NORWEGIAN MINISTRY OF FINANCE

Ministry of Finance
&
Tax Policy Department

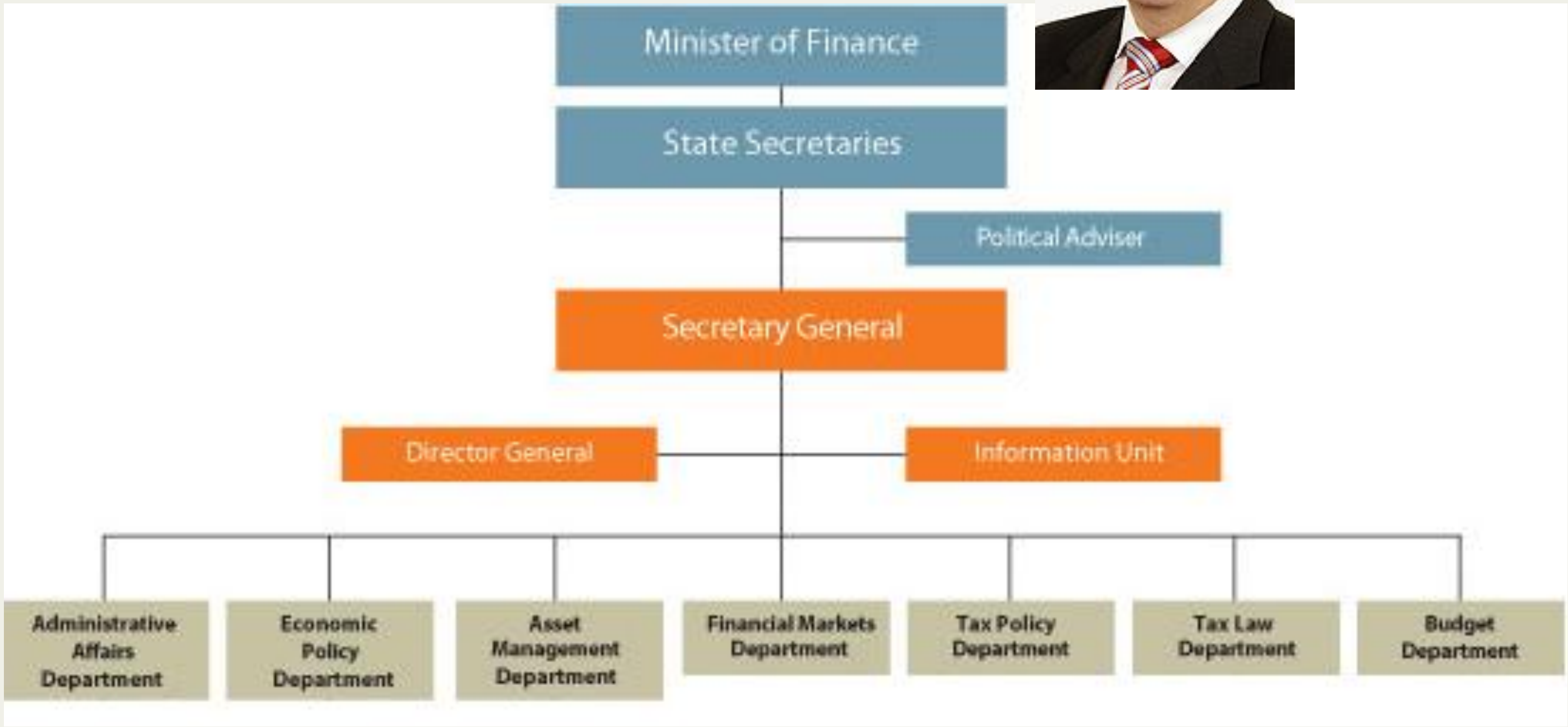
Nina Bjerkedal
Director General

The Ministry

Areas of responsibilities

- Planning and implementing economic policy
- Coordinating the preparation of the budget
- Ensuring state revenues by maintaining and developing the system of taxes
- Monitoring financial markets and drawing up regulations
- Managing the state’s financial assets

Organisation chart



The Tax Policy Department

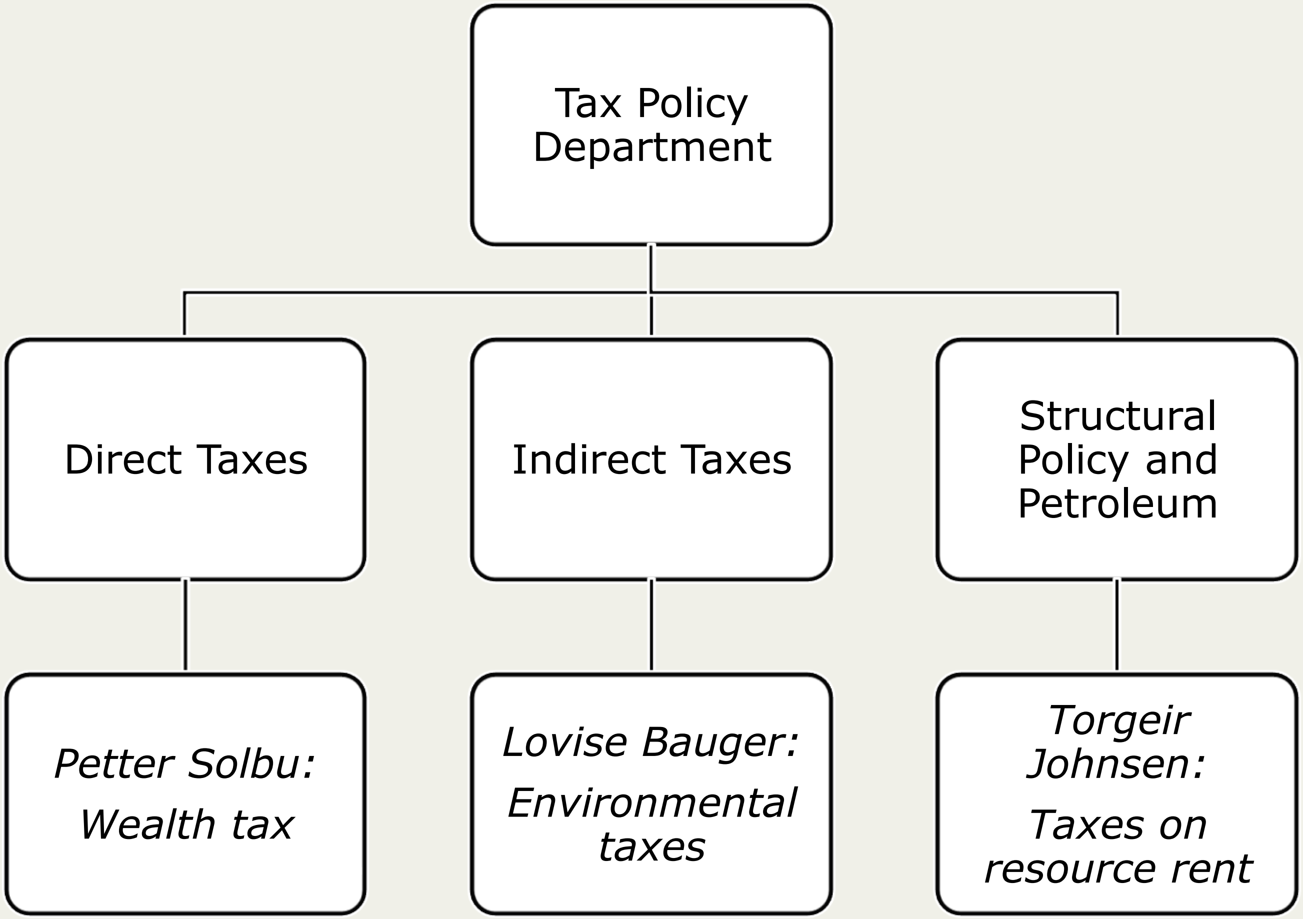
- Evaluate economic aspects of the tax system:
  - Initiate reforms to improve the design of the tax system
  - Review how tax legislation affects
    - revenue
    - saving, consumption, investments, labour supply etc.
    - the income distribution
- Responsible for the presentation of tax proposals in the annual budgets
- Responsible for the Ministry's work related to the petroleum and hydro power sector and to well functioning product markets
- International Climate Negotiations

