Taxation of Self-Employment and Partnerships in Norway

by

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1. Introduction

Entrepreneurship, innovation, and job creation are much-celebrated phrases of the modern economy. Politicians strive to encourage entrepreneurship, and as one important subgroup of entrepreneurs is the self-employed, self-employment is often promoted and celebrated. Given this, it is surprising to find that knowledge of the behavior of the self-employed often is deficient, which is admittedly the case in Norway too.[1] According to Parker (2004), self-employment and entrepreneurship is sadly neglected in economics textbooks. There might be several reasons for this, but we believe Parker's (2004) notion on economists' "inability to pigeon-hole this multifaceted issue" has some relevance.

Even though there is a focus on the self-employed as an entrepreneur, one should stress that the self-employed are a diverse group of people, including business proprietors, independent professionals (as lawyers, doctors and dentists), owners of local grocery stores, subcontractors (as construction workers) and farmers. As we shall soon see, the self-employed are relatively few in Norway,[2] compared to what is seen in many other economies. However, as the dual income involves taxing capital and labor income at different rates, and as the splitting into different tax bases for the owner of a small businesses bring the practical challenges up to the surface, taxation of sole proprietors and partnerships have been at the center of Norwegian tax policy discussions in the last decades.

The tax reform of 1992, which introduced a version of the dual income tax in Norway, introduced the so-called "split model" to separate income into labor and capital parts for the self-employed, active owner of partnerships and other closely held firms (defined as businesses in which

[1] Recently, there have been some attempts to study the entrepreneurship phenomenon in Norway, see Berglann et al. (2011) and Raknerud and Van Praag (2014). However, these papers do not consider the relation between taxation and self-employment.

[2] Note that at this stage we do not make a clear distinction between the self-employed as a sole proprietor or as a partner in a firm.

more than two-thirds of the shares were owned by the active owner). It can be argued that the Norwegian tax reform of 1992 was revised in 2006 basically because the post-1992 system failed to deliver equal tax treatment of business owners who have chosen different organizational forms for their business activities, and which therefore resulted in tax legitimacy concerns.

In the following we shall take closer look at the taxation of owners of small businesses. This paper is organized as follows. In Section 2 we shall briefly discuss the role of the self-employed in the Norwegian economy. Then, in Section 3, we describe the background for the present Norwegian tax system of small businesses. Further, in Section 4 and Section 5 we shall discuss self-employment in a public economics context, mainly focusing on incentives following from differences in taxation of the self-employed, wage earners and other organizational forms. In Section 6 we discuss some efficiency aspects of the Norwegian tax schedule, whereas recent trends in self-employment and participation in partnerships are discussed in Section 7. Section 8 concludes the paper.

2. The self-employed as part of the economy

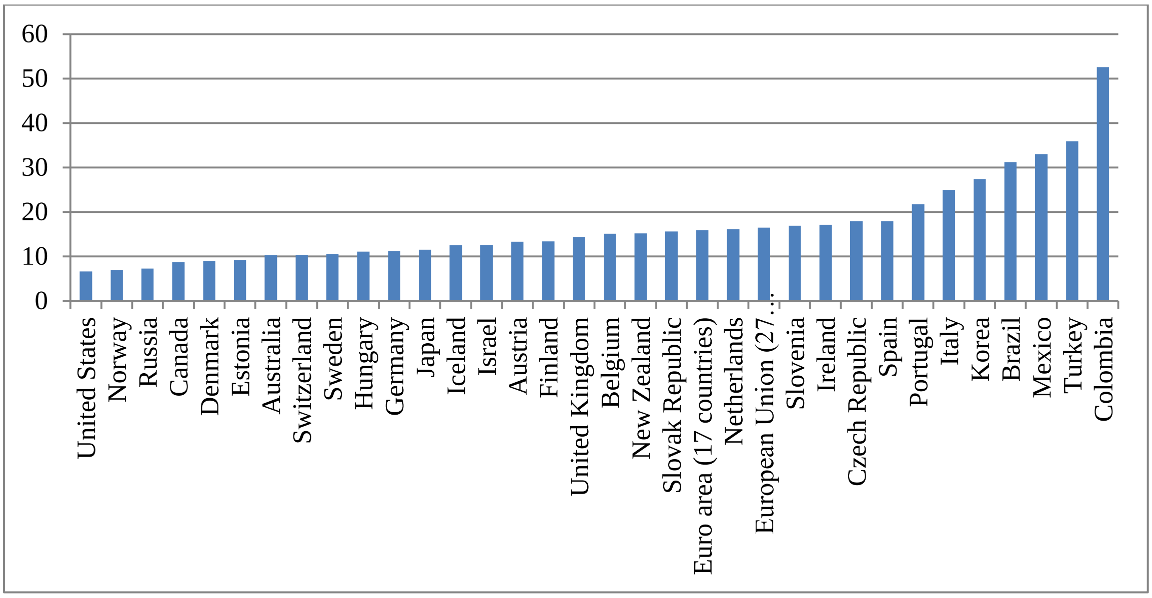
There are substantial problems in the categorization of people with respect to occupational status. A basic question is: should occupational status be determined by the perceived and reported status of the individual, or should it rather be classified as the individual's main activity as seen in data? If one chooses the latter, how does one then define main activity? By the occupation where the individual generates most income, or where he spends most time? In ordinary wage work, wage income mostly is proportional to hours spent, but that need not be the case in self-employment. In the following we shall therefore mainly focus on trends, instead of levels.

With respect to the economic impact of self-employment, Stambøl (2010) finds that approximately 8 percent of the work force consists of persons with self-employment as their main activity. In terms of income shares, some simplified calculations based on income statistics (Statistics Norway, 2014a), suggest that approximately 4–5 percent (measured both at the household level and at the individual level) of total (gross) income comes from business income.

Given the focus on the effects of taxes, it is interesting to see how the activities of the self-employed have developed over time. According to Parker (2004), the non-agricultural self-employment rate[3] in Norway fell from 10.1 percent in 1960 to 4.8 percent in 2000.[4] The corresponding rate, for example, for the UK is 5.9 percent in 1960 and 10.8 in 2000. That Norway ranks low in terms of self-employment is also seen in more recent international comparisons, see the overview in Figure 1.

[3] Measured as the as the proportion of the work force.
[4] Note that this reduction most likely is influenced by increased female participation rates over the period, and that these newcomers in the labor market are less inclined to move into self-employment.

