.

The introduction of reduced rates and exemptions means that one moves away from a simple, general system with a uniform rate on all consumption of goods and services. Value added tax will thereby influence the composition of consumption and production, as well as the choice between internal production and external supplies in sectors exempted from value added tax. In addition, the administrative costs are higher. The value added tax system is not well suited for attending to distributional considerations, for supporting specific causes or for moving consumption in a desired direction. If, for example, one would like to reduce the consumption of goods that are considered harmful to individuals and to society, it would be more effective to use excise duties.

Box 2.5 Value added tax rates and bases in OECD countries

Value added tax has been introduced in about 170 countries. On average, value added tax revenues account for 20 pct. of the overall tax revenues of the OECD countries.

The OECD compares the value added tax systems of its member countries, and the ability of such systems to raise revenues. This is done by comparing the actual value added tax revenues of a country with what such revenues would have been if all consumption, both private and public, had been subject to the standard rate applied in that country. If all consumption is taxed at the standard rate of value added tax, the value added tax revenues as a proportion of consumption will also be equal to the value added tax rate. A number of factors may cause the revenue proportion to be lower than such standard rate. For example, the use of reduced rates and exemptions serves to lower the revenue proportion. The revenue proportion may also be influenced by factors relating to tax collection and compliance, including the extent of tax planning, evasion and fraud. Although the revenue proportion needs to be interpreted with caution as an indicator of effectiveness in the value added tax system, it may serve to illustrate how effectively the value added tax system works. Besides, the abolition of reduced rates and exemptions would mean that the same level of government revenues could be raised at a lower tax rate.

Figure 2.16 presents the standard value added tax rates for Norway, the OECD average and a selection of other countries. The figure also presents value added tax revenues as a proportion of consumption. The standard rate of value added tax is as high in Norway as in Denmark and Sweden, but value added tax revenues as a proportion of consumption is nonetheless somewhat lower. New Zealand has a value added tax system with one uniform rate and few exemptions. Consequently, virtually all consumption is taxed at the standard rate, including public sector consumption.

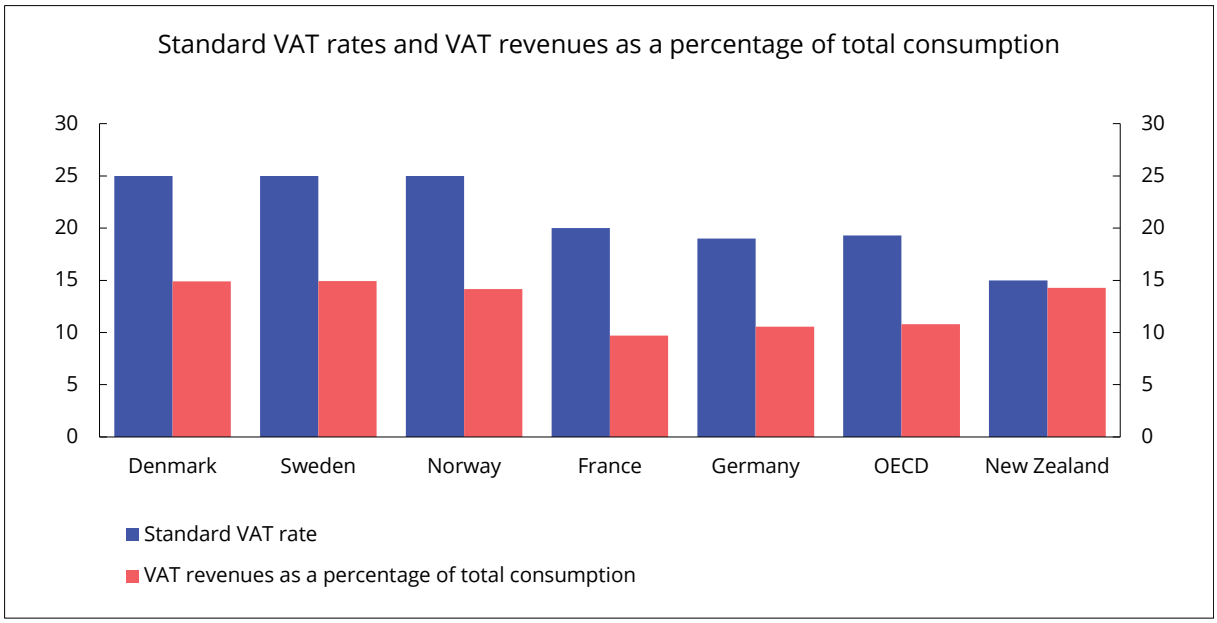

Figure 2.16 Standard value added tax rates and value added tax revenues as a percentage of total consumption. 2016

Sources: OECD (2018) Consumption Tax Trends and the Ministry of Finance.

End of box

2.4.2 Excise duties

Excise duties are intended to fund government expenditure, but are also used as instruments for pricing the social costs of using products that are environmentally harmful or hazardous to health and for influencing the behaviour of consumers in the desired direction.

Excise duties on specific products will, in contrast to general taxes on consumption, shift consumption away from taxed products. Hence, excise duties are suitable policy instruments for reducing the social costs associated with the use of products that are environmentally harmful or hazardous to health. Some excise duties are solely intended to raise central government revenues, and are often referred to as fiscally motivated taxes. An example of such a tax is the stamp duty on the sale of immovable property. Other excise duties are also intended to influence consumption or behaviour. This applies, first and foremost, to the environmental taxes and to the taxes on alcohol and tobacco.

The purpose of a tax has a bearing on its design. In order to limit the social costs of taxation, fiscally motivated taxes should not be levied on manufactured intermediate goods. Environmental taxes intended to put a price tag on an environmental problem should, on the other hand, encompass all sources of the environmental problem, and the tax rate should reflect the environmental damage.

