Resource Rent Taxation in Norway

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Resource rent – how does it arise?

- Pure (supernormal) profit is the profit a business is left with after all factors of production, including capital and labour, have received their market-based remuneration.

- Pure profit may arise for several reasons:
  - location-specific (scarce) natural resources
  - government-imposed regulations (licences)
  - market power or enterprise-specific knowledge and technology
  - combination of the above

→ give rise to *resource* and/or *regulation* rent

- Natural resources combined with regulation (licences) give rise to pure profit in the aquaculture industry, in the hydropower industry and in the oil and gas industry in Norway.

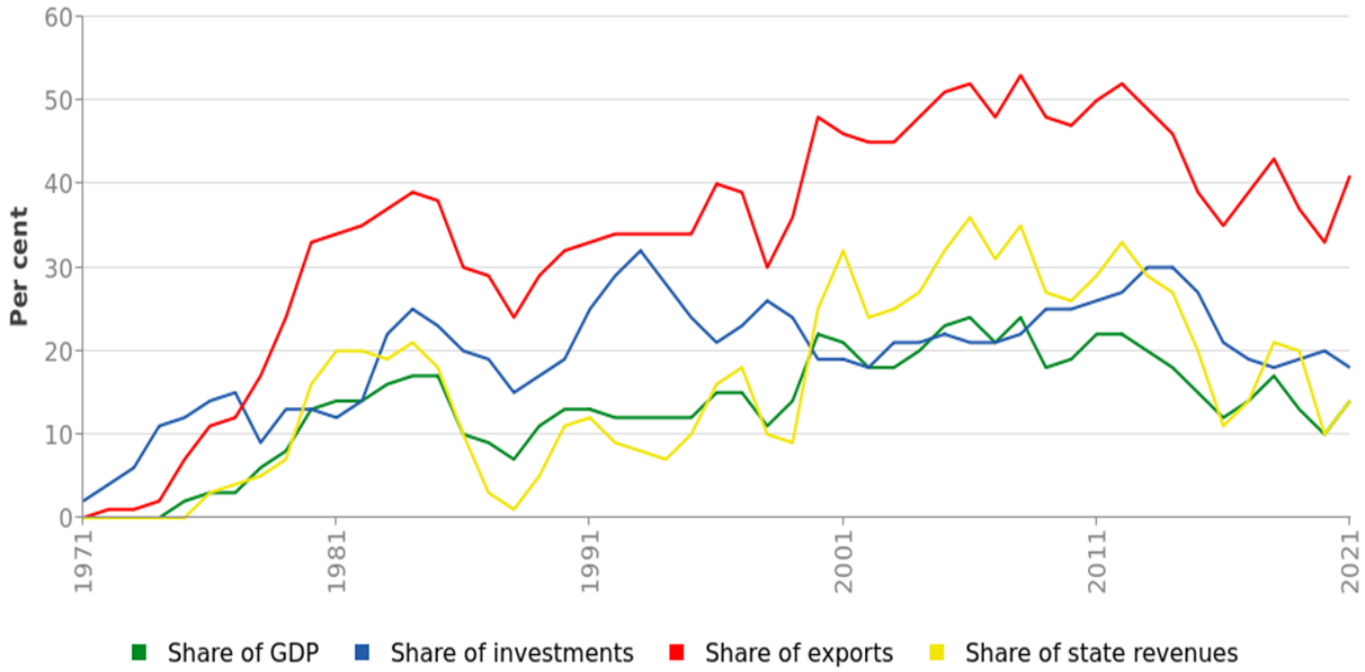
The brief history of the resource rent tax on petroleum in Norway

- Up until 1975 the petroleum industry was primarily subject to the general corporate tax system.

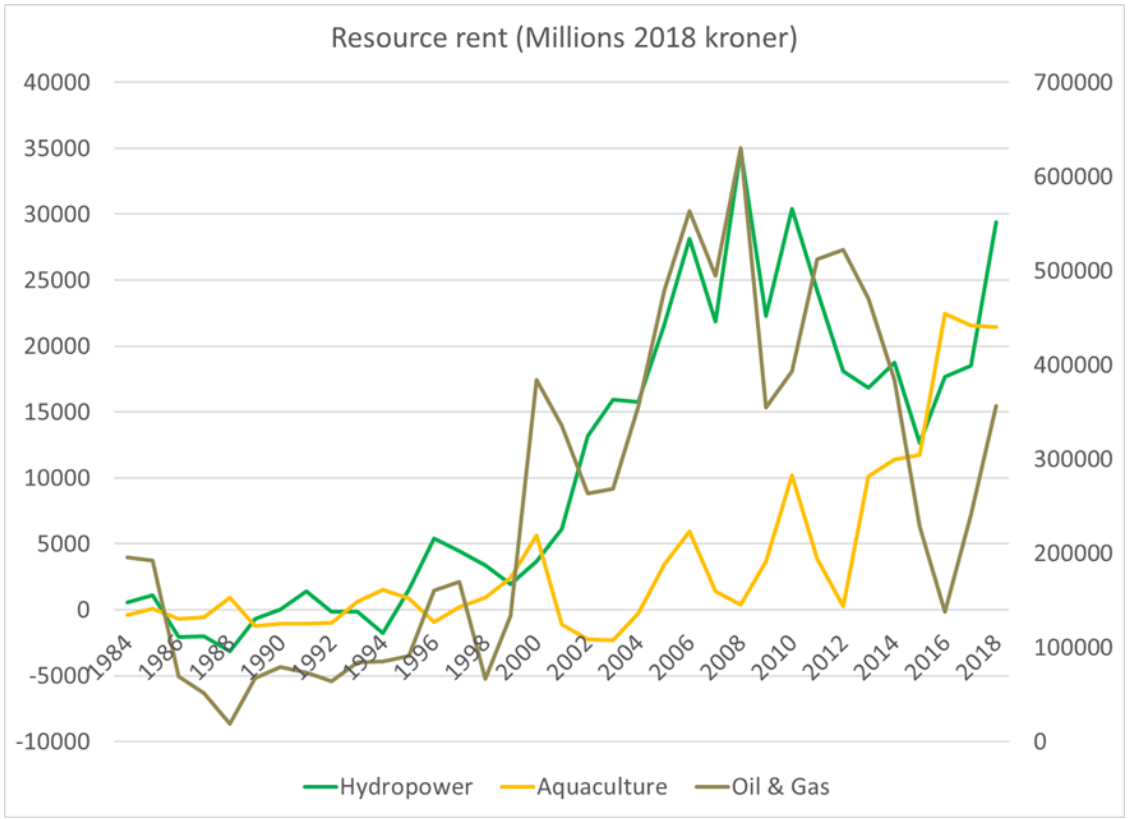
- In the wake of increasing petroleum prices, the government of PM Bratteli decided to introduce a resource rent tax on petroleum income based on the motivation that “a greater share of the petroleum income should accrue to the public”.

