

## TAX NEWS: MAIN CHANGES FOR 2011

### CORPORATIONS

#### Tax rate

The contribution to the employment fund has been increased from 4% to 5%. As a consequence the corporate income tax rate (including the contribution to the employment fund) has been increased from 21,84% to 22,05%. Taking into consideration the municipal business tax, which amounts to 6,75% for the City of Luxembourg, the overall income tax rate for corporations amounts to 28,80% (28,59% in 2010).

#### Minimum taxation for holding and finance companies

A minimum corporate income tax of EUR 1.500 has been introduced for all unregulated corporations, for which more than 90% of the assets consist of financial fixed assets, transferable securities and cash at bank. The contribution to the employment fund has to be added to the amount of EUR 1.500. This minimum corporate income tax typically applies to so-called Soparfi companies. For companies benefiting from a fiscal unity, only the parent company will be subject to the minimum taxation.

#### Tax credits

The tax credit for qualifying additional investments has been increased from 12% to 13% and the tax credit for qualifying new investments has been increased from 6% to 7%, respectively from 2% to 3% for investments exceeding EUR 150.000.

#### Depreciations

The special depreciation rate applicable to investments in the protection of the environment or in energy saving has been increased from 60% to 80%.

#### Golden handshakes

Redundancy payments are no longer tax deductible for the amount exceeding EUR 300.000.

#### Chamber of Commerce

The contribution to the Chamber of Commerce has been revised for the so-called Soparfi companies. Soparfis are now liable to a fixed contribution of EUR 350. This new regime already applies to the year 2010. Before the implementation of the fixed contribution, the normal regime was applied to Soparfis. Under the normal regime, the contribution is computed on the basis of the profit before losses carried forward with a minimum taxation of EUR 70 for limited liability companies (s.à.r.l.) and EUR 140 for all the other corporate entities that are subject to corporate income tax.

## INVESTMENT FUNDS

### Exemption of capital gains

An exemption for capital gains realized by non residents on the sale of their holdings in corporate UCIs has been introduced. Prior to the implementation of this exemption, capital gains realized by non resident investors on the sale of their shares of corporate UCIs had been subject to Luxembourg income tax in the absence of treaty protection and if the sale occurred less than six months after the acquisition and if the holding represented a stake of more than 10% of the share capital of the corporate UCI.

### Effective place of management of non resident UCIs

Non resident UCIs will not be subject to the corporate income tax, municipal business tax and net wealth tax even if their effective place of management or central administration is in Luxembourg.

### Exemption from the subscription tax

UCIs which track the performance of one or more indexes are exempt from the subscription tax if they are listed on a stock exchange. Multi-employer pension pooling UCIs will also be exempt from the subscription tax.

## INDIVIDUALS

The maximum income tax rate has been increased from 38% to 39%. The 39% rate applies to an adjusted taxable income exceeding EUR 41.793 (tax class 1) or EUR 83.586 (tax class 2).

The contribution to the employment fund has been increased from 2,5% to 4%. The adjusted taxable income exceeding EUR 150.000 (tax class 1) or EUR 300.000 (tax class 2) will be subject to an increase from 2,5% to 6%.

Luxembourg has implemented a “crisis contribution” amounting to 0,8% of the overall income.

The above changes lead to an increase of the overall maximum income tax charge from 38,95% to 41,36%, respectively 42,14% for any income exceeding EUR 150.000 for tax class 1 and EUR 300.000 for tax class 2.

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