The Norwegian Tax System

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Summary:

This paper gives a description of the Norwegian tax system. The main areas are:
- A brief description of the Norwegian tax system as a whole
- A description of the broad lines of the tax system and tax rates fir Nowegian individuals
- A description of the broad lines of the tax system for limited companies in Norway
- A description of the tax system for taxation of company wages and salaries etc
- A description of the Norwegian tax value added tax system (VAT) and other excises
- A description of the Norwegian tax collectiong system

Key Words:
1. Tax system
2. Tax rates
3. Excises
4. Tax collecting
5. Norway

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Preface

About the Project

As may be well known, the Russian economy has undergone great changes in recent years; from a centrally planned economy to a system of market economy. These changes have not been without problems. One major problem is related to the tax system and the tax collecting system. Up to now, it has been impossible to create a tax system which is reasonably fair, and, at the same time, can provide the government with enough money to meet its expenses.

Therefore, the Institute of System Analysis at the Russian Academy of Sciences, Moscow, wants to carry out an analysis of the Russian tax system with the goal of suggesting improvements in the Russian tax system and the tax paying system. The overall idea is to design an improved tax system and tax paying system.

In order to do so, the institute wants to look at the tax systems and tax paying systems in other countries. *Dr. Vladimir B. Britkow* of *Information Systems Laboratory* has asked me to *give a description and analysis of the Norwegian tax system and tax collecting system*. This report is in response to that request.

About the Author

Helge Pedersen is *Associate Professor* at *Agder University College*, Kristiansand, Norway. He teaches Corporate Finance, Financial Accounting and Tax Planning in Business Administration studies and has done research in the same fields. He is the author of several textbooks on Corporate Finance and Financial Accounting.

Helge Pedersen

Kristiansand, Norway, 06.07.2001

Contents

1. Introduction

Goal of the Survey

The goal of the survey will be to prepare a paper about the Norwegian tax system. The paper should contain a description of the Norwegian tax system, and include the following areas:

- A brief description of the Norwegian tax system as a whole, and the level of the different kinds of taxes to the Norwegian government, counties and municipalities.
- A description of the broad lines of the tax system and tax rates for Norwegian individuals, especially about the taxation of personal income.
- A description of the broad lines of the tax system for limited companies in Norway, including tax rates for company income and deductible expenses.
- A description of the tax system for the taxation of company wages, salaries and other benefits to the company's employees.
- A description of the Norwegian value added tax system (VAT).
- A description of other Norwegian indirect taxes and excises.
- A description of the Norwegian tax collecting system.

The paper should include a comparison with the tax systems and tax rates of other industrial western countries. It should also include a presentation of the ongoing discussion about the deficiencies of the present Norwegian tax system and of the latest changes to the tax system and tax rates.

2. The Norwegian Tax System related to the National Income of Norway

2.1 The Norwegian Tax System

The Norwegian tax system can be examined in different ways. Below follows a brief description of the main possibilities to describe the system.

This chapter contains some figures, which describe the amount of taxes and excises for each group.

Administrative Units for Norway

Norway has different administrative units or levels. The first (highest) level is *the State*. Then come the *counties*; there are 20 counties in Norway. The lowest level is the *municipality*, of which there are about 435.

The taxes and excises are divided between these levels according to certain rules.

Types of Taxes and Excises

The two main groups of taxes and excises are *direct taxes* and *indirect taxes and excises.*

The direct taxes are paid directly by the taxpayers, which can be companies or individuals. Primarily sourses of direct taxes are taxes on income and property.

Indirect taxes and excises are paid indirectly, they are not charged to specific companies or individuals. Most excises are indirect.

Types of Tax Payer

A third division is grouping by taxpayers. Taxpayers can be *companies* and *individuals*.

If the company is a limited company, it is liable to pay tax on income.

Individuals can be *self-employed persons*; they run a company that is owned by the self-employed person. Individuals can also be an *employees* and receive wages or salaries from their employers. Individuals have to pay income tax on their wages and salaries and property tax on their properties.

2.2 The Level of different Types of Taxes and Excises

Table 2.01 on the next pages shows the different types of taxes and excises paid by Norwegian taxpayers. First come the figures in NOK[i] 1 000 000 000. The second part of the table is the figures as a percentage of the total amount of taxes and excises.

The table shows that the largest part of the total amount of taxes and excises goes to the State, namely 84.61 %. This money is the income part of the Government's yearly budgets. The counties have disposal of 5.16 % of the total and the municipalities of 10.23 %. *Individual taxpayers* account for 34.07 % of the total amount of taxes and excises. The money goes to the State with 19.41 %, to the counties with 5.12 % and to the municipalities with 9.54 %. This type of tax is the main source of income for the counties and the municipalities.

The largest part paid by individual taxpayers, namely 22.17 %, is tax on ordinary income. Ordinary income includes income from wages and salaries as well as income from interests and dividends. The tax on ordinary income is divided between all the three levels. Then there is a special tax on wages and salaries, which goes only to the State. An employee's pension contribution is part of the tax for individuals. This tax goes only to the State. Individuals also have to pay tax on property. This tax is divided between the State and the municipalities.

Companies account for 4.79 % of the total. Most of the money goes to the State, only a small part goes to the counties and the municipalities.

Tax on real property accounts for 0.46 % of the total. This tax goes to the municipalities, in which the property is located.

Employers' pension contribution is the employers' part of the tax payment for pensions, and is 11.72 % of the total. This money goes only to the State.

Excises are all indirect taxes, and amount to 30.88 % of the total. This money goes only to the State. The largest part is value added tax, which amounts to 19.74 %. All other excises amount to 11.14 %.

Taxes on oil extraction amount to 16.0 % of the total, and goes only to the State. Part of the money, namely 14.88, is tax on income and property of the oil drilling companies. The other 1.12 % are different kinds of excises.

Lastly comes a *diversity group*, which total to 2.07 %.

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[i] NOK = Norwegian krone. USD ($) 1.00 = NOK 9.00.

