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TAX ADVICE & COMPLIANCE
LUXEMBOURG

Flash News

Major tax changes for corporations and individuals in Luxembourg

On 14 December 2017 draft bill n° 7200 (State budget 2018) has been voted by the Luxembourg Parliament and subsequently adopted on 19 December 2017. Some of the most important changes are briefly described here below:

CORPORATIONS

- **Changes to the corporate income tax rate**

  Based on the law of 23 December 2016 implementing the 2017 tax reform, certain measures will only be applicable as of 1 January 2018. The CIT rate will be further reduced from 19% to 18% as of 1 January 2018. Consequently the overall corporate income tax rate (for a corporations having their registered seat in the municipality of Luxembourg-City) will amount to 26.01%.

- **Investment tax credit for corporations**

  <u>Electric cars</u>
  As of 2018 various electric cars will be eligible for investment tax credit. In fact, a specific category of automated **personal-purpose cars**, namely zero emissions, will be included in the perimeter of the assets eligible for the investment tax credit.

  <u>Software</u>
  Due to increased software investments, the scope of the investment tax credit is broadened to software acquisitions. This measure will further encourage companies to invest in digitalization and thus enhance their competitiveness. However, if the taxpayer seeks a tax credit for the acquisition of software, the income generated by the same software cannot benefit from the intellectual property regime. This measure intends to prevent taxpayers from benefiting from both the tax credit for the acquisition of software and a reduced tax for the income generated by the same software. The tax credit for the global investment tax credit cannot exceed 10% of the tax due for the ongoing year. The tax credit is a cumulation of 8% for the first tranche of investment not exceeding 150,000 euros and 2% for the investment tranche exceeding 150,000 euros.

INDIVIDUALS

- **Optional separate assessment for spouses and registered partnerships**

  From 2018, resident and non-resident married taxpayers will have the option of being separately or jointly taxed. If married taxpayers opt for a separate assessment, they will be taxed under tax class 1. Accordingly, each type of remuneration will be allocated individually and the deductible expenses as well as the additional maximum amounts for dependent children will be shared equally between the two spouses.

  In addition, married taxpayers can now request individualization with a re-allocation of income between themselves (individualisation avec réallocation des revenus). Unless otherwise stated, half of the adjusted total taxable income is allocated to each spouse, regardless of the amount of their respective income.

  The application for separate taxation must be made before 31 March of the year following the year of taxation in question.

  In the case of a separate assessment, each spouse is assigned to tax class 1 and receives a separate tax assessment. If one of the spouses objects to a joint assessment, the tax authorities will proceed automatically to a separate assessment.

- **The Luxembourg tax reform 2018 for non-residents**

  As of 1 January 2018, non-resident couples will be taxed by default under tax class 1 unless they are subject to Luxembourg tax for at least 90% of their worldwide income and opt to be taxed as tax residents. In this case, they can apply to be taxed in the advantageous tax class 2. However, then they also have to reveal their tax-exempt income (from all categories) generated outside of Luxembourg in order to determine the global tax rate (taxation under progression).

  Basically all married frontier workers can apply for the personal tax rate (based on tax class 2), as long as at least 90% of their cumulated worldwide income is taxable in Luxembourg or their cumulated taxable annual income from outside of Luxembourg does not exceed the threshold of EUR 13.000 per year. In addition employment income which is taxable in the country of residency according to a double tax treaty and which does not represent more than 50 working days will be allocated to Luxembourg for the calculation of the 90% threshold. On request, this option is also possible if only one of the spouses meets with his total income the 90% limit.

  Tax cards will be issued either in tax class 1, 1a (for singles with children) or will show the tax rate for the couple, based on joint taxation in tax class 2. Any non-resident taxpayer having opted for tax class 2 (tax rate indicated on the tax card) is obliged to file a tax return in Luxembourg, based on the married couple’s worldwide income.

- **Capital gains arising from the sale of real estate**

  As from 1 July 2016 capital gains arising from the sale of real estate serving as a second home or an investment and owned by private individuals were taxed at ¼ of the taxpayers' global tax rate. This regime should have come to an end by the end of the year 2017. However, the Luxembourg Government has decided to extend this special regime for one more year until the end of 2018.

For further information, do not hesitate to contact one of our team members, who will be glad to assist you at any time:

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