

Luxembourg to abolish capital duty and to reduce tax rates

On 22 May 2008, Prime Minister Jean-Claude Juncker presented to the Parliament the government's annual declaration on the Grand-Duchy's economic, social and financial situation. With a view to making Luxembourg more competitive, Prime Minister Juncker announced attractive new tax measures for both companies and individuals, namely (i) abolition of the capital duty, (ii) a progressive reduction in the corporate tax rates; and (iii) a reduction in individual taxation.

Abolition of the capital duty as from 2009

The capital duty, the rate of which was recently reduced from 1% to 0.5% effective 1 January 2008, will be abolished as from 1 January 2009.

This change was expected to occur in 2010, but the government seems to have decided to push up the abolition date. This should have a positive effect on investment, as Luxembourg is one of the few countries that still levies a capital duty.

Progressive reduction in corporate tax and municipal business tax rates

Companies established in Luxembourg City are currently subject to corporate tax at an aggregate rate of 29.63%, which represents a combination of national corporate tax (22.88%, including a solidarity surcharge) and municipal business tax (6.75% for Luxembourg City).

The government has now announced plans to progressively reduce the corporate tax rate from 29.63% to 25.5%.

This reform is expected to occur in two stages and may be accompanied by a broadening of the tax base where possible or necessary. The prime minister did not further elaborate on the details or timetable for the reform, but it is reasonably be expected to take effect on 1 January 2009

Reduction in individual taxation

To take inflation into account, the tax brackets were recently increased by 6% each, effective 1 January 2008. The government now intends to increase each tax bracket by an additional 6%.

The current limits of certain deductions will also be extended.

For more information please contact [Jean-Marc Groelly](#)