



# The Norwegian tax refund scheme

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presentation for  
Federation of Icelandic Industries  
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# The Research Council

## – a key player in Norwegian research

### ■ Mission

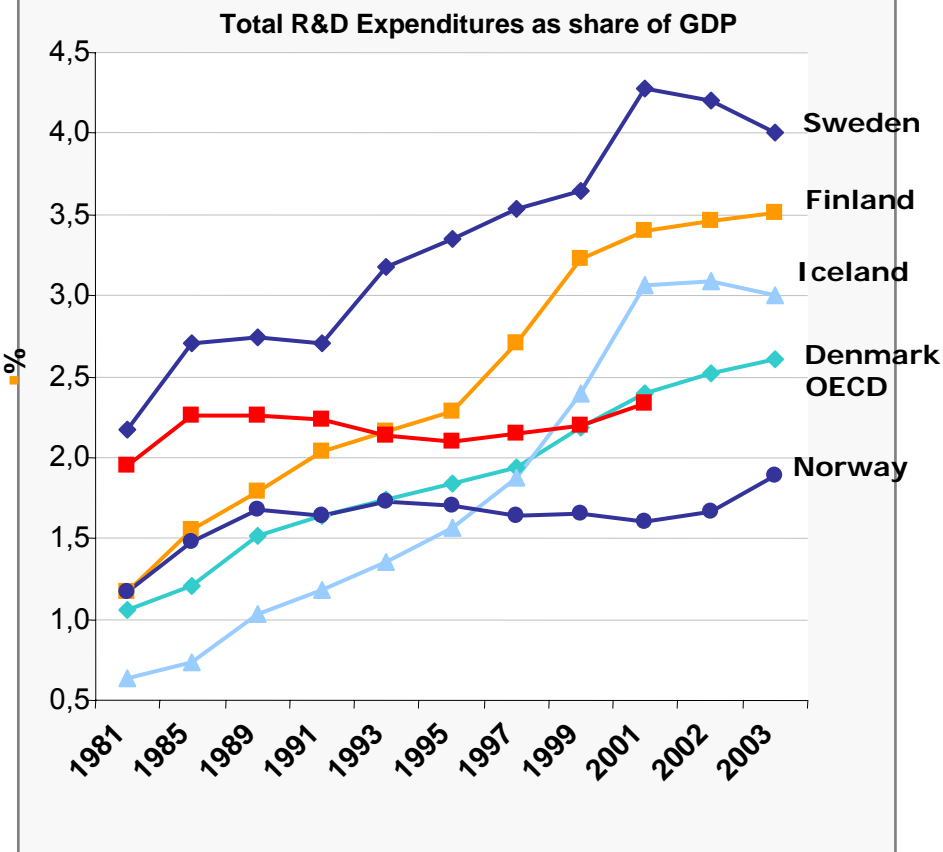
- To increase the value of society's investment in research activity
- Covers all science and technology fields

### ■ Roles

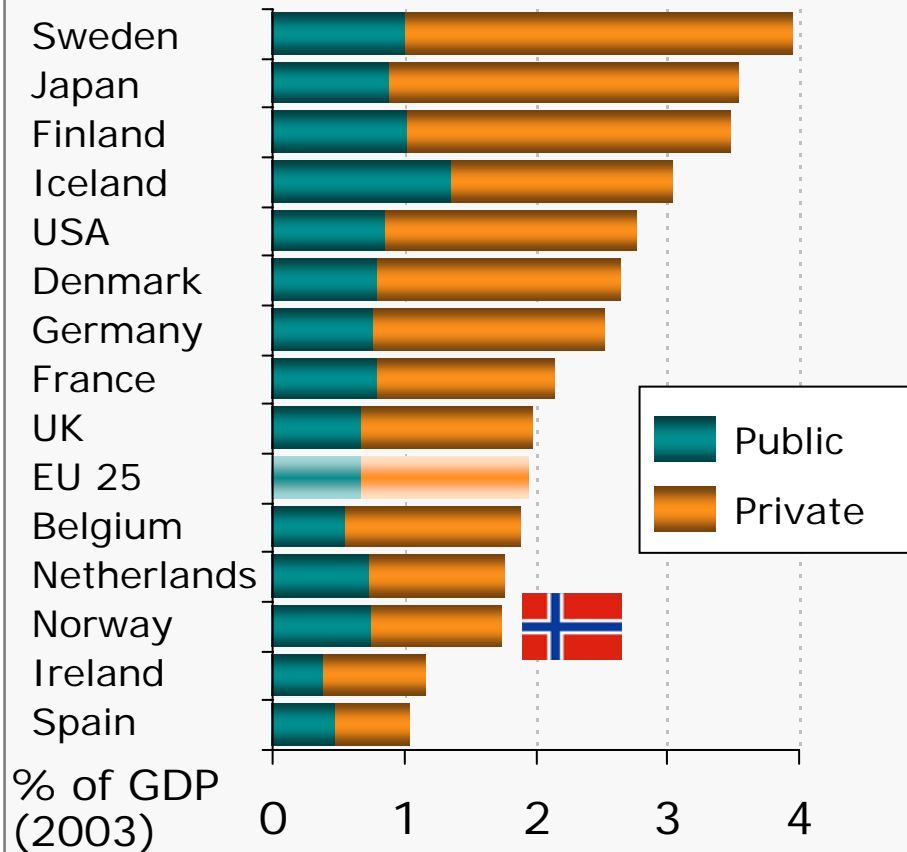
- Adviser to the government on research policy issues
- Research funding (allocates 30% of all public spending on research)
  - Support and develop basic research
  - Implement national thematic priorities
  - Support private R&D
- Create arenas for cooperation and knowledge distribution