Figure 1. Self-employment rates in OECD countries, 2013



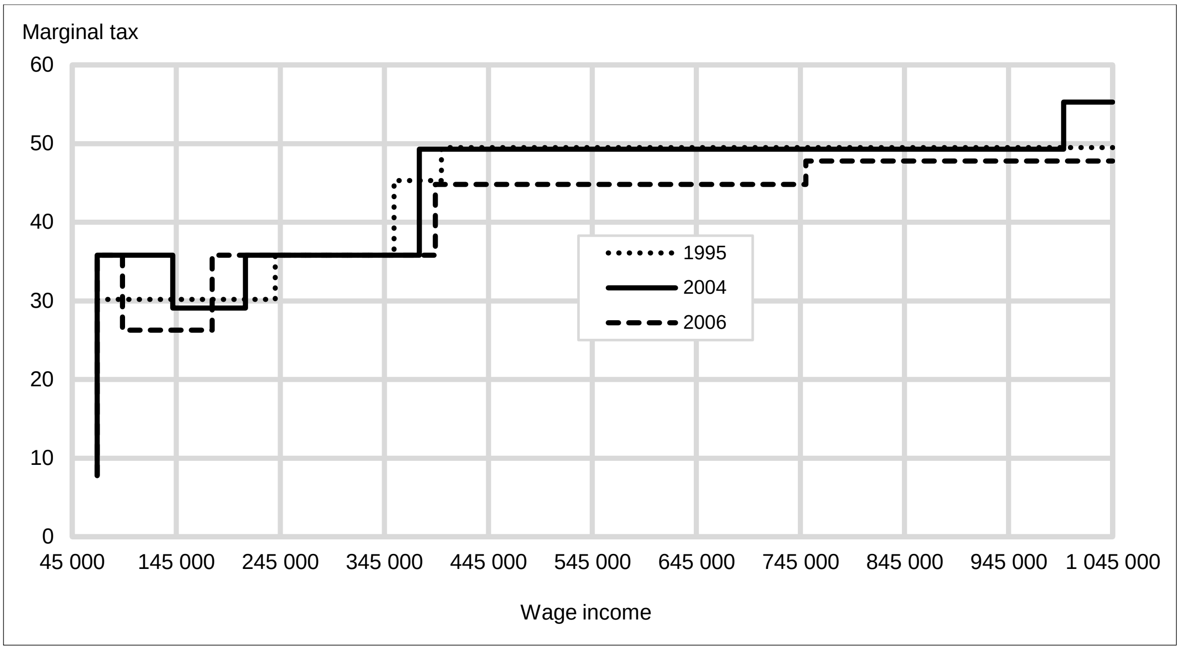
Source: OECD

3. Historical tax background

The 1992 tax reform enacted a dual income tax consisting of a combination of a low proportional tax rate on capital income and progressive tax rates on labor income. The system proliferated throughout the Nordic countries in the early 1990, and the Norwegian version had a flat 28 percent tax rate levied on corporate income; capital and labor income coupled with a social security contribution and a progressive surtax applicable to labor income. Double taxation of dividends was abolished, as taxpayers receiving dividends were given full credit for taxes paid at the corporate level, and the capital gain tax system exempted gains attributable to retained earnings taxed at the corporate level. These separate schedules for capital and labor income created obvious incentives for taxpayers to recharacterize labor income as capital income. To limit such tax avoidance, the 1992 reform introduced the ‘‘split model’’ for the self-employed and closely held firms, defined as businesses in which more than two-thirds of the shares were owned by the active owner(s). Rules were established for dividing business income into capital and labor income, and the resulting imputed labor income was subject to a a social security contribution and a two-tier surtax. The top marginal tax rates for wage earners and owners of small businesses (the self-employed and owners of closely held firms) were 48.8 percent[5] and 51.7 percent in 1992. Between 1992 and 2004, both the threshold for the second tier of the surtax and marginal rates increased, resulting in the statutory tax rates as shown for 2004 (the last year before the reform) in Figure 2, with 55.3 percent at the maximum.

[5] Excluding the employers' social security contribution.

Figure 2. Marginal tax rates: 1995, 2004 and 2006

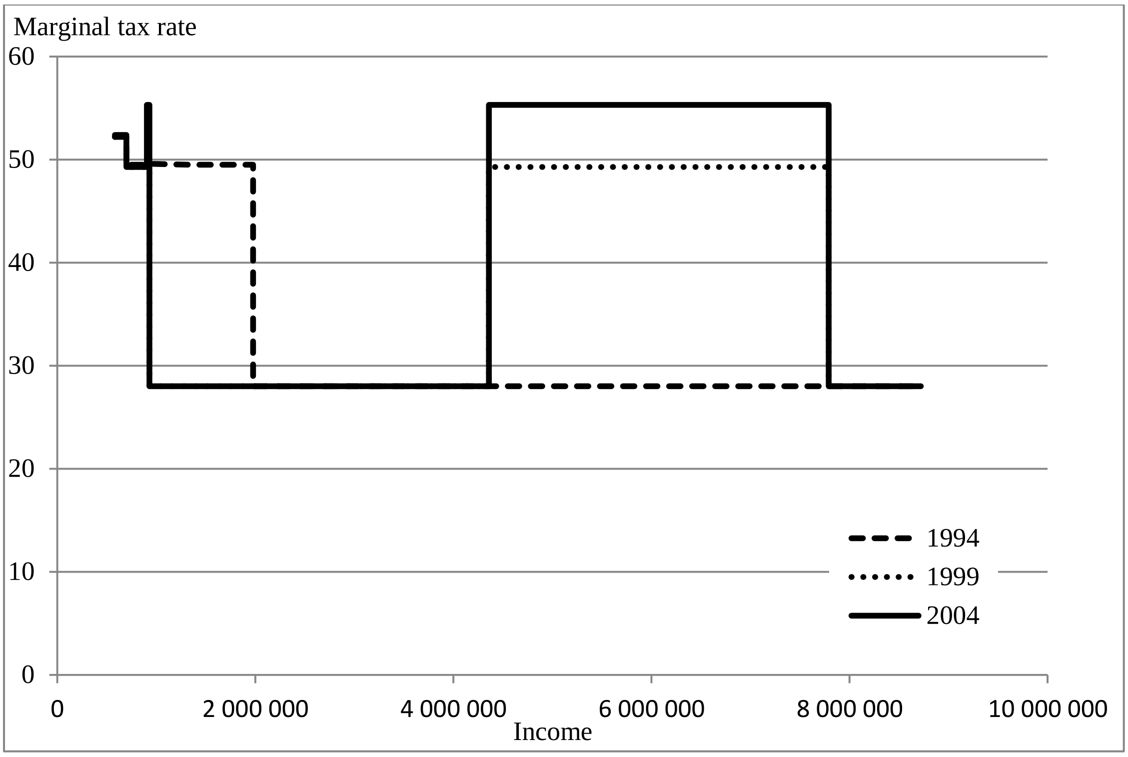


Under the split model, an imputed return to the capital invested in the firm is calculated by multiplying the value of the capital assets by a fixed rate of return on capital (determined go government bonds and a risk premium). The imputed return to capital is taxed at the corporate rate, which equals the capital income tax rate at the individual level. Business profit net of imputed return to capital is the imputed return to labor, which is taxed as labor income, so-called personal income, independent of whether the income is retained in the firm or transferred to the owner.

