

7 Local authorities' tax revenues

Local authorities' tax revenues help to finance important welfare services such as ECEC institutions, primary and lower secondary schools, child protection, social services, and health and care services. This chapter gives an overview of these revenues and the variation between local authorities in regard to these revenues.

Local authorities' tax revenues are primarily generated from personal taxpayers' income tax and wealth tax. The individual local authorities can, in addition, choose to introduce property tax, and there are special rules for property tax on hydropower plants, the electricity grid, wind power plants and petroleum installations with surtax. A number of local authorities also receive revenue from hydroelectric power through natural resource tax, obligatory sales of power, licence fees and dividends from the power sector. In recent years, a number of local authorities have received considerable revenues from the aquaculture industry through payments from the Aquaculture Fund and government grants. Since 2022, some local authorities have also received revenues from production tax on wind power. With the exception of licence fees, local authorities are free to use these revenues as they wish, and they help to fund welfare services in the same way as other tax revenue. The various tax revenues are discussed in Sections 7.1 to 7.7 and variations in tax revenues between local authorities are discussed in Section 7.8.

During certain periods, local authorities have also received revenue from corporation tax, but this was phased out as a municipal tax as of 2009. Corporation tax and the committee's assessment of this as a municipal tax is discussed in Chapter 8.

Not all tax revenues are included in the GPGS, where differences in income per capita are equalised through income equalisation. In the current GPGS, income tax and wealth tax, as well as natural resource tax, are included in income equalisation. The current income equalisation mechanism and how it works is discussed in Section 7.9. In Chapter 8, the committee provides an assessment of which types of income should be equalised between local authorities.

7.1 Income tax

The major portion of local authorities' tax revenues is comprised of income tax. Local authorities' revenue from income tax amounted to roughly NOK 155 billion in 2019, see Table 7.1. As the table shows, there was a decrease in tax revenues from 2019 to 2020, which is linked to the effects of the COVID-19 pandemic.

The source of the local authorities' revenues from income tax is personal taxpayers' tax on general income. This is a tax on net income and is divided between the central government, county authorities and local authorities. General income consists of all taxable income, such as salaries, taxable benefits in kind, welfare benefits, pensions, net self-employment income, taxable share income, and other capital income, after deductions.¹ The tax base is the same for tax paid to the central government, county authorities and local authorities but the tax rates are different.

¹ General income covers all taxable income (wages including taxable benefits in kind, welfare benefits, pensions, net self-employment income, taxable share income, and other capital income) after deducting the following: personal allowance, deductible losses and expenses such as interest on debts etc., parental allowances and other deductions.

Table 7.1 Estimate of municipal revenues from tax on general income 2017–2020. Figures in NOK million.

	2017	2018	2019	2020
Tax on general income ¹	143 655	148 452	155 810	153 825

¹ This is an estimate of the proportion of the local authorities' registered tax in the relevant year that is generated from tax on general income. Total registered tax for the relevant year has been used as a basis, and the wealth tax and natural resource tax paid the previous year has been deducted.

Each year, the Storting sets the maximum rates for income tax payable to the local authorities as a part of the budgeting for the coming year. In 2022, the maximum tax rate for personal taxpayers was 10.95% to the local authority and 2.40% to the county authority. The individual local authorities determine tax rates each year with the maximum rate set by the Storting. Figure 7.1 shows the development of the total tax rate on general income, the rate that applies to the government, as well as the maximum rates for local and county authorities. Since 1978, all municipalities have used the maximum rate in their taxation of general income.

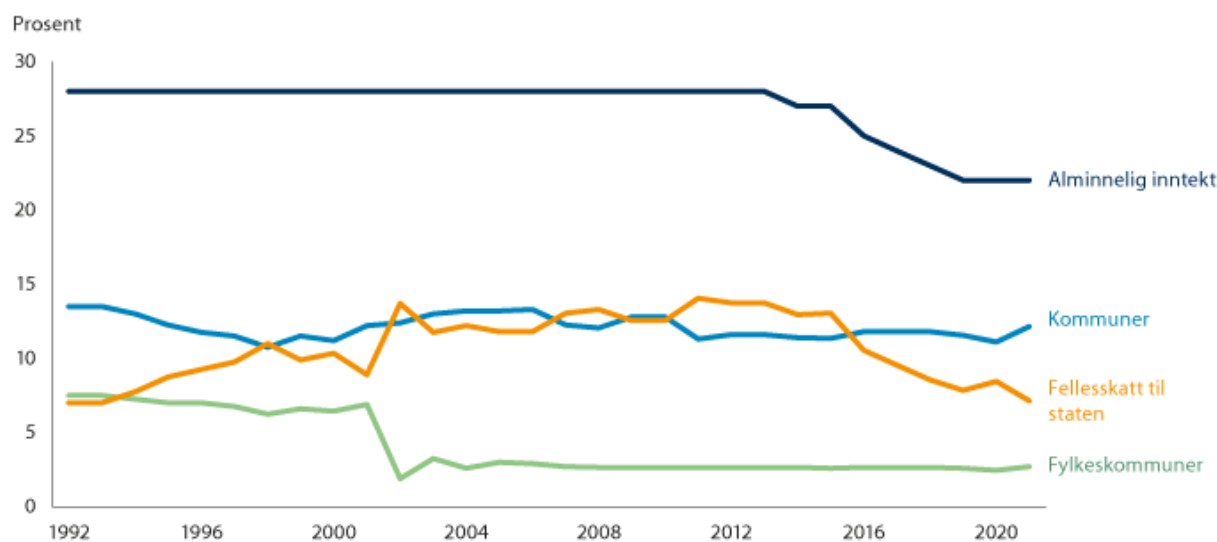


Figure 7.1 Tax rates on general income, including tax rates for the local government sector in the period 1992–2021.

The Statistical Reports Committee for County and Municipal Government Finance autumn report 2020/Ministry of Finance

From 2014 to 2019, the tax rate on general income was reduced from 28% to 22%. This is reflected in the lower tax rate for national income tax. The municipal tax rates are based on a target tax share for revenues in the local government sector. Changes to the general grant to local authorities can result in minor variations in the tax rate from year to year. Changes to the levels between 1992 and 2011 must be seen in the context of some changes in the target tax share. The decrease in the county authorities' tax rate in 2002 is a result of the transfer of responsibility for hospitals from the county authority to the government (under the Norwegian hospital reform).

Taxable share dividends have been included in the tax base for general income since 2006. The significance of tax revenue from dividends has increased in recent years. The tax on dividends has increased several times, as recently as 2022, and high dividends were paid out prior to these tax

increases. Taxable share dividends make up a small part of general income, but uncertainty related to how large the dividend will be has made it difficult to estimate the municipal revenues from general income. For a more detailed discussion of this issue, see Section 8.1.2. Income tax is included in the rolling income equalisation as it is paid.

