



GES NewsFlash

Luxembourg – Changes in Personal Taxation for 2011

December 9, 2010

Draft law No. 6166 voted – Measures concerning individuals

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Deloitte's View

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On 2 December, the *Chambre des Députés* approved the draft law no. 6166 implementing tax measures relating to the financial and economic crisis. This is a summary of the measures that affect individuals. These measures will enter into effect on 1 January 2011.

Marginal tax rate. The maximum income tax rate is raised from 38% to 39% for the bracket of income exceeding 41,793 Euros (83,586 Euros for couples taxed jointly).

Solidarity surcharge. The solidarity tax, which puts a surcharge on the income tax rates and which currently amounts to 2,5%, is increased to 4% for income not exceeding 150,000 Euros (300,000 Euros for couples taxed jointly), and to 6% for income above these amounts.

Crisis tax. A temporary crisis tax of 0,8% is introduced for 2011 and 2012. It applies to professional and replacement income of individuals affiliated to the Luxembourg social security, and is collected by the social security authorities together with social contributions. With regards to employment income, it is levied by the employer after application of an allowance equivalent to the social minimum wage. The crisis tax also applies to all categories of non-professional income taxable in Luxembourg in the hands of both resident and non-resident taxpayers; it is collected by the tax authorities on these incomes.

The combined effect of these three provisions is a raise of the marginal income tax rate of currently 38.95% to 41.36% respectively 42.14% for the part of the taxable income exceeding 150,000 Euros (300,000 Euros for couples taxed jointly). For a taxable income of 50,000 Euros, the additional taxes due will be 548 Euros for a single person (tax class 1) and 202 Euros for a couple taxed jointly (tax class 2). These figures will be 1,833 Euros in tax class 1 or 1,097 Euros in tax class 2 for a taxable income of 100,000 Euros, and 2,989 Euros in tax class 1 or 2,254 Euros in tax class 2 for a taxable income of 145,000 Euros.

Alimonies. The maximum deductible amount of alimonies paid to the divorced spouse is raised from 23,400 Euros to 24,000 Euros.

Termination indemnities. Indemnities paid as from 1 January 2011 in respect of the termination of an employment contract are deductible in the hands of the employer only up to a maximum ceiling of 300,000 Euros.

Finally, it is worth noticing that the government has withdrawn two measures foreseen by the initial draft law. The first one was the reduction of the deduction for commuting expenses; the deduction therefore remains fixed at 99 Euros per km and per annum, with a minimum deduction of 396 Euros per annum and a maximum deduction of 2,970 Euros per annum. The second measure was concerning the rebate on registration duties payable upon acquisition of the principal residence and amounting to 20,000 Euros per taxpayer: this rebate will for the time being not be subject to a condition of income as was foreseen by the initial draft law.
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Deloitte's View

The economic and financial crisis has forced the Luxembourg government to increase taxes on individuals. Hopefully the raise remains reasonable and the most unpopular measures foreseen by the initial draft law have been withdrawn.

Where possible, individuals may consider differing significant payments of income as some of the measures would probably be only temporary.

People to Contact

If you have any questions concerning the issues in this GES NewsFlash, please contact one of the tax professionals as follows:

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