

NEWSLETTER

THE LUXEMBOURG FINANCE MINISTER GILLES ROTH PROPOSED A NEW DRAFT LAW ON 17 JULY 2024 (PROJET DE LOI N° 8414) WITH SEVERAL TAX MEASURES FOR COMPANIES AND INDIVIDUALS. THE MEASURES AIM TO BOOST THE PURCHASING POWER OF LUXEMBOURG CITIZENS AND CROSS-BORDER EMPLOYEES, STIMULATE THE ECONOMY, AND FOSTER SUSTAINABLE GROWTH.

I. CORPORATE TAX MEASURES

I.1. REDUCTION OF THE CORPORATE INCOME TAX FROM 17% TO 16%

- **Large companies** : The corporate income tax rate will decrease from 17% to 16% starting in the 2025 tax year for companies with taxable income exceeding € 200,000.
- **Small companies** : For companies with taxable income up to € 175,000, the rate will be reduced from 15% to 14%.
- **For companies located in Luxembourg City** with taxable income over € 200,000, the overall effective tax rate (including solidarity surcharge and municipal business tax) will decrease from 24.94% in 2024 to 23.87% in 2025. For small businesses located in Luxembourg City, the rate will decrease from 22.80% in 2024 to 21.73% in 2025.

I.2. AMENDMENTS TO THE FAMILY WEALTH MANAGEMENT COMPANIES (SPF REGIME)

- The draft law proposed to amend the Law of 11 May 2007 governing the regime of the family wealth management companies (Sociétés de gestion de patrimoine familial ("SPF")).

- Under current Luxembourg income tax law, SPFs are subject to favorable tax treatment, which allows a tax exemption from corporate income tax and net wealth tax. SPFs are nevertheless subject to an annual subscription tax.
- The Bill introduces a modernization of the SPF regime aiming the reduction of the abusive use of this vehicle. The new modifications would include (i) the increase of the minimum annual subscription tax from € 100 to € 1,000, (ii) the introduction of administrative fines in case of non-compliance with any obligations imposed by the Law of 11 May, 2007 and (iii) the adjustment of the current process for withdrawing the SPF's tax status (if breaches to the SPF regime are detected, a six-month period to remedy is granted. If breaches are not rectified at the end of the six-month period, the SPF regime can be definitely withdrawn).
- Finally, the bill foresees that the domiciliary agent (or approved statutory auditor/accountant) should transmit the SPF certification electronically (still to accelerate the digitalization process) to the registration Duties, Estates and VAT authority. This registration should be completed annually before 31 July.

NEWSLETTER

I.3. EXEMPTION FROM SUBSCRIPTION TAX FOR ACTIVELY MANAGED UCITS ETFs (UNDERTAKINGS FOR COLLECTIVE INVESTMENT IN TRANSFERABLE SECURITIES EXCHANGE TRADED FUNDS)

- In the context of improving the competitiveness of the Luxembourg financial market and considering the constant development of the fund industry, the bill introduces a full exemption from subscription tax for certain actively managed UCITS ETFs that are listed.
- The Bill precises as well that in case there are several units or compartments within the listed UCIT fund, the exemption only applies to the unit or compartment qualifying as ETF.
- The exemption would apply on the first day of the trimester which follows the date of entry into force of the law.

II. INDIVIDUAL TAX MEASURES

II.1. ADJUSTMENT OF THE TAX SCALE

From January 1, 2025, the tax scale will be adjusted to include an additional 2.5 index brackets. This is in addition to the 4 brackets already introduced on January 1, 2024.

Example :

For a single person in class 1 with an annual gross salary of €50,000 in 2025, the tax payable will be reduced from €6,135 (2023) to €5,208 (2025).



NEWSLETTER

II.2. TAX EXEMPTION FOR THE MINIMUM SOCIAL WAGE (SSMNQ)

Starting January 1, 2025, all workers earning the unskilled minimum social wage will be exempt from taxes, providing them with financial relief.

This measure will be achieved through the adjustment of a tax credit.

However, social security contributions will still be due as usual.

II.3. TAX REDUCTION FOR CLASS 1A / REEVALUATION OF THE SINGLE PARENT TAX CREDIT (CIM)

To better support single-parent families, a significant tax reduction will also apply from January 1, 2025, for taxpayers in class 1A. Additionally, beneficiaries of the single parent tax credit (CIM) will see an increase from €2,505 to €3,504.

II.4. DEDUCTIBILITY OF INTEREST ON MORTGAGE LOANS

Starting from the 2024 tax year, interest on mortgage loans for the acquisition of an existing home can be fully deducted during the year of acquisition and the following year. Homeowners will therefore be able to deduct the full amount of interest paid on their mortgage from their taxable income, thereby reducing their tax burden.

Then, after 4 years, the ceiling for deductible interest will be reduced to €4,000 per year, and later the ceiling will be set at €3,000 or €2,000.

II.5. INCREASED PARTICIPATION BONUS PAYMENT TERMS

The percentage of the previous fiscal year's profit used for participation bonuses will increase from 5% to 7.5%.

The limit to be applied to the employee's annual gross salary will increase from 25% to 30% of the same remuneration. In other words, the gross amount that can be distributed to employees may be higher.

II.6. YOUTH BONUS FOR EMPLOYEES AGED UNDER 30S

From January 1, 2025, a new bonus for workers under 30 with their first permanent contract (CDI) in Luxembourg will be introduced. To qualify for the 75% exemption, the premium must be between €2,500 and €5,000, depending on the young worker's gross annual pay.



NEWSLETTER

II.7. INCREASE IN THE ALLOWANCE FOR EXTRAORDINARY EXPENSES FOR CHILDREN NOT FORMING PART OF THE HOUSEHOLD

Following an initial increase to €4,422 per year per child, this allowance will be increased to €5,424 per year per child (2024 tax year).



II.8. CHANGES TO THE IMPATRIATE REGIME

The impatriate regime has also been modified for highly qualified employees from third countries. A new exemption of 50% of gross annual pay will be added to the existing measures. The gross annual amount will be limited to €400,000.

III. CONCLUSION

The draft bill of law [N° 8414](#) issued on 17 July 2024 will now go through the normal legislative process (still subject to the parliament's approval) and may be subject to further amendments. However, except for some exceptions, it is presumed to enter into force in 2025.

We stay at your disposal if you have further questions regarding the modalities and conditions.