

R&D Tax Incentives: Norway, 2020

Design of R&D tax relief provisions

Norway provides R&D tax relief through a volume-based R&D tax credit. Since 2020, the headline credit rate has been uniformed to 19%.

Table 1. Main design features of R&D tax incentives in Norway, 2020

| SKATTEFUNN | |
|------------------------------------|--|
| Tax incentive | Tax credit |
| Type of instrument | Volume-based |
| Eligible expenditures [†] | Current, machinery & equipment |
| Headline rates (%) | 19 |
| Refund | Yes (immediately in the following year) |
| Carry-over (years) | No |
| Ceiling | R&D expenditure |
| | NOK* 25m (in-house R&D** and purchased R&D***) |

* 1 NOK = 0.0936 EUR, Q3 2020 **: 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

Note: For more details, see [OECD R&D Tax Incentive Compendium](#) and [Eligibility of current and capital expenditure for R&D tax relief](#)

Source: OECD, R&D Tax Incentives Database, <http://oe.cd/rdtax>, March 2021.

Key features:

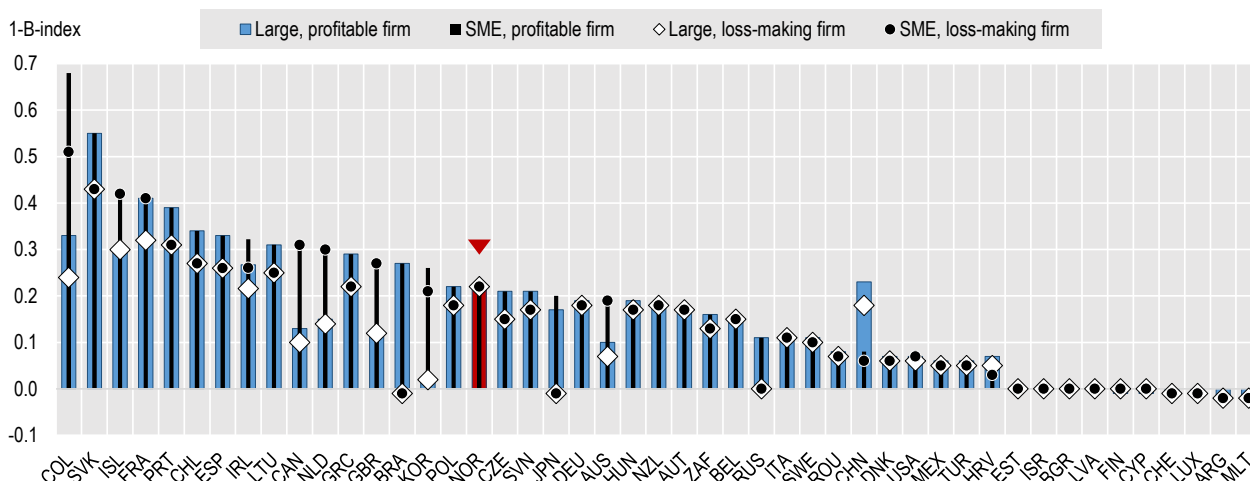
- In the case of insufficient tax liability, firms receive a refund of unused credits in the following year.
- A ceiling of NOK 25 million applies to eligible in-house and purchased R&D.

Generosity of R&D tax support in 2020

Differences in the design of R&D tax incentives drive significant variation in the expected generosity of tax relief per additional unit of R&D investment. In 2020, the marginal tax subsidy rate for profit-making (loss-making) SMEs in Norway is estimated at 0.22 (0.22), above the OECD median of 0.20 (0.18). The tax subsidy rate for large enterprises is equal to 0.22 (0.22) in the profit (loss)-making scenario, well above the OECD median of 0.17 (0.15).

Figure 1. Implied tax subsidy rates on R&D expenditures: Norway, 2020

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 (see [methodology](#) and [country-specific notes](#)), providing an upper bound value of the generosity of R&D tax support, not reflecting the effect of thresholds and ceilings that may limit the amount of qualifying R&D expenditure or value of tax relief.

Source: OECD, R&D Tax Incentives Database, <http://oe.cd/rdtax>, March 2021.

Recent developments in R&D tax relief provisions

Regular reforms of R&D tax incentives lead to continuous changes in the availability, scope and generosity of R&D tax incentives. Such reforms relate to the launch of new tax incentives, the R&D definition adopted for tax purposes, changes in tax credit and allowance rates, adjustments of thresholds or upper ceilings on qualifying R&D expenditure or tax relief amounts, or changes in the terms and availability of refunds.

In 2020, changes in the availability and scope of R&D tax incentives represented the most frequent type of policy reform ([OECD, 2020](#)), along with adjustments to the headline R&D tax credit/allowance rates and adjustments of thresholds or upper ceilings on qualifying R&D expenditure or tax relief amounts. In response to the COVID-19 pandemic, several countries increased the generosity of R&D tax relief or introduced modifications to the administration of R&D tax incentives to facilitate and accelerate R&D funding.

