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GES NewsFlash

Luxembourg – Local and International Developments in Personal Taxation and Social Security

In this issue:

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Draft law implementing tax measures relating to the financial and economic crises – Measures concerning individuals

Further to the speech on the state of the nation presented by Prime Minister Jean-Claude Juncker to the *Chambre des Députés* on 5 May 2010, the Ministry of Finance has just published the text of the draft law implementing the fiscal measures announced in May. This NewsFlash summarizes the measures that affect individuals.

Travel expenses. The amount of the annual deduction for travel expenses would be reduced from 99 to 51 Euros per km. The minimum deduction would therefore be decreased from 396 to 204 Euros per annum, and the maximum deduction from 2,970 to 1,530 Euros per annum.

Solidarity surcharge. The draft law foresees that the solidarity tax, which puts a surcharge on the income tax rates and which currently amounts to 2,5%, would be increased to 4%. This rate would be up to 6% for income exceeding 150,000 Euros (300,000 Euros for couples taxed jointly).

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

Crisis tax. The draft law foresees to levy in 2011 and 2012 a temporary tax of 0,8% on every category of income; only salaries not exceeding the social minimum wage would be exempt. The calculation of this tax would be similar to the one of the dependence insurance (application of an allowance equivalent to the amount of the social minimum wage).

Considering these proposals, the marginal rate would be raised from the current rate of 38.95% to 41.36%, respectively 42.14% for the part of the taxable income exceeding 300,000 Euros. Overall, for incomes between 50,000 and 250,000 Euros, these measures would lead to a tax rise which would correspond to a percentage between 0.5% and 2%, depending on the level of income and family status. Taking into account an annual income of 100,000 Euros, the additional taxes due would be about 1,500 Euros for a single person and 900 Euros for a married couple.

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

Registration duties on principal residence. The rebate on registration duties payable upon acquisition of the principal residence, amounting to 20,000 Euros per taxpayer, would be limited to individuals whose annual taxable income does not exceed 35,000 Euros for single and 60,000 Euros for individuals married or linked by a domestic partnership, increased by 5,000 Euros per bearing child.

Termination indemnities. Indemnities paid in respect of the termination of the employment contract would be deductible in the hands of the employer only up to a maximum ceiling of 300,000 Euros.

Deloitte's View

The above-mentioned measures, that should be applicable as from 2011, would have to be further analyzed based on the legislation that will implement them. We will make sure to keep our readers informed of the future developments in this area.

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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