



**DET KONGELIGE  
FINANSDEPARTEMENT**

*Royal Ministry of Finance*

# **Prop. 1 LS**

**(2016 – 2017)**

**Proposition to the Storting (bill and draft resolution)**

**for the fiscal year 2017**

**Taxes 2017**



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*Recommendation from the Ministry of Finance of 23 September 2016,  
approved in the Council of State on the same date.  
(Solberg Government)*

**An unofficial English translation of Chapter 1 of Prop. 1 LS (2016-2017)**

# 1 Main tax policy features

## 1.1 The tax policy of the Government

Tax is a means rather than an end. The Government will use the tax system to fund public goods and services, ensure social mobility, achieve more efficient resource allocation, and improve conditions for Norwegian businesses. Private ownership shall be strengthened, and it shall be more profitable to work, save and invest.

The Government's main tax policy objective is to fund public goods and services in the most efficient manner. Furthermore, the Government will reduce the tax level to stimulate economic growth and to enhance the freedom of families and individuals. Taxes shall also stimulate more environmentally-friendly behaviour. Hence, improvements to the tax system form a key element of the economic policy of the Government, and are amongst its principal policy measures to increase productivity.

Broad tax bases, low tax rates and equal tax treatment across industries, businesses and investments will contribute to resources being utilised in the best possible manner. These principles have been guiding for the design of the tax system since the tax reform of 1992. The reform provided Norway with a more growth-oriented tax system. Returns on investments increased, and tax bases were better aligned with actual corporate profits. The Storting has endorsed these fundamental principles through its deliberation of Report No. 4 (2015-2016) to the Storting; *Better Taxation – A Tax Reform for Transformation and Growth* (the Tax Report).

The competitiveness of Norway depends on the ability of our economy to change and to utilise resources in the best possible manner. This is achieved by ensuring that the general business framework makes it attractive to invest in Norway. Special arrangements and exemptions in the tax system will often channel resources into less productive uses.

### *Key achievements in the Government's tax policy*

The Government has reduced overall taxes by about NOK 18 billion accrued since it took office. The Government has implemented, among others, the following changes as of 2016, inclusive:

- Income tax has been reduced from 28 to 25 pct. A lower tax rate on ordinary income for individuals and corporations makes the economy more conducive to growth because labour supply, savings and investments are stimulated. The reduction of marginal tax rates and the reduced allowance in tax class 2 have also strengthened work incentives. The increase in the basic allowance for wage income, social benefits and pension income means that broad groups of the population have taken part in the tax reductions.
- Net wealth tax has been reduced by about NOK 4.8 billion at 2016 prices. The reductions stimulate savings, the inflow of Norwegian equity and investments in the business sector. The rate has been reduced from 1.1 to 0.85 pct., and the basic allowance has been increased from NOK 870,000 to NOK 1.4 million. The taxable values of commercial properties and secondary dwellings have, at the same time, been increased from 50 to 80 pct. of estimated market value, and the taxable values of holiday homes have been increased by 10 pct. This has resulted in more equal treatment of different assets.
- The Skattefunn research and development (R&D) tax incentive scheme has been expanded considerably. The scheme is a cost effective policy tool for stimulating R&D in businesses. The maximum deductibility basis (cap) for internal R&D costs has been increased from NOK 5.5 million to NOK 20 million, whilst the cap on R&D outsourced to approved research institutions and the cap on the sum total of internal and outsourced R&D has been increased

from NOK 11 million to NOK 40 million. In addition, the maximum hourly wage rate for internal personnel has been increased from NOK 530 to NOK 600.

- The inheritance tax has been abolished. This eases the liquidity strain of generational change and represents a major simplification.
- An arrangement has been introduced to neutralise value added tax for central government. This means that private suppliers can compete on equal terms for central government service provision.
- Car taxes have been reduced by a total of about NOK 1.8 billion at 2016 prices.
- There has been a clear shift towards environmentally related taxes. Environmentally and energy-related taxes have been increased by about NOK 4.7 billion at 2016 prices.

## 1.2 Main features of the tax proposal for 2017

Tax changes that expand the growth capacity of the economy, facilitate structural adjustment and create new jobs have an important role to play in promoting structural adjustment of the Norwegian economy. The tax burden should therefore be shifted from corporate tax, tax on savings and tax on labour to other taxes. Broad tax bases and minimising the number of special exemptions will pave the way for keeping general tax rates low. This is in line with international recommendations from, among others, the OECD and are key elements of the tax reform endorsed by a comprehensive majority in the Storting.

In the budget for 2017, the Government is proposing tax changes that will strengthen incentives for savings, investment and work. These changes are important to succeed with structural adjustment, thus increasing productivity and economic growth. A lower tax rate on ordinary income for individuals and corporations is especially growth inducing. This sends out a clear signal, along with improvements to net wealth tax, that investment in Norway shall be profitable.

The Government is proposing higher taxes on greenhouse gas emissions. This is in line with the polluter pays principle and forms part of the green tax shift. It is, at the same time, a priority for the Government to channel revenue increases from environmental taxes back to taxpayers in the form of sectoral reductions in taxes and compensations via the expenditure side of the budget. Reference is made to Section 3.8 of Report No. 1 (2016 – 2017) to the Storting; *National Budget for 2017*, for a general discussion of the Government's environmental and climate policy.

Total new tax reductions in 2017 as the result of the Government's proposal are about NOK 2.8 billion accrued and NOK 1.7 billion booked. Dynamic effects of the tax proposal for 2017 are discussed in Section 1.3.

### *Direct taxes*

The Government is committed to following up the tax reform in line with the parliamentary tax agreement. It is proposed that the tax rate on ordinary income for corporations and individuals be reduced from 25 to 24 pct. in 2017, and the parliamentary agreement calls for the rate to be further reduced to 23 pct. in 2018. The petroleum tax and the tax on economic rent from hydropower are adjusted without any net effect on tax revenues. This involves increasing the special tax on petroleum income by 1 percentage point to 54 pct. and reducing the rate of uplift (investment-based extra depreciation) from 5.5 to 5.4 pct. per year. The tax on economic rent from hydropower production is increased by 1.3 percentage points to 34.3 pct. The upwards adjustment factor for dividends, etc., in ordinary income is increased from 1.15 to 1.24, thus implying that the overall marginal tax rate on dividends is maintained at about the current level when considering corporate tax and personal dividend tax as a whole. The risk-free rate of return under the shareholder, partnership and self-employment model is increased by 0.5 percentage points before tax, and a share savings ac-

count scheme for listed shares and equity funds is proposed, which will imply that gains are not taxed on an ongoing basis.

The marginal tax rate on wages is reduced for the vast majority of wage earners, and the largest reductions accrue those with the lowest incomes. This is achieved by increasing the rates applicable under the bracket tax by less than the reduction in the rate of tax on ordinary income. The rates under the bracket tax are increased by between 0.49 and 0.82 percentage points, with the smallest increases applied to low incomes. Moreover, the Government proposes increasing the rate of the basic allowance for wage income and social benefits from 43 to 44 pct., with the upper limit being increased by NOK 830 in excess of wage growth adjustment. The allowance for travel between one's residence and workplace (the travel allowance) is expanded by increasing both of the applicable rates by NOK 0.06 per kilometre, in order to partly compensate for the increase in fuel taxes.

The Government is proposing further reductions in the net wealth tax to curtail the negative effects of this tax on Norwegian ownership and businesses. The parliamentary tax agreement is followed up by reducing the valuation of shares and operating assets, as well as associated debts, by 10 pct. The basic allowance is increased more or less in line with estimated increases in net wealth, to NOK 1,480,000. Commercial property and secondary dwellings are retaining a valuation discount of 20 pct., with the valuation of debts associated with such properties being reduced by 20 pct. for net wealth tax purposes. These changes reduce the preferential tax treatment of real estate investments, and may result in a higher proportion of private savings being channelled into investments in business activities. It is proposed, as announced in the Revised National Budget for 2016, to introduce a scheme for the deferred payment of net wealth tax (for the 2016 and 2017 tax years) for the owners of businesses that are recording an accounting loss, cf. Prop. 2 L (2016 – 2017); *Amendment to the Tax Payment Act (Deferred Payment of Net Wealth Tax)*.

It is proposed, in line with the parliamentary tax agreement, to introduce a Financial Activity Tax that will be comprised of two elements. The tax will be introduced on the financial sector wage base. The financial tax on such a wage base will be charged at a rate of 5 pct. of gross salaries paid. In addition, the corporate tax rate for financial undertakings will be kept at the 2016 level. This implies that financial enterprises are not encompassed by the general reduction in the tax on ordinary income. The Financial Activity Tax is intended to tax the value added in the provision of financial services, which is currently exempted from value added tax.