In 2020, **Norway** undertook **five changes** in its R&D tax relief provisions:

- A uniform 19% headline tax credit rate has been introduced for SMEs (previously 20%) and large firms (previously 18%).
- The hourly rate for internal employees has been increased from NOK 600 to NOK 700 per hour.
- The cap on the maximum amount of eligible expenditure for the credit has been reduced from NOK 50 million to NOK 25 million (in-house or outsourced).
- R&D costs have been restricted to services from companies within the EEA or those with a tax treaty or information exchange agreement with Norway.
- A mandatory requirement has been introduced for signing the time sheets and documentation required for related parties that act as subcontractors of an applying company. Where the applying company acquires R&D services from a related party, the related party also would be required to prepare specific accounts for the project.

None of these policy changes were taken in response to the **COVID-19 crisis**.

Trends in the generosity of R&D tax support

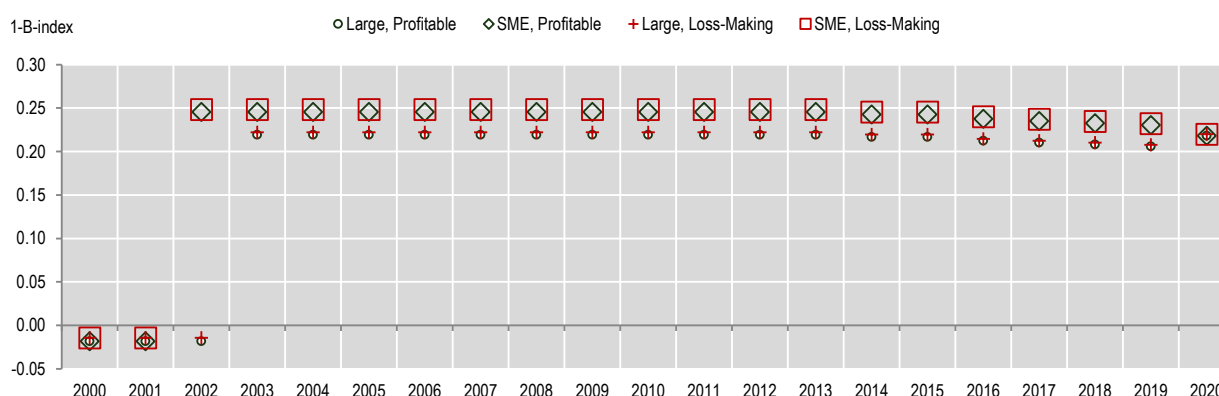
Since the introduction of a refundable R&D tax credit for SMEs in 2002, the generosity of R&D tax incentives has remained stable in **Norway**, as measured by the marginal R&D tax subsidy rate for SMEs in the profit and loss-making scenario. In 2003, the tax credit was extended to large companies, leading 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 2003-2019 period, marginal tax subsidy rates display limited variation by firm size and over time. **Norway** doubled its ceiling 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.

If this ceiling is considered in the modelling of R&D tax subsidy rates in 2020, the rate estimated for large firms drops from 0.22 (0.22) to 0.04 (0.04) in the profit (loss)-making scenario, and the one for profitable (loss-making) SMEs from 0.22 (0.22) to 0.16 (0.16).

Figure 2. Implied tax subsidy rates on R&D expenditures: Norway, 2000-20

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 (see [methodology](#) and [country-specific notes](#)), providing an upper bound value of the generosity of R&D tax support, not reflecting the effect of thresholds and ceilings that may limit the amount of qualifying R&D expenditure or value of tax relief.

