



COVID-19: Government Support Package Norway

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COVID-19: EMEIA EY Government Support Package



In a series of announcements, the Norwegian government has set out three crisis packages (latest 31 March) to support public services, people and businesses through the disruption caused by the COVID-19 outbreak. The measures focus on supporting employment, providing cash flow support to businesses, increased welfare support and government spending on various measures and projects. These measures have become increasingly substantial as Norway has closed school and businesses within a variety of sectors (hospitality, leisure, bars, culture, etc.)

Outside the imposition of civil restrictions, the measures can be grouped into six main areas which are being delivered via four distinct channels.

Areas being addressed:

1. Providing liquidity through financing schemes
2. Enabling temporary lay-offs to be financed by the government
3. Support for businesses through reduced or delayed taxes and VAT
4. Cash-flow support to closed businesses
5. Government spending on various projects
6. Increased innovation and research grants

These aims are primarily being delivered through:

- ▶ The banking system in terms of both financing schemes that have been announced;
- ▶ The governmental bond fund;
- ▶ The central tax system for reduced or delayed taxes and VAT;
- ▶ The benefit system though paid income for temporary lay-offs and statutory sick pay; and
- ▶ Increased innovation and grant schemes

Norwegian Government announced responses

Liquidity and financing

Coronavirus state guaranteed SME loans

Helps smaller businesses affected by coronavirus to access bank lending guaranteed by the state up to 90% of the loan. Maximum loan amount is NOK 50 million with maximum maturity period of 3 years.

A state guaranteed loan regime for bigger companies has also been proposed, but is under consideration by ESA (EFTA Surveillance Authority) to assess its compatibility with the EU's State Aid rules.

COVID-19 governmental investment fund

The new COVID-19 state fund will invest in bonds issued by larger Norwegian companies to be listed on the Oslo Stock Exchange. Loans must be issued on market terms and with a credit rating above CCC+ (or equivalent).

Cash flow measures

Cash support

Companies directly affected by COVID-19 measures, i.e. certain businesses that have been closed by the government (e.g. hairdressers), shall be eligible to cash support under certain requirements with a limit of NOK 20 billion. All requirements have not yet been disclosed, but the focus will be on distributing cash quickly and establishing easy application procedures to ensure a non-bureaucratic process.

Tax and VAT

- Corporate income tax law is being amended to allow companies to carry back 2020 losses to offset profit from 2018 and/or 2019.
- Deadlines corporate income tax, employer social security contributions and VAT payments have been postponed.
- Temporarily reduce the lower rate of VAT from 12 % to 6 %.
- Suspend the tax on air passengers for flights until 31 October 2020 and suspend payments of aviation charges until 31 June 2020.

Other support measures and grants

Start-ups, education and innovation support

- ▶ Reduced interest rates and interest support on innovation loans.
- ▶ Increased grants for new innovation and science projects.
- ▶ Incubator support (NOK 50 million).
- ▶ NOK 1 billion in increased seed investments by the public seed investment fund.

Other measures to note

- ▶ Increase environmental technology fund investments.
- ▶ NOK 200 million to "green shipping".
- ▶ Immediate start of new maintenance projects within rail, road and safeguarding.
- ▶ NOK 1 billion to support students, in addition to increased loans.

Employment support

Temporary lay-offs

Employers may temporarily lay off employees if there are reasonable grounds. If an employee is temporarily laid off, they should typically be eligible for unemployment benefits. Additional measures have also been implemented, such as reducing the period in which employees need to be paid 100% of their salary to 2 days from 2 weeks.

Welfare

- Increasing the percentage of income coverage under 3 G (1 G = NOK 99,858) for unemployment benefits. Reducing the unemployment benefits eligibility threshold.
- Reducing the period in which employers must pay staff for sick leave to 3 days.
- Doubling the number of paid days for childcare that employees are entitled to.

Liquidity and finance: Governmental loan and guarantee package for SMEs

To secure the liquidity of Norwegian SMEs (Small Medium Enterprises), under new legislation that came into force on 27 March 2020, financial institutions are now able to grant loans to SMEs with the government guaranteeing up to 90 % of the loans. This arrangement is limited to NOK 50 billion.

