EXAMINATION OF PRACTICES OF CONTRACTING PARTIES
IN RELATION TO BORDER TAX ADJUSTMENTS

Addendum

The following replies, supplementing the information in Spec(69)49 and Add.1, have been received from the Government of Norway.

NORWAY

A. (c) Tax on value added

The proposal by the Norwegian Government on a draft law for the introduction of a value added tax system in Norway has now been dealt with by the Parliament and the result is two laws dated 17 June 1969. The first one is the law on value added tax and the second is the law on tax of investment, etc. It is the intention that these two laws should enter into force from 1 January 1970 with a general tax rate of 20 per cent for the value added tax and a tax rate of 13 per cent for the tax on investment, etc. The entering into force of the two laws mentioned are however dependent on the later formal adoption by the Parliament of these two rates which the Government will put before the Parliament in the late autumn in connexion with the submission of the Finance Bill for the year 1970.

The value added tax of 20 per cent will be calculated on the selling price exclusive the tax (corresponding tax rate of 16 2/3 per cent inclusive the tax itself). The tax of 13 per cent on investment, etc., has to be paid by the buyer (enterprises liable to value added tax for its sales) in those cases where the value added tax on their purchases are deductible, cf. below.

Question 1. According to the new Norwegian law on value added tax, the tax will cover both goods and services and the tax will be collected at all stages of transaction inclusive the import stage. Exports of goods and services will be exempted from the value added tax.

In principle all goods sold commercially will be taxable, including building constructions, electricity and water from water supply works, etc., but not immovable property. Among the exempted goods are newspapers, books and certain periodicals,
fishing ships, other ships of more than 25 tons used for commercial traffic and airplanes used for the same purpose. Hiring of ships and airplanes are also exempted from the value added tax. The exemptions here quoted are specifically mentioned in the law and the enterprises engaged in these businesses have to be registered in order to be able to get advantage of the right to deduction or refund of value added tax on their purchases in the same way as other firms which are taxable for their selling activity.

Services will also be liable to value added in the same way as for goods. Those services which are not specifically mentioned in the law or as tax-free, are exempted from the tax. These are inter alia passenger transport, the letting of rooms in hotels, etc., services rendered by doctors, dentists, hospitals, banks, insurance companies and postal services. Enterprises which are rendering such services fall outside the scope of the value added tax system and have no possibilities of getting refund of value added tax on their purchases. The same situation arises for businesses in goods and services with a turnover of below NKr 6,000 a year. They are exempted from tax on their selling activity and fall outside the scope of the tax system.

There are no special taxes on goods and services which are tax-free or which are exempted from the tax. The only exception is used motor cars previously registered in Norway which are exempted from the system and instead liable to a special registration fee when sold. Goods subject to special selective excises will also be subject to the value added tax, but the excise taxes will not be deductible in the TVA system.

Goods and services exempt from the value added system will not be subject to border tax adjustments. There will neither be any border tax adjustments for compensating the tax on investments etc. for goods which are liable to value added tax.

Question 2. For enterprises liable to value added tax there is, with the exception of passenger cars and entertainment expenses, no restrictions on the right to deduct tax on purchasing that could result in accumulation of taxes. These two exemptions mentioned are not compensated at the border. The special tax on investment etc. which has to be calculated and borne by the taxable firms which buys and uses the investment goods are not deductible within the TVA system, but no border tax adjustments are made for this investment tax.

Question 3. The tax base will be the sales price exclusive the tax itself. For imported goods the tax base will be the customs value inclusive the duty, if any, exclusive the tax itself.

Question 4. Tourists will under the value added tax system as under the existing retail tax system be exempted from turnover tax according to the regulations allowing duty-free importation. Tourists might also as today under certain conditions, buy goods free of tax for exports.
Question 5. The introduction of the value added tax system in Norway will be implemented as part of a general tax reform, involving a partial transfer from direct to indirect taxation comprising a total amount of revenue of about Nkr 3,000 million. This is the reason why the turnover tax rate has to be increased from the existing retail sales tax of 13.64 per cent to a value added tax of 20 per cent, at the same time as the coverage for goods and services for taxation is widened. The increasing of the indirect taxation is however intended to be compensated by a simultaneous reduction of the direct taxation and by increased rates for governmental social security services. The tax reform is not expected to lead to changes in the total taxation but only to changes in the structure of taxation. The present retail sales tax of 13.64 per cent is also levied on investment goods, etc., bought by the industry. Enterprises liable to value added tax will have the right to deduct this tax on their purchases of investment goods, but the purchasers will be obliged to pay the investment tax of 13 per cent on the same goods without possibility of having this tax deducted or refunded. There will be no border tax adjustments for this tax on investments, etc., neither on imports nor on exports.

Question 6. The value added tax will also be levied at the import stage. This is found necessary for administrative and fiscal reasons and to avoid economic disadvantages for the domestic producers as compared with the importer.

Question 7. Yes.