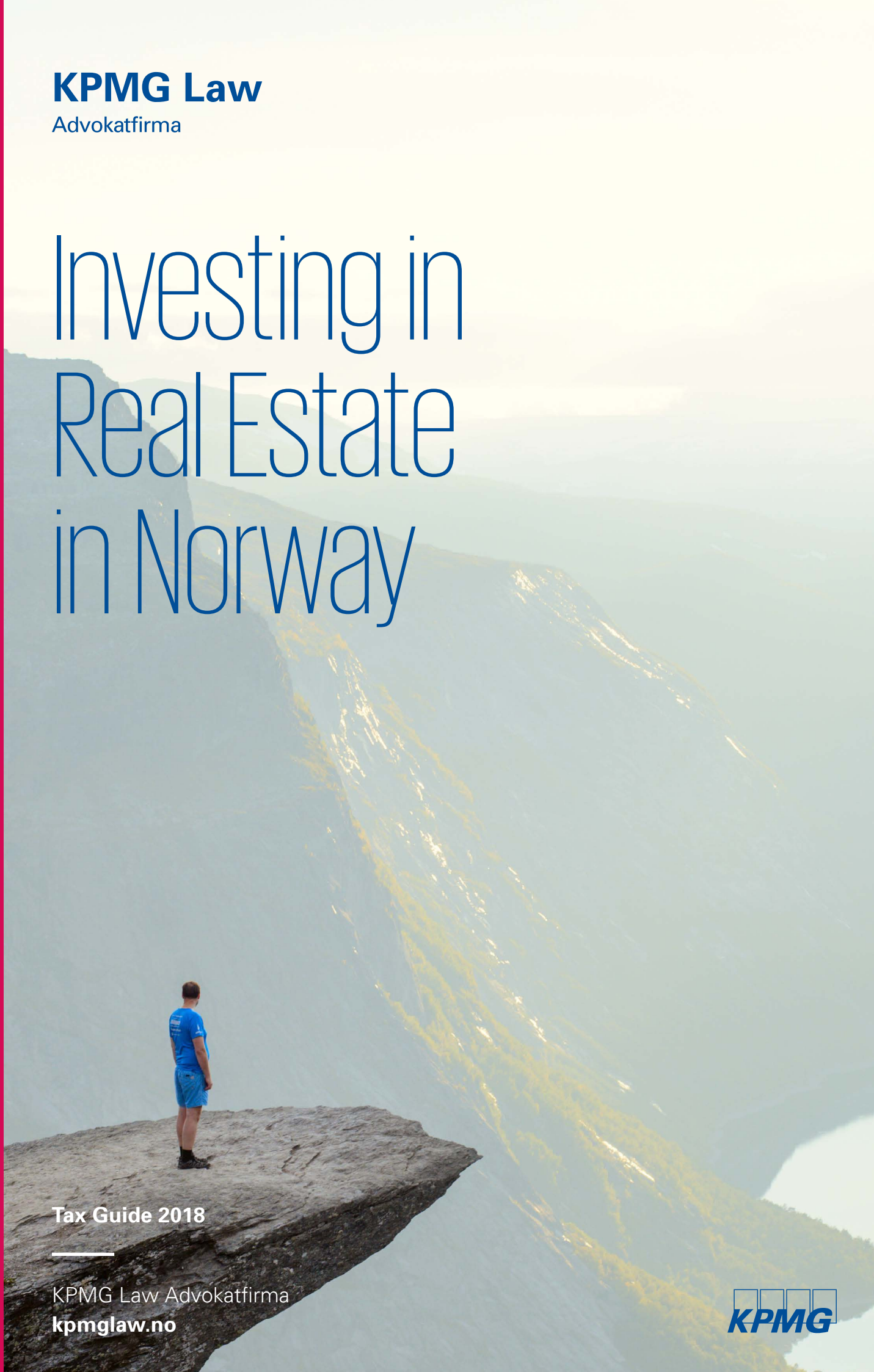
KPMG Law
Advokatfirma

Investing in Real Estate in Norway



Tax Guide 2018

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1. General

Investing in real estate in Norway may essentially be carried out in three different ways; a direct investment in the real estate, a purchase of a tax-transparent entity or a limited company. In addition, a direct investment may be carried out by either establishing a tax-transparent entity or a limited company in Norway.

