

Personal Tax Update 2014

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2014 – in summary...

Where we left off...

November 2013

- New government
- No information release on proposed tax changes for 2014

What might have been changed?

- Income taxes?
- Social taxes?
- Re-introduction of a crisis-tax style element?
- Deductions?
- Re-introduction of wealth tax?

December 2013

Government issued coalition program and broad measures for the future

- Luxembourg must remain competitive in attracting highly qualified individuals
- Confirmation that net wealth tax will not be re-introduced
- View that inheritance tax position remains attractive

What might be considered going forwards

- Review of income tax rates/bands
- Review of deductions
- Potential move away from joint taxation for married couples

Small changes during 2014

Capital gains deferral on real estate

- Under certain conditions capital gains on the sale of real estate could be deferred upon purchase of specific real estate in Luxembourg – this is abolished from 1/1/2015

Luncheon vouchers

- No longer available during periods of “garden leave”

Tax cards for non-residents

- Validation letter process has been revoked so cards issued automatically in many cases
- Corrections still possible using 164NR form

Proposed changes from 2015

Proposed changes for 2015

Contribution for funding children's futures

- 0.5% due on professional income (i.e. salary), replacement income (i.e. pension, unemployment, sickness pay) and patrimony income
- Follows same basis as dependence insurance i.e. contribution basis reduced by $\frac{1}{4}$ of minimum wage (i.e. € 480)
- No upper limit (i.e. uncapped)
- Collected through the payroll by the employer
- Annual contributions below € 25 are ignored
- Contributions are not deductible on personal tax returns

Proposed changes for 2015

Family related changes

- Maternity allowance and education allowance abolished to facilitate inclusion of women in employment
- Family allowance and child benefit (boni pour enfant) to be paid as a single payment
- Free childcare for children aged 1-3 during school hours.
- Further reduce the costs of daycare for young parents through the “chèques services” voucher system.

Director's fees

- Potential increase in the flat rate withholding tax (currently 20%)

Exchange of information

- 1/1/2015 – Luxembourg will apply the automatic exchange of information provisions in the EU savings directive
- FATCA – Luxembourg : Model 1 intergovernmental agreement
- OECD – Competent Authority Agreement (CAA) & Common Reporting Standard (CRS)
 - OECD models based on Model 1 FATCA IGA
 - Luxembourg will be one of the early adopters
 - New due diligence procedures during 2015
 - Increased reporting from 1/1/2016

Current actions?

What to consider before 31 December 2014

Have you filed your tax return for 2013?

- Even if no obligation, there is an option to file a décompte (voluntary return) to claim deductions
- For non-residents, have you considered the resident election and possible joint filing options?

Have you maximised your deductions for 2014?

- Employer pension - €1,200
- Personal deductions – previous page
- Interest subsidy's via employer (13th month)
- Costs in excess of standard deductions available

Remember:

If you file your return late (post 31 December 2014) then you could lose entitlement to any refund.

Current deductions

• Mortgage interest	€750 - €1,500 ⁽¹⁾⁽²⁾
• Debit interest	€336 ⁽¹⁾
• Insurances	€672 ⁽¹⁾
• Personal pension contributions	€1,500 - €3,200 ⁽³⁾
• Home savings loan schemes	€672 ⁽¹⁾
• Charitable donations	€120+ ⁽⁴⁾
• Childcare and/or housekeeper/cleaner costs	€300 per month ⁽⁵⁾
• Alimonies to ex spouse	€24,000
• Alimonies for children living outside household	€3,480 per child

