



Independent legal & accounting firms

Doing Business in Norway

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MSI's guide on Doing Business in Norway provides current information about the financial, regulatory and legal considerations that could affect business dealings within Norway. For further assistance please contact any one of the MSI member firms in Norway.

Country overview

Population

Norway has a total population of 5.3 million inhabitants (January 2019).

Government

Norway is a constitutional monarchy and parliamentary democracy. The current King, Harald V, has no political power. It is the parliament (Stortinget) that passes new legislation. The Government, which must have support by the majority of the delegates at Stortinget, is responsible for carrying out the political decisions.

Norway is divided into 11 regional counties and 356 local municipalities, each with some authorities in certain areas.

Languages

The national language is Norwegian. However, most people speak English.

Currency

The national currency is the Norwegian Krone ("NOK").

The exchange rate as of January 2, 2020 was NOK 9.84 to EUR 1 and NOK 8.79 to USD\$1.

Economic summary (2019)

GDP: USD 402 billion
Income per capita: USD 75 452
Annual inflation: 1.8%

Main sectors of the economy

Important industries in Norway include oil and gas, fish farming, industrial fishing, mineral processing, hydroelectric power, shipping and ship building.

For the last decades Norwegian economy is largely dependent on the oil and gas industry. Norway is the fifth-

largest oil exporter and third-largest gas exporter in the world.

Norway is also a major shipping nation and is the world's second-largest exporter of fish and seafood.

European Economic Area (EEA)

Norway is not a member of the European Union (EU). However, through the EEA Agreement Norway participates in the European Union's single market, and thus Norway and the EU member countries must reciprocally respect the four freedoms: free movement of goods, capital, services, and labour within the EU/EEA.

Setting up a business

Norway is a safe and easy country for business. The World Bank ranks Norway top 7 of 190 countries on 'Ease of doing Business', a position Norway has held for several years.

Most of the registration, reporting and communication with Norwegian public authorities is done electronically via the internet portal www.altinn.no.

Alternative forms of business entities

Business activities may be organised in various ways. Each enterprise must consider which entity is best suitable to its particular purpose, considering commercial issues, tax and VAT issues, compliance and administrative costs, limitation of liability, etc.

The most common alternatives for foreign enterprises doing business in Norway are:

- Branch (permanent establishment or NUF)

- Subsidiary, i.e. a Limited Liability Company (AS or ASA)
- Partnership and joint venture (e.g. ANS, DA, KS)
- Sole-proprietorship

Enterprise registration

Everybody that conducts business activities within Norway must register with the centralised Registry at Brønnøysund.

The Registry provides the enterprise with a nine digit Norwegian ID number, called "organisation number" or "org.no.". This ID number is required when entering into contracts, invoicing, reporting and communicating with public authorities, etc.

Tax registration

There is no specific corporate tax registration, but the tax office has access to the Registry at Brønnøysund. Thus, the tax office expects that all registered entities comply with the various reporting obligations and file the corporate tax return.

It is important to note that all foreign entities seconding employees to Norway must file reports to the tax office upon commencement of the work, provided that the value of the contract exceeds NOK 20 000. The form is called RF-1198. Please note, that the principal is obliged to report the contract on another form (RF-1199).

Employees must obtain a Norwegian personal eleven digit ID number (called "D-number"). In order to obtain the D-number individuals must present themselves at a particular tax office to undergo an ID-control. This must be done within 14 days after commencing

work in Norway. The employee must bring:

1. a valid passport or national ID card
2. an application for tax deduction card (form RF-1209)
3. the employment contract or written confirmation of work assignments in Norway.

Financial year and fiscal year

The financial year is equal to the calendar year. A deviating financial year of 12 months may be used if this increases the information value of the financial statements due to seasonal activities. A branch or subsidiary of a foreign enterprise may use a deviating financial year in order to have the same financial year as the foreign enterprise or group.

In certain cases, a financial year may be longer than 12 months, but it cannot exceed 18 months.

The annual financial accounts must be filed online within 6 months after the end of the financial year.

The tax year will normally follow the financial year. However, a tax year cannot exceed 12 months.

The corporate tax return must be filed online by the end of May in the year after the end of the financial year.

Accounting and auditing

All entities engaged in business activities must keep books of accounts according to Norwegian GAAP. However certain business are obliged to use international accounting standards – IFRS.

A statutory audit is required if one of the following criteria is met:

- Operating revenues exceed NOK 6 million (NOK 5 million for branch)
- Balance sheets assets amount to more than NOK 23 million
- Average number of employees is more than 10 full-time equivalents.

Economic and fiscal incentives

Norway's government offers certain incentive schemes in various sectors to support companies in their business operations. Foreign enterprises with business activities in Norway may also be eligible for these incentive schemes.

