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Shipping Group newsletter*

Fiscal Budget 2008 **Norway** **Issued September 13th 2007**

Content

The Norwegian Government proposes changes to the shipping taxation regime

Last Friday, September 7th, The Norwegian Government announced a new proposal for taxation of Norwegian shipowning companies under the Norwegian tonnage tax regime. The proposal implies substantial changes to the taxation of shipping companies. The existing tonnage tax system from 1996 levies no tax on operating profits unless taxable dividends are paid to the shareholders, or the company withdraws from the tonnage tax system. The purpose of the 1996 shipping tax system was for Norway to promote shipping companies and remain a competitive shipping location. This system will now be terminated.

The Government has proposed that 2/3 of all deferred tax liabilities within the existing tonnage tax model as of January 1st 2007 shall be payable over a 10 year period. The remaining 1/3 may be offset against environmental funds/investments, or otherwise it also becomes payable.

EU model will be introduced

The Government has stated that from 2007 and forward the shipping companies will be taxed in accordance with existing tonnage tax systems within EU. Except for the tonnage tax to be paid, this will imply that shipping income will be tax exempt on a permanent basis.

The new system will be presented in more detail on October 5th at the latest, and ratified in November/December when the National Budget is approved by Stortinget (Parliament).

Substantial impact on financial reporting

Under current legislation, only limited provisions have been made in the financial statements to reflect the potential tax liability related to untaxed reserves within the tonnage tax system. The potential tax that would be levied upon dividend distribution or exit from the regime has been disclosed in the notes to the financial statements. The change from potential tax to tax payable will represent a major hit on the companies' profit and loss accounts and equity. The exact amounts will depend on the transition rules. If this transitional taxation will be based on fair value of the assets, the tax payable may exceed the potential tax liability currently disclosed in the notes to the financial statements, as these disclosures are based on book values. The total tax burden may for some companies become larger than what it would have been had they stayed outside the tonnage tax regime.

Norwegian GAAP allows for the use of net present value when providing for deferred taxes within the current tonnage tax regime. It is not clear whether the transitional tax may also be discounted, but this is likely. Under IFRS, current tax liabilities shall be measured at the amount expected to be paid, however a company may elect a policy of discounting current tax liabilities. If such a policy is chosen, the unwinding of the discount going forward will be presented as a finance expense.

The accounting treatment of the effect on the tax payable of any environmental investments will depend on the particulars of the final legislation. It is, however, our preliminary view that a provision has to be made for the gross tax liability, with subsequent reversals if, and when, the qualifying investments actually take place. We emphasise that the final conclusion will first be reached when the specific rules are known.

Under IFRS, changes in tax legislation affect the financial reporting if it is enacted or substantively enacted at the balance sheet day. To the extent that the proposed rules are enacted, the companies will have to account for the transitional tax in their 2007 financial statements. In our opinion, the announcement on 7th September in the form of a general press release, even if from a majority government, does not qualify as 'substantively enacted'. It is therefore unlikely that a tax provision needs to be made in interim statements for the third quarter, unless the details of the proposal have been formally presented by the end of September. In any case, note disclosures will be required.

The transitional tax will have to be charged to the profit and loss accounts when it is recognised in the balance sheet.

The Shipping Group at PricewaterhouseCoopers will revert to you with a more thorough report on the consequences of the proposal and new shipping taxation regime as soon as more detailed information is released. This will also be covered in a client seminar October 9th at our offices in Oslo.

If you have any queries or comments to this newsletter, please feel free to contact us.

Sincerely,

The Shipping Group
PricewaterhouseCoopers

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