Luxembourg's Draft Budget 2027: Continuity in a Pro-Business Tax Policy

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The 15% rate would apply only to taxable income above € 250,000, with a gradual transition between 13% and 15% for income between € 200,000 and € 250,001.

Overall burden

Once Municipal Business Tax (MBT) and the solidarity surcharge for the employment fund are included, the aggregate rate for a Luxembourg-City company with taxable income above € 250,000 would fall from 23.87% to 22.80% (16.05% CIT plus surcharge, and 6.75% MBT). For small businesses, the aggregate rate would fall from 21.73% in 2026 to 20.66% (13.91% CIT plus surcharge, and 6.75% MBT).

This brings Luxembourg's nominal rate closer to the 2026 European Union average statutory rate, stated as 21.6%.

Assessment

The cut is modest in absolute terms, but its significance is directional. It comes as international tax rules evolve and as jurisdictions compete on the predictability of their regimes, and it extends the thresholds so that more income benefits from the lower bands.

Reintroduction of unlimited tax loss carryforwards

Background

Before 2017, tax losses (net operating losses or NOLs) could be carried forward indefinitely in Luxembourg. The 2017 tax reform introduced a 17-year limit for NOLs incurred from 2017 onward, while preserving unlimited carryforward for earlier losses. On the existing rules, the first NOLs subject to the limit could expire in 2034.

The proposal

The draft budget abolishes the 17-year limit for income tax purposes, including CIT and MBT. Losses incurred after 31 December 2016 would no longer expire. The measure therefore removes a restriction before it has ever bitten, since no loss could have expired before 2034.

The existing conditions for using losses would remain in place, so careful documentation remains essential.

Assessment

The measure is of particular relevance to start-ups, real estate businesses and capital-intensive structures with long payback cycles. For such businesses, a time limit on losses can erode the value of the NOLs. Reverting to the pre-2017 position is a clear signal of regard for long-term investors. It is a measure that has no budgetary impact in the short or medium term, but can be positive for business in forward planning and some GAAP contexts, so should be welcomed unequivocally.

For multinational groups within the scope of Pillar Two, the change may also be relevant to the treatment of tax losses in the GloBE effective tax rate calculation. The indefinite domestic carryforward could allow losses to be used against Luxembourg taxable profits in later years, while deferred tax assets relating to losses may also affect the GloBE calculation, subject to the Pillar Two rules, including the requirement to measure deferred tax amounts at the 15% minimum rate.

The measure does not, however, change the Pillar Two rules themselves, and its impact will depend on the group's facts, accounting treatment and applicable GloBE elections.

Higher investment tax credit rates for digital and green projects

Background

The investment tax credit (ITC or *bonification d'impôt pour investissement*) has two combinable components: a global ITC on qualifying investments in depreciable tangible assets, and a supplementary ITC for investments in specified areas. The supplementary credit has been used to steer investment towards digital transformation and the ecological and energy transition, both described as national priorities. This is addition to regular tax depreciation. It is a credit not a grant, so is only effective for companies that pay corporate income tax. Excess ITCs in any tax year can mainly be carried forward for 10 years however.

The proposal

The proposed changes are:
- the rate for qualifying investments and operating expenses in digital transformation and the ecological and energy transition rises from 18% to 21%;
- the supplementary rate for specified investments in depreciable tangible assets rises from 6% to 9%, so that, combined with the global ITC, the overall rate for qualifying investments in these areas could reach 21%.

The increase links tax policy to economic transition goals and makes the incentive more attractive to businesses planning such investments.

Assessment

This targeted incentive, by which the Government lowers the net cost of investments in national priorities, complements the CIT reduction. The CIT reduction lowers the tax on profits while the ITC lowers the cost of the investments that generate them. Because it strengthens an existing instrument rather than creating a new regime, it also limits added complexity for taxpayers. Its practical impact will nonetheless depend on the taxpayer's capacity to absorb the ITC, which may be limited for the short-term benefit start-ups and loss-making companies.