Table 2.01 *Taxes and Excises on Norwegian Taxpayers. Estimates for 2001*

NOK 1 000 000 000	*The State*	*Counties*	*Municipalities*	*Total*
Individual taxpayers:				
Tax on ordinary income	49,9	31,0	53,2	134,1
Special tax on wages etc.	15,0			15,0
Employees' pension contribution	50,7			50,7
Tax on property	1,8		4,5	6,3
Sum individual taxpayers	117,4	31,0	57,7	206,1
Companies:				
Tax on ordinary income	27,5	0,2	1,2	28,9
Tax on property	0,1			0,1
Sum companies	27,6	0,2	1,2	29,0
Tax on real property			2,8	2,8
Employers' pension contribution	70,9			70,9
Excises:				
Value added tax	119,4			119,4
Spesial taxes and duties	67,4			67,4
Sum excises	186,8	0,0	0,0	186,8
Oil extraction:				
Tax on income and property	90,0			90,0
Excises on extraction	6,8			6,8
Sum oil extraction	96,8	0,0	0,0	96,8
Other taxes and excises	12,3		0,2	12,5
Sum taxes and excises	511,8	31,2	61,9	604,9

Source: Parliament Report No 1 (2000-2001): *The National Budget of Norway 2001,* table 4.7.

NOK 9,00 = USD 1,00

Table 2.01 *Continued*

In %	*The State*	*Counties*	*Municipalities*	*Total*
Individual taxpayers:				
Tax on ordinary income	8,25	5,12	8,79	22,17
Special tax on wages etc.	2,48	0,00	0,00	2,48
Employees' pension contribution	8,38	0,00	0,00	8,38
Tax on property	0,30	0,00	0,74	1,04
Sum individual taxpayers	19,41	5,12	9,54	34,07
Companies:	0,00	0,00	0,00	0,00
Tax on ordinary income	4,55	0,03	0,20	4,78
Tax on property	0,02	0,00	0,00	0,02
Sum companies	4,56	0,03	0,20	4,79
Tax on real property	0,00	0,00	0,46	0,46
Employers' pension contribution	11,72	0,00	0,00	11,72
Excises:				
Value added tax	19,74	0,00	0,00	19,74
Spesial taxes and duties	11,14	0,00	0,00	11,14
Sum excises	30,88	0,00	0,00	30,88
Oil extraction:				
Tax on income and property	14,88	0,00	0,00	14,88
Excises on extraction	1,12	0,00	0,00	1,12
Sum oil extraction	16,00	0,00	0,00	16,00
Other taxes and excises	2,03	0,00	0,03	2,07
Sum taxes and excises	84,61	5,16	10,23	100,00

2.3 Taxes and Tax Levels in some European Countries

Taxes and Excises in some European Countries

An international comparison of tax rates and tax levels is not easy to carry out. The tax structure and the economic conditions are so different from country to country that comparisons are of limited value. However, the tax structure and tax level is of importance to a country's ability to compete. Therefore discussions are going on within the European Union to what extend the tax levels and the tax structures should be harmonised.

Conclusions have not yet been drawn. In the meantime we can have a look at some of the existing statistics. Table 2.02 below shows some figures for the level of taxes in the Nordic countries, in some of the other members of the European Union and in the USA.

Table 2.02 *Taxes and Excises in some European Countries. 1997*

Country:	*Taxes and excises per inhabitants in USD ($)*	*Taxes and excises, % of GNP*	*% of total taxes and excises; Tax on income*	*Tax on property*	*Tax for pension contribution*	*Excises on production*	*Others*
Nordic Countries:							
Norway	14 909	42,6	37,9	2,7	22,4	37,0	0,0
Denmark	15 844	49,5	59,9	3,4	3,2	33,0	0,0
Finland	10 999	46,5	41,4	2,3	25,2	30,9	0,1
Sweden	13 867	51,9	41,2	3,9	29,2	22,3	0,1
Some EU-countries:							
Belgium	11 033	46,0	38,6	2,9	31,8	26,7	0,0
France	10 848	45,1	19,9	5,4	40,6	27,8	3,8
Germeny	9 606	37,2	27,9	2,7	41,6	27,5	0,0
Great Britain	7 870	35,4	36,9	10,8	17,2	35,0	0,0
Italy	8 958	44,4	35,4	5,1	33,5	25,9	0,0
USA	8 614	29,7	48,4	10,7	24,2	16,7	0,0

Source: Official Statistics of Norway: *Statistical Yearbook of Norway.* Oslo 2000 (yearly).

The table shows great differences between the counties examined, calculated in USD per inhabitant and as a percentage of GNP. Sweden is in the upper end; taxes and excises are calculated to 51.9 %. On the other hand the USA, Great Britain and Germany are in the lower end with tax levels of 29.7 %, 35.4 % and 37.2 % of GNP respectively. Norway is in the middle; taxes and excises are calculated to 42.6 % of GNP.

The relative share of each types of taxes and excises differs very much from country to country. The three largest groups are tax on income, tax on pension contribution and excises on production.

Denmark has the highest tax on income; France and Germany the lowest. On the other hand Denmark has the lowest tax for pension contribution. Therefore, tax on income and tax on pension contribution should be viewed together. Doing that, the combined percentage for the two groups of the total is more than 70 % in the USA, Sweden and Belgium. At the other end the percentage for Great Britain is less than 55 %. Norway is again in the middle with a combined percentage of 60.3 %.

With the exception of the USA and Great Britain the tax on property has only an small percentage.

The excises on production also differ from country to country, but not as much as taxes on income and for pension contribution. For most of the countries the percentage is between 25 % and 30 %. The exceptions are Norway, Great Britain and Denmark at the upper end with percentages higher than 30, and Sweden and the USA in the lower end with percentages lower than 23.

Table 2.02 gives an overview of the tax levels in total and divided between different kinds of taxes. However, it did not say anything about the tax levels for individuals compared to the tax levels for companies. A comparison of the tax levels for companies in some countries is given in chapter 4.

Ongoing Discussions

In many countries, especially in member countries of the European Union, there is an ongoing discussion about tax levels and structures. The Union itself is discussing whether the tax levels and structures should be harmonised. So far no decision has been reached.

Some of the member countries have recently announced large tax cuts. This process started in the USA in the Reagan period and was followed in Great Britain by Margaret Thatcher. In these countries the tax level and especially the marginal tax rate on income for individuals and companies was drastically reduced.

In July 2000 the National Assemblies in Germany voted in favour of large tax cuts. The marginal tax rate for income of individuals is to be reduced from 51 % to 42 %. For companies the average tax rate will be lowered from about 50 % to 40 %. The tax rate on capital gains is to be lowered from 40 % to 25 %, and later on to an even lower level. The total cuts are calculated to about Euro 25 billion.