7.2 Wealth tax

Wealth tax is a tax on the net wealth of personal taxpayers.² The major portion of wealth tax goes to the local authorities, while a small portion goes to the government. The tax base is the market value of assets minus a deduction for debt. In addition, different valuation discounts apply, depending on the type of asset. The tax base is the same for government and municipal tax, but the rates are different. The wealth tax rate for local authorities was 0.7% in 2022. The rate for the government is 0.25% for assets up to NOK 20 million and 0.4% for assets over this figure.

As in the case of income tax, the Storting sets maximum rates every year for wealth tax for local authorities. The individual local authorities determine their own tax rates within the intervals provided in the Storting's resolution. As of 2022, Bø in Vesterålen is the only local authority that does not apply the maximum wealth tax rate.

The Taxation Act determines which local authority individual taxpayers pay their taxes to. The general rule is that personal taxpayers are taxed in the tax jurisdiction they live in as of 1 January in the fiscal year. Equity in and income from property or installations, as well as activities related to such are, however, taxed in the tax jurisdiction where they are located.

Wealth tax paid to the local authorities amounted to roughly NOK 13.6 billion in 2019, see Table 7.2. Wealth tax is included in the rolling income equalisation as it is paid.

Table 7.2 Local authorities' revenues from wealth tax in the period 2017–2020. Figures in NOK million.

	2017	2018	2019	2020
Municipal wealth tax ¹	12 696	12 894	13 678	14 174

1 Wealth tax paid during the fiscal years 2017–2020.

Statistics Norway

7.3 Natural resource tax

Natural resource tax was introduced in 1997 in conjunction with the revision of the tax for power plants. Owners of hydropower plants are liable to pay natural resource tax to local and county authorities. The purpose of the tax has been to ensure that local and county authorities with power plants in their jurisdiction receive a stable minimum tax revenue regardless of the power company's income each year. The natural resource tax is deducted in the corporation tax and consequently represents a redistribution of income from the government to the local authorities. When

² Net wealth is taxable gross wealth minus debt, over and above a basic deduction, which amounted to NOK 1.65 million in the fiscal year 2022 (NOK 3.3 million for married couples).

natural resource tax was introduced, the majority in the Storting's finance committee highlighted that this tax must be seen as a municipal share of the resource rent of the power plants.

The tax is calculated on the basis of the individual power plant's average annual production of electricity over the preceding seven years. The tax revenues go to the local and county authorities at rates of 1.1 and 0.2 Norwegian *øre*³ per kWh respectively. The rates have remained the same since the fiscal year 1998.

The natural resource tax for each power plant is determined the year following the fiscal year and is paid in arrears. The natural resource tax is included in the rolling income equalisation as it is paid.

The total natural resource tax paid to local and county authorities in recent years has amounted to approximately NOK 1.6 billion per annum. The local authorities have received roughly NOK 1.4 billion per annum, see Table 7.3.

Table 7.3 Local authorities' revenue from natural resource tax in the period 2017–2020. Figures in NOK million.

	2017	2018	2019	2020 ¹
Natural resource tax	1 389	1 418	1 390	1 403
Number of local authorities ¹ that receive revenue	216	216	215	202

¹ The total number of municipalities in Norway was reduced from 422 to 356 in 2020 as a result of the municipal structure reform.

Ministry of Finance

The total revenue from natural resource tax is relatively stable over time. This is due to the fact that the basis for this tax is an average of the previous seven years of production at the individual power plants. A total of 215 local authorities had revenue from natural resource tax in 2019. This revenue is unequally distributed between local authorities. In 2019, prior to equalisation, around 50% of the natural resource tax revenues went to 24 local authorities.

7.4 Property tax

Property tax is a municipal tax on property in the form of buildings and land, which local authorities can freely choose to impose or not. The imposition of property tax is regulated according to the Property Tax Act, which determines, for example, what types of properties local authorities can levy tax on and defines maximum and minimum tax rates that they can use.

Property tax is calculated based on the assessed value of the property as per 1 January in the fiscal year. The assessed value is intended to represent a form of market value (sales value). As a general rule, properties are to be valued every ten years, but there are special valuation rules for hydro-power plants. For residential properties, the local authority can choose to use the Norwegian Tax Administration's taxable value of the property as a basis for the valuation. The value will then change annually, in accordance with changes in the estimated market value. From 2020, a

³ There are 100 *øre* in one Norwegian krone.

reduction factor of 30% is used for residential properties, capping the property tax base at a maximum of 70% of the estimated market value.

The local authority can choose to impose property tax on one of the following seven areas:

- property in the entire municipality;
- property in the entire municipality except commercial premises, power plants, the electricity grid, wind power plants and petroleum installations;
- only property in clearly defined areas constructed as part of an urban centre;
- both property in clearly defined areas constructed as part of an urban centre and commercial premises, power plants, the electricity grid, wind power plants and petroleum installations, or
- both property in clearly defined areas constructed as part of an urban centre and power plants, the electricity grid, wind power plants and petroleum installations;
- only commercial premises, power plants, the electricity grid, wind power plants and petroleum installations;
- only power plants, the electricity grid, wind power plants and petroleum installations.

In 2021, 321 of 356 local authorities imposed property tax. The tax rate can vary between 0.1 and 0.7%, except for residential properties and holiday homes where the maximum rate is 0.4%. It is permissible to differentiate the tax rate depending on the type of property, for example, by having different tax rates for residential properties and commercial properties. It is not permissible, however, to differentiate the tax rate between residential properties and holiday homes within the municipality. If the local authority introduces property tax, the tax rate cannot exceed 0.1% during the first year. Increases on the previous year's tax rate cannot exceed 0.1%. However, an increase of 0.2% is allowed if a basic tax-free allowance is introduced during the same year. The rate cannot be increased in the same year that the basic tax-free allowance is withdrawn.

In recent years, property tax has been subject to a number of changes. As of 2020, an obligatory reduction factor of 30% applies to valuations of residential properties and holiday homes. The maximum property tax rate for residential properties and holiday homes was reduced from 0.7% in 2019 to 0.4% in 2021. As of the fiscal year 2019, there are new rules for the taxation of factories and plants. According to the new rules, production equipment and machinery are not included in the property tax base as a general rule. This change has entailed the phasing out of the category 'factories and plants' as of 2019, but property tax on hydropower plants, the electricity grid, wind power plants and petroleum installations with surtax continues as before. The loss of revenue from property tax on production equipment and machinery is to be phased in gradually over seven years. The local authorities that are the worst affected receive partial compensation for the loss of revenue due to this change.

Table 7.4 shows the local authorities' revenues from property tax in the period 2018–2021.

Table 7.4 Local authorities' revenues from property tax in the period 2018–2021. Figures in NOK million.

	2018	2019	2020 ²	2021
Property tax on residential property and holiday homes	7 446	7 680	7 224	7 639
Property tax on other property ¹	6 759	7 068	7 594	7 927
Total property tax	14 205	14 748	14 818	15 566
Number of local authorities that impose property tax	370	371	319	321

¹ Property tax on other property consists of property tax on commercial properties, as well as power plants, wind power plants, the electricity grid, and installations subject to the surtax rules for petroleum.