- The government argued that the tax was justified by the fact that the petroleum income arose from the use of natural resources that were the Norwegian state’s property.

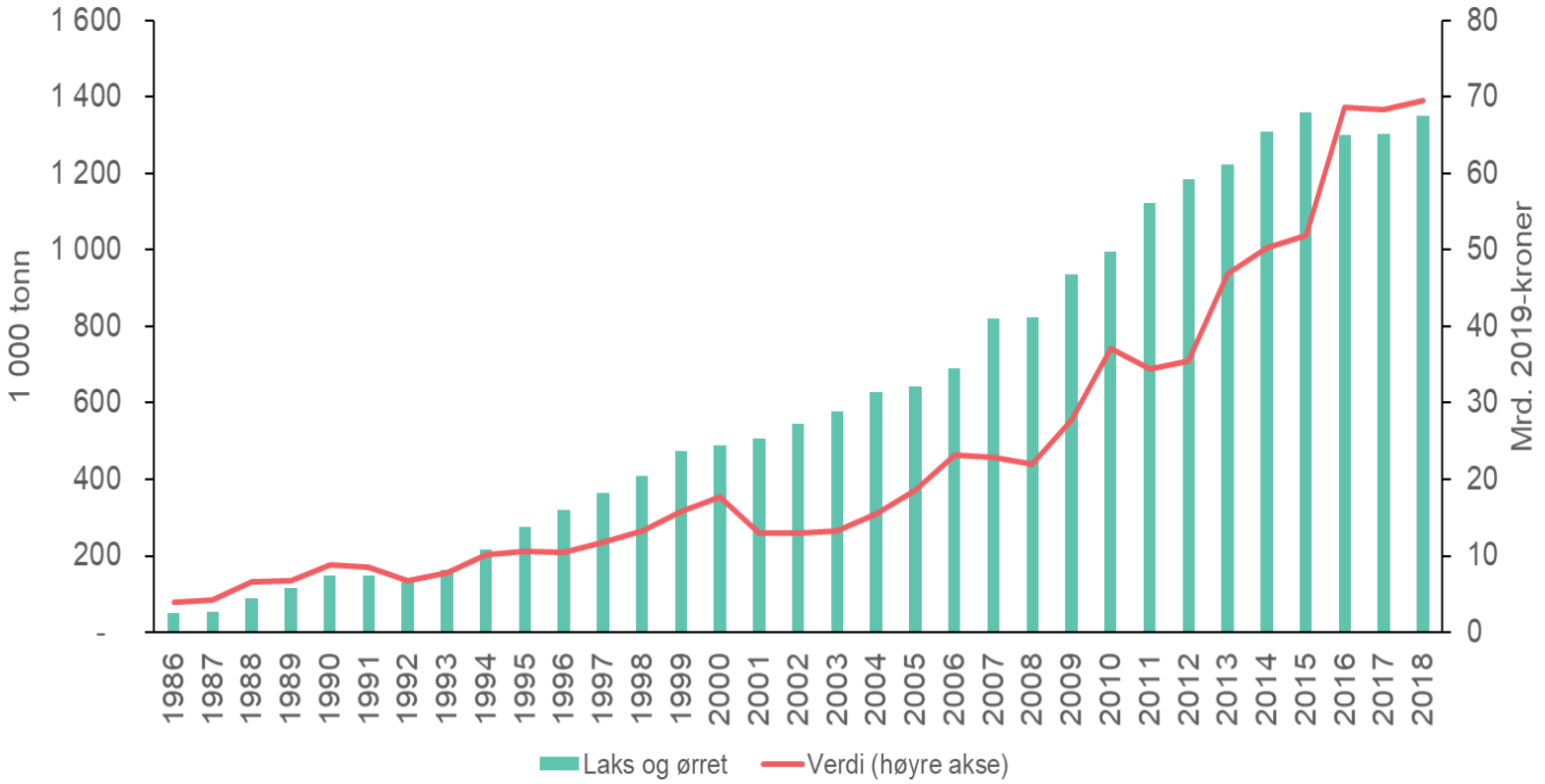
What it meant for the Norwegian economy:



Another Tale:
Resource rent in the Aquaculture industry – relying on Norwegian fjords and sea