The main idea was that the taxation of "labor income" should follow a similar schedule, independent of whether the income came from wage payments or was obtained by the split model. But a separation was introduced, for income above 34 G[6] the tax rate goes down to 28 percent, thus suggesting that income above that level comes from returns to capital. However, the 1990s saw increasing pressure on the dual income tax system, resulting in numerous "patches." This is visible in the development in the schedule of the self-employed, as seen in Figure 3, with marginal tax rates kept low at the 28 percent rate in intervals (see schedule for 2004). In some years there was also a separate schedule for lawyers, dentists, doctors and other independent contractors delivering services to the public.

[6] The basic amount in the social security system, G = 36,500 NOK in 1992.

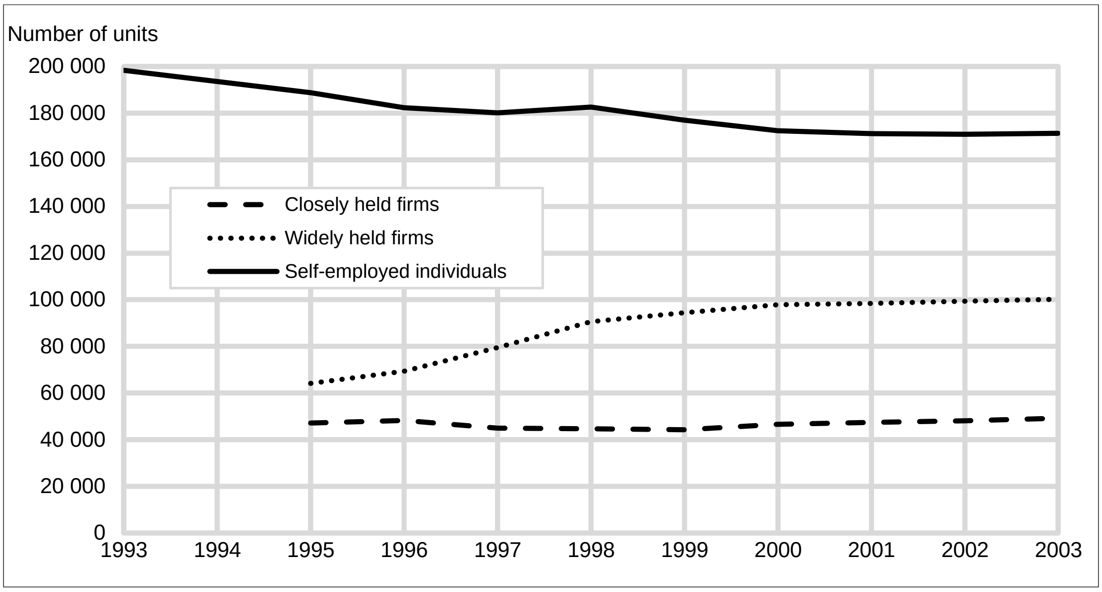
Figure 3. Development in marginal tax rates for personal income under the split model



As already remarked, a main problem of the post-1992 tax schedule was the built-in tension stemming from a rather large difference between marginal tax rates on dividends to shareholders and wage income for the self-employed. This resulted in organizational shifts, as business-owners chose to move out of the split model (self-employed and closely held firms) and to be paid by dividends from a fully incorporated firm (Thoresen and Alstadsæter, 2010). In data we will observe this as shifts in the organizational form and shifts in the type of payment. Figure 4 and Figure 5 provide indicative evidence of such tax induced maneuverings, as we see a growth in the number of widely held firms (Figure 4) in the period 1993–2013 and broadly an increase in transfers of dividends in the period leading up to the tax reform in 2006 (Figure 5). With respect to the pattern of Figure 5, dividend payments dropped in 2001 due to a temporary tax on dividends, and then rose steadily from 2002 and onwards, after the appointment of a government tax commission with the mandate to consider a new tax on dividends. The Norwegian tax reform of 2006, which was announced several years in advance, introduced incentives to step up dividends prior to the reform. Indeed, this caused strong timing effects, as found by Alstadsæter and Fjærli (2009).[7]

[7] As also established by Kari, Karikallio and Pirttilä (2009) for Finland.

Figure 4. Norwegian small businesses by organizational form, 1993‒2003

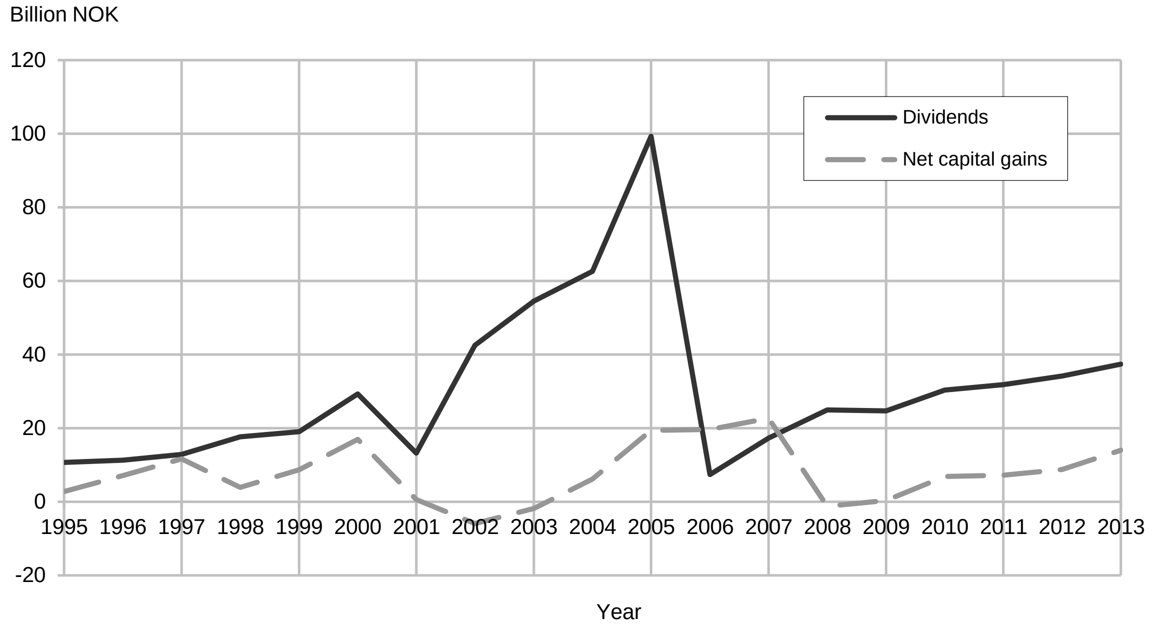


Source: Thoresen and Alstadsæter (2010)

Under the 2006 tax reform, the split model was superseded by rules of a more general nature, with dividends (and capital gains stemming from shares) taxed at both the corporate and individual levels. The reform of 2006 emerged as an attempt to create a system that would prevent taxpayers from transforming labor income into capital income to benefit from the lower flat rate applied to the latter; see Sørensen (2005) for the wider background to the reform and steps taken to adjust the dual income tax. The current tax is levied on individual dividend incomes and capital gains above a rate-of-return allowance, that is, on profits above a risk free rate of return, by 48.2 percent at the maximum in 2006.[8] Moreover, top marginal tax rates on wage income were cut to narrow the differences between the marginal tax rates on capital income and labor income, see Figure 2.