(1) deductions per member of household

(2) amounts depends on length of ownership of property

(3) Amounts increase with age over 40 years

(4) Limited to 20% of taxable income/€1,000,000

(5) Can be higher in certain cases, depending no family size/income

EU – net pay comparison

Net pay comparison

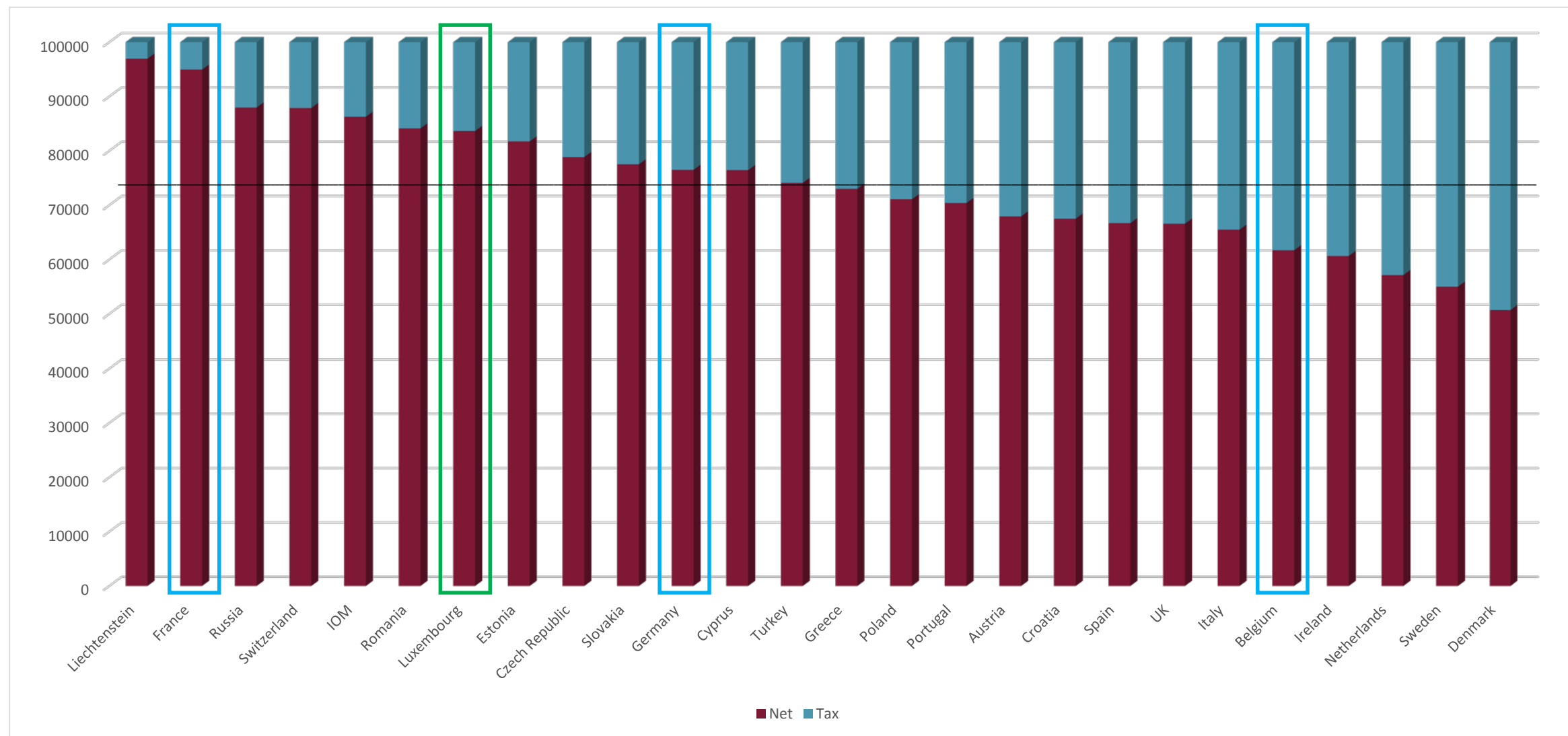
“Top personal income tax rates level off in 2014 after 3-4 year trend of rising rates” ⁽¹⁾
“Shifting taxes away from labour?” ⁽¹⁾

Following graphs use data sourced from the 2014 AGN International survey. The survey is based on a married individual with two children, annual gross salary of €100,000, a company car costing €40,000 when new, and paying annual mortgage interest of €7,500 and will compare:-

