Welcome to
Tax Update for Nordic Countries

5 December 2014
Agenda

1. Upcoming changes in tax legislation
2. Update on Tax Administration practice
3. Recent case law
4. Changes to Finnish taxation after 2015 parliamentary election?
Upcoming changes in tax legislation
Finnish Government has proposed several changes to tax legislation as of 2015

- Changes are proposed to both corporate and individual taxation

- Proposals are based on Government proposals which have not yet been approved by Parliament – therefore changes are still possible
  - Proposals are expected to be approved in December 2014
Deductibility of entertainment expenses

- 50% deductibility of **entertainment expenses** will be returned as of beginning of 2015
  - Will be applied first time in taxation of FY 2015
- Tax Administration has published 2 guidelines regarding entertainment expenses in 2014:
  - Marketing and entertainment events in value-added taxation (22 April 2014)
  - Entertainment expenses in income taxation (18 August 2014)
- Guidelines cover the new case law (Supreme Administrative Court 2013:63, 64 & 65) regarding marketing events organized to a limited audience.
- Clarifies the borderline between expenses relating to substantial agenda and expenses related to dinner and cocktail servings after the actual agenda.
  - Decisions of the SAC do not change the definition of entertainment expenses.
  - The distinction between marketing and entertainment expenses is made on the same grounds in both income taxation and VAT.
Taxation of individuals

- **Capital income tax rate** remains unchanged (30%).
  - Increased tax rate for capital income to 33% (currently 32%).
  - The limit for the application of increased rate decreased to EUR 30,000 (currently 40,000).

- The three lowest income classes of **national tax** are increased by approx. 1.5%

- The EUR limit for the highest income class is decreased to EUR 90,000 (currently EUR 100,000).

- Changes to **personal deductions**, e.g.:
  - Personal liability for transport-to-work expenses rises to EUR 750 per year (currently EUR 600).
  - Deductibility of interest expenses on loan for home is decreased to 65% as of 2015.
    - The deductibility will be gradually decreased down to 50% as of 2018.
Inheritance and gift taxation

- Tax rates in all inheritance and gift tax classes are raised by 1%
  - The highest tax rate (applied to inheritance and gifts of over EUR 1,000,000), that has been temporary, will become permanent
Taxation of energy

- **Windfall tax** will be annulled
- Taxation of **traffic fuels** is increased. The effective increase including VAT would be approximately:
  - 1 cent / gasoline litre (+1.3%)
  - 1.2 cents / diesel oil litre (+2 %)
- Taxation of **heating fuels** is increased for the part of carbon dioxide tax
  - 15% increase to tax rates (on average)
  - Intended to encourage the use of low-emission heating fuels
  - Change does not apply to taxation of biogas and solid biomass
- Tax increase regarding **fuel peat** will be annulled
- **Electricity tax** in electricity tax class I is increased by 0.35 cents per kilowatt-hour (+18%)

Finnish Tax News
PwC
5 December 2014
Other changes

• The upper and lower limits of real estate tax rates are increased
  - Increase of 0.20 percentage unit on the range of general real estate tax rates
    ➢ 0.80—1.55%
  - Increase of 0.05 percentage unit on the range of permanent residential buildings
    ➢ 0.37—0.80%
  - Other than permanent residential buildings’ maximum tax rate would be examined due to the increase.

• Changes in taxation of cooperative surplus
CRS - Common Reporting Standard

- OECD model for automatic exchange of information
- Finland as “early adopter” starting from 2017 (account data from 2016).
  - Agreement signed by Finland on 29 October 2014
- Almost 50 countries and jurisdictions involved (and more to come)
  - All EU Member States and several other countries (e.g. Bermuda, BVI, Cayman Islands, Guernsey, Jersey, Isle of Man and Liechtenstein)
- Based on CRS, financial institutions are obligated to identify:
  - Customers
  - The place of residence (for tax purposes).
- Automatic exchange of information between countries applying the standard on foreign income and assets.
Update on the practice of the Tax Administration
Updated Tax Audit Process

• “Real time guiding tax audit process”
• No more preliminary tax audit report
  - Taxpayer may submit a response only to the final tax audit report.
• Questions and issues arising during the tax audit will be resolved by discussing the issues and providing responses to written requests for clarification.
Recent Tax Administration Guidelines

**General anti-avoidance rule**
- Applicability of the tax avoidance rule pursuant to Section 28 of the Tax Assessment Procedure Act (VML 28 §).
- Criteria and relevant case law regarding the applicability of the tax avoidance provision.

