

GMS Flash Alert

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Norway – New Tax Regime for Foreign Workers

Effective 1 January 2019, Norway is introducing a Source Tax/PAYE regime that will impose a flat rate tax of 25 percent on gross employment income for foreign workers temporarily performing work in Norway.¹ The aim is to simplify the Norwegian tax system and to achieve more accurate taxation of foreign employees performing work in Norway. The tax regime applies also to non-tax residents receiving director's fees or director's pensions.

WHY THIS MATTERS

The new tax regime applicable for foreign workers could simplify tax administration in Norway for foreign companies posting employees to Norway. In certain cases, the Norwegian tax liability in respect of the worker's employment income may be less than if the worker was taxed under the ordinary income tax regime. This could open up possibilities for tax planning and potentially reduce costs for foreign employers assigning personnel to Norway.

Specifics, in Brief, of New Tax Regime

Preconditions

One precondition for applying the flat rate tax is that the foreign worker will not become a resident of Norway for tax purposes, i.e., his or her physical presence in Norway must be rather limited and will not exceed certain thresholds.² However, the tax regime can also be applied in the first calendar year the worker becomes a tax resident of Norway provided his or her own personal capital income will not exceed a certain limit. The Norwegian tax authorities will announce the amount of the limit in a separate regulation.

Who Can Apply

Foreign workers can apply for the new tax regime when applying for a Norwegian tax card. In addition, workers can obtain a tax card with the reduced tax rate if a Certificate of Coverage will be available.

Rate of Tax

For 2019, the flat tax rate is set to 25 percent; however, the rate will be stipulated by parliament on an annual basis. The tax rate includes Norwegian social security contributions (actual ordinary rate for employees: 8.2 percent). Hence, the effective tax rate can be reduced in cases where foreign workers have kept their membership in the Social Security scheme in their home country and can provide a Certificate of Coverage to the Norwegian authorities.

Mechanics of New Tax Regime

The tax rate will be applied to gross employment income; thus, no tax deductions will be granted in Norway. The tax will be deducted at source by the employer, and the withholding tax deducted from the employee's gross employment income will be considered as the final tax payment. Foreign workers eligible for the Source Tax Regime/PAYE will therefore not be required to file an annual Norwegian tax return. However, foreign workers have the choice between being taxed under the new tax regime or according to ordinary tax principles.

Another precondition for qualification is that gross employment income should not exceed the lower limit of the 3rd bracket applicable for Norwegian bracket tax.³ This limit will equal NOK 617,500 for 2019, assuming that the Norwegian parliament will pass the 2019 State Budget Bill with the bracket tax for 2019 that has been proposed.⁴

The Norwegian tax authorities request that they be informed if the worker has been granted the simplified tax regime but the preconditions for qualification are no longer fulfilled.

At present, the Norwegian tax authorities are still working on guidelines for administration of the new tax regime.

FOOTNOTES:

1 For Norway's Revised National Budget 2018 (in Norwegian), see: <https://www.statsbudsjettet.no/Revidert-budsjett-2018/>.

2 A person becomes a tax resident of Norway when either his physical presence in Norway exceeds 183 days in any 12-month period, or it exceeds 270 days in any 36-month period. See Norwegian income tax code § 2-1.

3 For more on the Norwegian bracket tax (in Norwegian), see: <https://www.skatteetaten.no/satser/trinnskatt/?year=2018#rateShowYear>.

4 For Norway's National Budget 2019 (in Norwegian), see: <https://www.regjeringen.no/no/tema/okonomi-og-budsjett/statsbudsjettet/id1437/>.

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[NOK 1 = EUR 0.105 | NOK 1 = USD 0.12 | NOK 1 = GBP 0.092 | NOK 1 = DKK 0.78]

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