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Global Employer Services (GES)

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GES NewsFlash

Norway — Budget news

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Overview

The Norwegian government published on October 14th their proposed national budget for 2014. Norway's new government was appointed October 16th and the new government published revisions to the original budget proposal November 8th. As the new government is a minority government, some revisions to the proposed budget is expected. This newsflash presents the relevant issues for employers and employees in Norway.

Tax rates

The revised budget for 2014 has recently been presented by the government. Some of the suggested changes are expected due to the general increase in salary level, but there are also suggested changes in the wealth tax rates, the social security rates, the tax brackets, and the Inheritance tax. The budget will be finalized by the Norwegian Parliament in December.

The tax rates on regular income will change from 2013 to 2014, and the tax rate for combined national and municipal tax is suggested to be reduced from 28% to 27%

The threshold for top tax level one will increase from NOK 509,600 to NOK 527,400, and the threshold for top tax level two will increase from 828,300 to NOK 857,300.

9% top tax applies to income between NOK 527,400 and 857,300, and the marginal top tax rate for income above NOK 857,300 is 12%.

The wealth tax rate is suggested to be reduced from 1.1% to 1.0 %. Net wealth exceeding NOK 1.000,000 will be taxed with the 1.0% flat rate. In 2013 net wealth exceeding NOK 870,000 was taxable, and the limit is increased by 15%.

With the suggested changes, marginal tax rate for employees will be reduced from 47.8% to 47.2%.

Social security rates

The budget proposes an increase in the social security contribution rate for members of the Norwegian National Insurance Scheme as permanent residents or employees in Norway. The employee's contribution rates proposed are increased by 0.4% for all four contribution categories, i.e. for ordinary wage income, for income derived from fishing, hunting and child care, for income from self-employment, and for pension income. If the budget is approved by the Norwegian Parliament in December, the social security contribution rates will increase to 8.2 % for ordinary wage income and income derived from fishing, hunting and child care. The social security contribution rate for income from self-employment will be 11.4% and 5.1% for pension income. The threshold for paying employee's contributions is proposed unchanged for 2014; however income below NOK 39,600 will not be subject to employee's contribution.

At present, there are not any proposed changes to the current employer's contribution rate. The Norwegian Parliament will probably leave this contribution unchanged on the existing 2013 level with a contribution rate at 14.1% for zone 1. Please note that recent European Union (EU)/European Economic Community (EEC) legislation on regional state aid will enter into force on July 1st 2014 and that one may expect that the legislation of employer's contribution will most likely be changed during 2014.

Deductions and allowances

The personal allowance will increase by 3.5% according to the expected salary increase in 2013. The personal allowance increases from NOK 47,150 to NOK 48,800, tax class 2 abolished

The basic tax allowance will be increased from 40% to 43%. The upper limit was NOK 81,300 in 2013 and will be NOK 84,150 in 2014. The adjustment of the upper limit is also 3.5 %.

Tax class 2 deduction

The Norwegian government suggested in the original and revised budget to abolish tax class 2. Currently tax class 2 is a benefit for married individuals in which only one of the individuals is working. A personal allowance of NOK 48,800 (suggested 2014 rate) that is not utilized for the individual who is not working is currently taken into account in a joint assessment resulting in an overall tax reduction of up to NOK 13,176 (with suggested 2014 rate).

Recent negotiations between the minority government and other parties, has resulted in a revision of the original proposal. The personal allowance in tax class 2 is reduced to 72,000. This would give an overall tax reduction of Norwegian kroner 6,264

Inheritance tax is abolished

The government proposes a significant change in the inheritance taxation seeing as it is suggested to abolish inheritance tax from 1st January 2014. With the current legislation, inheritance tax is payable on inheritance with an inheritance tax free bracket based on receivers family relation to the deceased/testator. It is suggested that no inheritance tax would be due for gifts provided from 1st January 2014 and for inheritance where death occurred in 2014.

The abolishment of inheritance has also resulted in a suggested change where the inheritor also adopts the historical cost of the testator for noncash items. A principle of continuity is introduced for noncash inheritance. An exception is suggested for personal residence, vacation homes, and certain farms where the testator could sell tax free according to domestic legislation. In such cases, the inheritor will receive a new cost price as the current market value of the property.

Deduction for employer financed electronic communication

The government suggests a simplification of the current valuation of employer financed electronic communication. Currently, employer provided electronic communication is valued to NOK 4,000/6,000 per annum based on one or more subscriptions provided (usually mobile phone and broad band subscription). It is suggested that the current rates should be replaced with one annual value rate of NOK 4,400.

Commuter deductions work related travel and home visits

The government suggests that non EEA commuters should be eligible for commuter deductions for home travel and that a ceiling is set to avoid high commuter deductions for long-distance commuters. The background is to avoid eligibility for deduction that is higher than the actual costs.

Within EEA

Suggested maximum travel distance per year: 75,000 kilometers. No deduction for travel distance exceeding this distance. Maximum annual deduction for commuter travel would be limited to NOK 78,500 (including deduction for personal contribution that reduce the deductible part included in the tax assessment).

Outside EEA

The government suggests introducing eligibility to claim deduction for commuter travel to non EEA states and also set a ceiling for this deduction. The maximum deduction amount would be limited to NOK 92,500 per year and maximum deduction in a tax assessment would be limited to NOK 78,550 (taking into account a NOK 13,950 personal contribution). The commuter deduction would be given for documented travel costs. such as airfare; deduction based on travel distance would only be given where private car is used (partly or for the full distance).

Gain from sale of personal residence

The previous government suggested change in the taxation regime for personal residence in the budget announced 14th October. The new government withdraws this suggested change in the revised budget announced 8th November.

Taxation of loan from employer — nominal interest rate is increased

The government suggests increasing the nominal interest rate used for valuation of benefit of low interest loans received from an employer. Due to increase of the overall interest rate level to households, the nominal rate based on state bonds has recently been significantly lower than the best bank interest rate available. It is suggested that the nominal rate is increased with 0.75%. Current nominal interest rate is 2.25% and the suggested increase will have effect from 1st March 2014. The change will have an impact in which an employee receives a loan based on the nominal interest rate or receives a loan to zero or lower interest. Any reduced interest rate compared to the nominal interest rate will be subject to taxation and benefit will also be subject to employer social security contribution.

It is assumed and intended that the new nominal rate will still be lower than the best bank rate available.

Deduction for debt and interest — personal residence and vacation homes within the EEA

With the current legislation, deduction for interest is reduced where an individual holds personal residence or vacation homes in a state where the tax treaty exempts possible income from such property from taxation. Where a property is exempt from wealth tax due to a tax treaty, full deduction for debt is not awarded in the calculation of the net wealth subject to wealth tax under the current regime. The government suggests allowing a full deduction for debt and interest when the individual does not receive deductions in the relevant state. Deductions in Norway would be reduced with the deduction awarded in the relevant state. The suggested change comes as a result of inquiries from EFTA Surveillance Authority (ESA), in which ESA had the view that the Norwegian legislation was in breach on the EEA-treaty.

It is suggested that the change enters into force from 2013.

Contacts

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