




ATOZ

TAX ADVISERS

LUXEMBOURG

TAX TRENDS 2015: SIGNIFICANT FINDINGS



“We live in a period of unprecedented volatility. Businesses, if they need anything, it is to have a tax environment in a jurisdiction that is safe and certain.”

-Norbert Becker, ATOZ Chairman

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Keith O'Donnell presents the survey at the ATOZ TaxTalks Event in November 2015

When we started thinking about this survey, we were curious about what we knew about what Luxembourg knew about taxation. We concluded that we didn't know much about what Luxembourg knew and nor did anyone else for that matter. Given the importance that tax was taking, we felt it our duty as Luxembourg's premier tax firm to do something about it.

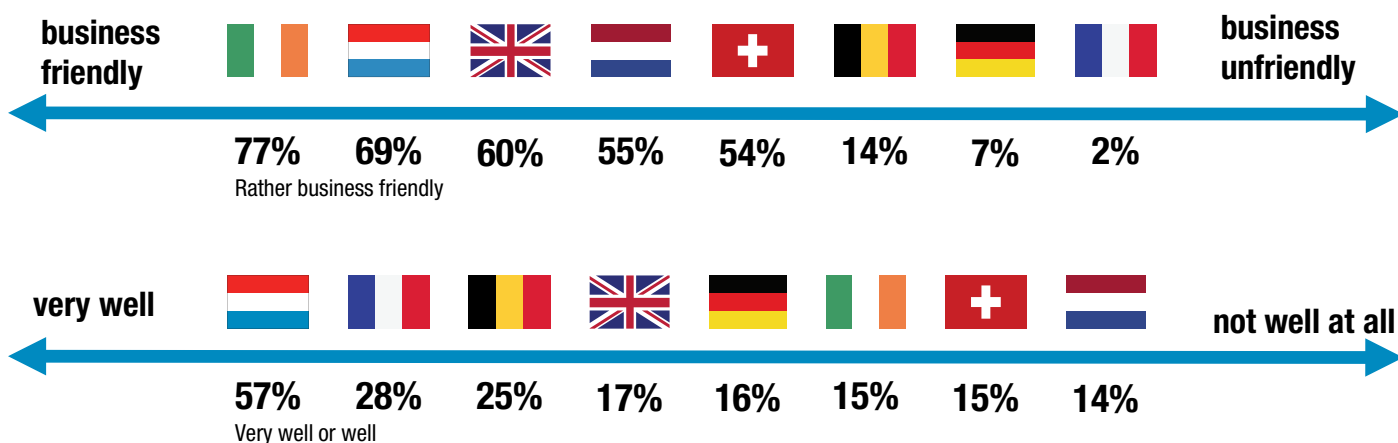
We decided to carry out a survey with one of Luxembourg's leading market research firms, Quest, in order to ensure maximum objectivity. Our firm was built on a need for independence and we have always highly valued independent thinking and thought leadership. Our purpose here was not to prove any particular point or to lobby for any particular result, but just to inform ourselves and the community at large as to the opinions of business leaders and the general public. At the start, as tax professionals, we had hundreds of what we thought were very interesting questions, but the Quest team professionally and diplomatically culled our list to one that was likely to be understandable and relevant to anyone who completed the survey, while at the same time keeping it interesting for people who think about tax all day long.

In this report, I'd like to share with you some of the survey results that we found the most interesting. The emphasis is on business related points, but we also managed to collect a wealth of information on what individuals in Luxembourg think about tax, which we have shared with the Ministry of Finance. The survey was also extensively covered in the press and the local media.

We hope that you will enjoy reading this report and that you will find it both informative and thought-provoking. There is no better time to be thinking about tax. Changes are on the horizon, and we should take stock of the current situation in Luxembourg so that we may be better informed moving forward.

What do we know?

We began the survey by asking decision makers to tell us how business friendly they thought each country was. Then, we asked them how much they knew about taxes in each of these countries. In the minds of Luxembourg decision makers, Ireland, the UK as well as the Netherlands and Switzerland (to a lesser extent) are competitors, offering a business friendly environment. However, when we asked the same group of decision makers how well they knew the tax system, we saw that despite the business friendly classification, decision makers have a weak grasp of taxation beyond the Luxembourg borders. This leads us to challenge our beliefs about what we think we know. Where does the perception of business friendliness come from, and how grounded is it in actual objective knowledge?



