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**Luxembourg – Measures
for Families and Others in
State of the Nation**

by KPMG Luxembourg, société
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flash Alert

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Changes to taxpayers' credits and deductions, abolition of the temporary balanced budget tax, increase in the withholding tax on Luxembourg source interest income, and a 1 percent to 2 percent rise in the marginal income tax rate featured in this year's State of the Nation speech.

On 26 April 2016, Luxembourg's Prime Minister Xavier Bettel delivered his State of the Nation speech¹, during which he highlighted some of the proposed changes to the Luxembourg tax system to be implemented in 2017. The speech confirmed some of the proposals previously announced by the government, and also introduced a number of new measures.

Why This Matters

These measures will impact the compliance obligations of individuals and their employers – therefore individuals, employers, and their tax service providers should take note.

The modifications to Luxembourg law affecting income tax rates, the temporary balanced budget tax, and the favorable credits and deductions largely aimed at families and home-buyers and property owners mean that international assignees will see some slight changes to their overall tax burdens should these measures come into force. Individuals with high incomes may see their effective tax rate rise, and companies with international assignees subject to Luxembourg tax law may see changes in their international assignment-related (and their employment-related) costs change as a result of these measures.

Cost projections and budgeting for assignments to Luxembourg, and for assignees outside Luxembourg still subject to Luxembourg taxation should reflect these changes once they come into force. Where appropriate, adjustments by payroll administrators to withholdings will also have to be made.

Latest Announcements for 2017 Tax Reform

Credits and Deductions for Families with Children, Home-Buyers

- The tax credit granted to single parents will only be reduced if the total annual child alimony exceeds €2,208 (instead of €1,920).
- The deductible amount of education allowance for children who are not part of the household will increase from €3,480 to €4,020.
- There will be an increase in the value of lunch vouchers from €8.40 to €10.80.

- There will be an increase in the maximum tax amount deductible for combined child-care costs, house-keeping costs, and home assistance for the disabled, from €3,600 to €5,400 per year.
- The maximum tax amount deductible for contributions to qualifying home saving schemes would increase from €672 to €1,344, for individuals aged up to 40.

Cross-Border Workers

- Equality of tax treatment would be introduced between cross-border workers and residents living in Luxembourg with respect to the applicable tax classes and tax allowances (if applicable). We expect the government to make further announcements on this topic in due course.

Measures Previously Announced for 2017 Tax Reform²

Restructuring of Tax Rate Scale and Abolition of 0.5-Percent Temporary Balanced Budget Tax

In order to support households' purchasing power, the tax rate scale would be restructured (see below) and the 0.5-percent temporary budget balancing tax (*l'impôt d'équilibre budgétaire temporaire*) would be abolished.

Also, tax credits benefiting low-income individuals, pensioners, and single parents would be doubled, for example:

- low-income earners: from EUR 300 to EUR 600;
- single-parent families with an income of up to EUR 35,000: from EUR 750 to EUR 1,500.

Increase of Marginal Tax Rate to 41 Percent or 42 Percent

High-income taxpayers would contribute more as the marginal tax rate would be increased to 41 percent for an annual income of €150,000, and to 42 percent for an annual income of €200,000 (for taxpayers in tax class 1).

Option to File for Individual or Joint Taxation for Nonresident/Resident Married Couples

Resident and nonresident married couples will be able to opt for separate or joint taxation of income.

Increase of Final Withholding Tax Rate on Luxembourg Sourced Interest Income

The final withholding tax rate on so-called "in-scope" interest paid out to Luxembourg resident individuals (RELIBI) will be increased from 10 percent to 20 percent. The withholding tax only applies if interest income exceeds an annual amount of EUR 250 per person/account-holder and per paying agent.

Increase of Tax Deductions for Pension Premiums

Premiums paid for voluntary pension schemes (3rd pillar) will be deductible up to EUR 3,200 per year irrespective of the scheme subscriber's age.

Facilitating Access to Real Estate Market and Supporting Home-owners up to the Age of 40

The purchase of immovable property (principal dwelling) will be facilitated by raising the deductibility of the contributions paid out to qualifying home saving and loan schemes from EUR 672 to EUR 1,344 for individuals up to 40 years of age. The ceiling for mortgage loan interest deductions would increase as follows:

- 1st year of occupation and the five following years: EUR 2,000 (previously EUR 1,500);
- the following five years: EUR 1,500 (previously EUR 1,125);
- after that: EUR 1,000 (previously EUR 750) per year.

Additional measures would be taken to encourage placing real estate assets either for rent (through authorized agencies), or for sale on the market, such as:

- abolition of the deemed rental income of a property that is occupied by the owner;
- capital gain arising from the disposal of real estate (other than the principal dwelling, which would be tax exempt), would be taxable at one-quarter ($\frac{1}{4}$) of the taxpayer's overall effective tax rate when the sale is performed between 1 July 2016 and 31 December 2017;
- 50-percent exemption would be granted for rental income from housing made available to approved social organizations.

Tax Allowances for Purchase of Zero-Emission Vehicles

To support sustainable transportation, any purchase of an environmentally-friendly and zero-emission motor vehicle (e.g., electric- or hydrogen-driven) would benefit from a tax allowance of EUR 5,000.

Company vehicles that pollute less (e.g., e-cars, e-bikes) will also be tax-advantaged (i.e., a reduced lump-sum rate would be considered for the valuation of the corresponding salary benefit).

Next Steps

A draft tax bill was published on 3 May 2016, in relation to capital gains tax on real estate, which will be subject to debate and vote in parliament. The government aims to have this legislation enacted before end of June 2016, and applicable as from 1 July 2016.

The other tax measures announced by the government and confirmed by Prime Minister Bettel in his State of the Nation speech have not yet been legislated. We expect the draft legislation to be published later this year and pass through the parliament towards the end of 2016, and new measures to be effective as from 1 January 2017.

Further changes may occur up to the point of final passage by parliament. If any significant amendments take place, we will endeavor to keep *Flash Alert* readers informed.

Footnotes:

- 1 See <https://www.gouvernement.lu/5935612/26-etat-nation-lu> (in Luxembourgish).
- 2 See <http://www.reforme-fiscale.public.lu/fr/index.html> .

For further reports on these measures from the KPMG International member firm in Luxembourg, see:

Luxembourg Tax Alert – [Issue 2016-06](#) (“Proposed measures for the 2017 tax reform announced by the Luxembourg Government”) and *Luxembourg Tax Alert – [Issue 2016-09](#)* (“New tax measures announced for the Luxembourg 2017 tax reform”).

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