² The number of municipalities was reduced from 422 to 356 in 2020 as a result of the municipal structure reform.

Statistics Norway

7.5 Licence fees and obligatory sales of power

Licence fees and obligatory sales of power are two mechanisms that have a long tradition dating back to the beginning of the 1900s. They are regulated under the Waterfalls Act (1917) and the Watercourses Act (1917). In general, it is the large hydropower plants subject to regulation that are granted licences in accordance with these acts, and which are obligated to sell power and pay licence fees.

Owners of large hydropower plants are required to pay licence fees to the government and to the local authorities that are affected by hydropower developments, and are obligated to sell power to the local authority in question and possibly the county authority. The government also has a right to obligatory sales of power but has not invoked this right. The amount of power which must be sold and the licence fee is calculated based on the power plant's theoretical production capacity. The theoretical capacity is calculated from the head of water and the regulated rate of water flow through the power plant, and is an expression of the potential power output.

Licence fees were introduced to compensate local authorities and the government for general damage and inconvenience caused by the development of watercourses, which was not compensated for in any other way, and gives them the right to a share of the value creation that took place. The aim of obligatory sales of power was to ensure that the local authorities impacted by development had access to electricity for general supply at a price reflecting the costs of development. Under the current market-based power system, obligatory sales of power function as a transfer of revenue from the companies to the local and county authorities.⁴

Some local authorities have also received revenue from the reversion of hydropower plants to the state. Reversion means that waterfalls, watercourse regulations and associated power plants revert to the state without compensation after the licence period expires. Whether or not a power plant is subject to reversion is set out in the terms of the original licence. There is little reason to expect reversion revenue of any significance in the future. In relation to previously reverted power plants, local authorities may hold some reversion funds.

⁴ Official Norwegian Report NOU 2019: 16 on the taxation of hydropower plants

Further information about licence fees

The annual licence fee is calculated by multiplying the theoretical capacity of the power plant by a fee rate. The rate for new licences is usually fixed at NOK 24 per natural horsepower for local authorities and NOK 8 per natural horsepower for the government, but varies significantly in relation to licences granted earlier.

Licence fees are divided between local authorities in different ways, depending on which act the licence was granted under. Under the Waterfalls Act (1917), the division of licence fees is based on the number of fall metres that the power plant utilises in each municipality the watercourse runs through. Under the Watercourses Act (1917), the division of licence fees is based on whether the municipality transmits power, or has a reservoir or river that is used to generate power. The category of the local authority determines how much of the licence fee it receives.

The licence fee is to be kept separately in a fund for each municipality. The local authority decides how the contents of the fund are to be used, but business development in the region should be prioritised.

In 2019, 267 local authorities received NOK 693 million in licence fees, see Table 7.5. The amount paid in licence fees to the government and the local authority has remained relatively stable over time. Revenue from licence fees is unequally distributed between the local authorities. Roughly 50% of the revenue went to 20 local authorities in 2019.

Table 7.5 Local authorities' revenue from licence fees in the period 2017–2020. Figures in NOK million.

	2017	2018	2019	2020 ¹
Licence fees	636	650	693	706
Number of local authorities that receive revenue	268	268	267	239

¹ The number of municipalities was reduced from 422 to 356 in 2020 as a result of the municipal structure reform. Norwegian Water Resources and Energy Directorate's database for watercourse licence fees

Further information about obligatory sales of power

The price for obligatory sales of power that local and county authorities receive is based on cost price and will vary according to the power plant and the licence. Normally, the price is below market value for electricity and local authorities can profit from selling it in the power market.

Obligatory sales of power are divided between the municipalities concerned, according to whether the waterfall or the power plant is located there (Waterfalls Act) and according to the power plant share, the reservoir share and the transmission share (Watercourses Act). The maximum amount of power each local authority can receive under obligatory sales of power is determined by its power consumption for general supply. If the local authority has a right to a larger share of power than its actual power consumption for general supply, the surplus share of power goes to the county authority. Local and county authorities receive approximately 8.7 TWh in obligatory sales of power annually. Roughly 2.3 TWh currently goes to the county authorities.

Local authorities can freely sell or use these obligatory sales of power as they see fit. This means, for example, that they can sell the power at the spot price, enter into long-term agreements to sell

the power at a fixed price or they can use it themselves. The value of obligatory sales of power varies from year to year and is calculated as the difference between the local authority's purchase price and the selling price they achieve.

No central overview of the value of obligatory sales of power exists until it is entered in the municipal accounts at the end of the fiscal year. Figures from KOSTRA show that the net revenue from obligatory sales of power, power rights and other power for onward sale amounted to almost NOK 1.6 billion in 2019, NOK 1.3 billion in 2020 and NOK 1.9 billion in 2021. This only includes the value of obligatory sales of power that has been sold on and not power, for example, that has been utilised by the local authority itself. The value of obligatory sales of power that local authorities receive will therefore probably be higher than that shown in the KOSTRA figures. If instead, the value of obligatory sales of power is calculated as the quantity of this multiplied by the difference between the average annual spot price and the price of obligatory sales of power set by the Ministry of Petroleum and Energy, the value of the obligatory sales of power to the local authorities in 2019 is estimated at NOK 1.8 billion.

Table 7.6 Net revenue from obligatory sales of power, power rights and other power for onward sale (KOSTRA) 2018–2021. Figures in NOK million.

	2018	2019	2020 ¹	2021
Net revenue from obligatory sales of power, power rights and other power for onward sale	1 201	1 567	1 251	1 948
Number of local authorities that receive revenue	194	206	161	186

¹ The number of municipalities was reduced from 422 to 356 in 2020 as a result of the municipal structure reform. Statistics Norway/KOSTRA

Figures from the Norwegian Water Resources and Energy Directorate's database for watercourse licence fees show that 256 local authorities received obligatory sales of power in 2019. The KOSTRA figures show that 206 local authorities have entered net revenue from obligatory sales of power in their accounts for 2019. The difference is probably due to the fact that not all local authorities sold the power or had a net revenue from the sale of the power. The revenue is unequally divided between the local authorities. Twenty-one local authorities receive approximately half of the revenue entered in the accounts in 2019.

7.6 Revenue from the aquaculture industry

In recent years, a number of local authorities have received considerable revenues from the aquaculture industry. Since 2002, local authorities have been allowed to claim remuneration when granting new aquaculture licences. Since 2009, remuneration can also be claimed for increased capacity on existing licences. The local government sector received a share of the revenues from the allocation of new aquaculture licences/increased capacity on existing licences in 2009, 2013 and 2015.

In 2017, a new system was implemented for granting aquaculture licences. The new system entails a division of the Norwegian coast into 13 areas for the production of salmon, trout and rainbow trout. Every second year an assessment is made of whether increased production should be

permitted in individual areas based on the area's environmental situation. So far, increased production in aquaculture has been permitted under this system in 2018 and 2020, and a new capacity adjustment is expected in 2022. The largest share of the increase in production has been sold at market price at auctions held by the Ministry of Trade, Industry and Fisheries.

