

Luxembourg: new tax measures for 2024

Insights - 18/01/2024

A series of significant tax changes have recently come into effect, stemming from legislative developments concluded by Parliament at the end of 2023.

While the overview provided herein is not exhaustive, it should serve as a high-level summary of the modifications that may impact the strategic decisions of Luxembourg tax payers, whether companies or individuals as relevant.

Budget Law 2024 (law no 8338)

The budget law dated 22 December 2023 primarily sets forth the revenue and expenditure estimates for the State. It is noteworthy that the focus of this law is on budgetary allocations and does not introduce substantial tax reform for 2024.

Tax credit for investment

Tax credit for digital transformation and ecological and energy transition

The tax credit for additional investment has been abolished by the law dated 22 December 2023 amending the Luxembourg income tax law (*Loi du 22 décembre 2023 portant modification de la loi modifiée du 4 décembre 1967 concernant l'impôt sur le revenu* – LITL) and replaced by a tax credit to investments and expenses made by companies in relation to digital transformation and ecological and energy transition projects. The tax credit is set at 18% of the investments and operational expenses, except for investments in depreciable tangible assets, for which the tax credit is 6%. The investments and expenses must be made in a Luxembourg-based establishment and must be physically implemented in Luxembourg or another European Economic Area State.

Tax credit for overall investment

There has been a revision in the tax credit for overall investment rate. Under the law dated 22 December 2023 amending the LITL, the rate of the tax credit for total investment in depreciable tangible property other than buildings, agricultural livestock and mineral and fossil deposits has increased from 8% to 12 % and the EUR 150,000 investment tranche has been eliminated.

Adjustment of the income tax scale

The personal income tax scale for individuals was adjusted following the law dated 22 December amending the LITL. The adjustment represents four indexed brackets in total, meaning that the tax brackets is adapted by 10.38%, compared to the previous one of 2017.

Implementation of global minimum tax

On 22 December 2023, Luxembourg implemented the Council Directive 2022/2523 of 14 December 2022 on minimum taxation (*Loi du 22 décembre 2023 relative à l'imposition minimale effective en vue de la transposition de la directive (UE) 2022/2523 du Conseil du 15 décembre 2022 visant à assurer un niveau minimum d'imposition mondial pour les groupes d'entreprises multinationales et les groupes nationaux de grande envergure dans l'Union – Pillar II Directive*). The Pillar II Directive aims at implementing a jurisdictional minimum taxation of at least 15% for multinational groups or large-scale domestic groups having an annual revenue of at least EUR 750,000,000 in at least two of the four fiscal years preceding the tested fiscal year.

End of temporary VAT rate reduction

Based on the administrative circular no 812-1, the temporary VAT rate reduction applicable for year 2023 has ceased, so that the following rates are applies as from 1 January 2024:

- Standard rate: 17%
- Intermediate rate: 14%
- Reduced rate: 8%

Extension of reverse charge mechanism

The reverse charge mechanism, modified by the law dated 22 December 2023 amending the law dated 12 February 1979 regarding the VAT (*Loi du 22 décembre 2023 modifiant la loi modifiée du 12 février 1979 concernant la taxe sur la valeur ajoutée*), is extended to:

- Supplies of mobile telephones
- Supplies of integrated circuit devices

- Supplies of game consoles, tablet PCs and laptops
- Supplies of raw and semi-finished metals

Moreover, the VAT is payable by the taxable person making the supplies of goods referred above when the remuneration corresponding to these supplies invoiced does not exceed EUR 10,000.

Guidance on the special real estate allowance

The administrative circular no 129e/1 dated 9 January 2024 provides detailed guidance on conditions and limits regarding the application of the special real estate allowance as modified by the law of 23 December 2022. As from 2021, the individual taxpayer, who makes a profit, or a net income from the rental of taxable property in Luxembourg is entitled to a special real estate allowance that is deductible of taxable income under certain circumstances.

How Ogier can help

In conclusion, these legislative updates, which came into effect on 1 January 2024 (except for the circular on the special real estate allowance) reflect a series of strategic shifts in our tax landscape.

Please feel free to reach out to us if you have any questions or require further clarification in relation to these 2024 Luxembourg tax updates.

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