

New VAT rate

March 20, 2007

Law of 22 December 2006

As you may know, the rate of value added tax on certain services has been amended effective 1 January 2007 after the 2007 budget was voted at the end of last year in Luxembourg.

The Luxembourg government decided that some supplies of services could no longer benefit from the intermediary rate of 12% and would now be subject to the standard 15% rate instead.

New effective rate

The following services are affected by the change in VAT rate:

1° Services carried on by members of the professions, i.e. services supplied by lawyers, chartered accountants, consultants, translators, engineers, architects, consultancy bureaus, journalists, reporters / photographers and similar services. Any services whose purpose is the same as those conducted by one of the abovementioned professions are deemed to be similar services. Occupations of an artistic, educational, literary, scientific or sporting nature are also characterised as professions.

2° Services provided by travel agencies and tour operators. These services include any supply of goods or services made for the traveller and which relates to transportation, accommodation, entertainment or drinks consumed on the spot.

3° Advertising services. These services include any service whereby a message is being communicated, regardless of the medium used and which intends to publicise the existence of a product or a service in order to increase the sales of such product or service.

The 12% VAT rate on the following goods and services remains unchanged:

1° Wines of fresh grapes that are 13° proof or less, except alcohol-enriched wines, sparkling wines and liqueur wines.

2° Solid mineral fuels, mineral oils and woods used as fuels.

3° Washing preparation and polishing and scouring preparation.

4° Fliers, commercial catalogues and the like; travel brochures.

5° Bespoke garments delivered by tailors.

6° Heat, refrigeration and steam.

7° Custody and management of securities.

8° Loan management and loan guarantees by a person or body other than that which granted the loan.

A distinction needs to be made between advertising services and advertising pamphlets. The 15% VAT rate now applies to the former while the latter are still subject to the 12% rate.

What about financial services ?

The law of 22 December 2006 had no impact on the services of custody and management of securities invoiced to individuals or legal persons in Luxembourg (whether the latter are taxable or non-taxable persons). While these services remain subject to the 12% VAT rate, investment consulting services, however, are subject to the 15% VAT rate, effective 1 January 2007.

Conclusion

The change in VAT rate should not affect those companies entitled to full recovery of VAT on purchases. That being said, these companies may have to pay part of that VAT up front according to their lines of business. This issue will need to be looked at on a case-by-case basis.

On the other hand, this change will increase the amount of non-deductible VAT for companies which are not entitled to claim the deduction of input VAT or which can only deduct part of that amount.

Contacts

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