# A need to stimulate Norwegian industry to invest more in R&D

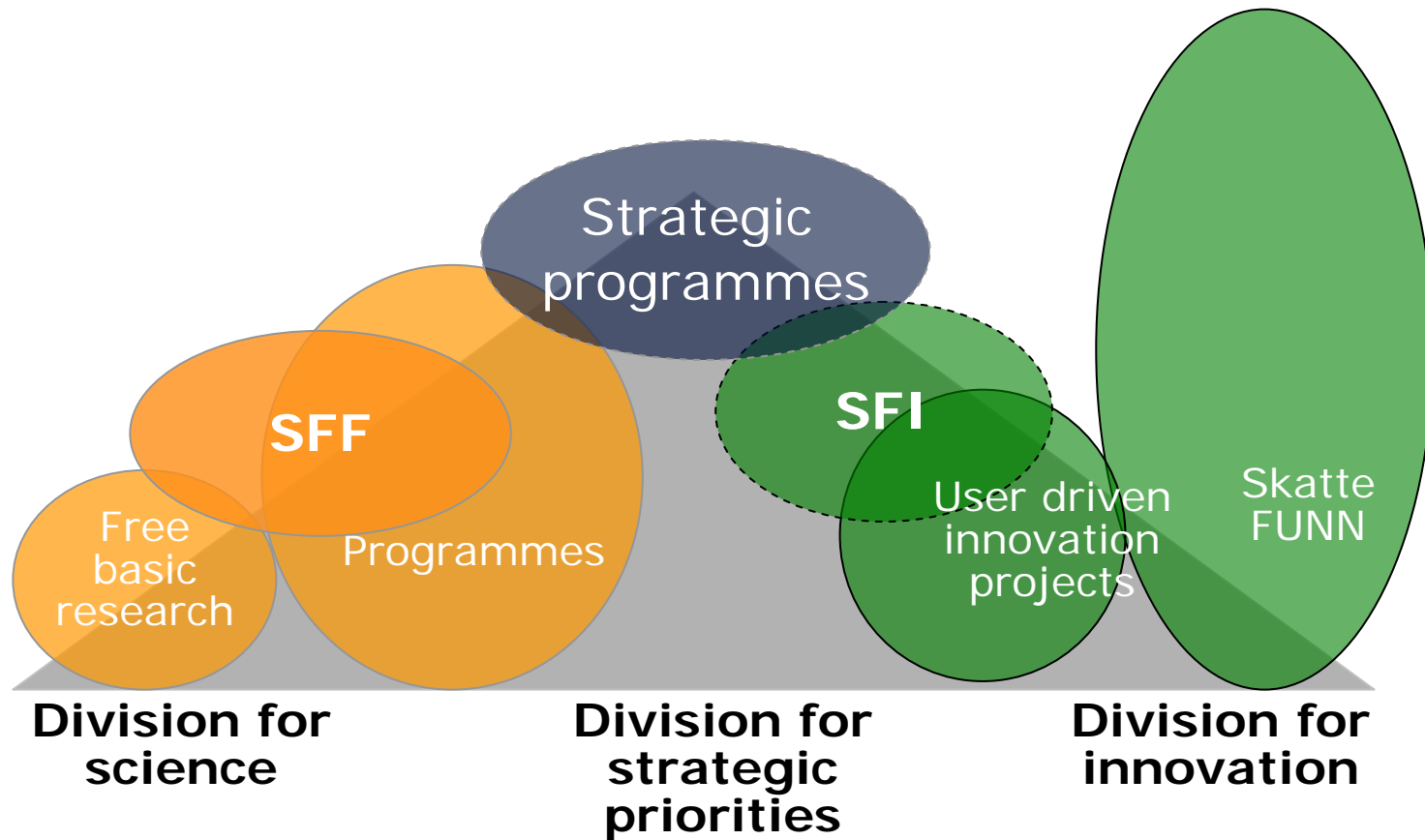
## Other Nordics are more research-intensive



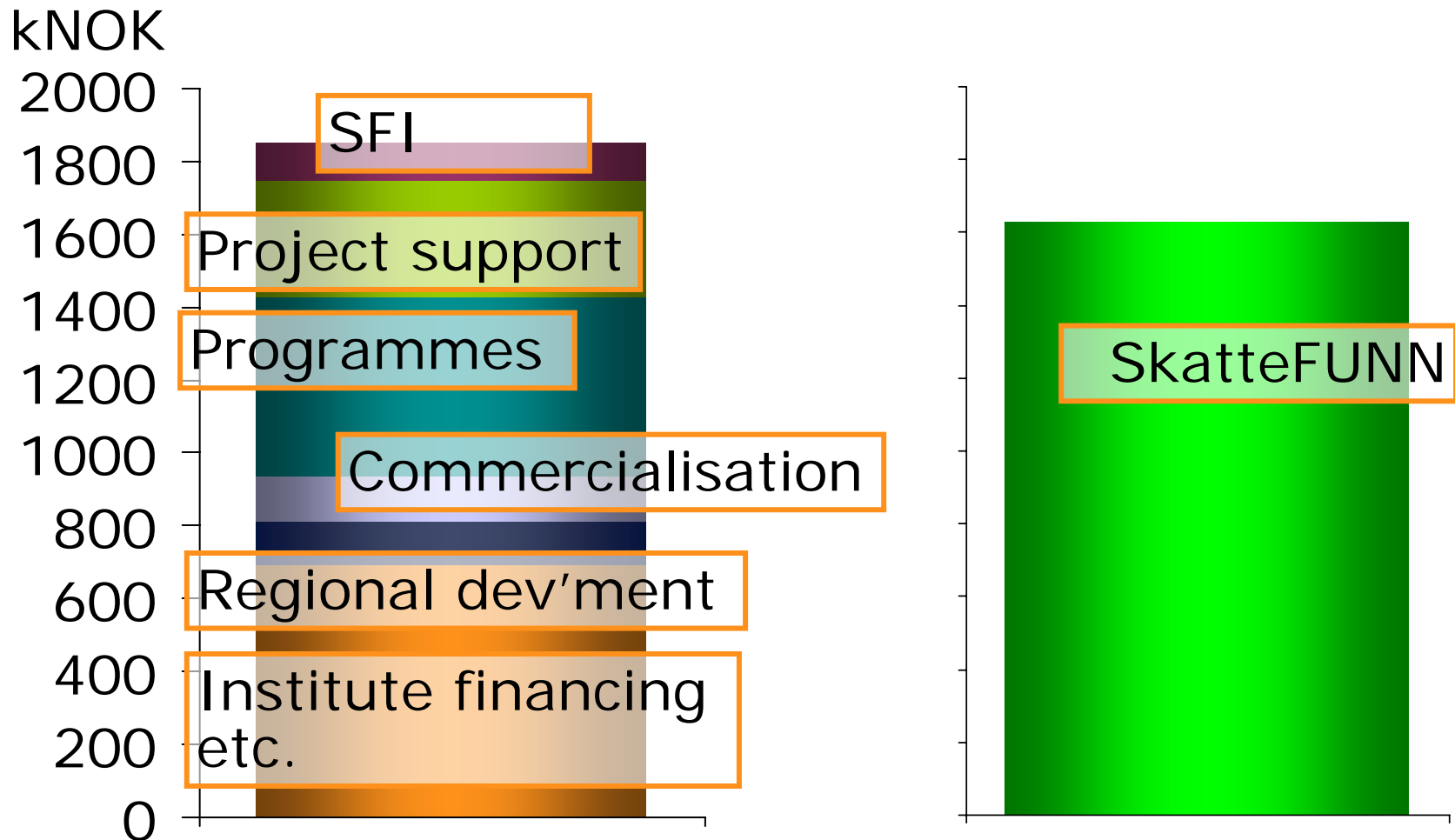
## Especially the industry sector is investing below European level



