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Luxembourg

New tax measures to be introduced in 2011

As a response to the financial and economic crisis, the Luxembourg government has recently submitted a draft bill (N° 6166) introducing tax measures affecting both resident individuals and companies.

The announced measures are part of an austerity plan aimed at limiting Luxembourg's budget deficit and improving the economic and financial situation of the country. The details of the key changes are summarised below:

Taxation of Companies

Increase of solidarity surcharge for the employment fund

The solidarity surcharge for the employment fund, which is currently levied at a rate of 4%, will be increased to 5%. Even though the corporate income tax rate will remain unchanged, the increase of the solidarity surcharge will result in an aggregate corporation tax rate in Luxembourg-City of 28.80% (i.e. corporate income tax of 21% multiplied by the 5% surcharge + the 6.75% municipal business tax) instead of the current rate of 28.59%.

Introduction of a minimum lump-sum tax

A minimum fixed corporate income tax of EUR 1,500 per annum (to be increased by the unemployment surcharge – see above) will be introduced and levied on Luxembourg Soparfi-type companies whose entire financial assets (i.e. transferable securities, receivables, bank deposits, etc.) exceed 90% of their total assets.

Luxembourg companies performing commercial activities subject to a business license or requiring the approval of a supervisory authority will, however, be excluded from the scope of this lump sum tax (e.g. investment funds).

Please note that if several Luxembourg companies form a fiscal unity, the lump sum tax will only apply once at the level of the integrating parent company (or the Luxembourg permanent establishment) heading the fiscal unity.

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Improvement of the tax credit for investment

Investments in certain depreciable movable properties may benefit from an investment tax credit ("*bonification d'impôt pour investissement*") on the corporate income tax liability.

The tax credit rates on gross investment made in Luxembourg will be increased to 7% of the acquisition price for investments exceeding EUR 150,000, and to 3% in other cases. Moreover, the investment tax credit for additional investments in specific depreciable tangible goods (other than buildings, livestock and deposits (fossil or mineral) and ships flying the Luxembourg maritime flag) will be raised from 12% to 13%.

The above measures clearly aim at modernising the equipment of Luxembourg companies in order to increase their productivity and revenue.

Taxation of Individuals

Increase of the marginal tax rate

The marginal tax rate, which is currently 38%, will be increased to 39%. For this purpose, an additional tranche would be introduced for income exceeding EUR 41,793 (EUR 83,586 for couples taxed jointly).

Increase of the solidarity surcharge for the employment fund

The solidarity surcharge for the employment fund, which is currently levied at the rate of 2.5% on the individual income tax, will be increased to 4% and to 6% for incomes exceeding EUR 150,000 (EUR 300,000 for couples taxed jointly).

Introduction of a temporary 'crisis contribution'

A 'crisis contribution' of 0.8% will be introduced for 2011 and 2012 and it will be levied on all types of income derived by an individual (including salary, rental income, dividends, etc.), except on minimum wage salaries.

The above-described measures combined imply an increase of the aggregate income tax rate from the current 38.95% to 42.14%.

Entry into force

The tax measures will apply to financial years closing during the course of 2011.

Conclusion

The proposed measures are expected to limit the effects of the crisis and achieve a balanced budget while at the same time maintain the attractiveness and competitiveness of Luxembourg.

The measures announced are amongst the less austere within the EU.

Luxembourg, September 2010

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