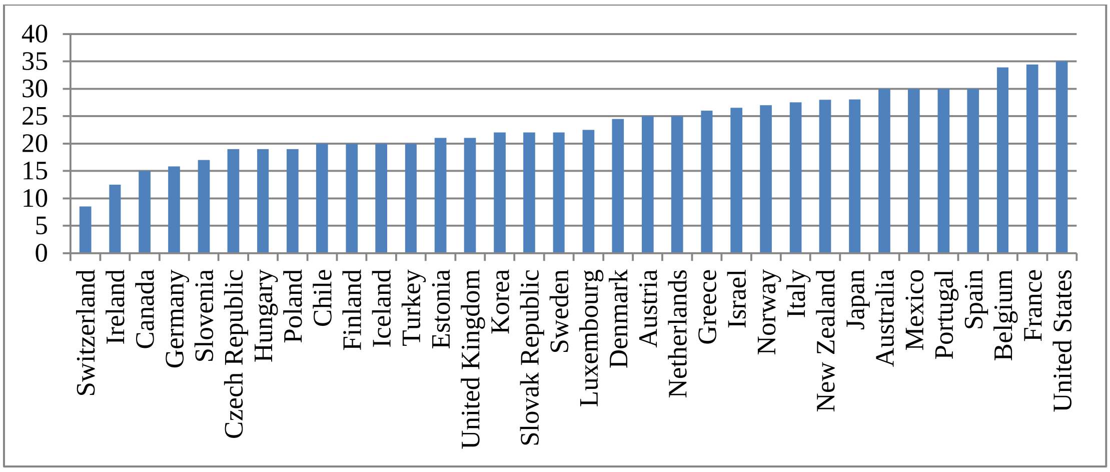
[8] The figure for the marginal tax rate on dividends in 2006 is derived as follows. Capital income is taxed at a 28 percent rate at the corporate level, and the remaining 72 percent is transferred to the individual and taxed at 28 percent (above the rate of return allowance), resulting in a combined rate of 20.16 percent (0.72×0.28), which is then added to the corporate level rate. Now, in 2015, the corporate is reduced to 27, which alters the calculation correspondingly.

Figure 5. Dividends and net capital gains 1995–2013



Recent demand for revisions of the Norwegian tax schedule, resulting in the report from the so-called Scheel commission (NOU 2014: 13), mainly comes from developments along another tax dimension: the closer integration of markets as a result of globalisation has motivated various countries to amend their corporate taxation, i.e., we have witnessed a widespread decrease in corporate tax rates. Whereas a corporate tax rate at 28 percent was low in 1992, currently there are many countries around us, for example all the other Nordic countries, with lower rates (NOU 2014: 13, p. 17), also when accounting for the reduction to 27 percent in 2014. Figure 6 shows that Norway is at the high end of the corporate tax level ranking.

Figure 6. Corporate tax rates in OECD countries, 2014



Source: OECD

4. Tax treatment of wage earners and the self-employed

As already described, individuals in Norway pay income taxes calculated with respect two tax bases. The first base is the so-called “ordinary income”. It includes all gross taxable income accruing to the individual (e.g. wages, pensions, business income, income from shares and other taxable capital incomes) minus the basic allowance, various deductible losses and expenses, parental and other allowances. A flat rate is levied on the ordinary income after deducting a personal allowance and other special allowances.

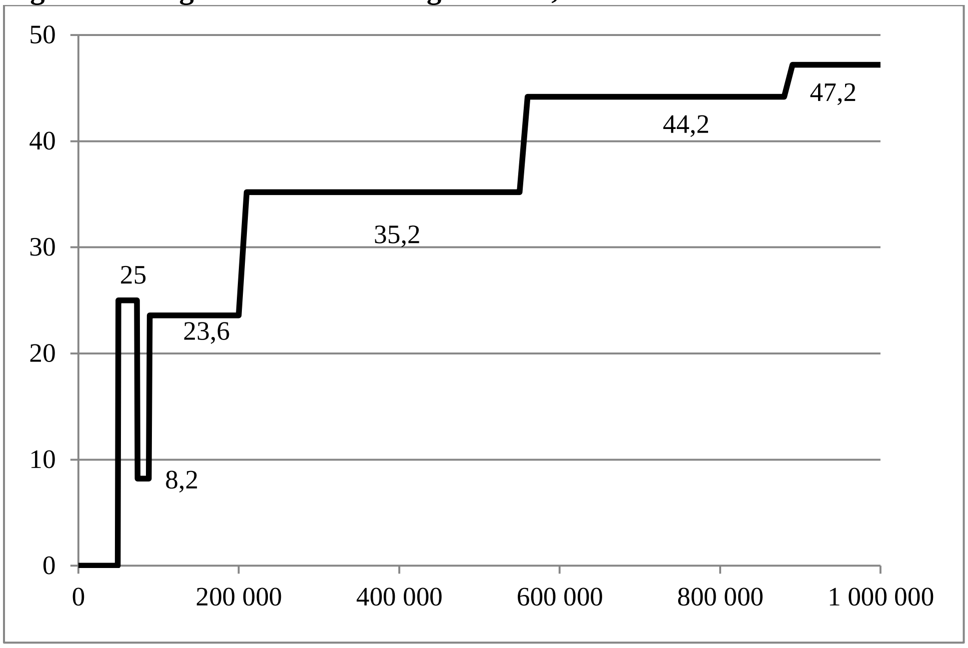
The second base is called the “personal income” and is defined as the sum of all gross labor incomes, pension income, and business income above the rate of return allowance. No other allowances are considered in this calculation. The social security contribution for both employees and self-employed and the two-tier surtax are paid on this second base.

Figure 7 presents the marginal tax rate on wage income for a person taxed in tax class 1 with only standard deductions in 2015. No taxes on income are paid until the lower limit for paying national insurance contribution is reached.[9] The social security contribution has to be paid at a levelling rate of 25 percent until it becomes equivalent to pay the general rate, 8.2 percent on total wage income. If total income is larger than the sum of the personal allowance (*personfradrag*) and the basic allowance (*minstefradrag*), tax on ordinary income will be paid.[10] In the example, starting paying 27 percent on income exceeding 89,050 NOK, the taxpayer faces a marginal rate of 23.6 percent ($8.2\% + 27\%(1-0.43)$). When the maximum basic allowance is reached ($89050/0.43 = 207093$), the marginal tax rate increases to 35.2 percent $(8.2\% + 27\%)$. Finally, on gross incomes exceeding 550,550 NOK a surtax of 9 percent is levied, whereas it increases to 12 percent for gross income larger than 885,600 NOK.

