

New Tax Measures for individuals Vote of the Bill No. 5801

The Luxembourg parliament voted the bill No. 5801 on December 19, 2007.

Broadly speaking, all tax measures for individuals included in the draft bill have been voted with the exception of the provisions on company cars.

Indeed, the implementation of the two company cars provisions (i.e. the increase of the lump-sum fringe benefit deriving from the personal use of a company car from 1.5% to 2% of the company car's purchase price and, the non corporate tax deductibility of the expenses in relation to the cars' CO2 emissions above 190g/km) will, in principle, be postponed to 2009.

The voted tax measures for individuals, applicable as from 1 January 2008, are described below.

The present flash only focuses on individual tax matters, to the exclusion of business entities issues that will be dealt with separately.

Replacement of the tax credit for dependent children by a tax bonus

The yearly tax credit for dependent children (amounting to EUR 922.5 per child) will be cancelled and replaced by an equivalent yearly tax bonus payable (for most taxpayers) by the "Caisse Nationale des Prestations Familiales". This bonus should be paid on yearly basis in 2008 and in monthly instalments as of 2009.

From a practical point of view, this provision will benefit the taxpayers whose tax liability was not sufficient to take advantage of this tax credit. For the other taxpayers, this amendment will be neutral.

Indexation of the brackets of taxable income

For the first time since 2002, the tax brackets will be indexed linearly by 6%. The various tax rates (from 0 to 38%) that apply progressively to the income brackets have not been modified. As a result of this provision, with comparison to the current regime, taxpayers should enjoy a yearly decrease of their tax burden of maximum EUR 473 for individuals in tax class 1, of EUR 551 for individuals in class 1A and of EUR 946 for the taxpayers in class 2.

Option for common-law spouses to be taxed collectively

Individuals covered by a Luxembourg or a foreign formal recognition of common law status for a full tax year (i.e. from 1 January to 31 December) may elect to be taxed collectively (with the benefit of the tax class 2). This collective taxation will be beneficial when only one partner derives income. This provision will apply to Luxembourg residents and under certain conditions to non-residents.

In addition, various tax provisions will be amended with the aim to assimilate common-law partners to married spouses from a tax perspective.

Overtime

The tax regime currently exempting from tax (up to EUR 1,800 per year) the supplement of salary paid on overtime, night or weekend work, will be modified to be in line with the "statut unique" applying to private employees. As from 1 January 2008, the exemption will apply on the full salary paid on overtime (and not only on the supplement of salary) and will no longer be capped. A grand-ducal decree will be issued to establish how this amendment will be applied and under which conditions.

Non-resident taxation

In line with the European Court of Justice case law, the optional assimilation tax regime provided for non-resident taxpayers will be modified. Non-resident taxpayers deriving more than 90% of their professional income in Luxembourg may elect to be taxed on Luxembourg source income as if they were residents. In such case, the applicable tax rate is currently determined taking into consideration their worldwide professional income. As from 1 January 2008, it is proposed to determine the tax rate of the concerned individuals based on their worldwide global income. This provision may notably be beneficial to foreign taxpayers having negative rental income (or mortgage interest on their main accommodation).

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