R&D Tax Incentives: Norway

1. Public support for business R&D: the mix of direct funding and tax relief

Governments in many countries seek to promote R&D investment in the economy by granting a preferential tax treatment to eligible R&D expenditures, especially those incurred by firms. In 2016, 29 of the 35 OECD countries, 22 of 28 EU countries and a number of non-OECD economies offer R&D tax incentives.

Figure 1. Direct government funding of business R&D and tax incentives for R&D, 2014 (nearest year)
As a percentage of GDP


Main points:

- Norway is positioned above the OECD median in terms of the total volume of (central) government support for business R&D, equivalent to 0.15% of GDP.
- Tax incentives account for 47% of total public support for business R&D in Norway.
- From 2006 to 2014, R&D tax support as a percentage of GDP increased in Norway by 0.02 percentage points. This increase is identical to the one observed at the OECD median.

2. Trends in government support for business R&D

Over the last decade, several OECD countries have increased their reliance on R&D tax incentives. However, this trend has not been uniform. The relative importance of tax incentives declined briefly following the global financial crisis, reflecting the demand-led nature of tax relief and its dependence on profits.

Figure 2. Direct funding of business R&D and tax incentives for R&D, Norway, 2000-14
As a percentage of GDP, 2010 prices (right-hand scale)


Main points:

- Norway introduced R&D tax relief in form an R&D tax credit in 2002. The cost of this support rose sharply in 2003 after the scheme was extended to large firms, and in 2014, when total ceilings on R&D eligible expenditure doubled. R&D tax support amounted to NOK 1.9 billion in 2014.
- As percentage of GDP, R&D tax relief increased from 0.04% to 0.07% of GDP during this period.
- Direct funding of BERD oscillated around 0.07% of GDP throughout the 2000-14 period.

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3. Design of R&D tax incentive support

Countries differ in the extent to which they rely on tax measures to support R&D, and those that do design tax relief measures in substantially different ways. Key design features relate to the type of tax instrument, eligible R&D costs, provisions for firms with insufficient tax liability, ceilings and thresholds among others.

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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


Main points:

- 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 20 million (NOK 40 million) applies to eligible in-house (purchased) R&D. Total eligible R&D expenditure must not exceed NOK 40 million.

4. Generosity of R&D tax support

The design of R&D tax incentives influences the "expected" generosity of tax relief per additional unit of R&D investment. Across OECD and partner economies providing tax relief, there is a significant variation in tax subsidy rates for firms of different size and profitability.

Figure 3. Implied tax subsidy rates on R&D expenditures, 2016

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


Main points:

- In Norway, the marginal R&D tax subsidy rate for SMEs is estimated at 0.22 (0.23) in the profit (loss-making) scenario; higher than the OECD median of 0.18 (0.11) for profitable (loss-making) SMEs.
- The tax subsidy rate for large enterprises in Norway is 0.08 independent of their profit situation; smaller than (similar to) the OECD median of 0.11 (0.09) for profitable (loss-making) large enterprises.


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