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New tax measures announced

The Luxembourg Government presented today a new set of tax measures to be implemented by 2017, known as the 2017 tax reform package. The new measures concern both corporate and individual taxation, with a particular focus on social justice and international competitiveness. The amendments may be summarised as follows:

Corporate taxation

Decrease of the statutory corporate income tax rate

The maximum statutory corporate income tax ("**CIT**") rate will be progressively decreased from its current rate of 21% to 19% in 2017 and then 18% in 2018. The decrease will lead to a maximum aggregate rate of 27.08% in 2017 and 26.01% in 2018 for CIT, municipal business tax and the contribution to the employment fund. In addition, companies whose annual net profits do not exceed €25,000 may benefit from a reduced CIT rate of 15% (currently a reduced rate of 20% applies to companies whose annual net profits do not exceed €15,000).

Increase of the Minimum Net Wealth Tax

The minimum net wealth tax ("**MNWT**") applicable to Luxembourg companies whose financial assets, receivables against related companies, transferable securities and cash deposits exceed both (i) 90% of their total balance sheet and (ii) €350,000 will be increased from its current sum of €3,210 to €4,815 (including the contribution to the employment fund).

Limitation of the carry forward of fiscal losses

The carry forward of fiscal losses incurred as from 2017 may become subject to certain limitations. Under the current Luxembourg tax law, fiscal losses will be carried forward indefinitely by the taxpayer who has realised them. Under the proposed rules, a Luxembourg company will be able to carry forward losses up to 10 years and the losses should not exceed 80% of the taxable income of the company.

Other tax measures

Other tax measures include the introduction of a rollover relief for capital gains on real estate for family business transmission, an increase of the investment tax credit for agricultural enterprises, as well as the abolition of the proportional registration duty of 0.24% levied on the registration of a transfer of a claim.

Individual taxation

Abolition of the temporary equalisation tax

The equalisation tax of 0.5% will be abolished. This temporary tax set as of 1 January 2015 and levied on professional and substitute income or on income from private wealth realised by individuals aimed to equalise the Luxembourg budget. The tax was meant to be temporary from the outset and will then have been levied for two years (2015 and 2016).

Amendments to the progressive income tax rate schedule

With the aim to enhance social justice, the progressive income tax rate schedule has been rebalanced so that low income is less taxed (0% for net annual income up to €11,265). The marginal personal income tax rate will be increased from currently 40% to 42% for an annual net income exceeding €200,000 realised by resident and non-resident individuals (tax class 1) and an intermediary rate of 41% will be introduced for income between €150,000 and €200,000.

Other tax measures

Other tax measures for individuals include the following:

- Increase of the withholding tax on interest paid to Luxembourg resident individuals from the current rate of 10% to 20%;
- Introduction of the optional individual tax return instead of the mandatory collective assessment for resident or non-resident spouses / partners;
- Increase of the tax credits for employees, pensioners and single parents;
- Increase of the deduction cap for contributions to a house-purchase savings' plan for taxpayers being below or 40;
- Increase of the deduction cap for interest on mortgages;
- Incentives in respect of social housing; and
- Introduction of an abatement regime for low emission cars.

Our view

The new tax measures announced today show the difficult task faced by the Luxembourg Government in trying to combine social justice with remaining competitive in the field of taxation: while on the one hand, Luxembourg follows the trend of most European Union Member States in decreasing the CIT rate and thereby allows itself to remain well-positioned in this respect, on the other hand certain tax measures that had been considered to improve business taxation are no longer included in the package (*e.g*. the abolition of withholding tax on dividends, extension of the participation exemption or abolishment of net wealth tax). It should also be noted that most measures concern the taxation of individuals whilst the Government seems to remain cautious as regards amending the existing rules of business taxation which have contributed to Luxembourg's international success. This being said, it is expected that other tax measures regarding business taxation (*e.g*. new IP Box Regime) will be adopted at a later stage.