

## Input VAT newsletter

### VAT: Temporary decrease of Luxembourg VAT rates announced on 21 September 2022

**22 September 2022**

On 21 September 2022, following negotiations between the Luxembourg “tripartite” (Luxembourg government, employers and trade unions), the government announced that an agreement has been reached to temporarily decrease most Luxembourg VAT rates by 1% as a measure to fight inflation. The government has not yet announced the date when this measure will come into effect.

As a consequence, the VAT rates will become 16, 13 and 7% instead of 17, 14 and 8% while the super-reduced of 3% will seemingly remain unchanged.

With regard to these changes in the VAT rates, we strongly recommend:

- i. Adapting your accounting systems to ensure a timely application of the correct VAT rates;
- ii. Establishing invoicing procedures to apply the correct VAT rates; and
- iii. Reviewing contracts and agreements to make amendments, if required,

Keeping in mind the temporary nature of the VAT decrease, it will require the same exercise in the opposite direction, *a priori* in the relatively near future.

Although the law will provide a date from which the change comes into effect, the main and most complicated challenge for businesses will likely be to know as from when they can in practice apply the reduced VAT rate to their transactions, especially considering the rather complex rules pertaining to the determination of the date of a chargeable event and chargeability of VAT as per articles 20 to 27 of the Luxembourg VAT law. Applying these new rates too early may lead to the obligation to pay back 1% to the VAT authorities which could be a substantial amount of money for some businesses. Furthermore, businesses will likely be faced with requests from clients to apply the reduced VAT rates as soon as possible, but businesses must ensure the new rates are applied in accordance with the date that the VAT reduction comes into effect.

As a reminder, these VAT rates apply to different categories of goods and services defined by law (non-exhaustive table):

<b>Super-reduced rate: 3%</b>	<b>Reduced rate: 7/8%</b>	<b>Intermediary rate: 13/14%</b>	<b>Standard rate: 16/17%</b>
Food for human consumption Books, newspapers Water supply Pharmaceutical products Personal transport Etc.	Gas supply Electricity supply Plants Some labour-intensive services Etc.	Some wines Management and safekeeping of securities Management of credit and credit guarantees by a person other than the one granting the credit Etc.	All the rest

Lastly, it remains to be seen if Luxembourg will apply reduced rates to additional categories of goods and services, as this is a possibility as per the council directive (EU) 2022/542 of 5 April 2022. In this respect, due to the already very large application of the reduced rates in Luxembourg, it is likely that the only additional good to benefit from the super-reduced rate of 3% will be solar panels purchased for privately owned dwellings, housing complexes or public buildings, in an effort to support the transition toward renewable energy sources.

**Businesses should consider without delay how to implement the announced changes in the most efficient manner.**

**The Deloitte Luxembourg Indirect Tax team remains at your disposal to discuss the potential impacts of this change on your organization and how to effectively manage the transition.**

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