A Short Description of the Norwegian Tax Reform

The Norwegian tax reform to be introduced as from 1 January 1970, consists of the following three main elements:

- a reduction of the total direct taxation and an increase of the social security services,
- an increase of the indirect taxation, and
- the introduction of a general value-added tax (TVA) to replace the existing single-stage retail sales tax.

A summary description of the Norwegian Acts on Value-Added Tax and Tax on Investments, etc., is annexed.

The level of the total taxation is not intended to be altered by the tax reform, but the reform implies a shift in the tax structure towards a greater part of indirect taxation based on a value-added tax. The total taxation, inclusive the social security charges, amounts to approximately one third of the market value of the Gross National Product. The share of direct taxation is 38 per cent, indirect taxation 38 per cent, while social security charges amount to 24 per cent. The tax reform implies a reduction of direct taxation to 31 per cent and an increase of indirect taxation to 44 per cent of the total.

Subject to parliamentary approval in the near future a general value-added tax of 20 per cent and a tax of 13 per cent on investments, etc., will be introduced as from 1 January 1970. The existing retail sales tax of 13.64 per cent covers about 65 per cent of the total private consumption of goods and services while value-added tax will cover about 72 per cent.

As will be seen from the Annex registered enterprises will have a general right to deduct the tax on their purchases. However, they will have to pay the 13 per cent tax on investments, etc., not being deductible. The tax on investments, etc., applies to all goods which are consumed in business except merchandises and goods used as raw materials and semi-manufactures. On this goods enterprises under the existing system pay the general turnover tax of 13.64 per cent without any right of deduction or refund.
On an annual basis the introduction of the value-added tax and the investment tax is estimated to increase the State revenue by about NKr 3,000 million in 1970. This increase is meant to compensate for the loss in revenue as a result of the reduction in direct taxation, increased contribution to social security services and increased expenses on governmental purchases, etc. following the introduction of the value-added tax. The increase in the consumer price level is estimated to be 5.8 per cent on the assumption that the increased taxation is fully shifted into prices.

The transfer from the existing retail tax to the value-added tax and the tax on investments, etc., is not expected to lead to significant changes in the tax burden of enterprises. The registered enterprises, exporters included, will have the right to deduct the value-added tax on their purchases. The non-deductible investments, etc., will be almost unchanged, i.e. 13 per cent against 13.64 per cent.

The tax reform implies a reduction of direct taxes for all the tax-payers about NKr 1,600 million. For corporations the tax reduction is calculated to be about NKr 250 million on an annual basis, on the assumption that the total income tax will be higher than 50 per cent. The actual total corporate income tax varies between 52.5 and 54.5 per cent, including State and municipal taxes.