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Norway – Changes to Taxing Income in Budget 2016

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On October 7, 2015, Norway's finance minister presented the budget for 2016 to Parliament.¹ The budget includes reformed personal tax rates and bands as the current surtax is effectively replaced with a so-called "step tax." The budget also increases the personal allowance, raises the exemption amount, lowers the rates under the net wealth tax regime, and tightens up certain allowances and deductions available to taxpayers.

Why This Matters

In general, the 2016 budget may affect companies with international assignees subject to Norwegian tax in a few ways. International assignment-related costs could diminish slightly, as employees on assignment subject to tax in Norway may see a slight reduction in their marginal tax rates. Also, the higher exemption and lower rates under the net wealth tax regime should help to ease individuals' total tax burdens. However, certain work-related allowances and deductions will be restricted or eliminated. The overall impact of the tax changes in this budget will depend on each person's particular circumstances.

International assignment cost projections and budgeting for assignments to Norway, and for assignees outside Norway still subject to Norwegian taxation, should reflect these changes, once they take effect. Also, where appropriate, adjustments by payroll administrators to withholdings should also be made once the changes take effect.

In this *Flash Alert*, we have highlighted some of the key proposals of the Solberg government affecting individuals and their employers. Many of the measures discussed in this newsletter will apply to international assignees to and from Norway who are subject to tax in Norway.

If Parliament votes to enact the proposed budget into law, the changes will apply from 1 January 2016, unless indicated otherwise.

Income Tax on Employment Income, Personal Allowances, and Deductions

The entry-level tax rate on ordinary income for individuals is to be reduced from 27 percent to 25 percent.

The lower tax is meant to be funded by the introduction of a four-bracket tax system instead of the current surtax system (the surtax is levied on gross earned income above a certain level). (For coverage of last year's budget and the surtax rates, see [Flash International Executive Alert 2014-097](#) (24 October 2014).)

For 2016, the following brackets are to be introduced in place of the surtax (Toppskatt til staten), which will become known as the "step tax" (Trinnskatt)²:

2016	
Tax Rate	Income Brackets
25%	Ordinary income (uncapped)
0.0%	Up to NOK 158,800
0.8%	Over NOK 158,800 to NOK 224 900
1.6%	Over 224,900 to NOK 565,400
10.6%	Over 565,400 to NOK 909,500
13.6%	Over NOK 909,500

Source: KPMG, Norway

[NOK 1 = EUR 0.107 | NOK 1 = GBP 0.0755 | NOK 1 = USD 0.116 | NOK 1 = SEK 1.002]

(For last year's tax table, see footnote 2.)

KPMG Note

Due to the new tax rate brackets, the overall marginal tax rate will be lowered from 47.2 percent to 46.8 percent (38.6 percent tax plus 8.2 percent employee social security charges).

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 89,050 (2015) to NOK 91,450 (2016). The taxpayer may choose, instead, to claim a deduction for actual expenses if these are higher.

Personal Allowance (Personfradrag)

Resident taxpayer individuals are entitled to a personal allowance. The budget would increase the personal allowance from NOK 50,400 (2015) to NOK 51,750 (2016), for Tax Class 1 taxpayers; and from NOK 74,250 (2015) to NOK 76,250 (2016), for Tax Class 2 taxpayers.

Standard Deduction for Single Parents

The government has proposed increasing the standard deduction for single parents from NOK 48,804 (2015) to NOK 49,800 (2016).

Social Security Taxation on Employment Income

Social security rates remain unchanged at 8.2 percent for employee social security contributions and up to 14.1 percent for employer social security contributions.

Net Wealth Tax

The government proposes that the net wealth tax rate be reduced from 0.85 percent to 0.80 percent. In addition, the budget includes an increase to the basic allowance for wealth tax from NOK 1.2 million to NOK 1.4 million (NOK 2.8 million for married couples).

It is also proposed that the taxable value of second dwellings (sekundærbolig) and commercial property be increased from 70 percent to 80 percent of estimated market value.

Taxation on Company Car

The use of a company car that is owned or leased by a taxpayer's employer will normally be considered a taxable benefit for the taxpayer.

However, sporadic use of the company car for private purposes is not considered a taxable benefit. The definition of "sporadic" has previously not been defined. The government proposes that private usage of 1,000 km within 10 days will classify as "sporadic".

Other Changes

- The government will abolish the special allowance for minor expenses and the right to tax-free compensation on such expenses.
- The commuting deduction is proposed to change so that the distance between home and work-place must be at least 64 km (instead of current distance of 46 km) to receive a deduction. In addition, a deduction is granted for costs exceeding NOK 22,000 (previous amount was NOK 16,000). The deduction is NOK 1.50 per km for distances up to 50,000 km and NOK 0.70 per km for distances between 50,000 and 75,000 km.

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 2015 and published as final legislation in the country's government (official) gazette by the end of December 2015.

The KPMG International member firm in Norway will endeavor to keep readers informed of the final measures decided by Parliament should they alter from what we have noted in this newsletter.

Footnotes:

1 For the budget and related documentation, see: <http://www.statsbudsjettet.no/Statsbudsjettet-2016/> .

2 2015 Tax Table

Tax Rate	Tax Brackets
27.0%	Up to NOK 552,300
9.0%	NOK 552,301 – NOK 885,600
12.0%	exceeding NOK 885,600

Source: KPMG, Norway

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