The Norwegian Tax Administration

Guidelines for completing RF-1224 "Personal income from sole proprietorship 2017"

Approved by the Directorate of Taxes

Information about the duty to submit form RF-1224:

The form for the calculation of personal income (RF-1224) is a mandatory enclosure with the tax return, with the exeption of some cases where the taxpayer (the sole proprietorship) can choose not to submit income statements. There are extensive limitations with regard to which sole proprietorships are exempt from submitting income statements for the income. For more detailed information, see skatteetaten.no

Please note that form RF-1224 must be submitted if the taxpayer has negative calculated personal income, either from the income year in question or carried forward. For more detailed information, see skatteetaten.no

In addition to exemption from the duty to submit an income statement, the duty to submit form RF-1224 for the calculation of personal income is no longer absolute in these cases. Personal income must still be calculated for this group with low operating income, but the use of form RF-1224 will be voluntary for the taxpayer in these cases. This means that, should the taxpayer not wish to submit 'Form for the calculation of personal income', the amount entered under 'Operating profit/loss' in the tax return will be used as calculated personal income in the tax assessment.

If the taxpayer wishes the tax assessment to be carried out on the basis of form RF-1224, the form can nevertheless be submitted with the tax return.

For sole proprietorships that do not submit income statements, the gross operating income, total deductible operating expenses and operating profit/loss must be entered directly in the tax return form RF-1030 in a separate field 'For sole proprietorships that do not submit income statements'.

Introduction

The regulations relating to the calculation of personal income from business income are set out in the Taxation Act chapter 12 and the Ministry of Finance's Regulations No 1042 of 9 September 2005 (FSFIN chapter 12). Positive calculated personal income forms the basis for taxes on gross income: National Insurance contributions and bracket tax.

As a rule, personal income shall be calculated *for the chief party* in each active sole proprietorship.

Spouses

If spouses wish to allocate the personal income between them, they shall only submit one copy of the form in which items for allocation have been entered.

Spouses who meet conditions for being partners in a business assessed as a partnership ref. FSFIN (19 nov. 1999 nr. 1158) § 10-48-1, shall not submit RF-1224 Personal income from sole proprietorships. Instead they must submit RF-1221 «Deltakerens melding over egen formue og inntekt i selskap med deltakerfastsetting 2017» (Partner's statement of own capital and income in businesses assessed as partnerships RF-1221)

Cessation of trading

In cases where the enterprise has been discontinued and no income statement is submitted, but

the form for depreciation (RF-1084) or form for profit and loss account (RF-1219) shows that there are items that are to be included in the calculation of personal income, *these items shall be entered directly in the tax return, and form RF-1224 shall not be submitted.*

Several businesses - combined calculation

If the sole proprietorship operates several activity and the activities belonging same National Insurance contribution group, cf. the National Insurance Act section 23-3, the personal income from these activities must be calculated combined if the conditions stipulated in the Ministry of Finance's Regulations No 1158 of 19 November 1999 section 10-42-3 are met, cf. section 12-20-1. In these cases, only one form for the calculation of personal income shall be completed. The conditions are that the activities in question fall within the following areas/categories:

a) general farming and related secondary occupations
b) reindeer husbandry and related secondary occupations
c) general farming, forestry and the quarrying/extraction of sand, gravel, rock and peat from the property when the total annual activity does not exceed three normal man-years, see the Directorate of Taxes' valuation rules section 3-2-8.
d) general farming, forestry and fishing and hunting at sea when the total annual activity does not exceed three normal man-years, see the Directorate of Taxes' valuation rules section 3-2-8.
e) the activities are closely related in terms of their content and finances. When assessing this, emphasis will be placed on whether joint facilities, operating equipment, personnel, accounting and financing have been used and whether the activities supplement each other with a view to providing goods and services that belong together.

About plus and minus signs in front of the figures in the form

The main rule

In principle, all figures shall be reported without plus or minus signs where the heading clearly indicates whether they should be added or subtracted. In other words, the figure should not be preceded by a minus sign if it is clear from the text that it concerns an expense, a deficit etc, correspondingly a plus sign should not be used where the text states that the figure concerns income, profit etc.

