

Luxembourg	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2012	
A. Structure of revenues	% of GDP													Ranking (1)	€ bn
Indirect taxes	14.0	13.6	13.0	12.6	13.5	13.4	12.8	12.6	12.6	13.0	12.4	12.5	13.0	19	5.6
VAT	5.6	5.8	5.8	5.7	6.1	6.2	5.8	5.7	6.3	6.9	6.4	6.7	7.1	20	3.1
Excise duties and consumption taxes	4.5	4.2	4.4	4.3	4.6	4.2	3.8	3.6	3.7	3.9	3.6	3.6	3.6	8	1.5
Other taxes on products (incl. import duties)	1.5	1.3	1.1	1.1	1.1	1.2	1.1	1.3	1.0	0.6	0.6	0.7	0.7	19	0.3
Other taxes on production	2.3	2.2	1.7	1.5	1.7	1.9	2.0	2.0	1.6	1.6	1.7	1.6	1.6	10	0.7
Direct taxes	15.0	15.3	15.4	14.8	13.1	13.7	13.2	13.2	14.2	15.0	14.7	14.5	14.8	7	6.4
Personal income	7.2	7.0	6.4	6.5	6.7	7.1	7.5	7.1	8.1	8.2	8.0	8.5	8.6	10	3.7
Corporate income	7.0	7.3	8.0	7.3	5.7	5.8	5.0	5.3	5.4	5.8	5.9	5.1	5.3	3	2.3
Other	0.9	0.9	1.0	0.9	0.8	0.8	0.7	0.7	0.8	0.9	0.8	0.9	0.9	9	0.4
Social contributions	10.1	10.9	10.9	10.8	10.7	10.4	9.9	9.9	10.6	11.9	11.0	11.2	11.5	14	4.9
Employers	4.4	4.8	4.8	4.7	4.7	4.6	4.3	4.2	4.5	5.1	4.8	4.8	4.9	22	2.1
Employees	4.5	4.9	4.8	4.7	4.5	4.6	4.4	4.5	4.9	5.4	5.1	5.1	5.2	6	2.2
Self- and non-employed	1.2	1.3	1.3	1.3	1.6	1.3	1.2	1.2	1.2	1.4	1.2	1.3	1.3	13	0.6
Less: amounts assessed but unlikely to be collected	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.		
Total	39.2	39.8	39.3	38.1	37.3	37.6	35.9	35.6	37.5	39.8	38.1	38.2	39.3	8	16.8
B. Structure by level of government	% of total taxation														
Central government	67.7	66.5	66.1	65.8	66.5	67.9	68.1	68.0	67.3	66.0	67.0	66.4	67.2	9	11.3
State government (2)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Local government	5.7	5.6	6.1	5.9	4.9	4.4	4.4	4.5	4.5	4.5	4.4	4.7	4.0	21	0.7
Social security funds	25.1	26.8	27.1	27.6	28.0	27.1	27.0	27.7	29.1	28.3	28.5	28.4		18	4.8
EU institutions	1.4	1.1	0.8	0.7	0.5	0.5	0.6	0.6	0.5	0.3	0.4	0.4	0.4	26	0.1
C. Structure by economic function	% of GDP														
Consumption	10.7	10.6	10.7	10.6	11.3	10.9	10.1	9.8	10.5	11.1	10.4	10.6	11.0	19	4.7
Labour	15.1	15.8	15.1	15.1	15.1	15.1	14.5	14.6	16.1	17.4	16.6	16.9	17.4	13	7.5
Employed	13.8	14.6	14.0	13.8	13.9	13.8	13.3	13.3	14.8	16.0	15.2	15.4	15.9	14	6.8
Paid by employers	4.4	4.8	4.8	4.7	4.7	4.6	4.3	4.2	4.5	5.1	4.8	4.8	4.9	22	2.1
Paid by employees	9.4	9.8	9.2	9.1	9.2	9.2	9.0	9.1	10.3	10.9	10.4	10.6	11.0	8	4.7
Non-employed	1.3	1.2	1.1	1.2	1.3	1.3	1.2	1.2	1.3	1.5	1.4	1.5	1.5	11	0.7
Capital	13.3	13.4	13.5	12.5	10.9	11.5	11.2	11.2	10.8	11.2	11.2	10.7	10.8	1	4.6
Capital and business income	9.1	9.5	10.2	9.6	8.0	8.3	7.8	7.7	8.0	8.5	8.4	7.9	8.0	1	3.4
Income of corporations	7.0	7.3	8.0	7.3	5.7	5.8	5.0	5.3	5.4	5.8	5.9	5.1	5.3	3	2.3
Income of households	0.8	0.9	0.8	0.9	0.9	1.2	1.7	1.4	1.7	1.4	1.4	1.4	1.3	5	0.5
Income of self-employed (incl. SSC)	1.4	1.3	1.3	1.3	1.4	1.3	1.2	1.0	0.9	1.2	1.1	1.4	1.4	13	0.6
Stocks of capital wealth	4.2	3.9	3.3	2.9	3.0	3.3	3.4	3.6	2.9	2.8	2.8	2.8	2.9	5	1.2
D. Environmental taxes	% of GDP														
Environmental taxes	2.8	2.8	2.8	2.8	3.1	2.9	2.6	2.5	2.6	2.6	2.4	2.4	2.4	18	1.0
Energy	2.7	2.7	2.6	2.7	2.9	2.8	2.5	2.4	2.5	2.4	2.3	2.3	2.3	5	1.0
of which transport fuel taxes	:	:	:	2.6	2.9	2.8	2.5	2.3	2.4	2.4	2.2	2.2	2.2	3	
Transport (excl. fuel)	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.1	25	0.1
Pollution/resources	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.01	0.01	0.02	25	0.0
E. Property taxes	% of GDP														
Property taxes	1.9	1.7	1.5	1.4	1.3	1.4	1.4	1.5	1.3	1.2	1.1	1.2	1.3	10	0.5
Recurrent taxes on immovable property	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	26	0.0
Other property taxes	1.8	1.6	1.4	1.3	1.3	1.3	1.3	1.5	1.2	1.1	1.0	1.1	1.2	3	0.5
F. Implicit tax rates	%														
Consumption	23.0	22.6	22.6	23.8	25.4	26.3	26.4	27.1	27.1	27.8	27.5	28.0	28.9	3	
Labour employed	29.9	29.6	28.4	29.2	29.4	29.9	30.3	31.0	31.6	31.6	31.8	32.5	32.9	18	
Capital	:	:	:	:	:	:	:	:	:	:	:	:	:		
Capital and business income	:	:	:	:	:	:	:	:	:	:	:	:	:		
Corporations	:	:	:	:	:	:	:	:	:	:	:	:	:		
Households	:	:	:	:	:	:	:	:	:	:	:	:	:		
Real GDP growth (annual rate)	8.4	2.5	4.1	1.7	4.4	5.3	4.9	6.6	-0.7	-5.6	3.1	1.9	-0.2		