From rural activity to global industry



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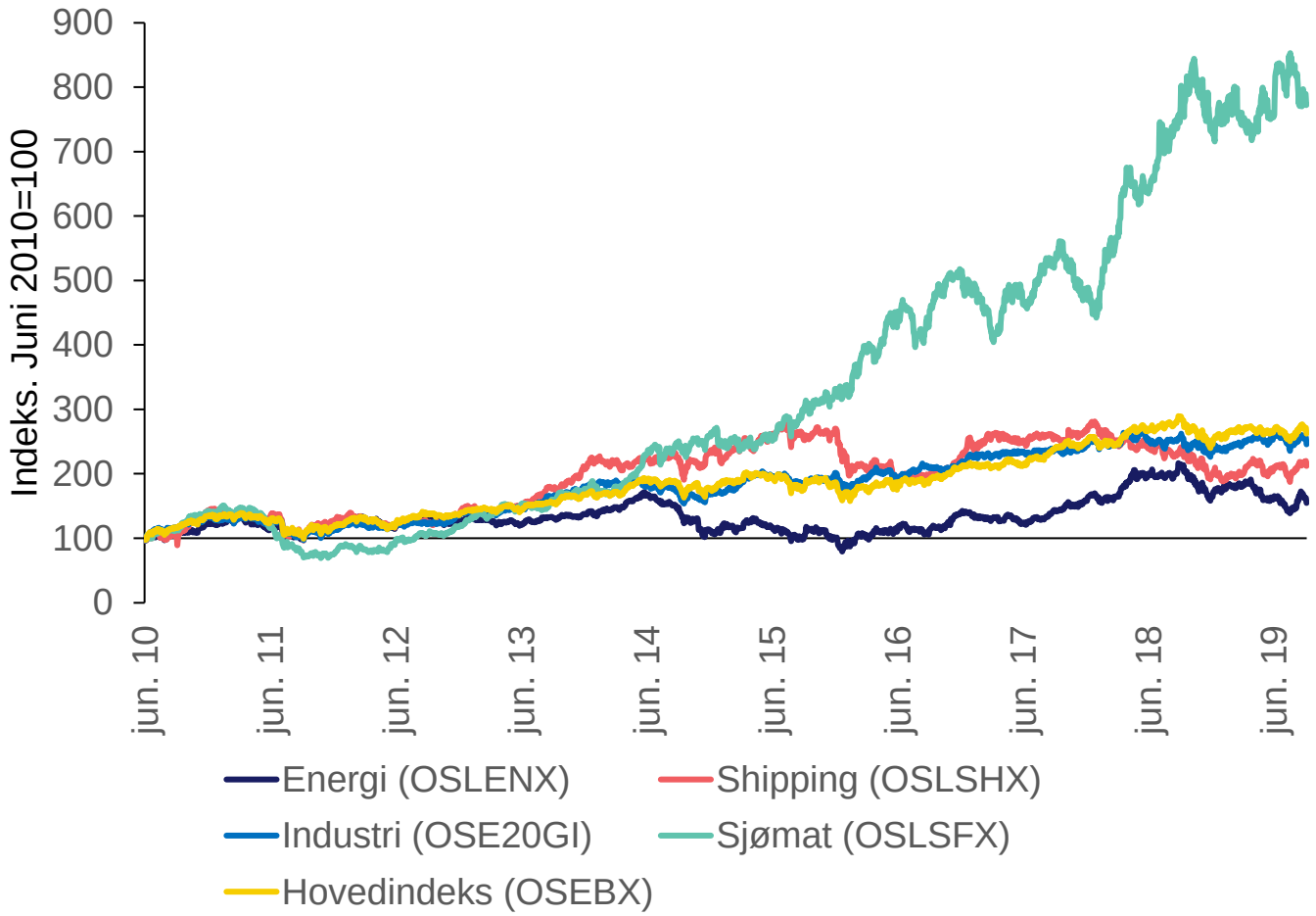


