

Norwegian Government implements 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 to mitigate the impact of 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, [Norway takes additional measures in connection with COVID-19](#), dated 2 April 2020, and [Norwegian Government proposes compensation scheme for businesses experiencing severe loss of income due to the COVID-19](#), dated 6 April.

On 17 April 2020, the King-in-Council passed the law on the compensation scheme, the Government published regulations on the compensation scheme, and the digital portal for applying for compensation under the scheme was launched.

Following passage of the law on 17 April, the corresponding regulations were largely in line with the previous proposal and approval by the Norwegian Parliament. However, the details as to which costs the compensation scheme covers and applies to is clarified in the regulations as published by the Norwegian Government. This Tax Alert serves as an update to the 6 April EY Global Tax Alert on the topic.

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 COVID-19, with a few exceptions. For a group of companies the total compensation may be significantly impacted by how the group chooses to apply.

This Alert summarizes the provisions under the compensation scheme.

Detailed discussion

Eligible applicants

Enterprises that can document a significant decrease in revenue taxable to Norway 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. In order to find the reduction in turnover one has to find an "expected turnover" for March 2020 and compare to the actual turnover in March 2020. The expected turnover is found by adjusting the turnover in March 2019 for any increase (or decrease) in turnover from January and February 2019 to January and February 2020. If a business has no comparable turnover from the relevant month in 2019 due to a reorganization or having been established later than one year prior to the month the application relates to, it is 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.

Decrease in *revenue* refers to income from the sale of goods and services. If the applicant has received any governmental grants or similar payments as compensation or financial aid due to the COVID-19 outbreak to cover loss of revenue from sale of goods and services, this shall be included in what is considered as revenue under the compensation scheme. Income from return on capital, real estate or financial assets is not regarded as revenue in this context, except for rental income from real estate.

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, inevitable costs, such as: rent, electricity, water and sewage, insurance, lease of equipment and transportation vehicles, costs to accountants and auditors, electronic communication, and net interest costs.

With respect to interest costs paid to related parties, a special set of rules applies. Costs to be compensated must be documented (i.e., by loan agreements, rental agreements, etc.).

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

With respect to how much may be covered, there are 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 a self-cost of NOK 10,000 per entity.

Hence, the compensation is calculated as follows for entities not instructed to close down having NOK 150,000 in fixed costs and a decrease in revenues of 75%:

$$75\% \times 80\% \times \text{NOK}140,000 \text{ (150,000 less 10,000)} = \text{NOK } 84,000 \text{ in compensation.}$$

Compensation up to NOK30 million per month is paid in full. In the event that the calculated amount in accordance to the above-mentioned formula is higher than NOK30 million, the amount in excess will be limited by 50%. Maximum compensation per month is NOK80 million. Entities which reported losses for 2019 may have the compensation limited after a formula set out in the regulations published by the Government, unless the enterprise can document recorded profit before taxes in January and February 2020. Also, the compensation may not exceed the nominal decrease in turnover.

These thresholds of NOK30 million and NOK80 million apply per entity, but also to all entities within a group of companies. Any company owning more than 50% of the shares of another company forms a group of companies for the purpose of this compensation scheme.

The minimum coverage amount is NOK5,000. Any amount below this will not be covered.

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

Application and application procedure

Each entity will need to apply separately.

For companies within a group where multiple entities are to apply for compensation exceeding NOK30 million for each respective entity, the group shall send a unified application for all entities. Alternatively, the group may choose to apply as it was one enterprise. With respect to the latter, the application shall be based on consolidated figures. These two different approaches can significantly impact the compensation to be granted and should be carefully assessed before filing the application.

The application is to be submitted through a digital portal, namely: www.kompensasjonsordningen.no. Applications must be made in arrears. The final deadline to submit applications is 30 June 2020. An attestation on what is presented in the application from a certified auditor or accountant needs to be prepared. It is not required to follow the application but must in any case be presented together with the 2020 financial statements.

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 have provided incorrect or incomplete information by intention or gross negligence, penalties up to 30%-60% of the received compensation may be imposed. In severe cases, further criminal sanctions 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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