Norway

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What's new?

Summary of updates/Changes to R&D and government incentives from 1 January 2019 through 31 October 2020

The Norwegian government enacted simplifications to the rules for the R&D incentive scheme with effect from 1 January 2020.

Featured government incentives

Incentive name	Description	Maximum percentage	Qualification standards	Key exclusions or issues
R&D grant as a tax incentive regime	Refund of expenses as a tax credit	19% for all companies	Deductible expenses on projects approved by the Research Council of Norway	Company must be taxable in Norway
Tax allowance for share deposits in start-up companies	Deduction in a Norwegian individual taxpayer's taxable income when a deposit of share capital by incorporation of company or new subscription of shares	Maximum amount of NOK 500,000 (NOK 1 million as a temporary COVID-19 incentive)		Applies to small companies that are Norwegian or in the EEA area and taxable in Norway
Group contribution	Deduction in taxable income for a contribution to another group company	Deduction limited to taxable income		

Industries most often affected by government incentives in country

	Technology, Media & Telecom		**Financial Services**
●	Telecom, Media & Entertainment		Banking & Capital Markets
●	Technology		Insurance
	Consumer		Investment Management
●	Consumer Products	●	Real Estate
●	Retail, Wholesale & Distribution		**Life Sciences & Health Care**
	Automotive	●	Health Care
●	Transportation, Hospitality & Services		Life Sciences
	Energy, Resources & Industrial		**Government & Public Services**
●	Power & Utilities		Health & Social Care
●	Mining & Metals		Defense, Security & Justice
●	Oil, Gas, & Chemicals		Civil Government
●	Industrial Products & Construction		International Donor Organizations
		●	Transport

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Type	National incentive?	State, provincial, regional or local incentives?[1]	Filing deadlines imposed?	Is the claim made in advance or arrears?[2]	Nature of incentive	Maximum benefit available to large enterprises	Maximum benefit available to small and medium-sized enterprises
Innovation							
Research & development (R&D)	● Permanent incentive	● No	● Permanent incentive ● Not applicable	National: Advance[3] Local: Not applicable	All Norwegian companies are eligible for the R&D tax credit regardless of the industry or legal form of the company. Total R&D costs cannot exceed NOK 25 million on an annual basis. For costs to be regarded as qualifying expenditure, the costs must be related to the approved project (approved by the Research Council in advance), and must be considered as tax deductible costs under Norwegian tax law.	NOK 4.75 million (19% of NOK 25 million)	NOK 4.75 million (19% of NOK 25 million)
R&D grant (national or EU)	● Permanent incentive	● No	● Permanent incentive ● Permanent incentive	Varies	Varies	Varies	Varies
R&D grant (state/province)	● Permanent incentive	● No	● Permanent incentive ● Not applicable	Varies	Varies	Varies	Varies
Environmental sustainability							
Sustainability	● Permanent incentive	● No	● Permanent incentive ● Not applicable	National: Varies Local: Not applicable	Varies	Varies	Varies

Key: ● = PERMANENT INCENTIVE ● = TEMPORARY INCENTIVE ● = NEGOTIABLE ● = NO ● = LIMITED APPLICABILITY ● = NOT APPLICABLE

Notes:

1. Green means that this incentive is currently in effect. Yellow means that the incentive has limited applicability, i.e., the requirements for this incentive limit its value to most companies. Red means that there is no incentive.
2. If the response is advance, this means that the government must approve the award of the incentive prior to the commencement/completion of the project/activity. If the response is arrears, this means that the award of the incentive is determined at the end of the tax period or after the completion of the qualifying project or activity. Most tax incentives are considered to be claimed in arrears because they are reported on tax returns.
3. The application must be submitted to the Research Council and may cover the expenditure for the year of application.

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Country background

The standard corporate income tax rate in Norway is 22%. The Norwegian government enacted simplifications to the rules for the R&D incentive scheme with effect from 1 January 2020.

Innovation Incentives

Research & Development (R&D)

Nature of incentives

A national R&D tax incentive scheme grants companies a tax credit of 19% on approved expenses related to R&D, which reduces the tax payable.

The Research Council of Norway must approve projects for a company to qualify for the tax credit. Approval can be granted for up to three years (four years in certain cases). Applications can be filed all year, but if the application is filed before 1 September, it will be processed before the year end. If the application is approved, all R&D costs incurred in the year the application is filed will be qualifying expenditure. For example, if an application is filed on 1 August 2020 and approved on 1 December 2020, all qualifying costs incurred in 2020 will qualify for the research credit; however, if the application is filed on 1 October 2020 and approved on 1 February 2021, the costs incurred in 2020 will not qualify for the credit.

Qualifying projects are those undertaken to generate new knowledge or acquire new skills in connection with the development of new or improved products, services, or production processes, and where the knowledge/skills will be an advantage to the company. Projects that merely advance business goals, such as company development, employee training, and preparation of production facilities do not qualify.

