

## Luxembourg - Budget 2008

### Capital duty reduction

10 October 2007

Luxembourg is one of the last European Member States that continues to levy a capital duty on the raising of capital. For years, this 1% duty has been criticised by market players for slowing the growth of companies. Capital duty not only weighs on the capitalizing of existing companies, but it also hinders Luxembourg from being chosen as a location for new business entities. By proposing to bring down the rate of capital duty to 0.5%, the Luxembourg government has taken a step in the right direction, but may have failed to meet all the expectations of the marketplace.

#### **A tax under European pressure**

Capital duty is covered by an EU harmonisation process. Currently, only 7 Member States continue to levy a capital duty. Within the context of projecting the EU as the most competitive and dynamic economy in the world, the EU Commission has proposed phasing out capital duty. Pursuant to a proposal for a directive presented on 4 December 2006, capital duty would be limited to 0.5% as of 1 January 2008. It should be abolished in all Member States by 1 January 2010.

#### **An early reduction**

Through the draft budget submitted on 10 October 2007, the Luxembourg government is supporting the European proposal. Official government comments follow the European phase-out schedule and have confirmed that the Luxembourg capital duty should be abolished by 2010. That being said, the draft budget only provides for a reduction in the rate of capital duty to 0.5% as from 1 January 2008.

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