(1) The ranking is calculated in descending order. A '1' indicates this is the highest value in the EU-28. No ranking is given if more than 10% of data points are missing.

(2) This level refers to the *Länder* in AT and DE, the *gewesten en gemeenschappen / régions et communautés* in BE and *comunidades autónomas* in ES.

Source: DG Taxation and Customs Union and Eurostat (online data codes: [gov_a_tax_ag](#), [gov_a_tax_str](#) and [gov_a_tax_itr](#))

Luxembourg

Overall trends in taxation

Structure and development of tax revenues

At 39.3 %, the tax-to-GDP ratio in Luxembourg was slightly below the EU-28 average (39.4 %) in 2012. This ratio was also lower than in two of the three neighbouring countries — Belgium and France — and slightly lower than Germany (39.1 %).

Direct tax revenues, were, as a percentage of GDP, 1.6 percentage points above the EU-28 average in 2012. Despite relatively low rates, the revenues from CIT (5.3 %) are among the highest in the EU (EU-28 average 2.5 %), which is partly due to the importance of the financial sector in the economy and the high degree of openness of the economy which leads to substantial earnings from cross-border trade. PIT revenues (8.6 %) are slightly below the EU-28 weighted average (9.4 %). Revenues from indirect taxes as a percentage of GDP lay 0.6 percentage points below the EU-28 average. VAT revenue is among the lowest in the EU owing to moderate nominal VAT rates. Revenues from social contributions paid by employees (5.2 %) are relatively high, while employers' SSC (4.9 %) are low compared to the corresponding EU averages (3.9 % and 7.3 % respectively).

Two thirds of levies accrue to the central administration and over a quarter to the social security funds. At 4 % of total revenues, taxes accruing directly to local government are very low in comparison to the 11 % EU-28 average and decreased by around 30 % since 2000.