Specification

If a field contains a pre-printed sign (positive or negative), the reported figure shall be written without a preceding sign. A sign shall only be used for reporting amounts with the opposite sign to the pre-printed one.

- In fields showing totals and results, a minus sign shall always be used when the sum is negative.

Other public agencies use information in RF-1224
In order to coordinate and simplify reporting by business and industry, information provided in form RF-1224 ‘Personal income from sole proprietorship’ can be used in whole or in part by other public agencies authorised to collect the same information, cf. the Act relating to the Register of Reporting Obligations of Enterprises sections 5 and 6. Information about any such coordination can be obtained from the Register of Reporting Obligations of Enterprises by calling +47 75 00 75 00, or from the Directorate of Taxes by calling +47 800 800 00.

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Enter the name of the taxpayer – the chief party in the business – in the name field. As a rule, sole proprietorships shall submit one personal income form for each activity. It must therefore be stated which type of business activity the personal income has been calculated for. In the field ‘Type of business’ you must enter the same type designation as in form RF-1175 (or RF-1167) item 0402A. In the field “Sector code”, enter the same number as was used for this activity in the ID column in the income statement.

Basis calculation

Item 1.1
The basis for calculating personal income is the enterprise's taxable business income. Personal income shall be calculated even if there is a loss.

If the enterprise was established or closed down during the year, only the general income earned and accrued during the period when the enterprise operated shall be included in the calculation basis for personal income for the year in question.

For most sole proprietorships, the amount to be entered under item 1.1 is found in Income Statement 1 or 2, item 0402E.

Visual artists are an exception to this rule. They will find the amount in form RF-1242 Næringsoppgave for billed-kunstnere (‘Income Statement for visual artists’ – in Norwegian only) item 2.90.

In cases when a taxpayer is exempt from the duty to submit an income statement and the taxpayer's circumstances mean that he/she wishes the tax assessment to be carried out on the basis of a submitted form RF-1224, the amount to be entered under item 1.1 is taken from 'Operating profit/loss' in the tax return.

Item 1.2
Here, deductions are made for interest on debt (relating to financial institutions and multiple debt instruments) relating to the enterprise (enterprise debt). The interest to be entered here is the interest on the debt entered under item 2.10 (enterprise debt, which cannot exceed the basis for the risk-free return before deduction for debt). See the guidelines to item 2.10 for details about what is deemed to be enterprise debt.

Example:
If the enterprise has only one loan (NOK 150 000) and the basis for the risk-free return before deduction for debt is NOK 100 000, then only NOK 100 000 (i.e. 2/3 of the loan) can be entered as enterprise debt. The same proportionate share (2/3) of the interest accrued on the loan shall be entered under item 1.2. If the enterprise has more than one loan and the total of these loans exceeds the basis for the risk-free return before deduction for debt, you can choose to include the loans that have the highest interest.

Interest on loans that are not shown in the balance sheet or included under item 2.10 shall also be entered under item 1.2. Examples of this are interest accrued during the year on operating credits/ overdraft facilities that were positive at the beginning and end of the year, and interest on loans taken out and repaid in the income year. It is not permitted to not deduct interest in order to increase calculated personal income.

Item 1.3
Here you make deductions for net capital income and gains recognised in the accounts that are included in the amount entered under item 1.1. Examples are gains on the sale of bonds, debt certificates and outstanding claims. No deductions are made for interest income or currency gains relating to trade debtors. If interest relief subsidies from Innovation Norway have been taken to income in the income statement, they shall be deducted here unless the interests that the subsidies are to cover, have been deducted under item 1.2. If, on the other hand, the interests that the subsidies are to cover have been deducted under item 1.2, the interest relief subsidies shall not be deducted under item 1.3.

Deductions must also be made for any rental income from real capital that has not been active in the enterprise and that has not been included in the basis for the risk-free return.

The rental value of housing for retired farmers is not to be entered here, since it is both taken to income and expensed in the income statement.

For information about whether a certain real capital is included in the basis for the risk-free return, see ‘Calculation of the basis for the risk-free return’ below.