Table 7.7 Disbursements from the Aquaculture Fund in the period 2018–2021. Figures in NOK million.

	2018	2019	2020 ¹	2021
Disbursements from the Aquaculture Fund	2 361	449	1 969	875
Number of local authorities that receive revenue	164	166	140	140

¹ The number of municipalities was reduced from 422 to 356 in 2020 as a result of the municipal structure reform. Ministry of Trade, Industry and Fisheries/Directorate of Fisheries

In the period 2017–2019, 80% of revenues from the sale of aquaculture licences went to local and county authorities. The remaining 20% went to the government. The local government sector's share of the revenues is distributed through the Aquaculture Fund, in which $\frac{7}{8}$ goes to local authorities and $\frac{1}{8}$ goes to county authorities. The Aquaculture Fund does not function as a fund in the usual sense, as the funds are disbursed in their entirety a short time after they are deposited. Therefore, in practice, the Fund is a mechanism for the distribution of revenue from the sale of aquaculture licences to municipalities where aquaculture is carried out.

In 2020, it was decided to introduce a new distribution formula for revenue from increased production. When determining the distribution formula, the Storting placed importance on transferring a major share of the revenues to local and county authorities to give them an incentive to make suitable areas available for the aquaculture industry.

For the years 2020 and 2021, the Storting decided that the local government sector was to receive NOK 2.25 billion and NOK 1 billion respectively as a result of the capacity adjustment in 2020, via the Aquaculture Fund. This was a transitional period up until 2022, when local and county authorities were to receive revenues from a new production tax. The production tax is a special tax paid to the government and the revenue from this is distributed to the local government sector via the Aquaculture Fund. It is intended to help maintain a more consistent and predictable revenue stream to the local authorities from the Aquaculture Fund.⁵ The tax amounted to 40 Norwegian *øre* per kilo of salmon, trout and rainbow trout produced in 2021, the year it was introduced. The local government sector's revenue from the tax is estimated at roughly NOK 500 million annually. In addition, the authorities in municipalities and counties where aquaculture is carried out are to receive 40% of the revenue from sales of production capacity as of 2022. This revenue will also be distributed to local and county authorities via the Aquaculture Fund. It is uncertain how high future revenues from sales and auctions will be, because both the prices and the volumes for increased production are unknown quantities.

A total of 166 local authorities received revenue from the Aquaculture Fund in 2019, while 140 received revenue in 2020 and 2021, see Table 7.7. Disbursements from the Aquaculture Fund vary

⁵ Recommendation to the Storting 360 (re resolution) (2019–2020) *Innstilling fra finanskomiteen om Revidert nasjonalbudsjett 2020* [Recommendation from the Finance Committee on the revised national budget 2020].

considerably between local authorities. The major share of the revenue goes to a small number of local authorities. Thirty-one local authorities received approximately 50% of the revenue in 2019. Ninety-five per cent of the revenue from the granting of licences is distributed on the basis of existing locations, while 5% is distributed to new locations with an upper limit of NOK 5 million per municipality. This indicates that, to a large extent, the same local authorities will receive revenue from aquaculture over time.

7.7 Dividend revenues

Local authorities' revenues from dividends amounted to NOK 4.5 billion in 2021, and lay between NOK 3.5 and 4.9 billion per annum in the period 2017–2020, see Table 7.8. This is revenue that owner municipalities have access to by way of their ownership. Many local authorities own considerable numbers of shares in power companies, and receive dividends in the same way as dividends from the ownership of other companies. A survey carried out by the Norwegian Association of Local and Regional Authorities (KS) in 2017 indicated that almost 70% of the local authorities' registered revenue from dividends is attributed to ownership in the power sector. Local authorities' ownership in the power sector can relate to local ownership, with local authorities near power plants owning shares in a local power company. It may also relate to larger power companies, with local authorities as shareholders, that own shares in other power companies. In these cases, dividends from one power company may be included as revenue in another power company.⁶ Therefore, it is not the case that only local authorities with power plants receive revenue from the power sector. In principle, any local authority can invest its funds by buying shares in the power sector, in the same manner that they can choose to invest their funds in other ways.

Table 7.8 Local authorities' revenues from dividends and withdrawals in the period 2017–2020. Figures in NOK million.

	2017	2018	2019	2020
Dividends and withdrawals	3 487	3 889	4 851	4 553

Statistics Norway/KOSTRA

KOSTRA includes figures for all registered dividend revenues, not just dividends from the power sector. These figures show that some of the largest municipalities receive the highest dividend revenues measured as a total sum. In 2019, the City of Oslo alone received dividend revenues equivalent to roughly 29% of total dividend revenues registered in KOSTRA. Measured in NOK per capita, however, it is the small municipalities that receive the highest dividend revenues, see Figure 7.2.

⁶ KS (2019). *Kraftinntekter i kommunesektoren – KS* [Revenue from power in the local government sector – KS]

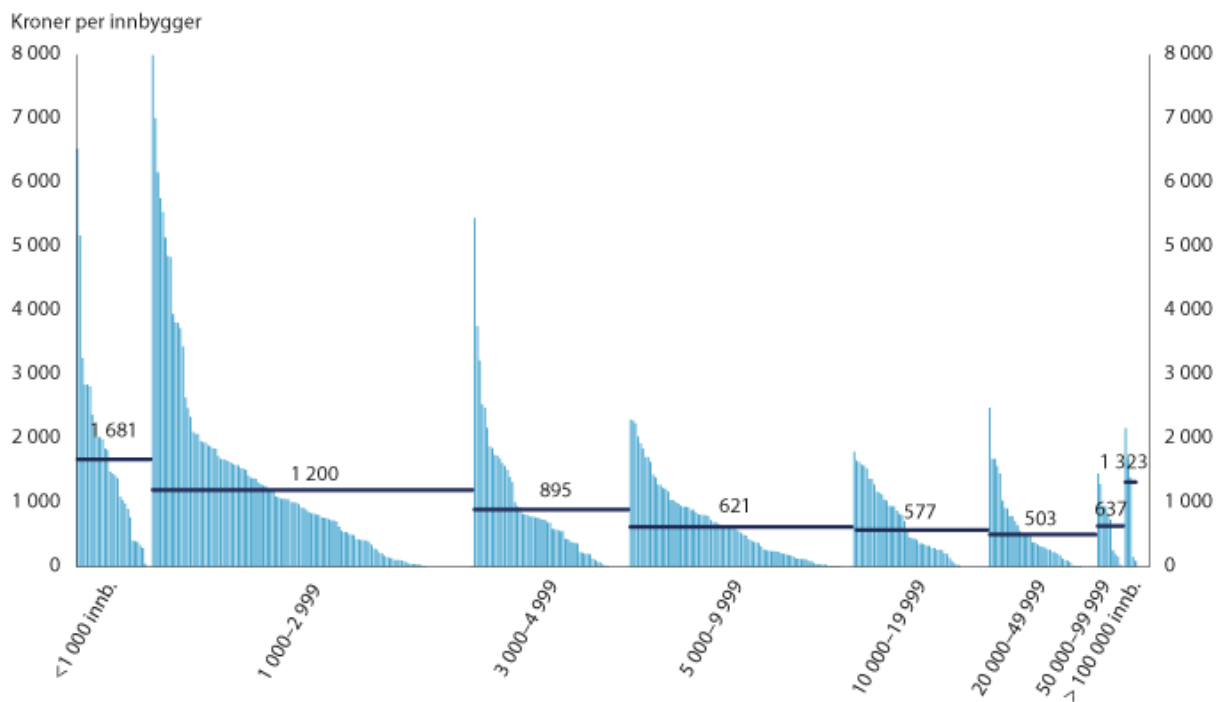


Figure 7.2 Local authorities' revenues from dividends and withdrawals in NOK per capita, grouped according to the size of the municipality.¹ Averages for 2018–2019.²