The tax treatment and transaction costs will differ, and an investor should therefore always consider what would provide the most efficient structure for their investment.

Generally, most real estate transactions are carried out by purchasing either a transparent entity or a limited company in order to avoid stamp duty (payable by the purchaser) and capital gains tax (seller).

2. Purchase of real estate

2.1. Introduction

As mentioned above, most real estate transactions are carried out by purchasing either a transparent entity or a limited company. For real estate that will be developed and sold as residential property this is, however, not always the case.

The rationale for selling real estate either through a transparent entity or a limited company is mainly to avoid a 23% tax charge (please see below in section 3.3. for the sale of participations in a transparent entity) on latent gains and a 2.5% stamp duty on the fair market value of the real estate for the purchaser. Furthermore, land cannot be depreciated, which means that the purchaser will normally not benefit from the higher tax book value on the land if an asset deal is carried out. In addition, the purchaser will assume all liabilities when acquiring the company, which is beneficial for the seller.

In the event that the seller would incur a loss, it may be beneficial to sell the real estate as an asset deal. However, it is important to consider the stamp duty payable (on the transaction price / FMV), as this could exceed the benefit of an asset sale. In addition, the latent tax benefit in the unrealised loss on the real estate could affect the purchase price.

If an asset deal is carried out, a purchase price allocation (PPA) must be made, as the purchase price must be allocated between the different assets acquired (mainly between the building, technical installations, and land).

2.2. Real estate transfer tax/stamp duty

The transfer of immovable property and rights in immovable property is subject to stamp duty. The purchaser is the one liable to pay stamp duty. The rate is 2.5% of the transfer price of the property (fair market value). Except for stamp duty, no special taxes or charges are levied on a transfer of immovable property.

A transfer between companies that is or could have qualified as a tax-exempt transfer, mainly as tax-exempt mergers or demergers, is however exempt from stamp-duty. It is not required that the transfer is in fact tax-exempt, provided the transfer could have qualified as such. In certain scenarios where a taxable transaction is considered beneficial, it may consequently nevertheless be possible to structure the deal in such a way as to mitigate stamp-duty on the transfer.

2.3. VAT

Sale of real estate is in general exempt from VAT. However, upon purchasing commercial real estate, the buyer will in most cases find that there are VAT-liabilities attached to the property in the form of adjustment obligations (see 3.1 for a closer description). From the buyer's point of view, it is vital to clarify if there are such liabilities, as well as the nature and size of the liabilities.

These liabilities may come in two forms. Adjustment duty will require the buyer to repay VAT to the authorities, should the VAT liable use of the property decline. Adjustment rights will allow the buyer to increase his deductions (possibly triggering a refund) should the VAT liable use of the property increase.

In total, this means that the intended use of the property may trigger adjustments, both in a positive and a negative way. A seller will in most cases expect the buyer to purchase the property with all adjustment obligations intact, and will set the price in accordance with this expectation. As adjustments may carry a fiscal risk or benefit, it is recommended that these obligations are mapped in advance, to ensure a proper valuation.

If a property is purchased outright, the transfer of adjustment obligations is a matter of negotiation. On the other hand, if a property changes ownership through a transfer/sale of shares, the obligations will automatically be transferred.

If the purchase is made through the acquisition of shares, the sale will not be subject to VAT. Such purchases are exempt from VAT. In general this will mean that any VAT incurred during the process (legal assistance, due diligence etc.) will not be deductible. If the purchase is carried out by using an acquisition vehicle, it might be possible to argue that transaction costs are deductible in accordance with the level of VAT liable activity if certain requirements are met. Due to recent case law, it is vital that the VAT-classification of the

services utilized during the process is assessed and classified in advance.

In summary, there are several potential VAT issues when purchasing commercial real estate. The nature of the issues will depend on the method of purchase as well as the state of the property, and should be clarified thoroughly before a purchase is made.

