

Preferential loans granted by employers: new reference interest rate

Luxembourg Tax Alert

As of 1 January 2015, the interest rate to be considered to determine the potential taxable benefit in kind in the case an employer grants a loan to its employees is decreased from 2% to 1,5%.

It is common practice for employers, within certain sectors of activity, to grant employees low-interest or interest-free loans, the so-called preferential loans.

The Luxembourg Income Tax Law provides a standard valuation formula to assess the benefit resulting from these preferential loans. Over the last couple of years, the rate to determine the benefit in kind (if any) was set at 2%. The said benefit in kind equals to the difference between the 2% interest rate and the actual interest rate on the loan granted by the employer. This applies whether the loan is granted directly by the employer or indirectly via a third-party provider.

In the context of the significant decrease of the ECB's interest reference rate, a parliamentary question was raised on 26 November 2014 in this respect.

Further to the reply provided by the Minister of Finance on 19 December 2014, a Grand-Ducal Regulation dated 23 December 2014 decreased the above-mentioned interest rate from 2% to 1.5% as of 1 January 2015.

As a consequence, such a decrease will have a direct impact on the determination of the employees' taxable benefit in kind in the following situations:

Grant of an interest-free loan by an employer;

Grant of a loan by an employer with an interest rate below 1.5%.

Moreover, it should be emphasised that current benefits in kind resulting from preferential loans granted before 1 January 2015 will have to be updated as of that date.

Link to the Grand-Ducal Regulation:

http://www.impotsdirects.public.lu/legislation/legi14/Memorial-A---N_-263-du-29-decembre-2014.pdf

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