The Germany tax reform has been followed by proposals for tax cuts in many other European countries. The French government proposes to cut taxes by about Euro 30 billion over a four-year period. The plan includes, among other factors, reduction of the marginal tax rate for income for individuals to below 50 %. Similar proposals have come from the governments of Italy, Belgium and Sweden. However, so far no decisions have been made in any of these countries.

Selected References

Official Statistics of Norway: *Statistical Yearbook of Norway*. Oslo 2000 (yearly).

St. meld. (Parliament Report) No. 1 (2000-2001): *Nasjonalbudsjettet for 2001 (The National Budget of Norway)*. 2000 (yearly).

St. prp. (Parliament Proposal) No. 1 (2000-2001): *Statsbudsjettet medregnet folketrygden for 2001 (The Budget for 2001)*. 2000 (yearly).

3. The Tax System for Taxation of Norwegian Individuals

3.1 Introduction

The *goal of this chapter* is to give a description of the broad lines of the tax system and tax rates for Norwegian individuals, especially of the taxation of personal income. The tax system is described in chapter 3.2. Chapter 3.3 gives some examples of the tax level related to the size of income. The structure and figures are related to the fiscal year 2000.

Below you will find some statistics for the average income, average taxable property and tax level for Norwegian families. These figures are from the official statistics of Norway, and are related to the fiscal year 1998.[ii]

Table 3.1 *Average income and taxable property per family (household) in NOK. 1998.*

	Average per family (household)				
	Persons in family	Total income	Income after taxes	Taxable property	Liabilities
All households	2,2	348 911	264 863	329 844	353 859
Households without children 0 - 16 years	1,6	302 686	224 517	361 008	249 556
Households with children 0 - 16 years	3,8	474 546	374 519	245 145	637 341
Family members at work in the household:					
None	1,4	160 904	143 102	348 454	98 745
One	1,9	324 664	242 509	279 768	361 445
Two	3,2	570 276	414 227	351 049	638 785
Occupation of the main family member:					
Agriculture and fishing	2,8	463 980	344 955	697 896	679 217
Employer	2,9	651 332	446 901	804 447	1 007 461
Employee	2,5	439 453	323 638	267 728	460 154
Retired person	1,5	189 279	162 447	408 838	100 652

NOK (Norwegian Kroner) 9,00 = USD 1,00; NOK 8,00 = Euro 1,00 (approximately).

Table 3.1 shows the average income before and after taxes related to the family (household). Taxable property and liabilities are also shown. The figures are in Norwegian Kroner (NOK) for the year 1998. For each group the average number of persons in the family are shown.

[ii] Official Statistics of Norway: *Statistical Yearbook of Norway*. Oslo 2000 (yearly).

The table has figures for all households in average, for households with and without children, for households with different number of family members at work and for different kinds of occupation of the main family member.

Table 3.2 *Average income and tax per family (household) in NOK. 1998.*

Incomes and deductions	All families	Occupation of the main family member Employer	Employee	Retired person
Salaries and wages	237 314	117 855	385 148	13 125
Business net profit	24 849	381 775	6 957	2 059
Sum	262 163	499 630	392 105	15 184
Capital income and gains	19 220	40 631	19 016	16 788
Pensions and social securities; taxable	61 634	28 765	21 420	153 697
Others, taxfree	11 382	13 054	10 668	8 831
Total income	354 399	582 080	443 209	194 500
Taxes	89 536	173 590	119 572	32 053
Income after taxes	264 863	408 490	323 637	162 447

NOK (Norwegian Kroner) 9,00 = USD 1,00; NOK 8,00 = Euro 1,00 (approximately).

Table 3.2 shows the average income of different kinds and taxes related to families (households). The figures are shown for all families, and separately for employers, for employees and for retired persons.

The reader should be aware of the fact that different kinds of income are taxed at different rates. Some of the income is not taxed at all. On the other hand, some expenses can be deducted before taxation.

Table 3.3 shows the average property, liabilities and net property tax related to families (households). The figures are shown for all families, and separately for employers, for employees and for retired persons.

Table 3.3 *Average property and tax on property per family (household) in NOK. 1998.*

Assets and liabilities	Occupation of the main family member: All families	Employer	Employee	Retired person
Tangible fixed assets	240 167	728 051	256 232	165 551
Financial assets	284 180	691 526	248 242	306 445
Sum	524 347	1 419 577	504 474	471 996
Liabilities	-353 859	-883 788	-460 154	-100 652
Total net assets	170 488	535 789	44 320	371 344
Taxes on net property	2 699	7 017	2 193	3 173

NOK (Norwegian Kroner) 9,00 = USD 1,00; NOK 8,00 = Euro 1,00 (approximately).

3.2 Procedures and Rates of Taxation

Concepts of income

The tax system in Norway had a major reform in 1992. The aim of that major tax reform was to create tax rules that would grant equal and fair treatment to all taxpayers. That goal was partly achieved. However there are still some disparities among taxpayers.

Since the reform of 1992 the tax regime in Norway recognises two kinds of taxable income. These are the *ordinary income* and the *personal income*.

Ordinary income is equivalent to the net income of the taxpayer. It includes taxable income from all sources such as income from public companies, private companies and wages and salaries of individuals (personal taxpayers). Company expenses are deductible. Individuals are allowed to deduct some expenses, e.g., interests paid.

Personal income is income from salaries and wages and pensions of individuals. It is some type of a gross income of an individual. No deductions for expenses are allowed from this income. Capital income and gains are not part of personal income. Simply speaking personal income consist of only wages, salaries and pensions.

Generally *companies* pay taxes on *ordinary income* only. *Individuals* (personal taxpayers) pay taxes *on ordinary income plus personal income*.

However, some private companies are owned by one or a few person(s) who also work full or part time in the company. The earnings of these persons are not accounted as expenses of the company. They are treated as part of the company's profit. Thus net income in such companies is partly salaries and partly capital income. Taxation of these companies requires special attention. In principle they will have to pay taxes on *ordinary income plus personal income*. Since it is difficult to separate the two types of income from each other, there is a special way of dealing with taxation of these companies.

Tax Rates and Deductions

The Norwegian Parliament sets the tax rates and the deductions for the coming year as part of the yearly budgeting process. For the fiscal year 2000 the main rates and deductions are as follows (proposals for 2001).

