

International Tax News*

Fiscal Budget 2007 – tax proposals

Norway

Issue 1, 9 October 2006

Contents

1. No changes in the taxation of share income
2. Exit tax on capital gains on shares
3. Petroleum Taxation – changes in the allocation of interest costs

1. No changes in the taxation of share income

In its white paper presented on Friday 6 October relating to the 2007 Fiscal Budget, the Norwegian Government did not propose amendments regarding the taxation of share income.

Upfront of the budget release, there have been several speculations in the press of possible amendments in the share income tax system. One of the issues was whether it would be introduced requirements for a minimum shareholding and/or a minimum ownership period in order for corporate shareholders to qualify for tax exemption on share income. Further, it was speculated that individual shareholders would no longer benefit from a calculated tax free share income allowance, and would no longer be able to carry out a tax free repayment of paid-in capital if the company had distributable reserves from earned income.

As the anticipated amendments were not introduced, the Norwegian tax legislation continues to provide one of the most favourable participation exemption regimes in Europe for corporate shareholders, with no holding and/or ownership requirements on investments within EU/EEA.

The Government did however state that it will monitor the 2004/2006 tax reform closely in order to further assess the economic, distributional and administrative implications of the reform.

2. Exit tax on capital gains on shares

The Government proposed amendments in the exit tax regulations relating to individual shareholders from 2007.

Upon cessation of being tax resident in Norway, individuals are deemed to have disposed of their shareholdings. The taxable gain will be calculated on the basis of the increase in share value during the period in which the tax payer has been resident in Norway. The exit tax will only apply to calculated gains exceeding NOK 500,000. Calculated losses upon emigration to another EEA jurisdiction are deductible to the same extent as taxable gains would have been taxable.

A deferral of the tax payment until realisation of the shares can be requested subject to the provision of a security for the tax liability. Individuals transferring their tax residency to an EEA jurisdictions with which Norway has entered into a treaty for exchange of information and assistance relating to the collection of taxes, are automatically entitled to a deferral of the tax payments.

3. Petroleum Taxation – changes in the allocation of interest costs

As a general rule, interest costs are tax deductible against income relating to the tax regime in which the interest-bearing debt is incurred. In the white paper published on 6 October, however, the Ministry of Finance proposes new rules for the allocation of net interest cost to the petroleum tax regime (28% general corporate tax + 50% special tax), limiting the amount of interest cost deductible in the petroleum tax regime.

According to the proposal, net interest cost deductible in the petroleum tax regime (78%) is to be calculated using the following formula:

$$\text{Petroleum regime interest deduction} = \text{All interest costs} * \frac{50\% * \text{Tax value of offshore assets}}{\text{All interest-bearing debt}}$$

“Tax value of offshore assets” includes the depreciated tax value as of 31 December of all offshore installations and equipment and other assets having the requisite connection to the offshore petroleum activities.

Exchange gains and losses directly linked to the interest-bearing debt are included in the net interest cost to be allocated using this formula.

All other financial items are to be allocated to the onshore tax regime (28% tax). However, if the taxpayer has no (or insufficient) onshore income, financial costs allocated onshore may be deducted in the petroleum tax regime against the general corporate tax base (28%). If the taxpayer does not have sufficient offshore income, such financial costs are included in the offshore loss carry-forward with interest.

The proposal does not include any transitional provisions for unrealized exchange gains or losses

Petroleum Tax Act (PTA) Section 10 rulings issued before 31 December 2006 will have no future effect under the new proposal. Those who have neutralized the tax effects by way of an up front cash settlement of the net present value (NPV) may claim repayment of the part of the NPV amount referring to the period after 2006, provided the Section 10 ruling was issued after 10 May 2004. At the latest, taxpayers must claim such repayment in the tax return for 2007.

No further tax increases are included in the proposal.

Currently, a tax payer may claim the tax value of exploration costs refunded from the Norwegian State. The proposal includes a provision that may enable tax payers to use such claim as security for loan financing purposes.

The above provisions are proposed effective from 1 January 2007. The current Sections 3d and 3h of the PTA will no longer be effective as of this date.

* * *

If you do not wish to receive our newsletter, please reply to this message with "unsubscribe InternationalTaxNews"

Contacts

For more detailed information, please do not hesitate to contact your local PwC contact or

Oslo:

Aleksander Grydeland

+47 95 26 01 62

aleksander.grydeland@no.pwc.com

Christian Grevstad (Petroleum taxation)

+47 95 26 03 78

christian.grevstad@no.pwc.com

Hilde Thorstad

+47 95 26 05 48

hilde.thorstad@no.pwc.com

Kristiansand:

Svein T. Sønning

+47 95 26 10 71

svein.t.sonning@no.pwc.com

Stavanger:

Kjell Inge Gade

+47 95 26 11 75

kjell.inge.gade@no.pwc.com

Bergen:

Leif Drillestad

+47 95 26 12 79

leif.drillestad@no.pwc.com

The information contained in this publication should not be relied on as professional advice and should not be regarded as a substitute for advice in individual cases. No responsibility for any loss occasioned to any person acting or refraining from action as a result of material in this publication is accepted by the author or the publisher.

page

2