[9] This threshold was 39,600 NOK from 2008 to 2014. For the year 2015 it has been increased to 49,650 NOK.

[10] The personal allowance is a general basic deduction from the ordinary income, i.e., it applies to all income (wages, pensions, capital and entrepreneurial income). In 2015 it is 50,400 NOK for a class 1 taxpayer. The basic allowance applies for wage income and pensions, as a proportion of income with upper and lower limits. In 2015 the rate for wage incomes was 43 percent and the lower and upper limits were 4,000 NOK and 89,050 NOK.

Figure 7. Marginal tax rate on wage income, 2015



As the self-employed individuals invest both capital and labor on their business, part of the profit generated by the business is capital income and some of it comes from return to labor. After the revision of the dual income tax in 2006, the owners of sole proprietorships are taxed under the self-employed model (*foretaksmodellen*). According to the new rules, business income from a sole proprietorship activity in excess of the risk-free return allowance, calculated on the invested capital, is taxed as imputed personal income and is subject to surtax and social security contribution.[11] This is in contrast to the taxation of partners in partnerships (*deltakermodellen*) and shareholders (*aksjonærmodellen*). A partner in a partnership pays taxes according to his share of the partnership's profits on an annual basis, while corporations are subject to a company tax. In addition, taxation arises when the individual partner or shareholder receives returns (dividends) or capital gains on the investment above a risk free rate of return.

Social security contributions for self-employed individuals are higher than the rate for wage earners, to (partly) compensate for self-employment income not entering into the tax base for the payroll tax (see Figure 9 below).

Table 1 summarizes the principle features of taxation of wages and business income for individuals in class 1, not belonging to the primary sector or living in Nord-Troms and Finnmark.

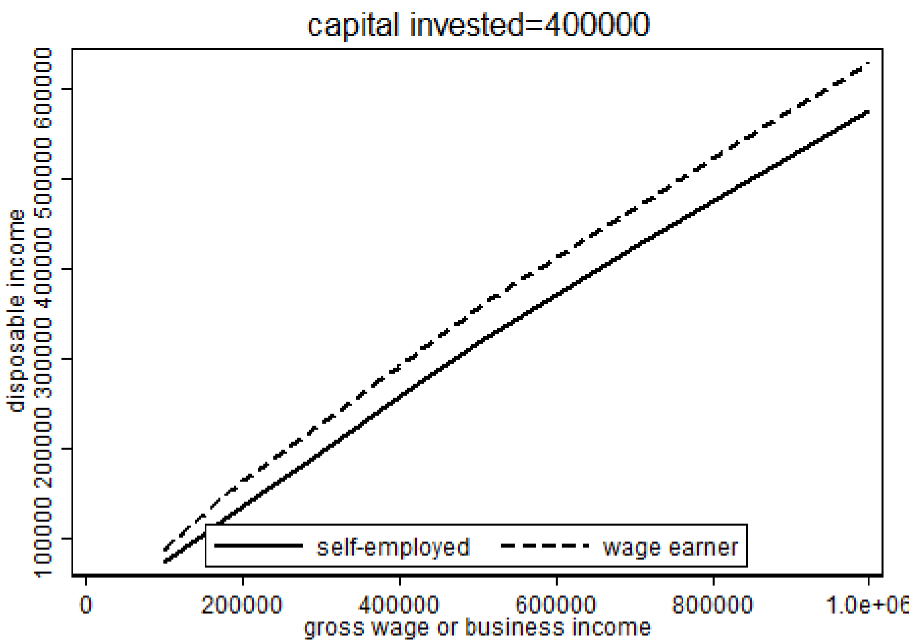
[11] The basis for calculation of risk-free rate is the arithmetic average observed on the treasury bills with 3 months maturity, as published by Norges Bank every year. In 2014 it was 1.24 percent.

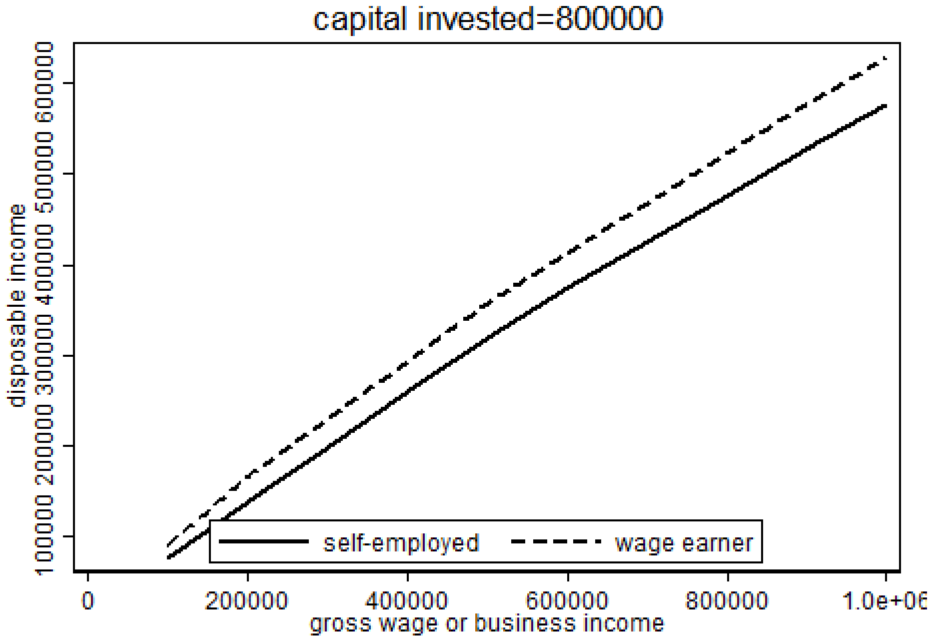
Table 1. Some key figures on taxation of wage earners and self-employed, 2010–2015