The Government is following up on the proposal in the Tax Report on the abolition of supplementary initial depreciation of machinery. Depreciation rates for heavy goods vehicles, lorries, buses and vans, etc. will be increased to 24 pct. in partial compensation for higher fuel taxes. At the same time, the Skattefunn research and development (R&D) tax incentive scheme will be expanded by increasing the maximum deductibility basis (cap) for internal R&D from NOK 20 million to NOK 25 million, whilst the cap for outsourced R&D is increased from NOK 40 million to NOK 50 million. The expansion of the scheme will make it even more attractive for businesses to invest in R&D. The Government is also proposing certain simplifications to the tax rules for the agricultural sector, including the introduction of an agricultural allowance for corporations and the establishment of a timber account scheme in replacement for the current taxation of average profits from forestry income in sole proprietorship. The Government also proposes abolishing the tax exemption for rural investment grants.

### *Indirect taxes*

The Government is proposing a green tax shift as part of the follow-up on the Green Tax Commission. The proposal will result in higher taxes on greenhouse gas emissions and fuel use. The tax

increases are mirrored by sectoral reductions in other taxes and by direct compensations. Relief is offered to motorists and transport providers in the form of reduced annual motor vehicle tax, reduced road tolls, increased travel allowance and increased depreciation rates. This restructuring of taxes serves to strengthen the climate compromise previously made in the Parliament as well as reduce greenhouse gas emissions. The Government is thereby following up on the petition resolution from the Storting's deliberation of the 2016 budget, calling for a green tax shift.

In addition, the Government is proposing an increase in the road usage tax on LPG and an increase in the sales obligation for biofuels. It is proposed to further change the motor vehicle registration tax in an environmentally-friendly direction. This involves an increased CO<sub>2</sub> and NO<sub>x</sub> component, a reduced weight component and a phase out of the engine power component. These proposals are in follow-up of the budget compromise for the 2016 budget.

The Government is also proposing to expand the value added tax compensation scheme for the local government sector in certain limited areas. The Storting's resolution on amendments to the Value Added Tax Act results in responsibility for the administration of value added tax upon the import of goods and services being transferred from Norwegian Customs to the Tax Administration from 1 January 2017. This entails amended rules on the reporting and payment of value added tax upon the import of goods from abroad.

The Government also presents a study on the duty free scheme in response to a petition from the Storting.

#### *Other proposed tax changes*

- It is proposed that the lower threshold for the payment of employee's social security contribution (the tax-free threshold) be increased by NOK 5,000.
- Employers' payment of union duty expenses will be exempted from tax.
- The amount of the tax exemption for employees' purchases of shares of the company for which they work will be doubled to NOK 3,000.
- The personal allowance will be adjusted in line with the wage growth.
- Certain limits will remain nominally unchanged. This applies, for example, to the trade union subscription allowance, the lower limit of the travel allowance, the parental allowance, the special allowance in Finnmark and North Troms, the maximum annual allowance for payments to individual pension schemes, the agricultural allowance, the fishermen's and seamen's allowances, as well as the maximum annual savings under the home investment savings scheme for people below the age of 34 years (BSU).
- The tax scheme for shipping companies will be expanded to include windfarm vessels.
- Amateur-built vehicles will be exempted from motor vehicle registration tax.
- It is proposed that the Ministry be granted statutory powers to exempt the maintenance arrangement for the F-35 fighter planes from value added tax.
- A scheme will be introduced to neutralise value added tax for state health authorities.
- The rate of product tax on sales of landed fish will be reduced from 2.5 to 2.3 pct.
- The sales tax on pharmaceutical products will be reduced from 0.55 to 0.45 pct.
- The surcharge levied on the energy supply tariff for the Energy Fund and the research charge on agricultural products will be incorporated into the fiscal budget.
- Piloting charges will be reduced in line with savings in the boarding service.

### 1.3 Dynamic effects

Lower tax rates may serve to improve resource allocation and stimulate economic growth. Part of the immediate loss of revenues will thus be offset by an expansion of the tax bases. The tax reductions may thereby be self-financing to some extent. An expansion of the tax bases may take place over many years. The associated increase in revenues can therefore not be included in the current fiscal year. The budgetary room for manoeuvre will increase as and when tax bases expand and the level of tax revenues increases.

Different taxes have different effects on resource allocations in the economy. Some taxes improve the allocation of resources, such as taxes that correct for damage caused to health and the environment. Other taxes, such as taxes on economic rents, are neutral. However, most taxes result in individuals and businesses changing their decisions in such a way as to utilise resources less efficiently. Labour taxes will, for example, make it less profitable to work. Correspondingly, it becomes less profitable to repay debts and deposit money in the bank or invest them in shares if part of the return has to be paid in tax. Taxes on business profits result in fewer investments in Norway being profitable.

Most of the tax revenues need to come from taxes that have a negative impact on the economy. Relying more heavily on taxes that have little impact on the decisions of individuals and enterprises, and having low tax rates on broad bases rather than higher rates on narrow bases, minimises such negative effects. High tax rates provide strong incentives to change behaviour and make it profitable to evade or avoid such tax. This inhibits economic growth.

Tax reductions may therefore serve to improve resource allocation and to stimulate economic growth. Some forms of tax reductions will have a more positive impact than others. Economic research indicates, for example, that lower tax rates on business profits and labour, in particular, may entail significant positive effects. The Tax Commission refers to international research and adopts the assumption that taxes on immovable property and on consumption have a less inhibiting effect on economic growth than other types of taxes, cf. the NOU 2014: 13 green paper; *Capital Taxation in an International Economy*. The Commission notes that traditional corporate tax and personal income tax (taxes on labour and capital income) have the strongest negative impact on economic growth.

The Government's tax proposal for 2017 is in line with economically well-founded recommendations as to which tax reductions will improve resource allocation and stimulate economic growth.

The Government proposes to reduce the tax rate on ordinary income for enterprises by 1 percentage point. The initial depreciation of machinery will be abolished at the same time. These proposals form part of the follow-up on the recommendations from the Tax Commission. The Tax Commission estimates, on an uncertain basis, that the degree of self-financing over time when reducing the corporate tax rate, whilst introducing more appropriate depreciation rules and a tighter interest deduction limitation rule, in line with the recommendations of the Commission, may be in the range of 20–40 pct.

A reduced tax rate on ordinary income for individuals, combined with a somewhat higher level of bracket tax, will reduce the marginal tax rate on both labour and savings. The overall marginal tax rate on labour will, under the Government's proposal, be reduced by about 0.2 and 0.5 percentage points for those who pay bracket tax. Consequently, the proposal will stimulate work, and may involve an element of self-financing in the longer run.

The Government's proposal for a reduction in the tax rate on ordinary income for individuals will, when taken in isolation, reduce the marginal tax rate on capital income by 1 percentage point. This will increase interest rates after tax, increase the value of interest income and reduce the value of the

deductibility of interest. Empirical research indicates that the overall effect of a higher return after tax is to increase savings, but the magnitude of such effect is uncertain.

The proposed reduction in the valuation of shares and operating assets for net wealth tax purposes will also increase the return after tax from investing in shares and operating assets for those above the net wealth tax threshold. Furthermore, the preferential treatment of investments in secondary dwellings and commercial property, as compared to investments in other business activities, for net wealth tax purposes is reduced. The proposal may serve to channel a larger portion of savings into investment in business activities. It may also serve to increase investment undertaken by businesses that rely on Norwegian equity to implement their projects. The Government's proposal for a net wealth tax reduction is assumed, against this background, to have a positive long-term effect on the economy.

The Ministry assumes that it will take time for dynamic effects of the Government's proposed changes to income and net wealth tax to influence tax revenues. The Ministry is therefore not including any dynamic effects of these changes in the 2017 budget. It is assumed, on the other hand, that changes in indirect taxes will affect prices and demand already in 2017. The estimated tax revenue of changes to most excise duties therefore take into account that the tax base changes when the tax rates are changed.