The SkatteFUNN R&D incentive scheme is a government program designed to stimulate research and development (R&D) in Norwegian trade and industry. The incentive is a tax credit and is granted as a deduction from the payable corporate tax. If the enterprise is not in a tax payable situation, the SkatteFUNN credit is paid out in cash.

In order to claim the SkatteFUNN incentive, the R&D project must be approved up front by the Research Council of Norway.

Qualifying shipping companies may elect a special **shipping tax regime** instead of the ordinary tax regime. Under the shipping tax regime, profits derived from shipping activities are exempt from income tax. These companies must pay an insignificant tonnage excise tax. Financial income is taxed at a rate of 22%.

Innovation Norway is the Government's most important instrument for innovation and development of Norwegian enterprises and industry. The agency support the companies in developing their competitive advantage and to enhance innovation.

Innovation Norway offers help to entrepreneurs and start-ups as well companies with capacity for growth and clusters.

Innovation Norway offers advisory and financial services, including low risk loans, innovation loans, grants and guarantees.

In order to promote film production in Norway a **Film Incentive Scheme** is managed by the Norwegian Film Institute.

Corporate taxation

The aim of Norway's government is that the tax system shall be competitive in order to attract foreign investment. During the last decades the tax rate has been reduced and the tax base has been widened.

To some extent it is possible to obtain advance certainty regarding the fiscal outcome of a transaction or a structure by requesting a binding tax ruling.

Norway has more than 90 tax treaties with other countries for the avoidance of double taxation and the prevention of fiscal evasion.

Corporate taxation

In general, the Norwegian corporate tax rate is 22%. However, companies in the financial sector are subject to a tax rate of 25%.

Companies engaged in the offshore petroleum exploiting industry (including pipeline transportation) and hydroelectric power plants are subject to additional tax.

A Norwegian company is subject to tax on its world-wide income and capital gains.

Any foreign enterprise conducting business activities in Norway is in principle subject to Norwegian corporate tax at the same rate as a Norwegian company. However, a relevant tax treaty may provide exemption from Norwegian tax liability. Thus, an assessment of tax liability must be made specifically for each foreign enterprise.

Note, that the foreign enterprise is obliged to file a corporate tax return even though it may be tax exempted according to a tax treaty.

Participation exemption

An exemption regime with respect to capital gains and dividends on shares is available to companies if the distribution is not deductible for tax purposes at the level of the distributing entity. The 100% tax exemption on dividend is however limited to 97% if the recipient of the

dividends does not hold more than 90% of the shares in the distributing company.

The tax exemption applies regardless of the ownership participation or holding period if the subsidiary is a resident in an EU/EEA member state. However, if the EU/EEA country is regarded as a low-tax jurisdiction, a condition for the exemption is that the company is actually established and carrying out genuine economic activities in its home country.

For investments in non-EU/EEA resident companies, the exemption does not apply for

- Companies resident in low-tax jurisdictions
- Other companies of which the recipient of the dividends has not held at least 10% of the capital and the votes of the payer for a period of more than two years.

Transfer pricing

Intercompany transactions must be priced at arm's length and documented.

The OECD TP Guidelines are applicable in Norway.

Controlled foreign companies

Norwegian shareholders in controlled foreign companies (CFCs) resident in low-tax jurisdictions are subject to tax on their allocable shares of the profits of the CFCs, regardless of whether the profits are distributed as dividends.

A CFC is a company of which 50% or more of its shares is directly or indirectly owned or controlled by Norwegian residents. A low-tax jurisdiction is a jurisdiction with an effective corporate tax rate is less than two-thirds of the Norwegian rate.

Withholding taxes

Dividends distribution from a Norwegian company to a foreign shareholder is basically subject to a 25% withholding tax. This dividend WHT is abolished on distribution to corporate shareholder that are genuinely established in another EEA/EU country. Further, the dividend

WHT is normally reduced according to the relevant tax treaty.

Norway does not levy WHT on interest or royalty, but the Government has announced that it will propose the introduction of such tax.

VAT

Norway's default VAT rate is 25%, although reduced to 15% on food and 12% on e.g. public transportation, hotel accommodation.

Enterprises selling goods or services exceeding NOK 50,000 over a twelve-month period are obliged to register for VAT in Norway and add VAT to invoices.

On the other hand, a VAT-registered entity is entitled to a refund of the input VAT on its own purchases of goods and services used in the business. The VAT is reported on VAT returns, which are normally filed every other month.

A foreign VAT liable enterprise without any fixed place of business in Norway must register via a Norwegian based VAT representative. The VAT representative is obliged to control that the VAT handling is correct and is responsible for filing the VAT return. Enterprises from certain EEA countries are no longer obliged to appoint a VAT representative.

Import of goods and services

When importing goods and services, import-VAT and custom duties might incur, and the actual customs transaction is based on the principle of declaration. Bear in mind that Norway is not a member of the EU and thus regarded as a third country in relation to transaction of goods and services cross border from the EU.

