

About SkatteFUNN

The SkatteFUNN R&D tax incentive scheme is a government program designed to stimulate research and development (R&D) in Norwegian trade and industry. The incentive is a tax credit and comes in the form of a possible deduction from a company's payable corporate tax.

All branches of industry and all types of companies can apply for support from the SkatteFUNN Tax Incentive Scheme. To be eligible to apply for SkatteFUNN, the company must seek to develop a new or improved product, service or production process through a dedicated R&D project. The project must generate new knowledge, skills and capabilities within the company.

In order to be eligible, the company also needs to be incorporated in Norway and liable to pay corporate tax to Norway. If the tax credit for the R&D expenses is greater than the amount the firm is liable to pay in tax, the remainder will be paid out in cash to the firm. If the applying company does not generate a taxable income, the entire SkatteFUNN credit is paid out in cash.

SkatteFUNN is open to all companies with a permanent establishment in Norway as long as the R&D costs can be attributed to future earnings of the Norwegian company.

All SkatteFUNN project applications are processed and evaluated by the Research Council of Norway. In order to claim R&D tax credit, the company must have their project approved by the Council. The Council evaluates the project plan with special emphasis on its R&D content.



The actual tax credit for costs associated with a given SkatteFUNN project is assessed and granted by the Norwegian Tax Administration. (ILLUSTRATIVE PHOTO: THOMAS KEILMAN)

Privileged R&D expenditures

A distinction is made between small and medium-sized enterprises (SMEs) and large enterprises when determining tax credit under the SkatteFUNN scheme. SMEs may be granted a tax deduction of 20 per cent of the R&D costs associated with a given R&D project. Large enterprises may be granted a deduction of 18 per cent of such project costs.

- The SkatteFUNN R&D cost ceiling for R&D projects using in-house R&D resources is NOK 25 million per year.
- The SkatteFUNN R&D cost ceiling for R&D projects also using external pre-approved R&D resources is NOK 50 million per year. Total costs for in-house and external resources must not exceed NOK 50 million.
- A maximum of 1850 hours per employee per year is accepted in the cost plan for an R&D project. You may calculate the hourly rate as 0.12 per cent of an employee's nominal annual salary. The hourly rate must not exceed NOK 600.
- A company may submit multiple SkatteFUNN applications. However, the cost ceilings given above apply per company.
- A plan for R&D costs submitted in a SkatteFUNN application must relate to R&D activities as approved under the SkatteFUNN scheme.

How to compute R&D costs

In addition to the general conditions for eligibility mentioned above, the SkatteFUNN regulation stipulates in detail how the eligible R&D costs are to be computed in relation to the tax credit.

The largest cost item is usual wages for employees working on the project. The eligible wage cost per hour is the employee's annual pay multiplied by 1.2 per thousand. This hourly rate is then multiplied by the number of project hours. The hourly rate covers all costs related to the employee, as for example pay roll tax, pensions and overhead. Such items may therefore not be added to the R&D costs of the project. The hourly rate is furthermore capped at NOK 600 per hour. This implies the cost of high-wage employees are not fully accepted as eligible for SkatteFUNN, although they are fully deductible from the taxable income of the company. In addition to this cap, the maximum number of hours for any employee may not be higher than NOK 1850 per year.

In addition to wages, all other expenses directly related to the R&D project are regarded as eligible costs, such as materials, external services, insurances etc. This also includes the purchase of R&D from other companies or research institutes. Furthermore, project specific financial costs may be included in the cost base for SkatteFUNN.



The largest cost item is usual wages for employees working on the project. (ILLUSTRATIVE PHOTO: THOMAS KEILMAN / FORSKNINGSRÅDET)

The maximum eligible costs taken into consideration are NOK 25 mill per year. In the case of R&D cooperation with approved research institutions, the cap may be increased to NOK 50 mill per year. The NOK 25 million cap is, however, still applicable related to the tax payers in-house R&D, hereunder procured R&D from subcontractors other than approved R&D institutions.

It should be added, that the caps in SkatteFUNN are applicable for each individual taxpayer, disregarding ownership. Thus if a holding company has three subsidiaries, each of the three companies may benefit from SkatteFUNN, up to the cap for each company.

If the tax payer has received public funding for the project, the value of the tax credit and the grant are added in order to find out whether the highest permitted support under state aid rules have been surpassed. If this is the case, the tax credit is reduced down to the permitted support level.

Calculating the SkatteFUNN Tax Credit

Example: A company plans to carry out an R&D project with a total cost of NOK 15 million. The company may carry out the R&D itself using only in-house resources and R&D personnel and/or procure the services from an external R&D partner. The tax deduction for this company will be 20 per cent of NOK 15 million, or NOK 3 millions.

Calculating R&D Personnel Hours and Costs

Example 1: Heather is a full-time employee of the company and has an annual income of NOK 400 000. She works 158 hours on the project during the year.

To arrive at the labour costs for Heather, simply multiply her annual salary by .0012.

$\text{NOK } 400\,000 \times 0.0012 = \text{NOK } 480$

Then multiply this hourly rate by the amount of hours Heather spends on the project--maximum 1 850 hours.

$\text{NOK } 480 \times 158 = \text{NOK } 75\,840$

Example 2: Farhan works part-time (50 per cent) in the same company as Heather, earning an annual salary of NOK 332 000. He spends 1 400 hours working on the project during the year.

Farhan's full-time annual salary comes out to NOK 664 000. To arrive at the hourly rate, we multiply Farhan's annual salary by .0012.

$\text{NOK } 664\,000 \times 0.0012 = \text{NOK } 797$

However, the maximum hourly rate for an employee employed in a SkatteFUNN project is NOK 600, so the cost of using Farhan in the project is: $\text{NOK } 600 \times 1400 = \text{NOK } 840\,000$.

Collaboration

The SkatteFUNN Tax Incentive Scheme does not stipulate any particular rules or regulations with regards to inter-company collaboration. A company may choose to carry out the project using internal resources or to collaborate with other companies or external R&D institutions. If more than one company is involved in an R&D project, each company is required to submit a separate SkatteFUNN application, listing its share of specific R&D activities on the project.

State Aid Ceilings

The European Commission's regulatory framework for state aid for research and development projects sets ceilings for the allocation of public funding. For more information, see [COMMISSION REGULATION \(EC\) No 800/2008](#).

> [Application process and after approval](#)