# Tax incentive scheme (SkatteFUNN) is part of a portfolio of instruments



# SkatteFUNN ≈ The Research Council's other innovation instruments



# New White Paper on Research

Norway shall become internationally leading in technology, competence and knowledge



*The government sets the goal for total R&D expenses to **3% of GPD** by year **2010**, of which 1% from public sources and 2% from the industry*

*"SkatteFUNN (tax incentive scheme) is the most valuable tool for stimulating the industry, in general, towards increased R&D*

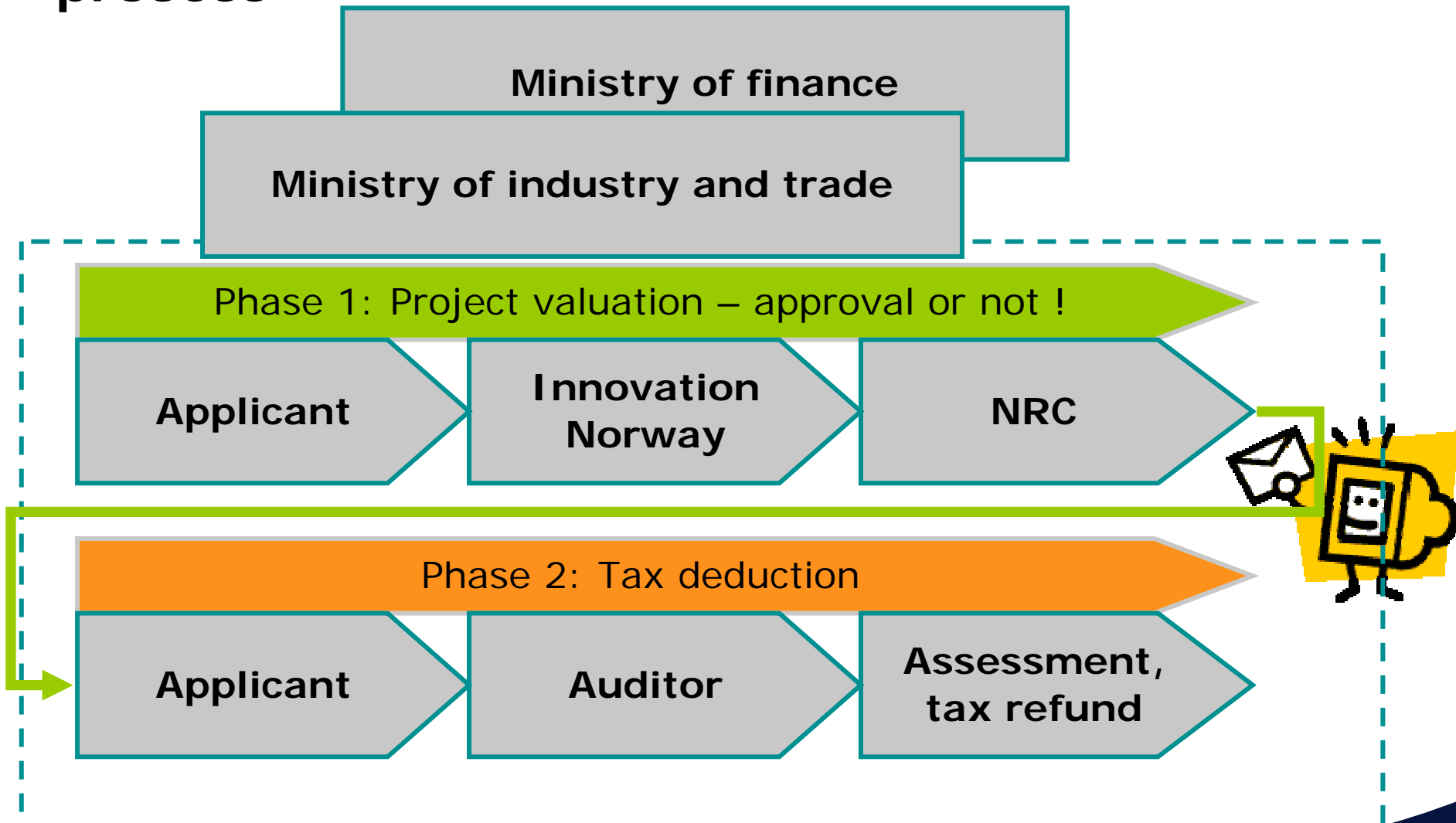


# SkatteFUNN – tax incentive scheme launched October 2002

- Initiated by the Ministry of Trade and Industry and the Ministry of Finance
- Incentive to improve the R&D and Innovation in Norwegian companies
  - Covering all enterprise sizes, all types of companies and all types of projects
- 18-20 % tax deduction for companies getting project approval by RCN  
(max. 1.8 mill NOK = 225 thousand euros in tax deduction per year)