Main objectives of the tax system

- Finance the public sector
- Redistribute income
- Correct market failures
- Stabilise the economy

Basic principles

- Broad tax bases reflecting economic realities
- Relatively low tax rates
- Redistribution by progressive taxation of wages and pensions
- Neutrality in capital and corporate taxation


Tax Policy Department
Direct Taxes
Indirect Taxes
Structural Policy and Petroleum
Petter Solbu: Wealth tax
Lovise Bauger: Environmental taxes
Torgeir Johnsen: Taxes on resource rent

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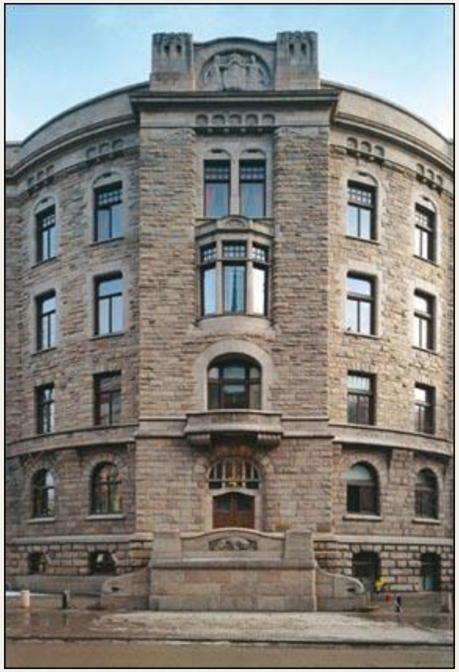

FINANSDEPARTEMENTET

Wealth tax

Student introduction
27th of April 2012
Petter T. Solbu
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Taxing wealth – main topics

- Current Norwegian rules
- International trends
- Basic economic arguments
- Changes in the Norwegian wealth tax 2005-2012

Current wealth tax in Norway

- 1,1 pct. of *net taxable wealth* (individuals)
  - Local government 0,7 pct.
  - Central government 0,4 pct.
  - Basic allowance 750 000 NOK
- The business sector does not pay wealth tax (a few exceptions)
- Estimated tax revenue from the wealth tax:
  - Over 14 billion NOK in 2012
  - 1,4 pct. of mainland taxes (petroleum taxes excluded)
- Main weakness: Uneven valuation of different assets – property is heavily favoured

International trends

- In the OECD only Norway, France and Switzerland levy a traditional net wealth tax (gross wealth minus debt)
- Several countries have abolished the wealth tax in recent years – among others Spain and Sweden
- But Norway has a very low property taxation
  - In Norway, the combined tax on property and wealth is 2.9 pct.
  - The OECD average is 5.5 pct
  - In the US, UK, Japan and in Canada the share is above 10 pct.

Basic economic arguments

- **Why wealth tax?**
  - 14 bn NOK in tax revenue each year -> fills a fiscal need
  - Wealthy individuals more able to pay taxes than individuals that are not wealthy
  - Wealth is unevenly distributed and correlated with income for high income earners – the tax is therefore very redistributive
  - No lock-in effects

- **Negative effects of the wealth tax**
  - Decreases the return from saving for Norwegians
  - Uneven valuation of different assets distort the investment mix
  - Motivates the tax payer to relocate to another country without a wealth tax
  - The reduced saving can affect investment level in Norway if investors are credit constrained or have incomplete access to the international capital market
  - Tax not dependent on actual cash-flow, which could lead to political demand for exceptions (e.g. pensioners in large villas)

Redistribution

- Increases the progressivity of the income tax
- Ensures that all tax payers, also the most well off, pay taxes at the personal level

Tax as a share of gross income in 2009 (pct.)

The effective tax rate on saving

- Contributes to very high effective tax rates on saving
- Example:

  Bank deposit with 5% return and 2,5% inflation

Invested amount	100
Return	5
Inflation	2.5
Real return before tax	2.5
Income tax (28 pct.)	1.4
Wealth tax (1,1 pct.)	1.1
Total tax	2.5
Real return after tax	2.5 – 2.5 = 0
Effective tax rate	(2.5 – 0) / 2.5 = 100 %

- OECD is concerned about the wealth tax because of its impact on effective tax rates on saving

Wealth tax changes since 2005

- All shares valued at 100 pct. of their market values (up from 65 pct.) since 2008
- The tax-assessed values of commercial property based on rental income and capitalization rates since 2009
- The tax-assessed values of dwellings based on market values since 2010
  - But still valued at only 25 pct. (primary) or 40 pct. (secondary) of assessed market value
- Considerably increased basic allowance (fivefold)
- Removed “80 percent” rule in 2009

