Doing Business in Norway

This document describes some of the key commercial and taxation factors that are relevant on setting up a business in Norway.

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Background

Country overview

Norway is a country in Scandinavia, northern Europe. Norway is not part of the European Union (EU), but participates in the EU's internal market through its membership of the European Economic area (EEA), which is an agreement between the EU and the four EFTA member states (Norway, Iceland, Liechtenstein and Switzerland). The official language used in Norway is Norwegian. Norway has a population of about 5.3 million.

Economic overview

The currency of Norway is krone (NOK), which consists of 100 øre (oere). The EUR/NOK exchange rate per mid-2016 is approximately 9.38. The level of unemployment is approximately 4.6% (April 2016).

The benchmark interest rate in Norway is 0.5% per May 2016. Norway's economy is characterized by its export-led growth, largely based on large oil and gas reserves. The country also has one of the largest sovereign wealth funds in the world.

Transport infrastructure

The transport infrastructure in Norway is influenced by the country's demography (low population density) as well as geography (large distances). The public transport sector is large, with a relatively large highway network for road transport between key commercial centers. There are also extensive networks for rail and air transport. Many regional airports connect the major cities with the peripheral towns and municipalities for domestic travelers. Gardermoen is the international airport for Norway, and acts as the main domestic hub, with its central location slightly north of Oslo.

Choice of Legal Form

Limited liability company (AS) / Public limited liability company (ASA)

The New Norwegian Companies Acts were passed by the Norwegian Parliament on June 13th, 1997. The new laws were enacted on January 1st, 1999. The most common type of corporation for small companies is the limited liability company (AS), whereas large companies often choose to establish themselves as public limited liability companies (ASA). The two corporate forms will now be governed by two separate Acts. The two acts are to a large extent similar in structure and content.

The main difference between AS and ASA is that only ASA companies may invite subscriptions from the general public for the purpose of obtaining new share capital. An AS may only make limited placings, and issue shares to a specific group of investors.

Another important difference is the minimum share capital requirement. An AS must have a minimum share capital of NOK 30,000, whereas an ASA must have a minimum share capital of NOK 1,000,000.

As a general rule, shares in an ASA are freely negotiable, but the articles of association may stipulate that the consent of the board of directors is required. Acquisition of shares in an AS requires the consent of the company's board of directors unless otherwise provided for in the articles of association. The shares in an ASA must be registered with a register of securities. This is optional for AS companies.

An ASA may have non-voting shares or shares with limited voting power for up to half the share capital. An AS may freely limit the voting rights of its shares.

The formation rules are generally the same for an ASA and an AS. The documentation requirements regarding non-cash contributions are somewhat more stringent for an ASA. This also applies when the share capital is to be increased.

In an AS with less than 20 shareholders, the general meeting may be held without an actual meeting being convened as long as none of the shareholders so demand. In an ASA, a meeting must be held for the general meeting to adopt valid resolutions. There are different requirements regarding the number of directors and the general management.

The rules on mergers and demergers are less complicated for an AS than for an ASA.

Pursuant to the Accounting Act the additional information to be supplied in the annual accounts is considerably more comprehensive. The valuation rules, however, are not materially different.

Partnerships

A partnership involves two or more people carrying on a common business. Most partnerships are unlimited liability ventures with all partners having joint liability for the debts of the business.

Any business debts may be recoverable from partners' personal as well as business assets. Personal debts may be recovered against a partner's individual share of the business.

Partnership profits are shared by the partners as income and they pay tax on this income in the same way as for a sole trader.

Sole traders

A sole trader is a person carrying on business on their own account. The business and personal affairs of the individual are not separated in any way. Any debts, whether business or personal, can be recovered against business and personal assets. All business profits are treated as income for the individual.

Branch / Representative office

An overseas business wishing to commence operations in Norway does not need to set up a company in Norway. As alternatives, it can establish a "place of business", a representative office or a branch. These subsidiary entities are all part of the inbound corporate investor and reflect the increasing legal and corporate substance of the Norwegian presence. All require to be registered with the Registrar of Companies.

All these entities will need to file, annually, the financial statements of the overseas business and will need to deal with corporation tax, VAT and employment matters in the same way as any other business in Norway.