**Taxation of dividend income**
(A207/200/2013, 13.11.2014)
- Updated guidelines covering the amended dividend taxation regulation entered into force in the beginning of 2014.
- Includes taxation of dividend income received by both individuals and corporate entities.
- Covers also distribution from reserve for invested unrestricted equity (SVOP) which as the main rule is regarded as dividend in taxation.
Public tax debt register

- Information on tax debts of companies and entrepreneurs will be available for everyone as from December 2014.
- No information regarding individuals.
- Contains information on:
  - Outstanding tax debt of at least EUR 10,000
  - Defaults in periodic tax return filings within the last 6 months
- If no entry in the register regarding tax debt exceeding EUR 10,000 or defaults in periodic tax return filings
  - Separate tax debt certificate or a proof of tax payment not needed.
- Service works via Tax Administration’s online service (ytj.fi).
- Extract from the tax debt register can be printed directly from the service.
Project to scrutinise certain international tax phenomena

Goals

• Limit possibilities to reduce taxes in connection to certain international phenomena

• Identify, prevent and reduce tax risks related to international operations

• Increase national and international co-operation

Sub-projects include, e.g.

• Financing (debt-push-down, hybrids, etc.)

• Transfer Pricing

• Carried interest

• Foreign transactions

Follows closely the development of the BEPS project of OECD / G20 countries
Carried interest

Background
- Performance fee used in alternative investments
- Paid to advisors (i.e. manager of the fund)
- Rewards the manager for enhancing the performance of the fund

Actions of the Tax Administration?
- Analysis of arrangements and tax risks
- Have ownership arrangements been used to characterise fees as:
  - Capital income instead of earned income?
  - Fully tax exempt income?
- Planning of required guidance and control
Recent case law
Fair value and punitive tax increase
SAC 2014:33

- Shares in B Oy were transferred by A Oy to a Norwegian group entity.
- Transfer at yield value calculated on the basis of a cash flow estimation performed by a 3rd party specialist.
- EUR62m addition to the taxable income of A Oy, as the transfer price was deemed to be below fair market value.
- Punitive tax increase of EUR 620,000.
- **SAC:** cash flow estimation could be used in valuation of fair value, but valuation not reliable
  - Net asset value should have been applied
- The company had tried to determine the fair value and issue was open to interpretation
  - Punitive tax increase was removed
SAC 2014:119 – Re-classification of debt as equity

Loan characteristics:

• Fixed annual interest rate 30%
• Interest approx. EUR1.3m / year
• Subordinated, not secured, no maturity date

• Debt or equity in company’s taxation?
  ➢ SAC: Debt
• Re-classification as equity for tax purposes via transfer pricing adjustment (VML 31.1§)?
  • If in a related entity transaction...
  • ...terms differ from terms that would have been agreed upon between independent parties...
  • ...and as a consequence, the taxable income is impacted...
  • ...the taxable income may be adjusted.
  ➢ SAC: Re-classification not possible via TP adjustment
• Applicability of general anti-avoidance clause (VML 28§)?
Central Tax Board 45/2014 (8 October 2014)

Equity ratio test

Background

- Interest deductions on intra-group loans limited to 25% of taxable EBITDA (safe-harbor of 500,000)
- Limitation not applied to financial, insurance and pension institutions or personal (non-business) income (e.g. housing companies and companies engaged in certain types of real estate renting).
- Limitation not applicable if company’s “equity ratio” (equity to total assets) is equal to or higher than equity ratio in the consolidated balance sheet.