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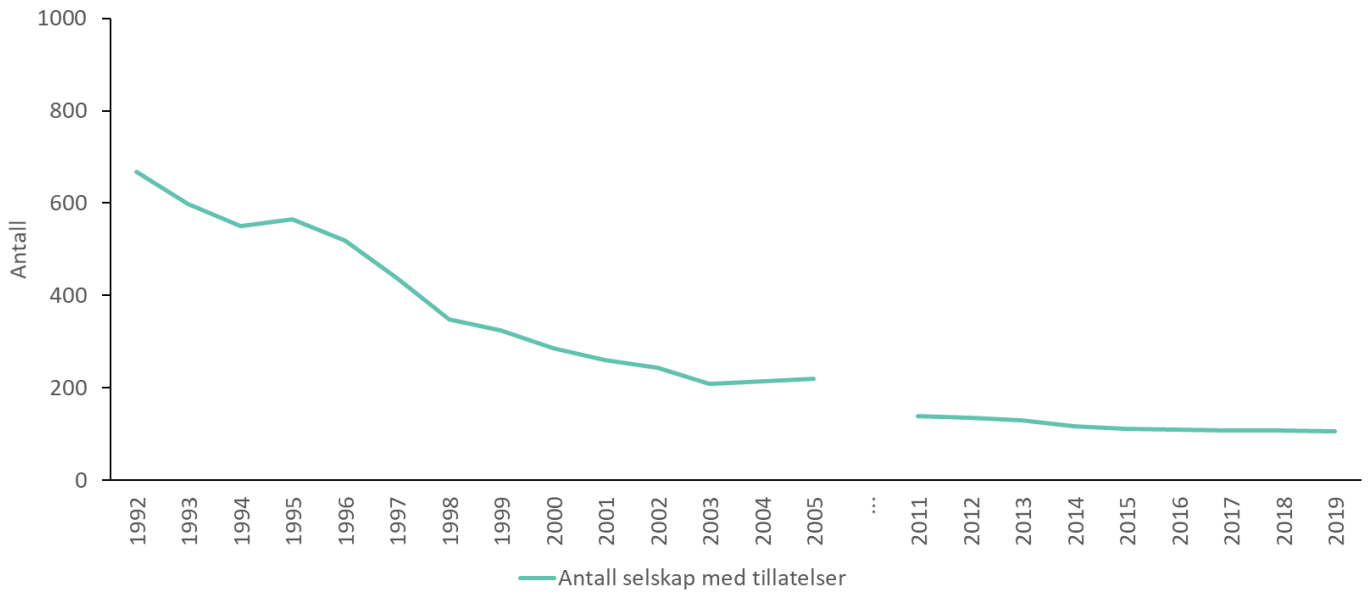
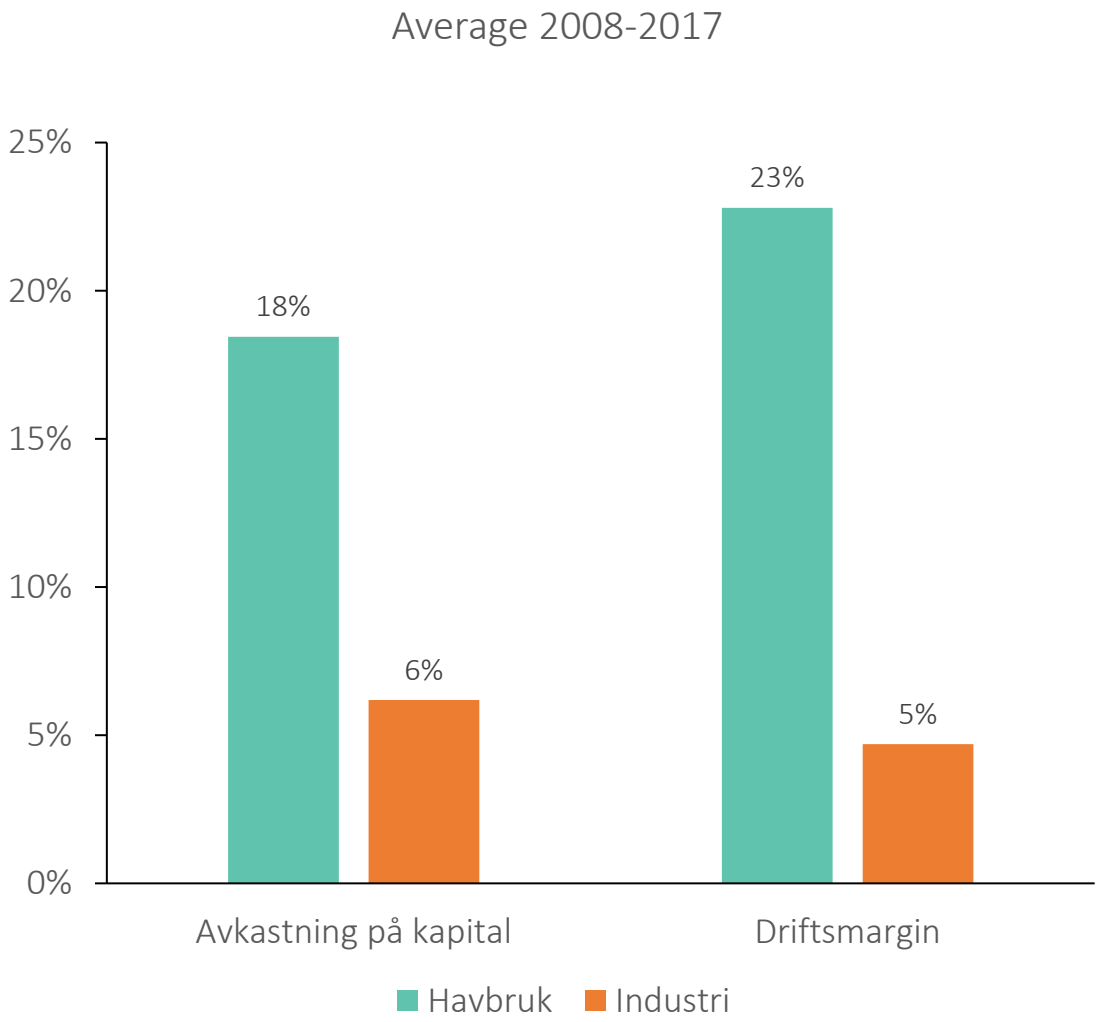
Foto: tu.no

