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Several tax measures have been taken in order to improve the tax attractiveness of Luxembourg.

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## Abolition of capital duty and decrease of the corporate income tax rate

In his annual speech at Parliament of May 2008, the Luxembourg Prime Minister announced various tax measures aimed at maintaining and improving the tax attractiveness of Luxembourg.

The most significant measures announced are the abolition of capital duty and a reduction of the global corporate income tax rate as from January 1, 2009.

### 1. Abolition of capital duty

In order to comply with a recommendation of the EU Commission, capital duty payable upon incorporation and capital increases of Luxembourg companies had been reduced from 1% to 0.5% on January 1, 2008. At the same time, the complete abolition had been announced for 2010 but had become uncertain further to an amendment of the said recommendation by the EU parliament which did not longer oblige EU Member States to abolish capital duty within a certain timeframe.

As the abolition of capital duty was expected since a long time by both Luxembourg professionals and foreign investors, Luxembourg has decided to anticipate the initial time schedule. Capital duty should thus be abolished as from January 1, 2009. Such tax measure would considerably increase the competitiveness of Luxembourg companies as capital duty is still one additional cost to consider when structuring investments through Luxembourg.

### 2. Decrease of the global corporate income tax

Luxembourg corporate tax rate consists currently of a nationwide rate of 22% on which a surcharge of 4% is levied and a municipal business tax rate which varies per municipality. The combined corporate tax rate for Luxembourg City is 29.63%.

The announced decrease of the global corporate income taxation from 29.63% to 25.5% should be realized in two steps - January 2009 and January 2010 - and would be accompanied by measures that would aim at enlarging the taxable basis of companies. However, no further details on how the rate reduction would take place or specifics on the potential broadening of the tax base are available so far.

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## Luxembourg Income and Capital Tax treaties

### 1. Luxembourg-India: Tax treaty signed

On 2 June 2008, India and Luxembourg signed a first-time income and capital tax treaty. The treaty has to be ratified by both contracting countries before coming into force.

### 2. Luxembourg-Barbados: Tax treaty initialled

On 30 May 2008, Barbados and Luxembourg initialled a first-time income and capital tax treaty. The treaty has to be signed and ratified by both contracting countries before coming into force.

### 3. Luxembourg-Kyrgyzstan: Tax treaty under negotiations

A first round of negotiations took place in April 2008 for a first-time income and capital tax treaty between Kyrgyzstan and Luxembourg. No text has been signed between both countries so far.

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