

Fiscal treatment for non-profit organizations in Norway.

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About the non-profit sector in Norway

- The non-profit sector is strong and vital.
- Most people in Norway see NPO's as an important part of society.
- Most people have been engaged in the non-profit sector.
- However: The non-profit sector is not always treated *politically* as an important entity.
- After lobbying from the NPO's, there have been exceptions from the laws and/or adoptions to the laws that suit the non-profit sector.

Which is the fiscal legal framework applying to non-profit sector?

- **The Taxation Act I**

- A Norwegian resident (person or business) has to pay income and fortune tax.
- NPO's are exempted (§ 2-32).

- **The Taxation Act II**

- A donor may deduct tax when donating money to an NPO. (§ 6-50).

Act relating to inheritance duty

- According to the act relating to inheritance duty and duty on certain gifts, one who inherits a certain value (money or asset) has to pay an inheritance tax.
- NPO's are excepted.

Act relating to value added tax

- **About VAT**
- Value added tax (VAT) is a consumption tax
- End-consumers cannot recover VAT on purchases, but profit businesses can.
- The state does not collect the value added tax; they let the private businesses do the work.

NPO and outgoing VAT

- If an NPO in Norway sells goods or services for less than €16.000 annually, they are *exempted* to add VAT to their products, as opposed to €6.000 for profit businesses.
- There are also exceptions for products which an NPO don't have to add VAT at all, among others:
 - goods of insignificant value (§ 5d)
 - some recycled products (§ 5e)
 - member fees and subscriptions (§ 5f)
 - internal economic transactions (§ 5g).

NPO's and incoming VAT

- In the VAT system, NPO's are considered end-consumers.
- NPO's pay VAT without the ability to recover the tax paid
- Profit organizations, or businesses do recover the tax paid every second month.
- The consequence is: If you operate idealistically on a non-profit base, you have to pay (25 %) more for everything than most other businesses.

How do we solve the incoming VAT problem in Norway?

- Until 1999, there was only VAT on goods, not services.
- In 1999, the parliament changed the law to include services.
- After lobbying, the parliament agreed that this change should not affect the NPO's in Norway.
- Since 2001 the parliament have granted up till €25 million to compensate for the VAT paid for services.
- So: If NPO's could be compensated for VAT on services, it would be most fair to also include VAT on goods.

VAT compensation today

- After 10 years of lobby: Political climate where all political parties are in favor of total VAT compensation for NPO's.
- Labor government which has promised a total compensation within the next four years.
- But how to compensate?

How to compensate incoming VAT?

- **Three main techniques or methods:**
- Bi-monthly reporting through the ordinary VAT-system for businesses
- Annual (or more often) compensation based on application specific for NPO's
- VAT- exemptions (0 % VAT) when paying for goods and services

Which are the main drawbacks of these specific laws and regulations?

- 1. Complicated system
 - What services/goods can be compensated?
 - Who is eligible for compensation?
 - How to satisfy demanding audit regimes
- 2. Unpredictable system
 - The VAT compensation today is not based on rights by law. It's based on the will of the politicians.

What changes, if any, are needed in terms of the legal framework?

1. Make the legal system easier.
2. Increase the different tax rates, or tax limits, for adoptions, exemptions and exceptions that applies to NPO's.
3. Establish a Satellite Account of Non-profit Institutions and Volunteering
4. Create a tax law for NPO's.

What are the relevant examples of best practices?

- Speak with one voice.
- Focus on few issues.