

## **Press release**

### **Tax reform: lower and fairer taxes for households, reduced tax burden for businesses (29.02.2016)**

At a press conference on 29 February 2016, the Government presented the main features of the tax reform which is to enter into force on 1 January 2017.

Sustainability, fairness, selectivity and competitiveness are the key words in the reform, which can be summed up as follows:

#### **Boost for households' purchasing power**

The temporary budget balancing tax (0.5%) is to be abolished.

The taxation scale has been revised in order to achieve greater social fairness. Tax credits for employees and pensioners ('CIS'/'CIP') and for single-parent families ('CIM') will be deliberately increased. Households with the lowest incomes and those in the middle classes will find their purchasing power considerably boosted. In a spirit of solidarity, those with the highest incomes will be required to contribute more, with new taxation levels of 41% for annual income over 150,000 euros and 42% (maximum rate) for annual income over 200,000 euros (Class 1).

No tax will be payable on the orphan's pension ('pension d'orphelin').

Individual tax assessment as an option for married couples is to be introduced for both residents and non-residents.

Regardless of the subscriber's age, the ceiling for deducting premiums paid into a pension policy will be fixed at 3,200 euros.

The withholding tax on interest income ('retenue à la source libératoire' - RELIBI) will be increased to 20%. It will only be applied, however, if the amount of interest earned exceeds the annual sum of 250 euros per person and per paying agent, so that small savers will be spared.

#### **Easier access to housing**

To make it easier for people to buy a home of their own, the ceiling for deductible contributions to a home loan savings contract ('épargne-logement') will be increased for taxpayers under 40 years of age. The deductible amounts for debit interest in connection with a property loan will also be increased.

To broaden the offer of affordable housing, social rental through bodies covered by an agreement (such as the 'AIS' social property agency) and the placing on the market of property intended for sale are to be encouraged (for a limited period of time).

### **In favour of more sustainable personal transport**

Zero-emission vehicles will have the benefit of a tax allowance. The tax arrangements covering company cars made available to employees (under a leasing contract) will be reviewed in order to promote the use of less polluting vehicles.

### **Strengthening the competitiveness of businesses**

A gradual reduction in the level of corporate income tax ('IRC') from the current 21% to 19% in 2017 and 18% in 2018 will help make businesses more competitive. To encourage new innovative businesses, the IRC is to be reduced to 15% for companies with an annual taxable income of less than 25,000 euros.

The minimum wealth tax ('IF') applied to holding companies ('SOPARFI') will increase to 4,815 euros. The use of tax losses carried forward for losses recorded from 2017 onwards will be limited.

To make it easier to transfer a family business to the next generation, the capital gain on any property (land or buildings) belonging to the business being transferred will benefit from a tax-neutral treatment.

Farming businesses will in future be able to deduct 30% of the amount of any new investment of up to a total sum of 250,000 euros and 20% for investment above this level.

### **Combating fraud**

Efforts to combat tax fraud will be stepped up. The administrations will have the benefit of increased resources.

### **Political reactions**

Prime Minister and Minister of State Xavier Bettel: *"In line with the societal reforms and the changes in housing policy and family policy we have already embarked on, this tax reform has been drawn up in concertation with the social partners. It responds to claims made by both the trade unions and employers. As a result, this is a balanced reform aimed at achieving greater fiscal fairness, and one of its effects will be to strengthen domestic demand."*

Finance Minister Pierre Gramegna: *"The reform achieves a careful balance between lightening the tax load for households and businesses on the one hand and improving the*

*sustainability of public finances on the other. This reform is good for growth, good for our economy, and good for the country.”*

Deputy Prime Minister and Minister for the Economy Étienne Schneider: *“I welcome the general improvement in purchasing power, particularly for households on lower and average incomes. By introducing a new level of tax for high incomes, the reform also ensures greater fiscal solidarity and selectivity on the basis of socio-economic criteria. Reducing corporate tax will make the country’s businesses more competitive. The improved fiscal environment will consolidate the Grand Duchy’s position as a place that welcomes foreign investors.”*

Minister for Justice Félix Braz: *“The features of the tax reform are its fiscal equilibrium and its social fairness. As well as improving citizens’ purchasing power and businesses’ competitiveness, it also lays down relevant ecological markers.”*

The list of measures set out above is <b>not exhaustive</b> . For further information, visit the website at <a href="http://www.reforme-fiscale.public.lu">www.reforme-fiscale.public.lu</a>
--