Ruling

- Equity ratio test to be based on the consolidated balance sheet prepared by the top parent company.
- Applicable consolidated balance sheet is the one prepared by Lux Sarl, as it was allowed to prepare consolidated balance sheet based on Lux GAAP (although could decide not to).
- Therefore, subgroup’s consolidated balance sheet, prepared by A Oy, not applicable.
Cross-border merger and final losses – update

Background

- Transfer of final losses in a cross-border merger and utilization by parent company.
- Final losses = subsidiary has exhausted the possibilities available in its state of residence of having the losses taken into account

CJEU case A Oy (C-123/11)

- CJEU ruled that losses may be deducted provided they are final.
- SAC (KHO: 2013:155 / 4.10.2013) agreed and ruled after the CJEU decision that losses may be deducted provided they are final.

Other tax and legal practice

- Application of tax avoidance provision?
- Finality of losses needs to be considered.
Changes to Finnish taxation after 2015 parliamentary election?
Poll results for Parliamentary election (4 December 2014, Taloustutkimus)

Puoluekannatusarviot

<table>
<thead>
<tr>
<th>Party</th>
<th>Change</th>
<th>Vote Share</th>
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<tbody>
<tr>
<td>KESK</td>
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<td>26.7</td>
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<td>KOK</td>
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<tr>
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<td>8.9</td>
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<tr>
<td>VIHR</td>
<td>-0.8</td>
<td>8.3</td>
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<td>KD</td>
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</tr>
<tr>
<td>MUU</td>
<td>-0.4</td>
<td>1.1</td>
</tr>
</tbody>
</table>

Yle Uutiset/Taloustutkimus, 3.11-2.12.2014, otos 3884, virhemarg. +/-1.3% -yks.
**Tax reform 2015 (... if the current prime minister party gets to decide)**

1) **Simplification of tax system**
   - Base broadening
     - Reduction and elimination of tax subsidies
       -> Allows reduction of tax rates

2) **Shift to taxes with minimum impact on economic activities**
   - Shift from direct tax to indirect tax
     - Shift from taxation of work and entrepreneurship to taxation of environmentally harmful consumption
   - Corporate taxation and taxation of capital income
     - Reduction of tax rates
     - Simplification of tax system
**Tax reform 2015 (... if the opposition party leading the polls gets to decide)**

1) **Support entrepreneurship (e.g.:)**
   - Entrepreneur deduction
   - VAT reduction on employee focused sector
   - Prevent increase of inheritance and gift tax to support change of generation for businesses
   - First North (exchange list) - reform of dividend taxation

2) **Support employees earning less than EUR 60,000 / year (e.g.:)**
   - Tax rate reduction and increase to personal deductions

3) **Tax exemption on minor dividend income**

4) **Fight against “grey economy” to collect more taxes**

5) **Increase of tax rates for the well earning (over 68,000/year)**
Tax reform 2015 (... and if we end up somewhere else...?)

- To be continued...

“It is not the strongest of the species that survives, nor the most intelligent, but the one most responsive to change.” - Charles Darwin
Thank you!

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Vad händer i Sverige just nu...

på skatteområdet?

Håkan Behmer
5 December 2014
Basfakta 2014-12-31

Bolagsskatt 22%
Kapitalinkomstskatt 20 – 30%
Tjänstebeskattning 29 – 60%

Ingen arvsskatt
Ingen gavoskatt
Ingen förmögenhetsskatt
Budgetpropositionen för 2015

Gick den igenom?
Nej, nu gäller Alliansens budget och nyval den 22 mars
Dec 2013 - mindre än 15 cm från att Citytunneln översvämmas
Budgetpropositionen för 2015 – sammanfattning

Följande förslag behandlas i budgetpropositionen - Löfven:

- Sänkt skatt för pensionärer
- Avtrappning av jobbskatteavdraget
- Minskad uppräkning av skiktgränserna för statlig inkomstskatt för beskattningsåret 2015
- Särskild löneskatt för äldre införs
- Slopad nedsättning av socialavgifterna för unga
- Komplettering av förslaget om begränsning av avdragsrätten för privat pensionssparande
- Slopad skattereduktion för läxhjälp
- Slopad avdragsrätt för förvaltningsutgifter
- Miljö- Energi- och Tobaksskatter
Budgetpropositionen för 2015 – Minskade avdrag för privatpersoner - Löfven

Avdrag för förvaltningsutgifter i inkomstslaget kapital tas bort
• Tidigare har man haft möjlighet att dra av kostnader som överstiger 1000 kr. Nu försvinner den möjligheten.

Avdrag för privata pensionskostnader minskar kraftigt
• Skattereduktionen för kostnader för privat pensionssparande minskar från 12 000 kr/år till 1800 kr/år.

Avdrag för gåva till ideell verksamhet
• Skattereduktionen för gåvor till ideell verksamhet bör avskaffas från 2016. Regeringen återkommer med förslag under 2015.
**Budgetpropositionen för 2015 – förvaltningsutgifter - Löfven**

**Slopad avdragsrätt för förvaltningsutgifter**

- Fysisk person har idag rätt att dra av förvaltningsutgifter i inkomstslaget kapital om de överstiger 1 000 kr under beskattningsåret.

- Exempel på utgifter som i praxis har ansetts utgöra förvaltningsutgifter är arvoden till banks notarieavdelning, depåavgift, aviseringsavgifter för lån och bankfacksavgifter.

- Avdragsrätten för förvaltningsutgifter i inkomstslaget kapital slopas.

- Föreslås träda i kraft den 1 januari 2015.
**Siffror och kalkyler -- Löfven**
Skiktgränser för uttag av statlig inkomstskatt 2015

<table>
<thead>
<tr>
<th>Beskattningsbar förvärvsinkomst (skiktgräns...)</th>
<th>… som motsvarar följande taxerade förvärvsinkomst (brytpunkt)…</th>
<th>… ger följande statliga inkomstskatt inom skiktet</th>
</tr>
</thead>
<tbody>
<tr>
<td>- 421.800</td>
<td>- 434.900</td>
<td>0</td>
</tr>
<tr>
<td>421.800 – 616.100</td>
<td>434.900 – 629.200</td>
<td>+ 20 %</td>
</tr>
<tr>
<td>616.100 –</td>
<td>629.200 –</td>
<td>20 + 5 %</td>
</tr>
</tbody>
</table>

För de som vid årets ingång fyllt 65 år blir brytpunktarna 465.500 kr resp. 648.000 kr.
Budgetpropositionen för 2015 – Löfven

Miljöskatter

• Skattereduktion införs för mikroproduktion av förnybar el införs.
• Skatten på effekt från kärnkraft höjs.
• Skatt på bekämpningsmedel, naturgrus och deponerat avfall höjs.
• Fordonsskatten höjs.
• Ingen höjning av bensinskatten 2015.
Budgetpropositionen för 2015 – övrigt Löfven

Lättnadsreglerna för oäkta bostadsföretag slopas från och med 1 januari 2016

• Något nytt lättnadsbelopp på bostadsförmånen får inte beräknas.

Höjd skatt på alkohol och tobak

• Skatten på cigaretter mm höjs med 6 %.
• Skatten på snus höjs med 12 %.
• Skatten på öl och vin höjs med 9 %.
• Skatten på sprit höjs med 1 %.
Budgetpropositionen för 2015 – Alliansen

• Behålla nuvarande jobbskatteavdrag.
• Behålla uppräkningen av den statlig inkomstskatten.
• Ej sänka skatten för pensionärer.
• Behålla nuvarande rutavdrag.
Budgetpropositionen för 2015 – Alliansen