2.4. Valuation of tax positions

2.4.1. Tax book value on assets

If a purchase is carried out as a purchase of either a transparent entity or a limited company, the tax positions related to the real estate will be acquired and carried forward, and the purchaser will therefore assume the latent tax position and the historical (lower) basis for tax depreciations.

It is not possible to achieve a "step-up" on the cost-base of the purchased assets when acquired indirectly through the acquisition of a property-holding company, thus the direct benefit for the purchaser is merely that no stamp duty will be levied. For the seller, the benefit is that no tax is levied on the latent tax on the assets.

Due to the fact that most real estate transactions are carried out as a sale of a transparent entity or a limited company, there is no purchase price discount linked to the latent tax on the purchased assets (as it is assumed that the latent tax will never be realised). The purchase price will however in most cases reflect a discount related to the lack of "step-up" on the tax cost and, consequently, foregone tax depreciations.

There is no tax depreciation on land, and the discount is therefore only linked to the difference between the value of the building and the tax book value, which is depreciable for tax purposes (mainly buildings and technical installations).

In principle, the discount should reflect the net present value of tax depreciations foregone / lost in the acquisition due to it not being carried out as an asset-deal (with corresponding step-up on tax depreciable assets). In practise, the discount is subject to negations and commercial considerations and will often not reflect detailed valuation-considerations. In market-transactions, it is common that the seller asks that bids specify the rate of the tax discount and the assumed allocation to land (which is unaffected by the tax discount). A seller may also state a specific allocation to land, which means that a bidder may only specify the applied rate of tax discount. The decisive factor for the seller is generally the net purchase price offered, and the tax discount may be a wholly commercial consideration.

Barring such considerations, buildings which are depreciated at a rate of 2% annually (commercial property) are generally subject to a tax discount rate between 7–10%. For buildings which are depreciated at a rate of 4% annually (industrial property and similar) the discount rate may be up to 13-14%. Residential property is generally not subject to tax depreciations and therefore generally not subject to a tax discount.

As the general corporate tax rate has been reduced in recent years, from a nominal rate of 28% to 23% per 2018, the market practice for tax discounts may be subject to change.

2.4.2. Other tax positions

In addition, there are other tax positions to consider if a limited company is being purchased. Typically, the tax positions relate to tax losses carried forward and gains and losses accounts (see section 3.1).

Similar to above, the valuation and purchase price implication of such positions are subject to negotiations and commercial considerations. For both positions, the net present value of the tax asset/liability will be a decisive fact, taking into consideration factors such as how soon a tax loss carry forward may be utilized and when a deferred tax liability will become payable. In practice, however, the tax positions are often valued comparably with the overall tax discount rate applied in the transaction.

2.5. Financing

When purchasing real estate it is typical that the acquisition is carried out through a mix of equity and debt. In order to obtain relief for interest expenses, foreign investors often use an existing holding company or establish an acquisition company in Norway to efficiently leverage the acquisition structure. It may also be possible to obtain an interest deduction in Norway if acquiring real estate directly by a foreign taxpayer.

As a starting point, all interest paid is deductible for the calculation of the taxable income of the taxpayer, and there is currently no withholding tax on interest payments in Norway. Earnings stripping rules apply to interest paid to related parties or on loans guaranteed by related parties (see section 4.1.3. below). In addition, a general arm's length principle applies. Debt-levels, positioning of debt, interest rates applied and the mix between external and internal financing must be carefully structured.

Under Norwegian company law, an acquired company cannot finance its own acquisition (financial assistance regulations). Thus, as a starting point, only the shares in a real estate company can be used as collateral for the acquisition debt. However, regulations to the Companies Act allow the use of the real estate assets as collateral subject to certain requirements being met (most importantly, the target company must qualify as a pure property holding company, with no employees).

2.6. Cost related to the purchase of real estate

For corporate tax purposes an assessment of whether a cost is deductible will consist of two elements; firstly, whether or not the cost is deductible; and secondly, whether such cost may be deducted immediately, or whether it should be capitalised on a capital asset.