Table 3.4 *Tax Rates and Deduction for Norwegian Individuals and Companies*

Tax Rates and deductions for	**2000**	**(2001 proposals)**
Tax rate on ordinary income for public companies	28.0 %	28.0 %
– deductions, NOK[iii]	0.0	0.0
Tax rate on ordinary income for individuals (personal taxpayers)	28.0 %	28.0 %
– deductions in general income,		
class I (individuals), NOK	27 700	28 800
class II (families), NOK	55 400	57 600
Tax rate on personal income		
– tax rate, level 1	13.5 %	13.5 %
– deductions in gross income,		
lover level, class I (individuals), NOK	277 800	289 000
higher level, class II (families), NOK	329 000	342 200
– tax rate, level 2	19.5 %	19.5 %
– deductions in gross income,		
lover level, class I (individuals), NOK	762 700	793 200
higher level, class II (families), NOK	762 700	793 200
Social security contributions;		
on salaries and wages	7.8 %	7.8 %
on employers, general rate	10.7 %	10.7 %
on pensions	3.0 %	3.0 %

[iii] NOK (Norwegian Kroner) 9,00 = USD 1,00.

Table 3.4 Continued

Tax Rates and deductions for	**2000**	**(2001 proposals)**
Deductions for expences;		
– general deduction; % of ordinary income	22.0 %	22.0 %
maximum, NOK	36 600	40 300

This deduction should cover general expenses, including travelling expenses, up to a certain amount for people at work. Other deductable expences are:

- expenses paid because distance to the working place causes the taxpayer to stay away from home,
- premium paid for pension plans,
- interest on debts

These expences at deducted before the net ordinary income is calculated.

The marginal tax rate will be;	**2000**	**(2001 proposals)**
– on ordinary income for companies	28.0 %	28.0 %
– on ordinary income for individuals		
– and deductions for their expenses	28.0 %	28.0 %
– on personal income, individuals;		
moderate income	49.3 %	49.3 %
high income	55.3 %	55.3 %
– on personal income, employers;		
moderate income	52.2 %	52.2 %
high income	58.2 %	58.2 %
– on personal income, retired persons;		
moderate income	44.5 %	44.5 %
high income	50.5 %	50.5 %

The calculation of income taxes is shown in chapter 3.3.

Investment Incomes and Expenses, Capital Gains and Losses

Incomes and expenses on investments are taxed and deductable at the rate for ordinary income; that is at a rate of 28 %. Most ordinary items are interest received and paid. Capital gains and losses from sales of assets are taxed and deductable at the same rate.

Dividends are not taxable income for the recipient, given that the recipient is a Norwegian citizen. On the other hand, the company, which pays the dividend, has no tax deduction on that payment. Thus, if the company and its shareholders are treated as one unit, dividends are taxed at the general rate of 28 %.

Taxes on Property

Owners of real property pay a speciel tax on that property. That tax goes to the municipality.

In addition owners of residential houses and recreation cabins are charged an income tax for that property. The additional ordinary income is 2.5 % of the taxable value between NOK 51 250 and NOK 451 000, and 5 % of the taxable value above NOK 451 000. The taxable value is in general 30 – 40 % of the market value.

Taxes on Net Assets

The Norwegian Parliament also decides on the tax rates and deductions for taxes on net assets[iv] in the annual budgeting process of the government. For the fiscal year 2000 the main rates and deductions are as follows:

- Public companies do not pay tax on net assets.

- Owners of the companies (employers), as well as individuals owning net assets in Norway, pay tax on the net worth to the municipality as well as to the central government. The tax rates are 0.7 % and 0.4 % respectively. The taxable net worth value is in general lower than the market value. Up to NOK 580 000 there is some deduction in the taxable net worth value before the calculation of tax.

Conclusions

For individuals *salaries and wages* are taxed as ordinary income plus personal income. The tax rate on ordinary income is 28 %, and for personal income up to 27.3 %. Thus, salaries and wages are taxed by a total rate up to 55.3 %.

For individuals *capital income* is taxed at the rate of 28 %. This rate is also used for deduction of *capital expenses* and *other deductible expenses*.

Taxes on ordinary income go to the municipalities and the counties. Taxes on personal income and the social security contributions go to the central government.

[iv] Net assets are total assets less total liabilities.

3.3 Taxes related to normal Income and Net Assets for Individuals

Income Tax

Table 3.5 below shows income taxes for Norwegian individuals based on different assumptions for income and deductions. The main assumptions for each taxpayer are:

- The taxpayers are in class 1 (individuals)
- The taxpayers are grouped in three levels; high income = NOK 400 000, medium income = NOK 300 000 and low income = NOK 200 000
- The taxpayers pay 2 % of the income as a premium for pension plans. This premium is deductible
- The taxpayers own their own residential house with a sales value of; high income = NOK 1 200 000, medium income = NOK 900 000 and low income = NOK 600 000
- The taxpayers own their own residential house with a tax value of; high income = NOK 480 000, medium income = NOK 360 000 and low income = NOK 240 000
- Taxable income for the house is 2.5 % of the amount above less NOK 51 250
- The taxpayers have a debt on their residential house of; high income = NOK 720 000, medium income = NOK 540 000 and low income = NOK 360 000
- The taxpayers pay interest on the loan at a rate of 7 %. The interest paid is deductible
- NOK (Norwegian Kroner) 9.00 = USD 1.00

These assumptions give the following figures and calculations:

- Sum income consists of wages and salaries (personal income) and a calculated additional income related to the house owned. This income is 2.5 % of the taxable value of the house (see above) less NOK 51 250 (allowed deduction)

- There are three kinds of taxable deductions;

  - deduction for expenses NOK 36 600 for all groups (see table 3.4),
  - pension premium paid; 2 % of personal income,
  - interest paid; 7 % of the loan mentioned above

- Personal income, plus taxable income for the house, less taxable deductions, give the ordinary income

Income tax based on the figures above will be as follow:

- Tax on ordinary income is 28 % of ordinary income (see above) less NOK 27 700 (allowed deduction, see table 3.4)

- Tax on personal income is 13,5 % of personal income (see above) less NOK 277 800 (allowed deduction, see table 3.4)

- Social security contribution is 7.8 % of personal income (see above) (see table 3.4)

Table 3.5 below shows the income tax in NOK and % of income for the different amounts of incomes and deductions.