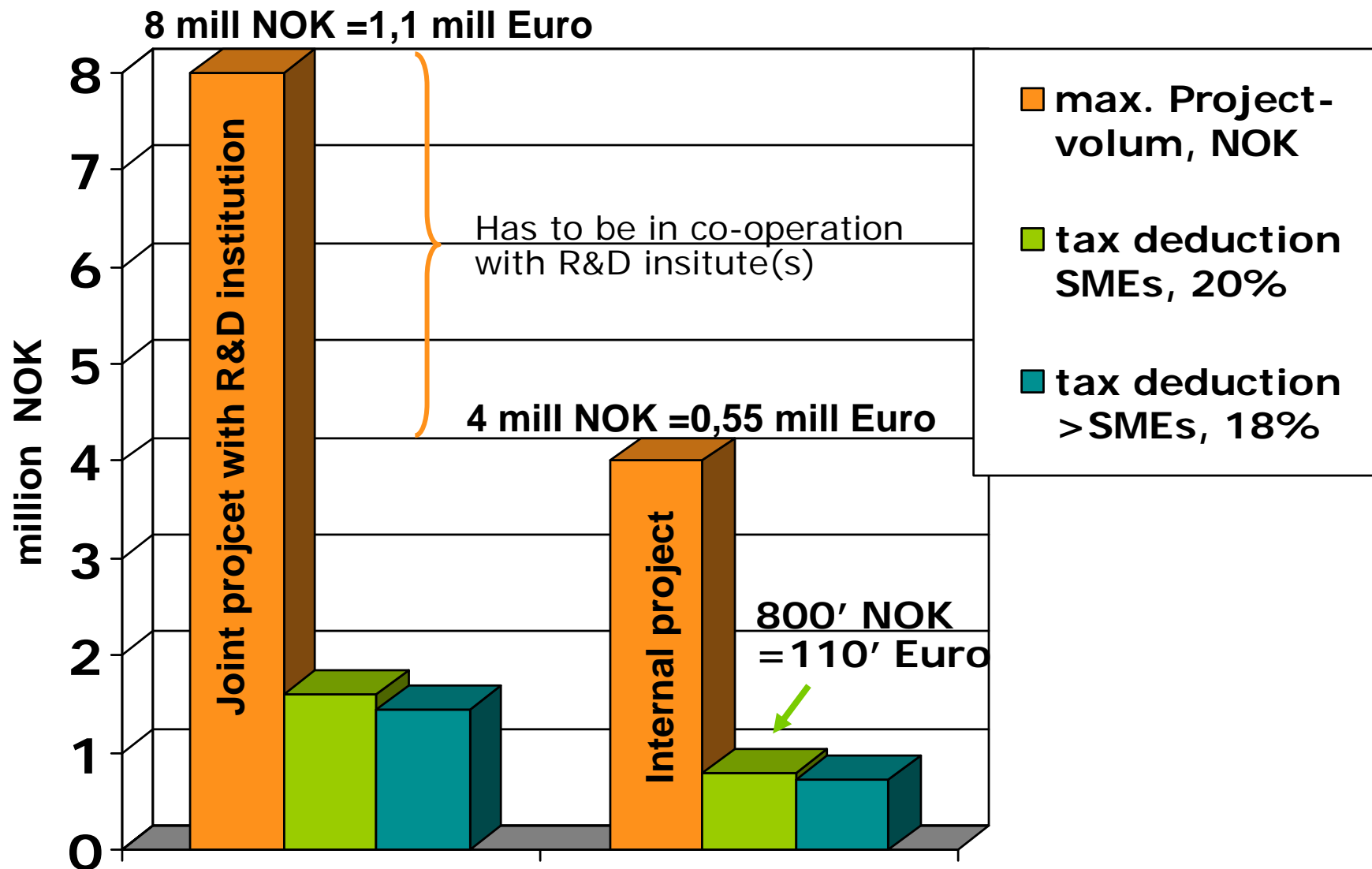


# The Research Council (NRC) has responsibilities toward different partners in the SkatteFUNN process





# SkatteFUNN project levels



# Requirements and criteria for R&D projects in SkatteFUNN

- Clearly defined project: scope, activities and milestones
- Show that the project will make use of, and create:



**new knowledge or  
new information or  
new experience**

- To be used in development of new products, services or production/process/-methods etc.
- Must be above day-to-day operations

# Not included in definition of R&D:

Ordinary (product)-development without R&D value, such as:

- **day-to-day activities**

- **modification** of the company's products, services or processing when this does not require use of new knowledge or use of knowledge in a new way.

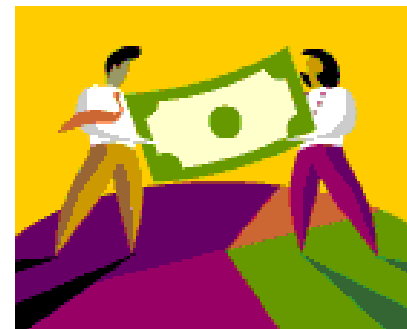
- development of the organisation, upgrading the employees, quality control, marked research, installation of equipment etc.

# Requirements by the Tax authorities

- Copy of the Approval by the Norwegian Research council
  - Type of project, targets and activities
  - period approved for
  - (not budget)
- Project account confirmed by an certified auditor
- The Tax authorities can ask for documentation and reports, but not overrule the approval given by NRC