New valuation system for dwelllings – examples of old tax-assessed values

Apartment in Frogner, Oslo
Sq m: 157 m²
Agent’s estimate: 19 mill. NOK
Tax-assessed value 2009: 198 000 NOK
Share 2009: 1%

Apartment in Mortensrud, Oslo
Sq m: 102 m²
Agent’s estimate: 3 mill. NOK
Tax-assessed value 2009: 885 000 NOK
Share 2009: 30 %

New valuation system for dwelllings – examples of new tax-assessed values

Apartment in Frogner, Oslo
Sq m: 157 m²
Agent's estimate: 19 mill. NOK
Tax-assessed value 2010: 1.5 mill. NOK
Share 2010: 8%

Apartment in Mortensrud, Oslo
Sq m: 102 m²
Agent's estimate: 3 mill. NOK
Tax-assessed value 2010: 670 000 NOK
Share 2010: 23 %

Summary

- Very few OECD countries levy a wealth tax
  - But many countries have higher property taxes
- Wealth tax is primarily a tool for redistribution
- Some negative effects:
  - Distorts investment mix, reduces incentives to save, motivates relocation and may affect inland investments
- The government has broadened the tax base in recent years
- There is still room for improvement in the Norwegian system
  - Property still valued considerably lower than other assets
  - OECD: Effective tax rates on saving very high

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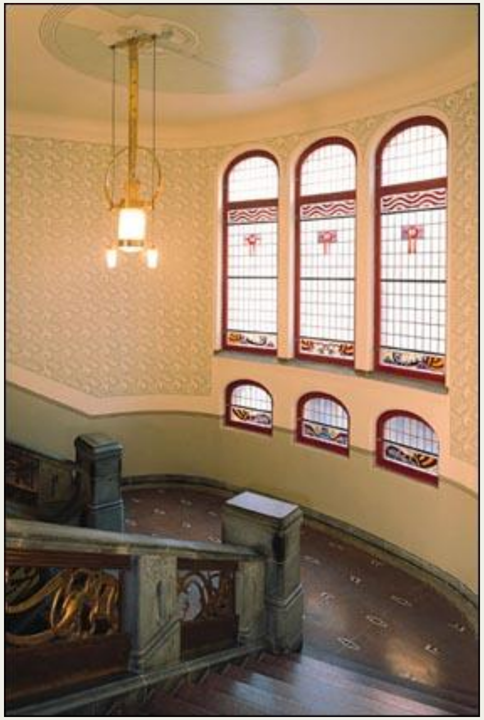


NORWEGIAN MINISTRY OF FINANCE

Environmental taxes

Lovise Bauger
27th April 2012
Tax Policy Department, Ministry of Finance, Norway

Environmental taxes

- Pricing of negative externalities
- Corrects market failure
- Pigou taxes (tax at optimal level) / Cost effective taxes

- Polluters pay principle
- Enhance technological progress
- Decentralized solution and low information requirements
- Gives income that can be used to reduce other distorting taxes or finance welfare objects

Environmentally related taxes in Norway

Environmental taxes: Revenue: 25 bill. NOK

- Tax on road usage (petrol, diesel incl. biodiesel)
- Tax on climate gases (CO2, HFC and PFC)
- Tax on sulfur and NOx
- Tax on chemicals TRI and PER
- Tax on pesticides
- Tax on lubrication oil
- Tax on waste at landfills
- Tax on beverage containers

Energy taxes: Revenue 9 bill. NOK.