“It’s quite strange to see that the most business friendly countries also have lower nominal tax rates, but this is probably because the nominal tax rate is so simple to understand. It appears to be an appealing and key product in people’s mind.”

-Christophe VELLE (ATOZ TaxTalks Panel 20/11/15)

If we then draw a simple comparison between the general level of knowledge of the taxation system in Luxembourg for decision makers and households, we find, as expected, a higher level of knowledge for decision makers than for the general public. Slightly less than one quarter of Luxembourg households say that they know the Luxembourg taxation system well or very well. In fact, one out of three citizens needs assistance in order to fill in their tax return. When we asked households about specific topics, they were most interested in learning more about social security/pension contributions (61%) and income tax (56%). This information gap was the first hint at disparities between households and decision makers which became more evident as we continued to ask questions.

INFORMATION GAP

How well do you personally know the taxation system for businesses / for households and individuals in Luxembourg?



56.7%

OF DECISION MAKERS SAY: VERY WELL OR WELL



24.2%

OF THE GENERAL PUBLIC SAY: VERY WELL OR WELL

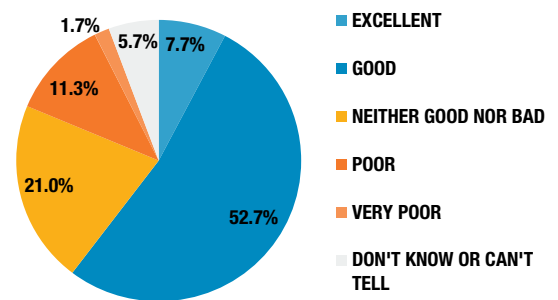
The Luxembourg tax environment

In order to understand the opinions of decision makers in Luxembourg on specific themes, it was important to first ask some questions about the tax environment at large. The results below can be seen as evidence that the Luxembourg economy is rather stable and business friendly.

Over 50% of decision makers in Luxembourg consider that tax predictability is excellent or good. This figure is reassuring because it shows a high-level of certainty for businesses in the Luxembourg tax environment. It is important for all businesses to be able to foresee their tax burden so that they may plan accordingly. A high level of tax predictability is a sign of economic stability.

TAX PREDICTABILITY

How would you evaluate the tax predictability for businesses in Luxembourg at the moment?



A POSITIVE RELATIONSHIP

How would you evaluate your relationship with Luxembourg's Tax Authorities?

1/2 of decision makers rate their relationship with the Tax Authorities as **GOOD** or **VERY GOOD**

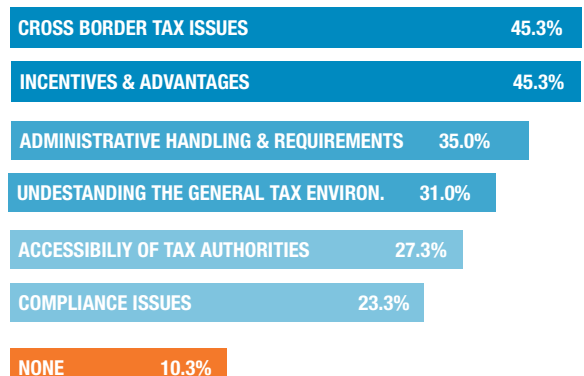
30% of decision makers rate their relationship with the Tax Authorities as **NEUTRAL**

The results regarding the relationship that decision makers have with Tax Authorities are equally reassuring. Only 2.3% of decision makers rate their relationship with the Tax Authorities as poor or very poor while 15% never deal with the Tax Authorities. The remainder have a very good, good, or neutral relationship.

When we ask decision makers in which tax related areas they would like their business to improve in the future, we find an interest in cross border issues as well as for incentives and advantages. Decision makers seem less interested in compliance issues, but it should be noted that this need for improvement in compliance increases as the turnover of the company increases. Large companies also report a greater need to improve in terms of accessibility of Tax Authorities, meaning that the usual image, present in the media, of large multinationals being at an advantage when it comes to the Tax Authorities may not be true.