Environmental taxes

Norway's first environmentally motivated tax was the tax on the sulphur contents of mineral oil, which was introduced in 1970. The use of environmental taxes did not become widespread until the late 1980s/early 1990s.

Environmental taxes ensure that market prices reflect the social costs of environmentally harmful activities to a greater extent. This serves to curtail such environmentally harmful activities. The revenues from environmental taxes can be used to reduce other distortionary taxes.

The use of environmental taxes is consistent with the polluter pays principle. This principle implies that those using environmental goods should also pay the costs their environmentally harmful activities impose on society.
The cost of reducing emissions or other environmentally harmful activities may vary between different sectors of the economy, and the authorities do not have complete information as to the magnitude of such costs for different enterprises and households. A correctly designed environmental tax should subject all sources of a specific emission to one uniform tax rate. This facilitates emissions reduction at the lowest possible cost to society (cost effectiveness). Emission allowances are another cross-sectoral policy instrument that can have effects similar to those of environmental taxes. Emission allowances and taxes are discussed in further detail in Box 2.6.
When environmental taxes work as intended, they contribute to a reduction in environmentally harmful activity. This will reduce government revenues. This may explain some of the decline in revenues from environmental taxes in recent years. If environmental taxes are replaced by emission allowances that are not sold (free emission allowances) or other policy instrument types, government revenues will decline further. Reduced revenues from environmental taxes may imply that other taxes need to be increased in order for tax revenues to be kept stable.
Norway makes extensive use of environmental taxes, also in comparison with industrialised countries in and outside Europe. This is because virtually all use of fossil energy in Norway is priced through taxes and/or the EU ETS, and because the tax rates on the use of fossil goods are relatively high. The OECD calculates the effective carbon price on energy use in the OECD and G20 countries on a regular basis. The effective carbon price comprises all taxes on energy, both explicit climate taxes (such as the CO_2 tax) and other taxes (such as the road usage tax and the base tax on mineral oil), as well as the emission allowance price. The OECD thereafter calculates a carbon price gap for each country. The carbon price gap is the percentage of emissions from energy use that is priced below a benchmark value. A carbon price gap of 100 pct. means that all emissions from energy use are priced below the benchmark value. Correspondingly, a carbon price gap of 0 pct. would mean that all emissions from energy use are priced above the benchmark value. It will be noted from figure 2.17 that Norway had an estimated carbon price gap of 38 pct. in 2015 for the most ambitious benchmark value; EUR 60 per tonne of CO_2. Only Switzerland and Luxemburg had lower carbon price gaps. In comparison, Denmark had a carbon price gap of 60 pct., Finland had a carbon price gap of 62 pct. and Sweden had a carbon price gap of 69 pct.

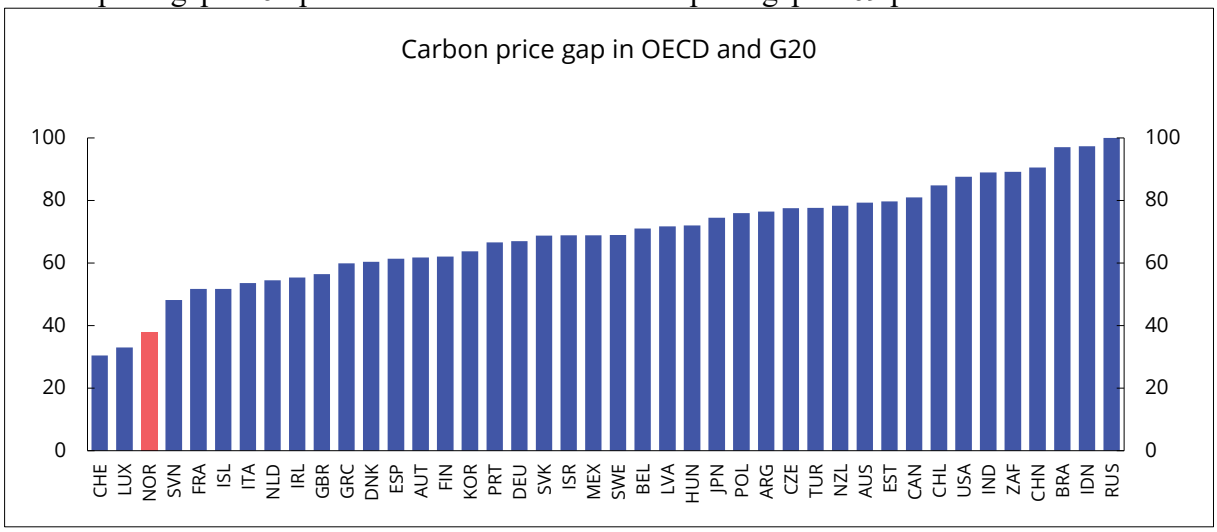

Figure 2.17 Carbon price gap on energy use in the OECD and G20 countries in 2015 at a benchmark value of EUR 60 per tonne of CO_2 equivalents.

Source: OECD.

For 2020, the general tax level on non-EU ETS greenhouse gas emissions is NOK 544 per tonne of CO_2 equivalents. In comparison, the average emission allowance price for 2020 is estimated at about NOK 250 per tonne of CO_2. Some sectors are subject to both emission allowances and CO_2 tax. The greenhouse gas emission prices facing the various sectors in Norway are shown in figure 2.18. Differential pricing of greenhouse gas emissions increases the total cost of reducing national emissions, and the total cost would be minimised by subjecting all emissions to the same carbon price. There may be various reasons why environmental taxes or cap-and-trade systems are not designed in a cost-effective manner. The reason is often a political desire to protect particular groups or industries.

