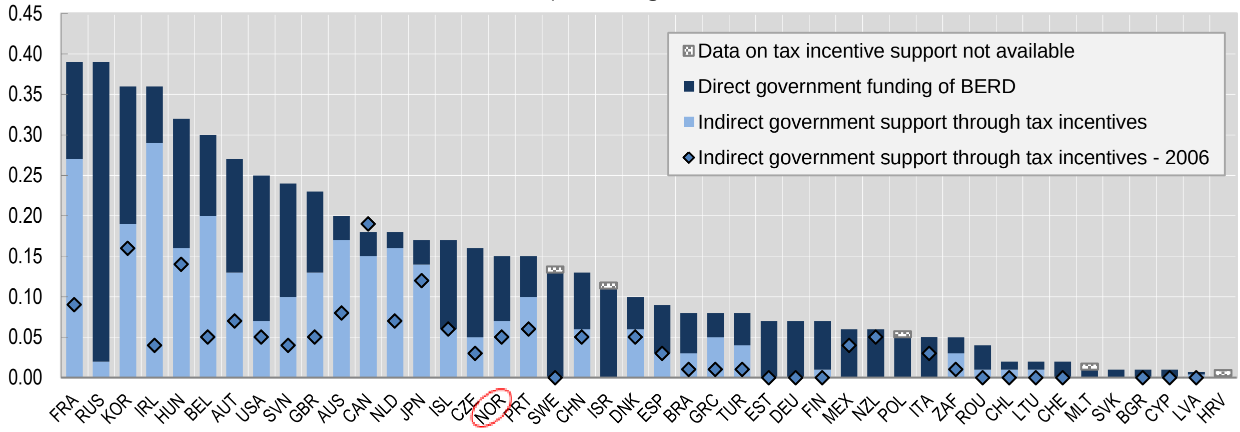
R&D Tax Incentives: Norway

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[1].

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

As a percentage of GDP



Source: OECD, R&D Tax Incentive Indicators, http://oe.cd/rdtax, March 2017.

Main points:

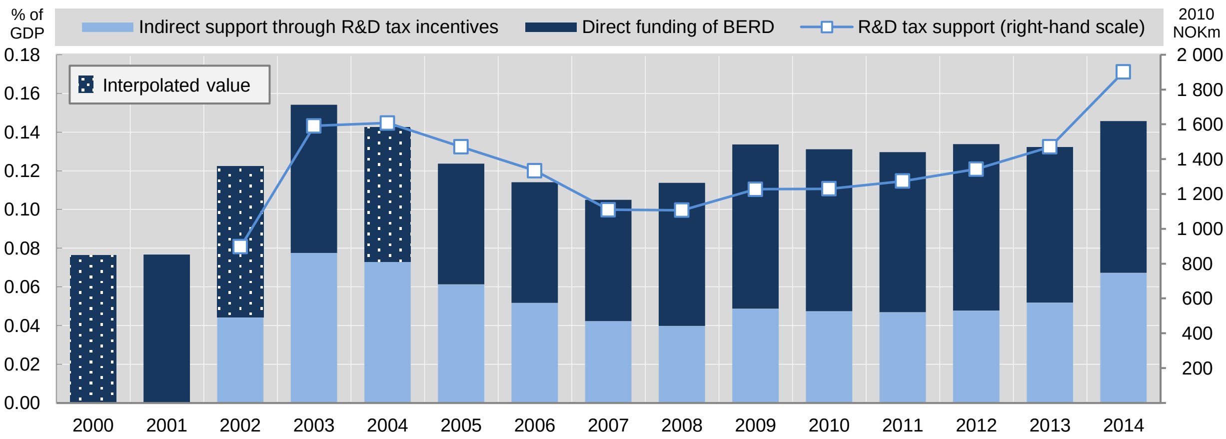
- Norway is positioned above the OECD[+] median in terms of the total volume of (central) government support for business R&D, equivalent to 0.15% of GDP.
- Tax incentives account for 47% of total public support for business R&D in Norway.
- From 2006 to 2014, R&D tax support as a percentage of GDP increased 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)



Source: OECD, R&D Tax Incentive Indicators, http://oe.cd/rdtax, March 2017.

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.

[1] This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area. The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities or third party. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

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.

Table 1. Main design features of R&D tax incentives†

		SKATTEFUNN
Tax incentive		Tax credit
Type of instrument		Volume-based
Eligible expenditures†		Current, machinery & equipment
Headline rates		18, 20 (SME)
Refund		Yes (immediately in the following year)
Carry-over (years)		No
Ceiling	R&D expenditure	NOK 20m (in-house R&D*), NOK 40m (purchased R&D**), NOK 40m (sum of in-house and contracted R&D services)

*: inclusive of R&D procured from entities other than approved R&D institutions, including units in the same enterprise group if the transaction is based on market prices; **: subcontracted R&D to approved R&D institutions

†For additional information: OECD R&D Tax Incentive Compendium and Eligibility of current and capital expenditure for R&D tax relief

Source: OECD, R&D Tax Incentive Indicators, http://oe.cd/rdtax, March 2017.

Main points:

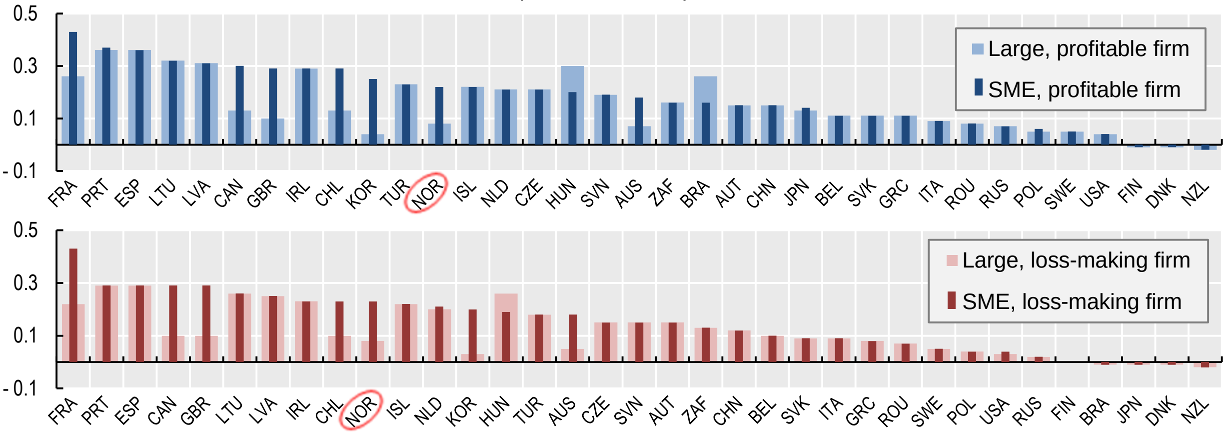
- Norway provides R&D tax relief through a volume-based R&D tax credit. The headline credit rate is slightly larger for SMEs (20%) vis-à-vis large firms (18%).
- In the case of insufficient tax liability, firms receive a refund of unused credits in the following year.
- A ceiling of NOK 20 million (NOK 40 million) applies to eligible in-house (purchased) R&D. Total eligible R&D expenditures 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



Source: OECD, R&D Tax Incentive Indicators, http://oe.cd/rdtax, March 2017.

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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