#### 1.4 Revenue effects of the proposed tax changes

Table 1.1 provides an overview of the revenue effects of the Government's proposals. The revenue effects of the tax proposal are calculated relative to the benchmark system for 2017. The benchmark system for 2017 is based on the 2016 rules, largely adjusted for estimated price, wage and wealth growth. Allowances and limits, etc., in the general rate structure for personal taxation have largely been adjusted to the 2017 level using estimated wage growth of 2.7 pct. Special allowances and other limits in personal taxation have largely been adjusted in the benchmark system using an estimated inflation rate from 2016 to 2017 of 2.0 pct. This means that a taxpayer who only qualifies for standard reliefs and whose ordinary income and personal income both increase by 2.7 pct. will have approximately the same average income tax level in the benchmark system for 2017 as in 2016. In the benchmark system for indirect taxes, all unit taxes have been adjusted by the estimated consumer price growth from 2016 to 2017. In real terms, the benchmark system thus entails no change in tax levels from 2016 to 2017.

Table 1.1 Estimated revenue effects of the tax proposal for 2017. Negative figures represent tax reductions. The estimates have been calculated relative to the benchmark system for 2017. NOK million

	Accrued	Booked
<b>Income tax</b>	<b>-5.358</b>	<b>-2.120</b>
Reduce the rate on ordinary income to 24 pct. for individuals, incl. adjusted dividend tax <sup>1</sup>	-11.060	-8.850
Reduce the rate on ordinary income to 24 pct. for enterprises	-2.708	0
Increase the bracket tax <sup>2</sup>	8.550	6.840



Increase the risk-free rate of return under the shareholder, partnership and self-employment model by 0.5 percentage points before tax	-140	-110
Adjust the petroleum tax with no net effect on tax revenues <sup>3</sup>	--	--
Adjust the tax on hydropower with no net effect on tax revenues <sup>4</sup>	0	0
<b>Net wealth tax</b>	<b>-500</b>	<b>-910</b>
Introduce a 10 pct. valuation discount for shares and operating assets (except commercial property) and associated debts. Debts associated with secondary dwellings and commercial property will be valued at 80 pct. The basic allowance will be NOK 1,480,000 (NOK 2,960,000 for married couples).	-500	-400
Introduce a scheme for the deferred payment of net wealth tax for the owners of loss-making businesses <sup>5</sup>	0	-510
<b>Other aspects of personal taxation</b>	<b>-819</b>	<b>-656</b>
Introduce a scheme for tax exemption of employers' payment of union duty expenses	-5	-4
Introduce a share savings account scheme	-50	-40
Expand the tax exemption for employees' purchases of shares of the company for which they work	-20	-16
Increase the rate of the basic allowance for wage income and social security benefits to 44 pct. and increase the maximum basic allowance to NOK 94,750	-670	-535
Increase the lower threshold for the payment of employee's social security contribution to NOK 54,650	-60	-50
Adjust the personal allowance in line with wage growth	-75	-60
Increase both travel allowance rates by NOK 0.06 per kilometre	-75	-60
Maintain other rates, limits and allowances unchanged in nominal terms, etc.	136	109

<b>Other aspects of business taxation</b>	<b>3.725</b>	<b>2.025</b>
Introduce a Financial Activity Tax <sup>6</sup>	2.250	1.790
Expand the Skattefunn R&D tax incentive scheme	-60	0
Abolish the supplementary initial depreciation of machinery, etc.	1.840	300
Increase depreciation rates for asset group c to 24 pct.	-300	-70
Abolish tax exemption for rural investment grants under the Ministry of Agriculture and Food	8	8
Abolish tax exemption for rural investment grants under the Ministry of Local Government and Modernisation	4	4
Include windfarm vessels in the tax scheme for shipping companies <sup>7</sup>	--	--
Introduce an agricultural allowance for corporations	-10	0
Introduce a tax exemption for distributions from partnerships of gains from forest protection compensation	-7	-7
Abolish the taxation of average forestry profits and introduce a timber account scheme	0	0
<b>Value added tax</b>	<b>-100</b>	<b>-100</b>
Amend the value added tax rules on the import of goods <sup>8</sup>	-100	-100
Introduce statutory powers to exempt F-35 maintenance from value added tax <sup>9</sup>	0	0
<b>Taxes on greenhouse gas emissions</b>	<b>315</b>	<b>280</b>
Increase the CO <sub>2</sub> tax on mineral oil by NOK 0.20 per litre <sup>10</sup>	270	240
Increase the tax on HFC and PFC to the general level applicable to greenhouse gas emissions	45	40
Increase the CO <sub>2</sub> tax on emissions of natural gas in petroleum activities <sup>11</sup>	--	--

<b>Car taxes</b>	<b>-66</b>	<b>-163</b>
Increase the road usage tax on auto diesel by NOK 0.35 per litre	1.050	960
Increase the road usage tax on petrol by NOK 0.15 per litre	130	120
Reduce the annual motor vehicle tax for passenger cars (about 12 pct.)	-1.220	-1.220
Change the motor vehicle registration tax	0	0
Exempt amateur-built vehicles from motor vehicle registration tax	-5	-4
Increase the road usage tax on LPG	1	1
Restructure the annual motor vehicle tax into a tax on traffic insurance	0	0
Increase the sales obligation for biofuels	-22	-20
<b>Sectoral taxes<sup>12</sup></b>	<b>-31</b>	<b>-24</b>
<b>Aggregate new tax changes in 2017</b>	<b>-2.834</b>	<b>-1.668</b>
Effect of decisions relating to the National Budget for 2016		-5.010
Effect of decisions relating to the Revised National Budget for 2016 <sup>13</sup>	250	232
<b>Aggregate tax changes in 2017</b>	<b>-2.584</b>	<b>-6.446</b>

<sup>1</sup> The tax rate on ordinary income for North Troms and Finnmark is reduced correspondingly from 21.5 pct. to 20.5 pct.

<sup>2</sup> Includes adjustment of the tax credit for pensioners such as to more or less maintain the current lower tax threshold for pensioners.

<sup>3</sup> Revenues are reduced by NOK 230 million accrued and NOK 115 million booked in 2017. Transfers to the Government Pension Fund Global are reduced correspondingly. Consequently, the room for manoeuvre in the budget for 2017 is not affected by this change. The change has no effect on the net present value of future tax revenues.

<sup>4</sup> The increased rate of economic rent tax will increase revenues by about NOK 125 million accrued. It will have no net effect on tax revenues when considered in the context of the reduced rate of tax on ordinary income for the hydro-power industry.

<sup>5</sup> The scheme is introduced from 2016. The loss of revenues in 2016 is estimated at NOK 290 million accrued and NOK 70 million booked.

<sup>6</sup> Financial tax on wages (5 pct.) and continuation of the tax on profits at the rate of 25 pct., deductibility of the wage element.

<sup>7</sup> The change will not affect revenues in 2017, but may result in a loss of revenues in the longer run.

<sup>8</sup> The revenues relate to an estimated annual loss of interest for central government in an amount of about NOK 100 million due to a change in payment procedures, which is here technically categorised under chapter 5521, item 70, value added tax.

<sup>9</sup> The estimated reduction of value added tax revenues, in an amount of NOK 15 million accrued and NOK 7.5 million booked in 2017 when compared to what should have been paid to central government under current value added tax rules, is mirrored by a corresponding reduction in the value added tax expenditure recordable on the expenditure side of the central government net accounting scheme for value added tax.

<sup>10</sup> The revenue estimate reflects compensations on the expenditure side in an aggregate amount of NOK 100 million.

<sup>11</sup> The gross tax increase is estimated at NOK 50 million, whilst the net revenue increase is about NOK 8 million. Transferred to the Government Pension Fund Global, and hence does not affect the room for manoeuvre in the budget for 2017.

<sup>12</sup> Reduce the sales tax on pharmaceutical products (NOK -19 million accrued and NOK -13 million booked) and the piloting charges (NOK -16 million accrued and NOK -15 million booked), and introduce a supervision fee for the Norwegian Medicines Agency (NOK 4 million accrued and booked).

<sup>13</sup> The deferral of air passenger tax reduces revenues by NOK 250 million accrued and booked in 2016, and increases revenues correspondingly in 2017 (includes compensation on the expenditure side pursuant to agreements on central government procurement of domestic aviation routes).

Source: Ministry of Finance.

Table 1.2 presents estimated booked tax revenues for 2017, as well as estimates for 2016 and accounting figures for 2015, specified by chapter and item.