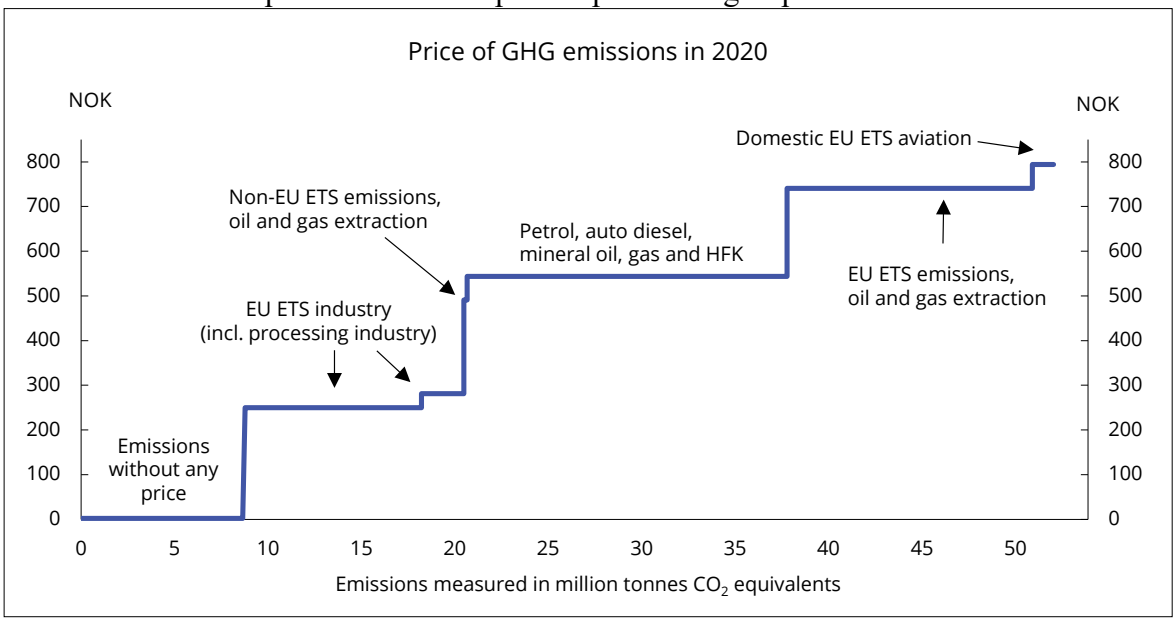

Figure 2.18 Price of greenhouse gas emissions in various sectors. Tax level in NOK per tonne of CO_2 equivalents in 2020 and an emission allowance price of NOK 250 per tonne of CO_2. Emission data for 2018

Sources: Statistics Norway, the Norwegian Environment Agency and the Ministry of Finance.

Environmental taxes on energy products are often additional to taxes that put a price on other social costs of such energy use. The environmental effect will reflect the aggregate level of taxes. The road usage tax on fuel also serves to curtail the consumption of petrol and diesel, and hence to reduce emissions of, inter alia, CO_2. The base tax on mineral oil is partly fiscally motivated, but was also introduced in order to prevent an environmentally undesirable transition from electrical heating to the use of heating oil.

There are, in addition to environmental taxes and energy taxes, other taxes that are fiscally motivated, whilst also serving environmental objectives. This applies to, for example, the motor vehicle registration tax, which is differentiated on the basis of, inter alia, CO_2 and NO_X emissions. Taxes on fuels and motor vehicles account for a large portion of the environmental taxes.

Taxes reflecting health considerations and social considerations

The consumption of goods other than environmental goods may also impose costs on society that are not reflected in their market prices. This is exemplified by the consumption of alcoholic beverages and tobacco products. The taxes on alcoholic beverages and tobacco products raise revenues for central government, but also mean that the prices of these products include, to a greater extent, the costs imposed on society when consuming them. These costs

relate to the health expenses imposed on the public sector, as well as the negative effects of smoking and alcohol consumption on others than those who consume these products.
In addition, there are costs associated with consumers themselves failing to pay sufficient attention to the long-term effects of their consumption, or ignoring undesirable effects. A high level of tax on consumer goods may be circumvented by cross-border shopping, smuggling and illicit distillation of alcohol. The health effects of taxation must be weighed against the social costs of these activities.

Box 2.6 The relationship between taxes and emission allowances

Environmental taxes put a price tag on the costs imposed on society by environmentally harmful activity. This makes it financially attractive for those involved to take steps to reduce emissions, by scaling back production, by changing production methods or by introducing abatement measures that cost less than the tax. By imposing a tax, the authorities put a price tag on polluting emissions, but do not directly control emission volumes. Under a cap-and-trade system, on the other hand, the authorities put a cap on emission volumes, whilst emission prices are determined in the market. The cost of the implemented abatement measures will nonetheless be determined by the emission allowance price established in the emission allowance market, and will depend on the supply of, and demand for, emission allowances.
An environmental tax and a cap-and-trade system will deliver the same emission reductions when the emission allowance price equals the tax. If the emission allowances are auctioned, such allowances can generate the same government revenues as the tax. This is because the residual emissions will correspond to the total volume of emission allowances. Hence, market participants will be willing to pay an emission allowance price equal to the tax. If the emission allowances are allotted free of charge, the authorities will forfeit these revenues and thus forgo the opportunity to reap further economic gains by reducing other taxes.

