GMS Flash Alert

2019-001 | January 3, 2019

Norway – Parliament Passes 2019 State Budget, New Regime for Foreign Workers

Norway's parliament has passed new budget measures reflecting the annual adjustments in tax rates, tax brackets, and standard deductions applicable to employees and stipulating the changes to be implemented in the Fiscal Code, valid as of 1 January 2019. In addition, a new tax regime for foreign workers is being introduced from 1 January 2019.

Ordinance (Prop. 1 LS 2018-2019) – the National Budget – published by Norway's Ministry of Finance on 8 October 2018, proposed to the parliament new provisions in the country's tax legislation for 2019.[1] The new provisions were passed by parliament on 12 December 2018, and will apply from 1 January 2019.[2] (For coverage of last year's budget, see GMS *Flash Alert* 2018-001, 3 January 2018.)

WHY THIS MATTERS

The changes in tax rates and other provisions in Norway's tax legislation that are effective from calendar year 2019 aim to promote the government's objectives of a broad tax base and low tax rates in order to foster equal tax treatment across industrial sectors and across individual taxpayers.

Companies with international assignees who are subject to Norwegian tax law should focus on the new regulations for the flat rate tax, which will be a Source Tax/PAYE regime and could decrease assignment-related costs.

The changes described in this newsletter will give an overview of where to adjust assignment packages and where withholding taxes may be reduced.

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

Measures Affecting Expatriates

New Tax Regime for Foreign Workers

Effective 1 January 2019, a new tax regime for foreign workers will be introduced as a "Source Tax/PAYE" regime. Under this tax regime a "flat rate tax" of 25 percent (16.8 percent in tax and 8.2 percent in employee's part of social security contributions) on gross employment income for foreign workers temporarily performing work in Norway will apply. The tax regime applies also to non-tax residents receiving director's fees or director's pensions.

The base for the tax rate is the employees' gross employment income; thus, no tax deductions will be granted in Norway. The tax shall be deducted at source by the employer, and the withholding tax deducted from the employees' gross employment income will be considered as the final tax liability.

Foreign workers eligible for the Source Tax Regime/PAYE will therefore not be required to file an annual Norwegian tax return.

However, in order to qualify for the new tax regime annual employment income is limited to NOK 617,500 in 2019.

Moreover, employees will have the option to choose whether to opt in to the Source Tax/PAYE regime.

(For more on the new rules, see our earlier GMS *Flash Alert* 2018-144, 2 November 2018.)

Standard Deduction for Foreign Employees Staying Temporarily in Norway[3]

Until calendar year 2018, foreign employees liable to income tax in Norway for employment income have been eligible to claim a standard deduction for each year during which they were not considered a resident in Norway for tax purposes. If they became a Norwegian tax resident for tax purposes, the standard deduction is applicable for the first two income years for which they are considered resident in Norway.

The standard deduction has been 10 percent of gross employment income, capped at a maximum of NOK 40,000 per year.

The standard deduction for foreign employees, except for seamen and employees working on the Norwegian continental shelf, has been abolished effective as of 1 January 2019.

Budget Cuts Taxes for Individuals and Companies

The changes introduced by the National Budget – known formally as Ordinance (Prop. 1 LS 2018-2019) – are intended to stimulate work and investment in Norway. The budget is estimated to decrease tax and duties of approximately 25 billion Norwegian crowns (NOK) in 2019. An ordinary family is expected to save about NOK 11,000 annually.

Tax on General Income

The National Budget for 2019 reduces the tax rate on ordinary income (*alminnelig inntekt*) from 23 percent to 22 percent for individuals and companies starting in 2019.

Maximum Rate of Tax Payable by an Individual Taxpayer

The highest limit of tax including National Insurance Contributions of 8.2 percent (*marginalskatt*) will be reduced by 0.2 percent to 46.4 percent, the highest overall rate of tax that can be paid by a taxpayer.

2019 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 22 percent, where an individual's annual income exceeds certain thresholds.

The 2019 rates of the "bracket tax" are increased between 0.5 and 0.9 percentage points. However, compared to the 2018 rates, the adjustment will moderately lower the marginal tax for employment income in each step.