Table 3.5 *Income, deductions and taxes for Norwegian individuals in NOK. 2000*

NOK	High income	Medium income	Low income
Incomes from wages and salaries	400 000	300 000	200 000
Sum Personal income	400 000	300 000	200 000
Taxable income for the residence	10 719	7 719	4 719
Sum Incomes	410 719	307 719	204 719
Deductions;			
Deduction for expenses	-36 600	-36 600	-36 600
Pension premium paid	-8 000	-6 000	-4 000
Interest paid	-50 400	-37 800	-25 200
Ordinary income	315 719	227 319	138 919
Taxes;			
Tax on ordinary income	-80 645	-55 893	-31 141
Tax on personal income	-16 497	-2 997	0
Social security contributions	-31 200	-23 400	-15 600
Sum Taxes	-80 645	-55 893	-31 141
Taxes / income from wages and salaries	-20,2 %	-18,6 %	-15,6 %

NOK (Norwegian Kroner) 9,00 = USD 1,00; NOK 8,00 = Euro 1,00 (approximately).

From the table it can be seen that the tax rate is increasing; the % paid increases the higher the income is.

In the table most ordinary incomes and deductions are included. Other income, e. g. interest received and capital gains, are taxed at a rate of 28 %. Capital loss is deductible at the same rate.

Taxes on Net Assets

As shown in chapter 3.2, individuals pay taxes on net assets to the municipality, as well as to the central government. The tax rates are 0.7 % and 0.4 % respectively. The taxable net worth value is in general lower than the market value. Up to NOK 580 000 there is some deduction in the taxable net worth value before the calculation of tax.

In our examples no tax is paid because the taxable value of the house is lower than the debt.

If the taxpayer has other assets such as bank deposits, bond and shares, they should be included at their market value at the end of the year.

Property Tax and Local Taxes to the Municipality

Individuals pay a certain tax to the municipality on real property. The main elements are property tax and a tax for using the water supply, the sewerage system and the garbage system of the municipality. These taxes are paid to the municipality directly.

An example of the size of these taxes in Kristiansand (Norway) will be:

	Large house
NOK	1 200 000
Property tax	4 200
Tax for water supply, sewerage system and garbage	7 550

Sum	11 750

These taxes differ in accordance with the value and the size of the house. For the other groups these taxes will be lower.

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4. The Tax System for Taxation of Norwegian Limited Companies

4.1 Tax Rates

Types of Companies

For taxation purposes there are two main groups of companies in Norway. The main group is *limited companies*. They are well regulated, with a special law for limited companies, the accounting law, which is well adapted for those kinds of companies, and certain chapters in the general tax law, which regulate the taxation of limited companies.

The taxation of this kind of company is for the company's income only. The income of the company and the income of the owner(s) are taxed separately.

The other main group is *personally owned companies*. These companies are taxed together with their owners. The taxation is somewhat similar to the taxation of individuals.

In this chapter the taxation of Norwegian limited companies will be outlined. The taxation of income for personally owned companies will not be described.

Incomes and Expenses

As shown in table 3.4, ordinary income for *public limited companies* is taxed at the rate of 28 %. This rate is also used for deductible expenses. The Norwegian Parliament decides on the tax rates and deductions as part of the budget decision every year.

Thus, the ordinary average tax rate and the marginal tax rate on income will both be 28 % for Norwegian limited companies.

Ordinary income of the company will be defined as the *net profit for the year*, i.e., taxable income less deductible expenses.

However, the tax rate of 28 % is not always the effective tax rate on the net profit of the year as defined in the accounting law. The reason is that some incomes are not taxable and some expenses are not deductible from taxation. On the other hand some expenses are deductible from taxation at a higher amount in the tax statement than it is in the financial statement. The main differences and deductions are described in chapter 4.2.

Dividends

In general capital incomes – like interest received – should be taxed as ordinary income, i.e., at a rate of 28 %. Equally are capital expenses – like interest paid –deductible in the ordinary

income, i.e., at a rate of 28 %. Even if this is the main rule, there are two exceptions, *dividend* and *capital gains.* The rules for such incomes are described below.
According to financial theory the shareholders of a company and the company should be treated as a group. Thus, if the tax rate on ordinary income is 28 %, the combined tax rate for the net profit of the company and dividends of the company's shareholders should be 28 %.

The taxation of dividends can be treated in different ways. According to the Norwegian tax law *share dividends received* are in general not taxed at the receiver's end, given that the dividends are legally paid. Similarly the paying company is not allowed to use the amount of dividends paid as a deductible expense. *In that way the dividends paid to the owners will be treated as taxed at the general tax rate of 28 %.* It makes no difference if the receiver is an individual or a company.

Dividends can also be taxed in the same way as interest; the receiver pays tax at a rate of 28 %, and the company has a similar deduction in its income, and thus, a lower tax rate. A third possibility it to share the tax burden between the company and it shareholders.

There have been some rumours in Norway that "dividends received are not taxed." Therefore the Norwegian government has proposed to the Norwegian Parliament that dividends received should be taxed, but at a lower rate than 28 %. For the time being it is not decided if this extra tax should be introduced. Probably it will be, but at a lower rate and with some deduction for the company who pays the dividends. According to financial theory the result of this proposal will be a higher tax rate on dividends than on other capital incomes.

Capital Gains

All *capital gains* received from the sales of shares are taxable at the general rate of 28 %. Normally the capital gains from sales of shares are the difference between the sales income and the buying costs for the shares sold. However, some of the gains have already been taxed at the hand of the company.

Therefore a deduction is allowed when calculating the gain. The amount of deduction allowed is equivalent to the net profit not paid out to the shareholders over the years. That amount is normally equivalent to the retained earnings in the company for the same period. This treatment avoids taxing the income of the company and its shareholders twice.

The conclusion from the discussions above is that the tax rate for ordinary income on public companies, on net entrepreneurial income and on capital income and gains for companies and individuals is 28 %. The conclusion is therefore that the general tax rate to be used for investment analysis in Norway is 28 %.

Taxes on Net Assets

The Norwegian Parliament also decides the tax rates and deductions for taxes on net assets[v] in the annual budgeting process of the government. For the fiscal year 2000 the main rates and deductions are as follows:

- Public companies do not pay tax on net assets.

- Owners of the companies (employers), as well as individuals owning net assets in Norway, pay tax on the net worth to the municipality as well as to the State. The tax rates are 0.7 % and 0.4 % respectively. The taxable net worth value is in general lower than the market value. Up to NOK 580 000 [vi] there are some deduction in the taxable net worth value before the calculation of the tax.