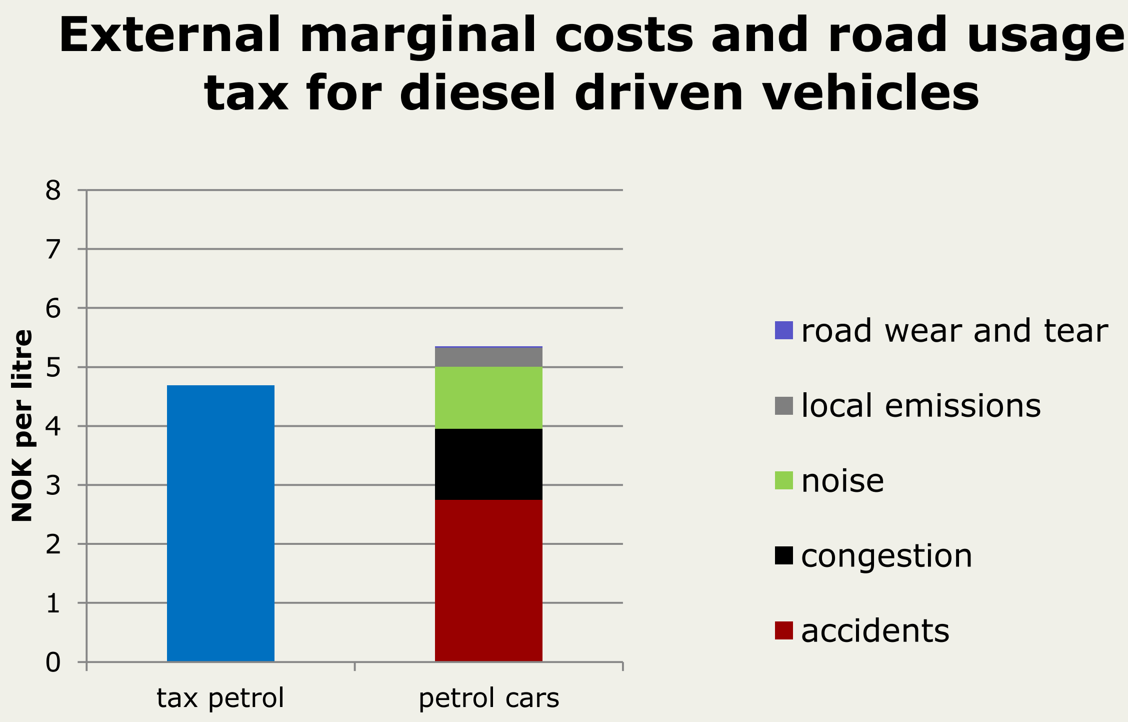
Tax on mineral oil and electricity

Vehicle and boat motor taxes : Revenue 30 bill. NOK

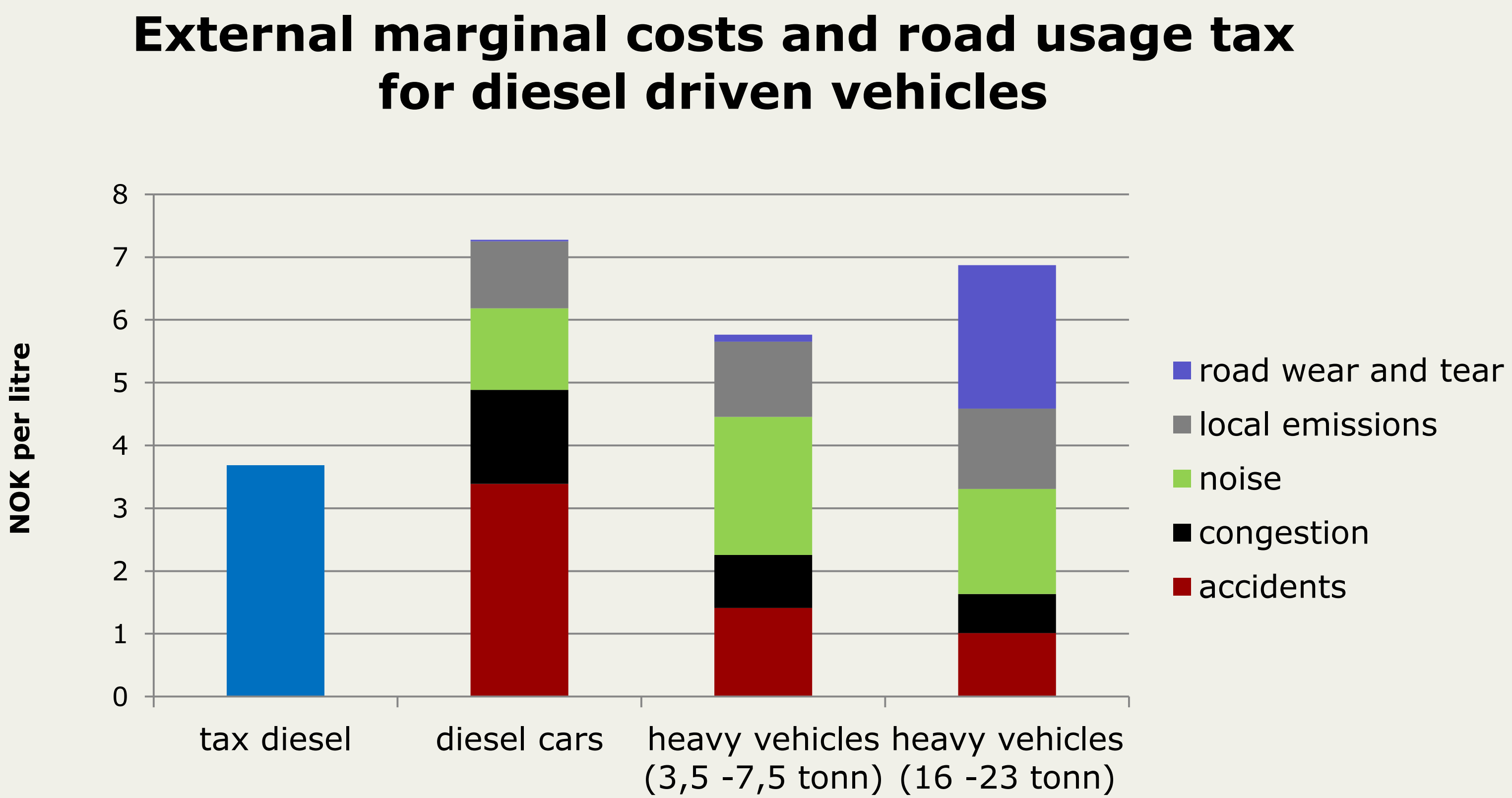
Road usage tax

- Tax covers petrol and diesel (incl. biodiesel)
- Object: price external cost by road usage
- External costs: accidents, congestion, road tear and wear, noise and local emissions
- CO_2-emissions taxed by CO_2-tax