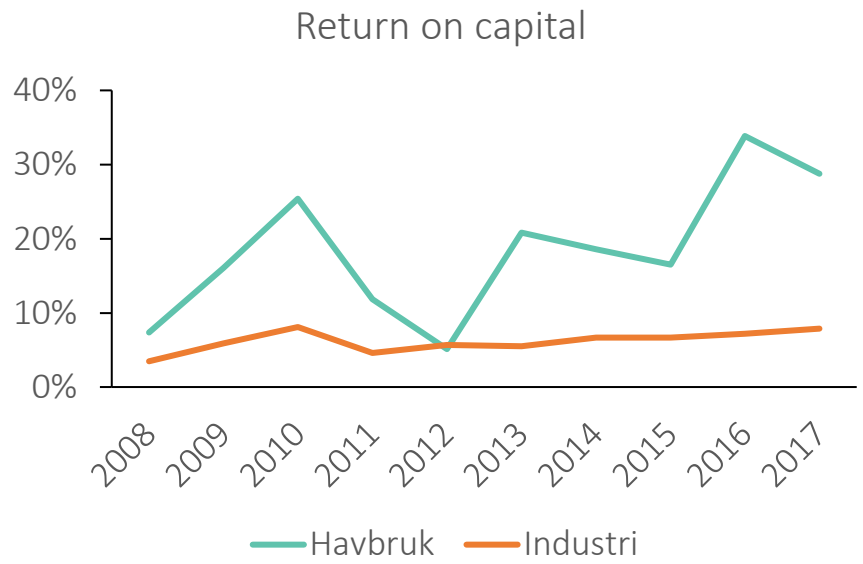

Foto: Havforskningsinstituttet

From many to few companies:

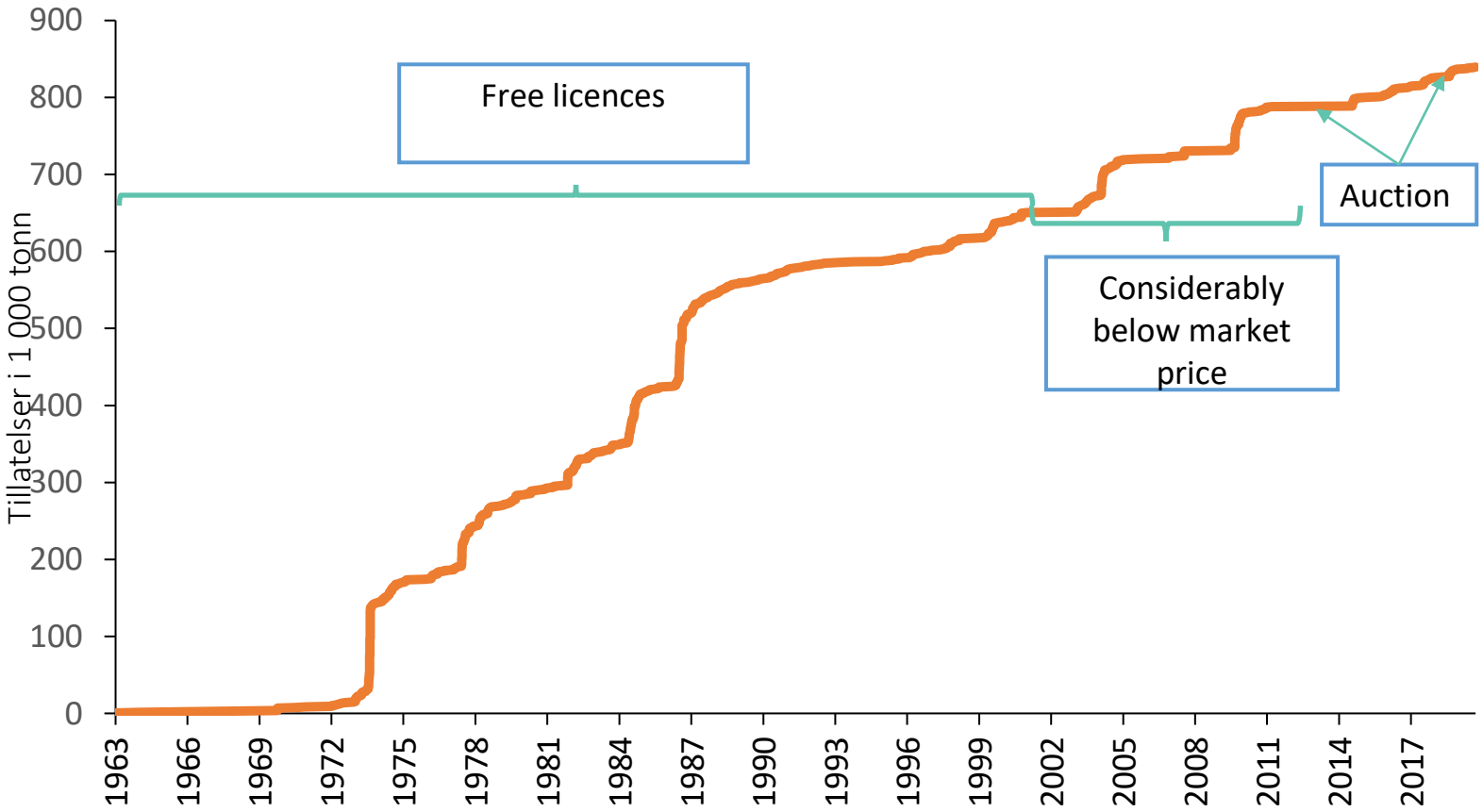


Extraordinary profitability in aquaculture





Time unlimited aquaculture licences have been awarded for free or far below market price:



97% of the licences awarded for free

The government has awarded unlimited licences with a total value of around 200 billion kroner

The aquaculture industry has paid around 7 billion kroner (2019) ~ 3 % of the estimated value

How to design a resource rent tax?

- **Gross production taxes**
  - Imposed on quantity or value of goods sold
  - Independent of profitability
  - Inferior impact on investment and employment
- **Profit based taxes**
  - Depend on profitability
  - Robust towards technological changes and changing market conditions
- **Auctions**
  - Efficient allocation mechanisms for the distribution of licences provided sufficient competition in the industry.
  - Capture a share of the net present value of expected future resource rent from new licences, but are not able to capture resource rent from licences which have already been awarded.