¹ The figure shows the average for the local authorities' dividend revenues in 2018 and 2019 in NOK per capita, grouped according to the size of the municipality, in which the groups of municipalities that have a population of less than 1 000 are shown on the far left and the group of municipalities that have a population of more than 100 000 are shown on the far right.

² One local authority received dividend revenues that stretch beyond the vertical axis. Hjartdal municipality had an average of NOK 12 073 per capita in dividend revenues in 2018–2019.

Statistics Norway/KOSTRA

7.8 Variation in local authorities' tax revenues

Tax revenues between local authorities vary considerably, both in relation to revenues included in the current GPGS and those not included.

Table 7.9 shows the level and variation of the various tax revenues for 2019. Revenues that can vary considerably from year to year, such as obligatory sales of power and aquaculture revenue, are based on the average over several years. Tax revenues that are included in income equalisation for local authorities amounted to NOK 170.1 billion in 2019, which is equivalent to an average of NOK 31 928 per capita.

Revenue from power constitutes a small part of the total tax revenue, but can provide a considerable amount of revenue for individual local authorities. This also applies to revenue from the Aquaculture Fund, but fewer local authorities receive revenue from the Fund than from hydropower. Table 7.9 shows the unequal distribution of revenue, measured using the Gini co-efficient. This is a measure of income distribution on a scale of 0–1, where 0 in this case indicates that all local authorities have the same level of revenue, measured in NOK per capita, while 1 indicates that one local authority receives all of the revenue. We can see here that income and wealth tax are relatively equally distributed between local authorities, while revenues from natural resources through natural resource tax, property tax on other property, obligatory sales of power, licence fees and

aquaculture revenue are very unequally distributed between local authorities, with Gini co-efficients between 0.74 and 0.9.

Table 7.9 Scale and distribution of municipal tax revenues in 2019, or averaged over several years

Tax revenues ¹	Number of local authorities that receive revenue	Total tax revenue (NOK mill.)	National average (NOK per capita) ⁴	Max. value (NOK per capita)	Min. value (NOK per capita)	Gini co-efficient ⁵
Income and wealth tax, including natural resource tax	422	170 122	31 928	88 458 (Bykle)	19 669 (Kautokeino)	0.10
Wealth tax ²	422	13 678	2 567	35 384 (Frøya)	329 (Tjeldsund)	0.32
Natural resource tax	216	1 390	709	40 412 (Bykle)	0.01 (Lier)	0.88
Property tax on residential property and holiday homes	288	7 680	1 992	8 019 (Hvaler)	298 (Gran)	0.50
Property tax on other property	349	7 068	1 726	72 846 (Aukra)	0.28 (Åsnes)	0.74
Net revenue from obligatory sales of power, etc. Average 2017–2019. ³	207	1 262	679	27 134 (Bykle)	0.13 (Bjerkreim)	0.85
Licence fees	267	693	290	38 257 (Bykle)	0.06 (Lyngen)	0.90
Revenue from the Aquaculture Fund. Average 2018–2019.	166	1 443	1 212	22 480 (Leka)	23.73 (Sande)	0.85

¹ For tax revenues that are included in income equalisation (income tax, wealth tax and natural resource tax), all of the figures in this table relate to tax prior to income equalisation.

² The figures show wealth tax paid in the fiscal year 2019.

³ Net revenue from obligatory sales of power, power rights and other power for onward sale. Does not include the value of obligatory sales of power that have not been sold on but have been used, for example, by the local authority.

⁴ The average is estimated for local authorities that receive tax revenues.

⁵ The Gini co-efficient is a measure of income distribution on a scale of 0–1, where 0 in this case indicates that all local authorities have the same level of revenue, measured in NOK per capita, while 1 indicates that one local authority receives all of the revenue. All of the local authorities are included in this calculation, including those that do not receive the various revenues.

Statistics Norway (wealth tax, property tax, revenue from obligatory sales of power), Ministry of Finance (tax on income and wealth, natural resource tax), Norwegian Water Resources and Energy Directorate (licence fees), Directorate of Fisheries (Aquaculture Fund)

Figure 7.3 shows tax revenues in 2019 divided into municipalities grouped according to population. The figure shows that, on the whole, it is the smallest municipalities that have the highest tax revenues per capita. This is largely due to the revenues from hydropower, aquaculture and property tax on power plants, etc. The largest municipalities have the highest tax revenues per capita if we only take into account tax revenues that are included in income equalisation.

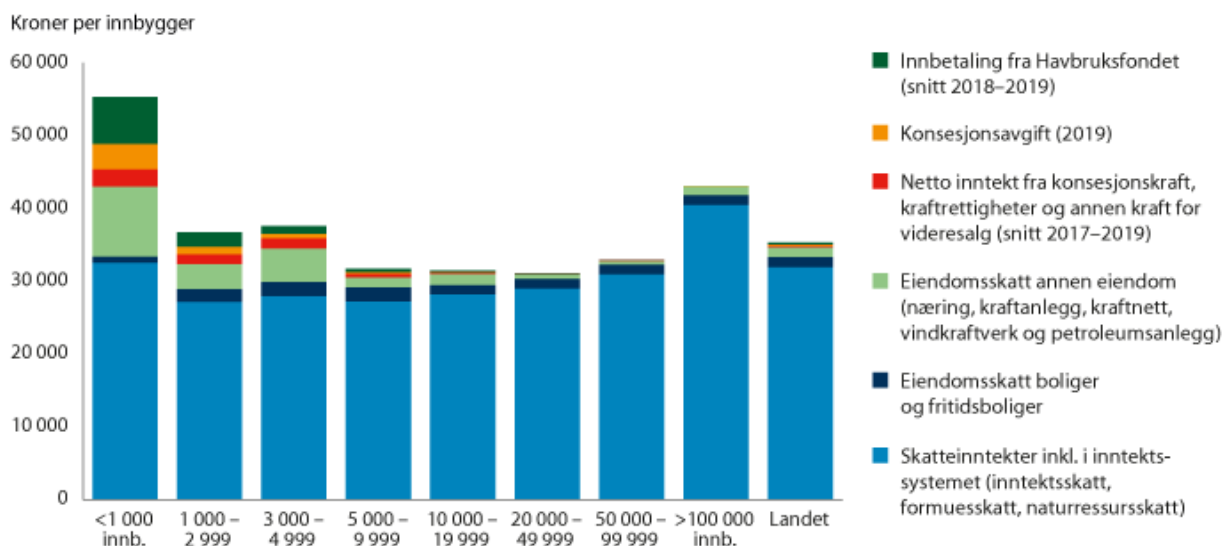


Figure 7.3 Tax revenues per capita in 2019 for municipalities grouped according to population. The tax revenues are divided up into tax revenues that are currently included in income equalisation (prior to equalisation) and tax revenues that are not included in income equalisation.