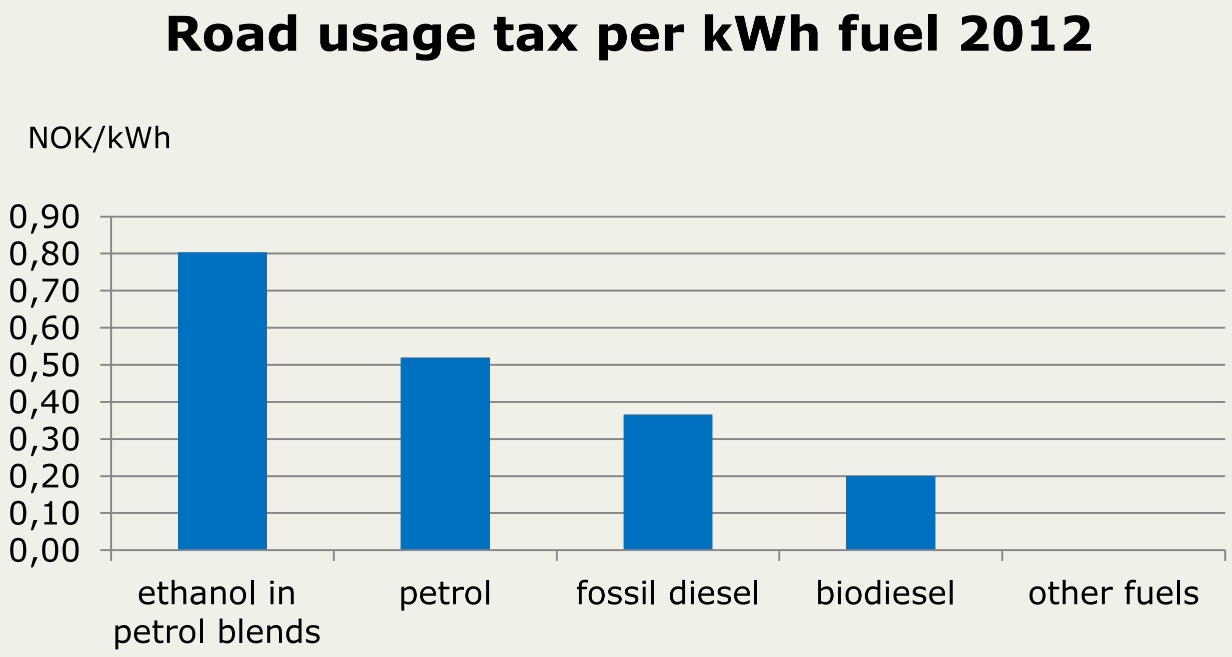
Road usage tax -petrol



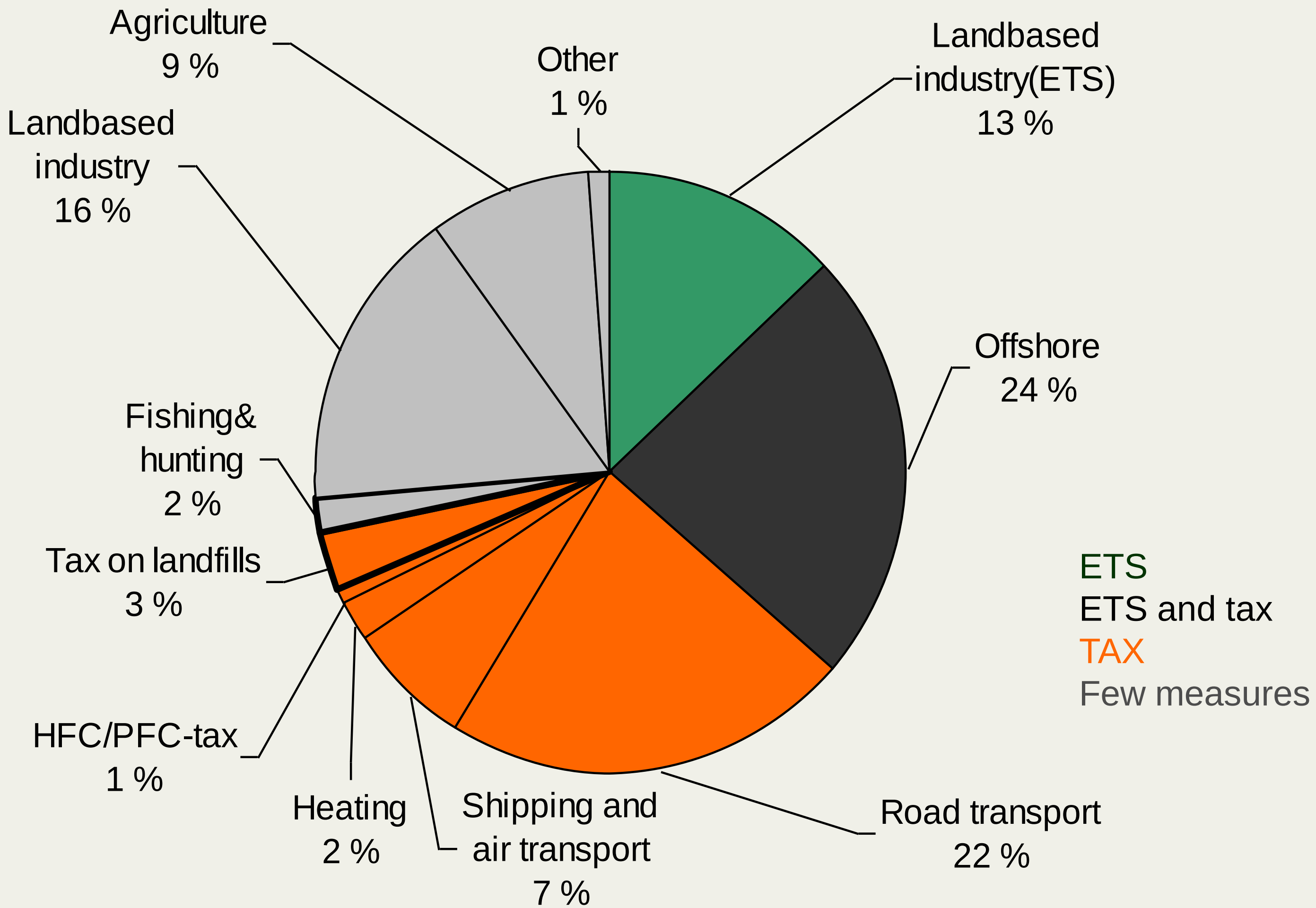
Road usage tax - diesel



Road usage tax



1. Climate instruments by source



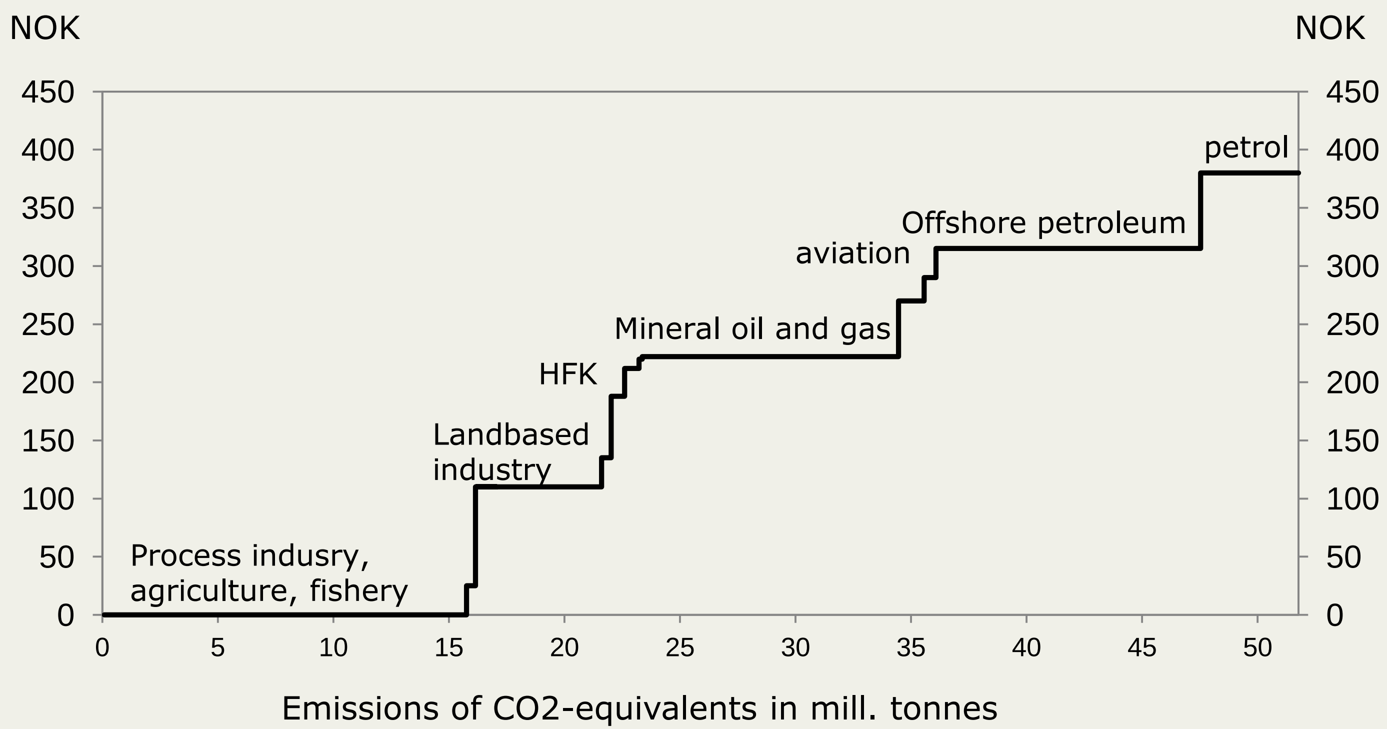
The CO_2 tax

- Introduced in Norway in 1991
- Levied on mineral oil products and on CO_2 emissions from petroleum activities
- Objective: cost effective reduction of CO_2
- Some extensions and adjustments to emission trading system
- Covers about 55 per cent of total Norwegian greenhouse gas emissions
- The current tax rates varies across energy products and users

CO2-tax versus emission allowances

- Both economic instrument that put a price on emissions and give a cost effective solution
- Tax: price on emission will be known, emission level will be unknown
- Emission trading system: level of emissions will be known, price of emissions will be unknown
- In principle emission trading and emission tax can give the same results under some assumptions
- In practice: high degree of free allocation of allowances in the EU ETS and allocation partly adjustable for increased emissions

Marginal cost of climate gass emissions 2011



The emission trading system in Norway

- **2005-2007:** Not linked to the European Union emission trading system (EU ETS)
- Same coverage as EU, but emission with CO_2-tax was excluded from the ETS

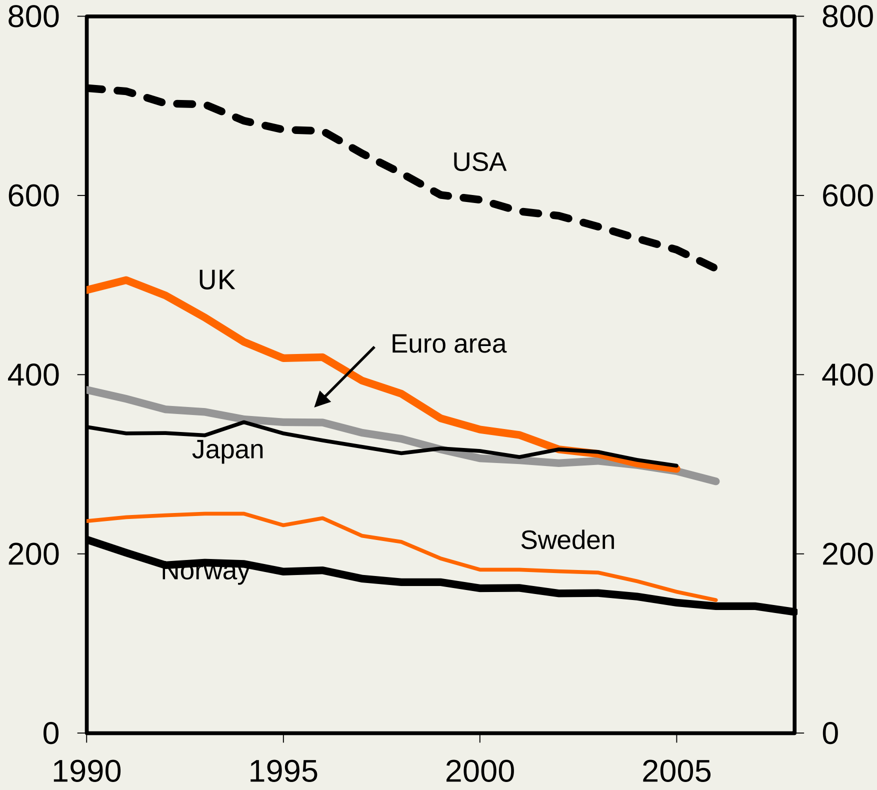
- **2008-2012:** Part of EU-ETS.
