ENGLISH **Summary**

Income tax relief as a policy instrument to increase residential stability in Northern-Troms and Finnmark

Analysis with the general equilibrium model NOREG 2

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The analyses in this report show that a reduction in the tax on ordinary income alone has limited capacity to counteract the long-term decline in the labour force in the Action Zone in Finnmark and Northern Troms. Using the general equilibrium model NOREG 2, we estimate that the tax rate would need to be reduced by around 70 per cent to keep the 2050 labour force at the same level as in 2025, while a 50 per cent reduction still results in a decline. Full tax exemption yields only a modest increase in the labour force (less than 2 per cent). The results indicate that the centralising forces are strong, and that ambitious objectives for settlement and labour recruitment are likely to require a broader and more targeted policy package than tax relief alone.

The “Action Zone” in Finnmark and Northern Troms was established in 1990 in response to persistent negative population and economic trends in the region. The policy package is a core element of Norway’s High North policy and aims to make the region more attractive for living and working, strengthen labour recruitment, and support value creation. Reduced tax on ordinary income and special deductions are among the key person-oriented instruments in the Action Zone. At the same time, both historical migration patterns and forward projections point to continued centralisation, small and vulnerable labour markets, and an age structure that implies weak growth in the working-age population.

This report examines how large reductions in the tax on ordinary income would need to be to influence demographic development in the Action Zone towards 2050. The analyses are conducted using the regional computable general equilibrium model NOREG 2 (version 2.4), developed in collaboration between the Institute of Transport Economics (TØI), Vista Analyse, Menon Economics and Statistics Norway (SSB), and calibrated to the national long-term projections in the Government’s long-term Perspective report 2024. A reference (“business-as-usual”) path with current policies unchanged is compared with three alternative scenarios in which the tax on ordinary income in the Action Zone is reduced by 50, 70 and 100 per cent, respectively, while tax settings elsewhere in Norway remain unchanged. The main outcome indicator is the development of the labour force in the Action Zone, which in the model represents the resident population under the assumption of full employment.

In the baseline, the labour force in the Action Zone declines from 49,393 in 2025 to 46,976 in 2050, a decrease of about 4.9 per cent. This reflects expectations that centralising forces—linked to labour market size, education, structural change, life-course migration and popular-tion ageing—will continue to reduce the working-age population in Northern Norway. Developments also vary within the Action Zone: Alta and Hammerfest have been more resilient over time than the least central municipalities, and cohort analyses show high mobility in the most migration-intensive age groups.

The scenario results indicate that the tax instrument has an effect, but that its contribution is limited relative to the ambition of stabilising the labour force towards 2050. A 50 per cent reduction in the tax on ordinary income is not sufficient to halt the decline. Only with a 70 per cent reduction does the model produce an approximately flat labour-force trajectory, with the 2050 level (49,381) close to the 2025 level. Full tax exemption (a 100 per cent reduction) yields a modest increase in the labour force to 50,352 in 2050—an increase of 959 persons, i.e. just under 2 per cent. The results therefore point to diminishing marginal effects: even very large tax cuts generate relatively modest long-term changes in labour-force size.

To illustrate household magnitudes, the report includes a stylised calculation based on the median pre-tax income of couples with children in Finnmark. Under assumptions regarding the standard employment deduction, the Finnmark deduction and interest expenses, ordinary income is estimated at approximately NOK 968,600 per household, and the tax on ordinary income at roughly NOK 179,000 at the current Action Zone rate. In this example, a 50 per cent tax reduction corresponds to about NOK 90,000 lower tax per household, while a 70 per cent reduction corresponds to about NOK 125,000 lower tax per household.

The report discusses the findings in light of the objectives of the Action Zone policy package. Tax relief may affect migration through (1) higher disposable income and compensation for structural disadvantages, (2) stronger recruitment capacity as job offers translate into higher after-tax income, and (3) higher opportunity costs of moving out when the tax advantage is lost. At the same time, the NOREG 2 results suggest that underlying demographic and labour-market drivers are sufficiently strong that the tax instrument alone would need to be substantially amplified to stabilise the labour force, and that even maximum use of the instrument does not generate large growth effects.

The findings are consistent with earlier evidence. Vista Analyse's evaluation of person-oriented instruments in the Action Zone (2022) suggests that student loan debt relief appears more effective than a lower ordinary income tax rate, and that income tax reductions are less cost-effective, in part because effects may be time-limited and because awareness and salience may be low. Overall, the results indicate that reduced tax on ordinary income can help mitigate decline and support recruitment at the margin, but that ambitious objectives for a stable or growing labour force towards 2050 are likely to require a broader and more targeted policy portfolio than tax relief alone.