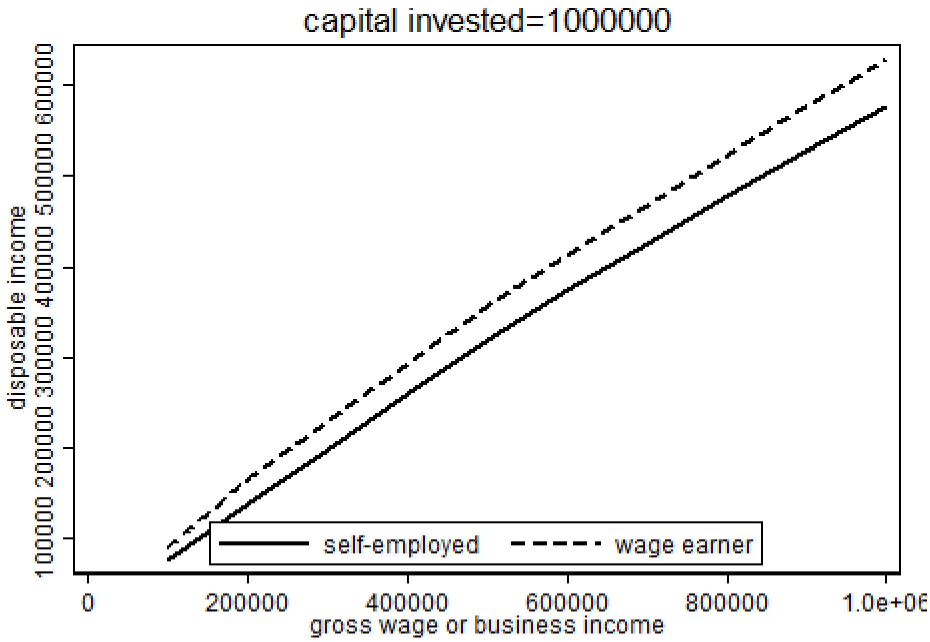
Year	Tax rate on ordinary income	Social security rate (wage)	Self-empl. social security rate	Personal allow. (NOK)	Basic allow., rate	Self-empl. safe rate of return	First surtax rate	Second surtax rate
2010	28	7.80	11	41,210	36	2.20	9	12
2011	28	7.80	11	43,600	36	2.10	9	12
2012	28	7.80	11	45,350	38	1.60	9	12
2013	28	7.80	11	47,150	40	1.50	9	12
2014	27	8.20	11.4	48,800	43	1.20	9	12
2015	27	8.20	11.4	50,400	43		9	12

To visualize possible tax incentives for choosing self-employment and paid employment, in Figure 8 we compare disposable incomes when deriving income as wage earner and in self-employment in 2013. The graphs in Figure 8 show disposable income for different pre-tax income levels and under different assumptions of capital investments. For simplicity, it is assumed that the self-employed has no extra deductions, including no depreciation of the capital investment.

Figure 8. Disposable income for wages and business incomes, various levels of invested capital

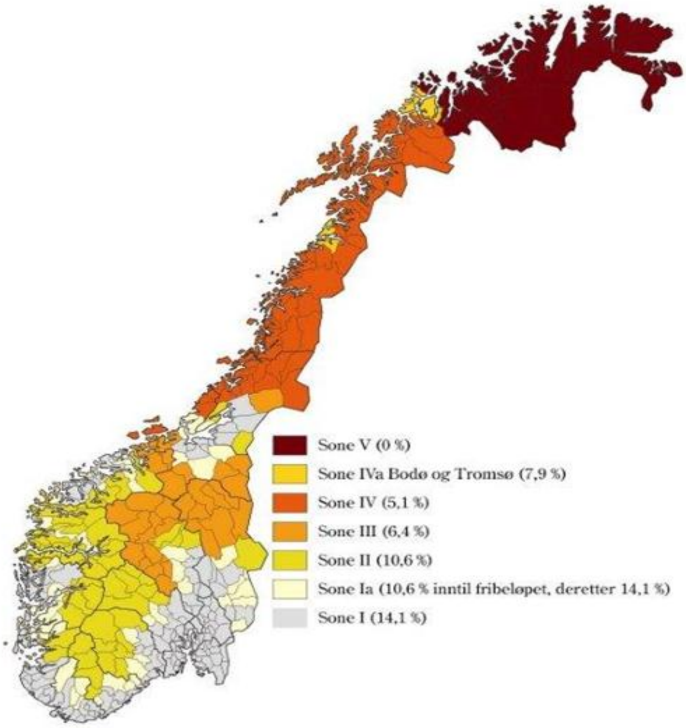






The graphs clearly show that, under these assumptions, disposable income is larger for all the ranges of gross wage income or business income considered and for different values of capital invested in the business. The main reason for the higher disposable income in the wage earner cases is the higher social security contribution paid by the self-employed, which can be justified by no "employer" payroll taxation on the labor provided in "own" firms. Figure 9 shows the payroll taxation schedule, and it also illustrates that there is substantial regional variation in the employer payroll taxation, ranging from 0 in the northern counties to 14.1 percent in the so-called Zone I (which includes the Oslo-area).

Figure 9. Employer social security contribution in Norway



In a comparison of wage earners and self-employed, it is also important to point out that self-employed individuals receive lower social security benefits than the ones granted to wage earners. For instance, in general the self-employed individuals are not entitled to receive unemployment benefits, and also the sickness benefits scheme gives lower coverage for self-employed persons than for wage earners.[12] These differences in the social security coverage can be also important determinants of whether to choose self-employment over wage employment (or dividends over wage payment for an active shareholder). Fjærli and Lund (2001) show theoretically and find empirical indications of taxation not being the only motivation behind the choice of monetary compensation for the owners of corporations (wage or dividends), but also that the right to receive social benefits is important in shaping decisions.

It is generally believed that activities of the self-employed are sensitive to taxes and tax changes. However, there is a whole range of issues that come into the decision-making, as valuation of "being one's own boss", attitudes toward risk, etc.[13] Moreover, there may exist tax incentives for a potential employer to encourage a candidate employee to provide his labor organized in the form of

[12] The right to sickness benefit only applies from the 17th day of sickness, as the benefit from the first to the 16th day is covered by employers for the employees. Furthermore, the self-employed only receive sickness benefits at 65% of their income basis, whereas wage earners are fully insured (the self-employed have, however, the possibility to opt for full sickness benefits, subject to a fee).

[13] See the overview in Parker (2004).

self-employment, to avoid both the protections (long term labor contracts) and costs (employers' social security contribution) connected with a dependent employment relation. There are indeed strict criteria set up by the tax authority that distinguish sole proprietorships and regular employees. However, recent but circumscribed evidence describe the so called "bogus self-employment" phenomenon. Friberg (2011) suggests that while the Norwegian workers in the building sector to a large extent are permanently employed, the Polish labor migrants in the same sector are characterized by a high share of self-employment.

5. Taxation of sole proprietors, partnerships and incorporated firms after 2006

Results of the optimal tax literature leave one with no strong case for taxing capital income (Boadway, 2005). Dual income taxation (with a flat tax rate on capital income and progressive rates on gross labor and pension income) avoids or eases some of the problems of the comprehensive income tax: for example, a lower rate on capital reduces the discrimination against "early earners" and "late spenders" in a life-cycle perspective, and is likely preferable for investments in innovations and risky projects. However, it usually introduces a trade-off between advantageous capital income taxation and avoiding tax motivated income shifting from the labor to the capital income. As already seen, the 1992 tax reform, and in particular the adjustments of the schedule in the 1990s, generated tax-motivated income/organizational shifts. In particular, shifts toward organizational forms that were not subject to the split model has been documented, see Thoresen and Alstadsæter (2010).