The majority of the aquaculture tax commission recommended a profit based resource rent tax

- A resource rent tax is justified as the natural resources belong to the state – the people
  - Todays auction system in Norway only extract the resource rent from future licences
  - 97 % of the time unlimited existing licences have not been paid for to the state or are awarded far below market price

- A profit based resource rent tax promotes a growth friendly tax system
  - Robust towards changes in technology and competition
  - Projects profitable before tax will also be profitable after tax (non-distortive)
  - Reduces the need for distortionary taxes
  - International tax competition makes resource rent taxes related to immobile natural resources in particular efficient

- Revenue split between the state and the municipalities
  - Stable and predictable income to the municipalities independent of growth in licences
  - Create incentives to allow for an increase in area allocated to aquaculture
  - The state carries the risk related to volatile tax income

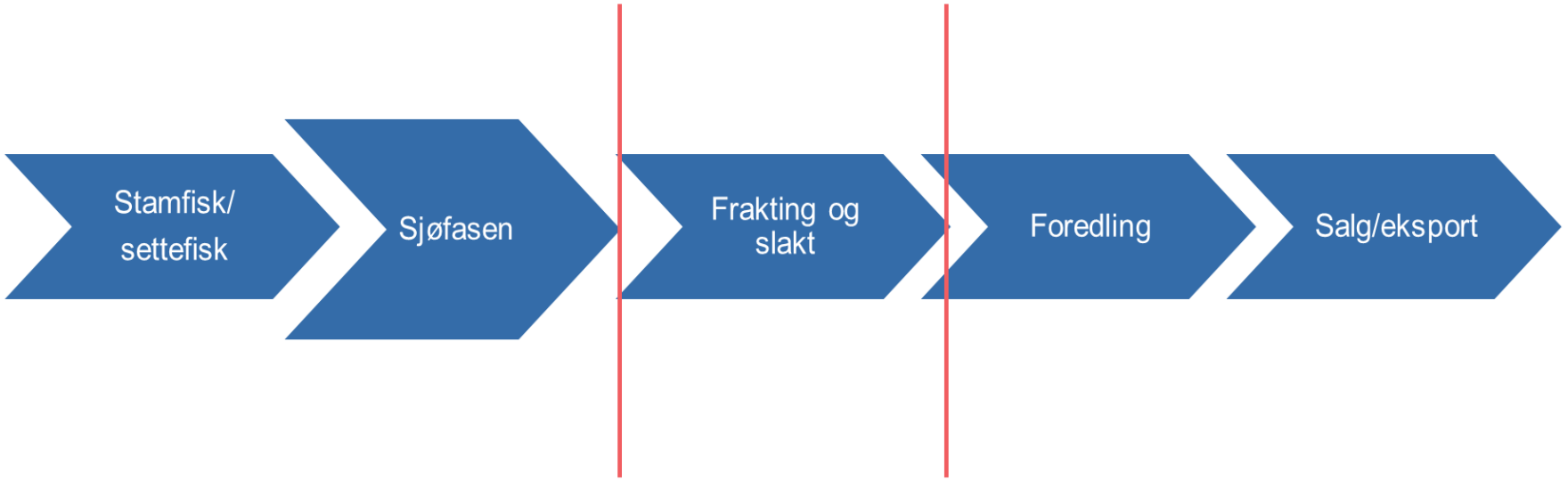
Recommended resource rent tax design

- Tax base is limited to commercial farming of salmon, trout and rainbow trout in the sea (including coastal waters and offshore)

- The resource rent should be calculated on a special tax base – resource rent income:
  - Income on salmon calculated using norm price rather than actual prices to ensure arm length pricing as many firms in the industry are vertically integrated
  - All actual costs are deductable
  - Investment costs are either deductable
    - Directly (cash flow tax model)
    - Through depreciation + allowance to ensure interest compensation if investments are not immediately deductible (accrual based tax model)
  - Intra-group consolidation of negative/positive resource rent income

- The government proposal (2022)
  - Cash flow model
  - Tax free allowance of 4000-5000 tonnes
  - Excise duty on production will be deductible