Statistics Norway, Ministry of Finance, Norwegian Water Resources and Energy Directorate, Directorate of Fisheries

In Figure 7.4, the tax revenues per capita for the 20 local authorities that had the highest tax revenues per capita in 2019 are shown. The figure shows both tax revenues that are included and tax revenues that are not included in income equalisation.

The municipality of Bykle has the highest tax revenues per capita, if tax revenues included in and excluded from income equalisation are taken into account. This is due to high levels of revenue from power, including natural resource tax, obligatory sales of power, licence fees and property tax on power plants. All of the 20 local authorities have considerable revenues from natural resources within the individual municipality, either through revenue from hydropower, aquaculture or both. For the local authorities in the figure, property tax on power plants, etc. is a major contributor to the high revenue level. The municipal structure reform has not helped to change this situation to any significant degree. Only two of the 20 municipalities have been involved in a municipal merger.

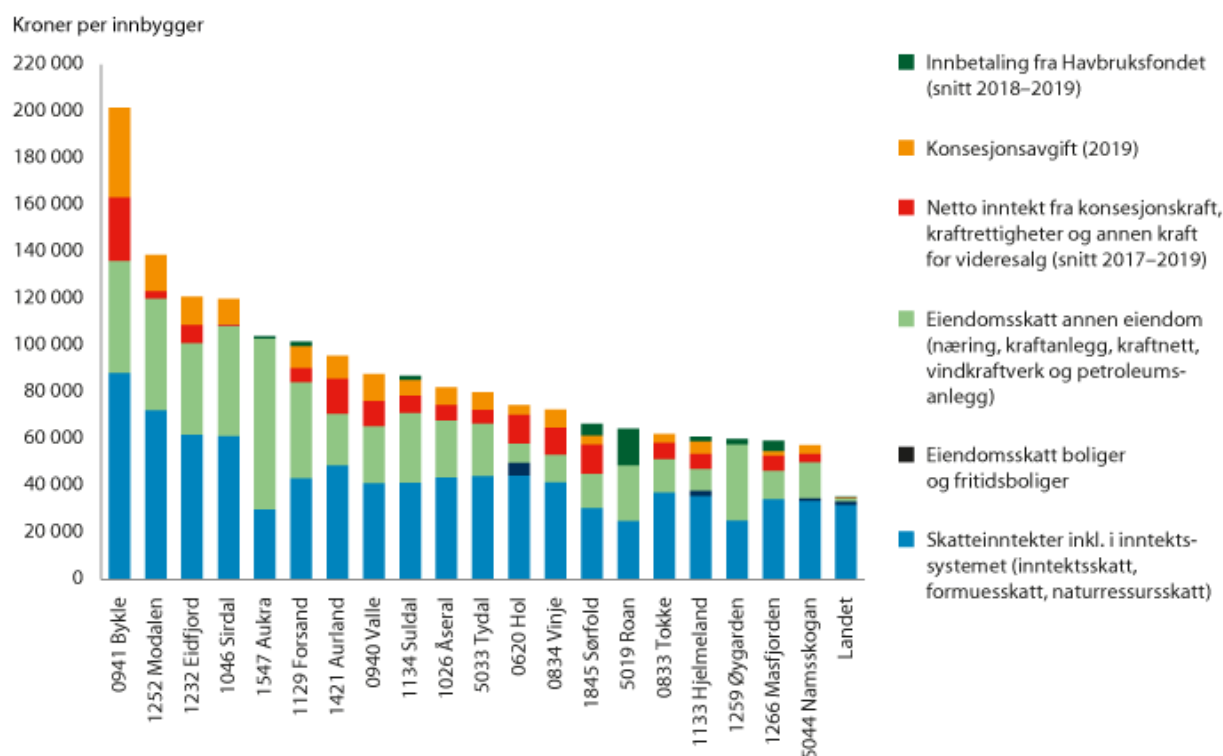


Figure 7.4 Tax revenues prior to equalisation per capita in 2019 for the 20 local authorities with the highest tax revenues per capita.

Statistics Norway, the Ministry of Finance, the Norwegian Water Resources and Energy Directorate and the Directorate of Fisheries

Table 7.10 shows several measures of the variation in local authorities' tax revenues in 2019, both before and after income equalisation. Tax revenues are calculated in NOK per capita as a percentage of the national average. The left-hand side of the table includes the tax base that is part of income equalisation at present: income tax, wealth tax and natural resource tax. On the right-hand side of the table, property tax, revenue from obligatory sales of power, licence fees and revenue from the Aquaculture Fund are also included.

The local authority with the lowest revenues has close to 60% of the national average prior to equalisation, while the local authority with the highest revenues has over 250% of the national average, measured in NOK per capita and based on the taxes in the current GPGS. Income equalisation in the GPGS considerably reduces the variation, and lifts all local authorities up to at least 93% of the national average when only taking into account taxes in the current GPGS.

If revenues from property tax, obligatory sales of power, licence fees and revenue from the Aquaculture Fund are also taken into account, the variation between local authorities is even greater. A few local authorities have revenues that are more than four times the national average, measured per capita.

The degree of variation between local authorities depends on which revenues are taken into account. Income tax has a much more equal distribution than the other municipal revenues, while revenue from power, property tax excluding residential property/holiday homes and disbursements from the Aquaculture Fund have a very unequal distribution. Wealth tax is also more unequally distributed than income tax, and a few local authorities notably generate substantial revenues from this tax.

Table 7.10 Variation in the local authorities' tax revenues for 2019 before and after income equalisation, measured in NOK per capita as a percentage of the national average.

	Tax base according to the current GPGS ¹		Including other revenues ²	
	Before equalisation	After equalisation	Before equalisation	After equalisation
Min.	62	93	62	85
1st quartile	78	94	80	93
Median	85	95	89	97
3rd quartile	93	96	103	108
Max.	277	170	529	431
Gini co-efficient ³	0.099	0.022	0.165	0.118
Total revenue in NOK mill.	170 122	170 122	187 667	187 667

¹ Registered tax from income and wealth tax, as well as natural resource tax for 2019.

