

# HR & Tax Alert



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## Luxembourg – Proposed tax measures for 2008.

November 2007

### Executive summary

A draft law was presented to the Luxembourg Parliament on 6 November 2007 which may have implications for individual tax as from 1 January 2008. This Alert gives an overview of the main proposed changes to the Luxembourg individual tax legislation.

### Tax brackets increased by 6%

The individual income tax rates will remain unchanged compared to the 2007 calendar year with a marginal tax rate of 38.95%. Each individual income tax bracket (17 in total) will be increased by 6%. The marginal tax rate of 38.95% will be applicable to individuals earning EUR 36,570 and will be doubled for married couples.

### Tax relief replaced by a “child” bonus

The existing tax classes for children will be abolished. The current tax relief (modération d’impôt) will be replaced by an annual bonus of EUR 922.50 for all children qualifying for family allowances. This tax bonus will be paid directly by the Luxembourg Family Allowances Authority (Caisse Nationale des Prestations Familiales, CNPF).

If the bonus is not due or paid by the CNPF, the tax relief should be requested through the filing of a tax return or refund application form (décompte annuel).

Families with a low taxable income do not benefit from the moderation d’impôt tax relief currently. The

proposed changes ensure these families will receive a maximum of EUR 922.50 (unemployment fund contribution included) per dependent child and per year.

### Joint taxation for registered partners

Registered partners (under Luxembourg or foreign law) will be entitled to claim joint taxation through the filing of a joint income tax return. The eligible partners need to share a common domicile or residence and their partnership must exist during the whole of the fiscal year concerned.

### The Lakebrink case

Legislation will be modified for non-resident taxpayers opting to be treated as residents provided that they are taxable in Luxembourg on at least 90% of their worldwide professional income. When opting to be treated as residents, non-resident taxpayers will have to declare the worldwide income of their household (both negative and positive professional and personal income).

The benefit of this is that foreign losses (mainly rental losses due to mortgage interest on loans financing the acquisition of a building outside Luxembourg) can be taken into consideration in Luxembourg (through the Luxembourg tax return). This will contribute to reducing the tax rate applicable to Luxembourg sourced income.

In practice, this option will be tax favorable if non-resident taxpayers received none or a small amount of professional and non-professional income abroad.

### **Overtime compensation**

Exemption on overtime compensation will apply to the full remuneration (normal salary and supplementary income) for blue collar workers (such as manual workers or factory workers) and white collar workers (such as office workers) of the private sector. A new regulation yet to be released should determine the conditions and limits of this tax exemption.

### **Suppression of the proposed tax measures related to company cars**

The original draft law proposed new corporate tax measures regarding polluting cars, i.e. the non-deductibility of expenses related to polluting company cars (CO2 emissions exceeding 190g/km) first registered from 1 January 2008.

The proposed tax measures have been withdrawn from the original draft law in order to enable the parties concerned to have discussions on this topic before the introduction of such measures.

Based on a statement of the Minister for Treasury and Budget the project to increase the monthly taxable benefit for the private use of company cars to 2% of

the value of the new vehicle (currently 1.5%) should at least be postponed.

### **Luxembourg – Adopted tax measures**

In Luxembourg the withholding of tax on employment income is monitored through a tax card. A new regulation was adopted regarding the withholding tax on salaries for taxpayers who hold the “additional tax card” (for example spouses who receive lower remuneration). As from 1 January 2008, the applicable flat tax rates will be as follows:

Tax class	Tax rate
1	30%
1a	18%
2	12%

### **Next steps**

Given the scope of the draft law announced on 6 November 2007 many companies and individuals could potentially be affected if the law is decreed.

Those who may be affected by these changes should ensure that they are aware of the implications of this law and begin planning to minimise any impact or utilise any reliefs which may be available as soon as possible.

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