Updated plans for tax measures in Luxembourg 2017 budget announced

Luxembourg Tax Alert

On 26 April 2016, the Luxembourg Prime Minister, Xavier Bettel, summarized the country's social and economic situation and presented the government's policy plans for the next year.

Topics addressed during his speech include several measures that would promote entrepreneurship, including a reform of the administrative requirements for setting up a business in Luxembourg and to attract innovative entrepreneurs.

With regards to the planned 2017 tax reform, Mr Bettel covered most of the measures already announced in February and last week and mentioned that the Grand Duchy has managed to achieve greater transparency during the past few months. The government aims to ensure the competitiveness of the Luxembourg tax system in compliance with the European and international rules in the spirit of the "level playing field"." In this respect, other tax measures for corporate entities could be announced in a near future, since the government plans to put in place working groups to examine various subjects including, amongst others, a tax-exempt reserve for investments.

The tax measures covered during the speech, including measures previously announced, are summarized below.

Tax measures for companies would be:

- The corporate income tax rate would be reduced from the current 21% to 19% in 2017 and 18% in 2018 to enhance competitiveness. The current effective income tax rate is 29.22%, including the corporate income tax, municipal business tax (for Luxembourg City) and the contribution to the unemployment fund; this effective tax rate would decrease to 27.08% in 2017 and 26.01% in 2018.
- In order to encourage young innovative companies, the corporate income tax rate would be 15% for corporations whose annual taxable income amount does not exceed EUR 25,000.
- The minimum net wealth tax, introduced in 2016 in replacement of the minimum corporate tax would be increased from EUR 3,210 to EUR 4,815 for SOPARFIs.
- The utilization of carried-forward losses would be restricted as from 2017. Losses realised as from tax year 2017 would be carried forward for a limited period of 17 years and could set off only 75% of the profits realised in a tax year.
- The tax credits for investment would be increased as follows:
    - The complementary tax credit for investment would be increased from 12% to 13%;
    - The global tax credit for investment would be increased from 7% to 8%;
    - As to investments in fixed assets authorised to apply a special depreciation, the rate of 8% for the first bracket would be increased to 9%.

- To facilitate the transfer of family-owned companies, capital gains derived from immovable property (land or buildings) belonging to the divested business would be exempt if certain conditions are met.
- The 0,24% registration duty in connection with the transfer of debts would be abolished.

Tax measures for individuals would be:

- The temporary 0,5% budgetary compensation tax would be abolished.
- The top individual tax rate would be increased progressively from 40% to 42% (taxable income above EUR 200,000)
- A modulation of the benefit in kind for company cars depending on the carbon.
- The capital gain from a real estate transaction involving one's private wealth, under the condition that the property was held for more than 2 years, would fall to 25% of the global tax rate for the period from July 1, 2016 to December 31, 2017. The draft law in connection with this measure should be shortly before the Luxembourg parliament. The taxation of speculative profits would however always apply following the normal regime, thus subject to the marginal rate.
- The deductibility ceiling on mortgage interest on an individual's principal residence would be increased. The "rental value" for the principal residence would be abolished.
- Various tax advantages would be revisited:
    - The face value of meal vouchers for employees "chèques repas" would be increased from EUR 8.40 to EUR 10.80.
    - The tax credits for single parent households would be increased up to EUR1,500.
    - The tax credits for employees and pensions would be modulated depending on the revenues.
    - A new tax reduction for cars with zero emission as well as for e-bikes would be introduced.
    - The tax deduction for home saving schemes would be increased from EUR 672 to EUR 1,344 for taxpayers under 40.
    - A deduction of extraordinary costs for children not living as part of the household would be increased as from 2017 from EUR 3,480 to EUR 4,020.
    - The monthly maintenance allowance amount which does not reduce the tax credits for single parent households ("Crédit d'impôt monoparental") would be increased from EUR 160 to EUR 184 per month.
    - The lump sum allowance for extra-ordinary charges (i.e. domestic costs for housekeeping, cleaners and other home helps; cost of care and assistance in cases of dependence; childcare costs) currently amounts to EUR 3,600 per tax year. As from 2017, it would amount to EUR 5,400 per tax year.
- Married couples would be permitted to opt to be taxed separately.
- The tax regime for non-resident married tax payers would be aligned more closely with the one of resident taxpayers with regard to the tax classes and applicable tax deductions.

- The withholding tax on interest income in the scope of the Relibi law would increase from 10% to 20%.

A planned modification of the tax fraud regime for individual income tax, corporate tax and VAT

A new “aggravated tax fraud” offence would be created which would be sanctioned by criminal law. The existing regime of fraud would also be modified to allow administrations to sanction certain reprehensible behaviours of tax payers by imposing administrative fines.

The draft texts are not yet available. Once available, the Luxembourg parliament will review, discuss and, if necessary, modify them before the approval.

Your contacts

Raymond Krawczykowski
Partner - Tax Leader
Tel/Direct: +352 451 452 500
rkrawczykowski@deloitte.lu

François Guilloteau
Partner - Cross-Border Tax
Tel/Direct: +352 451 452 577
fguilloteau@deloitte.lu

Pierre-Jean Estagerie
Partner - Global Employer Services
Tel/Direct: +352 451 454 940
pjestagerie@deloitte.lu

Deloitte Luxembourg
560, rue de Neudorf
L-2220 Luxembourg

Tel: +352 451 451
Fax: +352 451 452 401
www.deloitte.lu

Designed and produced by MarCom at Deloitte Luxembourg