Table 1.2 Booked tax revenues specified by chapter and item. NOK million

Chap- ter	Item	Description	Budget estimate 2016			
			Accounts 2015	Balanced budget	Estimate NB 2017	Proposal 2017
5501		Taxes on wealth and income				
	70	Bracket tax, net wealth tax, etc.	29.988	46.543	45.800	54.000
	72	Central government tax	208.008	204.595	191.300	184.000
5502	70	Financial Activity Tax	-	-	-	1.790
5506	70	Tax on inheritance and gifts	295	-	-	-
5507		Taxes on petroleum extraction				
	71	Ordinary tax on wealth and income	39.477	34.600	20.000	20.200
	72	Special tax on petroleum income	64.196	56.100	31.300	31.900
	74	Area fee, etc.	1.551	1.600	1.400	1.700
5508	70	Tax on the emission of CO <sub>2</sub> in petroleum activities on the continental shelf	4.959	5.500	5.200	5.400
5509	70	Tax on the emission of NO <sub>x</sub> in petroleum activities on the continental shelf	-26	5	3	3

5511		Customs revenues				
	70	Customs duties	3.068	3.100	3.100	3.100
	71	Auction revenue from customs quotas	237	260	260	240
5521	70	Value added tax	252.220	263.560	266.000	270.300
5526	70	Tax on alcoholic beverages	12.827	13.000	13.200	13.500
5531	70	Tax on tobacco products, etc.	7.265	7.200	7.300	7.300
5536		Tax on motor vehicles, etc.				
	71	Motor vehicle registration tax	17.995	17.700	17.200	16.900
	72	Annual motor vehicle tax	10.170	10.660	10.520	9.700
	73	Annual weight-based tax	352	368	345	360
	75	Re-registration tax	1.370	1.440	1.390	1.445
5538		Road usage tax on engine fuel				
	70	Road usage tax on petrol	5.727	5.500	5.400	5.600
	71	Road usage tax on auto diesel	10.352	10.800	9.700	10.900
	72	Road usage tax on natural gas and LPG	0	100	6	3
5541	70	Electricity tax	8.563	9.670	10.000	10.500
5542		Tax on mineral oils, etc.				
	70	Base tax on mineral oils, etc.	1.932	1.850	2.050	2.100
	71	Tax on lubricating oils, etc.	103	114	114	118
5543		Environmental tax on mineral products, etc.				
	70	CO <sub>2</sub> tax	5.743	6.800	6.200	6.700
	71	Sulphur tax	24	49	14	15
5546	70	Tax on the final disposal of waste	3	0	0	0

5547		Tax on chemicals that are harmful to health and the environment				
	70	Trichloroethene (TRI)	7	1	36	37
	71	Tetrachloroethene (PER)	1	1	2	2
5548	70	Tax on hydrofluorocarbons (HFC) and perfluorocarbons (PFC)	345	451	392	450
5549	70	Tax on the emission of NO <sub>x</sub>	54	57	50	52
5550	70	Environmental tax on pesticides	68	50	50	50
5551		Tax relating to the minerals industry				
	70	Tax relating to subsea natural resources other than petroleum	1	1	1	1
	71	Tax relating to the right to explore and extract minerals pursuant to the Minerals Act	4	3	3	2
5555	70	Tax on chocolate and sugar products, etc.	1.401	1.400	1.340	1.385
5556	70	Tax on non-alcoholic beverages, etc.	1.961	2.040	1.850	1.900
5557	70	Tax on sugar, etc.	206	230	200	205
5559		Tax on beverage packaging				
	70	Base tax on disposable packaging	1.607	1.650	1.670	1.725
	71	Environmental tax on cartons	63	50	55	50
	72	Environmental tax on plastics	34	35	40	40
	73	Environmental tax on metals	4	3	5	5
	74	Environmental tax on glass	89	90	100	100
5561	70	Air passenger tax	0	1.045	785	1.625
5565	70	Stamp duty	8.446	8.800	8.300	8.600
		Sectoral taxes <sup>1</sup>	2.331	2.308	2.308	3.414

5583	70	Taxes on frequencies, etc.	281	290	297	295
5700		National Insurance Scheme revenues				
	71	Employee's social security contribution	129.807	134.634	134.400	139.500
	72	Employers' social security contribution	169.628	175.697	171.400	177.100
<b>Total taxes via the fiscal budget</b>			<b>1.002.733</b>	<b>1.029.949</b>	<b>971.085</b>	<b>994.313</b>

<sup>1</sup> This is a composite item for sectoral taxes under the different ministries, relevant to multiple chapters and items. See Table 12.1 for a detailed overview.

Source: Ministry of Finance.

Table 1.3 presents booked effects of new proposals for rule changes in 2017, specified by chapter and item. The sum total of changes specified by chapter and item deviates somewhat from the sum total of booked effects of new tax changes in Table 1.1. This is because Table 1.1 deducts compensations on the expenditure side.

Table 1.3 Estimated booked revenue effects of the tax proposal for 2017, specified by chapter and item. Calculated relative to the benchmark system for 2017. NOK million

Chapter	Item	Description	Change
5501		Taxes on wealth and income <sup>1</sup>	
	70	Bracket tax, net wealth tax, etc.	5.636
	72	Central government tax	-9.105
5502		Financial Activity Tax	
	70	Tax on wages	1.790
5507		Taxes on petroleum extraction	
	71	Ordinary tax on wealth and income	0
	72	Special tax on petroleum income	0
	74	Area fee, etc.	0
5508	70	Tax on the emission of CO <sub>2</sub> in petroleum activities on the continental shelf	0
5509	70	Tax on the emission of NO <sub>X</sub> in petroleum activities on the continental shelf	0

5511		Customs revenues	
	70	Customs duties	0
	71	Auction revenue from customs quotas	0
5521	70	Value added tax <sup>2</sup>	-108
5526	70	Tax on alcoholic beverages	0
5531	70	Tax on tobacco products, etc.	0
5536		Tax on motor vehicles, etc.	
	71	Motor vehicle registration tax	-4
	72	Annual motor vehicle tax	-1.220
	73	Annual weight-based tax	0
	75	Re-registration tax	0
5538		Road usage tax on engine fuel	
	70	Road usage tax on petrol	120
	71	Road usage tax on auto diesel	969
	72	Road usage tax on natural gas and LPG	1
5541	70	Electricity tax	0
5542		Tax on mineral oils, etc.	
	70	Base tax on mineral oils, etc.	0
	71	Tax on lubricating oils, etc.	0
5543		Environmental tax on mineral products, etc.	
	70	CO <sub>2</sub> tax	311
	71	Sulphur tax	0
5547		Tax on chemicals that are harmful to health and the environment	
	70	Trichloroethene (TRI)	0
	71	Tetrachloroethene (PER)	0
5548	70	Tax on hydrofluorocarbons (HFC) and perfluorocarbons (PFC)	40



5549	70	Tax on the emission of NO <sub>x</sub>	0
5550	70	Environmental tax on pesticides	0
5551		Tax relating to the minerals industry	
	70	Tax relating to subsea natural resources other than petroleum	0
	71	Tax relating to the right to explore and extract minerals pursuant to the Minerals Act	0
5555	70	Tax on chocolate and sugar products, etc.	0
5556	70	Tax on non-alcoholic beverages, etc.	0
5557	70	Tax on sugar, etc.	0
5559		Tax on beverage packaging	
	70	Base tax on disposable packaging	0
	71	Environmental tax on cartons	0
	72	Environmental tax on plastics	0
	73	Environmental tax on metals	0
	74	Environmental tax on glass	0
5561	70	Air passenger tax	0
5565	70	Stamp duty	0
		Sectoral taxes <sup>3</sup>	-24
5583	70	Taxes on frequencies, etc.	0
5700		National Insurance Scheme revenues	
	71	Employee's social security contribution	18
	72	Employers' social security contribution	0
<b>Total changes in taxes via the fiscal budget</b>			<b>-1.576</b>

<sup>1</sup> The effects apply to central government and local government. Reference is made to Section 5.6 for a discussion of local government tax revenues.

<sup>2</sup> The revenues include an estimated annual loss of interest for central government in an amount of about NOK 100 million due to a change in payment procedures for value added tax on imports, which is here technically categorised under chapter 5521, item 70, value added tax.

<sup>3</sup> Reference is made to Table 12.1 for a specification of which sectoral taxes are being changed.

## 1.5 Distributional profile of the tax proposal

The Government's tax policy is characterised by growth-promoting reductions that have benefited large groups of the population. An overview of the distributional effects of the Government's tax proposal for 2017 is provided below.

The calculations encompass all tax changes that are possible to include in the Statistics Norway tax model LOTTE-Skatt, representing total net tax reductions of NOK 3.8 billion accrued. The calculations on the effects of the tax proposal on various groups compare the tax implied by the Government's proposal with the tax implied by the benchmark system for 2017.