- Ej höja sociala avgifter för unga. Tvärtom föreslås en ytterligare sänkning för ungdomar under 23 år.
- Ej införa särskild löneskatt för äldre.
- Behålla nuvarande avdrag för förvaltningsutgifter.
- Ej höja skatten på bekämpningsmedel, naturgas och termisk effekt i kärnkrafts reaktorer.
Budget propositionen för 2015 – Alliansen

- Ändra avdrag på privat pensionssparande – 2 400.
- Höja skatten på alkohol och tobak.
- Slopa gruppregistrering för moms.
- Höja fordonsskatten för personbil med stora utsläpp av växthusgaser.
Utredningar – redovisade, pågående och föreslagna
Redovisade utredningar - Företagsskatteutredningen

Bakgrund

• Skapa ökad skattemässig neutralitet mellan lånat och eget kapital
• Förhindra oönskad skatteplanering
• Ge möjlighet att avskaffa nuvarande ränteavdragsbegränsningsregler

Förslag

• Huvudförslag som medger att nuvarande ränteavdragsbegränsningsregler slopas
• Alternativförslag med bibehållande av nuvarande begränsningsregler
• Föreslaget ikraftträdande 1 januari 2016
Förslag om förenklade regler för enskilda näringsidkare och fysiska delägare i handelsbolag

- Periodiseringsfond, expansionsfond och skogskonto tas bort.
- ”Företagsfond” införs.
- Negativ räntefördelning tas bort.
- Positiv räntefördelning görs om lite.

- Föreslås träda ikraft 1 januari 2016
Pågående utredningar

- Entreprenörskapsutredningen (delvis 3:12)
- Incitamentsutredningen (delvis 3:12)
- Generationsskitesutredningen (delvis 3:12)

Kan komma ändrade direktiv med hänsyn till ny Regering.
Föreslagna utredningar i S, V och MP:s budgetprop

- 3:12 –reglerna
- Paketering av fastigheter
- Vinster i välfärden
- Beskattning av den finansiella sektorn
- Vägslitageavgift (lastbilsskatt) för tyngre fordon.
- Skatt på flygresor
Föreslagna utredningar i **Alliansens budgetprop**

- Paketering av fastigheter
- Höja de sociala avgifterna inom den finansiella sektorn
- Höja nivåerna på skatte- och tulltillägg
Att tänka på inför årsskiftet (privat)

- Framkalla förlust för att kvitta mot vinst?
- Förlust kan kvittas mot exempelvis uppskov som uppstått vid försäljning av privatbostad.
- Pågående ROT-arbeten över årsskiftet – uppdelning av faktura.
- Ägs bostaden av ena maken? Gåva/bodelning av del av fastigheten till andre maken för att öka utrymmet för ROT-avdrag
- Max 12 000 kr i avdrag för pensionssparande.
Den globala skatten?

Världen är så stor så stor Lasse Lasse liten...
Tack för i idag!

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PwC Norway
Luxembourg
April 2014
Norwegian Tax Update
Agenda

1. Introduction
2. General taxation in Norway
   • Tax rates and general principles
   • 2015 State Budget Plan and other News
   • The Norwegian Tax Exemption Method
   • Taxation of Funds in Norway
   • Capital Insurance Products
   • Tax amnesty
3. Proposal of a New Norwegian Tax System
   • Basics and reasoning
   • Corporate Taxation
   • Limitations of interest deduction
   • Net Wealth Tax
   • Financial Services Industry
4. Closing Remarks
Introduction
General taxation in Norway

Tax rates and general principles
2015 State Budget Plan and other News
The Norwegian Tax Exemption Method
Taxation of Funds in Norway
Capital Insurance Products
Tax Amnesty
Norwegian Tax rates
Individuals from 2015

- **Tax rates individual:** 0 - 47.8%
  - Capital income: 0 - 27%
  - Trade income: 27 – 50.4%
  - Salary: 0 – 47.2%
  - Pension: 31%