ROOM FOR IMPROVEMENT

In which tax related areas do you think your business could stand to improve in the future?



Different priorities

Some of the most striking findings of the TaxTrends survey had to do with the apparent disconnect between decision makers and households. When both groups were asked the same question about competitiveness in Luxembourg, we found that the highest divergence of opinion concerned the role of Luxembourg’s tax environment. Decision makers classified the tax environment as the most important aspect of competitiveness, while households put it in 4th place. This could in part be due to the information gap between the two groups. Decision makers being more informed about the tax system are able to more appropriately estimate its value, while households who are not confronted with tax issues on a daily basis, see this part of the business landscape

DIFFERENT POINTS OF VIEW

How important are these aspects of Luxembourg’s competitiveness?

as less important. However, it is interesting to note that the “secure and stable legal system” is of similar importance for both decision makers and households. And while the benefits of the multilingual workforce are often touted as a major advantage, decision makers seem to not find this aspect as important after all.



GENERAL PUBLIC

- SOCIAL & POLITICAL STABILITY
- SECURE & STABLE LEGAL SYSTEM
- MULTILINGUAL WORKFORCE
- TAX ENVIRONMENT
- IT & COMMUNICATION INFRASTRUCTURE
- CONNECTIVITY TO MARKETS



DECISION MAKERS

- TAX ENVIRONMENT
- SECURE & STABLE LEGAL SYSTEM
- SOCIAL & POLITICAL STABILITY
- MULTILINGUAL WORKFORCE
- IT & COMMUNICATION INFRASTRUCTURE
- CONNECTIVITY TO MARKETS

“As we become more and more dependent on foreign investors, we need to align our system to that of the competing jurisdictions.”

-Norbert BECKER (ATOZ TaxTalks Panel 20/11/15)

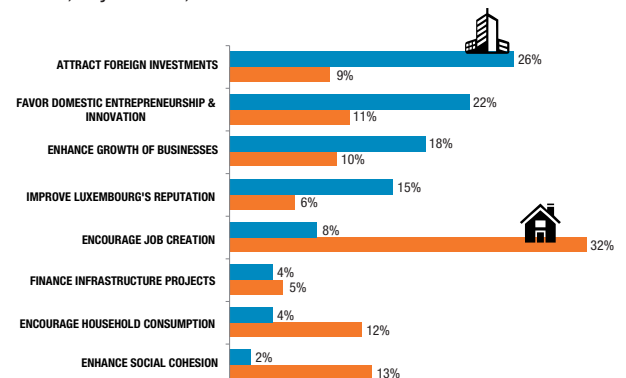
It is a fact that tax policy can be used to obtain targeted results. A list of different focus areas was presented to both groups who then were required to state their first, second and third priorities. When the “top priority” results of these two groups were compared, it becomes quite clear that Luxembourg households and decision makers think that tax policy should be used in very different ways. In fact, 32% of households surveyed listed job creation as the most important focus area while only 8% of decision makers said the same.

It seems that households and decision makers need to work at understanding each other’s frame of mind. For households, this would mean understanding that employment creation is a consequence of business growth (whether through domestic entrepreneurship or foreign investment), while decision makers should be more aware of this important priority for households and consider job creation alongside profitability.

What is also interesting is the difference amongst categories of businesses: the top priority for small businesses is to favor domestic entrepreneurship and innovation, while larger businesses are more focused on foreign investment.

FOCUS OF TAX INITIATIVES

Taxes constitute a strong economic instrument. Please mention where, in your view, the focus of future tax initiatives should lie?



Strategic tax decisions

IMPORTANT INCENTIVES

LOWER taxes for middle incomes (30–70K EUR/year)



