November 21, 2013
2013-153

flash International Executive Alert

A Publication for Global Mobility and Tax Professionals by KPMG's International Executive Services Practice

Norway – Budget 2014 Tweaks Tax Rules, Increases Social Security

by Roger Hoffmann, KPMG Law Advokatfirma DA, Oslo
(KPMG Law Advokatfirma DA in Norway is a KPMG International member firm)

On 14 October 2013, Norway's former government[1] headed by prime minster Jens Stoltenberg presented to parliament the Budget Bill for 2014[2]. On 8 November, the newly elected government, headed by prime minister Erna Solberg, announced its amendments to the Budget Bill for 2014.[3] The Parliament will vote on the Budget Bill for 2014 by the end of November 2013.

In this *Flash International Executive Alert*, we have highlighted some of the key measures affecting individuals. This newsletter includes a summary of both the former government's proposals as well as the subsequent changes made by the new Solberg government. Unless indicated otherwise, the proposals will apply from 1 January 2014. (For coverage of last year's budget, see *Flash International Executive Alert* 2012-191, 24 October 2012.)

The budget measures that will impact individuals are a mixed bag with measures intended at first glance to lighten taxpayers' overall tax burdens, tighten up the rules around certain employer-provided benefits (including use of non-traditional compensation that may escape tax), foster employment, and remove discriminatory tax practices. However, the new government's proposal to increase social security contributions and remove the income cap means that tax burdens could rise – this could have an impact on international assignees' tax costs (presuming they are subject to Norwegian social security taxation) and the tax-related costs borne by the assignees' employers.

Personal Income Taxation

Minimum Allowance (Minstefradrag)

The rate for the minimum allowance (akin to a standard deduction) – intended to help cover expenses normally connected with employment – will increase from 40 percent (2013) to 43 percent (2014) of gross employment income (originally proposed by the former government to be increased to 42 percent). The maximum amount is proposed to increase from NOK 83,300 (2013) to NOK 84,150 (2014). The taxpayer may choose, instead, to claim a deduction for actual expenses if these are higher.

Tax Brackets and Rates for 2014

The Solberg government has proposed to reduce the "entry-level" tax rate for personal taxpayers from 28 percent to 27 percent. Hence, the general tax rate for personal taxpayers and companies will be the same (the former Stoltenberg government had proposed to reduce the tax rate to 27 percent for companies only).

The proposal to increase the tax brackets has been adopted by the new government (see table on the next page).

Tax Rate	Tax Brackets
27.0 %	Up to NOK 527,400 (previously up to NOK 509,600)
9.0 %	NOK 527,401 – NOK 857,300 (previously NOK 509,001 – NOK 828,300)
12.0 %	exceeding NOK 857,300 (previously NOK 828,300)

Source: KPMG, Norway

Personal Allowance (Personfradrag)

Individuals are entitled to a personal allowance. It is proposed to increase the personal allowance from NOK 47,150 (2013) to NOK 48,800 (2014). The Solberg government has adopted the proposal accordingly.

Trade Union Contribution

Originally the Stoltenberg government had proposed to increase the maximum deductible amount for trade union contributions from NOK 3,850 (2013) to NOK 4,150 (2014).

The Solberg government instead has proposed that the maximum deductible amount remains at NOK 3,850. However, the group of people entitled to the deduction of trade union contributions shall be enlarged since the number of eligible trade unions to which people may make contributions that are deductible will be increased.

Taxation of Benefit for Electronic Devices Provided by Employers

The government proposes to set the taxable benefit for electronic devices provided to the employee by the employer to a maximum annual amount of NOK 4,400.

The amount will be applicable irrespective of the number of devices and services provided/covered by the employer, with an exception being for the purchase of remote services through the devices (e.g., apps, movies, parking charges, etc.). Further, there is the pre-condition that the devices and services relate to the employee’s business.

Moreover, the taxation rules above will be applicable, irrespective if the expenditures will be borne by the company directly or reimbursed to the employee through an allowance. However, in cases where the expenditures will be reimbursed through an allowance but is lower than the maximum taxable annual amount of NOK 4,400, the actual reimbursed allowance will be considered as employment income, only.