# Qualifying R&D expenditure

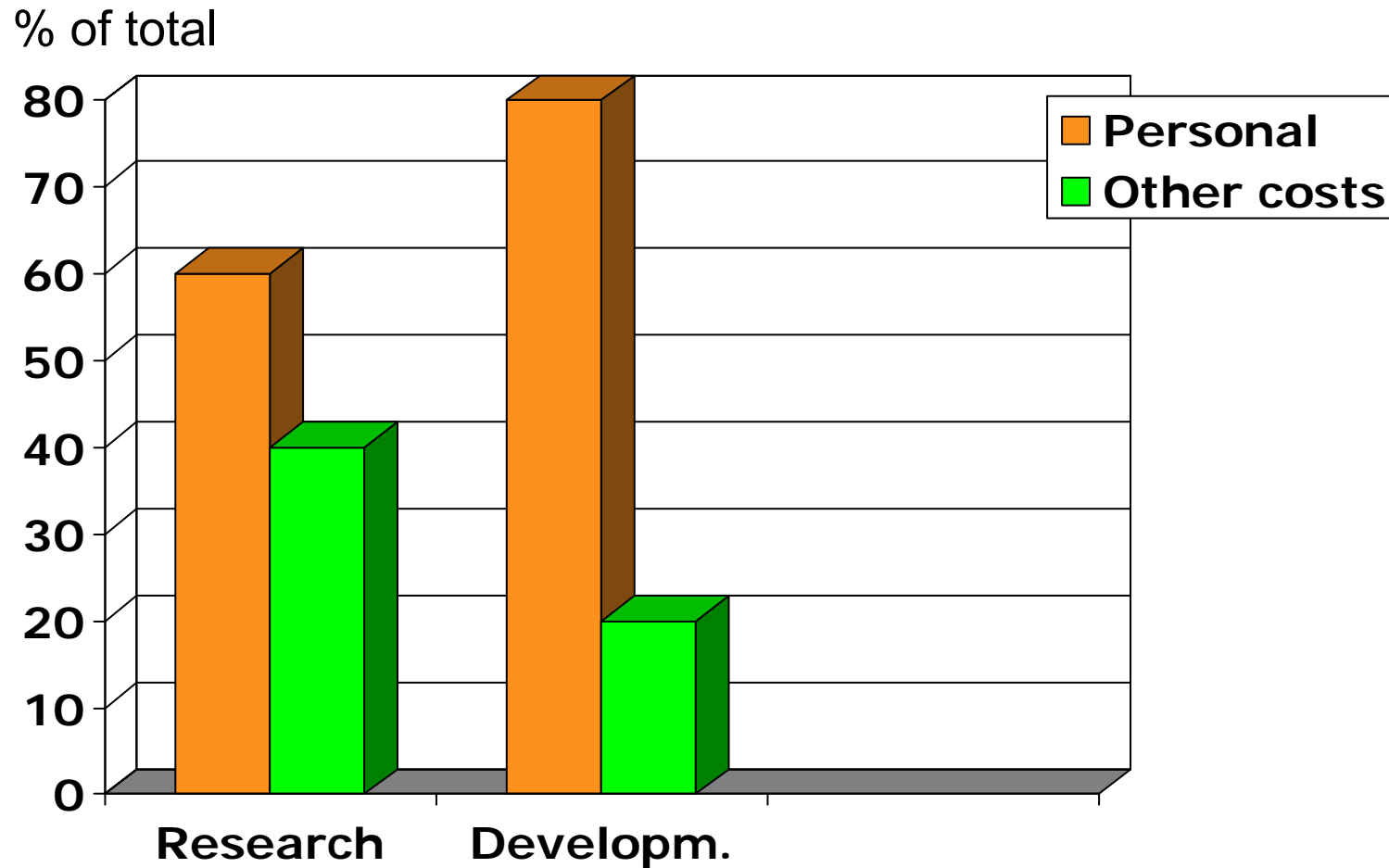


- Personnel cost (for project employees)  
= annual salary \* 1.6 o/oo = rate per hour

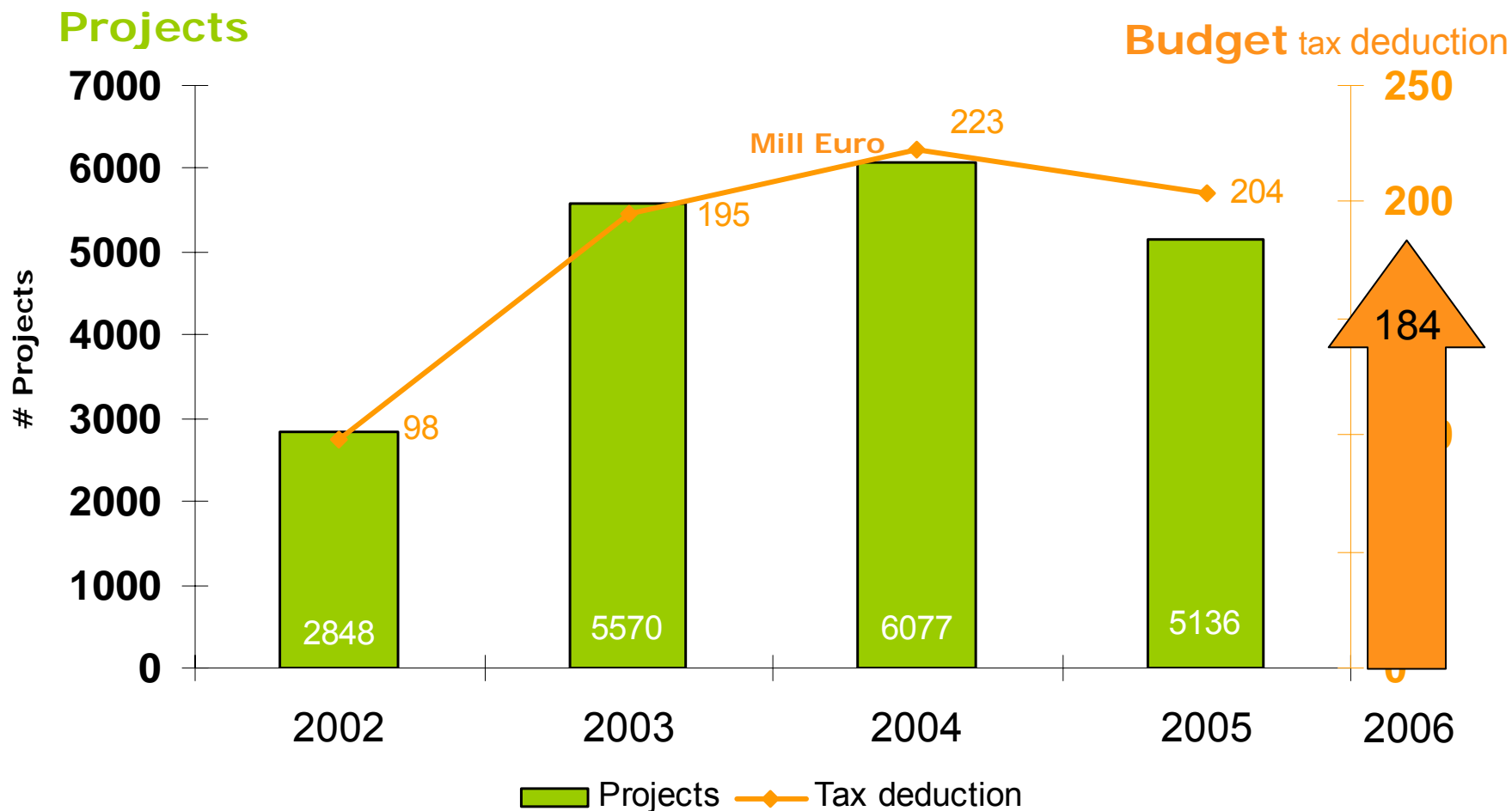
Example:

- $\frac{400\,000\text{ NOK}}{1} * 1,6 \text{ o/oo} = 650 \text{ NOK per hr.}$
- $650 \text{ NOK/h} * 1700 \text{ hours/year} = \underline{1.1 \text{ mill NOK}}$
- Collaboration with approved R&D institutes
- Scientific equipment
- Other direct costs (meetings, travel, consultants, material, other equipment etc.)