	Bracket Tax 2019 (NOK)		**Rates**
Step 1			
Threshold	174,500 to	245,650	1.9 percent
Step 2			
Threshold	245,651 to	617,500	4.2 percent
Step 3			
Threshold	617,501 to	964,800	13.2 percent
Step 4			
Threshold	above 964,800		16.2 percent

Share Dividends and Capital Gains

Share dividends and capital gains are taxed at the ordinary tax rate of 22 percent (2019). However, the "upward adjustment factor" for dividends and capital gains in ordinary income is increased from 1.33 in 2018 to 1.44 in 2019. Thus, the effective tax rate on capital gains and dividends for 2019 is 31.68 percent. The same applies when determining the tax-deductible loss from the sale of shares (i.e., the same upward adjustment factor is used).

Minimum Allowance (*Minstefradrag*)

The rate for the minimum allowance (a type of standard deduction covering employment-related expenses) remains at 45 percent of gross employment income.

Furthermore, the maximum amount of the allowance increases from NOK 97,610 (2018) to NOK 100,800 (2019). The taxpayer may choose, instead, to claim a deduction for actual expenses if these are higher.

Minimum Allowance (*Minstefradrag*) in Retirement Income

The maximum income level for non-taxable retirement income increases from NOK 83,000 to NOK 88,050.

Personal Allowance

Each taxpayer's personal allowance for ordinary income is adjusted to NOK 56,550 (from NOK 54,750 in 2018).

Deduction for Commuting

The rates per kilometer for the deduction of commuting expenses have remained unchanged at 1.56 NOK/km up to km 50,000 and at 0.76 NOK/km above that amount. However the lower limit for the deductibility of expenses has been increased to NOK 22,700 in 2019 (NOK 22,350 in 2018).

Deductions for Donations

Taxpayers can claim a deduction for donations made to an approved non-profit organization up to a certain amount. The maximum deductible amount has been increased from NOK 40,000 to NOK 50,000 in 2019.

Employee Discount in Employment Relationship

An employee discount is defined as a discount on products or services, which are produced or marketed by the employing company. Such discounts are considered as tax-free if the discount is less than 50 percent of the value of the product and the total amount does not exceed NOK 7,000 per year. Amounts above this threshold will be treated as taxable employment income.

New Reporting Requirements for Tips

Tips given to employees are considered employment income liable to income tax. In the past, it was the employees' obligation to report tips in their personal annual tax returns, i.e., employers have not been responsible to report tips to the Norwegian tax authorities.

As of 2019, employers will have an obligation to report tips, deduct taxes, and pay employers' National Insurance Contributions in the same way as ordinary income.

This procedure will lead to increasing tax revenues, but also enhancing employees' rights under the National Insurance system, such as pension rights and sickness benefits.

Social Security Contributions

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

Wealth Tax

The basic allowance for wealth tax purposes increases from NOK 1,480,000 (2018) to NOK 1,500,000 (2019), whereas the tax rate of 0.85 is kept unchanged, i.e., the rates of 0.7 percent for municipal tax and 0.15 percent still apply on net wealth exceeding the basic allowance.

Valuation Discount (Wealth)

The valuation discounts are mostly kept stable. Thus, primary and secondary residences are still valued at 25 percent of market value and 90 percent of market value accordingly.

The valuation discount on capital, i.e., shares and fixed assets, including commercial real estate property, and the "reduction" rate for assigned debt increases from 20 to 25 percent. Hence, the taxable value for such capital is set at 75 percent of market value.

FOOTNOTES:

1 For *Prop. 1 LS (2018–2019)*, for *Budsjettåret 2019 — Skatter, avgifter og toll 2019*, (in Norwegian), click here.

2 For *Prop. 1 LS (2018–2019)*, for *Budsjettåret 2019 — Status - Skatter, avgifter og toll 2019*, (in Norwegian), click here.

3 For *Prop. 86 LS (2017–2018) — Endringar i skatte, avgifts- og tollovgivinga*, (in Norwegian), click here.

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NOK 1 = EUR 0.10096
NOK 1 = USD 0.115
NOK 1 = GBP 0.09105
NOK 1 = DKK 0.754

Contact us

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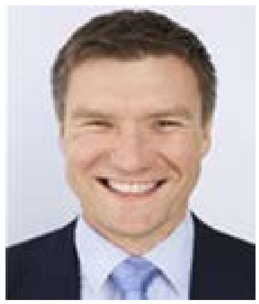

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