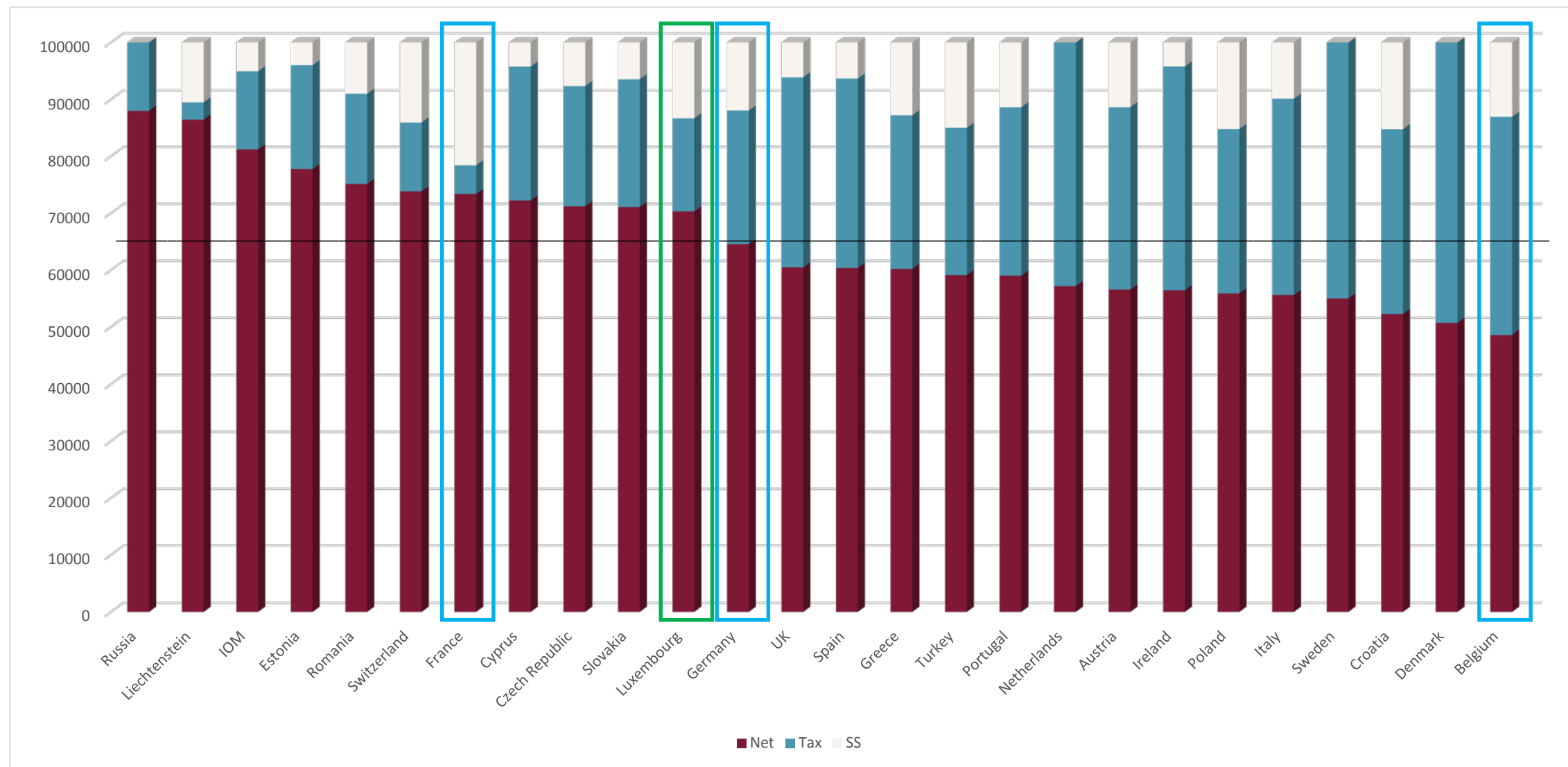
- Portion of gross salary paid in tax
- Portion of gross salary paid in tax and employee social security
- Total cost to employer of providing package (i.e. including employer social security)