As a main rule, costs incurred in order to obtain, maintain or secure taxable income are deductible. Thus, costs related to the acquisition of real estate are deductible. Costs incurred for acquiring shares are also deductible, even though the corresponding income is tax exempt. Costs must, however, often be capitalised on the shares.

Whether a Norwegian taxpayer can claim tax deductions for costs paid to an affiliated party in an acquisition process depends on whether such costs can be allocated to the Norwegian taxpayer. Broadly, the deductibility is contingent on the fulfilment of a "benefit test", whereby it must be demonstrated that the costs have been incurred as remuneration for services that will benefit the taxpayer, as opposed to the shareholders.

If the costs can be charged to the Norwegian company, it must be assessed whether the costs are deductible immediately, or whether they must be capitalised (added to the tax book value of the assets of the company). If costs must be capitalised, they will become deductible at a subsequent realisation of the acquired object (by reducing a future gain/increasing a future loss) or through depreciation. An increased tax book value would normally be deductible by way of depreciation. Costs incurred in connection with the acquisition of shares must as a general rule be capitalised on the shares. They are in effect non-deductible, as gains on shares are tax exempt and losses are non-deductible.

When assessing whether to deduct or capitalise an expense, the deciding factor will be the purpose for which the expense is incurred. For instance where a service is acquired with an objective to utilise it towards the future operation of the target company, the associated costs will normally be immediately deductible (e.g. cash flow and tax structuring). If the expenses are related to the acquisition as such (i.e. brokerage fees, legal advice in relation to contracts), or an up-to-date assessment of the company (historical due diligence), such expenses must normally be capitalised on the acquired shares. An exception to this principle is financing fees, which are unconditionally deductible.

For broken deals, costs must be treated in the same way as for completed transactions, which means that costs which would have been capitalised on the shares if they were acquired, are non-deductible.

2.7. VAT related to the purchase of real estate

For VAT purposes, the costs must be broken down and classified as VAT recoverable, VAT non-recoverable or VAT exempt. As a main rule, input VAT charged on costs related to a company's VAT liable activities (i.e. business operations subject to VAT) may be recovered, while input VAT charged on other costs may not be recovered. Certain services, e.g. financing, are VAT exempt, meaning that no VAT should be invoiced (or no VAT shall be calculated according to the reverse charge mechanism). Broadly, costs must be split between those related to the financing operation, and those related to the acquisition itself. Only the latter may be deductible. In all instances it will be necessary to closely review the costs to ensure correct classification.

An acquiring holding company (an SPV) would normally incur VAT on costs related to the purchase. As the purchase is in the form of a share purchase (an exempt transaction), recent case law indicates that VAT incurred is non-recoverable. An older method of seeking recovery through a VAT-grouping has been deemed incorrect by the courts.

When real estate is acquired through an asset deal, this is by definition a VAT-liable transaction, although one covered by a specific zero-rate. As such, VAT incurred during the transaction is deductible. It is however vital that the acquisition vehicle is VAT-registered before the costs are incurred.

As of 2018, an acquisition through an asset deal allows for a significantly higher recovery of VAT on acquisition costs than a share deal. It is therefore important to review and consider the deductibility of VAT incurred on transaction costs early in the acquisition process.

2.8. Anti-avoidance – tax positions

2.8.1. The statutory Anti-Avoidance Act – Norwegian Tax Act 14-90

A statutory anti-avoidance standard applies when companies/entities with certain tax positions, not connected to an asset (such as loss carry forward or positive gains and loss accounts), take part in a transaction where it is likely that the main motive of the transaction is to exploit the tax position.

As a result, the tax position could be forfeited (if it is a tax asset) or entered as income without the right to settle against losses (if it is a tax liability). A positive "gain and loss account" may be excluded from being used as the basis of a group contribution.

2.8.2. Non-statutory anti-avoidance standard

The tax authorities and the Norwegian Supreme Court have over a long period of time developed a case-law based general anti-avoidance standard. This standard applies if a transaction, or a series of transactions, is (i) mainly tax motivated and (ii) regarded as disloyal to the tax law. If the standard is applied for the transaction(s), the tax authorities are entitled to disregard the transaction(s) for tax purposes.