Some of the tax proposals could not be included in these calculations. This applies to the scheme for the deferral of net wealth tax, changes to agricultural taxation, increased risk-free rate of return for shareholders and partners, the tax exemption for employers' payment of union duty expenses, the share savings account scheme and the expansion of the tax exemption for employees' purchases of shares of the company for which they work. Moreover, the calculations do not take into consideration the effects resulting from reductions in, inter alia, corporate tax and changes in indirect taxes, and only address short-term effects.

A main objective of the Government's tax policy has been to make it more profitable to invest, work and save. Consequently, it is a challenge that estimates which only encompass short-term distributional effects do not enable quantification of the effects of adjustments over time. A number of tax changes will result in adjustments of distributional relevance. There is a risk that measures whose effects can readily be calculated get too much attention, to the detriment of positive effects of a tax policy that expands investment and labour supply. Such effects will materialise gradually and are not as readily quantifiable.

There is likely to be a difference between distributional effects in the somewhat longer run, when the overall implications of a tax change have materialised, and in the very short run for any given fiscal year. Economic research has, for example, found that lower tax rates on labour will increase the labour supply of low-income groups more than that of those on higher incomes. Hence, tax changes that stimulate labour supply may promote increased equality. Corporate tax reductions will to begin with accrue to the owners, by way of an increase in profits. However, it is reasonable to assume that such corporate tax reductions will over time result in higher investment. Higher investment will contribute to making labour more productive, thereby resulting in higher real wages. Consequently, it is reasonable to assume that part of the corporate tax reductions will over time accrue to the employees.

The Government has also in its tax proposal for 2017 attached importance to ensuring that large groups of the population will benefit from the tax reductions. The short-term calculations from LOTTE-Skatt show that all income groups will obtain tax reductions, cf. Table 1.4. About half of the tax reductions will accrue to individuals with a gross income of between NOK 350,000 and NOK 750,000.

Figure 1.1 shows estimated net income increase in 2017 as a portion of (equivalent) gross income for various income deciles, as the result of changes in personal taxation. Decile 1 represents the 10 pct. of all individuals with the lowest incomes, whilst Decile 10 represents the 10 pct. with the highest incomes. The figure distinguishes between income tax reductions and net wealth tax reductions.

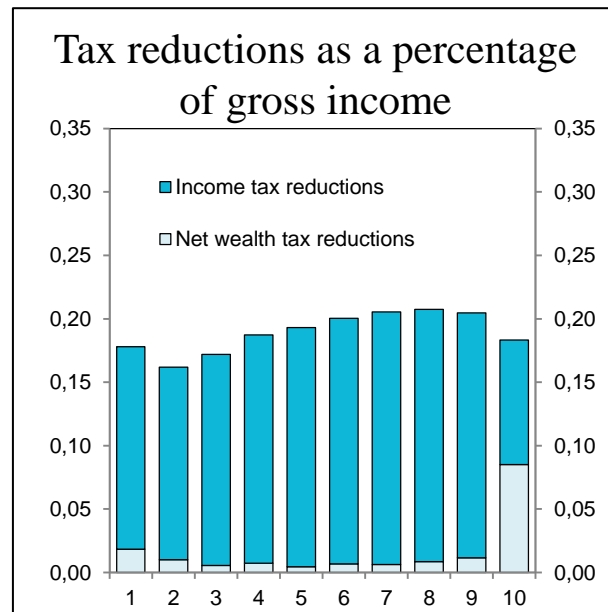


Figure 1.1 Tax reductions under the Government’s proposal as a percentage of gross income, specified by income groups (deciles) as defined by equivalent<sup>1</sup> gross income. Compared to the benchmark system for 2017. Percent

<sup>1</sup> The calculations behind the figure are based on a standard method of distributional analysis in that a portion of overall household income is attributed to all persons, both those with and those without income (including children). Such income is adjusted somewhat to reflect the economies of scale that result from several people living together. This implies that each person in a multi-person household is deemed to have a higher income than the actual income per person of such a household. This higher income is held to be «equivalent» to the income of a single person (although actual income is lower).

Sources: Ministry of Finance and Statistics Norway.

The reductions are equally distributed when measured as a portion of equivalent gross income. The tax reductions vary between 0.16 pct. and 0.21 pct. as a portion of income. The main part of the tax reductions for deciles 1 to 9 are in the form of income tax reduction. As far as decile 10 is concerned, the tax reductions are fairly equally distributed between income tax and net wealth tax.

Table 1.4 shows estimated distributional effects of the tax changes for all individuals aged 17 years or more. In aggregate, the proposals result in reduced tax for all gross income groups. The average tax reduction is 0.2 pct. of gross income, although the tax reduction is somewhat larger for the group earning the lowest income. The average tax reduction, as measured in Norwegian kroner, increases with income.

The average tax reduction across all individuals is about NOK 900, of which the reduction in net wealth tax accounts for about NOK 100.

Table 1.4 Estimated distributional effects of changes to personal taxation for all individuals aged 17 years or more. Negative figures represent tax reductions. The estimates have been calculated relative to the benchmark system for 2017. NOK

Gross income. NOK	Number of taxpayers	Average tax under the benchmark system. Percent	Average tax under the benchmark system. NOK	Average tax change. NOK	Change as a percentage of gross income	Of which: average net wealth tax change. NOK
0 – 150.000	575.000	5,1	3.300	-200	-0,3	0
150.00 – 200.000	246.600	6,7	12.000	-400	-0,2	0
200.000 – 250.000	318.700	10,3	23.300	-500	-0,2	0
250.000 – 300.000	351.900	15,0	41.300	-500	-0,2	0
300.000 – 350.000	367.900	18,2	59.100	-600	-0,2	0
350.000 – 400.000	349.800	20,5	77.000	-800	-0,2	0
400.000 – 450.000	344.700	22,2	94.100	-900	-0,2	0
450.000 – 500.000	317.300	23,3	110.700	-1.000	-0,2	0
500.000 – 600.000	504.200	24,6	134.800	-1.100	-0,2	0
600.000 – 750.000	409.300	27,1	180.200	-1.400	-0,2	-100
750.000 - 1 million	279.300	30,3	259.100	-1.600	-0,2	-100
1 million and above	230.600	35,9	574.400	-2.400	-0,2	-1.500
Total	4.295.400	25,1	114.000	-900	-0,2	-100

Sources: Ministry of Finance and the Statistics Norway tax model, LOTTE-Skatt.

These tax changes are favourable for the self-employed as a group. Aggregate tax reductions for this group will be about NOK 260 million. This represents an average tax reduction of about NOK 2,400, of which NOK 500 can be attributed to the net wealth tax.

Wage earners will also obtain significant tax reductions under the tax proposal for 2017. Aggregate tax reductions are estimated to be about NOK 2.5 billion for this group. This corresponds to an average tax reduction of NOK 1,200, of which about NOK 100 takes the form of net wealth tax reduction.

Those on retirement pension will obtain an aggregate tax reduction of about NOK 390 million. This corresponds to an average tax reduction of about NOK 500.

Recipients of social benefits will obtain an aggregate tax reduction of about NOK 380 million. This corresponds to an average tax reduction of about NOK 700.

The tax reductions, as measured in Norwegian kroner, will largely increase with the level of the income of the various groups. The self-employed have higher average income and pay higher average tax than wage earners, whilst recipients of social benefits or retirement pension have lower average incomes than wage earners.

The above calculations show the average impact of the tax changes on different income groups. The calculations at the level of individuals show that about 97 pct. of taxpayers will experience lower or more or less unchanged tax under the proposal, whilst about 3 pct. of taxpayers will pay more tax. The portion of individuals paying more tax is largest in the groups with the highest incomes, primarily as the result of higher tax on dividends. A large portion of individuals in the lowest income groups will experience more or less unchanged tax. This needs to be considered in the context that these individuals pay relatively little tax. Overall, it is estimated that just under 1 pct. of taxpayers will experience a tax increase in excess of NOK 2,000. Their average gross income is NOK 1.7 million kroner and their average tax increase is just under NOK 10,000.

## 1.6 Tax rates and thresholds

Table 1.5 shows tax rates, allowances and thresholds in 2016 and the Government's proposals for 2017. The general allowances and thresholds are rounded after adjustment for estimated growth in wages, pensions or prices from 2016 to 2017. The increases may therefore deviate somewhat from the level of the various growth estimates. Wage growth is estimated at 2.7 pct., consumer price growth at 2.0 pct. and growth in the ordinary retirement pension at 1.9 pct. Reference is also made to the proposed tax decision in this report and to the overview of allowances and thresholds at the Ministry's website.

