October 24, 2014
2014-097

flash Alert

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

Norway – Some Easing of Burdens for Taxpayers in Budget 2015

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

In This Issue:

* Decline in Social Security Contributions to the National Norwegian Social Security System
* Personal Income Taxation – Changes to Thresholds, Allowances, Tax Class 2
* Loans Granted by Employers
* Net Wealth Tax – Changes in Tax-Free Amount, Tax Rate, and Tax Base
* Review of Regulations for Benefits-in-Kind
* Next Steps

For coverage of last year's budget, see *Flash International Executive Alert* 2013-153, 21 November 2013

Norway's 2015 Budget underscores the government's efforts to develop the country's non-oil economy. The Budget aims to reduce the complexity in the tax system and to create and stimulate potential for more employment, saving, and entrepreneurship. The Budget bill for 2015 was presented to Parliament on 8 October 2014[1].

The Parliament will vote on the Budget Bill 2015 by the end of November.

Why This Matters

In general, this Budget means that companies with international assignees subject to Norwegian tax may see their international assignment-related costs diminish slightly. Increases in exemption amounts, personal tax allowances and credits, the rise in personal tax brackets, and the higher exemption and lower rates under the net wealth tax regime should help to ease individuals' tax burdens (although, each individual assignee's tax status should be determined in light of his or her particular situation). While several of the measures will lighten taxpayers' tax burdens, others will tighten up the rules around certain investments in real estate and employer-provided benefits.

International assignment cost projections and budgeting for assignments to Norway, and for assignees outside Norway still subject to Norwegian taxation, should reflect these changes. Where appropriate, adjustments by payroll administrators to withholdings should also be made.

In this *flash Alert*, we have highlighted some of the key proposals of the Solberg government affecting individuals; to a large degree, the measures discussed in this newsletter will apply to international assignees to and from Norway who are subject to tax in Norway. Unless indicated otherwise, the proposals will apply from 1 January 2015.

Decline in Social Security Contributions to the National Norwegian Social Security Scheme

After the government had increased the rate by 0.4-percentage points in 2014 (from 7.8 percent to 8.2 percent), the Solberg government is proposing to lower the rate for contributions to the national Norwegian Social Security Scheme to 8.1 percent (2015) for the employee's part. For the employer's part, the social security rates will be unchanged; they still vary between 0 percent and the maximum rate of 14.1 percent dependent on the regional zone applicable for the employer. It is set at 11.4 percent in respect of self-employed persons.

Personal Income Taxation – Changes to Thresholds, Allowances, Tax Class 2

Minimum Allowance (Minstefradrag)

The rate for the minimum allowance (akin to a standard deduction) – intended to help cover expenses normally connected with employment – will remain unchanged at the rate of 43 percent of gross employment income.

The budget proposes to increase the maximum amount of the allowance from NOK 84,150 (2014) to NOK 97,950 (2015). The taxpayer may choose, instead, to claim a deduction for actual expenses if these are higher.

Tax Brackets and Rates for 2015

The entry-level tax rate for personal taxpayers is kept at 27 percent. The government has proposed modifying personal income tax income brackets. The proposed increase of the tax brackets is illustrated in the below table.

Tax Rate	Tax Brackets
27.0%	Up to NOK 552,300 (previously up to NOK 527,400)
9.0%	NOK 552,301 – NOK 885,600 (previously NOK 527,401 – NOK 857,300)
12.0%	exceeding NOK 885,600 (previously NOK 857,300)

Source: KPMG, Norway

Personal Allowance (Personfradrag)

Resident taxpayer individuals are entitled to a personal allowance. The budget would increase the personal allowance from NOK 48,800 (2014) to NOK 50,400 (2015). This applies for Tax class 1 taxpayers (for more on what this means, see below).

Tax Class 2 to be Eliminated for Joint Filing Spouses

Norway has customarily had three tax classes. (These tax classes apply to all taxpayers resident in Norway (including international assignees who are tax residents of Norway).) These classes are defined as follows.

- Class 0: Applies to taxpayers with limited tax liability (taxpayers who are not considered residents of Norway and who do not receive income from regular employment) and companies and other organizations that are considered entities for tax purposes. Such taxpayers are taxed on their net income taxable in Norway.
- Class 1: Applies to unmarried residents and to married residents if separate assessment (both assessed in class 1) is beneficial. The tax-free amount stands currently at NOK 48,800, but as noted above, will rise to NOK 50,400 for 2015.
- Class 2: Applies to married residents if joint assessment is beneficial (one-income families). (In 2013, one-parent families were “removed” from Tax class 2.)

