R&D Tax Incentives: Norway, 2018

Design features

Norway provides R&D tax relief through a volume-based R&D tax credit. The headline credit rate is slightly larger for SMEs (20%) vis-à-vis large firms (18%).

- In the case of insufficient tax liability, firms receive a refund of unused credits in the following year.
- A ceiling of NOK 25 million (NOK 50 million) applies to eligible in-house (purchased) R&D. Total eligible R&D expenditures must not exceed NOK 50 million (1 NOK = 0.11 USD, 31.12.2018).

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<th>Table 1. Main design features of R&amp;D tax incentives in Norway, 2018†</th>
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For additional information: OECD R&D Tax Incentive Compendium and Eligibility of current and capital expenditure for R&D tax relief


Recent developments and trends

Differences in the design of R&D tax incentives drive a significant variation in the expected generosity of tax relief per additional unit of R&D investment across OECD and partner economies and over time. In 2018, the marginal tax subsidy rate for profit-making (loss-making) SMEs in Norway is estimated at 0.23 (0.23), above the OECD median of 0.20 (0.17). The tax subsidy rate for large enterprises is equal to 0.21 (0.21) in the profit (loss)-making scenario, significantly lower than the OECD median of 0.13 (0.10).

Since the introduction of a refundable R&D tax credit for SMEs in 2002, the generosity of R&D tax incentives has remained stable in Norway, as measured by the marginal R&D tax subsidy rate for SMEs in the profit and loss-making scenario. In 2003, the tax credit was extended to large companies, leading to a sudden increase in the marginal R&D tax subsidy rate estimated for large (profitable and loss-making) firms in that year. With no change and only a small difference in the headline tax credit rates for SMEs (20%) and large companies (18%) over the 2003-2018 period, marginal tax subsidy rates display limited variation by firm size and over time. Norway doubled its ceilings on eligible R&D expenditure in 2014 and continued to raise it from 2015 to 2017. Headline tax credit rates do not capture these changes in R&D expenditure ceilings.

Figure 1. Implied tax subsidy rates on R&D expenditures: Norway, 2000-18

1-B-index, by firm size and profit scenario


Note: Implied marginal tax subsidy rates, presented for different firm size and profitability scenarios, are calculated based on headline tax credit/allowance rates. Headline tax credit/allowance rates provide an upper bound value of the generosity of R&D tax incentives, not reflecting the effect of thresholds and ceilings that may limit the amount of qualifying R&D expenditure or value of R&D tax relief. For more information on the calculation of implied tax subsidy rates, see http://www.oecd.org/sti/rdtax-state-bindex/methodology.pdf and for notes regarding the modelling of the country-specific time series, see http://www.oecd.org/sti/rdtax-state-bindex-notes.pdf.
Public support for business R&D: the policy mix

Governments adopt various instruments to incentivise R&D by business. In addition to direct support such as grants and buying R&D services, 30 out of the 36 OECD countries provided fiscal incentives in 2018.

Figure 2. Direct government funding of business R&D and tax incentives for R&D, 2016 (nearest year)
As a percentage of GDP

- **Norway** ranks ninth among OECD and partner economies in terms of total government support to business R&D as a percentage of GDP, equivalent to approximately 0.22% of GDP in 2016.
- From 2006 to 2016, government support for BERD as a percentage of GDP increased in **Norway** by 0.11 percentage points, while the OECD median increased by 0.02 percentage points.
- During this period, business R&D intensity in **Norway** increased from 0.78% to 1.08%.
- In 2016, R&D tax incentives accounted for 54% of total government support for BERD in **Norway**.

Trends in government support for business R&D

Over the last decade, a general trend towards non-discretionary instruments such as R&D tax incentives has been observed. This trend is far from uniform and the policy mix can vary by country and over time.

Figure 3. Direct funding of business R&D and tax incentives for R&D, Norway, 2000-16
As a percentage of GDP, 2010 prices (right-hand scale)

- Since the introduction of an R&D tax credit in 2002, the importance of tax support has increased in **Norway**, both in absolute and relative terms.
- The cost of tax support rose sharply in 2003 after the scheme was extended to large firms, and in 2014, when total ceilings on eligible R&D expenditure doubled. In 2016, R&D tax support amounted to NOK 3.2 billion (in 2010 prices).
- As percentage of GDP, tax support increased from 0.04% in 2002 to 0.12% of GDP in 2016.
- Direct funding of BERD oscillated between 0.06% and 0.10% of GDP between 2002 and 2016.
- The share of R&D tax incentives in total government support fluctuated over this period, amounting to 36% in 2002, 50% in 2005 and 35% in 2008 and rising thereafter to reach 54% in 2016.