

# NEWSLETTER

*Dear clients,*

*A new year lies ahead of us and we are looking forward to mastering the challenges ahead. In every beginning there is a certain magic that protects us and helps us to live, writes the poet Hermann Hesse. In this sense we wish you all the best for the times ahead and want to inform you about important changes in corporate and tax law:*

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## Tax 2013

The legislator has thought long and hard to find ways to plug the gap in the public finances. This is what it has come up with: Corporate entities are just as much affected as individuals.

The tax rate for private income is to be raised from 39 % to 40 % for those who earn more than 100.000 € as solitary persons or more than 200.000 € for those jointly assessed.

The solidarity surtax will be increased from 4% to 7%, for those earning more than 150.000 € (300.000 € for those filing jointly) will be increased from 6% to 9%.

The amount of the maximum tax deduction for debt interest as special expenses will be halved, from 672 € to 336 € for each member of the household.

The lump-sum tax deduction for travel expenses applying to employees will also be reduced by 396 € per annum.

The retirement pension supplement for mothers (Mammenrente) will be reduced from currently 86 € to 75 € per month.

Customs duties on alcohol and tobacco are to be raised. From the measure alone the state hopes to generate an extra income of 35 Mio €. Prices for bus and rail tickets are to go up as well.

Promotions to buy environmental friendly cars are going to be abolished with the exemption of electric vehicles.

However, legal entities are being made to share the burden as well. The minimum corporate income tax is increased from 1.575 € to 3.210 €. This is applicable to all corporate entities having their statutory seat or central administration in Luxemburg with activities which do not require a commercial or a CSSF license and for which the sum of fixed financial assets, transferable securities and cash at the bank exceeds 90 % of their total gross assets.

For all other companies a new minimum corporate income tax will be introduced ranging from 535 € to 21.400 €. The cap of 21.400 € will be reached only if the company has a total balance sheet of over 20 Million €. However, the tax authorities have clarified that the accounting value of assets producing income which is only taxable abroad under a tax treaty will be exempt from the calculation of the total of the balance sheet. This applies for example to real estate situated abroad. Only companies who are not subjected to tax will be exempt altogether by this new minimum tax.

The solidarity surtax for companies is increased from 5% to 7%. This extra income is meant to be further assist the employment fund in order to prepare for rising unemployment figures.

The investment tax credit granted on additional investments is decreased from 13% to 12 %. The investment tax credit on

total investments is decreased from 3% to 2 % for investments exceeding 150.000 €. However, at least tax credits of 7 % remain unchanged for investments up to 150.000 €.

VAT rules are also to be changed. The favourable VAT regime applicable to the costs of the main residence will be amended. The maximum benefit for the construction, acquisition or renovation of a main residence will be reduced again from 60.000 € to 50.000 €.

However, there is good news too. The VAT exempt turnover for small companies will be increased from 10.000 € to 25.000 €. The companies can bill their services VAT exempt.

Other good news for low income earners is that the minimum wage is increased on the 1<sup>st</sup> January to 1.874,19 €. This correlates with increased costs of 2.113,91 € for the employers.

*(Katharina von Randow)*

## **Requests for the reimbursement of foreign VAT**

We would like to point out that requests for the reimbursement of foreign VAT for the year 2012 are to be handed in by 30<sup>st</sup> September 2013. This needs to be done electronically. You could either apply for a Lux Trust Card and process the request

yourself or you could give us the proxy to do what's necessary to take care of your interests. Either way we are quite happy to explain to you what needs to be done.

*(Benoit Servais)*

## **Income from honorary offices**

On June 11<sup>th</sup> 2012 the director of the Inland Revenue has issued a new circular which deals with income from honorary offices. Honorary offices are understood to be a voluntary commitment for others or for the community exceeding the boundaries of solidarity within a family.

In Luxemburg there demand for honorary commitments is huge and has been for many years. It represents an important element of society and it is indispensable for a functioning community.

This is why many clubs and associations have begun to remunerate honorary commitment recently since this kind of commitment brings with it quite a lot of responsibility for choir directors, organists in churches or trainers in sports clubs. This is done to increase the attraction of such a commitment as well as reimbursing people for costs incurred through their commitment.

The government has introduced rules on special holidays for cultural activities, sports and civil defence in the last years. This allows for people to concentrate on their honorary commitment without having to sacrifice their legal holidays.

The new tax measure from the Inland Revenue aims to increase the attraction of

honorary commitments as well as to make things easier for the people involved as well as the Inland Revenue.

The Circular applies to remuneration paid for honorary sports, cultural or social activities in the community or for a charitable organisation.

This kind of income is integrated in one of the following income sources: commercial profit, income from freelance activities, income from an employment and other income.

Honorary remuneration is exempt from withholding tax and has to be declared per income tax return. Any costs in relation to the honorary commitment can be deducted from the income gained.

Honorary income up to 5.000 € / annum are completely exempt from tax. For incomes higher than that a tax flat rate of 5.000 € can be applied. In case there are costs exceeding 5.000 € these can also be deducted if they can be accounted for. All in all this circular has only positive effects – it makes life easier for those concerned and it does make any honorary commitment rather more attractive.

***(Catherine Pundel)***

## **A second chance**

It can happen to anyone. Strokes of fate like divorce, illness or the loss of the most important client can turn life financially difficult. All of a sudden bills can no longer be paid.

The Government has now established the option of personal bankruptcy next to the existing bankruptcy procedures.

If a court determines after an unsuccessful attempt of mediation or insolvency procedures that a person is not able to pay his debts through his own means the debts can be waived. During the personal bankruptcy procedures personal belongings are to be auctioned in order to satisfy their creditors. He is only entitled to keep what is absolutely

necessary. In case the amounts gained through the auction are not sufficient to pay the debts these might be waived. However, this doesn't apply to arrears in family support or fines.

The person whose debts have thus been written off is inscribed in a debtor register for the next seven years to which access is granted to (potential) creditors and the courts. In case the financial circumstances should take a substantial turn to the better the procedure can reopened in favour of the creditors.

The law is to come into force 1<sup>st</sup> January 2014.

***(Katharina von Randow)***

***Dear clients,***

***The poem cited above speaks about continuing advancement in life and we look forward to accompany you on your way not only in the year to come.***

***Regards,***

***Alhard von Ketelhodt***