End of box

2.4.3 Customs duties

Customs duties serve to protect domestic producers against international competition. Import duties normally result in more expensive goods for consumers and higher production costs for businesses. In addition, customs duties may limit the range of goods available to consumers. Besides, customs duties reduce trade volumes and prevent countries from fully utilising their comparative advantages in the production of goods and services. Trade in goods and services has enabled Norway to draw on its competitive advantages. Norway is currently one of the countries in the world with the lowest customs barriers for manufactured goods. Certain types of clothes and textiles are the only manufactured goods subject to customs duties.
Customs protection of agricultural goods is an important part of Norwegian agricultural policy. Import protection contributes to ensuring that Norwegian agricultural goods are sold at prices stipulated in the Agricultural Agreement. Customs protection is a significant aspect of the overall support given to Norwegian agriculture. The customs duty rates for agricultural goods are highly variable, depending on the need for protection.
Maximum customs duty rates are laid down in international agreements. Norway has committed to reducing customs duty rates through several rounds of GATT/WTO[1] negotiations, most recently under the WTO 1994 Agreement. Apart from a certain reduction

[1] World Trade Organization (WTO) was established in 1995, replacing the former General Agreement on Tariffs and Trade (GATT) from 1947.

in customs duties on manufactured goods, the WTO Agreement entailed commitments with regard to market access, domestic subsidies and export subsidies for agricultural goods. Like other industrialised countries, Norway grants preferential customs treatment to developing countries under the GSP (Generalized System of Preferences) scheme. The scheme involves individual industrialised countries granting developing countries improved market access for their goods. GSP is a unilateral scheme, and can in principle be revoked or amended.

2.5 Fees and sectoral taxes

Central government service provision and exercise of executive powers are normally funded by appropriations via the fiscal budget, but fees and sectoral taxes are used in some fields. In 2006, the Ministry of Finance laid down general provisions on central government funding by fees and sectoral taxes, which were revised in 2015. Fees may be introduced when the public sector performs a clearly defined service for those paying such fees, and payment is not made in respect of anything else or more. Consequently, the charging of fees that appropriately reflect costs is not classified as taxation. Fees that are charged at a rate in excess of the cost of producing and delivering the relevant service will, on the other hand, involve an element of hidden taxation.

Sectoral taxes serve a broader purpose as a source of funding, and changes to the base or rate of sectoral taxes are therefore classified as part of the tax proposal. The provisions call for considerable caution to be exercised in the introduction of sectoral taxes to fund central government expenditure. Sectoral taxes may nonetheless be used to fund joint measures targeting an industry or sector if such taxes are paid by parties belonging to or closely affiliated with the relevant sector. The operations of a number of supervisory bodies are, for example, funded in full or in part by sectoral taxes.

2.6 Distributional implications of the tax system

The distribution of economic resoruces, including income, are influenced by numerous and complex factors. These factors include economic cycles and structural issues such as immigration, globalisation, changes in household composition and in the age composition of the population. The tax system facilitates economic redistribution by being progressively designed (the average tax rate increases with the income level) and because tax revenues contribute to the funding of transfers to households and public services in the spheres of, inter alia, health and education, which also serve to reduce economic inequality.

Income distributional implications of the taxation of individuals

Norway is one of the OECD countries with the lowest measured income inequality (see the National Budget 2021 for a more detailed description).[2] However, income inequality has increased slightly over the period 1986–2018; see figure 2.19.[3] Taxes and transfers reduce income inequality by about 40 pct. The overall redistribution effect of taxes and transfers has remained fairly stable over the last 30 years. The redistribution effect of the transfer system, when considered in isolation, has been somewhat reduced over this period, primarily as the result of the benefits being more equally distributed across the entire population. The redistribution effect of the tax system, when considered in isolation, has increased somewhat.

[2] Meld. St. 1 (2020–2021); *National Budget 2021*

[3] In Norway, income inequality measures are based on income statistics. A number of alternative income types are not included in income statistics, such as, for example, benefits-in-kind, unrealised gains and returns on owner-occupied homes.

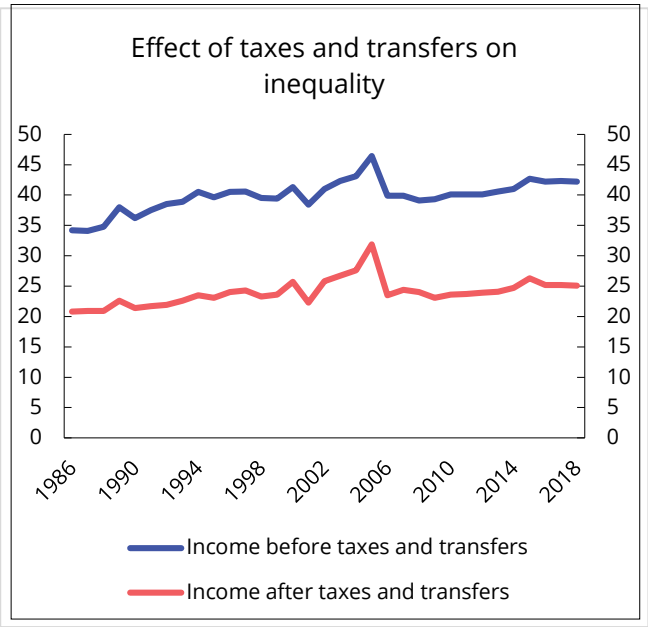

Figure 2.19 Gini coefficient for income before and after transfers and taxes.[1] Percent. Equivalent income (EU scale). 1986–2018

[1] Fluctuations around the years 2000, 2005 and 2015 need to be considered in the context of tax rule changes that have resulted in temporary tax-motivated arrangements.

Source: Statistics Norway.

Progressiveness of the tax system ensures direct redistribution because those who earn the most also contribute the most. Figure 2.20 shows average assessed tax as a proportion of gross income for different income groups in selected years. The progressivity of the tax system is clearly illustrated by the fact that average tax as a percentage of income increases with the income level. In 1994 and 2004, those with the very highest incomes paid a lower percentage of their income in tax compared to other high- and medium-income groups. Average tax as a percentage of income has been increased for those with the highest incomes, most significantly through the introduction of dividend tax in the tax reform of 2006.