The excess of the credit over taxes payable will be paid out in cash to the company. Thus, a company with no tax payable can benefit from a full cash credit.

Eligible industries and qualifying costs

All companies are eligible for the tax credit, regardless of the industry or the company's legal form.

Total R&D costs cannot exceed NOK 25 million annually. As such, the maximum tax credit per year is limited to NOK 4.75 million (19% of NOK 25 million).

For costs to be regarded as qualifying expenditure, they must be related to the approved project, considered tax deductible costs under Norwegian tax law, and included in the EU General Block Exemption Regulation (GBER) art. 25(3).

If the costs also relate to business activities not covered by the R&D tax incentive scheme, they must be proportionally allocated between the R&D project and the business activities not covered by the scheme. For example, if equipment is used 50% on the R&D project and 50% for other business activities, the costs must be allocated 50/50 based on the R&D activities and other activities.

The following costs are considered eligible R&D costs: overhead costs, costs for the purchase of R&D services, equipment, technical expertise, patents, and the rental of buildings and sites. Labor costs also qualify but are determined based on the following rules: hourly rates are calculated as 0.12% of the agreed annual salary, but cannot exceed an hourly rate of NOK 700. The qualifying rate then is multiplied by the number of hours worked by the employee on the qualified project but is limited to a maximum of 1,850 hours per employee. The cap of the labor costs also applies if the R&D services are performed by a related party. Further, there is a geographical limitation on R&D costs, which means that R&D costs would be restricted to services from companies within the European Economic Area (EEA) or countries that have concluded a tax treaty or information exchange agreement with Norway.

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R&D costs financed by a party other than the company claiming the R&D credit (i.e., contract R&D) are not considered eligible R&D costs. The costs, however, will be considered as eligible R&D costs for the financing party.

IP and jurisdictional restrictions
For the R&D scheme to be applicable, the company must be subject to taxation in Norway. The scheme also is available to foreign companies that are subject to taxation in Norway. The qualifying activities may be carried out in Norway or abroad.

There is no IP ownership requirement under the Norwegian R&D tax incentive scheme. The results of the R&D project must, however, be used by the company.

R&D grant (EU)
As an EEA member state, Norway participates in the EU program, Horizon 2020, which aims to ensure that Europe is a leading player within the research and technology field by removing obstacles that undermine innovation and making it easier for the public and private sectors to deliver common solutions to the challenges Europe is facing. As a member of Horizon 2020, Norwegian companies and research institutions can apply for funding on the same terms as EU members.

R&D grant (national)
There are several national R&D grants available. A public entity called Innovation Norway grants support to R&D upon application and includes loans and guarantees, as well as funding of R&D projects, start-up businesses, and projects to enhance environmental development.

Innovation Norway also provides support regarding R&D to the Research Council of Norway, which evaluates and approves projects qualifying for the R&D tax incentive scheme described above.

The Research Council also provides funding to R&D projects and support for the development of research institutions. The support includes the following:

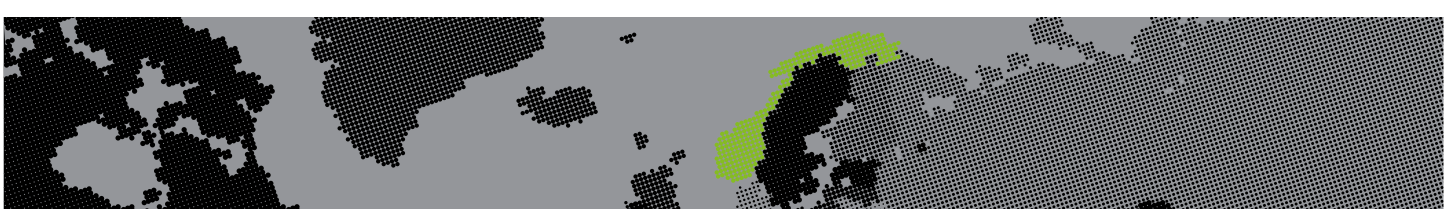
- Financing through specific research programs;
- Financing of research institutions;
- Long-term financing of research institutions;
- Financing of investments in research infrastructure, such as equipment, laboratories, and databases; and
- Financing of networking programs, such as conferences and seminars.

Norwegian individual taxpayers are entitled to a tax allowance of up to NOK 500,000 each year for share deposits in start-up companies (the threshold is increased to NOK 1 million per year per investor as part of COVID-19 incentives). The deposit must be at least NOK 30,000 to be tax deductible. Each start-up company can receive a total of NOK 1.5 million annually in deposits that are tax deductible for the shareholders (the threshold of NOK 1.5 million is increased to NOK 5 million as part of COVID-19 incentives). The deposit can be made upon incorporation of the company or in relation to a share capital increase where the company issues new shares.

