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Luxembourg tax updates: what do the latest developments mean for your business?

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This summer has been a busy period for the Luxembourg tax landscape, with numerous tax measures either introduced or proposed. These include the Draft Law (No.8414), new administrative tax circulars, a new subscription tax procedure, and new Grand-Ducal regulations.

In this update, we break down what these developments could mean for you and your business.

The Draft Law (No.8414): 17 July 2024

First of all, on 17 July 2024, the Luxembourg government presented a new draft law (No.8414) to parliament (the **Draft Law**) proposing some modifications to:

- the amended law of 17 April 1964 on the reorganisation of the direct tax administration
- the amended Luxembourg income tax law dated 4 December 1967 (**LITL**)
- the law of 11 May 2007 on the creation of a family wealth management company (société de gestion de patrimoine familial – (**SPF**)) as amended (**SPF Law**)
- the amended law of 17 December 2010 concerning collective investment undertakings

The Draft Law introduces several key modifications across both personal and corporate tax laws, aimed at modernising the tax framework and enhancing competitiveness of Luxembourg as a global financial hub.

Personal income tax changes

Impatriate regime modifications

Instead of the current system-based on the exemption of actual expenses borne by the employer and a partial exemption of any impatriation premium, the new model introduces a flat-rate system. This system is characterised by a 50% tax exemption on the gross amount of the total annual remuneration, while capping the annual remuneration amount that can benefit from this exemption at €400,000.

Adjustments to the tax rate for individuals

The adjustment to the tax rate for individuals involves a significant adaptation of the personal income tax scale to counteract inflation effects. The government proposes an additional adjustment of 2.5 index tranches starting from the tax year 2025.

Additionally, for individuals categorised under tax class 1a, the Draft Law provides a significant tax reduction for annual incomes over €50,000. This adjustment modifies the tax-exempt amount in tax class 1a from €24,876 to €26,460, making the tax burden for tax class 1a closer to that of tax class 2, while maintaining the same exempt amount as in tax class 2.

This targeted relief aims to particularly support single-parent households and reduce their poverty risk, further evidenced by a €1,000 increase in the single-parent tax credit and an increase in the maximum deduction for child support payments.

Further, the minimum social wage tax credit will be increased as from tax year 2025. This adjustment ensures that, in addition to employees in tax classes 1a and 2 who already do not pay taxes on the non-qualified minimum social wage in practice, those in tax class 1 will also not be subject to these taxes.

Incentive for young employees

The incentive for young employees is designed to support young workers at the onset of their careers, a time that often coincides with financial independence and an increase in personal expenses.

To be eligible for this incentive, the employee must be under 30 years old and have a first permanent employment contract in Luxembourg, remaining with the same employer for as long as they wish to benefit from the bonus, up to a maximum of five years. The bonus amounts, subject to a 75% exemption, are based on the annual gross salary and are as follows:

- a maximum of €5,000 for an annual gross salary ≤ €50,000
- €3,750 for an annual gross salary between €50,000 and €75,000
- €2,500 for an annual gross salary between €75,000 and €100,000

Participative bonus regime modifications

The "prime participative" refers to a participative bonus regime that has been strengthened in the context of creating an attractive environment for young talents. The modifications include:

- increasing the maximum amount of the bonus that can be partially exempted from tax from 25% to 30% of the gross amount of the annual remuneration (before incorporating cash and in-kind benefits)
- the total amount of the participative bonus that a company can grant to employees, which is eligible for exemption, is increased from 5% to 7.5% of the positive result of the business operation immediately preceding the year for which the participative bonus is allocated to the employees. Unfortunately, no "group" concept seems to have been retained

Tax credit for cross border workers’ overtime hours

The tax credit for cross border workers' overtime hours is:

- targeting employees whose overtime wages are subject to taxation in their state of residence, despite being fully exempt in Luxembourg
- offering a tax credit amount that is proportional to the salary earned from overtime work, with a ceiling of €700 per year for annual gross overtime salaries of €4,000 and above
- not granted for gross overtime wages below €1,200 per year

Corporate income tax (CIT) rate adjustment

There would be a 1% reduction in the corporate income tax rate starting from the tax year 2025 to boost Luxembourg's appeal as a business location and stimulate investment.