For real estate transactions, the anti-avoidance standard has been sought to be applied for several types of transactions, e.g. restructurings, refinancings, acquisitions, etc.

In particular, the tax authorities have argued that a demerger of a real estate company into a single purpose company, carried out in connection with a (tax-exempt) sale of the shares, may be subject to the anti-avoidance standard. The Supreme Court has held that the anti-avoidance standard cannot be applied in such cases, which means that pre-sale reorganisations, where a real estate company is demerged out of another company, should no longer be considered problematic.

Another Supreme Court case of interest for real estate transactions is a case where a real estate group was sold, and where the holding company had a substantial loss carry forward. The Court accepted that the losses could be utilised after acquisition. The transaction was carried out prior to the statutory Anti-Avoidance Act, so today the losses in that particular case may have been forfeited. The case is, however, still relevant for situations where the transaction itself is not mainly tax motivated, but the purchase of the holding company could be, due to the loss carry forward.

The Supreme Court held that the acquisition of a holding company, which had loss carry forwards, instead of buying the target company directly, could not be challenged under the general anti-avoidance standard. The tax authorities argued that it was unnatural to acquire the holding company with the loss carry forward instead of just buying the real estate owning companies. The Supreme Court held, however, that the holding structure was a natural whole entity, and that an acquisition of the entire group therefore made sense from a business point of view.

In 2016, the Ministry of Finance issued a public discussion paper for the introduction of a general anti-avoidance test. To date, no conclusions have been made by the Ministry of Finance and no legislation has been introduced.

2.9. Other

There are specific regulations concerning acquisitions of land in Norway, mainly these are properties for the exploitation of natural resources, such as farmland, hydropower and forests.

3. Sale of real estate

3.1. Sale of real estate

In general, capital gains/losses on the sale of real estate are taxable/deductible regardless of the seller's tax residence. The gain is taxed at 23%. Normally, gains from a sale of real estate can be transferred to a gain and loss account, where at least 20% of a positive balance on the account must be recognized as income annually on a declining balance basis. Gains relating to technical installations are recognised under the same method, but on a separate account.

Due to the exemption method, the seller will normally prefer to sell his shares or participation to avoid tax on the latent gain on the real estate.

3.2. VAT – Adjustment obligations

For VAT, the key issue is adjustment obligations. Upgrades exceeding a set threshold are subject to adjustments, meaning that the level of deduction is dependent on use within a VAT liable line of business for the next ten years.

A sale of the property will trigger an obligation to partially reverse the deduction. The size of the reversal will depend on the number of years left of the ten years period. This reversal may, however, be avoided, provided that the buyer accepts responsibility for the remaining period.

From a seller's point of view, it is preferable to transfer the obligation to the buyer in order to avoid having to repay VAT. If the buyer is unwilling to accept the transfer, this should be reflected in the price.

It should, however, be noted that for the buyer, the adjustment obligation represents a potential risk, and the buyer will likely keep this risk in mind when making an offer.

When selling real estate, it is particularly important to note that for the sale of development properties where no physical work has been performed at the site, it will not be possible to transfer adjustment obligations for services related to non-physical development work. The consequence could be that any input VAT incurred will be a final cost without the possibility of reclaiming the input VAT.

Note also that it has been indicated by the VAT-Administration that when transferring projects under construction and empty buildings, the seller is obliged to reverse all VAT deducted to date. This VAT may be transferred as a latent deduction, and claimed by the buyer at a later date, once the premises are occupied.

3.3. Sale of shares or participation

Capital gains on shares in a Norwegian company or participation in a transparent Norwegian entity owned by a Norwegian limited liability company or a Norwegian transparent entity are tax exempt under the Norwegian exemption method, and losses are non-deductible (see section 4.1.6. below). For foreign investments the gains may be covered by the exemption method.