Audit Requirements

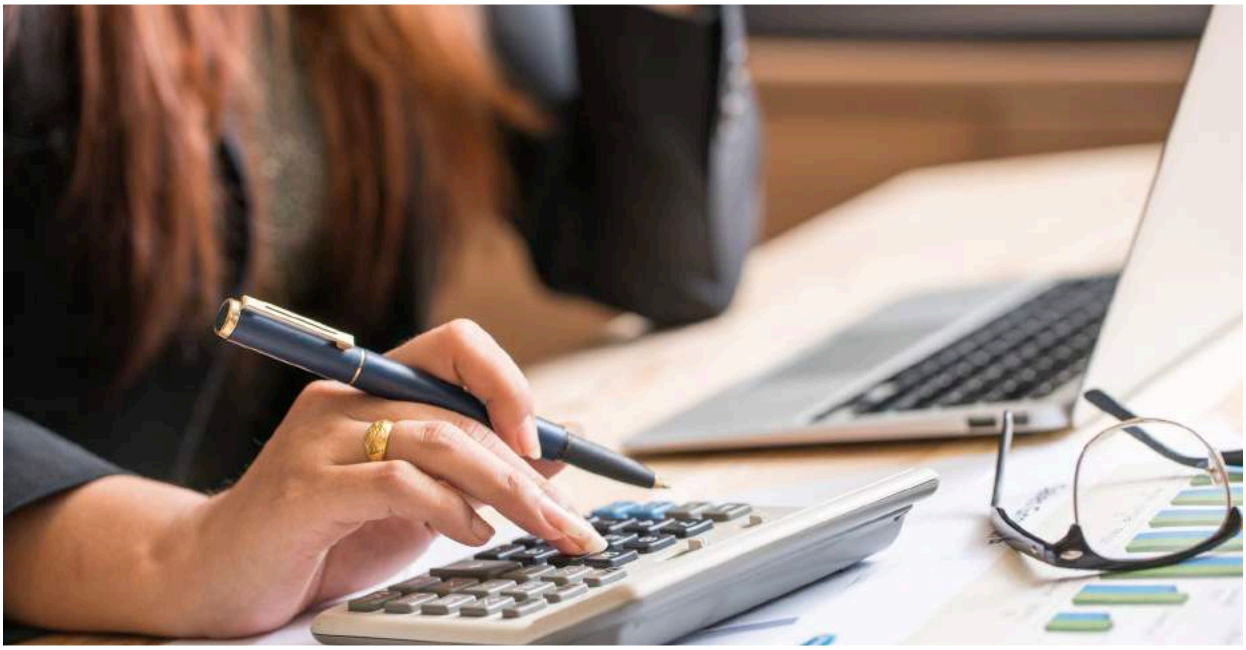
A new law on audit requirements was enacted May 1st, 2011. The new regulation implies significant changes for limited liability companies (AS).

Henceforth, companies may be exempted from the statutory annual audit when all the following requirements are satisfied:

1. Revenues less than NOK 5 million
2. Balance sheet value of less than NOK 20 million
3. Average number of employees equal to or less than 10

All ASA companies (including all exchange-traded firms) are still required to have an annual audit. There are thresholds for audit requirement for other legal forms.

Taxation



Corporation tax

Companies are subject to corporation tax on their total taxable profit. The rates of corporation tax are set each commencing tax year. The current rate (2016) of corporation tax is flat at 25%.

Subject to certain criteria being satisfied, a parent company can give a group contribution to subsidiaries in Norway. The parent company must then directly or indirectly own more than 90% of the shares in the subsidiaries. It will then be possible for the group of companies to carry forward trading losses indefinitely to offset against future profits within the group.

Dividend payments (and capital gains)

Dividends are generally subject to a 25% taxation rate multiplied by a factor of 1.15, i.e. effective tax rate of 28.75%. Limited liability companies (and other corporate tax subjects) which invest in other corporate tax subjects, may as a general rule be exempted from dividend tax with reference to the "exemption method" in the Norwegian Tax Act. The exemption method entails that, as a rule, corporate shareholders are exempt from taxation on gains and share dividends. However, a standard rule has been introduced whereby 3% of the income exempt from taxation pursuant to the exemption method is nevertheless deemed to be taxable income.

In addition to limited companies/public limited companies and businesses assessed as partnerships, the rules also apply to cooperative societies, foundations and associations. Insofar as the rules apply to Norwegian companies etc., they also apply to corresponding types of foreign enterprises liable to tax in Norway.

Value added tax (VAT)

The most important indirect tax is value added tax (VAT), which is a general tax levied on sales within the country and on import. VAT is levied on most goods and some services, and applies to all stages in the chain of production and distribution.

Any person engaged in trade or business is required to register and to charge and pay VAT on goods supplied. VAT on inputs purchased by the registrants is deductible in the VAT accounts. VAT is thus not a tax on the registrants but a tax on final consumption.

VAT is presently calculated at a rate from 0 to 25 per cent of net price.

