

## Luxembourg 2009 budget announcement

23 May 2008

Yesterday, Luxembourg Prime Minister Jean-Claude Juncker gave his traditional state of the nation address. Within this context, he announced two important measures to promote Luxembourg's international tax competitiveness:

- Capital duty will be repealed on 1 January 2009
- The corporate income tax rate will be decreased from 29.63% to 25.5%

In his speech, the Luxembourg Premier also went over some new tax measures which are set to be introduced for individuals. These measures are mostly aimed at increasing the purchasing power of lower-wage earners.

### Repeal of capital duty

Luxembourg is one of the last Member States in the European Union that still levies a duty on the raising of capital. In 2007, the Luxembourg government already took a first step in the right direction by reducing the capital duty rate from 1% down to 0.5% as of 1 January 2008.

Yesterday, the Prime Minister specified that capital duty would be repealed as from 2009, which meets the expectations of the marketplace.

### A lower corporate income tax rate

Mr Juncker further announced that the corporate income tax rate would be decreased, in several stages, from the current combined rate of 29.63% for Luxembourg City down to 25.5%. The decrease would be accompanied by a broadening of the corporate income tax base where needed.

### Individual Tax Measures

As in 2008, the brackets of taxable income will be indexed linearly by 6% in 2009. As a result of this provision, taxpayers will experience a yearly decrease in their tax burden.

The EUR 600 tax-deductible rebate available to all employees will be replaced by a EUR 300 tax credit. This measure will constitute a real gain in terms of purchasing power for lower-wage earners, as the maximum tax profit that an employee may currently derive from said rebate is EUR 233.70.

Similarly, the single parent tax-deductible rebate (currently at EUR 1,920) and the deduction of mortgage and consumer loan interest will be replaced by tax credits.

Several tax rebates will be increased, including the one linked to the tax deductibility of insurance fees.

Instead of globally increasing family benefits, "Services" vouchers will be introduced for families with dependent children, who will be able to use those vouchers to pay for a variety of services including child care fees.

## Promotion of philanthropy

An independent private foundation for the promotion of philanthropy will be set up. The aim of this foundation is to serve as an intermediary between donation recipients and businesses which make financial contributions to the community.

A favourable tax treatment would be implemented for philanthropic activities.

## Company cars

The current incentives for low carbon cars will also be extended to company cars. In exchange, the tax on automotive vehicles will no longer be deductible from corporate income tax.

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