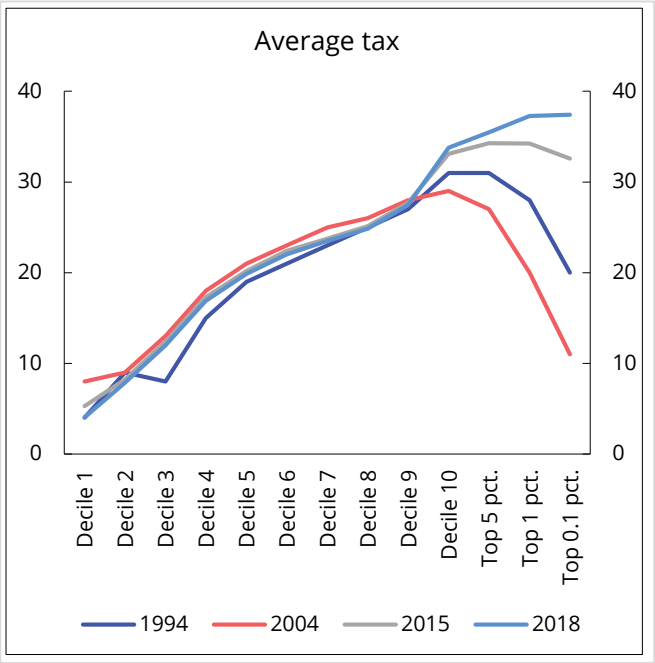

Figure 2.20 Average tax as a proportion of gross income. Percent
Source: Statistics Norway.

Figure 2.21A shows total tax in 2017 and tax reductions over the period 2013 – 2017. Figure 2.21B shows total tax in 2020 and tax reductions over the period 2017–2020. The figures show that the tax reductions have been distributed across broad population groups. This has to do with the tax rate on ordinary income having been reduced from 28 to 22 pct. over the period 2013–2019. The figures show, moreover, that the tax system is clearly progressive both before and after the tax reductions in the two periods. These tax reductions represent a relatively small portion of the overall tax level for the various income groups and have little effect on the progressiveness of the tax system.

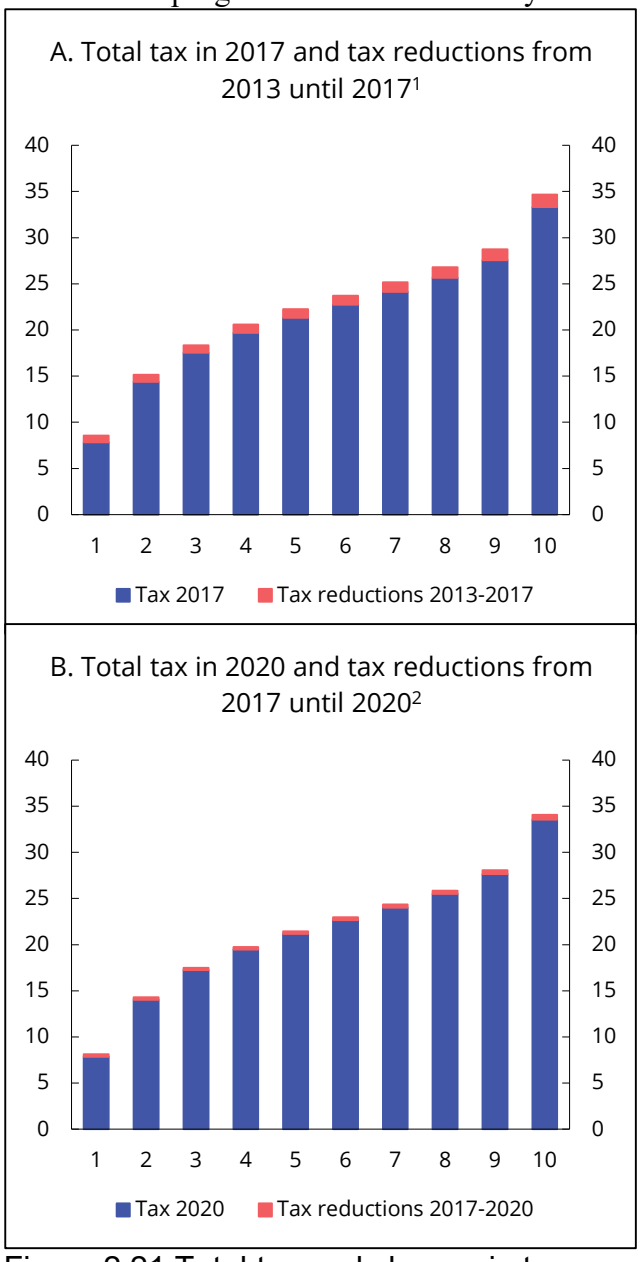

Figure 2.21 Total tax and change in tax as a percentage of equivalent income, specified by income deciles. 2017 and 2020

[1] The calculation encompasses tax changes that can be computed in the Statistics Norway tax model; LOTTE-Skatt, in a net amount of about NOK 21.5 billion. The computations have projected the tax rules from 2013 to the 2017 level to estimate what tax would have been charged in 2017 under the 2013 rules. This is then compared to the tax rules for 2017. The calculations use data from 2015.

[2] The calculation encompasses tax changes that can be computed in the Statistics Norway tax model; LOTTE-Skatt, in a net amount of about NOK 7.9 billion. The computations have projected the tax rules from 2017 to the 2020 level to estimate what tax would have been charged in 2020 under the 2017 rules. This is then compared to the tax rules for 2020. The calculations use data from 2018.
Both calculations are more uncertain than the ordinary one-year analyses performed in connection with the budget proposals, but nonetheless provide an indication of the significance of the tax changes effected over the periods 2013–2017 and 2017–2020.
Sources: Statistics Norway (LOTTE-Skatt) and the Ministry of Finance.