4.2 Major Differences in Net Profit of the Year between the Financial Statements and the Tax Statements

Permanent and Temporary Differences

In chapter 4.1, the conclusion was that the general tax rate on company's net profit for the year is 28 %. However, some tax rules cause the real tax payment of the year to differ from that calculation. In the accounting law these differences are named *permanent* differences and *temporary* differences.

Such differences are differences between the net profit of the year in the financial statements calculated according to the accounting law of Norway and the net profit of the year calculated according to the tax law of Norway. The differences are *permanent* if they are definitive. They are *temporary* if they are postponing or advancing the tax payment.

Permanent differences will arise if an income in the financial statement is not taxable. Dividend received is such an income. They will also arise if an expense in the financial statement is not deductible according to the tax law. Some subscriptions and gifts are examples.

Temporary differences arise if the incomes and expenses in the financial statement differ from the figures in the tax statements. Temporary differences arise because there are some differences in the accounting law and the tax law for the calculation of some incomes and expenses.

The temporary differences could be *positive*; they postpone the tax payment. But they could also be *negative*; they advance the tax payment. In general the tax law rules cause a postponement of the tax payment. This postponement is found in the financial statements as *deferred tax*, and is placed on the balance sheet in the *equity and liabilities group* as *provisions*.

The temporary differences will arise on several items in the financial statements. However, most of the differences can be placed on a few items. These are *depreciation on real assets*, *costs of goods sold* and *allowance for bad debts*. The rules for these items will be described below.

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[v] Net assets are total assets less total liabilities.
[vi] NOK (Norwegian Kroner) 9.00 = USD 1.00.

Depreciation on Real Assets

According to the accounting law fixed assets such as buildings, cars and trailers, machinery and inventory should be depreciated year by year according to the yearly reduction in value. However, the depreciation rules in the tax law say that the yearly depreciation should be standardised according to certain rules. In addition gains on assets sold are not taxable in the year of sale, the taxation is postponed to a later year. The total effect of these rules is that in general *positive temporary differences will arise on real assets*.

Costs of Goods Sold

According to the accounting law, purchased goods should be valued in the balance sheet to the lower of the purchase cost and sales value. In the same way manufactured goods should be valued in the balance sheet to the lower of the manufacturing cost and sales value.

Very often some of the inventory will have to be sold at a reduced price; the sales value may be lower than the purchase or manufacturing cost. In that case the sales value will have to be used in the balance sheet for the valuing of these items of the inventory. In the income statement the difference of the cost value and the sales value of the inventory will have to be posted as an expense.

The rules of the tax law state that purchased goods should be valued in the balance sheet to the purchase cost; the tax rules do not allow a reduction to be deducted as an expense. Thus*, on purchased goods negative temporary differences will normally arise*.

On the other hand, for manufactured goods the rules of the tax law allow the companies to use a lower value for tax purpose than generally used in the financial statements. Thus*, on manufactured goods positive temporary differences will normally arise.*

Allowance for Bad Debts on Accounts Receivable

Most companies will have bad debts in their accounts receivable. Therefore, they normally make an allowance in the balance sheet to balance the bad debts. The size of the allowance is determined by the size of the yearly loss on debt. This allowance will have to be posted in the income statement as an expense.

The rules in the tax law allow this expense to be deducted up to a certain amount. However, the deduction will normally be lower than the amount used in the financial statement. Thus*, on accounts receivable negative temporary differences will normally arise*.

4.3 Real Taxation Rates for some Joint-Stock Companies

Table 4.1 below shows some figures for the real taxation situation of Norwegian joint-stock companies. The figures are from the accounts statistics of Norway, showing the aggregated figures for joint-stock companies of the groups of manufacturing and mining and wholesale and retail trade.

Table 4.1 *Accounting Statistics for Norwegian Joint-stock Companies in some Industries. 1997*

Income statement NOK 1 000 000	*Manufacturing industries*	*Wholesale and retail trade*
Ordinary incomes and expenditures		
Operating income	375947,0	603251,0
Sum ordinary income	375947,0	603251,0
Cost of goods	-197620,0	-451261,0
Compensation of employees	-81672,0	-54877,0
Depreciation	-11264,0	-5964,0
Other operating expenses	-65077,0	-74011,0
Sum operating expenditure	-355633,0	-586113,0
Operating profit	20314,0	17138,0
Financial income	14181,0	3933,0
Financial expenditure	-11099,0	-5323,0
Profit before extraordinary items	23396,0	15748,0
Extraordinary incomes and expenditures		
Extraordinary income	3122,0	2663,0
Extraordinary expenditure	-626,0	-530,0
Profit before taxes	25892,0	17881,0
Cost of taxes	-4814,0	-5321,0
Annual profit	21078,0	12560,0
Proposed dividends	-8532,0	-6122,0
Retained earnings	-12546,0	-6438,0
Sum	-21078,0	-12560,0
Cost of taxes / Profit before taxes	18,6 %	29,8 %

Balance sheet NOK 1 000 000	*Manufacturing industries*	*Wholesale and retail trade*
Assets		
Fixed assets		
Unspecified fixed assets	48867,0	12082,0
Fixed tangible assets	84098,0	39093,0
Shares and bonds	70577,0	15232,0
Sum	203542,0	66407,0
Current assets		
Stock of goods	54408,0	58257,0
Accounts receivable	99039,0	73577,0
Cash, bank deposits, shares and bonds	32576,0	32325,0
Sum	186023,0	164159,0
Sum assets	389565,0	230566,0
Equity and liabilities		
Equity		
Share capital	34191,0	19502,0
Retained earnings	107476,0	47587,0
Sum	141667,0	67089,0
Liabilities		
Deferred tax	5874,0	1655,0
Other long-term liabilities	85686,0	40774,0
Sum	91560,0	42429,0
Short-term liabilities		
Bank overdraft	8018,0	9892,0
Unspecified short-term liabilities	134917,0	99520,0
Payable tax	4871,0	5514,0
Dividends	8532,0	6122,0
Sum	156338,0	121048,0
Total equity and liabilities	389565,0	230566,0

The figures shown are:

- The aggregated *income statement* for the two groups
- The aggregated *balance sheet* for the two groups

The main reason for showing the figures is to show the *tax situation* for the groups. The tax figures shown are the cost of taxes from the income statement and payable tax and deferred tax form the balance sheet. The definitions of the items are:

- *Cost of taxes*, which in principle should be 28 % of the profit of the year before taxes adjusted for permanent differences

- *Payable tax*, which in principle should be 28 % of the profit of the year before taxes adjusted for permanent and temporary differences

- *Deferred tax*, which in principle should be the postponed tax over the years

The income statement in table 4.1 shows that the manufacturing companies pay less tax than what should be expected, i. e., 18.6 % compared to the rate of 28 %. Wholesale and retail trade companies pay more tax than what should be expected, i. e., 29.8 %.