The sale of shares in a Norwegian company will not result in any tax charges in Norway, unless the foreign entity is considered to have permanent establishment in Norway. The Norwegian Tax Act does not have legal basis for imposing tax on a non-resident's gain on shares.

If a foreign investor sells a participation in a transparent Norwegian entity, the tax treatment is somewhat unclear. According to the Norwegian Ministry of Finance the foreign investor will be considered to have realised his share of the underlying assets, and should thus be taxed at 23% on gains, unless the income is tax exempt. Since such gain would be tax exempt for a Norwegian investor, the tax treatment may be in breach with Norway's obligations under the EEA Agreement.

The seller is not required to calculate VAT on the fee, as sales of sharers or participation are not liable for VAT. Note that the seller cannot expect to gain deductions for any VAT incurred as part of the sales process.

3.4. Deductions of costs related to the sale of real estate

Costs directly related to a sale of real estate, such as broker commission, advertisement etc. are tax deductible, if the gain is taxable.

If the real estate is sold as a sale of shares or participation, the costs will be linked to the sale of the shares or participation, and be treated as non-deductible. For broken deals, the costs must be treated similarly, which means that most costs are non-deductible.

For VAT purposes, deductibility of input VAT on costs incurred during the sale is unclear under current law. Deductions may be allowed if the sale can be viewed as winding down a VAT liable business, for instance renting out property under a voluntary registration. This generally means that the real estate should be sold as a running business, with tenants intact.

3.5. Distribution of proceeds from a sale

3.5.1. Permanent establishment

If the real estate is owned directly by a foreign investor (i.e. in effect through a taxable branch/property in Norway), the proceeds can be distributed without any tax being levied in Norway.

3.5.2. Limited company

There are different ways for a limited company to distribute the proceeds from the sale of real estate. The proceeds could be distributed through dividends, a repayment of paid-in capital, repayment of loans or liquidation.

The taxation for a Norwegian investor would depend on the investor. For foreign investors, the tax treatment depends on the repayment method. In Norway, there is currently only withholding tax on dividends, at a domestic rate of 25%. The rate may be reduced for corporate shareholders within the EEA or under an applicable tax treaty (see section 4.1.7. below). Repayment of paid-in capital is not taxable. If a company is liquidated, the liquidation proceeds will be considered as capital gains on shares, and not a distribution of dividends for Norwegian tax purposes, and no withholding tax will be levied.

3.5.3. Transparent entity

Distributions from transparent entities are tax exempt for Norwegian investors, except for a 3% claw back. There is no tax charge on distributions to foreign investors.

4. Taxation of real estate

4.1. Corporate income tax

4.1.1. General

The tax rate on corporate income is currently 23%. Taxable income includes gains on realisation of capital items.

As a main rule, deductions are granted for expenses incurred in order to acquire, maintain or secure taxable income. In addition, operating costs on tax exempt income are also deductible.

Costs for maintaining/upholding the same standard of the property are in general deductible. If the costs are related to upgrading the property standard the costs are not deductible and must be capitalised. However, if the standards have changed over time, it is permitted to bring the property up to the new standard that is comparable to the old standard of the building, even if the new standard represents an upgrade, without capitalising the costs. For example, the cost of upgrading windows from single glass to double glass is deductible, if considered comparable.

The main rule for the timing of income and gains for tax purposes is the realisation principle. For income/gains this implies that the income/gain must be entered as income for the seller in the same year as the taxpayer obtains an unconditional right to the remuneration. For costs and losses the realisation principle implies that the costs/losses are deductible for the income year in which the taxpayer incurs an unconditional obligation to pay the remuneration. The time of payment formally agreed upon is therefore, for tax purposes, of no consequence.

4.1.2. Tax deprecation

All types of property and technical installations are subject to the declining-balance method of depreciation.

The depreciation rates for real estate depend on the type of property. Office buildings and other commercial property may be depreciated at 2% per annum. If the expected life of a building is less than 20 years, a 10% rate may be applied. Other properties are depreciated with a 4% rate. Technical installations may be depreciated at 10% per annum. Land may not be depreciated for tax purposes.