Resident taxpayers who are Tax class 2 taxpayers enjoyed a tax-free amount of NOK 72,000.

Under the new Budget proposals, the plan is to eliminate Tax class 2 for couples where one spouse has low employment income and cannot therefore – or not fully – profit from the personal allowance (for personal allowance see above). This will have the result of completely eliminating Tax class 2.

KPMG Note

The elimination of this tax class for such married couples is expected to affect approximately 70,000 couples and could result in higher tax liabilities of approximately NOK 6,300. According to the government, the proposal will strengthen work incentives, integration, and equal opportunities, and result in more equal treatment of married couples and cohabitants.

Loans Granted by Employers

An employer can grant a loan to its employees tax-free based on a reference interest rate determined by the Norwegian Department of Finance. For September and October 2014 the reference interest rate is 2.75 percent, while it will amount to 2.5 percent for November and December 2014.

The government proposed to increase the surcharge on the reference interest rate from 1.25 to 1.50 percentage points. Hence, the rate will more reflect the actual interest rate for loans related to real estate in Norway.

KPMG Note

By taking this step, the government hopes to reduce the incentive for employees to receive a more favorable loan from their employers than in the financial markets. At the same time, this provision might serve to augment overall tax revenues and contributions to the National Social Security Scheme.

Net Wealth Tax – Changes in Tax-Free Amount, Tax Rate, and Tax Base

For several years, individuals resident in Norway for tax purposes on 1 January in the year following the income year are subject to net wealth tax on their worldwide assets. Nonresident individuals are only subject to wealth tax on certain property in Norway. If a taxpayer becomes tax resident in Norway, he or she is required to declare all his/her worldwide assets and liabilities – this includes, for example, the individual’s main residence (although there are special valuation rules tied to that), a holiday home he/she may own, a car, stocks, bonds, etc. The wealth tax in 2014 is levied on the excess above NOK 1,000,000.

The Solberg government is proposing to increase the tax-free amount for net wealth tax from NOK 1,000,000 (2014) to NOK 1,200,000 (2015). The tax-free amount proposed for couples in 2015 will be NOK 2,400,000.

Further, the tax rate for wealth exceeding the tax-free amount shall be decreased from 1.0 percent (2014) to 0.75 percent in 2015.

The taxable value for a second house (“sekundærbolig”) in 2014 generally has been set to 60 percent of the marked value[2] and will be kept unchanged. However, from 2015 onwards, the taxable value for an additional secondary house (e.g., a third house or a fourth house, etc.) shall be set at 80 percent of the 2014 marked value.

The same increase from 60 percent to 80 percent is proposed to apply to commercial real estate property.

KPMG Note

With the change in the valuation determination, the government appears to be trying to reduce intensive investments in real estate property in Norway.

Review of Regulations for Benefits-in-Kind

The government announced a review of the tax-rulings and regulations for taxable benefits-in-kind currently in place.

KPMG Note

The tax laws dealing with today's benefits-in-kind are complex and replete with exemptions. These laws can create confusion for taxpayers, practitioners, as well as the tax authorities that administer them, and can result in an inefficient use/allocation of resources, time, and money.

The government's review will be preparative in nature in light of next year's 2016 Budget Bill and is expected to form the basis for implementing simpler and more general rules. Furthermore, revisions are planned for the rules for valuation of benefits-in-kind.

Next Steps

The Budget bill embodying the above-noted (and other) 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.

The KPMG International member firm in Norway will endeavor to keep readers informed of the final measures decided by Parliament.

Footnotes:

1 For the budget and related documentation, see: http://www.statsbudsjettet.no/Statsbudsjettet-2015/ .

Also (in English), see: http://www.statsbudsjettet.no/upload/Statsbudsjett_2015/dokumenter/pdf/chapter1_tax_budget2015.pdf .

And see: http://www.statsbudsjettet.no/Statsbudsjettet-2015/English/?pid=65180#hopp .

2 In theory, the Directorate of Finance annually determines a price per square meter per property based on calculations made by the Central Bureau of Statistics, reflecting type of property, area, year of construction, and geographical location, etc. The last update of the properties' value was made for income year 2013.

* * * *