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Contact

Sébastien Labbé
Partner
Tel. +352 22 51 51 - 5565
sebastien.labbe@kpmg.lu

Louis Thomas
Partner
Tel.: + 352 22 51 51 5527
louis.thomas@kpmg.lu

Flora Castellani
Director
Tel. +352 22 51 51 5353
flora.castellani@kpmg.lu

Frederic Scholtus
Associate Partner
+352 22 51 51 5333
frederic.scholtus@kpmg.lu

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Luxembourg Tax Alert 2016-06

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Proposed measures for the 2017 tax reform announced by the Luxembourg Government

On 29 February, earlier than initially expected, the Luxembourg Government released its long-awaited proposals for the tax reform to be implemented in 2017, which are built on four pillars: sustainability, fairness, selectivity, and competitiveness.

The Government outlines the main measures being currently contemplated, as described below, without giving more concrete details at this stage.

Proposed tax measures for corporate taxpayers

- ▶ The most significant measure is the expected decrease of the corporate income tax rate in order to reinforce the competitiveness of businesses. It would indeed go from its current rate of 21% down to 19% in 2017, and to 18% in 2018, thus leading to a global tax rate of 27.08% in 2017 and 26.01% in 2018 (for companies in Luxembourg City).
- ▶ Moreover, the corporate income tax rate would decrease from 20% to 15% for corporations with a taxable basis up to €25,000 in favour of start-ups and small enterprises.
- ▶ The minimum net wealth tax for holding companies would be increased from €3,210 to €4,815.
- ▶ Some limitations would be introduced to the right to carry tax losses forward. Based on information mentioned during the press conference, tax losses realised as of 2017 would indeed only (i) be available to offset up to a maximum of 80% of the taxable profits of each year and (ii) be carried forward during a certain limited period of time (expected to be set at ten years). The tax losses realised through 2016 would not be affected and could still be carried forward indefinitely.
- ▶ The 0.24% registration duties due on notarial deeds documenting the transfer of debt claims would be abolished.
- ▶ The fight against tax fraud would be strengthened with additional human resources being allocated to the tax authorities.
- ▶ In order to facilitate the transmission of family businesses to the next generation, capital gains on real estate assets held by family enterprises would be rolled over.
- ▶ Allowances for new investments made by agricultural holders would be increased.

Proposed tax measures for individual taxpayers

- ▶ In order to support households' purchasing power, the tax rate scale would be restructured and the 0.5% temporary budget balancing tax would be abolished. Tax credits benefiting individuals (i.e. tax credits for employees, pensioners, and single-parent families) would be increased.
- ▶ Taxpayers deriving upper income would contribute more as the marginal tax rate would be increased to 41% from an annual income of €150,000, and to 42% from an annual income of €200,000 (for taxpayers in tax class 1).
- ▶ Resident/non-resident married couples would be able to opt for individual or joint taxation(s).
- ▶ The final withholding tax rate on in-scope interests paid out to Luxembourg resident individuals (RELIBI) would be increased from 10% to 20%.
- ▶ Premiums for voluntary pension schemes (3rd pillar) would be deductible up to €3,200 per year irrespective of the subscriber's age.
- ▶ The purchase of immovable property (principal dwelling) would be facilitated by raising the deductibility of the contributions paid out to qualifying home saving and loan schemes, and of mortgage loan interests in certain cases. Additional measures would

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be taken to encourage placing real estate assets either for rent (through authorised agencies), or for sale on the market.

- ▶ To support sustainable individual transportation, zero-emission vehicles would benefit from a tax allowance. Company vehicles that pollute less (e.g. e-cars, e-bikes) will also be advantaged in the frame of their taxation (i.e. a reduced lump sum rate would be considered for the valuation of the corresponding salaried benefit).

As far as corporations are concerned, the proposed decrease of the corporate income tax rate is a positive sign of the reinforcement of Luxembourg's tax competitiveness. For individuals, the measures are balanced and in line with the Government's objective of creating a fairer tax system. More details on the upcoming tax reform are now expected to be released in April during Prime Minister Bettel's budget speech.

For further information, please do not hesitate to contact [us](#).

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