



# **Tax Smart Card**

March 2024

Summary of property tax law in Luxembourg

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## Before we start...

# A note

We summarised here the two principal scenarios that are (i) a primary residence acquisition and (ii) a buy-to-let investment.

Buy-to-let investment through a Société Civile Immobilière (SCI) will have the same tax effects as direct ownership.

For individual foreign investors/residents, taxes on Luxembourg-based buy-to-let investment (including rental income and capital gain) will be levied in Luxembourg on similar principles as for resident taxpayers (which are further explained below). In certain cases, double tax treaties will avoid double taxation (i.e. additional taxation in the investor's residence country).

Our experts will be happy to discuss these issues with you for free.



## **Happy reading!**



## **B VAT**



#### **Primary residence**

### Existing property acquisition

Tax-exempt

## New property (off-plan or "VEFA") acquisition

- 3% on the construction part up to 357 143 € and 17% above land part¹ is tax exempt
- The 50 000 € tax advantage resulting from the 3% application must be reimbursed in case the home is not allocated to a primary residence for an initial period ending 2 years after the completion year (also applicable if you sell the property and consecutive usage is not for primary residence)

Buy-to-Let (Investment)

#### Existing property acquisition

Tax-exempt

#### New property (off-plan or "VEFA") acquisition

• 17% on the construction part – land part<sup>1</sup> is tax-exempt

<sup>1</sup> Generally accounts for +/- 40% of the property price

## **≜** Stamp duty



#### **Primary residence**

#### Property acquisition

- 6% registration duties + 1% transcription duties
- Only applies on the land part for new home<sup>2</sup>
- Bëllegen Akt: a 30 000 € tax credit is deductible on the home acquisition stamp duty/person (60 000 € for joint tax payers)

#### 🛱 Exception for the year 2024

Tax credit increased to 40 000 € /person (80 000 € for joint tax payers)

- If the available tax credit exceeds the normal stamp duty, a minimum 100 € stamp duty remains payable
- If not fully used on a first acquisition, the tax credit can be used on a consecutive home acquisition
- In case the purchase homed is rented or sold within 2 years, the tax benefit from the tax credit application must be reimbursed

### Mortgage

• 0.24% registration duties + 0.05% inscription duties<sup>3</sup>

#### **Buy-to-Let (Investment)**

#### Property acquisition

- 6% registration duties + 1% transcription duties
- Only applies on the land part for new property<sup>2</sup>
- Possibility to declare acquisition in view of resale and opt for specific resale scheme:
- Upfront 7.2% registration duties (instead of 6%) + 1% transcription duties (unchanged)
- Resale before the 2<sup>nd</sup> year:
  6% registration duties reimbursement (resulting in net stamp duty of 2.2%)
- Resale between the 2<sup>nd</sup> and 4<sup>th</sup> year: 4.8% registration duties reimbursement (resulting in net stamp duty of 3.4%)

#### **i** Exception for the year 2024

• Tax credit of 20 000 € /person, only for off-plan purchases (40 000 € for joint tax payers)

#### Mortgage

• 0.24% registration duties + 0.05% inscription duties<sup>3</sup>

<sup>2</sup> Off-plan or "VEFA" <sup>3</sup> Calculated on mortgage amount

6

## income tax



#### Tax-exempt interest free (or reduced rate) mortgage from an employer / interest subsidy by the employer

- · Loans granted by employers at an interest rate below 1.5% generate a taxable fringe benefit. The taxable benefit corresponds to the difference between the 1.5% rate and the discounted interest rate
- Interest subsidy applies when the employer provides financial support in connection with a mortgage that the employee has with a third-party bank. Usually the interest subsidy is paid to the employee out of his/her annual bonus
- The above benefits are tax-exempt up to 3 000 € /person (6 000 € if joint tax payers or single with dependent children)

#### Deductible mortgage interest

Interest paid on a mortgage loan (excluding any potential taxexempt interest subsidy) is deductible with the application of the following ceilings:

- 4 000 € /person in the household¹ for the first 6 years
- 3 000 € /person in the household¹ for the next 5 years
- 2 000 € /person in the household¹ for the following years

