

# GMS Flash Alert

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## Norway – 2018 Budget Measures Effective 1 January, Tax Class 2 Plans

A recent Ordinance (Prop. 1 LS 2017-2018), published by Norway's Ministry of Finance, proposed to the parliament new provisions in the country's tax legislation for 2018.<sup>1</sup> The new provisions – which include changes to income tax, tax class 2, the "bracket tax," and the valuation discount on capital gains on shares and fixed assets – were passed by Norway's parliament on 12 December 2017, and apply from January 2018.<sup>2</sup>

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### WHY THIS MATTERS

The changes in tax rates and other provisions in Norway's tax legislation that are effective from calendar year 2018 impact the tax burden of employees who are currently benefitting from the joint-filing tax scheme.

Other proposals simply reflect the annual adjustments in tax rates, tax brackets, and standard deductions applicable to taxpayers and stipulate the changes to be implemented in the country's Fiscal Code, valid as of 1 January 2018.

Because of the changes to income tax and taxpayer allowances, companies with international assignees who are subject to Norwegian taxation may see a slight decrease in their assignment-related costs.

In cases of assignments to Norway where assignees are subject to Norwegian taxation, and for assignees working outside Norway but still subject to Norwegian taxation, international assignment cost projections and budgeting should reflect the changes described in this newsletter once they come into effect. Where appropriate, adjustments to gross-up packages and withholding taxes may need to be considered.

Each individual's tax status should be determined in light of his or her particular situation.

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## Budget Tax Changes in Brief

The changes in the tax rates, and other changes, that the government had proposed and were subsequently passed by the parliament in December 2017 are meant to reflect wage developments. Other areas of taxation, however, such as tax-free allowances and wealth tax, are slightly adjusted or remain unchanged.

## Tax on General Income

According to the National Budget for 2018, the tax rate on ordinary income (*alminnelig inntekt*) is reduced from 24 percent to 23 percent for individuals and companies starting in 2018.

## Maximum Rate of Tax Payable by an Individual Taxpayer

The highest limit of tax (*marginalskatt*), including National Insurance Contributions of 8.2 percent, will be reduced by 0.1 percent to 46.6 percent, the highest overall rate of tax that can be paid by a taxpayer.

## 2018 Rates in the Bracket Tax

Income tax on employment income (*personinntekt*) is assessed according to the "bracket tax" table (see below) in addition to the ordinary tax rate of 23 percent (mentioned above), where the taxpayer's annual income exceeds certain thresholds.

The 2018 rates of the bracket tax are increased between 0.47 and 0.88 percentage points with the aim of limiting the total revenue loss to a taxpayer by reducing tax on ordinary income.

	Bracket Tax 2018 (NOK)		Rates
<b>Step 1</b>			
<b>Threshold</b>	169,000	237,900	1.4 percent
<b>Step 2</b>			
<b>Threshold</b>	239,901	598,050	3.3 percent
<b>Step 3</b>			
<b>Threshold</b>	598,051	962,050	12.4 percent
<b>Step 4</b>			
<b>Threshold</b>	above 962,050		15.4 percent

[ NOK 1 = EUR 0.1025 | NOK 1 = USD 0.1233 | NOK 1 = GBP 0.0912 ]

## Minimum Allowance (*Minstefradag*)

The rate for the minimum allowance (akin to a standard deduction covering expenses normally connected with employment) is increased from 44 percent to 45 percent of gross employment income.

Furthermore, the maximum amount of the allowance increases from NOK 94,750 (2017) to NOK 97,610 (2018). The taxpayer may choose, instead, to claim a deduction for actual expenses if these are higher.

## Minimum Allowance (*Minstefradag*) in Retirement Income

The maximum income level for non-taxable retirement income is increased from NOK 81,200 to NOK 83,000.

## Personal Allowance

The personal allowance for ordinary income is adjusted to NOK 54,750 (from 53,150 in 2017) in tax class 1.

The personal allowance for tax class 2 is terminated (see section below "Tax Class 2 Will Be Phased Out").

## Social Security Contribution

The rates applied for National Insurance Contribution purposes (*trygdeavgift*) are unchanged. Thus, the lower limit to apply National Insurance Contribution is NOK 54,650 and the rate of 8.2 percent for employment income will remain unchanged.

## Wealth Tax

The basic allowance for wealth tax purposes remains at NOK 1,480,000; the tax rates of 0.7 percent for municipal tax and 0.15 percent for state tax are kept unchanged for wealth exceeding the basic allowance.

## Valuation Discount (Wealth)

### Residences

The valuation discounts on primary and secondary residences remain unchanged with, respectively, 75 percent for the taxpayer's primary residence, which is valued at 25 percent of market value, and 10 percent on the taxpayer's secondary residence, which is valued at 90 percent of market value.

### Shares and Assets

The valuation discount on capital, i.e., shares and fixed assets, including commercial real estate property, and the "reduction" rate for assigned debt increase from 10 to 20 percent. Hence, the taxable value for such capital is set at 80 percent of market value.

The valuation discount for shares and assets, including commercial real estate property, will benefit Norwegian holders of such, and makes it more profitable to channel private savings into investments in business premises. To counteract that the valuation discount might be exploited by taxpayers to take a net debt deduction, the valuation of the debt allocated to shares and assets is reduced to 80 percent of full value.

"Commercial real estate" is an asset and is therefore included in the discount for shares and fixed assets. In order to prevent commercial property owned by companies receiving discounts both in the value of the property and in the share value, the valuation discount for the company is terminated and only a discount is granted to the owner of the company.

## Share Dividends and Capital Gains

Share dividends and capital gains are taxed at the ordinary tax rate of 23 percent (2018). However, the “upward adjustment factor” (already introduced in 2016) for dividends and capital gains in ordinary income is increased from 1.24 (2017) to 1.33 for tax calculation purposes in 2018. Thus, the effective tax rate on capital gains and dividends for 2018 is 30.59 percent. The same applies when determining the tax-deductible loss from the sale of shares, i.e., the same upward adjustment factor is used.

## Tax Class 2 Will Be Phased Out

The Solberg government had proposed to remove tax class 2 in the calculation of tax, which is important for spouses where one spouse has low or no income.<sup>3</sup> In 2018, tax class 2 will be phased out in accordance with the government's proposal. This means that a married couple where one of the spouses has low or no income will experience increased taxation on income.

## Other Measures

- **Commuters – Adjustments of Deduction Rules for Expenses** – When further details are available, we will issue another GMS *Flash Alert*.

## FOOTNOTES:

1 See Prop. 1 LS (2017–2018) For Budsjettåret 2018 — Skatter, avgifter og toll 2018 at: <https://www.regjeringen.no/no/dokumenter/prop.-1-ls-ls0-20172018/id2574326/>.

2 See: <https://stortinget.no/no/Saker-og-publikasjoner/Statsbudsjettet/statsbudsjettet-2018/arbeidsplan/>.

3 See: <https://www.regjeringen.no/contentassets/60ae6d000b81421983b31bfc834fc9b7/no/pdfs/prp201720180001ls0dddpdfs.pdf> (section 5.4).

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