Until 2006 the tax treatment of the active shareholders in closely held corporations and partners in a partnership under the Norwegian tax system was similar to that of the self-employed. Income splitting was mandatory for partnerships and corporations with active owners. The 2006-reform abolished the split model for partners in a partnership and active shareholders in corporations, and instead introduced the shareholder model (*aksjonærmodellen*) and the partnership model (*deltakermodellen*).[14]

There are three types of partnerships in Norway, depending on the liability of the partners. In the limited partnership (*kommandittselskap, KS*) some of the partners will be general partners (unlimited liability) and others are limited partners (obligations are limited to each partner's share of the total committed capital). When organized as general partnerships, instead, the partners can choose to be jointly liable for all debts of the partnership (ANS), or to be responsible for a percentage agreed upon (DA).

The 2006 tax reform introduced a variant of the shareholder model for distribution of partnership profits for individual partners. In contrast to the taxation of self-employed, the full taxation of the return to the firm's labor and capital is only attained when profits are distributed to the partners.

[14] Partnerships are companies consisting of two or more partners that are jointly or fully responsible for the financial liabilities of the firm.

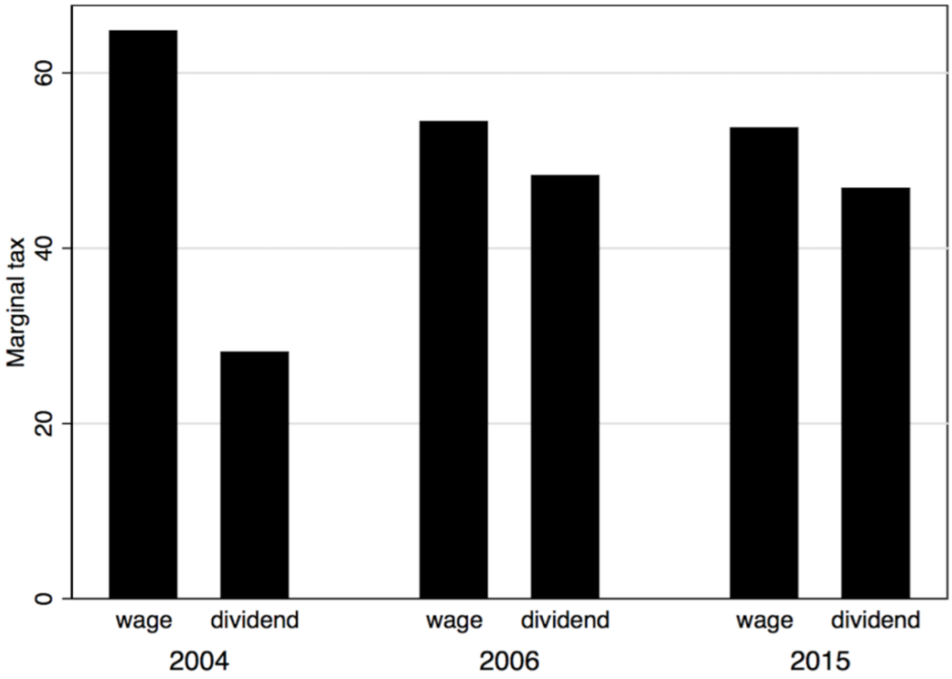
In particular, there is shielding of a normal rate of return for partnerships, which implies that only the profit in the hand of the partners exceeding a risk-free return to the capital invested in the partnership is taxed at the maximum rate. The maximum marginal tax rate of the effective tax rate on withdrawals from a business income is 46.7 percent ($27\% + 27\%(1-0.27)$) in 2015. If a partner receives payments for work in the firm, this is taxed as business income.

As the 2006-reform introduced the so-called shareholder model for taxation of personal shareholders, the distinction between active and passive shareholders was abolished. Furthermore and most importantly, the new model reintroduced the double taxation of dividends and capital gains, at the corporate and the individual level, to reduce the tax treatment differences in the taxation of earned income and returns to capital. However, all shareholders would be allowed a tax exempt amount equal to a risk free interest on their tax base cost of each share. If the shareholder opts to refrain from dividends, the unused tax free amount multiplied by the risk free rate of return will be carried forward. This is an important feature to ensure neutrality of the taxation of dividends and gains.

The corporate tax system has maintained its focus on neutrality, inspired by the main reasoning behind the 1992 reform. The difference between the tax treatment of companies and partnerships are due to profits of partnerships being taxed in the hands of the partners, whereas the profits of the limited companies are taxed inside the firm, but the same tax rate applies (27 percent since 2014). Moreover, when distributed, taxation of profits/dividends or capital gains is rather close. Personal shareholders and partners are taxed at a 27 percent rate on the part that is not tax exempted. The taxation models for these two different organizational forms are basically the same; a main difference is that work remuneration for a partner is taxed as business income, while work remuneration of an active shareholder is taxed as wage.

The adjustments to the dual income taxation have overall reduced the difference between the top marginal tax rate on labor income and capital income, and therefore most likely reduced the incentives to convert labor income to capital income. Figure 10 shows the difference between the top marginal tax on wages (including the highest rate for the employers' social security contribution) and dividends (including the corporate tax) for some years prior to and after the 2006-reform. The top marginal tax on wages is 53.7 percent ($(8.2+27+12+14.1)/(100+14.1)$, whereas dividends are taxed by 46.7 percent on the margin in 2015.

Figure 10. Top marginal taxation of wages and dividends



The present tax system includes an additional distinction between the taxation of personal and corporate shareholders. Corporate shareholders are exempted to pay tax on dividends received and capital gains on shares. The purpose of introducing the so-called exemption method (*fritaksmetoden*) is to avoid chain taxation of transfers within the corporate sector (Ministry of Finance, 2011). The exemption method and the shareholder model together are meant to assure that income proceedings from corporate activities are taxed once at the firm level and once in the hand of the personal shareholder.

6. Financing and entrepreneurial activities

An important part of the philosophy underlying the DIT is that the capital income tax base should be broad, to ensure the greatest possible degree of tax neutrality. Sørensen (2005) argues that the shareholder income tax is equivalent to a neutral cash flow tax, i.e., neutral with respect to investment and financing decisions. However, Lindhe and Södersten (2012) suggest that the shareholder tax represents an incentive for the shareholder to hold on to his investment in corporate equity compared to investing outside the stock market, when the pre-tax rate of return on shares is determined on international markets (a lock-in effect).