(1) - European commission Taxation Trends report

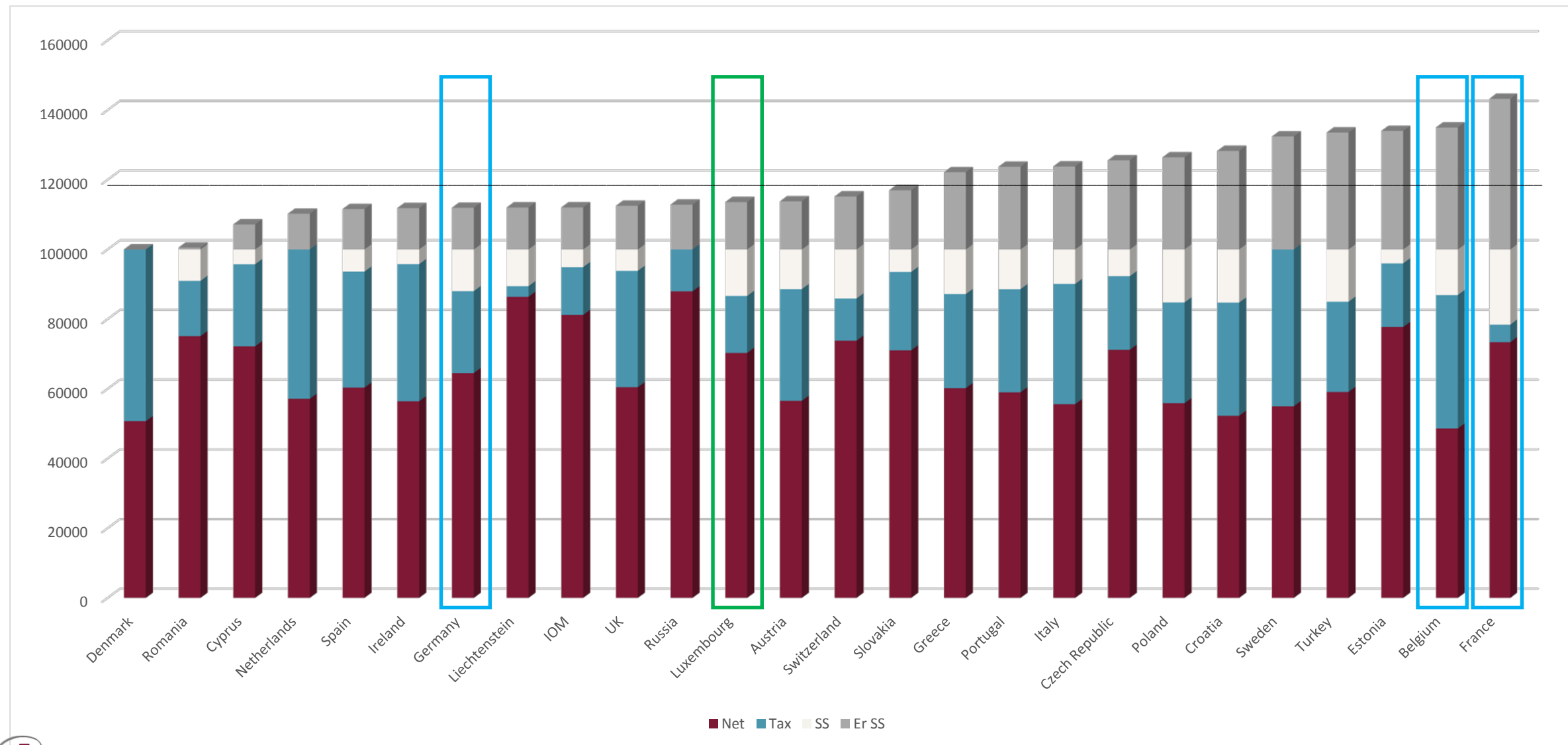
EU comparison - portion of gross salary paid in tax



EU comparison - portion of gross salary paid in tax and employee social security



EU comparison - total cost to employer of providing package (i.e. including employer social security)



Some important UK changes

UK – important updates for expatriates

Capital Gains Tax for Non-Residents

- New legislation proposed to come into force 6 April 2015

Loss of annual personal allowance for non-residents

- currently GBP 10,000 for 2014/15

Thank you for listening

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