

Norwegian Government proposes compensation scheme for businesses experiencing severe loss of income due the COVID-19

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Executive summary

The Norwegian Government is continuing to work on several financial measures due to the COVID-19 outbreak. For background on recent government measures, see EY Global Tax Alerts, [Norwegian Government proposes temporal measures in connection with COVID-19](#), dated 23 March 2020, and [Norway takes additional measures in connection with COVID-19](#), dated 2 April 2020.

On 2 April 2020, the Government published more information regarding the compensation scheme and conditions for businesses to apply for the scheme. In short, the scheme will cover up to 90% of fixed costs for all companies that are tax resident or that have a taxable presence in Norway which are experiencing a significant decrease in revenue due to the COVID-19 outbreak, with a few exceptions.

This Alert summarizes the provisions under the compensation scheme.

Detailed discussion

Eligible applicants

Enterprises that can document a significant decrease in revenue in March, April or May caused by the outbreak of the virus, or due to or restrictions imposed by the Norwegian Government in connection with the outbreak

(such as quarantined employees, restriction on travel or organized cultural and social events, etc.), may apply for compensation.

Further, applicants must document that they have suffered at least a 30% decrease in revenue compared to the same month in the previous fiscal year. Specifically for March 2020, the limit is set to a 20% decrease in revenue. For most companies, last year's figures will be the natural starting point for comparison. However, it should also be possible to use the revenue for January and February 2020 as a basis for calculating the decrease in revenue in March, April and May 2020, if a business is newly established.

Decrease in *revenue* refers to income from the sale of goods and services. Income from return on capital, real estate or financial assets is not regarded as revenue in this context. If the applicant has received any governmental grants or similar payments as compensation or financial aid due to the COVID-19 outbreak, these items are to be disregarded for the purposes of calculating revenue in connection with the compensation scheme.

As a general rule, applicants must have employees and carry out business activities. The applicant cannot at the time of application be under insolvency proceedings. Enterprises within the following industries and sectors are disqualified from the scheme: (i) the financial industry; (ii) power and electricity; (iii) water supply; (iv) oil and gas extraction; and (v) enterprises within industries that may apply for separate support schemes (such as private kindergartens and airlines).

Applicants must be tax resident or registered for tax purposes in Norway in the Register of Business Enterprises (*Enhetsregisteret*) no later than as of 1 March 2020.

Costs subject to coverage, coverage ratio and amount

The compensation scheme is set to cover the enterprise's fixed costs, such as: rent, electricity, water and sewage, insurance, lease of equipment and transportation vehicles, and net interest costs. With respect to interest costs and rent, it is possible that the Government will set a maximum limit for how much the scheme will cover. Costs to be compensated must be documented (i.e., by loan agreements, rental agreements, etc.).

Salary income is not specifically mentioned as fixed costs. This is due to the fact that there are other remedies available under Norwegian labor legislation and additional measures taken by the Norwegian Government to cover these costs.

However, for entities for which the temporary lay-off rules do not apply and which have been instructed to shut down by the Norwegian Government, salary costs and social security contribution may be regarded as fixed costs under the compensation scheme.

With respect to how much may be covered, the proposal sets out two coverage ratios depending on two different categories. For entities that have been instructed to close down by authorities, compensation of up to 90% of fixed costs is available. For entities not instructed to close down, 80% of fixed expenses may be compensated. For the last category of entities, there is an additional deduction of NOK10,000 from the total fixed costs before the amount is multiplied by the decrease in revenues, and the 80% coverage ratio.

Hence the compensation is calculated as follows for entities not instructed to close down having NOK150,000 in fixed costs and a decrease in revenues of 75%:

$$75\% \times 80\% \times \text{NOK}140,000 \text{ (NOK}100,000 \text{ less NOK}10,000) \\ = \text{NOK}84,000 \text{ in compensation}$$

The maximum coverage is NOK30 million per entity per month. For group companies, it is possible that the maximum coverage may be set higher. More details are expected concerning the scheme and its applicability to a group of companies to be included in a separate regulation. The minimum coverage amount is NOK5,000. Any amount below this will not be covered.

The proposal does not mention whether other measures, either initiated by the Norwegian Government or foreign authorities, will reduce the right to compensation. However, it is likely that such limitation will be included in the regulation to be set up by the Ministry of Finance. Based on this, entities should carry out an assessment of which scheme is the most favorable to the entity prior to submitting an application.

Any compensation granted will for tax purposes be considered as taxable income.

Application and application procedure

Each entity will need to apply separately. The application is to be submitted through a digital portal to be created by the Norwegian tax authorities. The digital portal should be open as of 17 April 2020. An attestation from a certified auditor or accountant is required. It is not yet clear what detail of attestation is needed.

The amount claimed in the submission of the form is to be verified in the digital portal comparing other available financial data that the entity has submitted in previous accounting periods. The tax authorities will perform routine checks to ensure that the scheme is not abused. Based on this, the applicant must ensure that the form is correctly submitted and that the basis for the claim under the scheme is correct. Any granted compensation which is found based on wrong data or faulty in any way will be claimed refunded. In the case that an entity is found to provide incorrect or incomplete information by intention or gross negligence, penalties up to 30%-60% of the received compensation may be imposed.

Next steps

Businesses should assess whether they qualify for the compensation scheme, and also determine if there is sufficient documentation available to support an application. EY Norway has the experience to prepare the basis for the application, in addition to the review and calculation of numerical material.

EY Norway is also able to assist with the necessary auditor attestation.

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