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LUXEMBOURG PRESENTS BUDGET LAW 2019

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On March 5th 2019, the Luxembourg Minister of Finance submitted to the Parliament the draft 2019 budget law (the "**Budget**"), which is expected to be approved by the end of April. The Budget includes not only individual tax measures with the aim of strengthening social cohesion and increasing the purchasing power of citizens, but also corporate tax measures with the aim of increasing the competitiveness of Luxembourg on an international level.

In terms of corporate taxation, the Budget foresees a reduction of the corporate income tax rate from 18% to 17% with retroactive effect as from the beginning of the 2019 fiscal year. Thus leading to an aggregate corporate tax rate of:

- 22.8% in case the taxable income remains below EUR 175,000;
- A progressive tax rate between 22.8% and 24.94% in case the taxable income exceeds EUR 175,000 but remains below EUR 200,001; and
- 24.94% for Luxembourg City in case the taxable income exceeds EUR 200,000.

In addition, the Budget proposes an amendment to the fiscal unity regime (*régime d'intégration fiscale*). The new provision will consolidate and clarify the rules applicable to the fiscal unity regime, with the addition of allowing the computation of the interest limitation rule (as introduced for the tax year 2019 in application of the Anti-Tax Avoidance Directive 2016/1164), to the fiscal unity as a whole rather than to each entity of the fiscal unity on an individual basis. Thus, the exceeding borrowing costs and fiscal EBITA could be determined at the level of the aggregate group to alleviate certain unwanted hardship of the interest limitation rule. It should be noted that both existing and new fiscal unities will remain free to opt either for the application of the interest limitation rule on an entity-by-entity basis or on an aggregate group basis. If existing fiscal unities wish to elect for an aggregate approach, they will have to inform the Luxembourg tax authorities accordingly, prior to the end of the first fiscal year for which the interest limitation rule would apply.

In terms of individual taxation, the Budget provides for the introduction of a new additional tax credit of EUR 70 per month for employees earning the minimum social wage. With regards to VAT, the Budget provides for the inclusion of electronic publications (such as eBooks) in the scope of the super-reduced rate of 3%, which covers currently only physical publications. In addition, the Budget also provides for the application of this reduced rate to certain pharmaceutical products, including contraceptive and feminine hygiene products.

For more info

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