² Including property tax on residential property and holiday homes in 2019, property tax on other property in 2019, net revenues on obligatory sales of power – averages for 2017–2019, licence fees for 2019 and disbursements from the Aquaculture Fund – averages for 2017–2019.

³ The Gini co-efficient is a measure of income distribution on a scale of 0–1, where 0 in this case indicates that all local authorities have the same level of revenue, measured in NOK per capita, while 1 indicates that one local authority receives all of the revenue.

Table 7.11 shows the covariation between different types of revenue measured in NOK per capita. The table shows the tendency of local authorities with high levels of revenue from income tax to also have relatively high levels of revenue from wealth tax. There is also, unsurprisingly, a clear covariation between different types of revenue linked to hydropower: natural resource tax, obligatory sales of power, licence fees and property tax excluding residential property/holiday homes. There is covariation between wealth tax and the Aquaculture Fund as well.

There is also a certain tendency for local authorities with relatively lower levels of revenue from power, etc. to receive higher levels of revenue from property tax on residential property and holiday homes. One possible explanation for this may be that local authorities with lower levels of revenue from other sources partly offset this by collecting more revenue through ordinary property tax.

Table 7.11 Correlation between different types of revenue, measured in NOK per capita. Figures for 2019 or 2020 (N=356).

	Income tax	Wealth tax	Natural resource tax	Revenue on obligatory sales of power	Licence fees	Property tax on other property	Property tax on residential property/ holiday homes	Aquaculture Fund
Income tax	1							
Wealth tax	0.535 ²	1						
Natural resource tax	0.113 ¹	-0.035	1					
Revenue on obligatory sales of power	-0.032	-0.053	0.681 ²	1				
Licence fees	0.096	-0.018	0.849 ²	0.632 ²	1			
Property tax on other property	0.140 ²	-0.038	0.820 ²	0.537 ²	0.657 ²	1		
Property tax on residential property and holiday homes	-0.045	-0.019	-0.198 ²	-0.147 ²	-0.181 ²	-0.220 ²	1	
Aquaculture Fund	0.073	0.239 ²	-0.078	-0.040	-0.079	0.001	-0.099	1

¹ Significant at the 0.05 level.

² Significant at the 0.01 level.

7.9 How does the current income equalisation function?

As Section 7.8 shows, there is significant variation in the local authorities' tax revenue before income equalisation. In this section, the function of the current income equalisation is discussed.

At present there is a partial equalisation of the differences in tax revenue between local authorities. As mentioned in Section 6.1.2, income equalisation consists of a symmetric equalisation and additional compensation for local authorities with tax revenues below 90% of the national average. In the symmetrical part of the equalisation, local authorities with tax revenues below the national average, measured in NOK per capita, receive compensation for 60% of the difference between their own tax level and the national average. Local authorities with tax revenues above the national average, measured in NOK per capita, are deducted for 60% of the difference between their own tax level and the national average. In addition to the symmetrical equalisation, local authorities with tax revenues below 90% of the national average receive additional compensation, in which they are

compensated for 35% of the difference between their own tax level and 90% of the national average.

Total deductions from local authorities with tax revenues above the national average are equivalent to the total compensation to local authorities with tax revenues below the national average within the symmetrical part of income equalisation. Additional compensation to local authorities with tax revenues below 90% of the national average are financed by all of the local authorities, by being deducted the same amount per capita.

An increase or decrease in tax revenues for the individual local authority will, through income equalisation, have less of an impact on the local authority's revenues than the change in tax revenues indicates seen in isolation. Therefore income equalisation functions as a safeguard against variation in tax revenues. A local authority that has lower growth than the national average will receive partial compensation for this through income equalisation. For a local authority with tax revenues below 90% of the national average, an increase in tax revenues of NOK 1 000 per capita on average for the country could mean increased tax revenues of over NOK 930 per capita, even though the local authority's own tax revenues are unchanged prior to equalisation. This means that strong national growth also increases revenues for local authorities that do not experience their own revenue growth.

The current income equalisation protects local authorities with the lowest tax revenues to a large extent. In 2019, 349 local authorities received additional revenue overall as a result of income equalisation, while 73 were subject to a deduction. The total redistribution in income equalisation in 2019 was approximately NOK 9.8 billion.

Table 7.12 shows the five local authorities with the lowest and highest tax revenues per capita respectively. The local authority with the lowest tax revenue per capita in 2019 (Kautokeino) had tax revenue amounting to 61.6% of the national average before equalisation, and after equalisation (including financing of the additional equalisation) this rose to 93.4% of the national average.

In 2019, 285 local authorities had tax revenue per capita below 90% of the national average and therefore received additional compensation in the income equalisation. Overall, the additional compensation amounted to roughly NOK 2 billion in 2019, which provided financing of NOK 391.50 per capita for all local authorities.

Local authorities with the highest tax revenues per capita are pulled down by income equalisation. For the local authority at the top (Bykle), tax revenue was reduced from 277.1% of the national average to 169.9% as a result of the equalisation. Four of the five local authorities with the highest tax revenues per capita are small municipalities with high revenues from power. So although these local authorities have high tax revenues, their contributions to income equalisation in terms of Norwegian kroner are not very substantial.

Table 7.12 Local authorities with the lowest and the highest tax revenues per capita in 2019, before and after equalisation.

	Tax as a percentage of the national average, before equalisation	Tax as a percentage of the national average, after equalisation
Local authority		
<i>Five local authorities with the lowest tax revenue per capita</i>		
Kautokeino	61.6%	93.4%
Fosnes ¹	63.7%	93.5%
Tolga	64.6%	93.5%
Nesseby	65.5%	93.5%
Sel	66.0%	93.6%
<i>Five local authorities with the highest tax revenue per capita</i>		
Bykle	277.1%	169.6%
Modalen	226.5%	149.4%
Eidfjord	194.1%	136.4%
Sirdal	192.3%	135.7%
Bærum	168.6%	126.2%

¹ In 2020, Fosnes municipality was merged with Namdalseid and Namsos municipalities to form the new Namsos municipality.

Table 7.13 shows the five local authorities with the largest net contribution to income equalisation in 2019. In total, they contribute approximately NOK 8.5 billion to the GPGS. The contribution from these local authorities amounts to roughly 87% of the total redistribution in the income equalisation. The City of Oslo is subject to the largest deduction, amounting to roughly NOK 4.9 billion, while Bærum is subject to a deduction of roughly NOK 1.7 billion.

Table 7.13 Local authorities with the highest net contribution to the income equalisation in 2019.

	Tax as a percentage of the national average, after equalisation	Net income equalisation (NOK 1 000)
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	average, before equalisation		
Oslo	135.3%	112.9%	-4 869 724
Bærum	168.6%	126.2%	-1 716 002
Asker	158.5%	122.2%	-713 498
Stavanger	124.2%	108.5%	-675 143
Bergen	107.5%	101.8%	-512 441
Total for the five local authorities with the highest contribution to the income equalisation			-8 486 807

Figure 7.5 shows the level of tax revenue per capita before and after equalisation for all local authorities in 2019. The orange bars show the level of tax revenue before equalisation, while the blue bars show the level of tax revenue after equalisation. The figure illustrates that the distribution between local authorities is significantly more equal after equalisation than before.