# Costs – R and D



# SkatteFUNN is an important instrument for a broad mobilisation for innovation



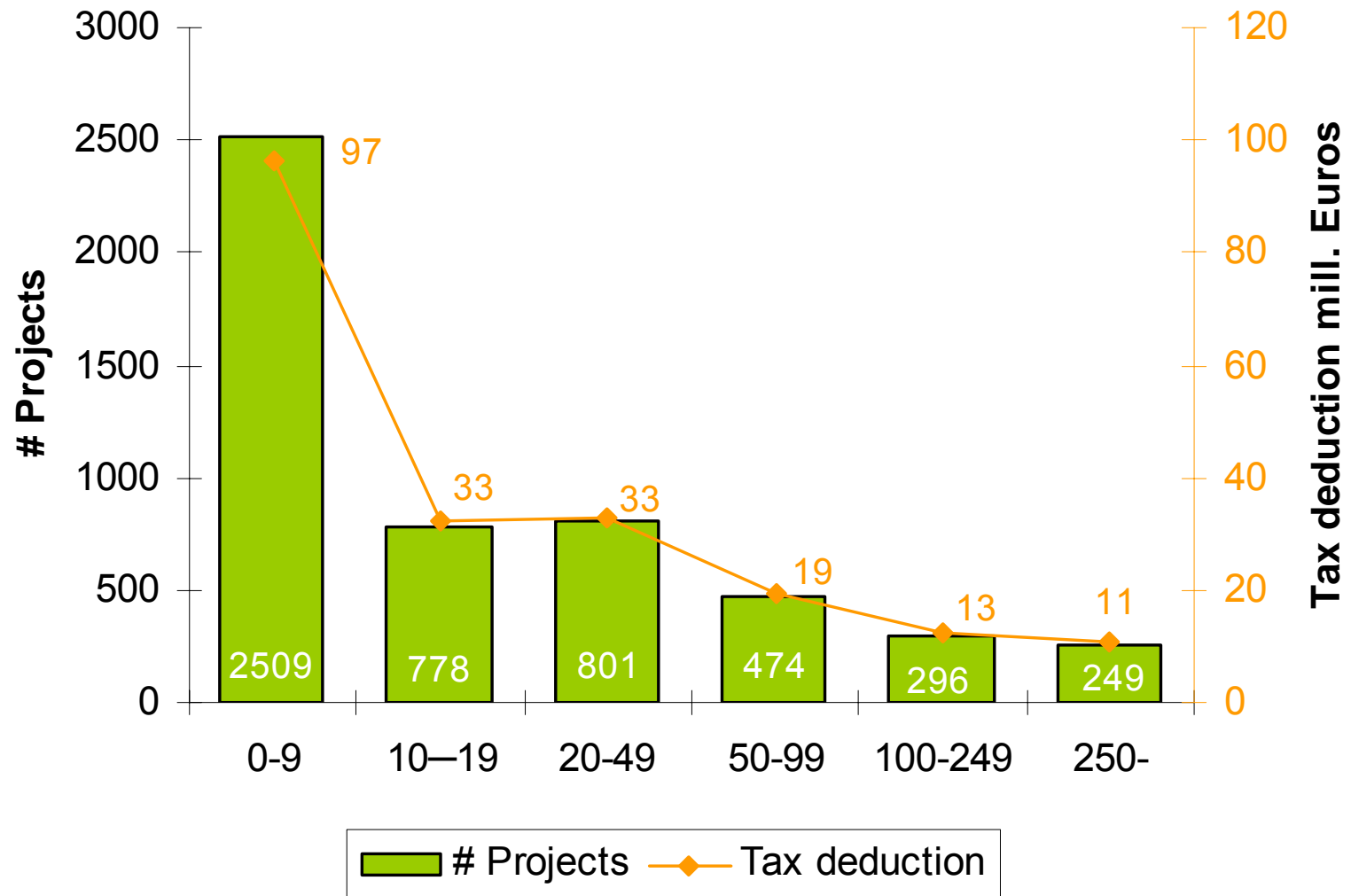


# Tax deduction (2002-2004):

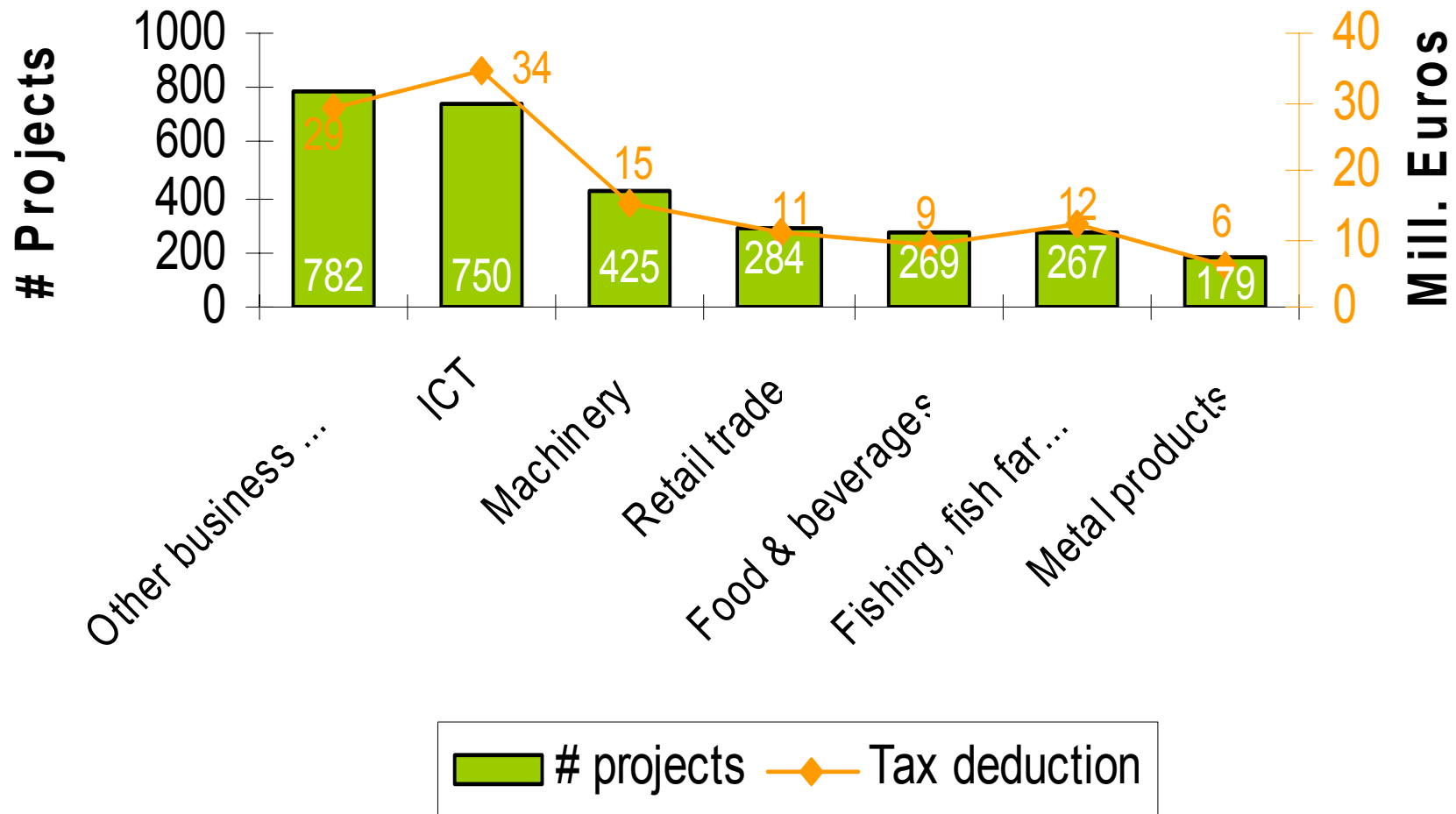
- 75-82% of the tax credits has been given as direct support
- Companies not in tax position



# Approved projects – size of companies 2005



# Top 7 sectors 2005



# Type of projects

Date: 27.03.2006	Projects in 2005		
	No. of projects	Project costs (mill. Euro)*	Tax ref. (mill. Euro)*
Advanced materials/chemicals	793	190	33
Biotechnology	457	141	24
Electronics/ICT equipment	700	175	30
Energy and environment	4	2	0,25
Food production	277	49	9
ICT	997	270	47
Services	282	44	8
Production of goods	1 234	238	42
others	373	77	12

\*) = budget

# Research or Development ?

## ...categorisation is a part of the review

### ■ Research projects:

- 16% of the project portfolio
- 3-5 years (or longer) duration
- Average: 400 000 mill NOK in tax credit



### ■ Development projects:

- 84% of the project portfolio
- 1-3 years duration