RAISE tax abatements to take into account housing price inflation



RAISE tax abatements to encourage complementary private pension schemes



MORE IMPORTANT FOR HOUSEHOLDS

SOMEWHAT IMPORTANT FOR HOUSEHOLDS

LESS IMPORTANT FOR HOUSEHOLDS

ACCEPTABLE INITIATIVES

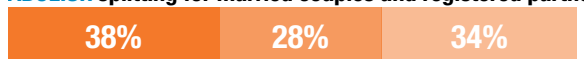
RAISE taxes for the top 5% of incomes



ABOLISH or limit abatements that do not produce targeted results



ABOLISH splitting for married couples and registered partners



MORE ACCEPTABLE FOR HOUSEHOLDS

SOMEWHAT ACCEPTABLE FOR HOUSEHOLDS

LESS ACCEPTABLE FOR HOUSEHOLDS

IMPORTANT INCENTIVES

LOWER the total Corporate Income Tax rate to 15%



CAP the Net Wealth Tax to an annual maximum amount



ABOLISH Withholding Tax on dividends



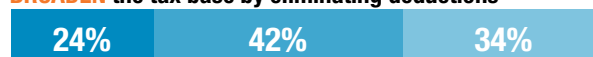
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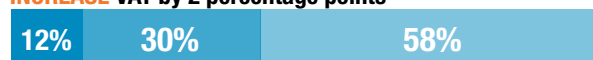
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ACCEPTABLE INITIATIVES

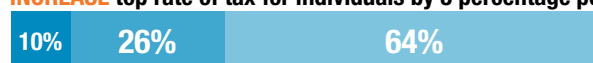
BROADEN the tax base by eliminating deductions



INCREASE VAT by 2 percentage points



INCREASE top rate of tax for individuals by 5 percentage points



MORE ACCEPTABLE FOR DECISION MAKERS

SOMEWHAT ACCEPTABLE FOR DECISION MAKERS

LESS ACCEPTABLE FOR DECISION MAKERS

Although it is certainly interesting to look at the big picture of tax environment, competitiveness and priorities, it is also important to take a closer look at specific tax saving and tax raising measures. The questions asked differ between households and decision makers due to the fact that the two groups are not affected by the same type of tax measures. Some interesting conclusions can be drawn from this portion of the survey. Both households and decision makers were given the opportunity to classify the importance/acceptability of a group of tax saving incentives and tax raising initiatives on a scale of 1-6.

As we have seen, households have different priorities regarding the focus of tax initiatives. Lowering taxes for middle incomes, attempting to temper housing price inflation and addressing the issue of private pension scheme were all met with high levels of approval from the household side, although lowering taxes for middle incomes was deemed the most important.

It is interesting to note that households, on average, are more open than decision makers to the idea of raising taxes – especially when it has to do with taxing the highest earners. Households are less enthusiastic about abolishing the splitting system of taxation for married couples and registered partners, but generally accepting of doing away with or limiting ineffective abatements.

Strategic tax decisions

We see that for decision makers, the most important measure would be to lower the total Corporate Income Tax to 15%. Indeed, if this were to occur, Luxembourg would join countries such as Ireland which, at a 12.5% Corporate Income Tax rate, attracts a wide array of businesses in all sectors. Although in the end, the effective rate in Luxembourg (city) can be much lower than 29.22%, a low nominal rate is easy to understand and can become a valuable selling point. Decision makers would also not mind capping the Net Wealth Tax. Although not fully capped, as from 2016 businesses in Luxembourg will benefit from a reduced Net Wealth Tax rate (0.05%) on the portion of net wealth exceeding 500 million euros. Lastly, Withholding Taxes on dividends are apparently not such of a burden on a large number of decision makers. Beyond tax incentives that cost money, the TaxTalks panel also made the point that some incentives cost nothing to the budget.

When we take a look at what tax raising measures are acceptable to decision makers, we see that of the three proposed initiatives, only one garners a majority of acceptance. The idea to broaden the tax base by eliminating deductions is the best received. Surprisingly, decision makers are less keen to the idea of increasing the VAT rate, perhaps because the rate was already increased by 2 percentage points in January 2015. Decision makers found the suggestion of increasing the top rate of tax for individuals by 5 percentage points to be the least acceptable. This may be due to the fact that many of the decision makers surveyed fall into this category.