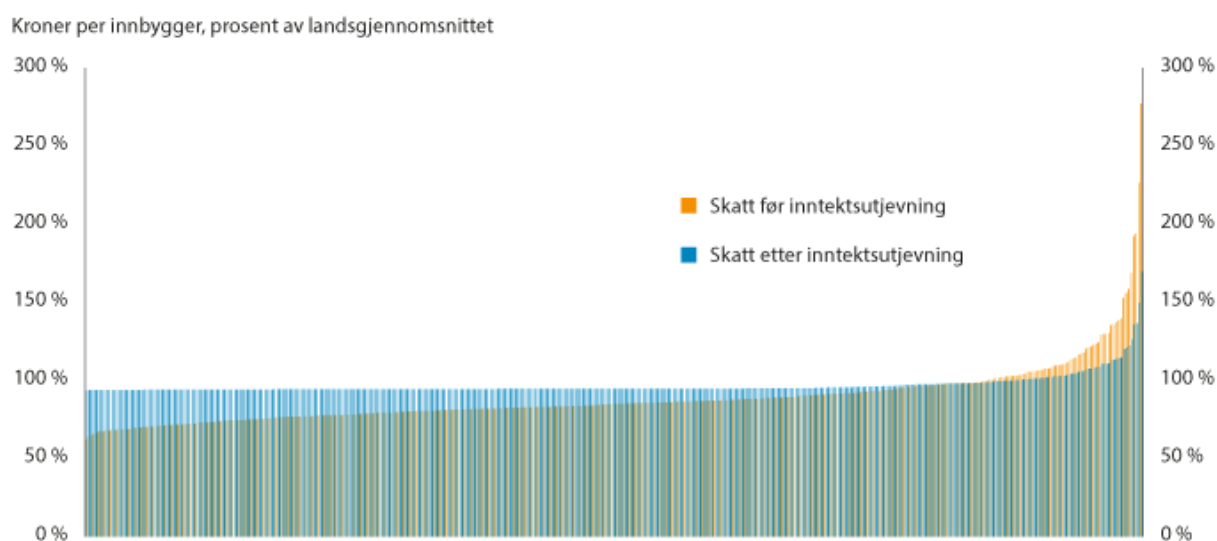


Figure 7.5 Tax revenue for 2019, before and after income equalisation, as a percentage of the national average for all local authorities. The local authorities are arranged according to the level of tax revenue, from lowest to highest.

Ministry of Local Government and Regional Development

Figure 7.6 shows the tax revenue before and after equalisation for the local authorities grouped by county. In 2019, only local authorities in Akershus and Rogaland, in addition to the City of Oslo, had, on average, tax revenue above the national average prior to equalisation. The counties of Hedmark, Aust-Agder and Finnmark had the lowest levels.

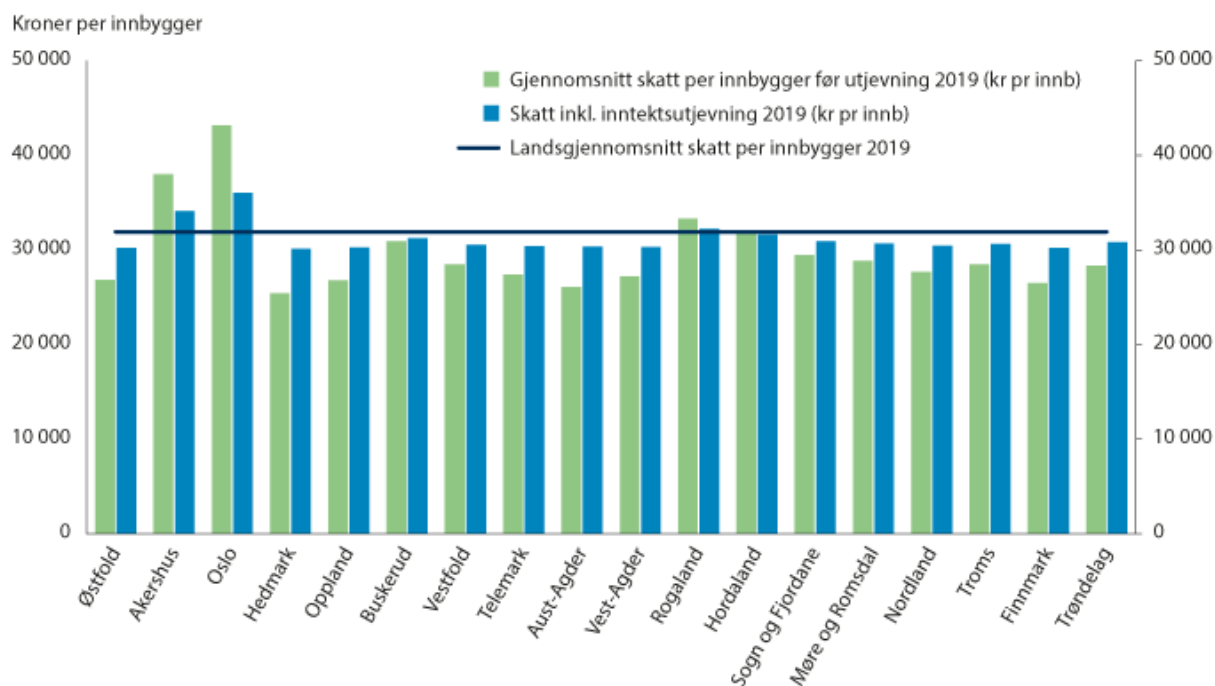


Figure 7.6 Tax per capita in 2019 – before and after equalisation – averages for the municipalities in each county.

Ministry of Local Government and Regional Development

Table 7.14 shows the tax revenue before and after equalisation on average for municipalities, grouped according to their size. If these groupings are taken as a whole, it is the municipalities with populations under 1 000 and over 100 000 that have, on average, tax revenues above the national average, both before and after equalisation.

Table 7.14 Tax revenue as a percentage of the national average per capita, before and after equalisation in 2019.

Municipal group	Number of municipalities	Population as of 1.1.19	Percentage of the national population	Average tax per capita as a percentage of the national average in 2019, before equalisation	Average tax per capita as a percentage of the national average in 2019, after equalisation

<1 000	30	22 730	0.4%	102.0%	102.2%
1 000–2 999	128	248 541	4.7%	85.3%	96.2%
3 000–4 999	62	244 169	4.6%	87.6%	96.1%
5 000–9 999	89	623 629	11.7%	85.4%	95.5%
10 000–19 999	54	768 749	14.4%	88.5%	95.6%
20 000–49 999	43	1 261 102	23.7%	91.0%	96.5%
50 000–99 999	11	739 994	13.9%	97.0%	98.4%
>100 000	5	1 419 298	26.6%	126.9%	109.5%
Total	422	5 328 212	100.0%	100.0%	100.0%
