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Luxembourg Tax Alert

Luxembourg coalition agreement: proposal of tax measures

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The coalition agreement between the three parties in the new government covers among others the tax measures envisaged by the new government for the five years to come (until 2023).

The new government aims to develop and implement a predictable and coherent fiscal policy that responds appropriately to modern realities and challenges in family, social, economic and environmental policy.

It proposes to increase the resources of the different tax administrations to take into account their increasingly complex tasks at the international context, accelerate the digitization of the processes involved. It also plans to simplify the tax rules as well as carry out simulations and impact studies on the provisions discussed at national or European level.

It would ensure Luxembourg's international competitiveness in business taxation, while remaining firmly committed to transparency and the fight against tax evasion at an international level. The result would be to attract new taxpayers and at the same time to expand the activities and revenues of existing taxpayers.

The Coalition Agreement proposes certain changes, subject to implementation and / or further analysis. To this extend the Agreement provides for the following:

Intended corporate tax measures

- Decrease of the overall corporate tax (i.e. Corporate income tax and municipal business tax) by 1 percent in 2019. Extension from €25,000 to €175,000 of the income bracket to which the minimum corporate income tax rate (15 percent) applies;

- Simplification of the organization of the tax laws applicable to companies and improving the readability of the corporate income tax and municipal business tax rules;

- Tax exemption of government financial support;

- More consistency in the tax regimes applicable to charitable, non-profit organizations, such as associations (a.s.b.l.), foundations, etc;

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It should also be noted the coalition is in favor of a solution to negotiate and implemented at OECD level for the digital taxation. However, pending the establishment of such a solution, the government does not oppose the implementation of a transitional European solution, if it is clearly limited in time. As in the past, to avoid relocation of activities outside the European Union, Luxembourg is still opposed to introduce a European Financial Transaction Tax but could be willing to join a global Financial Transaction Tax.

Intended individual tax measures

- Introduction of a new single tax scale (e.g. one single tax class)
- Improvement of the current "expatriate" regime through legal measures, to enable the attraction of key function holders to Luxembourg
- Set up of a new regime to encourage the participation of employees to the profits of their company and then, progressive abolishment of the current stock-option regime
- Review and simplification with regard to Benefits in Kind through the application of specific lump-sums and the modernization of the lunch vouchers
- Increase of the net salary payable to beneficiaries of the minimum social wage (SSM) by €100. Such increase will enter into force with a retroactive effect as from January 1, 2019;
- Simplification of the rules applicable for the deductibility of donations to cultural, sports and social association;
- Promotion and improvement of the electronic tax declaration
- Simplification of the withholding tax for non-resident artists
- Potential introduction of tax incentives for investments linked to sustainable development and climate transition

Intended VAT measures

Extension of the application of the super-reduced (3%) and reduced (8%) VAT rates

- Electronic publications including e-books and e-newspapers. This change will align the VAT rate applicable to electronic publications, currently 17 percent, with the rate applicable to physical publications, 3 percent. The proposed change follows the decision of the EU Council of 6 November 2018 to modify the EU VAT Directive and to allow member states to apply a reduced VAT rate to electronic publications. It is worth remembering that Luxembourg applied already the super-reduced VAT rate to electronic publications until 1 May 2015. However, at that time, the Court of Justice of the European Union ruled that reduced rates were not applicable to such services and Luxembourg had to apply again the normal VAT rate, 17 percent, to electronic publications.

- Application of the super reduced VAT rate (3 percent) to hygiene products of necessity, such as hygienic pads and towels.
- Application of the reduced VAT rate (8 percent) to phytosanitary products aimed by the European regulation regarding to the organic production.

The program indicates also that the new government would investigate the possibility to apply the super-reduced VAT rate to some repair services. The programs does not provide with further detail about the services that would benefit from this rate but that the aim of this change is to favor the recycling of goods and the "circular economy".

Potential increase of the registration duties and VAT benefits for the acquisition, construction or renovation of dwellings

- Possibility to increase the registration duties credit ("Bëllegen Akt") and the VAT benefit for the acquisition, construction or renovation of a dwelling. The program does not provide further details.
- Currently, the registration duties applicable to the acquisition of a property is 7 percent (10 percent in Luxembourg City for non-residential property) of the sale price (of market value if higher). However, the law grants a credit of registration duties of €20,000 per person for the acquisition of a dwelling. The VAT benefit for the construction or the renovation of a property used as main dwelling is equivalent to the difference between the normal VAT rate of 17 percent and the reduced rate of 3 percent. This advantage is currently limited to €50,000 per dwelling. The programs does not indicate what would be the new threshold. It is worth mentioning that the advantage was €60,000 before 1 January 2013.

Your contacts

Raymond Krawczykowski
Partner – Tax Leader
Tel : +352 45145 2500
rkrawczykowski@deloitte.lu

Christian Deglas
Partner – Indirect Tax - VAT
Tel : +352 45145 2611
cdeglas@deloitte.lu

Pierre-Jean Estagerie
Partner – Deloitte Private Leader
Tel : +352 45145 4940
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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