

## **New Tax Measures for Individuals in the Pipeline Submission of the Bill dated 1<sup>st</sup> October 2008**

In the state of the nation address given on 22 May 2008, Luxembourg Prime Minister Jean-Claude Juncker had announced that taxes would be lowered. This bill confirms the announcement and provides for a number of individual tax measures. There is more good news (for now?): taxes on company cars made available to employees will not be increased under the bill.

The measures should be effective 1 January 2009, provided that Parliament signs the bill into an act of law.

This Flash News only focuses on individual tax matters. Corporate tax matters are dealt with separately.

### **Luxembourg individual income taxes set to decrease**

Two provisions are proposed in this context:

- First, the tax brackets will be indexed (increased) linearly by 9%. This indexation takes place after the one of 6% which applied as of 1 January 2008. The various tax rates (from 0 to 38%) that apply progressively to the income brackets will not be modified.
- Second, the €600 allowance (which can be deducted from the income for tax purposes) will be replaced by a €300 tax credit. This measure will benefit all taxpayers and low-wage earners in particular. The tax credit which is taken into account by the income debtor (the employer or the "Caisse de pension") is refunded to the taxpayer if it exceeds the taxes.

As a result of these provisions, compared to the current regime (applicable in 2008), taxpayers should enjoy a yearly decrease in their tax burden of maximum €820 for individuals in tax class 1, of €928 for individuals in tax class 1A and of €1,573 (if there is one income) or €1,640 (if there are two incomes) for taxpayers in tax class 2.

On the other hand, as regards unmarried taxpayers with one or several dependent children (tax class 1A), the currently available €1,920 deduction will be replaced by a €750 tax credit. This will have a positive impact for lower-wage earners.

### **Tax bonus for children**

The tax bonus of €922.50 for dependent children (per year and per dependent child) which was introduced by the law dated 21 December 2007 will now be paid on a

monthly basis. As a result, the bonus will amount to €76.88 per month and per dependent child.

## Measures relating to the acquisition / ownership of a main home

While other measures might be announced in the future, the bill provides for several provisions which will help taxpayers finance their main home. In particular, the bill provides for the following:

- There will be an increase in the deduction ceiling for the one-off premium paid as part of a temporary life insurance policy (insurance to cover the balance remaining) (this will be provided for in a grand-ducal regulation);
- The interest paid from accounts with an authorised savings bank (Plan d'épargne-logement) in Luxembourg or another Member State of the European Union will be fully exempt from tax.
- The preferential tax treatment governing the construction or renovation of buildings to be used as main homes (VAT rate lowered from 15% to 3%) will be extended through a grand-ducal regulation. This preferential tax treatment currently amounts to €50,000 per accommodation.

## Other tax measures

- Promotion of philanthropy and patronage: deduction ceilings for donations made to government-approved bodies have been doubled. Therefore, donations made to those bodies are deductible provided that they do not exceed 20 percent of the taxpayer's aggregate net income or €1,000,000. In addition, the donation amounts which would exceed the abovementioned limits will be able to be carried forward for two years.
- The €1,038.48 child education allowance will be fully tax exempt.
- The payments made as part of schemes designed to safeguard jobs ("plan de maintien de l'emploi") will also be exempt (up to an amount equal to the severance pay provided for in the legislation governing contracts of employment or in a collective bargaining agreement).

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