Who is eligible?

Eligibility criteria includes:

- Norwegian registered SMEs. This means businesses with a right and duty to register in the Norwegian Register of Business Enterprises, and at a consolidated level i) have fewer than 250 employees, and ii) have a turnover per year not exceeding EUR 50 million or iii) have a balance not exceeding a total of EUR 43 million
- Businesses that under “normal” circumstances would be profitable.
- Businesses experiencing sudden liquidity challenges mainly due to COVID-19.
- Businesses that were experiencing financial difficulties as at 31 December 2019 (notwithstanding their financial year end) are not eligible.

Note that a similar package is being prepared for larger entities but is subject to approval by ESA under EU State Aid rules.

What does it cover?

- The Government will support lending to SMEs through financial institutions by guaranteeing up to 90% of newly provided loans. This is limited to NOK 50 billion.
- A new loan under the scheme cannot exceed NOK 50 million and two times the SME’s labor costs for 2019. The loan shall as far as possible be given on the same conditions as under normal circumstances, and must not have a term exceeding 3 years. The loan amount may in particular cases be higher than NOK 50 million, depending on documented liquidity needs of the company for the next 18 months.
- An annual guarantee commission shall be charged by the Government to the lending financial institution at a rate of between 0.25% - 0.5% of the guaranteed amount.
- Currently this scheme is only expected to apply to new loans agreed prior to 1 June 2020, however this may be extended.
- Loans obtained under this scheme can not be used to refinance existing loans.

Practicalities

- Companies will need to demonstrate that if it was not for the COVID-19 related disruption, a lender would extend a loan to them.
- Companies will need to consider which and how many lenders to approach and how to give themselves the best chance of success - the total debt burden must not be an obstacle for future success.

How is it assessed?

- Companies can apply for loans under this package directly with one of the 150+ accredited financial institutions.

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Liquidity and finance; (re)establishment of the Norwegian governmental bond fund

The Norwegian government has decided to (re)establish the Norwegian governmental bond fund to provide liquidity to the corporate bond market. The fund's investment limit is NOK 50 billion.

The legislation related to this package came into force on 27 March 2020, and the fund's mandate was published on this day too.

How is the fund being administered?

- The majority of investments by the fund in the corporate bond market will be to non-financial businesses. Investments in banking and financial institutions cannot exceed 50% of the fund's investment capital.
- Investments shall be made in bonds listed on the Oslo Stock Exchange and should be on market terms and made with other third party investors.
- Up to 50 % of the fund can be invested in bonds issued by companies with an investment grade equivalent of a S&P's credit rating of BB+ or lower. No investments will be in bonds with a rating of CCC+ or lower (or equivalent).
- In the primary market, the fund shall invest alongside other investors.
- Once certain investment volume thresholds are met the fund must be able to demonstrate that investments have been made in line with market prices.

Which instruments is the fund eligible to invest in?

- The Fund can invest in interest-bearing instruments and cash deposits but these are limited to;
 - Negotiable bonds and other negotiable debt instruments issued by Norwegian companies;
 - Cash deposit; and
 - Financial derivatives and currency instruments that are similar to bonds.

Additional information

- The National Insurance Fund is yet to determine valuation principles, a performance measurement and control and risk management framework that would comply with internationally recognized standards and methods.
- The fund shall report publicly on its administration and performance of the fund.
- The fund shall report on an annual and 6 month basis.

Amendments to the Norwegian Securities Trading Act

- The government has proposed amendments to the Securities Trading Act relating to mandatory bids that must be made to minority shareholders in a takeover context. Currently bidders must pay sellers the highest price paid for any shares purchased in the last six months.
- Given the fall in market prices, the aim of the amendment is to ensure that all shareholders are given the same opportunity to sell on equal terms and that bidders pay a price that reflects current market value.
- The suggestion is under consideration by the Norwegian Parliament.

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Compensation scheme (cash support) for companies with significant decrease of revenue

A cash compensation scheme was approved on 31 March 2020 to provide cash to businesses that have experienced a significant decline in revenue due to COVID-19.