Income distributional implications of indirect taxes

When examining how the tax system influences household consumption opportunities and welfare, one should ideally take into account the fact that indirect taxes also influence consumption opportunities. Indirect taxes are not, unlike direct taxes, normally levied directly on consumers, but indirectly via producers and importers of the relevant goods and services. The extent to which the tax burden is reflected in the prices charged to consumers depends, inter alia, on the supply of, and demand for, the goods and services subject to such tax. However, no information is available that would show whether the tax burden is carried by individuals or businesses, respectively, or how such tax burden is allocated across various income intervals. The Ministry does not provide estimates for distributional effects of changes in any given indirect tax. The Ministry has in Figure 2.22 specified aggregated revenues from indirect taxes by income decile on the basis of the model Lotte-Konsum.
The figure ranks the entire population by ascending income (equivalent income) into ten groups of equal size (income deciles). Correspondingly, everyone has been allocated a share of the direct and indirect taxes paid by their household.

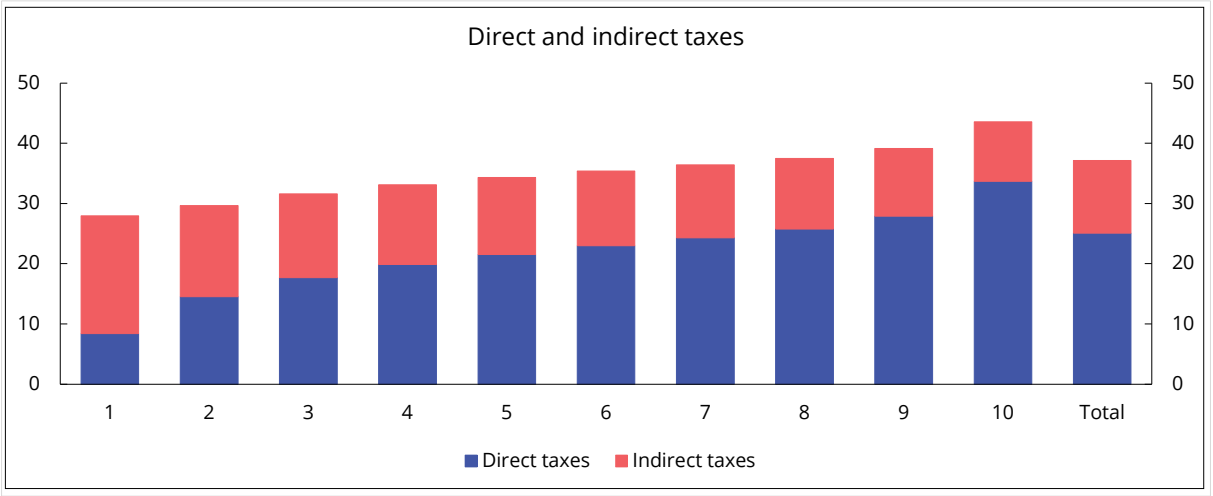

Figure 2.22 Direct and indirect taxes per person as a percentage of equivalent income. 2020 rules. Percent
Sources: Statistics Norway and the Ministry of Finance.

The figure shows that people on low incomes have a lower overall tax burden than people on high incomes. At the same time, indirect taxes contribute to weakening the progressivity of the tax system. This is partly because the calculations are based on gross household income. Persons with high gross income pay a larger proportion of their gross income in direct taxes than do persons with low gross income, and thus have a smaller proportion of their income available for consumption. It is income after direct tax that can be consumed, and thus be subject to indirect taxes. Consequently, indirect taxes will constitute a smaller proportion of the gross income of a person with high gross income than that of a person with a low gross income. If the calculations were based on income after tax (disposable income), this tax burden would have been fairly equal across the various income groups.

2.7 Estimated tax expenditures and tax sanctions

The tax system includes a number of exemptions and special arrangements which contribute to reducing government revenues. Compared to taxation in accordance with the ordinary rules, these exemptions and special arrangements represent an advantage to those falling within their scope.

The Norwegian tax system is based on the principle that all income and assets should be taxed, and that tax bases should correspond to real, underlying values. Deviations from these principles may be based on a desire to attend to other considerations or to further certain objectives.

Correspondingly, the tax system may feature tax sanctions, i.e. that some taxes are higher than would be implied by general and uniform rules. One example is fiscal taxes on business sector inputs.

Unlike measures funded via the expenditure side of the budget, the Storting does not decide the level of tax expenditures and tax sanctions in the annual budgets. Consequently, tax expenditures are not subject to annual budget priorities in the same way that initiatives funded via the expenditure side are. This section is therefore intended to supplement the information incorporated into the current tax provisions. The overview of tax expenditures does not purport to be complete because, inter alia, it has not been possible to quantify all tax expenditures. Appendix 1 provides a detailed overview of the tax expenditures and tax sanctions as calculated by the Ministry, as well as a more detailed analysis of tax expenditures.

The magnitude of tax expenditures and tax sanctions depends on how the benchmark system is defined. As a main rule, the general tax provisions are applied. In some areas one applies the main principles underpinning the design of the tax system, as established by the 1992, 2006 and 2016 tax reforms. Examples include depreciation rates, the taxation of housing and certain indirect taxes. As in most other countries, the Ministry uses the revenue-foregone method, i.e. the tax expenditures are estimated as the tax revenues foregone by government as the result of more lenient provisions than would be implied by the benchmark system. The calculations do not take behavioural changes into account. Consequently, the calculations will in many cases not represent a precise estimate of the actual revenue losses caused by tax expenditures.