Gains from the realisation of operating equipment, whether they have been entered in the profit and loss account or taken to income directly, shall not be excluded from the calculation of personal income.

Item 1.4
Pursuant to Regulations No 1158 of 19 November 1999 (FSFIN chapter 12) section 12-12-2, a taxpayer who owns a unit or share in a housing cooperative covered by the Taxation Act section 7-3, with an associated right to rent premises that the taxpayer him/herself uses in his/her business activities, can deduct a set reduction amount from the business income that will be treated as capital yield when personal income from the enterprise is calculated.

The same applies when a taxpayer owns a bond with an associated right of use of such premises, and the rent following from the bond amounts to maximum half the market rent. The reduction is not deemed to be a consequence of the bond if the premises are owned by persons or companies covered by the Taxation Act section 12-11. An overview of how the reduction amount was calculated in accordance with the Regulations section 12-12-2 must be enclosed with the form for the calculation of personal income RF-1224.

Item 1.5
Here you add capital expenses and losses, such as losses from the sale of bonds, debt certificates, outstanding claims and currency losses.

No additions are made for interest expenses. Nor are additions made for losses, including currency losses, relating to trade debtors. All costs relating to the capital income entered under item 1.3 shall be reversed here. Expenses recognised in the accounts for objects that have not been active in the enterprise shall be entered here. Examples are maintenance costs relating to housing for retired farmers or let buildings.

Item 1.6
For sole proprietorships, no personal income is to be calculated on gains from the realisation of general agriculture or forestry, including realisation of agriculture with milk quotas. . See guidelines RF-1178, XVIII item 453.

Item 1.7
Here you arrive at the total basis for the calculation before any deductible risk-free return and/or deduction from pay.

Item 1.8
Here you deduct the deductible risk-free return, which is arrived at by multiplying the basis for the risk-free return by a risk free interest rate. The taxpayer can choose the risk-free interest rate from 0 up to the maximum risk-free interest rate stipulated and announced by the Directorate of Taxes in January of the year following the income year. Choices below the maximum risk-free interest rate must apply to whole percentage units. The choice of risk-free interest rate for each income year must be made no later than on submission of the tax return. If no clear choice has been made within the deadline, the maximum risk-free interest will be used as the basis. The basis for the risk free return is calculated on page 2, see 'Calculation of basis for the risk-free return'.

Item 1.9
If no allocation between spouses is claimed, item 1.10 b is left empty and the amount in item 1.9 will form the basis for further calculations.

Allocation between spouses

Item 1.10
This item is only used for allocation between spouses when they run a joint enterprise and they demand that the positive calculated personal income be divided between them. The percentage share of the profit from the joint enterprise to be allocated to each spouse is multiplied by the amount from item 1.9, and the amounts are entered under items 1.10 a and 1.10 b. The spouses then each calculate their personal income, taking account of any deduction from pay and coordination.

Coordination/carryforward of negative calculated personal income

Item 1.17
This is the calculated personal income for the year before any coordination/carryforwards.

Item 1.18
If you have **negative** calculated personal income this year (in item 1.17), you must enter your total negative calculated personal income carryforward from previous years here in item 1.18 in order to arrive at the correct total in item 1.23. You find the amount in last year's RF-1224 'Personal income from sole proprietorship', item 1.23.

If you have **positive** calculated personal income this year (in item 1.17) and you have a negative calculated personal income carryforward in item 1.23 in last year's RF-1224 'Personal income from sole proprietorship', you have two options:

1) You can use the negative personal income from previous years to reduce this year's positive personal income. In such case, enter <u>the **whole amount**</u> from item 1.23 or 1.24 in last year's RF-1224 'Personal income from sole proprietorship' in item 1.18.
2) You do not wish to use the negative personal income from previous years to reduce this year's positive personal income. In such case, item 1.18 shall <u>**not be used,**</u> and you must reduce the negative personal income carryforward in item 1.23 or 1.24 in last year's RF-1224 'Personal income from sole proprietorship' by this year's positive personal income in item 1.17. This difference is entered in item 1.24 and can be used as a carryforward in subsequent years. If negative calculated personal income is <u>*not*</u> carried forward as a deduction in the first year you have a positive calculated personal income, you forfeit the right to carry forward an amount corresponding to this positive calculated personal income, cf. the Taxation Act sections 12-13 second paragraph.