In any case, businesses should review their investment plans against the new rates once the final text is adopted.

Capital gains: a longer holding period for « speculative » gains

Background

Luxembourg taxes the gains realised by resident individuals on the disposal of movable assets, including securities, only in defined circumstances. A capital gain is taxable as a speculative gain where the movable asset is sold within a short period after acquisition, set at six months under the current rules. Except for substantial (>10%) shareholdings and real estate, a gain on an asset held for longer generally escapes income tax, which reflects a long-standing feature of the Luxembourg system: private long-term gains on investment is largely left outside the tax net, while short-term trading is treated as income.

This distinction was a feature of many EU member state tax systems, but has been eroded over time in most other EU States. The holding period is therefore the central parameter of the regime, since it separates tax-exempt investment gains from taxable speculative ones.

The proposal

The draft budget extends from six to twelve months the holding period that determines whether a gain on the disposal of movable assets, including securities, is a speculative gain. The extension would also apply to the relevant period for carried interest under Article 99bis of the Income Tax Law, and, in limited circumstances to non-resident taxpayers (for substantial shareholdings in Luxembourg companies).

Gains realised by individuals on securities are generally taxable only where the disposal falls within the speculation period or other conditions are met, such as a substantial shareholding. After the reform, a holding period of more than twelve months would be needed to fall outside the speculative-gains regime. The measure should take effect from tax year 2027, and the other rules on speculative gains and their tax treatment would not change.

Assessment

This is the one measure in the package that tightens rather than relaxes taxation. However, the extension of the holding period to twelve months should have little practical impact on carried interest arrangements, since the underlying investments are usually long-term positions held for well over one year.

In addition, selling securities after the six-month period does not guarantee that the gain is tax-free. The Luxembourg tax authorities may look at how the taxpayer actually behaved, rather than at the holding period alone. If the sales are frequent, regular and clearly aimed at short-term profit, they may treat the taxpayer as a trader and tax the gain as business income at ordinary rates, even though each sale took place after six months.

In practice, there are therefore two separate questions. The first is whether the sale falls within the speculation period, which depends only on the holding period. The second is whether the transactions, taken together, amount to a trading activity, which depends on the facts. The six-month rule answers only the first question, and the second remains open even after the period has expired.

The reform does not change this logic. Moving the threshold to twelve months will reduce borderline cases at six months, but the sensitive zone will simply move to disposals made shortly after twelve months. We also expect that there is likely to be a behavioural adjustment where taxpayers may extend their holding period on investments beyond 12 months as a reaction to the changes, reducing the practical impact and budgetary effect.

This change was a surprising development, and it is not obvious why the measure was introduced - possibly the result of political horse trading.

Residential investment: restored accelerated amortisation

Like most European countries, there is a shortage of residential accommodation particularly around Luxembourg-City. For a number of reasons, mainly non-tax related, the delivery of new builds has dropped precipitously over the last years. Given that Luxembourg is part of the EU, we have a safety valve in the fact that much of the workforce can live across the borders and commute in. This is not a sustainable solution however.

There is a wide consensus that more residential building is needed both to support talent attraction for business and more importantly as part of the fabric of Luxembourg society. Tax policy can be a helpful factor, albeit a minor one in our view.

Background

The 2021 budget law reduced the accelerated depreciation rate for new rental-housing investments from 6% to 4% from tax year 2021. It also reduced the maximum age of qualifying real estate from six to five years, and applied the same rules to the renovation of old dwellings. A specific regime was introduced for renovation work enabling the use of sustainable energy.

The proposal

The draft budget reverses this trend. Under the modified rules, qualifying rental-housing buildings could again benefit from accelerated depreciation at 6%, up from 4%, from tax year 2026. The age limit would return to six years. To qualify:
- the value used to calculate depreciation for the building as a whole at completion must not exceed € 600,000; and
- completion must have occurred less than six years before the start of the operating year.