The main goal of the package is to partially cover businesses' current operating expenditure.

The details of the compensation package will be presented on Friday 3 April 2020.

Who is eligible?

Eligibility criteria (and other details) will be published on 3 April 2020, but the criteria is expected to include:

- Viable businesses that have experienced a significant decrease in revenue due to COVID-19 pandemic or the related restrictions imposed by the Norwegian Government.
- The scheme will focus on establishing easy application procedures, broad eligibility and swift pay-outs.
- The scheme will likely not be applicable to business which was already filing or in the process of filing for deregistration, closure or bankruptcy/liquidation prior to the implementation of the cash support scheme.
- Businesses operating in finance, fishery, oil, shipping, energy, water supply and public companies will likely not be eligible for cash compensation under the scheme.

What does it cover?

Based on the guiding principles, the scheme will:

- Have a budget of 20 billion NOK per month until the end of May 2020.
- Aim to cover part of the distressed businesses' 'unavoidable' expenses and fixed costs, such as rent, interest on loans, long-term loans, rental of equipment, insurance and accounting costs.
- As a general rule, the aid granted is likely to be limited to cover expenses for April and May only, with a possible extension depending on the Covid-19 developments.

How is it accessed?

- The Norwegian Government will set up a digital portal to handle applications in as easy and efficient way as possible, with a focus on swift cash distributions to a broad number of companies.

What are the practical considerations?

- The scheme was approved by the Norwegian Parliament on 31 March 2020 and a digital application portal will be set up as soon as possible. We anticipate that companies may be able to apply through the scheme within a few weeks. Therefore, companies should start making the necessary preparations to apply when the portal is made available.
- Further details will be released on 3 April 2020.

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Stimulus package for small businesses, start-ups and entrepreneurs

The Norwegian Government announced on 27 March 2020 a new NOK 3.57 Billion stimulus package focusing on small businesses involved in R&D projects.

The package will increase Innovation Norway's already large budget. The funds will be allocated to several key aid schemes, including interest support schemes, innovation and establishment grants, loss provision support and other grant schemes.

The package is subject to parliamentary approval.

Who is eligible?

The increased funding will mainly be allocated to pre-existing schemes managed by Innovation Norway, including the following:

- Interest subsidy scheme: Companies that have borrowed under existing schemes and incurring interest expenses may be able to obtain interest subsidies. This subsidy can also be given to companies who are financing early stage R&D projects.
- Innovation loans: This is mainly aimed at SMEs, but the scheme may also apply to large companies.
- Innovation grants: Aimed at promoting and stimulating small businesses involved in manufacturing and services, intellectual capital and R&D.
- Establishment grants: This is for entrepreneurs and start-ups with innovative business ideas and growth potential, but who have limited access to equity.
- A new temporary support grant of NOK 50 million for incubators and entrepreneurial programs to ensure that incubators can continue to provide services and guidance to start-ups and growth companies.

What is available?

- Grants to entrepreneurs and growth companies of NOK 2.5 billion, as well as grants of NOK 50 million to private start-up / incubators (who offer loans to start-ups) in order to maintain offers for start-ups.
- Increased loan limit on innovation loans to NOK 3 billion. At the same time, an additional NOK 250 million is allocated to R&D activities in the business sector.
- The public investment company has been granted an increased investment capital NOK 1 billion to improve access to seed funding.

How is it accessed?

- The budget increase is primarily directed at schemes already managed by Innovation Norway, the Research Council of Norway and the public investment vehicle, Investinor.
- For more information:
- <https://www.innovasjon Norge.no/no/>
- <https://www.forskningsradet.no/>
- <https://www.investinor.no/>

What are the practical considerations?

- Since several of the support schemes are already in place, and the new measures merely increase their budgets, it is expected that companies can benefit from the increased funding relatively quickly.
- These changes require the Norwegian Parliament to approve the budget increase. Parliament may introduce changes or make alterations to the grant package.

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Norwegian companies can now offset 2020 tax losses against taxable profits generated in 2018 and/or 2019.

What is the future cashflow support?