Maintenance costs that are considered necessary to uphold taxable income are tax deductible in the year of accrual. Costs of improvement or for extensions to the building in later years must be capitalised and depreciated together with the cost of the building.

4.1.3. Thin capitalisation and limitation on deductibility for interest expenses and thin capitalisation

Interest costs are as a main rule fully deductible on an accruals basis, and there is in principle no difference between debt from shareholders/intra-group and debt from unrelated parties.

The arm's length principle applies to related party loans, and the tax authorities may make a reassessment based on thin capitalisation or an adjustment of the interest rate.

From 1 January 2014 earnings stripping rules apply, limiting deductibility of interest paid on loans to related parties or guaranteed by related parties. The rules are template-based and based on the taxable income as stated in the tax returns. Tax exempt income, such as certain dividends and gains on shares, does not increase the basis for deductions.

Tax depreciations and net interest expenses (on both related party debt and debt to unrelated creditors) are added to the taxable income, after the utilisation of loss carry forward and received/given group contributions, to find the tax EBITDA. The maximum deductible interest on related party debt is limited to 25% of the tax EBITDA (30% in 2015).

Interest payments to unrelated parties also count towards the calculation of maximum deductible interest. Interest costs to unrelated parties are deducted from the maximum interest cost (25% of tax EBITDA) before related interest costs become deductible.

The interest expense limitation is triggered only if the taxpayer has net interest expenses (to related and unrelated creditors) in excess of NOK 5 million.

Loans from unrelated parties fall within the scope of the limitation rules if they are guaranteed by a related party. There are, however, some exceptions, for example if the guarantee is provided by a subsidiary.

Interest cost exceeding the threshold may be carried forward for ten years. It should be noted that the carried forward interest costs will be considered first when calculating the current years interest expenses.

A proposal, based on OECD BEPS recommendations, to extend the earnings stripping rules to third-party interest was sent on public hearing in 2017. The main point of the proposed changes is that interest on pure (unguaranteed) and unrelated party debt is to be included within the scope of the rules under the same EBITDA threshold of 25%, although with the de minimis threshold being increased to NOK10 million. The proposed extension of the rules would apply to taxpayers that are part of a consolidated group (or could be subject to IFRS principles).

The proposal includes an "equity escape" provision, which broadly provides that if either the Norwegian taxpayer on a standalone basis, or Norwegian subgroup as a whole, can demonstrate that its ratio of equity to total assets is equal to or higher than the corresponding ratio of the worldwide group, it can claim full relief for the net financing expenses. The ratio is considered "equal to" if it is no more than two percentage points lower and include a number of technical adjustments in order to make the different sets of accounts comparable.

The amended rules were proposed to be effective from FY18, but are now expected effective at the earliest from FY19.

4.1.4. Group contributions

Norwegian tax law is based on the principle that each company is a separate taxpayer, regardless of whether it belongs to a Norwegian or international group. However, Norwegian tax law allows for tax consolidation/group relief by way of group contributions between corporate entities.

A group contribution is a transfer of value from one tax subject to another within the same group. Group contribution allows a group company to transfer its profits to another group company. Besides being closely related to dividend, group contributions, in addition to being made to the direct parent or shareholder, may also be made to an indirect shareholder, such as a subsidiary or a sister company.

Group contributions are deductible by the providing company and taxable income for the recipient company. The holding requirement for group contribution purposes is more than 90%. The parent company must hold, directly or indirectly, more than 90% of the shares and the voting rights of the subsidiary. The ownership requirement must be met at the end of the fiscal year. Group relief is also available between Norwegian subsidiaries of a foreign parent as long as the ownership requirement is met.

The rules also apply to foreign companies that are resident within the EEA and are considered comparable to Norwegian companies, as long as they are taxable to Norway through a permanent establishment and the group relief is taxable to Norway. Also, under non-discrimination clauses of double tax treaties, group relief is available for contributions made from a branch of a foreign resident company to a Norwegian subsidiary of the same tax group.