Current tax rules allow for reducing the taxable benefit to the extent the employee bears expenditures for electronic devices by himself. Moreover, the tax rules included a tax-free amount of NOK 1,000 for any electronic devices that are provided as a benefit. The new tax rules propose to abolish both these rules.

The Solberg government has adopted this proposal from the former government.

Deduction for Commuting between Home and Office and Deduction for Home Visits

The rules for deductions will be tightened with the introduction of a maximum deductible amount for expenses related to trips within the European Economic Area (EEA). The deduction to which taxpayers are entitled shall be limited to annual travel expenses for trips not exceeding 75,000 km.

This modification, to a large degree, takes into account the growing frequency of travel and travel distances and the general declines in travel / flight expenses.

According to current regulations, the deduction for travel expenses based on the actual amount of kilometers travelled in many cases will be much higher than the actual costs paid.

Consequently, expenses for travels over 75,000 km will not be deductible; taking into consideration an amount of NOK 13,950 (traveller's own contribution), the maximum deduction for commuting and home visits will be NOK 78,550.

The above limitation will not be applicable for trips outside the EEA. For trips outside the EEA, the taxpayer can either choose the deduction for actual expenses or claim coverage per kilometer for the distance travelled, provided the use of a car can be documented.

Also, this proposal has been adopted by the Solberg government with no changes.

Changed Calculation for Taxable Benefit for Loans Granted by Employers

Where the employee gets a loan from his or her employer with an interest rate below market conditions, the benefit will be considered as taxable employment income. The benefit will be determined by the difference between the interest rate paid by the employee and a standard rate announced by the Norwegian Directorate of Taxes. The tax directorate's standard rate consists of an average interest rate and a surplus. The actual surplus of 0.5 percentage points was originally proposed to increase to 1. The Solberg government, however, has proposed to increase the surplus to 1.25.

The adjustment takes into consideration the recent trend of decreasing market interest rates for private estates and it should help preclude loans from employers being used as an element of compensation that ends up reducing wage taxes and employer's contributions to social security.

Proposed Elimination of Tax Class 2 for Joint Filing Spouses

Tax class 2 shall be eliminated for joint filing spouses.[4] Consequently, the personal allowance that relates to the spouse with no or low income can no longer be shifted to the other spouse with higher taxable income.

Current Norwegian law provides for, in tax class 2, a personal allowance which is double the amount of that for tax class 1. For 2013, spouses filing jointly basically have a maximum tax benefit of NOK 13,200. The object of tax class 2 was to grant a tax reduction to taxpayers who support a family.

Basically, the government's plan is to scale down the tax benefit provided by tax class 2 – the tax benefit will totally disappear for taxpayers with incomes exceeding NOK 80,000.

The Solberg government has confirmed the proposal to eliminate tax class 2.

Allocation of Interest Paid on Debts between Norway and Foreign Countries

It is proposed that tax deductions allowed for loans and interest payments related to domestic real estate will be treated on an equal basis with loans and interest payments related to foreign real estate in the European Union (EU), irrespective of the applicable double taxation agreement concluded with Norway containing provisions for the credit or exemption method to avoid double taxation.

Current Norwegian law provides to individuals tax resident in Norway with worldwide income, the possibility to deduct all loans and interest payments related to both domestic and foreign property as expenses in their annual tax returns for income and wealth tax purposes. However, this possibility is limited in cases where the individual possesses foreign real estate property and the relevant double taxation agreement with Norway includes the tax exemption method for income and wealth, e.g. Belgium, Bulgaria, Germany, Italy, and Croatia.

Under the new proposal, individuals who are tax resident in Norway shall have the possibility to deduct loans and interest payments related to real estate property located in EU countries where Norway does not have the right to tax foreign property according to the applicable double taxation agreement, irrespective of the treaty containing provisions for the credit or exemption method to avoid double taxation.

However, Norway will not allow deductions if the individual is already granted a deduction for the same loan and interest payment in the relevant EU country.

Due to the fact that the EU has directed Norway to amend the current Norwegian law in this regard, the former Norwegian government's original proposal has been kept by the new government. Moreover, the proposal will not be applicable for individuals who are tax resident in Norway according to domestic tax law, but considered as tax resident in the foreign EU country according to the double taxation agreement.

The change will be effective as of income year 2013.