Losses incurred in 2020 may now be carried back and offset against profits recorded in 2018 and 2019. The losses available to be carried back are limited to NOK 30m. This will be applied automatically. As companies are liable to pay tax for the 2020 tax year in 2021, the cashflow effect will first be recognized in 2021. However, the Government assumes that the adjustment will improve the companies' access to short-term loans in the transitional period.

This rule applies for all taxable entities in Norway for the year 2020, 2019 and/or 2018.

Technically, the carryback is calculated as a tax deduction of 22% of the tax losses incurred in 2020, limited to the taxable income for 2019 and/or 2018. For companies under the current financial tax regime, the rate is 25%.

What are the practical considerations?

- To optimize the effect, companies should take this into consideration when determining their group contributions for the 2019 tax year. Group contributions are a mechanism available in Norway to consolidate taxable income in a tax group. A company holding more than 90% of the shares in a subsidiary may form a group for tax purposes.
- As the deduction is granted automatically, companies that do not wish to apply the deduction must specifically claim this in their tax return for 2020 which is due on 31 May 2021. This may be the case if the company has not endured financial distress due to the crisis, and that they would rather carry the losses forward. Under Norwegian tax legislation, losses can be carried forward indefinitely.

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Norwegian companies can now postpone payments of tax obligations.

What payments can be deferred?

The Norwegian government has extended the deadline for the following tax payments:

- **Second instalment payment for 2019 corporate income tax:** Deadline extended from 15 April 2020 to 1 September 2020. However, electric power enterprises will not be able to postpone advance tax payments on ordinary income.
- **First VAT instalment for 2020:** Deadline extended from 14 April 2020 to 10 June 2020.
- **Employers' social security contributions due 15 May:** Deadline postponed from 15 May to 15 August 2020.

What are the practical considerations?

- Corporate Income tax filings for 2019 are due at 31 May 2020 as normal.
- VAT filings will be due as normal.
- No interest shall accrue due to the extension of payments.
- No application needs to be made for the deferral of VAT due before 30 June 2020.
- In the event that prepayments of tax have already been made, the company can contact their local tax authority to claim the prepayment of tax back.

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Suspension of aviation charges, a temporary reduction of the 12 % VAT rate to 6 % and a reduction in employer's social security contributions.

VAT reductions

- The tax on air passengers for flights in the period 1 January until 31 October 2020 has been suspended.
- Aviation charges have also been suspended until 31 June 2020.
- Temporary reduction of the VAT low rate from 12 % VAT rate (applicable on passenger transport, cultural events etc.) to 6 % from 1 April 2020 to 31 October 2020.

Reduction of other taxes

- Employer's social security contribution is proposed to be reduced by 4% for two months. The employer social security rate varies dependent on where the company is established in Norway.
- In the proposal it is stated that the temporary reduction shall apply for the third quarter to May/June on 15 July.

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Employment: temporary lay-offs

Businesses that need to temporarily reduce their workforce due to the COVID-19 pandemic may temporarily lay-off their employees instead of having to terminate their employment.

Laying off employees is a temporary measure under which the employee's obligation to work and the employer's obligation to pay their salary is suspended. However, the employer is obliged to pay salaries for 20 days following a temporary lay-off. This has now been reduced to 2 days. Following this the state takes over the duty to pay the employees salary. During temporary lay-offs the employment relationship continues to exist, and it is assumed that the work stoppage is temporary.

What's measures are implemented due to COVID-19?

Norway has rules that allow all companies to temporarily lay off employees due to temporary reasons, e.g. loss of income. In connection with these rules, the following measures have been implemented:

- The employees may be temporarily laid off with 2 days notice if the lay-offs are due to unforeseen events.
- Previously, when the lay-off period commenced, employers had to pay 100% of the employees salary for the first 20 days of the lay-off period. This has now been reduced to 2 days. Following this period, the State takes over the duty to pay the employees salary (limited to 6 G = ca. NOK 600,000). The income is taxed in line with normal rules.
- Laid off employees are guaranteed salary compensation (unemployment benefit) by the State equal to 80% of their income up to 3 G (1 G = NOK 99,858). For income between 3 G up to 6 G, laid-off employees receive 62.4% of their salary. Income above 6 G is not compensated.
- The threshold to be eligible for salary compensation when laid-off is being reduced from 1.5 G to 0.75 G, and it is sufficient for the employees working hours to be reduced by 40% (formerly 50 %).