- Same coverage as EU, but emissions from the offshore sector and inland aviation are also covered by the CO_2-tax
- Adaptation: no restrictions on auctioning
- Total share of free allowances: 30% of estimated emissions

- **2013-2020:** Part of EU-ETS.
  Negotiation on EFTA-States participation is ongoing.

2.d The CO_2 tax - Norwegian experiences

- Cost effective measure to reduce emissions
- Most significant effects of the CO_2 tax on emissions in the offshore industry
- More moderate effects on emissions in other sectors
- Better to use the tax system to correct negative externalities like CO_2 emissions than using distorting taxes (i.e. labor)
- Tax revenue to the government
- Low administrative costs

Carbon intensities in different countries



Tonnes CO2-eqvivalentes relative to GDP, per million US dollar. 2007-prices. Source: OECD

Useful references- environmental taxes

- Prop. 1 LS (2011-2012) Skatter, avgifter og toll 2012
- NOU 1996:9 Grønne skatter- en politikk for bedre miljø og høy sysselsetting (Green tax Commission)
- NOU 2007:8 En vurdering av særavgiftene

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NORWEGIAN MINISTRY OF FINANCE

The Resource Rent and Taxation

Torgeir Johnsen, Tax Policy Department
Norwegian Ministry of Finance
27 April 2012

Taxing Natural Resources - Key Aspects

- Extraordinary profits
- Immobile resources

➔ A good tax base!

- Profit based tax rules
- Stability
- Predictability
- Simplicity
- Efficient tax administration