#### Deductible mortgage insurance: Single premium

- Base deductible: 6 000 € per taxpayer + 1 200 € per child
- Increase of base deductible by 8% per year for taxpayers above 30 years in age (with a maximum 160% increase of base deductible)

#### Deductible mortgage insurance: Annual premium

 Collectively deductible with other insurance premiums (e.g. life, death, disability, accident, sickness, civil liability) and interests on loans other than mortgage loans up to 672 € /person in the household1

#### **Buy-to-Let (Investment)**

#### Net rental income

- Net rental income equals the gross rental income less deductible expenses
- · Gross rental income equals the rent paid by the tenant
- · Deductible expenses are these supported by the landlord and include:
- Interest and charges linked to the financing of the property (including mortgage stamp duty and notary fees)
- Property management charges
- Property taxes
- Communal charges
- Maintenance and repairs
- Insurance premiums
- Property depreciation
- · Buy-to-let properties are depreciable using the straightline method. The depreciable acquisition price excludes the value of land and includes the stamp duty, notary fees and other charges on the property acquisition (if no split is made in the deed of sale, the value of land is assumed to be 20% of the acquisition price)
- Depreciation rates are based on the year of completion of the property and as follows:
- First two buy-to-let investments:
- 5% per year for the first 5 years (in the limit of 1 million euros of depreciation base - doubled in case of joint tax declaration, otherwise 4%), 2% after
- Next buy-to-let investments: 2% per year.

#### Exception for the year 2024

- 6% per year for the first six years, subject to an annual ceiling of 250 000 €, then 2% per year. Applicable to purchases completed in 2024.
- · When net rental income is negative, the negative net rental income is deductible against other taxable income of the (joint) tax payer(s) (such as employment

Including dependent children



## **Need help or advice?**

Understanding tax law and property taxation is not always straightforward. Our experts will be happy to discuss these issues with you free of charge.





## ☆ Property tax





**Buy-to-Let (Investment)** 

- · Calculated on the basis of the home unitary value determined by the Luxembourg tax authorities
- · Property tax rate varies from one municipality to another
- Property tax is usually minimal (i.e. about 100 € for a 500 000 € apartment in Luxembourg city)

## **▼** Capital gain



**Primary residence** 



- For clarification purpose, capital gain tax-exemption is applicable when:
- a) The tax payer occupies the home when the sale occurs and the home constitutes the primary residence since acquisition or completion; or
- b) The tax payer occupies the home when the sale occurs and the home constitutes the primary residence of the tax payer for the 5 years preceding the sale (i.e. if the tax payer rented the home before using it as primary residence); or
- c) The tax payer occupies the home when the sale occurs, the home constitutes the primary residence and the home is sold for family reasons (marriage, divorce, birth, etc.) or professional reasons<sup>1</sup>; or
- d) In case of a), b), and c) above when the sale occurs the following year of the occupier move into a new primary residence; or
- e) The tax payer does not occupy the home when the sale occurs, is not owner-occupier of another home and moved from this home for family reasons (marriage, divorce, birth, etc.) or professional reasons



**Buy-to-Let (Investment)** 

#### **ii** Exception for the year 2024

#### Immunisation of capital gains

Capital gains transferred to buy-to-let investments with an A+ energy performance rating or to property used for social rental management purposes are fiscally immunised.

### Short-term (speculative) gain

- Applies when the property is sold up to 5 years after acquisition
- Corresponds to the difference between the sale proceeds<sup>2</sup> and the acquisition price<sup>3</sup>
- Taxed at marginal income tax rate (i.e. maximum 45.78%) with no applicable deduction

#### Long-term gain

- Applies when the property is sold more than 5 years after acquisition
- Corresponds to the difference between the sale proceeds<sup>2</sup> and the re-valued acquisition price<sup>3</sup>. If applicable, investment expenses (re-valued upon their execution dates) are added to the re-valued acquisition
- The revaluation factor is determined by the tax administration depending on the holding period of the
- A lump-sum deduction of 50 000 € for single tax payer and 100 000 € for joint tax payers apply every 10 years
- If the lump-sum deduction is not fully used within the 10 years period, it can be used on a subsequent longterm capital gain
- Taxed at half the global income tax rate (max. 22.89%)

#### Exception for the year 2024

Taxed at a quarter of the global income tax rate (max. 11.45%) as soon as the property is sold more than 2 years after acquisition.