Table 1.5 Tax rates, allowances and thresholds in 2016 and proposals for 2017

	2016 rules	Proposal 2017	Change 2016–2017
<i>Tax on ordinary income</i>			
Individuals <sup>1</sup>	25 pct.	24 pct.	-1 percentage point
Corporations <sup>2</sup>	25 pct.	24 pct.	-1 percentage point
<i>Bracket tax</i>			
Bracket 1			
Threshold	NOK 159.800	NOK 164.100	2,7 pct.
Rate	0,44 pct.	0,93 pct.	0,49 percentage points
Bracket 2			

Threshold	NOK 224.900	NOK 230.950	2,7 pct.
Rate	1,7 pct.	2,41 pct.	0,71 percentage points
Bracket 3			
Threshold	NOK 565.400	NOK 580.650	2,7 pct.
Rate <sup>3</sup>	10,7 pct.	11,52 pct.	0,82 percentage points

#### Bracket 4

Threshold	NOK 909.500	NOK 934.050	2,7 pct.
Rate	13,7 pct.	14,52 pct.	0,82 percentage points

#### *Employee's social security contribution*

Lower threshold for the payment of employee's social security contribution	NOK 49.650	NOK 54.650	10,1 pct.
Levelling rate	25,0 pct.	25,0 pct.	-
Rate			
Wage income	8,2 pct.	8,2 pct.	-
Fishing, hunting and childminding <sup>4</sup>	8,2 pct.	8,2 pct.	-
Income from other self-employment	11,4 pct.	11,4 pct.	-
Pension income, etc.	5,1 pct.	5,1 pct.	-

#### *Employers' social security contribution<sup>5</sup>*

Zone I	14,1 pct.	14,1 pct.	-
Zone Ia	14,1 pct.	14,1 pct.	-
Zone II	10,6 pct.	10,6 pct.	-
Zone III	6,4 pct.	6,4 pct.	-
Zone IV	5,1 pct.	5,1 pct.	-
Zone IVa	7,9 pct.	7,9 pct.	-
Zone V	0,0 pct.	0,0 pct.	-

#### *Maximum effective marginal tax rates*

Wage income, excl. employers' social security contribution	46,9 pct.	46,7 pct.	-0,2 percentage points
Wage income, incl. employers' social security contribution	53,5 pct.	53,3 pct.	-0,2 percentage points
Pension income <sup>6</sup>	43,8 pct.	43,6 pct.	-0,2 percentage points

Income from self-employment <sup>4</sup>	50,1 pct.	49,9 pct.	-0,2 percentage points
Dividends <sup>7</sup>	46,6 pct.	46,6 pct.	-
<i>Personal allowance</i>			
Class 1	NOK 51.750	NOK 53.150	2,7 pct.
Class 2	NOK 76.250	NOK 78.300	2,7 pct.
<i>Basic allowance for wage income</i>			
Rate	43.0 pct.	44.0 pct.	1 percentage point
Lower limit	NOK 4,000	NOK 4,000	-
Upper limit <sup>8</sup>	NOK 91,450	NOK 94,750	3,6 pct.
<i>Basic allowance for pension income</i>			
Rate	29,0 pct.	29,0 pct.	-
Lower limit	NOK 4.000	NOK 4.000	-
Upper limit	NOK 73.600	NOK 75.000	1,9 pct.
<i>Special wage income allowance</i> <sup>9</sup>	NOK 31.800	NOK 31.800	-
<i>Special allowance for sole providers</i>	NOK 51.804	NOK 51.804	-
<i>Special tax credit for pensioners</i>			
Maximum amount	NOK 29.880	NOK 29.940	0,2 pct.
Downscaling, bracket 1			
Threshold	NOK 184.800	NOK 188.700	2,1 pct.
Rate	15,3 pct.	15,3 pct.	-
Downscaling, bracket 2			



Threshold	NOK 278.950	NOK 284.350	1,9 pct.
Rate	6,0 pct.	6,0 pct.	-

*The tax limitation rule*

Levelling rate	55,0 pct.	55,0 pct.	-
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Tax-exempted net income

Single person	NOK 139.400	NOK 143.50	2,7 pct.
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Married person	NOK 128.150	NOK 131.600	2,7 pct.
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Net wealth supplement

Rate	1,5 pct.	1,5 pct.	-
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Single person	NOK 200.000	NOK 200.000	-
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Married person	NOK 100.000	NOK 100.000	-
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*Special allowance in Finnmark and North Troms*

Class 1	NOK 15.500	NOK 15.500	-
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Class 2	NOK 15.500	NOK 15.500	-
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*Seamen's allowance*

Rate	30,0 pct.	30,0 pct.	-
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Upper limit	NOK 80,000	NOK 80,000	-
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*Fishermen's allowance*

Rate	30,0 pct.	30,0 pct.	-
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Upper limit	NOK 150.000	NOK 150.000	-
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*Special allowance for income from self-employment in agriculture, etc.*

Income-independent allowance	NOK 63.500	NOK 63.500	-
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Rate applicable to amounts in	38,0 pct.	38,0 pct.	-
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excess of the income-independent allowance

Maximum overall allowance	NOK 166.400	NOK 166.400	-
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*Special allowance for high expenses due to illness<sup>10</sup>*

Lower limit	NOK 9.180	NOK 9.180	-
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*Maximum annual allowance for payments to individual pension schemes*

	NOK 15.000	NOK 15.000	-
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*Allowance for travel between home and work*

Rate per km	NOK 1,50/0,70	NOK 1,56/0,76	4 pct./8,6 pct.
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Lower allowance limit	NOK 22.000	NOK 22.000	-
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*Maximum allowance for donations to charities*

	NOK 25.000	NOK 25.000	-
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*Maximum allowance for paid trade union subscriptions, etc.*

	NOK 3.850	NOK 3.850	-
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*Home investment savings scheme for people below the age of 34 years (BSU)*

Tax deduction rate	20,0 pct.	20,0 pct.	-
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Maximum annual saving	NOK 25.000	NOK 25.000	-
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Maximum total savings in the scheme	NOK 300.000	NOK 300.000	-
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*Parental allowance for documented childcare expenses*

Upper limit

One child	NOK 25.000	NOK 25.000	-
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Supplement per additional child	NOK 15.000	NOK 15.000	-
<i>Net wealth tax</i> <sup>11</sup>			
Local government			
Threshold	NOK 1.400.000	NOK 1.480.000	5,7 pct.
Rate	0,7 pct.	0,7 pct.	-
Central government			
Threshold	NOK 1.400.000	NOK 1.480.000	5,7 pct.
Rate	0,15 pct.	0,15 pct.	-
Valuation discounts			
Primary dwellings	75 pct.	75 pct.	-
Secondary dwellings and commercial property <sup>12</sup>	20 pct.	20 pct.	-
Shares and other operating assets for those liable to pay net wealth tax	-	10 pct.	10 percentage points
<i>Financial Activity Tax on Wages</i>	-	5 pct.	5 percentage points
<i>Depreciation rates</i>			
Asset group a (office equipment, etc.)	30 pct.	30 pct.	-
Asset group b (acquired goodwill)	20 pct.	20 pct.	-
Asset group c (heavy goods vehicles, lorries, buses, vans, etc.) <sup>13</sup>	20/22 pct.	24 pct.	4/2 percentage points
Asset group d (passenger cars, machinery and equipment, etc.) <sup>14</sup>	20 (30) pct.	20 pct.	-(10) percentage points
Asset group e (ships, vessels, rigs, etc.)	14 pct.	14 pct.	-
Asset group f (aircraft, helicopters)	12 pct.	12 pct.	-
Asset group g (facilities for the transmission and distribution of electricity and elec- trotechnical equipment in power companies)	5 pct.	5 pct.	-

Asset group h (buildings and installations, hotels, etc.) <sup>15,16</sup>	4 (6/10) pct.	4 (6/10) pct.	-
Asset group i (office buildings)	2 pct.	2 pct.	-
Asset group j (technical facilities in office buildings and other commercial buildings)	10 pct.	10 pct.	-

<sup>1</sup> The rate will be reduced from 21.5 pct. in 2016 to 20.5 pct. in 2017 for taxpayers in North Troms and Finnmark.