- Average 300 000 mill NOK in tax credits

- >30% of all projects are in collaboration with R&D institutes (of which 96% national)

# Evaluation – started April 2004

- an independent professional assessment of whether the Scheme works and delivers according to intentions
- Evaluator: Statistics Norway
- estimation of economy-wide impacts
  - increased business financed R&D (OECD-goal !)
  - increased innovation
  - increased value added
- scope of study is Scheme operation from initiation up to end 2007

# Main issue to be addressed

- **Additionality:** Does SkatteFUNN generate more R&D and change in R&D behaviour in the enterprises ?
- **Returns:** how does SkatteFUNN projects pay off ?
- Real R&D or reclassification of R&D costs ?
- Does SkatteFUNN stimulate **knowledge** from R&D institutions to enterprises ?
- How does SkatteFUNN work together with other R&D stimulating measures/programs ?
- **Administrative costs**



# Evaluation – preliminary results

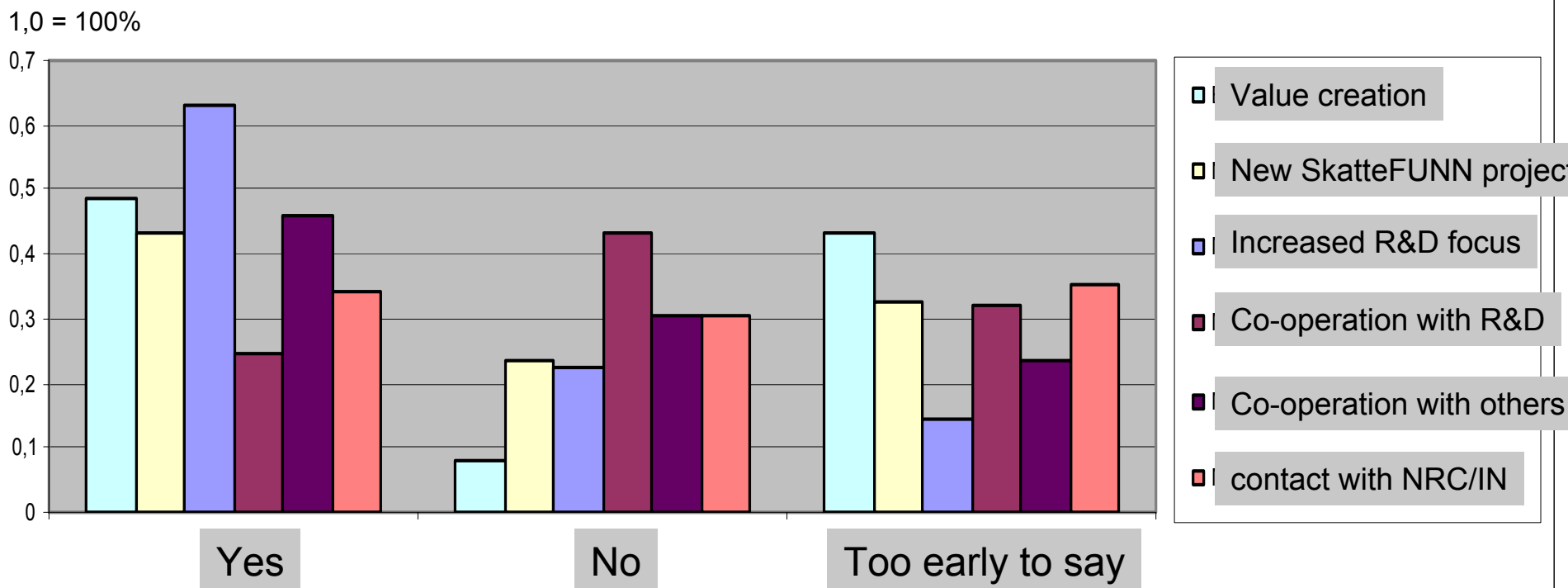
## **Additionality** (2003 projects)