Taxation of consumption, labour and capital; environmental taxation

Consumption taxes (11 % of GDP) were 0.2 percentage points below the EU-28 average in 2012. The interpretation of the ITR on consumption for Luxembourg is affected by the small size of the territory and the high degree of openness of the economy. In particular, purchases of excisable goods by non-residents (minus purchases of these goods by Luxembourg residents abroad) are likely to push upward the ITR on consumption. Overall, the ITR on consumption stood at 28.9 % and is 9 percentage points above the EU-28 average (19.9 %).

Although it has increased in recent years, the ITR on labour (32.9 %) was, as of 2012, 3.2 percentage points lower than the EU average (36.1 %). The lower level of labour taxation is a result of moderate levels of taxation of personal income and a relatively low level of social contributions. The total tax wedge 2012 amounts to 35.8 % of the total labour costs, which is much below the level of France (50.2 %), Belgium (56 %) and Germany (49.7 %).

Between 2000 and 2003, taxes on capital represented roughly one third of total revenue, the highest value in the EU. Although the share of capital taxes in total revenue has decreased to 27.5 % in 2012, it is still considerably above the EU average (20.8 %). This is nearly entirely related to the high proceeds of the CIT, which, despite a marked decline compared to the beginning of the decade, remains among the highest in the EU as a share of GDP. The high revenue from taxes on capital in general and the CIT in particular, is linked to Luxembourg's large financial sector with a highly internationalised customer base.

Environmental taxation accounted for 2.4 % of GDP in 2012, down from 3.1 % in 2004. This drop, driven by lower energy tax revenues, caused Luxembourg's environmental tax revenues to fall at the level of the EU-28 average (2.4 %). In particular, transport taxes are, at 0.1 % GDP, the 4th lowest in the EU. Property taxes accounted for 1.3 % of GDP in 2012, 0.1 percentage points above the level of 2011. They represent 3.3 % of total tax revenues. Recurrent property taxes are the third lowest in the EU-28 at 0.1 % GDP.

Main recent reforms implemented, on-going or announced

The 2014 budget law mainly includes provisions to revise CIT, PIT and VAT.

For CIT, the Government has announced its intention to introduce, in 2014, a new tax and legal regime for coordination centres and group treasury 'cash pooling' activities; a notional interest deduction regime and a new tax immunized reserve regime to further investments by SMEs.

For PIT, the progressive income tax brackets and tax allowances will be reviewed and the carried-interest regime will be improved.

For VAT, the government intends to raise the basic rate and the intermediate rates by 2 % to compensate for loss of VAT on e-commerce. The super-reduced rate will remain unchanged at 3 %.

Main features of the tax system

Personal income tax

The main categories of income are employment income, business income, income from movable capital and miscellaneous income. Taxable income is computed on a cash basis, except for business income (accrual basis) and capital gains from a substantial participation (time of transaction). As of January 2013 a top rate of 40 % has been introduced for individuals, which applies to incomes of more than EUR 100 000 (EUR 200 000 for couples jointly taxed). Married couples are jointly taxed, but a splitting system applies in the calculation of the tax due. Salaries, wages and pensions derived from former employment are subject to a

wage withholding tax. Taxation is progressive: the tax rates range from 0% to 40% with 19 income groups. In general, expenses incurred to obtain or preserve income are deductible from taxable income. In addition, a resident taxpayer may claim deductions for special expenses and an allowance for extraordinary expenses from his aggregate income. Some former tax allowances have taken on the form of tax credits. They notably refer to child benefits and the compensatory amounts attributed to single parent taxpayers, the employed and the retired. The maximum deduction for interest on loans is reduced by 50% and the deductible amount is limited to EUR 336 per taxpayer. The same deduction also applied to the taxpayer's spouse or partner and for each child belonging to the taxpayer's household. As the four first kilometre of travel (from home to workplace) are no longer deductible, the maximum amount of travel expenses deductible per taxpayer is reduced by EUR 396.

The PIT is increased by a surcharge for the Employment Fund. The new rate as of January 2013 is 7% (previously 4%), and 9% for taxable income exceeding EUR 150 000 (EUR 300 000 for couples jointly taxed). Taking into account the surcharge, the top marginal tax rate is 43.6%, applying to incomes of more than EUR 150 000 (EUR 300 000 for couples jointly taxed).