Figure 2.23 shows the distribution of net tax expenditures in 2020 across different sources of taxation. The figure illustrates that exemptions in the value added tax system are the largest tax expenditure, accounting for about 30 pct. of overall tax expenditure. Tax expenditures associated with the corporate taxation of petroleum activities account for about 15 pct. Net wealth tax discounts account for 17 pct., whilst lower income tax on residential property accounts for about 8 pct. of overall tax expenditures. Tax expenditures relating to financial capital and pension savings account for about 8 pct. of the total, whilst the regionally differentiated employer's social security contributions and tax expenditures relating to wage income and pension income account for 10 and 6 pct., respectively. Excise duties account for 3 pct. of overall net tax expenditures, whilst primary industries account for 1 pct.

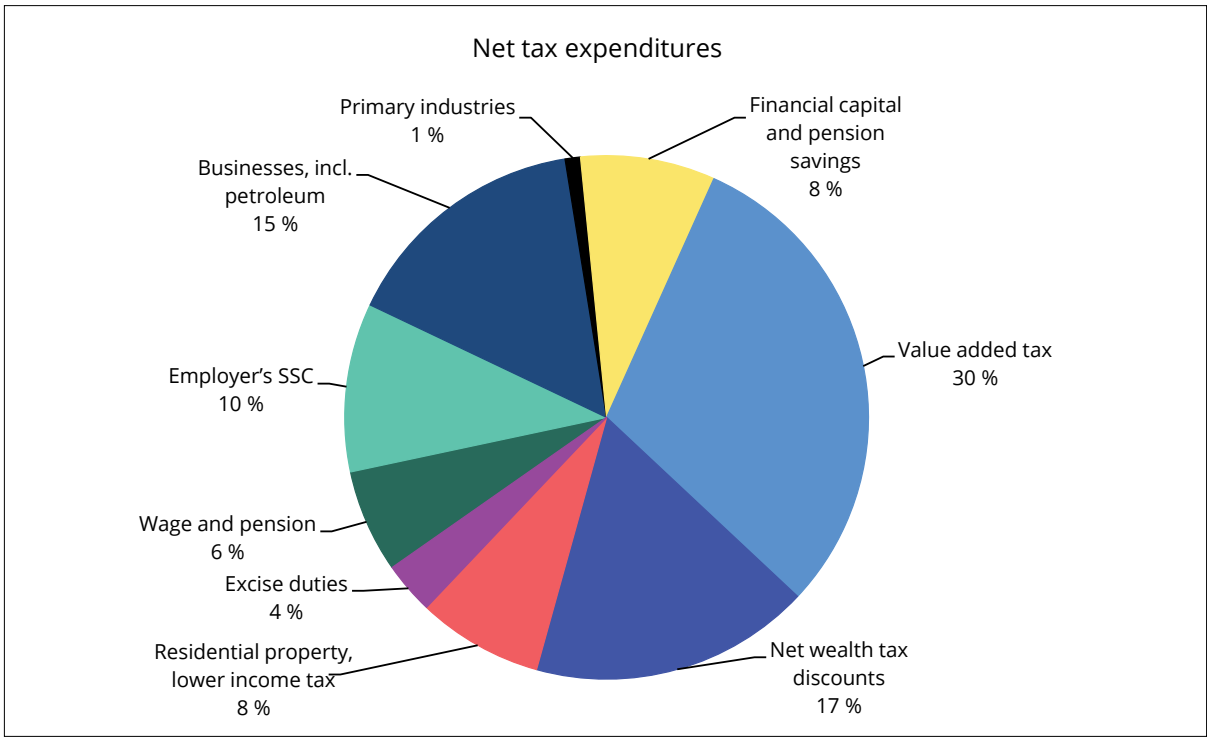

Figure 2.23 Net tax expenditures in 2020 by source of tax. Percent
Source: Ministry of Finance.

2.8 Revenue estimation methods

Changes to the tax rules will normally affect tax revenues. These revenue effects need to be distinguished from tax revenue changes caused by other developments, including business cycle fluctuations. A sound basis for decision-making needs to include information on the revenue effects of proposed changes to the tax rules.

The Ministry of Finance estimates the revenue effects of tax changes by a number of different methods. The methods vary from sophisticated models to simple estimates based exclusively on statistics. Which method is used depends on which models have been developed, the data that are available and the deadline by which the estimates have to be prepared.

The calculation methods are summarised below.

2.8.1 Benchmark system and tax revenue benchmark

Benchmark system for tax rules

The revenue effects of changes to tax rules in a fiscal year are estimated by reference to a benchmark tax system. The benchmark system is characterised by taxes being kept unchanged in real terms from the year prior to the relevant fiscal year. This means that nominal thresholds and rates[4] under the tax rules are adjusted annually in line with estimates for the relevant growth factor, for example growth in consumer prices, wages, pensions or asset values.

The benchmark system for *direct taxes* is based on the tax rules applicable in the current year, with allowances and income thresholds under the general rate structure for personal taxation being, as a main rule, adjusted in line with estimated wage growth. A taxpayer who only

[4] Percentage rates, such as for example the value added tax rate and the employee's social security contribution rates, remain unchanged from the previous year under the benchmark system.

qualifies for standard reliefs (personal allowance and basic allowance) and whose ordinary income and personal income increase in line with estimated wage growth, will thus pay approximately the same average income tax under the benchmark system as in the current year. The pension tax allowance is adjusted on the basis of the increase in the minimum level of retirement pension for singles and the increase in ordinary retirement pension. Guaranteed pension under the new accrual model will be phased in over the period 2021–2030. Correspondingly, the net wealth tax threshold in the benchmark system is adjusted such as to make a person with an average net wealth composition pay the same net wealth tax under the benchmark system as in the current year, measured as a proportion of net wealth. Special allowances and some other personal taxation thresholds are adjusted in line with estimated inflation.
Under the benchmark system for *excise duties*, all per unit rates are adjusted in line with estimated inflation (changes in the consumer price index). Hence, the tax burden under this benchmark system remains unchanged in real terms. The benchmark system for *value added tax* is based on the current value added tax regulations.