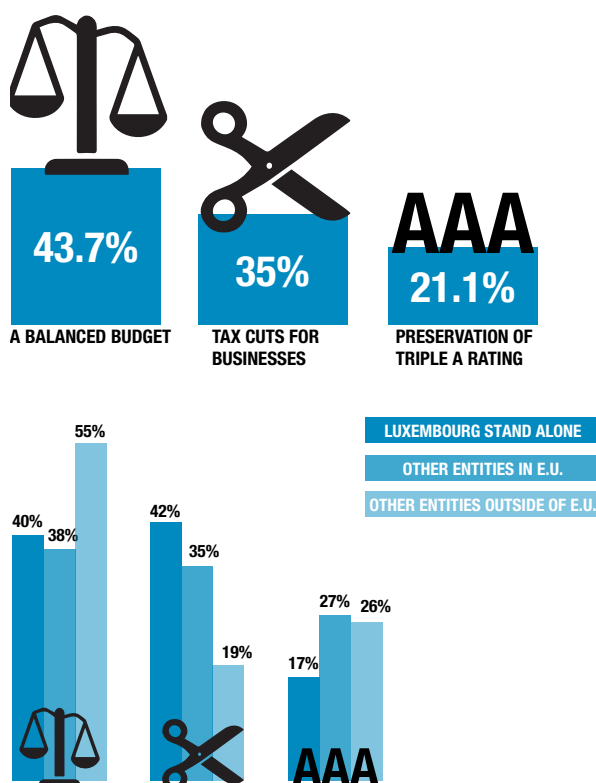
“The investment fund industry is a major contributor to the Luxembourg budget. Some policies, like improved treaty access, would really help the industry while costing nothing to the budget.”

-Denise VOSS (ATOZ TaxTalks Panel 20/11/15)

Decision makers were asked an additional question about tax strategy. They were given the choice between three macroeconomic goals: a balanced budget, tax cuts for businesses or the preservation of the AAA rating. The results were quite surprising. According to decision makers, a balanced budget is over two times more important than the AAA rating, even though the latter may be the consequence of the former. Taking a closer look at how these figures break down, we see that for decision makers in groups with more entities outside of Luxembourg, the preference to preserve the AAA rating rises while tax cuts remain the most important for decision makers from Luxembourg stand alone businesses.

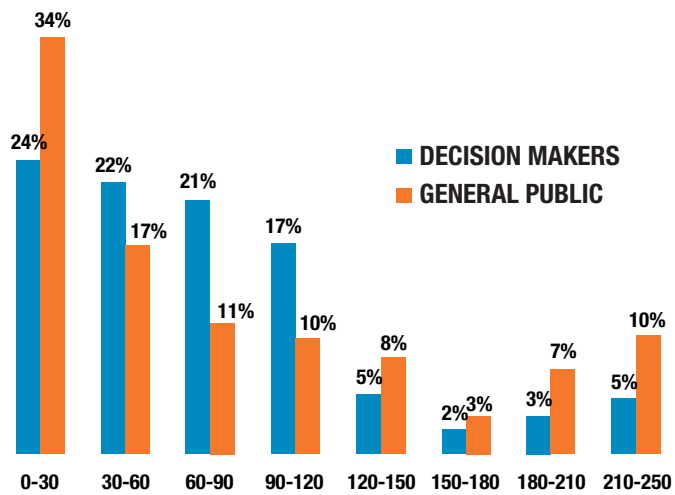
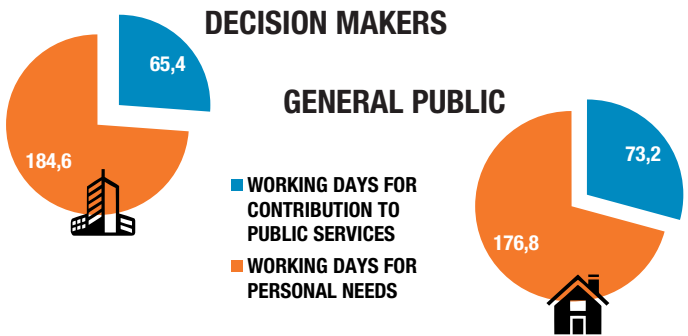
STRATEGIC PRIORITIES

If the following objectives could not be achieved at once, which one should prevail?



The ATOZ contribution index

How much tax do people think is a fair amount to pay? The ATOZ contribution index asked decision makers and the general public how many of their working days (out of 250), they were willing to contribute to public services. On average, both decision makers and the general public agree that about one-third of one's working days in a year should be earmarked for public services. Interestingly, this number is quite similar to the level of income tax that many people actually pay.