Negative calculated personal income from an ANS/DA or KS from previous years (calculated using the Split-income model) cannot be carried forward.

Item 1.19
In item 1.19, enter the negative calculated personal income from the other business which can be coordinated in this context. The amount entered here cannot exceed (be greater than) the positive difference between items 1.17 and 1.18. This amount must also be entered in item 1.20 in the form RF-1224 'Personal income from sole proprietorship' for the other business.

In sole proprietorships that operate several separate businesses, this year's or previous years' negative calculated personal income from one business can in certain cases be transferred and deducted from the positive calculated personal income in another of the sole proprietorship's businesses. This applies when the businesses are so closely related that the personal income from them could have been calculated combined, as described on page 1 under 'Several businesses – combined calculation'. See also FSFIN-regulations section 12-21, and section 10-42-3.

Coordination/carryforwards can also be made in cases where combined calculation could have been carried out if the businesses were not liable for National Insurance contributions at different rates. In such cases, National Insurance contributions are calculated on the basis of the net profit/loss, and the rate that applies to the activity that produced a positive personal income in the income year in question shall be used.

Item 1.20
If there is a negative calculated personal income (either in item 1.17 or 1.18 alone or if the difference between these items is negative), all or part of the amount can be transferred to item 1.19 in the form RF-1224 'Personal income from sole proprietorship) for the other business, which must meet the requirements described in the guidelines under item 1.19 and have a positive calculated personal income. This is done by also entering the amount here in item 1.20.

Item 1.21
If the result is still negative after having used items 1.17 to 1.20, and the requirements for coordination in the FSFIN regulations section 12-20-1, cf. section 10-42-3, have been met, it can be coordinated with this year's remuneration for work from an ANS/DA/KS to the extent possible. This is done by entering the amount here in item 1.21 and at the same time in item 1.7.2 or 1.7.5 in the tax return (where it will reduce the remuneration for work).

Item 1.22
If the result is still negative after having used items 1.17 to 1.21, it can be coordinated with this year's share of the proceeds from fishing to the extent possible. This is done by entering the amount in item 1.22 and, at the same time, in item 1.18 in RF-1213 'Fishing' (where it will reduce this year's share of the proceeds from fishing).

Item 1.23
This item shows either the final positive calculated personal income, which is transferred to items 1.33-1.36 (positive calculated personal income is transferred to the tax return), or the calculated negative personal income that can be entered as a deduction in item 1.18 for subsequent years. See item 1.24 for cases in which negative calculated personal income from previous years is not used to reduce this year's positive personal income. Negative calculated personal income is not to be entered in the tax return.

Item 1.24
Information item – only for those who choose not to use item 1.18 to reduce positive calculated personal income by carrying forward negative calculated income from previous years when this is possible:

If negative calculated personal income is _not_ carried forward for deduction in the first year with positive calculated personal income, then you forfeit the right to carry forward an amount corresponding to this positive calculated personal income, cf. the Taxation Act section 12-14 second paragraph. Last year's negative personal income, item 1.23 in RF-1224 'Personal income from sole proprietorship must then be reduced by this year's positive personal income in item 1.17. The difference is entered here in item 1.24, and can be carried forward for deduction in subsequent years in item 1.18.

Example:
If a taxpayer has 100 in negative calculated personal income in year 1 and 10 in positive calculated personal income in year 2, he/she will still be entitled to carry forward 90 of the calculated negative personal income. The taxpayer forfeits the right to carry forward 10. The remaining unused negative personal income of 90 will be entered here in item 1.24, and this is the amount that can be carried forward for deduction in subsequent years in item 1.18.