Tax revenue benchmark

The tax revenues that would be generated if all taxes remained unchanged in real terms may be labelled the *tax revenue benchmark*. The tax revenue benchmark is determined by the benchmark system for the tax rules and by estimated tax base developments. Tax base projections are in turn based on factors such as estimated macroeconomic developments.

2.8.2 Revenue calculations not incorporating behavioural effects

The most basic form of revenue calculation assumes that the tax change has no influence on the behaviour of households and businesses. In such case, the revenue effect will only reflect the *direct effect* on tax revenues. The revenue effect of a tax rate change will, for example, be calculated as the tax base multiplied by the tax rate change.
For the fiscal year in which a tax rule is changed, revenue calculations that include only direct effects will in many cases provide a good approximation of the revenue effects, especially if there is little reason to assume that the change will occasion major short term behavioural changes or appreciably affect other tax bases.

2.8.3 Revenue calculations incorporating behavioural effects

Changes to taxes and certain government expenditure items may influence government finances beyond the immediate, direct budgetary effect. This is because such changes may influence the behaviour of businesses and households. An increase in an excise duty will, for example, normally result in an increase in the price of the relevant goods, and thus a reduction in demand for such goods.
It is reasonable to assume that it will take time for changes to the taxation of wage income and pension income to induce behavioural changes with a permanent impact on labour supply. Many people have fixed working hours and are therefore unable to change these without finding a new job or renegotiating their existing employment contracts. In most cases it will, for such reasons, be of most relevance to incorporate the revenue effects in the budget without behavioural changes.
However, in some cases it may be relevant to include behavioural effects also in the first year. In general, financial adjustments occur quite swiftly, whilst changes in the real economy take more time. Dividends were, for example, more than halved from 2000 to 2001 as a result of the temporary dividend tax in 2001. Dividends increased steeply in 2015 as a result of, inter alia, the announced increase in the dividend tax. Changes to indirect taxes may also have a fairly rapid impact on consumption. As a main rule, the Ministry therefore incorporates behavioural

effects in the budget estimates for indirect taxes. In some cases, it may also be appropriate to assume fairly swift adaptations to changes in the income tax for individuals. One example is the restructuring of pensioner taxation in 2011, which the Ministry assumed would have some impact on labour supply in the first year.

In some cases, the adjustments may happen before the tax change has entered into effect. One example is the dividend tax introduced as part of the 2006 tax reform. Many personal shareholders adapted to the announced dividend tax by distributing large tax-exempted dividends before the reform entered into effect. The extraordinary dividends distributed prior to the reform were to a large extent channelled back to the companies in the form of loans and new equity. This meant that shareholders converted retained profits, which would have become taxable upon distribution after the reform, to loans and new equity that could still be distributed without dividend taxation after the reform. Another example is the restructuring of the motor vehicle registration tax. When the budget proposal was made public in October 2006, it became evident that cars with low CO_2 emissions would be subject to lower registration tax after 1 January 2007, whilst cars with high CO_2 emissions would be subject to higher registration tax. This resulted in purchases of car types that would become subject to lower tax being deferred, whilst purchases of car types that would become subject to higher tax were accelerated.

A revenue calculation incorporating behavioural effects will normally only include the direct effect on tax revenues of the tax base being directly affected by the rule change. The revenue calculation will thus take into account both such rule change and how the resulting behavioural changes on the part of households and businesses will influence the tax base.

In some cases, one should take into account the fact that changes to one tax base will have behavioural effects that also influence other tax bases. The rule change will in such cases have an indirect effect on tax revenues via a tax base that is not directly affected by such rule change. An increase in the tax on spirits, for example, will not only increase the price of spirits, and thus reduce demand for spirits. Such increase may also shift alcohol consumption away from spirits and towards wines and beers. Consequently, an increase in the tax on spirits may increase the revenues from the tax on wines and beers.

2.8.4 Effects of expansionary fiscal policy

All tax reductions need to be financed, sooner or later. This can be achieved by increasing other taxes, by reducing expenditure or by paying interest costs on government debt (or foregoing interest revenues as a result of lower net government assets). The behavioural effects of tax reductions may serve to reduce long-term funding needs. The funding of a tax reduction may also influence tax bases, as in the case of a reduction in government expenditure.

A tax reduction that is not financed may result in an increase in disposable income in the short run.[5] Higher private sector incomes may increase demand and economic activity. This will also result in higher tax revenues, thus reducing the initial weakening of the fiscal budget. The impact on activity will depend on factors such as the amount of spare capacity in the economy. The impact on activity will be minor during high economic activity, but may be major in times of low economic activity. In any case, tax reductions need to be paid for over time, through higher tax revenues or reduced expenditure. This will, when taken in isolation, reduce demand for goods and services, thus counteracting the impact of the initial tax reduction on the activity level and the budget balance. A short-term demand increase resulting

[5] Increasing social benefits will, correspondingly, also increase private sector disposable income. Hence, demand effects are general implications of an expansionary fiscal policy, and are not specific to tax policy.

from unfinanced tax reductions should not be con- fused with permanent effects from behavioural changes. It is the permanent behavioural change that is relevant when examining whether a tax change is making the tax system more efficient or not. The impact of any expansionary fiscal policy on activity will normally be taken into account in the Ministry's model forecast for the entire fiscal budget.