



NEWS FLASH

New tax measures announced

On 5 May 2010, the Luxembourg Prime Minister, Jean-Claude Juncker, presented the general budget orientations for 2011 to the Luxembourg Parliament. The announced tax measures are mainly aimed at increasing fiscal revenue in the context of budget austerity. The tax measures would mainly impact individuals, and to a limited extent the taxation of Luxembourg companies. There are some positive measures as well.

The tax measures, which will be included in the Finance Bill to be submitted at a later stage to the Parliament for approval, would apply from 1 January 2011. Some would be temporary. Details of the most important tax measures are summarised below.

Taxation of Companies

Surcharge for the employment fund

The surcharge for the employment fund, which is currently levied at a rate of 4%, would be increased to 5%. This increase in the surcharge for the employment fund would result in a combined corporate tax rate for the City of Luxembourg of 28.80% (instead of 28.59% currently). This rate would include the corporate income tax of 21%, the 5% surcharge and the 6.75% municipal business tax.

Minimum lump-sum tax

A minimum fixed corporate income tax would be introduced and levied on Luxembourg holding companies (SOPARFI) and other Luxembourg resident companies, which do not carry on a commercial activity in Luxembourg. No further details were given, but it seems that a fixed amount payable is planned for a Soparfi to the extent not surpassed with tax on profits. A similar minimum tax is already in place for the net wealth tax (€ 25 for a S.à r.l., € 63 for an SA). The fixed amount is expected to be a multiple of the amounts applicable for net wealth tax, but should not be draconian.

Tax credit for investment

The tax credit for investment (*bonification d'impôt pour investissement*) set out in art 152bis LIR would be improved. Additional measures to encourage the rationalisation of the use of energy and environment would be introduced.

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Limitation on deductibility of bonuses and similar payments

Measures would be adopted to discourage payments of large bonuses and golden handshakes in the banking sector and within multinational companies; e.g. the deductibility of bonuses and golden handshakes would be limited to a certain maximum amount. Any excess would not be deductible.

Other tax measures on companies

The social security contribution for insurance and accident, the rate of which varies, depending on the risks, from 0.45 to 6% of the gross wages and salaries, including benefits in kind, subject to a monthly ceiling of EUR 8,413 (from 1 March 2009), would be standardised for all sectors of activity to a rate of 1.25%.

Tax measures for investment funds

The annual subscription tax (*taxe d'abonnement*) (currently 0.05% on the net asset value of a UCITS or UCI) on exchange traded investment funds would be abolished.

Taxation of individuals

Increase of the marginal tax rate

The marginal tax rate, which is currently 38%, would be increased to 39%. For this purpose, an additional tranche would be introduced for income exceeding € 83.586 (household of 2 persons).

Surcharge for employment fund

The surcharge for the employment fund, which is currently levied at the rate of 2.5%, would be increased to 4% for income of less than € 300.000, and to 6% for income exceeding € 300.000.

Introduction of a 'crisis tax'

A 'crisis tax' of 0.8% would be introduced for the years 2011 and 2012 and levied on all income (except minimum wage salaries). It is not yet determined whether after 2012, the 'crisis tax' would either be abolished, decreased or increased.

The combined measures imply that the aggregate tax rate of currently 38.95% will be increased to 42.14%.

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