Taxation of Capital Gain Related to Sales of Real Estate

Basically, profits from sales of real estate are not taxable if the owner has used the property for his or her own residential purposes and constantly owned the property until the sale was realized. This exemption presumes that the property has been owned for at least one year.

The former government proposed that in certain cases where the period of use for one's own residential purposes does not correlate with the ownership period, only a proportion of the gain related to the residential period will be tax-free.

This proposal has been withdrawn by the Solberg government. Hence, the current law as described above shall be unchanged.

Net Wealth Tax – Increasing Threshold / Increasing Tax Base / Decreasing Tax Rate

The national net wealth tax is currently levied on net wealth in excess of NOK 870,000. It is proposed to increase the threshold to NOK 1,000,000 (tax class 1) and to NOK 2,000,000 (tax class 2 – for spouses filing jointly).

Further, the tax base for holiday and weekend cottages as well as for property rented out will be increased from 50 percent (2013) of the property's market value to 60 percent (2014).

These proposals have been adopted by the Solberg government. However, the new government has also proposed to reduce the current tax rate from 1.1 percent to 1.0 percent.

Social Security Contributions to the National Norwegian Social Security Scheme

The Solberg government proposes to increase the rate for contributions to the national Norwegian Social Security Scheme from 7.8 percent to 8.2 percent.

KPMG Law Advokatfirma DA Note

Any tax relief for individuals contained in the budget could be offset by the increase of the social security contributions. Moreover, social security contributions will be levied on total gross employment income without an overall cap. Therefore, this measure will mean a heavier burden for many employees, and the new revenues generated could be used to finance other budget tax reductions being proposed.

Next Steps

The revised budget bill embodying the above proposals will be debated in Parliament. It will be voted on definitively by the end of November and published as final legislation in the country's government (official) gazette by the end of December. Should any amendments be voted that alter the measures described above or otherwise introduce new measures impacting individuals, KPMG in Norway will endeavor to keep readers informed.

Footnotes:

1 In September 2013, there was a parliamentary election in Norway. The result of the election was that the socialist-democratic government led by Jens Stoltenberg was replaced by a new conservative government led by Prime Minister Erna Solberg.

2 Prop. 1 S (2013-2014), Proposisjon til Stortinget (forslag til stortingsvedtak), For Budjettåret 2014. For the National Budget 2013 (in English) see the Finansdepartementet Web site at: http://www.statsbudsjettet.no/Statsbudsjettet-2014/English/

For the National Budget 2013 (Statsbudsjettet 2013) (in Norwegian), see the Finansdepartementet Web site at:

http://www.regjeringen.no/nb/dep/fin/tema/statsbudsjettet.html?id=1437 .

3 For amendments to the 2014 State budget (in Norwegian and English), see: http://www.statsbudsjettet.no/Tilleggsproposisjon-2014/http://www.statsbudsjettet.no/Tilleggsproposisjon-2014/English/ .

4 Norway has a classification system for taxpayers. Class 2 is for married couples assessed jointly and single persons with dependents.

* * * *

NOK 1 = EUR 0.122
NOK 1 = GBP 0.1015
NOK 1 = USD 0.164

***Watch This!* Video: What the Supreme Court's DOMA Decision Means for Global Mobility Programs**

The Supreme Court of the United States issued its decision in a landmark case, *United States v. Windsor*, on June 26, 2013, enabling the U.S. federal government to recognize legal marriages between persons of the same sex, which are currently allowed in 14 U.S. states, plus the District of Columbia. In doing so, the Court extended the federal rights and responsibilities of marriage to such married couples, but did not extend the right of marriage to same-sex couples in those states that have not created such a right.

We invite you to watch this short video that discusses the tax, international assignment policy and management, and immigration aspects of the Court's decision (and the government's response to it) in respect of international assignment programs.

http://www.kpmginstitutes.com/taxwatch/insights/2013/doma-decision-global-mobility.aspx

The information contained in this newsletter was submitted by the KPMG International member firm in Norway. The information contained herein is of a general nature and based on authorities that are subject to change. Applicability of the information to specific situations should be determined through consultation with your tax adviser.

Flash International Executive Alert is an IES publication of KPMG LLP's Washington National Tax practice. To view this publication or recent prior issues online, please click **here**. To learn more about our IES practice, please visit us on the Internet: click **here** or go to http://www.kpmg.com .