The substantial increase in dividends after the 2006 tax reform, as seen in Figure 5, did not necessarily reduce the size of a firm, as discussed by Alstadsæter, Kopzcuk and Telle (2014). For personally owned firms (closely held), much of the capital was re-injected into the firms. Further, Fjærli and Raknerud (2014) discuss (theoretically and empirically) to what extent the new shareholder tax and the wealth tax harm investments and thereby the growth of firms. It is found that firms are not affected when investments are financed by retained earnings, taxed at the margin, which is typical for a mature firm.[15]

The main tool to encourage entrepreneurial activities through the tax system in Norway is the so-called SkatteFUNN scheme. It came as a response to observing that R&D spending of the Norwegian business sector as a share of GDP is below the OECD average. To stimulate private R&D investment, the Norwegian government has traditionally used direct R&D subsidies. In 2002 this policy was supplemented with an R&D tax credit scheme – SkatteFUNN – for small and medium-sized enterprises (SMEs), which by 2003 became available to all firms. SkatteFUNN provides a volume-based tax credit to firms with an R&D project that the Research Council of Norway (RCN) has approved. A tax credit of 18 percent (20 percent for SMEs) of R&D costs for the approved project is deductible from the firm's income tax, with a project cost cap roughly equal to half a million Euros. If the firm does not pay any tax or pays less tax than the tax credit, the credit is paid to the firm as if it were a grant. In an evaluation of the scheme, see Cappelen et al. (2012), it is found that the SkatteFUNN scheme stimulates innovations in the form of new products for the firm and new production processes, but not major product innovations.[16]

7. Do the self-employed shift back?

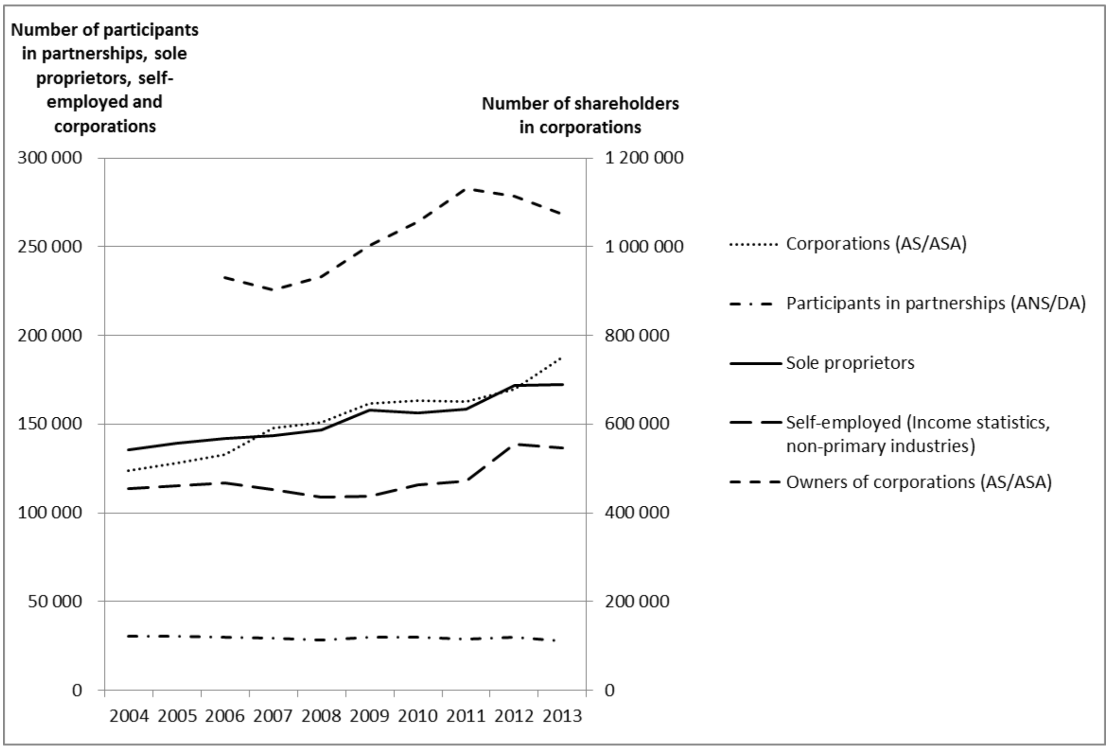
As already discussed, and as indicated by Figure 4, the tax schedule prior to the 2006-reform generated organizational shifts. Thoresen and Alstadsæter (2010) retrieved such effects in micro data, when combining information about firms and owners and the link between them; the latter obtained from the Register of Shareholders. The behavior of more than 167,000 owners of small businesses, initially organized as self-employed or as a closely held corporation (defined as businesses in which more than two-thirds of the shares were owned by the active owner) was followed. A time window is assigned for the business owners to shift organizational form, and characteristics of the "shifters" are discussed in relations to the characteristics of those decided to remain in the chosen organizational form. It was found that (1) a high imputed labor income under the split model and (2) belonging to a human-capital-intensive firm increase the probability of moving into a widely held corporation. Moreover, taxpayers who shifted organizational form experienced a substantial increase in posttax income, compared to the "stayers". IV regressions suggest that organizational shifts increase income growth by as much as 40 percentage points.[17] This suggests that for a particular group of business owners able to adapt to the features of the particular dual income tax system, which was in place prior to 2006, the income gains have been rather large. Such findings certainly raised issues concerning the

[15] It is also worth noting that Keuschnigg and Dietz (2007) find advantageous growth effects for Switzerland, when introducing a dual income tax in combination with an allowance for corporate equity (ACE).
[16] See also Fjærli, Iancu and Raknerud (2013) on information on entrepreneurship in Norway.
[17] The OLS results suggest smaller effects: around 9 percentage points increase in income.

legitimacy of this type of tax schedule, and suggested that the politicians had good reason to alter the schedule, to reduce the difference between marginal tax rates of wage income and dividends.

Given the pattern reported in Figure 4, it would be interesting to see how the different organizational forms develop after the tax reform of 2006. In Figure 11 we put together some trends in different types of firms for the time period from 2004–2013. The categorization of firms is different from the classifications in Figure 4, as another data source is now used, based on the so-called Central register of establishments and enterprises (CRE), administered by Statistics Norway (Statistics Norway, 2014b).[18] We have also utilized data from the Income and wealth statistics for households (Statistics Norway, 2014a), to establish the time series in Figure 11 referred to as "Self-employed". By the latter data source, we have calculated the number of self-employed from repeated cross sections, based on a definition of self-employment derived from reporting higher business income that wage income.

Figure 11. Number of owners and number of firms by organizational form, 2004─2013



Even though Figure 11 only presents "indicative evidence" of effects of the 2006 tax reform, we do not see the same pattern in the number of self-employed as seen in Figure 4 (attributed to effects of the dual income tax in place prior to 2006). The time series for the self-employed show increase in the number of self-employed after 2006. Moreover, the number of partnerships appears to be rather stable (around 30,000 individuals involved) over the time period.

[18] The Central Coordination Register for Legal Entities (the so-called Brønnøysund-register) and the Register of Shareholders are key data sources.

8. Concluding remarks

The taxation of the self-employed, partnerships and other business forms continues to be on the policy agenda in Norway, as illustrated by the recent report from the Scheel commission. This report has described the main features of the taxation of the self-employed and partnerships, and the relation to taxation to wage earners and other business forms.

The number of self-employed is low in Norway, compared to other countries. We now see some indications of the number of self-employed increasing, after observing (a likely) tax-induced reduction in self-employment under the dual income tax prior to the 2006 tax reform. However, more research is needed in order to understand to what extent recent changes in the tax system have influenced the role of self-employment in the Norwegian economy.

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