Resource rent tax design



Resource rent tax design

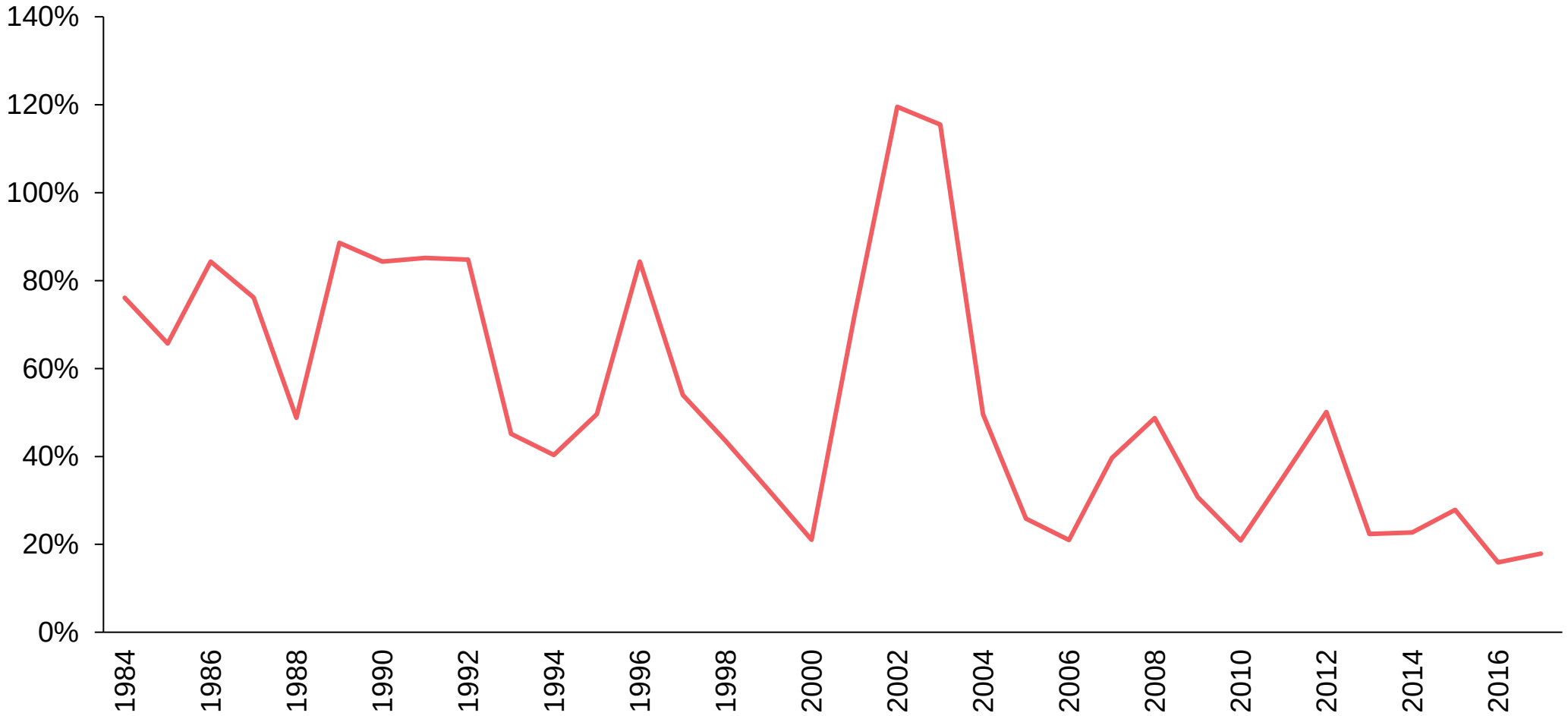
Produksjonsavgift	+	Naturressursskatt	+	Ekstrabevilgning
• Trekkes fra i utlignet grunnrenteskatt • Fordeles etter nøklene i Havbruksfondet • Inngår ikke i skatteutjevningen • Teknisk bevilges beløpet til Havbruks-fondet (som i dag)		• Trekkes fra i utlignet grunnrenteskatt • Fordeles etter nøklene i Havbruksfondet • Inngår i skatteutjevningen • Mottas gjennom inntektssystemet		• Beløpet settes slik at sum av produksjons-avgift, naturressursskatt og ekstrabevilgning minst utgjør en prosentandel av anslått grunnrenteskatt. • Fordeles til kommunesektoren etter nøklene i rammetilskuddet.

