

## Tax Reform Law 2017

*(corporate tax payers)*

### *Introduction*

In December 2016 the Luxembourg Parliament voted the law for the introduction of new tax measures affecting both individual and corporate tax payers. This newsletter reports on the highlights of the tax reform act for corporate entities.

### **Decrease of the corporate income tax**

The tax rate on income for corporate entities ("IRC") of 21% will be decreased in 2017 and will benefit from an additional decrease in 2018.

<b>Rate</b>	<b>2017</b>	<b>Taxable Income</b>
15%		less than 25.000 €
3.750 € + 39% exceeding 25.000 €		between 25.000 and 30.000 €
<b>19%</b>		<b>exceeding 30.000 €</b>

These rates are increased by a 7% unemployment charge. Subject to the municipal business rate (6,75% for Luxembourg-City) we note that

<b>MAXIMUM INCOME TAX RATE 2016:</b>	<b>29,22%</b>
<b>MAXIMUM INCOME TAX RATE 2017:</b>	<b>27,08%</b>
<b>MAXIMUM INCOME TAX RATE (2018 and up):</b>	<b>26,01%</b>

## **Minimum net wealth tax**

Total net worth is based on net equity as adjusted by the valuation tax law (minimum 12.500 € for the S.A., 5.000 € for the S.à r.l.).

Tax rate on net worth equals 0,5%.

For a Soparfi (corporate entity holding financial assets representing more than 90% of its total balance sheet) if total balance sheet exceeds 350.000 €, the minimum net wealth tax is set to 4.815 €, else a minimum of 535 € is to be settled.

## **Tax loss carry forwards**

Tax losses generated before 2017 can be indefinitely carried forward. From 2017 on tax losses generated may be carried forward for a period of 17 years. It has to be noted that for the attribution of carry forward, tax losses are handled like a system similar to FiFo.

## **Country-by-Country reporting**

The law transposes the provisions of the European directive and follows the BEPS action plan. This new measure provides for the obligation to file a specific CbC report for multinational groups with a consolidated group turnover exceeding 750 million € for fiscal years beginning on or after January 1<sup>st</sup>, 2016.

## **Tax fraud and VAT penalties**

The law has introduced the concept of aggravated tax fraud that will be punished in accordance with the penal code. The amount of the evaded tax should thus be material either compared to reference thresholds or to the annual tax due.

Regarding VAT, penalties amounts have generally been revised upwards.

## **Transfer pricing**

Transfer pricing, i.e. prices applied between companies of the same group, must correspond to market.

In this context, the tax administration states that advanced tax agreements in relation with transfer pricing are no more valid for fiscal years subsequent to 2016. A new request has to be introduced by all companies wishing to continue to benefit from an agreement on intra-group transactions.

## **Reinvestment of capital gains deriving from currency conversion**

It is now possible for all Luxembourg companies whose capital is not denominated in Euros to postpone the tax burden resulting from the conversion into € of foreign currency-denominated assets. So the taxpayer may receive a temporary immunization in line with recapture rules. Thus the capital gain derived from the conversion into € of some assets invested in the currency of the share capital could be allocated to another asset stated in the same currency.

## **The simplified limited liability company**

The simplified limited liability company or "the one euro company" is an initiative from the Government, which aims to promote entrepreneurship by providing easy access to business through making the procedures more efficient and by allowing a significant reduction of existing requirements regarding the subscription of the share capital. The Bill aims to encourage independent workers with an activity that through its nature does not require a high initial share capital.

For further information concerning this newsletter, please contact

### **SG Group**

231, Val des Bons-Malades

L-2121 Luxembourg

Phone (352) 43 89 89 1

Marco RIES ([m.ries@abacab.lu](mailto:m.ries@abacab.lu))

Marc SCHMIT ([m.schmit@sgluxembourg.eu](mailto:m.schmit@sgluxembourg.eu))