<sup>2</sup> The special tax on petroleum activities and the economic rent tax on hydroelectric power will be increased from 53 and 33 pct. in 2016 to 54 and 34.3 pct. in 2017, respectively. The tax on the ordinary income of financial enterprises will be maintained at the 2016 level.

<sup>3</sup> The rate in 2016 is 8.7 pct. in bracket 3 for taxpayers in North Troms and Finnmark, and will be increased to 9.52 pct. in 2017.

<sup>4</sup> Income from self-employment within fishing and hunting, as well as childminding in own home (children below the age of 12 years or with special care and nursing needs) is subject to an 8.2 pct. social insurance contribution. A lower social insurance rate for hunting and fishing has to do with the fact that these industries pay a product tax intended to, inter alia, make up the difference between the 8.2 pct. and the 11.4 pct. social insurance contribution rates.

<sup>5</sup> Employers' social security contribution shall be paid in Zone 1a at a rate of 10.6 pct. until the difference between the actual employers' social security contribution paid by the enterprise and what employers' social security contribution such enterprise would have paid at a rate of 14.1 pct. equals the threshold amount. In 2017, the threshold amount is NOK 500,000 per enterprise. The threshold amount is NOK 250,000 for cargo transport by road in Zone 1a. Differentiated employers' social security contributions can no longer be applied in parts of the transport sector and the energy sector, as well as the finance and insurance sector, under the new EU regional aid guidelines. A threshold amount arrangement corresponding to that for Zone 1a has therefore been introduced for these sectors.

<sup>6</sup> For individuals who fall within the scope of the basic allowance for pension income, the maximum effective marginal tax rate may be up to 46.8 pct. under the Government's proposal.

<sup>7</sup> Includes corporate tax and upwards adjustment factor for dividends, etc. In 2016, the corporate tax is 25 pct. and the upwards adjustment factor for dividends, etc., is 1.15. In 2017, the corporate tax is 24 pct. and the upwards adjustment factor for dividends, etc., is 1.24.

<sup>8</sup> The sum of the basic allowance for wage income and the basic allowance for pension income shall not exceed the maximum basic allowance for wage income, i.e. NOK 94,750 for 2017.

<sup>9</sup> A taxpayer earning wage income only qualifies for the higher of the basic allowance for wage income and the special wage income allowance.

<sup>10</sup> The special allowance for high expenses due to illness will be continued as per the 2016 rules.

<sup>11</sup> The thresholds apply to single taxpayers. For married couples who are assessed jointly for joint assets, the threshold is twice the level specified in the table.

<sup>12</sup> The table shows the effective valuation discount for secondary dwellings and commercial property. For such properties owned by those liable to pay net wealth tax (individuals and foundations, etc.), this corresponds to the formal discount of 20 pct. For such properties owned by non-listed companies, this corresponds to the overall valuation discount when taking into account both the direct discount of 11 pct. in the company and the new valuation discount of 10 pct. for shares and operating assets.

<sup>13</sup> The ordinary depreciation rate for asset group c in 2016 is 20 pct., with an increased rate of 22 pct. for lorries, heavy goods vehicles and buses. The proposal implies a maximum depreciation rate of 24 pct. for all assets in the asset group.

<sup>14</sup> Supplementary initial depreciation for assets in asset group d implies that group d-assets may in 2016 be depreciated at an additional rate of 10 pct. on top of the ordinary rate in the year of acquisition. Initial depreciation is abolished in the tax proposal for 2017.

<sup>15</sup> Buildings with a design so simple that their economic life must be assumed not to exceed 20 years can be depreciated at a rate of 10 pct. The 10 pct. rate also applies to installations whose economic life must be assumed not to exceed 20 years.

<sup>16</sup> Agricultural buildings for livestock can be depreciated at a higher rate of 6 pct.

Source: Ministry of Finance.

Table 1.6 shows current rates of value added tax and excise duties, as well as rate proposals for 2017. Basically all excise duties have been adjusted upwards by 2.0 pct. to account for antici-

pated inflation. Minor deviations may be due to rounding of the rates. Reference is also made to the decision on indirect taxes in this proposition.

Table 1.6 Rates of indirect tax in 2016 and proposed rates for 2017

Tax category	2016 rules	Proposal 2017	Changes in pct.
<i>Value added tax, pct. of sales value</i>			
Standard rate	25	25	-
Reduced rate	15	15	-
Low rate	10	10	-
<i>Tax on alcoholic beverages</i>			
Spirits-based beverages in excess of 0.7 pct. alcohol by volume, NOK per pct. alcohol and per litre	7,31	7,46	2,1
Other alcoholic beverages from 4.7 to 22 pct. alcohol by volume, NOK per pct. alcohol and per litre	4,76	4,86	2,1
Other alcoholic beverages up to 4.7 pct. alcohol by volume, NOK per litre			
a) 0.0 – 0.7 pct. alcohol by volume	-	-	-
b) 0.7 – 2.7 pct. alcohol by volume	3,27	3,34	2,1
c) 2.7 – 3.7 pct. alcohol by volume	12,29	12,54	2,0
d) 3.7 – 4.7 pct. alcohol by volume	21,29	21,72	2,0
<i>Tax on tobacco products</i>			
Cigars, NOK per 100 grams	250	255	2,0
Cigarettes, NOK per 100 units	250	255	2,0
Smoking tobacco, NOK per 100 grams	250	255	2,0
Snuff, NOK per 100 grams	101	103	2,0
Chewing tobacco, NOK per 100 grams	101	103	2,0
Cigarette paper, NOK per 100 units	3,82	3,90	2,1

*Motor vehicle registration tax*

Passenger cars, etc. Tax group a<sup>1</sup>

Weight, NOK per kg<sup>2</sup>

first 200 kg (150 kg in 2016)	0	0	-
next 1,000 kg	38,08	27,19	-
next 200 kg (250 kg in 2016)	83,01	67,74	-
next 100 kg	166,04	211,70	-
remainder	193,11	246,22	-

Engine power, NOK per kW

first 70 kW	0	-	-
next 30 kW	125,59	-	-100,0
next 40 kW	363,67	-	-100,0
remainder	900,01	-	-100,0

NO<sub>x</sub> emissions, NOK per mg/km

	57,95	70,93	22,4
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CO<sub>2</sub> emissions, NOK per g/km<sup>3</sup>

first 85 g/km (95 g/km in 2016)	0	0	-
next 15 g/km	896,76	914,70	-
next 30 g/km	903,68	995,49	-
next 70 g/km	2.106,65	2.685,98	-
remainder	3.382,16	3.449,80	-

allowance for emissions below 85 g/km (95 g/km in 2016), applies down to 40 g/km and only to vehicles emitting less than 85 g/km (95 g/km in 2016)

	918,82	937,20	2,0
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allowance for emissions below 40 g/km, only applicable to vehicles emitting less than 40 g/km

	1.081,03	1.102,65	2,0
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Vans class 2. Tax group b,<sup>4</sup>

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weight, pct. of passenger car tax	22	21	-1 percentage point
engine power, pct. of passenger car tax	22	-	-
NO <sub>x</sub> emissions, pct. of passenger car tax	50	75	25 percentage points
CO <sub>2</sub> emissions, pct. of passenger car tax	variable	variable	-
Campervans. Tax group c, <sup>5</sup>			
pct. of passenger car tax	22	22	-
Weasels. Tax group e,			
pct. of value tax base	36	36	-
Motorbikes. Tax group f,			
tax per unit, NOK	8.092	8.254	2,0
Engine power tax, NOK per kW			
first 11 kW	0	0	-
remainder	256,25	261,38	2,0
Piston displacement tax, NOK per cm <sup>3</sup>			
first 125 cm <sup>3</sup>	0	0	-
next 775 cm <sup>3</sup>	32,94	33,60	2,0
remainder	72,24	73,68	2,0
Snowmobiles. Tax group g			
Weight, NOK per kg			
first 100 kg	13,52	13,79	2,0
next 100 kg	27,04	27,58	2,0
remainder	54,06	55,14	2,0
Engine power, NOK per kW			
first 20 kW	21,72	22,15	2,0
next 20 kW	43,43	44,30	2,0
remainder	86,84	88,58	2,0