- **Payroll tax:** 14.1%

- **Net wealth tax for Norwegian resident individual taxpayers:**
  - Subject to net wealth tax on world wide assets
  - Net wealth tax is levied on property owned by the taxpayer wherever situated
  - Net wealth tax on 0.85% above 1 200 000
Norwegian Tax rates

- WHT on dividends on 25% (reduced rates apply in some Double Tax Treaties)
- EEA countries: 0% WHT as the main rule for corporate shareholders
- No WHT on royalty/interest

Inheritance tax abolished from 2014
- tax continuity on tax positions – meaning that inheritor will take over the tax positions
  - Could result in increased tax and even higher than the Inheritance tax
  - Exemptions: private estate and cottage - tax discontinuity – tax position will be increased to market value
Norwegian Tax rates
Corporations

• Corporate tax: 27 %
• The Tax exemption method (share income)*)
  › Corporate shareholders are exempt from taxation of dividends and gains on shares, except for a claw back of 3% on dividends taxable at 27% giving 0,81% effective tax rate (does not apply for tax groups; excess over 90% ownership)
• Double Tax treaties with 87 countries
  › Since 1992 Norway has practised the credit system. However, a number of treaties are based on the exemption method (normal practise prior to 1992)
• No stamp duties, except for registration of transactions in immovable property in the land registry (2,5%)
• No WHT (withholding tax) on dividends paid from issuers within the EEA, nor on interest or royalty

*) More details below
The Norwegian Tax Exemption Method

Norwegian Holding

- Shares, unit trust, primary capital certificate
  - Exemption method
- Combined fund (which owns Shares)
  - Exemption method
- Hedge fund (which owns Shares)
  - Exemption method
- Stock index bond*
  - Not exemption method
- Bond fund
  - Not exemption method

Presupposed; more than 10% owned more than 2 years or within EU/EEA

*) Ref. letter from the Ministry of Finance dated 8 September 2009 where it is stated that such related payments is to be considered as a interest payment.
# The Norwegian Tax Exemption Method

<table>
<thead>
<tr>
<th></th>
<th>Within EU/EEA</th>
<th>Outside EU/EEA</th>
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<tbody>
<tr>
<td><strong>Dividend payments</strong></td>
<td>Normally tax-exempt</td>
<td>Taxable, but tax exemptions may apply</td>
</tr>
<tr>
<td><strong>Gain related to realisation of shares</strong></td>
<td>Normally tax-exempt</td>
<td>Taxable, but tax exemptions may apply</td>
</tr>
<tr>
<td><strong>Interest</strong></td>
<td>Taxable</td>
<td>Taxable</td>
</tr>
</tbody>
</table>
Taxation of Funds in Norway

Unit Funds is comprised by the Tax Exemption Method

1. Realized gain from shares: For funds this is to be regarded as tax-exempt income
2. Realized gains from equity derivatives: EEA Equity Derivatives included in the exemption method
3. Interest and currency derivatives: Is being taxed as other interest and currency instruments at the time of disposal
4. EEA Dividend payment related to Fund's shares are tax-exempt for the fund

All other Funds are regarded as Bond Funds

- Only unit funds are comprised by the tax exemption method. Must own at least one share, one part in a unit fund, or another equity instrument
- All other funds is considered to be bond funds and are not covered by the tax exemption method. Tax deduction for distributions to the investors
**Undeveloped market**

**More sophisticated products are moving in**

The market for individual investors has until recently been dominated by

- Guaranteed interest (collective)
- Unit Linked with few options regarding investments funds

Lately foreign insurers and a few domestic insurers have offered Unit Linked with specified investments such as single shares. Insurance component of 1% of the net value in case of death

- The Ministry of Finance has disapproved this, but the FSA has upheld that this is legal in Norway

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*Capital Insurance Products*
**Tax Amnesty**

**Voluntarily reporting of hidden assets or income**

Tax Administration Act Section 10-3, (2) c)
- Available for individuals and corporate entities
- Avoid penalty tax
- Last 10 years
- Voluntarily filing information about hidden assets and income
- Prior to any audit or action from the tax authorities
Proposal of a new Norwegian Tax System
Proposal of a new Norwegian Tax System