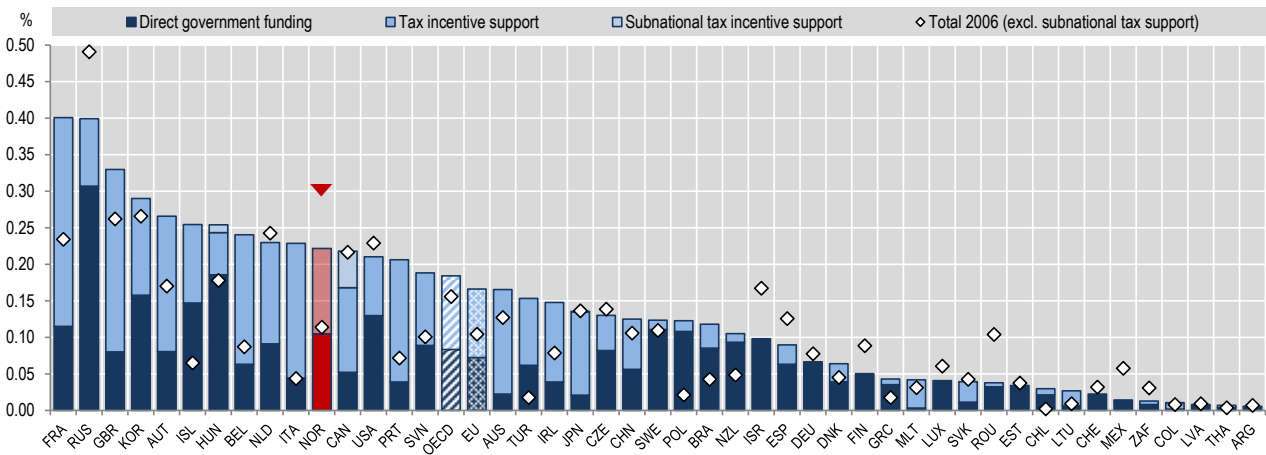
Source: OECD, R&D Tax Incentives Database, <http://oe.cd/rdtax>, March 2021.

Policy support for business R&D: the policy mix

In 2018, **Norway** is placed above the OECD average in terms of total government support to business R&D as a percentage of GDP, at a rate equivalent to approximately 0.22% of GDP.

Figure 3. Direct government funding of business R&D and tax incentives for R&D, 2018 (nearest year)

As a percentage of GDP



Note: Data on subnational tax support are only available for a group of countries.

Source: OECD, R&D Tax Incentives Database, <http://oe.cd/rdtax>, March 2021.

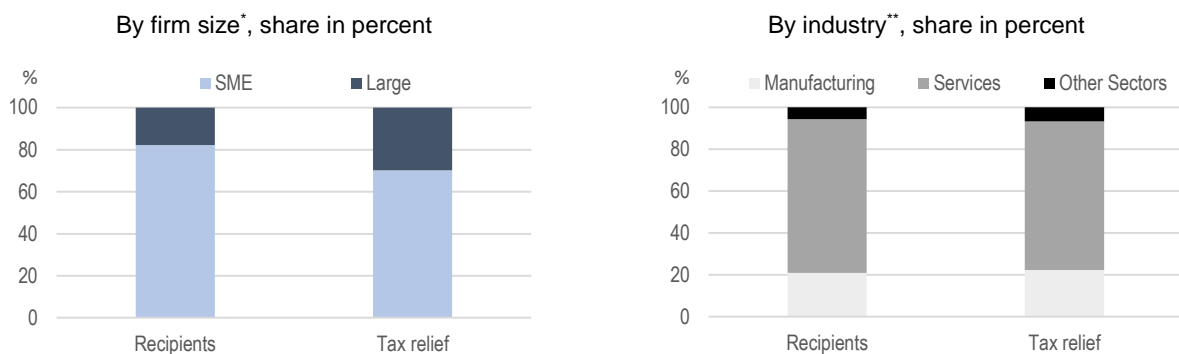
Key points:

- From 2006 to 2018, government support for BERD as a percentage of GDP increased in **Norway** by 0.11 percentage point (pp), while the OECD average increased by 0.03 pp.
- During this period, business R&D intensity in **Norway** increased from 0.78% to 1.05%.
- In 2018, R&D tax incentives accounted for 53% of total government support for BERD in **Norway**.

Distribution of R&D tax relief recipients and government tax relief for R&D

The distribution of R&D tax relief recipients and government tax relief for R&D expenditures (GTARD) provide insights into what types of firms claim and benefit from tax relief.

Figure 4. Number of R&D tax relief recipients and value of government tax relief for R&D, 2018



Note: Figures refer to the R&D tax credit (SKATTEFUNN). *SMEs are defined as firms with 1-49 employees. **Economic activity is classified based on SIC2007 (Manufacturing: 10-33; Services: 45-96; Other Sectors: remaining classes).

Source: OECD, R&D Tax Incentives Database, <http://oe.cd/rdtax>, March 2021.

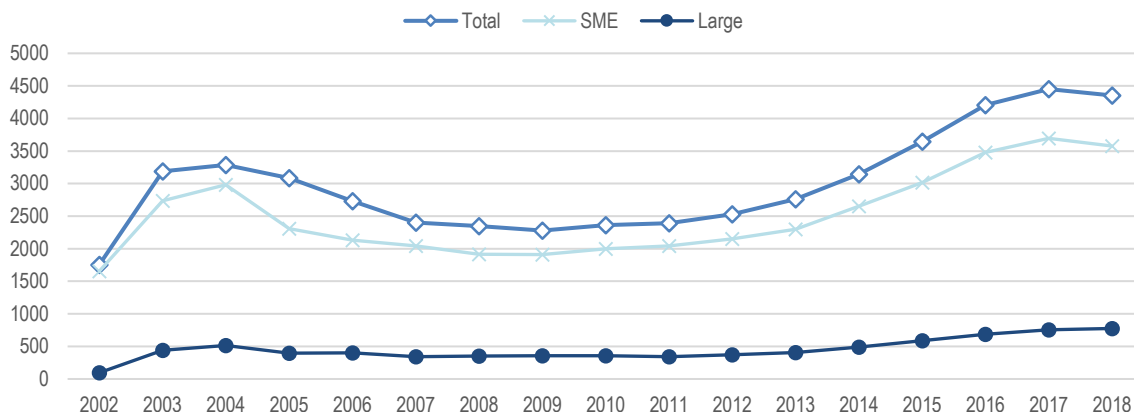
Key points:

- In **Norway**, SMEs accounted for 82% of R&D tax relief recipients in 2018, while the share of R&D tax support accounted for by SMEs amounted to around 70% in this year. 30% of R&D tax benefits were allocated to large firms, comprising 18% of the population of R&D tax relief recipients in 2018.
- In 2018, firms in services represented around 74% of R&D tax relief recipients in **Norway**, followed by firms in manufacturing with a share of 21%. The share of R&D tax benefits accounted for by the latter amounted to 22% in that year, while this share amounted to 71% in the case of firms in services.

Trends in the uptake of R&D tax incentives

Following the introduction of the SKATTEFUNN tax credit for SMEs in 2002 and its extension to large firms in 2003, the number of R&D tax relief recipients in **Norway** first increased significantly, from around 1750 recipients in 2002 to 3300 in 2004, then plateaued at a lower level (around 2700 recipients) from 2006 to 2013 and rose thereafter to reach around 4 350 in 2018. The changes in the number of R&D tax relief recipients throughout the 2002-18 period are primarily driven by SMEs which accounted on average for more than 80% of R&D tax relief recipients in **Norway** over these years.

Figure 5. Number of R&D tax relief recipients, Norway, 2002-2018



Note: Figures refer to the R&D tax credit (SKATTEFUNN).

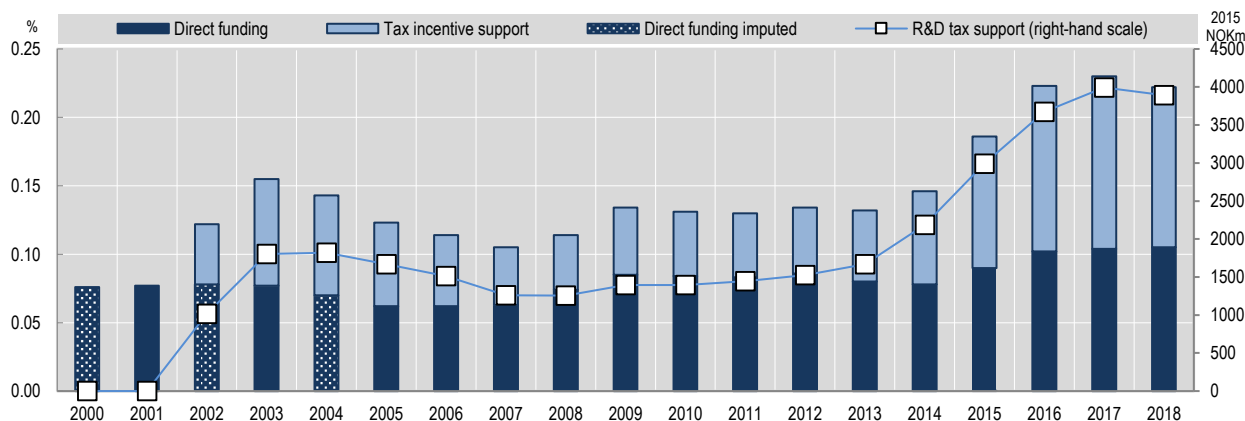
Source: OECD, R&D Tax Incentives Database, <http://oe.cd/rdtax>, March 2021.

Trends in government support for business R&D

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.

Figure 6. Direct funding of business R&D and tax incentives for R&D, Norway, 2000-18

As a percentage of GDP, 2015 prices (right-hand scale)



Source: OECD, R&D Tax Incentives Database, <http://oe.cd/rdtax>, March 2021.

- The cost of government tax support for R&D rose sharply in 2003 after the scheme was extended to large firms, and in 2014, when the ceiling on total eligible R&D expenditure doubled. This trend continued as this ceiling was further raised in 2015, 2016 and 2017. In 2018, R&D tax relief amounted to NOK 3.9 billion (in 2015 prices).
- As percentage of GDP, tax support increased from 0.04% in 2002 to 0.12% of GDP in 2018.
- Direct funding of BERD increased from 0.08% to 0.11% of GDP between 2002 and 2018.
- 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 53% in 2018.

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