<i>Piston displacement, NOK per cm<sup>3</sup></i>			
first 200 cm <sup>3</sup>	2,38	2,43	2,1
next 200 cm <sup>3</sup>	4,76	4,86	2,1
remainder	9,50	9,69	2,0
<i>Taxis. Tax group h,<sup>6</sup></i>			
weight, pct. of passenger car tax	40	40	-
engine power, pct. of passenger car tax	40	-	-
NO <sub>x</sub> emissions, pct. of passenger car tax	100	100	-
CO <sub>2</sub> emissions, pct. of passenger car tax	variable	variable	-
<i>Minibuses. Tax group j,<sup>7</sup></i>			
pct. of passenger car tax	40	40	-
 <i>Annual motor vehicle tax, NOK per year</i>			
Petrol vehicles and diesel vehicles with a factory- fitted particle filter	3.135	2.820	-10,0
Diesel vehicles without a factory-fitted particle filter	3.655	3.290	-10,0
Motorbikes	1.920	1.960	2,1
Tractors, mopeds, etc.	445	455	2,2
 <i>Annual weight-based tax, NOK per year</i>			
	variable	variable	2,0
 <i>Re-registration tax</i>			
	variable	variable	2,0
 <i>Road usage tax on engine fuel</i>			
Petrol, NOK per litre <sup>8</sup>	4,99	5,24	5,0
Auto diesel, NOK per litre <sup>9</sup>	3,44	3,86	12,2
Bioethanol subject to the blending obligation, NOK per litre	4,99	5,24	5,0



Biodiesel subject to the blending obligation, NOK per litre	3,44	3,86	12,2
Natural gas, NOK per Sm <sup>3</sup>	0	0	-
LPG, NOK per kg	0,69	1,49	115,9
<i>Electricity tax, øre per kWh</i>			
Standard rate	16,00	16,32	2,0
Reduced rate	0,48	0,48	-
<i>Base tax on mineral oils, etc.</i>			
Mineral oil, NOK per litre	1.630	1.663	2,0
Mineral oil in the pulp and paper industry, production of dyes and pigments, NOK per litre	0,147	0,147	-
<i>Tax on lubricating oils, NOK per litre</i>	2,13	2,17	1,9
<i>CO<sub>2</sub> tax</i>			
Petroleum activities, gas, CO <sub>2</sub> , oil, condensate, NOK per litre or Sm <sup>3</sup>	1,02	1,04	2,0
Petroleum activities, natural gas emitted to air, NOK per Sm <sup>3</sup>	1,02	7,16	602,0
Mineral oil standard rate, NOK per litre	0,92	1,14	23,9
Mineral oil subject to road usage tax, NOK per litre	1,12	1,14	1,8
Mineral oil for domestic aviation, NOK per litre	1,08	1,10	1,9
Mineral oil for the wood-processing, herring meal and fish meal industries, NOK per litre	0,31	0,32	3,2
Mineral oil for fishing and catching in inshore waters, NOK per litre	0,28	0,29	3,6
Petrol, NOK per litre	0,97	0,99	2,1
Natural gas, NOK per Sm <sup>3</sup>	0,84	0,86	2,4

LPG, NOK per kg	1,26	1,29	2,4
Reduced rate for natural gas, NOK per Sm <sup>3</sup>	0,057	0,057	-
<i>Sulphur tax</i> , NOK per litre	0,133	0,136	2,3
<i>Tax on NO<sub>x</sub> emissions</i> , NOK per kg	21,17	21,59	2,0
<i>Tax on trichloroethene (TRI) and tetrachloroethene (PER)</i> , NOK per kg	69,75	71,15	2,0
<i>Tax on HFC and PFC</i> , NOK per tonne of CO <sub>2</sub> equivalents	383	428	11,7
<i>Tax on chocolate and sugar products, etc.</i> , NOK per kg	19,79	20,19	2,0
<i>Tax on non-alcoholic beverages</i>			
Finished products, NOK per litre	3,27	3,34	2,1
Concentrate (syrup), NOK per litre	19,92	20,32	2,0
Squash and syrup based on fruits, berries or vegetables, without added sugar, NOK per litre	1,64	1,67	1,8
Concentrate (syrup based on fruits, berries or vegetables), without added sugar, NOK per litre	9,96	10,16	2,0
<i>Sugar tax</i> , NOK per kg	7,66	7,81	2,0
<i>Tax on beverage packaging</i> , NOK per unit			
Base tax, disposable packaging	1,15	1,17	1,7

Environmental tax			
a) Glass and metals	5,59	5,70	2,0
b) Plastics	3,37	3,44	2,1
c) Cartons and cardboard	1,38	1,41	2,2
<i>Air passenger tax</i> , NOK per passenger	80	82	2,5
<i>Stamp duty</i> , pct. of sales price	2,5	2,5	-

<sup>1</sup> Group a: Passenger cars, class 1 vans and buses shorter than 6 metres with up to 17 seats. Piston displacement is used as the tax component for vehicles whose CO<sub>2</sub> emissions are not specified.

<sup>2</sup> The percentage change is specified for the weight component, since both thresholds and rates are changing in 2017.

<sup>3</sup> The percentage change is specified for the CO<sub>2</sub> component, since both thresholds and rates are changing in 2017.

<sup>4</sup> Group b: Class 2 vans. The highest level of the CO<sub>2</sub> component does not apply to group b, and the second-highest level is 25 pct. of the tax on passenger cars.

<sup>5</sup> Group c: Camper vans. NO<sub>x</sub> component applicable.

<sup>6</sup> Group h: Taxis and vehicles for disabled persons. The two highest levels of the CO<sub>2</sub> component do not apply to group h.

<sup>7</sup> Group j: Buses shorter than 6 metres with up to 17 seats, of which at least 10 are forward-facing. The highest level of the CO<sub>2</sub> component does not apply to group j. NO<sub>x</sub> component applicable.

<sup>8</sup> Petrol with a sulphur content of 10 ppm or lower.

<sup>9</sup> Diesel with a sulphur content of 10 ppm or lower.

Source: Ministry of Finance.

## 1.7 Allocation of public sector tax revenues

Table 1.7 provides a general overview of the main groups of taxes and shows which parts of the public sector that receive the revenues from the different groups. In total, tax revenues are estimated at NOK 1,195 billion in 2016, of which about 84 pct. accrue to central government, just over 13 pct. to local government and about 3 pct. to regional government.

Most of local and regional government tax revenues are in the form of income tax and net wealth tax on personal taxpayers. About 37 pct. of central government tax revenues are in the form of value added tax, excise duties and customs duties. About 30 pct. come from personal taxpayers, whilst about 23 pct. come from non-personal taxpayers and employers' social security contributions in Mainland Norway. About 5 pct. of the central government revenues in 2016 are in the form of taxes from the petroleum sector. Other taxes account for about 4 pct.

Table 1.7 Accrued taxes specified by tax creditors. Estimates for 2016. NOK billion

	Total	Central government	Local government	Regional government
<i>Personal taxpayers</i>	479,3	300,5	147,9	30,9
Tax on ordinary income	290,9	122,2	137,7	30,9

Bracket tax	41,3	41,3	-	-
Employee's social security contribution	134,8	134,8	-	-
Tax on net wealth	12,3	2,2	10,1	-
<i>Enterprises (whose taxes are payable in arrears)</i>	65,4	63,8	1,3	0,2
Income tax (including power plants)	65,0	63,4	1,3	0,2
Tax on net wealth	0,5	0,5	-	-
<i>Recurrent tax on immovable property</i>	11,4	-	11,4	-
<i>Employers' social security contribution</i>	175,1	175,1	-	-
<i>Indirect taxes</i>	374,9	374,9	-	-
Value added tax	270,0	270,0	-	-
Excise duties and customs duties	105,0	105,0	-	-
<i>Petroleum</i>	50,9	50,9	-	-
Tax on income	44,1	44,1	-	-
Tax on extraction, etc.	6,8	6,8	-	-
<i>Other direct and indirect taxes</i>	38,4	38,0	0,4	-
Social security and pension premiums, other central government and social security accounts <sup>1</sup>	26,9	26,9	-	-
Tax on dividends for foreign shareholders	2,3	2,3	-	-
Inheritance tax	0,0	0,0	-	-
Other direct and indirect taxes <sup>2</sup>	9,3	8,9	0,4	-
<b>Total direct and indirect taxes</b>	<b>1.195,4</b>	<b>1.003,2</b>	<b>161,0</b>	<b>31,2</b>
<b>Of which direct taxes</b>	<b>820,5</b>	<b>628,3</b>	<b>161,0</b>	<b>31,2</b>

<sup>1</sup> Including Norwegian Public Service Pension Fund.

<sup>2</sup> Including certain revenue items classified as tax revenues in the national accounts, but not classified as tax revenues in the fiscal budget.

Source: Ministry of Finance.