Extra

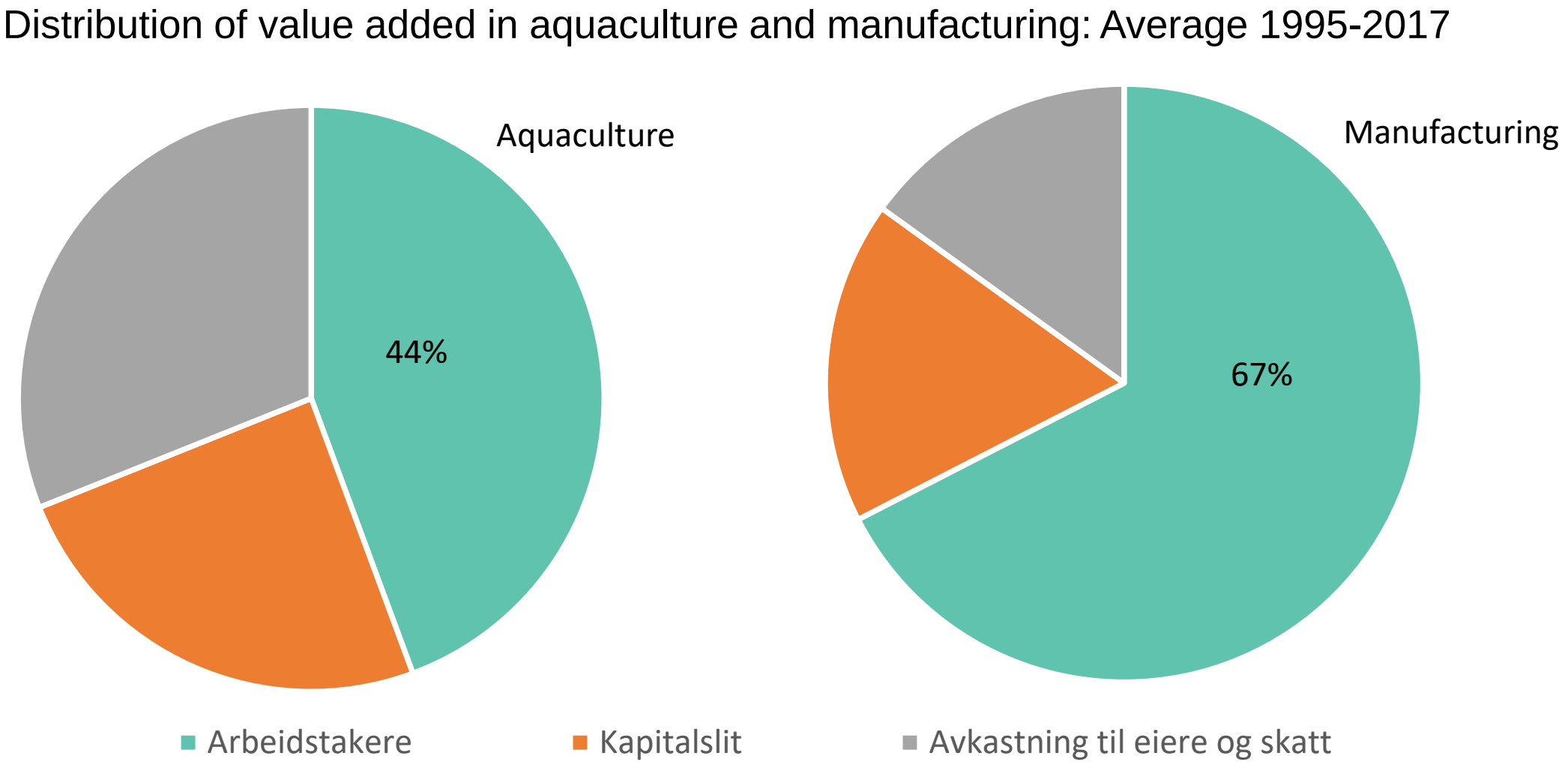
Calculating resource rent

- Produksjonsinntekt (basisverdi)
- – Kjøp av innsatsvarer og tjenester (produktinnsats)
- = Verdiskaping (bruttoprodukt i basisverdi)
- + Produktspesifikke skatter
- – Produktspesifikke subsidier
- – Lønnskostnader
- – Kapitalkostnader (kapitalslit + normalavkastningen på kapitalen i næringen)
- – Ikke-næringsspesifikke skatter fratrukket ikke-næringsspesifikke subsidier
- = Grunnrente

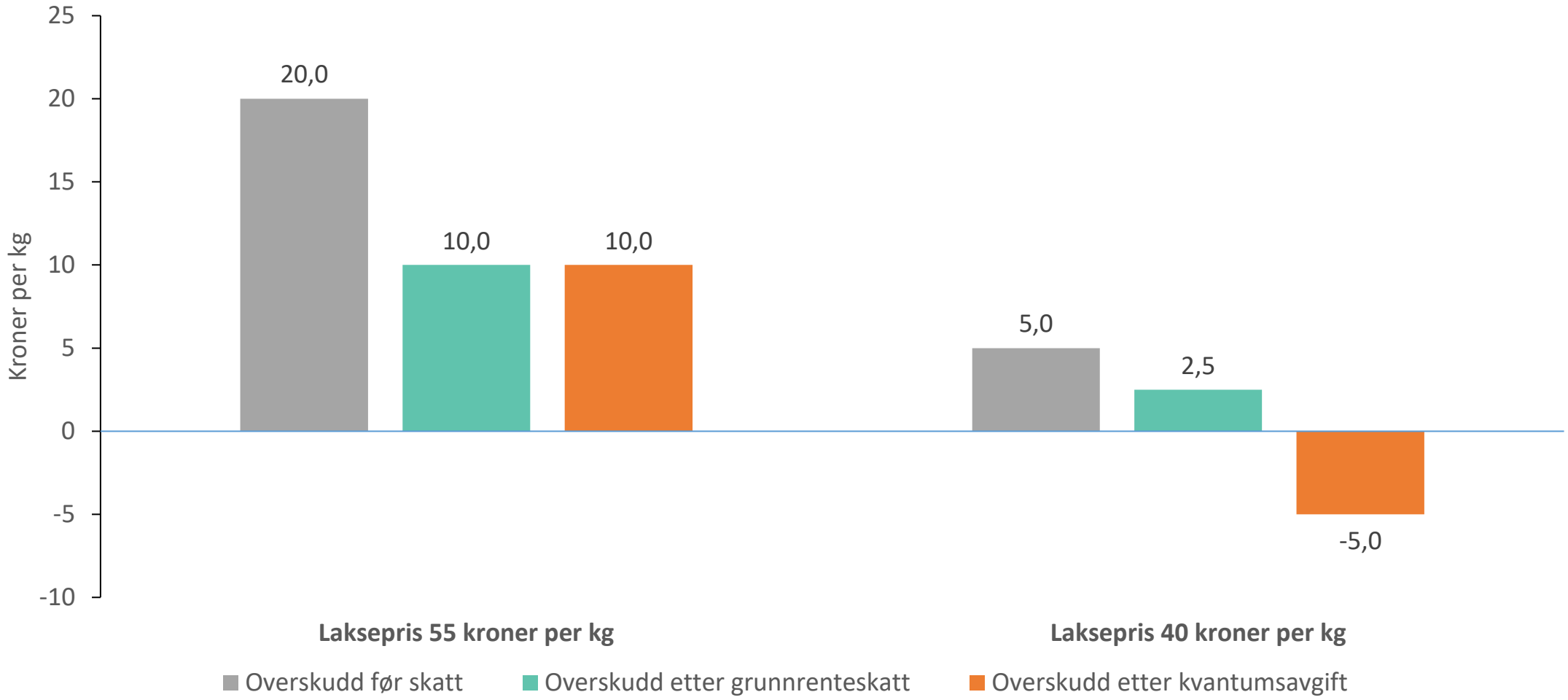
A declining share to the workers



Sharing the pie?



Grunnrenteskatt tilpasser seg lønnsomhet – produksjonsavgifter gjør ikke det



Anslaget på grunnrenteskatt er robust for endringer i forutsetninger