The tax scheme applies to private limited liability companies that are tax resident in Norway, as well as private limited liability companies resident in another EEA member state that are taxable in Norway because activities are carried out through a permanent establishment in Norway. The taxpayer can be resident in Norway or abroad.

For the scheme to apply, the start-up company must not be more than six years old, including the year of incorporation and the year in which the share capital increase is registered in the Norwegian companies register. The start-up company's activities must be mainly activities other than passive asset management, and the passive asset management activities may not exceed 10% of the company's total activities.

By the end of the year of incorporation or capital contribution, the company must not have more than 25 employees and its operating income and balance sheet must not exceed NOK 40 million. If a



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public/government body owns a share of the company, this share cannot exceed 24% by year end.

The company's annual labor costs must be at least NOK 400,000. The company must not experience any economic difficulties at the time of the share capital increase.

For the taxpayer to claim a deduction, the shareholder must retain the shares for at least three years, calculated from the end of the year of the contribution.

If an individual taxpayer holds shares in a company that makes a share deposit in a start-up company, the individual is entitled to a deduction for the share deposit made by the company in which the taxpayer owns shares. If the company making the contribution has more than one shareholder, each individual shareholder is entitled to the deduction based on their ownership share. The investor or a party related to the investor cannot be a current shareholder or employed in the company or another company in the controlled group at the time of the deposit.

Environmental Sustainability Incentives

Environmental sustainability

Norwegian law implements almost all EU environmental legislation addressing pollution control, water, air, chemicals, waste, environmental impact assessment, and genetically modified organisms. However, Norway is not bound by EU legislation with regard to nature conservation, natural resource management, and agriculture and fisheries.

Emission quota system

The Norwegian emission quotas trading system is part of the EU trading emission system. The emission quotas are allocated free of charge and/or auctioned to the companies. Norwegian authorities decide on the maximum permissible emissions for a certain period. Companies that are part of the emission trading system must file an annual report that discloses the emissions in the preceding year and must submit quotas that equal the emissions. If a company has higher emissions than permitted according to the allocated quotas, it will have to purchase quotas on the market. If a company has lower emissions, it can sell excess quotas on the market. The system thus encourages reducing emissions at the lowest possible cost.

The following industries are covered by the system:

- Energy production;
- Refining of mineral oil;
- Coke production;
- Aluminum production;
- Iron ore—roasting and sintering;
- Cast iron and steel production;
- Cement and lime;
- Glass, fiberglass, ceramic production;
- Wood processing;
- Fertilizer production;
- Offshore petroleum activities; and
- Air traffic services.

The system does not apply to companies that mainly engage in developing and testing new products and processes.

Green certificates for energy suppliers and certain electricity customers

Electricity suppliers and certain electricity customers are required to purchase electricity certificates annually, corresponding to a certain proportion (quota) of their calculation-relevant electricity consumption. These certificates are traded in a free market.

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Norway and Sweden have collaborated to develop a green electricity certificates scheme resulting in a common market for trading the certificates. The scheme is a funding system for renewable energy production. The goal is to increase the renewable energy production with 28.4 TWh by 2020. Power plants that are part of the scheme will receive a green energy certificate for every MWh of renewable energy produced, which counts towards their electricity certificate quota. The certificates can be sold on the free market.

Green certificates are issued for the production of renewable energy, including:

- Hydroelectric power;
- Wind power;
- Solar energy;
- Ocean energy;
- Geothermal energy; and
- Bio energy.

The certificates, issued for 15 years, are available to plants that are operational and producing renewable power by 31 December 2021.

Enova

Enova, a state-owned corporation, offers financial support to companies and individuals with respect to energy and climate friendly initiatives. Enova will cover the extra project costs incurred by companies pursuing energy and climate friendly solutions. In addition, Enova provides funding to individuals for making energy friendly choices in private residences.

Special tax rules for producers of wind power

Special rules apply to the taxation of wind power sites. For example, enterprises engaged in wind power production (only producers of a certain size) are subject to an economic rent tax of 37% (2020) and a natural resource tax of 1.3 øre per kWh.

While assets generally are depreciated based on the declining balance method, certain assets used for the production of wind power can be depreciated based on the straight-line method:

- Dam installations, tunnels, power station buildings, including the tunnel to enter the power station and pipelines (the gates but not the actual pipes) are depreciated over 67 years at a rate of 1.5% per annum; and
- Machine-oriented equipment in power stations, including equipment such as generators and pipes, bushing in tunnels/shafts, etc. are depreciated over 40 years at a rate of 2.5% per annum.

There also are special rules for the realization of assets subject to the special depreciation rules, and in certain cases, assets related to wind power sites can be sold without incurring taxation.