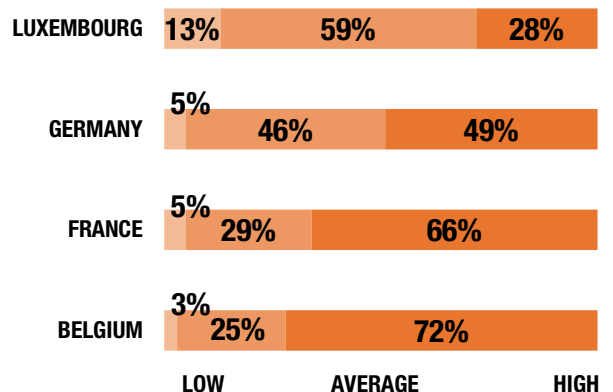


WORKING DAYS FOR CONTRIBUTION TO PUBLIC SERVICES

As a comparison, we also surveyed households to see if they thought the actual level of tax they were paying in Luxembourg was too high. Despite the figures above which could indicate more wishful thinking than anything else, we were surprised to find that most households think the level of tax they pay was average. Compared to how people viewed the level of tax in neighbouring countries, Luxembourg comes out largely ahead in with 72% of households stating that they pay a low or average level of taxes and less than one-third who find their tax burden to be too high.

When these numbers are broken down into a more granular view, we see a slightly different picture. The decision makers' answers are less varied than those of the general public with 84% agreeing that the number should be somewhere between 0 and 90 days. However, when we look at the distribution of the general public, it becomes apparent that slightly over one-third of the general public are concentrated in the lowest category of 0-30 working days while 17% are ready to contribute between 180 and 250 of their working days.

HOW HIGH IS THE LEVEL OF TAXATION FOR HOUSEHOLDS IN THESE COUNTRIES?



Key Takeaways

- 1** Decision makers are happy with the predictability of the Luxembourg tax system.
- 2** Decision makers would like to see improvements in cross border taxation, tax incentives and a reduction in the nominal rate of Corporate Income Tax, while accepting a broadening of the base (which may be needed to obtain a lower CIT rate).
- 3** Decision makers and households are broadly aligned on matters of personal taxation.
- 4** Attracting foreign investment is the key focus of most decision makers.
- 5** Decision makers put the priority of a balanced budget far ahead of tax cuts for businesses or preservation of the AAA rating.
- 6** Luxembourg households are opinionated, engaged and curious on the subject of tax.

Methodology

The ATOZ TaxTrends survey was conducted by ATOZ Tax Advisers Luxembourg with the support of Quest Market Research. The survey was adapted for both individual Luxembourg households and decision makers of the Luxembourg business world. 1000 households and 300 decision makers answered our survey.

The household survey included questions on how Luxembourg individual tax payers view the fairness, ease and competitiveness of their tax system and represented a large cross-section of the Luxembourg population, taking into account age, sex, nationality and socio-professional category. 1000 Luxembourg households gave us their views, either by an internet-based survey or a phone interview.

Sent to a sample of CEOs, CFOs, Directors, Managers, and company Chairmen, the business survey asked for opinions on subjects related to the competitiveness and business friendliness of the tax environment in Luxembourg, possible changes to current tax legislation and the relationship between the Luxembourg Tax Authorities and business. Responses were received by approximately 300 decision makers across a wide range of industry sectors and size of businesses. Views from decision makers at businesses with turnover under one million, to turnover of above 100 million are represented in the sample. Among the decision makers, slightly over half were part of a stand alone Luxembourg business while the rest were distributed rather evenly between businesses with entities solely in the EU and those with entities outside of the EU.

ATOZ TaxTrends is first and foremost a tool for improving understanding and education on tax matters in Luxembourg. It seeks to provide an overall picture of how decision makers and individuals think about tax in Luxembourg in this new climate of increased transparency and substance requirements.



Doing **GOOD** with our survey

Thanks to ATOZ TaxTrends survey participants, L'ETAPE (a group home in Belgium for children whose families are not able to care for them) will receive a 3000€ donation.

With this donation, they will be able to refurbish their library space and purchase new books for the children.

