2017 TAX REFORM

On February 29, 2016, the Luxembourg government presented a few key elements of its 2017 tax reform concerning both individuals and corporations. While the Prime Minister praised the contemplated measures as advancing social equity and corporate competitiveness, they still need to be discussed and adopted by the Parliament.

The main announced measures are the following:

MEASURES AFFECTING CORPORATIONS

- A progressive reduction of the corporate income tax (CIT) from its current rate of 21% to 19% in 2017, and to 18% in 2018, lowering the current global tax rate from 29.22% to 27.08% in 2017 and 26.01% in 2018 (including the current rate contribution to the employment fund and the municipal business tax for Luxembourg City).
- The minimum net wealth tax (NWT) applicable to so-called "SOPARFIs" (i.e. companies with fixed financial assets and whose cash deposit and transferable assets both exceed EUR 350,000 and 90% of their balance sheet total) will be increased from EUR 3,210 to EUR 4,815.
- The ability to carry forward tax losses shall be limited to 17 years and 75% of the taxable income of the company.
- The 0.24% registration duties imposed on the transfer of a claim shall no longer be applicable.
- The 17% VAT applicable to directors' fees, as recently indicated by the Director of the VAT authorities, should also be clarified.

MEASURES AFFECTING INDIVIDUALS

- New progressive rate scales shall be introduced regarding annual net income exceeding EUR 150,000 and EUR 200,000 which will respectively be taxed at 41% and 42%.
- The temporary equalization tax of 0.5% tax shall be abolished, as originally planned.
- The so called "RELIBI" (withholding tax on interest paid to Luxembourg resident individuals) shall be increased to 20% instead of its current 10% rate.
- In order to facilitate access to housing, a few tax measures shall be introduced such as:
  - An increase in tax deductions for contributions to a house-purchase savings' plan for individuals 40 years old or younger.
  - An increase of tax deductible interest expenses on mortgages.
  - The taxation applicable to capital gains derived from the sale of real estate shall drop down from ½ of the normal rate to ¼.

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