Enterprises that are VAT registered in Norway do not pay the import-VAT on goods at the border but declare the import VAT when filing the VAT-return.

Foreign enterprises that are not VAT-registered may obtain custom credit upon application.

HR / Labour Law / Individual tax

Visas and work permits

All EU/EEA nationals are entitled to work, study and live in Norway without a special residence permit or visa. If they stay more than 3 months, they must register with the police.

Nationals from outside the EU/EEA have to apply for a valid residence permit before taking employment in Norway.

Employment law

Employees working in Norway are covered by the Norwegian working environment regulations, including provisions on minimum salary in certain industries and maximum working hours.

Employees are protected against unjust termination, and the employer must comply with strict formal procedures. This includes to convene for discussion meetings and providing a notice period if the employment contract is terminated.

The employee must be offered vacation rights at least equal to the minimum applicable under the Norwegian vacation act. The employee is basically entitled to 21 days' of vacation (4 weeks and 1 day), but commonly the employment agreement reflects five weeks of vacation.

The employee is not entitled to a regular salary when on vacation. Instead the employee is to receive vacation pay equal to 10.2% (if 21 days' vacation) or 12% (if 25 days' vacation) of prior year's regular salary.

Individual taxation

Salaries are taxed at rates of up to 38.2%, consisting of a flat rate of 22% and a progressive 4 steps tax of up to 16.2%. The highest tax rate is levied on annual salary exceeding NOK 999 550.

Certain capital income, derived by individuals, such as bank interest and lease income is taxed at a flat rate of 22%, whereas dividends and capital gain on shares is taxed at a flat rate of 31.68%.

The basic rule is that individuals working in Norway are subject to Norwegian tax from day one. However, a tax exemption may be granted according to the tax treaty between Norway and the home country of the individual. Such treaty-based tax exemption does not relieve the employee from the obligation to file individual tax return.

PAYE (Pay as you earn)

In 2019, a new PAYE-scheme was introduced for certain foreign employees that are not regarded as tax residents in Norway. Other preconditions are i.e. that the total Norwegian salary cannot exceed NOK 639 750 (2020), and the employee cannot be employed in the petroleum offshore industry or on Norwegian registered ships.

The flat tax rate under the PAYE-scheme is 16.8%, but 25% if the employee is a member of the Norwegian social security system, ref below.

Under the PAYE-scheme the employer deduct the said rate as a final tax.

The withholding is made on gross remuneration – including certain fringe benefits that may be tax exempted under the regular regime.

Provided the employee accepts the PAYE-scheme there is no obligations to file an income tax return.

Social security / payroll tax

Any individual working in Norway becomes a mandatory member of the Norwegian Social Security System, and thus derives certain rights and benefits.

However, according to social security treaties entered into by Norway including the EU regulations on social security, a foreign employee seconded to Norway may continue the membership of the home country social security system and thus be exempted from the membership of the Norwegian system. This requires a home county certificate of social security coverage – so called A1 form.

Members of the Norwegian Social Security pay a social security

contribution of 8.2% of gross salary. In such case the employer also contribute at a rate of 14.1%.

Pension

The employer must offer membership in a private pension plan to all employees that are member of the Norwegian Social Security System. This can be either a defined benefit pension plan or a defined contribution pension plan.

Occupational injury insurance

The employer is obliged to offer the employee occupational injury insurance.

Payroll administration

The employer is obliged to register the employee with the authorities upon commencement of the employment.

On every payment of salary, the employer must withhold employee tax and employee social security contribution. Such withholding is based on a tax withholding card issued by the tax office.

Withholding tax and social security contribution must be reported every month (the so-called A-report), and paid bimonthly to the tax collector.

The employer is obliged to provide the employee with payslips for each salary payment and an end of year salary report.

Net wealth tax

Norway is one of a very few countries that still levies net wealth tax on individuals. This tax is applicable for any individual possessing real estate in Norway and for individuals that are tax resident in Norway. The latter group is subject to such tax on the net value of worldwide assets, unless an exemption is granted by a tax treaty.

The net wealth tax rate is 0.85 % and is levied on net wealth exceeding NOK 1 500 000 based on the value at 31 December each year.

Sanctions and penalty charges

Norwegian authorities and committed business partners expect in general that

all contractors comply with the Norwegian laws and regulations.

According to Norwegian law, a principal is obliged to control that a contractor follows the rules on e.g. HR and minimum salary pay, and according to public contracts the principal has a right to audit the contractor and its subcontractors that they are compliant.

Failure to be compliant with the rules may imply a loss of the contract, and the authorities may in addition levy heavy sanctions such as penalty taxes, interest charges, late filing penalties, deemed discretionary assessments, etc.

Contact us

The information provided in this guide is updated as of January 1, 2020 and cannot be exhaustive. We recommend that anyone considering doing business in Norway should seek professional advice from our member firms before making any business or investment decision.

Contact our member firms in Norway to discuss your requirements:

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