- for taxable basis below €175,000, the rate will be decreased from 15% to 14%
- for taxable basis between €175,000 and €200,000, the tax will be €24,500 plus 30%
- for taxable basis exceeding €200,000, the rate will be decreased from 17% to 16%

This adjustment lowers the overall statutory rate from 24.94% to 23.87% for companies based in the Luxembourg City.

Deductibility of borrowing costs

The Article 168bis of LITL regarding the deductibility of borrowing costs would be reviewed for entities that are not part of a consolidated group for financial accounting purposes, while not being considered as stand-alone entities.

ETFs subscription tax exemption

Actively managed UCITS ETFs would be exempt from the subscription tax to encourage investment in these funds.

SPF Law modernisation

The Draft Law introduces several changes aimed at updating and refining the regulatory framework for the SPF in Luxembourg:

- the corporate name of a company falling under the SPF Law must include the words "société de gestion de patrimoine familial " or "SPF"
- The annual minimum subscription tax for SPF would be increased from €100 to €1,000
- the obligation of electronic filing for compliance certificate with SPF Law would be introduced
- the calculation of the subscription tax would take into account the debt existing on the first day of the financial year rather than on 1 January
- new administrative fines would be introduced for non-compliance specifically identified in relation to the SPF Law
- the procedure for withdrawing the tax status of SPF would be modified, streamlining the process

For more details on the SPF regime, please refer to our dedicated article: Private wealth management – have you considered the SPF?

Consultative committee introduction

A consultative committee would be established under the authority of the Minister of Finance, tasked with advising the director of the Luxembourg tax authorities (Administration des contributions directes (**LTA**)) on initiatives for reorganisation and modernisation of the direct tax administration.

Additional tax measures

Luxembourg has also implemented a variety of additional tax measures.

New administrative tax circulars

A welcomed Circular from the LTA, dated 19 July 2024, details the tax treatment of simplified liquidations or dissolutions without liquidation according to Article 1865bis of the Civil Code.

It clarifies certain aspects of corporate income tax, municipal business tax and net wealth tax, providing in particular that a dissolution without liquidation could be assimilated to a merger, pursuant to Article 170, al. 2 LITL, provided that all the conditions are met, thereby potentially confirming the tax-neutrality of the dissolution without liquidation.

New subscription tax procedure

A new online declaration system for subscription taxes applicable to undertakings for collective investments (**UCIs**), specialised investment funds (**SIFs**), and reserved alternative investment funds (**RAIFs**) has been introduced. This new system, which will run alongside the existing one for a two-year transitional period ending in August 2026, aims at enhancing guidance for declarants and streamlining the management and verification of subscription tax declarations.

New Grand-Ducal regulations

Tax credits and qualified holdings for applying minimum tax

On 24 July 2024, the Council of Ministers approved a new Grand-Ducal regulation focused on the handling of tax credits and qualified holdings as part of the implementation of the Minimum Taxation Law (**MTL**), enacted on 22 December 2023, which transposed the Pillar Two Directive. This regulation sets out the guidelines for tax credits and qualified holdings under the MTL, which targets multinational and large domestic businesses with annual revenues over €750 million in two of the past four years.

Functional currency for applying minimum tax

On 24 July 2024, the Council of Ministers approved another Grand-Ducal regulation detailing how multinational and large domestic companies, with annual revenues more than €750 million in two of the last four fiscal years, should determine their functional currency for the MTL calculations.

How can Ogier help?

If you want to know more about the new tax measures, contact our Luxembourg team. Our tax experts have extensive experience and offer tailor made and creative tax and legal solutions to help our clients achieve their objectives.

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