

Tax reform 2017: Luxembourg government announces planned measures

Luxembourg Tax Alert

The Luxembourg government has just announced on Monday 29 February measures for the 2017 tax reform. The announcements demonstrate that Luxembourg remains an attractive destination for international business whilst also reinforcing the purchasing power of individuals.

These announcements provide an overview of the government's plans which are still under discussions. The "final plan" would be released during the annual Speech of the Luxembourg Prime Minister, already planned on April 26, 2016.

The main changes for **corporations** would be as follows:

- The progressive reduction of the corporate income tax rate from currently 21% to 19% in 2017 and down to 18% in 2018 for the purpose of boosting competitiveness. The current effective income tax rate is 29,22% including corporate income tax, municipal business tax (for Luxembourg city) and contribution to the unemployment fund. This effective tax rate would decrease to 27.08% in 2017 and 26.01% in 2018.
- The minimum net wealth tax, which was introduced in 2016 in replacement of the minimum corporate tax, would be increased for "SOPARFIs" to €4.815€ (instead of 3.210€).
- 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 25.000€.
- The utilization of carried-forward losses would be restricted. On the basis of the government's speech, the period during which carried-forward losses can be reported would be limited to 10 years. Other limitation(s) may apply.
- In order to facilitate the transfer of family companies, the capital gain deriving from potential immovable property (land or building) belonging to the divested business shall be immunized.
- The 0,24% registration duty in connection with the transfer of debts would be abolished.

The main changes for **individuals** would be as follows:

- The temporary 0,5% budgetary compensation tax would be abolished.
- The individual tax top rate would increase progressively from 40% to 42% (taxable income above 200.000€)
- Various tax advantages would be increased:
 - The tax credits for single parent households would be increased up to €1,500.
 - The tax credits for employees and pensions would be modulated depending on the revenues.
 - The deductibility ceiling on mortgage interest on principal residence would be increased.
 - A new tax reduction for cars with zero emissions as well as for e-bikes would be introduced.
- A modulation of the benefit in kind for company cars depending on the carbon emission category as well as the fuel type of the cars would be introduced.
- Capital gains from the sale of real property (other than a main residence) sold between 1 July 2016 and 31 December 2017 would be taxed at 25% of the normal rate (i.e. max of circa 12.5%).
- Married couples could opt for individual taxation.
- The withholding tax on interest income in the scope of the Relibi law would increase from 10% to 20%.

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

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