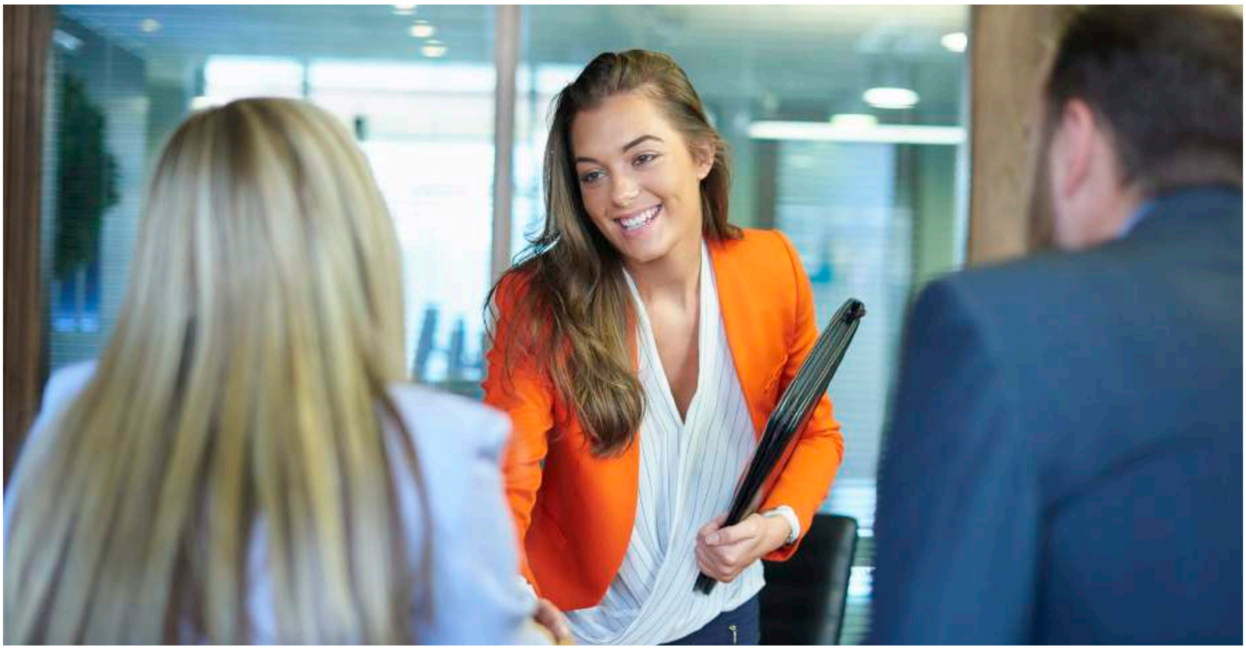
VAT registered businesses must complete and submit a two months VAT return form. The return is used to calculate the difference between VAT reclaimed from customs & excise and VAT to be paid to customs & excise. The difference results either in a credit or a payment to be made.

Allowances

Depreciation

Fixed assets are valued at purchase and are depreciated in accordance with a reasonable depreciation plan if their useful life is limited. Fixed assets that are believed to have infinite duration cannot be depreciated. The depreciation must be made systematically and rationally. Linear depreciation (identical annual amount) is common practice among most firms, but it is not a mandatory choice of depreciation.

Employment



Employment of foreign personnel

For those working onshore in Norway or on the Norwegian Continental Shelf for a foreign employer, a tax card will be issued by the Central Office – Foreign Tax Affairs (COFTA). Reporting is mandatory via the tax form 'RF-1199 Information about contracts, contractors and employees'.

Those living abroad and working on the Norwegian Continental Shelf can choose between the 10% standard deduction and actual expenses. They receive a tax card (no. 7350), including the minimum deduction and 15% standard deduction, i.e. a deduction equivalent to 10% of gross income.

When working onshore in Norway, tax card 7150, tax code 1, is issued. This tax table includes the minimum deduction only. For the four first tax assessments in Norway, you can choose between the 10% standard deduction and actual expenses.

Employees working the whole year in Norway may apply for a tax deduction card based on tax withholding over 10.5 months. Please note that the total amount of taxes withheld is the same regardless of which tax deduction card is used.

Payroll taxes

Employers are responsible for deducting income tax from the earnings of each employee and paying this over to the assessment authorities. An individuals' liability to income tax is based on the tax residence of that individual. It is therefore essential that a person's residence is determined as soon as they come to Norway, if they are seconded from overseas.

Micellaneous

Recommended internet link:
www.taxnorway.no

This document is provided by Revisorhuset AS as a general overview of matters to be considered when setting up an overseas business in Norway. It is essential to take advice on specific issues. No liability can be accepted for any action taken or not taken arising from the information provided in this publication.

If you are setting up a business in Norway, the members of DFK International can help you to achieve this efficiently. You will receive practical advice on business issues, tailored to meet your objectives, from experienced business advisers.

For further information on the services available from the DFK member firms in Norway please see overleaf.

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