The Scheel Commission

3.1 Basics and reasoning
Basics and reasoning

• Appointed by the Red&Green Government 15 March 2013 and the Report was delivered to the Blue Government on 2 December 2014

• Main concerns
  • Lower corporate tax rates in OECD and neighbouring countries (Denmark 24%, Sweden 22%, Finland, Iceland and UK 20%) and the rates seem to be decreasing
  • Tax planning and BEPS (Base Erosion and Profit Shifting)
    • Transfer Pricing
    • Debt financing in high tax jurisdiction
    • Tax treaty "shopping"/hybrid entities and instruments)
  • Corporate Tax challenges: Profit Shifting, location of activities and different tax impacts of debt and equity
Main proposal: Corporate tax rate: 20%

CIT rate:
27%
20%

Cost: 17.5 BNOK

Problem:

Personal and Capital income rate:
27%
20%

Cost: 75.8 BNOK
**Consequences**

**Increased taxation**

<table>
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<th>Neutral</th>
<th>Decreased</th>
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<td>+ 4</td>
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<td>+ 8</td>
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</tr>
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<td>+5,7</td>
</tr>
<tr>
<td>+93,5</td>
<td>+78,3</td>
</tr>
</tbody>
</table>

- Net decreased taxation
  
  0       -15
Proposal of a new Norwegian Tax System

3.2 Corporate Taxation
International corporate taxation – proposed actions to prevent base erosion and profit shifting

- Main goal is:
  - to protect the Norwegian tax base
  - to prevent profit to be moved out of Norway
- Arm's lengths principle:
  - Guidelines for correct income assessment for Norwegian companies
  - But the Commission propose certain actions in order to prevent that profit is being moved out of Norway
International corporate taxation – Withholding tax on interest and royalty

- The Commission propose to introduce;
  - Withholding tax on interest
    - Both on internal and external debt
    - Independent of deductibility
    - Normal withholding tax rate is 25 %
    - The withholding tax rate may be reduced in tax treaties
  - Withholding tax on royalty payments
    - On IP and certain rental payments such as Bare Boat etc.
    - Normal tax rate is 25 %
    - The withholding tax rate may be reduced in tax treaties
International corporate taxation – proposed changes in the tax exemption method (TEM)

- More strict substance requirement – to avoid use of intermediate holding companies
- Hybrid instruments – not comprised by the TEM
- More favourable and simple TEM:
  - Comparable companies comprised – limited liability
  - Investments in shares in normal tax jurisdictions outside EEA should be comprised by the TEM (not low tax jurisdiction)
  - No withholding tax on dividends (will not apply to low tax jurisdictions)
International corporate taxation – Other proposals from the Commission

• The Commission propose to make certain changes in the Norwegian CFC rules ("NOKUS"):  
  • Changes in the low tax criteria  
  • White and Black list for low tax jurisdictions  
  • Tax residency for companies  
  • Companies registered in Norway  
• Substance over form rule should be legalized in order to prevent tax motivated transactions
Proposal of a new Norwegian Tax System

Limitation of interests deduction

3.3
Limitation of interests deductions

- Different treatment of debt and equity is an incentive for a higher /maximum utilisation of loan capacity.
  - This applies both to internal and external loans, especially with respect to differences in tax rates and base for taxable income.
- The existing Norwegian regulation
- The proposed new regulations
Existing Norwegian interest limitation regulation

Two rules applies – a general anti avoidance rule of applying the arm’s length principle (difficult to establish) and a standardized rule.