4.1.5. Tax losses

Losses may be carried forward to be set off against profits indefinitely. No differentiation is made between ordinary and capital losses. When a company is liquidated, losses of the year of liquidation may be carried back to the preceding two years. Otherwise, a reversal of losses is not allowed.

4.1.6. Tax exemption method

Corporate shareholders are exempt from taxation of dividends from and gains on shares in Norwegian companies, except for a claw back of 3% on dividends. The claw back does not apply to dividends within a tax group (see section 4.1.4. above). Losses on shares qualifying under the exemption method cannot be deducted.

The exemption method also applies to gain/loss on a participation in a Norwegian transparent entity, and the claw back on dividends also applies to distributions of profits from transparent entities.

The exemption may also apply to foreign investments.

4.1.7. Withholding tax
The exemption method also provides a tax exemption for shareholders resident within the EEA, meaning that no Norwegian withholding tax will be due for shareholders covered by the exemption method.

The exemption method will, in relation to corporate shareholders resident within the EEA, only apply if the shareholder meets a substance requirement. In the language of the legislation, it applies only if such a company is properly established in and performs real economic activity in the relevant country. The fulfilment of this criterion is based on particular facts and circumstances where a key factor to be considered is whether the foreign entity has been established in a similar manner as the normal organisation of such entities, both in the country of residence and in Norway. The substance test is based on case law from the CJEU, and is therefore in continuous development. If the recipient of the dividend does not meet the substance test, the dividend is subject to withholding tax at a rate of 25%, unless a lower rate applies under a tax treaty.

Shareholders resident outside the EEA would still be charged withholding tax, subject to limitations under tax treaties.

There is currently no withholding tax on interest and royalties but a cross-parliament agreement from 2016 states that such measures should be considered. A public discussion paper in this respect is expected in 2018.

4.2. Value added tax
Value added tax, roughly similar to the VAT systems of the EU Member States, is an indirect tax on the consumption on goods and services. As a general rule, VAT is calculated for all stages of the supply chain and on the import of goods and services from abroad. The final consumer, who is not registered for VAT, absorbs VAT as part of the purchase price.

The standard rate of VAT is 25%. A reduced rate of 15% applies to food. VAT on the supply of passenger transport, cultural arrangements such as museum and sport arrangements, services provided by travel agents, cinema tickets, hotel and accommodation services and rentals of vacation property is calculated at 10%.

The supply and letting of real estate or rights to real estate are as a main rule exempt, without any credit for input tax.

Voluntary registration for VAT is possible for letting out real estate to VAT liable businesses as well as counties and local municipalities (qualified tenants). Letting out real estate to the government is VAT exempt without any credit.

Registering and charging VAT on lease to qualified tenants allows for deduction on related costs, as well as a percentage of common costs equal to the percentage of qualified tenants.

It is possible to register Norwegian group companies for VAT as a VAT group if the companies are owned by at least 85% of the group. The VAT group may also include companies with no sales (such as holding companies etc.) The most practical consequence of a VAT group is that transactions between the VAT group registered entities will be invoiced without VAT.

4.3. Local municipality tax
Immovable property located in Norway is subject to municipal real estate tax provided the municipality has resolved to levy the tax. The tax is levied at fixed rates ranging from 0.2% to 0.7%, depending on the municipality. The taxable base is the assessed value of the immovable property, which is usually between 20% and 50% of the fair market value (the municipality may use 100% of the fair market value).

With effect from 1 January 2013, low-producing, uncultivated land owned (in)directly by the government as well as national parks and nature reserves is exempt from real estate tax.

Real estate tax is deductible for the purposes of corporate income tax.

KPMG Law Advokatfirma AS

Thor Leegaard
Tax Partner/Attorney-at-law
Corporate Tax
E: thor.leegaard@kpmg.no
T: +47 4063 9183

Jan Ove Fredlund
VAT Partner/Attorney-at-law
Indirect Tax
E: jan.ove.fredlund@kpmg.no
T: +47 4063 9088

Anders Ekern
Senior Tax Manager/Attorney-at-law
Corporate Tax
E: anders.ekern@kpmg.no
T: +47 4063 9047

kpmglaw.no

KPMG