- Under this package, self-employed workers and freelancers receive compensation for loss of income from day 17 after the loss of income started. The temporary securement of income is to be equal to 80% of their average income in the last three years and is limited to a maximum of 6 G.
- The National Insurance System ("NAV") may now grant unemployment benefit, without employees having to wait for the unemployment benefit application to be processed.

How long may a temporary lay-off period last?

- A maximum of 26 weeks
- After the lay-off period has expired, the employment returns to normal and the employer must pay the employee's salary.
- This period has been extended to June for people who are nearly exhausting the maximum period for unemployment benefit.

What are the requirements?

- This scheme applies to all business and it does not restrict an employers ability to subsequently reduce the size of their workforce.
- Temporary lay-offs require reasonable grounds related to the business and not the employee.
- The employer must act reasonably in evaluating who should be laid off, i.e. principles of selection of who is to receive the lay-off must be adhered to and documentation maintained.
- In addition, the employer must follow a prescribed line of action / procedure, which includes notifying NAV and fulfilling its obligations with respect to providing information and consulting with the employees' elected representatives / employees and work-councils (arbeidsmiljøutvalg).
- Following notifying the NAV and consulting the employee's selected representatives/employees, the employer is normally required to give the employees a 2 week notice period prior to the temporary lay-offs being effective. The effects of the COVID-19 may be considered an unforeseen event and may justify a 2 day notice period.

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Sick leave pay

The employer period for paying salary related to sick-leave due to COVID-19 is reduced from 16 days to 3 days. The current 100 % coverage of sick leave pay up to 6 G (approx. NOK 600,000) is not adjusted by the Parliament.

Self-employed workers and free-lancers are entitled to sick leave pay from the NAV/National Insurance System from day 4 of the period of sickness.

Paid days for childcare

The paid days for taking care of small children (12 years and younger) is doubled from 10 days to 20 days. The employers are to pay 3 days of the care leave while the State pays the rest (limited to 6 G).

This is a direct response to the fact that schools and kindergartens are closed. Self-employed workers and free-lancers are to receive paid care leave from the State from day 3.

The right to receive unemployment benefit during public holidays

Normally NAV does not pay unemployment benefit during public holidays. The legislation is meant to prevent employers from temporarily laying off their employees right before the holidays to lower salary costs. Employers may however apply for an exemption.

This has now been amended and NAV will pay employment benefit even if the benefit day is a public holiday.

Exemptions from the working hours rules

The Ministry of Labour and Social Affairs is considering to introduce regulations to make exemptions from the working hours rules, to allow for more flexibility in handling the outbreak of the Corona virus.

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Our tracker provides a snapshot of the policy changes that have been announced in jurisdictions around the world in response to the COVID-19 crisis.

Policy changes across the globe are being proposed and implemented on a daily basis.

The document will be updated on an ongoing basis but not all entries will necessarily be up to date as the process moves forward.

Key jurisdictions covered by the Response Tracker include:

- ▶ Australia
- ▶ Austria
- ▶ Belgium
- ▶ Brazil
- ▶ Canada
- ▶ China
- ▶ Colombia
- ▶ Cyprus
- ▶ Czech Republic
- ▶ Denmark
- ▶ France
- ▶ Germany
- ▶ Greece
- ▶ Hong Kong
- ▶ Indonesia
- ▶ Italy
- ▶ Japan
- ▶ Luxembourg
- ▶ Malaysia
- ▶ New Zealand
- ▶ Norway
- ▶ Puerto Rico
- ▶ Singapore
- ▶ Slovak Republic
- ▶ Slovenia
- ▶ South Korea
- ▶ Spain
- ▶ Sweden
- ▶ Switzerland
- ▶ Taiwan
- ▶ Thailand
- ▶ Ukraine
- ▶ United Kingdom
- ▶ United States



To download the latest Response Tracker visit:

ey.com/en_us/tax/how-covid-19-is-causing-governments-to-adopt-economic-stimulus-

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