Current (2014) interest limitation regulation:

- Rule application threshold is MNOK 5. If exceeded, the rule will apply to the full amount
- Interest limitation threshold is 30% of taxable EBITDA
- The carry forward period is 10 years
- External interest costs generally excluded, but will consume the available frame for the deduction for internal interest
- Some external loans will be considered as internal loans, e.g. loans secured with guarantees from a related party. Comfort letters may also be deemed as a guarantee
- Capping of interest deductions may entail payable tax despite available tax losses carried forward in the company or the within the tax group
Proposed Norwegian interest limitation regulation

• The threshold for the limitation is proposed expanded from 30% to 45%, the basis for the threshold is proposed changed from taxable EBITDA to EBIT.
• Rule application threshold is proposed lowered from MNOK 5 to MNOK 1.
• External interest costs proposed included
**Two examples**

<table>
<thead>
<tr>
<th></th>
<th>Current EBITDA</th>
<th>Proposal EBIT</th>
<th>Current EBITDA</th>
<th>Proposal EBIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxable income (“alminnelig inntekt”)</td>
<td>100</td>
<td>100</td>
<td>200</td>
<td>200</td>
</tr>
<tr>
<td>+ Depreciation for tax purposes</td>
<td>100</td>
<td></td>
<td>400</td>
<td></td>
</tr>
<tr>
<td>+ Net interest cost for tax purp.</td>
<td>200</td>
<td>200</td>
<td>400</td>
<td></td>
</tr>
<tr>
<td></td>
<td>400</td>
<td>300</td>
<td>1000</td>
<td>600</td>
</tr>
<tr>
<td>Treshold = 30/45 % of tax EBIT(DA)</td>
<td>120</td>
<td>135</td>
<td>300</td>
<td>270</td>
</tr>
<tr>
<td>- Net (external) interest cost</td>
<td>170</td>
<td>200</td>
<td>400</td>
<td></td>
</tr>
<tr>
<td>= Allowed interests deduction</td>
<td>170</td>
<td>135</td>
<td>400</td>
<td>270</td>
</tr>
<tr>
<td>= interest limitation/ cut off</td>
<td>30</td>
<td>65</td>
<td>0</td>
<td>130</td>
</tr>
<tr>
<td>Taxes payable (100+30)*27 % or (100+65)*20%</td>
<td>35 (27)</td>
<td>33 (20)</td>
<td>54 (54)</td>
<td>66 (40)</td>
</tr>
</tbody>
</table>
Proposal of a new Norwegian Tax System

Net Wealth tax

3.4
Net Wealth tax – background

- Abolishing the inheritance tax and reducing the tax on net base for income tax ("alminelig inntekt") results in that net wealth tax becomes a readily available political instrument.

- The current wealth tax system has a too high rate and huge variations in the basis for calculation of the net wealth tax.

- The Commission sees it as more important to reduce the corporate tax rate than removing the net wealth tax.

- The Commission propose that the net wealth tax is not abolished but that the basis for net wealth tax becomes neutral, especially with respect to houses and secondary homes.
**Net Wealth tax – proposal**

The Commission propose:

- All objects that are subject to wealth tax shall be included with 80 per cent of fair market value.
- Debt can be deducted from the base for wealth tax calculation with 80 per cent.
- Wealth tax is proposed to be 0,85 per cent.
- Threshold for wealth tax NOK 2 130 000.
Proposal of a new Norwegian Tax System
Financial Services

Proposal:

- An additional tax on margin-based income and VAT on services on which fees are payable. Corporate Income Tax applies also (20%).

Calculated amount: 3,5 BNOK

The Tax and VAT rates are not disclosed (!). The commission argues that the rates of the additional tax and the VAT can be equal.

Statement:

- The tax deduction for insurance companies' technical reserves (GTA § 8-5) should be considered limited.

- The exemption from the Tax Exemption Method for insurance companies should be considered extended to include subsidiaries.
Closing remarks
More information to be found ......

The Ministry of Finance:

http://www.regjeringen.no/pages/116605645/lysark_skatteutvalget.pdf

PwC Norway:

http://www.pwc.no/no/nyheter/pitstop-landing.jhtml
http://blogg.pwc.no/skatteblogg
Questions?
Thank you for your attention!

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