Specification of positive calculated personal income from item 1.23

Items 1.33- 1.36
There are different rates for calculated personal income for the business categories given under items 1.33/1.34 and 1.35/1.36. If no allocation between spouses has taken place, the amount in item 1.23 shall be transferred either to item 1.35 or to item 1.36 to indicate to which category the income belongs. If allocation between spouses has taken place, the spouse's calculated personal income shall be entered under item 1.33 or 1.34. If the personal income is calculated from enterprises in the fisheries / a family day care centre *in your own home*, the amounts shall be entered in item 1.33 and/or 1.35 before being transferred to item 1.6.1 in your tax return (form RF-1030). If the personal income has been calculated from enterprises in 'other commercial activities', the amount is entered under item(s) 1.34/.1.36 and transferred to item 1.6.2 in your tax return (form RF-1030).

Taxpayers who have closed down their enterprise shall not submit income statements or forms for the calculation of personal income. If the taxpayer has an amount to be carried forward from the closure year, that amount can be deducted from personal income in the subsequent year if amounts are taken to income from depreciation form RF-1084 or form RF-1219 for 'Profit and loss account'. Such a deduction must be claimed in a separate enclosure with the tax return.

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Calculation of the basis for the risk-free return

A risk-free return is deducted under item 1.8 on page 1. The basis for this deductible risk-free return is calculated here. See information about the valuation and calculation of the average below.

Items 2.1 – 2.6
Here you enter the value at the beginning and end of the year for the assets that are included in the basis for the risk-free return, provided that they have been active in the enterprise:

- tangible fixed and material assets (a tangible asset is considered to be fixed when, on procurement, it is expected to have a useful life of at least three years, and material when the cost prise is NOK 15 000 or more, including VAT if it is not deductible),
- acquired goodwill and other acquired intangible assets,
- research and development costs to the extent to which they are not tax-deductible,
- goods/goods under production and trade debtors.

The opening value as of 1 January 2017 is in principle the closing value for the asset or balance in question for the income year 2016.

Assets acquired in 2017 shall not be included in the opening value. Assets realised in 2017 shall not be included in the closing value. The closing value of assets acquired during the income year 2017 is valued on the basis of their tax value.

Opening values in enterprises established during the income year shall be stipulated in accordance with the opening balance. Closing values in enterprises closed down during the income year shall be stipulated in accordance with the closing balance.

Depreciation rate for assets in balance group C has increased to 24 percent. This means that the depreciation rate for lorries, trucks and buses etc. has increased with two percentage points and the depreciation rate for vans, taxis etc. has increased with four percentage points. A new depreciation rate of 30% has been introduced for vans with zero emissions.

Active in the enterprise
By 'active in the enterprise' is meant that the assets must have been part of the enterprise's income-generating process and thus contributed to the enterprise's income.

Operating equipment let to other activities, e.g. outbuildings in agriculture let as storage space, has not been active in the agricultural activities. Operating equipment that has been used in the enterprise, but has not been used in the enterprise during the income year, can, however, be included in the basis for the risk-free return if the asset also has operating value for the enterprise in the near future. This could apply, for example, to ships that are laid up.

Assets included in the basis for the risk-free return must have been active in an enterprise liable to tax in Norway.

Assets relating to welfare measures, such as company holiday cabins, are not deemed to have contributed to the enterprise's income and will therefore not be included in the basis for the risk-free return. The same will apply, for example, to an unused plot of land that has not been built on or a commercial property under construction. Nor are holdings in companies included in the basis for the risk-free return.

Valuation method
The valuation method(s) used shall be stated in the form. The valuation method(s) is/are stated in the form by entering the letters in brackets after each valuation method below.

Regardless of the valuation method used, assets included in the basis for the risk-free return shall not be included in an amount exceeding what is considered normal for the type of activity in questions if the value of the asset is unreasonably high. The value, for example, of a valuable work of art shall not be included in its entirety.

Tax value (S)
This valuation method shall in principle be used in the valuation of all assets that can be depreciated or written down (see exceptions below). If accounting value has been chosen before (see below), this valuation method can be replaced by the tax value. Tax value means tax balance value, see Regulations No 1158 of 19 November 1999 (FSFIN chapter 12) section 12-12-8 second paragraph.

Accounting value (R)
It can be demanded that this valuation method be used for all assets, provided that the assets were valued at their accounting value for calculation of the basis for capital yield in 1999. However, trade debtors must always be valued at tax value.