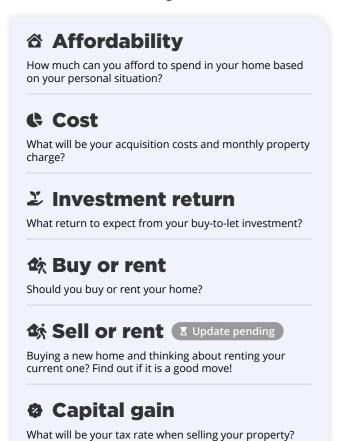
Change of residence i.e. tax payer rented the home before using it as primary residence but is obliged to move for professional reasons <sup>2</sup> Excluding the agency fee or energy pass costs

<sup>3</sup> Including the stamp duty, notary fees and other charges on the property acquisition price

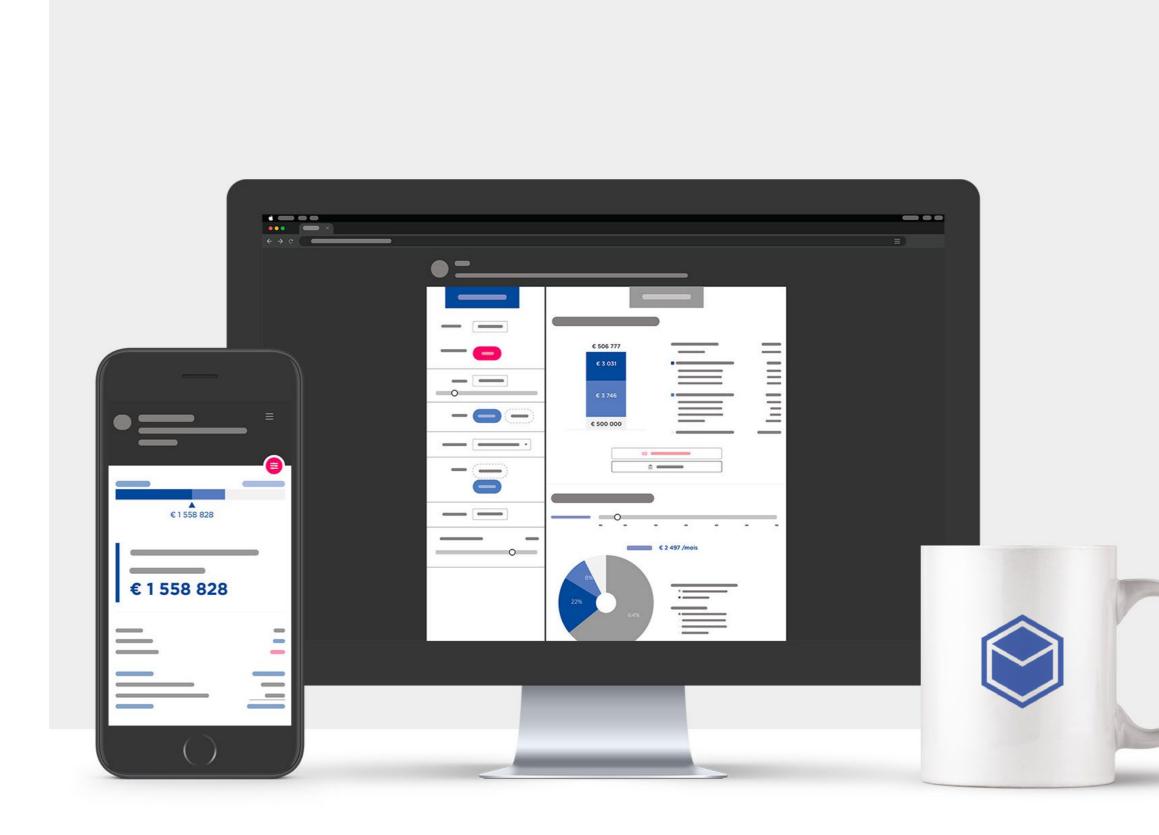
## **Fiscal changes 2024**

# Our online tools are updated

All of Nexvia's free online tools have been updated with the latest fiscal changes:







6/6

# Nexvia, the real estate experts.



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