Deloitte.

International Tax | 4 May 2017

Norway tax alert

Consultation document released on potential changes to interest deduction limitation rules

Norway's Ministry of Finance released a consultation paper on 4 May 2017 that contains proposed amendments to the rules restricting the deductibility of interest expense. One of the reasons for the proposed changes would be to bring the rules in line with the OECD's recommendations in the final report on action 4 of the BEPS project.

The main proposed changes would apply to Norwegian companies (or Norwegian branches of a foreign company) within a group (whether multinational or Norwegian) that files consolidated financial statements, or is in a position to file consolidated financial statements, based on IFRS. For such companies, the limitation on the deductibility of net financial interest would be extended to apply to loans from unrelated parties (currently, the limitation applies only to related party loans). However, the restriction would not apply if the ratio between the company's equity and its total balance sheet is at least as high as the overall ratio for the consolidated group.

Under the current rules, the limitation on the deductibility of interest is applied to the amount exceeding 25% of taxable income, less tax depreciation and net interest costs (taxable EBITDA). No changes would be made to this basis.

It is proposed that the amended rules would have effect as from the financial year (ending in) 2018.

Additional details on the proposals

For a Norwegian company (or branch of a foreign company) that is covered by a group consolidated financial statement, or that may be covered by a group consolidated financial statement in accordance with IFRS, the deduction for both internal and external net interest expense would be limited to 25% of taxable EBITDA. However, the threshold for the interest deduction limitation rules to apply is proposed to be changed from NOK 5 million on an entity-by-entity basis to a total of NOK 10 million for all Norwegian entities within the consolidated group.

For companies covered by a group consolidated financial statement (for the ultimate parent) that is based on Norwegian accounting rules, IFRS or the accounting rules in another European Economic Area country (i.e. the EU member states, plus Iceland, Liechtenstein and Norway), the restriction would not apply to the extent the company can demonstrate that:

- Its ratio between equity and the total balance sheet (equity ratio) is at least as high as the equity ratio for the consolidated group; or
- The equity ratio for a Norwegian consolidated subgroup is at least as high as the equity ratio for the (total) consolidated group at the year-end.

A number of adjustments would be made to the financial statements of the company. The proposal contains detailed rules on the allocation of goodwill, negative goodwill, additional values and impairment in the consolidated group’s financial statements to the Norwegian companies within the group or to a Norwegian subgroup. Shares in subsidiaries would be deducted from the assets and the equity of the balance sheet, while loans to group companies would be deducted from the assets and from the debt. Additionally, adjustments would have to be made where a Norwegian company’s (or subgroup’s) balance sheet items are based on accounting principles other than those used in the group’s consolidated financial statements.

To the extent the (adjusted) equity ratio for the Norwegian entities/Norwegian subgroup does not vary by more than two percentage points compared to the consolidated group financial statement’s equity ratio, it is proposed that the ratio would be deemed to equal the group ratio. However, if there is a negative variance of more than two percentage points, the interest deduction for any interest would be limited to 25% of the taxable EBITDA.

Comments on the proposals should be submitted by 3 August 2017.

Contacts

If you have any questions or would like additional information on the topics covered in this alert, please email one of the following Deloitte professionals:

Petter Grüner
pgruner@deloitte.no

Rolf Saastad
rsaastad@deloitte.no

Additional resources

Global Tax Alerts subscription page

Global Tax Alerts archive

World Tax Advisor

Deloitte International Tax Source (DITS)

Deloitte tax@hand app

Dbriefs

www.deloitte.com/tax