Depreciation and write-downs must be carried out in accordance with accounting legislation.

Assets that were entered in a combined balance from the income year 2000 and that have been partly or wholly valued at their accounting value, shall be valued at their tax value, cf. Regulations No 1158 of 19 November 1999 (FSFIN chapter 12) section 12-12-9 second paragraph. The new assets shall be separated and valued as if they had been part of a separate balance. They shall thus be valued on the basis of cost price, and depreciation, write-downs on sale and other adjustments relating to the new assets must be carried out in accordance with the general rules for balance depreciation.

Goods can be valued at accounting value if the taxpayer can document that the accounting value was used as the goods' opening value for the income year 1999. If so, the goods can maximum be valued at their cost price. For processed products, the direct and indirect processing costs can be added to the cost price. Write-downs must be carried out in accordance with accounting regulations.

Historical cost price (H)/Tax value (tax value of assets) (L)
As a rule, the higher of these values shall be used for non-depreciable operating equipment. If a tax value covers several assets, some of which are not to be included in the basis for the risk-free return, the enterprise shall deduct the assets in question's proportionate share of the tax value from the basis for the risk-free return.

Changing the valuation method
The accounting value method can be replaced by the tax value method. Changes from accounting value to tax value can be made with effect for the opening and closing value for the income year, or with effect for the income year's closing value only.

Average
An opening and a closing value shall be stipulated for the basis for the risk-free return. The basis for the risk-free return is set at the average of the value at the beginning of the income year (opening value) and the value at the end of the income year (closing value).

This also applies when the taxpayer has been permitted to use non-standard accounting years. Regulations No 1158 of 19 November 1999 (FSFIN chapter 12) section 12-12-7 contain a provision that, under certain conditions, allows the average to be calculated for other times than the beginning and end of the accounting year. If the average value is calculated pursuant to this provision, the calculation showing that the conditions have been met must be enclosed with form RF-1224.

Item 2.7
The basis for the risk-free return shall be reduced by trade creditors and advance payments from customers.

Item 2.9
Here, you calculate the average value of the basis for the risk-free return before deduction for debt.

If the figure is negative, the basis for the risk-free return is set at zero.

Item 2.10
Here, you enter debt to financial institutions and debt relating to multiple debt instruments when the debt is considered to be related to the enterprise (enterprise debt). No debt exceeding the amount in item 2.9 'Basis for the risk-free return before deduction for debt' can be entered.

If more loans and credits exist that, together, exceed the amount in item 2.9, you can choose to prioritise the loans with the highest paid/accrued interest in relation to the average value of the loan/debt in order to achieve the maximum deduction for debt under item 1.2.

This is conditional on the debt being recognised in the enterprise's balance sheet. Loans taken out by establishing a charge on private assets/ a private home are considered to be related to the enterprise if the bulk of the loan amount has been used in the enterprise. Loans used to reduce the enterprise's equity ratio are also accepted as enterprise loans, even if the amount is put to private use. This is conditional on the enterprise's finances being considered sufficiently sound to service the loan. For operating credits and overdraft facilities used both in the enterprise and privately for which the private withdrawals are entered in the accounts with vouchers, a negative annual balance will be considered to be enterprise debt. This does not apply, however, if the size of the credit/overdraft facility is primarily due to the overall use of the account being of an unusually private nature.

In the form, the average value of the debt shall be calculated on the basis of the debt as of 1 January and as of 31 December, or, alternatively, based on the date of establishment or closure.

Item 2.11
A positive figure in item 2.11 will be identical to the basis for the risk-free return to be transferred to item 1.8 a. If the figure in item 2.11 is a negative one, the basis for the risk-free return is zero, and there is no basis for a risk-free return to transfer to item 1.8 a.

Item 2.12
To be completed only if the enterprise was established/ ceased to operate commercially during2017. Enterprises that have been established/ ceased operations during the income year shall reduce the basis for the risk-free return in proportion to the number of whole months without operations. If, for example, the enterprise ceased operating on 20 November of the income year, a return shall only be calculated on 10/12 of the enterprise's basis for the risk-free return.