- Would the project have been performed without SkatteFUNN support ?
- Approved projects
  - 13% would be performed without any support
  - 72% would be performed at a lower scale or during a longer period
  - 15% would not be performed at all
- Not approved projects
  - 22% would not be performed

**63% of the companies report a strong(er) focus on R&D**

# Preliminary results from the evaluation

Question: SkatteFUNN has contributed to: (companies with approved projects) :

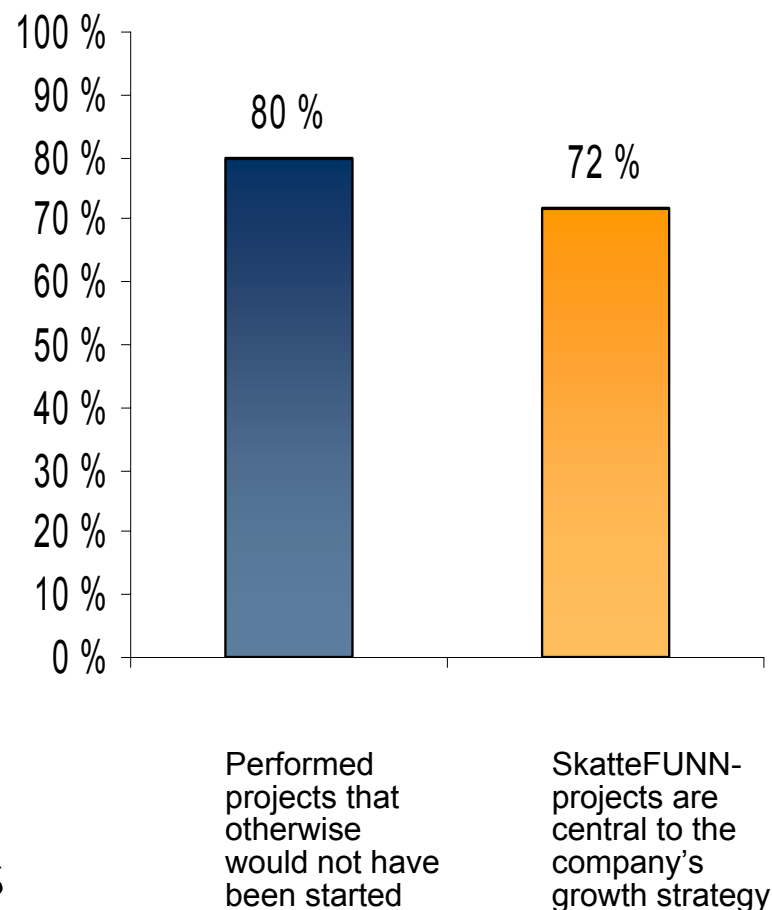


Companies with regular R&D activities report most positive effects

# Survey of SkatteFUNN



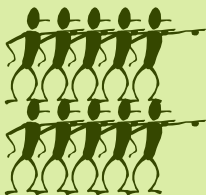

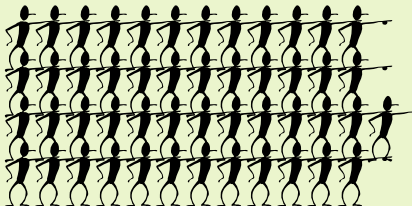

- 30% of the respondents say they perform R&D (regularly or now and then)
  - 25% of these apply for SkatteFUNN
- 80% respondents indicate that projects they have received support for would not otherwise have been carried out
- 72% say that SkatteFUNN is central to the company's strategy for growth

....and it works



Source: Perduco, December 2004

# One of four companies with international ambitions uses SkatteFUNN

Expected Growth/sales in which market ?	Support from SatteFUNN	Number of companies asked *
International	 One of four 	305
National	 One of eleven 	578
Local	 One of fifty 	1067

\*51 companies answered "don't know" where the growth will come  
Source: No Business Survey, Dec. 2004

# Overall costs of tax incentives

	Total costs (M Euro)	Total cost/ capita (Euro)
Canada	1242	37,9
France	970	16,0
UK	557	9,2
Norway	204	44,4

# Challenges

- Keep the program, un-bureaucratic, not restricted to other parameters than R&D content, and with a broad focus
- Increased marketing towards non-user, but those performing R&D
- Timing of tax credit (the year after the project was performed) – liquid resources the first year
- Include unpaid labour as part of the project costs (currently an ESA case, not yet closed)
- R&D definition that applies to the service sector



Ship  
Classification

DNV is one of  
the world's  
leading  
classification  
societies

# State budget for 2007

- The Government promised not to change SkatteFUNN before the final evaluation report was ready December 2007

## ■ 6. October 2006

- Suggestion:
  - Maximum 1 850 hours per year per person in R&D projects
  - Maximum personal cost NOK 500 per hour (62 Euro/hour) (equals annual salary 350' NOK)
- Decline of 150 mill NOK (19 mill Euros) in tax deduction



# Conclusions

- Very smooth, effective and popular program for companies
- Reached the target for SMEs
- Companies perform R&D on their own premises
- Difference in firm behaviour towards R&D is seen
- Administrative cost is low
- Need for improvements in control of project costs and activities
- Increase external knowledge on the outcome of R&D, increase support to today's "non-user"

Simple, easy,  
un bureaucratic  
and smooth

Takk for oppmerksomheten !

Velkommen til oss på

[www.skattefunn.no](http://www.skattefunn.no)