The threshold is assessed on the value of the whole building at completion, not on an individual owner's share, and continues to determine eligibility if the property is later sold. A building with a completion value of € 600,000 could qualify even if its overall price, including land, were € 800,000, giving an annual deduction of € 36,000, subject to any first-year apportionment. A building valued at € 650,000 at completion would not qualify.

The 6% rate could also apply to qualifying renovation expenditure on older rental housing, provided that:
- the expenditure exceeds 20% of the building's acquisition price or cost;
- the building's total acquisition price or cost does not exceed € 600,000; and
- the renovation was completed less than six years before the start of the operating year.

Transitional rules

The 4% rate would be maintained for qualifying properties acquired or constructed, or renovations completed, after 31 December 2020 and before 1 January 2026. It could also remain available for certain properties acquired, constructed or renovated after 31 December 2025 and before 1 January 2027, including cases where the relevant value exceeds € 600,000 and the 6% rate cannot apply.

Assessment

This is helpful in creating demand for new builds among investors and reflects a historical practice where many individuals invested in rental accommodation as an investment strategy that was perceived as "low risk". It continues a practice of spreading the benefit of the tax incentives to a broader group of taxpayers by limiting the incentives available to a single person. However, we think other changes, around permitting in particular, will be far more important and impactful.

Simplified employer reporting: impatriate and profit-sharing regimes

Background

Two employee-focused incentive regimes carry employer reporting duties: the profit-sharing bonus (*prime participative*) and the impatriate regime. Employers have to submit named lists of the employees concerned so that the tax authorities could verify the conditions.

The proposal

As part of a broader administrative simplification effort, the draft budget removes this requirement. According to the explanatory commentary, the *Administration des contributions directes* (ACD) can already identify the employees concerned from the salary account statements that employers submit, which makes separate lists redundant.

Assessment

This measure is welcome because it reduces employers' administrative burden while leaving the substantive eligibility conditions unchanged. It may also help resolve a point of debate by reinforcing the view that the employer's impatriate declaration is a reporting formality, rather than a condition of the employee's eligibility for the regime.

Personal taxation: The tax class reform as a measure in favour of work

The Reform

In addition to the draft budget that has been tabled, the Chamber of Deputies adopted in October 2026, various tax measures for individuals including tax credits. The main reform for individuals introduces a single tax class (Bill No. 8676), which is to enter into force with effect from tax year 2028.

The reform provides for the gradual replacement of the existing tax classes 1, 1a and 2 by a single, individualised class, designated class U. Taxpayers currently in classes 1 and 1a, as well as taxpayers newly married or entered into a partnership, will be assigned to the new regime. However, eligible couples who were already taxed jointly prior to 2028 may continue to benefit from the former class 2 for a transitional period of twenty-five years.

The reform is a major political project and was a cornerstone of the Coalition program. It is intended to simplify the system and to afford a tax reduction to the majority of taxpayers. The actual impact will nevertheless depend on the individual circumstances of each household. The budgetary cost will be profound, although spread over time. While it is a general personal income tax measure, we are broadly supportive as a measure to reduce the taxation of labour, as the structure of the individual taxpayer base means that a significant amount of the tax reductions will go to labour income.

Assessment

The recent reform of personal taxation may also be regarded as business-friendly, in that it complements the business-oriented measures examined above. The reform of the tax classes is, in substance, a reform of the taxation of work.

For the great majority of resident individuals, employment income (salaries, wages and, for the self-employed, professional income) constitutes the principal, and often the sole, source of income, other categories such as rental, capital or pension income being generally secondary. Income tax is therefore, for most taxpayers, essentially a tax on professionally earned income. As the tax classes determine the tariff applicable to that income, and hence the net amount retained by the individual, any reform of the classes directly alters the tax position of workers.

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