Dividends and interests are taxed as income from movable capital. Interest payments are subject to a 10% final withholding tax. Dividends are subject to a 15% withholding tax which is not final. Capital gains derived from speculative holdings and significant participation activities are subject to PIT.

The tax system allows for mortgage interest deductibility for owner-occupied properties with a ceiling for the tax deduction of EUR 1 500 per person in the household. The deduction is reduced to EUR 750 after 12 years of occupancy. There is no tax deduction on secondary homes.

Corporate taxation

Corporate income is subject to CIT, increased by a surcharge for the employment fund and a municipal business tax. The corporate tax system is, in principle, classical. The tax on profit is calculated by adding up the general CIT rate of 21% (previously 22%), a 7% (previously 5% until 2012) solidarity tax surcharge for the employment fund and a municipal business tax (which for Luxembourg City amounts to 6.75%), taking the all-in effective rate to 29.22% for Luxembourg City (previously amounting to 28.8% in 2012).

As of January 2013, a new minimum corporate income tax is applied, ranging from EUR 500 for small companies (with a total balance sheet below EUR 350 000) to EUR 20 000 if the total balance sheet exceeds EUR 20 million. Luxembourg also applies a system of investment credits and provides for specific tax incentives. As of 2013, these will be reduced.

VAT and excise duties

The standard VAT rate is 15% (it will be increased by 2% on 1 January 2015, as will the intermediate rates); a super-reduced rate of 3% applies to food and beverages, pharmaceutical products, newspapers, periodicals and books on all physical means of support passenger transport admission to cultural services and parks. A reduced rate of 6% applies to gas, electric power, flowers and labour-intensive services such as hairdressing and window cleaning. An intermediate rate of 12% applies to certain wine and solid mineral fuels and mineral oils and wood intended for use as fuel, with the exception of wood for heating. Finally, flat rates of 4% or 10% apply to farmers and foresters subject to a specific regime. As of 2013, the turnover threshold for the VAT exemption for small enterprises will increase from EUR 10 000 to EUR 25 000. For VAT on private residences, the gain from applying the 3% reduced rate on construction and renovation works will be limited to EUR 50 000.

Regarding excise duties on car fuels, the applicable rate for diesel-driven cars amounts to EUR 338.36 per 1 000 litres from 1 September 2012. Tobacco taxation has changed from 1 January 2013. The new excise rates applying to cigarettes are 45.84% (proportional element) and EUR 10.3586 per 1 000 cigarettes (specific element).

Wealth and transaction taxes

Resident corporations are subject to wealth tax on their worldwide net worth. The tax rate is 0.5%. The taxable base is determined as assets less liabilities. Since 2002, the tax may be reduced under certain conditions. Furthermore, in January 2006, the wealth tax applying to resident individuals was abolished. In parallel, a 10% withholding tax on interest income from savings was introduced.

Local taxes

The most important local tax accruing directly to municipalities is the municipal business tax. It is levied on all business establishments located in Luxembourg. As explained in the chapter on corporation tax, the municipal business tax is added on to the general corporate tax rate of 21% and the solidarity tax surcharge of 7%. Municipalities derive the most important part of their funding from the *Fonds Communal de Dotation financière*. This is a special fund redistributing part of the income collected by the central government from PIT, VAT, motor vehicle tax and excise tax on alcohol to municipalities in addition to a direct allocation from the budget.

Social contributions

Social contributions for pensions, health insurance and family allowances are levied on the gross wage. The pension scheme is financed by central government, and employers' and employees' contributions. A contribution of 16% of

gross wages is paid by both employers and employees. The central government participates with 8 % of total contributions paid on salaries. The health care scheme is financed by central government, and employers' and employees' contributions. The health care contribution of about 5 % of gross wages in 2012, originally paid by both employers and employees, is, as of January 2013, only paid by employers and the self-employed (optional) and the contributions are decreased to 0.42 %, 1.33 %, 1.83 % or 2.64 % depending on the risk (based on the absenteeism rate of the company's employees). The maximum annual ceiling for 2013 is set at EUR 112 451.88. The central government participates with 37 % of total contributions paid on salaries. For family allowances, the rate of 1.7 % is borne by the employee on his/her salary.

The 1.4 % contribution rate to long-term care insurance is borne by the employees (levied on total gross income including income derived from personal wealth). Unemployment benefits are paid from the Employment Fund. This special fund centralises income from the solidarity tax paid by employers and employees, excise income from certain mineral oil products and direct budgetary endowments from central government.