Resource rent industries

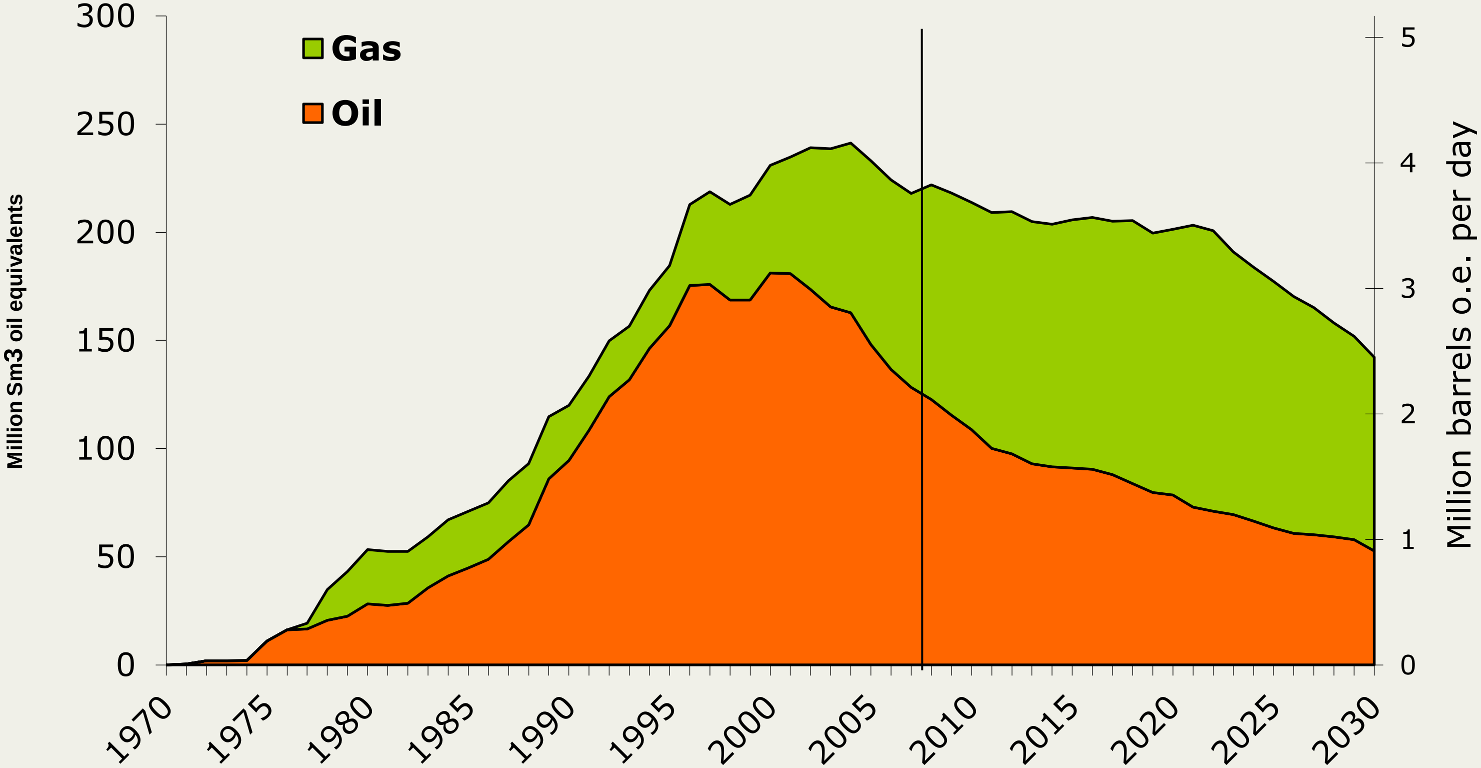
- Substantial petroleum resources on the Norwegian shelf
  - Petroleum resources owned by the society
  - Separate tax district with separate government take system
- Hydropower production
  - Natural resource with cost advantage
  - Tax income to local and regional governments
- Fisheries and forestry
  - Super-profit in efficient parts of the industry
  - Regional policy important

Resource rent

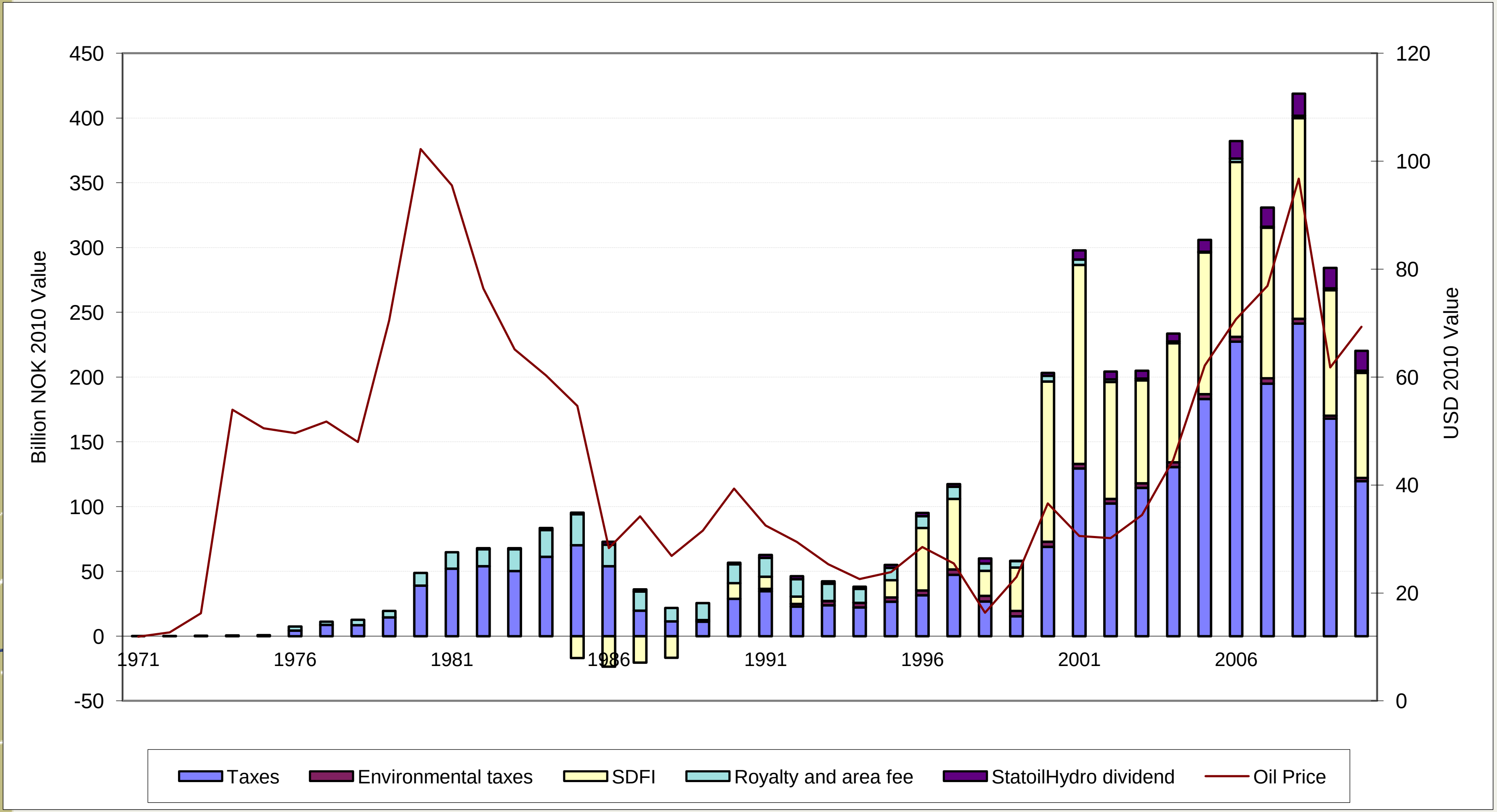
Super-profit :
- Potential for increased tax take
- Extra allowance for ordinary returns
- Should not distort investment incentives