The balance sheet shows that the tax payment of the year, i. e., payable tax, does not differ very much from the cost of tax for the two groups, the tax credit situation has not changed very much in this year. The balance sheet also shows that the size of deferred tax, i. e., the total tax credit over the years, is much higher in the manufacturing industries than in the wholesale and retail trade, as compared to the tax payment.

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The Law of Limited Companies (aksjeloven), dated 13.06.1977, No. 44.

The Tax Law (skatteloven), dated 26.03.1999, No. 14.

5. The Tax Collection System for Taxes on Income and Property from Individuals and Limited Companies

5.1 The Tax System and Rates

The Tax Law (skatteloven) defines the System and Rules

The tax system and the tax rates are provided by law given by the Norwegian Parliament (Stortinget). The general Tax Law (skatteloven)[vii] for Norway defines the structure of the Norwegian tax system. In addition there are some tax-related rules in some other laws.

The tax law defines the different groups of taxpayers. The main groups are individuals and companies.

The tax law also defines the different sources of incomes and deductible expenses. Some incomes are not to be taxed, and some expenses are not deductible. Besides, there are different rates for different kinds of income. Taxable property and deduction for debt are also defined.

Most of the rules are related to the taxation of companies. The most important rules are described in chapter 4.

Budget Decisions every year provide the Rates

In October every year the Government sends the Parliament Proposal No. 1, i. e. The Budget proposal for the next year, to the Norwegian Parliament. Among other elements this proposal contains tax rates, etc., for the next fiscal year.

During the rest of the year the Norwegian Parliament discusses the proposed budget and makes the necessary decisions on it. Thus, the tax rates, etc. for the next year are part of the budget for that year.

5.2 The Collecting System

The tax paying system is slightly different for individuals and companies. Therefore the two groups are described separately.

Every municipality in Norway has a local office for revenue services. This office calculates the taxes for the income and net property of the year for the individuals and companies in that municipality. However, the Government has proposed that the revenue

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[vii] *The Tax Law (skatteloven),* dated 26.03.1999, no 14.

services offices should be regrouped into larger units. This proposal is to be decided by the Norwegian Parliament.

The taxes are to be paid to the chief financial officer of the municipality.

The Tax paying System for Individuals

Individuals pay tax when income is earned. Every January in the year of income every individual taxpayer receives a tax card from the local revenue services office. This card shows the amount of tax to be paid according to the size of the monthly salary. The tax card is related to the estimated income for the year.

At every payment of salaries and wages the employer has to take a certain amount of tax according to the tax card before paying to the employee. The employer has to send the collected taxes to the chief financial officer of the employee's municipality every second month.

The chief financial officer of the municipalities divide the collected taxes between the municipality, the county and the state according to rules, and forward their part to the two last-mentioned.

The tax paying System for Companies

Companies pay tax in the year after the year of earning the income.

In January in the year after the year of earning the income the company receives a preliminary tax bill from the local revenue services office. This bill will be divided in four parts; each part to be paid in February, April, September, and November respectively. However, the two last-mentioned payments have to be adjusted according to the final tax bill (see below).

Local Revenue Services Offices Calculate the Tax

In the year after the year of earning the income, individuals and companies have to make a tax return and send it to the local revenue services office. The final date of delivery is March 31st for companies and April 30th for individuals.

The local revenue services office calculates the exact amount of tax on earned income and net property for the two groups according to the rules given by the Norwegian Parliament in the tax law and yearly budget decisions.

The final tax bill is sent to individuals and companies in September.

As mentioned above, individuals will have paid their tax in the same year as income is earned, i.e., in the previous year. Thus, the final tax bill is an adjustment to the previous payment. That means that the final tax bill normally shows a small amount to be paid to the chief cashier of the municipality or paid back to the individual taxpayer.

A tax debt is to be paid in two parts, normally in September and November. The back-payment to the taxpayer will normally follow just after the delivery of the final tax bill.

As mentioned above, companies have normally paid only half of the estimated tax bill when they receive the final tax bill. Thus, they will have to pay the other half in September and November. The exact amount to be paid appears from the final tax bill.

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6. Other Taxes and Excises

6.1 Total Taxes and Excises

Chapter 2 gives an overview of Norwegian taxpayers. This overview is repeated here.

Table 6.01 *Taxes and Excises on Norwegian Taxpayers. Estimates for 2001*

NOK 1 000 000 000	*The State*	*Counties*	*Municipalities*	*Total*
Individual taxpayers:				
Tax on ordinary income	49,9	31,0	53,2	134,1
Special tax on wages etc.	15,0			15,0
Employees' pension contribution	50,7			50,7
Tax on property	1,8		4,5	6,3
Sum individual taxpayers	117,4	31,0	57,7	206,1
Companies:				
Tax on ordinary income	27,5	0,2	1,2	28,9
Tax on property	0,1			0,1
Sum companies	27,6	0,2	1,2	29,0
Tax on real property			2,8	2,8
Employers' pension contribution	70,9			70,9
Excises:				
Value added tax	119,4			119,4
Spesial taxes and duties	67,4			67,4
Sum excises	186,8	0,0	0,0	186,8
Oil extraction:				
Tax on income and property	90,0			90,0
Excises on extraction	6,8			6,8
Sum oil extraction	96,8	0,0	0,0	96,8
Other taxes and excises	12,3		0,2	12,5
Sum taxes and excises	511,8	31,2	61,9	604,9

Source: Parliament Report No 1 (2000-2001): *The National Budget of Norway 2001,* table 4.7.

