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Global Tax Alert

Norway's Government proposes temporary tax stimulus measures for oil and gas companies

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Executive summary

On 10 June 2020, the Finance Committee of the Norwegian Parliament issued a recommendation for temporary tax stimulus measures for oil and gas companies. The proposed law changes are expected to be enacted on 12 June 2020. The main features are:

- Oil and gas companies can depreciate 100% of investments against the special tax basis (56%) in the year of investment in 2020 and 2021
- The uplift is increased from 20.8% (5.2% per year over four years) to 24% in the year of investment
- Companies generating tax losses may receive a cash refund of tax value through the income years 2020 and 2021
- The temporary measures will apply for investments made in 2020 and 2021 and also for investments for projects where a development plan is submitted by the end of 2022 and sanctioned by the end of 2023, until production start-up

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Detailed discussion

Introduction

The Norwegian Government's proposal for the Norwegian upstream sector was issued on 12 May 2020 along with the revised national budget.[1] The Government does not have a majority of the seats in Parliament and has since negotiated with the opposition to reach an agreement.

Special tax and ordinary tax

Oil and gas companies operating within the Norwegian jurisdiction are subject to the general corporate tax of 22% and a special tax of 56% in a ring-fenced petroleum tax system. An additional uplift, currently of 20.8% (5.2% over four years) on investments is deductible against the special tax base.

100% depreciation against the special tax basis

Companies can depreciate 100% of all investments against the special tax basis (56%) in the year of investment in 2020 and 2021, as well as investments in projects (PUD/PAD) delivered by the end of 2022 and sanctioned by the end of 2023, up to the start of production as detailed in the PDO.[2] A proposal from the industry and supported by the major opposition parties to also allow 100% depreciation of investments in the ordinary tax basis (22%) was rejected by the Government as part of the agreement.

Interest deductions

The formula for interest deductions will be based on tax written down values in the special tax base. As there will be a 100% write down in the special tax basis, this essentially means that the companies can only claim a 22% interest cost deduction for financing of investments that fall under this temporary regime (and not partly 78%, as under the current/ordinary regime).

Increased uplift

The uplift provides an additional deduction in the special tax base of 20.8%. The Government had proposed uplift in the investment year of 10%. This would have had an immediate cash effect but would have represented a decrease in the total uplift.

The agreed measure is a 24% uplift in year one for the same period and projects as described above, i.e., a significantly more favorable tax deduction than the Government's proposal.

Negative tax installments

Under the temporary stimulus measures, companies expecting a tax loss may receive cash payments of the tax value of their losses for 2020 and 2021. The proposal was for such cash payment to be claimed in the annual tax return, i.e., a refund in November in the year after the income year. Instead, companies may claim cash refunds in connection with the six tax installments, the first term being 1 August 2020.

Endnote

1. See EY Global Tax Alert, *Norway proposes Revised Fiscal Budget 2020*, dated 14 May 2020.
2. PDO: Plan for Development and Operation of petroleum deposits.

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