Ordinary income:
- 28% on net income as in other industries
- Neutrality between industries
- Tax on ordinary returns and super-profit

Petroleum Production on the NCS



Total Government Take from the Petroleum Sector



Petroleum tax system

on company basis – ring fenced against mainland

Sales income (norm prices)
- Operating costs
- Capital depreciation (16,7 pct. over 6 years)
- Financial costs (thin capitalisation)
- (Deficits from previous years)
= Ordinary tax base liable to **28 pct. tax**
- Uplift (investment based extra depreciation, 7,5 pct. 4 years)
- (Excess uplift from previous years)
= Tax base liable to **50 pct. tax**

Companies without taxable income

- Carry forward with interest - (risk free + 0,5%)*(1-0,28)
- Tax refund (pay out) of exploration costs
- Final losses can be sold or tax reimbursed from the state

State Direct Financial Interest (SDFI)

- The SDFI is an arrangement where the state keeps an interest in a number of oil and gas fields.
- Each interest is decided when licenses are awarded, and the size of state interest varies between fields.
- The state pays its share of investments and costs and receives a corresponding share of the gross income from the license.
- When Statoil was listed and partially privatised in 2001, the administration of the SDFI portfolio was transferred to a new state-owned trust company, Petoro.
- Petoro is funded over the state budget and does not receive any of the income from the SDFI.

Hydro Power Taxation

- Production from about 1900
- Resource rent tax introduced 1997
- RRT tax rate 30 %, total marginal tax rate 58%
- The RRT is neutral with regard to investments
- Property tax 0,7 % (municipalities)
- License fee and entitlement to buy max 10 % of power generated (state, county and municipalities)

Tax basis – Hydropower

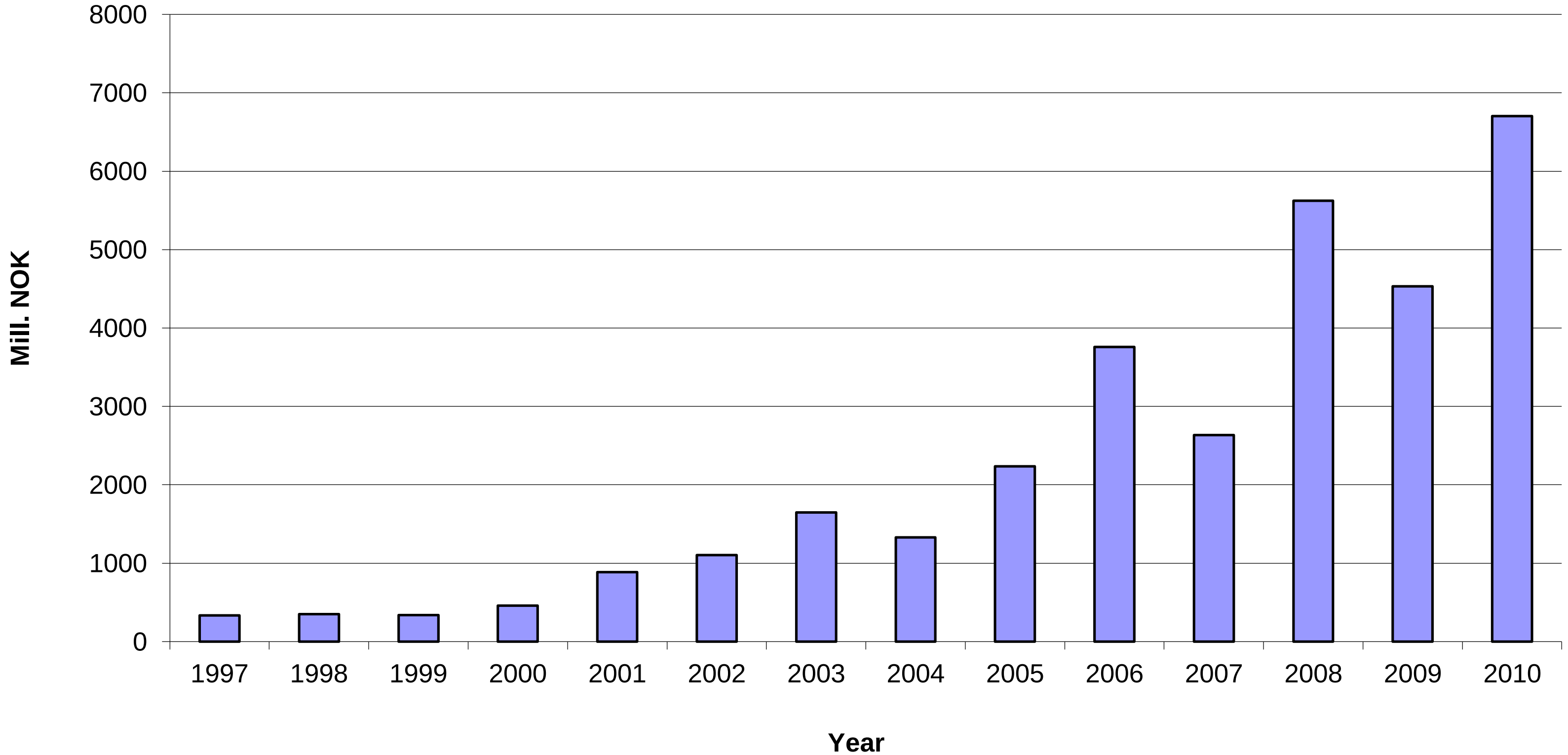
Sales income (market prices)

- Operating costs
- Concession fees
- Property tax
- Depreciation (linear: installations 1,5% equipment 2,5%)
- Uplift (tax values * risk free rate)

= Tax base liable to **30 pct. tax**

Negative resource rent will be entitled to a tax refund (pay out)

Hydro Power - Resource Rent Tax 1997-2010



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