NOK 9,00 = USD 1,00

Table 6.01 *Continued*

In %	*The State*	*Counties*	*Municipalities*	*Total*
Individual taxpayers:				
Tax on ordinary income	8,25	5,12	8,79	22,17
Special tax on wages etc.	2,48	0,00	0,00	2,48
Employees' pension contribution	8,38	0,00	0,00	8,38
Tax on property	0,30	0,00	0,74	1,04
Sum individual taxpayers	19,41	5,12	9,54	34,07
Companies:	0,00	0,00	0,00	0,00
Tax on ordinary income	4,55	0,03	0,20	4,78
Tax on property	0,02	0,00	0,00	0,02
Sum companies	4,56	0,03	0,20	4,79
Tax on real property	0,00	0,00	0,46	0,46
Employers' pension contribution	11,72	0,00	0,00	11,72
Excises:				
Value added tax	19,74	0,00	0,00	19,74
Spesial taxes and duties	11,14	0,00	0,00	11,14
Sum excises	30,88	0,00	0,00	30,88
Oil extraction:				
Tax on income and property	14,88	0,00	0,00	14,88
Excises on extraction	1,12	0,00	0,00	1,12
Sum oil extraction	16,00	0,00	0,00	16,00
Other taxes and excises	2,03	0,00	0,03	2,07
Sum taxes and excises	84,61	5,16	10,23	100,00

The table shows that the main groups of excises are value added tax and special taxes and duties. Later this chapter gives an overview of the different taxes and excises.

Excises are all indirect taxes and amount to 30.88 % of the total taxes and excises. This money goes only to the State. The largest part is value added tax, which amounts to 19.74 %. All other excises amount to 11.14 %.

Taxes on oil extraction amount to 16.0 % of the total, and go only to the State. Part of the money, namely 14.88 %, is tax on income and property of the oil drilling companies. The other 1.12 % are different kinds of excises.

Lastly comes a *diversity group*, which amounts to 2.07 % of the total.

In addition to the taxes and excises shown in the table 6.01, the state has large incomes from the direct ownership in the oil exploration activities. This is also described later in this chapter.

6.2 Value Added Tax

Value added tax is a general tax on goods and services sold in Norway. The rate is, for the time being, 24 %. As will be seen from table 6.01, the value added tax is one of the big sources of income for the Norwegian Government; the value added tax amounts to about 20 % of total taxes and excises.

The value added tax has the same structure as in the EU countries. That means that a sales tax of 24 % has to be added to the amount of the bill. This is the outgoing value added tax. On the other hand all companies and firms are allowed to deduct the incoming value-added tax. Thus, only the final consumer has to pay a value added tax of 24 % on all his purchases.
However, there are a lot of exceptions to these general rules. The most important ones are described below.

There is value added tax on imported goods and services. On exported goods and services no value added tax should be added. Neither should value added tax be added on deliveries to ships and planes in traffic outside Norway.

On some goods and services no value added tax is added. Among them are health and social services, educational services, cultural activities, financial services, lodging in hotels, passenger transport and hiring out flats.

On the other hand on some goods and services incoming value added tax is not deductible. Among them are petrol and accessories for passenger cars, representative expenses and expenses for food and drinking at restaurants.

In general there is a lower rate of 12 % value added tax on food.

6.3 Duties on Imports and Special Excises

As will be seen from table 6.01, other excises amounts to about 11 % of total taxes and excises.

The group consists of duties on imports and a large variety of special excises. The different duties and excises are added to the purchase price or production cost at the place of import or production. Normally the budget gives a specific rate per unit for the different duties and excises for the year to come.

The largest items in this group are described below. From the table it can be seen that the biggest group is excises on cars and special sales tax on petrol. Other main groups are excises on alcohol, tobacco and electrical power.

Because of the trade agreements of Norway, especially to The European Union, duties on imports are only a small part of the total.

Table 6.02 *Duties on Imports and some Special Excises. Estimated Figures for 2001*

Kinds of Duties or Excises	*NOK 1 000 000*	
		%
Duties on imports	2 380	3,5
Excises on alcohol	8 756	13,0
Excises on tobacco	7 775	11,5
Excises on cars	30 904	45,9
Excises on electric power	6 348	9,4
Excises on air traffic	1 490	2,2
Other excises	9 747	14,5
	67 400	100,0

Source: Parliament Proposal No 1 (2000-2001): *The Budget for 2001,* table 1.7 and 1.8.

NOK 9,00 = USD 1,00

6.4 Taxes and Excises on Oil Extraction

Tax on Income and Property

According to table 6.02 tax on income and property for oil extraction companies amounts to NOK 90 000 million, or about 14.9 % of the total taxes and excises.

Most of this amount is tax on the oil companies' net taxable income. The taxable income is taxed at the ordinary company tax rate of 28 %. In addition oil extraction companies are taxed by a special rate of 50 %. Thus, the total tax rate on net taxable income for oil extraction companies amounts to 78 %.

A very large part of the expenses for oil extraction companies is the cost of developing the oil fields. These costs have to be depreciated over the years of extracting the oil from a specific oil field. The depreciation has to be done according to rules given by the Government. Thus, the structure of the depreciation rules is very important for the structure of the net taxable income stream of the oil extraction companies.

In addition comes tax on property according to general rules. Since limited companies do not pay property tax, this tax is very limited.

Excises on Oil Extraction

According to table 6.02 there are some special excises on oil extraction to be paid. This type of excises amounts to NOK 6 800 million, or about 1.1 % of the total taxes and excises.

Most of this kind of excises is in principle established for environmental reasons. However, the rates are in general so low that they are reducing the oil extraction considerably. But they may cause the oil extraction companies to try to reduce pollution from extraction as much as possible. Thus, these excises may have a positive effect on the environment.

6.5 State Incomes from the Direct Ownership on Oil Extraction Activities

As mentioned earlier in this chapter, the State of Norway also has income from the direct ownership in oil extraction activities. That ownership is created when Norway grants oil extraction licences to the oil extraction companies. Normally it will be part of the licence conditions that the State of Norway shall own a certain percentage of every oil field that the oil companies decide to develop.

The income from that rule is not part of the tax excises for the Government. However, the income amounts to a very large sum, and is part of the total income of the State of Norway in the different years. In the budget for 2001 the sum is estimated to be NOK 104 700 million, as compared to NOK 96 800 million in total taxes and excises on oil extraction.

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Some Internet Addresses

http://www.lovdata.no/ (national laws)

http://odin.dep.no/ (the Government offices)

http://www.skatteetaten.no/ (the national tax authorities)

http://www.stortinget.no/ (the Norwegian Parliament)